PayPal Fraud Prevention Recommendations

Actionable Solidgate Guide
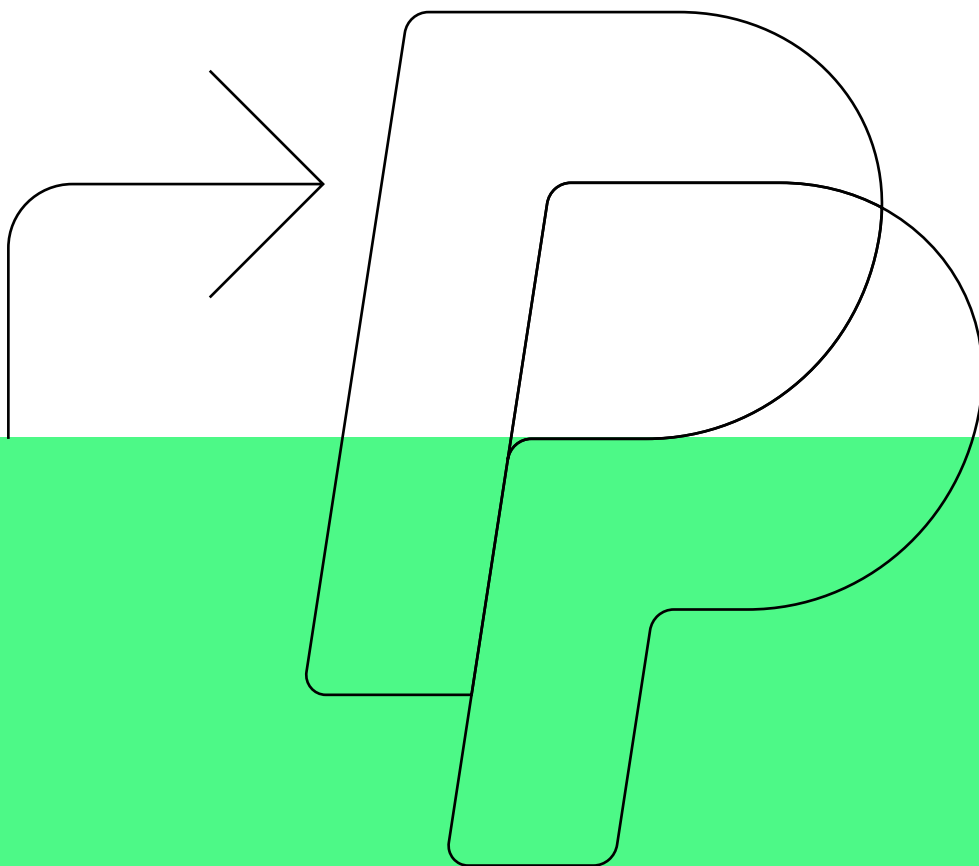
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How PayPal distributes chargeback rates

Beyond card payments, PayPal processes various Alternative Payment Methods (APMs) such as bank transfers, e-checks, Buy Now Pay Later (BNPL) options, and more. This variety of payment methods makes PayPal's process for calculating chargeback metrics somewhat nontransparent.

Based on our empirical data, for the external chargeback rate calculation, the denominator includes 50% of the actual sales, while the numerator accounts for all the chargebacks. This is because we cannot differentiate card sales from other payment methods within PayPal. Plus, PayPal uses multiple MIDs to distribute transactions, and this distribution process is completely obscure.

All this can lead to discrepancies, where some MIDs may have higher chargeback rates despite an overall rate being below the monitoring thresholds. Unfortunately, these MID-specific rates are unpredictable and hard to track.

Additional resources

PayPal risk metrics

List of recommendations to reduce fraud on a PayPal account:

Blocking transactions in the most fraudulent geos

- **Description**
  Certain countries and Tier 3 regions may have higher levels of fraud.

- **Example**
  If statistics indicate that certain countries are responsible for a significant number of fraudulent transactions (e.g., some countries in Africa, Latin America, or Southeast Asia), you can consider completely blocking traffic from these regions.

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List of recommendations to reduce fraud on a PayPal account:

Mandatory implementation of "unsubscribe" flow

- **Enhanced Visibility**
  Ensure the "Unsubscribe" button is prominently displayed on all user communication channels, including emails and account settings pages.
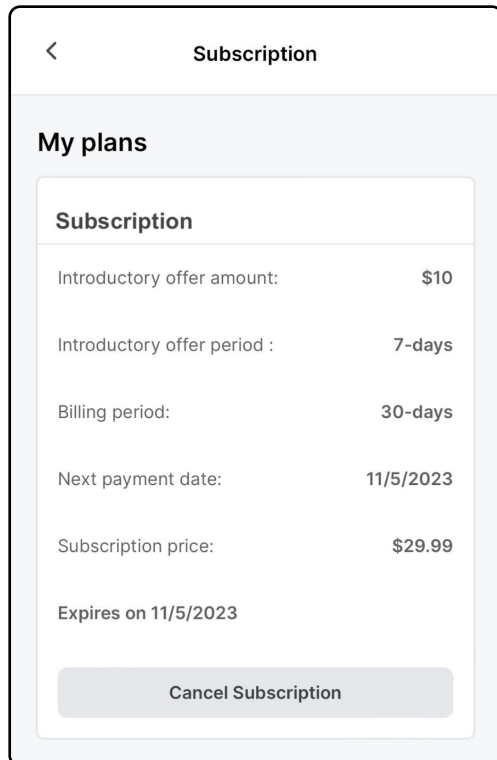
- **Instant Confirmation**
  Provide an immediate confirmation message and email once a user cancels a subscription, detailing the effective date of cancellation and refund information.

- **Self-Service Portal**
  Develop a self-service portal where users can manage their subscriptions, view billing history, and process refunds without needing to contact support.

- **Clear Policies**
  Clearly outline the cancellation and refund policies on your website.

Subscription

My plans

Subscription

Introductory offer amount:	**$10**
Introductory offer period :	**7-days**
Billing period:	**30-days**
Next payment date:	**11/5/2023**
Subscription price:	**$29.99**

Expires on 11/5/2023

Cancel Subscription

List of recommendations to reduce fraud on a PayPal account:

Handling pre-escalation dispute alerts within 20 hrs

- **Description**
  Handling internal disputes directly with the customer within 20 hrs after receiving the alert to either deflect fraudulent disputes with pre-dispute compelling evidence or, if the request is found valid, issue refunds before it becomes a formal claim.

- **Why**
  Immediately communicating with the customer to resolve internal disputes prevents them from filing an official dispute with PayPal. This not only saves you from chargeback fees but also increases customer trust in the company.

- **Example**
  When customer support receives a pre-chargeback alert, immediately communicate with the customer, investigate the transaction, and, if the request is valid, issue a refund within 20 hours.

Unauthorized transaction - pre-chargeback alert

We've opened this case to alert you of a possible chargeback on this payment from your buyer. To avoid receiving the chargeback, you can refund your buyer within the next 20 hours and resolve this case. We've placed a hold on the transaction amount until this case is closed. Learn more about pre-chargeback alerts

Case Status: Response requested

If you issue a refund by **30 May 2024 at 02:43:22 PDT**, we'll close this case and you'll avoid any possible chargebacks and any associated dispute or chargeback fees.

If you decide not to issue a refund, we ask that you respond to this case on or before **8 June 2024 at 06:48:18 PDT**. In the event of receiving a chargeback, we'll work with the buyer's financial institution and get back to you if we need more information.

Send Refund   **Respond**

Case details

Case ID:	PP-R-CJS-528440917
Disputed amount:	$69,99 USD ON HOLD
Buyer info:	User Name user@email.com
Date reported:	29 May 2024
Invoice ID:	648337696
Transaction ID:	59X59729AJ340292A
Transaction amount:	$69,99 USD

List of recommendations to reduce fraud on a PayPal account:

De-prioritization of PayPal in the payment flow

- **Description**
  Placing PayPal lower in the list of payment methods to encourage customers to use less risky methods.

- **Why**
  This can reduce the number of transactions through PayPal, thereby lowering the risk of fraud.

- **Precautions**
  This approach should be used cautiously to avoid decreasing overall sales conversion, as some customers prefer to use PayPal.

- **Example**
  In the payment form, offer card payments, GooglePay, and ApplePay first, followed by PayPal.

- **Recommendation**
  Keep the volume of PayPal transactions below 25% in the structure of payments.

List of recommendations to reduce fraud on a PayPal account:

Client risk scoring to enable/disable PayPal button

- **Description**
  Using a risk scoring system to determine if a customer can use PayPal for payment.

- **Why**
  This helps reduce fraud by accurately predicting high-risk transactions and disabling the PayPal option for those customers.

- **Example**
  Develop a model that assesses the likelihood of fraud based on user behavior, geographical location, transaction history, and other factors. If the risk is high, the PayPal button may be disabled for that customer.

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List of recommendations to reduce fraud on a PayPal account:

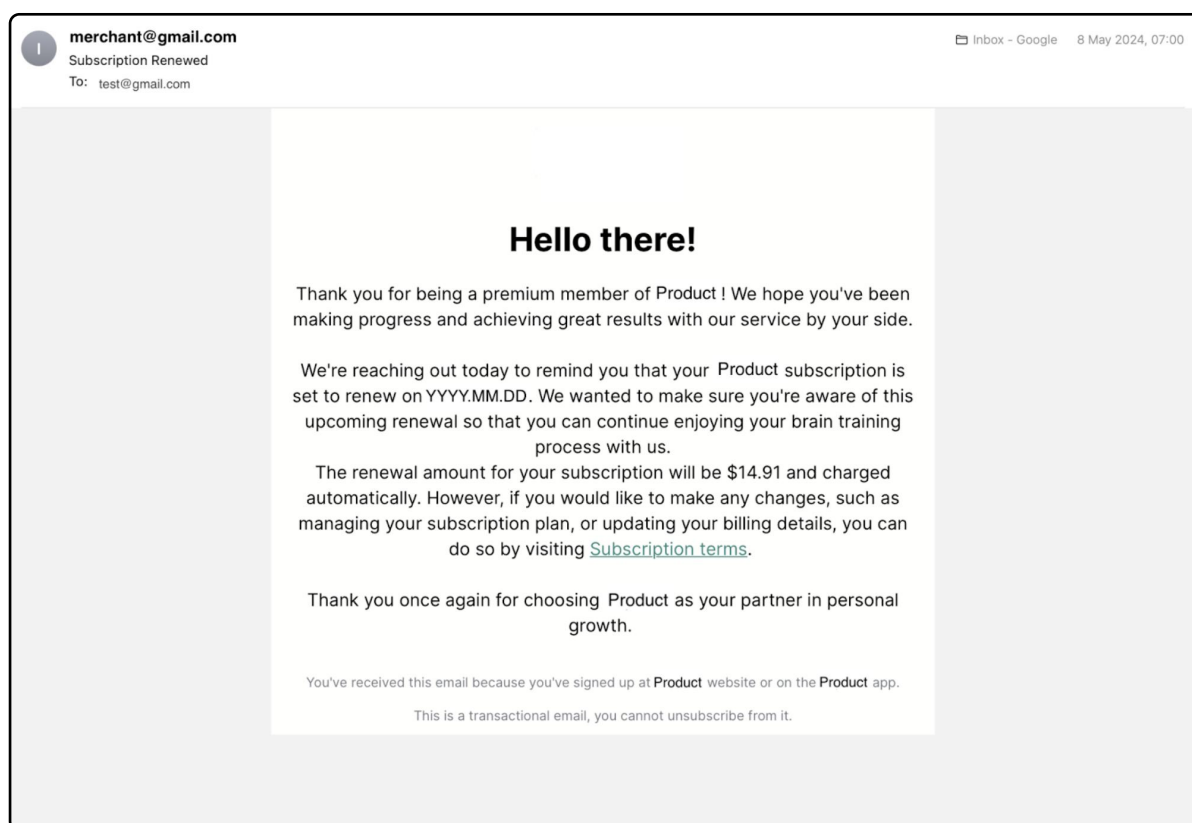## Obligatory notifications before re-bill

- **Description**
  Notifying the customer a certain time before re-billing for automatic subscriptions and payments.

- **Why**
  This helps reduce the number of unexpected transactions, thereby decreasing the likelihood of disputes and refunds.

- **Example**
  Sending a notification via email 7-10 days before the subscription renewal, so the customer is aware of the upcoming charge and can cancel it if necessary.

merchant@gmail.com
Subscription Renewed
To: test@gmail.com

Inbox - Google   8 May 2024, 07:00

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List of recommendations to reduce fraud on a PayPal account:

Matching your business name across all documents and payment descriptors

- **Description**
 Ensuring your website, doing business as (DBA), and statement descriptor names match.

- **Why**
  Seeing different business names pop up across your documents and platforms confuses customers who, not recognizing the purchase, start requesting chargebacks en masse.

- **Example**
  If your legal entity name is **"Tech Solutions LLC,"** it should match your DBA name **"TechGadgets,"** your descriptor **"PayPal*TechGadgets"** and your website www.techgadgets.com.
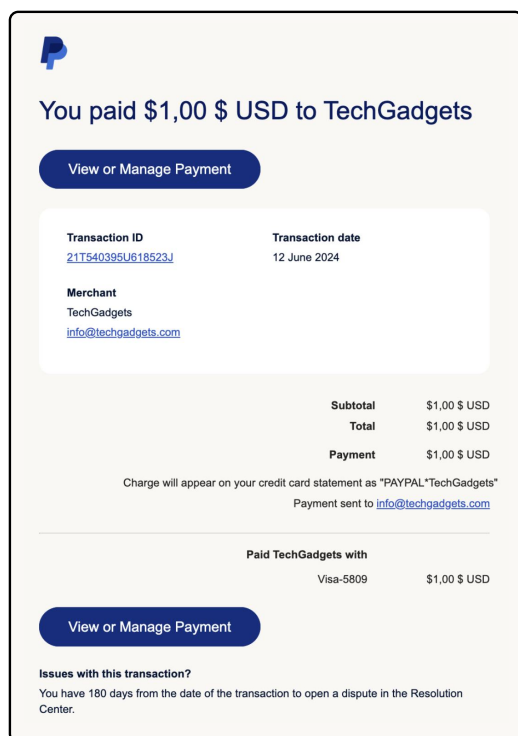
These recommendations will help sharply lower the risk of fraudulent activities on a PayPal account and improve overall payment security.
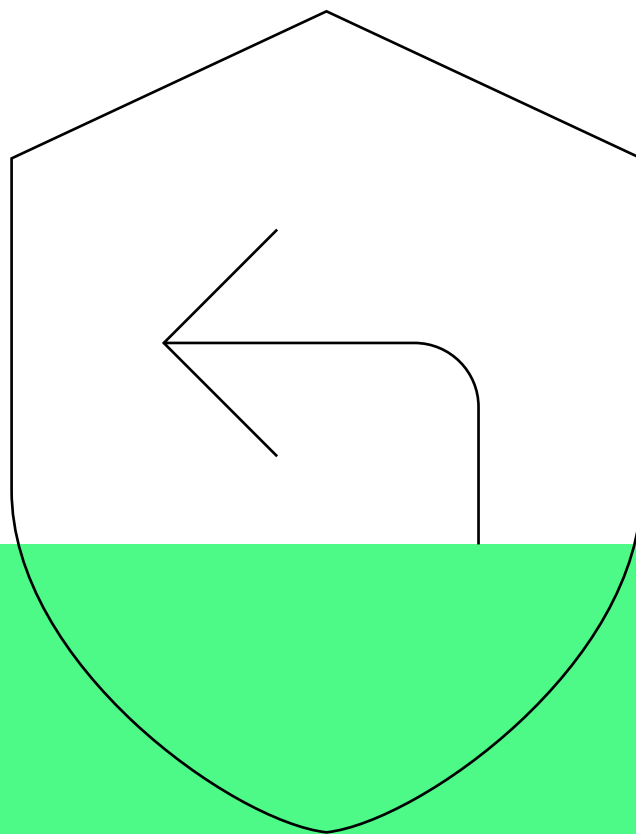
Have any questions?

Contact our support team and they will happily answer them

Contact support
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