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Why False Declines Could Be Hurting Your Revenue

By **Rafael Lourenco**, EVP at **ClearSale**

E-commerce merchants are keenly aware of the devastating effects fraud and chargebacks can have on the financial health of their business. But they might not realize that an even bigger threat to their business is false declines, or when a customer's legitimate transaction is incorrectly rejected.

While these declines happen with astonishing regularity, merchants frequently don't know they're accidentally rejecting good orders until those falsely declined customers start to complain. And by then, they've often already lost these customers and their revenue for good. In fact, 32% of falsely declined customers choose to never shop with that merchant again.

That's why it's critical for merchants to understand exactly how much good revenue they're falsely declining and how they can prevent it. Here are four ways false declines could be impacting your business today without you even realizing it.

1. False Declines Create Bigger Losses Than Fraud

Many merchants decline suspicious-looking transactions because of a growing concern these transactions will end up being fraudulent and cause expensive chargebacks.

But what these retailers don't realize is that a bigger threat to their revenue is false declines, also known as false positives. Javelin reports that U.S. merchants lose nearly $118 billion each year to these false declines — an amount that translates to more than 13 times as much as the cost of credit card fraud.

2. False Declines Hurt a Merchant's Reputation

These false declines can result in even more subtle financial losses as well. Merchants make significant financial investments in attracting, converting and retaining customers. Those retailers may lose a good part of that investment when a good order is declined and customers give their future business to other merchants.

For 82% of cardholders, these declines are more than just inconvenient — they're also embarrassing and aggravating. And these customer reactions can have a devastating, long-term effect on the relationships that merchants have worked so hard to build.

American Express found that consumers tell an average of 11 people about their good experiences — but tell 15 people about the bad. Even worse, consumers tend to perceive negative reviews as more credible, and these critiques can influence buying decisions far more than do positive reviews. As word of complaints quickly spreads to thousands of customers and potential buyers, this dissatisfaction can create extensive and long-term brand damage.

3. Merchants Don't Accurately Calculate Approval Rates

Most e-commerce retailers tend to believe all auto-declined transactions are fraudulent. That means when they calculate their order approval or authorization rates, these merchants frequently fail to include auto-declined transactions in their calculations. It's a critical error, because omitting auto-declined orders from the order approval rate formula ends up giving online retailers a distorted view about what's really happening with their sales.

4. Automated Fraud Detection Programs Exacerbate the Problem

Merchants running automated fraud programs rely on fraud scoring and fraud filters to approve or decline decisions, and all orders with a poor score or that trigger a fraud filter will be automatically declined. But auto-declining certain orders across the board without taking a closer look at the broader patterns at play means merchants lose two opportunities:

- To retain legitimate customers
- To use transaction data to improve future fraud prevention decisions

Here's what happens. Merchants performing incomplete transaction analysis or using incomplete data sets find that their fraud detection program's accuracy becomes skewed over time and creates an increase in false declines. Over the long run, this decreased accuracy amplifies future losses and brand damage.

How the Right Fraud Prevention Program Minimizes False Declines

On the surface, declining a lot of orders may suggest the merchant is doing a great job of stopping fraud in its tracks. But it likely also means merchants are declining good orders along with the fraudulent ones.

Unfortunately, distinguishing between fraudulent and legitimate orders isn't easy. And if merchants guess wrong, fraud and false positives can quickly become an expensive problem that leads to lost revenue and angry customers. The good news for these merchants is that false positives don't have to be an inevitable cost of doing business.

Merchants who use a hybrid fraud protection solution — one that includes a cross-functional team coupled with advanced artificial intelligence — can protect both customers and merchants against false positives. Not only can it provide a frictionless purchasing experience for customers, but it also minimizes the company's likelihood of rejecting legitimate transactions and increases their ability to block fraudulent ones. And that's great news for merchants looking to grow their e-commerce business — and their revenue.

Author:

Rafael Lourenco is Executive Vice President and Partner at ClearSale, a card-not-present fraud prevention operation that helps retailers increase sales and eliminate chargebacks before they happen. The company's proprietary technology and in-house staff of seasoned analysts provide an end-to-end outsourced fraud detection solution for online retailers to achieve industry-high approval rates while virtually eliminating false positives.

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