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Rise in friendly fraud highlights growing losses for merchants and issuers

Article

The news: Friendly fraud incidents have risen between 20% and 30% in 2022 across global markets, Visa's chief risk officer, Paul Fabara, told Axios.

Key context: Friendly fraud is when consumers report legitimate transactions as fraud. This can occur in a few different scenarios—only some of which are intentional.

- A customer forgets about or doesn't recognize a transaction they made.
- Someone else in the customer's household, like a child or spouse, uses their card without them knowing.
- A customer claims the item they ordered wasn't delivered or doesn't match the description and they don't want it anymore.

It's often difficult for banks to prove friendly fraud because it's committed by legitimate customers who are making valid transactions, and it's challenging to decipher malicious intent, according to Seon. **Friendly fraud is committed by 17% of consumers** who file chargebacks, per Sift.

Why it's worth watching: Card fraud losses in the US are expected to grow 8.2% year over year (YoY) to hit $12.16 billion in 2022, per Insider Intelligence forecasts.

- Card-not-present (CNP) fraud will account for 72% of fraud losses.
- Credit card fraud will account for 67.2%.

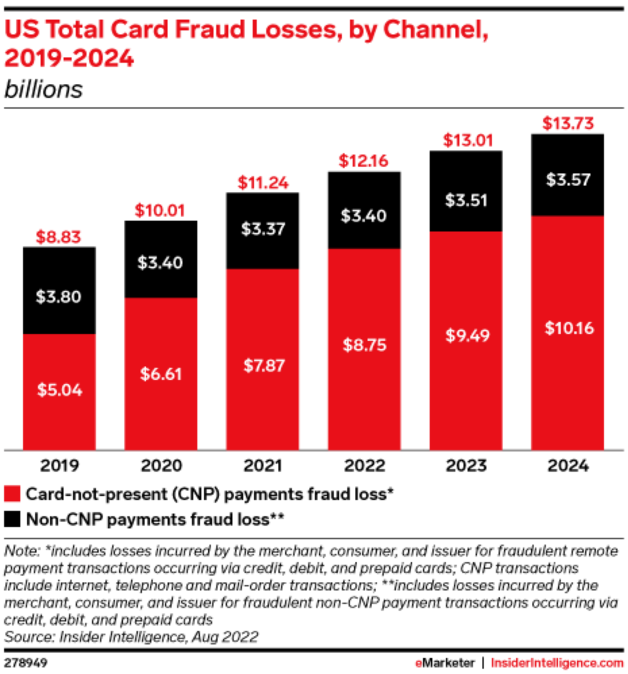
While it's difficult to pinpoint what's driving the increase in friendly fraud, economic headwinds might be a factor. Consumers contending with tighter budgets might opt for friendly fraud to escape financial responsibility for big-ticket purchases.

Why it matters: Fraud can have serious implications for everyone in the purchasing chain. This makes it more important than ever to invest in advanced fraud prevention tools and encourage digital payments with stronger fraud safeguards—like mobile wallets, which often have authentication capabilities.

- **Merchants** are responsible for the majority of CNP fraud losses, which can put a dent in their revenues: Every $1 in fraud costs merchants $3.75 to resolve, according to LexisNexis. Fraud losses can be especially painful for small businesses because they often lack the resources to prevent or dispute fraud cases.
- **Issuers'** share of overall fraud losses has declined in recent years thanks to changes in technical standards for card-present transactions. But friendly fraud is still a major issue because it's difficult to prove. Issuers have to tread lightly around friendly fraud; otherwise, they risk tarnishing customer relationships. Bank customers are 31% more likely to leave after a fraud incident, per Corporate Compliance Insights.

- **Consumers** have the smallest share of fraud losses. Most of their losses stem from debit cards; the Fair Credit Billing Act limits consumers' financial liability for credit card fraud losses to $50.

Related content: *Check out our [US Card Payment Fraud Losses Forecast 2022](#) spotlight report to learn about the factors influencing the US fraud landscape.*



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