APPRISS® RETAIL

Appriss Retail 2024 Claims and Appeasements Report

Understanding Claims and Appeasements in the Retail Sector: Trends and Solutions

One of the fastest growing areas of online fraud and abuse for retailers is claims and appeasements. But what is it exactly and why is it increasing?

According to the National Retail Federation (NRF), claims and appeasements abuse is categorized as "friendly fraud." It is the act of a consumer claiming that an online order never arrived, wasn't as expected, or the item showed up damaged, requiring a retailer to offer an appeasement or refund.

Unfortunately, not all cases of claims and appeasements are friendly. Fraudsters are migrating further into digital crimes and claims and appeasements are a growing area. There exists a cohort of individuals known as "professional returners," operating from the comfort of their homes, exploiting the anonymity of online platforms.

The 2023 Consumer Returns in the Retail Industry Report from NRF and Appriss Retail revealed a concerning trend: fraud and abuse within retail returns surged by $20 billion in 2023 compared to the previous year, resulting in a total of $101 billion. Notably, claims and appeasements are now reaching up to 2.5%, $35 billion of online sales in 2023.

To combat this trend, retailers must adopt appropriate technological solutions. In this resource, you will learn about the frequency of claims and appeasements fraud, including research from Appriss Retail that analyzes leading retailers and the impact of claims and appeasements on their businesses.

Research Methodology: Appriss Retail is the leader in customer data-based returns authorization, with 60 of the top U.S. retailers as customers. As a follow-up to the 2023 Consumer Returns in the Retail Industry report, we analyzed claims and appeasements data between 1/1/2023 and 12/31/2023 to determine the weight of the problem.

Examining the Escalating Frequency of Claims and Appeasements Online

Detecting fraudulent activities has become progressively difficult due to the sophistication of fraudsters and their methods. These "bad actors" exploit this complexity, leading to significant financial losses. According to a study conducted by Arkose Labs, professional returners can potentially earn between $20,000 to $600,000 per month.

The rise in claims and appeasements online can be attributed to a few challenges facing retailers, including:

- **Ecommerce growth:** Online sales accounted for more than 27% of total retail sales in 2023, according to NRF. However, that growth added to a third of all returns in the form of buy-online-return-in-store (BORIS) transactions. Many of the items returned in a BORIS transaction are later claimed as not received creating a double dip for bad actors.

- **Customer service targets:** Chatbots and call center associates can be easy targets for fraudsters to dupe during online claims, as they don't always have full visibility into a shopper's journey.

- **Organized retail crime (ORC) activity:** As more fraudsters look at claims and appeasements fraud, larger syndicate groups are running sophisticated rings around the trend, unleashing a connected group of professional returners.

APPRISS RETAIL DATA
How Serious Is Fraud Tied to Claims and Appeasements?

Are claims and appeasements increasing?
Yes, claims and appeasements have increased 1.5% YoY.

What is the cost to retailers?
1.5% to 2.5%, or $21B-$35B, of online sales are impacted by claims and appeasements.

- The range is dependent on the type of retailer such as grocers on the lower end and department stores on the higher end. The analysis looked at $1.4 trillion worth of online sales in 2023.

How many claims and appeasements cases are fraudulent?
10.5%, or an estimated $2.2B-$3.7B, according to analysis by Appriss Retail.

10.5%

Assessing Abusive and Fraudulent Activities

The most common reasons for claims and appeasements are honest mistakes, times when loyal shoppers receive a product that is damaged or have an item get lost during the delivery process. But under that veil, there are also fraudsters collecting items, reselling those items elsewhere, filing claims, and getting refunds on top of the purchases.

For associates, it's a game of knowing what claims are real or not, and it can be very difficult to assess a situation without the assistance of technology. AI-powered tools review the complete sales journey and help identify red flags for an associate to review.

How do professional returners pull off the abuse? Some ways include:

- **Joining online forums.** Professional returners band together and share tips within dark web forums on how they work around a returns system.

- **Running a professional returns fraud service.** Some fraudsters run a service to be hired to execute claims and appeasements fraud. They advertise online within forums.

  - [Research from Netacea](#) suggests that there are more than 1,600 ads for professional refund services running within known forums.

- **Sharing resources.** Professional returners share successful templates for complaint letters and scripts to read to customer service chatbots and call centers.

As fraudsters get more sophisticated, retailers need to protect chatbots and call centers to stay ahead of professional returners. Current retail returns policies aren't helping either. For example, non-receipted returns are down by 50% but refund fraud is up. Why?

Flexible, personalized returns policies and experiences can help build loyalty among shoppers while sniffing out potential fraud much easier. Retailers leveraging AI and machine learning can do this at scale.

4 Types of Claims and Appeasements

1 **PRICE ADJUSTMENTS:** In some cases, customers may request a refund on an item due to a fluctuation in price — the product was higher in price when they bought it but now costs less, for example.

2 **RESHIPMENTS:** Damaged or lost items cause retailers to refund an item or reship a replacement item, resulting in additional operational costs.

3 **SHIPPING COST REIMBURSEMENT:** Some customers may be upset with the cost of shipping with an order and will request a refund or appeasement to alleviate that expense.

4 **COUPONS:** Instead of getting a new item or money back, some customers may accept coupons, store credit, or discounts as compensation for an issue that came up during the ordering or delivery of an item.

Mitigate Fraudulent Behavior With Predictive Analytics

With more than 10% of claims and appeasements being fraudulent, retail organizations are paying more attention to the problem. But how do they reduce the amount of fraud happening within claims and appeasements?

Some retailers have implemented rule-based policies, inadvertently causing unintended consequences. These policies lack personalization, leading to false rejections and alienating high-spending and loyal customers.

Predictive analytics and AI solutions can help identify behaviors that look like fraud and abuse without upsetting loyal customers. For instance, an AI-powered returns process compiles shopper profile data, historical purchasing behaviors, and linked identifying information such as loyalty cards, phone numbers, and IDs. The AI model reads through a shopper's full purchasing journey to alert associates or call centers if any unusual behavior is occurring.

AI treats every return anonymously and leads to legitimate results for a retailer:

- The technology can reduce returns overall by 8.2%, saving retailers money spent on issuing refunds.

- Retailers can see a 6.5% reduction in claims and appeasement

As retailers grapple with the increasing prevalence of claims and appeasements, leveraging AI-powered solutions presents a proactive approach in addressing this challenge, allowing for swift detection of fraudulent behavior. By deploying such technologies, retailers can effectively mitigate losses associated with claims abuse, safeguarding their profitability and reputation with their loyal customers in an ever-evolving retail landscape.

Appriss Retail can demonstrate the power of AI in managing claims and appeasements. Contact us for a free demo.

Case Study Spotlight

A national retailer leveraged AI solutions to dig deep into claims and appeasements finding that 2% of online sales required adjustments or reshipments, a rate 10 times higher than chargebacks at 0.2%.

Using AI models to look at the claims and appeasements impacting the company, the retailer learned:

- **The top 25 abusers of a policy requiring adjustments and reshipments accounted for nearly $400,000 in related costs.**

- **One offender had 119 adjusted transactions, 105 email addresses, and 113 customer IDs. All were used to throw off retailer associates and chatbots.**

- **Another offender accumulated more than $4,500 in adjustments within a single month.**

- **Only 0.3% of shoppers were responsible for $2.5 million in adjustments.**

Through the integration of Appriss Retail's Engage Claims and Appeasements Authorization module, the retailer realized annual savings exceeding $3 million by effectively eliminating fraud and abuse from its claims process.

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Leveraging more than 20 years of data science expertise, Appriss Retail transforms ecommerce and omnichannel consumer interactions by providing real-time, actionable recommendations that reduce fraud, drive efficiency, and maximize profitability. The company's AI-driven, SaaS platform generates analytical insights and recommendations at more than 150,000 physical and online retail locations in 45 countries across six continents.

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