



The Chargeback Triangle

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Chargebacks were a \$31 billion problem in 2017 — a burden that extends far beyond the liability for disputed transactions. Complying with complex and arcane rules that vary across networks and transaction types shoulders merchants with a tremendous financial burden. Short deadlines challenge merchants' ability to gather documentation and assess the best disputes to fight. Issuers face pressure to give credence to all cardholder disputes or risk running afoul of regulators. For both parties, alienating customers by making them jump through hoops or saddling them with the cost of a disputed transaction can jeopardize future business. On top of these challenges, merchants and issuers must balance the need to please their customers with minimizing the risk of "friendly fraud": disputes fraudulently filed by the individual who made the purchase.

Addressing the challenge of chargebacks requires coordinated effort among the three primary parties in the dispute: the merchant, the issuer, and the customer, creating the chargeback triangle. Greater collaboration between issuers and merchants can help preempt chargebacks and eliminate the burden of a formal dispute process. Victory is measured not only by avoiding financial liability for the transaction but also by securing the relationship with the customer who is disputing the transaction. This study examines the experiences and perspectives of consumers, issuers, and merchants as they relate to chargebacks, so as to illuminate ways to reduce costs and bolster customer satisfaction during a dispute and any chargeback attempt that might follow.

This original report, sponsored by Verifi, Inc., examines the near- and long-term effects that chargebacks have on each party to a retail transaction, along with the opportunities that exist to streamline the chargeback process or even avoid chargebacks altogether.

This research report was independently produced by Javelin Strategy & Research. Javelin Strategy & Research maintains complete independence in its data collection, findings, and analysis.

In October of 2017 Javelin Strategy & Research conducted an online survey of 2,000 U.S. consumers, 300 executives influencing chargeback policy at U.S. merchants earning \$10 million and greater in revenue, and 200 executives influencing chargeback policy at card-issuing U.S. retail financial institutions.

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