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Chargebacks Solutions for Cryptocurrency Payments

Key Takeaway: As market demand and consumer acceptance of cryptocurrency payments expands, both exchanges and merchants need solutions that can mitigate card-to-crypto chargebacks

Introduction

Cryptocurrencies continue to integrate into the current payments industry. Total transactions of the 16 most popular digital coins have rapidly increased, with Ethereum alone processing over 1.1 million transactions a day as of June 2021. Plus, the overall market capitalization of all cryptocurrencies has surpassed a value of $3 trillion. Burgeoning interest in digital tokens as a payment method has led to their inclusion in a variety of industry verticals.

Payment processors and merchants are ramping up to meet demand in kind. Business-to-consumer (B2C) crypto payment acceptance is now common, with major industry players such as Paypal, Stripe, and Coinbase all providing card-to-crypto infrastructure and point of sale capabilities.

But card-to-crypto integrations raises the issue of chargebacks. Does the current chargeback process (set up in the 1970s) offer the same problems and costs to merchants when connected to a decentralized digital market? Crypto remains a deregulated and volatile market, which could mean more fraud and increases in total chargebacks.

It is wise for merchants to access new markets through crypto processing, but only if there are solutions that minimize risk connected with card-to-crypto chargebacks.

Chargeback Risk Associated With Crypto Payments

While you cannot initiate a chargeback with a digital token, chargebacks do occur when consumers exchange fiat money to purchase digital currencies.

All cryptocurrencies trade on a cryptocurrency exchange. The exchange acts as a marketplace for buying and selling tokens, and it is there that all fiat to crypto transfers occur. Traditional payment processors offer the infrastructure that allows merchants to accept and exchange payments via cryptocurrency exchanges.

But with the development of crypto payment infrastructure, fiat credit funds can now purchase crypto. In turn, crypto payments can result in chargebacks and customer disputes. Just as a physical sale made with a credit card can result in a chargeback, the purchase of a digital coin can as well.

Since most traditional financial institutions do not openly support activity within crypto exchanges due to a lack of regulation, cryptocurrency exchanges remain exposed to chargeback fraud.

For example, a criminal can use a stolen credit card to make purchases of various cryptocurrency tokens. Once the coins transfer to an online wallet, there is no way to reverse it, a key security measure offered by crypto technology. The victim, rightfully angered about the stolen identity and misuse of credit card funds, could initiate a chargeback with their card issuer. Since the lost value is the result of fraud, the customer often wins the dispute, leaving the crypto exchange to subsume the costs.

It is at the transfer point between regulated fiat-based systems and new digital markets that fraudsters target their scams, leading to chargeback risk.

Comparing Justt's Win Rate
To Industry Standard
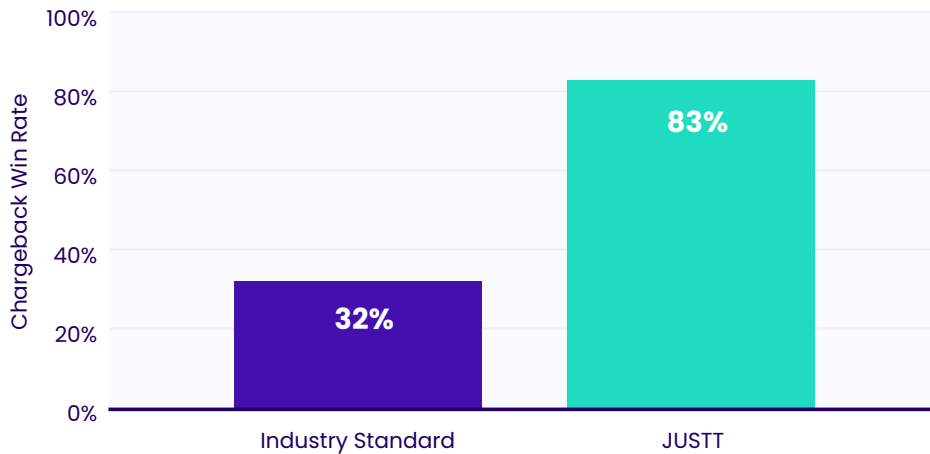
How Chargeback Fraud Can Occur in Crypto Markets

The payments infrastructure that facilitates card-to-crypto transactions offers opportunities for fraud, but most chargebacks in the crypto market occur for the following four reasons:

▌ **Innocent Friendly Fraud:** Consumers themselves might buy digital tokens by accident and then initiate a chargeback. For example, a cryptocurrency exchange account name might confuse a customer payment, leading to an eventual dispute.

▌ **Deceitful Claims:** Since cryptocurrencies are subject to extensive volatility and price fluctuations, users can hedge their digital token investments by initiating a chargeback when prices change or adjust. Technically, this a subset of friendly fraud, albeit intentional, being a case of buyer's remorse.

▌ **Exchange-Targeted Chargeback Fraud:** Without an official chargeback process on crypto exchanges, users instigate disputes against the cryptocurrency exchanges rather than merchants themselves. Since most financial institutions have no access to the crypto transaction details, they often fulfill those chargebacks, even if they are incorrect and fraudulent.

▌ **Stolen Identification:** Criminals can steal a user's credit card information and make illegal purchases of cryptocurrencies. The victim will initiate a chargeback through either the processor or their bank, both of which offer little remediation to merchants who lost money through purchases made via crypto.

Timeline of Industry Players Acceptance of
Card-to-Crypto Infrastructure & Point of Sale Capabilities

coinbase

Oct 28, 2020

Coinbase announces new Visa debit card that allows cryptocurrency

PayPal

November, 2020

PayPal announces that it is now possible for all U.S. users to buy, hold and sell cryptocurrencies on its platform.

stripe

Oct 13, 2021

Stripe announces it's building out a new crypto team to help build out the "future of Web3 payments,"

PayPal

March 30, 2021

PayPal introduces Checkout with Crypto

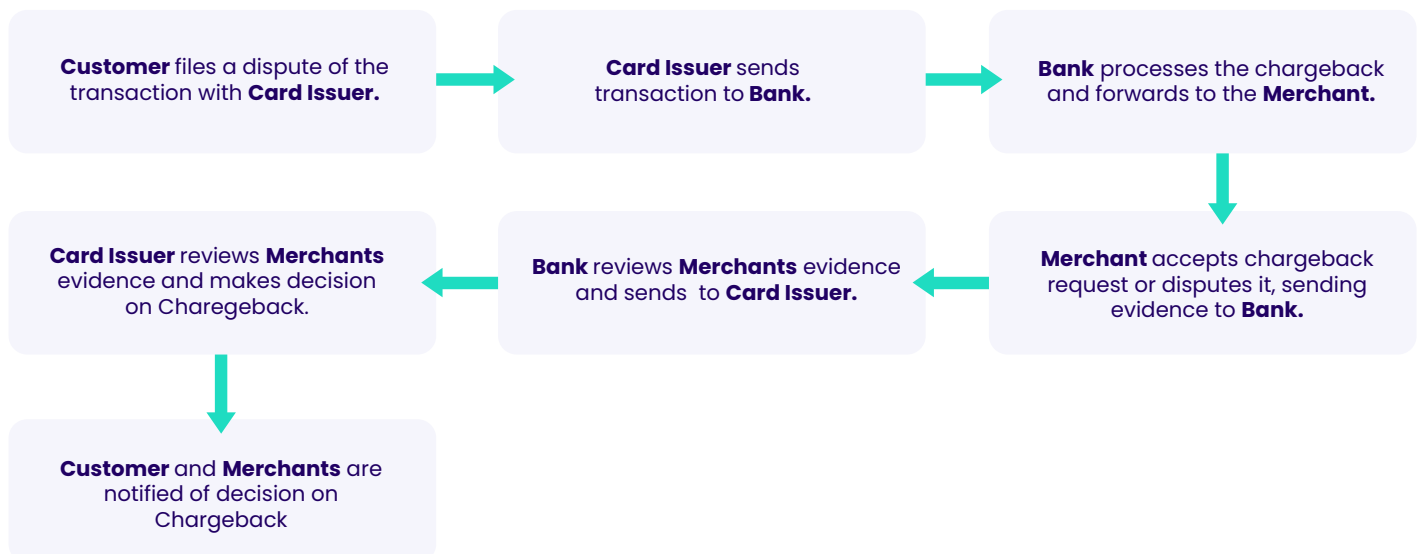# The Need for Crypto Chargeback Infrastructure

Cryptocurrency markets have introduced stablecoins pegged to a reserve asset. By attaching the digital token to fiat currency, a far more secure system can evolve. And while stablecoins are far safer, the entire industry still suffers from a lack of regulation that could help divert instances of fraud.

While the fiat chargeback system has its problems (and needs reform), the process does lay the important compliance groundwork for a safe consumer-to-business relationship. Crypto payments could benefit from such infrastructure.

For example, better integrations with current financial institutions systems to crypto exchanges could help facilitate a safer market. Associations by payment processors with crypto-based cybersecurity firms can help reduce the amount of card-to-crypto fraud. In addition, government legislation could help create an environment that better protects merchants and consumers alike from fraud.

While efforts are underway to address such issues, due diligence takes time. Merchants who want to access the lucrative markets of cryptocurrency need solutions that work, both in the short and long term.

The Chargeback Process

Customer files a dispute of the transaction with **Card Issuer.**

→

Card Issuer sends transaction to **Bank.**

→

Bank processes the chargeback and forwards to the **Merchant.**

↓

Card Issuer reviews **Merchants** evidence and makes decision on Charegeback.

←

Bank reviews **Merchants** evidence and sends to **Card Issuer.**

←

Merchant accepts chargeback request or disputes it, sending evidence to **Bank.**

↓

Customer and **Merchants** are notified of decision on Chargeback

Justt's Chargeback Mitigation Solution

Justt is a chargeback mitigation solution that handles the entire lifecycle of a customer dispute. The application leverages both AI-powered and human knowledge to create customized solutions for merchants and payment processors—including cryptocurrencies. Justt is the ideal chargeback solution for those who want to benefit from crypto payment acceptance without the extended risk.

Reduce Risk Where Acquirer Coverage Ends

Since Justt earns an 83% win rate for its partners, all merchants can drastically reduce the cost of chargebacks to bottom line profits. Both merchants and exchanges themselves need that support, as financial institutions do not offer the same protections to independent crypto exchanges. Having a solution that can defend against wrongful disputes defers crypto-related chargeback risk where acquirer coverage ends.

Access Expertise on Cryptocurrency-Related Chargebacks

Blockchain technology allows for "decision by committee". All aspects of a digital token decentralize amongst its community of users. Such protocol diversity can make the nuanced rules and regulations of the market difficult to understand.

But with Justt, any partner gets access to in-house experts who understand both the chargeback process and the crypto markets. Case in point, a co-founder of Justt helped coordinate the Chargeback and Merchant Risk teams for fiat-to-crypto payment service provider Simplex, helping recover millions of dollars from card-to-crypto chargeback disputes.

Protect Against Fraudulent Crypto Payment Attempts

Justt uses AI-powered smart tech and machine learning to glean data insights on every organization's unique chargeback process. Not only does this make for a customized and hand-offs solution, but it helps locate the business inefficiencies and problem areas that lead to chargeback disputes. Tracking and repairing the root issue helps prevent instances of fraud and lower overall chargeback volume.

Do you want more information on how Justt can help you defend against card-to-crypto chargebacks?

Request a _personalized demo_ to see how you can reclaim lost revenues

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