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Dispute-Prevention Solutions:

PROTECTING PROFITS AND CUSTOMER RELATIONSHIPS WITH THIRD-PARTY TOOLS

Dispute-Prevention Solutions, a PYMNTS and Verifi collaboration, examines how businesses manage disputed card transactions and their systems' effectiveness at limiting losses from disputes and fraud. To gather information about how merchants' procedures for resolving disputed transactions limit misuse of card payments, we surveyed 301 merchants in four business categories — retail, entertainment and gaming, travel and leisure and digital subscription services — from Dec. 7, 2021, to Jan. 7, 2022.

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Introduction

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Credit card transaction volume during the past two years has provided something of a model for the rest of the economy since the pandemic's start — a sharp drop-off followed by a rebound.[1] Credit card transaction volume jumped 26% in 2021.[2] Accompanying the volume of card transactions is a steady flow of transaction disputes and chargebacks initiated by customers who have experienced true fraud or are confused or frustrated about their transactions. In other cases, customers are simply using the chargeback process to avoid paying for goods and services. The challenge posed by disputed transactions is part of a new reality in digital payments which forces merchants to be more proactive in how they respond to them.

Merchants are waging an ongoing battle to proactively resolve disputes. But too many merchants hobble their efforts by relying primarily — and in some cases solely — upon dispute-resolution tools they develop internally. The merchants are acting on the flawed presumption that their in-house tools are more effective at flagging and resolving disputed transactions, including those that may be fraudulent. Data from PYMNTS, however, shows that third-party tools are more effective at helping merchants resolve disputed transactions. Merchants that use only third-party tools limit their losses to 0.32% of annual revenues compared to 0.46% of revenues lost by the merchants that rely strictly upon in-house systems.[3]

These are a few of the findings in Dispute-Prevention Solutions: Protecting Profits and Customer Relationships With Third-Party Tools, a PYMNTS and Verifi collaboration, that provides actionable insights for merchants in search of effective solutions for managing and resolving cardholder disputes. We surveyed 301 merchants that generated revenue from web-based and mobile apps in four business categories — retail, entertainment and gaming, travel and leisure and digital subscription services — from Dec. 7, 2021, to Jan. 7, 2022, about the tools they use to resolve disputed credit card transactions.

This is what we found.

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1 Author unknown. Consumer Loans: Credit Cards and Other Revolving Plans, All Commercial Banks. Federal Reserve Bank of St. Louis. 2022. https://fred.stlouisfed.org/series/CCLACBW027SBOG. Accessed July 2022.

2 Author unknown. Mastercard and Visa in the U.S. — 2021. Nilson Report. 2022. https://nilsonreport.com/mention/1556/1link/. Accessed July 2022.

3 Dispute-Prevention Solutions: Third-Party Tools Limit Dispute-Related Losses. PYMNTS.com. 2022. https://www.pymnts.com/study/dispute-prevention-solutions-card-transactions-chargebacks-fraud-prevention/. Accessed July 2022.

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Merchants rely on third-party tools for a range of functions to help resolve cardholder disputes.

Seventy-six percent of merchants use third-party tools to alert or notify them about disputes, which is the most used function. The reliance on third-party tools is indicative of merchants' awareness that vendors specializing in these solutions offer them the most effective tools for resolving cardholder disputes. Sixty percent of merchants use third parties to manage the representment of a disputed transaction to the merchant's bank, while 48% of merchants use a card network's service for notifying or alerting them about the cardholder dispute.

Merchants use third-party dispute-management tools to save money and improve their customers' experiences.

Sixty-six percent of merchants say they use third-party tools to cut their operating costs, which demonstrates the power the tools have to improve merchants' financial performance. Fifty-six percent of merchants say they use third-party tools to improve their customers' experiences after the purchase, indicating that these tools are effective for resolving disputes without harming customer relationships.

Half of merchants surveyed say the costs associated with chargebacks, in which the card-issuing bank reverses a transaction, are the biggest problem they have dealing with cardholder disputes.

The range of problems merchants cite dealing with chargebacks shed some light on why merchants consider them to be such a significant concern, and they explain why merchants place so much importance on having the right tools for resolving cardholder disputes. Half of all merchants cite chargeback costs as the biggest problem associated with disputes, and another 12% say costs are the second biggest problem. Twenty percent of merchants say false positives are the biggest problem related to chargebacks, while 18% say the false positives are the second biggest problem. In a false positive, a sale may be rejected to lessen the risk of fraud or a cardholder dispute, but the rejection costs the merchant revenue.

Just 35% of businesses use third-party tools to provide front-end dispute prevention compared to the 76% that use third-party tools' dispute alerts and notification features.

Some merchants use front-end dispute-prevention tools to provide transaction details to their customers in real-time, with an expectation that the customer will recognize the purchase and not proceed with a dispute. Merchants rank dispute prevention as a less important feature than alerts and notifications about disputed transactions that are available from third-party tools and from the card networks. Merchants also rank dispute prevention below the representment of a disputed transaction by an onshore third party. Twenty percent of merchants use a third-party tool to provide merchant-issuer data sharing services for preventing cardholder disputes.

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The pervasive challenge of cardholder disputes

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Few merchants escape disputed card transactions: 96% of merchants dealt with them in the past year. Fortunately, the marketplace offers a host of third-party tools that identify disputes when they arise. These tools also help merchants resolve the disputes without lasting damage to customer relationships or lost revenue.

Merchants need timely information about cardholder disputes to deal with them effectively. That may explain why the alerts and notifications — used by 76% of merchants — are the most common function for third-party tools: Merchants have to know about the disputes before they can resolve them. In addition, 48% of merchants get notifications and alerts about disputes from a card network.

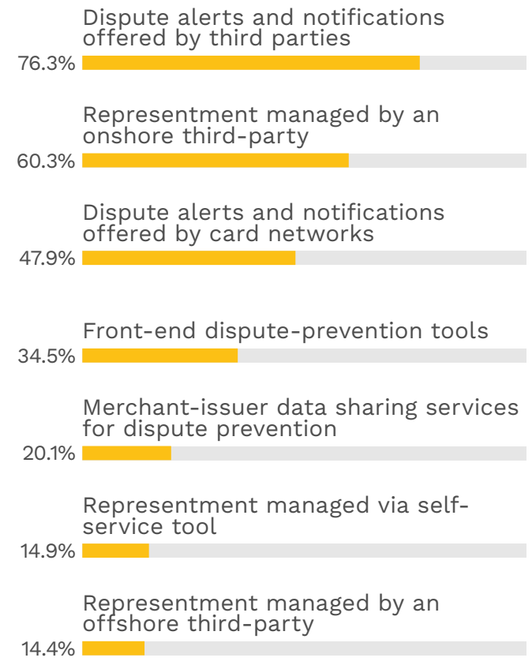
Merchants also need tools that can help them resolve disputes and limit revenue loss. Sixty percent of merchants employ onshore third parties to manage the representment of a disputed transaction to the merchant's bank. A successful representment indicates that the merchant receives the revenue from the transaction. Fifteen percent of merchants use self-service tools to manage representments, while 14% have representments managed by offshore third parties.

Thirty-five percent of merchants also rely on front-end dispute-prevention tools to lessen the likelihood that customers will dispute transactions. Twenty percent make use of third parties' data-sharing services to prevent disputes.

FIGURE 1:

How third-party tools help merchants resolve cardholder disputes

Share of merchants using third-party tools to manage and prevent disputed cardholder transactions



N = 194: Firms that use tools provided by third parties to help manage and prevent disputes and chargebacks

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What third-party tools can do for merchants

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Third-party dispute-resolution tools offer merchants several benefits that help them sort out disputes with cardholders, minimize disruption to their business and even improve overall customer experience.

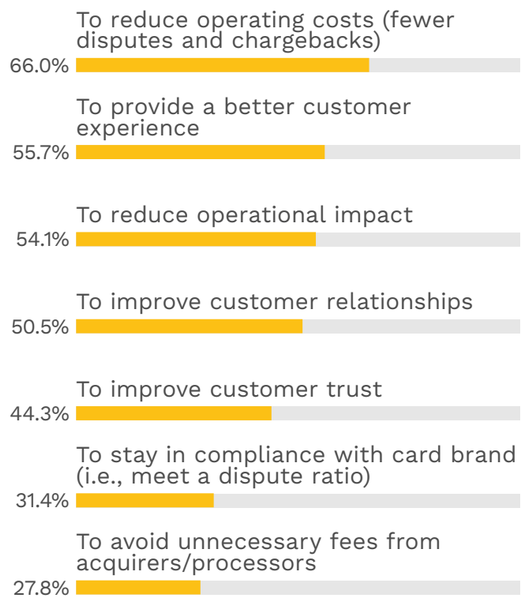
Resolving cardholder disputes using third-party tools has a measurable impact to the bottom line: 66% of merchants report that these tools help cut their operating costs. Fifty-four percent of respondents say the tools help them reduce the effect that the disputed transactions have on their operations. Merchants also say the tools help them comply with a card network's requirements such as controlling the dispute ratio, which 31% say is important. Twenty-eight percent of merchants say the tools help them avoid fees from acquiring banks and merchant processors.

At the same time, 56% of merchants say third-party tools improve their customers' shopping experiences, while 51% say the tools improve merchants' relationships with customers. An additional 44% say the tools help improve customers' trust in the merchants.

FIGURE 2:

Benefits of third-party tools for resolving disputed transactions

Share of merchants who cite important reasons for using third-party tools to help manage and prevent disputes and chargebacks



N = 194: Firms that use tools provided by third parties to help manage and prevent disputes and chargebacks

Source: PYMNTS.com | Verifi
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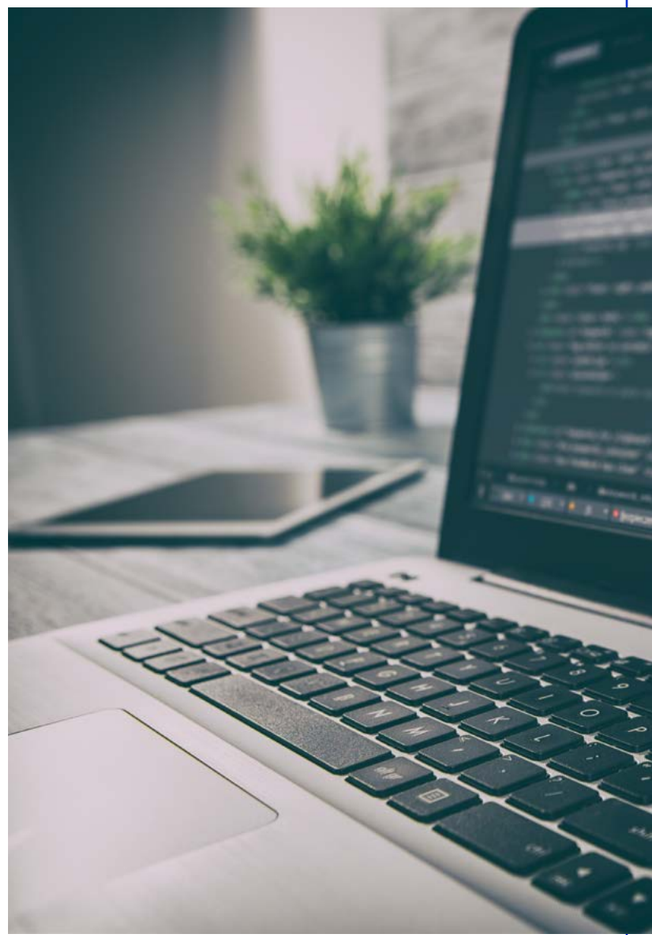

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Contending with chargebacks

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Credit card chargebacks and the resulting revenue loss are major headaches for merchants. Fifty percent of merchants say the costs they incur from chargebacks are the biggest problem they have dealing with them.

Merchants also ranked false positives as problematic, as they can lead to a rejection of a sale for several reasons, including lowering the risks of fraud and disputes, yet cost the merchant revenue. Twenty percent of survey respondents say false positives are their biggest problem, while 18% say they are their second biggest problem.

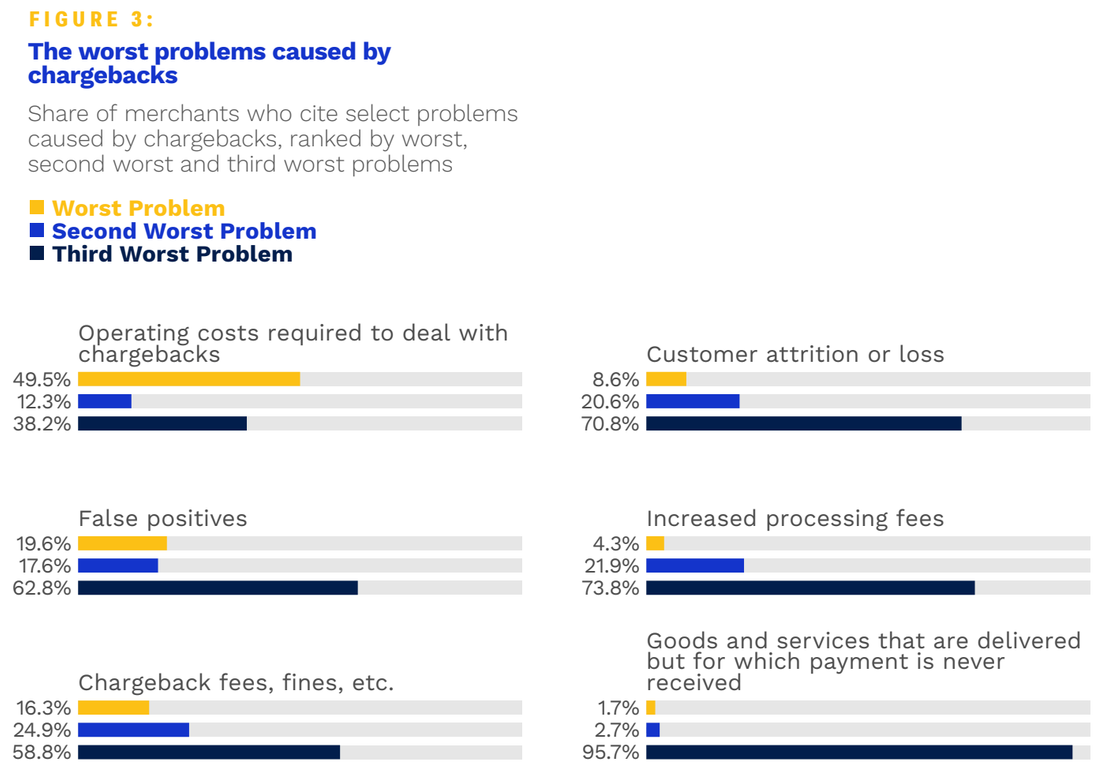
Chargebacks cause other problems for merchants, like fees and fines imposed by banks and card processors. Sixteen percent of merchants say the fees and fines are the worst problem chargebacks cause, while 4% say the higher fees they face because of chargebacks are their worst problem.

In addition, 9% of merchants say customer attrition is the biggest problem chargebacks cause, and 21% call customer attrition their second biggest problem.

FIGURE 3:

The worst problems caused by chargebacks

Share of merchants who cite select problems caused by chargebacks, ranked by worst, second worst and third worst problems



N = 301: Complete sample

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Feeling the bottom-line pain of cardholder disputes

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Nearly all firms — 97% — reported experiencing both false positives and declined authorizations last year. Many merchants say false positives are a type of authorization activity that can help prevent cardholder disputes.

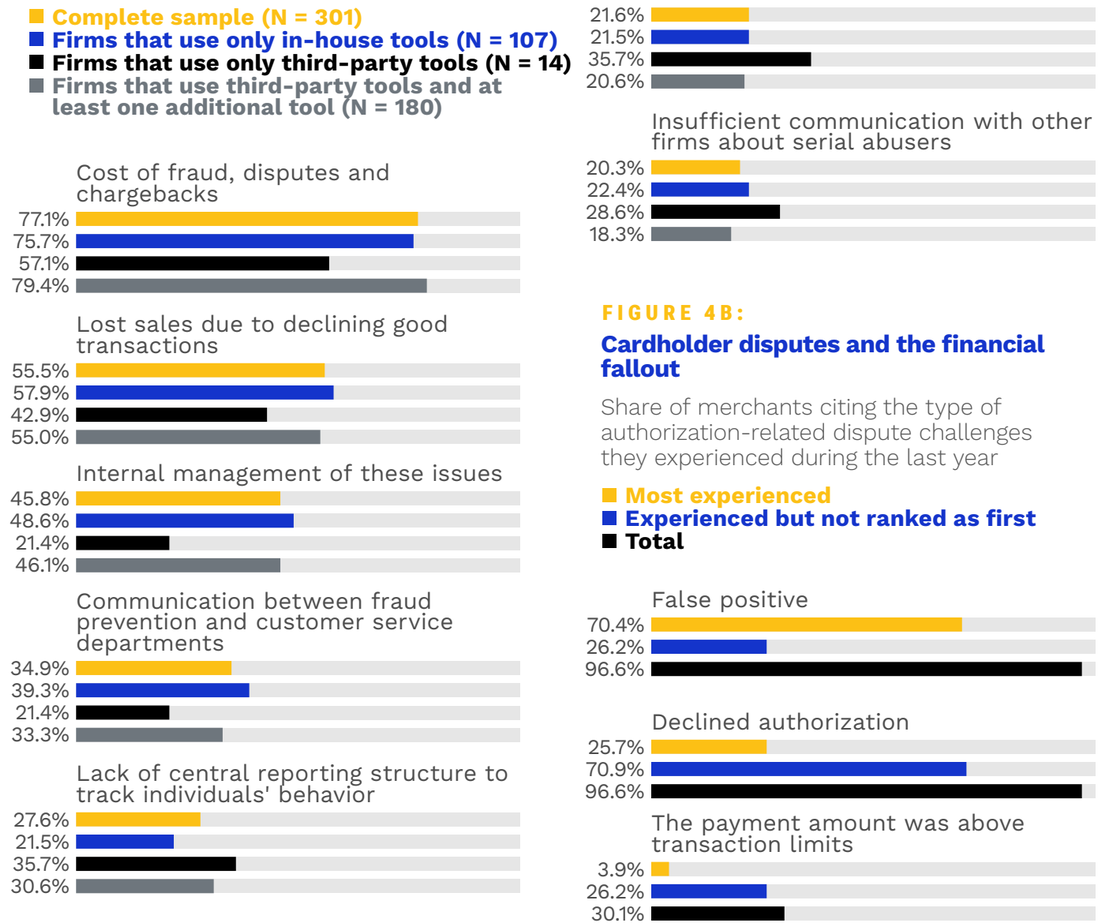
Cardholder disputes cost money to resolve and can result in reversing completed sales to resolve the dispute. Seventy-seven percent of survey respondents say the costs from fraud and disputed transactions have been one of the largest sources of disputes-related pain during the past year.

In addition, 46% of respondents say the internal management required for resolving disputes is a major source of trouble, while 35% say communication and information sharing between departments like customer service and fraud prevention has been stretched thin in the past year because of the difficulty resolving these disputed transactions.

FIGURE 4A:

Cardholder disputes and the financial fallout

Share of merchants citing select factors as contributing to the damage to their business arising from cardholder disputes



N = 301: Complete sample

Source: PYMNTS.com | Verifi
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FIGURE 4B:

Cardholder disputes and the financial fallout

Share of merchants citing the type of authorization-related dispute challenges they experienced during the last year

N = 290: Firms that experienced disputes in the last 12 months

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Conclusion

Merchants face a constant challenge dealing with disputed cardholder transactions. They understand the best way to address the problem is with effective tools that first alert to them to disputes and then help resolve them cleanly without revenue loss or damage to customer ties. Many merchants may not fully understand which tools are best suited for these tasks and instead rely on tools developed in-house. PYMNTS' data shows that merchants that deploy specialized third-party solutions enjoy demonstrable operational and financial benefits.

Methodology

Dispute-Prevention Solutions: Protecting Profits and Customer Relationships With Third-Party Tools, a PYMNTS and Verifi collaboration, examines how businesses rely on third-party tools to manage disputed credit card transactions and limit losses. To gather information about merchants' procedures for resolving disputed transactions, we surveyed 301 merchants in four business categories — retail, entertainment and gaming, travel and leisure and digital subscription services — from Dec. 7, 2021, to Jan. 7, 2022. The merchants' annual revenues from web-based or mobile app sales ranged from $20 million to more than $1 billion.

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About

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VERIFI
A Visa Solution

Since 2005, Verifi has been a leader in the payments industry, providing innovative, end-to-end payment solutions that protect against fraud, prevent and resolve disputes, and recover revenue lost to chargebacks. In 2019, Verifi was acquired by Visa, combining technologies to provide enhanced fraud and dispute management solutions on a global scale. Verifi creates strategic, adaptive technologies for sellers, payment facilitators, acquirers, and issuers, building sustaining partnerships to deliver value, increase profits, and promote brand growth. Visit: verifi.com.

Dispute-Prevention Solutions

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