

**WHAT ARE THE MAIN FRAUD AND DISPUTE  
THREATS TO ITALIAN ISSUERS AND  
MERCHANTS?**

# CARD NOT PRESENT FRAUD INCREASES

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**Annual online fraud losses will reach \$48 billion by 2023 – up from \$22B in 2018.** *(Source: Juniper)*



**Consumers dissatisfied with how they're treated after experiencing fraud often change issuers, resulting in a global attrition rate of 20%** *(Source: Aite)*



**The average global fraud rate for ecommerce sales in 2018 was 0.53%** *(Source: Payments Forum)*

# DISPUTES ARE A HUGE BURDEN

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**International chargeback value set to increase from \$23 billion in 2018 to \$35 billion in 2021.** *(Source: Aite)*



**Dispute handling is responsible for as much as 20% of issuers' operational expense. The average call time to field a dispute is 13 minutes, and the standard industry cost is €2 per second of call time.** *(Source: Aite)*



**45% of all consumers have disputed at least one transaction within the past year, and 25% have disputed more than one.** *(Source: Javelin)*

# FRAUD AND CHARGEBACKS IN ITALY

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- CNP fraud rates in Italy has been relatively low.
- 3D Secure has been mandated for use in Italy for almost a decade, which has contributed towards lower incidences of card fraud.
- Merchants who fail to meet the standards of the codes established by domestic schemes can be disciplined and publicly disclosed.
- However, this doesn't mean that there aren't still numerous risks, including friendly fraud and growing false declines.



**FRIENDLY FRAUD** refers to fraud where cardholders dispute the transaction while they actually receive the goods or service.

# THE FRIENDLY FRAUD CASES

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1

**Merchant name  
Confusion**



2

**Family member**



3

**Buyer's change  
of mind**



4

**Gaming the  
System**

**GOOD FAITH**

**BAD FAITH**

# THE NEGATIVE EFFECTS OF FRIENDLY FRAUD

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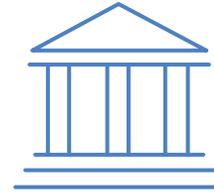
## CARDHOLDER

- Bad experience
- Unnecessary card reissue



## MERCHANT

- Lost revenue
- Chargeback / representment cost
- Decreased acceptance



## ISSUER

- Increased Operational costs
- Spend on card decreases
- Higher fraud rate
- Unnecessary card reissue

# FRIENDLY FRAUD INCREASES

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**Friendly fraud went from 7% to 15% of all fraud victims in 2018** *(Source: Javelin)*



**37% of Merchants feel unprepared to combat friendly fraud** *(Source: WorldPay)*



**Leading Global Digital goods merchants have reported friendly fraud rates in a range of 60-90%** *(Source: Ethoca)*

# BEST PRACTICES TO COMBAT FRIENDLY FRAUD

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1. Leverage Merchant Historical Data to Create Household Profiles
2. Bolster Available Evidence to Include Proof of Receipt, Consumption and Usage
3. Consider Implementing Parental Controls
4. Better Refund Policies/ Making them Clear
5. Clearly defining the items on the receipt, especially fees
6. Call the Customer (when it makes sense)
7. Implement Simple, Clearly Stated Return and Refund Policies
8. Change Behavior by Enforcing Consequences

**FALSE DECLINES** occur when good transactions are wrongly rejected due to the suspicion of fraud.

As a result, cardholders often elect to abandon a purchase, seek a different online store, or use an alternative payment card.

# HOW DOES FRIENDLY FRAUD CONTRIBUTE TO FALSE DECLINES?

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Good transactions are coded as fraud.



Dynamic, self-learning fraud models get tuned incorrectly.

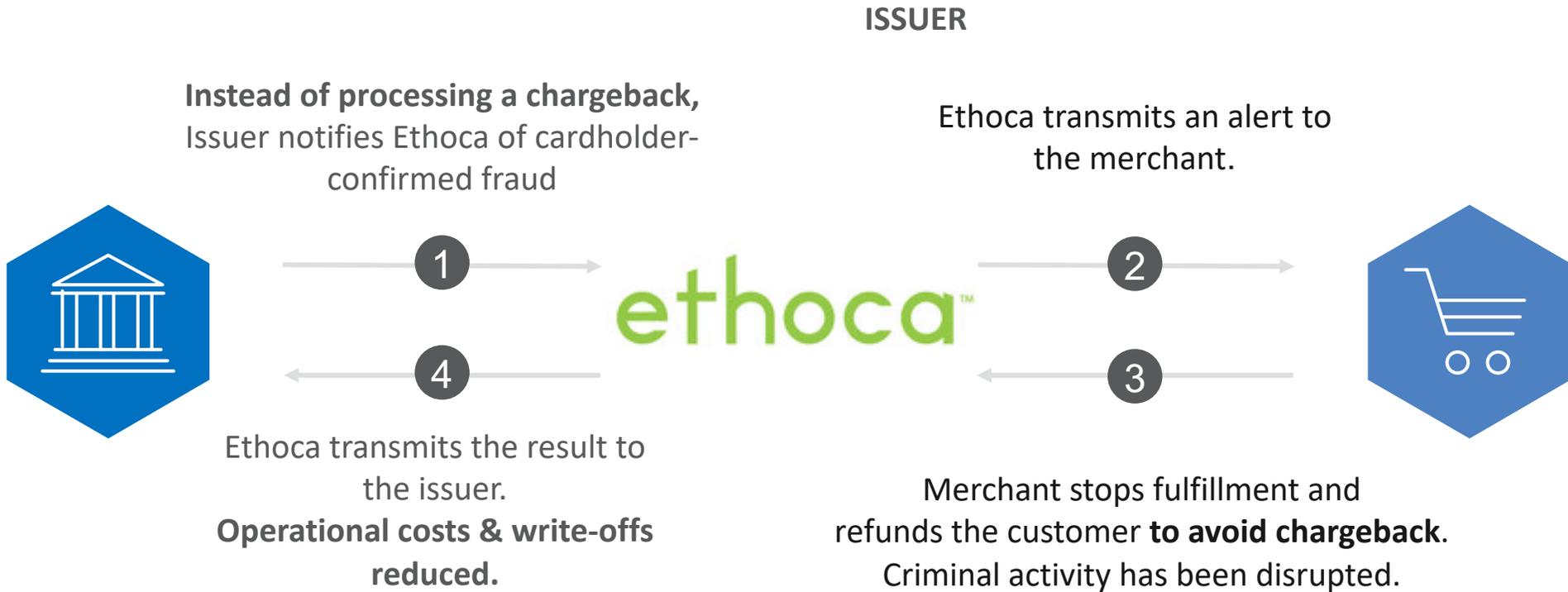


Good transactions are declined.

**WHAT ARE MASTERCARD AND ETHOCA DOING  
TO HELP SOLVE FOR THESE PROBLEMS?**

# SOLUTION TO REDUCE THE NUMBER OF CHARGEBACKS

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# SOLUTION TO REDUCE FRIENDLY FRAUD

## Real-time transaction insights from merchants to issuers / cardholders



Cardholder recognizes their purchase after presentation of digital receipt, or after constructive challenge conversation with the agent. As a result of this quick and easy process, the cardholder experience is improved + no false claims.

Eliminator retrieves in-depth transaction details from the merchant via API and immediately presents it to the cardholder or the appropriate issuer channel.

