



Xsolla



HOW TO HANDLE CHARGEBACK FRAUD IN YOUR GAME

Learn the best ways to prevent and respond to a costly fraud – growing concern for game developers and publishers.



CONTENTS

INTRODUCTION	3
UNDERSTANDING CHARGEBACKS AND CHARGEBACK FRAUD	4
• Chargebacks vs. refunds	5
CONSEQUENCES OF CHARGEBACK FRAUD	6
• Loss of revenue	6
• Loss of reputation	7
• Losses within your user community	7
CHALLENGES OF DISPUTING CHARGEBACKS YOURSELF	8
• Reason codes	9
• Friendly fraud vs. true fraud	10
THE CHARGEBACK LIFE CYCLE	11
• Best practices for fighting chargeback fraud	14
• How Xsolla can help	16
NEXT STEPS	17



INTRODUCTION

As the video game industry continues to expand, game developers and publishers are increasingly targeted by fraudsters. One of the most damaging types of fraud in this trend is chargeback fraud. Chargeback fraud is more difficult to detect than other forms due to its unique mechanics, the parties involved, and how it challenges the norms of the user-developer relationship.

Let's examine chargeback fraud, how it can damage your business, the challenges of prevention and resolution, some best practices for fighting back, and how working with an experienced fraud and payments partner can help you protect yourself more effectively.



UNDERSTANDING CHARGEBACKS AND CHARGEBACK FRAUD

Simply put, a chargeback occurs when a customer requests that their issuing bank reverse a transaction. To justify this request, the customer must supply a claim that the transaction in question is fraudulent, unexpected, or problematic in another way.

If the transaction meets specific regulatory and timeframe qualifications, and the justification for the request appears legitimate, it's eligible for a chargeback. But if a customer requests a chargeback for an ineligible purchase or an eligible purchase with no legitimate justification, it becomes a case of chargeback fraud.

When a customer requests a chargeback, the issuing bank often grants it without a full investigation to service the customer-bank relationship. The bank is vested in protecting its customers to maintain their trust and loyalty—and, ultimately, its business.

When the customer's issuing bank reverses the charge, they debit the merchant – in other words, your business – to balance the transaction. The issuing bank has no pre-existing relationship with your company, placing you at an inherent disadvantage for any contest to follow. And as they were not party to the original transaction, you automatically bear the burden of proof in case of fraud. You must establish that the transaction is ineligible for a chargeback or that the customer's justification for the request is false or insufficient.

Because a chargeback request is made with the issuing bank rather than your business, it preys on a knowledge gap between the two – which is the most insidious element of this type of fraud. As you are more aware of the true nature of the transaction, scammers who file fraudulent chargebacks against you are relying on the probability that this gap will not be resolved before the charge has already been reversed. This enables them to pick your pocket while remaining uninvolved in the fallout of their claim.

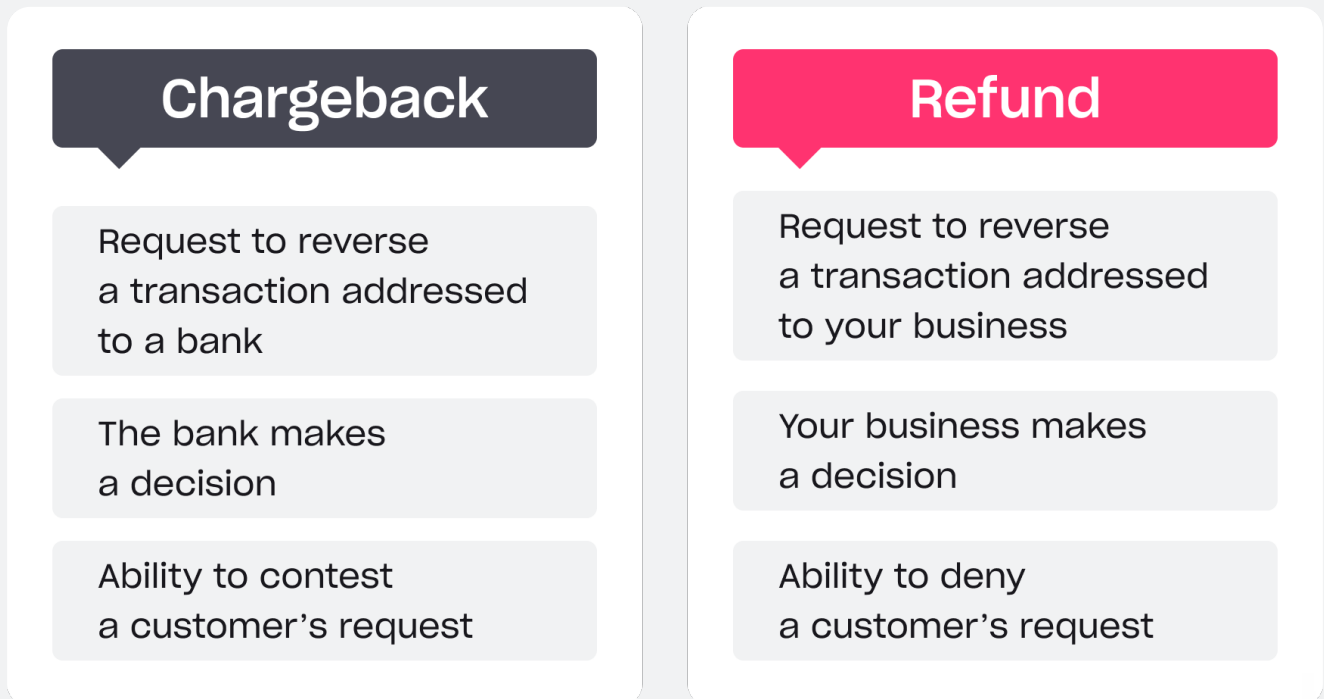
In fairness, many chargebacks are initiated by well-meaning customers for legitimate reasons, ranging from a claim that the payment value is incorrect –e.g., a coupon or sale discount has been inaccurately applied– to simply not recognizing the charge. Like issuing banks, game developers and publishers want to maintain relationships with their users, so they take them at their word. But not all users are so fair-minded, which is how chargeback fraud has become a popular scam that can spell disaster for your studio.



CHARGEBACKS VS. REFUNDS

Though chargebacks may seem functionally identical to refunds, the two have key differences.

As stated previously, a chargeback is a request to reverse a transaction filed with a customer's issuing bank, giving them the power of choice. Banks often approve chargebacks by default, reversing the charge and debiting your business. But if a chargeback is fraudulent, it's your responsibility to contest the decision and prove fraud, pitting you against the bank. Meanwhile, the fraudster retains a digital product that they can enjoy for free at the expense of your studio while they await any decision that follows.



On the other hand, a refund is a request to cancel a transaction and return the amount paid that's filed directly with your business. This gives you the power of choice instead of the bank, and because you are a party to the transaction, you are more highly informed about it. If a user makes an ineligible refund request, you can deny the request without fighting to keep the revenue you've earned legitimately. It's also up to you to decide if the user should continue to have access to any products or services involved in the transaction.

However, it's always important to consider how your relationship with users can affect your chances at long-term success when determining whether or not to grant refunds. A refund for a small purchase one day can sometimes inspire the kind of trust and loyalty that leads to multiple larger purchases in the future.



CONSEQUENCES OF CHARGEBACK FRAUD

Without question, chargeback fraud is hard to detect and even harder to prove. But it can also affect your business which go far beyond a single transaction.

LOSS OF REVENUE

When an issuing bank carries out a chargeback, your business becomes obligated to return the value of the transaction, resulting in a loss of revenue. In the case of chargeback fraud, you're likely to lose twice – the value of the payment itself plus the goods or services you delivered in exchange.

Additionally, your financial institution or payment service provider (PSP) will likely assess a chargeback processing fee for every chargeback it handles on your behalf. This fee is usually USD\$15 per chargeback, but it can sometimes climb as high as USD\$500, well over many times the value of the original transaction.

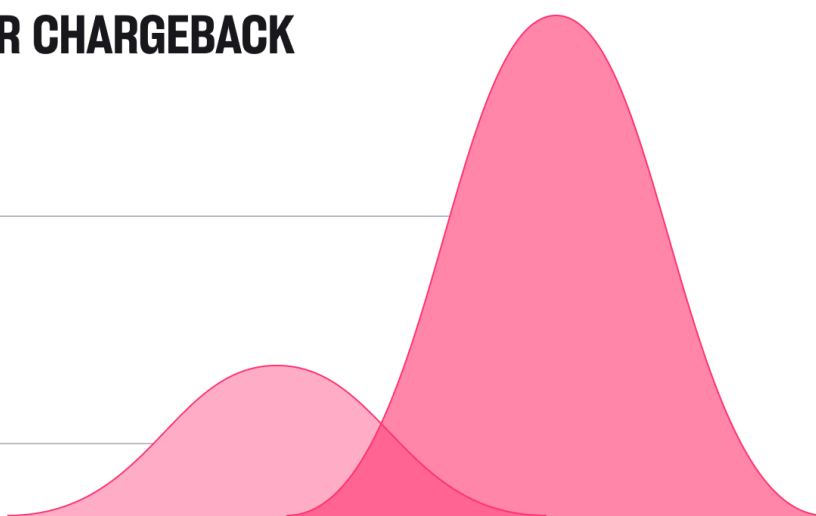
PROCESSING FEE PER CHARGEBACK

\$500

Second-time chargeback and arbitration

\$15

First-time chargeback



It's estimated that by 2026, the volume of chargebacks will reach USD\$337 million in global monetary losses across all industries.



LOSS OF REPUTATION

If chargebacks occur frequently, your studio can experience a loss of reputation among international payment systems. Banks and card networks have monitoring programs that regularly check your business's chargeback ratios. They can penalize your merchant account with higher fees or lower acceptance rates if it exceeds a certain threshold. These programs also have associated costs that increase the longer you're under review. Fees often run between USD\$25 and USD\$100, but they can climb higher depending on the nature of the chargebacks, the frequency of requests, and other uncontrollable factors.

In extreme cases, banks and card networks can eliminate your merchant account. Major global credit card issuers like Visa and Mastercard can also block list your business, rendering you unable to accept payments from their customers and severely damaging your business's ability to operate.

LOSSES WITHIN YOUR USER COMMUNITY

User fidelity and user confidence can suffer when your studio becomes the target of more instances of chargeback fraud. For example, suppose a fraudulent chargeback is filed. In that case, it can not only be hard to contest, but it can also be difficult to remove the digital product from the offender's account purchased in the original transaction. This establishes that the fraud has benefitted the scammer and can send a bad signal to like-minded users and encourage them to follow suit, creating an upward trend that only invites more fraud.

If a pattern of fraud gains traction within your user community, it can also drive away users who only seek to gain products, services, or other perks by honest means. When legitimate users observe others employing fraud to cheat their way into accessing valuable add-ons (e.g., prized in-game items, cosmetics, or other desirable goods), they can lose faith in your studio's ability to maintain fair play. This can make them disinterested in your offering, ceasing to use it, or even seek a refund.

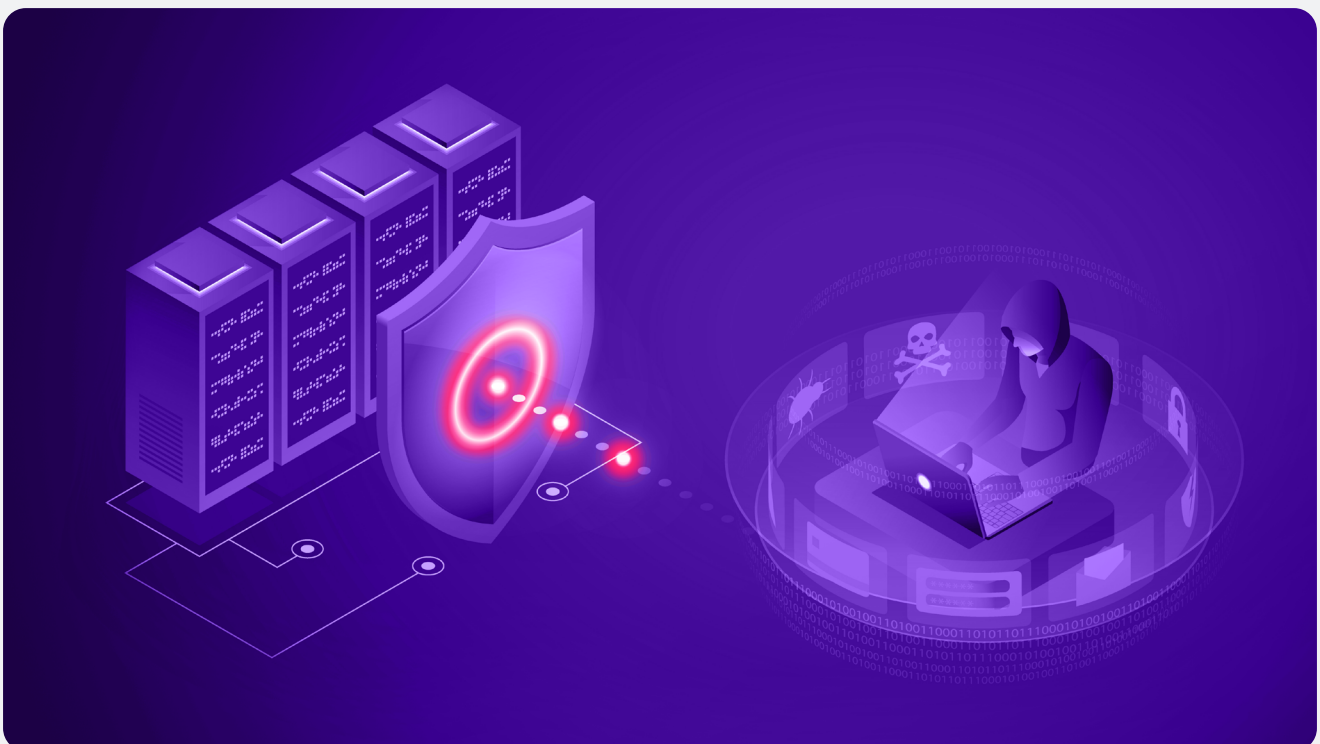


CHALLENGES OF DISPUTING CHARGEBACKS YOURSELF

If you believe a chargeback filed against your business is fraudulent, there are several ways to contest the claim. Each approach has a unique set of potential pitfalls, and no approach is completely predictable.

Generally, your business should not ignore and absorb every chargeback filed against it. Each bank can interpret this differently, but it is often viewed as an admission of guilt. So, if you choose this option, you're likely to suffer all of the losses stated previously – loss of revenue, loss of reputation, and losses among your users – and create a situation within which it's almost impossible to operate successfully.

If you contest fraudulent chargebacks, your success will require a measurable amount of key resources – namely, time and money. This does not reflect your company's ability to deliver its offering or deal fairly with your users. In reality, this investment is one of the costs of operating in an increasingly digitalized industry with an upwardly trending volume of fraud. It is, therefore, vital to protect your business.





How to handle chargeback fraud

Suppose you choose to handle chargeback contests internally. In that case, your team members must commit significant time to the task, including time spent familiarizing themselves with the details of each chargeback as it is filed, searching through company records for relevant transaction data, preparing data to be properly submitted as evidence, and awaiting and responding appropriately to each step of a precise and often complex process. The effort is even more challenging when you consider that contesting a chargeback is only viable for a limited time window, usually between 7 and 30 days, depending on the card issuer.

If your team members don't have much experience, each step of your company's response may require even more time to understand and meet procedural standards fully. It's also probable that your team will contest multiple claims simultaneously, intensifying the pressure on the response to each claim. No matter how much time is invested, there's no way to guarantee that your business will win. Regardless of the outcome, you must pay any associated processing fees.

REASON CODES

One element of disputing chargebacks that your team must educate themselves on is the reason code. Chargeback reason codes are two-to four-digit alphanumeric codes that issuing banks provide to accurately identify the challenge's cause. Codes can indicate several issues, including authorization, a cardholder contesting a charge, fraud, and processing errors. Each code has a unique protocol for how a contest moves forward.

Each major card issuer has its classification system for chargebacks and its reason code system – and learning each one takes valuable time. Reason code systems can have as many as 100 codes, so you'll need to know how to identify the justification for each chargeback you receive. Once you've identified the claim's category, your team must carefully follow the correct process to contest the claim appropriately.

Some chargeback categories can account for multiple types of claims, so your team must perform a deeper delineation to file a contest properly. For example, when making a fraudulent claim, a customer may state that they weren't present for the transaction, that they don't recognize the charge on their card, or that they didn't authorize the charge in the first place, all of which are potentially valid reasons for a chargeback. When claiming under the consumer-customer contest category, customers may state that they received unsatisfactory or no items.

Because it's integral to determining the next steps, your team's ability to accurately interpret the reasons claimed for each chargeback is as important as observing the following process.

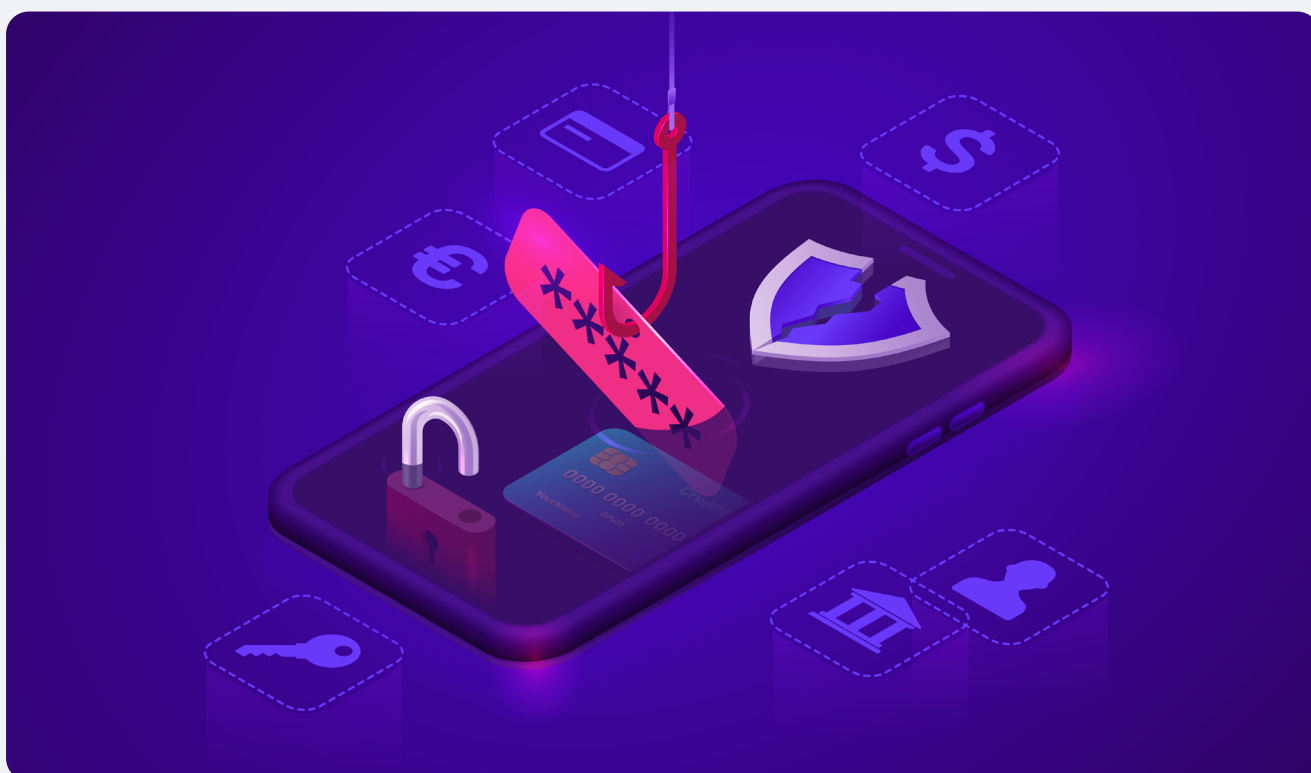


FRIENDLY FRAUD VS. TRUE FRAUD

It's important to remember that you don't need to – and in all likelihood, shouldn't – contest every chargeback filed against your business. As your team assesses which ones to contest, they should review and confirm key details of each transaction and related purchase before choosing how to respond. For example, if a customer claims they didn't receive the goods they purchased, verifying this fact is essential to deciding the path forward.

If your team determines that a chargeback request is the result of fraud, their review should also include a classification of whether it is a case of friendly fraud or true fraud:

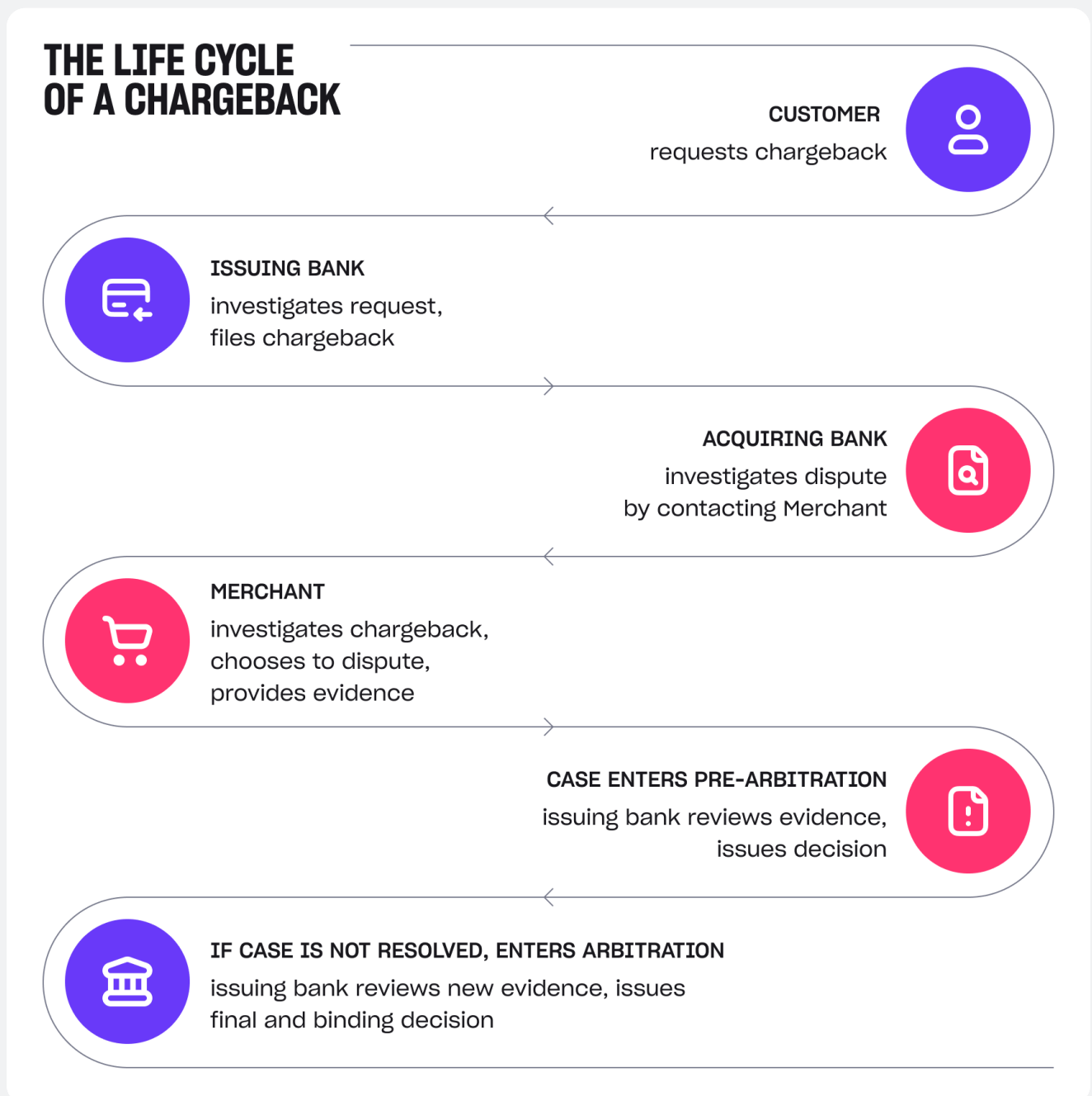
- Friendly fraud occurs when a customer requests a chargeback even though the transaction has passed all applicable payment verifications and the goods purchased are verified to have been delivered. It is also possible that the customer's purchase history demonstrates repeated success in this manner. With no valid reason for a chargeback, the customer's request suggests abuse and grants you reasonable grounds on which to base your contest.
- True fraud occurs when the cardholder is a genuine identity or card theft victim. In this case, accepting the chargeback and side with the victim is advised. Acceptance is the appropriate response and demonstrates to the customer that your company is worthy of their trust and loyalty, encouraging future payments.





THE CHARGEBACK LIFE CYCLE

To win contests against fraud, your team must also become intimately familiar with the chargeback life cycle. While it can vary depending on the parties involved, all chargebacks and chargeback contests typically follow the same sequence of steps:





How to handle chargeback fraud

1. THE CUSTOMER CONTESTS

A charge by contacting their issuer and requesting the reversal of a transaction.

2. THE BANK FILES A CHARGEBACK

When a retrieval becomes a chargeback, the merchant is automatically deemed liable. The value of the contested transaction is put on hold and is prepared to be transferred to the customer's account if the chargeback is resolved in their favor.

3. THE BANK PERFORMS RETRIEVAL/INQUIRY

During which they complete an internal review of the request. –an optional stage of the chargeback contest that the bank may start without retrieval. The bank may ask for transaction details from the merchant while they assess whether the request is disputable. If the request appears unjustified, the process is stopped. However, if the customer's request appears justified, the bank moves on to the next step.

4. THE MERCHANT DECIDES WHETHER TO CONTEST THE CHARGEBACK

They collect and review information about the chargeback request, including the reason code, and determine whether it should be ignored or contested.

If the merchant chooses to contest the chargeback – also called representment – their team gathers and assembles relevant evidence. Each reason code requires a different type and amount of evidence, plus a specific response document or series of response documents, each with its own distinct, detailed formatting.

Once the evidence is fully compiled, the merchant sends it to the issuer. This step typically also involves a fee of approximately USD \$15. Evidence compiled by a merchant for representment can include (but isn't limited to):

- Your company background
- A description of the product(s), service(s), and/or good(s) in question
- Payment receipts
- Card verification checks
- Purchase flow
- Delivery confirmation of physical goods
- Delivery/activation confirmation of digital goods
- Customer transaction history
- Customer correspondence records
- Terms and Conditions (T&C)
- End User License Agreement (EULA)
- Refund and return policies



How to handle chargeback fraud

5. THE CASE ENTERS PRE-ARBITRATION

The bank re-reviews the initial reversal request against the merchant's contest documentation to determine which party makes a more compelling case. If the merchant's evidence is not persuasive enough for the issuer, or they need more details or information, a pre-arbitration case is opened. The pre-arbitration stage can cost over USD\$500 in added chargeback fees, so a merchant should consider if disputing the transaction is worth it.

After pre-arbitration, the issuer makes a decision. If the value of the contested transaction is below USD\$10, it's logical to agree with the decision. However, if the merchant chooses to challenge it, the case moves into the next stage.

6. THE CASE ENTERS ARBITRATION

The arbitration stage occurs when one party claims the challenge has not been sufficiently resolved in the first representation and pre-arbitration stages. In this stage, the customer may adjust the nature of their claim, or the merchant can submit additional evidence to suggest that the purchase was legitimate. Like pre-arbitration, this can cost over USD\$500 in chargeback fees to continue, so to proceed, the merchant should want to fight the request.

7. A POST-CHARGEBACK DECISION IS REACHED

With new information, the issuer will review all available evidence and deliver a final ruling. The decision is final and binding; the only option to appeal is to take the matter to court.

Suppose your team follows every protocol perfectly, but the final decision is not in your favor. Unfortunately, you've wasted time and money that would've been better spent operating, improving, or marketing your offering – not to mention the value of any products, services, or other goods sold in the original transaction.



BEST PRACTICES FOR FIGHTING CHARGEBACK FRAUD

Despite how difficult it can be to defend your business from chargeback fraud, there are several things you can do to improve your odds:

DELIVER STRONG CUSTOMER SERVICE

If one of your users brings an issue to your attention, address it quickly and thoroughly. Tending to a user's needs can not only resolve the situation and prevent an individual chargeback, but it can also contribute to a positive reputation among your entire user community.

DEPLOY A POWERFUL ANTI-FRAUD SOLUTION

For all forms of fraud, the best type of protection is prevention. Investing in an effective anti-fraud system lets you perform multilevel payment reviews, analyze user behavior, and recognize questionable patterns to detect fraud attempts before they become successful. This way, you can proactively refund users and demonstrate your business's payment security while preventing them from needing to request chargebacks in the first place.

WATCH FOR PATTERNS

It's not a favorable position, but having multiple fraud attempts or chargebacks filed against your business can offer you a wealth of valuable information. Learn to recognize patterns between fraud attempts to identify future attempts, and adjust your anti-fraud system's filters to respond to the same or similar behavior. Search across your titles to monitor user behavior, identify offending users, and block them. As you contest more claims with the same reason code within the same system, you'll develop a shorthand for collecting the best evidence and templatize your approach to improve your win rate and speed up the process.



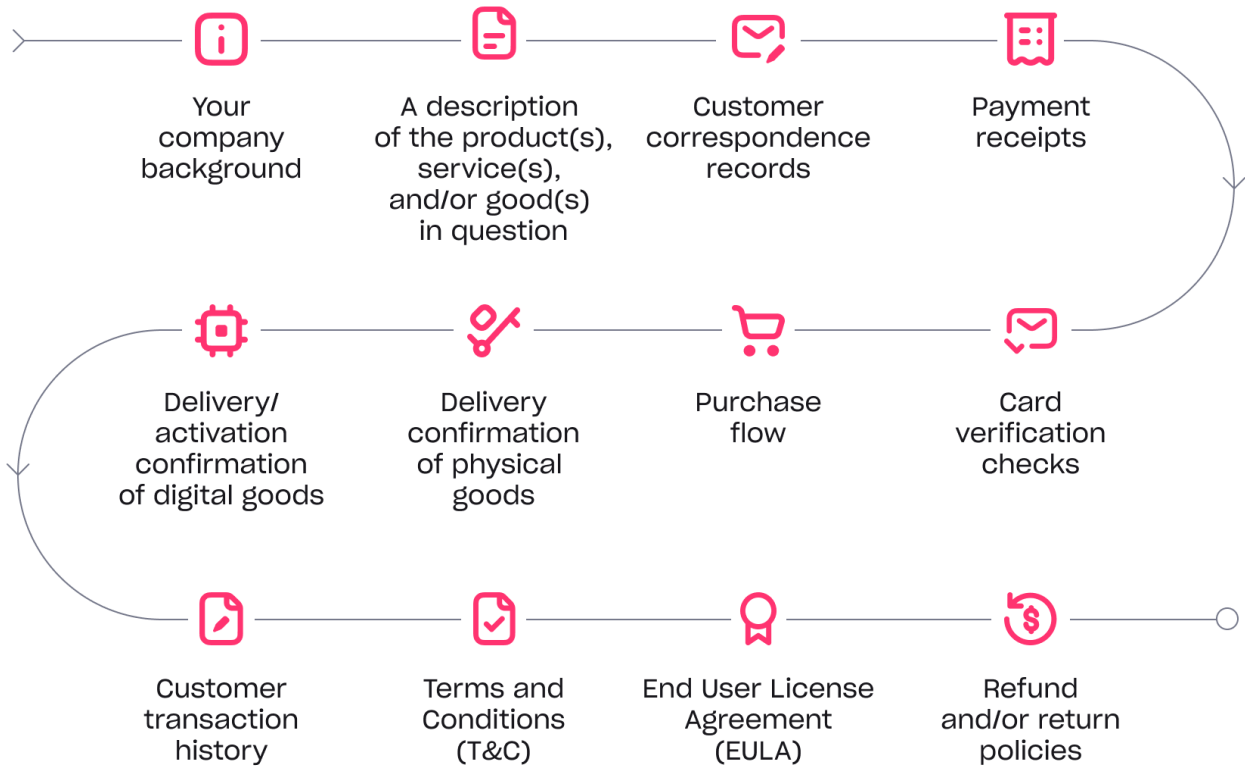
How to handle chargeback fraud

ONLY SUBMIT SOLID EVIDENCE

When disputing a chargeback, gather every piece of high-quality evidence to construct a compelling enough argument to win.

The best way to do this is to analyze each case individually, which can be time-consuming. Padding your representation with irrelevant or circumstantial data will only damage your case and chance to prove that the claim is fraudulent.

TYPES OF EVIDENCE FOR A CONTESTED CHARGEBACK



CONSIDER OUTSIDE HELP

The amount of time, money, and effort you'll need to invest to fight chargeback fraud effectively is steep, and the process is intricate and unforgiving. It isn't impossible to deal with alone, but hiring a dedicated team of experts may be the most effective alternative. In the long run, handing off the complexity of fighting chargeback fraud will let you reallocate your team's valuable time to more important areas of development and operation – and the value of the losses of revenue, reputation, user fidelity, and user confidence that a solid team can help you prevent will far outweigh the financial cost.



HOW XSOLLA CAN HELP

With all of this, it may seem as though you have no cost-effective options to combat chargeback fraud. Luckily, our experts and best-in-class [Anti-Fraud](#) product can help you both fend off fraud and win the majority of your chargeback contests:

- **Customer support.** Our Customer Support team works closely with users to understand and resolve issues before filing chargebacks. If the situation does require a refund, our CS team guides users to request refunds through your business rather than their issuing banks, avoiding chargebacks and saving you time, money, and effort.
- **Xsolla [Anti-Fraud](#).** Our industry-leading anti-fraud system is specifically designed for video games. The product automatically detects fraud patterns in games 24/7, separates fraudulent activity, and gathers data relevant to potentially fraudulent purchases. Our fraud monitoring team can adjust the system's configuration and use cross-game analytics to improve performance and stop serial fraudsters. While the system works with every genre, platform, type, and economic game model, it can also accommodate additional fraud filters specific to your game on request. Every instance of fraud we can prevent before it occurs is one fewer instance for your business to deal with.
- **Dispute management.** If a chargeback occurs, our dispute management team gathers all relevant evidence to file and process a contest. We provide the issuing bank with all available data to validate the transaction, track the status of each contest, and follow up to provide more information as needed. No merchant ever seeks to be in the business of disputing chargebacks, but we win a significant percentage of contests by applying a hands-on approach.

Xsolla challenges chargebacks on an already refunded transaction to prevent double debiting payment. For instance, such a transaction could have been refunded as a preventive measure against fraud or at the cardholder's request, but the chargeback was already being processed at the bank.

In round numbers, Xsolla handles about 13605 monthly chargebacks, which amounts to 680 per day, or 85 per hour, and won chargebacks in the amount/sum of \$220k per month. While our overall contest win rate is 71%, we constantly strive to improve.



NEXT STEPS

Now that you're aware of the potentially devastating effects of chargeback fraud, it's clear that a multilevel approach to fraud prevention and a robust management system are crucial to the healthy operation of your gaming business.

Additionally, it's vital to maintain good relationships with financial institutions and demonstrate respect for your legitimate users while putting fraudsters in their place and protecting your game's reputation. As your Merchant of Record, Xsolla can deliver all this and more with performance-based pricing that lets you stay focused on developing and operating the best offering possible.



IF YOU'RE NOT AN XSOLLA PARTNER

Contact us at business@xsolla.com to learn about how we can work on your behalf to defend your business from chargeback fraudsters.



IF YOU'RE CURRENTLY AN XSOLLA PARTNER

Contact your account manager and set up a time to discuss how we can help you apply additional custom filters to your fraud defense.

To learn how Xsolla can work on your behalf to defend your business from chargeback fraudsters, **schedule time to speak with our game commerce and anti-fraud experts.**