Chargebacks911®
challenge the status quo

THE GEEK'S Guide to Chargebacks

All You Need to Become an Expert in Chargebacks and Friendly Fraud

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GEEK OUT!

Are you a geek?

Once upon a time, being a geek meant using a pocket protector and wearing glasses taped together with a Band-Aid. Nowadays, however, people proudly "geek-out" about whatever they like. According to the dictionary, geeking simply means being very interested in a subject and knowing a lot about it.

If you downloaded this guide, it's probably safe to say you want to learn more about chargebacks, right? Well, you're in luck, because that's exactly what we get geeky about.

Everything you need to know is right here. And everything means . . . well, *everything*. We've tried to break it down into understandable chunks, but be forewarned: this guide will get a little technical. It can't be helped. Chargebacks are messy (we'll explain as we go along).

That said, if you're looking for a quick definition or a casual overview of chargebacks, you might be better off checking out the information in our blog.

If you want the whole story, though, get ready to geek out on chargebacks.

(PS You should check out our blog either way. Lots of good info there, too. Just, you know, not quite as geeky ...)

TERMINOLOGY

Before we get started, let's talk about what we're talking about.

Like many other professions, chargeback management comes with its own jargon, some of which may be misunderstood (or never heard of) by the average merchant.

Chargeback: A forced refund performed on behalf of the customer.

Issuing Bank, or Issuer: The bank (Chase, BoA, Capital One, etc.) that issues credit cards to customers.

Acquiring Bank, or Acquirer: The bank authorized to accept (acquire) card payments on behalf of the merchant.

Card Network: Companies that create and manage the major credit card brands: Visa, Mastercard, Discover, and American Express.

Dispute, or Customer Dispute: A formal complaint from the customer that a mistake was made on their account. Disputes usually escalate to chargebacks.

Friendly Fraud: A chargeback filed without a legitimate reason, in order to obtain an unwarranted refund.

Representment: A way for merchants to challenge chargebacks they believe were caused by friendly fraud. Merchants can challenge invalid chargebacks by "re-presenting" transactions to the issuer, along with compelling evidence.

Most of this we'll cover in detail later in the book. These quick definitions are just to give you a little head start before we dive in. One other note: Visa, the largest credit card network, uses slightly different terminology. We'll point out some of these differences as we go.

CHAPTER 1

Just What Exactly is a Chargeback?

For most of us, credit cards are an indispensable part of daily life. According to statistics, 83% of American adults have at least one card. The average is carrying 3.8 cards.

In the US in 2021:

Payment cards made up **57% of all payments**

There are currently **531,540,000 active credit cards**

A good number of these transactions end up reversed. Sometimes that means the consumer returns a purchased item for a refund. More and more often, however, customers are "charging back" transactions through their bank.

THE GEEK SPEAKS!

As we shall see, it's possible to contest a chargeback after the fact. In the original chargeback, however, merchants have no say-so in the matter.

During a normal credit card purchase, funds are removed from the customer's account and transferred to the account of the merchant. A chargeback is the reverse of that: money from a completed purchase is taken from *your* account and returned to the cardholder.

So a chargeback is basically a refund?

It kind of seems that way on the surface, but the answer is an absolute NO. *Chargebacks* and *refunds* are two completely different animals. In addition to merchants having no input into the reversal, here are some other differences:

REFUND	CHARGEBACK
Customer deals directly with merchant	Customer complains to the bank
Goods returned to seller for possible resell	No incentive to return goods to merchant
Merchant often recovers interchange fee	Merchant hit with additional chargeback fees
No damage to merchant's reputation	Hurts merchant's chargeback-to-transaction ratio
Typically processed within days	May take months to resolve
Merchant knows when funds are dispersed	Funds taken from merchant with no warning

VS.

Not All Chargebacks Start with the Cardholder

Sometimes, chargebacks are initiated by the bank. These are not based with disputes, per se, but rather discrepancies that render the original transaction null and void:

- No authorization
- Declined authorization
- Expired payment card
- Late presentment of transaction
- Non-matching account number

The common denominator in all these examples is YOU: merchants can avoid most bank chargebacks by simply following card regulations and best practices.

That said, these aren't the norm. It's much more common for chargebacks to start with the cardholder bringing an issue to the bank's attention through a disputed transaction.

What's frustrating is that this can happen days or months beyond the original purchase. While the customer may have a legitimate complaint, the chances of the chargeback being unwarranted are growing at a frightening rate.

Before we explore why that's happening, let's look at the rationale for creating the whole chargeback system in the first place.

Chargebacks: A Brief History

Once upon a time–around a half-century ago–bank credit cards weren't really a thing. Oh, they existed; they just hadn't gained the widespread acceptance (and profitability) the networks were hoping for. US customers in particular were suspicious of this new payment method.

The Fair Credit Billing Act of 1974 attempted to address these issues by creating what we now know as a chargeback. The chargeback option reassured consumers in two ways.

① **Protection against criminals:** If purchases are made using stolen card data, the cardholder won't be held liable.

② **Protection against merchant abuse:** Fear of chargebacks gives merchants an incentive to provide honest service.

As a consumer protection mechanism, the system still functions fairly well. Of late, however, the use of chargebacks has morphed into something else.

ENTER THE INTERNET

Chargebacks worked fine for decades, but the internet completely upended the way we shop, work, and communicate. For the most part, that's been a good thing.

While eCommerce is now a major sales channel, chargebacks haven't changed. Savvy consumers have since learned to leverage the system for illegitimate refunds (it's called friendly fraud; we'll cover it in detail later).

Do We Still Need Chargebacks?

Yes. Yes, we do. There are still criminals in the world, and there are still a few unscrupulous merchants. As we've seen, chargebacks play a crucial role in safeguarding cardholders from both threats. But ironically, what was once a tool to protect consumers has become a weapon cardholders use to victimize merchants.

Are things really that bad? Again, the answer is YES. Here are a few mind-blowing statistics that illustrate the threat that friendly fraud chargebacks represent.

Conservative estimates show global chargeback costs could hit $117.47 billion or more by 2023.

For every $100 in direct fraud costs, merchants indirectly lose an average of $360 through ancillary costs such as fees and overhead.

By 2023, an estimated 60% of chargebacks will be likely cases of friendly fraud.

False declines—orders rejected for possibly being fraud—cost US merchants nearly $34 in lost sales for every $1 of fraud they prevented.

Roughly 40% of those who commit friendly fraud will make another attempt within 60 days.

So if the chargeback fraud has become this much of an issue, why isn't everyone working to stop it? To answer that question, we'll need to dig a little deeper into the chargeback system itself.

Recommended Reading

[Chargeback Definition](#)
[Chargeback vs. Refund](#)
[What is a Bank Chargeback?](#)
[The History of Chargebacks](#)

CHAPTER 2

The Players and the Process

The Players

If you're looking to become a chargeback geek, you'll be in good company; The chargeback process involves multiple parties, all obsessed with their primary area of expertise.

The Cardholder

It starts when a cardholder uses a credit or debit card to make a purchase. Everything's cool until that cardholder disputes the transaction and asks the bank to file a chargeback.

The Merchants

We're largely talking about retailers here: merchants doing business in brick-and-mortar stores (card-present transactions), online (card-not-present transactions), or some combination of the two.

The Networks

The people behind the brand names commonly associated with credit cards: Visa, Mastercard, etc. Each company has its own network of banks that are authorized to issue branded cards. Each network also has its own guidelines that regulate every part of a credit card transaction.

The Issuer

The issuing bank provides—or *issues*—credit cards to customers. The bank must be a member of one or more card networks in order to issue cards for that brand. A card may have a Visa or Discover logo on it, but it will also have the logo of the issuer–Wells Fargo, Bank of America, Ally, and so forth. Cardholders deal with the bank, not the card network.

The Acquirer

The bank where you have your merchant account is called the acquiring bank. The acquirer must also belong to a card network, but it has two main roles.

- Providing the merchant account that allows your business to accept credit card payments.
- Playing intermediary between the business and the network.

THE GEEK SPEAKS!

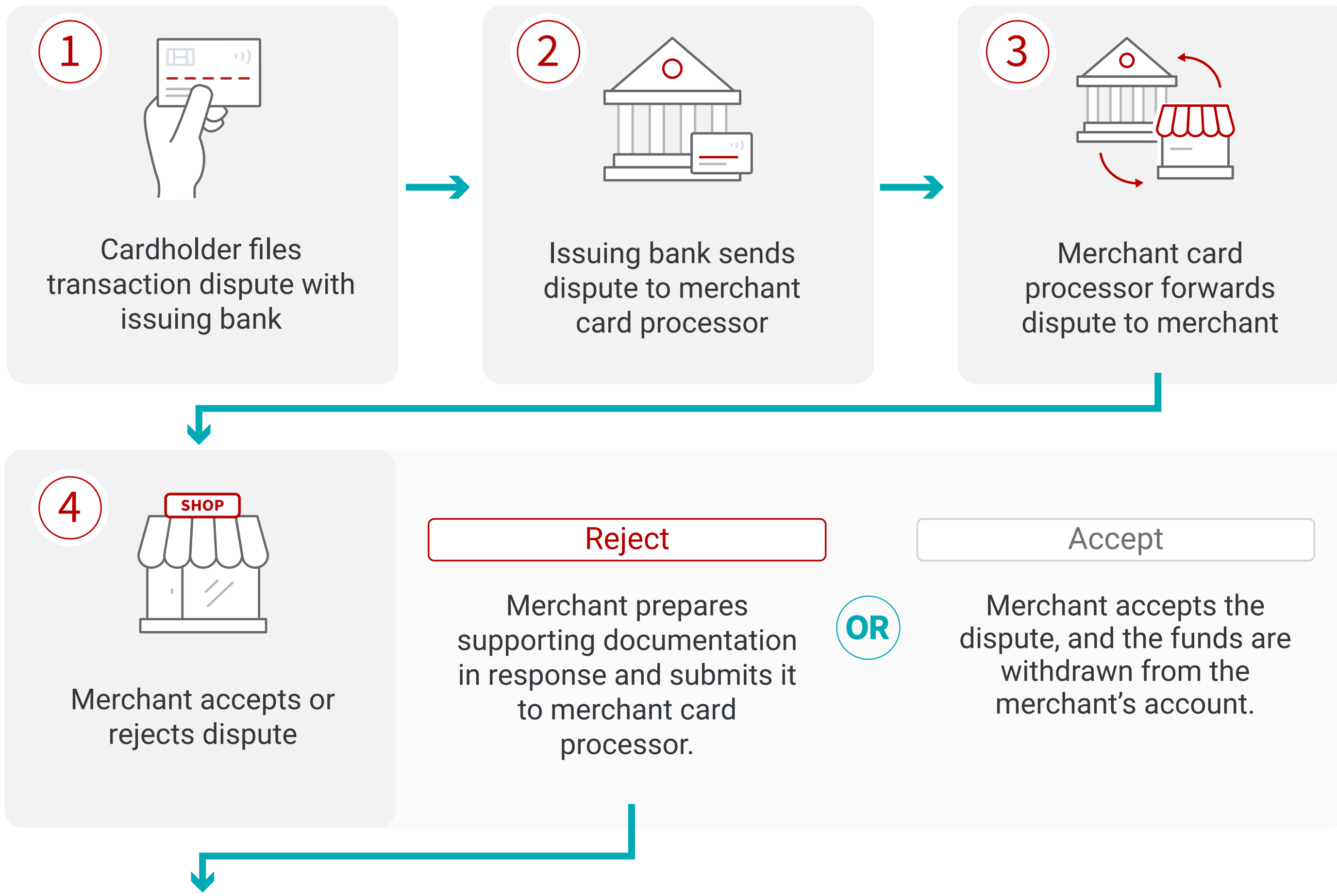
A bank can serve as both an issuer and an acquirer. The title has more to do with the service being provided than which institution is involved.

Processors and Gateways

The payment processor gathers the essential information and moves the funds from the issuing bank to the acquiring bank. Online merchants will also need a payment gateway, which is like a secure tunnel for passing the customer's money between banks. Think of it as a virtual point-of-sales terminal, encrypting data before transmission to the acquiring bank.

The Process

We've already explained some of the parties involved in chargebacks, but all the ways they interact with each other can be . . . well, confusing doesn't begin to cover it.



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Processor submits the case to the issuer, who either accepts representment, or files a pre-arbitration.

Pre-arbitration

Issuer reviews the documentation and sides with the cardholder, filing a second chargeback (called pre-arbitration).

OR

Sides with the merchant

Issuer reviews the documentation and sides with the merchant.

6

Merchant reviews the pre-arbitration and either accepts it, or appeals to card scheme.

Arbitration

The dispute progresses to arbitration.

OR

Accept

Merchant accepts the issuer's decision, and the funds are withdrawn from the merchant's account.

Card network reviews the case, and makes a final decision.

Wow! Even geeks can get overwhelmed by that road map. Let's break down each stage of the chargeback process and figure out what's really going on.

Filing the Initial Claim

It all starts when the cardholder calls the bank to dispute a transaction. The exact process for initiating a chargeback will depend on the issuer, but they follow a similar path.

What's important to note is that, overall, filing a customer dispute is simple and relatively painless. That's actually a problem: despite the differences between the two, many consumers continue to view chargebacks as just another type of refund.

There are rules and guidelines for filing a chargeback, but they're often ignored. For example, the bank expects the customer to first try to resolve the dispute with the merchant. Research suggests that less than 15% of cardholders actually do.

The banks share some of the blame here. They're required to fully research the

validity of the cardholder's claim. If they did so, it would likely reveal that the merchant was never contacted. But under-staffed departments may not perform as much due diligence as they should.

It's normal to want to protect the customer relationship, but by taking shortcuts, banks could be enabling consumers to steal from merchants.

Transferring Funds

Claims may be rejected immediately if the issuer believes they are unwarranted. Maybe the merchant has already issued a refund, or perhaps the bank obtained additional information to refute the claim.

On the other hand, if the bank feels the cardholder has a valid case, a temporary refund will be applied to the cardholder's account. And where does that refund money come from? Spoiler alert: right out of your merchant bank account.

The issuer also charges an administrative fee:
$20 - $100 per chargeback but can go much higher

THE GEEK SPEAKS!

This forced removal of funds generally isn't a formalized process, and the bank is under no obligation to inform the merchant ahead of time. In many cases, the merchant first learns of the chargeback when money disappears from the merchant account.

But What if They're Wrong?

Just because a customer claims to have been cheated doesn't necessarily mean it's true. That's why the chargeback system offers a built-in way for merchants to fight back.

Merchants have the right to challenge any chargeback filed against them. The process is called *representment*, because the acquiring bank literally re-presents the original transaction to the issuer, along with evidence to counter the cardholder's claim.

Sometimes, your acquirer can provide the essential documentation without your help. Usually, though, it's on you to provide what is termed compelling evidence to show the transaction was valid.

So What Makes Evidence "Compelling"?

The acceptable (or required) forms of compelling evidence can vary depending on the card brand, the bank, and other factors. Examples of compelling evidence might be:

- Order forms
- Online authorization or agreement to terms
- Tracking numbers or delivery confirmation
- Communication that indicate the consumer is satisfied with the purchase
- Photographs showing the cardholder has the item or received the service

In addition to sufficient compelling evidence, you'll need to send a detailed rebuttal letter that outlines the defense and explains the attached documentation.

Making a Decision

The issuing bank will look at the merchant's rebuttal letter and evidence and make a decision. One of three things can happen:

VICTORY!

Your evidence convinces the bank to reverse the claim and return the funds to your account. This is known as a chargeback reversal (in Visa terms, a dispute reversal).

DEFEAT!

Your argument fails to persuade the issuer. The chargeback stands, and the cardholder credit becomes permanent.

WE'RE NOT SURE YET ...

The issuer files a second chargeback: essentially they admit your counterclaim has merit, but they're still not fully convinced.

Second chargebacks are formally called *pre-arbitration* by Visa, but Mastercard uses the term *arbitration*.

Some of the most common reasons for a second chargeback include:

- The issuer changed the reason code, shifting the reason for the claim.
- The issuer obtained new information to support their case.
- Your documentation was incomplete, or the evidence was insufficient or inappropriate for the reason code.

The original chargeback fee won't be refunded, whether the initial claim is reversed or not. Sorry about that.

Second chargebacks and arbitration are costly, even if you win. Unless the transaction amount was substantial, challenging a second chargeback is usually not worth the cost.

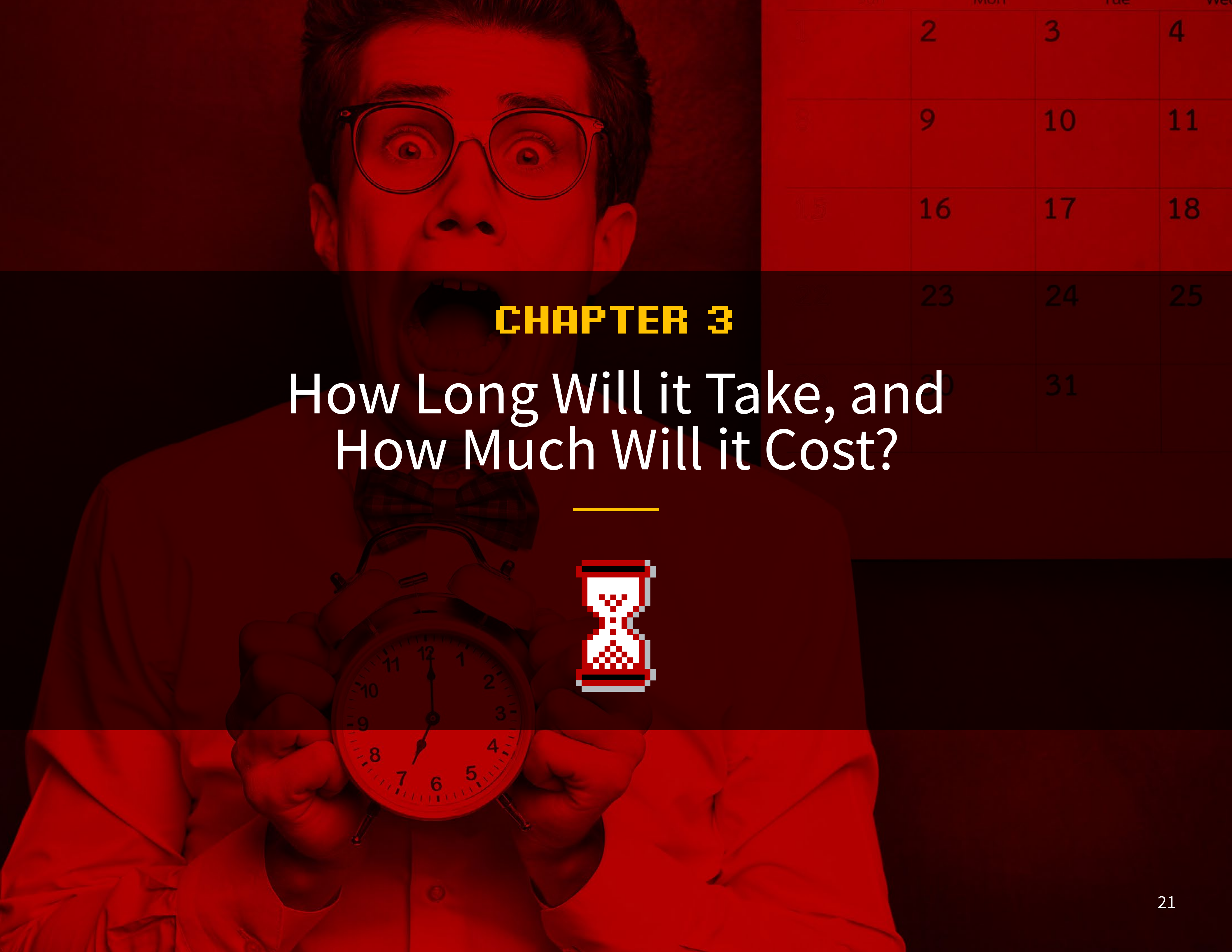
One Last "Last Chance"

When a second chargeback is filed, the case moves to arbitration. Arbitration gives the merchant one last opportunity to refute the chargeback. The process is similar to the first challenge, which means submitting more evidence.

With a second chargeback, the card network–not the bank–reviews and judges the case. Their ruling is final.

Recommended Reading

Chargeback Process
Compelling Evidence
Pre-Arbitration Chargeback
Chargeback Arbitration



CHAPTER 3

How Long Will it Take, and How Much Will it Cost?

Let’s say you get hit with a chargeback, but you think you can prove it’s unwarranted. What do you do first?

The most important thing is to get moving. Every part of the chargeback process has a strict time window; you’re fighting the clock from the word “Go!”

Consumers have a limited time to file disputes, while banks and merchants have response deadlines for each stage of the process. These limitations ensure that cases get settled quickly. At the same time, they aren’t exactly fair.

With few exceptions, cardholders can typically file a dispute up to 120 days from the original transaction or expected delivery date.

For merchants and acquirers, the chargeback process is broken into phases, which differ based on the network and other factors.

CARD NETWORK TIME LIMITS

VISA
30 days
per phase

45 days
per phase

DISCOVER
30 days
per phase

AMERICAN EXPRESS
20 days
per phase

Chargeback deadlines are locked down tight … mostly. For more detailed information on time limits check out this article on our blog.

Don't Get Optimistic About Deadlines

Having 30-45 days to respond to a chargeback doesn't sound so bad, does it? Unfortunately–and this is important–it is the CARD NETWORKS who give you that much time.

You're also bound by the rules of issuers, acquirers, and processors–any of which can cut your time window to give themselves a little more slack.

Also note that the deadlines are based on when the response is RECEIVED … not just on when it was sent. All in all, the merchant's actual response window may be as small as 5 or 6 days.

Fees

Every chargeback comes with a fee that helps pay the administrative costs and other extra expenses the bank has to cover. Again, chargeback fees are not refundable, even if the case is reversed.

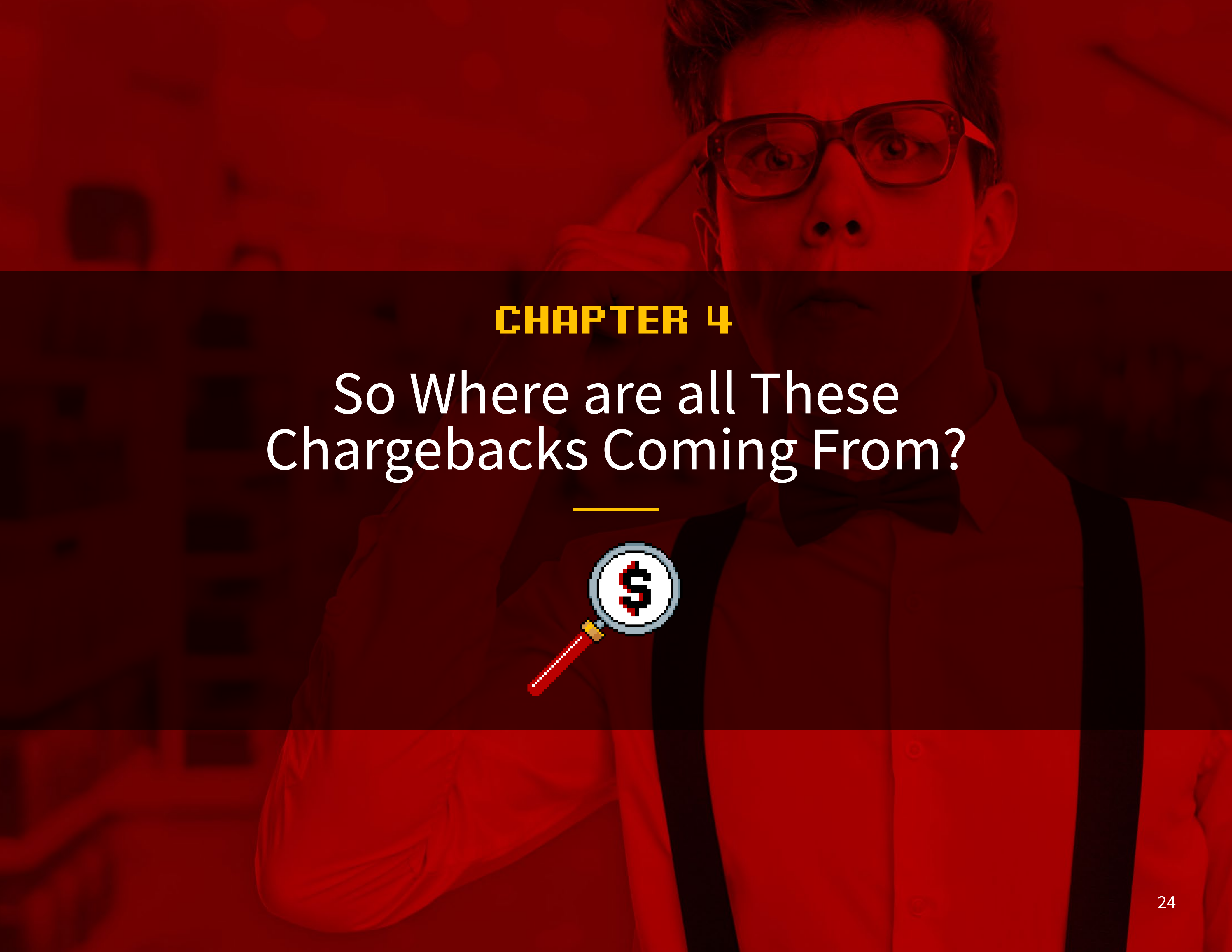
Acquiring bank charges
$20 - $100 per claim
(higher for "high-risk" merchants)

From a merchant's chargeback history to the type of industry, many elements go into chargeback fee calculations. The price tag may not be the same between merchants, either: A merchant with minimal disputes may pay less than one with 100 chargebacks per month.

Per-chargeback fees may seem relatively low, and can lull merchants into a false sense of security. As we'll see in a later chapter, however, the costs of chargebacks go far beyond that one-time fee.

Recommended Reading

Mastercard Chargeback Time Limit
Visa Chargeback Time Limits
American Express Chargeback Time Limit
Discover Chargeback Time Limit
Chargeback Fees



CHAPTER 4

So Where are all These Chargebacks Coming From?

No matter how many chargebacks you're getting, you probably think you know where they're coming from. After all, a cardholder must have a reason to file a dispute, right?

Well, yes: the customer must have a reason, such as saying an item wasn't delivered. The bank then marks the dispute with a reason code that correlates to that reason.

Reason codes are a form of shorthand that explain why a chargeback was filed. Response time limits, required evidence, chargeback eligibility, and more can be impacted by the reason code, so it's important that all parties are on the same page.

Here's the problem: as it turns out, reason codes are notoriously unreliable at showing the true source behind a claim. Miscommunication, misunderstanding, and in some cases, deliberate misleading often result in miscoded claims.

A list of major reason codes can be found on our website as well as downloadable quick reference sheets for each card network.

Over-relying on reason codes is one of the big roadblocks to managing chargebacks. But if the code is wrong, how do you know the real reason for a chargeback?

Chargebacks can happen under many circumstances, but if you look past the smoke and mirrors, all chargebacks can be traced to one of three different sources:

Criminal Fraud | Merchant Error | Friendly Fraud

Let's look at these sources one at a time.

Criminal Fraud

What it is

Most people associate fraud with criminals. And we can all agree that a cardholder shouldn't have to pay for something they didn't purchase. But merchants, not crooks, foot the bill when chargebacks are filed to recover funds lost to criminal fraud.

How it Happens

Hackers don't need a physical credit card to commit fraud; all they need is the account data. So how do they obtain it?

- **Phishing:** Through email or social media, fraudsters get victims to follow a seemingly innocent link, then steal usernames, passwords, and more.
- **Data breaches:** Hackers raid merchants' data files, then fraudsters buy the information for pennies on the dark web.

THE GEEK SPEAKS!

There are electronic ways of detecting cybercrime, but cybercriminals are just as sophisticated as the good guys, adapting quickly to anti-fraud technology.

- **Malicious malware:** Also through phishing, scammers secretly download information-stealing apps on the user's device.
- **Radio-frequency identification (RFID):** Chips in credit cards enable hands-free transactions, but hackers may be able to intercept the signal.
- **Identity theft:** Crooks pilfer documents from users' home, mailbox, or garbage, then use the info to create new accounts in the victim's name.

Merchant Error

What it is

When it comes to chargebacks, you may be your own worst enemy. Anyone can make the occasional mistake, but roughly one in five chargebacks can be traced to a merchant misstep.

How it Happens

The real danger comes from errors in your policies and procedures that can trigger chargebacks, causing trouble repeatedly because they're not recognized as problems:

- Lapses in customer service
- Unclear or complicated refund policies
- Inaccurate product descriptions
- Bad billing descriptors

THE GEEK SPEAKS!

Cybercrime gets a lot of press, but only a fraction of cases stem from criminal fraud. A higher percentage is caused by merchant error.

That's just a short list. There are scores of factors that could cause disputes without your knowledge. Happily, merchant error chargebacks are 100% preventable … if you can find them.

And that's the problem: the triggers are there, but you're too close to the issue to see them. Chargebacks911's Merchant Compliance Review was specifically designed to help you identify and eliminate missteps that could lead to disputes.

Friendly Fraud

Criminal fraud and merchant errors combined still aren't responsible for the greatest number of chargebacks. So where are the rest coming from? Welcome to the world of friendly fraud.

What it is

You know what friendly fraud isn't? Friendly. The name comes from the idea that the damage is caused by "friendly" parties, like your customers.

Friendly fraud occurs when a cardholder accidentally or deliberately charges back a legitimate transaction. It is often called "chargeback fraud" because consumers misuse the chargeback process to obtain an undeserved refund.

How it Happens

Odd as it may seem, consumers can commit friendly fraud without even realizing it.

THE GEEK SPEAKS!

While friendly fraud can happen on card-present transactions, the bulk of it comes from card-not-present purchases. Online complaints often require minimal evidence to support the claim.

Sometimes, simply contacting the bank to inquire about a transaction can kick off the chargeback process, whether the cardholder meant to do so or not. Here are some other scenarios where unintentional friendly fraud may occur:

- A cardholder forgets they authorized a family member to make a purchase. The consumer calls the bank to report what they believe is fraud.
- A merchant doesn't post a charge until the order ships, causing the amount to show up a month after the initial purchase. Not

remembering a charge on that date, the cardholder disputes the transaction.

- A cardholder does not recognize what is actually a legitimate purchase, because the descriptor used on the statement is not identifiable as a brand name.

Unintentional friendly fraud, however, is almost excusable compared to deliberate chargeback abuse on the part of the cardholder:

- A customer experiences "buyer's remorse," and thinks a chargeback is easier than requesting a traditional refund.
- The primary cardholder doesn't want to pay for a purchase made by another family member (family fraud).
- A traditional refund is not available for some reason (usually because the time period for a return has expired).
- The original intention was to get something for free (Cyber shoplifting).

Some parties make a differentiation between *(unintentional)* friendly fraud and *deliberate* chargeback fraud. Either way, if a customer files a chargeback on an authorized purchase, it falls under the umbrella of friendly fraud.

Unlike merchant errors or criminal fraud, friendly fraud is notoriously difficult to prevent mostly because it happens post-transaction. There's really no way of knowing it's going to happen–until it does.

Errors can be caught before the transaction happens. Other types of fraud can be prevented by eliminating triggers. But friendly fraud might not manifest until months after the transaction occurs.

Recommended Reading

eCommerce Fraud
Merchant Error Chargebacks
Friendly Fraud

CHAPTER 5

Risks, Ratios, and Repercussions

So we've established that chargebacks happen, and that they cost merchants a bundle. If the bank or card network gets involved, however, it means even more costs … potentially to the point of closing down your business.

OK, that sounds a little ominous, but it's a very real possibility. So how can you tell if your business is in trouble? Let's talk about ratios.

When you open a merchant account, the bank agrees to take on a certain amount of financial risk. It makes sense for them to closely monitor their investment.

The card networks are watching, too. Chargebacks have a negative impact on their brand reputation, so they want to be aware of the first sign of trouble.

While all this watching may seem a little creepy, it does have a purpose: acquirers' fees, network finds, and other processing costs are based on the amount of a risk a merchant poses. And the primary way that risk is measured is through a calculation known as a chargeback rate, or ratio.

It's a pretty simple equation, really: the number of first chargebacks filed this month, divided by the total transactions from either last month (for Mastercard) or the current month (for Visa).

$$\frac{\text{Total chargeback cases per month}}{\text{Total transactions per month}} = \textbf{Chargeback Rate}$$

Other circumstances–the types of goods or services sold, average monthly sales or ticket amount, using free trials or subscription billing, and more--can also be part of the equation. The main factor in calculating risk, however, is whether or not you have an excessive chargeback ratio.

How Excessive Is "Excessive"?

Each card network establishes a limit to the number of chargebacks they'll allow. Your chargeback ratio is constantly compared to this predetermined threshold.

So how much is too much? In this context, "excessive" refers to approaching or exceeding the network's limit. If your chargeback ratio starts making the network nervous, you may end up in a chargeback monitoring program, which takes monitoring–and processing costs–to a whole new level.

The High Cost of Monitoring

If your business is forced into a monitoring program, you'll be required to develop a detailed chargeback-reduction strategy, called a chargeback mitigation plan. This plan should both identify the root cause of your chargeback problem and outline an appropriate plan to correct it.

THE GEEK SPEAKS!

At one point, the accepted industry threshold was 1%, but the limits are really whatever the networks say they are. Just getting close to the line can mean trouble.

Merchants achieving and maintaining a compliant chargeback rate for a certain time (typically 3 months) may be allowed to exit the program. Remain out of compliance for a year, and you could lose your card-processing privileges entirely altogether.

Being in these programs is costly:
Fines average $50 per chargeback
Review fees can run up to $25,000

Those are just costs from the network; processors, acquirers, and even issuers may tack on additional fees.

Striking the MATCH

So, what if you weren't able to rein in chargebacks, and your account was terminated? Are you dead in the water? Not necessarily, but to get back in the game, you'll probably have to work with a high-risk payment processor.

In addition, you'll likely wind up on the MATCH (Member Alert to Control High-Risk) list. This "blacklist" is another tool acquirers use when determining the risk of taking on a new merchant.

Several actions can lead to a terminated account that lands you on the MATCH list: money laundering, fraud convictions, or filing for bankruptcy, for example. Excessive chargebacks is one of the most common ways merchants get on the list. It's one of the most frustrating, too, since you didn't actively do anything "wrong."

THE GEEK SPEAKS!

The card brands may step in if a merchant cannot lower chargebacks. Since that means extra trouble and expenses for banks and processors, acquirers are likely to terminate an iffy account long before the merchant hits the network's thresholds.

Being on the list makes it challenging to open a different merchant account. And again, you'll be working with a bank that specializes in high-risk merchants, and that costs you more. Because getting off the list requires so much effort, it's much smarter to avoid being listed in the first place.

When High Rewards Are Worth High Risk

Some merchants are well aware that they are high risk, but they take it in stride. That's because some potential rewards are worth the gamble.

These aren't businesses that are labeled high-risk because of their actions. Rather, we're talking about merchants who choose to work in a higher-risk environment, hoping for a big payoff.

THE GEEK SPEAKS!

Generally, the United States, Canada, Japan, Australia, Western Europe, and Northern Europe markets are seen as less risky as compared to the rest of the world.

For example, entering a new foreign market may bring on high-risk status (and fees), but if the market is lucrative enough, the end may justify the means. Likewise, a recurring payments business model is often labeled high-risk, but having a regular monthly income may offset the potential costs.

Recommended Reading

Chargeback Rate
Excessive Chargeback Programs
MATCH List
Closed Merchant Account

CHAPTER 6

Why Merchants are Losing the Chargeback Battle

eCommerce is a competitive arena. Many merchants are winning the eCommerce war, but can't hold the line against illegitimate transaction disputes.

In part, this is because chargebacks don't just attack on one front. A big chargeback problem is actually made up of several smaller problems that all need to be addressed:

1. The Cost

The most immediate threat from chargebacks is the cost, but you may be unaware of just how much money is at stake. We'll spell it out for you.

- **You'll have to refund the customer.** That's an obvious loss, but it's just the beginning.
- **You won't get the product back.** Returns are the pits, but if someone files a chargeback, they may not be required to return the merchandise.
- **You'll pay double the fees.** Remember all those fees (interchange, processing, etc.) you paid for the original transaction? Chargebacks mean you won't get those back, either. You're essentially paying for selling a product that you end up giving away.
- **Other parties profit at your expense.** Banks, processors, card networks and more are also fined for chargebacks; those fees will eventually trickle down to you. In the end, you could pay *10 times* the original chargeback fee. Everyone above you in the chain is benefiting from your profit loss.

2. Getting Kicked While You're Down

The fees, fines, and other losses–plus the extra costs associated with high-risk processing–are the card networks' way of deterring chargebacks. All these fees come about because you're struggling with chargebacks–which by definition means you're *already* facing financial losses. All these extra costs could be enough to sink your business for good.

3. Trashing Your Reputation

Given the revenue challenges that come with chargebacks, protecting your reputation might seem to be low on the priority list. Unfortunately, it's not that simple. If you have a reputation as a chargeback magnet, the best acquirers are going to give you the cold shoulder.

THE GEEK SPEAKS!

Some merchants can bypass the need for working directly with an acquirer by working with an Independent Sales Organization. ISOs are a type of broker for banks and processors. Because ISOs are not banks, they aren't subject to some of the same limitations, but they might charge higher fees.

Here's something else: as we covered earlier, the issuing bank is supposed to do a little fact-checking before escalating a dispute to a chargeback. If you have a reputation as a merchant who receives legitimate chargebacks, it's easy for the bank to justify doing less due diligence when they see your name on a dispute. That leads to *more* chargebacks . . . and the whole thing snowballs at your expense.

4. You're Confused

Even savvy retailers struggle with chargeback management, and it usually comes down to three simple mistakes:

- **The problem is not acknowledged.** You can't expect chargebacks to decline if you don't change your business practices. You have to acknowledge the problem—and then deal with it.
- **The wrong problem is targeted.** A lot of friendly fraud is filed under false pretenses, and very little of it falls neatly into one reason category. Friendly fraudsters often use phony reason codes, which means you could waste a lot of resources fighting the wrong problem.
- **The wrong approach is used.** Chargeback management requires a multi-faceted dynamic strategy to handle a range of issues. A "one size fits all" approach simply won't be effective.

5. Consumers Are Confused, too

While there are plenty of cyber shoplifters out there, friendly fraud is often committed by individuals who don't realize they're stealing. This makes it even harder to combat. Whether friendly fraud is malicious or not, *you* still pay.

6. Fraudsters Are Smart

The growth in eCommerce has opened more opportunities for consumers, but fraudsters also benefit. Card-not-present commerce is growing faster than the advancement of anti-fraud technology. Fraudsters are manipulating tools that the outdated chargeback system was never designed to combat.

7. Friendly Fraud Feeds on Itself

The biggest obstacle merchants face in combating chargebacks isn't any of the reasons above: it's the combination of *all* of them, and how the various problems feed on themselves. By the same token, the blame for the problem doesn't rest on any one party.

Four main stakeholders are involved in the chargeback process: the merchant, the cardholder, the network, and the issuer. Basically, friendly fraud runs rampant because these heavy hitters aren't playing nicely together.

- Consumers' actions aren't sufficiently scrutinized by the bank while filing illegitimate chargebacks.
- Merchants don't appeal cases because they assume chargebacks are just a cost of doing business.
- Banks aren't compelled to change their ways because merchants don't dispute enough chargebacks.
- Without a consequence, consumers keep filing bad chargebacks, and the cycle starts all over.

The system is set up for quick resolutions, but little is being done to correct the problem long-term.

Recommended Reading

Chargeback Costs
Friendly Fraud Costs
Customer Disputes

CHAPTER 7

Challenge the Status Quo

If you've read this far, you're probably thinking that the chargeback situation looks pretty bleak. Don't lose hope yet, though: there *are* ways merchants can fight back.

Effective chargeback management depends on two key components: prevention and representment. In this chapter, we'll look at ways to prevent chargebacks from happening, and explore why it's worth challenging them when they *do* happen.

Step 1: Prevent Chargebacks

Chargeback prevention is a huge undertaking, and this brief overview barely scratches the surface. That's why we wrote yet *another* nifty eBook you can download for free. *50 Insider Tips for Preventing Chargebacks* is a geeked-out guide to stopping those pesky chargebacks.

Here are some ideas to get you going.

You have tools: use them

Criminal fraud may not be the #1 cause of chargebacks, but you'll still need a prevention strategy. Several readily available tools have proven effective:

- **AVS (Address Verification Service)** checks the billing address used against what the issuer has on file.
- **Security codes (CVV)** on payment cards help show the buyer has possession of the card.
- **3D Secure 2.0** performs risk-based authentications in a second or less.
- **Chargeback alerts** give merchants the opportunity to refund customer disputes before a chargeback is officially filed.
- **Automated network inquiry programs** help resolve inquiries before they become chargebacks.

Be available to customers

If customers feel that contacting you is faster, cheaper, and easier than a chargeback, they're more likely to take that option. Make sure your contact information is obvious anywhere a customer might look: on websites, on invoices, on social media, and on all correspondence.

Turbocharge your customer service

Every phone call may be a chance to prevent a chargeback, so have a human being answer the phone, ideally within 3 rings. Respond quickly to contacts from other channels, too–even negative ones.

Be proactive with consumer information

Missed a shipping deadline? Item out of stock? Most people understand that problems can arise, but keep the customer in the loop. Without an explanation, they may assume the worst, get angry, and turn to the bank.

THE GEEK SPEAKS!

Chargeback abuse has become so widespread that even merchants in historically low-risk verticals are having trouble with high chargeback ratios.

Tighten up your policies

Complicated, hard-to-find policies for returns and refunds make it that much easier for customers to bypass you and contact the bank with a problem. Be sure your policies are clear, concise, and easy to understand. Make them as prominent and accessible as your contact information.

Look for other missteps, too

When you're checking your policies, go ahead and reexamine your procedures. Oversights, innocent mistakes, and minor missteps can significantly increase chargeback risks.

The whole truth, and nothing but

With eCommerce, merchants have an extra responsibility to provide accurate details, exact specifications, and clear photos of the merchandise they sell. Insufficient, or misleading information leads to unhappy customers ... and that leads to chargebacks.

Recurring payments need recurring attention

A subscription-based business model can be great for you and your customers. To avoid surprises, however, be sure customers understand the terms of service *before* they sign, and make cancellation easy.

THE GEEK SPEAKS!

Recurring billing chargebacks are especially dangerous. Fraudsters could potentially win a reversal for the total they've paid since signing on.

What about friendly fraudsters?

As we've seen, friendly fraud is near impossible to detect beforehand. Almost, but not quite. These red flags aren't sure signs of fraud, but they are potential warnings:

- New customers.
- Orders with several of the same product.
- Big-ticket items.
- Orders on different cards, but shipped to the same address.
- Multiple orders on one card, shipped to multiple addresses.
- Orders from high-risk countries.

Don't let them get away with it.

When you challenge every illegitimate chargeback, you'll gain a reputation as a merchant who insists on fair play. Issuers are more likely to take a closer look at customer claims, and fraudsters are more likely to find an easier target.

Step 2: Representment

Despite your best efforts, there will always be a few chargebacks that slip past your prevention efforts. That's when it's time to fight back.

Again, consistently representing friendly fraud can have long-term preventative effects. The immediate benefit, of course, is monetary: when you win, you recoup revenue that would otherwise be lost to the fraudster.

Representment is not easy, but the right tactics can improve your odds:

- **Set up a detailed chargeback management system** to keep pertinent documentation (sales receipts, delivery confirmations, emails, and similar items) on file.

> The right evidence is useless if you can't find it. A simplified filing system can make finding and retrieving documents as easy as pie.

THE GEEK SPEAKS!

In a few cases, the cost of fighting a chargeback will outweigh the potential ROI. Consulting a professional may save you time and money.

- **Pay attention to the reason code.** Different codes may require different compelling evidence.
- **Work fast.** Merchants have minimal time to create a representment case.
- **In addition to evidence, you'll need a carefully crafted letter** explaining how the evidence proves your case. And yes, we have a free downloadable Rebuttal Letters guide that covers that, too.
- **Learn from your mistakes.** If your challenge is unsuccessful, identify where you went wrong.

Step 3: Not to Sound Redundant, but *You Need Help*

So to recap: chargebacks–particularly friendly fraud–are an expensive pain in the butt. That said, there are many ways you can both prevent chargebacks and fight back when they happen.

Typically, however, that's only going to work on the "low hanging fruit": the easily preventable chargebacks caused by obvious mistakes and mismanagement. Even that alone will take time and resources, and statistically speaking, you are only going to win the easiest cases … if you win any at all.

Most types of chargebacks can only be countered with intensive management strategies that surpass DIY tactics.

And face it: you didn't go into business to fight chargebacks. You may be an expert in your field, but chargebacks are a field all their own. To be successful, you need experience, expertise, and access to a wide range of specialized information. In other words, you really need expert help.

Run the numbers for yourself

Not convinced? Pull out your calculator and get geeky for a minute. Run the numbers. How are chargebacks currently impacting your bottom line? Look back at all the hidden costs and fees we've covered. Try to get an objective idea of your situation. We'll wait.

All done? Is it worse than you thought? Not to be pessimistic, but in our experience, it's probably even worse than THAT. And there's only so much you can do on your own. Just staying on top of the latest trends and network regulations can be a full-time job.

Most merchants–even chargeback geeks–find it far more cost-effective to outsource the task.

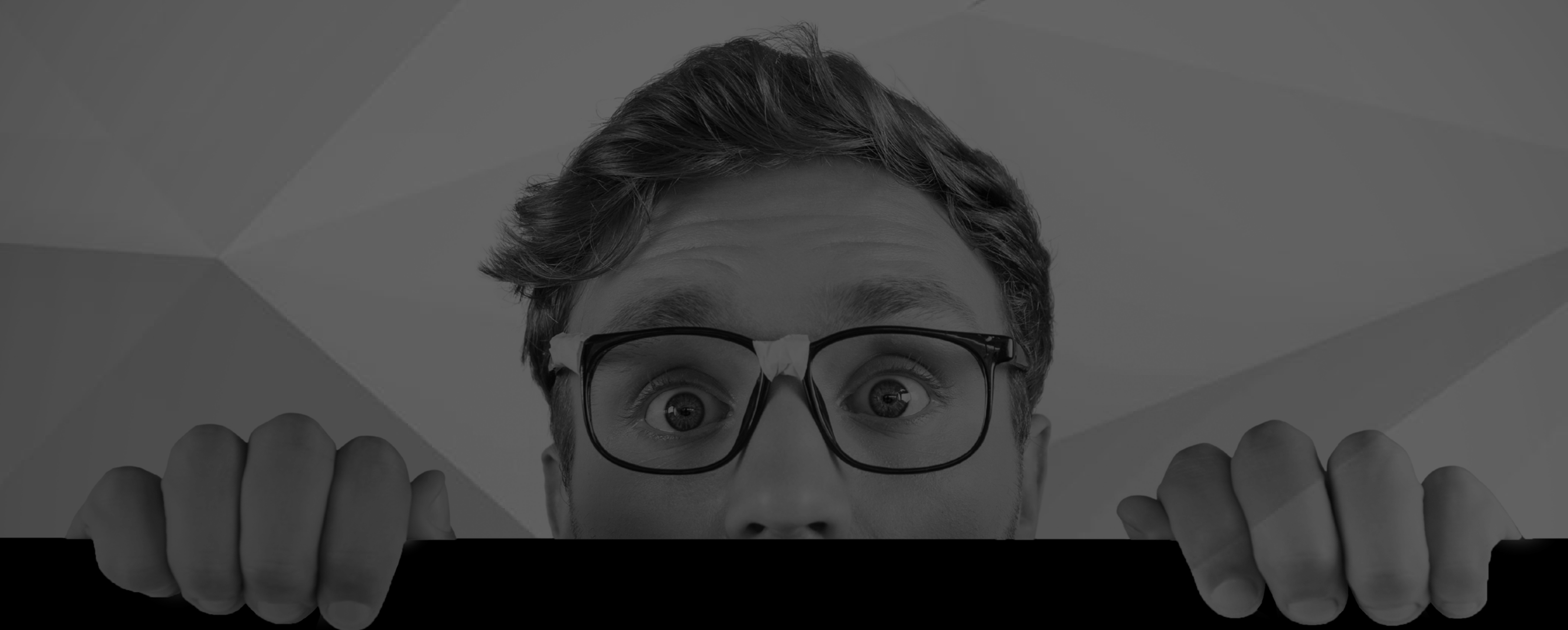
The right chargeback expert will help you expose and then prevent merchant errors that can trigger disputes. They'll help you lower your chargeback-to-transaction ratio and then keep it low. Together, you'll create a flexible approach that can adapt to the ever-shifting fraud landscape.

Recommended Reading

[Fraud Detection and Prevention Tools](#)
[Customer Service Best Practices](#)
[Recurring Billing Chargebacks](#)
[The Chargeback Representment Process](#)

Chargebacks911® provides a data-driven technology platform designed for end-to-end chargeback management. That means our clients retain more revenue and recoup profits they never should have lost. And it's all backed by the only performance-based ROI guarantee in the industry.

Let the experts at Chargebacks911 handle your chargebacks, so you can spend your time, money, and energy scoring new clients and satisfying your current ones. **Contact us for a free ROI analysis: if we can't help improve your bottom line, we won't ask for your business. You really don't have anything to lose … contact us today.**



KEEP GEEKING OUT

While this concludes our witty commentary, your chargeback education doesn't stop here. If you'd like to speak directly to a certified chargeback geek or take a look at our super technical chargeback ROI analysis, let us know.

About Us

Chargebacks911 provides cutting-edge, highly-scalable enterprise solutions and specialized consulting for chargeback compliance, risk mitigation, and dispute management to acquirers, card issuers, and large-scale merchants. The company's dynamic technologies and tactical data analysis 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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