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# Stripe Offers SMBs Chargeback Fraud Relief

By Jack M. Germain  
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Payment processing company [Stripe](#) on Monday launched Chargeback Protection, a machine learning-based system to limit the impact of fraudulent credit card transactions on merchants.

A chargeback is a demand by a credit card provider for a retailer to make good on a fraudulent or disputed transaction by repaying the full purchase amount plus a chargeback fee.

Resolving fraudulent disputes can take up to three months. Until then, disputed funds are unavailable to the business, even if it ultimately wins the dispute.

Stripe's Chargeback Protection safeguards businesses against fraudulent charges and automatically reimburses the bank for the disputed charge and any associated fees. This process saves the involved card-issuing bank and merchant time, money and resources, according to Stripe.

| All disputes  |     | Needs response |            |                   |  |
|---|-----|----------------|------------|-------------------|--|
| <div style="border: 1px solid #ccc; border-radius: 4px; padding: 2px 5px; display: inline-block;"> <span>▼ Filter</span> </div> |     |                |            |                   |  |
| AMOUNT  |     | STATUS         | REASON     | CUSTOMER          | SOUR   |
| \$10.00   | USD | Protected      | Fraudulent | Vincenzo Peruggia |  ..   |
| €90.00  | EUR | Protected      | Fraudulent | Jonathan Wild     |  ..   |
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| 24.00kr   | DKK | Protected      | Fraudulent | John Dillinger    |  .. |
| \$50.26   | USD | Protected      | Fraudulent | David Brankle     |  .. |
| \$4.67  | USD | Protected      | Fraudulent | Doris Payne       |  .. |
| €20.00  | EUR | Protected      | Fraudulent | Carl Gugasian     |  .. |

Fraudulent disputes are a growing problem for companies of all sizes, but especially for small and mid-sized businesses. Fraud disputes impact a company's cash flow because funds are unavailable while the dispute is assessed.

Even worse, the companies must identify, collect and submit detailed evidence that a payment was not fraudulent in order to win a dispute. Fighting chargebacks often costs merchants more than double the original disputed amount. Lost revenue, penalty fees and evidence collection expenses add up, Stripe noted.

Stripe's Chargeback Protection reduces the impact on companies victimized by fraudulent credit transactions by exempting them from collecting proof of the fraud. It

eliminates the need to withhold merchant access to challenged payments. Plus, Stripe automatically will reimburse the disputed amount plus any chargeback fees.

"This tool is certainly innovative and could be long overdue," said Robert Livingstone, president of [Ideal Cost](#).

"It will help Stripe stand apart from its direct competitors, such as Square and PayPal, as no one else really offers this level of chargeback prevention via machine learning," he told the E-commerce Times.

## How It Works

Stripe's Radar machine learning infrastructure assesses charges in real time, allowing fraud to be detected on the spot by requiring additional authentication for atypical transactions. It ensures that the checkout flow for trustworthy transactions remains frictionless.

This approach to Chargeback Protection minimizes or eliminates the burden companies face in responding to chargebacks, according to Eeke de Milliano, product manager for Stripe Radar and Chargeback Protection.

"Over the last few years, a top request from Stripe's users -- no surprise -- has been for help with fraudulent chargebacks," she said. "Chargebacks beleaguer Internet businesses. They're unpredictable, hard to win, and hurt cash flow since disputes can lock up legitimate funds for months while the process plays out. Stripe Chargeback Protection removes that burden entirely, so companies can focus on everything else they need to do to grow their business."

The protection process for businesses is simple to initiate. It takes a single click to turn on Chargeback Protection.

## The Fine Print

Chargeback Protection is available to companies in the U.S. and Europe as part of the latest version of Stripe Checkout. The cost of Chargeback Protection starts at 0.4 percent per transaction. Of course, that is on top of Stripe's existing transaction fees.

Stripe is confident that its detection level is so high that offering chargeback protection will be a small financial burden. For smaller businesses, Chargeback Protection will help smooth cash flow by removing the unpredictability of disputes, according to the company.

"If chargebacks are costing your business more than 0.4 percent, then it is worth it to get it," said Jamie Cambell, founder of [GoBestVPN](#).

"However, if chargebacks are a minor problem, it seems that it is more cost-efficient to just not use this program," he told the E-Commerce Times.

The protection appears to be limited to chargebacks stemming from fraud. It does not cover chargebacks resulting from other issues. "Small businesses should be aware that this will not solve 100 percent of chargebacks," cautioned Ideal Cost's Livingstone.

## Do the Math

The 40 basis point cost may be reasonable for firms that have a significant chargeback issue, but for every US\$1 million per month in sales, it represents a premium of \$4K per month, noted Livingstone.

"I can envision a scenario where only the worst chargeback offenders load up on this service and very few light offenders sign up," he said.

This could have three possible outcomes: a cost increase for everyone; Stripe dropping merchants with too many chargebacks; or cancellation of the program entirely.

"Merchants will become dependent on a program that could lead to increased costs, losing their processing privileges with Stripe, or having to learn and then unlearn a new system, Livingstone concluded.

## Needed Solution

For small businesses, chargebacks are awful, noted Mark Aselstine, founder of [Uncorked Ventures](#).

"Money is removed from your account, often before you get a chance to respond. Then the response takes your time, only to never really hear what happened in the first place," he told the E-commerce Times.

"Any tool which cuts down on that and helps cut my workload in regard to chargebacks and the checkout process is going to be really well received," Aselstine said.

"As for advantages for Stripe itself, it's a hell of a marketing tool," he continued.

"They're already doing a good job at simplifying the process so SMBs know what we're

paying for credit card fees. This hits another aspect that most SMBs don't have the time or capacity to understand more fully."

There are some possible drawbacks, however, Aselstine acknowledged. The details are going to be important.

"Some consumers are going to be blacklisted from Stripe merchants," he said, "but there are also going to be some merchants who won't be able to continue using the platform after too many chargebacks."

Overall, Stripe's Chargeback Protection service should be a welcome feature, suggested GoBestVPN's Cambell.

"Stripe can earn some nice titles with this sort of initiative. They provide an extremely safe payment processing system for both consumers and businesses," he said.

"Security and protection can only make things better."


## Will Block Scammers

The value for e-commerce SMBs is much-needed peace of mind, observed Ideal Cost's Livingstone. It will avoid preventable chargebacks and reduce manual hours researching and fighting them.

An even better outcome, noted Cambell, is that SMBs will not lose revenue from chargebacks, "meaning scammers and thieves cannot use this method to receive free products and get their money back."

## Company Background

Stripe's announcement comes in the midst of rumors that it may be preparing an initial public offering. Stripe raised \$245 million on a \$20 billion valuation last year and an additional \$100 million on a \$22 billion valuation earlier this year for a total of \$785 million.

The company, which has been in business for nine years, has denied any plans to go public. 



**Jack M. Germain** has been an ECT News Network reporter since 2003. His main areas of focus are enterprise IT, Linux and open source technologies. He has written numerous reviews of Linux distros and other open source software. [Email Jack.](#)

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## Reader Comments

[+ Join the discussion!](#)[Re: Stripe Offers SMBs Chargeback Fraud Relief](#)**Posted 2019-06-04****jackmgerm**

I received via email the following clarification from one of my sources in this article. Here is the verbatim update from Robert Livingstone, President & Founder of IdealCost.com.

"I found your article to be very well written with a great variety of sources. I wanted to make one clarification to my comments as I could have worded an answer better. When I spoke about increased costs, I meant that the 40 basis points cost from Stripe is based on theoretical data calculating their risk. There is a great possibility of the 40 basis points cost going up to 50, 60 or even 1% if too many high-risk merchants compared to low-risk merchants in the program. In this scenario merchants will have budgeted 40 basis points for this service without any guarantee that the pricing ... [Read More](#)

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