



Managing the Challenge of Merchant Chargebacks

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This whitepaper, sponsored by Accertify, looks at how chargebacks impose both direct and indirect costs on merchants by diverting crucial resources to managing disputes, gathering documentation, and coordinating with multiple networks and acquirers. Third-party chargeback management systems are well positioned to meet merchant needs by streamlining the dispute process, freeing resources to focus on profit-generating activities. The whitepaper was independently produced by JAVELIN.

JAVELIN maintains complete independence in its data collection, findings, and analysis.

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OVERVIEW

With chargebacks, merchants find themselves caught between the proverbial rock and a hard place. On one side, merchants are beset by fraud, arising from either deliberate attacks by identity thieves or fraudulent refund demands by legitimate customers. On the other side are issuers and card networks, which many merchants perceive to be unsympathetic at best and hostile at worst. This is compounded by a host of challenges that merchants must face in internal attempts to manage chargebacks, such as managing a queue of active disputes, gathering documentation from historic transactions, complying with rules across multiple networks, and finding ways to accomplish all these tasks without taking personnel away from other critical business tasks. Third-party chargeback management systems can assist merchants by automating many of these processes, streamlining disputes, managing timelines, and ultimately boosting labor efficiency and win rates.

EXECUTIVE SUMMARY

Key Findings

Resources, volume, and finding documentation challenge merchants: Cost is the most significant reason for merchants to opt not to dispute a chargeback. Among those who dispute chargebacks, 50% indicate that the lack of sufficient resources is a major reason for their disputes failing (Figure 8). Similarly, deciding which chargebacks are potentially winnable and requesting documentation lead as pain points in the chargeback management process.

Chargebacks are only a small portion of total costs: Chargeback management costs merchants an average of \$3,280 a month, but only 30% of that goes to actual chargebacks. Labor costs constitute 32% of the net chargeback expenses. Labor is followed by chargeback and dispute fees, which contributed 27% and 12% of expenses, respectively (Figure 2). Issuers, acquirers, and networks can charge these fees at various stages in the chargeback process.

Merchants are selective in disputing chargebacks: While merchants dispute only 43% of the chargebacks they incur, they report winning 60% of disputes (Figure 3). While no factor dominates, merchants identify the transaction value and the availability of supporting evidence as the two most important factors in deciding whether or not to dispute a chargeback. The time necessary to dispute chargebacks follows as a close third.

Adoption of chargeback management is hampered by low chargeback volume, low visibility, and cost of systems: Over half (55%) of merchants in all segments who do not use a chargeback management system indicate that their current volume of chargebacks is too small to warrant such a system. Related to this is the issue of cost, which is the principal driver for 25% of nonusers (Figure 17). Twenty percent of nonusers indicated that they did not use a third-party system simply because they were not familiar with any.

Chargeback management systems are well-positioned to address merchant challenges: Whether a software platform designed for use by merchant personnel or a fully outsourced solution, third-party chargeback management systems have the potential to streamline the compilation of documentation, manage timelines, and assist in compliance with industry rules. This aligns with expressed merchant needs across many areas of the chargeback process.

Merchants want a streamlined process: Among merchants who do not use a chargeback management system, the most important features are managing upcoming deadlines and assisting with compiling necessary documentation.

Third-party systems bring high returns: Among merchants using chargeback management systems, 73% see increases in labor efficiency (Figure 15) and 84% see increases in dispute win rates. Improvements in win rates are especially dramatic, as over two-fifths of users (44%) were able to increase their win rate by 67% to 100% (Figure 16).

Recommendations

Preempt chargebacks whenever possible: The best outcome for customers, merchants, and issuers alike is for chargebacks to never occur. Best practices include factors such as providing a positive customer experience, encouraging ongoing communication with customers, and making it simple for customers to recognize transactions on their billing statements.

Be proactive in collecting documentation: Thorough collection of all documentation available during the transaction serves multiple purposes: First, it can prevent fraud by detecting discrepancies in customer information, an indicator of identity theft. Second, it makes the representment process more straightforward, by providing evidence of the legitimacy of disputed transactions.

Implement fraud prevention tools: Fraud management solutions can mitigate identity theft and associated chargebacks by giving additional assurance that a legitimate customer is conducting the transaction. With large portions of chargebacks attributable to fraud, reducing opportunities for identity thieves to use stolen credentials can bring significant financial returns.

Do not overlook friendly fraud: Even when all cardholder information appears in order, there is still a risk of a legitimate cardholder claiming illegitimate chargebacks. Because the person conducting the transaction is, in fact, the actual cardholder, these individuals will be able to pass most fraud safeguards. Identifying key indicators associated with first-party fraud is just as important as tracking indicators associated with identity theft. Failure to do so can expose your business to excessive losses.

Stay abreast of changes in chargeback rules: New rules coming out of networks and acquirers affect the ability of merchants to dispute chargebacks, particularly in difficult areas such as card-not-present transactions involving digital goods. The next round of revisions goes into effect in October 2015. Some of this need for constant vigilance can be addressed by outsourcing the chargeback management process or leveraging automated tools that take the onus off the merchant. At a minimum, merchants must engage with their acquirers to ensure that they understand the implications of upcoming rule changes.

Consider integration of third-party chargeback management systems: An array of third-party chargeback management systems are available to merchants and range from software platforms designed to be used by merchant staff to full-service outsourced solutions where a third party oversees the entire chargeback resolution process. These services are well-positioned to address key needs by merchants, such as streamlining documentation gathering, prioritizing high-value chargebacks, and interfacing with a range of networks and acquirers.

MERCHANT EXPERIENCES AND CHALLENGES

For merchants, chargebacks can range from a frustration to a legitimate risk to the viability of their business. Between the potential for direct loss of revenue and merchandise, the manpower devoted to managing disputes, and the challenge of interfacing with multiple acquirers and networks, the costs involved can rapidly accumulate. However, effective management of the chargeback process can eliminate much of the pain from chargebacks and streamline the use of limited resources.

The Chargeback Process

Chargebacks occur under a variety of situations ranging from fraud and identity theft to technical errors in the processing of payment information. Formally, a chargeback is any transaction that is returned to a merchant by either the cardholders issuing bank, the card network, or the merchant's acquirer.

Cardholder disputes are the most frequent causes of chargebacks and can occur for a variety of reasons. Under federal law, cardholders have the right to dispute any charges against their account that they believe to be in error. These disputes can be broadly divided into three categories:

- Customer service/fulfilment problems (e.g., goods were never received, were different from the description of the goods ordered, or were broken/damaged)
- Billing errors (e.g., orders were charged to the account multiple times, or recurring charges continued despite their being canceled)
- Fraud/identity theft (e.g., charges were never authorized by the cardholder)¹

Network rules often go above and beyond federal regulations in providing flexibility to consumers. For instance, while federal law specifies a minimum 60-day window for cardholders to dispute a transaction, most card networks allow up to 120 days.²

Once a cardholder initiates a dispute, the institution responsible for issuing the payment card reviews the dispute with any documentation that the cardholder is able to provide. If the issuer does not have reason to believe the dispute is

¹ https://oag.ca.gov/consumers/general/credit_cards, accessed August 20, 2015.

² http://www.mastercard.com/us/merchant/pdf/TB_CB_Manual.pdf, accessed September 17, 2015.

fraudulent or in error, it will send the transaction electronically to the acquirer, which either resolves the issue or sends the chargeback to the merchant. The merchant then has the option of either accepting the chargeback and having the funds deducted from the account along with a processing fee or disputing the chargeback.

If the merchant chooses not to accept the chargeback, it must provide evidence that it had reason to believe the legitimate cardholder authorized the transaction, the goods were actually delivered, or the goods provided were as described. With this documentation, the merchant submits the transaction for “representation” to the cardholder. The merchant’s acquirer then reviews the evidence presented and, if it agrees that the merchant has met all obligations, the dispute is passed on to the issuer. If the issuer finds the merchant’s documentation adequately addresses the dispute, the transaction is represented to the cardholder. If the issuer still believes the cardholder’s dispute is valid, it may direct the dispute to the card network that assigns final liability for the transaction to either the cardholder or the merchant (Figure 1).^{3, 4, 5}

In some cases, chargebacks may be initiated by the issuer or acquirer. These cases usually involve an error in payment processing such as attempting to process an expired payment card or forced processing of a declined transaction.

The stakes for merchants are quite high. At the most basic level, each chargeback the merchant is unable to successfully represent results in both lost revenue and lost merchandise. For merchants that rely on a comparatively small number of high-value sales, the direct costs alone can be substantial. On top of this, the merchant loses the costs associated with any labor and resources involved in researching and responding to the chargeback. If a merchant incurs excessive chargebacks, it can be subject to punitive measures from card networks involving additional fees, penalties, or mandatory training programs designed to bring chargebacks into check.⁶

“If we get too many chargebacks, the credit card companies won’t even let us take credit cards. Chargebacks can ruin a business.”

³ <http://usa.visa.com/merchants/merchant-support/dispute-resolution/chargeback-cycle.jsp>, accessed August 20, 2015.

⁴ <http://usa.visa.com/merchants/merchant-support/dispute-resolution/chargeback-cycle.jsp>, accessed August 20, 2015.

⁵ http://www.mastercard.com/us/merchant/pdf/TB_CB_Manual.pdf, accessed September 11, 2015.

⁶ <http://usa.visa.com/download/merchants/chargeback-management-guidelines-for-visa-merchants.pdf>, accessed August 28, 2015.

The Chargeback Process Balances the Interests of Many Stakeholders

Figure 1: Chargeback and Representment Process

Cardholder Dispute: Upon discovering an erroneous or unauthorized transaction on their account, the cardholder notifies their financial institution of the dispute.

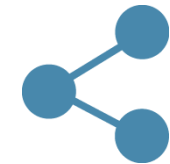
①



CARDHOLDER

⑨

Final Representment: If the network rules in favor of the merchant, the transaction is returned to the cardholder's account.



CARD NETWORK

⑧

Network Arbitration: The card network reviews the evidence submitted by both sides and assigns final liability for the transaction to either the merchant or the cardholder.

Issuer Review: The cardholder's FI reviews the dispute to determine if there is enough evidence to present the chargeback to the acquirer. This may include a request for documentation from the merchant known as a retrieval request

②



ISSUER
(Cardholder's FI)

⑦

Issuer Review: The issuer reviews the representment and either presents the transaction back to the cardholder or submits the dispute to the card network for arbitration.

Acquirer Review: The acquirer reviews the dispute and either resolves the dispute or sends the chargeback to the merchant.

③



ACQUIRER

⑥

Acquirer Review: The acquirer reviews the merchant's documentation and submits the transaction to the issuer if the evidence supports the legitimacy of the transaction.

Merchant Response: If the merchant accepts the chargeback, the funds are deducted from the account and the cardholder is refunded.

④



MERCHANT

⑤

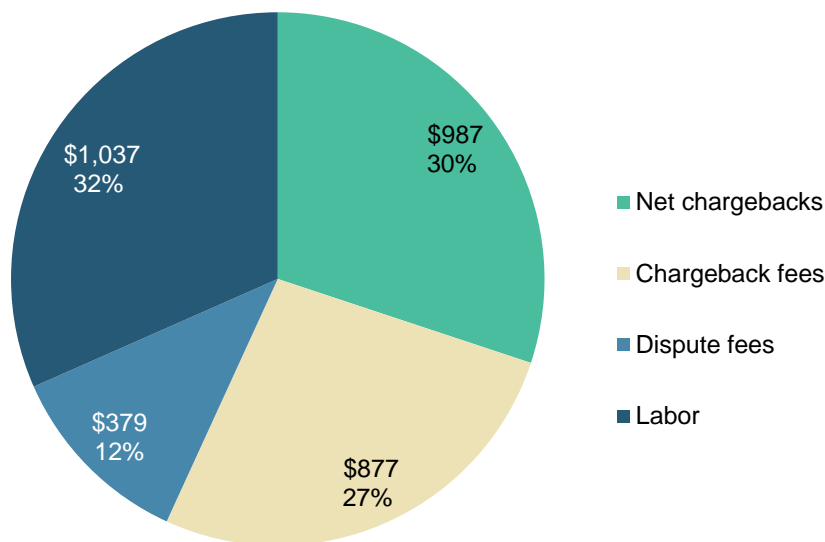
Representment: If the merchant does not accept the chargeback, it represents the transaction to the acquirer with additional documentation to establish its legitimacy.

Merchant Costs

On average, merchants incur an average of \$39,400 in chargeback-related costs each year, but chargebacks themselves account for only a small portion of these costs. Just 30% of total chargeback costs occur from chargebacks that the merchant either chooses not to dispute or disputes and loses. Personnel costs involved in managing and disputing chargebacks constituted the largest single component of total costs, accounting for 32% of expenses. Fees associated with incurring and disputing chargebacks together contributed 37% of total outlays (Figure 2).

Labor Constitutes the Largest Proportion of Net Chargeback Expenditures

Figure 2: Net Chargeback Cost Proportions



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“I’ll spend two or three hours a week just initiating the disputes. And then the office manager spends time to go find the information they can. Personnel hours are the biggest expenses we end up losing.”

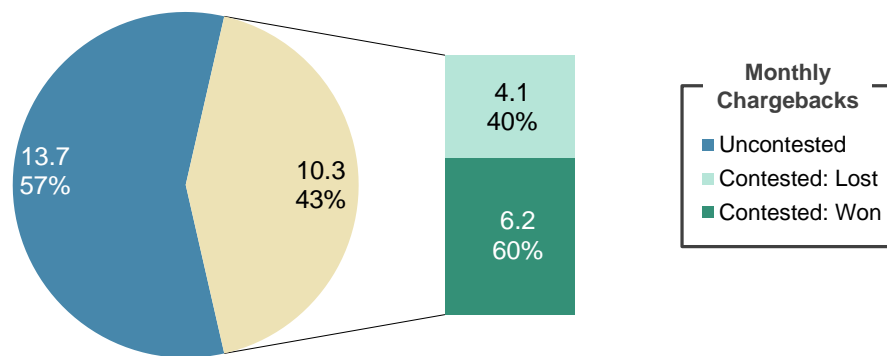
Management

Chargeback mitigation begins even before the customer has made a purchase. Several merchants emphasized that a key part of their chargeback management strategy was to prevent disputes from happening in the first place. This strategy includes a heavy emphasis on customer service, paired with measures to assist customers in remembering the purchase when it appeared on their statement.

In addition to reducing the chances of cardholders disputing transactions, by improving dialogue with customers and keeping the merchant in their mind, these measures can encourage customers to reach out to the merchant in the event of any errors or dissatisfaction. Doing so provides the merchant with additional information on causes of the dispute which would not necessarily be evident through the formal representation process and can prevent the dispute from escalating.

Merchants Dispute Less Than Half of Their Chargebacks, but Win Most Disputes

Figure 3: Monthly Chargeback Outcomes



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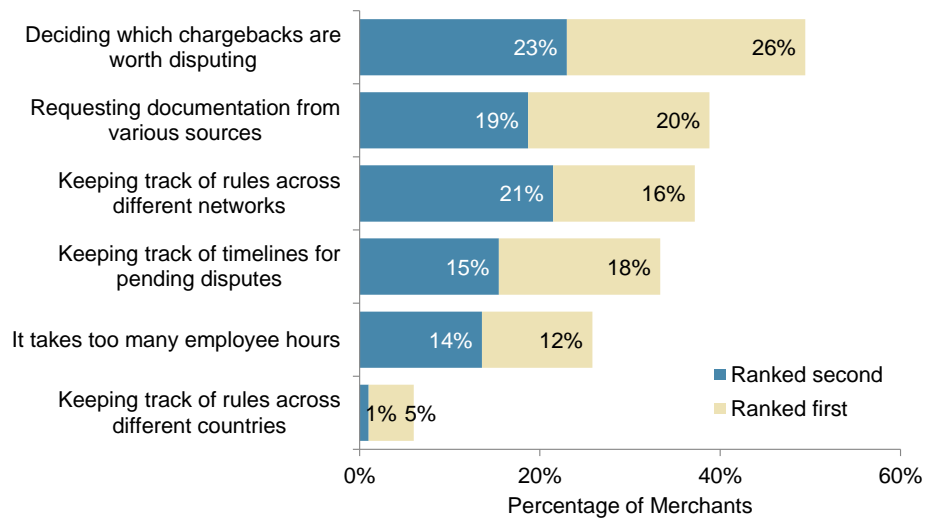
“We make sure that our company name and our phone number are there so if the customer gets a charge and they don’t know what it is, instead of going ahead and calling MasterCard or Visa, they call us first.”

However successful these preemptive measures are, for a large merchant some chargebacks will inevitably occur. The data collected during the transaction process provide a dual protection against chargebacks by allowing merchants to verify the validity of payment information — preventing obvious fraud — and by gathering the necessary data to successfully dispute any chargebacks that arise later in the payment cycle.

When chargebacks do occur, merchants solidly identified deciding which are worth disputing as their most significant pain point. This should come as no great surprise, since the labor and resources needed to discover the cause of the chargeback, ascertain what documentation exists, and estimate whether the case is potentially winnable are irrecoverable if the merchant decides not to follow through with representation (Figure 4).

Deciding Which Chargebacks to Dispute Is Merchants' Greatest Pain Point

Figure 4: Pain Points in the Chargeback Dispute Process



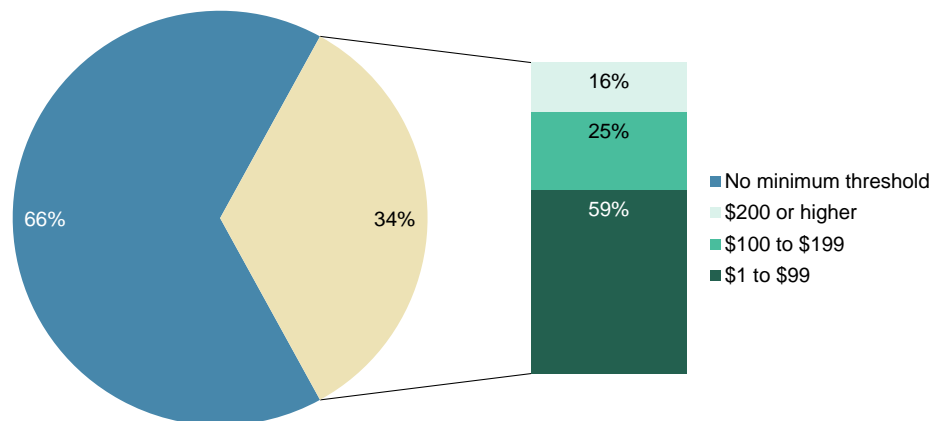
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Chargeback Disputes

Of the chargebacks that make their way to merchants, merchants simply choose to accept half of them, considering the potential return to not be worth the resources and time needed to follow through in a formal dispute. In many cases, the value of the chargebacks is simply too small to merit a dispute. Just over a third of merchants indicated that they use a minimum dollar threshold as a part of choosing which chargebacks to dispute. The majority (59%) of these thresholds fell under \$100, but 16% of respondents place their cap at \$200 or higher (Figure 5).

A Third of Merchants Set a Minimum Value for Chargeback Disputes

Figure 5: Use and Level of Minimum Chargeback Dispute Value



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Even among merchants who do not set a minimum value, transaction value ranked highest in factors influencing the decision of whether or not to dispute a chargeback with 84% of respondents indicating that it is either very or extremely important. With fees and manpower involved in the dispute, it simply is not financially feasible for merchants to dispute all chargebacks. Consequently, merchants must weigh the potential return against the ease of managing the dispute process and the likelihood that they will successfully represent the transaction.

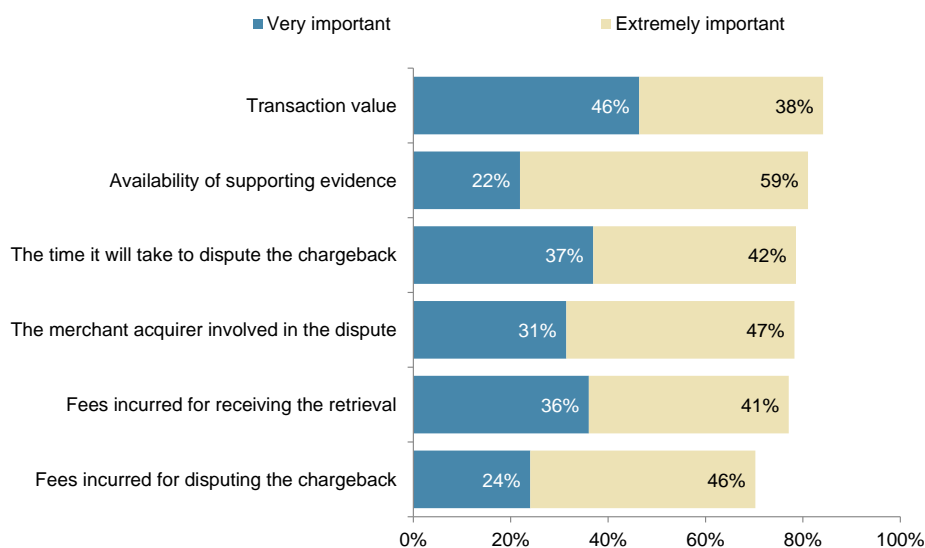
Availability of supporting evidence follows as a close second. In fact, 59% of merchants indicated that the availability of supporting evidence is extremely important in deciding whether or not to dispute a chargeback, 12 percentage points higher than for any other response (Figure 6).

The availability of documentation is crucial in a number of respects. At the most basic level, the merchant must determine whether or not there was an error on its part, which led to the chargeback. As noted before, collecting evidence for transactions that may be more than a month old is a time-consuming and costly process. This takes personnel away from tasks that can bring in revenue for the merchant, with the best outcome being that the merchant is able to keep revenue from a sale it already made. With this perspective, it is no surprise that if documentation is not readily available, many merchants will decide that pursuing representation is not a worthwhile use of time.

Even if evidence is available, the documentation must meet the standards laid out by whichever card network is processing the chargeback. This evidence depends on the nature of the transaction, such as whether it was processed in a card-

Transaction Value, Availability of Documentation Most Important in Chargeback Disputes

Figure 6: Factors Involved In Deciding Which Chargebacks to Dispute



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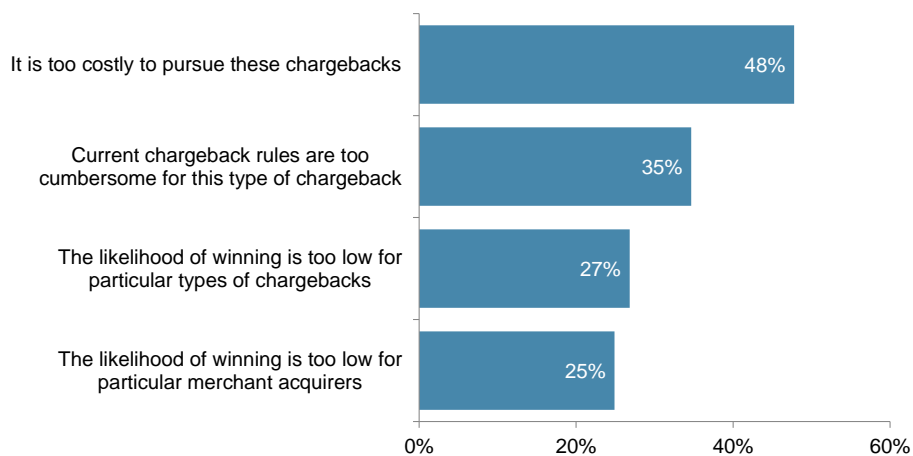
present (e.g., at a physical store) or card-not-present (e.g., online or by telephone) environment, whether the transaction involved physical goods, digital goods, or services. In each of these cases, what issuers and networks will accept as compelling evidence of a legitimate transaction varies.

This same story continues when looking at the reasons merchants cited for losing chargebacks. Insufficient resources to manage a high volume of disputes is cited by 35% of merchants as the most significant reason for losing chargebacks, a resounding 17 percentage points over the next most significant reason (Figure 8). The challenges of resource allocation are aptly tied to the difficulties of obtaining documentation, particularly when multiple sources of information are involved such as shipping companies.

About 16% of merchants (or 27% of merchants experiencing chargebacks) dispute none of the chargebacks they receive. The expense involved in the dispute process is the dominant factor in these cases, with just under half of these merchants (48%) indicating that they dispute no chargebacks because pursuing these chargebacks is too costly. However, the other three top reasons for avoiding all disputes hint at the despondency that many merchants feel when dealing with chargebacks (Figure 7).

Cost Prevents Merchants From Pursuing Chargeback Disputes

Figure 7: Motives for Not Disputing Any Chargebacks



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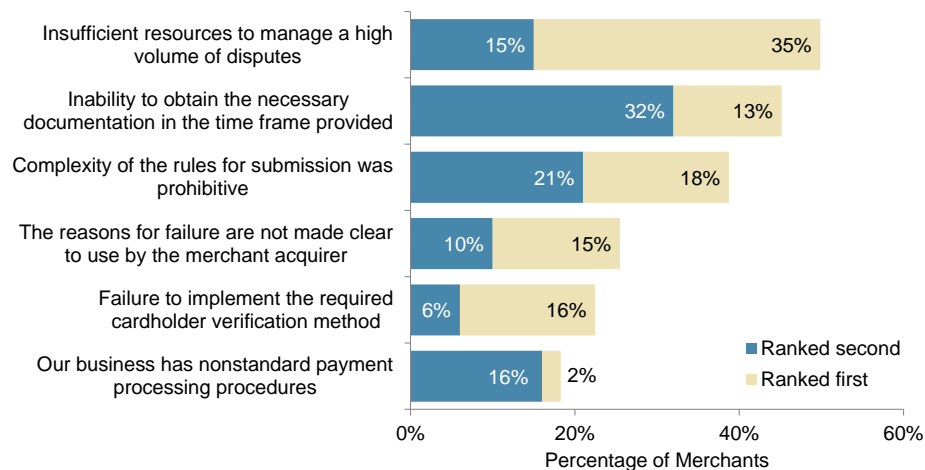
Network Chargeback Rules

Many merchants believe the chargeback process as a whole and the dispute process in particular are weighted too heavily in favor of the consumer, with many issuers and networks siding with cardholders despite apparently overwhelming evidence in favor of the merchant. Since disputes are ultimately arbitrated by the card network, some feel that merchants are left without much real recourse, especially for card-not-present transactions, which have notoriously restrictive evidence requirements.

Nearly one-fifth of merchants (18%) indicate that the complexity of rules for submission is their most frequent reason for losing chargebacks. However, an additional 21% indicated that this complexity is their second most significant reason for losing disputes (Figure 8). Consequently, nearly 4 in 10 merchants indicate that they are having notable difficulty in complying with network rules during disputes. This translates into real lost revenue through avoidable chargeback losses and from excessive personnel hours spent in trying to comply with disparate network rules.

Lack of Resources Is the Most Significant Reason for Losing Chargeback Disputes

Figure 8: Reasons for Losing Chargeback Disputes



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“70% to 80% of these chargebacks we end up losing even though we have documentation. ... Credit card companies have made it so easy for the consumer to win they continue to challenge it, there’s not really anything we can do about it.”

More worrying is the fact that more than a third of merchants who dispute no chargebacks do so because they feel chargeback rules are too cumbersome. Additionally, around a quarter of these merchants responded that the likelihood of winning is too low for particular merchant acquirers. Since the chargeback resolution process is intended to balance the interests of merchants and cardholders, if the dispute rules are so opaque as to completely drive a cohort of merchants from the resolution process the process is not functioning properly.

Cognizant of these merchant challenges, card networks have made attempts to rebalance the dispute process. In 2013, Visa and MasterCard created the compelling evidence standard to provide card-not-present merchants the ability to seek representment under a wider range of circumstances. For instance, evidence that customer data such as IP, email, or physical address had previously been used in an undisputed transaction is now admissible in the representment process.⁷

Networks indicate that the new rules have been more successful in balancing disputes, especially for card-not-present merchants selling digital goods such as software or airline tickets, which previously had very little recourse against chargebacks. In October 2015 more revisions go into effect that are aimed at allowing even greater flexibility for e-commerce merchants to be able to dispute chargebacks.

Here are the two most notable changes implemented by the new rules:

- E-commerce merchants will be able to submit as evidence one or more of the following: evidence the account set up on the merchant site was accessed and verified before the transaction date, and evidence the device and card used in the disputed transaction were the same as in previous, undisputed transactions.
- For travel and entertainment businesses: details of loyalty rewards earned and/or redeemed as a result of the purchase, evidence of additional, undisputed transactions related to the original transaction.⁸

“PayPal seems to always be on the buyers’ side even if they’re wrong, even if their credit card information is not correct, or even if they did buy the product and they say they didn’t. It’s great if you’re a buyer, but if you’re a merchant, it’s not so great.”

⁷ <http://usa.visa.com/download/merchants/compelling-evidence-dispute-resolution.pdf>, accessed August 28, 2015.

⁸ <http://usa.visa.com/download/merchants/visa-optimizes-dispute-rules-new-avenues-for-card-not-present-merchants.pdf>, accessed August 28, 2015.

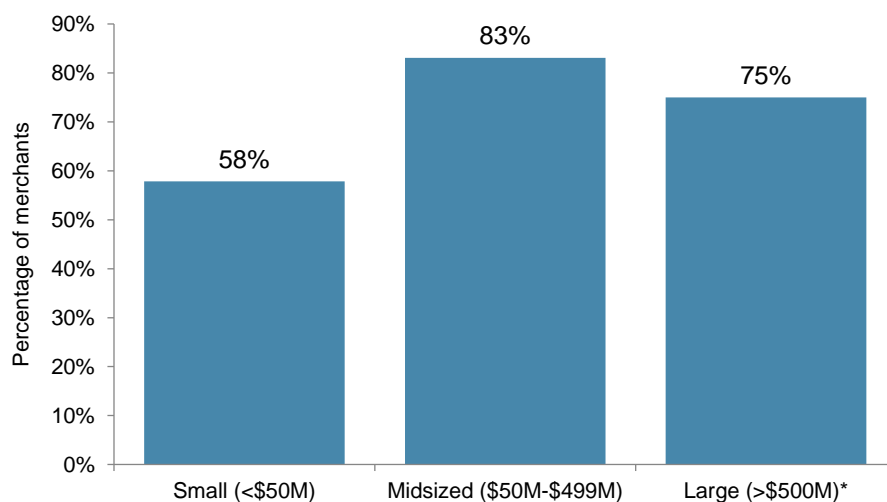
Impact of Fraud

Merchants are polarized on the relationship between fraud and chargebacks. Among merchants with chargebacks, 66% indicated that either all (24%) or none (43%) of their chargebacks were attributable to fraud (Figure 10). This fraud can be classified as identity theft — cases where an unauthorized individual makes use of a victim’s payment information — and first-party fraud.

First-party fraud, also known as “friendly fraud,” involves cases in which a legitimate cardholder conducts a transaction and later fraudulently asks for a refund — claiming he or she never authorized the transaction, the product was not received, or the product was defective in some way. In some cases, this arises from a premeditated attempt to obtain a high-value product without payment. In others it arises from buyer’s remorse despite the merchant fulfilling all of its obligations.

Over 4 in 10 Small Merchants Do Not Track First-Party Fraud

Figure 9: Proportion of Merchants Tracking First-Party Fraud, by Merchant Size



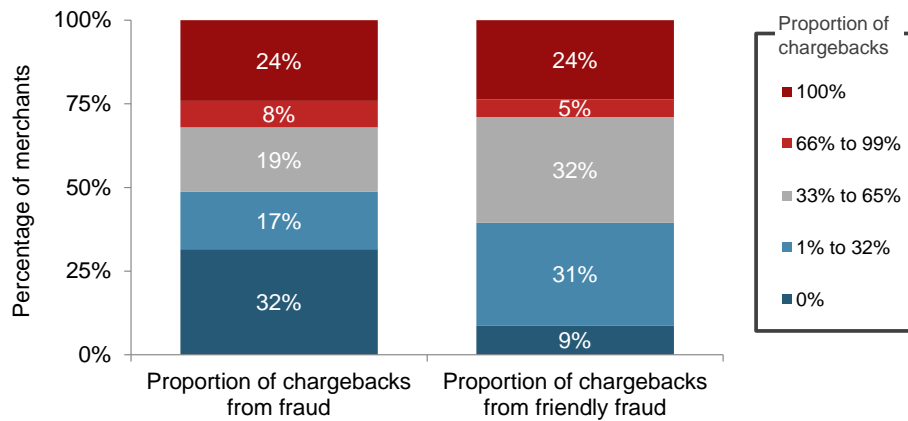
*Caution, small base.

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When looking at friendly fraud, the attribution of fraud is just as dramatic. Among merchants who track friendly fraud, 36% indicated that all chargebacks they experience are due to first-party fraud committed against their company (Figure 10). Unfortunately, even though first-party fraud is significant for many merchants, it is often overlooked. Four in 10 small merchants (42%) do not track friendly fraud committed against their company, potentially leaving themselves vulnerable to financial loss (Figure 9).

Merchants Divided Over Role of Fraud in Chargebacks

Figure 10: Proportion of Chargebacks Attributed to Fraud and First-Party Fraud

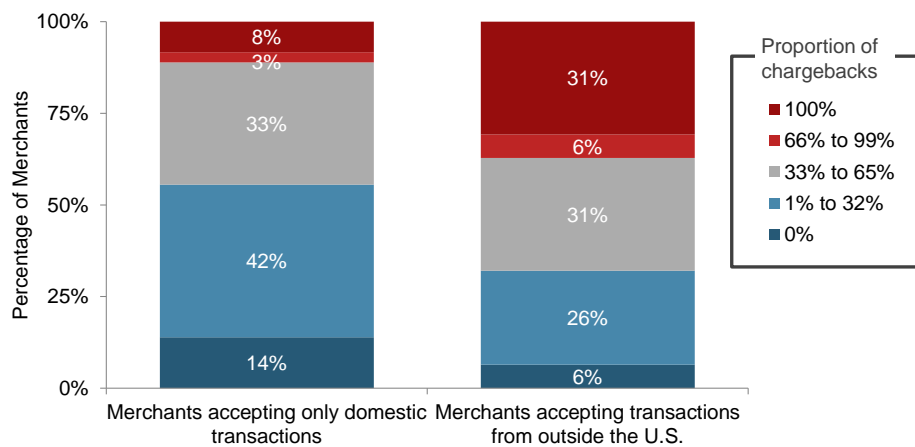


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Certain segments experience particularly significant problems in this regard. A third of merchants who conduct transactions across international borders attribute all chargebacks they face to fraud. This may be attributed to a lack of viable controls to verify identity across international borders. Conversely, a majority of merchants who operate solely domestically believe none of the chargebacks they face are due to fraud (Figure 11).

International Merchants Affected Most Severely by Fraud

Figure 11: Proportion of Chargebacks Attributed to First-Party Fraud Among Merchant Segments



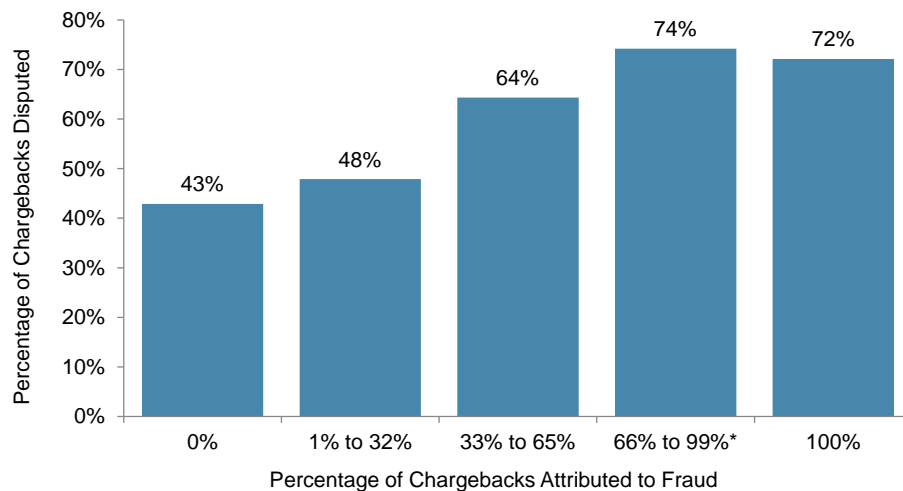
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“Fraud is not much of an issue because most of the people making transactions are pretty honest. We feel that our customers are relatively honest. But there could be an error — human error — which could lead to the chargebacks. We have faith in the customers that they’re trying to be as honest and forthright as possible.”

As may be expected, this attitude affects how merchants respond once a chargeback has been formally initiated. If a merchant expects that even if a customer who did receive the product initiates a dispute the issue must be traced to dissatisfaction with the product or an innocent mistake. These challenges may then be resolved by contact between the merchant and the customer without resorting to a formal dispute process. Merchants who believe the bulk of their chargebacks arise from deliberate fraud are less inclined to believe they can resolve disputes directly with consumers, driving them to the formal dispute process, regardless of whether the merchant believes it will prevail (Figure 12).

Attribution of Charge-backs to Fraud Drives Dispute Frequency

Figure 12: Proportion of Chargebacks Disputed by Proportion of Charge-backs Attributed to Fraud



*Caution, low base.

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“Knowing I don’t have a very good chance of winning disputes no matter how much information we have, I don’t want to just give up on them and let them all get charged back. It’s part of the aspect of not letting the criminal come and use our services and then charge us back — I don’t want them to get away with it because then they’ll just do it again.”

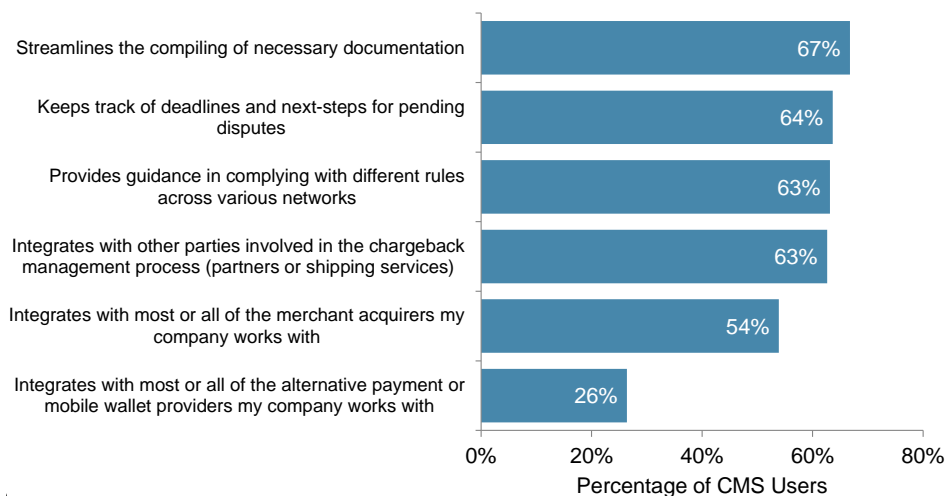
USE OF THIRD-PARTY SOLUTIONS

Despite an array of third-party solutions available to assist with the chargeback management process, acceptance is only moderate, especially for software-based services. Only 40% of merchants use either a software-based third-party management system (15%) or a full-service outsourcing system (29%) where a third party takes principal responsibility for management of the chargeback process.

The choice of whether to use a software-based solution or an outsourced solution depends on many factors. For merchants with a comparatively small number of chargebacks and internal staff dedicated to management and disputes, a software-based solution can allow existing personnel to more efficiently manage their time without the challenges of handing the reins to an outside organization. This also suits the needs of companies that want to be actively involved in their chargeback management, so they can either directly communicate with dissatisfied customers or simply stay on top of their organization’s chargebacks.

Documentation, Timeline Management, Rule Guidance Lead as Features of CMS

Figure 13: Features of Chargeback Management Systems



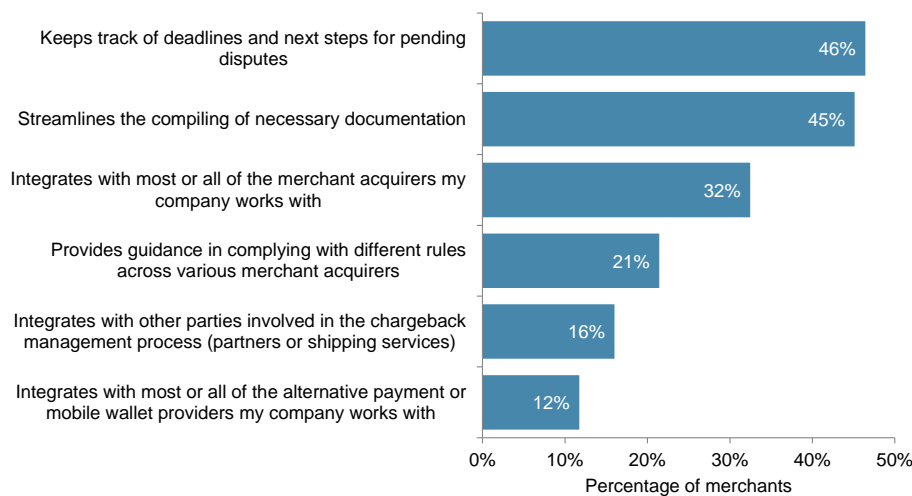
Outsourced solutions are well-suited to merchants who do not wish to dedicate internal staff to managing chargebacks or cannot afford to do so. By taking chargebacks off-site, outsourced solutions can free up internal staff to focus on other responsibilities for the merchant. These solutions also are beneficial to merchants operating internationally or interfacing with a wide variety of networks and merchant acquirers. Organizations that specialize in chargeback management bring expertise in dealing with varied rule structures, preventing needless lost disputes arising from failure to comply with a particular network’s requirements (Figure 13).

Both of these types of services are well-positioned to address many of the challenges faced by merchants during the chargeback process. Documentation, timeline management, and rules compliance across multiple networks all appear as major challenges faced by merchants in preventing and disputing chargebacks.

These services are also attractive to merchants who do not currently use such services. The top two desired features in a hypothetical chargeback management solution by nonusers are tracking deadlines and streamlining the compiling of documentation, both features selected by nearly half of respondents (46% and 45%, respectively) (Figure 14).

Top Features Desired by Non-CMS Users Align With Available Market Features

Figure 14: Desired Features Among Non-CMS Users



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CMS Return on Investment

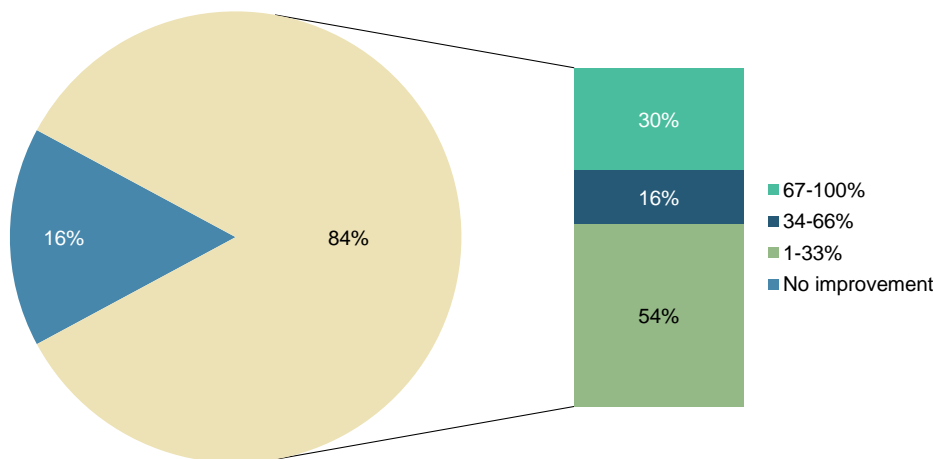
By aiding merchants in overcoming the challenges they face with chargebacks, chargeback management systems can help merchants make efficient use of their limited resources and personnel. Also, they help merchants handle highly iterative parts of the dispute process, such as providing documentation like sales receipts and shipping information.

Some systems incorporate rules-based queue systems to track pending deadlines and prioritize high-value chargebacks. This can simplify the process of choosing which chargebacks to dispute and prioritizing action items. Such prioritization is crucial when merchants face deadlines in responding to document requests and chargebacks. Failure to meet these deadlines results in irrecoverable loss of the chargeback, regardless of the merit of the merchant’s case.

Even if merchants are able to manage the documentation process, rule compliance, and timeline without a third-party system, a CMS can still provide a financial return on investment by freeing employees to focus on tasks that directly bring in revenue. Among merchants using third-party systems, 84% saw an increase in labor efficiency. While just over half of merchants reporting improved labor efficiency experienced modest gains, nearly a third generated remarkable advances such as improving their labor productivity by 67% to 100% (Figure 15).

5 in 6 CMS Users Improved Labor Efficiency in Chargeback Processing

Figure 15: Improvements in Labor Efficiency With Chargeback Management Systems



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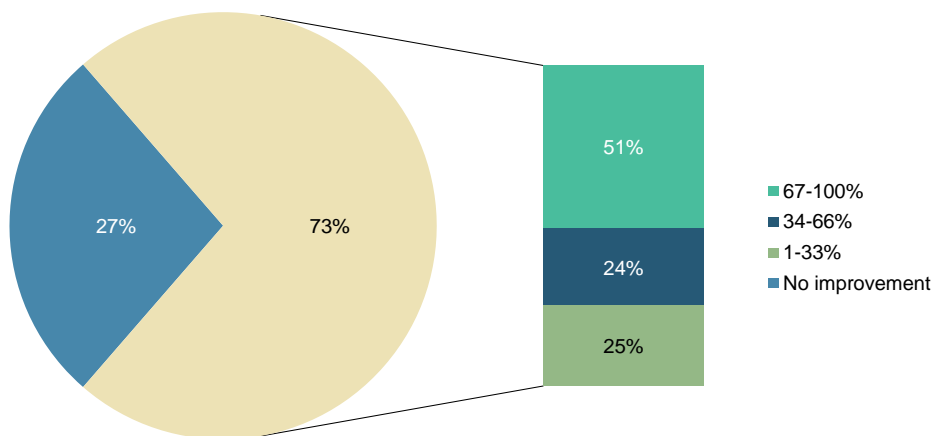
Similar factors influence the second principal benefit associated with chargeback systems. By helping merchants make the best use of limited resources, streamlining the documentation process, and tracking network rules and timelines, third-party systems can help merchants improve their rate of winning disputes.

Some of this gain may come from allowing merchants to gather “low-hanging fruit” such as representment attempts that are lost due to missed deadlines or failure to follow network rules. Secondary gains can also come from refinement of the merchant’s chargeback management process such as better prioritization of winnable chargebacks, preventing the loss of recoverable chargebacks as employees spend time disputing lower-value cases.

Nearly three-quarters of merchants using a CMS improved their dispute win rate through implementation. While this is slightly lower than the proportion of merchants that are able to improve their labor efficiency, the return is even more dramatic. Just over half (51%) of those who were able to improve their win rate increased it by 67% to 100% (Figure 16).

Nearly 3 in 4 CMS Users Improved Their Win Rate

Figure 16: Improvement in Win Rates With a Chargeback Management System



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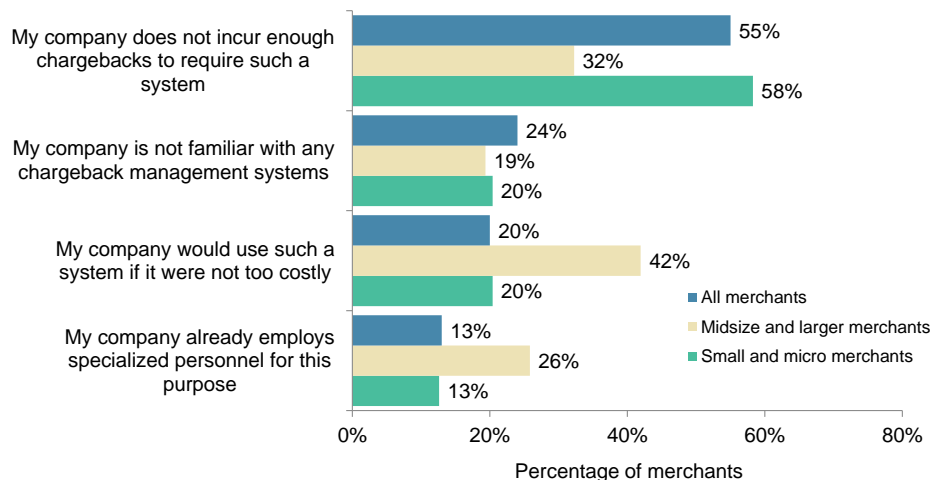
Barriers to CMS Use

The three main barriers to CMS implementation are low chargeback volume, low visibility, and the cost of such systems. Understandably, some merchants simply do not have enough of a chargeback problem to see notable return on investment from such a system, even if it is able to improve their efficiency. Just over half (55%) of merchants who do not use a third-party system indicated that this is the principal reason for doing so. However, among midsize and larger merchants without a chargeback management system ($\geq \$10M$ in annual revenue), this proportion drops to 32%.

Ignorance of available solutions is another significant challenge. Nearly a quarter of merchants indicated that they do not use a CMS simply because they are not familiar with any (Figure 17). This opens an opportunity for CMS providers and merchant acquirers to expand knowledge of available solutions and potentially bring easy assistance to a segment of merchants.

Low Chargebacks and Lack of Knowledge Hinder CMS Adoption

Figure 17: Reasons for Not Using a Chargeback Management System



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Micro and small merchants: < \$10M in annual revenue
Midsize and larger merchants: $\geq \$10M$ in annual revenue

The final challenge to CMS adoption is the issue cost. While only 20% of merchants cited this as a factor in their decision, 42% of midsize and larger merchants indicated that cost influenced their decision (Figure 17). The willingness of a merchant to pay for a chargeback management system will depend on the expected return from using such a system. While undoubtedly there are some merchants who would not be able to realize sufficient returns to justify a third-party system, some of the reluctance by other merchants may be attributed to the same lack of visibility mentioned earlier. Increasing knowledge of potential gains in labor usage and win rates can reveal to merchants the potential for previously unknown gains from chargeback management systems.

METHODOLOGY

The merchant data in this report is based primarily on information collected in a merchant panel of 300 decision makers at U.S. businesses in a June 2015 survey. The margin of sampling error is ± 5.66 percentage points at the 95% confidence level; the margin of error is larger for subsets of respondents. Overall merchant data is weighted according to the U.S. Census employee size and industry distribution.

Executive qualitative interviews were also conducted with merchants to obtain their perspective on chargeback management. A total of five interviews were completed with merchant executives.

ABOUT JAVELIN

JAVELIN, a Greenwich Associates LLC company, provides strategic insights into customer transactions, increasing sustainable profits and creating efficiencies for financial institutions, government agencies, payments companies, merchants, and other technology providers. JAVELIN's independent insights result from a uniquely rigorous three-dimensional research process that assesses customers, providers, and the transactions ecosystem.

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ABOUT ACCERTIFY

Accertify, a wholly owned subsidiary of American Express, is a leading provider of fraud prevention, chargeback management, and payment gateway solutions specifically designed to help e-commerce companies increase revenues through business growth by reducing the cost of fraud and simplifying business processes. Accertify's single-source payment suite is proven, flexible, configurable, and provides comprehensive global solutions supporting Omni-channel commerce in most major languages and currencies. To complement our solutions, Accertify also offers a best-in-breed portfolio of support, professional, decision sciences and managed services that empower companies to focus on growing their business.

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