



# The CNP False Decline Puzzle

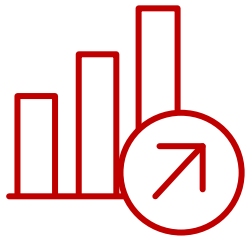
Jay Matthews, Director of Global Payments and Risk, Oath Inc.

Julie Ferguson, SVP Industry Solutions, Ethoca

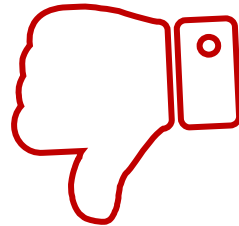
**FALSE DECLINES** occur when good transactions are wrongly rejected due to the suspicion of fraud.

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

# Ethoca's false declines research explored:



The size of the problem.



The destructive impact  
on customers  
wrongly turned away.



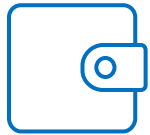
Why transactions  
are declined.



How the industry manages  
declines from issuer and  
merchant perspectives.

# False declines hurt both issuers and merchants

## ISSUERS



**361 m** – cardholders at risk of moving their cards to the back of their wallet.



**13 to 1** – ratio of suspected fraud compared to actual fraud rejected by US issuers.



**\$3,900-48,000** – estimated cardholder lifetime value.

## MERCHANTS



**\$264 Billion** – Value of sales falsely declined in 2016 in the U.S.



**52%** – Orders merchant thought were fraud that turned out to be good.



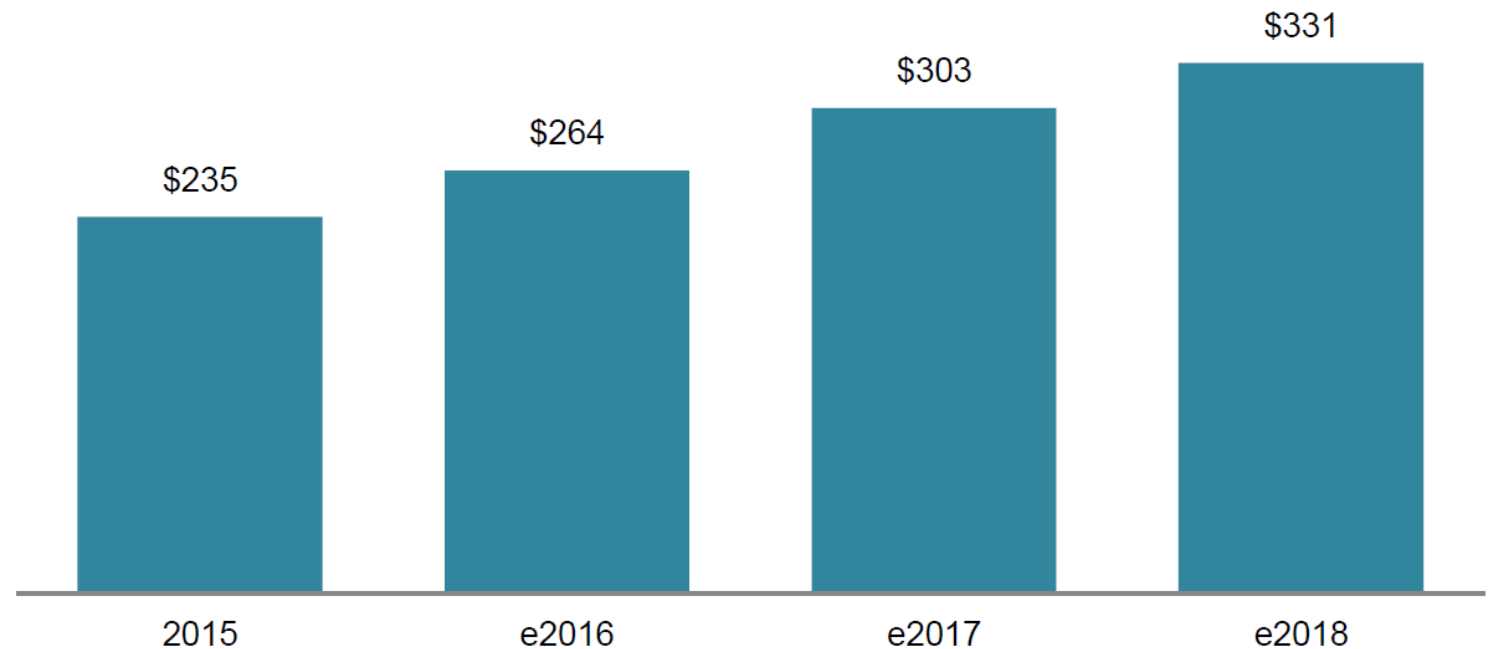
**32.5%** – Number of cardholders who don't retry a purchase after a false decline.

# Overcompensating for fraud perpetuates an imbalance in authorization strategies



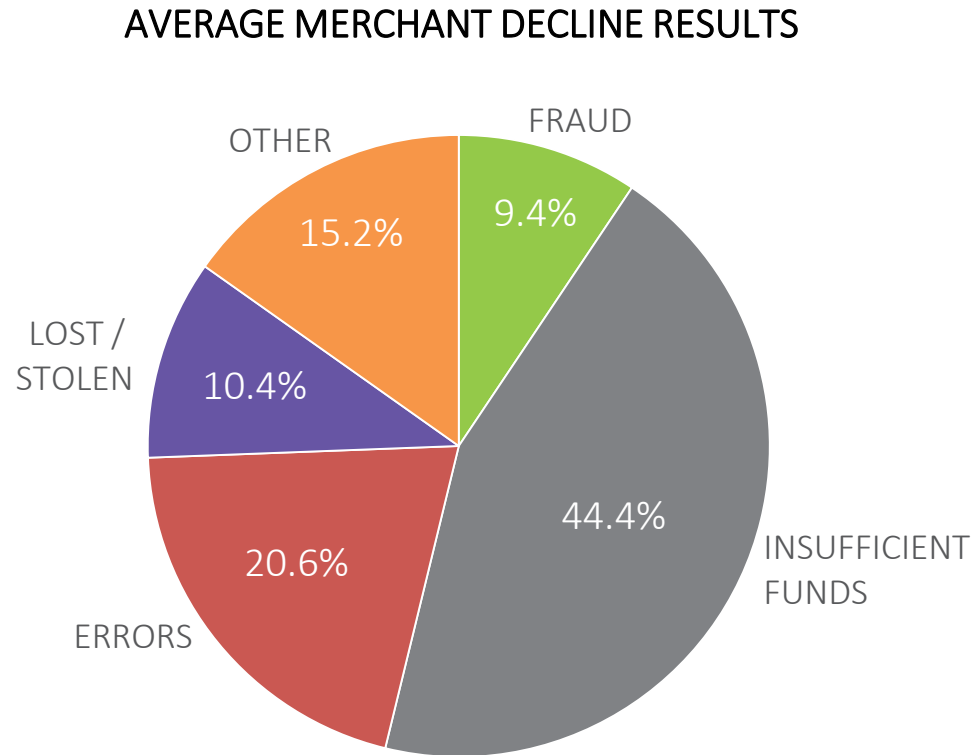
U.S. issuers falsely declined \$118 B in transactions in 2014—13X the amount of actual fraud<sup>1</sup>

U.S. False Decline Impact 2015 to 2018 (In US\$ billions)



Aite Group interviews with 35 merchant, issuer, processor, and vendor executives, April to July 2016

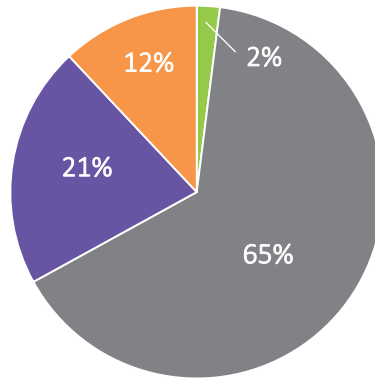
# Ethoca research: Why cardholders are declined



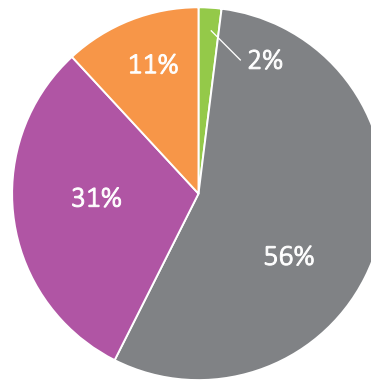
- What's really behind the "DO NOT HONOR" reason code?
- We partnered with 1 issuer and 5 merchants for the study.
- Fraud is the least common reason for a decline.

# False decline numbers: A few case studies

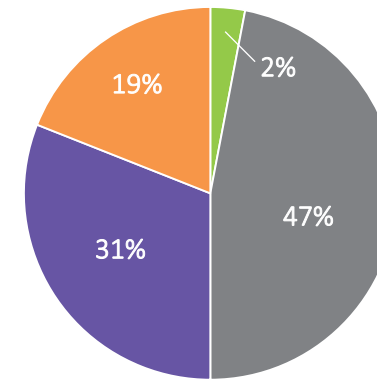
CASUAL DATING  
MERCHANT



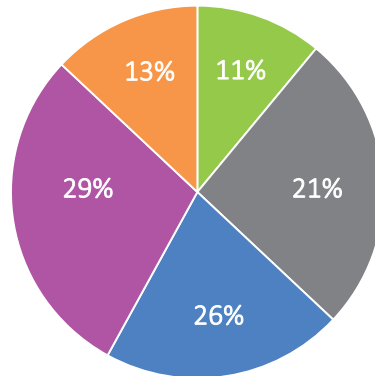
ONLINE GAMBLING  
MERCHANT



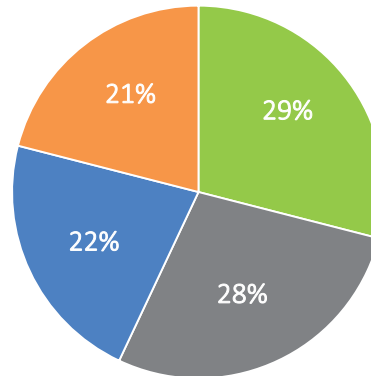
DIGITAL GOODS  
MERCHANT



AIRLINE 1

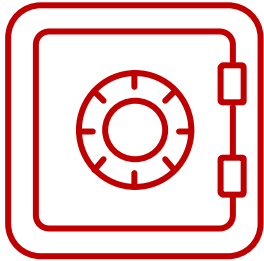


AIRLINE 2

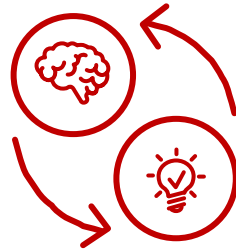


- 102 DECLINED – FRAUD
- 116 DENIED – INSUFFICIENT FUNDS
- 146 DENIED – EXPIRY DATE INCORRECT
- 197 DENIED – INCORRECT CVV2
- 208/209 LOST/STOLEN
- ALL OTHER DECLINES

# Why does it feel like everything is coded “Do Not Honor”?



Issuers want to protect consumers privacy



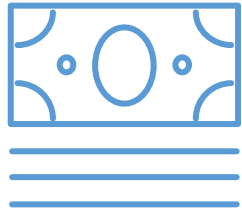
Issuers do not want fraudsters to reverse engineer their systems



Concerns from issuers on what a merchant might do



# What the industry is doing to address the problem



Backup Funding Sources



Retry Strategies



Account Updater

# What do the numbers say?

A solid strategy can not only add to the bottom line but can create a better customer experience

Transaction recycling really works. What's your strategy?

- Do Not Honor Success Rate = 40%
- Overall Success Rate = 48%

Account Updater keeps cards current without customer interaction

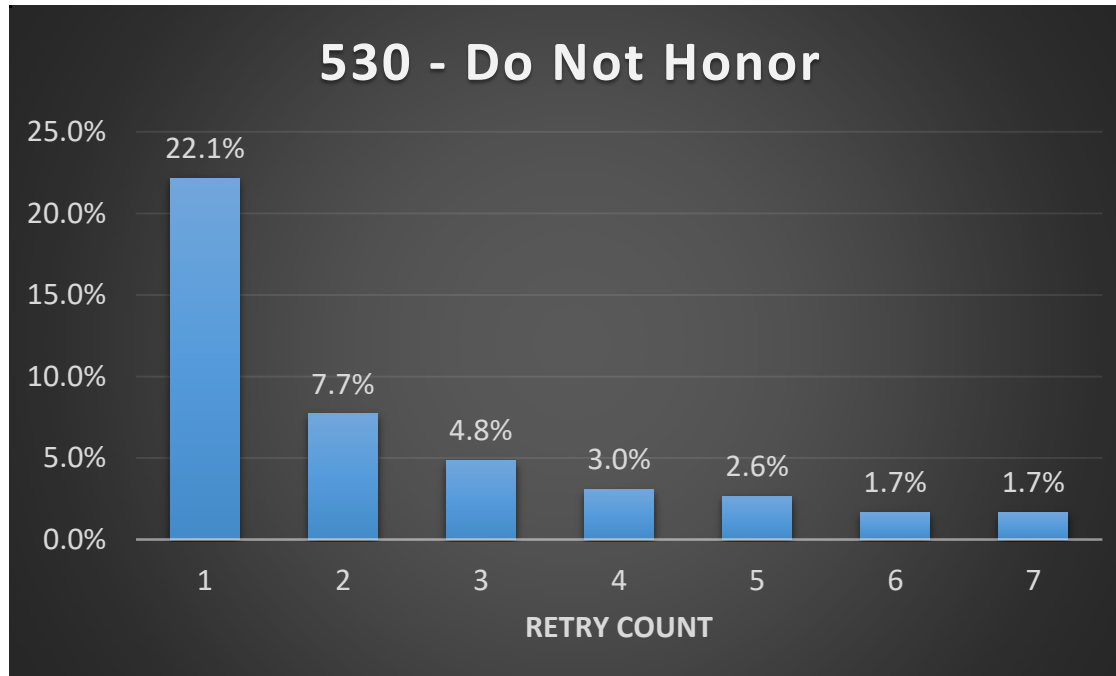
- How do you receive your card updates –
  - Daily / Weekly
  - File push, pull
  - Update check upon billing failure
- 25% to 35% of total card updates for failed transactions

Is it time to message the customer?

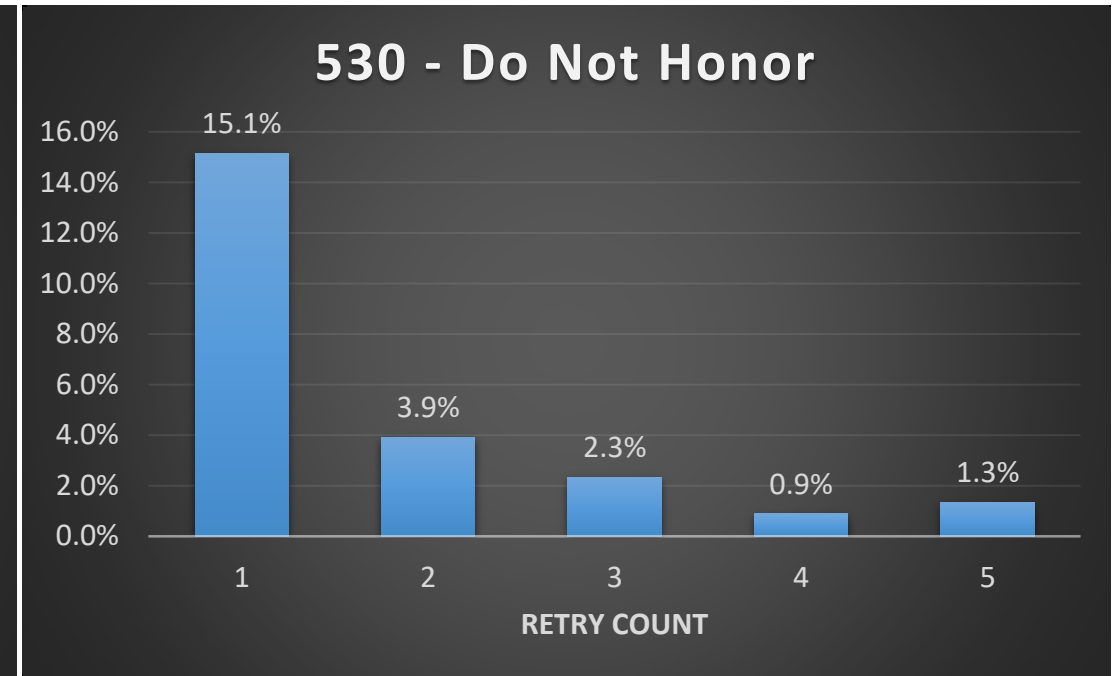
- Let recycling and Account Updater do their jobs
- What channels work best (e.g., email, direct mail, robo-calling)

# Recycling – What does it look like?

## Credit



## Debit



# Today's Speakers...

**Jay Matthews, Direct of Global Payments and Risk, Oath Inc.**

**Julie Ferguson, SVP Industry Solutions, Ethoca**

If you have any questions about the presentation, go to our LinkedIn Group (the [Payments Education Forum](#)) and request an invitation (this is a closed group specifically for the payments industry).