

HOW TO HANDLE CHARGEBACK FRAUD IN YOUR GAME

Learn the best ways to prevent and respond to a costly form of fraud that's a growing concern for game developers and publishers.

As the video game industry continues growing and expanding to new heights, game developers and publishers are increasingly targeted by fraudsters – and one of the most damaging types of fraud in this trend is chargeback fraud. Chargeback fraud tends to be harder to detect than other forms of fraud due to its unique mechanics, the parties involved, and the ways in which it challenges the norms of the user-developer relationship.

Let's take a look at what chargeback fraud is, how it can damage your business, the challenges of prevention and resolution, some best practices for fighting back, and the ways that working with an experienced fraud and payments partner can help you to protect yourself more effectively.



UNDERSTANDING CHARGEBACKS AND CHARGEBACK FRAUD

In simple terms, a chargeback occurs when a customer sends a request to their issuing bank to 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 for an eligible purchase but 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 in order to service the customer–bank relationship. The bank has a vested interest in their customer's protection in order to maintain their trust and loyalty – and ultimately, their 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 business, placing you at an inherent disadvantage for any dispute 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 either 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 – and this 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, enabling 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 honest reasons, ranging from a claim that the payment value is incorrect (e.g. that 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 their relationships with their users, so they tend to take them at their word. But not all users are so fair-minded, why 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, there are key differences between the two.

As stated previously, a chargeback is a request to reverse a transaction that's 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 dispute 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.

CHARGEBACK	REFUND
Request to reverse a transaction addressed to a bank	Request to reverse a transaction addressed to your business
Bank makes a decision	Your business makes a decision
Ability to dispute a customer's request	Ability to deny a customer's request

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 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 having to fight in order to keep revenue that 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.



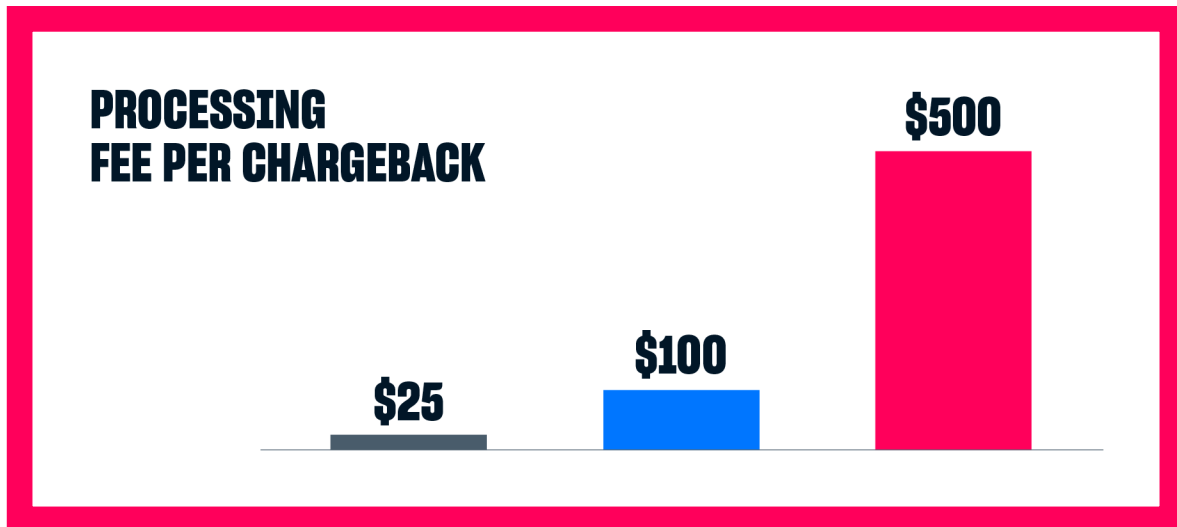
CONSEQUENCES OF CHARGEBACK FRAUD

Without question, chargeback fraud is hard to detect and harder to prove. But it can also have effects on your business that 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 that you delivered in exchange.

Additionally, it's extremely likely that your financial institution or payment service provider (PSP) will assess a chargeback processing fee for every chargeback that it handles on your behalf. This fee is usually between \$25 and \$100 USD per chargeback, but it can sometimes climb as high as \$500 USD, well over many times the value of the original transaction.



It's estimated that by 2023, chargeback fraud will be responsible for up to \$130 billion in global monetary losses across all industries.¹

¹ PR Newswire. "Friendly Fraud' Expected to Top 130 Billion in 2020—Chargebacks Hurting Merchants and Consumers." *Business Insider*, March 3, 2020, markets.businessinsider.com/news/stocks/friendly-fraud-expected-to-top-130-billion-in-2020-chargebacks-hurting-merchants-and-consumers-1028959185. Accessed April 2021.



Loss of reputation

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

In extreme cases, banks and card networks can eliminate your merchant account entirely. Major global credit card issuers like Visa and Mastercard can also blacklist 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, if a fraudulent chargeback is filed, it can not only be hard to dispute, but it can be difficult to remove a digital product from the offender's account that was purchased in the original transaction. This not only establishes that the fraud has benefitted the scammer, but it 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 tractions 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, become disinterested in your offering and stop using it, or perhaps even seek a refund themselves.



CHALLENGES OF DISPUTING CHARGEBACKS YOURSELF

If you believe that a chargeback that's been filed against your business is fraudulent, there are a number of ways to dispute the claim. Each one has a unique set of potential pitfalls, and no approach is completely predictable.

Generally, it's not recommended that your business simply ignore and absorb every chargeback filed against it. This can be interpreted differently by each bank, but it is most 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.





HOW TO HANDLE CHARGEBACK FRAUD

If you choose to dispute fraudulent chargebacks yourself, doing so successfully will require a measurable amount of key resources – namely, time and money. This is not a reflection of 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, and is therefore vital to protecting your business.

If you choose to handle chargeback disputes internally, your team members will have to commit significant time to the task. This includes time spent familiarizing themselves with the details of each individual 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. This is even more challenging when you consider that chargeback disputes are only viable for a limited window of time, usually between 7 and 30 days depending on the card issuer.

If your team members don't have a lot of experience, each step of your company's response may require even more time for them to fully understand and meet procedural standards. It's also probable that your team will dispute multiple claims at once, which only intensifies the pressure on the response to each individual claim. No matter how much time is invested, there's no way to guarantee that your business will win. And regardless of the outcome, you'll need to pay any and all associated processing fees.



Reason codes

One element of disputing chargebacks that your team will need to educate themselves on is the reason code. Chargeback reason codes are a two- to four-digit alphanumeric code that issuing banks provide in order to accurately identify the cause of the dispute. Codes can indicate any of a number of issue areas, including authorization, cardholder dispute, fraud, and processing errors. Each code has a unique protocol for how a dispute moves forward.

Each major card issuer has its own classification system for chargebacks, and therefore has its own reason code system – and learning each one takes valuable time. Reason code systems can have as many as 100 different 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 will need to carefully follow the correct process to appropriately dispute the claim.

Some chargeback categories can account for multiple types of claims, so your team will need to perform a deeper delineation to properly file a dispute. For example, when making a claim under the fraud category, 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 making a claim under the consumer-customer disputes category, a customer may state that they received unsatisfactory items, or perhaps no items at all.

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



Friendly fraud vs. true fraud

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

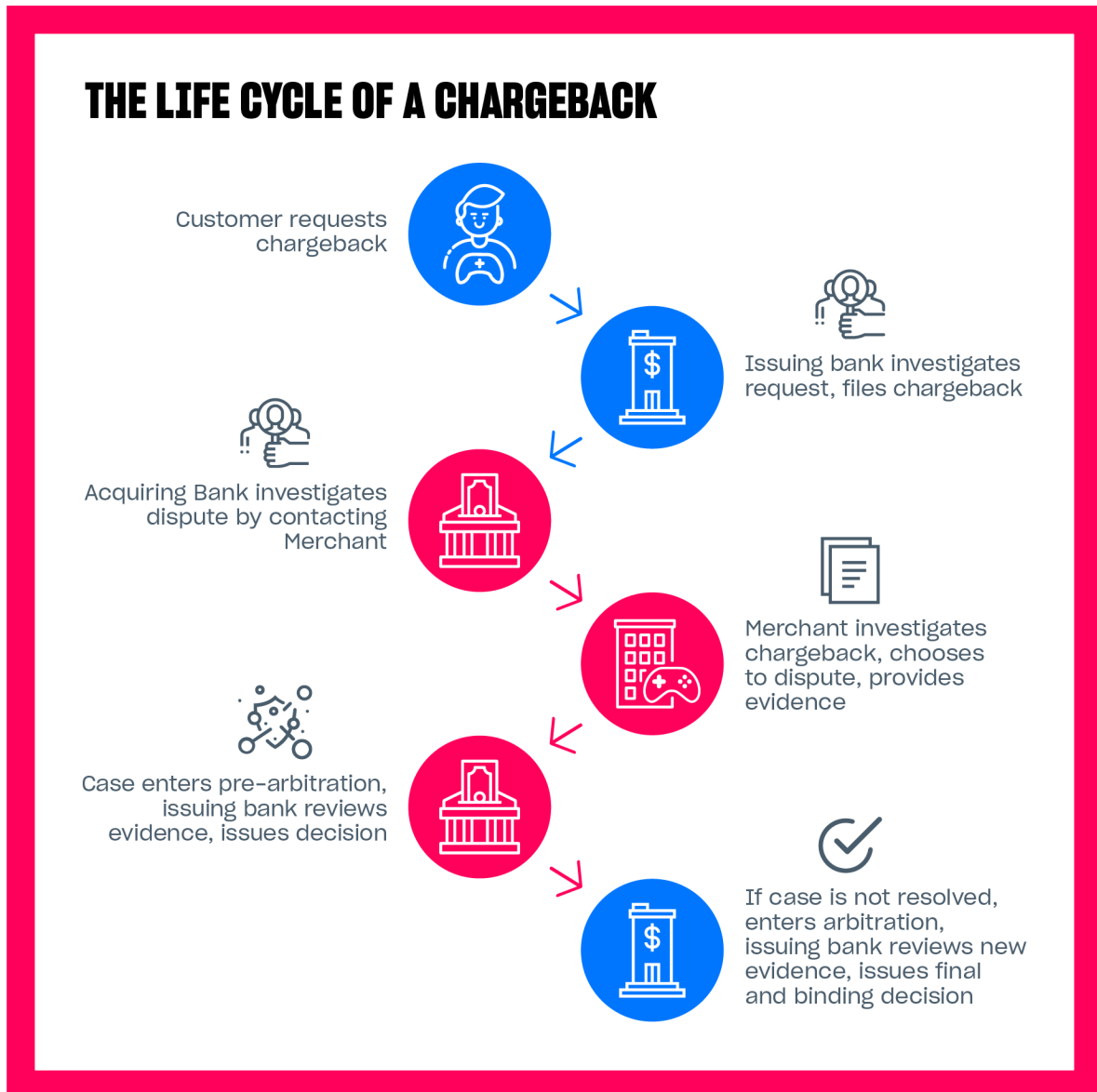
- **Friendly fraud** occurs when a customer requests a chargeback despite the fact that the transaction in question has passed all applicable payment verifications and the goods purchased are verified to have been delivered. It is also possible that the customer's purchase history demonstrates repeated success in this manner. With no valid reason for a chargeback, the customer's request is suggestive of abuse and grants you reasonable grounds on which to base your dispute.
- **True fraud** occurs when the cardholder is a genuine victim of identity theft or card theft. In this case, it's advised to accept the chargeback and side with the victim. This is not only the appropriate response, but it demonstrates to the customer that your company is worthy of their trust and loyalty, encouraging future payments.





The chargeback life cycle

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





1. **The customer disputes a charge** by contacting their issuer and requesting the reversal of a transaction.
2. **The bank performs retrieval/inquiry**, during which they complete an internal review of the request. 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.
3. **The bank files a chargeback.** When a retrieval becomes a chargeback, the merchant is automatically deemed liable. The value of the disputed transaction is put on hold, and is prepared to be transferred to the customer's account if the chargeback is resolved in their favor.
4. **The merchant decides whether to dispute the chargeback.** They collect and review information about the chargeback request, including the reason code, and determine if the chargeback should be ignored or contested.

If the merchant chooses to dispute 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 that each has its own distinct, detailed formatting.

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/or return policies

Once the evidence is fully compiled, the merchant sends it to the issuer. There's also usually a small fee of around \$10 USD associated with this step.

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

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

6. **The case enters arbitration.** The arbitration stage occurs when one party claims that the dispute has not been sufficiently resolved in the first representment 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 \$500 USD in chargeback fees to continue, so to proceed, the merchant should really want to fight the request.
7. **A post-chargeback decision is reach.** With new information at their disposal, the issuer will review all available evidence and deliver a final ruling. The decision is final and binding, and the only option to appeal it is to take the matter to court.

If your team follows every protocol perfectly, but the final decision is not in your favor, then you've unfortunately 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 a number of things that 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 contributes to a positive overall 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 payments security while preventing them from needing to request chargebacks in the first place.
- **Only submit solid evidence.** When disputing a chargeback, be sure to gather every piece of high-quality evidence to construct a compelling enough argument to win.

TYPES OF EVIDENCE IN A CHARGEBACK DISPUTE

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



HOW TO HANDLE CHARGEBACK FRAUD

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

- **Watch for patterns.** It's not a favorable position, but having multiple fraud attempts or chargebacks filed against your business can actually 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. And as you dispute 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 both improve your win rate and speed up the process.
- **Consider outside help.** The amount of time, money, and effort that you'll need to invest to effectively fight chargeback fraud yourself is steep, and the process is intricate and unforgiving. It isn't impossible to deal with on your own, 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, Xsolla's expert teams and best-in-class [anti-fraud system](#) can help you to both fend off fraud and win the majority of your chargeback disputes:

- **Customer Support.** Our Customer Support team works closely with users to understand and resolve issues before chargebacks are ever filed. 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.** Designed specifically for video games, our industry-leading anti-fraud system automatically detects fraud patterns in games 24/7, separates fraudulent activity, and gathers data relevant to potentially fraudulent purchases. Our fraud monitoring team can make adjustments to 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 model of game, it can also accommodate additional fraud filters that are specific to your game on request. Every instance of fraud that 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 that's required to file and process a dispute. We provide the issuing bank with every available piece of data to validate the transaction, track the status of each individual dispute, and follow up to provide more information as it is needed. No merchant ever seeks to be in the business of disputing chargebacks, but by applying a hands-on approach, we win a significant percentage of disputes.

In round numbers, Xsolla disputes about 2,000 chargebacks each month, which amounts to 100 per day, or 12 per hour. We only spend an average of three minutes per chargeback, but save our partners around \$90,000 per month in lost payments and associated fees. And while our overall dispute win rate is between 80% and 86%, 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 dispute management system are crucial to the healthy operation of your gaming business. Additionally, it's absolutely 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 of 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.