CHARGEBACK PREVENTION GUIDE

COMPLETE GUIDE

Top 10 Strategies to Prevent Chargebacks

spec

Growing Chargebacks

Chargebacks pose significant challenges for merchants, with global volumes projected to reach 337 million by 2026. Originally intended to protect consumers from fraud, they now create substantial financial and operational burdens for businesses.

337m

Global chargeback volumes by 2026

This guide provides strategies to reduce chargebacks and safeguard revenue. It covers the causes of chargebacks, top prevention tactics, and the use of advanced fraud detection tools like Spec.

What Is a Chargeback?

A chargeback is a payment dispute initiated by a cardholder through their issuing bank. It reverses a transaction and returns funds to the customer, often leaving the merchant to bear the financial loss. Chargebacks serve as a consumer protection mechanism against fraud or poor merchant practices, but they are increasingly misused, intentionally or unintentionally.

Why Chargebacks Are a Problem?

Chargebacks, meant to protect consumers, are a significant issue for merchants. They result in revenue loss, fees, and strained payment processor relationships. High chargeback ratios can lead to "high-risk" designations or account termination with payment processors. Understanding their impact is key to protecting your business.

75%

Merchants bear more than 75% of chargebacks' financial impact

Chargeback Types

Chargebacks occur for a variety of reasons, but they can be broadly grouped into three categories: merchant error, criminal fraud, and friendly fraud.

Understanding these causes is crucial for addressing weaknesses in your processes and implementing preventive measures.

MERCHANT ERROR

Merchant error refers to chargebacks resulting from preventable mistakes.

Delivery Issues
Customers dispute charges for late, damaged, or incorrect products.

Unclear Billing
Confusing transaction descriptions lead to mistaken chargebacks.

Duplicate Charges
Technical errors causing double charges result in customers filing disputes to recover funds.

Failed Refunds
Refund processing delays lead customers to escalate disputes with their bank.

Poor Communication
Lack of responsive customer support drives customers to seek resolution via chargebacks.

CRIMINAL FRAUD

Criminal fraud occurs when stolen credit cards are used for unauthorized purchases.

Card Not Present
Stolen card details used for online purchases trigger chargebacks when fraud is detected.

Account Takeovers
Cybercriminals hijack customer accounts to make unauthorized purchases, leading to disputes.

Synthetic Fraud
Fraudsters create fake identities to make undetected purchases and initiate chargebacks after the transaction.

Card Testing
Small test transactions made by fraudsters to check card validity before using it for larger fraudulent purchases.

FRIENDLY FRAUD

Friendly fraud occurs when customers file disputes without valid reasons.

Non-Receipt Claims
Customers falsely claim they never received their order, even when tracking proves otherwise.

Unauthorized Use
Disputes arise when customers forget about their transactions or don't recognize the merchant on their statement.

Subscription Issue
Customers forget they've subscribed to recurring payments or falsely claim they canceled the service.

Misrepresentation
Customers argue that a product was not as described or defective to avoid paying for it.

How Chargebacks Work

To effectively prevent and manage chargebacks, merchants need to understand the dispute process from start to finish. Here's a step-by-step breakdown:

1

Dispute Initiation

The dispute process starts when a cardholder notices an unauthorized or problematic transaction and files a dispute with their issuing bank instead of contacting the merchant.

2

Investigation and Funds Reversal

The bank temporarily reverses the funds, crediting the cardholder and deducting the amount from the merchant's account, usually automatically without merchant input.

3

Merchant Notification

The acquiring bank informs the merchant of a chargeback, providing a reason code that indicates the type of evidence required to contest it.

4

Evidence Submission

Merchants can accept or contest a chargeback through representment by providing strong evidence such as proof of delivery, billing statements, or refund confirmations.

5

Bank Review and Decision

The bank assesses the evidence to decide if a chargeback is valid. If the merchant's evidence is strong, the chargeback is reversed, and funds are returned to the business.

6

Final Outcome

If the bank sides with the cardholder, the chargeback stands, and the merchant incurs losses. If the merchant wins, the funds are returned, but the operational costs and fees remain.

Cost of Chargebacks

Chargebacks are far more expensive than they appear on the surface. While the initial transaction value is lost, merchants also face a range of additional costs that significantly impact their bottom line.

☑ **Direct Revenue Loss:** Chargebacks result in merchants losing the full sale value, including taxes and fees, which can strain finances, especially for businesses with narrow profit margins.

☑ **Chargeback Fees:** Banks charge fees between $15 and $100 per chargeback, which accumulate quickly for businesses with frequent chargebacks, impacting profitability.

Learn how to prevent chargebacks with Spec!

LEARN MORE
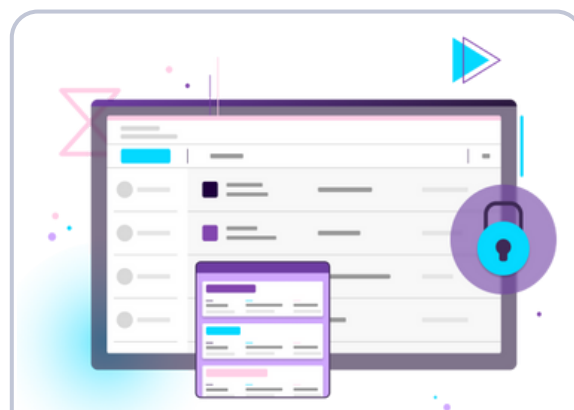
☑ **Lost Inventory:** Unlike refunds, chargebacks leave merchants without the product, harming businesses with high-ticket or limited items.

☑ **Operational Costs:** Managing chargebacks uses significant resources for evidence gathering and tracking, which reduces efficiency.

☑ **Increased Payment Processing Fees:** High chargeback ratios lead to higher transaction fees from payment processors due to perceived risk.

☑ **Damage to Merchant Reputation:** Excessive chargebacks can harm relationships with banks and customers, risking processing privileges.

☑ **Loss of Payment Privileges:** Exceeding a 1% chargeback-to-transaction ratio can label businesses as "high-risk" or result in account termination.

Top 10 Chargeback Prevention Strategies

Chargebacks are a significant threat to merchants, costing not just lost revenue but also operational time, fees, and reputation. With the right strategies, you can reduce disputes and protect your bottom line. Here are 10 actionable strategies to start today.

1 Optimize Billing Descriptors

Billing confusion often leads to chargebacks, as customers may dispute unclear charges. To prevent this, use a clear and recognizable billing descriptor, such as "ABC Electronics – Customer Service: 123-456-7890." Including your business name and contact details helps customers quickly identify charges and avoid disputes. Test your billing descriptor across various card networks for visibility.

2 Improve Customer Service

Outstanding customer service helps prevent chargebacks by making it easy for customers to reach out with questions or concerns. Key strategies include:

- Provide multiple communication channels like phone, email, and live chat to resolve issues quickly.
- Respond promptly to inquiries, ideally within 24 hours.
- Train support teams to manage refunds and complaints efficiently.

Top 10 Chargeback Prevention Strategies

3 Use Clear Return Policies

A complicated refund policy often makes customers bypass you entirely and dispute charges with their bank. Make your return, refund, and cancellation policies simple, visible, and easy to follow.

- Display policies prominently on your website including product pages, checkout screens, and confirmation emails.
- Clearly outline timelines, conditions, and steps for customer refunds or returns.
- Automate refund confirmations so customers know when requests are received.

4 Monitor Fraudulent Activity

Chargebacks due to fraud, especially criminal fraud, can cripple your business. Implementing fraud detection and prevention tools is essential to identify and stop high-risk transactions before they occur.

- Address Verification Service: Matches the billing address provided with the one on file with the card issuer.
- Card Verification Value: Requires customers to enter the card security code, preventing stolen card details from being used.
- 3D Secure 2.0: Adds a layer of authentication, verifying the cardholder's identity for suspicious transactions.

Top 10 Chargeback Prevention Strategies

5   Track Deliveries and Signatures

"Item Not Received" chargebacks are common, but they can be effectively addressed with strong shipping and delivery practices.

- Use real-time order tracking so customers can monitor shipment status. Send tracking links for added transparency.
- Require signatures on delivery for high-value orders to confirm receipt. This serves as proof of delivery in case of disputes.
- Retain delivery confirmations, tracking numbers, and courier records to dispute false claims of non-receipt.

6   Send Alerts for Recurring Charges

Subscription services often face chargebacks when customers forget about upcoming renewals or misunderstand billing terms. To avoid this, send pre-billing notifications before processing recurring charges.

- Use reminders to alert customers of upcoming renewals.
- Allow customers to manage subscriptions with self-service portals that are easily accessible.
- Clearly outline recurring billing terms during the checkout process to set expectations.

Top 10 Chargeback Prevention Strategies

7 Maintain Transaction Records

Detailed records are your strongest weapon when disputing chargebacks. When customers file disputes, robust documentation can prove your case and increase your chances of a favorable outcome. Maintain the following records:

- Order confirmations and invoices with purchase details.
- Proof of delivery, including tracking numbers, timestamps, and signed receipts.
- Customer communication logs, such as emails or chat transcripts, showing efforts to resolve the issue.

8 Educate Your Customers

Friendly fraud often stems from customer misunderstandings rather than malicious intent. Educating customers about your processes, policies, and how chargebacks work can significantly reduce disputes.

- Add FAQs explaining your return policies, refund process, and billing practices.
- Remind customers to contact your support team for refunds before disputing charges with their bank.
- Send order and delivery confirmations to ensure customers remember their purchase.

Top 10 Chargeback Prevention Strategies

9 Partner with Prevention Providers

Chargeback prevention providers offer tools and services that help identify and resolve disputes before they escalate.

- Chargeback Alerts: These services notify you of pending disputes, providing a window to resolve issues with the customer.
- Representment Services: Providers help fight invalid chargebacks by submitting evidence on your behalf and navigating the dispute process.
- Analytics Tools: Advanced reporting identifies chargeback trends, helping you pinpoint vulnerabilities in your processes.

10 Deploy Advanced Solutions

Spec takes chargeback prevention to a new level with cutting-edge fraud detection tools that secure every stage of the customer journey.

- Real-Time Fraud Monitoring: Spec leverages behavioral analytics and machine learning to analyze transaction patterns, detect anomalies, and prevent fraudulent purchases in real time.
- Multi-Layer Protection: From stopping bot abuse and ATOs, to linking customer behaviors, Spec provides advanced protection.
- Frictionless Security: Spec ensures legitimate customers enjoy a seamless experience, while fraudsters are stopped.

Chargeback Prevention Case Study: **INDIEGOGO.**

Indiegogo's Situation

The popular crowdfunding platform needed to reduce account takeovers and prevent losses from fraud-related chargebacks. In only six months with Spec, Indiegogo experienced significant reductions in fraud chargebacks.

337m	**75%**	**9.8%**
Reduction in Attack Pressure	Fewer Fraud Chargebacks	Increase in Good Orders

Spec's Solution

Indiegogo deployed the Spec Customer Journey Security platform, gained end-to-end visibility, and identified the root cause of fraud chargebacks: persistent credential stuffing that resulted in account takeovers. Attackers are now funneled into a poisoned honeypot preventing them from transacting and gaining intelligence about Indiegogo's security and fraud defenses.

> "Spec makes it simple to understand what's happening in each of our user flows. When new issues emerge, we're able to immediately understand what's really happening and make adjustments instantly."
>
> - Justin Orme, Payment Lead   **INDIEGOGO.**

Fighting Chargebacks: How to Win Disputes

Even with strong prevention strategies, chargebacks can occur. Merchants can minimize losses by using chargeback representment to challenge illegitimate disputes and recover funds. Follow these steps to effectively dispute chargebacks and enhance win rates.

Step 1: Review the Dispute Reason Code

- Each chargeback comes with a reason code assigned by the issuing bank, which explains why the cardholder filed the dispute.
- Review the code to understand the claim and tailor your response. Knowing the reason helps you gather the right evidence to prove your case.

Step 2: Gather All Relevant Evidence

- Your success in chargeback disputes hinges on compelling evidence that refutes the cardholder's claim.
- Organize documents based on the dispute type, such as proof of delivery, transaction records, customer communication, product policies, and fraud prevention proof.

Step 3: Submit the Evidence Promptly

- Timing is critical when fighting chargebacks. Most card networks give merchants 30-45 days to respond, so don't delay.
- Submit your evidence promptly through your payment processor or chargeback management platform to avoid missing deadlines.

Step 4: Work With Banks and Processors

- Collaborate with your acquiring bank or payment processor to ensure all evidence aligns with card network rules and requirements.
- Many processors offer automated tools to streamline representment and improve your chances of winning disputes.

How to Measure and Reduce Chargeback Rates

To effectively manage chargebacks, merchants should track key metrics and ensure adherence to industry thresholds.

Chargeback-to-Transaction Ratio

This ratio measures the percentage of transactions that result in chargebacks: Chargebacks ÷ Total Transactions × 100 = Chargeback Ratio

Chargeback Ratio Thresholds

Staying under the chargeback ratio limits of 0.9% for Visa and 1% for Mastercard is critical to avoid penalties, increased fees, or being placed in monitoring programs.

Percent of Chargebacks Prevented

Track how many chargebacks are successfully stopped using prevention tools, such as alerts, fraud detection systems, and order verification processes.

Chargeback Dispute Win Rate

Monitor the success rate of chargeback representment efforts. A higher win rate indicates that you're effectively fighting invalid disputes with strong evidence.
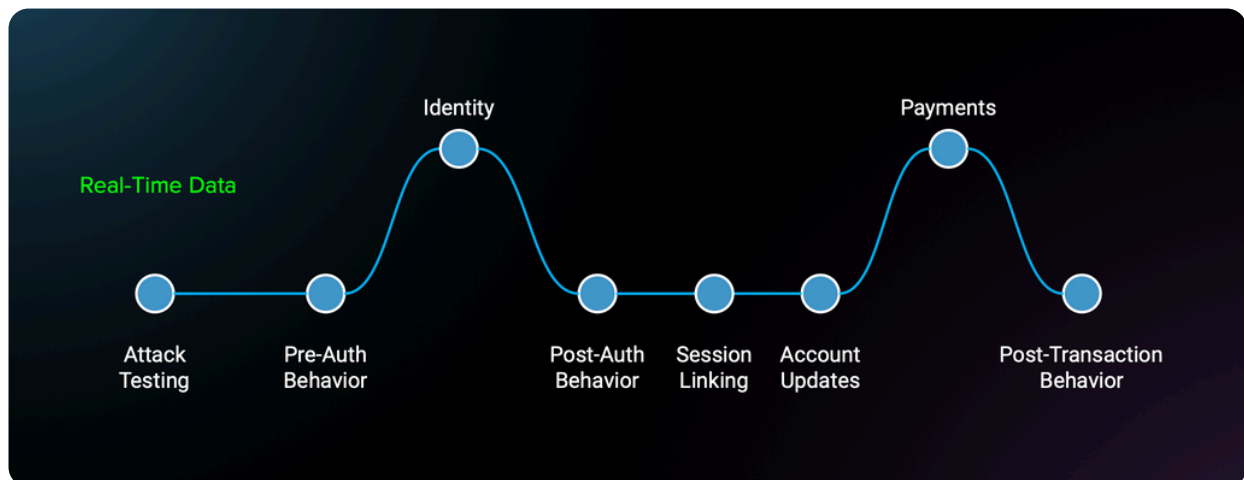
Prevent Chargebacks: Spec Customer Journey Security

What is Customer Journey Security?

Spec Customer Journey Security goes beyond traditional fraud tools by monitoring and analyzing every user interaction throughout the journey. This comprehensive approach provides deeper insights and allows for more proactive prevention to stop chargebacks before they happen.

How Does It Work?

☑ **Journey Data™ Collection:** Captures 14x more data points than traditional fraud systems, offering a detailed view of user behavior at every touchpoint of the customer journey.

☑ **Behavioral Modeling and Entity Graphs:** Enables accurate identification of legitimate users versus fraudulent activity modeling behavior across sessions, devices, and IP addresses.

☑ **Automated and Invisible Protections:** Uses techniques like honeypots and redirects to block fraud without affecting the experience of legitimate customers.

Real-Time Data

Identity

Payments

Attack Testing

Pre-Auth Behavior

Post-Auth Behavior

Session Linking

Account Updates

Post-Transaction Behavior

Why Choose Spec Customer Journey Security?

What Makes Spec Different?

Spec stands out among fraud prevention companies due to our comprehensive approach, advanced technology, and access to 14x more data than traditional fraud systems.

☑ **Unmatched Data Coverage:** Collects 14x more data than traditional fraud tools for deeper insights and broader coverage.

☑ **Proactive and Adaptive Detection:** Uses real-time behavioral analysis to detect and respond to evolving threats before cause harm.

☑ **Invisible Protections:** Secures the customer journey without impacting the experience of legitimate users and customers.

☑ **Easy Integration:** Seamlessly integrates with existing systems, ensuring a smooth deployment process and effortless integration.

☑ **High Accuracy in Risk Decisioning:** Minimizes false positives and operational inefficiencies, providing precise fraud detection.
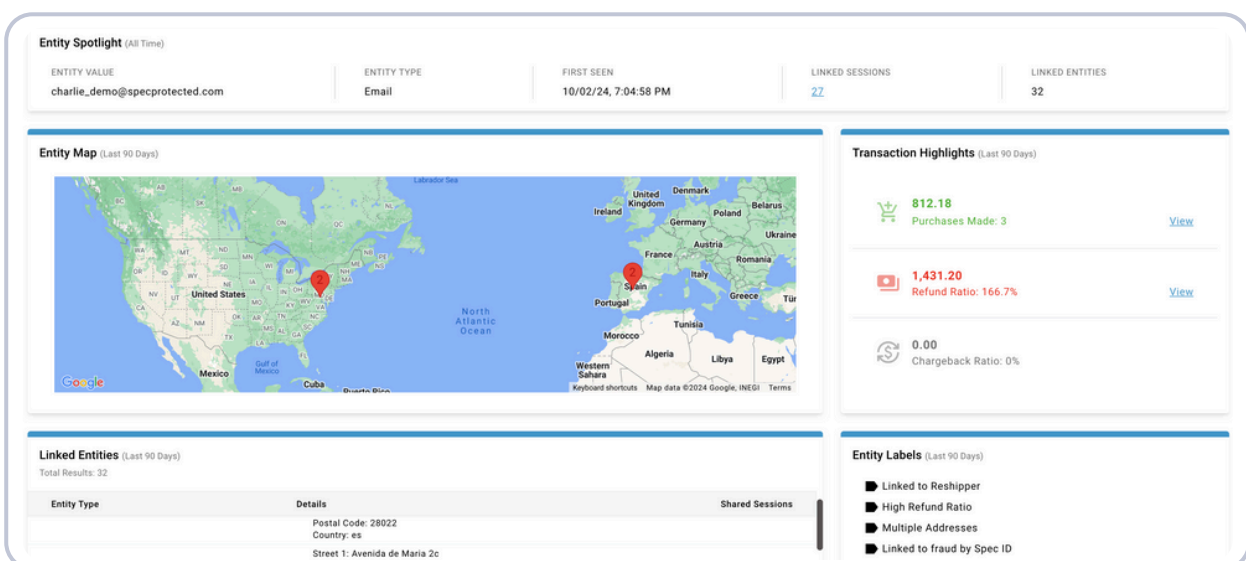
Chargeback Prevention You Can Trust With Spec

At Spec, we understand trust is essential. That's why the Spec Customer Journey Security platform is engineered with the most stringent security, compliance, and privacy standards in mind.

AICPA SOC · PCI · GDPR · CCPA COMPLIANCE

Spec's platform not only meets industry standards but also ensures a seamless, secure user experience. By adopting an advanced chargeback prevention solution, companies stay ahead of sophisticated fraud tactics and safeguard revenue.

Ready to prevent chargebacks?

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User
Payments
Manipulated data
Attackers
Website
User
spec
Identity
Fraud & Bot Defense