

Chargeback Prevention and Dispute Resolution Solutions for Credit Card Issuers and Merchants providing more Detailed Order Insights to Cardholders



Matthew Katz
Chief Executive Officer

CEOCFO: *Mr. Katz, what is the concept behind Verifi?*

Mr. Katz: Our data driven solutions empower merchants to retain more revenue and to create a safer more secure environment for their customers.

CEOCFO: *What do you mean by safer and more secure?*

Mr. Katz: I am using safer more secure in terms risk management. This can take the form of reducing the likelihood of an act of fraud occurring through a client's website for example or through their mobile app, or other channels of distribution. We help ensure that they accept the best orders from the best customers while supporting the best user experience throughout that process.

CEOCFO: *What do you understand at Verifi that helps you provide superior products and services?*

Mr. Katz: We understand that payments and the rules governing payments are incredibly complex. What we really specialize in is helping our clients and our financial institution partners navigate those rules to create a much more balanced ecosystem for all the stakeholders within the payment chain.

CEOCFO: *When might someone come to you, what are they looking for and how do you guide them?*

Mr. Katz: Companies come to us for a variety of payments-related needs from the inception of the transaction all the way through to post billing risk challenges. One example of a challenge we help solve can be explained through our newest product launch, Order Insight. Merchants were saying they wanted to facilitate a better user experience, reduce customer confusion and risks but also avoid the loss of revenue from unwarranted chargebacks. We have recognized that in the majority of chargebacks that occur today, the cardholder does not contact the merchant to resolve his/her dispute. They go directly to their credit card issuer first. Order Insight allows the merchant to provide additional data points to help the customer better understand, remember and recognize what they ordered in the first place. It empowers the issuers to convey better messaging and specific details about the cardholder's purchase and create more positive resolutions. Another example that I always talk about is that I am an avid Amazon customer and I make multiple purchase through Amazon each month. So, my credit card statement could have 5, 10 or more different Amazon transactions all of which can be listed with the same description: "Amazon". This is also true if you look at your statement online. Confusion around the charge can occur as a result because online banking and the descriptor based system that the associations provide is very limited. Therefore, what Order Insights is designed to do is to allow merchants to provide shopping cart level data through the financial institution's platform. This will help the cardholders better understand their purchases and avoid filing false cases of fraud that result in lost sales. The cardholder may already utilize online banking and Order Insights enables the online banking platform or the issuer's call center for example, to get additional information about their purchases, without having to leave that screen and open up the merchant's website. Order Insight allows the merchant to provide all of the relevant order details through the financial institution. It really helps reduce cardholder confusion and create a much better cardholder experience upfront because for the first time, the cardholder can get the facts they need about the charge in question or contact information that I need through the financial institution itself.

CEOCFO: *Why is it that the merchants are not providing a better description of purchases?*

Mr. Katz: The reality is that it has to do with the core network. The association networks only allow for a 25-character descriptor to be provided by the merchant to begin with. However, each issuer may or may not even use all 25 characters, based on their policy or system defined rules. We have seen situations where certain issuers only display 23 characters and others who only use 18 characters in their online banking system. We typically have seen 21 characters being most

common. Therefore, it is incredibly challenging for merchants to convey a complete message to support the charge. So if I bought 2 products from Amazon, or Dell for a home computer, where typically I am buying the computer, a monitor, a printer, probably some sort warranty, or some sort of service program, and probably some software. Therefore, the entire purchase amount could be for \$1,800. However, on my statement it would appear as a Dell.com purchase for \$1,800. If for some reason the printer is not delivered, at that point I am very limited as to say that I want to chargeback an \$1,800 transaction or not. Because Order Insights allows a merchant to upload that shopping cart level detail, I would be able to click the descriptor for that Dell.com purchase, and I would be able to see that I purchased a desktop, monitor, printer, software and a service package. That would allow me to submit a partial chargeback, specific to the printer that was never delivered. It not only helps to remind me, but it really helps from a cardholder or customer's perspective to really chargeback only the indented item and not the overall purchase. That is another benefit of the program.

CEOCFO: *Who is coming to you for your services and products? Is there a common knowledge that the current system does not work very well?*

Mr. Katz: It is not that the current system does not work well. For a network the size that Visa, MasterCard, American Express or Discover operates, their networks are so large that it is very difficult for them to not only predict what the market is going to need 5 years from now, but given the sheer size of the network it's tough to quickly react to the changes or evolution of business. Therefore, we have identified an opportunity to help improve the overall ecosystem; for merchants, issuers and cardholders alike. We launched our beta version of Order Insights just a few weeks ago, attracting merchants of all sizes, from the largest Omni Channel and Card Not Present Merchants. Merchants who sell tangible goods all the way through to intangible products, such as downloaded software or music can all benefit from the service. There is not a specific industry or vertical that Order Insight services better than another. It works uniquely across the board.

"Companies come to us for a variety of payments-related needs from the inception of the transaction all the way through to post billing risk challenges." - Matthew Katz

CEOCFO: *What is your revenue model?*

Mr. Katz: We win when our clients win. We only get paid on their success for Order Insight and a number of our other services.

CEOCFO: *Would you tell us about chargebacks? What are the current statistics on what is being lost?*

Mr. Katz: Taking a step back in time, the chargeback system was designed as a system of last recourse, when a merchant was not doing right by the customer or adhering to their terms and conditions for example. Chargebacks were designed as a last recourse for a cardholder to try to recover their funds. When you look at the terms and conditions from your issuer, you usually have a responsibility clause as a cardholder to reach out to the merchant and try and resolve your concern with the merchant directly before you go to your financial institution. About 10 years ago we saw that about 50% of all chargebacks would go to the merchant and the other 50% would go to the issuer, without ever having tried to resolve it with the merchant first. When I started the company I really felt that if merchants could successfully fight their chargebacks, they would help change consumer behavior and they would help the customer realize to call the merchant first. In our experience, the majority of the time when the cardholder contacts the merchant, there is a positive resolution. Whether it is through a phone call, an interaction via email or a live chat on a website, the two parties generally reach an outcome that they are happy with. Over the last 10 years, we believe that now about 86% of all chargebacks go to the issuer first, eliminating the ability for the merchant to satisfy the customer and creating much higher operational expenses for the issuer. Unfortunately, more and more customers have learned that it is easier to get their money back by going to the bank than it is to contact the merchant. Further, online banking really accelerated that shift. Typically, an issuer offers a button right there in your online banking that just says "dispute". That allows you to click a single button, answer a few questions, file a chargeback and get your temporary credit the same day whether it was appropriate or not. Cardholders have been trained over the last decade that it is a great deal easier and faster to get their money back from the bank, than it is from the merchant they purchased from. Therefore, we have seen a huge increase in the amount of chargebacks going against the merchants, and the merchants have been handicapped to try to resolve those chargebacks. Merchants want to do their best to directly resolve any concern with their cardholder/customer, because that experience affects perceptions regarding the merchant's brand. Because the banks have made it so easy to chargeback through the bank, many of the brands have lost the ability to communicate with their customers and resolve their customer disputes in a proactive or positive manner. In real terms, the true costs of chargebacks are very significant for both merchants and issuers. For merchants, they suffer added fees, wasted labor on manual reviews, lost sales and goods, risk to their processing privileges and in many cases, the continued relationship with their customer. Issuers see dramatically and

unnecessary increases in their operational expenses, as well as potential risks to the cardholder relationship as well. The later is largely due to the limitations of the information available to them through these misdirected cardholder disputes or inquiries.

Also, because of the current transition with the EMV and chip based cards, we expect to see more and more chargebacks occurring through the Card Not Present channel than ever before in the US. The trends we see so far in our business support that.

CEOCFO: *Are the customers coming to you for your new Order Insights product purchasing or using your other products and services?*

Mr. Katz: They are. We have been very fortunate over the last 10 years and have attracted a Who's Who of large, recognized brands for our suite of services. Therefore, when we launched Order Insights, the first calls that we made were to our existing customers. Order Insights was not built in a vacuum. In fact, many of our existing customers helped contribute to the design and functionality of Order Insights, based on what their challenges were. They also assisted us in how we engaged with the credit and debit card issuers to support the service. This created a very balanced form of communication between the financial institution and the merchant to help ensure that Order Insight was a valuable product for both parties.

CEOCFO: *What is your geographic range?*

Mr. Katz: Historically, we have been focused primarily in North America. Last year we started our international expansion, opening up our first office and operation in London, England. In addition, we are continuing to hire throughout the European region, to continue to extend our services outside of the United States.

CEOCFO: *How do you stay outside of all of the changes and regulations?*

Mr. Katz: We do not. What has worked for us over the last 10 years is not trying to outright predict the future. The most important rule that we have is that we do not build a "field of dreams". Consequently, we don't tie up time and valuable resources with a "If we build it they will come" mentality. What we have excelled at is listening to our customers and working with them to understand what their needs are today and what they believe their needs will be down the road. We routinely engage our client in our product roadmaps to understand whether or not they believe the new concepts 1) provide real value for them, 2) are they willing to sign up for the service before we build it, and 3) help us understand what we could be doing differently or better to ensure that we will continue to be relevant to their businesses. We do this with both merchants and our issuer partners to ensure mutual benefit and better direction on where we invest our product and technical resources.

CEOCFO: *Do you retire products or just tweak them?*

Mr. Katz: We do retire products when they are no longer relevant. More importantly, we focus on driving innovation where our existing and new solutions can work together for improved results. Our biggest product line at Verifi is CDRN, our Cardholder Dispute Resolution Network. This award winning service facilitates basic communication between issuers and merchants to resolve cardholder issues efficiently to avoid escalation to the chargeback process and the financial burdens that follow. Order Insights is the extension of that. There is also our Chargeback Representation service, where we fight more unwarranted chargebacks than anybody else in the world and recover lost profits for our clients. Those are two of our largest services, but we have 4 additional product lines of similar size, covering the entire transaction lifecycle. We have provided Chargeback Representation for the last 10 years, and CDRN for the last 8 years. Last year I decided that we needed to create more transaction visibility and information sharing to reduce fraud and prevent more chargebacks upfront in tandem with protecting our clients' revenue stream. By facilitating even greater merchant and issuer collaboration around the cardholders purchase data, legitimate disputes will be more clearly identified and chargebacks that result from "friendly fraud" situations like billing confusion or buyers remorse will be reduced. Legitimate sales are maximized as a result and the cost of recapturing valid sales is reduced downstream. We have come up with better ways to do it. Order Insights represents a huge step forward to where we hope that CDRN will be more of a "safety net" or measure of last resort to help resolve only those chargebacks that do progress without adversity to the merchant or issuer.

Similarly, Chargeback Representation should also be reduced or sunset in time, since sales validation of the cardholder purchase will be much stronger at the issuer through Order Insight. This will create less need to chase sales or merchandise that would have turned into chargebacks later. Our skilled chargeback representation teams will assist our client that final mile in regaining sales they are rightfully entitled to and only that make the most sense to fight for.

CEOCFO: *What has surprised you as Verifi has grown and evolved?*

Mr. Katz: I'm not so much surprised at our growth, rather I am extremely humbled and grateful for the success we have seen. I started the company a little over 10 years ago in my apartment, and today we have multiple offices in the US and our first office in Europe. We have never needed to raise money because we have been profitable from our second week in business and by the time I realized that we were on to something, we were already profitable enough to fuel our own growth. I did not start with a business plan to get to where we are today. It really evolved and succeeded because our clients have been phenomenal and transparent with us so we understood our strengths and weaknesses. With that knowledge, we continually worked to improve our services from their feedback. My goal from day one has been to provide the highest quality service with no short cuts and to help clients and partners not only protect their payments but also boost their profits. There is no other company in payments that is 10 years old that is the size that we are. By summertime, we will be just shy of 300 associates between all of our offices. The other thing that has been really rewarding is the team we have built at Verifi. I consider them the best and brightest in the payments space. On a personal level, my own experiences, both positive and negative, have taught me a great deal. I have been able to evolve my own leadership style from my early days as a startup CEO to working with our team to lead our global expansion. So, I am also exceedingly thankful for the personal growth that Verifi has afforded me.

Interview conducted by: Lynn Fosse, Senior Editor, CEOCFO Magazine



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