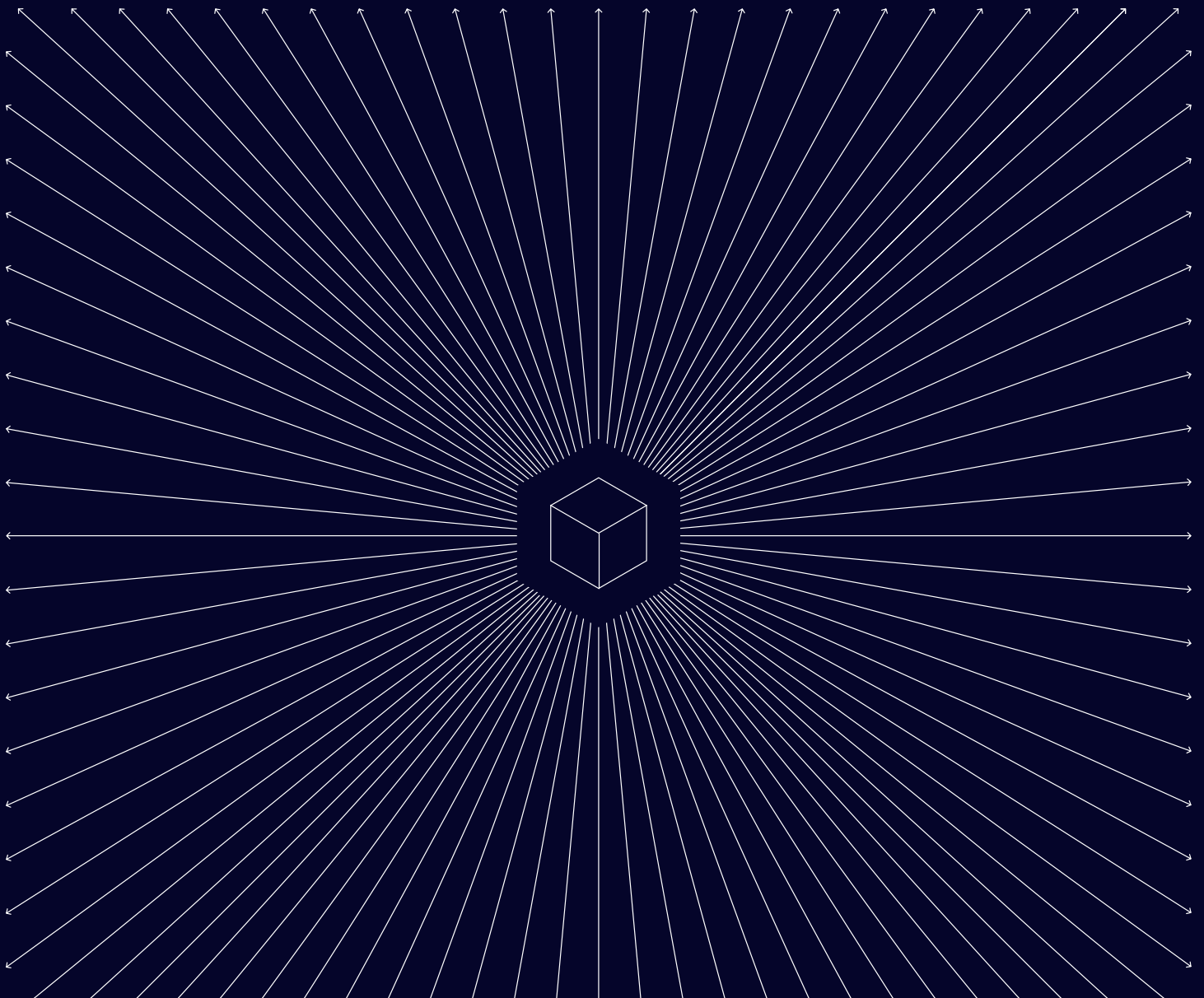


# Your Ultimate Guide to Chargeback Protection & Prevention in eCommerce

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Leading Global Fraud Prevention

SEON.IO







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# Introduction: The Chargeback Crisis in eCommerce

In 2025, eCommerce is feeling the strain, and not only from a surge in competitors, but from the rising tide of chargebacks. Once a legitimate consumer protection tool, chargebacks have evolved into a multifaceted challenge exploited by fraudsters, confused customers and loopholes created by the digital era.

From Shopify to BigCommerce and Adobe Commerce, merchants across platforms are reporting a sharp rise in friendly fraud, also known as first-party misuse.

Recent reports show **62% of businesses have experienced this growing threat**. Whether a chargeback is filed out of genuine confusion or malicious intent, the result is the same: lost revenue, lost product and lost trust.

To stay profitable, merchants must do more than react: they must prevent. This guide reveals how modern fraud tactics work, what's fueling the surge in disputes and how tools like SEON can help you automate, detect and defend against chargebacks with precision.





# What Are Chargebacks?

Chargebacks were originally designed to protect consumers from fraud or merchant error. When a customer disputes a charge, claiming it was unauthorized, not delivered or unsatisfactory, their bank may reverse the transaction, temporarily withdrawing the funds from the merchant's account.

Today, however, chargebacks are often misused. Across all major eCommerce platforms, they've become a tool for fraud, manipulation or customer confusion. Even when merchants win a dispute, the process is time-consuming, costly and rarely without financial impact.

And when disputes become frequent, the risks can escalate beyond lost revenue: merchants may face termination of payment processing services, placement on the Mastercard MATCH list or, in high-risk sectors like crypto, gambling and supplements, increased regulatory scrutiny.

## The Many Faces of Chargeback Fraud

**Chargeback fraud** occurs when a customer initiates a dispute under false or misleading pretenses. It's a form of post-transactional fraud, and it now accounts for a major share of chargeback volume globally. Fraudsters (and even regular consumers) exploit

the system because the process favors cardholders and puts the burden of proof on merchants. There are several types of chargeback fraud:

**Friendly fraud** occurs when a legitimate customer files a chargeback for a valid transaction, often due to confusion over a subscription, forgotten purchases or vague billing details. In more deliberate cases, the buyer keeps both the product and the refund.

### Common scenarios include:

- Unauthorized family purchases
- Claims of non-receipt despite delivery
- Disputing charges to avoid payment

**Refund abuse** occurs when customers exploit generous refund policies, sometimes before filing a chargeback. Common tactics include falsely claiming a product was defective, missing or returned. These cases often result in double losses: the refund and the chargeback.

In case of **criminal (third-party) fraud**, fraudsters use stolen card data to place orders. When the real cardholder disputes the charge, the merchant is hit with a chargeback, despite having fulfilled the order. This is especially common with:

- High-ticket electronics
- Instant digital goods
- Drop-shipped items

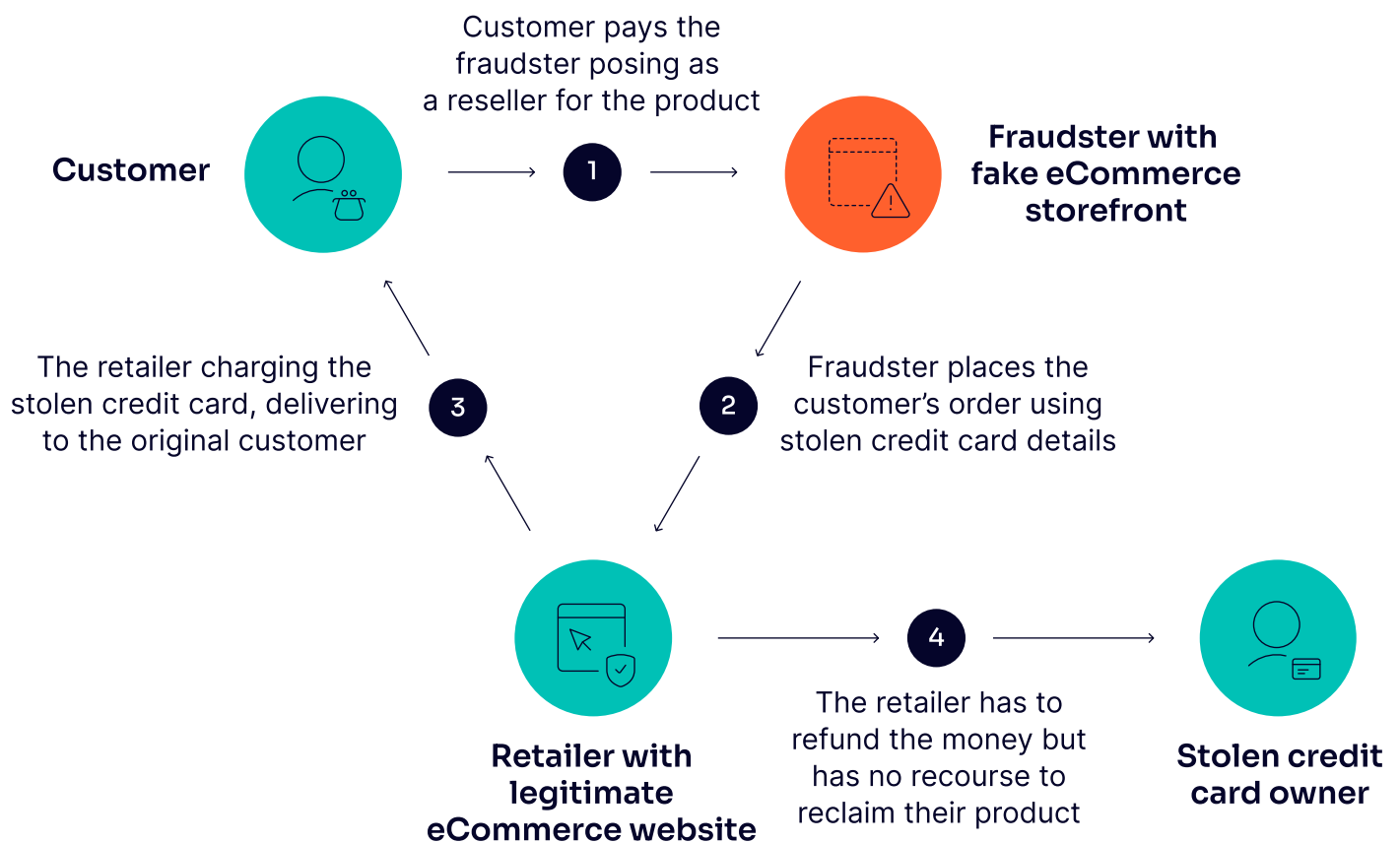




The complex scheme of **triangulation fraud** involves three parties: a fraudster, a legitimate buyer and an unwitting merchant. The fraudster uses stolen card info to buy and ship a product from your store to

the customer, who thinks they ordered from a real site. When the cardholder files a chargeback, the merchant bears the cost, despite shipping the product legitimately.

## The Process of Triangulation Fraud







# The Full Business Impact of Chargebacks: Financial, Operational and Strategic Fallout

Chargebacks aren't isolated financial events: they represent a cascading threat to your revenue, workflows, team morale and long-term growth strategy. When left unmanaged, they quietly erode margins, overwhelm operations and force reactive business decisions that hinder scale.

Let's break down how chargebacks affect merchants on every level:

## Direct Financial Losses

At face value, chargebacks cost you the value of a sale. But the true cost goes much deeper.

- **Lost revenue:** When a chargeback is filed, you refund the customer but keep none of the revenue, even if the item was delivered.
- **Chargeback fees:** Payment processors charge \$15-\$100 per dispute. These fees are rarely reimbursed, regardless of dispute outcomes.
- **Lost inventory:** In most cases, the product isn't returned, especially in digital commerce or subscription businesses. You lose both the product and the payment.

These costs compound fast. According to industry benchmarks, **each \$100 chargeback can balloon to \$260 in losses** when fulfillment, fees and labor are factored in.

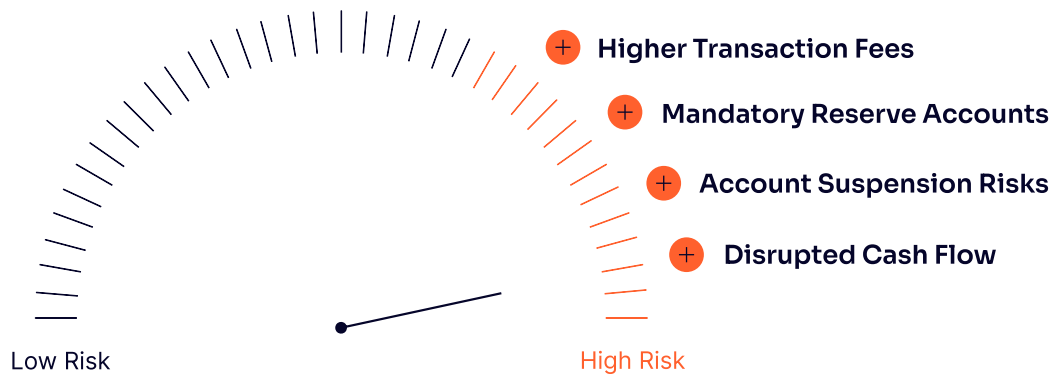


## Processor Penalties & Long-Term Risk

Card networks and payment processors closely monitor merchant chargeback ratios. If your dispute rate exceeds **1% of monthly transactions**, you risk being labeled a high-risk merchant. This can lead to:

- **Higher transaction fees** (cutting directly into profit margins)
- **Reserve funds** being withheld from payouts
- **Account suspension or termination**, halting your ability to accept payments
- **Inclusion in monitoring programs**, like the Visa Dispute Monitoring Program (VDMP) or the Mastercard MATCH list





## Operational Strain and Strategic Drift

Managing chargebacks is labor-intensive, requiring merchants to gather documentation, submit disputes, meet tight deadlines and track case outcomes, often for a win rate of just 20–40%. The lengthy process drains time and staff from critical functions like support, marketing, fulfillment and growth initiatives.



Beyond the visible workload, chargebacks lead to missed opportunities, internal fatigue and diminished focus on long-term strategy.

Worse, they can alter how businesses operate. To reduce disputes, merchants may tighten refund policies, increase checkout friction or avoid certain customer segments. While these measures may cut chargebacks,

they also hurt conversion, limit reach and shift companies into a reactive, risk-averse mindset that stalls innovation.

## How to Prevent & Manage Chargebacks Across All Platforms

Whether your store is built on Shopify, BigCommerce, Adobe Commerce or any other platform, the core principles of chargeback prevention remain consistent. Effective prevention requires a layered approach, combining secure payment protocols, customer behavior analysis, risk-based decisioning and ongoing optimization powered by machine learning. Below are the essential building blocks every eCommerce business should implement to reduce the frequency and impact of chargebacks.

**Strengthen payment security:** Chargeback prevention starts at checkout. A secure payment setup helps block unauthorized transactions and equips you to handle





disputes with confidence. Key tools include:

- **3D Secure 2.0 (3DS2):** Adds real-time authentication with minimal user friction.
- **Card verification value (CVV) and address-verification system (AVS) checks:** Verify cardholder information and reduce stolen card misuse.
- **Tokenization:** Converts sensitive data into secure, randomized tokens.
- **Strong customer authentication (SCA) and multi-factor authentication (MFA):** Enhances identity verification with multi-factor methods, improving fraud resilience.

#### Analyze digital footprints early:

Fraud detection begins before payment. By analyzing user metadata and behavioral signals, merchants can flag risks during onboarding or browsing.

Important signals include:

- Email quality and domain reputation
- Phone number validity and VoIP detection
- IP address and location mismatches
- Use of proxies, VPNs or anonymizers

#### Implement risk-based screening and dynamic friction:

Not every shopper poses the same level of risk. That's why many merchants use **risk scoring** to evaluate customers based on factors like device use, behavioral patterns and transaction context.

When risk levels are low, users can enjoy a seamless path to purchase. But when signals suggest potential fraud, additional verification steps, like identity checks or address confirmation, can be triggered. **Dynamic friction** helps protect revenue without hurting the customer experience for genuine buyers.







### **Block high-risk users proactively:**

When behavior or attributes strongly indicate fraud, blocking users pre-checkout is often the best defense. Common red flags:

- Billing and shipping mismatches
- Suspicious checkout speed or patterns
- Multiple failed payment attempts
- IP cloaking or anonymized browsing

### **Use velocity rules to flag abnormal patterns:**

Velocity rules monitor how often specific actions occur in a short window. Abnormal activity may indicate automation or coordinated abuse. Watch for:

- Several transactions from the same IP
- Rapid card switching
- Multiple address changes
- Unusual cart or timing behavior

### **Leverage data to continuously improve:**

Every chargeback leaves a trail. Learning from these events helps refine your fraud strategy. Key practices include:

- Analyze dispute patterns and win/loss outcomes
- Identify repeat causes across products or channels
- Adjust scoring models and thresholds
- Improve policies, comms and customer journey flows

Machine learning can continuously learn from this data to adapt to new fraud tactics and reduce false positives over time.

## **From Friction to Flow: Redefining Chargeback Resilience**

Today's eCommerce merchants face two mounting pressures: rising fraud and rising customer expectations. SEON helps businesses meet both challenges by shifting from reactive chargeback handling to intelligent, automated fraud prevention.

SEON's platform uses **real-time digital footprint analysis and device intelligence** to profile users the moment they enter your site. It examines signals like IP reputation, email history and behavioral anomalies to spot fraud before a transaction is completed.

This data feeds into **flexible risk scoring**, powered by **adaptive machine learning**. Instead of relying on static rules, the system evolves with emerging fraud patterns, helping merchants apply the right level of friction and enhancing security without compromising the user experience.

When chargebacks do occur, SEON's **automated dispute management solution**, built with Chargeflow, handles the entire process from evidence collection to submission, boosting win rates while freeing





your team from manual workflows.

With SEON, merchants can reduce fraud, reclaim time and scale confidently — combining prevention and automation into one streamlined system that keeps both revenue and customer trust intact.

## Get Ahead of What's Next in eCommerce Fraud

Chargebacks are just one part of the evolving threat landscape. Discover the key trends, technologies and tactics shaping the future of online fraud in SEON's 2025 Retail fraud Report.

[Read Our Report](#)

## Future Proofing Chargeback Protection

The chargeback landscape is shifting rapidly, and for online businesses, that means prevention strategies must evolve just as

quickly. Fraud tactics are becoming more sophisticated, regulations are tightening and customer expectations around seamless, secure experiences are higher than ever. Success in this environment will hinge on adaptability, intelligence and automation.

Emerging technologies are already reshaping how businesses approach chargeback protection. Advances in AI and machine learning are enabling merchants to identify fraud signals in real time and intervene proactively. Tools like behavioral biometrics, smart identity verification and shared fraud intelligence networks are becoming the new standard, making it possible to both prevent disputes and maintain frictionless user journeys.

At the same time, automation will play an increasingly central role. With transaction volumes growing and manual processes struggling to keep pace, fully integrated systems that combine fraud detection, dispute handling and analytics are essential. Businesses that embrace these innovations will gain the resilience and agility needed to stay ahead of fraud, reduce financial losses and maintain customer trust.

Ultimately, chargeback protection is no longer just about fighting fraud. It's about building sustainable systems that allow digital commerce to thrive securely, efficiently and at scale.

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