Merchant & Consumer Survey Results

2024 Chargeback Field Report

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2024 Chargeback Field Report

A Real-World Look at Chargeback Management in the Card-Not-Present Payments Space.

Presented by two of the most respected and trusted names in the industry

Introduction

Every merchant who processes card-not-present transactions experiences at least some chargebacks. Sellers, however, seldom see the scope of the problem beyond their own claims. Based on surveys commissioned by Chargebacks911®, the *2024 Chargeback Field Report* is a critical view of how chargebacks are impacting merchants as a whole.

Created in a partnership with Edgar, Dunn & Company, this report highlights both prevailing fraud trends and key pain points for retailers in general – and eCommerce merchants in particular. Participants represent businesses of all sizes and across all verticals. Our goal was to provide a baseline which merchants could use to compare their experience against others'.

In compiling the data, however, we discovered that far too many merchants weren't even fully aware of their *own* chargeback situation, let alone how others were faring. Worse, the majority are only making limited efforts to combat invalid claims at all.

Our study paints a disturbing picture, but one that could help retailers better understand the danger chargebacks represent. It also provides information to help merchants better manage their disputes.

While by no means comprehensive, our survey was designed to generate accurate information while remaining as diversified, random, and representative as possible. The following section outlines the methods we used for data collection.

Methods

To produce the *2024 Chargeback Field Report*, we surveyed more than 275 merchants representing a wide range of industries. The survey was available to all verified merchants and promoted across a wide array of channels. While this approach helped to diversify the response group, it also presented certain drawbacks.

A survey-based report, for example, necessarily relies on self-reported data. The person completing the survey might have limited access to some of the requested statistics. Participants *were* asked to provide approximate numbers if specifics were not available. In our experience, merchants commonly underestimate the scale of their chargeback problem and overestimate the effectiveness of their management efforts.

Along the same lines, certain participants will undoubtedly be more forthcoming and proactive toward chargebacks. Those willing to take part in this type of survey were almost certain to be more familiar with their chargeback situation, and thus provide more accurate details than a typical merchant.

Finally, not every participant answered every question. We've also rounded many percentages to a whole number for clarity and ease of use.

Additional Perspective
from Edgar, Dunn & Company (EDC)

Most merchants enjoy a “happy transaction” payment flow. This refers to the ideal, seamless path which takes the consumer from a payment initiation to a successful transaction completion. Conversely, on a global basis, the process of managing disputed transactions costs the industry billions of dollars annually. Despite industry efforts to ensure all transactions are happy transactions, the growth of digital payments is equally driving the growth of disputed transactions and chargeback fraud.

This Chargeback Field Report is a widely recognized industry benchmark, providing essential insights and data for payments professionals across the payments value chain. EDC is delighted to support the *2024 Chargeback Field Report* because it provides a comprehensive analysis of the health and status of chargeback management in the card-not-present payments space.

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Key Takeaways

- The majority of respondents reported an overall increase in incidents of first-party chargeback misuse (i.e. “friendly fraud”) over the past three years.
- Nearly half of respondents estimated that friendly fraud was responsible for 50 percent or more of their chargebacks.
- Recovering revenue from incorrectly filed chargeback cases and reducing overall chargeback rates were reported as the biggest chargeback management challenges facing merchants.
- The majority of respondents said they represent (challenge) at least some chargebacks; nearly half of those who do, however, do not track second cycle chargebacks, meaning their net recovery rates are likely much lower than they believe.
- Participants estimated that nearly one-quarter of their refunds were fraudulent.
- By a two-to-one margin, merchants felt that chargeback abuse was a greater threat than refund abuse.
- A third of respondents said they did not know how their billing descriptor appears on customer billing statements; a similar number of cardholders surveyed said they often found statement billing descriptors confusing or unrecognizable.
- Merchants continue to accept new alternative payment options, even though more than half felt that it increased fraud risk.
- One-third of participants reported that the costs associated with chargebacks have directly impacted the end price of the goods or services provided.
- A high number of merchants estimated their average dispute value was larger than their average transaction value.
- Larger companies were roughly twice as likely to feel their in-house chargeback team was up-to-date on the latest card network rules and regulations, when compared to small or mid-sized companies.
- Two-thirds of respondents said they were either already using AI-powered fraud prevention tools, or planned to do so in the future.

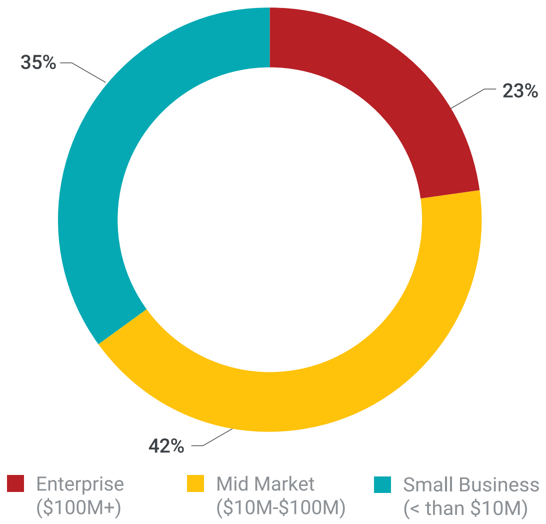
Demographics

As mentioned earlier, surveys conducted to prepare this report included respondents from businesses of all sizes, with a focus on eCommerce and the card-not-present (CNP) payments space. Results were segmented with the intent of creating the most comprehensive assessment of chargebacks from the merchant's perspective.

Interestingly, more than half (61 percent) of the respondents had not participated in a previous survey. Therefore, consistency between stats within this study and previous years should be considered a confirmation of the validity of the data.

When asked *What is the annual revenue from card-not-present transactions at your company?* 35 percent of the companies taking part in our survey were small businesses that reported yearly CNP revenue of $10M or less. Enterprise organizations (annual revenue of over $100M) made up a slightly smaller bloc (23 percent). All other participants (42 percent) fell somewhere in between, identifying as mid-market companies.

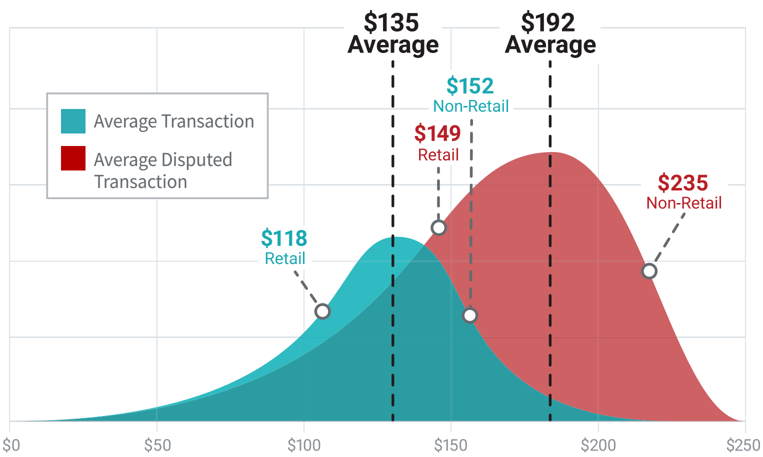
Annual revenue from card-not-present transactions



To help put companies' respective dispute situations into perspective, we asked *What is the ticket value of your average transaction?* We then compared that number against the responses to *What is the ticket value of your average disputed transactions?*

Notably, nearly a third of merchants estimated their average dispute value to be higher than their average transaction value. This was most common for merchants with average transactions of under $100.

Ticket value of average transaction and ticket value of average disputed transaction



The discrepancy between ticket and dispute values seems at first to defy logic: statistically, shouldn't most disputes echo the average value of transactions? But there are multiple circumstances which could result in the differences.

For example, many banks automatically absorb the costs of certain small-ticket disputes due the expense of defending against potential representments. Those lower-cost transactions would still factor into the average ticket value.

Disputes resolved without the merchant's knowledge, however, would not be reflected in the average cost of disputed transactions, leading to lower overall dispute numbers. It could also be possible that higher-value transactions are more susceptible to disputes, or that a significantly larger number of lower-value disputes were skewing the average.

Even so, these figures may not be as simple as they seem. When segmented by averages instead of straight transaction values, for example, we see that the discrepancies aren't always as great as the averaged numbers might suggest.

Only a third of merchants claimed that their average chargeback value was significantly different (more than 60 percent higher or lower) than their average transaction amount.

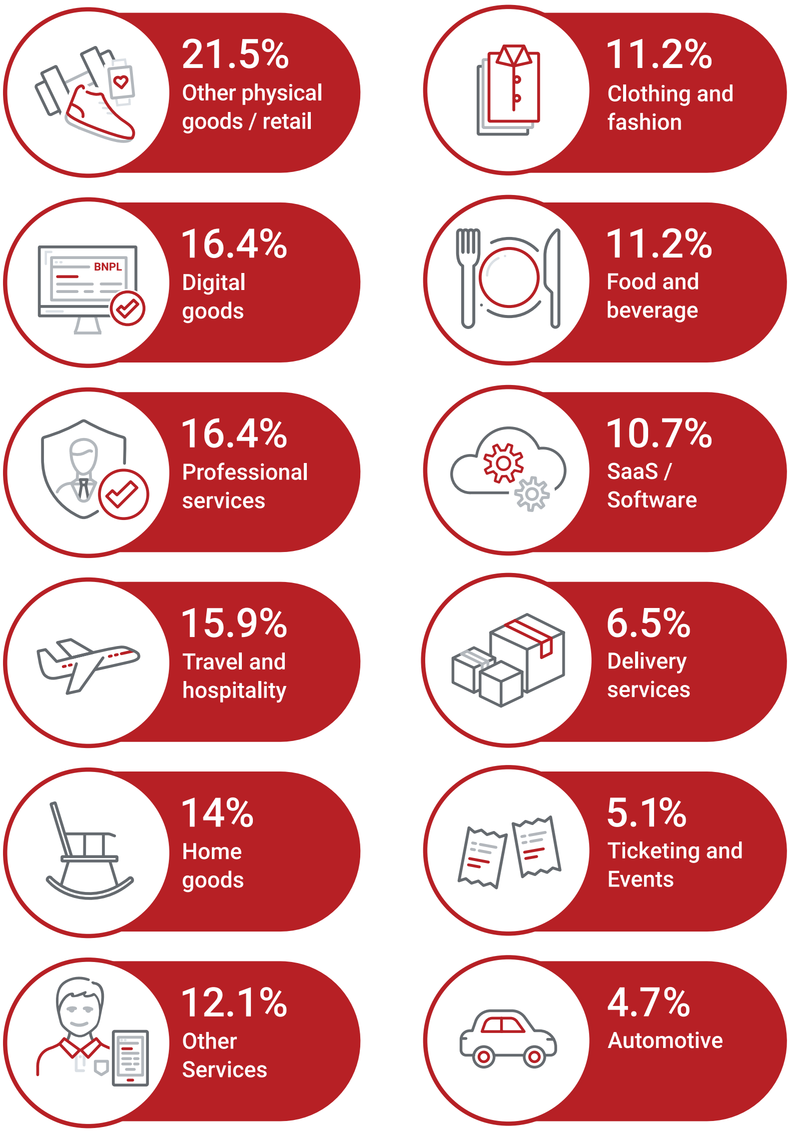
> In addition to a mixture of business sizes, our respondents also represented a wide range of verticals and of geographic operating regions.
>
> – Jarrod Wright, VP of Marketing, Chargebacks911

Percent of merchants whose average is:

PARTICIPANTS’ VERTICAL & TRANSACTION VOLUME

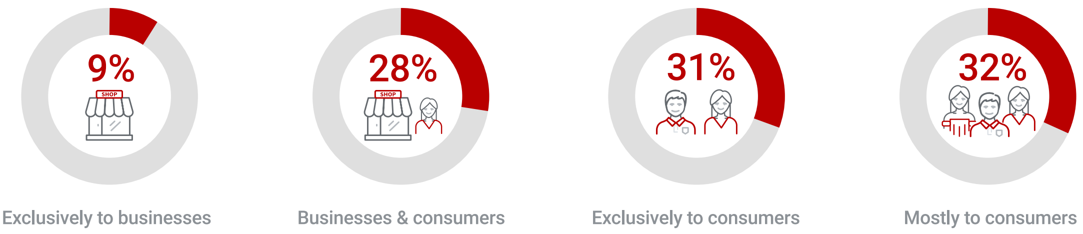
To define verticals, we asked *Which product categories best describes the primary revenue source of your business?* The most responses came from retailers: sellers of home goods, clothing & fashion, and other physical goods accounted for 35 percent of the respondents. The professional services and travel/hospitality spaces were also well-represented.

Respondents’ primary vertical



In response to the question *What percent of your card transactions come from businesses (B2B)?* less than 10 percent of respondents claimed to operate exclusively in the business-to-business space; the remaining 90 percent did at least some business with consumers.

Percentage of card transactions from businesses (B2B)

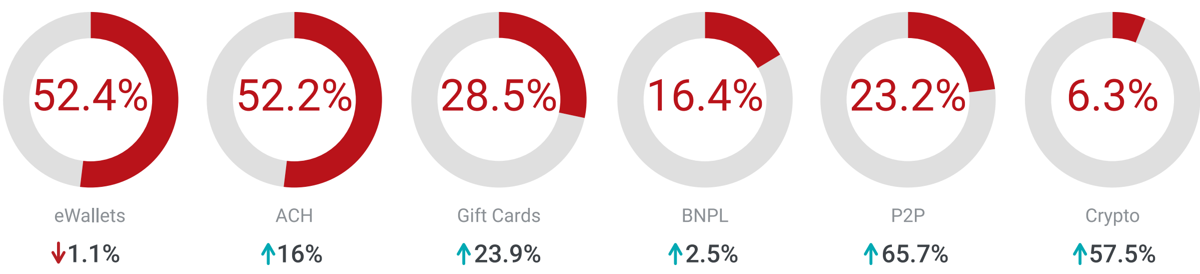


PAYMENT MODELS

As a way of gauging the impact of alternative payments on chargeback levels, we asked *Which of the following payment methods do you accept?* While we have covered this topic in past reports, our focus was on the most popular alternative payment options, such as eWallets like Paypal or Google Pay.

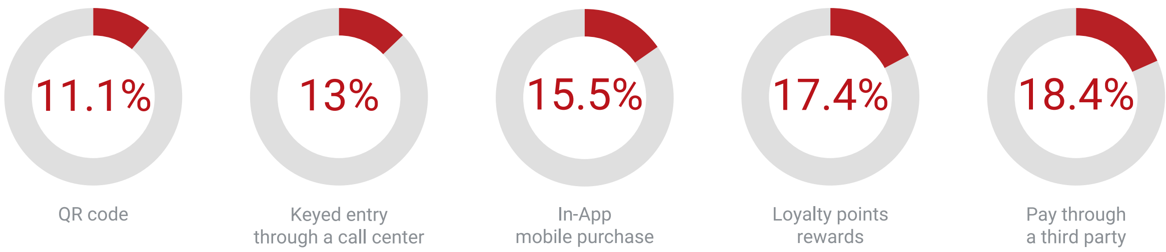
As far as established payment types, credit and debit cards remain the top choices. Acceptance of more familiar alternative payment options, such as cryptocurrency or buy now/pay later (BNPL) was up in nearly all categories.

Common alternative payment methods accepted



The list of available options continues to expand, however, as does the number of merchants accepting them. To reflect this, we asked about some of the newer methods that are gaining popularity — even though some are not exactly a payment that would be accepted by a retail business at all.

Alternative payment methods accepted (newer)



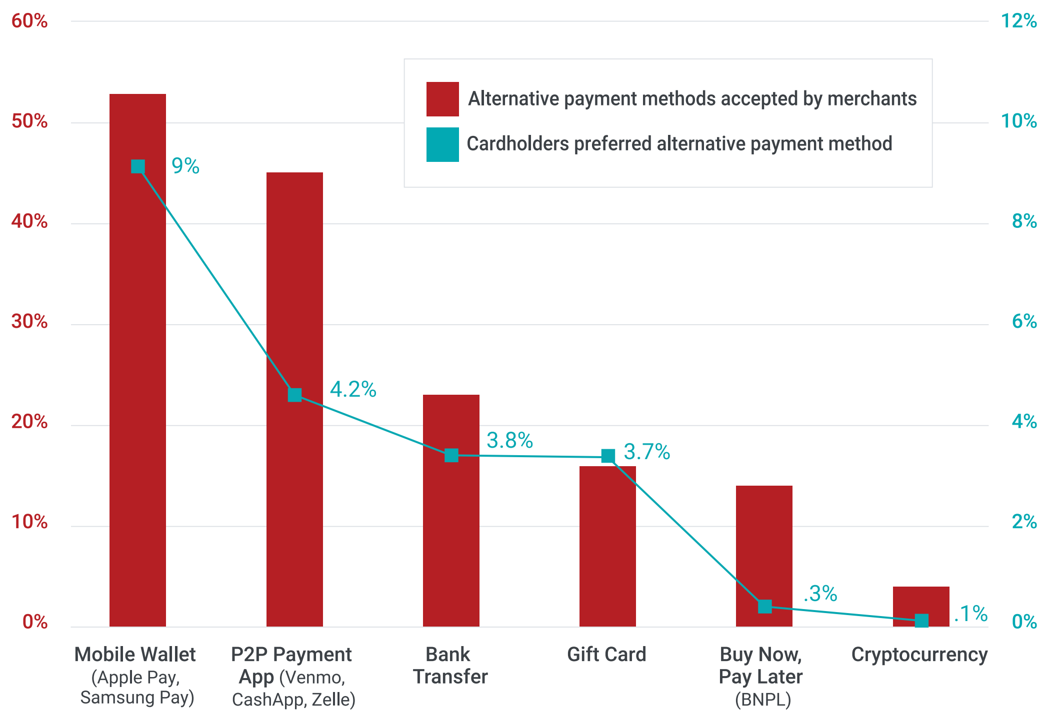
Within these numbers, it's notable that QR codes are so quickly gaining popularity as a method of contactless payments. According to one source, the market for QR codes as a payment option is expected to expand globally at a compound annual growth rate of 16.9 percent between now and 2030. Based on the response from our survey group, however, only 11 percent of merchants accept QR codes as payment.

These numbers may not provide an accurate comparison, however. For example, smaller businesses were more likely to accept QR code payments than larger merchants. At the same time, our survey put an emphasis on eCommerce… and smaller organizations tended to be online-only. Since QR codes are primarily an in-person payment method, it's logical to assume that the *total* number of merchants accepting QR codes is larger than what these charts would suggest.

> It was somewhat surprising to see that the acceptance of mobile wallet apps (Apple Pay, Samsung Pay, etc.) showed a slight decrease. At the same time, this might be explained by the more than 65 percent jump in the acceptance of peer-to-peer (P2P) payment apps like Venmo or Zelle.
>
> – Jarrod Wright, VP of Marketing, Chargebacks911

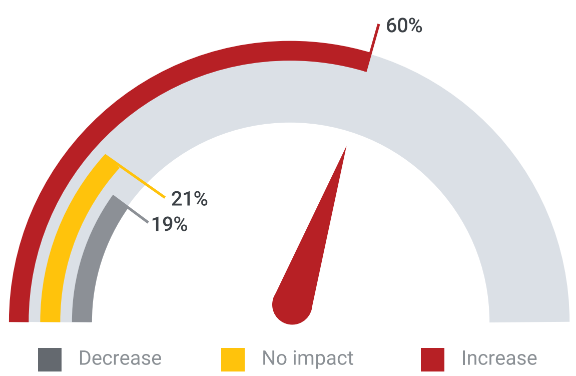
Regardless, studies clearly show that consumers are seeking additional alternative payment options. Merchants, however, are looking at the situation from a different perspective. Statistics from the *2024 Cardholder Dispute Index* point out the contrast between what consumers are asking for and what merchants are providing.

Alternative methods accepted by merchants vs. cardholders preferred alternative payment method when online shopping



Source: 2024 Cardholder Dispute Index

Does offering alternative payment options increase fraud risk?



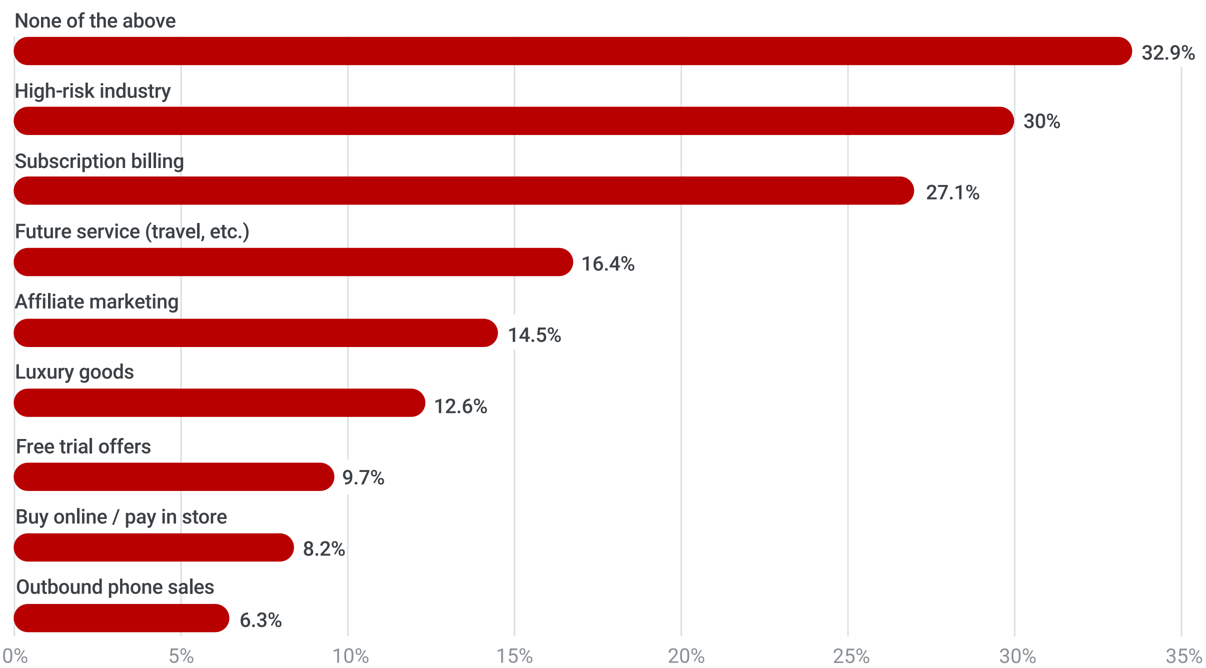
Why aren't merchants responding to consumer demand? Reasons vary, but many of our participants pointed to a fear of fraud. When asked *Do you feel that offering alternative payment options increases or decreases fraud risk?* over half of respondents felt that accepting non-traditional payment channels increased the risk of fraud. Only 19 percent believed doing so actively decreased fraud risk.

FRAUD RISK FACTORS

Of course, it's hard to conclusively determine whether accepting alternative payments actually increases risk. The term "alternative payments" is used here to describe a wide array of technologies and systems, and some are undoubtedly more susceptible to fraud than others. ACH payments, for example, generally offer increased protections to the merchant at the expense of fewer safeguards for the buyer. Based on responses to our survey, though, those benefits aren't enough to cancel out fraud concerns. For merchants, the appeal of these payment methods isn't based on any increased security they may provide.

That said, fraud and chargeback risks aren't limited to payment methods. There are numerous factors that we know raise the chances of triggering chargebacks. We asked merchants *Which of the following chargeback risk factors apply to your business?*

Chargeback risk factors reported



Over half of the organizations surveyed have one or more of the high-risk elements. Being in a high-risk industry was effectively tied with subscription billing as the top risk factor. These were followed by future services (such as airlines or lodging) and affiliate marketing.

It's also relevant to note that many of the merchants in our survey reported having more than one high-risk factor, whereas just under 33 percent of respondents said that none of the risk factors we suggested applied to them.

The State of Chargebacks

We'll preface our findings by saying that chargebacks are an important consumer protection mechanism, and they fill a valuable role in the payment process.

The chargeback system was designed to protect customers against criminal fraud and merchant abuse. Having that option ensures that customers are not held liable for unauthorized transactions or charged for items they did not receive.

That said, the process is highly susceptible to misuse. Illegitimate payment disputes may be filed by mistake, or by cardholders deliberately abusing the system. These disputes are known as both "first-party misuse" and as "post- transaction abuse," or more colloquially, as "friendly fraud." A serious threat to merchants, friendly fraud accounts for the bulk of reported chargeback volume, as seen in this report's more detailed findings.

Retailers are not totally at the mercy of illicit chargebacks. The representment process enables them to challenge false claims by presenting documentation on the underlying transaction. If this compelling evidence is enough to resolve the original claim, the merchant may be able to reverse the initial chargeback and recover revenue that would otherwise be lost.

If the cardholder or issuer disagrees with the decision, however, or provides additional evidence or claims, the bank may initiate a second-cycle dispute.

> The representment process is in no way designed to limit the consumer's ability to dispute invalid payments. In the US, the right to dispute transactions is protected by Federal law. Unfortunately, our survey results suggest that the majority of customer disputes are actually illegitimate. In fact, experts estimate that as much as 70% of all credit card fraud can be traced to chargeback misuse, or "friendly fraud."
>
> – Monica Eaton, Founder and CEO, Chargebacks911

On the subject of disputes, it's important to note that this report highlights a variance in terminology. In 2018, Visa replaced the term "chargeback" with "dispute" in all official capacities. Six years on, acceptance of this change remains inconsistent. Other card networks have not adopted Visa's labels, making it impossible for merchants to stick with one or the other term.

From all indications, merchants are considering it less of an issue. We posed the question: *Some banks have started referring to chargebacks simply as disputes. Within your organization, which term is most commonly used?*

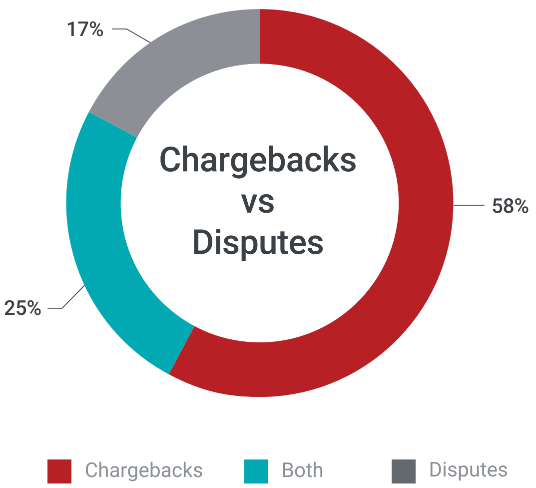
The results indicate that more and more are reverting to the use of *chargeback* exclusively; the number of merchants saying *dispute* – as well as those using the labels interchangeably – has dropped.

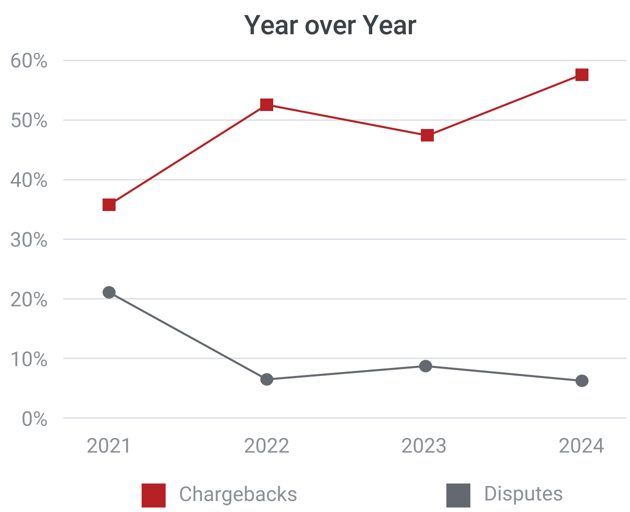
Despite this, the chances for miscommunications remain problematic. The two terms may represent different things, depending on who is using them.

Outside the Visa network, dispute (or "customer dispute") often refers to a customer arguing that a charge on their statement is invalid or in some way incorrect. A chargeback is the most common way banks request information on that dispute.

Whatever term is used, customers should understand that filing a chargeback is considered a last resort. Other cardholder responses, such as contacting the merchant for a refund, generally work better for all parties involved.

Chargeback vs dispute terminology preference





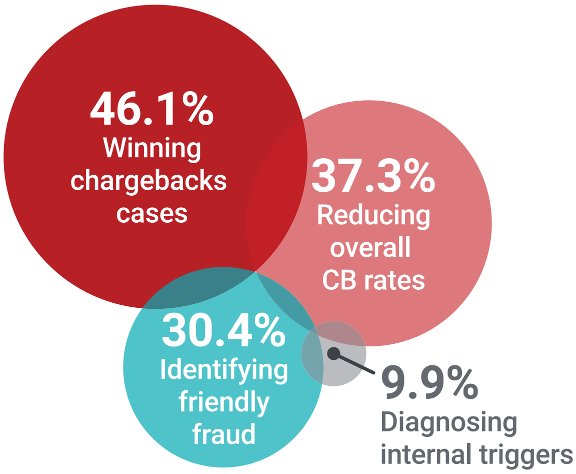
MERCHANTS KNOW THERE IS A PROBLEM

By asking *What is your biggest challenge related to chargeback management?,* we found that merchants continue to be challenged by the overall process. Nearly half (46 percent) said that winning chargeback cases was their biggest concern. Another 37 percent reported that reducing overall chargeback rates was their largest obstacle.

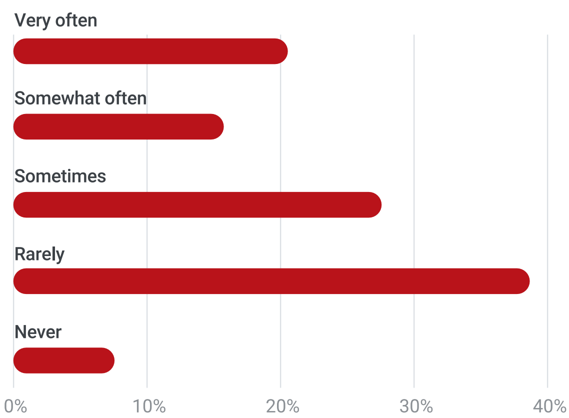
The third most cited challenge was identifying friendly fraud. On a positive note, nearly 10 percent of participants expressed concern about identifying internal issues that cause disputes. That's roughly 2 percent higher than our last report, and potentially a sign that merchants are discovering – albeit slowly – how internal errors can trigger chargebacks.

In reality, internal issues are among the easiest ones for merchants to remedy. For example, one significant source of chargebacks is cardholders not recognizing a charge on their monthly statement. According to the [2024 Cardholder Dispute Index,] a third of polled cardholders answered "Somewhat Often" or "Very Often" when asked how frequently they found billing descriptors confusing or unrecognizable. Only 6 percent said they had never experienced this.

Chargeback management: greatest challenges



How often do charges you don't recognize appear on your billing statement?



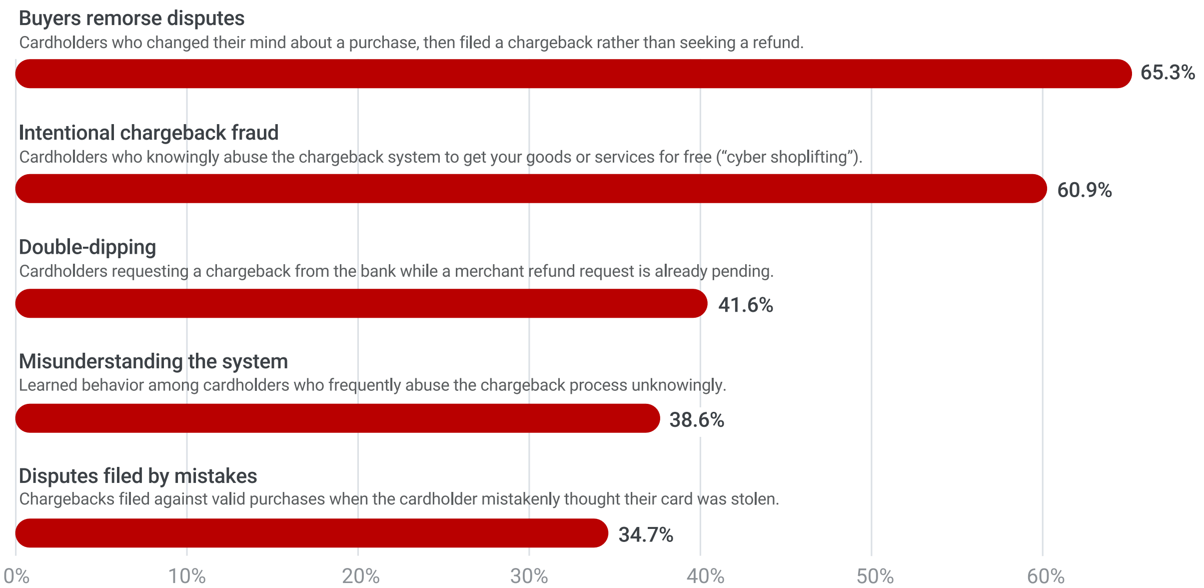
> A coded billing descriptor may work fine for the merchant but could make it hard for the cardholder to identify the transaction. As a result, perplexed cardholders may see a legitimate charge on their account but not recognize the merchant. Thinking the charge is fraud, they end up contacting their bank, opening the door for a chargeback.
>
> – Monica Eaton, Founder and CEO, Chargebacks911

But when we asked merchants *Do you know exactly how your billing descriptor appears on customers' statements?,* we found that 34 percent do not.

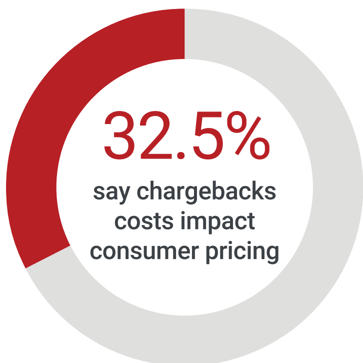
For the merchant, this should be an easy fix, and 60 percent of respondents said that they have at some point modified their billing descriptors for easier understanding.

But while it's true that internal policies can often trigger chargebacks, a much wider range of external sources are causing merchants concern. We presented participants with a few options: *The following represent some growing chargeback trends. Which are concerns for your business?* Some of the top concerns included:

Merchant concerns over chargeback trends



At first glance, it's easy to believe that merchants alone are the victims here. However, when asked *Have the costs associated with chargebacks influenced the price of the goods or services you provide in any way?* nearly a third of respondents reported that chargeback expenses had indeed had a direct impact on the price of their offerings. In other words, all consumers are paying for the actions of a few.



CHARGEBACK RATES CONTINUE TO CLIMB

Perhaps the best measurement of merchants' chargeback issues can be found by examining respondents' chargeback rates (also known as a "chargeback ratio" or "chargeback-to-transaction ratio").

Chargeback rate is a metric that compares a merchant's total sales against the number of chargebacks the business received during a given period. Rates are expressed as a percentage, and each card network limits how many chargebacks a merchant can receive before deeming intervention necessary. As a rule, this number has historically been pegged at 1 percent of the total transactions, and 2 percent for international merchants. The exact numbers will vary by card network.

ARE MERCHANTS WORRIED ABOUT CRIMINAL FRAUD?

We asked *How much of a concern do you consider criminal fraud to be within your organization?* Of those merchants who responded, fewer than half considered criminal fraud a moderate or significant concern. Roughly 26 percent of those respondents didn't consider criminal fraud a concern at all.

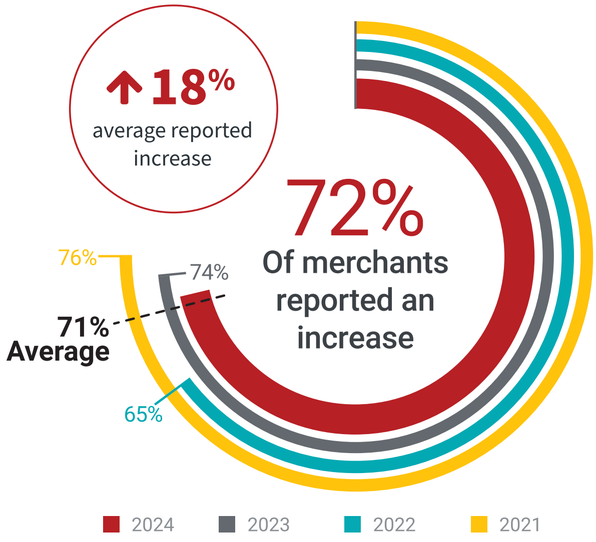
Enterprise merchants were slightly more likely to view criminal fraud as a problem, with 54 percent saying that it was a moderate or significant concern.

Online retailers, on the other hand, were the most likely to be worried about criminal fraud. Just over 60 percent considered it a significant or moderate concern, compared to only 24 percent of merchants offering professional services.

These numbers clearly show that while it is indeed a serious threat, true criminal fraud may not be as extensive as it is often portrayed to be. Merchants have very different liability profiles, and are therefore uniquely vulnerable to threats.

Are you concerned about criminal fraud within your organization?

FRIENDLY FRAUD REMAINS THE TRUE THREAT



When asked *Over the last 3 years has your organization experienced an increase or decrease in the instances of friendly fraud?,* fewer than a third of respondents didn't know. Of the remaining merchants, 57 percent of those who noticed a change indicated an increase in the number of chargebacks they received. On average, those seeing an increase claimed it was roughly 18 percent.

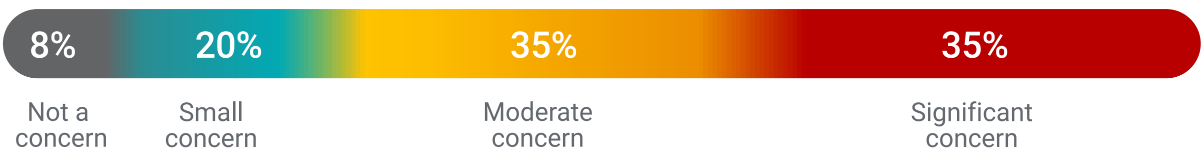
In our survey, nearly a third of respondents who claimed an increase in friendly fraud did not see a net increase in chargebacks.

This supports the conclusion that we're continuing to see the primary chargeback driver shift away from criminal fraud toward first-party misuse. As banks and payment technology get better at identifying unauthorized third-party fraud attempts, friendly fraud should increasingly be the greater threat for most merchants. As we will see in more detail later in the report, respondents believed that friendly fraud was, on average, responsible for 45 percent of their claims.

At the same time, when asked *How much of a concern do you consider friendly fraud to be within your organization?,* only 15 percent rated it at the highest level of concern.

While these figures are alarming, however, we are seeing continued growth in merchants' reported concern over friendly fraud.

Level of merchant concern regarding friendly fraud



> With friendly fraud, merchants pay obvious operational costs. What is commonly overlooked is the damage chargebacks cause to the merchant's reputation. For many, this cost cannot be properly measured and thus is often underestimated.
>
> – Mark Beresford, Director, Edgar, Dunn & Company

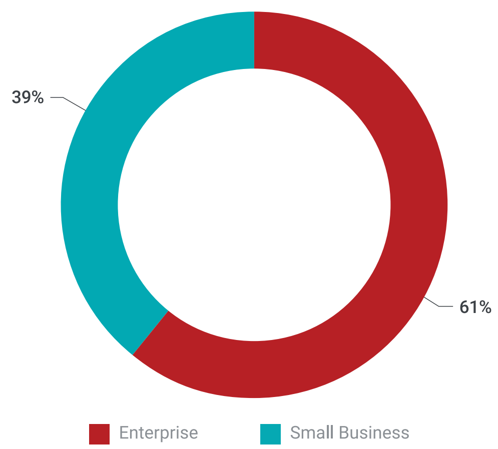
Not surprisingly, larger companies were almost twice as likely to consider friendly fraud a significant threat.

It could be argued, of course, that our survey doesn't reflect a completely accurate view of merchants' concerns. As we pointed out earlier, individuals who respond to a survey about chargebacks would likely be more aware of their chargeback situation. From that perspective, it would be reasonable to expect a certain amount of bias.

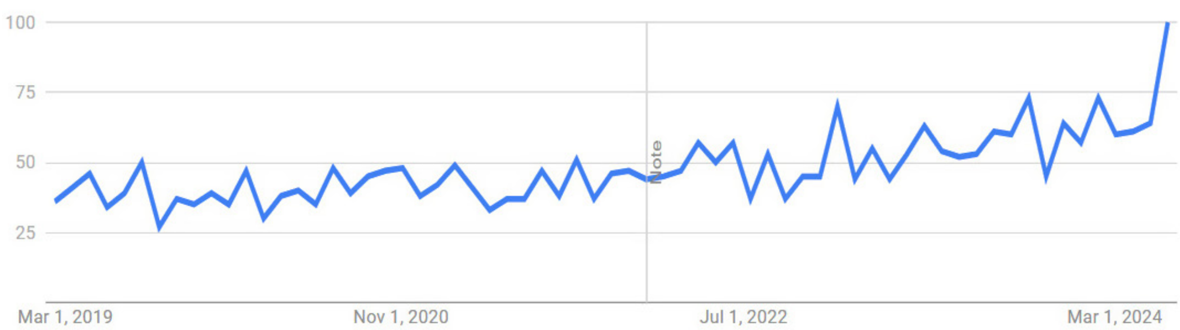
At the same time, however, our findings echo other, more general sources. For example, recent data published by Visa suggests that 75 percent of all chargebacks issued in 2022 were cases of first-party misuse – not true criminal fraud.

Another clear indicator of the growing threat of friendly fraud is the upward trend in the number of Google searches for the phrase "friendly fraud."

Merchants reporting "significant" concerns about friendly fraud (by revenue)



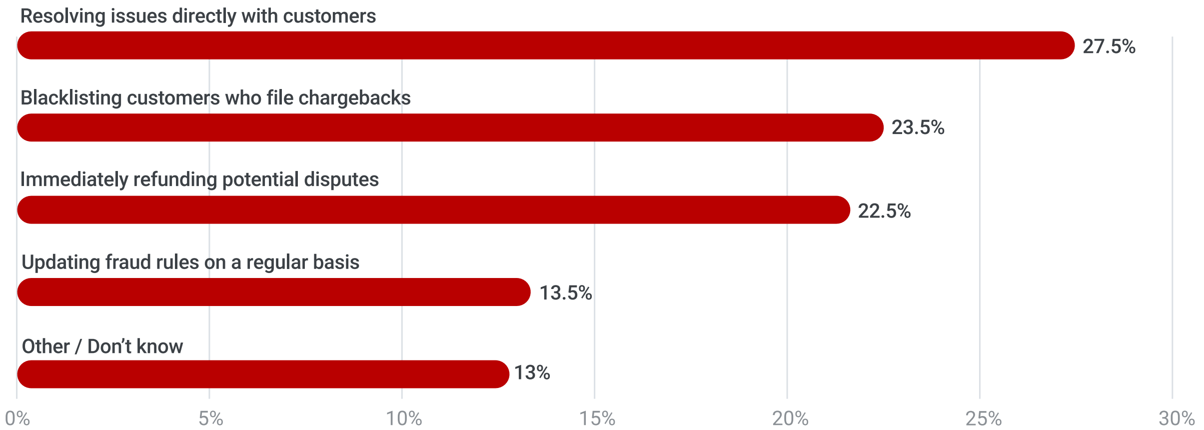
Google searches for the phrase "friendly fraud"



It is difficult to ascertain whether the increased attention on this category of fraud (reported in this study and elsewhere) is due to a growing number of cases… or growing awareness among merchants. Both are likely underlying drivers.

The good news is that this concern for friendly fraud has translated into action for some merchants. When asked *Which of the following actions (if any) have you taken to mitigate illegitimate chargebacks?* many participants reported multiple methods of attempting to decrease risk.

What actions have you taken to mitigate illegitimate chargebacks?



Those who said "Other" were asked to provide additional details.
Answers included:

"Our best move was to stop selling specific items with high dispute rates."

"We outsourced dispute management to third-party professionals."

"The only thing that has worked has been filing formal legal charges."

"We stopped offering things like conditional guarantees and gift cards."

"The best results came from updating our contract terms and disclosures."

CARDHOLDERS DON'T UNDERSTAND THE RULES

When cardholders were asked how many transactions they had disputed with the bank in the previous 12 months, the average number was six. Since disputes should only be filed as a last resort, that number should be "zero" for almost all cardholders.

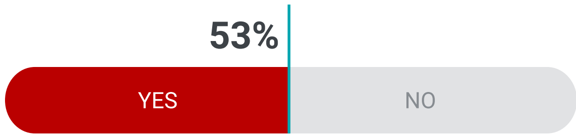
It should be obvious that there is miscommunication somewhere in the process. A recent study found that over 50 percent of cardholders admitted filing a chargeback without trying to contact the merchant at all.

Part of this issue can probably be traced to consumers' lack of knowledge about how and when chargebacks should be used. More than 75 percent of respondents, for example, felt that filing a chargeback was equivalent to requesting a refund.

At the same time, cardholders are increasingly becoming aware that the dispute process works in their favor. As a result, a growing number of consumers can now be found abusing the system for their own convenience.

When we asked cardholders about their reasoning for seeking resolution with their bank, nearly half said that faster resolution was their main motivation.

Have you disputed a transaction without first attempting to contact the merchant?



Source: 2024 Cardholder Dispute Index

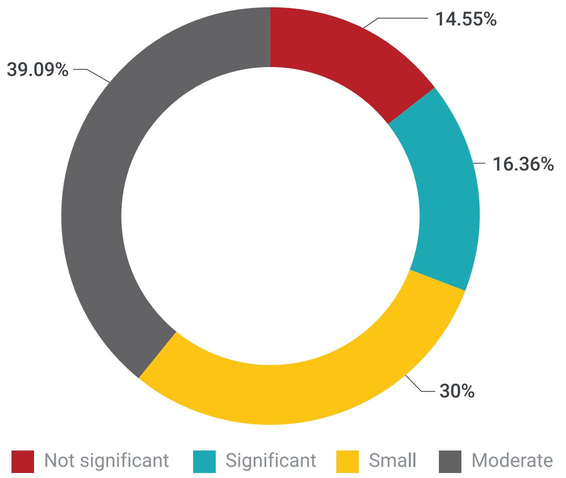
Reasons given for filing a bank dispute instead of requesting a merchant refund

Source: 2024 Cardholder Dispute Index

Mastercard reports that money lost to chargebacks ran an estimated $117.46 billion in 2023. Given that every $100 in fraud costs merchants roughly $300, the totals are staggering. Plus, Mastercard doesn't include money invested in alerts – programs that allow a merchant to refund the cardholder up front and keep a dispute from becoming a chargeback. Both Visa and Mastercard offer such tools, which may help to prevent chargebacks but increase merchant losses.

The bottom line: disputing a transaction is now easier than ever, but the cost for merchants has never been higher.

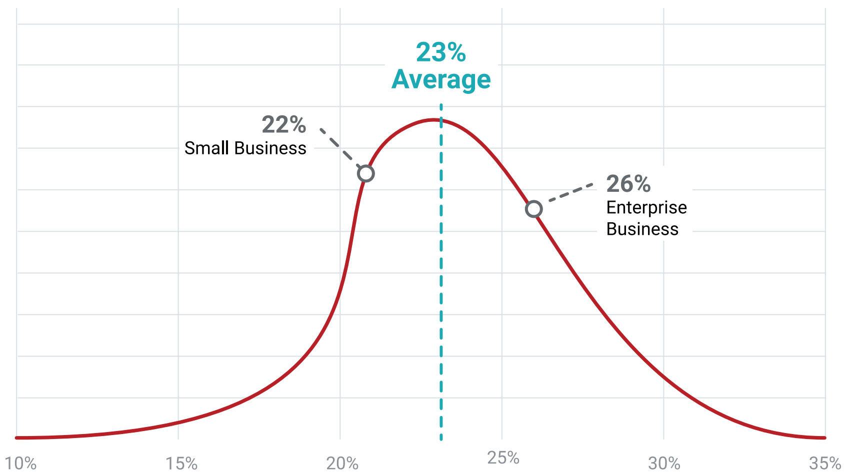
Merchant concern about refund abuse



REFUND ABUSE

Friendly fraud, of course, is not the only type of post-transaction fraud. A less commonly discussed topic is refund abuse. This is a form of first-party fraud where a bad actor exploits refund policy, fulfillment logistics, or customer service practices to get a refund without a good reason.

Estimated percentage of suspected refund abuse



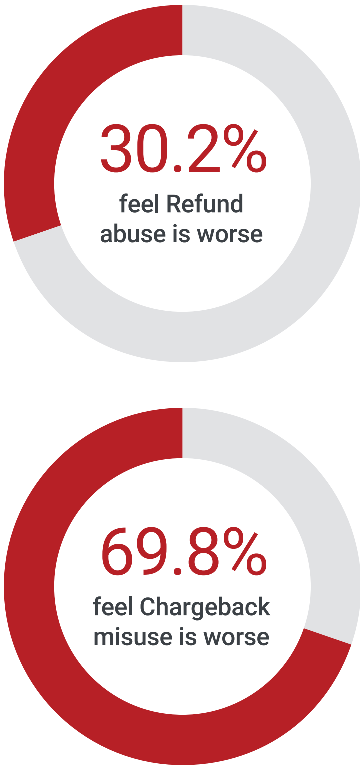
While the numbers are lower, refund abuse is more or less a sister issue to friendly fraud. Both involve using loopholes in official policies to steal from merchants. Of those who responded to the question *How much of a concern do you consider refund abuse to be within your organization?,* over half considered it a moderate to significant concern.

When we specifically asked retailers *What percent of refunds would you estimate are instances of refund abuse?,* the responses were relatively consistent. The largest disparity was between small businesses and enterprise operations.

Refund abuse is arguably more blatant and easily recognized than chargeback misuse, but merchants seem troubled by both issues. Again, speaking only to retailers, we asked *Would you say that refunds or chargebacks are a greater concern within your business?* In response, 43 percent claimed to be equally concerned about chargeback misuse and refund abuse. Of those who expressed opinions specifically about one issue or the other, 2.3 times more said that chargeback misuse was the bigger problem.

> Deploying advanced fraud identification and prevention tools is part of a merchant's best practice. Equally important, however, is to ensure there is clear consumer communication providing information about products, delivery options, any additional fees, and especially refund/returns policies. Optimized customer services is one of the keys to minimizing both chargeback abuse and refund abuse.
>
> – Mark Beresford, Director, Edgar, Dunn & Company

Retailers believing chargeback misuse is worse than refund abuse



Chargeback Management:
Win Rates vs. Net Recovery Rates

Concerns over friendly fraud might be tempered by merchants believing they are winning more representment cases than they are. We started off by asking merchants *What percent of chargebacks filed against your company would you estimate are caused by friendly fraud?*

As we mentioned earlier in this report, the average was 45 percent. A full third of respondents claimed that fewer than 25 percent of their chargebacks were caused by friendly fraud. Card network statistics show that the true number is likely to be much higher.

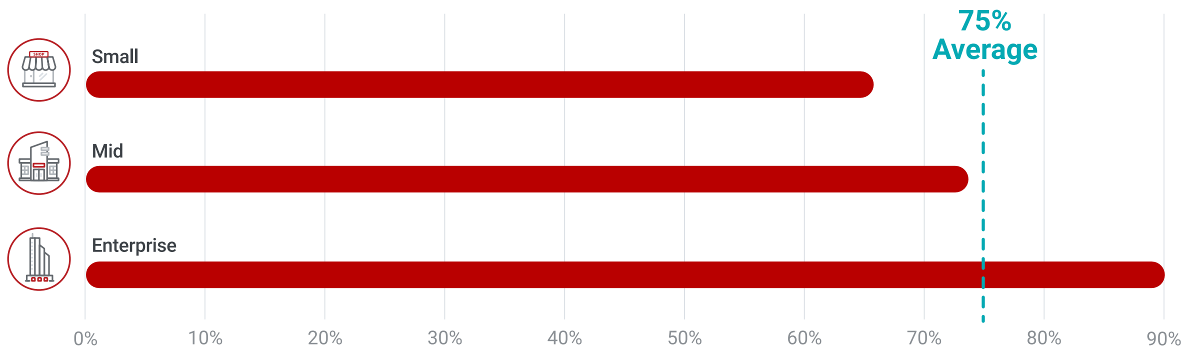
From that point, we began looking at representment rates. Before we delve into those statistics, however, it is crucial to create an apples-to-apples method of calculating results. This is because the base win rate regularly used for comparison does not accurately reflect the reality of the chargeback situation.

REPRESENTMENT

Even if a merchant responds to a chargeback, there's no guarantee that they will ultimately recover their funds. Success in a chargeback management strategy is measured by return on investment (ROI). The only way to accurately calculate ROI is to track response rate, base win rate, and net recovery rate as distinct key performance indicators (KPIs).

Participants were asked *Do you currently represent (fight) friendly fraud?* An average of 75 percent reported they did.

Does your business contest invalid chargebacks?



These figures notably differ from numbers widely reported by banks and processors, which commonly put the average between 35 - 45 percent. The discrepancy, however, could be explained by the demographics of our participants.

As mentioned earlier, a larger percentage of our respondents functioned solely in the eCommerce space, or in some other way were more aware of chargebacks. Small business owners who receive only a few chargebacks per year were less likely to respond to the survey, potentially skewing the average higher.

Those respondents that did not represent gave a wide range of reasons for that. Some felt it was cheaper not to fight back, usually due to the low-ticket price of the disputed transaction. For others, a lack of knowledge and manpower made representments difficult or impossible; many believed that they wouldn't win a reversal even if they tried.

RESPONSE RATE

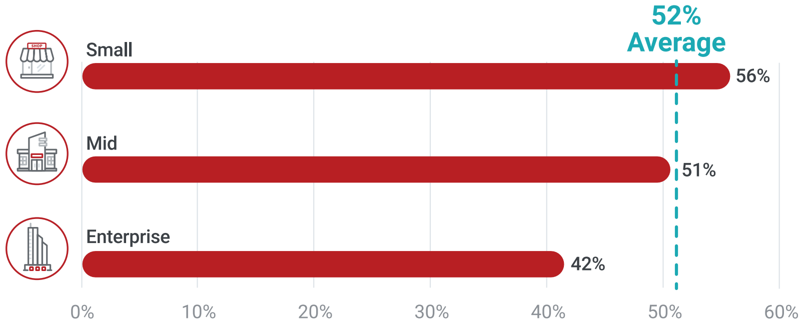
The response rate measures how often a merchant challenges chargebacks by engaging in the representment process. We asked *Of the chargebacks that you receive, approximately what percent do you represent?* On average, those merchants who represented did so for 50 percent of their cases.

We have already established that enterprise-level merchants were far more likely to challenge false claims. Here we see that they also fight a smaller percentage of those cases.

This might be because their focus is primarily on high-end claims, but it could also be because an in-house team has learned through experience which challenges are more likely to be successful. Whatever the reason, larger businesses tended to be more conservative with the percentage of chargebacks they contest.

> At best, chargebacks present an operational burden; at worst, they become an operational risk. Acquirers and merchants must work together to make the chargeback handling process – including responses – as efficient as possible.
>
> Minimizing the costs and effort of chargeback management typically means focusing on two key factors. One is the automation of what is often still a manual process. The other is access to complete, accurate data prior to investigating liabilities.
>
> – Volker Schloenvoigt, Director,
> Edgar, Dunn & Company

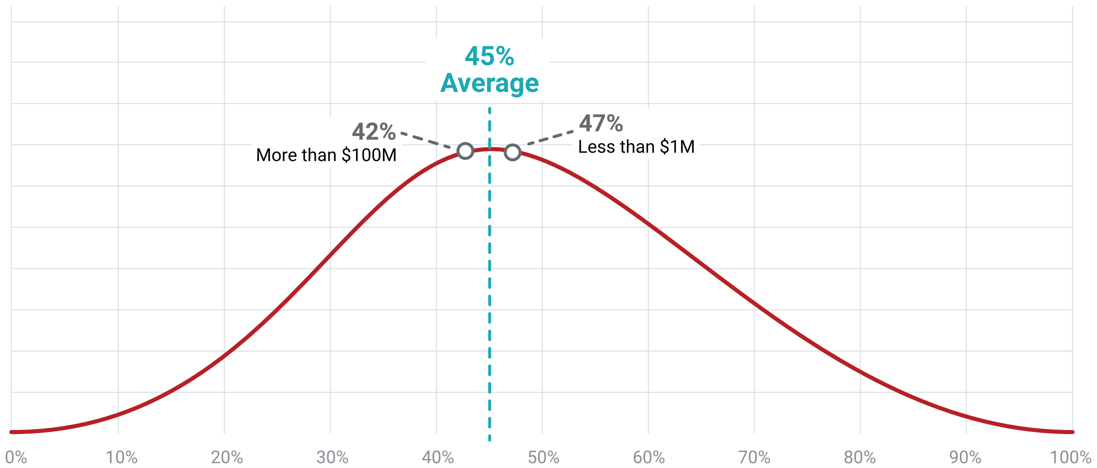
Approximate percent of chargebacks represented



BASE WIN RATE

Once we calculated the percentage of chargebacks that were being challenged, we asked *Of those that you represent, approximately what percent do you win?*

Approximate percentage of representments won

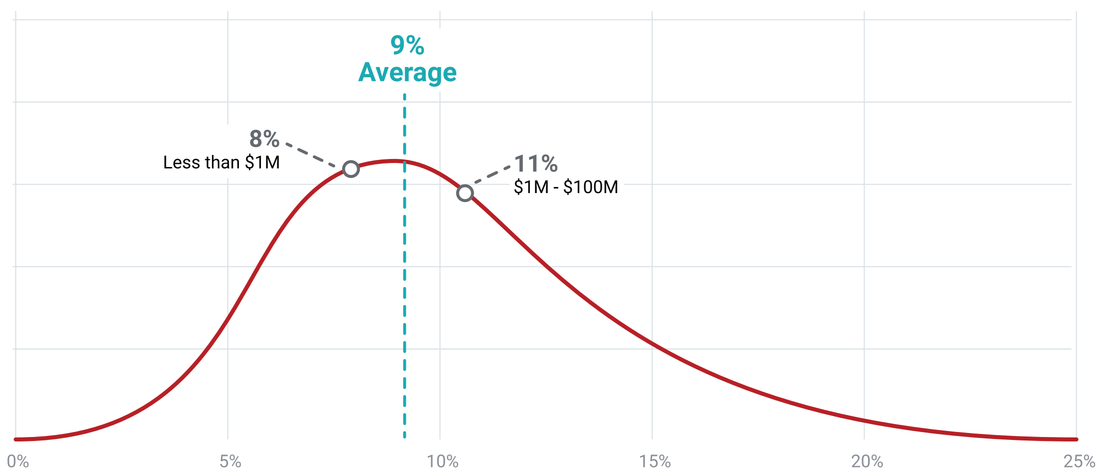


Using these numbers, we can now determine a merchant's base win rate, or the percentage of chargebacks believed to be friendly fraud that were successfully reversed. Looking only at those merchants who practice representment, the average base win rate would be 45 percent. In other words, surveyed merchants won a chargeback reversal in approximately 10.2 percent of cases.

SECOND CYCLE

Even this number is not a true portrayal: the base win rate is still missing a key component. Second cycle dispute rate (also known as a second chargeback or pre-arbitration) tracks the portion of chargebacks that are initially decided in the merchant's favor but then disputed a second time by either the cardholder or the issuer.

Approximate percent of cases escalated to second-cycle disputes



These cases must also be removed from the win rate calculation.

Survey respondents with the calculated net win rate of 10.2 percent were asked *Of those that you win, approximately what percent escalate to second-cycle disputes?* On average, participants said this equaled 9 percent of their representment wins. Enterprise operations saw a slightly higher percentage of second-cycle chargebacks.

NET RECOVERY

The net recovery rate, then, measures a merchant's rate of successful representment, meaning the merchant's bank reviewed the claim and determined it was sufficient to send through to the issuing bank. The issuer then reviewed the data and decided the merchant's evidence was compelling enough to notify the cardholder.

By plugging responses to the above questions into the formula we discussed earlier, we can calculate a true net recovery rate. At least with the numbers provided to us by merchants, the total revenue recovered was, on average, 20 percent of what is disputed.

> Most disputes are resolved in stages, and in many cases that includes a scenario that qualifies as a "second cycle." Lack of transparency and prolonged timelines make both win-rates and second-cycle outcomes challenging to accurately track – even for the most savvy merchants.
>
> – David Pirtle, VP of Enterprise Engagement, Chargebacks911

Since most published "win rates" are not calculated this way, the generally accepted win rate of a company will almost always be measurably lower than what the merchant believes. To be effective, a chargeback management strategy must focus on more than just the top-line win rate.

It's interesting – and somewhat puzzling – to note that nearly 40 percent of respondents did not track any of this important information. Admittedly, when it comes to monitoring and recording, chargeback data is something of a moving target: reporting lag time, attempting to account for second-cycle cases (which are not typically refuted), and other complexities can make tracking seem like an impossible goal.

Net recovery rate

42%	x	45%	–	9%	=	18%
average friendly fraud		average wins		second-cycle disputes		net recovery rate

HOW MERCHANTS FIGHT

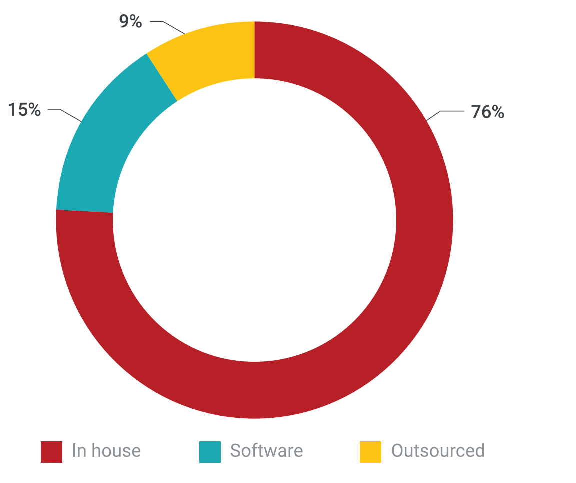
A business's success in combating chargebacks can often hinge on the level of resources the organization can commit to the task.

While representment is important, there are valid reasons for not contesting 100 percent of illegitimate chargebacks. The rules are complex and hard to understand, presenting multiple challenges. For example, the burden of proof is solely on the merchant, who may be unable to provide sufficient evidence. DIY teams have a low chance of success, since many are tasked with other roles and lack the time and expertise to sufficiently complete the representment process. Even in cases they do win, the ROI may not be worth it.

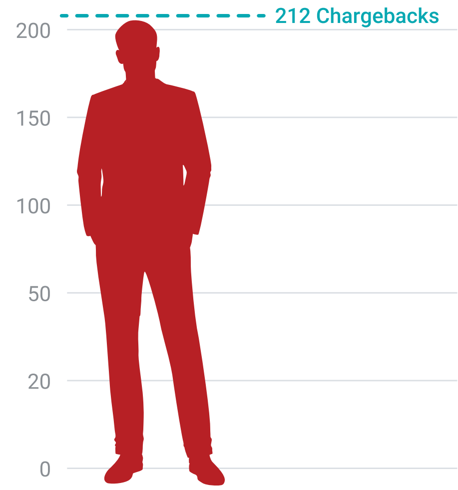
In truth, the complexity of the entire representment process can daunt even experienced professionals; in-house representers can be easily overwhelmed. Participants were asked *Which of the following chargeback reduction solutions do you currently use?* The majority of merchants report handling their representments in-house.

For those who handled their representments in-house and who received more than 250 chargebacks per month, we asked *How many full-time employees are focused on chargeback management issues within your company?* Of respondents who received fewer than 25 chargebacks, many maintained at least one full time employee.

Participants' current representment solution



Average monthly chargebacks per in-house representment team



> Chargeback data can serve as a powerful KPI, useful for both more accurate decisioning and fine-tuning strategies. It's worth pointing out that according to our survey, merchants who used a third-party solution or software were twice as likely to know their tracking numbers.
>
> – Monica Eaton, Founder and CEO, Chargebacks911

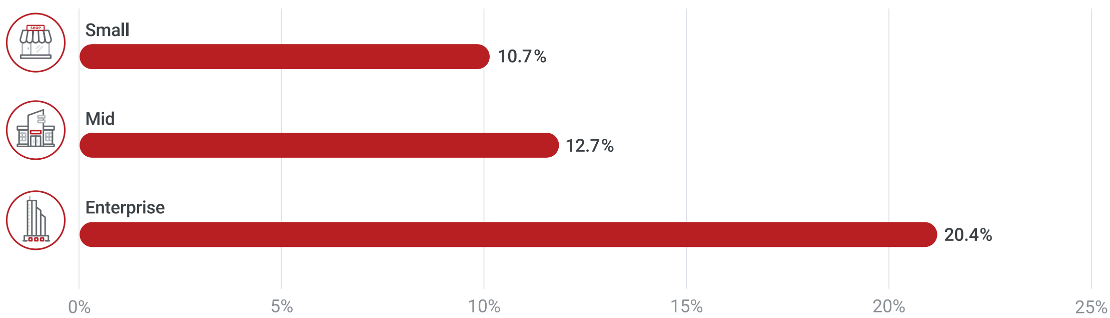
Naturally, the success rate for in-house teams could be significantly altered by the accuracy of the data used. We asked: From which of the following data sources does your company collect data for representments? The majority relied on either their processor or customer service software, or some combination of the two.

While it is not without its challenges, collecting data is actually one of the less complex aspects of managing chargebacks. The rules that govern chargebacks, for example, are in a constant state of flux. Mandates from banks, processors, card networks, and even the government change regularly. Just keeping current can be a full-time job, one that many respondents felt they weren't doing well. Our question was: *How up-to-date do you feel your team is on the latest card network rules and regulations?*

Belief that in-house team is current on the latest card network rules

As we would expect, enterprise merchants were roughly twice as likely to say that they are extremely up to date, compared to small or mid-sized companies.

Merchant reporting they are current with chargeback rule (by revenue)



> In our experience with acquirers, we've found that organizations relying on in-house chargeback management generally face more challenges than those using third-party professionals. In-house teams typically have only limited access to the data and expertise available to professional providers.
>
> – Samee Zafar, Director, Edgar, Dunn & Company

Chargeback Prevention

Prevention is at the heart of chargeback management. Focusing on prevention typically delivers better ROI than contesting invalid claims after the fact. As we stated earlier, however, friendly fraud is the more dangerous threat, and that happens post-transaction.

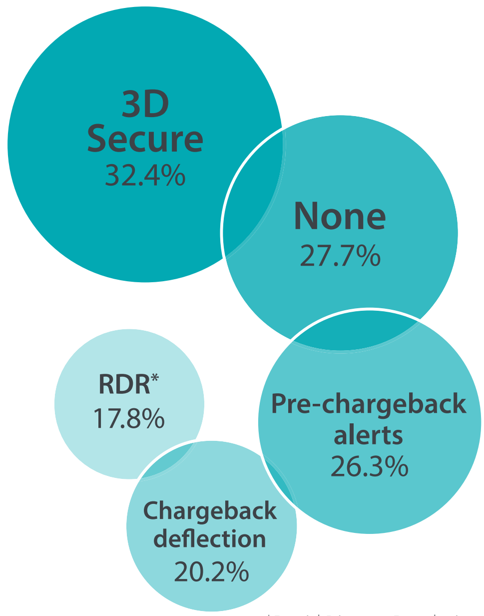
There are numerous tools and techniques to assist merchants with preventing criminal fraud. 3-D Secure, address verification, and risk scoring are all examples of pre-transaction fraud detection and prevention.

We asked respondents with in-house teams what they were using to help prevent chargebacks. It's likely that many have implemented multiple methods, which makes it difficult to calculate the effectiveness of any one tool. What is disturbing, however, is that over one quarter of respondents reported they were using no tools at all. We asked: *Which of the following chargeback reduction solutions do you currently use?*

It's also worth mentioning that artificial intelligence (AI) is being implemented into fraud prevention solutions. When asked *Do you currently use (or plan to use) any tools that incorporate AI into the fraud detection process?* over 60 percent reported that they were either already using AI tools or planned to do so in the future.

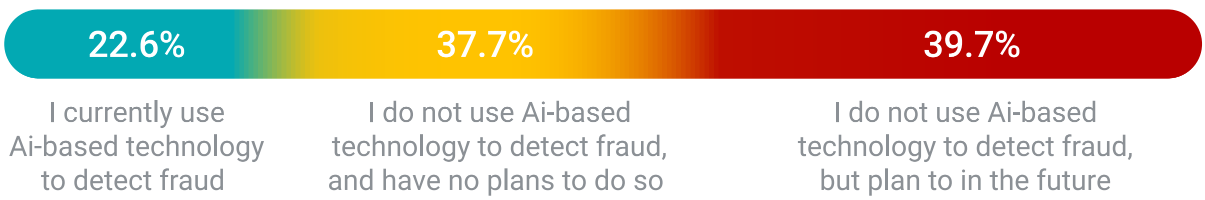
> Chargeback abuse – both accidental and malicious – is almost impossible for non-professionals to anticipate, because it can happen days or weeks after the original transaction. That makes it a far more dangerous threat than many merchants realize.
>
> – Monica Eaton, Founder and CEO, Chargebacks911

Chargeback reduction solutions currently used



*Rapid Dispute Resolution

Artificial Intelligence use in fraud prevention



PREVENTION TOOLS

Regardless of how much they are being used, third-party solutions for pre-emptively responding to post-transaction fraud are available. Generally, these fall into one of three categories: refund-based, data-based, or automatic responses.

Refund-Based Prevention (Refund On Demand)

A high percentage of customer disputes begin with an innocent inquiry to the issuing bank. This might be a cardholder who doesn't recognize a charge on their statement, but it could also be one who misunderstands the dispute process, or thinks calling the bank is the same as contacting the merchant for a refund.

Chargeback alerts, such as Ethoca Alerts or Verifi Cardholder Dispute Resolution Network (CDRN) were made for these situations. Merchants subscribing to one or more of these services will receive notification of pending disputes. The seller then has the opportunity to avoid the chargeback by manually providing a refund.

Obviously, this is not an ideal situation: the merchant still loses a sale and any goods already shipped. By refunding the buyer before the chargeback is officially filed, however, the seller is saved from chargeback fees, as well a hit to their chargeback ratio.

> Visa also offers Rapid Dispute Resolution (RDR), a type of on-demand refund but one triggered from the card network – not the merchant. Unlike CDRN, however, RDR doesn't work in all situations. It can create challenges for merchants who may want to avoid duplicate refunds by updating their customer service center before the refund process is set in motion.
>
> – David Pirtle, VP of Enterprise Engagement, Chargebacks911

Data-Based Prevention (Date On Demand)

Data-based prevention tools are offered directly by the major card networks. These can often resolve inquiries immediately, without the merchant's direct involvement and without necessarily requiring a refund.

When the cardholder contacts their issuer with an inquiry, the bank automatically receives additional transaction data from the merchant. Ideally, this information can be used to immediately resolve the issue. For example, a customer may inquire about a transaction where the billing descriptor was unclear. A bank agent instantly receives a fuller account of the transaction, enabling them to explain the charge to the cardholder in the same phone call.

In other cases, the merchant may have already refunded the transaction. This, too, would halt the dispute at the inquiry stage. Verifi Order Insight and Ethoca Consumer Clarity are both examples of data-based chargeback prevention.

Automated Response

Much like alerts, the goal of an automated response is to refund an inquiry that has not yet escalated to a full chargeback. The difference between the two programs is the amount of automation and customization allowed.

With automated responses, the merchant is able to set custom parameters for liability (such as transactions under a certain dollar value). Claims that fall within the set parameters are automatically refunded with no additional merchant action required. Like alerts, the seller still loses the merchandise and purchase price, but they avoid the costs of the chargeback.

For example, Rapid Dispute Resolution (RDR) is built into the Visa network and Verifi platform and is available through licensed facilitators like Chargbacks911. It allows for certain transactions to be refunded by the acquiring bank, based on custom parameters the merchant can set.

> The most effective prevention efforts nearly always require multiple prevention tools. Managing all these different services can be confusing and work intensive. The Chargebacks911 solution can be used to integrate any of the above services, giving the merchants access to all their tools through a single, user-friendly portal.
>
> – David Pirtle, VP of Enterprise Engagement, Chargebacks911

While merchants utilizing any of these tools reported an average chargeback reduction of 33 percent, many respondents saw significantly better results. This was especially true for organizations combining two or more solutions.

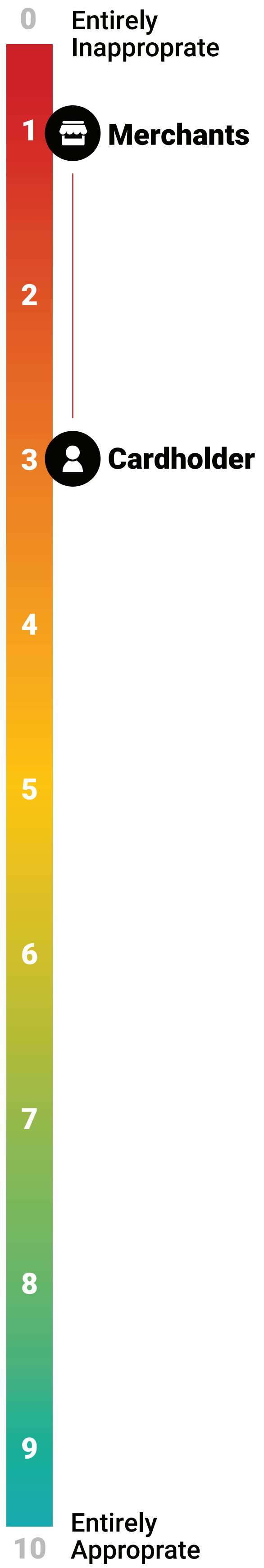
Are Chargebacks Ever Appropriate?

Relatively few non-fraud chargebacks – even ones that could arguably be considered first-party misuse – are clear-cut cases of merchant error or friendly fraud. Most exist somewhere along the spectrum between the two.

In the following illustrations, we demonstrate practical examples of this using our Dispute Disparity Scale.™ This scale contrasts the attitudes of cardholders vs. merchants under common dispute circumstances. Comparing responses in each case shows that there is some agreement on the appropriateness of disputes.

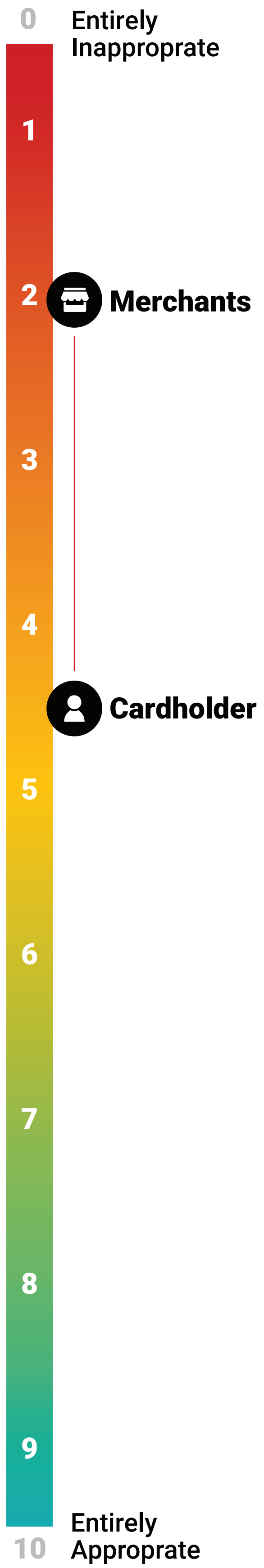
EXAMPLE 1:
Overdrafted account

Vicky orders some expensive sunglasses online. The large purchase overdraws her account. Faced with bills and a negative balance, she panics and tells her bank that her card was recently stolen.



EXAMPLE 2:
Family charge

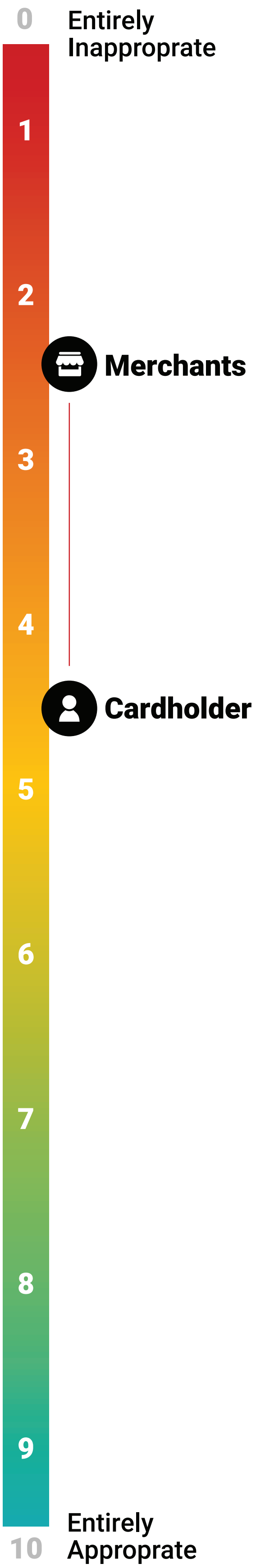
Sarah lets her young child play games unsupervised on her phone. Her kid spends almost $100 on in-game purchases. She contacts her bank and says she did not authorize the charges. She does not mention her child.



EXAMPLE 3:

Purchase regret

David buys an NFT from a website. After doing some research, he begins to regret his purchase. Unfortunately, his NFT is worth much less than it was when he bought it. Feeling misled, he contacts his bank.



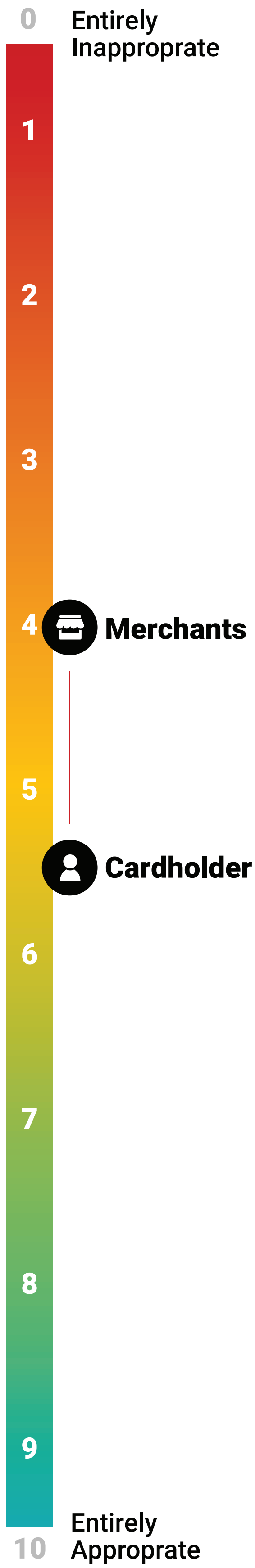
EXAMPLE 4:

Membership cancellation

Nick wants to cancel a membership, but the merchant requires him to call during business hours. He is very busy during the day and so the membership renews. Frustrated, he challenges the transaction in his banking app.

EXAMPLE 5:
Free trial

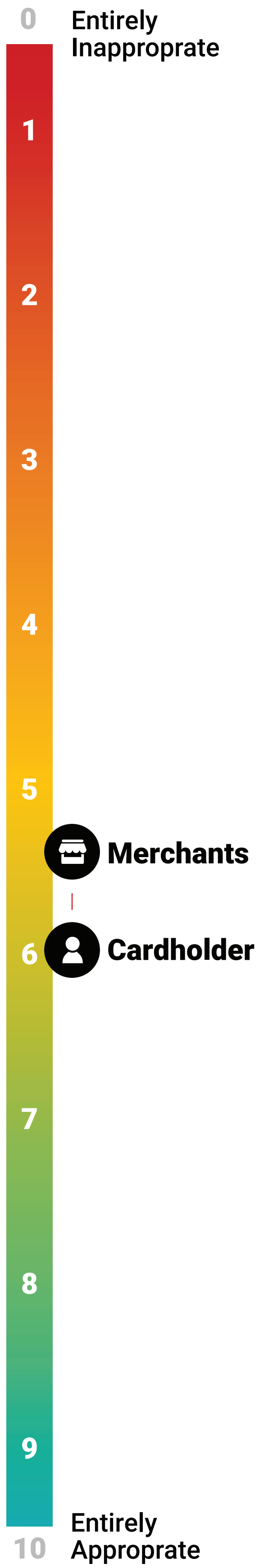
Andrew sees an offer to try a new product for free. He enters his credit card to pay for shipping without realizing he is also agreeing to be billed automatically. The terms were technically listed on the checkout page, but they were small and located at the very bottom. Andrew feels duped and angrily calls his bank.



EXAMPLE 6:

Inaccurate product description

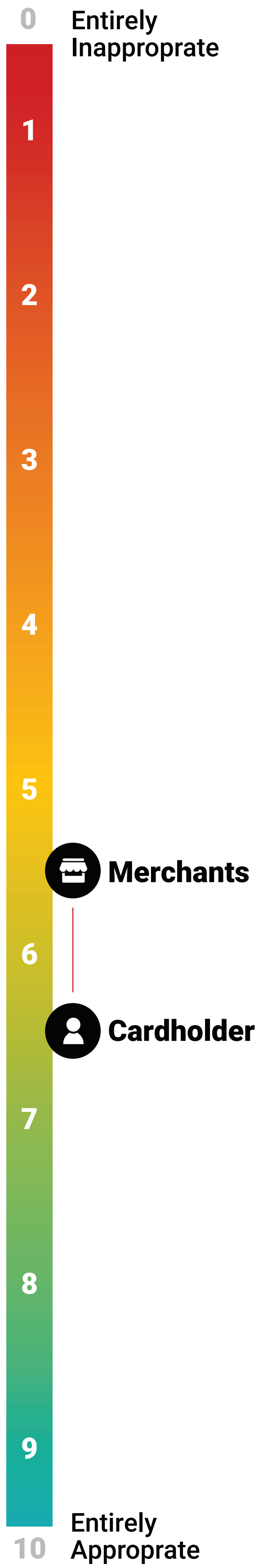
George receives a physical product in the mail and is unhappy with the quality. The photos online are clearly misleading. He tries to return the product, but the seller requires that he pay for the return shipping himself. He decides to contact his bank to try and avoid the expense.



EXAMPLE 7:

Delayed shipping

Christy purchases an outfit online. The estimated shipping is 7 business days, but after two weeks, the item still has not arrived. She has not received any communication from the seller. She tries to inquire about her purchase but gives up after being left on hold for 10 minutes. Frustrated, she contacts her bank.



EXAMPLE 8:

Unrecognized transaction

Justin sees a transaction on his billing statement that he does not recognize. Fearing his account may have been compromised, he contacts his bank to alert them of potential fraud.

Outlook: 2024 and Beyond

Merchants, banks, and processors have known for years that a growing number of disputes are being filed without legitimate cause. Increases in chargebacks, costs, and post-transactional fraud aren't exactly news.

Being aware of the chargeback problem, however, does not inherently mean that merchants comprehend the seriousness of the situation. Far more attention is focused on criminal fraud like ID theft. While this is a legitimate concern, merchants' biggest threats are still their own customers.

In fact, the majority of respondents reported an overall increase in incidents of first-party chargeback misuse (i.e. "friendly fraud") over the past three years. There is nothing to make us believe this trend will stop, or even slow down.

Without addressing the problem, merchants will keep paying a high price – according to Mastercard, up to 75 percent of chargeback costs are borne by the merchant. The price does trickle down to the consumer, however: one-third of respondents reported that the chargeback-associated expenses directly impact the end price of goods they provide.

While many participants seemed aware that chargeback prevention tools were available, those tools aren't being fully leveraged. That said, a majority reported either using or planning to use AI-powered fraud prevention tools.

Roughly 10 percent of respondents expressed concern about diagnosing internal issues that cause disputes. While this represents a slight increase from last year's report, the figure is still disheartening, as merchant errors remain a leading cause of customer disputes.

Even simple solutions, such as clarifying the organization's billing descriptors, could reap huge benefits. A third of respondents, however, said they did not even know for sure how their billing descriptor appears on customer billing statements.

While not a comprehensive solution, tools developed by the major card brands offer effective ways to intercept customer disputes before the chargeback stage. Still, too many businesses are attempting to handle chargebacks solely in-house, despite lacking the expertise and resources. In fact, only a few of respondents with in-house teams felt they were up to date on current chargeback regulations.

If there is one primary recommendation we could pass on to merchants, it would be this: based on the findings of this report, organizations should investigate the benefits of implementing fraud-fighting solutions, including the use of outside resources.

Changing consumer behavior in the eCommerce space highlights the need for professional chargeback management, as well as the value it can provide. The best of these solutions enable merchants to hold on to more revenue, dedicate more resources to business growth, and maintain a healthy reputation with both banks and consumers.

At Chargebacks911, we can assist you with all aspects of chargeback management. From automated chargeback responses that mitigate the overall risk of illegitimate chargebacks, to helping recover more revenue from chargeback fraud, Cb911 offers the most comprehensive, end-to-end chargeback management platform. Plus, all our services are backed by the industry's only performance-based ROI guarantee. If you have questions concerning prevention, representment, or any other chargeback management issue, contact us today.

About Edgar, Dunn & Company

Edgar, Dunn & Company (EDC) is a global, independent consultancy specializing in payments and financial services. For over 45 years, we have advised financial institutions, issuers, acquirers, merchants, payment networks/schemes, payment service providers, third-party processors, technology providers, and regulators on key industry issues such as payment strategies, customer profitability and retention, credit and fraud risk, payment process optimization, leveraging new technologies, and evaluating new market and product opportunities.

For more information, please visit www.edgardunn.com

About Chargebacks911

Chargebacks911 provides cutting-edge, highly-scalable enterprise solutions, chargeback mitigation, and dispute management to acquirers, card issuers, and large-scale merchants. The company's dynamic technologies help decrease the negative impacts of chargebacks and disputes, thereby increasing customer retention and revenues.

For more information, please visit www.chargebacks911.com

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