VIEW POINT

WHY FRIENDLY FRAUD IS BECOMING A MAJOR CHALLENGE FOR HOSPITALITY BUSINESSES

Abstract

The hospitality industry is losing revenue to a form of fraud that is riddled with ambiguity and an uncomfortable middle ground. It is not committed by organised criminal rings, but by legitimate guests using their own payment cards to dispute valid charges. That is friendly fraud in hospitality. A real cardholder disputes a completed transaction through their bank rather than with the property directly. This revenue leakage now accounts for between 70% and 79% of all credit card chargebacks across industries. The term seems disarming and benign. Merchants face total costs of $450 for every disputed transaction in the travel and hospitality sector, representing a 3.75x multiplier on the original booking value (according to Chargeflow). The scale of the problem is growing exponentially. Global chargeback volumes are projected to grow 24% by 2028, reaching 324 million transactions. Travel-related disputes are already surging 30% year-on-year. For a sector where 6% of annual revenue is absorbed by fraud. The thin operating margins exert pressure on profitability. This paper examines why hospitality is disproportionately exposed to first-party fraud, what forms the threat actually takes, and what a credible operational response looks like.

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Why is hospitality uniquely exposed?

Not every industry bleeds the same way from chargebacks. Hospitality is among the worst affected, and the reasons have to do with how the hospitality industry is structured.

The sector carries the highest average chargeback value of any industry. It stands at $120 per transaction. That figure reflects the nature of what is being purchased. Hotel stays, vacation rentals, and event bookings involve high unit values and are booked well in advance for fundamentally intangible services.

Unlike a retail purchase that ships with a tracking number and delivery confirmation, a hotel stay produces no universal proof of receipt. A guest can complete a five-night stay, check out, and then dispute the charge, claiming the room was uninhabitable or that they never stayed. The evidence needed to disprove that claim must have been collected proactively.

Card-not-present transactions now represent 63% of all merchant transaction volumes, meaning most hospitality bookings occur remotely without physical card verification. The time lag between booking and stay amplifies the exposure: reservations made weeks or months in advance give fraudsters a long window to exploit. And when seasonal surges or event cancellations generate simultaneous waves of disputes, manual response teams cannot maintain the throughput or consistency needed to contest them effectively.

To cover chargeback penalty fees ranging from $15 to $100 per incident, one needs to add a 3.75x total cost multiplier to each lost dispute. It includes lost revenue, labour, and administrative overhead. Hospitality combines high transaction values, intangible service delivery, and remote bookings in a way that fraudsters reliably exploit.

What friendly fraud actually is

Hospitality chargebacks fall broadly into three categories: merchant errors, friendly fraud, and criminal fraud. Of these, friendly fraud, also called first-party fraud or chargeback abuse, is the most prevalent, responsible for up to 70% of all credit card fraud cases.

The defining characteristic of friendly fraud is that the cardholder is the real card owner and that the service was delivered. This distinguishes it from stolen-card fraud, where the actual cardholder has no knowledge of the transaction. In friendly fraud, the guest booked the room, stayed in it, and then filed a dispute with their bank rather than raising the complaint with the property or service provider.

The softer version

It occurs with genuinely forgotten transactions or guests who don't recognise a corporate parent company's name on their statement rather than the hotel's trading name. These disputes arise from confusion rather than malice, and clear billing descriptors and follow-up communications address most of them.

The malicious version

This is more concerning. It entails deliberate chargeback abuse, where a guest uses the dispute mechanism as a risk-free refund channel with no expectation of accountability. From the issuing bank's perspective, both types of dispute look identical to legitimate fraud claims. That is precisely what makes them so difficult to contest.

The many faces of chargeback abuse in hospitality

When friendly fraud is deliberate, it tends to follow recognisable patterns. There are three that operators encounter most often.

False property condition claims

A guest completes the full stay, then disputes the charge, claiming the room was "uninhabitable" or "not as described". Without systematic pre- and post-arrival photo documentation, detailed inspection records, and timestamped communication logs, the operator's evidence position is weak. The bank's default tendency is to side with the cardholder in the absence of compelling counter-evidence.

"Never received service" disputes

Despite check-in records, key card access logs, and in-stay purchase activity, a guest claims they never used the property. These claims succeed when operators cannot produce contemporaneous digital proof of arrival and service delivery. This gap is surprisingly common in properties relying on manual or paper-based check-in processes.

Party house chargebacks

A group books a property for an unauthorised event. The operator discovers this, removes the guests, and charges for damage. The group responds by filing a chargeback claiming wrongful denial of service. The property loses the booking revenue, the damage costs, and the chargeback fee simultaneously.

Criminal activity also adds pressure. Stolen card fraud can pass standard payment verification when the fraudster holds enough cardholder information to satisfy CVV and address verification checks. Synthetic identities, like fabricated profiles built around real social security numbers, can establish sufficient credit history to clear standard security checks entirely. Organised fraud rings systematically target multiple properties at once.

The chargeback mechanism was designed to protect consumers from genuine unauthorised transactions.

Why is payment verification not enough?

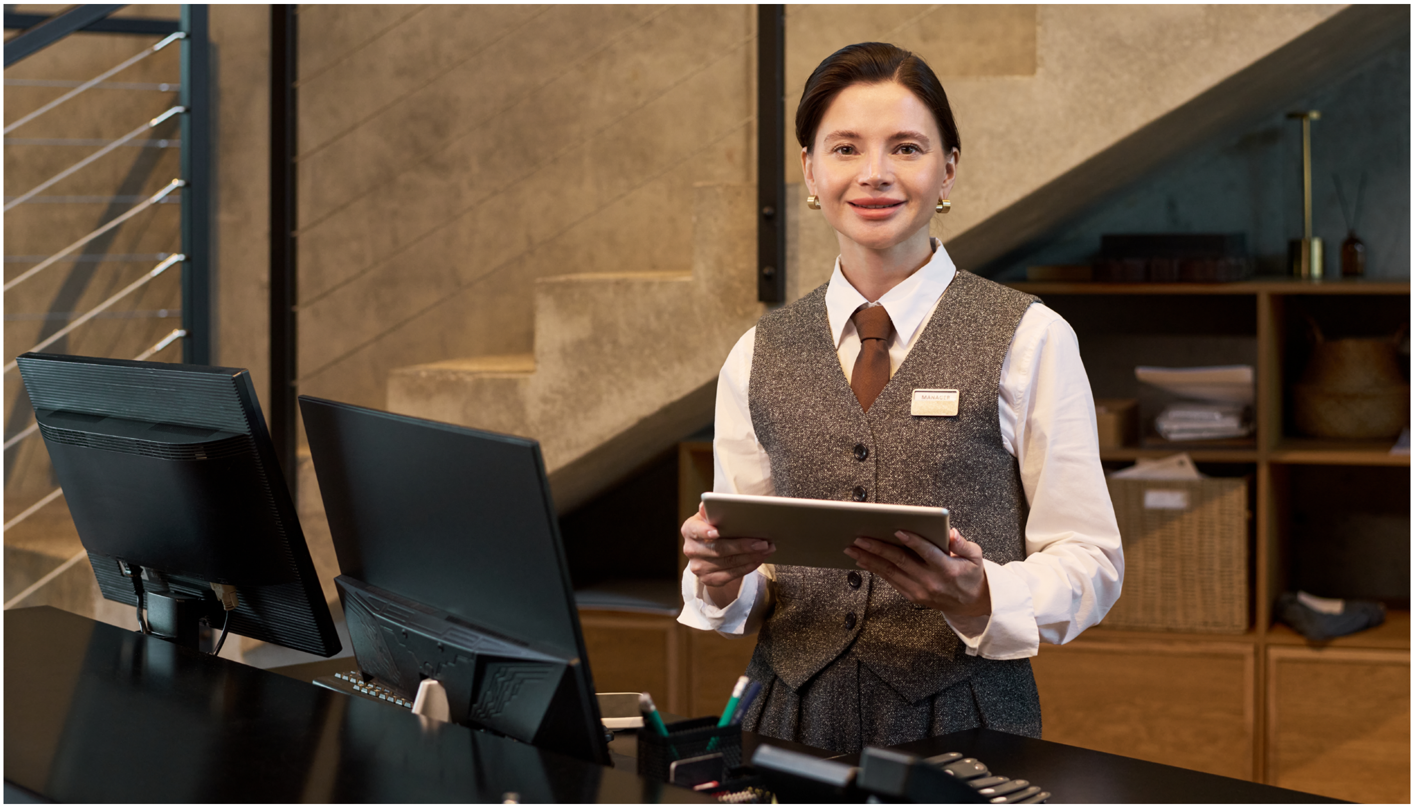
The natural response to rising chargebacks is to tighten payment controls. But traditional fraud prevention solves a different problem.

Payment gateways have become genuinely capable of confirming that a card is valid, that funds are available, and that basic billing details match. What they cannot determine is whether the person making the booking is who they claim to be, or whether their intentions for the reservation are legitimate. These questions determine whether a booking becomes a chargeback.

A fraudster with stolen card details sufficient to clear CVV and AVS verification will complete the booking without triggering any alert. A guest planning to stay, dispute and recover their money afterwards is using their own valid card. In such a case, the payment systems see a clean transaction. In both cases, the fraud signal only appears after the chargeback is approved.

This is the identity and intention gap. Payment verification answers one question: is this payment method valid? Operators need more answers, though. They need to know who is making this booking and why. The divergence between these questions is where the majority of hospitality chargebacks originate.

The direct booking trend amplifies the gap as operators reduce OTA dependency. To capture the 15% to 25% commission that OTAs charge, they also inherit 100% of the fraud liability that OTAs previously absorbed as merchant of record. OTAs operate at a massive scale with dedicated fraud detection infrastructure. Individual operators benefit from direct bookings, but do not inherit those systems along with the margin. Without a matching investment in identity verification, the commission savings are offset by chargeback exposure.



How merchants can respond: prevention, documentation, and representment

Merchants win only 45% of disputed chargebacks, and because merchants only respond to roughly 53% of disputes, the real net recovery rate is approximately 18%. Prevention is mathematically more valuable than recovery. But both are necessary.

Close the identity and intention gap at booking

Government-issued ID verification confirms document authenticity and matches the submitted photo to the person booking, eliminating most synthetic identity fraud and creates accountability that changes the risk calculation for deliberate chargeback abuse. When guests know their real identity is documented against the reservation, the plausibility of filing a false dispute weakens.

Make policies enforceable

Visa and Mastercard guidelines require refund and cancellation policies to be clearly displayed at the point of transaction to be enforceable in a dispute. Policies buried in confirmation emails, or presented only in fine print during checkout, do not meet that standard. If policy acceptance cannot be demonstrated with a timestamp, it cannot anchor a representment.

Eliminate unrecognised charge disputes through billing descriptors

Unrecognised charges are a leading preventable cause of first-party disputes. Clear billing descriptors that display the trading name of the property, not the corporate entity, combined with a booking reference number, remove the ambiguity that causes genuinely confused guests to call their bank instead of the front desk.

Build the evidence trail systematically

Timestamped check-in records, internal guest interaction notes, digital confirmation of service delivery, and post-stay communication records collectively create the documentation set that makes fraudulent claims difficult to sustain. This is not purely a fraud-prevention investment. Systematic documentation also improves service continuity, aids staff handoffs, and supports the resolution of legitimate guest complaints before they escalate.

Contest disputes with compelling evidence in chargeback representment

When prevention fails, representment is the recovery mechanism. Effective chargeback representment in hospitality requires signed folios, proof of check-in linked to identity confirmation, timestamped policy acceptance records, and communication logs that establish service delivery. Cross-border disputes, multi-currency transactions, and varying evidence standards across card networks add complexity that static templates cannot address. Automated representment tools that synthesise dispute-specific data and tailor submissions to the individual issuer's format and preferences produce materially better win rates than manual processes, particularly during surge periods when response volume spikes.

End note

Friendly fraud in hospitality is not a cyclical problem that will self-correct. The structural drivers are remote card-not-present bookings, intangible service delivery, a dispute system that defaults toward the cardholder, and thin operating margins that have no room to absorb 3.75x loss multipliers. With 324 million chargebacks projected globally by 2028, the pressure will intensify before it eases.

The operators best positioned to withstand it are those treating fraud prevention as an operational discipline and embedding identity verification into the booking flow, maintaining documentation systems that survive disputes, and using analytical capability to distinguish low-risk from high-risk reservations before they are confirmed.

For more information, contact infosysbpm@infosys.com

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