

# GUEST POST: THE ROLE TECH CAN PLAY IN DEFENDING YOUR BUSINESS AGAINST 'FRIENDLY FRAUD'

For the travel industry, 2022 was to be the year of the sector's big comeback.

With COVID-19 vaccines and testing freely available, it was assumed people would start traveling far more widely for both business and pleasure.

By and large, that forecast has proved correct: passenger numbers have boomed after two years of pent up pandemic demand.

But behind the upbeat headlines, travel businesses face new challenges. Soaring fuel costs, chronic labour shortages, and higher wages have made life difficult for all travel industry players, large and small.

Airlines and other providers have struggled to cope with the surging demand, too: new data shows that 61% of passengers had flights delayed or cancelled, and 83% lost money as a result.

Many travellers have also had their luggage delayed or misplaced, turning dream holidays into nightmares.

In the midst of these challenges, travel companies are facing another critical threat: the rise of 'friendly fraud'.

While transaction chargebacks have affected the travel industry for years, cutting deep into already-thin margins, the current disruption threatens to make chargebacks far more prevalent.

Travel firms must be proactive about defending themselves, or face potential disaster in the weeks and months to come.

## An easy target

In the simplest terms, friendly fraud arises when a customer uses a credit or debit card to make a payment – then improperly initiates a chargeback to reverse that transaction.

While chargebacks cost merchants of all kinds billions of dollars a year, the travel industry is especially vulnerable. Why?

Because holidaymakers often book a trip months, even years, in advance, leaving a large window for circumstances to change – or buyer's remorse to set in.

Unable or unwilling to complete their journey, and facing limited and complex refund options, customers might seek to recoup their costs through their bank's chargeback provision.

Of course, not all holidays are booked months in advance: last-minute deals are also surging in popularity as people make spontaneous travel plans after long periods of staying at home.

These quickfire purchases also generate a significant amount of improper chargebacks, with the quick turnaround between the transaction and the travel further complicating the process for operators.

This all adds up to a major headache for both airlines and travel agents. In fact, credit card chargebacks now account for 11% of all agent debit memos – the accounting tool used by airlines to demand adjustments from agents – and make up a substantial proportion of the estimated \$1 billion in annual credit card fraud faced by the aviation industry.

## Picking up the tab

It can be tough for even the biggest travel businesses to absorb the cost of chargeback claims, or to build out in-house infrastructure and expertise to challenge improper chargebacks.

A disgruntled holidaymaker whose holiday doesn't go to plan might expect a large travel business, such as an online booking site, to simply swallow the cost and offer a refund in order to keep them happy.

If that doesn't happen, perhaps because the complaint should actually have been directed to the hotel where the holidaymaker stayed, it's easy for the angry customer to seek a chargeback – and unless the booking site can rapidly collect all the necessary documentation to contest that chargeback, the case is likely to go against them.

In truth, even the largest and best-resourced travel businesses can face difficulties in such circumstances. Pushing back against chargebacks requires well-trained staff, dedicated tools, and industry-specific knowledge, not least because banks default to siding with their customers rather than with merchants.

That leads many travel businesses to pick up the tab, and see chargeback risk as simply the cost of doing business.

That's a risky approach, though: each chargeback contributes to the merchant's chargeback-to-transaction ratio, and if that number climbs too high, card issuers might refuse to process future transactions – a disaster that can put travel companies out of business overnight.

## Nailing the basics

To defend against friendly fraud, travel providers need to nail the basics. That starts with ensuring that communication with customers is clear and comprehensive from the word go.

Issues surrounding cancellations and booking modifications can often be easily resolved if the traveler has easy access to online information, FAQs, and customer support help.

Let these problems go unaddressed, or make them opaque and hard to navigate, on the other hand, and there's an increased likelihood that customers will get annoyed or exhausted, and use chargebacks as a form of unilateral remediation.

Other improper chargebacks are based not on frustration or lack of knowledge, but on explicitly fraudulent intent.

To counter such claims, travel companies need to ensure rigorous cardholder verification, document that the customer understood and agreed to the transaction's terms before pressing 'pay', and ensure that all relevant materials – receipts, customer correspondence, activity logs – are easily retrievable when needed.

## A tech-forward approach

If that sounds like a lot of work, it is. Contesting chargebacks is a time-consuming task that can place a significant burden on both large and small travel providers.

That's why many holiday companies are now turning to technological solutions to automate and streamline their chargeback mitigation efforts.

New advances in artificial intelligence (AI) and data analytics are making it possible for travel businesses to quickly gather relevant transaction information from across their operations, and rapidly build out the comprehensive evidence and detailed reporting needed to win disputes.

The key, however, is to view AI and automation not as a solution in its own right, but as a tool to augment human expertise and judgment.

The travel business is complex, and relations between agents, airlines, and other operators require deep industry insights to navigate and map back onto chargeback cases.

Look for tech solutions that include support from well-trained human teams who genuinely understand the challenges you're facing, enabling you to streamline operations while winning more disputes.

## Thriving when times are tough

These are tough times for the travel industry, and irate customers are increasingly turning to chargebacks in the wake of disrupted holidays or delayed travel.

That's understandable, but travel businesses can't afford to simply swallow the cost of transaction disputes.

Instead, travel businesses need to get serious both about reducing chargeback rates, and putting meaningful mitigation solutions in place to reduce the financial and operational impact of disputes.

By focusing on customer communication, tightening up payment protocols, and leveraging new chargeback mitigation technologies, travel companies can fend off the threat of friendly fraud – and find ways to thrive even when times are tough.

## About the author

*Roenen Ben-Ami, co-founder and chief risk officer of JustIt.ai, is an expert in the field of payments and chargeback mitigation.*

*Previously, Roenen led the Chargeback and Merchant Risk teams at the payments service provider Simplex, which successfully recovered millions of dollars a year.*

*He also served for nine years in an elite military intelligence unit in the Israel Defense Forces, attaining the rank of captain and spearheading the creation of an innovative operations department focused on change leadership, human resource development, and risk management.*



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