Your source for payments education

# Fraud Fundamentals

## Understanding Fraud, Chargebacks, and How to Fight Them

Scott E. Adams, Fraud Deflect – CEO & Co-Founder

# Key Takeaways

1. Understand how CNP (Card-Not-Present) fraud happens and why it's rising.

2. Learn the difference between criminal fraud and friendly fraud and why the latter is harder to detect.

3. Get familiar with the full chargeback process, thresholds, and risks to your business.

4. Discover simple and effective tools to fight fraud and reduce chargebacks.

# Payments – Vocabulary

**ISSUER**

- This is the bank that provides the credit card to the consumer.
- *Example: Chase Sapphire Card*
- In this example then, Chase Bank is the Issuer.

**ACQUIRER**

- This is the company (possibly a bank) that provides the merchant with their account to process credit cards.
- *Example: Chase Payment Solutions or Worldpay*

# Payments – Vocabulary

**MERCHANT (MERCHANT OF RECORD)**

- This is the entity that is selling directly to the consumer.
- *Example: BestBuy.com*
- BestBuy.com takes the credit card online and sells the product to the consumer

**CARDHOLDER**

- This is the person who is liable for the credit card.
- Often is the customer but not always

# Payments – Vocabulary

**CARD BRANDS**

- We are going to focus on Visa and Mastercard (there is also Discover, Amex plus many International card brands)
- MC and Visa make up 90%+ of the credit card volume online
- The brands mainly deal with acquirers and issuers but they do set rules for merchants such as the Fraud and Chargeback monitoring programs

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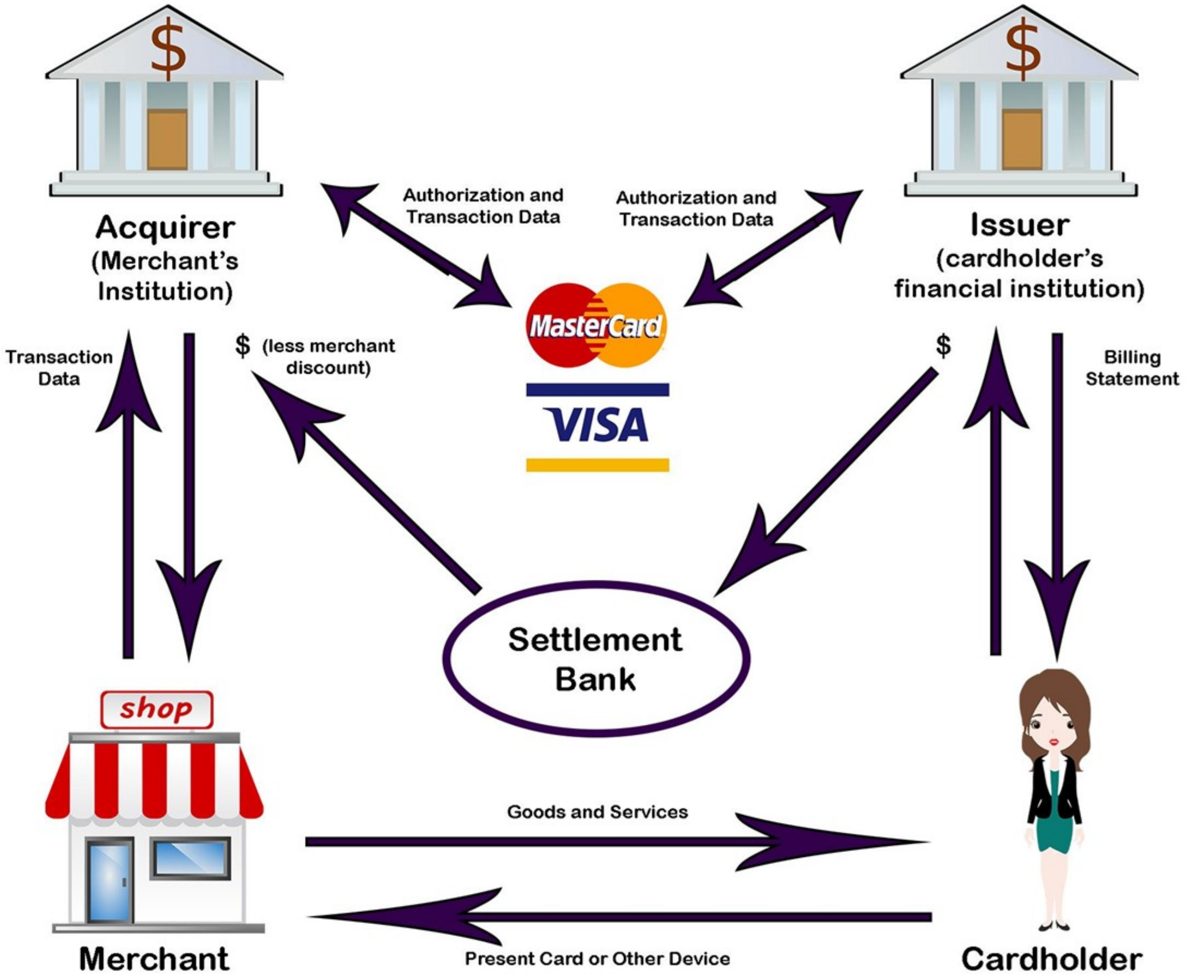
# The Card Payment Ecosystem

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# Fraud in CNP Payments

## Criminal Fraud

Criminal fraud is fraud with intent to steal money from the merchant and generally the card holder is unaware

**Many Types**

- Card Running
- Stolen / Hacked Card Use
- Stored Card (ATO) Abuse

# Fraud in CNP Payments

## “Friendly Fraud” or First Party Fraud

**EXAMPLES**

- Children
- Spouse
- Forgotten charge
- Unrecognized
- “Free” Product

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# Fraud in CNP Payments

## Credit Card CNP Merchants ”Fraud”

**ACCOUNT TAKE OVER (ATO)**

This is a huge vector for fraud right now and will be more so in the future

How it works

- This is where a fraudster will “hack” a users account and make purchases
- Phishing scams
- Known ”victim”
- Family member / Account Sharing

Why it’s difficult

- Account age no longer useful
- Could be same device
- Often good card history

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# Monitoring Programs

## Visa and Mastercard each have their own

Visa: Visa Acquirer Monitoring Program

Mastercard:

- Scam Merchant Monitoring Program
- Excessive Chargeback Program
- Excessive Fraud Merchant

# Mastercard Programs

**Scam Merchant Monitor Program**

- High Risk Triggers:
  - 50% approval rate drop (after 6 mo)
  - The 5% Threshold on Refund + CB for new accounts
- Penalty
  - Immediate Termination if acquirer determines a scam

# Mastercard Programs

**Excessive Chargeback Program**

- Chargeback Monitored Merchant
  - >= 1% and >= 100 CB

- Excessive Chargeback Merchant
  - 1.5% to 2.99% CB and >= 150 to 299

- High Excessive Chargeback Merchant
  - >= 3% and 300 CB

- Penalties: $1000 to $200,000 per month

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# Mastercard Programs

**Excessive Fraud Program**

- Threasholds
  - $50,000 Fraud AND
  - 1,000 ecomerce transactions AND
  - 0.5% Fraud Rate

- Only Chargebacks w/ reason code 4837
  - Not Authorized

- Penalty
  - $500 to $100,000 escalating each month, starting month 2

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# Mastercard Monitoring Programs

## The Math

$$\frac{\text{Chargebacks reported that month}}{\text{Mastercard Settled Transactions PREVIOUS month}}$$

Equals your CB Rate

Keep it under 1% … talk to your acquirer

# Visa Acquirer Monitoring Program
## aka:  VAMP

Merchants and Acquirer Monitored
by Chargebacks and TC40 Count Combined

**Merchant Threshold Thresholds**

Threshold of 1.50% 0.50%

(1500 combined VAMP items) 0.70%

**Acquirer**

Early Warning:      0.40% to

Above Standard:  0.50% to

Excessive:      >= 0.70%

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# Visa Acquirer Monitoring Program

## aka: VAMP

### The Math

$$\frac{\text{TC40 + Chargebacks (TC15) reported that month}}{\text{Visa Settled Transactions same month}}$$

Equals your VAMP Rate

Keep it under 0.5% to 1.5% … talk to your acquirer

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# Fighting Fraud - Basics

## Best practices / Tools

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# Customer Journey

# Fighting Fraud - Basics

## Best practices / Tools

Mix of old and new

| ”Old” Methods | ”New” Methods |
|---|---|
| Customer Journey | ML/AI Models |
| AVS | Consumer Clarity / Order Insight |
| CVV | First Party Trust / Compelling Evidence 2.0 |
| Velocity | Ethoca Alerts / Verifi CDRN |
| Rules | Rapid Dispute Resolution |
| Account Security | Subscription Management |
| Customer Service | |

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# Summary & Key Takeaways

1. Chargebacks and fraud are different — but both impact your merchant risk.

2. Friendly fraud is hard to detect and often comes from known customers.

3. Visa and Mastercard now monitor chargebacks and TC40 (e.g. VAMP thresholds).

4. Tools like CVV, velocity checks, and account security still make a big difference.

5. Talk to your acquirer and educate your team

The best strategy: **combine old and new to fight ever evolving fraud**

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# Thank you

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**Frauddeflect.com/scott**

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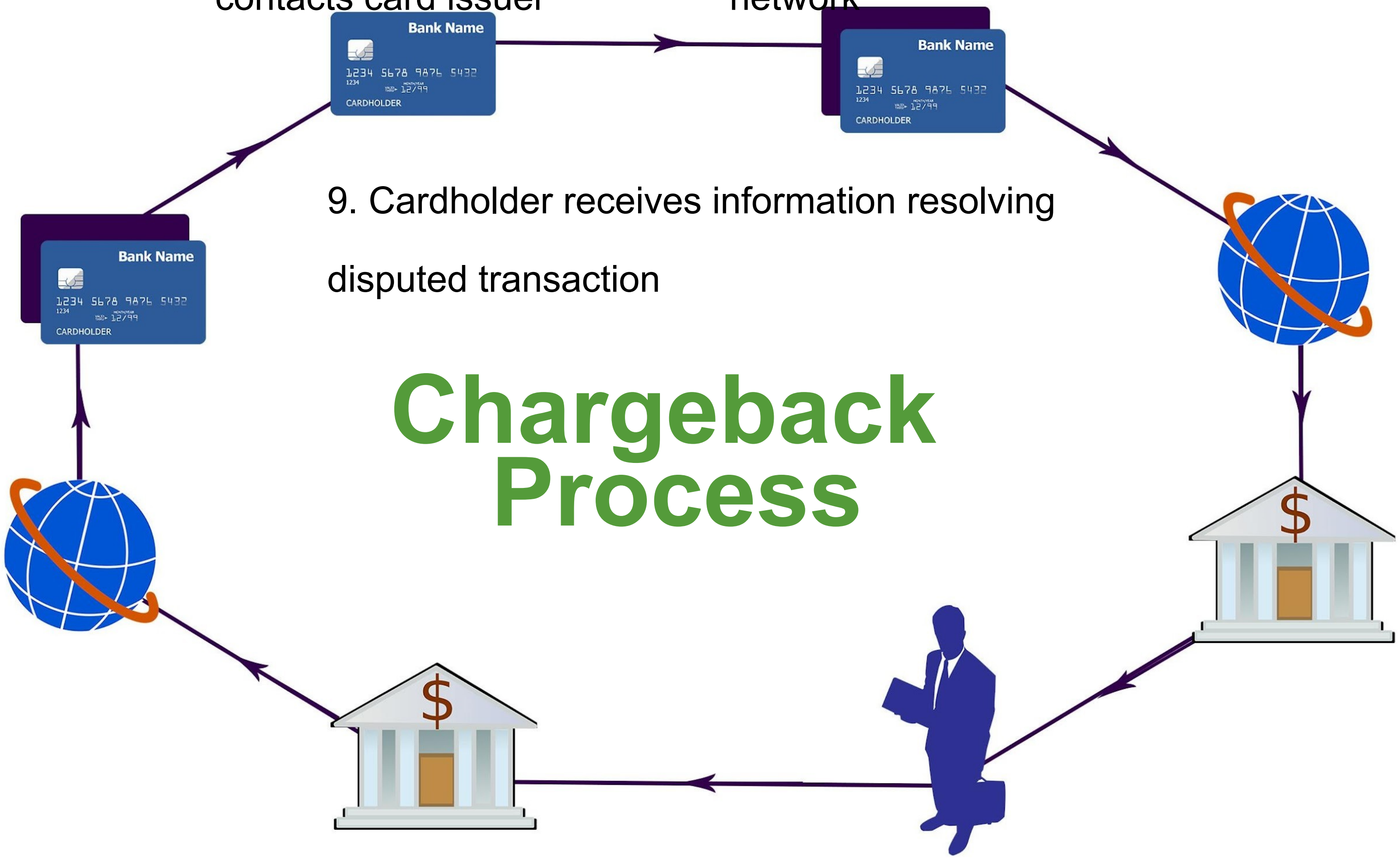
# Appendix

# Chargeback Process

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