



# Chargeback Representment

Leveraging Dispute Intelligence to  
Fight Chargebacks & Recover Revenue



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## Executive Summary

Every chargeback tells a story. Here at Chargeback Gurus, we find this story by studying hundreds of data points associated with the transaction, the merchant, the payment processor, and the buyer. We can then use the knowledge uncovered by our business intelligence and data science Gurus to fight chargebacks and recover lost revenue as well as help our merchants prevent more chargebacks in the future.





# Chargebacks: A Brief Overview

A chargeback is a payment that's returned to a debit or credit card when a customer disputes the transaction. The chargeback process is usually initiated when a cardholder calls their issuing bank to contest a charge on their account. If the issuing bank grants the request of the cardholder, a chargeback is filed.

A cardholder may raise a dispute if they don't recognize a charge on their account or if they didn't get what they paid for. In some cases, the cardholder may be trying to get something for free, disputing a charge even though they received the product in good condition. This is known as friendly fraud or first-party fraud. The other types of chargebacks are true fraud and merchant error. True fraud, or third-party fraud, occurs when a fraudster makes an unauthorized purchase with someone else's payment credentials. Merchant error includes issues like undelivered products, duplicate charges, etc.





Chargeback representment is the process through which merchants can submit evidence to prove that a chargeback is illegitimate. The issuing bank will evaluate the evidence provided and, if they find it compelling, reverse the chargeback.

Every business that accepts credit cards for payment must have a plan for dealing with chargebacks. They affect businesses of every size and industry, and their numbers keep growing every year.

However, many merchants fail to pursue revenue recovery efforts. According to a report released by Javelin Strategy & Research, 46% of merchants say they don't have the personnel to fight chargebacks and 43% feel they have no chance of winning a dispute<sup>1</sup>. A lack of effective chargeback analytics affects 60% of merchants.

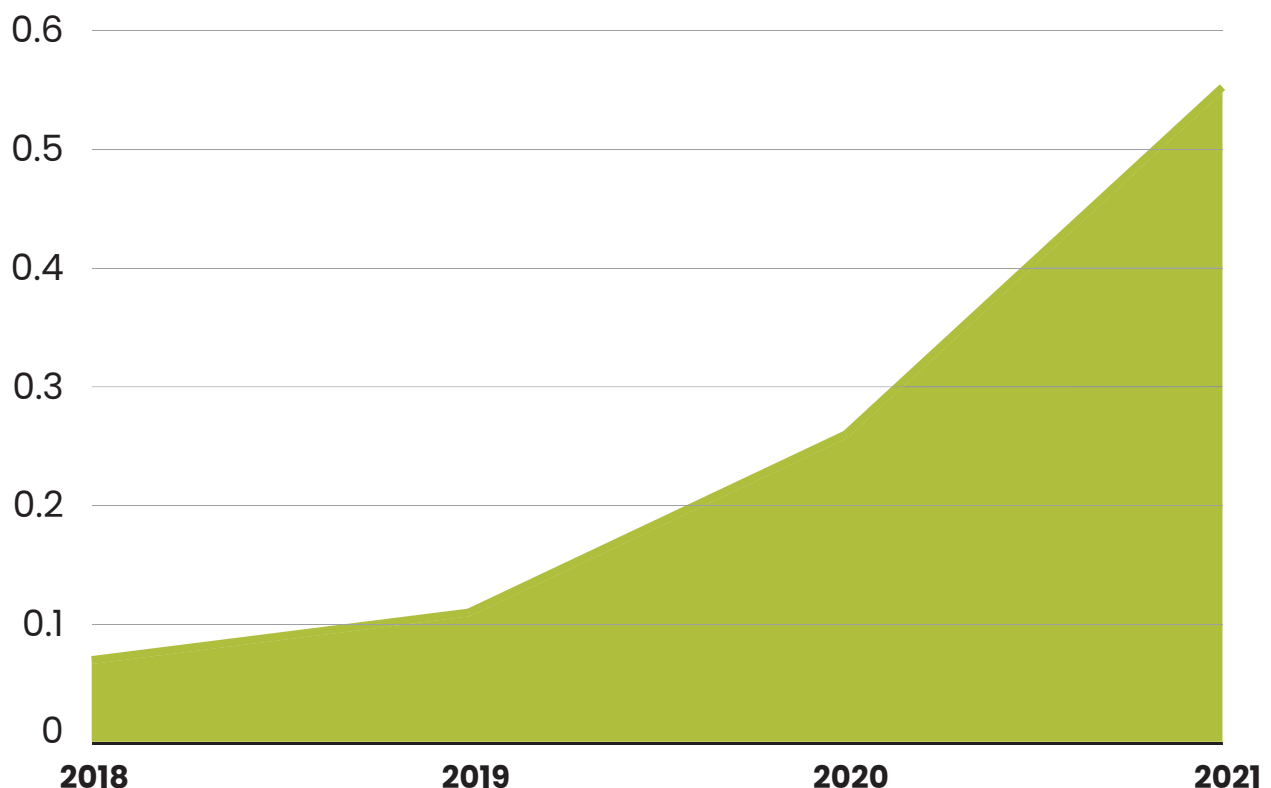
**“Every business that accepts credit cards for payment must have a plan for dealing with chargebacks.”**



## Current Trends

The number of chargebacks merchants receive has grown throughout the pandemic and through the first quarter of 2022<sup>2</sup>. Lockdowns and general concern about health and welfare lead to huge increases in online purchases, creating more opportunities for both friendly fraud and true fraud.

**Growth in Chargeback Volume by Year**



While the rate of friendly fraud has recently come down from its peak during the height of the pandemic, it has still increased significantly since 2019.

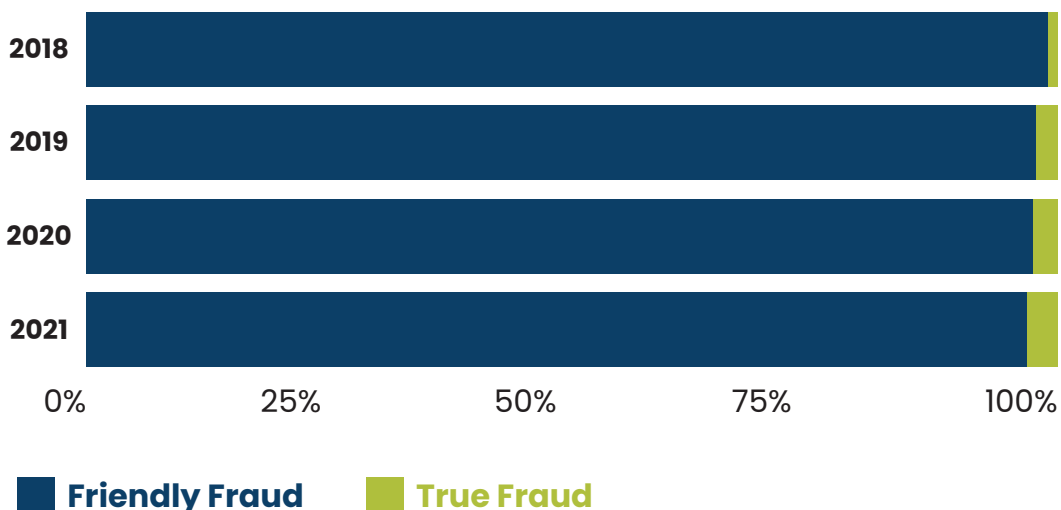
### Increase in Friendly Fraud from 2019 to 2021

**131.46%** ↑

Meanwhile, true fraud has continued to grow. The rapid increase in true fraud over the past few years can be traced to two main causes.

- The growth of e-commerce means more merchants and cardholders to target.
- EMV chip cards have made card-present fraud more difficult, shifting focus to the card-not-present space<sup>3</sup>.

### True Fraud is Growing Year-over-Year



# Challenges in Chargeback Representation

There are many possible causes of chargebacks, most of which are things outside the merchant's control. Constantly changing guidelines also make it difficult for merchants to recover their lost revenue through representation. A modern dispute resolution platform with the ability to leverage collected data to improve the merchant's win rate can be a critical tool to help meet these challenges.





# Leveraging Data for Effective Representment

Leveraging Data for Effective Representment  
Chargeback Gurus provides merchants with the best dispute resolution platform available. It can help merchants not only maximize their recovery rate but also identify the root causes of their chargebacks and find ways to prevent them. The platform provides three different types of analytics:

1. Descriptive Analytics.
2. Predictive Analytics.
3. Prescriptive Analytics.

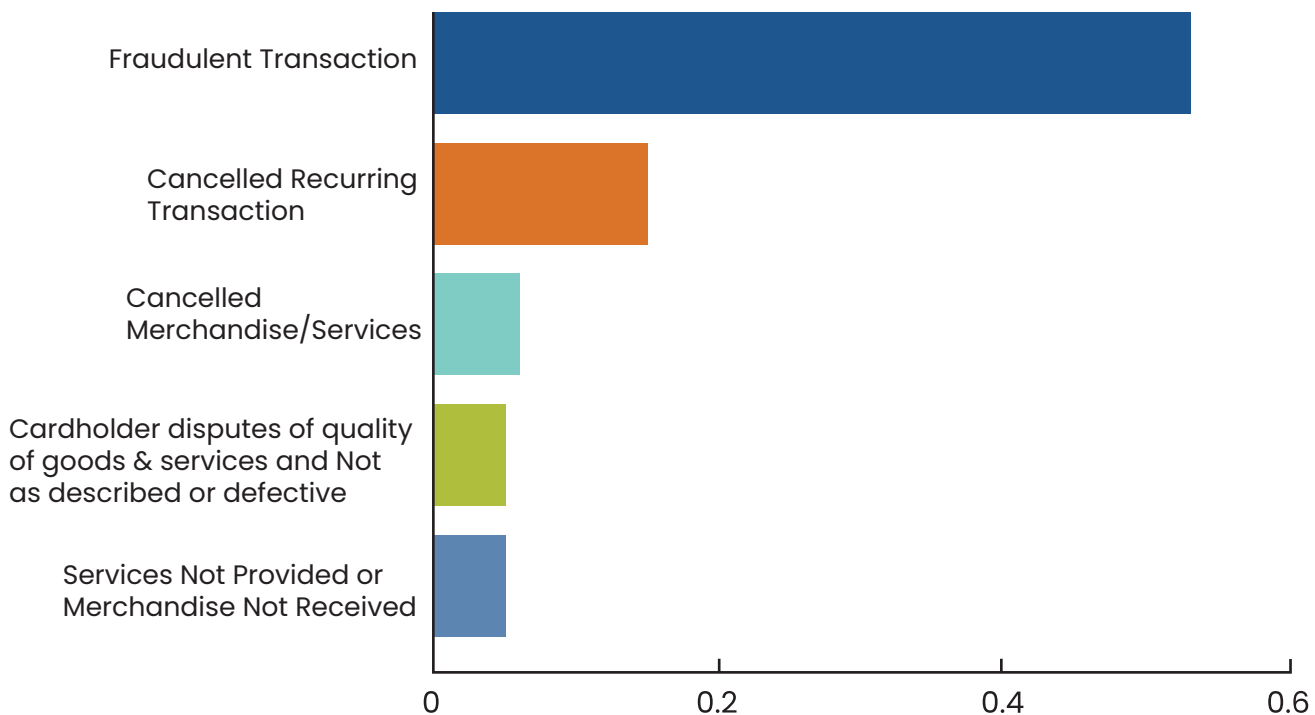
## Descriptive Analytics

Descriptive analytics aggregates data and uses statistical analysis to uncover trends and patterns. The primary purpose of descriptive analysis is to represent clearly what has happened in the past.

**“It can help merchants not only maximize their recovery rate but also identify the root causes of their chargebacks and find ways to prevent them.”**

Tracking metrics such as chargeback reason codes, chargeback status, transaction refund status, root causes, and lag time, we can see clear patterns and trends over time.

### Top 5 Reason Code Groupings of 2021



The reason code is the most relevant data point in any chargeback, as it indicates exactly what evidence will be required to refute it. It also allows you to categorize, quantify, and track chargebacks by type. Analyzing your win/loss ratio for different reason codes will show you if there are certain chargeback categories you aren't fighting effectively.



Keep in mind that reason codes aren't always the real reason behind the chargeback. Banks tend to simply take the cardholder's claim and match it to the closest applicable reason code.

By combining data about the root causes of chargebacks with the reason codes attached to them, we can gain a greater understanding of the chargebacks a merchant receives.

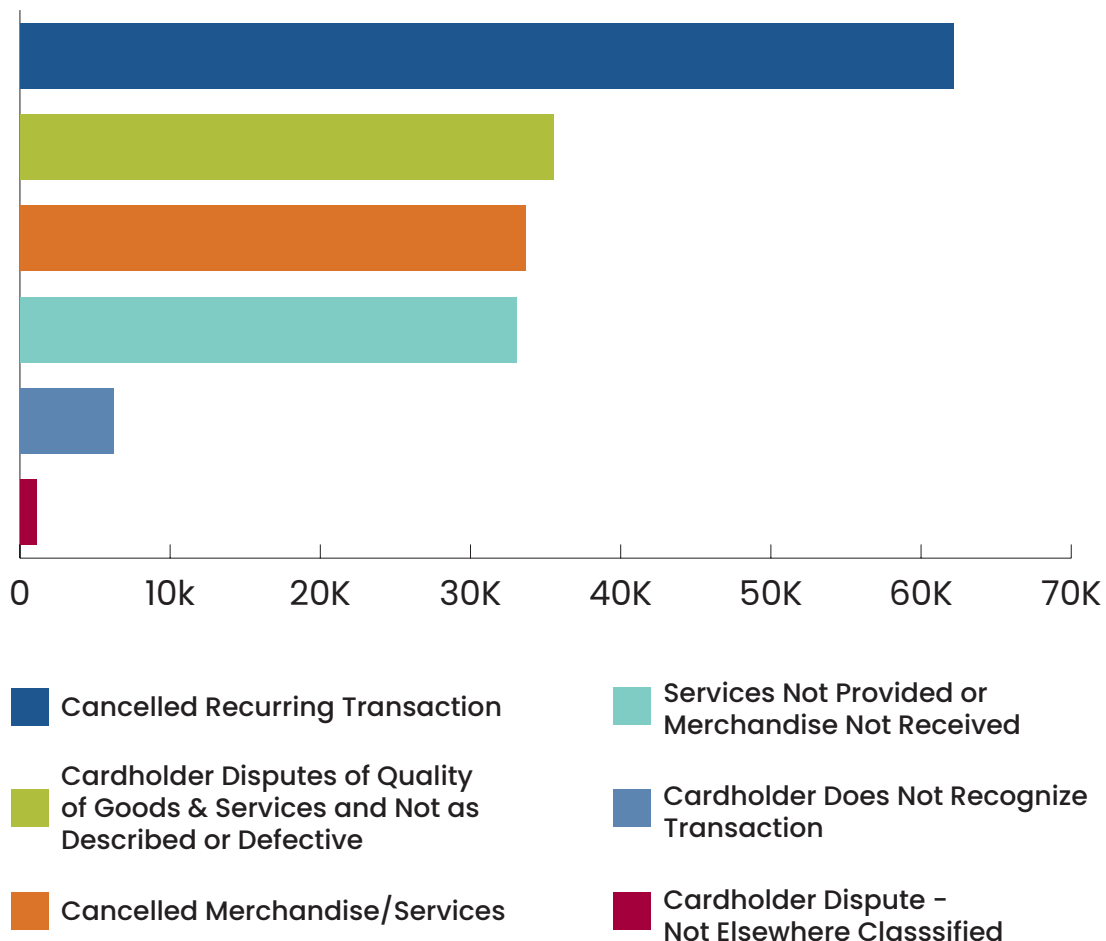
Not all chargebacks are legitimate, and merchants suffer a great deal due to illegitimate friendly fraud chargebacks. While chargebacks are an appropriate remedy for cases of friendly fraud, some buyers abuse the dispute process to commit fraud themselves. Merchants must fight these chargebacks with evidence disproving the cardholder's claim. In chargeback representment, the first step is then to determine whether to fight the chargeback.

**“The reason code is the most relevant data point in any chargeback, as it indicates exactly what evidence will be required to refute it.”**

The merchant must determine the legitimacy of the chargeback and evaluate the strength of the evidence they would be able to present. Once the merchant decides to fight the chargeback, they should take a look at their win/loss ratio in similar cases.

If a merchant loses frequently even after submitting compelling evidence, it may be due to the processor or issuer having very specific requirements that the merchant often fails to meet. The representment package for a given chargeback should be tailored to the specific issuer receiving it, which is why having a wealth of chargeback data to analyze is so important.

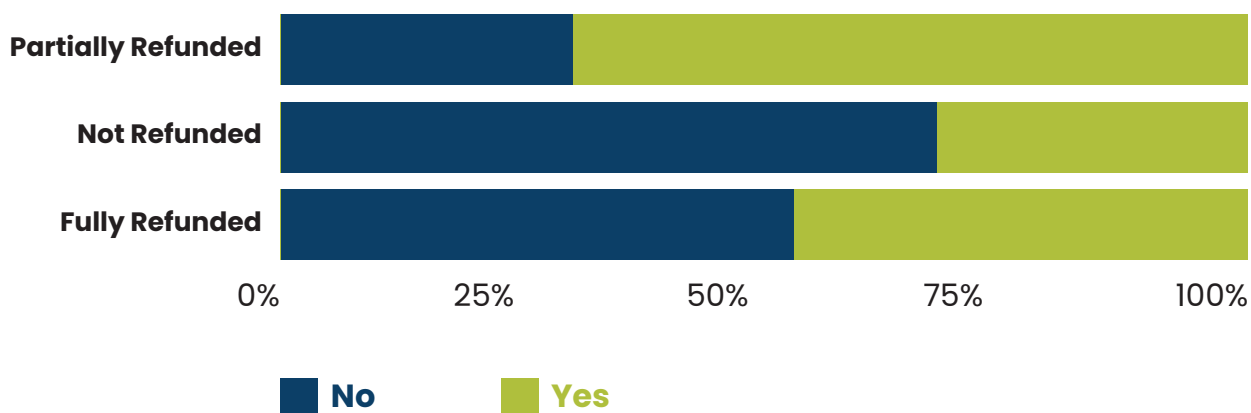
### Unethical Disputes by Reason Code Grouping



Some chargebacks are caused by merchant error. When a merchant fails to issue a refund for a legitimate issue, especially if the customer contacted the merchant and didn't receive a response, a chargeback will often result. Analyzing chargeback data can show how merchants can improve their business processes to prevent such chargebacks.

Insufficient fraud prevention tools (AVS, CVV matching, risk scoring, etc.) and processing errors such as duplicate charges can also lead to legitimate chargebacks. Once again, these problems can be identified through descriptive analytics, helping merchants improve their business and reduce chargebacks naturally.

**Percent of Customers Contacted by Refund Status**



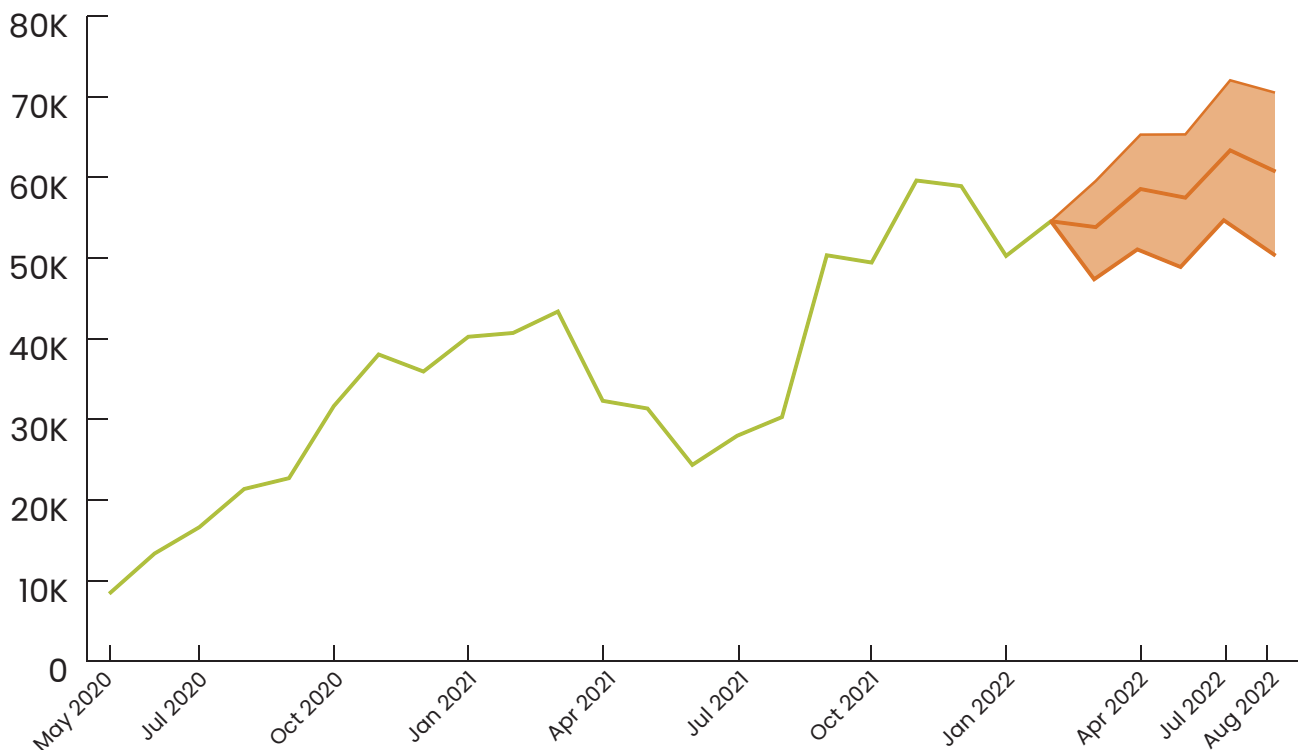


## Predictive Analytics

Chargeback Gurus is blazing a trail in the use of predictive analytics for chargeback forecasting and fraud prevention. A dedicated team of data scientists and business intelligence analysts use state of the art machine learning to predict changes in a merchant's chargeback rate.

### Chargeback Volume Forecast

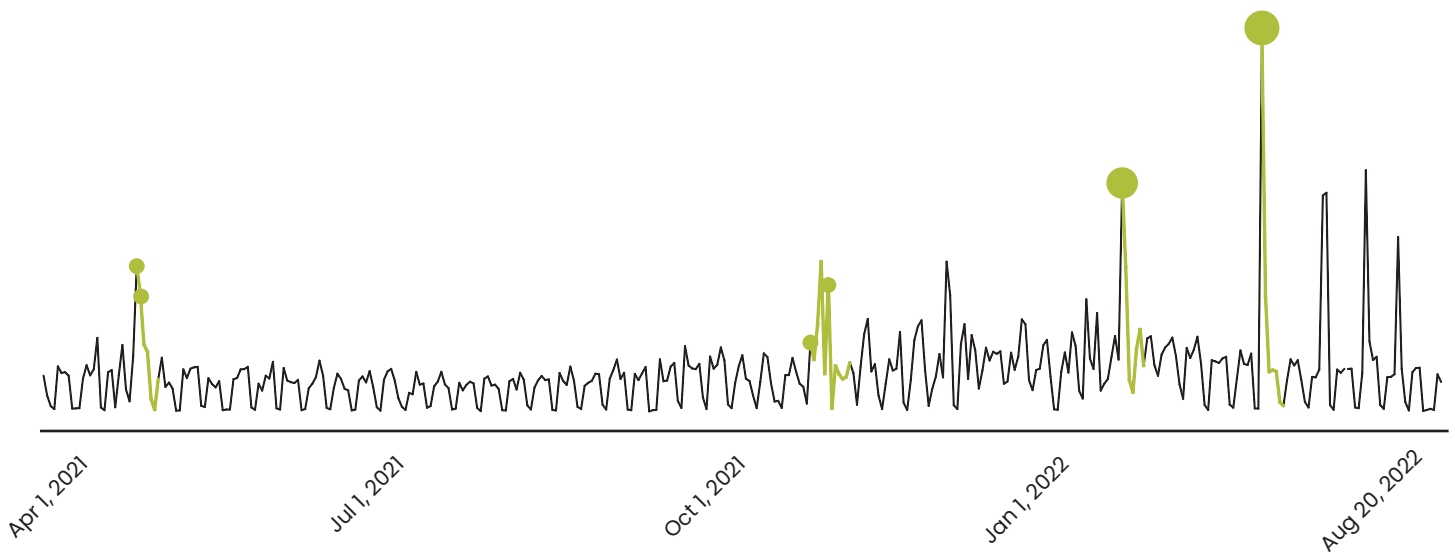
We use ensemble machine learning algorithms like Random Forest as well as deep learning networks for sequential/time-series data like Long Short-Term Memory (LSTM) to forecast chargeback volume.



## Chargeback Lag Anomaly Detection

We use unsupervised machine learning algorithms, isolation forests & LSTM autoencoders to detect anomalies in selected chargeback metrics.

Chargeback lag—the time between the transaction date and the chargeback date—is a useful metric for tracking increases in fraud. Our system tracks the number of chargebacks with a given lag time and looks for any sudden spikes.



## Prescriptive Analytics

Prescriptive analytics combines results from descriptive analytics and predictive analytics to help merchants improve their business processes, thereby decreasing their chargeback rates and improving their win rates.

VEDA - Advanced Dispute Intelligence, our latest advancement in chargeback analytics, helps merchants examine the available data in detail and provides actionable insights that can increase revenue and customer retention.

# What is VEDA?

VEDA is an advanced dispute intelligence that provides you advanced analytics and automated reportings.

You need VEDA if you want to:

- Predict Precise Chargeback Spikes
- Forecast Revenue Recovery
- Spot Fraud Patterns at a Glance
- Tailor Dispute Data to Your Needs





## Conclusion

As the fraud landscape changes and evolves, so too does the chargeback landscape. In today's payments ecosystem, we're seeing the proliferation of professional refunders who help buyers commit friendly fraud while taking 10-40% of the transaction for themselves. To fight these illegitimate chargebacks, merchants have the evidence to support their case and the data to present it as effectively as possible.

Legitimate chargebacks should also be studied carefully. They provide useful insights into cases of true fraud and merchant error that can be used to make meaningful process improvements.

Chargeback management in the 21<sup>st</sup> century must be an integrated part of business operations, using data mining and business analytics for effective revenue recovery and effective prevention.



## References

1. Javelin Strategy & Research, "Merchant Chargebacks: Building Brand Value by Optimizing Efficiencies," Aug 25, 2021
2. Chargeback Gurus data
3. Tom Groenfeldt, "As EMV Chips Make In-Store Fraud Harder, Fraudsters Move Online," Forbes, Feb 28, 2017



# About Chargeback Gurus

Chargeback Gurus is a global fintech company that helps merchants prevent, fight, and reverse chargebacks. Merchants often fail to grasp the full extent of the impact chargebacks are having on their revenue and their reputation. With help from the experts at Chargeback Gurus, merchants can recover lost revenue, increase customer retention, and protect their bottom line. Chargeback Gurus can augment in-house staff or manage the entire dispute process end-to-end.

To learn more, visit [www.chargebackgurus.com](http://www.chargebackgurus.com) or email [win@chargebackgurus.com](mailto:win@chargebackgurus.com).

