



Payments Experts. Powerful Data.
THE STRAWHECKER GROUP®

Merchant Acquiring and the Trends on Chargebacks

May 2021



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Peter brings over two decades of extensive experience in the payment industry to TSG including payment processing for merchants and card issuers, product development, corporate strategy, account management, and acquisitions.

Prior to joining TSG, Peter was the Vice President of Product Development at Hap-X, a leading healthcare B2B payments company.

Peter also worked at TSYS as the leader of Market Research and Competitive Intelligence for the TSYS Merchant Segment and as the head of Financial Planning and Analysis for TSYS Acquiring Solutions.



TSG Services Overview

→ TSG's specialized approach provides direction, tools, and strategies that empower clients to achieve their goals now.



Actionable Strategy

TSG helps identify and relieve pain points to ensure efficiencies are realized

Management Consulting

Financial Performance

Benchmark growth, attrition and financial performance against peers and the overall industry



Profitability & Financial (AIM)



M&A Support

Valuations, matchmaking, and due diligence support are all within TSG's expertise

Buy/Sell & Valuations

Platform Performance

Benchmark your APIs and review transaction performance globally to spot issues and adjust for success



Technology & Performance (GEM)



Market & Competitive Intelligence

Leverage TSG's market intelligence and eReports to support a wide range of strategic decisions

Market Intelligence & eReports



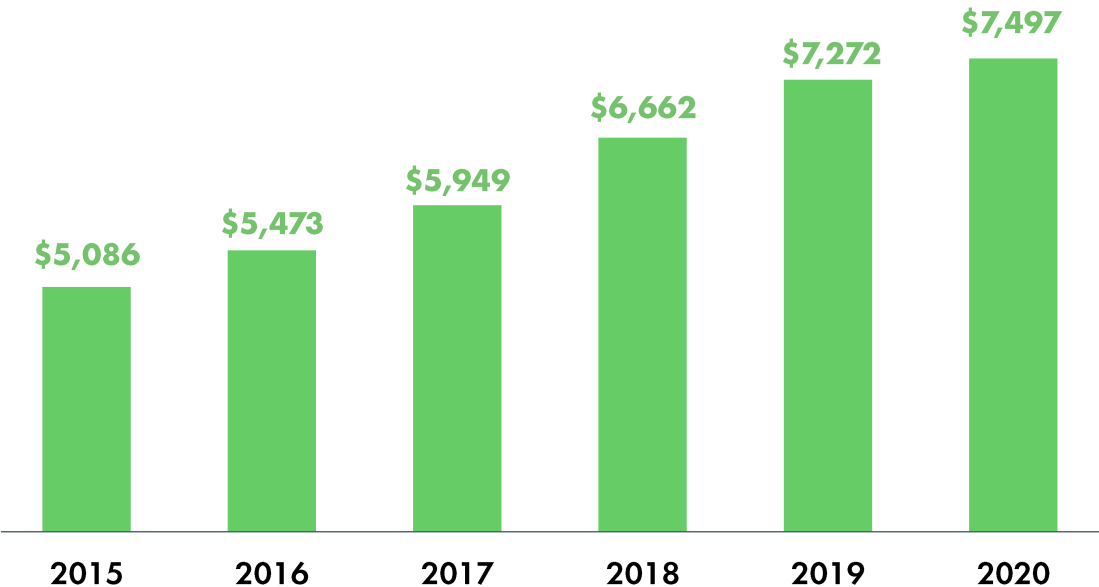
State of the Merchant Acquiring Industry

➔ Continuing Growth in Payments

The growth opportunity in the U.S. consumer payments processing market continues to be attractive. In 2020, total estimated payment volume was estimated to near \$7.5 Trillion for the first time.

Est. Payment Network Dollar Volume in the U.S.

(\$ billions)



State of the Merchant Acquiring Industry

→ Flourishing Industry

Worldwide card acceptance is steadily on the rise

- Purchasing goods has evolved from paper-based (low technology) to cards and electronic payments (high technology)

Increased consumer usage

- Cards are used for smaller transactions (e.g. gum) and larger ticket items (e.g. school tuition)
- Millennials have embraced electronic payments (e.g. wallets, Venmo)
- Electronic payments are into industries such as government, utilities, and healthcare



State of the Merchant Acquiring Industry

→ Flourishing Industry



Increased merchant acceptance

- > New merchant type (e.g. micro-merchants, P2P, field service)
- > Emerging acceptance markets, including aggregation models, (Mobile POS and eCommerce)

Feeds off organic economic growth (inflation and GDP)

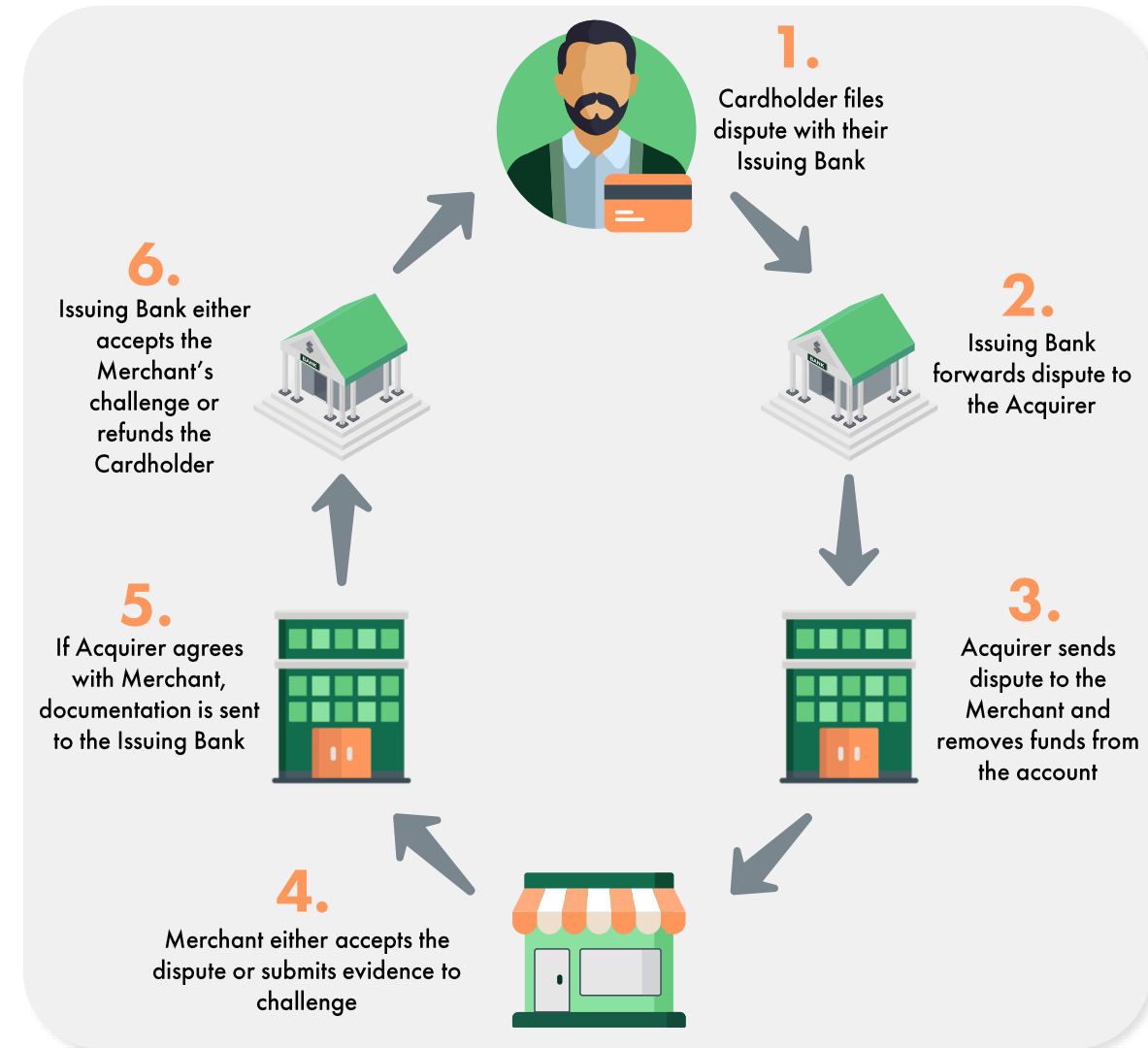
- > The rising tide effect of a growing economy

Chargebacks Impact In Payments

➔ Chargeback Overview

A chargeback is when a card transaction is disputed, either at the request of the cardholder or by a card issuer

- A chargeback will hold back the amount of the original sale
 - Plus, a chargeback fee to the merchant account
- There is a chargeback period that the issuer can charge the transaction back to the acquirer
- A numerical code is assigned, which identifies the specific reasons for the chargeback
 - Visa and Mastercard have different chargeback codes



Chargebacks Impact In Payments

➔ Chargeback vs Credit

Chargeback

- Cardholder requests a monetary return to their account through their card issuer
- The card issuer handles the dispute on the cardholder's behalf
 - Funds are immediately removed from the merchant's account
- Merchants can submit evidence to challenge the dispute
 - The card issuer decides final verdict
 - The merchant is charged a fee if found in fault

VS.

Credit

- Settled directly between the merchant and the customer
- Merchant willingly agrees to refund the customer
 - A full or partial refund is sent back to the payment card
- Merchants can avoid disputes by displaying clear return policies
 - This can help with customer retention and maintaining a good merchant acquiring relationship

Chargebacks Impact In Payments

→ Chargeback Industry Trends

- **Most SMBs don't understand the risks of chargebacks**
- **There are several companies that provide chargeback mitigation services**
- **Common reasons for chargebacks include:**
 - Fraud
 - Good or services unfulfilled
 - Product mishandling/shipping faults
 - Product does not meet customer expectations
 - Inaccurate billing



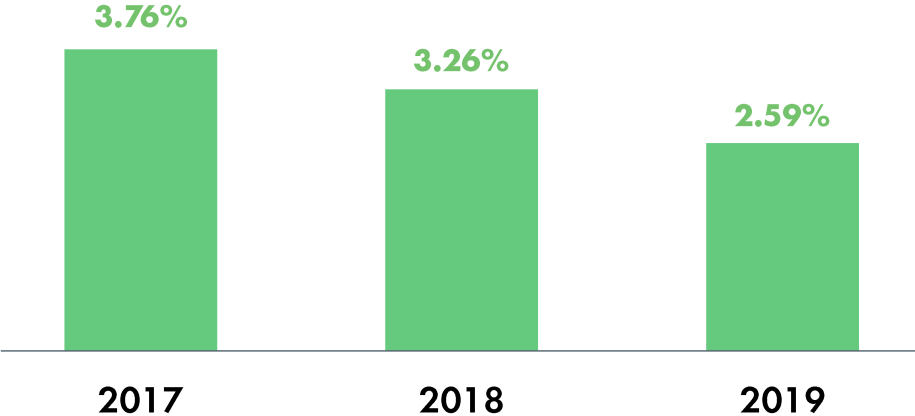
Chargebacks Impact In Payments

➔ Chargeback Industry Trends

Chargebacks are recurring **less frequently** at the merchant level



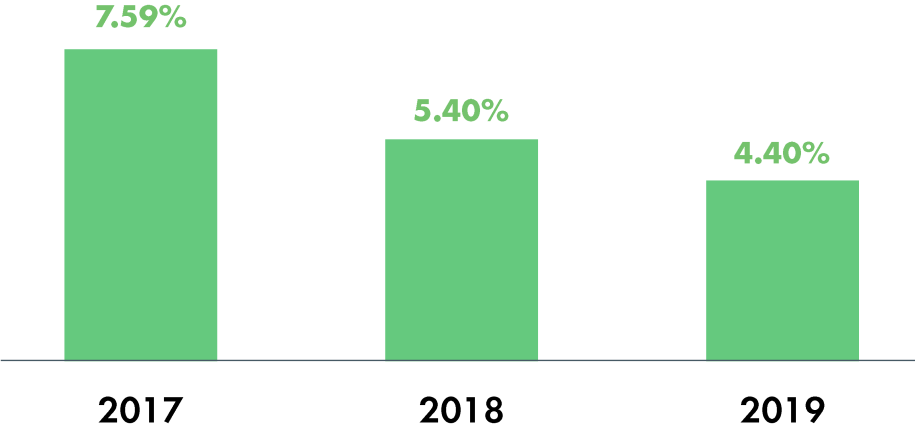
Chargeback By Transaction Ratio



As a result, total revenue lost to chargebacks **have decreased** in recent years



Revenue Lost To Chargebacks



Source: Midigator

Chargebacks Impact In Payments

➔ Chargeback Risk Factors



Chargebacks can be a costly expense if not properly managed

- The card networks are exceedingly concerned with the “brand”
- Excessive chargebacks can cost thousands of dollars in fines
 - Visa Chargeback Monitoring Program (VCMP)
- If not addressed quickly, fines will increase
- The card network may require a merchant third-party review

Chargebacks Impact In Payments

➔ Chargeback Risk Factors

Risks associated with handling chargebacks require proper oversight and management in order to stay compliant

- Sponsorship programs and merchant acquirers/ISOs need to closely monitor chargeback activity
- These companies need to ensure compliance with card network and banking rules and regulations
- Excessive chargebacks are commonly linked to fraudulent activity
- Not properly addressing chargebacks impact the merchant's revenue and customer satisfaction





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ANALYTICS + CONSULTING

The Strawhecker Group (TSG) is a fast-growing analytics and consulting firm. The company serves the entire payments ecosystem, from fintech startups to Fortune 500 companies. The firm provides its clients with advisory services, research and analytics to help them plan and execute their strategic initiatives. Based in Omaha, a recognized payments industry hub, TSG is an established leader in this high-growth, ever-evolving space.



1,000+

Clients advised, including many in the Fortune 500



40+

Of the top 50 merchant acquirers served, including 9 of the top 10



25+ Years

Average Associate experience in the payments industry



250+

Completed payments company valuations; as well as ~30 buy/sell/investment advisements



~4 Million

Card-accepting merchants in TSG's AIM analytics platform, driving millions of dollars in ROI for its users



150+

Completed Market Intelligence analyses on the global payments landscape, uncovering hundreds of thousands of data points