



Visa Consulting & Analytics (VCA)

Fraud prevention in payments: Balancing risk-management controls and consumer convenience



Each month, the experts at Visa Consulting & Analytics (VCA), Visa's consulting arm, deep-dive into one of [10 key priorities for payments-industry stakeholders in 2024](#) using anonymized VisaNet data and insights.

This month, financial institutions (FIs) looking to streamline their transaction-authorization processes can learn how to strike a balance between optimizing user experience (UX) and implementing fraud-prevention controls. Both are equally important in ensuring payments transactions around the globe are successful, simple, and safe.

In many ways, the payments landscape is still adjusting after the economic disruption caused by the pandemic, which affected not only what consumers spent their money on, but also how they conducted their transactions.

Strict global travel restrictions slowed the volume of cross-border transactions dramatically, and, on a global scale, overall payments volumes decreased. Consumers spent larger percentages of their budgets on essential versus non-essential goods. Merchants forced to lock their brick-and-mortar locations' doors led to a marked shift from card-present (CP) and cash-only transactions to card-not-present (CNP) transactions. Without a physical card being used in-store, fraud risk increases, so FIs worked quickly to adjust their risk-management policies and controls to limit exposure to fraudulent transactions and delinquencies.



For many FIs across many geographies, transaction approval rates have yet to return to pre-pandemic levels.¹ So, with some sense of equilibrium finally returning to the payments market, FIs have an opportunity to reassess their approaches to declined transactions—and to consider what more can be done to improve the customer experience, while remaining vigilant against fraud and credit risk.

A best-in-class approach to transaction optimization strikes the right balance between risk management and customer experience leading to significant benefits for FIs:



Enhanced customer experience

By only declining high-risk transactions, the inconvenience caused to customers due to false positives is minimized, which enables a smoother customer experience.



Reduced fraud loss

More accurately identifying high-risk transactions can reduce any potential losses resulting from fraud.



Improved operational efficiency

Optimizing decline rules can reduce operational costs and improve efficiency, as less time and resource is spent on investigating and resolving false positives.



Increased revenues

Reducing the number of inappropriately declined transactions presents both issuers and merchants opportunities to increase revenues.



1. VisaNet data. Analysis based on time period 2018-2023 data.

Key considerations for FIs

The pandemic induced significant changes in the financial sector's operational strategies and policies, primarily driven by heightened risk-aversion. The surge in CNP transactions due to lockdowns necessitated tighter fraud rules, as these transactions pose inherently higher fraud risks. Data shows a decline in the gross approval rate post-2019, likely due to stricter credit policies and increased transaction scrutiny.² Concurrently, fraud incidents increased, underscoring the need for robust fraud detection and prevention systems.³

In response to the changing financial landscape, FIs have increased transaction declines due to insufficient funds and suspected fraud.⁴ This is especially prevalent in several European markets like the UK, where Strong Customer Authentication (SCA) rules were implemented, adding an extra layer of security for online transactions, but leading to an increase in declines due to additional customer authentication.

Accurate decline code categorization is vital for financial institutions to be able to identify, understand, and troubleshoot issues around transaction declines. In 2021, Visa introduced new decline response codes like "Blocked," "First Used (78)," and "Closed Account (46)," which provided more granular explanations for transaction declines. These new codes led to a significant drop in "Do Not Honor" declines and improved the precision of decline classifications. Meanwhile, an increase in "Closed Account" declines could have been attributed to Primary Account Number (PAN) changes due to suspected or confirmed fraud and card upgrades.⁵

Despite a rise in the approved volume of payments in 2021, the gross approval rate has yet to return to pre-pandemic levels.⁶ And while fraud in cross-border transactions remains elevated relative to domestic transactions, cross-border fraud rates are now beginning to trend below pre-pandemic levels.⁷ This suggests that FIs may need to revisit their credit policies and fraud rules. Adjusting these rules, initially implemented to contain pandemic losses, could improve the gross approval rate without significantly increasing fraud exposure. This requires strategic decision-making based on a careful analysis of changing economic conditions and fraud rates.



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2. VisaNet data. Analysis based on time period 2018-2023 data.

3. VisaNet data. Analysis based on time period 2018-2023 data.

4. VisaNet data. Analysis based on time period 2018-2023 data.

5. VisaNet data. Analysis based on time period 2018-2023 data.

6. VisaNet data. Analysis based on time period 2018-2023 data.

7. VisaNet data. Analysis based on time period 2018-2023 data.

Three focus areas for FIs

To achieve the proper balance between managing fraud risks and preserving the customer experience, VCA has prepared guidance based on our experience working with FIs around the world.

Measures introduced during the pandemic may no longer be as relevant or necessary, and continuing to apply them could inadvertently lead to unnecessary transaction declines. By revisiting these measures and adjusting them as needed, FIs can capture volumes and revenues that might otherwise be lost.



PRIORITY #1

Not Sufficient Funds

Across the world of payments, this decline reason—which is applied when the transaction amount exceeds the customer’s available balance—continues to track at historically high levels.⁸ FIs can address this in several ways.

For example, with a stronger approach to risk-based segmentation, FIs can offer temporary limit increases and/or develop a differential limit-based strategy. Also, with extended hold periods becoming more prevalent, FIs could look at how best to handle the related impact on declines.

Of course, in certain markets and among certain customer segments, challenging economic conditions can make it difficult to increase credit lines or to introduce additional credit products. Additionally, a lack of analytical methodologies for fraud prevention can sometimes result in a less-than-ideal approval rate.



PRIORITY #2

Suspected Fraud

This decline reason is automatically applied when a transaction does not pass the issuer’s risk monitoring detection systems or controls. Setting a threshold for false positive rate (FPR) and monitoring it regularly can help in optimizing the declines due to suspected fraud.

The typical FPR range of 5-10.1 is a common benchmark, but it may vary depending on the specific context and requirements of the FI. The key is to find a balance that minimizes both fraud losses and customer inconvenience due to false declines.



PRIORITY #3

Closed Accounts

With the surge in online subscription services and card-on-file transactions, this decline reason—used when either the FI or the cardholder terminates an account—has seen a commensurate increase.⁹

There are several ways to address this situation, including better communication with customers about updating card-on-file data when an account has been reissued.

There are also automated solutions available, such as the Visa Account Updater (VAU) service. This means that, for any account numbers or expiration dates that have been updated, the changes can be shared with merchants via the VAU which, in turn, prevents unnecessary declines. However, updates should only be sent to the VAU if the closure is permanent (and accounts can never be opened using that account number).

8. VisaNet data. Analysis based on time period 2018-2023 data.

9. VisaNet data. Analysis based on time period 2018-2023 data.

How Visa can help

Unnecessary transaction declines are one of the greatest sources of friction in the global payments ecosystem and are frequent causes of dissatisfaction for consumers and merchants. Visa has developed a range of services and solutions to help FIs to optimize performance:

PA

Partial Authorization

Enables consumers to conduct a debit/credit transaction, even if they have insufficient funds to cover the full purchase price. The merchant can charge their debit/credit card up to the amount of the available funds and allow their customer to pay for the rest using another means of payment such as cash.

VAU

Visa Account Updater

Enables issuers to inform merchants of changes to customer account details (e.g., account number, expiration date, or account status). The service also works when issuers migrate cardholders to a new type of card product (e.g., premium card), when they upgrade a card portfolio, or move a portfolio from another network to Visa. (Please note, this functionality is available in North America and in EU region with a few exceptions in certain markets due to local regulations).

VRM

VAA

Visa Risk Manager with Visa Advanced Authorization

Enables FIs optimize their fraud management with a best-in-class, scheme agnostic score and enterprise risk management solution. VRM is an easy-to-use web-based platform that requires no software setup, no licensing, and no ongoing maintenance.

VSPS

Visa Stop Payment Service

Gives a consumer the ability to stop unwanted recurring charges, which can also help in reducing declines due to Not Sufficient Funds and Closed Accounts (note, this functionality is only available in North America).

VTC

Visa Transaction Controls

Enables the FI to send real-time, customizable alerts to customers to inform them why a transaction has been declined, and to minimize the likelihood of further declines for the same reason (for example, 'Incorrect/Missing PIN', 'Incorrect/Missing Expiration Date', etc. (Note, this functionality is available in North America and in EU region with a few exceptions in certain markets due to local regulations).

VCA

Visa Consulting & Analytics

VCA can help issuers in benchmarking and understanding their declines performance, conduct rule optimization reviews, and help FIs understand key focus areas with bespoke solutions and recommendations to optimize approval rates. For example, VCA could work with FIs to assess the potential for dynamic limits which would help in addressing declines due to 'Exceeds Approval Amount Limit' – a common source of inappropriate declines, which is primarily driven by daily spend limit on POS/ATM/Cash.

In addition, to learn more about best practices to optimize disputes management, please read Visa's paper titled "[Enhancing dispute-resolution processes](#)".



About Visa Consulting & Analytics

VCA is a team of 1,300+ payments consultants, digital marketing specialists, data scientists, and economists across six continents.

The combination of our deep payments consulting expertise, our economic intelligence, and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payments networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.



To ensure you receive insights like this directly to your inbox, [subscribe to the VCA Payments pulse monthly newsletter](#)

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