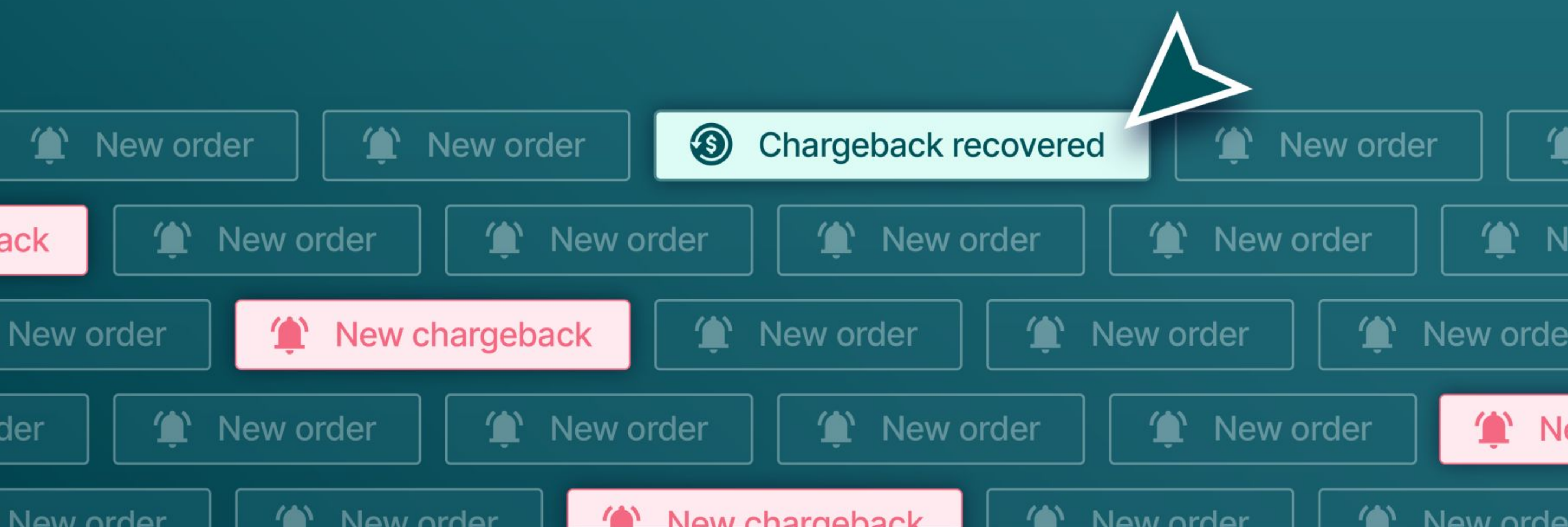
riskified

Chargeback challenges and what you can do about them

Global insights 2024



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Executive summary

In the booming ecommerce landscape, sales soar annually, offering lucrative opportunities for both established giants and newcomers to grow. But this influx of sales also leads to rising chargeback rates.

Consumers increasingly turn to chargebacks as a means to recoup funds, with around [75% of American and British customers filing a chargeback in 2023](https://justt.ai/consumer-attitudes-towards-chargebacks/)*. Often, consumers file these chargebacks because they genuinely haven't received an item or their card has been charged fraudulently. However, increasingly, consumers file chargebacks to receive compensation under false pretenses.

So, as ecommerce sales have grown, so too have chargebacks and, in turn, chargeback fraud. Add to that the tremendous complexities and inefficiencies in managing chargebacks, and most would agree: ecommerce has entered an era of **chargeback chaos.**

Merchants know fraudulent claims constitute a significant portion of their total chargebacks, known as first-party fraud. But current management processes make it more costly to dispute fraudulent claims than to simply accept them in the long run or even proactively refund.

Consumer attitudes towards chargebacks in 2023: Comparing the U.K with the U.S. (Tel Aviv: JUSTT, 2023) https://justt.ai/consumer-attitudes-towards-chargebacks/

Merchants face no choice but to let revenues slip away due to inefficiencies in chargeback management. **As chargeback figures rise, its erosion on profits is reaching an epidemic point.**

Riskified partnered with industry advisors Paladin Fraud to interview more than 300 chargeback managers from leading merchants worldwide to discover:

- The size of the chargeback challenge
- How merchants manage chargebacks today
- The biggest pain points in chargeback management
- How merchants can realize a brighter future for chargeback management

At a high level, the research found:

Chargebacks continue rising with 76% of chargeback managers seeing as many or more chargebacks YoY.

Merchants struggle to recoup costs, with three in four merchants recovering less than half of all chargebacks.

More worryingly, **merchants knowingly let revenue slip away,** with more than 73% saying that 20% or more of their chargebacks are first-party fraud (fraudulent chargebacks by customers).

The true cost of chargebacks quickly creeps up beyond lost merchandise revenue, driven by **complex, time-consuming, and inefficient chargeback management processes.**

When it comes to managing chargeback disputes, **merchants want more automation, platform consolidation, better data management and reporting abilities, and more tools to aid prevention.**

01

Key elements to understanding chargeback challenges

Chargebacks exist to protect cardholders, but increasingly, they enable consumers to behave badly, recouping funds under false pretenses. First-party fraud, referring to chargebacks filed for false reasons, informs a significant portion of chargebacks — and merchants know it. But the inefficiencies and technical complexities of current management processes make it more costly to dispute fraudulent claims than to simply accept them in the long run.

Inefficiencies in chargeback management force merchants to allow revenue to slip away. This profit erosion has reached an epidemic point as chargeback figures continue to rise.

Methodology

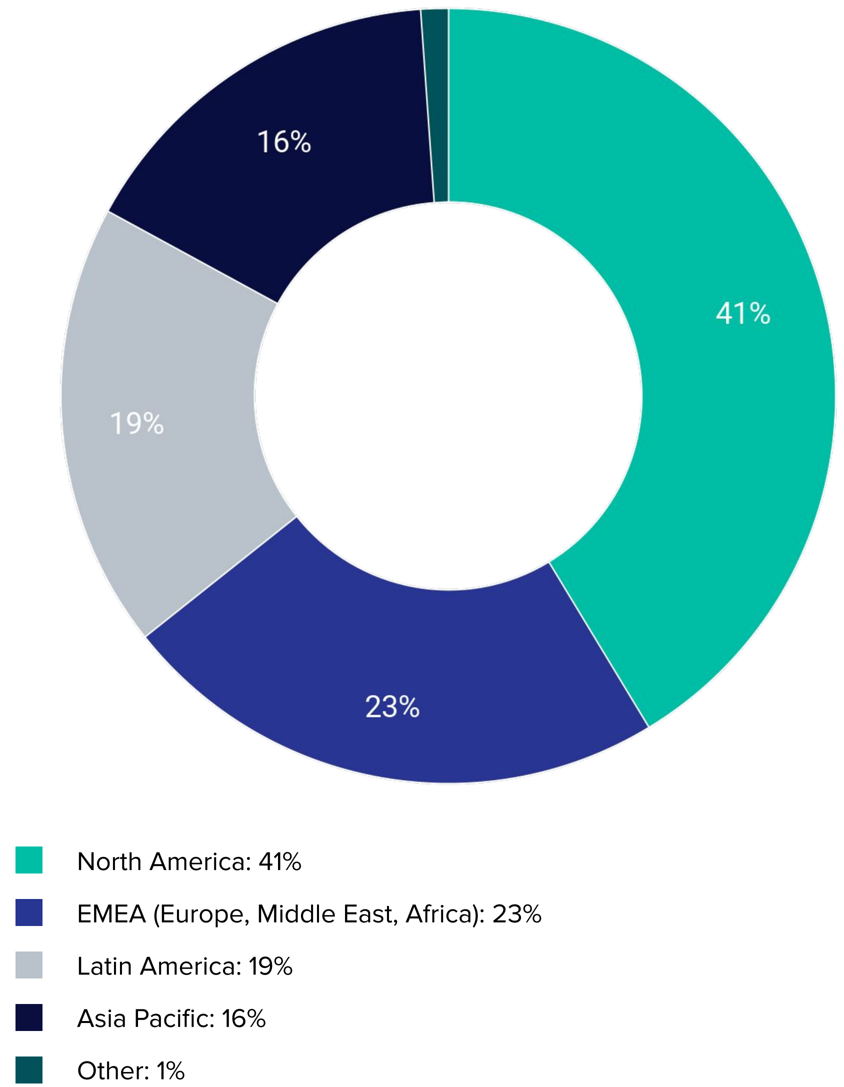
Riskified partnered with industry advisors Paladin Fraud to interview more than **300 merchants worldwide**, specifically the personnel dealing with chargeback management every day, to discover:

- The size of the chargeback challenge
- How merchants manage chargebacks today
- The biggest pain points in chargeback management
- How merchants can realize a brighter future for chargeback management

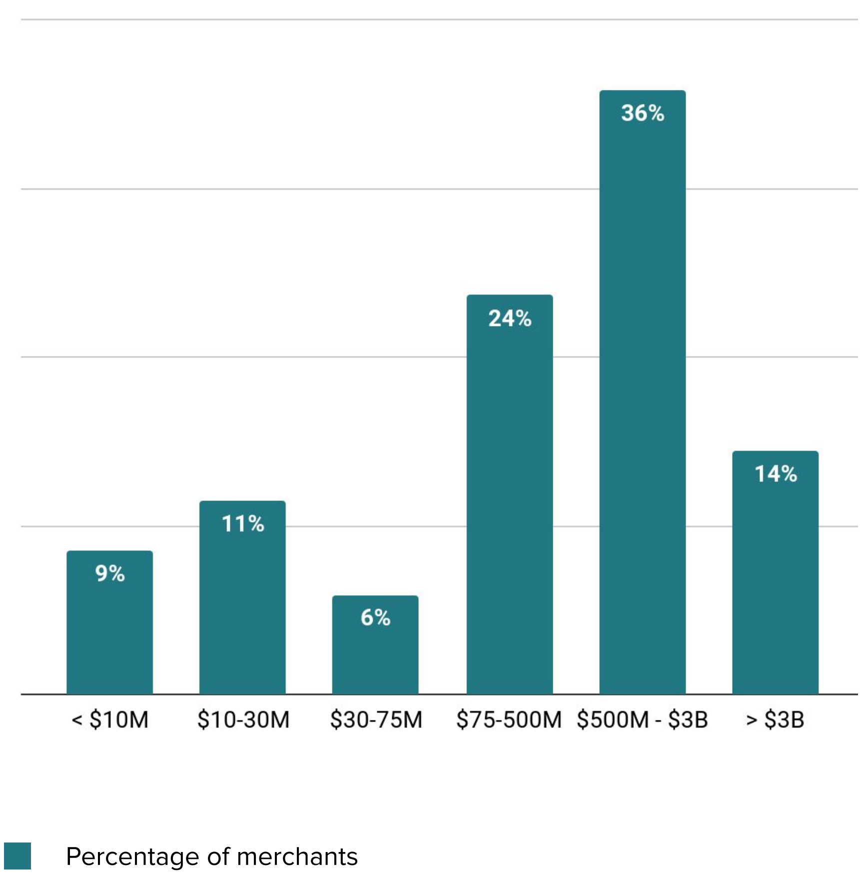
The companies represented include a wide range of verticals across physical and digital goods, including fashion, travel, food (grocery and delivery), electronics, and marketplaces, among others.

The majority of respondents operate within North America, with significant representation from EMEA (Europe, Middle East, Africa), Latin America, and the Asia Pacific regions.

Merchants by region

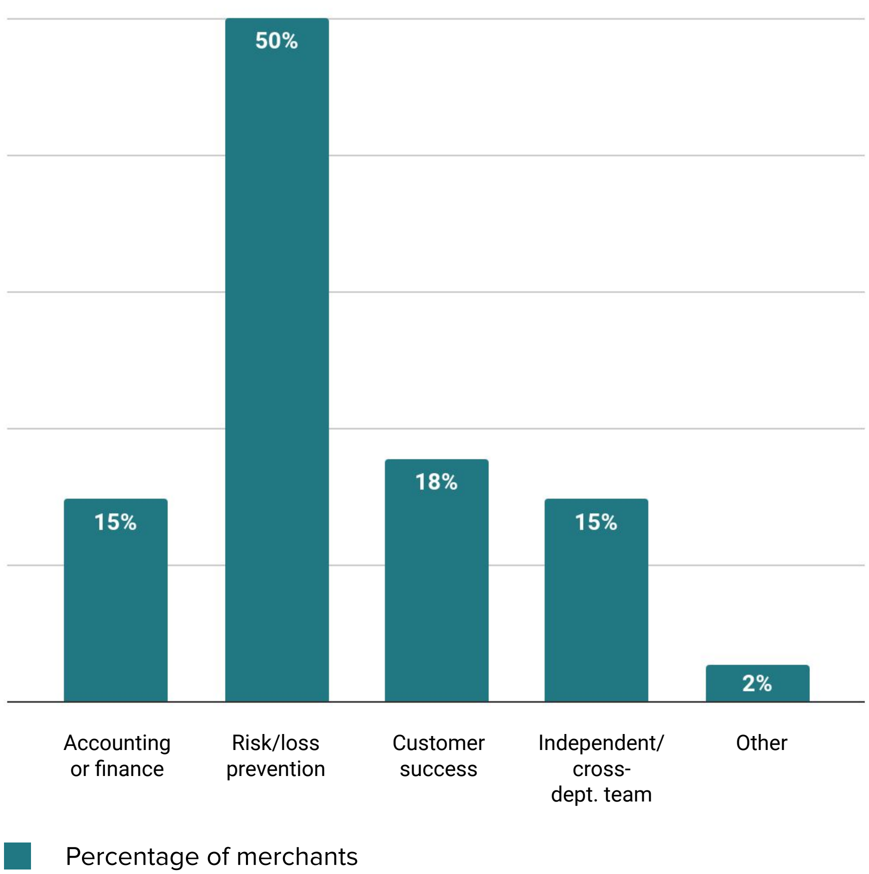


Annual revenue of merchants



A substantial portion of merchants in the study reported annual sales volumes between $500 million and $3 billion, followed by those in the $75 million to $500 million range.

Participants by company department



Chargeback management teams operate through different operational structures. Just over 50% of those in the study report through a dedicated risk/loss prevention team with just under 18% through customer success.

Glossary of four key terms

01

Chargeback rate

The percentage of chargebacks a merchant receives out of all sales.

02

Chargeback win rate

The percentage of chargeback disputes that a merchant successfully wins out of all chargebacks disputed.

03

Chargeback recovery rate

The percentage of chargeback disputes that a merchant successfully wins out of all chargebacks received (whether disputed, accepted, or otherwise).

04

First-party fraud

Also known as "chargeback fraud," "chargeback abuse," and "liar buyer," first-party fraud refers to chargebacks that have been filed fraudulently by customers.

02

How managing chargebacks became chaotic for merchants

In recent years, ecommerce sales surged and chargebacks skyrocketed. In fact, in the last year alone, more than three out of four customers in the United States and United Kingdom filed a chargeback* — an all-time high. Chargebacks now represent a normal part of consumer online shopping behavior and a significant part of ecommerce business management.

Three out of four

customers in the United States and United Kingdom filed a chargeback in the last year alone — an all-time high.*

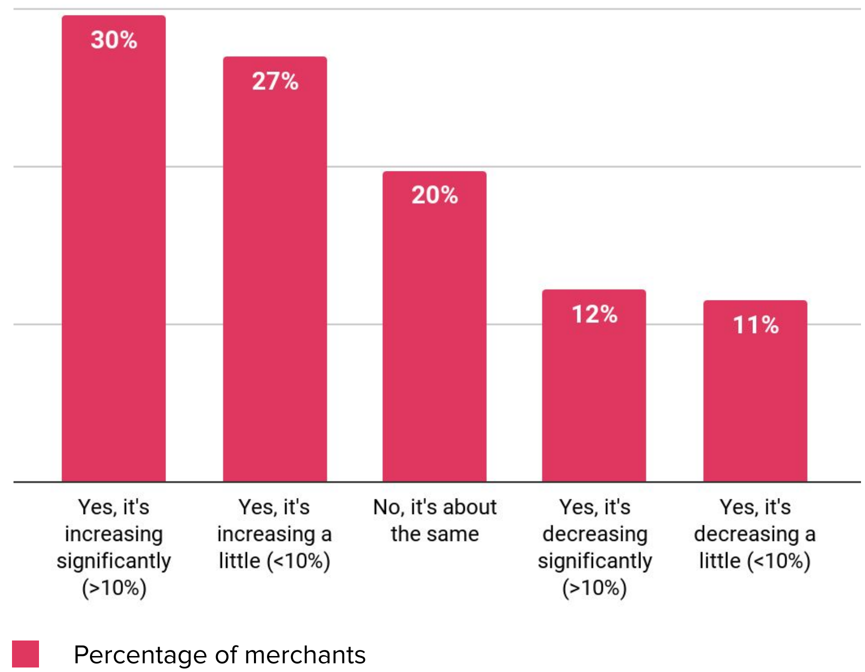
Consumer attitudes towards chargebacks in 2023: Comparing the U.K with the U.S. (Tel Aviv: JUSTT, 2023) https://justt.ai/consumer-attitudes-towards-chargebacks/

The upward trend in chargebacks, in part, stems back to the COVID pandemic. Of course, online returns and chargebacks existed before 2020, but two key behavioral shifts left a lasting impact:

- First, customers were afraid to leave the house to shop, spurring the online shopping boom.
- Second, chargebacks took off as people were also less inclined to go through the returns process, which often involved an in-store visit or a trip to the post office.

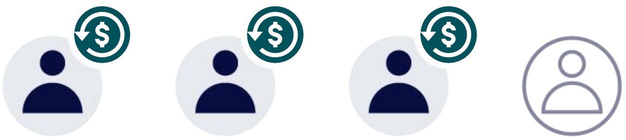
76% of chargeback managers say chargebacks have increased or remained steady in the last year, with more than a third of those describing "significant" growth.

Are you seeing a change YoY in the volume of chargebacks?



Chargebacks became popular during the pandemic for their convenience and safety. Much like online shopping, this chargebacks trend didn't recede when life returned to normal. It's reasonable to assume customer psychology changed too — if successfully reimbursed via a chargeback, customers feel emboldened to claim again. Abusive and fraudulent claims became far more normalized without the traditional feelings of "shame" associated with committing fraud in-store.

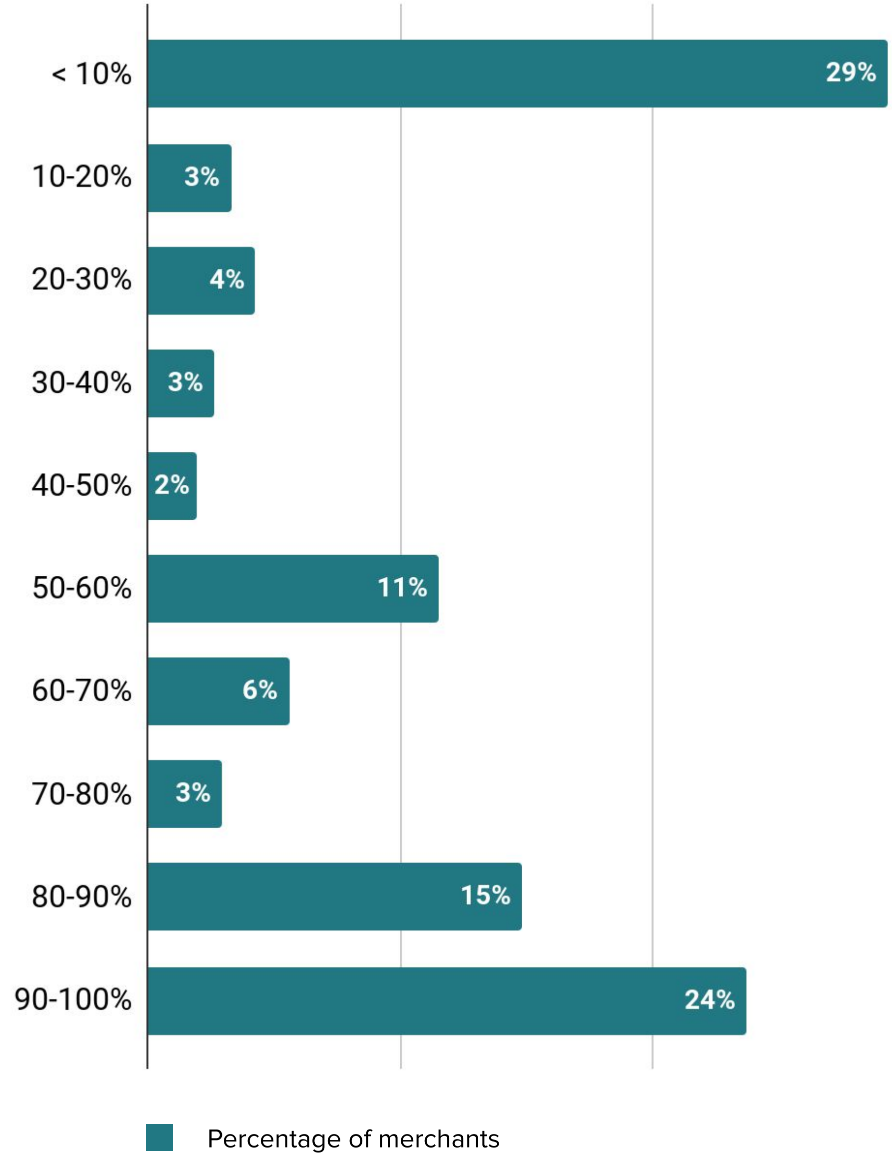
Merchants' profits continue to erode year over year due to chargebacks. With so much effort and cost involved in disputing chargebacks, it's unsurprising many merchants weigh whether it's worth the effort or cheaper, in the long run, to simply accept fraudulent chargebacks as a cost of doing business.



Three in four merchants recover less than half of all chargebacks

Nearly 60% leave 40% or more of chargebacks undisputed

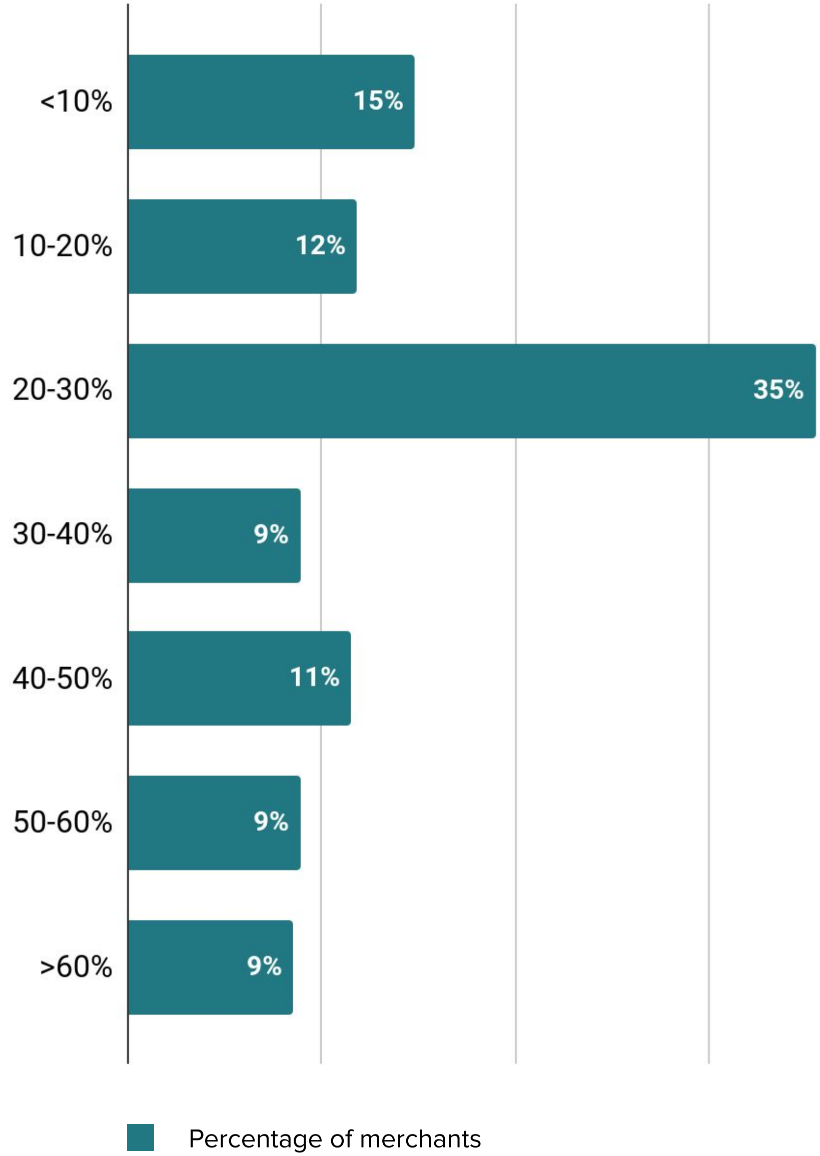
At what rate do you dispute chargebacks?



Merchants face impossible decisions considering which chargebacks they can source enough evidence for or are likely to win. After periods of high spending such as Black Friday/Cyber Monday, soon after comes an influx of chargebacks that teams simply don't have the resources to handle.

More than 73% of merchants believe 20% or more of their chargebacks are first-party fraud.

Fraud chargebacks that are first-party fraud



03

Why chargeback management is so complex

The true cost of chargeback management creeps up from disparate sources, from varying bank processing fees to the cost of goods and services lost — plus the operational expenses to ramp up staff to support chargeback operations during seasonal spikes. With most merchants operating across several payment gateways, truly comprehending the cost and complexity of chargeback management can be a struggle.

The obvious cost — reversal of sale

- Value of lost merchandise
- Shipping costs
- Chargeback processing fee
- Operational costs
  - Full-time employees working on chargeback teams — on average one to three
  - Employee time on each dispute
  - Root cause analysis and prevention
- Marketing costs to promote the item
- Risk of losing an acquiring account and potential fines (in extreme cases)

The findings in this research reveal three key challenges driving chargeback management costs and profit erosion: **operational**, **technical**, and **bureaucratic.**

Key chargeback management challenges

55%

manage multiple chargebacks across multiple systems

55%

find process too time-consuming

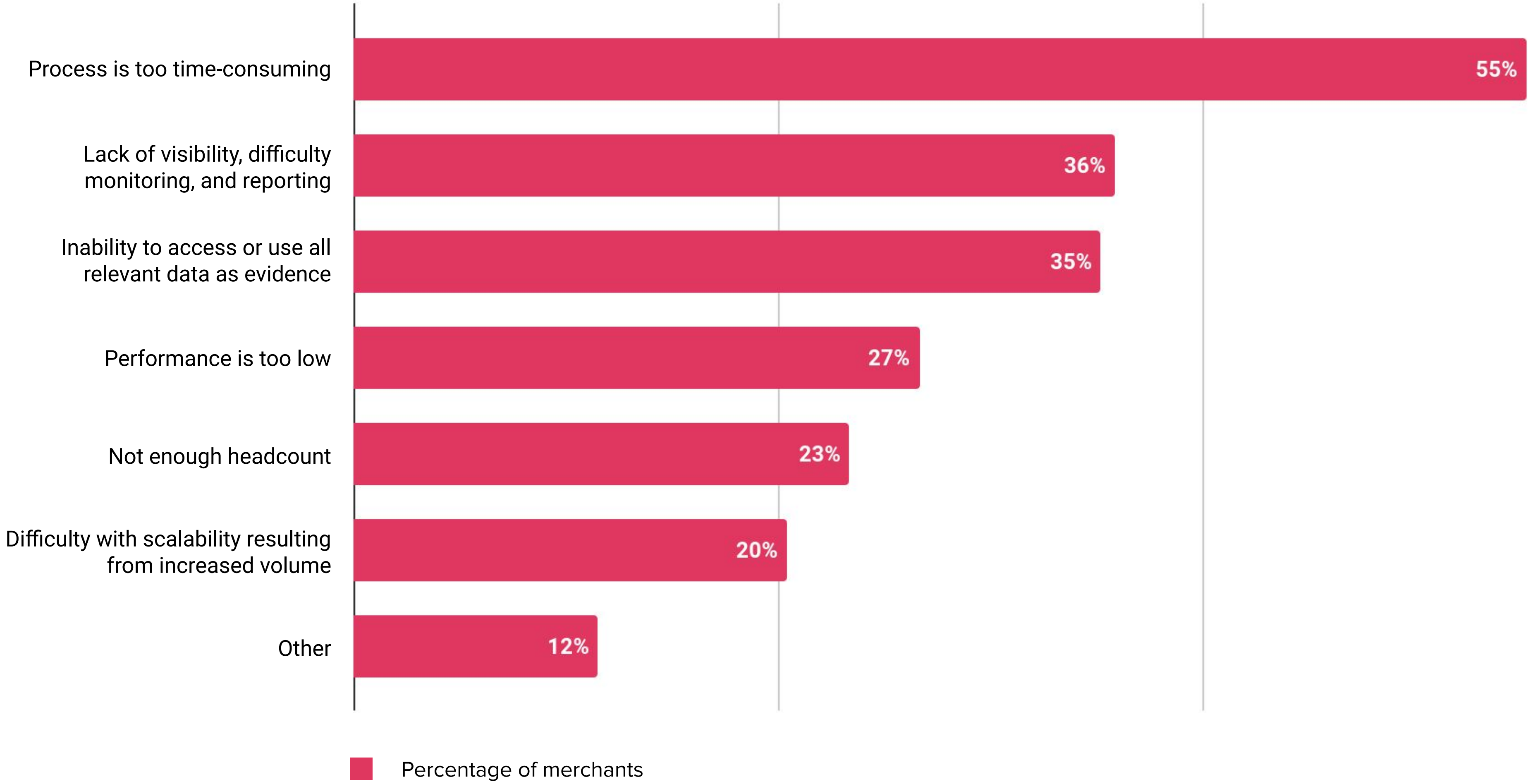
36%

lack visibility and difficulty in monitoring and reporting

35%

can't access or use all relevant data as evidence

Current chargeback management challenges



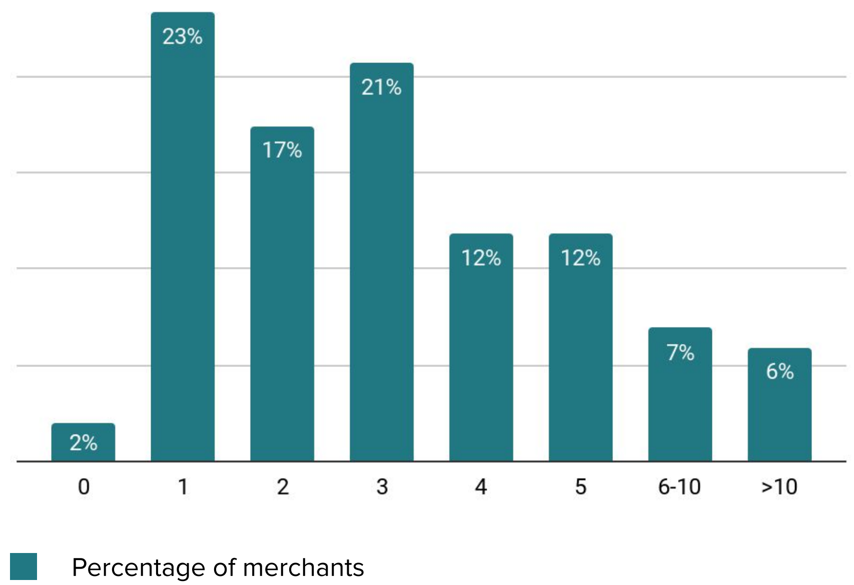
Operational challenges to chargeback management

Today, sizable teams focus on managing chargebacks. Even the “simple” first steps of identifying and categorizing chargebacks takes time. However, just over 60% of chargeback teams operate with only one to three full-time employees, and roughly the same percentage manage chargebacks fully manually.

The hours quickly add up when nearly two in five merchants spend at least 10 minutes per dispute, and 18% spend more than 20 minutes a dispute. Teams also invest significant time in root cause analysis and prevention efforts, a highly resource-intensive activity if done manually. Unsurprisingly then, that 55% think the process is too time-consuming.

61% of chargeback teams operate with one to three full-time employees.

Number of full-time chargeback management employees



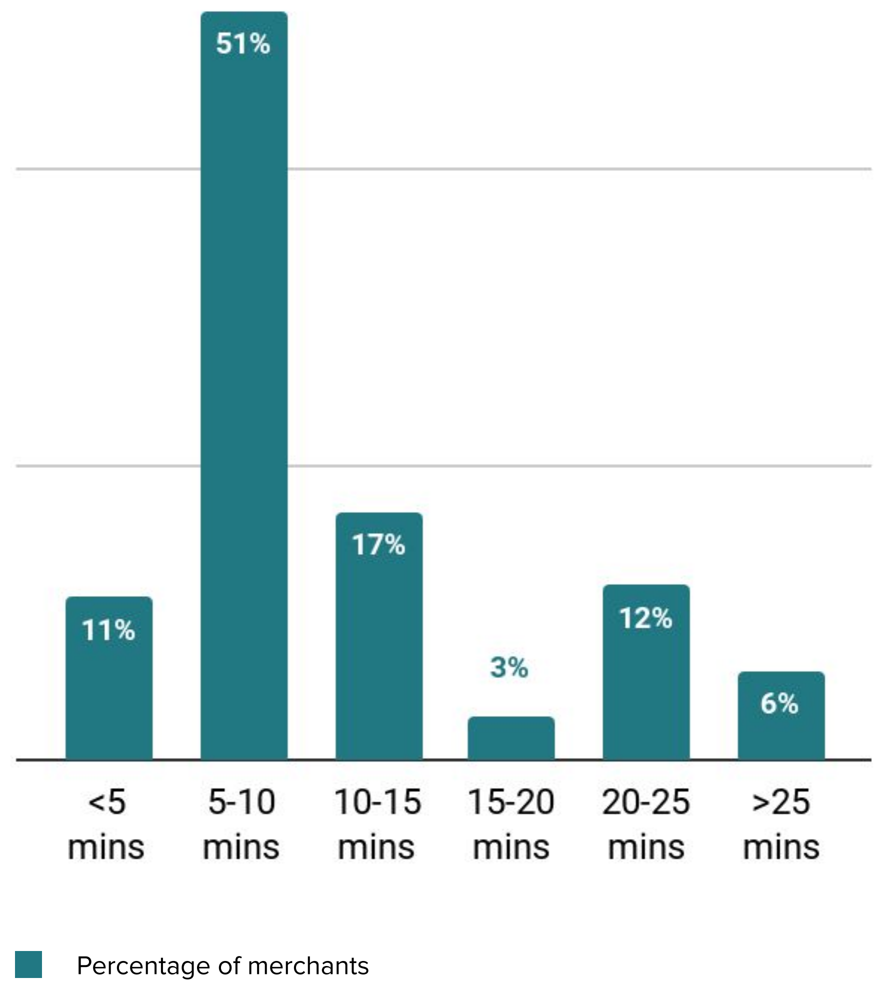
Operational challenges to chargeback management

To win a chargeback dispute, merchants need to compile evidence from various gateways, teams, and data streams. This means disputes and evidence can easily fall through the cracks, not forgetting that teams outside of fraud and chargeback management will naturally consider it less of a priority to find and supply evidence, which can further hamper efforts.

Two out of five merchants spend at least 10 minutes per dispute

18% spend 20+ minutes per dispute

How much time one chargeback takes to process



Technical challenges to chargeback management

Technical challenges also cause major headaches in chargeback management. Most merchants work with several payment service providers (PSPs) and acquirers, so a major challenge here is the fragmented technical operation that unfolds.

First of all, teams access and correlate information from various disconnected systems, making the process slow and complicated. Collecting and organizing evidence from separate sources adds to the manual load, leading to increased human processing time and higher risk of errors. Finally, the disparate, disjointed systems create fragmented data that teams struggle to collate, interpret, and make effective use of. The end result: a lack of clarity into dispute performance, and difficulty tracking and reporting on KPIs.

Merchant responses support this — more than half (55%) found having to manage chargebacks across multiple systems was a major challenge. The inability to access or use all relevant data as evidence remains a key challenge for 35%, while a similar number felt a lack of visibility and difficulty in monitoring and reporting were major hurdles.

55%

manage multiple chargebacks across a variety of systems

35%

can't access or use all relevant data as evidence

Bureaucratic challenges to chargeback management

Disputing chargeback claims also comes with lots of regulations and rules, primarily from card schemes and issuers, that make the process more complicated and require merchants to keep an eye on changes and update processes quickly in line with regulations.

Payment networks enforce increasingly stricter guidelines about how much information they need to authorize a chargeback. Periodically, these regulations evolve too. For example, Visa rolled out Compelling Evidence (CE) 3.0* in April 2023 for fraud chargebacks, while PayPal changed its Seller Protection Program** rules in January 2024. Both of these required merchants to quickly adjust processes to maintain compliance and successfully file disputes. Finally, in extreme cases of excessive chargebacks, merchants risk losing acquiring accounts or racking up potential fines.

*Alon Livneh, *"Updates to Visa Compelling Evidence: What to know about CE 3.0" Riskified, March 9, 2023.*
** Daniel Kolko, *"PayPal announces seller protection rule changes for merchants — here's what's changed" Justt.ai, January 2, 2024.*

Spotlight: Travel and chargeback management

The research revealed that travel companies on the whole benchmark higher than any other industry for annual chargeback rates and illustrates some of the key challenges:

- **Lower-than-average recovery rates:** Nearly 90% of respondents see revenue recovery of less than 45%, and zero of the travel merchants surveyed saw recovery rates above 60%.
- **High rates of first-party fraud:** Half of travel merchants estimated their rate of abusive chargebacks above 40%.
- **Worryingly low dispute rates:** Just over 50% of travel merchants dispute less than 10% of their chargebacks, and only 14% dispute between 80% to 100%.
- **Big internal teams:** The majority have four full-time employees, while 21% have more than five employees dedicated to chargebacks.

What would make the difference?

Travel merchants overwhelmingly (86%) want to **automate** some or all of the process. They'd also like to have **one centralized platform** and the ability to make **better use of data** to dispute chargebacks.

Travel merchants (86%) overwhelmingly want to automate some or all of the chargeback management process.

Special consideration: Online travel agencies and chargebacks

Online travel agencies (OTAs) face acute, unique challenges with chargebacks because of the intermediary role played between customers and airlines. OTAs have no direct control over much of the data needed to evidence and dispute a chargeback, including data and transaction details from the airline, proof of service, or customer interaction insights. Relying on airlines to provide accurate and timely information therefore exacerbates existing chargeback management challenges and significantly hinders the ability to dispute chargebacks.

04

Chargeback management transformed — from cost bucket to revenue recovery machine

Chargeback management crept up on the ecommerce industry as an issue. Rising chargeback rates exacerbated the complexity and lost revenues to a point where it can no longer be ignored. Just as fraud prevention shifted in the last decade to become more sophisticated and AI-based, chargeback management is ready to have its digital transformation moment.

How can chargeback management be more effective and efficient?

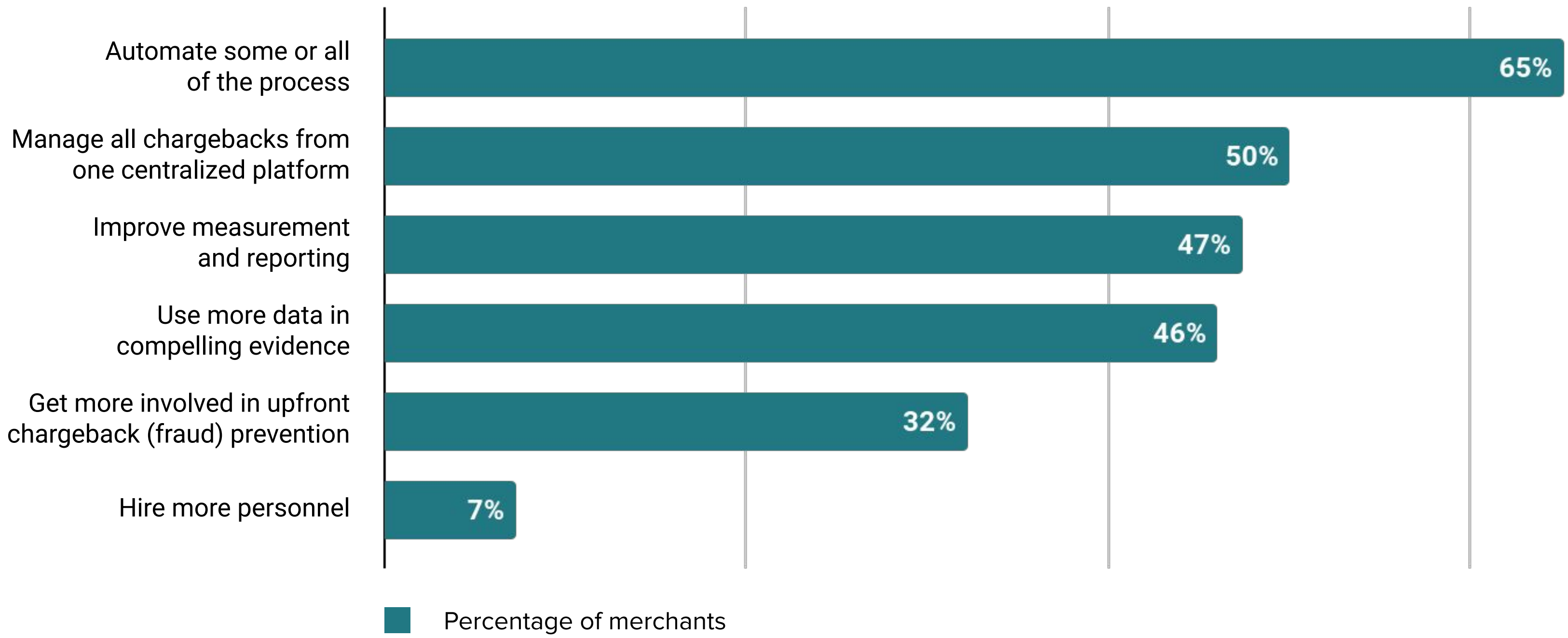
Merchants currently use a combination of in-house, third-party, or a hybrid approach to management, with the majority (59%) managing all in-house.

Regardless of what approach they take or plan to take, chargeback managers know they have significant room for improvement to recover more revenue and increase efficiency, accuracy, and measurement.

Most important ways to change chargeback management

- **Increased automation:**
  The most requested improvement across merchants (65%) was for a more automated process.
- **Simple, centralized access:**
  Half of respondents stressed the need to be able to access all chargebacks in one place.
- **Better labeling and evidence management:**
  Less than 15% of respondents customize compelling evidence by gateway/PSP, just 17% by issuer, and a staggering 35% don't even customize for reason categories.
- **Improved prevention strategies:**
  One third of chargeback managers felt that they could get more involved in prevention, using root cause chargeback data as a feedback loop into the fraud-screening process.

Top ways to change chargeback management



65%

automate some or all of the process

50%

manage all chargebacks from one centralized platform

47%

improve measurement and reporting

46%

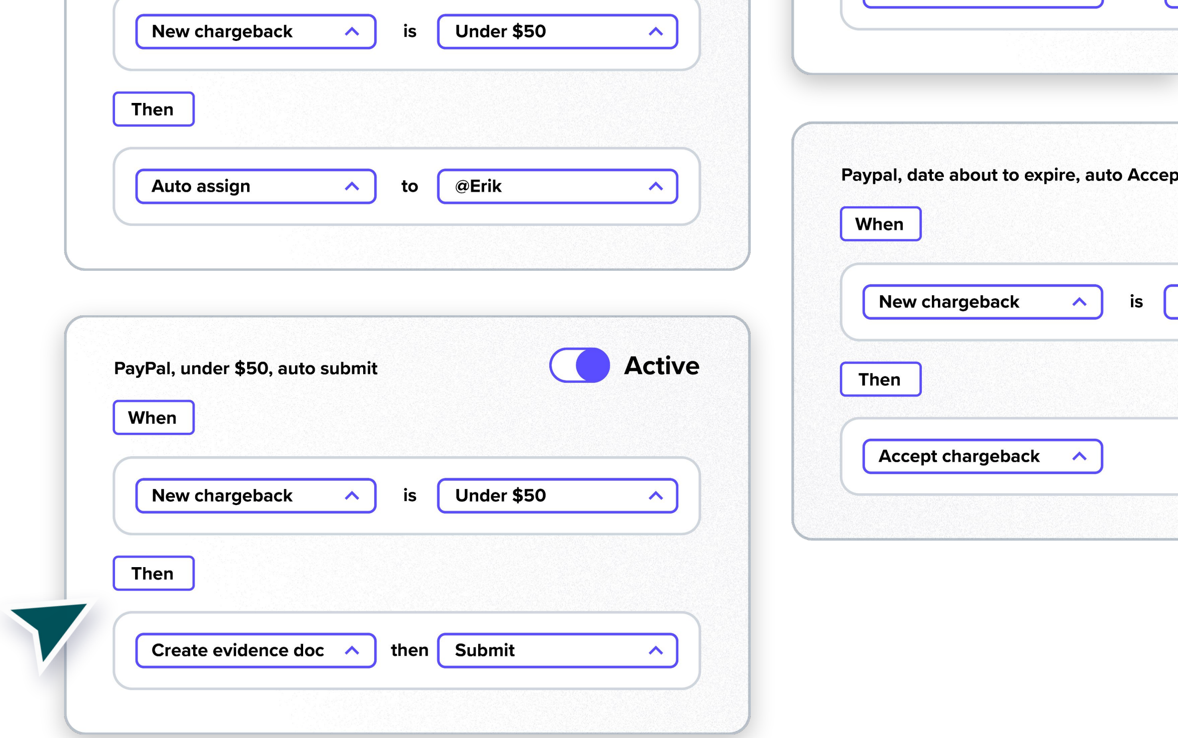
use more data in compelling evidence

32%

increase involvement in upfront chargeback prevention

05

Four ways merchants can improve chargeback management



01 Automation

Applying automation to some or all of the chargeback management process increases efficiency more effectively than any other action. Automation can be applied in a tiered strategy too. For example, lower value or more straightforward chargebacks can be automated, while more complex, sensitive, and higher value cases handled with the expertise of agents. Automation also frees up teams to focus on more strategic and challenging disputes and empowers them to tackle what might previously have gone uncontested.

Four ways merchants can improve chargeback management

02 Platform consolidation

Centralizing different chargeback sources not only makes life easier for chargeback managers but stops chargebacks and key evidence from falling through the cracks. A centralized platform can serve as a one-stop shop for chargeback management, while also storing all historical data, documents, and evidence.

03 Data management and reporting

Building on the above, chargeback managers struggle to compile, label, and slice data as they need to. As a result, understanding performance and reporting become challenging. Having better means to capture and categorize chargebacks today can help give a clear sense of rates, improvement over time, and also provide a feedback loop to improve upfront screening.

04 Offense is the best defense

What's better than managing chargebacks more effectively? Preventing them in the first place. All of the above can help feed into merchants' ability to help improve their prevention rates by identifying specific chargeback drivers (such as product lines, carriers, or regions), and concentrating efforts on upfront screening.

About Paladin Fraud

Founded by a group of insider industry experts who knew what fraud prevention can and should be, [Paladin Fraud](#) offers an extensive and customizable suite of services for both merchants and vendors. We strategize for the long game, helping clients and partners defend against today's threats — and tomorrow's. Paladin places special focus on education and training, arming merchants and vendors with the insight they need to stay on top.

About Riskified

[Riskified](#) (NYSE:RSKD) empowers businesses to unleash ecommerce growth by taking risk off the table. Many of the world's biggest brands and publicly traded companies selling online rely on Riskified for guaranteed protection against chargebacks, to fight fraud and policy abuse at scale, and to improve customer retention. Developed and managed by the largest team of ecommerce risk analysts, data scientists and researchers, Riskified's AI-powered fraud and risk intelligence platform analyzes the individual behind each interaction to provide real-time decisions and robust identity-based insights.

For more information, visit Riskified.com or contact a chargebacks expert at hello@riskified.com.