

4 Ways to Reduce Chargebacks



Credit Card Fraud vs Friendly Fraud vs Chargeback Fraud

We're all familiar with credit card fraud—someone steals your credit card information and then uses it to make unauthorized purchases until either you or your bank notice. Friendly fraud is less apparent, but it can be just as damaging.

Friendly fraud happens when a customer notices a charge on their credit card that they don't recognize. They then request a chargeback, believing the charge was fraudulent (even though it wasn't) and receive a refund. Their mistake was not intentional, but it still hurts you as a merchant. Some customers take this a step further and intentionally attempt to get things for free under the guise of friendly fraud. This is called chargeback fraud. Although some may also categorize this as "friendly fraud"—there is nothing friendly about it.

You only have to scroll through social media posts to see this mindset in action:



Friendly Fraud

Say a customer enjoys a pizza at your restaurant, pays with their credit card, and then later disputes the charge and requests a chargeback from their bank. Although it could be a case of chargeback fraud, it's probably friendly fraud, as 86% of all chargebacks are. In our conversations with franchisees and independent pizzeria owners, it's not uncommon for restaurants to report chargeback fees as high as \$300 or more, per store, per month!

Unfortunately, cases of friendly fraud have been consistently increasing for two main reasons:

1. It's now quicker and easier than ever for customers to dispute charges.
2. It's more difficult and costly than ever for merchants to argue the chargebacks, or prove that the transaction was legitimate.

Friendly fraud can happen for a variety of innocent reasons. Perhaps the customer failed to recognize the name of your restaurant on their credit card statement. Or maybe a parent authorized their child to use their credit card, but when the bill arrived the child denied the purchase, so the parent contested the charge. Some customers will simply forget they made the purchase altogether, or don't have time to look into the details. That's why it's more important than ever to make changes to minimize your risk.

How Can You Prevent Chargebacks From Happening to You?

1. Use EMV readers in your stores. Merchants with swipe-only terminals are prime targets for friendly fraud, as the merchant doesn't have any defense against the customer's chargeback claim. 81% of customers freely admit to filing a chargeback out of simple convenience.
2. Make sure you have a clear merchant descriptor. The best way to avoid customer confusion, especially if you are operating as a franchisee, is to make sure your operating name is very similar to your incorporated or legal name.

The following are examples of good and bad merchant descriptors:

Good:	<i>Speedy Pizza - Chicago</i>
Bad:	<i>ABC Enterprises</i>
Confusing:	<i>ABC Enterprises dba Speedy Pizza</i>

A lack of relationship between the two names can lead a customer to contest a charge from ABC Enterprises without realizing it was a Speedy Pizza they ordered. By making this small change, your customers are less likely to dispute the charge.

3. Have a customer database in place. That way you can note if a customer has filed a chargeback in the past. Roughly 40% of consumers who commit friendly fraud will do it again within 60 days, so it is important to keep track of.
4. Online sales account for 55% of credit card fraud. You can solve this for pickup orders by taking payment at pickup, but what about food deliveries? SpeedLine Pay solves this by giving you the ability to accept EMV payments right at the door. This can cut down on delivery chargebacks significantly and as a side benefit transactions are processed at card-present rates.

Friendly fraud can take a significant bite out of your business profits, but if you educate yourself and take steps to prevent it, you can significantly reduce your risk and protect your hard-earned money.



Laura J. Keller  @LauraJKeller · Jun 27, 2017

Why retailers really hate this: "How to get free pizza: 1. order, 2. get it, 3. chargeback"



Musclebound Mama @muscleboundmama · Oct 19, 2016

It's 1 thing to be dishonest in filing a chargeback claim against a large company. Lying to get a refund from small business is another.



The Role of EMV Payments

Friendly fraud commonly strikes when merchants are not equipped to accept EMV (Europay, MasterCard and Visa) payments, and don't offer a chip-enabled card reader for payment. It was once only an issue for online or phone card transactions where the customer was not present, but in October 2015, EMVCo shifted the liability for payment fraud from the banks to the merchant for those who did not adopt more secure payment technology (EMV card readers). For this reason, scammers now target merchants who still aren't equipped to accept EMV payments, and contest charges made with authentic EMV cards by requesting a chargeback. According to recent research, anywhere between 60-80% of merchant chargebacks are due to friendly fraud. Unfortunately for the restaurant industry, although a retail store can demand that merchandise be returned after a chargeback, restaurants can't take back consumed food.



Speak to us About Reducing Chargebacks



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