



UNDERSTANDING

CHARGEBACK FRAUD

White Paper Series

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Understanding Chargeback Fraud

As an alteration for business, merchants are forced to deal with cases of fraud from time to time. Plastic money is not all that wholesome. Criminals will seize every opportunity they get to steal your money. You expect this from them. After all, they are fraudsters. But what if this is coming from your customers, that would not be acceptable.

Chargeback fraud/Friendly fraud is a more unfair form of treachery. The cardholder files an unwarranted chargeback with the issuing bank to secure a refund from you. This is for goods & services already delivered. Usually, a customer will base their claim on undelivered items, defective merchandise, unauthorized transactions, or a recurring payment that was supposed to be void.

Why Would a Customer File a Chargeback?

Some of the complaints filed are legitimate. A large number of them may not be.

- They didn't know or permit the purchase a family member made.
- The cardholder wanted something for free.
- They just don't have an idea of the chargeback process.
- The customer was late in asking for a refund.
- The consumer may have forgotten about the purchase. Hence they don't acknowledge the charge.

The Question of Chargeback Fraud

Evidently, little has been done to counter this form of deceit. Why are more and more consumers getting away with friendly fraud despite its unfairness?

1. Banks tend to make light of friendly fraud.

While banks are becoming aware of increasing cases of fraudulent chargebacks, they have not done enough to address the situation. Maybe they are short of resources for this sort of thing. Or they're just interested in making their customers happy. But at what cost? Banks should realize that you are their customer too. By signing off chargeback claims made by other consumers, they are merely robbing one to pay the other.

2. Merchants find it expensive to fight back.

Mitigation can be quite a pain in the neck. You have to put in the work to secure a successful operation. Fighting off a single case of friendly fraud is costly and time-consuming. Some merchants deem the process unworthy of the effort and let it go. What's one chargeback anyway, right! Good for you if you are a forward thinker.

Giving in to chargeback fraud is the outset of your problems. It only attracts more chargebacks. In the long run, you end up losing way more than you would have spent disputing the first few. This is not good for your business.

3. Ambiguous Reason Codes.

Banks assign pre-defined reason-codes to false claims filed by the consumers. These codes are not specific about the reason behind the fraudulent chargebacks. How do you fight something you don't recognize? Here, what you don't know can and will indeed hurt you. Seek justification for a reason code every time you get one.

You eventually learn to identify cases of friendly fraud and enact the accurate measures to counter them. Be tenacious. Do not allow your business to suffer losses from something you can very well avert.

4. Outdated chargeback regulations.

The internet has become a hub for business. Online transactions continue to advance, and so do fraud tactics. The payment industry, however, has done little to match the fast and rapidly changing technologies. Chargeback rules may have worked during the pre-internet era. But they have probably grown rusty with time. The business game has changed and so must the code.

5. Cardholders prefer chargebacks to refunds.

Consumers think it's more convenient to file for a chargeback with the bank rather than ask for a refund from you. After all, it's easier and faster. Of course, they have no idea of the effect this has on you.

Chargeback Fraud Prevention Methods

Understanding chargeback fraud means having extensive measures in place to curb the situation.

1. Follow card processor protocol. Be sure to check signatures, the validity of dates, and billing addresses. Also, use the card's security codes to ensure the cardholder is not an imposter.
2. Enhance your customer care services. Make it easier for a customer to reach you after a sale. Respond to their complaints quickly and effectively. See to it your consumer walks away content. While they may ask for a refund, you won't have to deal with chargeback fees and its other shortcomings.
3. Employ 3D secure. This works for online debit card and credit card transactions. Have consumers log in their issuing bank credentials for authorization. Different card networks have varying 3D secure verification codes.
4. Address Verification Service compares the customer's address against the issuing bank's.
5. Come up with a blacklist to restrict notorious chargeback fraudsters from doing business with you.
6. Address potential shipping issues to your consumers. Let them know in advance in case of any delays and laid off shipments.

7. Conduct recurring payments. Ensure you have a sort out understanding with your customer about these at all times.
8. Delivery confirmations are a good idea. With these, customers have no grounds to file for chargebacks.
9. Always be a step ahead. Spot and deal with fraudulent chargebacks long before they get you.

The Significance of The Chargeback Appeal Process

When a customer files a fraudulent chargeback, it's easy for the merchant to comply. They don't appeal as they don't think the bank will respond. The customer gets away with this one. So, what's to prevent them from trying again and again? Keep in mind that failure to uphold your integrity is an admission of guilt. Should the same consumer file another chargeback, the bank considers you blameworthy. After all, you did not contest the first one or two.

The cycle escalates, and you are left wondering where you went wrong. Eventually, you settle on chargebacks as a regular business cost. Hence, it is crucial that you fight every single fraudulent chargeback. Each win means more money for your business. You stand to gain lost income and preserve your reputation with banks and customers.

To summarize, the numbers of fraudulent chargebacks that continue to harm merchants are alarming. Also, steering clear of friendly fraud may be somewhat tricky. External factors such as banks and dishonest customers see to this. Nevertheless, where prevention has failed, an effective appeal strategy can make you unshakable. Here is all you need to understand and confidently face chargeback fraud.