Merchant Fraud Journal

Chargebacks Consumer Survey Report 2022

Learn the frequency, motivation, and fears driving the chargeback phenomenon
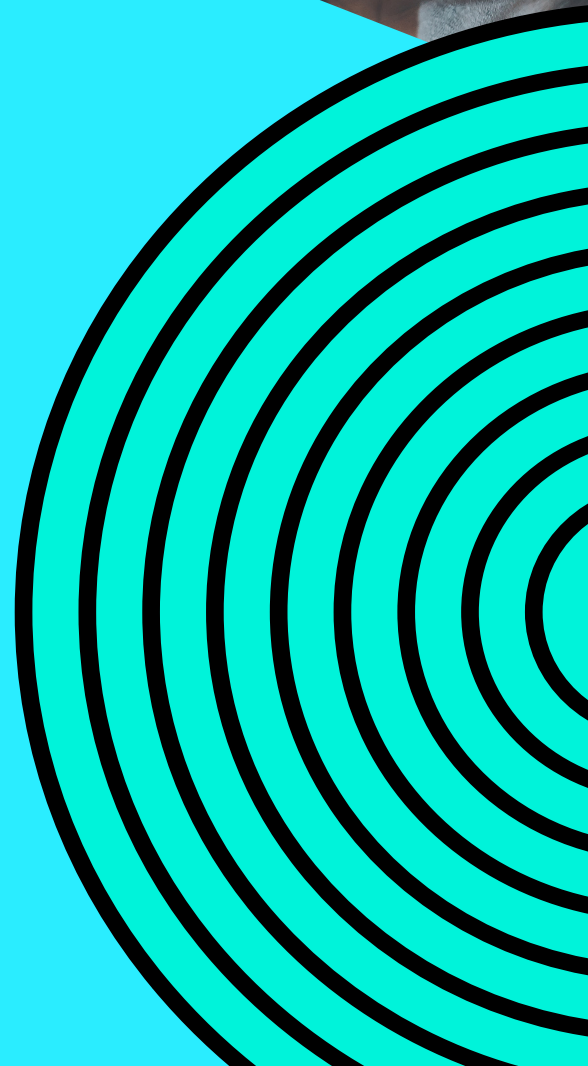
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Chargebacks Consumer Survey Report

Merchant Fraud Journal reveals the frequency, motivation, and fears driving the chargeback abuse phenomenon.

Merchants are expected to pay over $100 billion in chargebacks in 2023*. And the problem continues to grow. It's estimated that the compounded annual growth rate of fraud is 1.5%**.

To combat this, Merchants paid over $25 billion fighting fraud in 2020***. A combination of AI-powered solutions and professional human fraud analysis are used to prevent increasingly sophisticated online attacks. These tools have without question reduced the impact of chargeback fraud.

But analyzing order data alone is not a true chargeback strategy. Chargebacks cause damage in many ways beyond their dollar value cost. Prevention can increase customer friction, leading to cart abandonment and lost LTV. Human fraud analysts can be marginalized by management, significantly decreasing the return on investment in their labor. Chargeback representment processes take significant time and resources.

Understanding how, when, and why consumers file chargebacks is necessary to take all of this into account in order to create a strategy that maximizes profit from online sales.

The purpose of this report is to share insight we gained from surveying consumers' chargeback habits. We wanted to understand consumer attitudes towards chargebacks in a way that helps merchants make strategic decisions about chargeback mitigation and representment strategies.

* https://chargebacks911.com/chargeback-costs/

** https://www.helpnetsecurity.com/2022/03/08/merchants-fraud-threat/

*** https://www.fortunebusinessinsights.com/industry-reports/fraud-detection-and-prevention-market-100231

Part I: Chargeback Volume

Merchants consistently overestimate the risk associated with online sales. Chargebacks feel like theft, and often result in decreasing risk tolerance that actually harms revenue. We wanted to understand how widespread the chargeback problem really is.

Although every merchant experiences a unique chargeback volume, our data showed the risk of chargebacks across the entire US consumer base is, in fact, low. Merchants should keep this in mind when they are designing their chargeback prevention strategies.

Question 1: How many chargebacks have you initiated in the last 12 months?

None	**46.01%**
1-5	**38.04%**
6-10	**12.32%**
11-20	**1.81%**
21+	**1.81%**
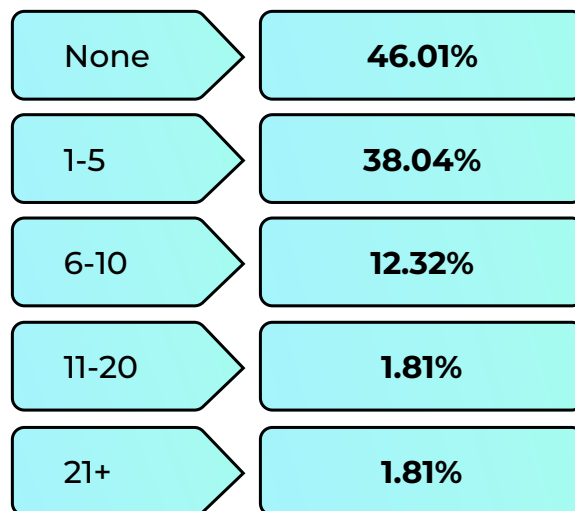
Main takeaways:
- Nearly half of consumers did not file a chargeback in the last year
- 70% of consumers that do file chargebacks file only 5 or fewer
- 3.5% of consumers abused chargebacks by filing 11+ in the last year
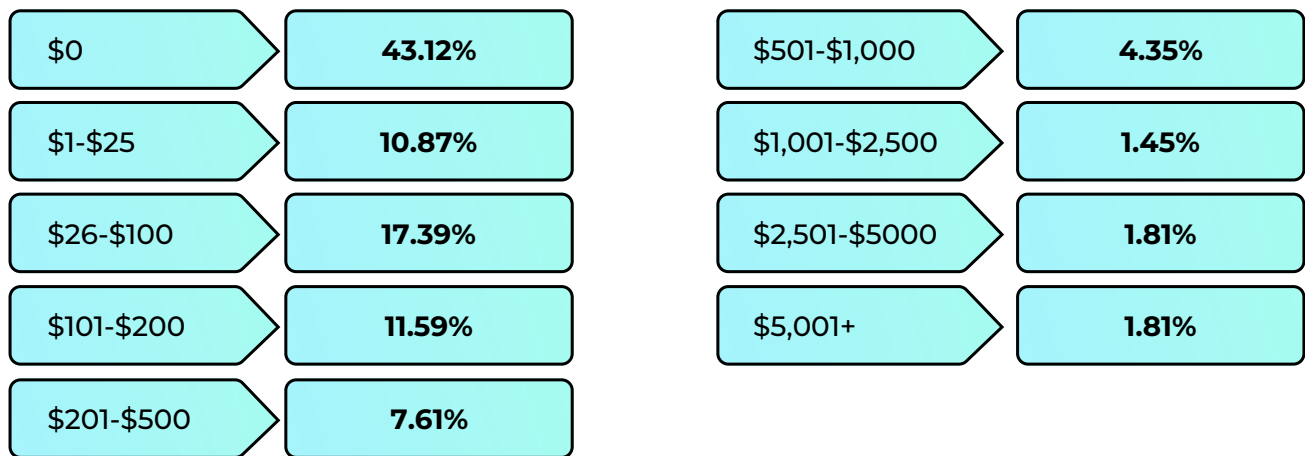
Key Insights:
The vast majority of consumers file few if any chargebacks. Be careful not to tighten risk thresholds too much–33% of consumers said they would never return to a merchant that declined their payment. However, serial chargeback abusers do exist. Put rules in place to flag accounts or individuals that file large amounts of chargebacks and prevent them from making additional purchases.

Additional Resources:
How to Reduce Chargeback Risk
How to Create an Omnichannel Fraud Prevention Strategy

Question #2: What is the approximate total dollar value of all the orders you have initiated chargebacks for in the last 12 months?

$0	**43.12%**
$1-$25	**10.87%**
$26-$100	**17.39%**
$101-$200	**11.59%**
$201-$500	**7.61%**

$501-$1,000	**4.35%**
$1,001-$2,500	**1.45%**
$2,501-$5000	**1.81%**
$5,001+	**1.81%**

Main takeaways:
• Over half of consumers file chargebacks for $25 of less in a calendar year
• 50% of consumers that did file a chargeback during the year did so for less than $100 in total value
• The significant decrease in the percentage of consumers who filed over $1,000 in chargebacks suggests that, on average, merchants have a significantly lower risk threshold for high-value ($1,000+) items

Key Insights:
The overall dollar value of chargebacks remains relatively low on a per customer basis. Merchants should benchmark the estimated LTV of their customers when evaluating edge cases.

The data suggests that, on average, turning away a good customer that is worth over $100 per year will cause more harm than allowing a potentially fraudulent account to make purchases. This reinforces the need to prevent repeat chargeback offenders, rather than decreasing risk thresholds in an attempt to prevent fraudulent transactions from accounts making their first purchase.

Decisions about risk should be made on an empirical ROI basis, regardless of absolute dollar value. However, the significant drop in the number of consumers reporting total chargeback dollar values of $1,000+ suggests that merchants significantly decrease their risk tolerance for high-value items (plane tickets, consumer electronics, etc.). At the very least, merchants should ensure that they are not allowing the emotional impact of a four-figure chargeback to factor into their decision making when evaluating orders.

Additional Resources:
How to use a data lake in your card not present fraud prevention strategy
The 7 KPIs of fraud prevention success

Part II: Chargebacks and the Customer Experience

Chargeback prevention must not come at the expense of the customer experience However, there is a gap between how merchants and consumers define success. Merchants tend to view customer experiences through the prism of friction during account setup or checkout. Consumers take a much wider view that includes post–sale processes like customer support, refunds, and successful delivery of purchased goods.

To better understand this relationship, we asked consumers how post–sale customer experiences impacted chargebacks.

Question #3: How many chargebacks have you initiated because customer support made it difficult to process a refund in the last 12 months?

0	**59.06%**
1-5	**27.17%**
6-10	**9.42%**
11-20	**3.26%**
21+	**1.09%**
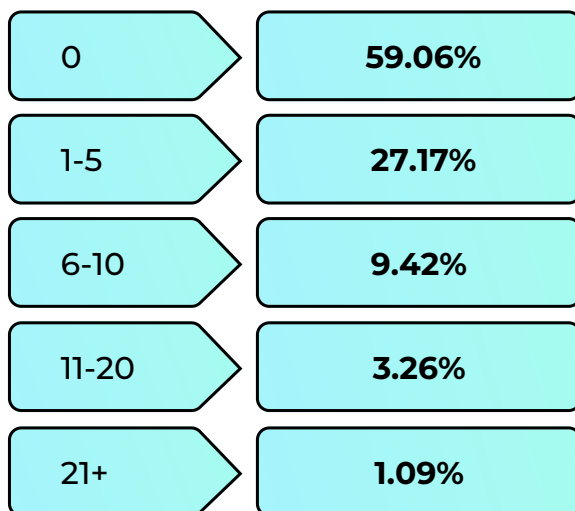
Main takeaways:
- 40% of consumers have filed a chargeback to get around complex refund processes
- Over 10% of consumers appear to view and use chargebacks as a full substitute for the refund process
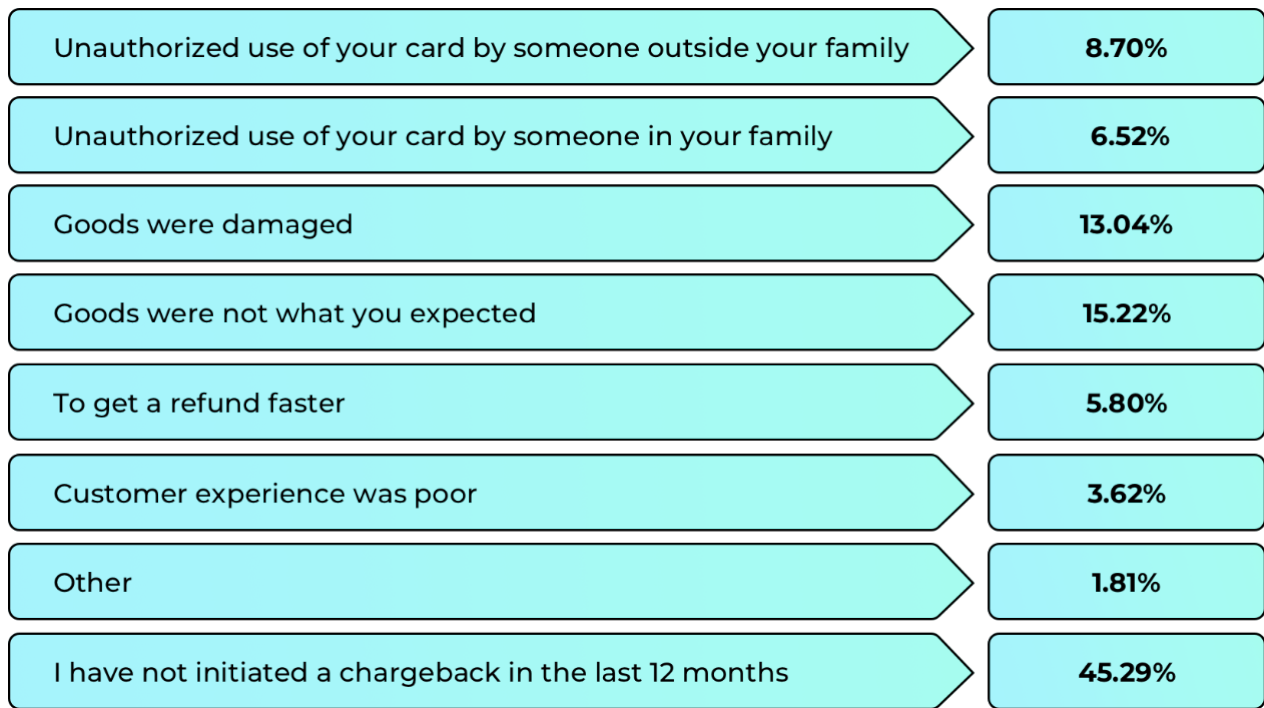
Key Insights:
A significant number of consumers use chargebacks to circumvent difficult refund processes. Customer experience remains king at every touch point, including post–sale. You should make it quick and easy for buyers to contact you, request a refund, and receive the money in their account.

Additional Resources:
Addressing payment fraud and the customer experience in 2022

Question #4: If you've initiated a chargeback in the last 12 months, what reason did you have for doing so?

Reason	Percentage
Unauthorized use of your card by someone outside your family	8.70%
Unauthorized use of your card by someone in your family	6.52%
Goods were damaged	13.04%
Goods were not what you expected	15.22%
To get a refund faster	5.80%
Customer experience was poor	3.62%
Other	1.81%
I have not initiated a chargeback in the last 12 months	45.29%

Main takeaways:
- 30% of consumers filed chargebacks for damaged or incorrect goods
- The data suggests customers file chargebacks for fraud at approximately the same rate as they do for customer experience issues

Key Insights:
Fraud causes just as many chargebacks as post-sale customer experience problems. You should be investing in optimizing shipping and refund processes just as much as your fraud prevention strategy. Emphasize the post-sale chain of events as much as order analysis and pre-sale customer experiences.

Keep meticulous records and challenge chargebacks filed for damaged or incorrect goods when appropriate. Chargeback representment strategies require preparing a case that matches the specific chargeback reason code.

Part III: Friendly Fraud Chargebacks

Friendly fraud chargebacks are the term used to describe fraudulent chargebacks made by the authorized cardholder. Merchants often view the chargeback representment process as the only way to fight these chargebacks. This is not, in fact, the case.

Friendly fraud chargebacks are impossible to detect in advance. However, effective prevention strategies include educating consumers on refund policies, responding quickly to customer concerns, and black-listing repeat offenders.

Our data shows that strategies to engage with consumers can in fact mitigate friendly fraud chargebacks.

Question #5: Do you view chargebacks as a good alternative to requesting a refund from a merchant?

Yes	**61.96%**
No	**38.04%**
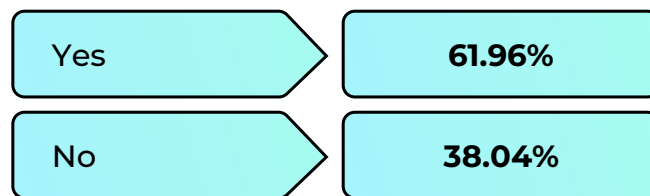
Main takeaways:
- Nearly 2 out of 3 customers believe chargebacks are a good alternative to a merchants established refunds process
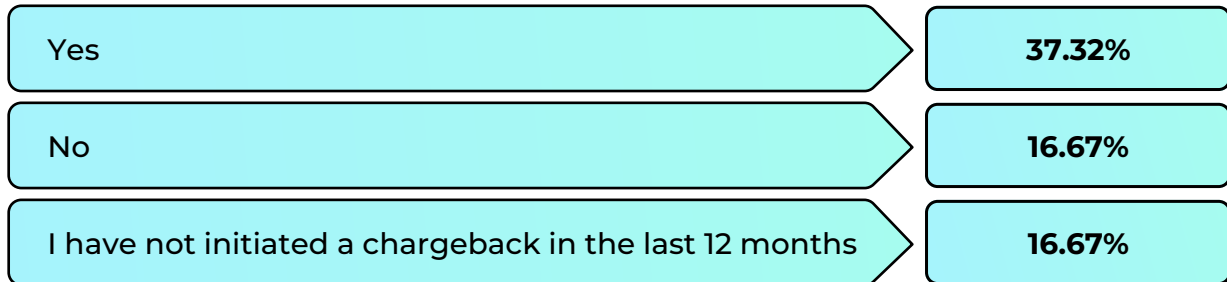
Key Insights:
Unfortunately, many consumers view chargebacks as a substitute for a return. It's possible some of this is due to a mistaken assumption that chargebacks do not harm merchants. To mitigate this, set expectations by proactively educating consumers on return policies, be transparent about what is covered, and treat post-sale customer support with the same urgency as pre-sale.

Reward customers that do try to return items by making it as quick, easy, and frictionless as possible.

Additional Resources:
What is friendly fraud?

Question #6: If you have initiated a chargeback in the last 12 months for a reason other than unauthorized use of your card, did you try to contact the merchant to solve the problem before doing so?

Yes	**37.32%**
No	**16.67%**
I have not initiated a chargeback in the last 12 months	**16.67%**

Main takeaways:
• 2 out of 3 consumers that file a friendly fraud chargeback first try to contact the merchant to address their concerns

Key Insights:
Opportunities exist to prevent friendly fraud chargebacks before they happen. Train customer support staff to recognize and intervene with customers that are unsatisfied with their purchase. Mine customer communications for information that will help win chargeback representment cases. Customers that threaten to file an unjustified chargeback to CS should be tagged in your system and have their accounts suspended if they follow through with the threat.

Question #7: Have you ever canceled a chargeback because the merchant was able to resolve your concerns about an order?

Yes	**28.62%**
No	**31.88%**
I have never initiated a chargeback	**39.49%**
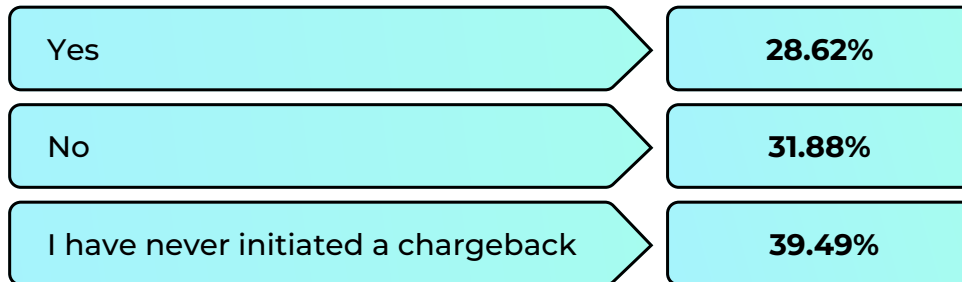
Main takeaways:
• Half of consumers have canceled a chargeback

Key Insights:
Consumers can, will, and do change their minds about friendly fraud chargebacks. Chargeback representment processes must be about more than merely contesting the chargeback with the bank. Proactively reach out to consumers after a chargeback and attempt to address their concerns.

Additional Resources:
Podcast: How to fight and win chargeback disputes

Part IV: How Consumers React to Data Breaches

Consumers are educated about the security of the data they share with online merchants. But does that translate into impact when it comes to choosing where to shop? Our data shows that it does.

Merchants must take security into account when developing their chargeback prevention strategies. Siloed fraud teams cannot benefit from security uncovering a vulnerability, and are prevented from sharing insights that may indicate an open vulnerability.

Question #8: Have you ever refused to shop at an online store because of concerns about the security of your personal information?

Yes	**62.69%**
No	**37.32%**
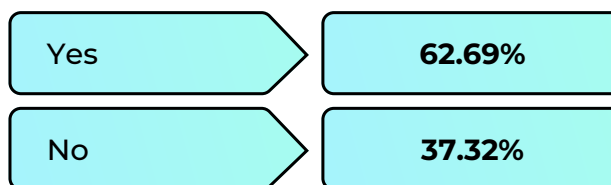
Main takeaways:
- Consumers pay attention to the security of their data and will use it as a factor when deciding where to make purchases
- Nearly 2 out of 3 consumers view the security of their data as a prerequisite to making an online purchase with a merchant
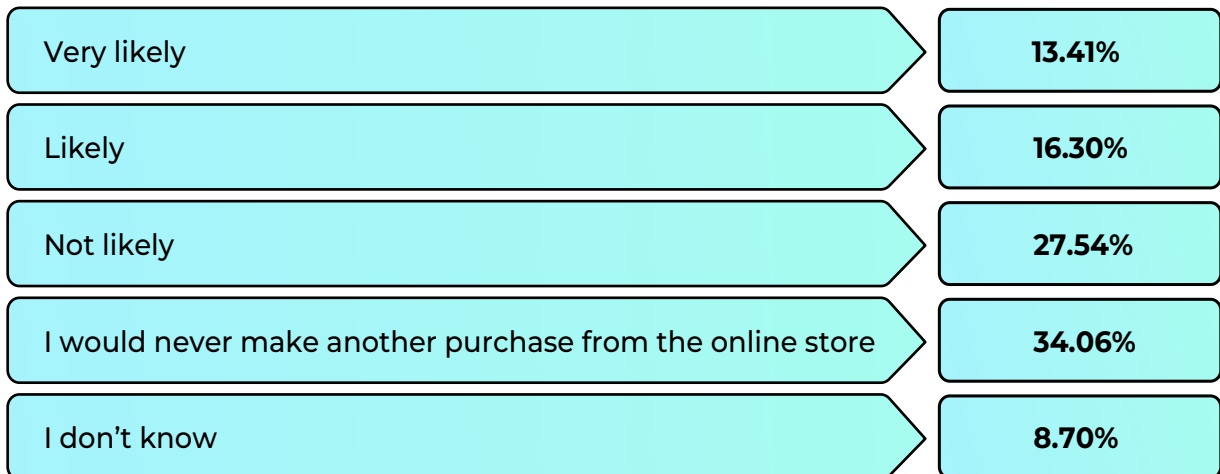
Key Insights:
Consumers take the security of their personal data into account when deciding where to make an online purchase. Fraud and security teams must work together to tackle these issues and constantly search for vulnerabilities beyond chargeback prevention.

Additional Resources:
How online shopping behaviors and consumer attitudes on security and fraud have changed from 2020 to now
Podcast: A former FBI Special Agent and CIA Cyber-Operations Officer discusses IT security and cyber terrorism

Question #9: How likely would you be to make additional purchases from an online store that you knew had allowed hackers to access your personal information?

Very likely	**13.41%**
Likely	**16.30%**
Not likely	**27.54%**
I would never make another purchase from the online store	**34.06%**
I don't know	**8.70%**

Main takeaways:

• Over half of consumers will not return to a merchant that suffered a data breach that compromised their personal data

Key Insights:

Customers punish companies that experience a data breach by choosing to shop elsewhere. Unfortunately, attacks targeting customer data are increasingly difficult to detect. Some examples include compromising accounts even before they are created, stealing credentials with fake online forms, and injecting malicious code into third party extensions used by merchants. You should not think of security and fraud prevention as separate issues–they are interdependent.

Your long-term strategy should plan for a future where this relationship becomes so close that the line between them disappears. Web 3.0 technologies such as cryptocurrency and augmented reality (AR) will become more prevalent in the coming years. Now is the time to begin thinking about how you will protect yourself not just from chargebacks, but also deliver the secure experiences customers will continue to demand in new, shifting security environments.

Additional Resources:

Podcast: A deep dive into Magecart style attacks

Pre-hijacking account takeover fraud

What is formjacking?

Survey methodology

This quantitative survey was commissioned by Merchant Fraud Journal and carried out by Momentive, an on-demand market and customer insights firm. It surveyed 276 consumers within the United States, with age and demographic levels in proportion to the US census.

The survey's margin of error is ±6.019%

"If everyone is moving forward together, success takes care of itself"

Henry Ford

About MFJ

Merchant Fraud Journal is an independent and unbiased publication dedicated to empowering online sellers to greatly reduce the impact of eCommerce fraud on their businesses. Its core mission is to break the silos surrounding merchants' internal fraud prevention processes by bringing together industry professionals to share their knowledge with one another.

Unfortunately, the business process knowledge needed for online sellers to greatly reduce the impact of eCommerce fraud is scarcely available right now. There is no single forum and resource where merchants, payment professionals, and other industry professionals could go to get educated on the myriad of challenges they face.

We seek to fill that gap by being a resource that collects insight from industry thought leaders and fraud prevention tool experts on topics such as chargebacks, false positive declines, account takeover fraud, friendly fraud, data breaches and more. Our goal is to help honest businesses quickly understand their security options and take action, so they can get back to focusing on their core business activities.

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