



Research Working Papers

Chargebacks: Another Payment Card Acceptance Cost for Merchants

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About 50 percent of total chargebacks are due to fraud. Both the total and fraud chargeback rates are significantly higher for card-not-present transactions than for card-present transactions. Those rates also vary by merchant category.

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Although chargebacks are perceived as one of the major cost components for merchants to accept card payments, little research has been conducted on them. To fill that gap, this paper describes the current chargeback landscape by generating detailed statistics on chargebacks for signature-based transactions. Our data are from merchant processors, which, altogether, processed more than 20 percent of all signature-based transactions in the United States. For Visa and MasterCard transactions, chargebacks merchants receive are, on average, 1.6 basis points (bps) of sales number and 6.5 bps of sales value. About 70 to 80 percent of chargebacks are resolved as merchant liability. The most common chargeback reason is fraud, which accounts for about 50 percent of the total chargebacks. The merchant fraud loss rate is 0.7 bps in number and 2.6 bps in value. For American Express and Discover transactions, the total and fraud chargeback rates are somewhat lower. For all of the four networks, the total and fraud chargeback rates are significantly higher for card-not-present transactions than for card-present transactions. They also vary by merchant category. Our fraud results are generally consistent with other available fraud statistics.

JEL Classification: E42, L81

Article Citations

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Related Research

- Hayashi, Fumiko, Tyler Moore, and Richard J. Sullivan. 2015. “[The Economics of Retail Payments Security](#),” *The Conference Proceedings of The Puzzle of Payments Security: Fitting the Pieces Together to Protect Retail Payments System*, Federal Reserve Bank of Kansas City, forthcoming.
 - Sullivan, Richard J. 2013. “[The U.S. Adoption of Computer-Chip Payment Cards: Implications for Payment Fraud](#),” Federal Reserve Bank of Kansas City, *Economic Review*, vol.96, no. 1, pp. 59-87.
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Fumiko Hayashi is a Vice President specializing in payments in the Economic Research Department at the Federal Reserve Bank of Kansas City. Since joining the Federal Reserve in 2001, Ms. Hayashi published studies on the ATM and debit card industry, regulatory developments around interchange fees and card network rules, consumer payment choice, various types of payment methods (including credit, debit, and prepaid cards, mobile and QR code-based payments, instant payments, and central bank digital currency), payment fraud and security, nonbanks and fintechs in the payment system. She is currently conducting research on undeserved consumers in payments, fraud and scams involving instant payments, role of intermediaries in the payment system modernization, among others.
