



# The State of Chargebacks

Protecting Your Business in 2024



# **Chargebacks represent a significant threat to the health of businesses, costing merchants millions of dollars every year.**

Increasing evidence shows these rates are only getting worse in the U.S. market.<sup>1</sup> Without a robust strategic plan to fight chargebacks, businesses face substantial losses in revenue, and may even have to pay out additional fees to their acquirer for fines from the card networks.

With these concerns in mind, Chargeback Gurus and TSG (The Strawhecker Group) have collaborated on this report to examine the current state of chargebacks, how chargebacks have changed over the past several years, and what merchants need to be aware of moving into 2024.

To develop this report, TSG analyzed data from over 4 million card-accepting merchants across the United States, reviewing businesses' payments volume, transactions, and where chargebacks have occurred in hundreds of industries.

**The size of this sample, gathered from TSG's AIM platform and updated quarterly, makes this data some of the most accurate and timely information available in the world to analyze chargebacks today.**

<sup>1</sup>Mastercard, "Securing the digital economy," March 2023

# Overview

This report, developed by Chargeback Gurus and TSG, discusses the current state of chargebacks, emerging trends merchants should be aware of, and strategies merchants can use to limit the negative impact of chargebacks on their businesses in 2024 and beyond.

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# The State of Chargebacks

Chargebacks represent a challenge for merchants everywhere, and some sources suggest chargebacks are increasing. To identify strategies to mitigate financial risks from chargebacks, it's necessary to take a step back and understand the current situation first. Are chargebacks really increasing? If so, how and where? What can merchants do about it?

To answer these questions, we reviewed changes in chargebacks across hundreds of industries through TSG's Acquiring Industry Metrics (AIM) platform. Through AIM, TSG tracks data from over 4 million merchants across 250 industries. The size and breadth of this sample offers a unique comparison unlike any that has been shown in the industry before. Because of its scale, it also provides a more reliable, accurate, and unbiased source of data than what could be obtained through surveys or self-reported data alone.

## Chargeback Transaction Sizes are Increasing

Transaction size refers to the dollar amount of a customer's ticket, or how much they spent with your business. Every industry has an average 'ticket size' associated with their type of business, and these amounts fluctuate year over year.

*Chargeback transaction sizes – the average amount charged back to merchants for one transaction alone – also change each year.*

In 2021, across all industries, the average merchant could expect to lose \$156 for each chargeback they received from a customer.

Last year, that amount rose to \$165 – a growth of 5.4%. This amount may seem small, but across thousands of transactions, it quickly adds up to a massive problem for merchants. TSG estimates between \$8 and \$11 billion in chargebacks were presented to merchants in the U.S. in 2023.

## Average Chargeback Dollar Amount by Year for All Business

*\*This is an estimation based on current available data. This estimation assumes a margin of error of +/- 5%.*



The problem gets worse as a merchant's size increases. When small businesses – those with less than \$5 Million in annual payment volume – are pulled out of the sample, the average amount lost on a customer per chargeback rises to \$237.00 – an increase of 6.2% from 2021 when the average amount lost for a larger business was just \$223.00.

## Average Chargeback Dollar Amount by Year for Mid-Market Business

*(\$5M - \$50M in Payment Volume)*



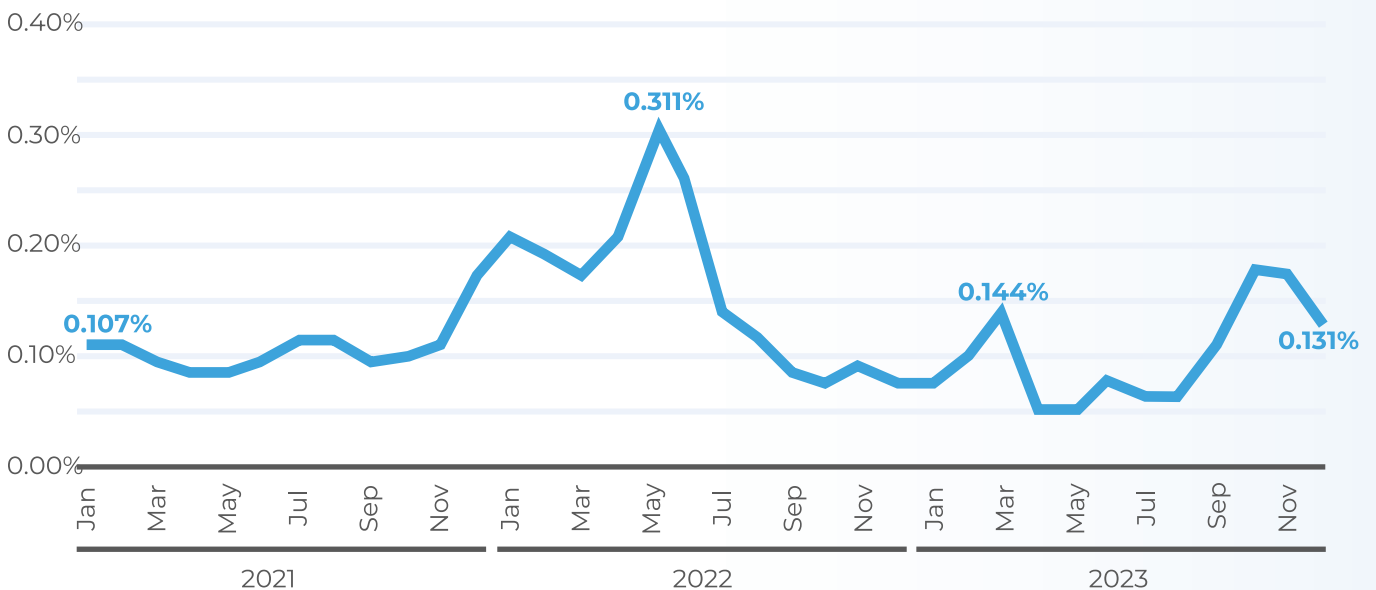
These statistics give an indication of the scale of the problem, but do not tell the full story. To do that, we have to take a closer look at individual industries.

## Retail – The Chargeback Wave

The retail industry encompasses dozens of merchant category codes (MCCs), including everything from clothing and apparel to lumber, lawn and garden supplies, auto parts, appliances, electronics, and jewelry.

Merchants in each of these specific retail segments have had a slightly different experience over the past few years, but one thing unites them all: Chargebacks increased substantially for them in 2022, with smaller aftershocks into 2023.

To understand how chargebacks have changed in retail, we went beyond dollar amounts and explored chargeback rates. Specifically, when you consider a merchant's transactions each month, what percentage of those transactions resulted in a chargeback? Reviewing data in this way helps to accurately capture real shifts in chargeback rates, as opposed to chargeback numbers that may superficially look high due to an increase in the merchant's level of business.



Retail merchants have experienced strong shifts in chargeback rates over the past few years. In 2022, significant growth in May led to rates as high as 0.31% in some cases – that is, approximately three in every 1,000 transactions was charged back to retail merchants.

Although few months have shown as high of fluctuation as the surge during May of 2022, retail merchants in November of 2023 experienced another spike in chargebacks, nearly as high as 0.20%.

While tracking chargeback transaction rates can be helpful to understand trends over time, reviewing data within more specific segments can provide valuable insight too. Below are the top five retail MCCs with the greatest growth from 2021 to 2023, including Family Clothing Stores, Specialty Retail Shops, Drug Stores & Pharmacies, Hardware Stores, and House Furnishing Specialty Stores. Each of these specific merchant segments within the broader retail industry showed consistent high growth over the past several years.

**Retail MCCs with High Chargeback Rate Growth from 2021 - 2023**

**YoY % Change in Chargeback Transactions**

<b>5651</b>	<b>Family Clothing Stores</b>	<b>175%</b>
<b>5999</b>	<b>Specialty Retail Shops</b>	<b>106%</b>
<b>5912</b>	<b>Drug Stores &amp; Pharmacies</b>	<b>88%</b>
<b>5251</b>	<b>Hardware Stores</b>	<b>38%</b>
<b>5719</b>	<b>House Furnishing Specialty Stores</b>	<b>25%</b>

Chargebacks often follow patterns of economic instability. The fluctuations reported in this study are consistent with what we might expect as economic data shows many consumers' financial situations were unstable in mid-2022.<sup>2</sup> To some extent, the economy has since rebounded, but consumer confidence is still down year-over-year and credit card debt and delinquencies are higher than ever before.<sup>3</sup>

<sup>2</sup>Consumer Confidence Index, December 2023

<sup>3</sup>Federal Reserve of New York, Quarterly Report on Household Debt and Credit, February 2024

## What Lies Ahead for Retail?

Growth in chargebacks has been steady in the retail industry, with especially large growth in clothing, drug stores, hardware, and home furnishing stores. Business owners who fall into these categories should be vigilant to ensure they don't fall victim to increasing chargebacks over the next year.

## Travel & Entertainment – The Unstable Landscape

The travel and entertainment industry includes travel agencies, tour operators, airlines, car rental companies, and travel and entertainment-focused businesses. These types of businesses are uniquely vulnerable to chargebacks given the likelihood of shifting travel plans, unexpected schedule changes, and last-minute decisions when it comes to events.

Tracking chargebacks in travel and entertainment shows the instability inherent to this industry, with rates as low as an average of 0.18% in January of 2021, and as high as 0.89% in January of 2022 – significantly higher than in retail.





*Since a peak in 2022, chargeback rates have not been quite so high, but the current pattern of data suggests significant changes will likely continue to occur toward the beginning of each year, and any subsequent shifts across the industry are likely to be substantial.*

Below are the top five travel and entertainment MCCs with the greatest growth from 2021 to 2023, including amusement attractions, travel agencies and tour operators, ticketing agencies, public golf courses, and dance halls. Each of these specific merchant segments within the broader travel and entertainment industry showed high chargeback growth over the past two years. However, because chargebacks tend to be higher in this industry in general, growth is not as substantial as it has been in retail. This does not mean chargebacks in travel are limited.

#### Travel MCCs with High Chargeback Rate Growth from 2021 - 2023

#### YoY % Change in Chargeback Transactions

<b>7996</b>	<b>Amusement Parks, Carnivals, Circuses, Fortune Tellers</b>	<b>200%</b>
<b>5122</b>	<b>Travel Agencies &amp; Tour Operators</b>	<b>105%</b>
<b>7911</b>	<b>Ticket Agencies &amp; Theatrical Producers</b>	<b>19%</b>
<b>7992</b>	<b>Public Golf Courses</b>	<b>9%</b>
<b>7911</b>	<b>Dance Halls, Studios, &amp; Schools</b>	<b>4%</b>

## What Lies Ahead for Travel & Entertainment?

Growth in chargebacks has fluctuated wildly in the travel and entertainment industry, with especially large growth in amusement attractions, travel agencies, ticketing agencies, golf courses, and dance halls. Business owners who fall into these categories should pay close attention to their chargeback rates each year moving into October and November, which tend to have the most growth.

## Insurance and Real Estate – A Slow, Steady Climb

The insurance and real estate industry includes insurance agencies, companies offering different types of insurance (e.g., auto, health, life, property), and companies selling and renting property. These types of companies can experience fluctuations in chargebacks due to the termination of policies after proof of insurance or the desired services have been obtained, dissatisfaction with coverage, or complex policies which could drive customer confusion around payment responsibility.

*A review of the past several years shows a more consistent pattern of chargeback changes compared to retail or travel.*

Specifically, chargebacks have increased from a low of 0.09% in May of 2021, to a high of 0.18% in December of 2023. Although growth in this industry has not fluctuated as wildly as in some, the pattern of data does show a steady, consistent increase in chargebacks from 2021 to 2023 which means it is worth a close watch, particularly near July and September of each year, which seem to precede upticks.



The top three MCCs with the most growth in chargeback rates from 2021 to 2023 were Real Estate Agents and Managers, Insurance Not Elsewhere Classified (NEC), and General Insurance (Sales, Underwriting, and Premiums). Each of these sub-segments showed a pattern of small but consistent growth over the past two years, with Insurance (NEC) standing out as the most challenging. If this trend continues, chargebacks could slowly creep up to overwhelm business owners in the next few years.

**Insurance MCCs with High Chargeback Rate Growth from 2021 -**

**YoY % Change in Chargeback Transactions**

<b>7996</b>	<b>Insurance (NEC)</b>	<b>99%</b>
<b>6513</b>	<b>Real Estate Agents &amp; Managers (incl. Rentals)</b>	<b>64%</b>
<b>6300</b>	<b>Insurance - Sales, Underwriting, &amp; Premiums</b>	<b>10%</b>

## **What Lies Ahead for Insurance?**

Growth in chargebacks have been steadier in the Insurance Industry than in retail or travel, but a clear upward trend means business owners should exercise caution in making sure small increases in chargebacks over time do not add up to overwhelm their businesses.

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## **Looking at changes across retail, travel, and insurance over the past few years holistically, it is clear chargebacks can strike merchants across a variety of industries.**

Many factors, including economic instability, various social phenomena, business process weaknesses, and confusing interaction points in the customer journey can facilitate chargebacks. At a macro level, this data provides the following key learnings:

### **1. Chargebacks are growing - in more ways than one**

Rates, transaction sizes, and month-to-month tracking all show chargebacks are increasing – but they are not all increasing in the same way or at the same time. You will need different strategies to address different concerns.

### **2. Chargeback trends are not the same across industries.**

Every industry has its own seasonal trends when it comes to chargebacks. Make sure you are aware of when spikes are likely to occur in your industry and adjust accordingly.

# What's Causing Chargebacks?

To add to the data-driven trends we examined, let's discuss recent events which may have implications for merchants in 2024.

There are four main types of chargeback reason codes: fraud, consumer disputes, authorization failures, and processing errors. Out of these reasons, fraud is by far the most common, and this was true last year as well.

Fraud encompasses many specific causes of chargebacks, including everything from stolen card information to confusion over a bank statement. The Federal Trade Commission received nearly 417,000 reports of credit card identity theft in 2023, making up 19% of all fraud reports in the U.S.<sup>4</sup>

Friendly fraud, also referred to as first-party misuse, is of particular concern when it comes to chargebacks. Some research suggests friendly fraud is increasing. Below are some reasons why.

**Buyer's Remorse.** Financial instability in today's economy may be driving an increase in the number of consumers who find it difficult to keep up with debt, with more consumers requesting chargebacks even after correctly receiving their purchases. This typically occurs after customers buy something and realize after the fact that they cannot afford it.

**Perceptions of Fraud as 'Harmless.'** Consumer attitudes across social media show widespread attitudes around fraud as 'harmless,' especially among younger consumers, who feel filing a chargeback after they've received a purchase is a victimless crime.

**Shifting Expectations Around Return Policies.** Changing expectations for return policies can result in more customers committing friendly fraud when they can't get a refund they feel entitled to. **The National Retail Federation estimated merchant losses from return fraud at over \$100 billion last year,** with e-commerce merchants experiencing more return fraud than brick-and-mortar stores.<sup>5</sup>

<sup>4</sup>Consumer Sentinel Network Data Book, Federal Trade Commission, 2023

<sup>5</sup>National Retail Federation, "Consumer Returns in the Retail Industry," December 2023.

**Buy Online, Pick Up In-Store.** Since the COVID-19 pandemic, the notion of buying items online and later picking them up at a physical store location has increased in popularity. However, the model itself presents some unique challenges when it comes to fraud, as bad actors may attempt to pick-up orders they did not place, claim their order was picked up by another individual, or claim their order contains incorrect items.

## How to Manage Chargebacks?

To address the threat of chargebacks, one of the most important things merchants can do is analyze their incoming chargebacks to determine their root causes.

By carefully analyzing chargeback data, merchants can identify trends in certain products, locations, or payment types that may be driving their chargebacks. **Further, leveraging this data may reveal hidden weaknesses and vulnerabilities that can be corrected, saving merchants a considerable amount of money.**



Merchants can prevent some chargebacks by ensuring they have clear language and policies laid out for their customers to easily view and understand. This may help limit the number of misunderstandings that can lead to a dispute.



Using billing descriptors that customers will recognize is also key to deterring disputes.



A well-established and trained customer service team can help decrease chargebacks by resolving the issue or satisfying the customer before they escalate to a dispute.



Due to the variety inherent within chargeback fraud, it's best to approach each problem with a custom solution. Businesses will need a different strategy to address chargebacks from fraudulent buy online, pick up in-store orders vs chargebacks from consumers who have stretched themselves too thin or who are struggling to understand their healthcare costs.

## **An Emerging Trend: The AI-based Chargeback Management Approach**

Artificial intelligence made a splash in 2023. With the popularity of artificial intelligence (AI), some merchants and chargeback providers are beginning to experiment with implementing more automation. These approaches can help fight against different types of fraud that can lead to chargebacks in several ways.

AI-powered solutions can:

- 1.** Help reduce high costs associated with large manual teams responsible for reviewing chargebacks individually.
- 2.** Identify patterns across a variety of factors simultaneously.
- 3.** Help merchants scale their chargebacks management strategy as they grow.
- 4.** Provide options to address sophisticated fraud from fraudsters familiar with avoiding detection.

However, AI approaches are not without limitations . For example, AI-only solutions may oversimplify, sorting chargebacks into just a few categories rather than addressing the case at hand. Since they are trained on specific datasets, they may also struggle to adjust when patterns start to shift. In some cases, large changes in circumstance may cause an AI-only solution to fail entirely, and troubleshooting these systems is often incredibly difficult.

## **The Complexity of Chargebacks and Why Hybrid Solutions are Still Best-in-Class**

The ever-changing fight against chargebacks requires more than an AI solution can offer. To adapt, merchants need experts to help supplement automation. An experienced team of chargeback industry experts can help:

- 1.** Identify emerging, atypical cases of fraud
- 2.** Review potential false positives

3. Ensure your AI solution is properly trained
4. Review and interpret chargeback rules to identify solutions to a business's unique vulnerabilities
5. Assist with navigation of the arbitration process

Merchants building a best-in-class chargeback management strategy should use every tool available.

The daunting complexity of the chargeback process discourages many merchants from attempting to dispute chargebacks altogether, and having an internal team of employees focused specifically on manually handling chargebacks can be expensive. Thus, the best chargeback management approaches combine artificial intelligence with teams of skilled industry experts who can review patterns and make tailored recommendations to your business directly.

**This is why experts like Chargeback Gurus, who combine the latest technology with expert knowledge and deep industry expertise, are leading the industry in helping merchants take control of their chargebacks.**





Wherever the industry goes next, the best way to protect your business is to consider chargebacks at every stage of the customer journey — from preventing misconceptions when you make a sale, through to comprehensive record keeping and challenging the cases you can win.

## Knowledge is Power

Merchants in retail, travel and entertainment, and the insurance industries are increasingly acknowledging the impact of chargebacks on their businesses. If left unattended, growing chargebacks can and will consume a company's resources. Although every industry is different, determining a path forward is much easier with data to inform decision-making.

## Questions about how your company can better manage your frustrating chargebacks?

Leverage support from Chargeback Gurus to stop losing revenue from preventable and recoverable chargebacks.

Stay up to date on chargeback trends by attending our [webinar](#) or learn more about chargebacks [here](#).



## About Chargeback Gurus

Chargeback Gurus helps businesses protect and recover revenue by providing innovative chargeback management solutions and AI insights powered by their proprietary **FPRONE** platform.

By understanding their clients' needs and fully aligning with their goals, Chargeback Gurus helps them reduce chargebacks and increase recovery rates to maximize revenue. Their technology solutions use powerful data science and AI analytics—combined with deep industry expertise—to deliver hundreds of millions of dollars in recovered revenue to their clients.



## About TSG

TSG (The Strawhecker Group) is a fast-growing analytics and consulting firm. The company serves the entire payments ecosystem, from fintech startups to Fortune 500 companies. The firm provides its clients with advisory services, research and analytics to help them plan and execute their strategic initiatives. Based in Omaha, a recognized payments industry hub, TSG is an established leader in this high-growth, ever-evolving space.