Merchant & Consumer Survey Results

2023 Chargeback Field Report

DIGITAL COMMERCE 360

Chargebacks911®
challenge the status quo

2023 Chargeback Field Report

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

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

Introduction: Methods and Data

Based on surveys commissioned by Chargebacks911®, the *2023 Chargeback Field Report* offers retailers, financial institutions, and other stakeholders a cross-view of the current state of chargebacks. This study highlights current fraud trends, highlighting key pain points for retailers in general, and eCommerce merchants in particular.

Surveys conducted to prepare this report included respondents from businesses of all sizes, primarily within the card-not-present (CNP) payments space. Our primary goal was to assess chargebacks from the merchant's perspective. That said, we also conducted a complementing survey focused on consumer insights. Data from these surveys were also included in the report.

We went to great lengths to keep the sample set as random and representative as possible. The survey participants represent multiple industries, scales, and chargeback risk levels. While focused on CNP merchants, the survey was designed to be diversified to generate the most accurate information.

That said, this is by no means a comprehensive report: the survey was voluntary, which limited the sample group. While offering significant advantages, this approach also presented certain drawbacks. A survey-based report, for example, necessarily relies on self-reported data. The person completing the survey would often have limited access to some (or all) of the data requested, and would thus be offering impressions based on sentiment, rather than hard data.

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

Participants were also asked to provide approximate numbers if no specific data was available. This could also skew results; in our experience, merchants commonly *underestimate* the scale of their chargeback problem and *overestimate* the effectiveness of their management efforts.

Finally, not every participant answered every question. We've also rounded all percentages to a whole number for clarity and ease of use. These two factors may result in some totals being more or less than exactly 100 percent.

Table of Contents

Key Takeaways

- The majority of respondents reported an increase in incidents of first-party chargeback misuse (i.e. "friendly fraud") over the past three years.
- Despite Visa changing terminology, merchants continue to prefer the term "chargeback" when describing the payment dispute process.
- Respondents estimated that first-party chargeback misuse (i.e. "friendly fraud") was responsible for half of their chargebacks.
- Merchants continue to be challenged by chargeback management complexities. The two most cited obstacles were "reducing overall chargeback rates" and "winning chargeback cases."
- Nearly a third of merchants do not represent illegitimate chargebacks. Concern about reputation was the number-one reason given for not refuting.
- Participants estimated that nearly a third of their refunds were fraudulent.
- A third of the cardholders surveyed report that they often found statement billing descriptors confusing or unrecognizable.
- Nearly a third of merchants said that they were unsure how their charges appeared on their customers' billing statements.
- Cardholders consider filing a chargeback to be a valid alternative to seeking a refund, with more than half admitting to disputing a charge without first contacting the merchant.

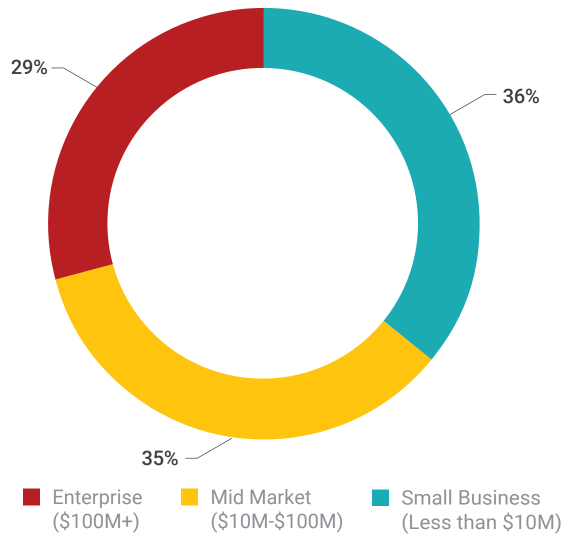
Demographics & Sample

In terms of annual revenue from card-not-present transactions, companies participating in our survey were divided fairly equally: 36 percent were Small Businesses that reported yearly CNP revenue of $10M or less.

At 29 percent, Enterprise organizations (annual revenue of over $100M) made up a slightly smaller bloc. All other participants (35 percent) fell somewhere in between, identifying as “Mid Market” companies.

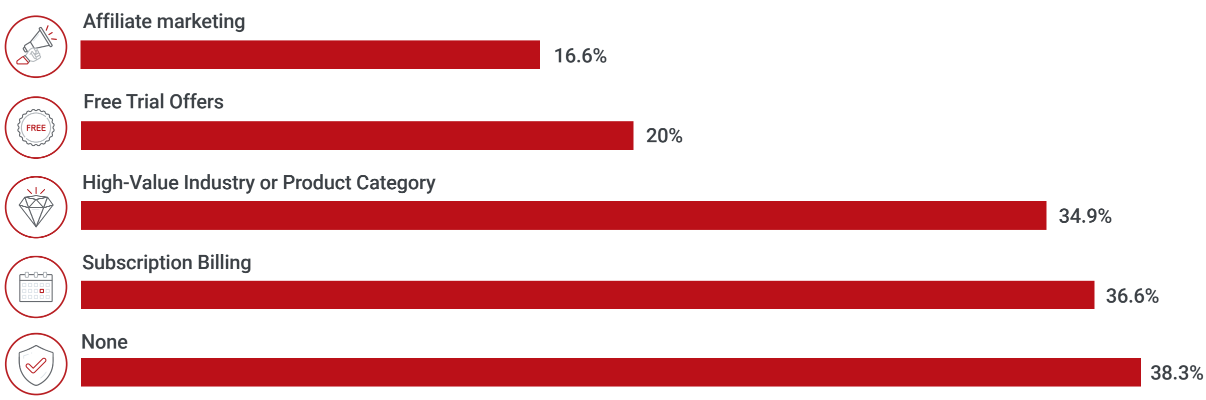
Over half of the companies surveyed reported having one or more chargeback risk factors. These are elements of the organization’s business model that have historically been shown to increase the risk of customer disputes or chargeback abuse. Examples include offering subscription services or free trial offers, or selling high-ticket merchandise.

Annual revenue from card-not-present transactions



Many of the merchants in our survey reported having more than one high-risk factor, whereas over a third of respondents said that none of the factors applied to them.

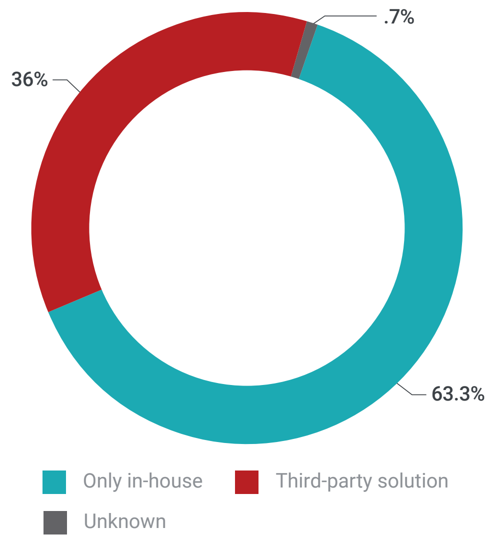
Which of the following chargeback risk factors apply to your business?



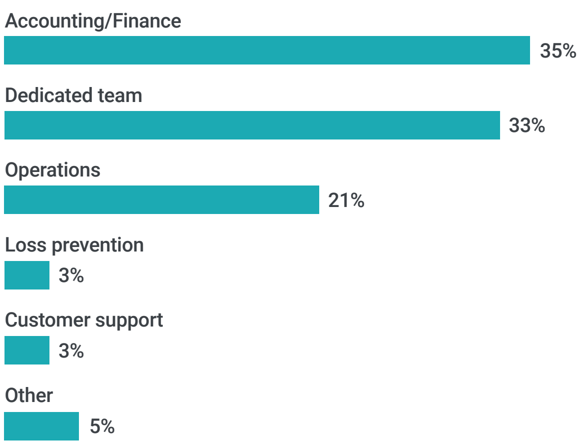
We sought to understand how respondents were currently managing chargebacks. The majority of participants said they managed their chargebacks in-house. Respondents from larger organizations (+50M annual online revenue) were twice as likely to use a third-party solution of some type as smaller merchants.

A third of the organizations handling chargebacks in-house did so through a dedicated chargeback team. A similar percentage assigned chargeback management-related tasks to their accounting or finance department. Another 21 percent used their operations department.

Participants' current representment solution



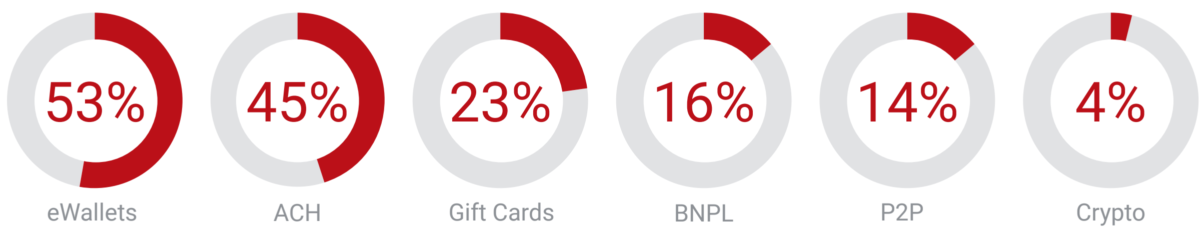
Department responsible for chargeback management



Besides credit cards, we asked about the payment methods merchants currently accept. The majority of the respondents claim to be offering the option to pay with ewallets, like Paypal or Google Pay. Studies show that an increasing number of consumers are reportedly insisting on alternative payments options.

Merchants, however, are looking at the situation from a different perspective: nearly 40 percent of respondents felt that offering non-traditional payment channels increased the risk of fraud. Only 16 percent believed doing so decreased fraud risk.

Alternative payment methods accepted



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, merchant abuse, and other issues. They're generally considered a necessity to ensure that customers are not held liable for transactions they did not authorize, or are charged for items they did not receive.

That said, cardholders are known to abuse the process. 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.

The representment process gives merchants the right to respond to chargebacks by presenting documentation on the underlying transaction which is also known as compelling evidence. If information in the representment document remedies the original claim from the consumer or their bank – whether by mistake or otherwise – the merchant is able to reverse the initial chargeback sale debit and recover revenue that would otherwise be lost to an invalid dispute. But, if the cardholder disagrees with the decision, or provides additional evidence or claims, then their bank (the issuer) may initiate a second-cycle dispute.

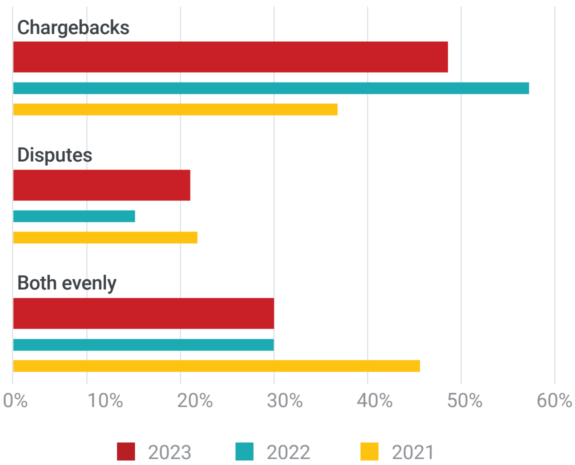
The representment process is in no way designed to limit the consumer's ability to dispute invalid payments. In the US, the right to dispute transactions is protected by Federal law.

Unfortunately, survey results suggest that the majority of customer disputes are, in fact, illegitimate, with a high number of disputes claiming either identity theft or stolen card.

It is not uncommon for cardholders to accidentally file chargebacks on legitimate transactions, simply because they don't recognize the transaction description. Merchants responding to the dispute through representment help make the consumer aware of their innocent mistake – and hopefully, prevent similar incidents in the future.

While we're talking about disputes, it's important to note that this report illustrates a variance in terminology. In 2018, Visa replaced the term "chargeback" with "dispute" in all official capacities. Five 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.

Terminology used to reference post-transaction fraud



The percentage of merchants using the labels interchangeably has risen considerably since last year's report. Unfortunately, this could lead to miscommunications, as 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 one type of response to that dispute.

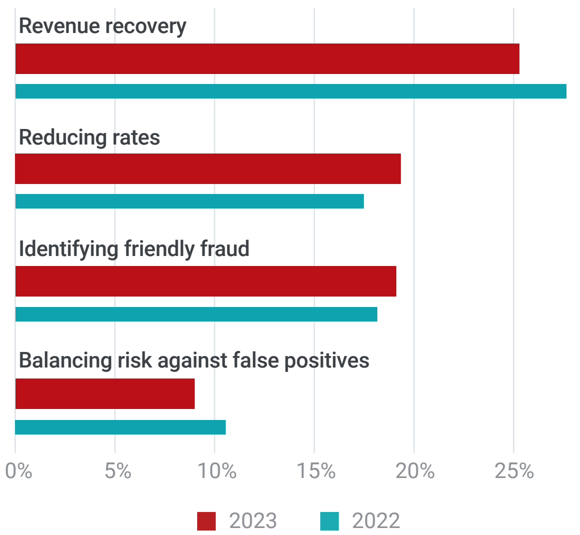
In almost all situations, filing a chargeback should be considered a last resort. Other responses to a dispute (contacting the merchant for a refund, for example) generally work better for all parties involved.

MERCHANT CHARGEBACK RATES ARE HIGHER THAN LAST YEAR

Merchants continue to be challenged by chargeback management complexities. The two most cited obstacles were reducing overall chargeback rates and winning chargeback cases. Combined, those two factors made up nearly half of the top responses.

The third most cited challenge was identifying friendly fraud. Fewer than 8 percent of merchants worried about diagnosing internal issues that cause disputes. This is unfortunate, given that errors in merchant policies remain a leading cause of chargebacks.

Biggest challenge related to the representment process

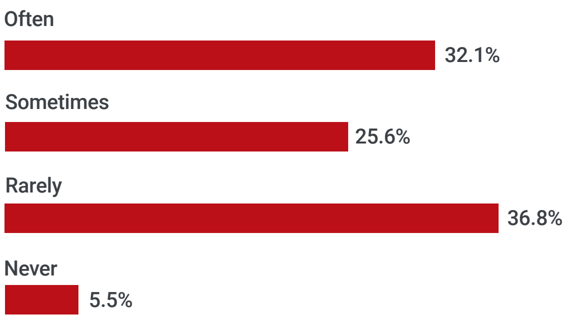


A substantial number of customer inquiries start with a cardholder not recognizing a charge on their monthly statement.

Suspecting fraud, the customer calls the bank. This will typically result in a chargeback, even if the transaction was legitimate.

Confusing or apparently irrelevant billing descriptors cause more than their share of problems. A third of the cardholders in our survey answered “Somewhat Often” or “Very Often” when asked how frequently they found billing descriptors confusing or unrecognizable. Only 6 percent of consumers said they *never* experience this.

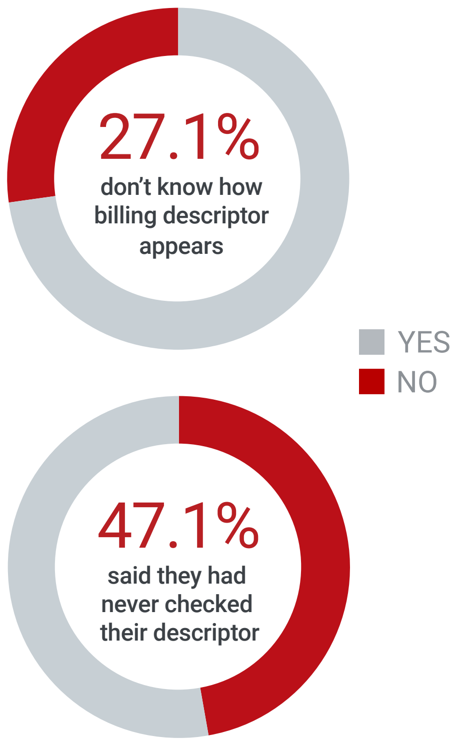
Cardholders who say they’ve been confused by vague billing descriptors



A coded billing descriptor may work fine for the merchant but could make it hard for the cardholder to identify the transaction. The cardholder may end up contacting their bank to inquire about the charge as a result, opening the door for a chargeback.

The merchant can easily remedy this situation, yet nearly a third of respondents did not even know how their billing descriptor appeared on their customers’ statements. Only half reported having ever modified a descriptor to more clearly represent their organization.

Merchants and billing descriptors

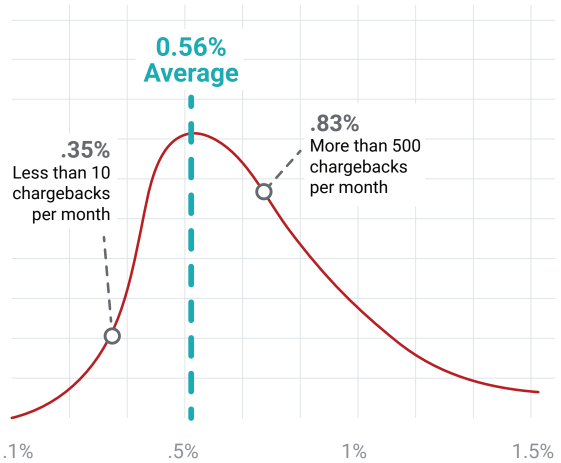


Perhaps the best measurement of merchants’ chargeback issues can be found by examining respondents’ chargeback rates (also known as a “chargeback ratio” or “chargeback-to-transaction ratio”). Chargeback rates do not measure the amount of issues that stem from legitimate transactions, but rather the total sum of chargebacks that were filed against the merchant in a given month.

A chargeback rate, therefore, is a metric that compares a merchant’s total sales against the number of chargebacks the business received during a given period. This is 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.

Participants' current chargeback ratio



The number of chargebacks received played into the calculations as well. Those receiving more than 500 chargebacks per month saw their chargeback rate jump to 0.83 percent. Not surprisingly, merchants with fewer than ten monthly chargebacks had a lower rate; at 0.35 percent, however, this number was still higher than expected.

Offering free trials and subscriptions raised the average chargeback rate to 0.68 percent. It's also interesting to note that, even among retailers with no inherent risk triggers, the average reported chargeback rate was still over 0.5 percent.

As with other statistics in this report, it's important to remember that many respondents reported having more than one chargeback risk factor.

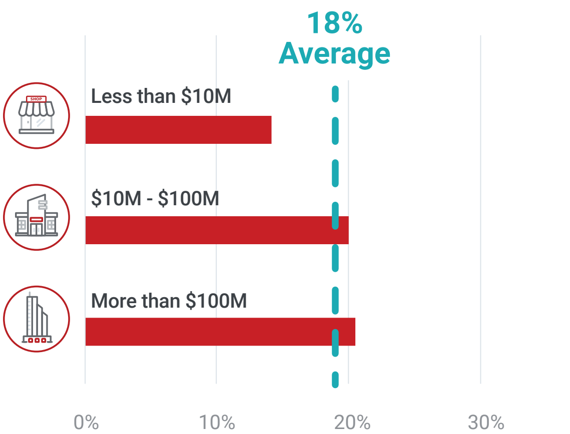
MERCHANTS LESS WORRIED ABOUT CRIMINAL FRAUD

When asked to estimate what percentage of their chargebacks were caused by criminal fraud, the average response was 18 percent. Over half of respondents reported that fewer than 10 percent of their chargebacks were caused by criminal fraud. This is in line with recent data published by Visa, which suggests that 75 percent of all chargebacks issued in 2022 were cases of first-party misuse, rather than true criminal fraud.

There was a surprising degree of consistency in the numbers when segmenting merchants based on annual revenue. The average percentage of chargebacks believed to be caused by criminal fraud was lowest for companies with $1M or less in annual revenue. However, this is likely due to receiving fewer chargebacks overall:

Of those merchants who responded, more than half reported that criminal fraud is a "small" or "moderate" concern. 14 percent of respondents didn't consider it a concern at all.

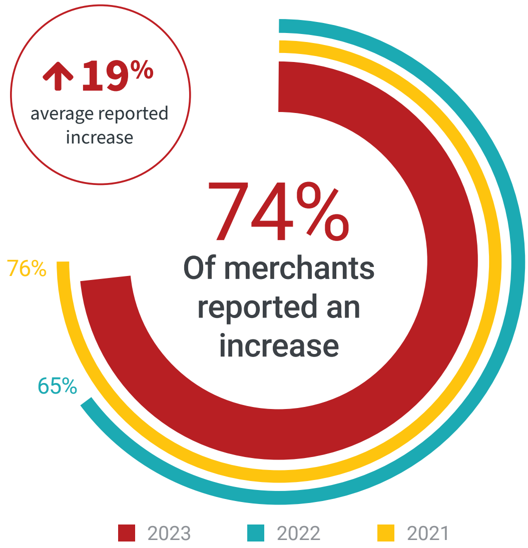
Estimated criminal fraud based on annual revenue



FRIENDLY FRAUD REMAINS THE TRUE THREAT

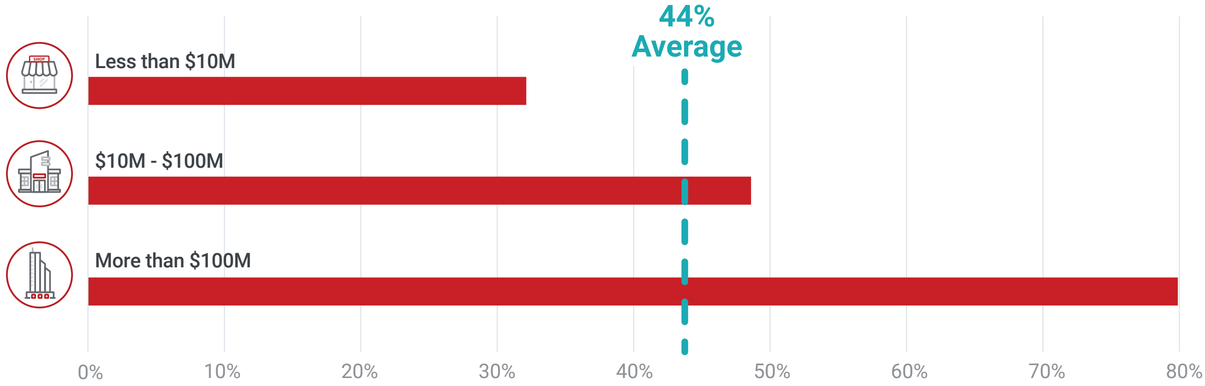
When asked if they had observed an increase or a decrease in friendly fraud over the last three years, fewer than a third of respondents didn't know. Of the remaining merchants, nearly 75 percent said friendly fraud instances had increased.

Annual reported increase in friendly fraud



This represents a 10 percent increase over the last year alone, which is a concern because we are now well past the conditions of the COVID-19 pandemic. Chargeback activity rose to record levels during the crisis, but the number of merchants reporting an increase was expected to decline — or at least remain fairly consistent — once the pandemic was under control. In 2022, that appeared to be the case, as chargeback activity declined.

Chargeback rates based on various factors



In 2023, however, we're seeing numbers that approach pandemic levels, with an average estimated increase of 19 percent in chargebacks received. The message is clear: the COVID rebound is over.

More and more cardholders are becoming aware that the dispute process works in their favor.

As a result, an ever-increasing number of cardholders can now be found abusing the system to their own ends.

Merchants were asked to estimate what percentage of their chargebacks came from friendly fraud. The average response was 44 percent; merchants with more than $100M in annual revenue were much more likely to identify disputes as friendly fraud, as compared to smaller (less than $10M in revenue) merchants.

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. Obviously, there is miscommunication somewhere in the process.

The bulk of those disputes fell in the $25-75 range, translating to huge losses for merchants. Ultimately, more than 50 percent of cardholders admitted filing a bank chargeback without trying to contact the merchant at all.

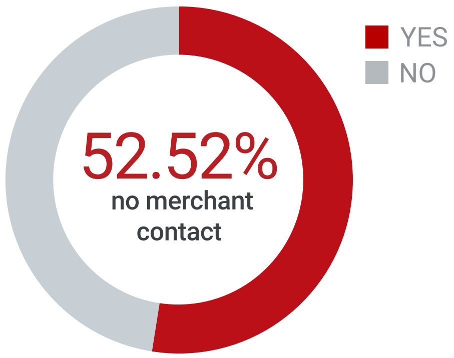
Part of this issue can probably be traced to consumers' lack of knowledge about how and when chargebacks should be used. More than 75 percent of respondents, for example, felt that filing a chargeback was equivalent to requesting a refund.

When we asked cardholders about their reasoning for seeking resolution with their bank, nearly half stated that the speed of resolution was their main motivation.

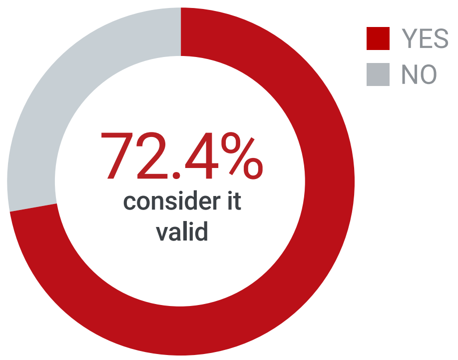
The bottom line: disputing a transaction is now easier than ever, but the cost for merchants has never been higher. Mastercard reports that money lost to chargebacks will run an estimated $117.46 billion in 2023.

So are merchants worried about friendly fraud? The answer is "yes." Comparing answers over the last three years shows that over half the merchants say that friendly fraud is a significant or moderate concern within their organization.

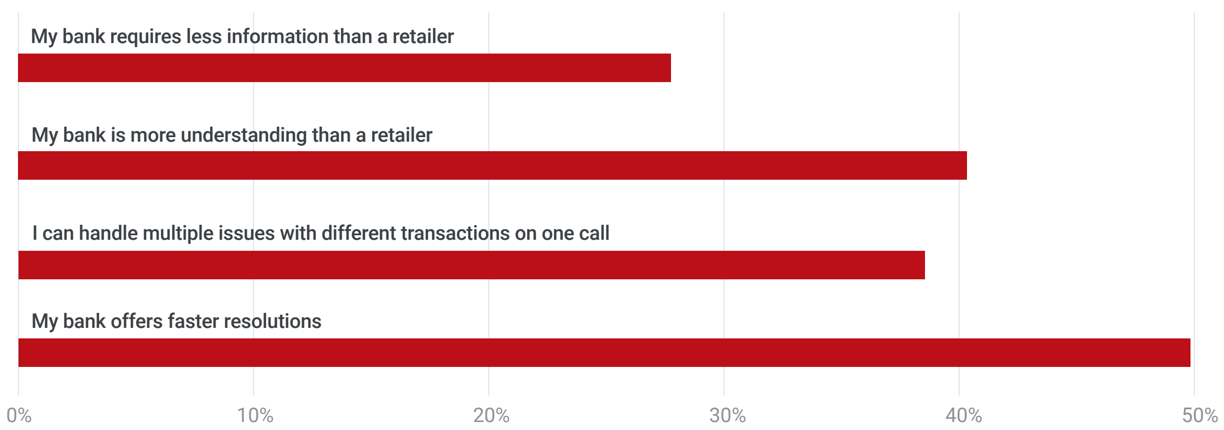
Cardholders who admit filing a dispute without contacting the merchant



Percentage of consumers who equate bank disputes with merchant refunds



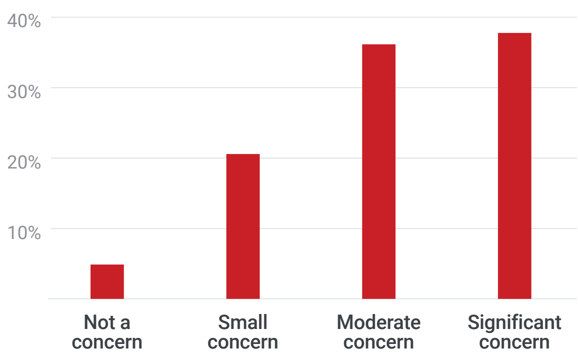
Reasons why consumers prefer to contact their bank



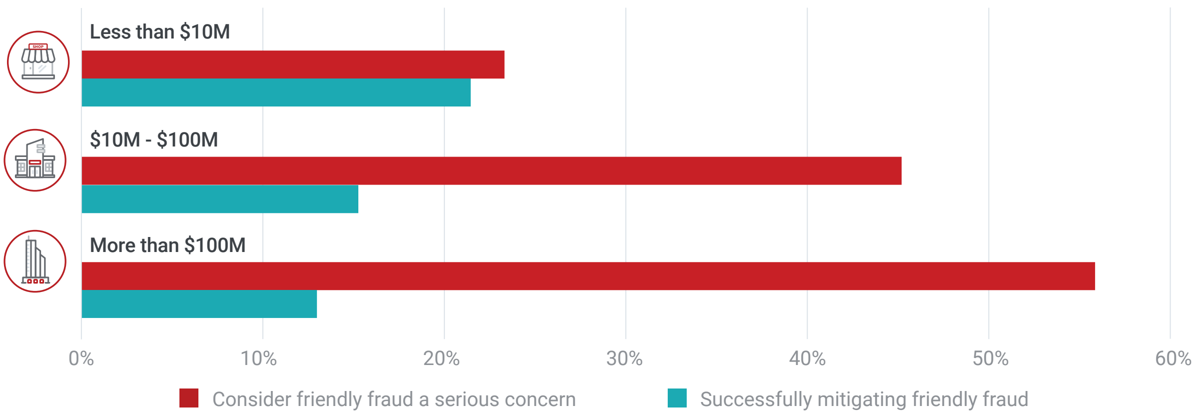
The merchants who consider friendly fraud to be a significant threat, however, seem to recognize the ineffectiveness of their management efforts. These answers were significantly influenced by the size of the organization, with larger companies showing the greatest disparity between the perceived threat and their ability to protect themselves against it.

This may not mean friendly fraud is necessarily more common for larger retailers. It could simply indicate that larger businesses are quicker to recognize the scope of the problem. A larger company could have more resources dedicated to fighting friendly fraud, but that may only highlight their inability to counter it on their own.

Level of merchant concern regarding friendly fraud



Perceived risk of friendly fraud concerns compared to effectiveness of mitigation efforts



REFUND ABUSE

Chargebacks, of course, are 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.

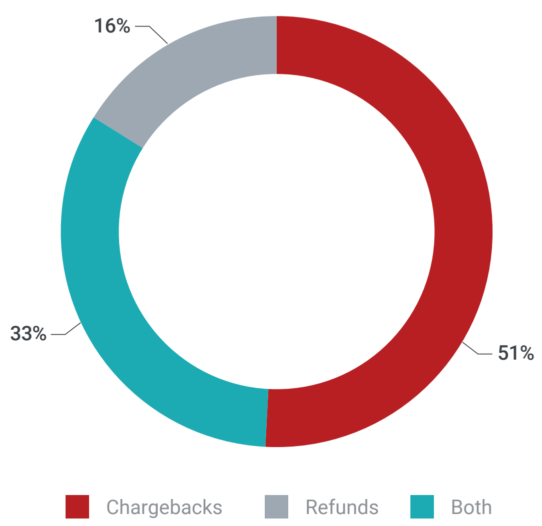
Roughly half of the respondents reported that the level of refund abuse had remained mostly constant over the last three years.

Merchants seem split on the growth of refund abuse, with 52% of respondents reporting an increase in events over the last three years, and the remainder citing a decrease. On average, participants felt that nearly one-third of their refunds were actually incidences of fraud.

A majority (57 percent) of respondents said they were moderately or largely concerned about refund fraud. In fact, 49 percent said that refund fraud is "equal to or more of a concern" than chargeback fraud.

Increase or decrease of refund abuse (past 3 years)

Comparison of merchants' concern, chargebacks vs. refunds



Chargeback Management: Win Rates vs. Net Recovery Rates

Concerns over first-party chargeback misuse might be tempered by the fact that merchants are losing more than they realize.

Our survey found that, among merchants who challenge illegitimate chargebacks, the average merchant will respond to 53 percent of claims. However, there is a significant discrepancy in how that process is handled.

Even if a merchant responds to a chargeback, there's no guarantee that they will ultimately recover their funds, even if they follow the correct process and all of the best evidence is provided on time. Misidentification of dispute sources can also result in re-presentable chargebacks going unchallenged. As a result, the base win rate regularly used for comparison does not accurately reflect the reality of the situation.

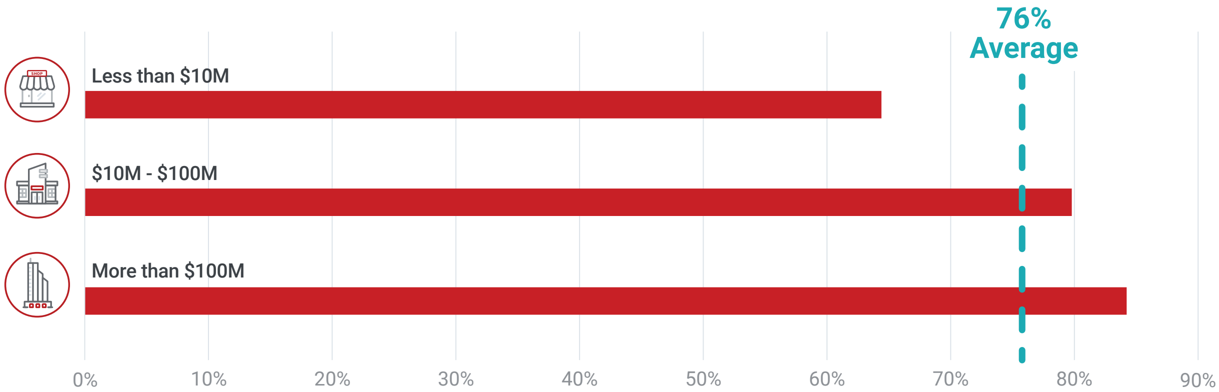
REPRESENTMENT

To uncover true representment statistics, it is crucial to create an “apples-to-apples” method of calculating the results of a merchant's efforts. Measuring success means tracking response rate, base win rate, and net recovery rate as distinct KPIs.

We asked merchants if they challenged invalid chargebacks. An average of 76 percent reported they did; a slight increase over last year's study.

The survey respondents that do not re-present chargebacks were asked why they did not. Among those who gave a reason, the most common response included concern regarding customer reputation. Many merchants also believe it would be a waste of time: that they wouldn't win enough cases to justify the effort, even if they tried.

Organizations which contest invalid chargebacks, broken out by annual revenue

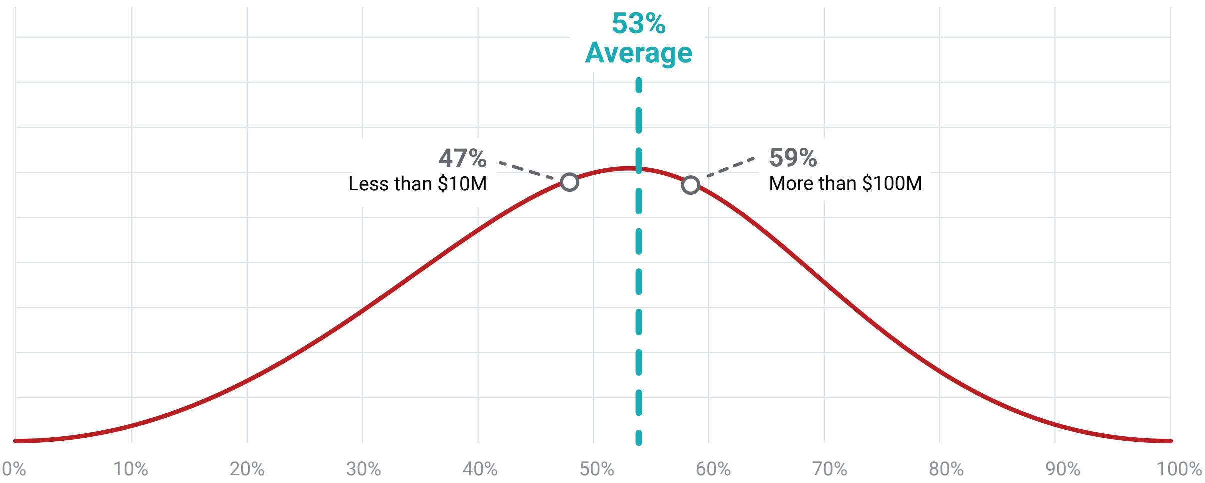


RESPONSE RATE

The response rate measures how often a merchant challenges chargebacks by engaging in the representment process.

Merchants responded to 53 percent of chargebacks on average. However, the survey data suggests that enterprise-level merchants were more likely to dispute chargebacks. This may be a result of these merchants having more resources at their disposal, as opposed to small- and medium-sized businesses.

Percentage of chargebacks challenged

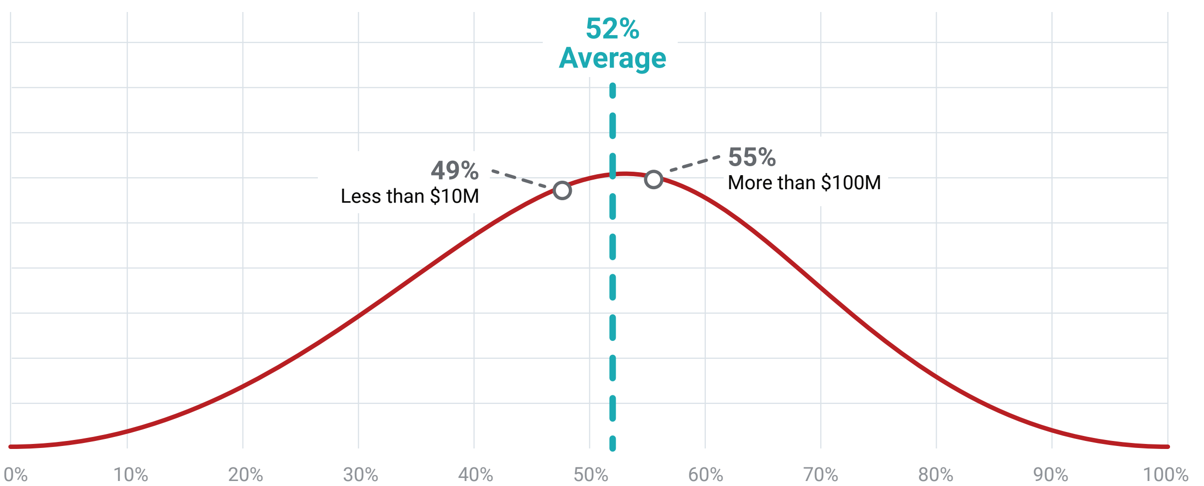


BASE WIN RATE

Once we established that less than one-quarter of chargebacks were being challenged, we asked approximately how much of that subset were cases in which the merchants actually *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 52 percent.

Percentage of cases represented where the chargeback was reversed



Chargeback Prevention

Prevention is at the heart of effective chargeback management. 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.

As we stated earlier, however, friendly fraud happens post-transaction. Chargeback abuse – both accidental and malicious – is almost impossible for non-professionals to anticipate, making it a far more dangerous threat.

Third-party solutions for responding to post-transaction fraud generally fall into one of three categories: refund-based, data-based, or automatic responses.

REFUND-BASED PREVENTION

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 a customer 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, as the merchant still loses the sale and any merchandise 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.

DATA-BASED PREVENTION

Automated cardholder inquiries are offered directly by the major card networks, and can often resolve inquiries without the merchant's direct involvement.

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 for which the billing descriptor was unclear. The bank agent instantly receives a fuller account of the transaction, and can explain the charge to the caller in the same phone call.

> Each alerts program has its own network of participating banks. Subscribing to multiple programs can dramatically increase protection. With the Chargebacks911® platform, users can combine both Ethoca and Verifi alerts with our own exclusive bank network, offering the widest available coverage, accessible from a single dashboard.

In other cases, the merchant may have already refunded the transaction. This, too, would halt the potential dispute at the inquiry stage.

Unlike alerts, cardholder inquiries are more likely to resolve simple disputes without necessarily requiring a merchant refund. 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.

Rapid Dispute Resolution (RDR) is one of these widely available automated dispute response tools. The program is built into the Visa network and Verifi platform, and is available through licensed facilitators like Chargbacks911. It allows for transactions to be refunded either by the merchant, or by Visa directly on the merchant's behalf. An analogous tool which works with Mastercard transactions will be available through Mastercom Collaboration. Here, collaboration requests are sent to the merchant via Ethoca if a connection between the two exists. Otherwise, it will be sent to the acquirer, who will respond on the merchant's behalf through Mastercom.

If the request goes to the merchant, they will have 72 hours to respond. Otherwise, the paused dispute will be automatically rejected. This will likely result in a chargeback.

Outlook: 2023 and Beyond

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

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 threats like ID theft. This is a legitimate concern, of course, but merchants' biggest threats are still their own customers.

A post-pandemic drop in card-not-present fraud never materialized; in fact, of the 70 percent of respondents who noted movement in friendly fraud levels, twice as many said that friendly fraud had increased, not decreased. There is nothing to make us believe this trend will stop, or even slow down.

While many participants seemed aware that chargeback prevention tools were available, they aren't being fully leveraged. It could indicate that more work needs to be done to raise awareness of the existence of these tools, as well as the benefits these tools offer.

Along the same lines, less than 8 percent of respondents expressed concern about diagnosing internal issues that cause disputes. Statistically, however, errors in merchant policies remain a leading cause of customer disputes. Even simple solutions, such as clarifying the organization's billing descriptors, could reap huge benefits. A good percentage of consumers acknowledge that they have at some point not recognized a transaction on their billing statement due to a bad descriptor.

Without acknowledging this, however, merchants will keep paying a high price for entirely avoidable chargebacks.

The major card brands continue to release more tools that can be used to intercept customer disputes before the chargeback stage. While this is not a comprehensive solution, it could serve as a stop-gap measure, as well as a strong basis for further efforts.

Even lacking the expertise and resources, too many businesses are still attempting to handle chargebacks solely in-house, rather than take advantage of third-party solutions.

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 available fraud-fighting tools.

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 additional 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 available. 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 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

Chargebacks911®
challenge the status quo

18167 US Highway 19 N.
Clearwater, FL 33764

(877) 634-9808
info@chargebacks911.com

6-7 Claydons Ln
Rayleigh SS6 7UP

+44 (0) 2037 505550
info@chargebacks911.com