sift

Dispute
best practices

Preparing your company to
minimize fraud costs

Contents

In this Dispute Best Practices guide, we'll outline the foundational elements that we've determined to be critical through seeing hundreds of thousands of disputes processed through our app. Our solution provides merchants with the capability to streamline dispute resolution, but you need to have certain elements in place to recover the most revenue possible for your business.
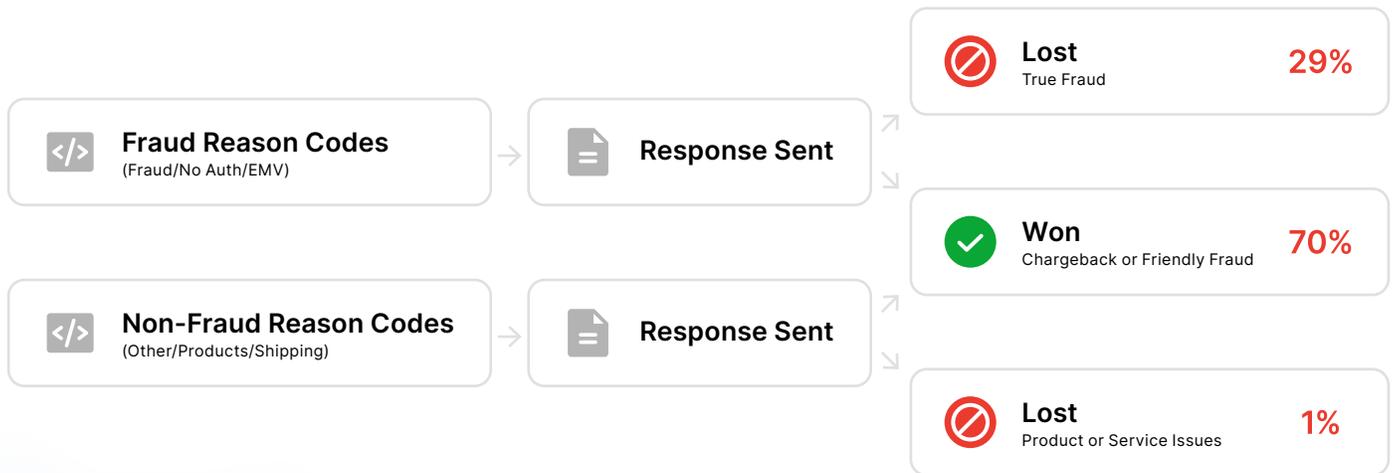
We'll review these elements in detail and give you the rundown of the best practices your business should use when approaching each one.

1. Preventing true fraud

2. Preventing legitimate disputes

3. Preventing friendly fraud

4. Preventing recurring
   billing disputes

5. Preventing and revealing
   chargeback fraud

Preventing true fraud

Revenue lost to true fraud can't be recovered, so you need to prevent it from happening in the first place. Your business needs to be protected from a large-scale attack. Third-party fraud prevention solutions are very effective at blocking overtly fraudulent transactions and flagging suspicious transactions for manual review

With adequate fraud prevention solutions in place, losses from true fraud will only represent 29% of overall fraud losses. Which is great news for merchants, because the remaining 71% of losses represent recoverable revenue in friendly fraud and chargeback fraud, as well as product or service-related issues.

Fraud Reason Codes (Fraud/No Auth/EMV) → Response Sent	🚫 Lost — True Fraud	29%
Non-Fraud Reason Codes (Other/Products/Shipping) → Response Sent	✅ Won — Chargeback or Friendly Fraud	70%
	🚫 Lost — Product or Service Issues	1%

No matter which third-party fraud prevention solution provider(s) you choose, you need to ensure that AVS and CVV, CVV2, or CVC are being collected. In addition, transactions should be monitored for fraud, in order to indentify red flags that trigger manual order reviews.

🛒 **AVS match on all US transactions**

💳 **Gather credit card CVV, CVV2, CVC**

⚠️ **Look out for fraud red flags**

AVS match on all US transactions

Address Verification System (AVS) is a system used to verify the address of a person claiming to own a credit card. The system will check the billing address of the credit card provided by the user with the address on file at the credit card company. AVS is one of the most important pieces of information that you can gather when you are completing a transaction.

Gather CVV, CVV2, CVC for the credit card

Use the security feature provided by both Visa and Mastercard, called CVV2 or CVC, which matches security numbers found on the actual card. This code is often sought by merchants for card not present transactions occurring by mail or fax or over the telephone or internet and is a three- or four-digit value printed on the front of the card or on the signature strip on the back. This will help prove in a card not present environment that the person using the card is actually the cardholder and has it physically in their hand.

Look out for fraud red flags

Fraudulent transactions might pass through AVS and CVV/CVV2, but still trigger red flags that warrant further investigation by your company. When one of these red flags is raised, manually review the transaction and contact the customer placing the order to verify their identity.

Red flag   # Description

Red flag	Description
Bulk orders	Bulk orders which seem to be beyond normal range should be reviewed. Though these orders will increase your sales, be wary, as this can be a warning signal of potential fraud, especially if you are dealing with a new customer.
Large-ticket transactions	Orders for big ticket items might indicate fraud. A new customer ordering a big ticket item should be subject to scrutiny before any transaction is granted.
Multiple orders in a short time	Multiple orders made within a short period of time may be a sign of unauthorized card use, so verify the transaction with the customer or the issuing bank.
Billing address differs from shipping	Through there are certain exceptions when billing differs from shipping, it is advisable to verify this difference and check whether the card use is authorized.
Rush or overnight delivery requests	Orders, especially large ones, which request express delivery should be further investigated. (Especially with new customers.)
Multiple order attempts with varying input	Orders made with various tries on the card number or expiration date can mean that the user is plainly guessing and the credit card is not actually at hand.
Multiple orders made using different cards, but same shipping	When multiple orders made using different credit cards, but delivered only to one address, check whether the use of these multiple cards is authorized.
International shipping where AVS is not applicable	International transactions are very risky, since it can be difficult to retrieve the goods once they have left the country. While not all trasactions of this nature are fraudulent, it is safter to keep your guard up and exercise extra caution.

Preventing legitimate disputes

The other type of dispute that doesn't represent recoverable revenue are those that are legitimate.

Above all else, you need to be an honest and transparent seller to prevent product and service-related disputes against your business. A common cause of disputes is when a customer feels the product or service provided was of low quality or simply doesn't function as promised. Merchants who provide subpar merchandise can expect a slew of disputes from unhappy customers.

After you've sourced the best products possible, you can prevent legitimate disputes from occurring by following these steps:

Create robust and accurate product descriptions

Another common cause of disputes is when the product or service provided to the customer does not match the description given by the merchant at the time of purchase. Product description copy, imagery, and specifications must be accurate and complete. Ask yourself the following questions about your current product descriptions:

- Does the description copy and imagery accurately represent the physical product?
- Can customers zoom in to see detail?
- Does the lighting distort the actual color of the product?
- Are yougivingall necessaryquantitativemeasurements?

Apparel merchants should consider implementing online fitting tools. A good online fitting tool gives customers a nearly in-store experience and helps decrease the volume of customers who purchase one item in multiple sizes, only to return the items that don't fit.

Cultivate extensive product reviews

Alongside robust product descriptions, cultivating and displaying product reviews on product pages is incredibly helpful to safeguard against customer disputes where the customer feels the product was not as described. Not only do customer reviews help you fine-tune product descriptions, but they're nearly a necessity from a customer perspective.

Prompt shipping

Always ship your items as soon as possible. Internet sales are still a bit "new" to some people and if you're not operating a well-known entity in the market (such as Target or Best Buy) your customers may begin to wonder whether or not they've been scammed if your products don't show up on their doorsteps when they think they should. Make sure that your processing and shipping periods are clearly defined every step of the way and don't hobble yourself with unrealistic shipping expectations.

Regular communication

When something does go wrong with the order fulfillment process (and it will), always keep your customers informed. If the item is out of stock or you're having trouble with a distributor, send out an email or make a phone call. Let your customer know roughly when you expect to have the product in hand and what you're prepared to do should the shortage become permanent.

Hold shipping carriers accountable

Damaged items, especially bulky ones, aren't likely to be returned—unless it's at your expense. In fact, they'll likely result in a chargeback. That's why it's important to hold your carrier accountable. If a product arrives at its destination broken, the customer should refuse delivery and return it immediately. That way you can seek financial compensation from your carrier. If items continue to arrive in poor condition, ask your carrier what you can do to rectify the problem (pay for priority, package them differently, offer insurance, etc.). If they still arrive broken, find a different carrier.

Agreement of clearly stated terms & conditions

Having your customers click on a terms and conditions button, instead of just posting them on your website, can guarantee that a user acknowledges and has read the terms. Agreement to terms is a fundamental safeguard against chargebacks. Providing a check box guarantees that the purchaser agrees to the terms and conditions.

Prevent duplicate transactions

If you accidentally process a single transaction more than once, you're going to see 'duplicate transaction' chargebacks. Make sure your procedures double-check transaction processing accuracy. It's also important to prevent and watch for customers who accidentally initiate multiple transactions by hitting the checkout button repeatedly.

Preventing friendly fraud

Chargebacks that occur because of friendly fraud represent recoverable revenue. Still, it's critical to make an effort to prevent instances of friendly fraud in the first place. You can help prevent friendly fraud by:

Optimize your merchant descriptor

Poor merchant descriptors will lead to disputes. If the customer doesn't recognize a transaction, there's no reason for them not to dispute it. There are several best practices regarding merchant descriptors that your business should keep in mind. The most basic are displaying a recognizable company name and always including relevant contact information.

Ensure contact information is easy to find

As suggested in optimizing your merchant descriptor, your contact information must be easy for customers to locate. Your phone number, support emails, and contact forms should be accessible from your website's home page. Whether it's in the footer or, better yet, in the main navigation, it should be easier for a customer to contact you than it is to contact their issuing bank.

Preventing recurring billing disputes

If ou business is a subscription-based, you're probably already well aware of recurring billing chargebacks. Subscription billing is profitable, but needs careful execution in order to avoid an excess of chargebacks. Merchants can prevent recurring billing chargebacks through:

Proactive and reactive customer communication

Subscription billing merchants must have both proactive and reactive communication channels. Proactively, notifications should be sent to the customer each month before and on the day of billing. Whether the notifications are sent by email, text message, or otherwise, the customer should never wonder when or why they're being billed.

Reactive communication channels means that the customer should have easy access to multiple ways that they can contact your customer service team. Customer service emails and chat capabilities should be readily available to customers who need to resolve issues.

Clearly displayed, flexible subscription terms

The subscription billing terms need to be included in your terms and conditions. But we recommend taking it a step further by displaying the most important aspects where the customer will clearly see them, instead of burying them in a website footer link. In addition to clearly displaying subscription terms, the subscription conditions you offer should be flexible. The more a customer can personalize the offering, the more likely they are to actually make use of the product provided.

Merchants should also consider adding more flexibility in subscription opt-outs. An opt-out of service does not need to lead to a permanent customer loss. When a customer cancels their subscription, you can give them an option to put their account on 'hold' instead of complete cancellation. By doing this, you can identify customers who need help seeing the value of the product you provide and serve them informative marketing communications.

Have customers manually opt-in after free trials

If customers are automatically enrolled in subscription billing after completing a free trial, chargebacks will inevitably follow. Instead, provide the customer with an explicit opt-in at the end of the free trial. The product or service you provide should be discontinued if the customer ignores or fails to confirm the ongoing subscription.

Optimize customer lifetime value

Subscription billing merchants see a direct correlation between customer service interactions, chargebacks, and Customer Lifetime Value (CLV). Automated A/B testing of customer service interactions allows subscription merchants to segment customers into cohorts and customize interactions based on those cohorts. Better customer service interactions leads to reduced recurring billing disputes, better marketing communications, and relevant product personalization.

Preventing and revealing chargeback fraud

The only way to reveal chargeback fraud is through the collection of comprehensive chargeback data, that is then submitted as a bulletproof chargeback response. In order to prevent and reveal chargeback fraud, your business needs the following:

Offer a customer-centric return policy

Strict return policies often lead to unsatisfied customers, who then resort to filing disputes when a refund is denied. Your return policy should make it easy for customers to get their money back or exchange a product. By tracking and analyzing your return data, you can identify patterns and make adjustments to prevent similar returns from occurring in the future.

Documented customer service communications

Any feedback you get from the customer helps you establish the identity of the individual placing an order, and potentially of their acceptance of a product. Proactively reach out to customers to establish identity; be sure to save any emails, call recordings, chat transcriptions, etc. that occur.

Proof of shipment

It's critical to gather tracking and shipping information from a reputable shipping company to serve as proof of shipment. We recommend that you always opt for shipping that includes tracking, signature, and delivery information. While shipping carriers without these features are less expensive, consider the cost of the chargebacks that inevitably follow.

Deploy risk or identity verification solutions

Once again, risk or identity verification solutions help you establish identity, which is vital in proving that the cardholder was indeed the one making the purchase. Many front-end fraud prevention solutions will allow you to establish identity and display transactional details.

Record user history for services rendered

If you provide services, whether in-person or online, be sure to record user logs, session activity, logins, and relevant support emails. Doing so allows you to display that the cardholder utilized the services for which they paid.

## Send a satisfaction survey

Send a satisfaction survey after delivery of products, whether physical or digital. It's easier to prove that the cardholder made the purchase when they've responded to a satisfaction survey. Surveys can also help you identify operational or product issues currently causing disputes.

Prepare for your ongoing success

Now that you know the best practices we've learned from over a decade in dispute resolution, you're ready to put a holistic approach to fraud in place.

As long as your business accepts payment cards, fraud is going to be a challenge. You need to protect your business on the front-end from large-scale attacks from hackers and organized crime, while still making transactions possible for legitimate customers.

The key for businesses is to implement the right front-end fraud solutions, while continually optimizing the dispute resolution process. This requires skillful resource allocation and optimization of your company's management of disputed transactions.
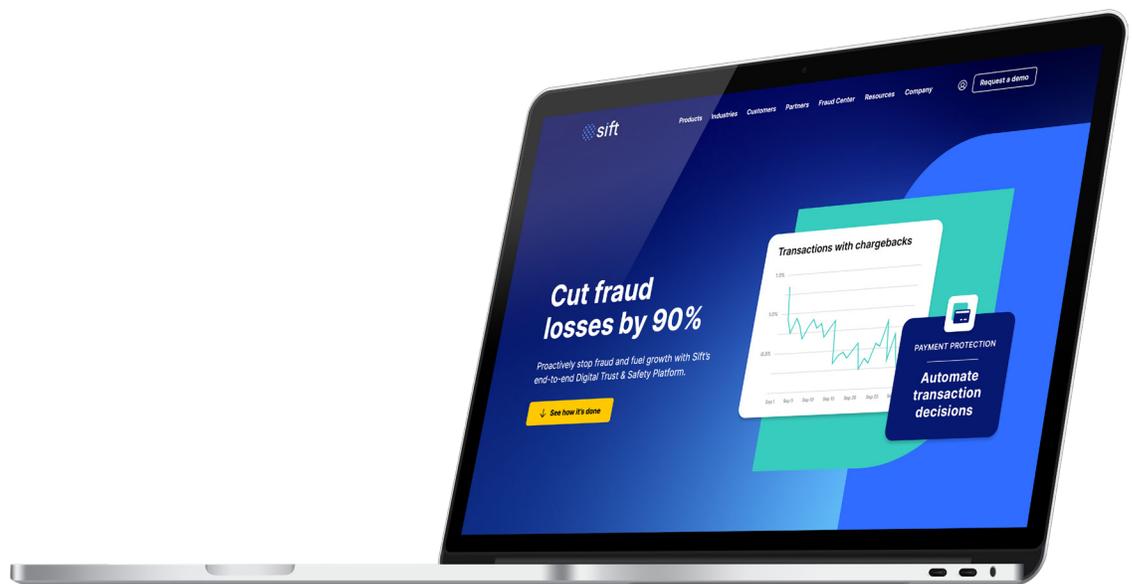
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