



# The CNP False Decline Puzzle

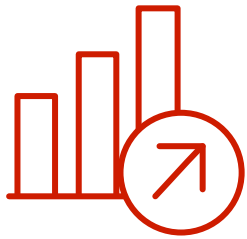
Julie Ferguson, SVP Industry Solutions, Ethoca

Marisa Munoz , Senior Manager, Payments Business Operations, Amazon

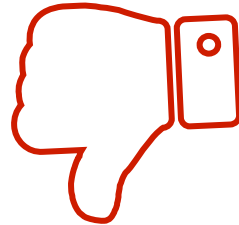
**FALSE DECLINES** occur when good transactions are wrongly rejected due to the suspicion of fraud.

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.



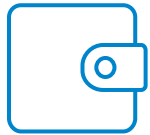
Why transactions are declined.



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.



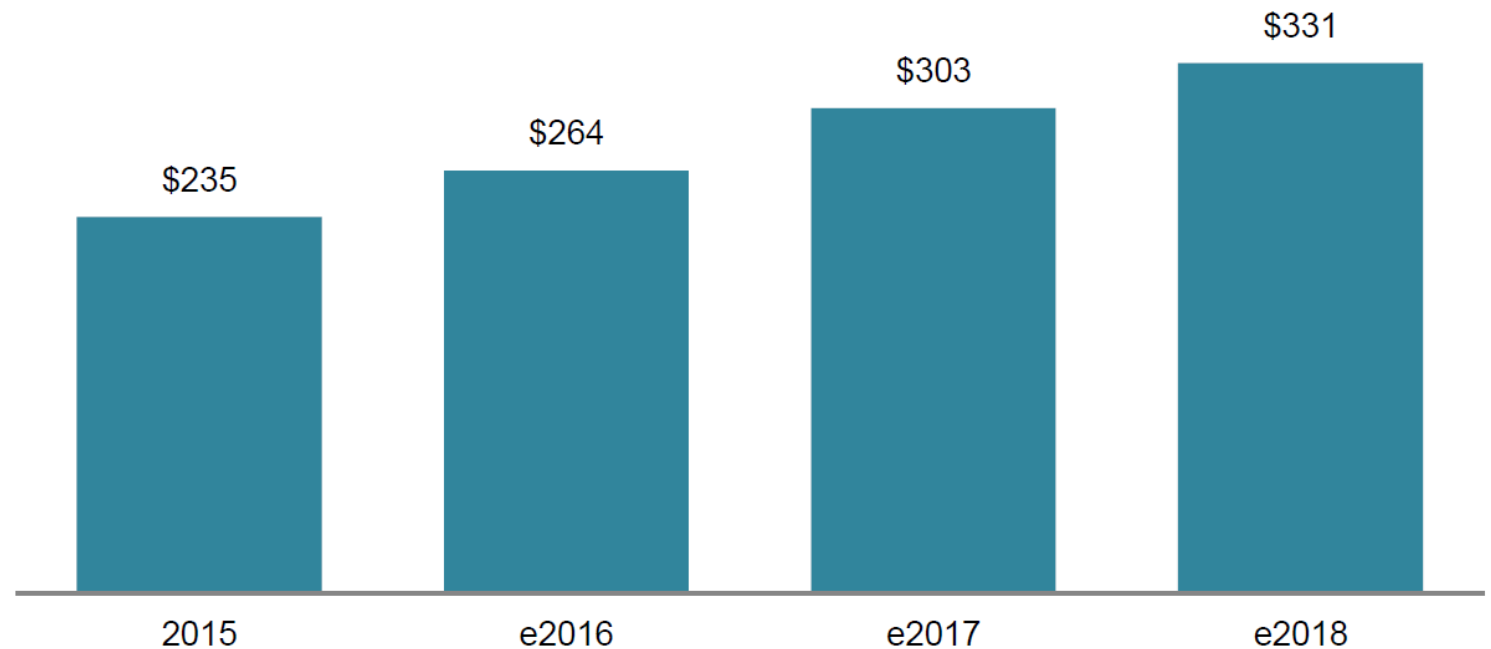
**32.5%** – Number of cardholders who don't retry a purchase after a false decline.

# 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>

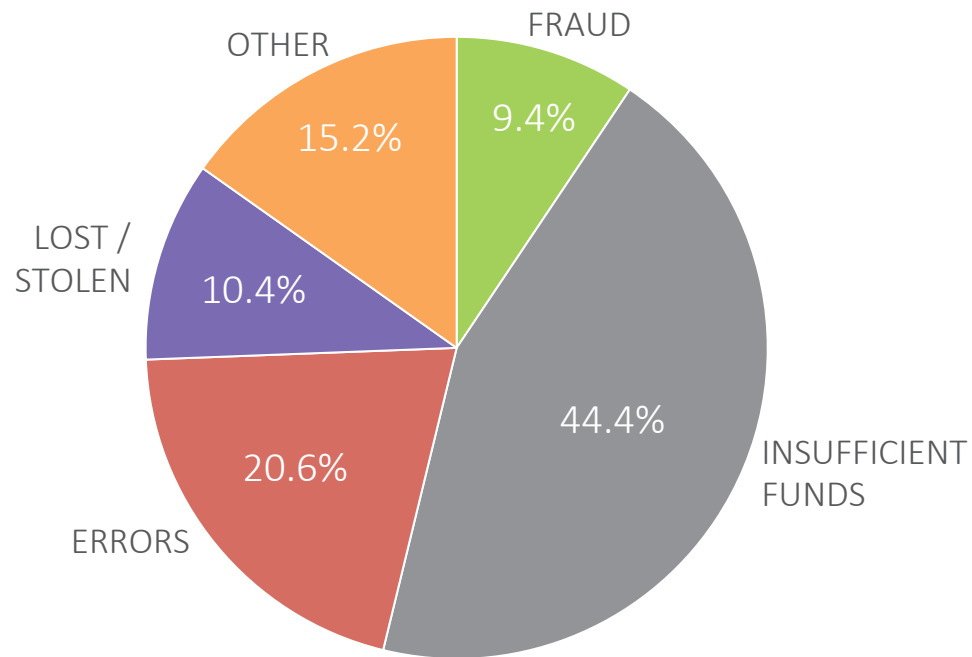
U.S. False Decline Impact 2015 to 2018 (In US\$ billions)



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

# Ethoca research: Why cardholders are declined

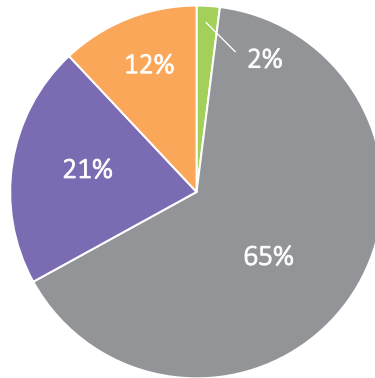
AVERAGE MERCHANT DECLINE RESULTS



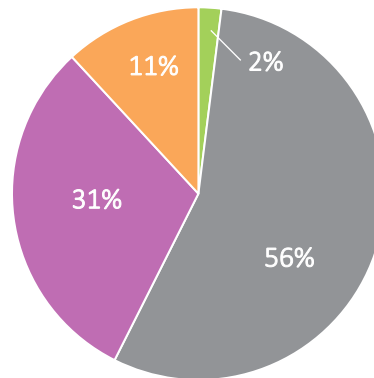
- What's really behind the "DO NOT HONOR" reason code?
- We partnered with 1 issuer and 5 merchants for the study.
- Fraud is the least common reason for a decline.

# False decline numbers: A few case studies

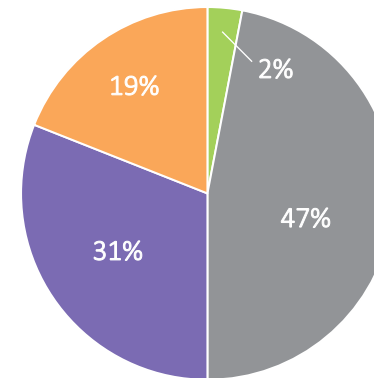
CASUAL DATING MERCHANT



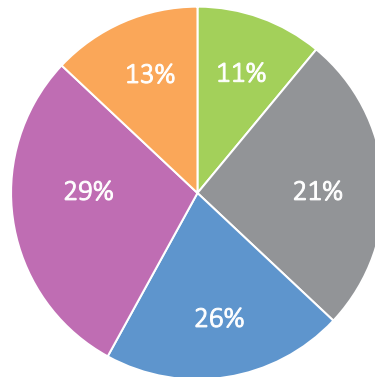
ONLINE GAMBLING MERCHANT



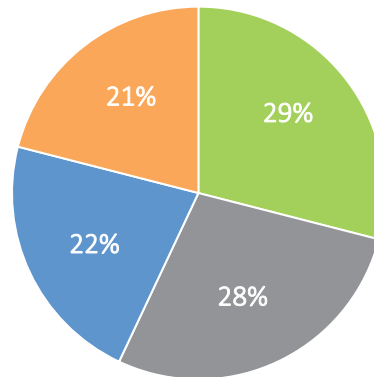
DIGITAL GOODS MERCHANT



AIRLINE 1

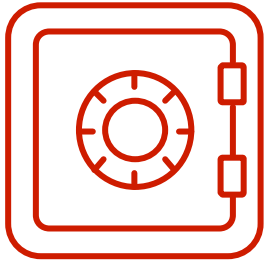


AIRLINE 2

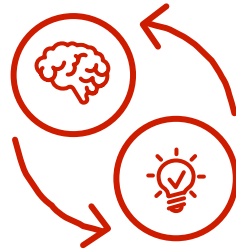


- 102 DECLINED – FRAUD
- 116 DENIED – INSUFFICIENT FUNDS
- 146 DENIED – EXPIRY DATE INCORRECT
- 197 DENIED – INCORRECT CVV2
- 208/209 LOST/STOLEN
- ALL OTHER DECLINES

# 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



# Do Not Honor Case Files

A customer was convinced there was no issue with the card. We investigated:



Velocity



Issuer May be Blocking Specific Issuers or Countries



No CVV



Transaction Limits – May be at Issuer or at Network

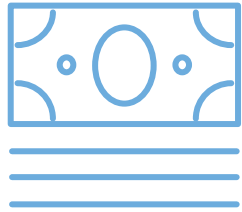


MCC Issue

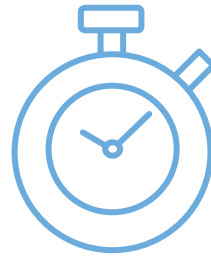


Incorrect Special Indicator (Tech Issues)

# What the industry is doing to address the problem



Backup Funding Sources



Retry Strategies



Account Updater

# Today's Speakers...

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

**Marisa Munoz , Senior Manager, Payments Business Operations, Amazon**

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).