

# Card Payments Fail for Many Reasons

Technology Options to Solve All Decline Types

# BACKGROUND

It's commonly believed that the card payments system runs smoothly and the authorization systems that approve or deny transactions work well.

Unfortunately, this is not true.

There is a huge problem within the payments ecosystem caused by banks' attempts to reduce their fraud losses, resulting in many legitimate transactions being mistakenly identified as fraudulent and declined. Banks would rather falsely decline a legitimate transaction than risk approving a fraudulent one because banks must absorb the cost of the fraud. In fact, only one-eighth of declined transactions are truly fraudulent. This problem of false declines hits subscription businesses the hardest. Visa stats show that around one-quarter of all recurring transactions are falsely declined, causing over \$455B in revenue losses to merchants globally each year.

Of course, failed payments that subscription companies can't recover create large amounts of customer churn. FlexPay research has found that up to 48% of all churn is caused by failed payments. These customers want to continue their subscriptions and have valid credit cards but, unfortunately, churn involuntarily due to a failed payment.

There are two types of failed payments: soft declines and hard declines, and they occur for different reasons. The good news is that you can now solve both types of failed payments.

---

FLEXPAY HAS FOUND THAT  
UP TO 48% OF ALL  
INVOLUNTARY CHURN IS  
CAUSED BY FAILED PAYMENTS

---

# SOFT DECLINES VS HARD DECLINES

**Soft declines** consist of failed payments that can usually be resolved by interacting directly with the payments system. Examples of soft declines include false declines, insufficient funds, do not honor instructions, and a credit limit that has been exceeded. When possible, payment recovery methods for soft declines should not involve the customer. Asking the customer to help solve a failed payment can cause frustration and increase the risk of churn because the customer is being forced to solve a problem they didn't create. The simple fact that the business is reaching out to them creates a moment of truth where customers can decide whether they want to continue with the subscription or not.

**Hard declines** consist of failed payments that require customer engagement to solve because the card cannot be billed. Examples of hard declines include lost or stolen credit cards, expired cards, or invalid card numbers. To solve hard declines, you typically need to involve the customer because new information must be collected. This type of recovery must engage the customer in a way that delivers a positive experience. If the customer is made to feel that the recovery attempt is not in their best interest, it is very easy for them to simply not provide new information, thereby passively ending the relationship.

## TOP REASONS FOR PAYMENT DECLINES BY PERCENTAGE



### Soft Declines

- Bank Decline (31%)
- NSF (22%)
- Refer to Card Issuer (9%)
- Do Not Honor (6%)



### Hard Declines

- Invalid Card Number (9%)
- Transaction Not Permitted to That Cardholder (7%)
- Expired Card (6%)

# THE BEST WAY TO RECOVER FAILED PAYMENTS AND SAVE CUSTOMERS

---

A RESEARCH STUDY WITH  
*PYMNTS* FOUND THAT 27%  
OF CUSTOMERS CHURNED  
AFTER BEING MADE AWARE  
OF A FAILED PAYMENT

---

Subscribers expect great overall experiences, and they expect their card payments to work. This means how you go about recovering failed payments is extremely important. Your goal should be to resolve the payment without any customer involvement when possible, and to create a positive experience when customer engagement is unavoidable.

A research study with PYMNTS found that 27% of customers churned after they were made aware of a failed payment. These were customers who appeared to be happy with their subscription but left when given the opportunity. This shows how important it is to employ the right recovery strategy.

## TWO TYPES OF FAILED PAYMENTS, TWO TYPES OF PAYMENT RECOVERY

When recovering a failed transaction, you should always begin by using a solution that is invisible to the customer. The best way to do this is by using technology powered by AI and machine learning, a system that uses billions of transactions records and decades of payments expertise to create the optimal failed payment recovery strategy.

There are over 8,000 card-issuing banks in North America alone, which all use their own unique algorithms to decide which payment transaction requests are approved, and which are declined. There are also hundreds of reasons why a payment

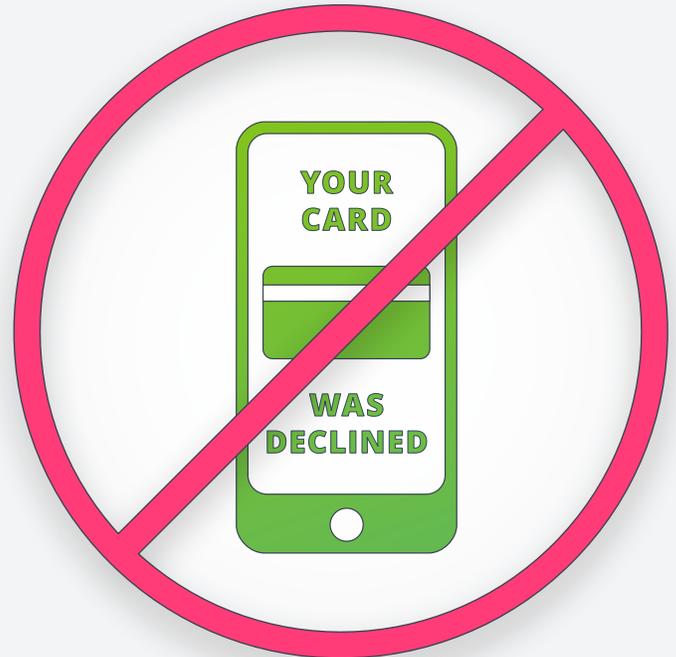
might fail, as shown by the hundreds of reason code values returned with a failed payment. Plus, every different type of card, such as corporate cards, rewards cards, and ATM cards, are all evaluated for approval using different rules. There are literally billions of permutations of factors that must be optimized to create a unique recovery strategy for each failed payment.

Simple recovery methods, such as rules-based systems, cannot achieve the highest rates of recovery given the complex recovery strategies required for each failed payment.

While you may have collections teams on hand to help recover failed payments, or have a third-party service on contract, customer outreach should not be the first step in the recovery process. Remember, customers usually aren't aware there is a problem with their payment unless contacted, and involving them creates the opportunity for them to churn.

When you absolutely must involve the customer, such as when there is a hard decline, the best option is to use a personalized customer outreach strategy that collaborates with the customer. This type of outreach can use channels such as SMS and email messaging that can be personalized to suit the communication preferences of each unique customer and be delivered at the ideal time to ensure the best response rate.

Customer engagement also needs to take the customer's demographics into consideration and show understanding of their financial situation. It should use the right tone of voice to appeal to that person and offer options to help them complete their payment. Each person's unique situation must be considered to find the best way to reach a successful outcome. Treating the customer in a positive, empathetic way will make them feel appreciated and valued.



## SUMMARY

The payments ecosystem mistakenly blocks many legitimate recurring card transactions because banks are trying to minimize their fraud losses. This means that subscription businesses must use optimal methods to recover failed payments to avoid the revenue losses and churn they create, while minimizing customer involvement in the recovery process. The first step in failed payment recovery should always use techniques that avoid any customer awareness of the failed payment. When customer engagement is required, avoid creating a negative customer experience that can create opportunities for customers to churn.

Introducing

# THE COMPLETE FLEXPAY PLATFORM



FlexPay announces **Engaged Recovery** to further enhance its AI-powered **Invisible Recovery™** failed payment solution. Engaged Recovery adds a critical new capability to collaborate with customers to solve failed payments, using a positive outreach strategy that delivers great results and a great customer experience.

Engaged Recovery uses powerful AI algorithms trained by behavioral science and psychology to engage with customers using empathetic language. Engaged Recovery motivates the customer to help solve the problem with their failed card by providing updated card information, ensuring their subscription continues without interruption.

# Introducing **THE COMPLETE FLEXPAY PLATFORM**

Only the FlexPay platform delivers **Invisible Recovery™** and **Engaged Recovery**, further extending industry-leading recovery results.

- **Recover all kinds of failed payments, including hard and soft declines** – FlexPay recovers failed payments declined for most reasons, automatically applying recovery solutions optimized for each type of failed payment.
- **Optimize customer recovery and reduce indirect churn from failed payments** – Invisible Recovery™ can recover most failed payments directly within the card authorization system, avoiding the indirect churn associated with customer visibility to failed payments.
- **Deliver a great automated customer experience when engagement is required** – Engaged Recovery delivers branded experiences that engage empathetically with customers to solve failed payments through collaboration, avoiding the indirect churn associated with dunning and collections methods.
- **Reduce customer churn and revenue losses caused by failed payments** – FlexPay helps subscription businesses achieve unmatched growth rates by increasing revenue, customer retention, and LTV.
- **Add efficiency to operations and costs** – With FlexPay, subscription businesses can reduce or eliminate costly employee-powered recovery and collections cost centers so customer service teams can focus on maintaining positive customer relationships.

[Schedule Consultation](#)



1-800-273-4689



[flexpay.io](https://flexpay.io)



[Linkedin/flexpay](https://www.linkedin.com/company/flexpay)