



First-party fraud: A fast-growing dispute problem

Unlock more efficient dispute management



Your fraud team may be seeing more of it. Your disputes volume is climbing. And somewhere between the chargeback filing and the write-off, a growing share of your losses may not trace back to external criminals, but to your own customers.

First-party fraud – when a legitimate account holder disputes a transaction they authorized, keeps the goods or funds and reclaims the payment – has quietly become a significant financially damaging and operationally complex challenge in U.S. consumer banking. Unlike account takeover or synthetic identity fraud, it may not trip traditional fraud controls. It looks, at every stage, like a legitimate dispute.

That's exactly the problem.

Organizational gap, underestimated impact

First-party fraud sits in an uncomfortable space inside most financial institutions: too fraud-like for the disputes team to own cleanly, too dispute-like for the fraud team to prioritize fully. That organizational gap can be expensive.

First-party fraud has evolved from a niche issue to a significant driver of dispute activity. Industry research and issuer experience indicate that so-called "friendly fraud" is accounting for a growing share of chargebacks, creating additional complexity for dispute operations and recovery efforts. As consumers become more familiar with the chargeback process, financial institutions are increasingly challenged to distinguish legitimate disputes from fraudulent claims and respond effectively.

As fraudsters more frequently exploit dispute processes instead of payment credentials, institutions are discovering that the cost of managing the claim can be nearly as significant as the loss itself. What's harder to quantify but also costly is the operational burden: manual review queues, delayed decisioning, inconsistent evidence standards and regulatory and compliance risk when dispute investigations, notifications, documentation or resolution timelines fail to meet Regulation E and Regulation Z requirements.

The financial risk is compounded by a reputational one. Deny a legitimate dispute too aggressively and you risk damaging a customer relationship. Approve a fraudulent claim too readily and you signal that your institution is an easy target. Getting that balance right – at scale – requires more than good judgment. It requires a structured, data-driven process.

Harder to detect than it looks

Traditional fraud detection is generally built around anomaly: a transaction that breaks patterns, a device that doesn't match, a geography that doesn't fit. First-party fraud is unlikely to produce those signals. The cardholder is real. The account is legitimate. The transaction is completed exactly as intended.

What distinguishes a genuine dispute from a fraudulent one is often behavioral – a pattern of prior dispute activity, a mismatch between stated circumstances and transaction-level data, or timing that aligns with return windows, seasonal spending spikes or promotional periods. That intelligence rarely lives in a single system.

As consumers transact across more channels than ever – cards, digital wallets, ACH, Zelle®, P2P payments and emerging payment methods – the behavioral footprint of a single customer becomes more fragmented. Analysts reviewing a dispute often see only a slice of payment activity. Patterns that would suggest a fraudulent claim remain hidden because the signals are residing in separate systems, owned by multiple teams and reviewed through disconnected processes.

Most institutions aren't losing money to first-party fraud because they lack fraud detection tools. They're losing money because the dispute process was never designed to identify behavioral patterns across claims, payment types and customer relationships. What begins as a fraud problem quickly becomes an operational one.

The Regulation E 10-business-day provisional credit requirement and Regulation Z's billing error timeframes aren't simply compliance obligations. They're decision deadlines. Every day spent gathering documentation, reconciling data across systems or manually routing a case is a day closer to a provisional credit that may never be recovered.



Structural weaknesses leading to greater risk and loss

First-party fraud can flourish when institutions lack a complete view of the dispute lifecycle. Three organizational patterns make it more difficult to identify suspicious behavior, manage risk effectively and control operational costs.

1 Siloed dispute processes

Many institutions manage card disputes, ACH claims, P2P disputes and other payment exceptions with separate systems and workflows. As payment types continue to multiply, this fragmentation can create blind spots. Teams reviewing individual claims may have difficulty identifying behavioral patterns across channels, making it harder to distinguish legitimate disputes from repeat abuse.

Without a unified approach, institutions may spend more time navigating systems than resolving cases – and more fraudulent claims can slip through the cracks.

2 Manually-intensive case management

Many dispute operations still rely on spreadsheets, email, paper-based processes and manual tracking of deadlines and documentation. These approaches make it difficult to apply consistent decision criteria, identify repeat offenders and scale operations efficiently.

As dispute volumes rise, institutions often respond by adding staff rather than improving process efficiency. Costs increase while consistency may become harder to maintain.

3 Compliance managed through people rather than process

Regulatory requirements and network rules continue to evolve. When compliance depends primarily on individual expertise, institutions can face increased operational risk, particularly during periods of staff turnover or surges in dispute activity.

Missed deadlines, inconsistent handling and incomplete documentation don't just increase compliance exposure. They create the conditions under which first-party fraud becomes more difficult to detect and more expensive to manage.

Defining end-to-end dispute management

"End-to-end" is often used broadly, but it has a more specific meaning in dispute management: the ability to manage the entire dispute lifecycle – from intake through resolution – within a single platform providing workflow automation, compliance controls, documentation management and operational visibility.

Institutions that manage disputes effectively tend to share three core capabilities: operational consistency, embedded compliance and enterprise-wide visibility. The top capabilities are:

- **Centralized dispute intake and case management** that unites multiple dispute types into a single workflow and creates a consistent process for handling claims.
- **Guided, rules-driven workflows** that automate validation steps, recommend next-best actions and reduce manual effort.
- **Built-in compliance and deadline management** that helps institutions track regulatory and network requirements while maintaining audit-ready documentation.
- **Operational reporting and analytics** that provide visibility into dispute volumes, recovery rates, resolution performance and emerging trends.

While many institutions already have some of these capabilities, the greatest value comes from unifying them within a common platform, shared data model and consistent operational framework.

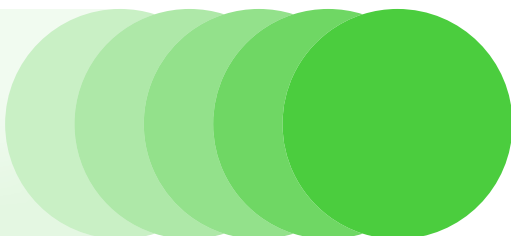
The governance case for a structured approach

For executive leadership and the board, dispute management is not simply an operational challenge – it's a governance issue.

Regulators generally expect institutions to manage disputes consistently, maintain supporting documentation and meet required timelines. At the same time, institutions are being asked to identify increasingly sophisticated forms of abuse, including first-party fraud that can be difficult to distinguish from legitimate claims.

A structured, platform-based approach helps strengthen audit readiness by embedding controls directly into day-to-day operations. When timelines are tracked, documentation is centralized and workflows are consistently applied, institutions are better positioned to demonstrate compliance while making more informed dispute decisions.

As regulatory scrutiny around consumer protection and dispute resolution continues to grow, reliance on manual workarounds and institutional knowledge becomes increasingly difficult to sustain.



Moving from reactive operations to strategic advantage

Leading institutions aren't responding to rising dispute volumes by simply adding more analysts – they're redesigning how disputes are managed.

By standardizing workflows, automating routine tasks and centralizing dispute activity, institutions can reduce manual effort, improve consistency and accelerate resolution. Analysts can be enabled to spend less time on administrative work and more time investigating exceptions, identifying patterns and improving customer outcomes.

The result is greater visibility into dispute trends, operational performance and fraud indicators across the enterprise – turning dispute management from a reactive process into a strategic capability.

The realistic path forward

The question is no longer whether dispute operations will benefit from modernization. Rising dispute volumes, expanding payment ecosystems and the growth of first-party fraud have already made that clear.

But modernizing dispute management doesn't require replacing core banking systems. For many institutions, the practical path is implementing a purpose-built platform that centralizes workflows, automates key processes and simplifies compliance management across payment types.

Institutions that continue to manage disputes through fragmented systems and manual processes may struggle to contain costs and risk. Those that take a more structured approach can be better positioned to control losses, strengthen compliance and improve the customer experience.

Ready to see how FIS® CBK™ SaaS can help? Learn more about how CBK SaaS centralizes dispute management, automates workflows and simplifies compliance across the full dispute lifecycle.

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