Tackling Chargeback Fraud: 5 Best Practices To Protect Your Video Game Business

Chargeback fraud is a significant concern for businesses in any industry. They can cause financial losses and negatively affect the brand's reputation. We delve into the direct and indirect impact of chargeback fraud on businesses and outline five recommendations from Game Icons to combat chargeback fraud.

What is chargeback fraud?

Chargeback fraud happens when a customer falsely disputes a legitimate charge, aiming to get a refund. The bank usually sides with the customer, leaving the merchant to deal with the chargeback dispute and resulting financial losses. Prevention can be challenging because pinpointing the fraud that caused the chargeback is often tricky. There are two primary types of chargeback fraud, and by understanding and differentiating between them, businesses can tailor their prevention strategies accordingly.

1. **Criminal fraud** occurs when individuals use stolen credit card information or engage in unauthorized transactions to make purchases. When the legitimate cardholder notices the unauthorized charge they initiate a chargeback, prompting the bank to refund their money.

1. **Accidental fraud**, or "friendly fraud," occurs when a legitimate customer makes a purchase but later forgets or doesn't recognize the transaction. As a result, they contact their bank to dispute the charge, unintentionally initiating a chargeback.

Impact of chargeback fraud on businesses

Both types of chargebacks significantly impact a business's finances. They can reduce revenue and cause the business's chargeback rate to rise. Direct costs include:

*   **Chargeback fees**. Every chargeback claim incurs a fee. Besides credit card processing fees, this can amount to a hefty sum.
*   **Lost inventory**. If the bank validates a customer's claim, the business must issue a refund, but the customer is not obligated to return the purchased goods. That means the company can potentially lose both the sale and the merchandise.
*   **Monitoring program costs**. Card schemes like Visa and Mastercard monitor chargeback ratios. If it exceeds the threshold (e.g., Visa's 0.65% or Mastercard's 1%), the business may face fines and monitoring until the ratio improves.

Indirect costs include:

*   **Operational expenses**. These are unreimbursed operating costs, such as production, packaging, and shipping. Businesses must also invest time and personnel to dispute chargebacks, often involving dedicated fraud analysts and monitoring programs.
*   **Cost of lost opportunity**. Every order that results in a chargeback could have instead been a successful order with another customer. Over time, the loss of potential revenue can compound and impede company growth.

How to prevent chargeback fraud: 5 Best Practices

You can take several preventive measures to help minimize the risk of chargeback fraud. Game Icons recommends these five:

1. **Chargeback guarantee.** This vendor's promise to reimburse merchants for approved orders that prove fraudulent allows merchants to accept more orders, discourage fraudsters, and ensure loyal customers return without the risk of costly chargebacks.
2. **Stop criminal fraud pre-authorization.** Preventing chargeback fraud is vital. An anti-fraud approach can avoid chargebacks using trust signals like email and shipping addresses. Advanced AI and machine learning automate approval decisions and reduce manual reviews. Pairing AI fraud solutions with custom policies based on risk thresholds ensures accurate risk assessment.
3. **Intercept and deflect friendly fraud cases post-authorization.** Businesses can offer refunds or clarify customer purchase details. Allowing issuing banks to request information helps customers recognize unfamiliar transactions, reducing unnecessary disputes. Additionally, gaining insights from chargeback data aids in improving risk assessment and reducing false positives.
4. **Win chargebacks.** 39% of shoppers initiate more disputes nowadays than in 2020. Businesses need robust transaction data and expert assistance to prevent chargebacks and ensure successful outcomes. Integrating fraud prevention solutions or chargeback management services can reduce dispute costs and improve win rates. Partnering with third-party providers helps businesses avoid chargebacks by preventing them upfront.
5. **Update business policies to avoid legitimate disputes.** To prevent legitimate disputes, regularly updated refund policies, return policies, and customer support protocols are key. Experiencing the customer journey firsthand by placing orders, processing refunds, and contacting support can reveal areas for improvement.

How Game Icons can help combat chargeback fraud

- **Customer Support**. The team at Game Icons works closely with users to address issues before chargebacks occur, guiding users to request refunds through the business instead of the bank, saving time and money.
- **Game Icons Fraud Prevention:** Their industry-leading anti-fraud system detects fraud patterns in games 24/7, stopping fraudulent activity and gathering data for potentially fraudulent purchases. The system can be customized for specific games and genres.
- **Dispute Management.** If a chargeback happens, our team collects all relevant evidence, files and processes disputes, and follows up with issuing banks. Their hands-on approach results in a significant win rate for disputes.

If you're not already a Game Icons partner, create your account today to start protecting your business with Game Icons Fraud Prevention, or contact us to learn how to defend your business against chargeback fraud.You can also visit Fraud Prevention for more information about multilevel fraud protection and robust dispute management process.

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EDITORIAL TOPIC SYNOPSIS

Chargeback fraud is a significant concern for businesses. It involves customers arguing legitimate purchases to get refunds, which causes financial losses and affects the company's reputation.

Two main types of chargeback fraud exist. The first is criminal fraud, involving unauthorized transactions, and the second is accidental fraud, stemming from customers that forget or don't recognize purchases. We delve into the direct and indirect impact of chargeback fraud on businesses, including immediate effects like chargeback fees and lost inventory, and indirect effects related to operational expenses and lost opportunities.

We outline five recommendations to combat chargeback fraud: implementing a chargeback guarantee, preventing criminal fraud with anti-fraud measures, intercepting and deflecting friendly fraud cases, winning chargebacks through robust data and expert assistance, and updating business policies to avoid legitimate disputes. By adopting these best practices, businesses can protect their revenue, customer relationships, and operational efficiency against the challenges posed by chargeback fraud.