



The UK  
Ecommerce  
Association

# IMRG x Justt

## Online retail and customer chargebacks

Is your business losing money to false credit  
card chargebacks?



**BETTER INSIGHTS. BIGGER RETURNS.**

Sector specific data, aggregated directly from UK Retailers and delivered by IMRG.

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# Meet The Experts

## IMRG

*"IMRG are dedicated to providing our retail community with the knowledge and information to inform the best strategy for their online businesses. In order to build and expand, retailers need to ensure they're not losing out in areas they might not have thought of before, such as credit card fraud. In this report, we've teamed up with Justt to investigate and assess the risk posed by credit card chargebacks, to the retailer. How do customers behave when it comes to credit card chargebacks, and what does this mean for retailers?"*

We help our members understand and improve their online retail performance through a busy programme of performance benchmarking, data analysis, insight, best practice-sharing and events. We have been tracking online sales since 2000 – and now measure over 120 individual metrics in a series of indexes, providing in-depth intelligence on online and mobile sales, delivery trends, marketing ROI and channel performance.

[www.imrg.org](http://www.imrg.org)

## Editorial



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[www.imrg.org](http://www.imrg.org)

## JUSTT

*"Justt is rapidly growing technology company dedicated to helping online merchants recover lost revenue by fighting credit card disputes. Using AI and automation, we create a hands-off experience for our customers, eliminating the resources internal teams spend handling chargebacks whilst significantly increasing win rates. In this report, we collaborated with IMRG to focus on how U.K. consumers behave when it comes to credit card chargebacks. We expect these insights will help retailers selling in the UK realize the scope of the problem they face today."*

Thanks to Justt's customized approach, expert knowledge, and machine learning capabilities, we've seen incredible success working across a wide variety of industry verticals. Credit card chargebacks are often complex and unfair to merchants. With Justt it doesn't have to be that way.

[www.justt.ai](http://www.justt.ai)



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# What's Inside?

- Customer habits
- How are retailers affected?
- Protecting customers and retailers
- Buy now, pay later



# Investigating credit card chargebacks

This report looks at how big an issue chargebacks are for UK retailers, how often customers trigger them, and how this issue has evolved alongside higher online volumes due to the pandemic.

## What are chargebacks?

Credit card chargebacks are when a demand is made by a credit card provider, that a payment is reversed (usually returning the money to the customer) as they initiate a dispute for a transaction.

## Methodology

To find out how chargebacks affect retailers and what customers think of them, or how they use them, we ran a survey to find out how shoppers were behaving.

We asked 1,000 UK-based customers (representative sample, aged 18+) about their experiences with credit card chargebacks and their shopping habits. The research was conducted on 4 May 2022.

This helped us build a clearer picture of customer behaviour and the threat posed to online retailers by chargeback claims.

The process occurs when a cardholder (the customer) has bought a product, then they start a dispute regarding that purchase (for example, if they claim they didn't receive the product).

The issuer then send the transaction back to the acquirer, in order to return the money to the customer.

The merchant can accept the chargeback, or fight it with solid evidence (for example, proof of signature or a photo of the item at their door, if the customer said the item never arrived).

The acquirer resolves the chargeback, or forwards it to the retailer to dispute or accept it.

If the merchant seeks to reverse the chargeback, the issuer will be notified by the acquirer and the issuer and acquirer will attempt to negotiate if they still disagree.

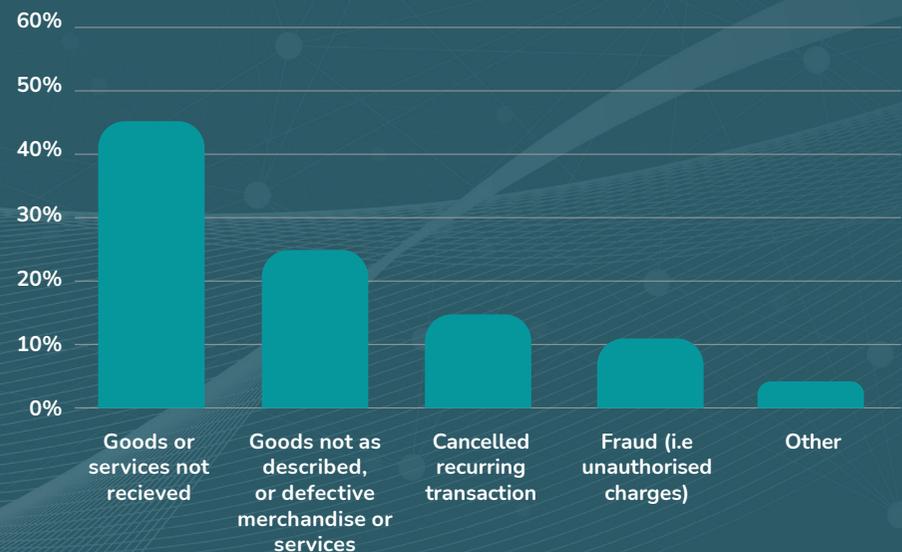
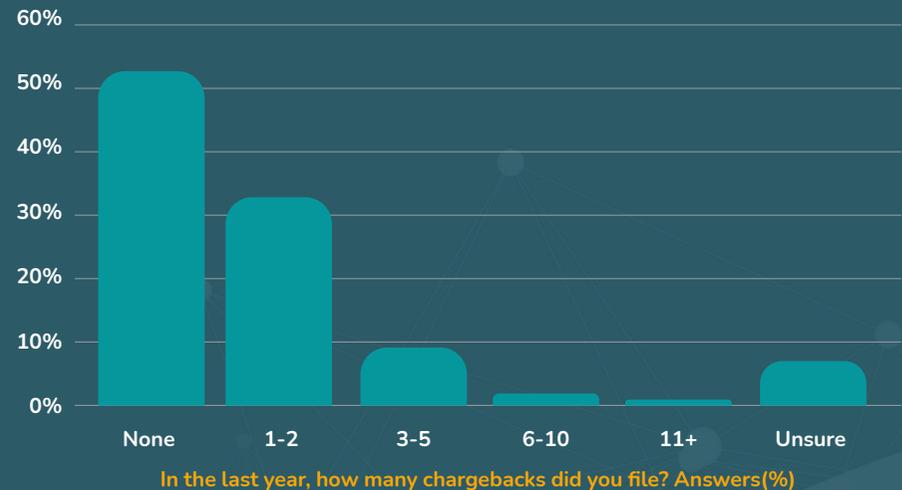
Finally, if the issuer and acquirer cannot reach an agreement then the dispute goes to the credit card association for arbitration.

# Customer chargeback habits

Looking at the results of our survey, we can find some interesting indications of customer behaviour. Almost 44% of customers have filed at least one chargeback in the last year, the most common frequency being 1-2 times, of those who have. Whilst not the majority, it is still a high percentage and if close to half of customers have filed a chargeback previously, it means they now understand the process so it would be easier for them to do so again.

**Justt commentary:** The good news from the survey question is that the vast majority of customers don't seem to be out and about abusing the chargeback mechanism with multiple illegitimate chargebacks a year. However, the figure of 44% of customers filing at least one chargeback per year is high. It suggests there are correctable problems in the retail process that are not being proactively addressed by merchants and/or that there a significant number of false chargebacks that are being filed for illegitimate reasons. The high level of chargebacks for goods not received or goods weren't as described, roughly 69% of the total, again points to a problem in retailer's core operations, whether order fulfilment, problems with the checkout flow or on-site product descriptions.

The reason for these chargebacks is most frequently because the goods or services weren't received, or the goods weren't as described. It's less likely that chargebacks would've been made for fraud, however, with around 10% citing this reason.



## 06 Customer chargeback habits

Most customers will wait 4-5 days to receive an item before filing a chargeback, whilst many wait longer, up to 15 days, although around 18% will only wait 2-3 days for their product. Customers are often very keen to receive their goods, so it can be disappointing or frustrating when it's not arrived, therefore meaning they might need to file a chargeback, but do they ask the retailer first, or go straight to their credit card provider?

*"Most customers will wait 4-5 days to receive an item before filing a chargeback, whilst many wait longer..."*

*"Almost 44% of customers have filed at least one chargeback in the last year, the most common frequency being 1-2 times"*



How long do you normally wait to receive an item you ordered before requesting a refund or filing a chargeback? Answers(%)

# Chargebacks and the retailer

We asked customers questions surrounding how the retailer is affected by these behaviours, and what happens when they do file a chargeback. When asking whether a customer would ask for a refund from the store before filing a credit card chargeback, 70% of respondents said that they would. The majority of Brits would therefore seek help through the retailer first, and therefore ask for assistance from the credit card company as a last resort. However, 10% suggested that they would go straight to a chargeback, and just over 15% said they'd only sometimes go to the merchant for a refund first.

Interestingly, around 60% of respondents don't know that the merchant or the store that they bought the item from is the one that ends up footing the bill for the chargeback. Some respondents said they believed the merchants would have insurance to pay for this issue, whilst others weren't sure, or thought it was a split between the bank and the credit company. Almost 30% suggested it was the credit card company, and almost 20% said it was the card issuer.

**Justt commentary:** The consumer survey results turn conventional chargeback mitigation wisdom on its head with the observation that a majority of UK consumers would actually turn to the retailer first to rectify a credit card dispute. This strongly suggests that investment in the provision of high-quality customer service with agents empowered to resolve customer claims could significantly reduce the amount of chargebacks received by merchants in the UK. Although, interestingly, a majority of consumers do not even realize that it's in the interest of retailers to resolve claims before they become chargebacks, since the average British consumer does not know that chargebacks are paid by the merchant, not the credit card company or card issuer.



When unhappy with a payment for items, do you pursue a refund from a store before seeking to file a chargeback with your credit card? Answers(%)

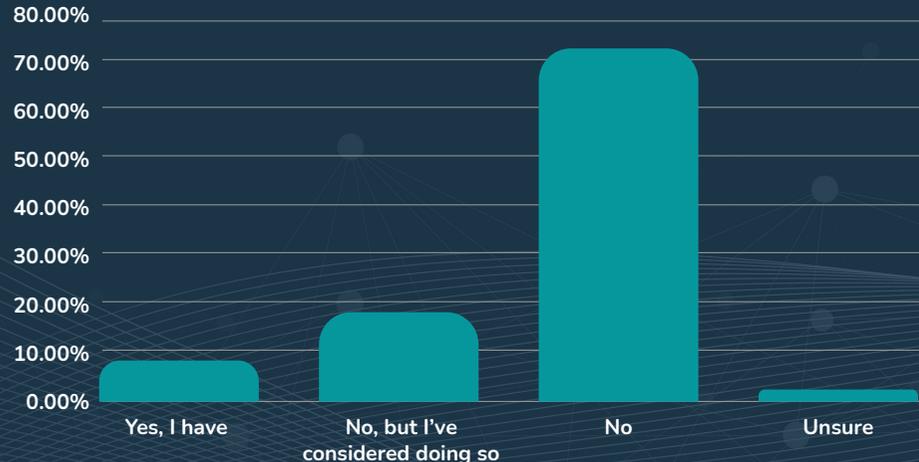


When you call up the number on your credit card to get your money back on a purchase, who do you think ends up footing the bill? Answers(%)

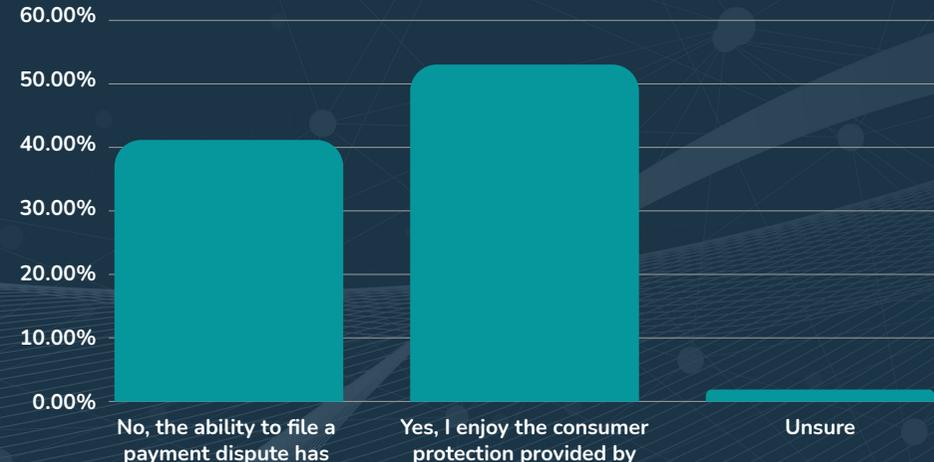
# Protecting the customer, and the retailer

When it comes to protecting both the customer and the merchant, it's crucial that both parties are covered, and there's less risk involved. The retailer doesn't want the customer to be unhappy, but they also must protect themselves financially. Around a quarter of respondents said that they have filed a chargeback, or considered doing so, because they disagreed with the company's values or policies instead of because of a problem with the item itself.

52% of customers said that they use credit cards in high-risk payment scenarios, because it provides them protection. On the other hand, over 40% said that the ability to file a dispute didn't impact their decision, making them in the minority. This suggests customers want to feel protected, even if they don't always use this option to dispute.



Have you ever filed a chargeback against a company because you disagreed with the company's values or policies and not because of the actual good/service you purchased? Answers(%)



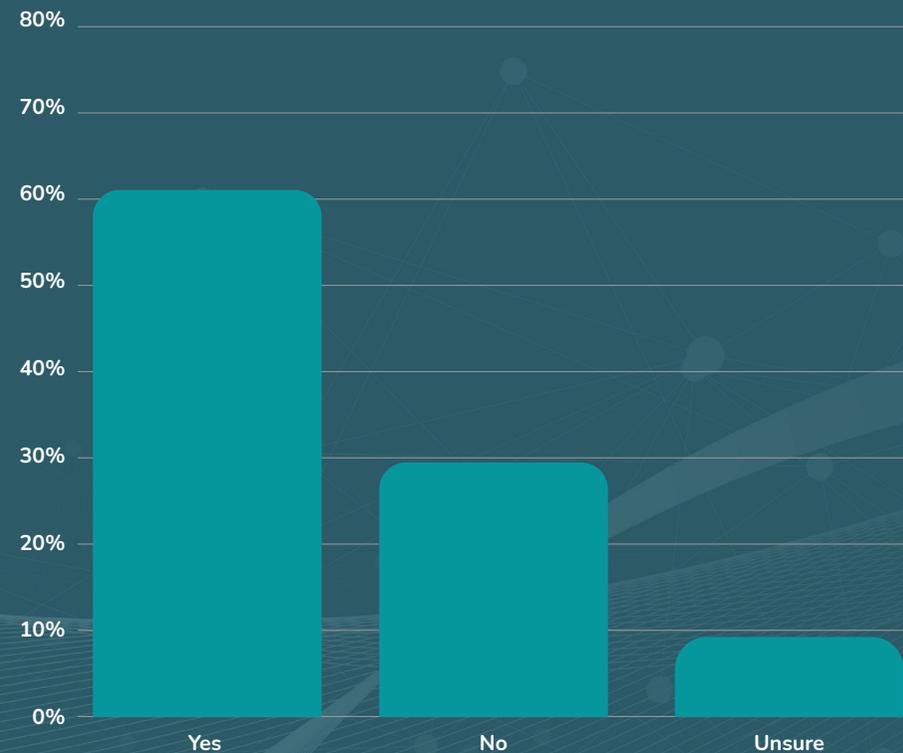
Have you ever used a credit card specifically because you knew you had the ability to request a chargeback if anything went wrong with your purchase? Answers(%)

## 09 Protecting the customer. and the retailer

When it comes to protecting the merchant/retailer themselves, 60% customers said that a generous returns policy would make them less likely to file a chargeback against a merchant. Retailers could therefore consider enacting a longer returns window in order to prevent such financial losses incurred by a chargeback.

**Justt commentary:** The survey confirms a chargeback mitigation best practice that offering a generous returns policy should reduce the number of chargebacks filed against a retailer. This is important to keep in mind when your chargeback ratio is dangerously elevated. If your chargeback ratio is manageable, then you must weigh the cost-benefit of generous return policy taking into account the cost of chargebacks, the impact on customer lifetime value, lost profits and a possibly concomitant increase in return fraud that would accompany such a policy. Whatever your returns policy, having an automated chargeback solution can help ensure optimal revenue recovery.

*"60% customers said that a generous returns policy would make them less likely to file a chargeback against a merchant"*



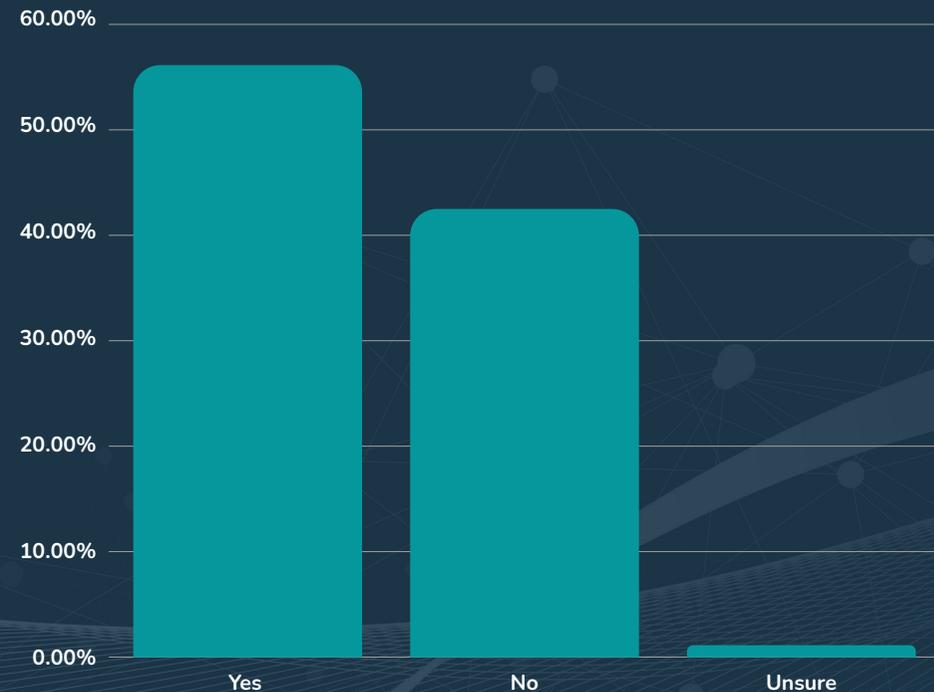
Would a generous returns policy make you less likely to file a chargeback against a merchant? Answers(%)

# Alternative payments

Over 55% of Brits have used a 'buy now, pay later' (BNPL) service in the last year. This could include Paypal, or other 'pay in instalments' services. BNPL is rising in popularity, and with this, retailers need to ensure that they understand any of the potential risks associated with it, as well as the benefits. It can increase sales and revenue as it provides longer for a customer to pay, but equally, this system can lead to financial losses in some situations.

Fortunately, over 80% of customers say that they make their BNPL payments on time, although over 10% say they have missed some payments. The difficult economic situation may cause that percentage to rise, given the pressure on discretionary spend.

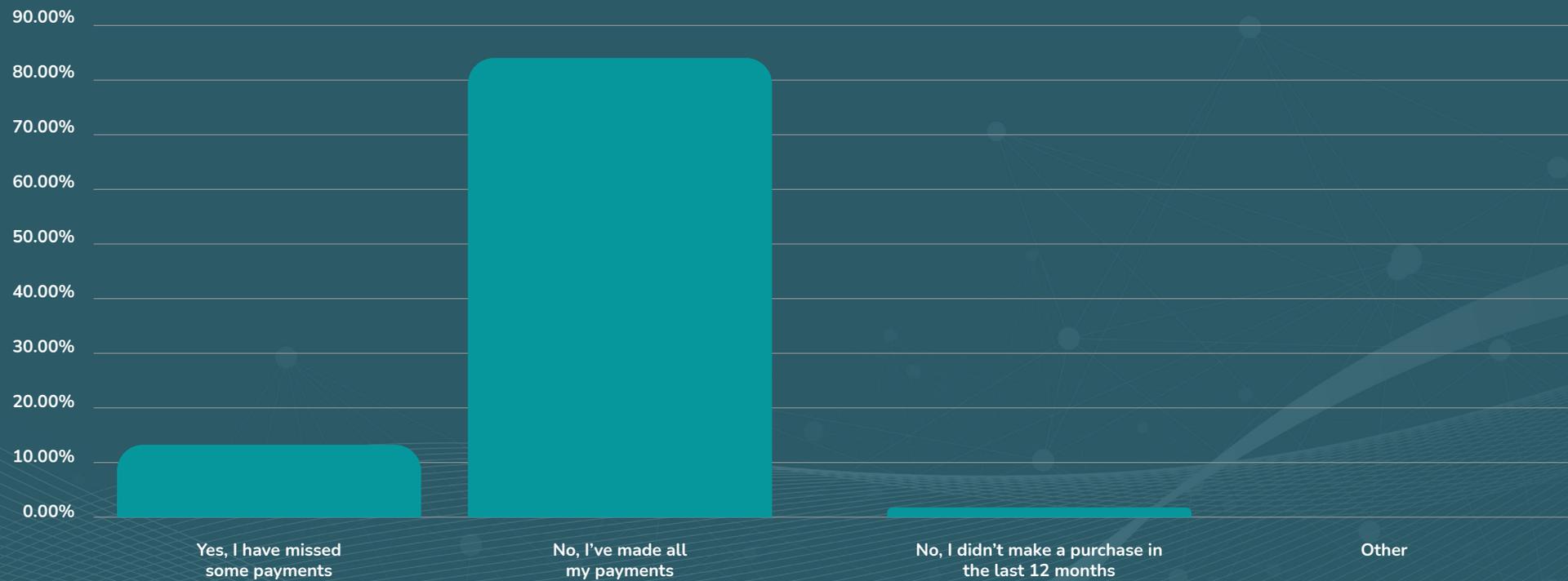
**Justt commentary:** BNPL is undeniably popular in the UK, with over half of Brits saying they use such instalment plans. What is surprising from the survey results is that over 80% of BNPL users make all their payments on-time. This suggests that recent worries by regulators in the UK and elsewhere about the fiscal responsibility of 'buy now, pay never' users is overblown. Indeed, the 14% of BNPL users who have missed payments compares favourably with the 16% of UK credit cardholders who carried a balance on their card at the start of 2021.



Have you used a 'buy now pay later' service in the past 12 months?  
For example, Klarna, or Paypal 'pay in 3': Answers(%)

## 11 Alternative payments

*“Over 80% of customers say that they make their BNPL payments on time...”*

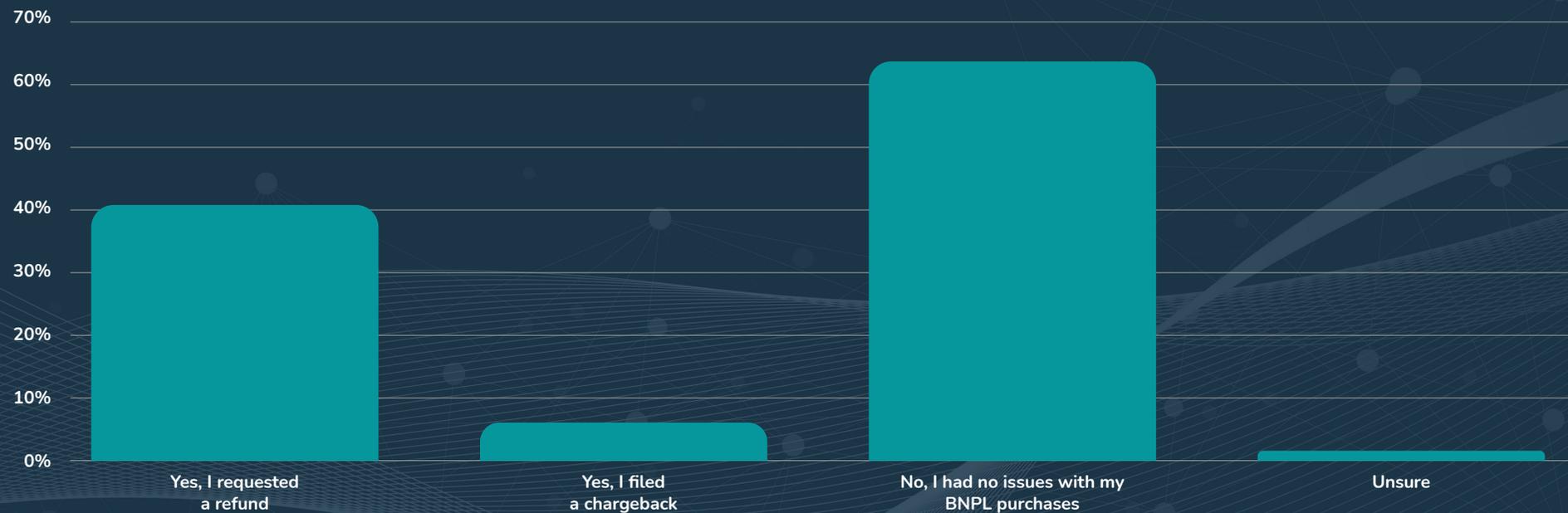


If yes, have you missed any of the payments on a 'buy now pay later' purchase in the past 12 months? Answers(%)

## 12 Buy now, pay later and cryptocurrency

# Buy now, pay later and cryptocurrency

BNPL is rising in popularity, so what does this mean for retailers being caught out with chargebacks? 36% of BNPL users requested a refund or chargeback on a BNPL purchase in the last year, whilst over 60% said they've had no issues. However, the incidence of chargebacks being filed is markedly lower as a consequence.



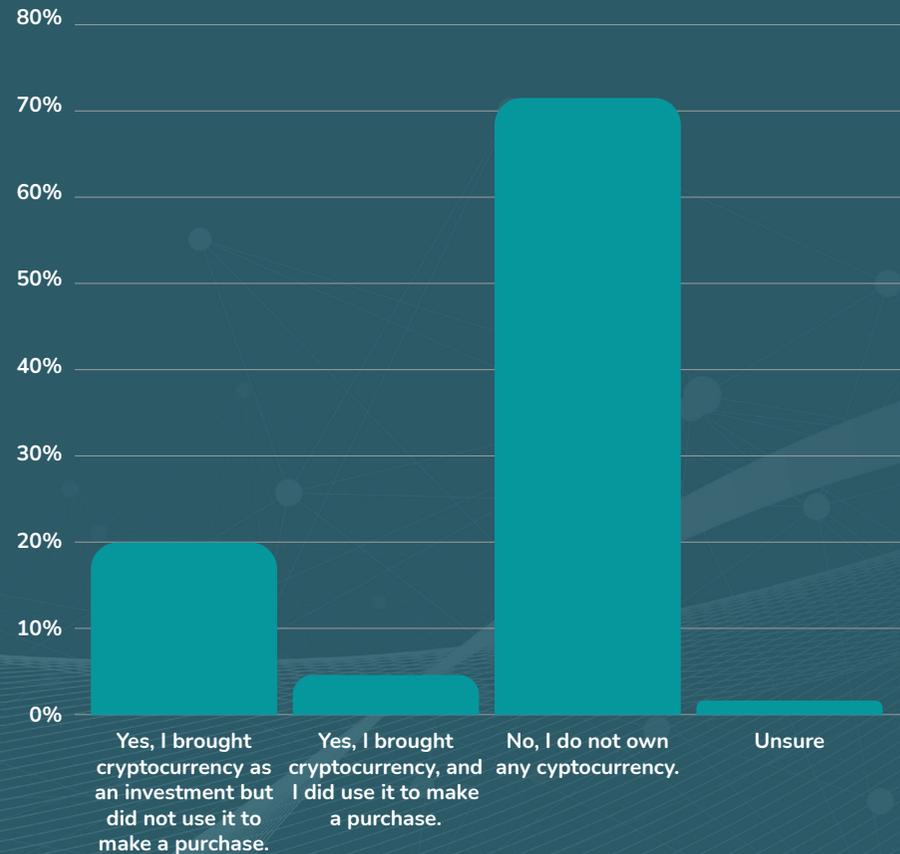
Have you sought a refund or chargeback on a 'buy now pay later' purchase in the past 12 months? Answers(%)

## 13 Buy now, pay later and cryptocurrency

Further investigation into alternative payment types showed that whilst many use BNPL, most Brits don't own cryptocurrency, just 26% have bought it, and only 6% of all consumers have actually used it to make a purchase. It seems as though it's yet to take off as a feasible, or popular, means for purchases. As such, cryptocurrency doesn't pose any serious chargeback implications for merchants at this time.

**Justt commentary:** There has been much hype regarding crypto in general and the importance it will take in online commerce with the development of Web3. The results from this consumer survey suggest that in the UK the fanfare has been overblown with just under 6% of those surveyed have bought crypto to use in purchases in the past 12 months. Crypto appears to be viewed much more as an asset class for investment and even then, only among a minority (20%) of those surveyed. We are still years away from the mass adoption of crypto in online commerce, assuming it happens at all.

*"36% of BNPL users requested a refund or chargeback on a BNPL purchase in the last year"*



Do you own, or have made a purchase with, cryptocurrency in the past 12 months? Answers(%)

# Key takeaways

- 1. 44% of UK customers have filed a chargeback in the last year, for which the most common reason was the goods not being received or as expected.**
- 2. Customers often shop with credit cards to help protect high risk payments, whilst retailers can potentially protect themselves from the risk of chargebacks by offering longer returns policies.**
- 3. BNPL is rising in popularity as a payment method, whilst cryptocurrency is yet to become mainstream.**

**Justt conclusions:** Chargebacks are a common occurrence among UK consumers, although this is attributed more to problems that retailers ostensibly control (good not received or not as described) than true fraud. If past studies are any indicator, the vast majority (over 80%) of these credit card chargebacks are actually illegitimate and could be won in representation if the correct evidence were presented in an appropriate manner.

There is also the threat that chargebacks will trend upward in the UK. From other research we have conducted, we know that the U.S. has a significantly higher occurrence of chargebacks than the UK, especially for customers who repeatedly file chargebacks. Should there be an 'Americanization' of e-commerce shopping culture among Brits it will hit retailers in their wallets as customers pull the trigger faster on chargebacks.

The present study highlights the opportunities present for retailers to limit losses to credit card disputes with effective communication when customers contact customer service and with generous return policies.

The current survey also points to the potential benefits and drawbacks of buy now, pay later plans for retailers. BNPL has already been adopted by a majority of British consumers and the vast majority of users make their payments on-time. However, the rate of requested refunds with BNPL is high (30%) compared with the average rate of returns for regular online purchases (21%) or total retail returns (17%) according to U.S. data from 2021 provided by the National Retail Federation data. While only 7% of BNPL users have filed for chargebacks, this suggests the potential for a larger chargeback problem for BNPLs to develop if retailers do not coordinate return policies with their BNPL plan providers appropriately.