Fraud Prevention Excellence
in Quick Service Restaurants

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Introduction

In 2024, Quick Service Restaurants (QSRs) are grappling with a growing digital fraud crisis, driven by the increasing adoption of mobile ordering, loyalty programs, and digital payment platforms in the context of ever more discerning guests. This industry report by Equifax focuses on the most significant fraud challenges, such as card testing, chargebacks, account takeover (ATO) fraud, and the complexity of optimizing authorization processes. Through the lens of our QSR merchants, we explore the financial and operational impacts these fraud types have on industry leaders and how they are adapting to secure their digital ecosystems.

"Our consortium of national QSR chains reported a **50% lower chargeback rate** than industry benchmarks"

Top fraud challenges

Chargebacks

Driven largely by fraudulent transactions and disputes over unauthorized orders, chargebacks are always a growing concern. In spite of these challenges, our consortium of national QSR chains reported a 50% lower chargeback rate than industry benchmarks[1]. The financial burden of managing these disputes can strain resources and increase operational costs, adding to the challenge of maintaining profitability while navigating more and more digital-first business models.

Card testing

Card testing continues to be a significant concern for many QSR brands. Due to the low-dollar nature of their transactions, fraudsters find QSRs to be prime testing grounds for stolen card data.

Account takeover

Account takeover fraud is not new but has emerged as a major threat, particularly as mobile apps and loyalty programs continue to gain in popularity at QSRs. Accounts are targeted by hackers who exploit previously compromised credentials from other data breaches to access and drain customer loyalty accounts or spend stored value. This can result in surges in customer complaints and eroded brand loyalty, as affected users lose trust in the security of the platform.

Fraud prevention efforts

At Equifax, we serve our QSR merchants with only the highest quality and strongest performing solutions on the market. And our Kount fraud prevention solution has played a pivotal role in helping QSRs overcome these challenges. By leveraging machine learning-powered fraud detection, these companies have been able to shrink customer declines to less than 0.5% while maintaining a less than 0.1% chargeback rate. In turn, they can focus on revenue-generating activities instead of constant dispute management.

This industry report underscores how QSR brands are confronting the evolving landscape of digital fraud in 2024 and highlights Equifax's critical role in empowering them to secure transactions while enhancing customer satisfaction.

[1]https://www.clearlypayments.com/blog/chargeback-rate-by-industry-and-business-type/

Since 2022, the unique decline rate[3] has **decreased more than 50% — from 0.8% to 0.4%**.

Performance in the QSR space

Profit margins in the restaurant industry are tight, especially considering the current economic climate where food costs remain high. Restaurants have to be vigilant in keeping costs low in order to be profitable. Chargeback reduction is a major component of total expenses that merchants can control.

For example, the industry average chargeback rate is 0.12%[2]. However, our merchants have chargeback rates more than 50% lower than this benchmark, averaging around $373,0000 a year in cost reduction. Maintaining these low chargeback rates is not without challenges. In fact, it is a fine balancing act between customer satisfaction and fraud prevention.

Our merchants have chargeback rates **more than 50% lower** than benchmark.

QSRs face immense pressure from consumers to provide excellent service, great value products, new offerings, competitive prices, and frictionless experiences. When restaurants fail to meet those expectations, customers might resort to disputing their purchases or damaging a business's reputation. On the other hand, merchants can't just accept every order that comes through. Some controls need to be in place to prevent fraud. The trouble is finding a solution provider that can accurately block fraud without affecting legitimate customers. And this is where the Kount solution performs exceptionally well.

Over time, we've seen that the unique decline rate[3] for our merchants has decreased by more than 50% since 2022 — from 0.8% to 0.4%. And the percentage of total declines being unique has dropped by 60%. Essentially, we've helped merchants reduce false positives and improved the overall customer experience. And these results are indicative of what Equifax QSR merchants can expect from us. Reducing fraud doesn't have to mean sacrificing revenue.

[2]https://www.clearlypayments.com/blog/chargeback-rate-by-industry-and-business-type/
[3]Unique Decline Rate is calculated by only looking at the first or second attempt in a session rather than the gross number of attempts in the entire month.

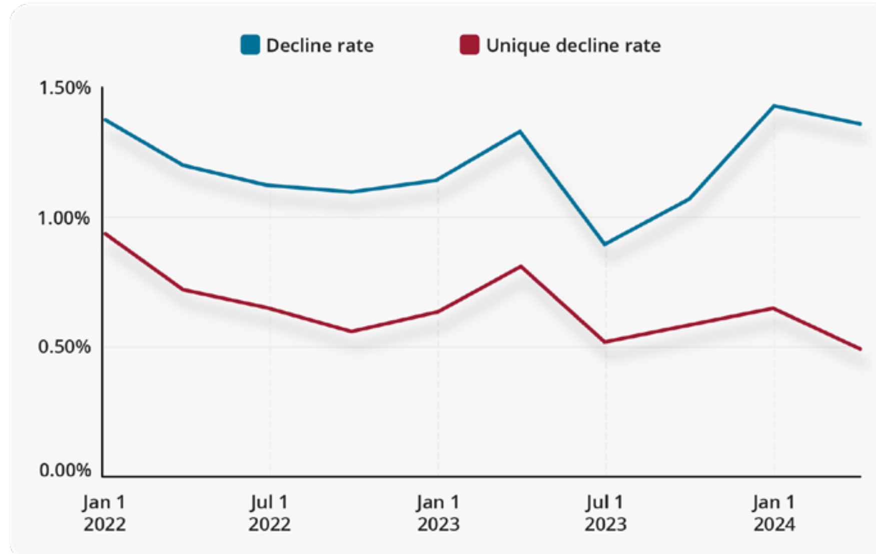
Declines rates by device type

It is worth noting that the majority of declines in the QSR space stem from mobile web orders rather than mobile app orders. This is largely because fraud is markedly more difficult to commit on mobile apps where friction — such as a login or passive authentication linked to a device — limits unauthorized access to customer accounts. On the web, however, fraudsters can more easily carry out attacks such as card testing.

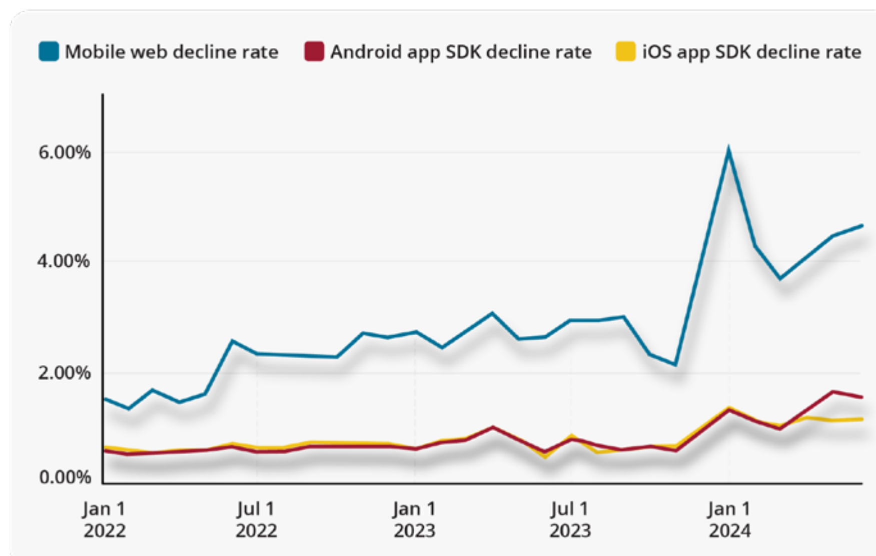
Fortunately, card testing is easily identifiable through the Kount fraud detection solution and is typically blocked before it causes harm. As a result, merchants may notice an uptick in decline rates, but these declines are indicative of true fraud, not false positives. As more users convert to ordering through mobile apps, which carry less risk of fraud, merchants may continue to see that mobile web declines far outweigh app declines.

Mobile web declines have **increased by more than 200%** since the beginning of 2022.

Decline rate and unique decline rate



Decline rate by device type



Trends in chargeback rates

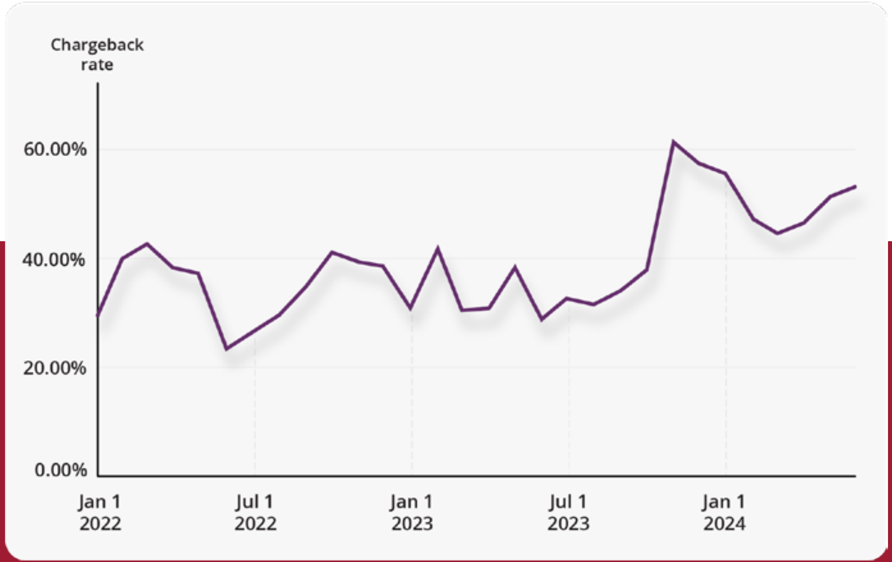
Overall, Equifax QSR merchants have seen a steady decline in chargebacks since 2022. However, in recent years, there's been a shift in the types of chargebacks merchants receive. From the beginning of 2022, the percentage of fraud-related chargebacks has decreased by 34%. On the flipside, non-fraud chargebacks — such as those from friendly fraud or merchant errors — have increased by 86%.

The reasons for this shift are multifaceted. First and foremost, criminal fraud is typically straightforward and easier for fraud solutions to identify because fraudsters often follow similar behavioral patterns. And the longer a merchant stays with one fraud provider, the better the solution gets at recognizing those patterns, learning new behaviors, and stopping fraud proactively. So long-term Equifax merchants should see a significant decrease in criminal fraud over time.

Non-fraud chargebacks are more complicated. Sometimes they stem from merchant errors but they often happen because customers dispute their purchases for a variety of reasons — regret, dissatisfaction with food or service, getting a late delivery, or not receiving items. Fighting these disputes can be incredibly difficult. And predicting them is nearly impossible. It takes a combination of data and early notification tools to manage them effectively.

Despite having all the right tools in place, non-fraud chargebacks still happen. Consumers can be unpredictable, unlike fraudsters. It's no surprise, then, that over time we see this dramatic shift in the types of chargebacks merchants receive.

Non-fraud chargeback rate



Chargebacks by device type

Interestingly, when we break down chargebacks by device type, mobile web transactions made up more than 33% of total chargebacks in 2024. Yet, these are only 8% of total orders across devices. Mobile web orders disproportionately contribute to chargebacks in comparison to mobile app orders, which make up the majority of total orders (iOS users alone contribute to about 70% of orders).

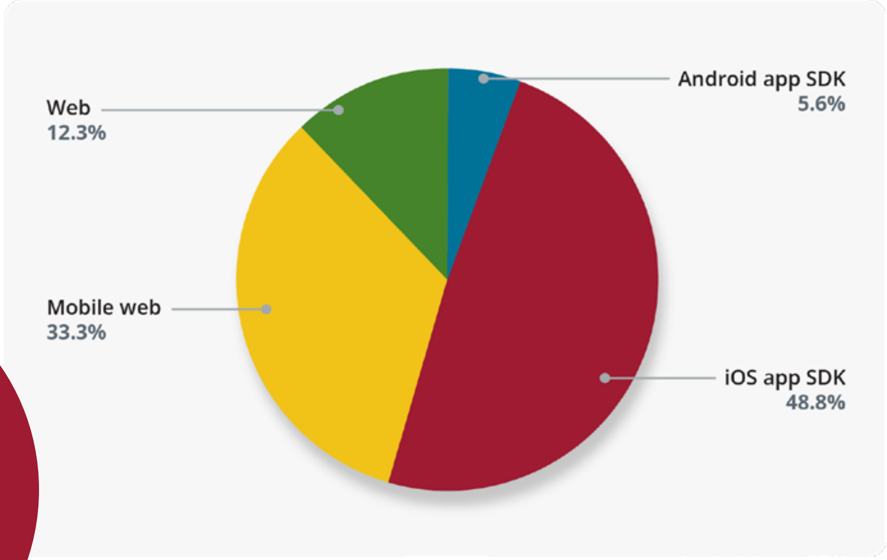
Mobile web orders are far more likely to result in fraud and chargebacks simply because of the ease in which fraudsters can carry out attacks. On the other hand, chargebacks from app orders are more likely to be the result of non-fraud disputes.

Additionally, web orders make up a larger share of the overall chargeback rate than app orders. In fact, the average chargeback rate of mobile web orders was 7.5 times (659%) higher than the average mobile app chargeback rate.

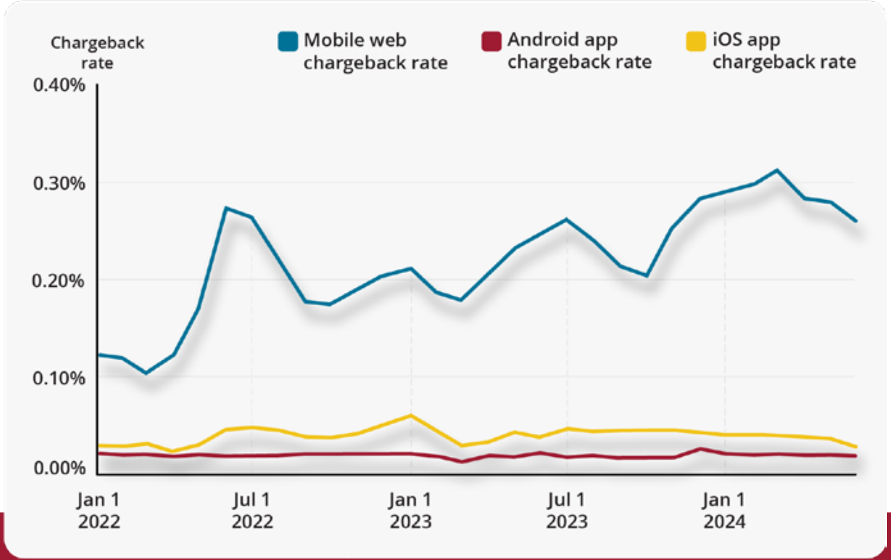
This trend has been ongoing for a number of years now. Since the beginning of 2022, the chargeback rate of mobile web orders has more than doubled (111%), from 0.12% to 0.26%. These insights further reveal the vulnerabilities of web ordering in QSRs and the need for merchants to consider applying friction at earlier points in the buying journey as it makes sense for their individual business models.

Mobile web orders contribute **4x the amount of chargebacks** than mobile app orders.

% of total chargebacks by device type



Mobile web vs. non-mobile web chargeback percentage

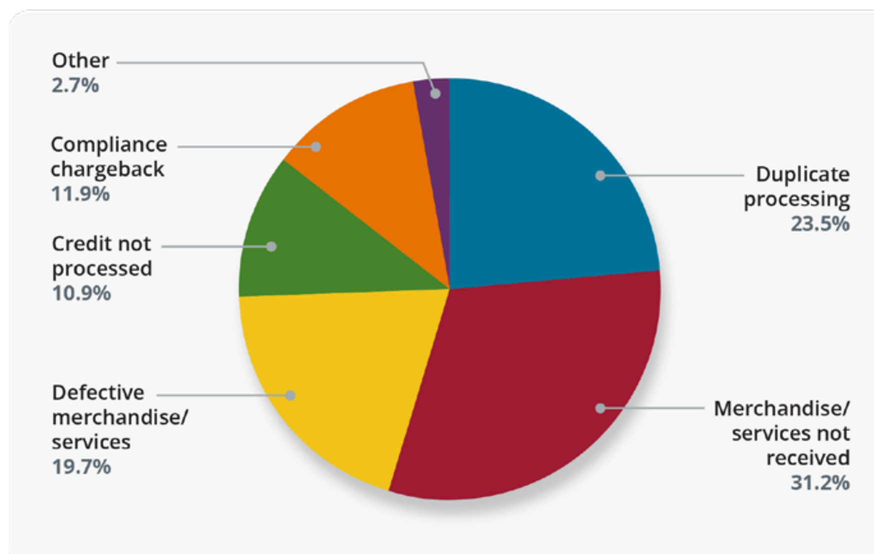


Understanding non-fraud chargebacks

Looking closer at our merchants' fraud reason codes, we have a better understanding of where non-fraud chargebacks come from. The biggest issue is that customers claim they are not receiving items, which may happen if an order is delivered to the wrong address or is processed incorrectly at the restaurant.

Yet, there's still a good portion of non-fraud chargebacks that stem from merchant errors, such as duplicate processing (23.5%) or failure to issue a refund or credit (10.9%). These chargebacks are totally preventable, and in some cases may be fought with the right evidence. Merchants should regularly evaluate their payment processes, educate and train staff, and respond quickly to customer issues to avoid these types of chargebacks.

Non-fraud chargebacks reasons



Prevalence of account takeover fraud

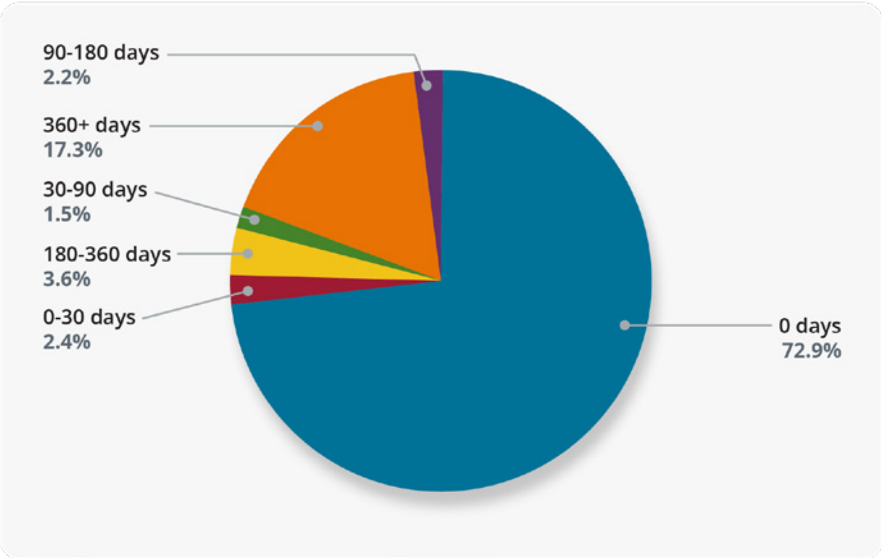
Our merchant data has revealed a distinct relationship between the ages of customer accounts, account takeover (ATO) fraud, and chargebacks. Orders made with older, inactive accounts tend to have higher risks of chargebacks and ATO.

For example, orders made by customers older than 360 days make up the second-largest share of chargebacks at 17.3%. Older accounts typically fall inactive, which should result in fewer chargebacks. Yet, we see the opposite, indicating that fraudsters are hacking into these accounts and using them to make unauthorized purchases with stored payment information.

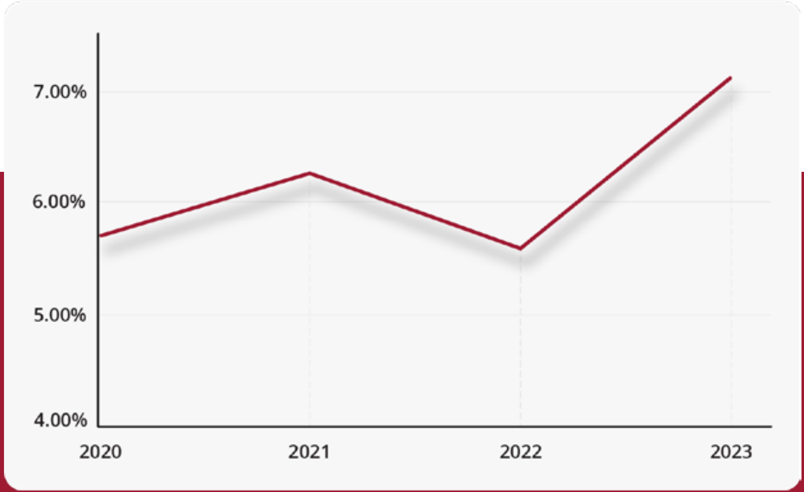
Since 2020, ATO fraud has only risen in popularity, with an all-time high of 7.1% in 2023. Fraudsters have caught on to the fraud prevention methods that block traditional unauthorized payments and other fraudulent activities. So they look for loopholes and often find success by hacking into customer accounts.

It is worth mentioning that the largest share of chargebacks, at over 70%, coming from new customers, is typical. Fraud is more often attempted at the point of sale or account opening where fewer barriers to entry exist. These customers also have the smallest average order value ($16.55), but the highest average chargeback amount ($50.23), contributing greatly to overall fraud and chargebacks.

Chargeback share by customer age



The rise of ATO fraud



Improvements in authorization rates

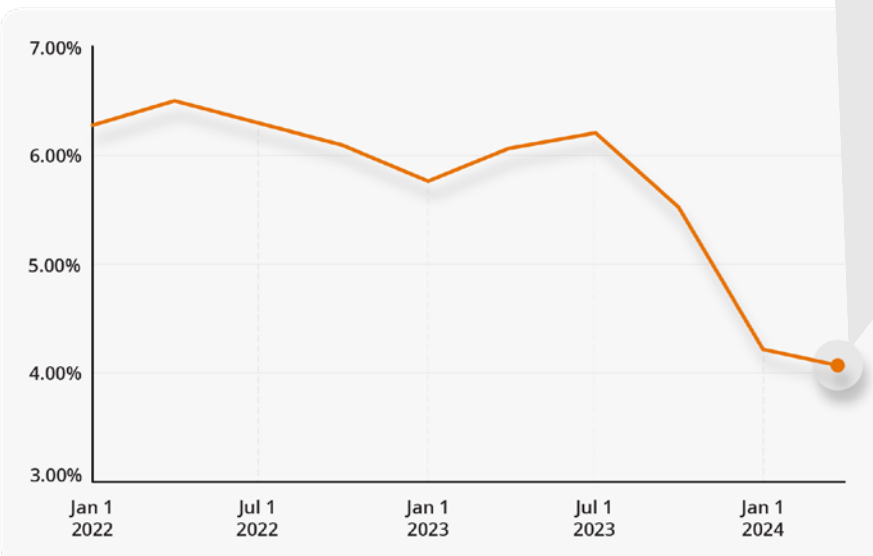
One of the greatest benefits of using a fraud prevention system like Kount is the positive impact on merchant account health. When fraud and chargeback rates are steady and low, issuers can better access transaction approval requests. In turn, they approve more orders and reduce the number of false positives.

Since 2022, our merchants have seen a drop in the average authorization decline rate by more than 35%, from 6% to 4%. For restaurants, these results are astounding. When every dollar counts, fewer transaction declines can lead to thousands of more dollars in revenue. Our merchants have seen an average increase of over $2M each year as a result of increased order approvals.

What's more, the longer a merchant stays with their fraud provider, the better these results get,simply by virtue of the system's growing database, expanding transaction history, and ability to learn from each event.

In Q2 2024, Equifax merchants recorded the **lowest Auth Decline rate at 4.06%.**

Auth decline rate



Forward looking trends

As we look ahead to 2025, the quick-service restaurant (QSR) industry is poised to navigate a challenging landscape shaped by evolving consumer preferences and economic constraints[4]. Consumer spending is on a downward trend with nearly 40% of consumers stating that they are cutting back spending at restaurants compared to last year[5]. Consumers are also increasingly more selective, preferring the convenience of takeout and food delivery options such as DoorDash and GrubHub over QSRs, even despite the more premium price point.

These two intersecting trends will force QSRs to strike a delicate balance between minimizing friction in transactions and mitigating fraud. This means that as businesses strive to offer seamless digital experiences, they must also strengthen their defenses against fraud, ensuring that convenience doesn't come at the cost of security.

These challenges will be amplified by internal risks around employee abuse of loyalty programs and promotions. In-store staff, particularly those who scan or enter loyalty numbers, are in a unique position to game the system. With loyalty programs becoming more central to customer retention, we can expect fraud via unauthorized point acquisition or account manipulations to increase, necessitating more robust monitoring and control mechanisms.

On the chargeback front, dispute resolution tools like Verifi's Order Insights and Mastercard's Consumer Clarity will be indispensable in helping QSRs manage the surge in chargebacks and fraudulent disputes as customers look to stretch their spending via the dispute system. These tools offer a deeper layer of transparency by providing real-time transaction details that can resolve disputes before they escalate into chargebacks, thus preserving merchant revenue and protecting customer trust. Leveraging these technologies will be critical as QSRs face an anticipated rise in friendly fraud and first-party misuse due to tighter consumer budgets.

[4]https://retail.economictimes.indiatimes.com/news/food-entertainment/food-services/quick-service-restaurants-revenue-margin-under-severe-stress-recovery-seems-distant-report/108026904
[5]https://www.revenuemanage.com/wp-content/uploads/2024/07/Q2_24-RMS-Restaurant-Consumers-General.pdf

Conclusion

In this current fraud landscape, QSRs must adopt a proactive and multi-layered approach to fraud prevention. This will involve tighter integration of AI-powered tools for real-time transaction monitoring, employee fraud detection, and enhanced dispute resolution, allowing businesses to thrive in an increasingly competitive and risk-laden environment. The future of fraud management in QSRs will be about walking the fine line between enabling frictionless experiences and securing both digital and physical transactions against ever more sophisticated fraud threats.

Want to **elevate your fraud strategy** and **improve business performance** like Equifax QSR merchants?

Reach out to our sales team to get a **custom quote** for solutions to fit your every need.

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