CHARGEBACK GURUS

ENTERPRISE CHARGEBACK MANAGEMENT

Solutions. Strategies. Best Practices.

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Chargeback Global Impact

Chargebacks are a problem for all retailers, but enterprise retailers are facing an unprecedented impact of chargebacks on their business. Between July and September 2020, consumers spent about $199.44 billion online.

While there are external factors for why that number is so high, it's not unexpected regardless. Consumers have been moving online for years, and major enterprise retailers have been developing sophisticated marketing and purchasing digital storefronts to support that new incoming business.

This increase in online shopping leads to an increase in Card-Not-Present (CNP) purchases online and on mobile devices, which can, and has, led to a sharp increase in fraudulent purchases as well as chargebacks due to fraud and non-fraud reasons.

Chargeback Considerations

According to the Federal Trade Commission (FTC), credit card fraud is the fastest growing form of identity theft. It had already jumped 104% from 2019 to 2020 and only grew further due to online shopping and quarantine.

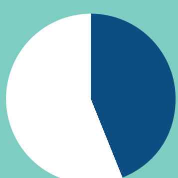
Research from ACI worldwide demonstrates that non-fraud chargebacks increased by 25% in 2020. Common reasons were rebooking and non-delivery of items.

A survey from Chargeback Gurus shows that the increased use of mobile payment options like Apple Pay and Google Pay now account for as much as 5% of chargebacks.

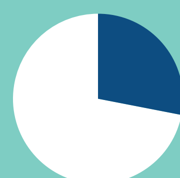
A newer form of friendly fraud, called "return fraud," has picked up steam in the last few years. Here, a fraudster orders an item and has it sent to an address without the knowledge of the inhabitant of the home (or, in some cases, with their tacit knowledge). The fraudster then asks for a refund for the item and potentially gets the item before it is returned (usually by instigating an address change for shipping after the refund has been initiated).

Data on the Causes of Chargebacks through 2019*:

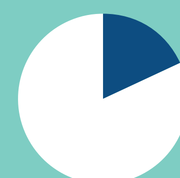
Chargebacks can have a huge impact on the revenue stream of enterprise retailers, so much so that many retailers already work with chargebacks in some capacity. But with the explosion of chargebacks and fraud, there has been a concurrent explosion of chargeback management, prevention, and recovery solutions on the market to support the needs of enterprise clients.



Friendly Fraud
44.16%

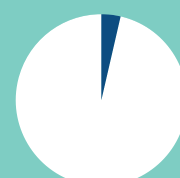


True Fraud
28.28%



Merchant Error
18.21%

Inconclusive
9.02%



Customer Error
3.82%

*Based on a survey from Chargeback Gurus

Chargeback Challenges Faced by Enterprise Merchants

Chargebacks are a challenge for any business. Enterprise merchants, however, face unique challenges that stem from both their size and their approach to business. Many of these challenges can be connected to a lack of dedicated focus on the problem of chargebacks and a lack of real data and analytics.

Some of these challenges include:

Inability to determine the true ROI of representment in-house:
Often enterprise merchants use multiple payment processors, and this brings different status codes between different processors and banks. Reason codes differ and rules around disputes and arbitration vary between different processors. This fact makes it very difficult to map causes and effects across all of those processors, which in turn makes it incredibly difficult to track ROI.

Lack of dispute analytics to determine root causes of chargebacks:
To understand costs and charges is to understand root causes, and the best way to learn root causes is to investigate your chargebacks. Enterprise companies are focused on growing business, and many see chargebacks as a small and necessary cost of doing business. They often don't invest in analytics needed to catch chargebacks or prevent them before they happen.

Writing off fraud disputes as a cost of doing business:
One myth that persists in enterprise business is that merchants can't win fraud disputes. The truth is that merchants can win, if they approach them strategically. But developing tailored dispute packages takes data, expertise, and attention to detail that often isn't on the radar of a large retail operation.

Continued:

Increasing chargeback volume:
When chargeback volume is low, companies can see it as a cost of doing business. But when volume rises, fraudsters see that they can approach your business with a chargeback attempt and get away with it—which means that they will continue to come back. Increased chargeback volume often becomes an exponential problem.

Rise in customer acquisition costs:
Disputes aren't all about fraud. They are often triggered due to poor customer service, opaque sales and billing practices, ineffective refund processes, and other problems. Then, a chargeback isn't just a dispute; it is a record of a lost customer. Enterprise merchants who aren't paying attention to chargebacks could be driving up their customer acquisition costs.

Keeping up with evolving card network mandates:
To keep up with the fraud landscape, credit card networks are continually changing dispute mandates, sometimes as often as every 6 months. Enterprise merchants fighting their own chargebacks face repeated re-training efforts and potentially outdated dispute packages.

Increase in true fraud after using a fraud tool:
Fraud tools can help prevent fraud, but they take attention and effort to manage. Put the filters too high and a fraud tool can turn off customers and lower sales. Put them too low, and you will see increased fraud and chargebacks. Without analytics, enterprise merchants can't accurately gauge the relationship between their fraud tools and their chargebacks.

If your enterprise retail operation works under the assumption that chargebacks are a small and necessary part of doing business, then you run the risk of failing to face these challenges and losing out on revenue and customers.

Enterprise Chargeback Solutions

When experts talk about chargeback prevention and recovery, they are usually talking about a distinct set of features, tools, and skills:

- Software to collect, analyze, and derive insights from data related to sales, fraud, and chargebacks
- Advanced analytics, often driven by machine learning and AI, that can help predict and prevent chargebacks
- Chargeback Prevention Alert solutions that can pause chargebacks to allow for refunds.
- Chargeback Analysts that can help create dispute packages for chargeback recovery in cases of friendly fraud

With these different features, enterprise retailers have three different paths they can take: Buy, Build, or Outsource.

Buying an Out-of-the-Box Chargeback Solution

When you buy a chargeback solution, you are essentially buying a piece of software that can help you and your team manage chargebacks in house. These usually come in the form of a SaaS platform that you would license on a subscription model. There are several costs and benefits of using an out-of-the-box solution.

Pros

Easy to Set Up and Use
Many of these solutions are drop-in and use, which can make them easy to manage without needing an entire IT team.

Can Often Provide Power and Control
If you do know what you're doing, you can have a lot of control — if the solution has been tailored to your business.

Less Expensive Than Other Alternatives
If you just managed a chargeback solution on your own, then you aren't paying a team. However, note that these cost savings may come at a loss elsewhere in terms of customers and lost revenue.

Cons

You Aren't Solving the Problem
Working with an out-of-the-box solution doesn't give you expertise or knowledge about your chargeback problems. You still need the right data and right approach to chargebacks to get them right. It's like buying a new car without having learned how to drive the one you already have.

Building In-House Chargeback Management

Pros

Complete Control Over Your Process
With an internal team, you have complete control over decision making, process implementation, and execution of chargeback disputes. Likewise, you also have complete control over any tools, services, or prevention vendors you work with for specifics.

Avoid Third-Party Vendors
Working with a third-party vendor can prove difficult for large enterprise retailers who worry about that third party having access to customer information. This is especially true for enterprise companies in heavily regulated industries like healthcare.

Leverage a Deep Understanding of Your Business
While chargebacks are a reality of business, the specifics of how they impact your business might not be better known by anyone else besides you. With an internal team, you can perhaps speak more readily to the needs of your business operation.

Cons

Incurs Higher Costs
If you don't have this team in place, hiring, training, and outfitting such a team can cost a lot of money upfront. That's not to mention all the hiring, maintenance, and other incidental costs to keeping up an entire division in your business.

Lacks Agility
An outsourced organization can focus exclusively on chargebacks. An in-house group might have other obligations in the organization and can't react the same ways that a dedicated organization can.

Requires Manual Attention
Chargebacks are detail-oriented and require a lot of attention. If you do chargebacks in-house, then that person is tied to them. This person can't do other things, and you may find that you have a high churn rate for chargeback leadership in your organization because it's hard to hire and retain the right people.

Outsourced Third-Party Chargeback Management

Pros

Expertise and Insight
Outside vendors are typically experts at what they do, and they can dedicate their time, energy, and research specifically into chargeback management and fraud prevention. This gives them the kinds of insight that internal teams might not have.

Vet Before You Hire
You aren't investing into a large internal operation, so you can evaluate a provider before you go with them. Any chargeback management provider will gladly take 3-6 months of data and show you where your vulnerabilities and areas of improvement are. Likewise, these companies will have built a good reputation in the field that you can follow up on.

Integrations with Alert Systems for Seamless Experience
A third-party can seamlessly integrate with chargeback alert systems like Ethoca or Verifi to support rapid refunds on your behalf. Likewise, they can use their tools to make determinations on chargebacks for you, which could mean lower manual reviews or involvement from your organization.

Advanced Tools and a Unified Dashboard
Speaking of tools, most third-party vendors use advanced chargeback prevention and prediction tools that use machine learning, AI, and analytics not only to fight and recover chargebacks but also to prevent them before they happen. Any provider should be able to give you a dashboard that gives you an overview of ROI, fraud, and chargebacks.

Critical Metrics and APIs for Chargeback Prevention and Recovery
No matter what solution you choose, you should have metrics in mind to help you measure the success of that solution. These KPIs can help you better understand your business's relationship to chargebacks and fraud, if you are getting ROI on your solution, and if perhaps you need to modify or change your solution for better success.

Chargeback Management KPIs to Consider for Success

Here's what you need to know:

Chargeback Rates:
This should be a critical KPI for any enterprise retailer. When your chargeback ratio is trending above 1%, you are a high-risk merchant. This can severely impact your ability to accept payments through specific credit networks. Likewise, you might face severe fees that are amplified by millions of transactions per month.

Your chargeback rates are also reflective of other aspects of your business that could be impacting how customers feel: poor security measures, poor customer service, poor transparency during refunds, and other communication.

Chargeback Win Rate:
The number of chargebacks you win is not only important if you are losing chargebacks. Your win rate can tell you a number of things, including the effectiveness of your prevention and recovery efforts.

Decline Rates:
This metric is closely related to your chargeback rate. How many of your transactions are you declining? Have you automated your fraud prevention tools, and is this causing an influx of bad actors (more chargebacks) or blocking transactions (less revenue)?

Fraud to Sales Ratio:
This can help you not only understand how many cases of fraud you have; you can also determine how much fraud is costing you, how much of that fraud is due to friendly fraud, and where that is happening in your operation.

ROI for your chargeback tools:
This will most likely include a combination of numbers, including money lost to chargebacks vs. total sales revenue, friendly fraud vs. true fraud chargebacks, and successful chargeback recovery on friendly fraud chargebacks based on the adoption of new tools.

How to Make Effective Use of Prevention Tools

Every chargeback tells a story, and if you are working with a chargeback solution and tracking KPIs discussed here, you are in a good position to start making progress with your chargebacks and any interconnected issues. It's critical, however, that you're using best practices in managing chargebacks, no matter your solution, to make best use of the method you choose.

Here's what you need to know

Learn from your chargebacks to identify critical customer support and fraud prevention interventions.

Chargebacks, legitimate or not, are a story about what's happening on the frontlines of your retail efforts. An influx of true fraud, friendly fraud, and merchant error chargebacks point to areas in your business operation that you can fix.

Build your fraud prevention and customer service around your chargeback information.

Don't passively wait for your chargeback prevention tool to try and recover chargebacks after they happen. Mobilize your customer service to address issues with transparency and customer satisfaction that lead to friendly fraud. Upgrade your fraud prevention tools to cut off fraudsters using stolen cards before they become a chargeback down the road.

Develop effective dispute packages in case of friendly fraud.

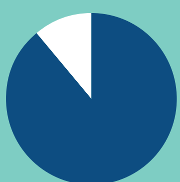
Chargebacks are rising, and according to Loss Prevention Magazine, 31% of merchants claim that friendly fraud is their biggest challenge. Solutions like third-party vendors can help you tailor dispute packages to specific card network reason codes and issuing bank expectations.

Leverage modern technology like AI and machine learning.

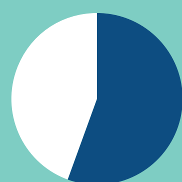
No matter what solution you go with, utilize innovations in machine learning to help you get ahead of chargebacks. Advances in AI technology are giving chargeback efforts a shot in the arm by empowering predictive analytics.

Characteristics of Friendly Fraud 2019*:

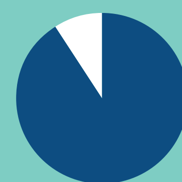
The importance of understanding chargeback prevention isn't just a revenue-saving measure. Chargebacks tell a story and help you understand your customers. The truth is that friendly fraud isn't always predictable, and it doesn't fall into what you think you know about fraud:



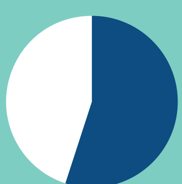
89%
of Friendly Fraud cases never go through manual review.



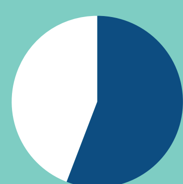
55.66%
of Friendly Fraudsters contact merchants during or before a chargeback.



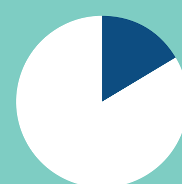
92%
of Friendly Fraudsters initiate chargebacks on credit cards vs. debit cards.



55%
of Friendly Fraud was committed on the Visa network.



56%
of Friendly Fraudsters underwent and matched AVS.



1/6th
Friendly fraudsters carry 1/6th of the risk assessment as true fraud culprits.

*Based on a survey from Chargeback Gurus

Chargebacks Inform Your Entire Operation

The lessons here are that chargebacks and your chargeback solutions can teach you more about your business than you think.

Chargebacks show you where your customer service efforts might let customers and transactions slip through your fingers for want of real customer service. Chargeback data can also show you gaps in your fraud prevention efforts, whether that is preventing true fraud or optimizing Card-Not-Present transactions to authenticate and verify real customers.

While many solutions can help you work with this data, there are also experts in the field that have been working with this data for years. Tools exist, and large enterprise businesses might see value in building their chargeback team. A focused chargeback partner, however, can develop real strategies to prevent chargebacks, increase customer retention, and lower costs due to fraud.

CHARGEBACK QUESTIONS?

Get your answers today.

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