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When Customers Become Fraudsters: The Hidden Cost of First-Party Fraud

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Summary and Key Findings

First-party fraud, when consumers falsely dispute transactions they know they authorized, has become a growing concern in the payments ecosystem. Financial institutions and merchants expend considerable resources to process these dispute claims and often assume financial liability for wrongly disputed transactions. This report examines the scale of first-party fraud in credit and debit card payments, analyzes the current efforts deployed by FIs and merchants to mitigate it, and provides insights into how firms can begin to solve this conundrum. The key findings from this report follow:

- **Volume is on the rise globally:** First-party fraud volume is projected to reach 30.6 million cases in 2025 and grow to 38.2 million by 2028, with estimated losses increasing from US$3.9 billion to US$4.8 billion during this period.
- **Consumers openly acknowledge disputing authorized transactions:** Between 10% to 16% of consumers admit to filing disputes for transactions they made, with motivations split evenly between wanting to avoid payment and facing economic hardship. Contrary to common assumptions, the behavior is not limited to younger demographics.
- **FIs are burdened by this form of fraud:** First-party fraud represents 14% of all chargebacks initiated by FIs, with 35% of FIs reporting increases from 2023 to 2024. This increased operational costs and the need for enhanced detection solutions.
- **Merchants are more negatively impacted by first-party fraud than FIs:** Merchants face an even higher impact, with first-party fraud accounting for 21% of their chargebacks and two-thirds reporting year-over-year increases.
- **Card network solutions are emerging:** While solutions such as Visa's Compelling Evidence 3.0 (CE3.0) and Mastercard's First Party Trust show promise, adoption remains relatively low among FIs but higher with merchants. Merchants currently using CE3.0 report high satisfaction rates, with 93% finding it effective or very effective at avoiding financial liability.
- **More industry effort is needed to mitigate chargebacks:** Despite the availability of solutions, there remains a significant need for improved fraud detection systems, enhanced chargeback processing automation, and better customer communication to prevent disputes before they occur.

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