

RETAIL

7 ways to combat chargebacks from "friendly" fraud

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In the past couple of months, we have seen "friendly" fraud take center-stage as Facebook and Fortnite became victims to rampant friendly fraud. In fact, friendly fraud continues to be a problem for ecommerce merchants, not just the high-profile companies a recent report from **Juniper** showed that 34 percent of merchants had experienced friendly fraud.

Friendly fraud refers to chargebacks that arise out of legitimate transactions.

When a customer does not recognize the charge on her bank statement, or when she later comes to regret the transaction, she may contact her bank to have the charge reversed without going through the merchant first to inquire about the charge or ask for a refund. The "fraud" part may or may not be intentional, but the consumer is misusing chargeback process.

Got your back?

Chargebacks from friendly fraud are on the rise, and they present a growing problem that ecommerce merchants cannot ignore.

Merchants and banks lost a combined total of \$31 billion dollars due to chargebacks in 2017, and that only represents the actual transaction amounts. When you factor in the time, labor and money spent in dealing with chargebacks, their actual cost is much higher. Some chargebacks have a legitimate basis and cannot be avoided, but friendly fraud chargebacks can and should be vigorously disputed.

Banks must shoulder some of the responsibility for friendly fraud growing to become such a problem over the last few years.

In trying to keep their customers happy, they have eliminated fees and minimum required payments associated with chargeback requests, and do not critically investigate the reasons customers request them.

By making it so easy to ask for a chargeback, banks have encouraged customers to use it as their go-to response to

an unfamiliar or regretted purchase.

How to prevent friendly fraud

Friendly fraud can be difficult to prevent because any valid transaction can potentially lead to it.

Typical security measures, such as AVS and CVV matching, will not prevent it at all. Even a longtime, faithful customer can perpetrate friendly fraud.

However, there are concrete steps you can take to reduce the likelihood of it occurring. Here are seven tips we have found to be effective at combatting friendly fraud.

1. Make sure your descriptors are easy for customers to identify. Many chargebacks occur because customers do not recognize the charge on their bank statement. Make sure your business or store name is part of the descriptor so that customers can easily identify the origin of the charge.
2. Set realistic expectations about your products and/or services. A deeply dissatisfied customer who feels misled or deceived may feel like it is pointless to go back to you to resolve their issue. Do not make promises that your products cannot keep.
3. Maintain honest and ethical business practices. Fraud is a two-way street you cannot expect your customers to treat you ethically if you are trying to take advantage of them.
4. Offer friendly, 24/7 customer service. A customer who cannot get a hold of you to deal with a problem she is having is likely to lose patience and turn to her bank instead. If your customer service staff is easy to reach and trained to provide comprehensive, friendly assistance in resolving customer complaints, these problems are less likely to turn into chargebacks.
5. Blacklist customers who file chargebacks. It is estimated that customers who file a dispute are known to take advantage of the merchant again at least two to three times if merchants do not take any preventive measures. Blacklisting the negative customers will prohibit the abusers from taking advantage of your business again. You have to weigh the cost of losing future sales from customers like these against the risk of getting more chargebacks from them.
6. Fulfill orders on time and track return shipments. Shipping delays happen, but customers who think their order is never going to arrive have a high likelihood of requesting a chargeback. Ship promptly, track all packages coming and going, and issue refunds immediately upon receipt of a return.
7. Notify customers when you process their order, and before and after processing recurring payments. Any time there is a delay between an order being placed and a card being charged, it is a good idea to send a reminder to the customer about what she is being charged for. This is especially true with recurring payments for subscriptions and the like customers have a tendency to develop amnesia about signing up for these billings.

WHEN FRIENDLY FRAUD chargebacks make it through your best prevention efforts, you should fight them through the chargeback representment process.

Outsourcing your chargeback management to a company that specializes in such things can be a worthwhile, cost-effective approach for many businesses. These companies can not only help you optimize the tools and practices that will prevent friendly fraud, they can also provide immediate responses to incoming chargebacks, write compelling rebuttal letters, and compile the right kind of evidence that will increase your odds of successfully disputing fraudulent chargebacks.

Friendly fraud is not going away, so it is imperative that merchants use the best methods at their disposal to stop these chargebacks from costing them their hard-earned revenue.

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