



Returns, refunds & exchanges:

How to stop good customers from
paying the price of policy abuse

Global insights & policy playbook 2024



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Executive summary

Huge amounts of revenue disappear year-over-year due to fraud and abuse in returns, refunds, and exchanges. This hotbed of bad behavior includes false item-not-received (INR) claims, returning worn or damaged items, reselling goods for profit, and promotional code misuse.

Policy abuse is overwhelming to three-quarters of merchants today. Abuse and fraud have evolved to become more prolific, sophisticated, and challenging to detect, driven by Dark Web forums, social media (like Instagram and Telegram networks) and malicious AI tools. Meanwhile, many of your “good” shoppers behave in ways that are actually bad for your business, compounding the problem.

Offering generous returns, refund, and exchange policies to all was table stakes just a few years ago when ecommerce businesses boomed in the pandemic. **Not anymore.**

You already struggle with squeezed profit margins due to economic volatility and declining consumer confidence. To add to that, the cost of fraud and abusive behavior is pushing everyone to reconsider returns and refund policies.

This report reveals merchants are forcing **customers to pay the price of policy abuse**, implementing shorter grace periods to make claims, introducing returns and restocking fees, and enforcing tighter inspections and restrictions.

Efforts to reduce losses from returns and refund fraud and policy abuse also create problems for customer service teams. You can no longer offer the same blanket generosity to all customers regarding returns and refunds, and adding friction risks losing customers, revenue, and brand value.

Thankfully, you can curtail instances of fraud and abuse without compromising on your customer experience.

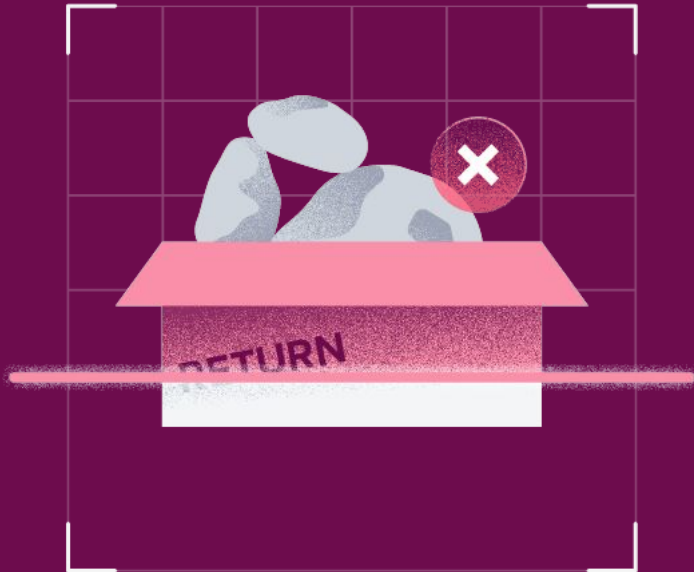
This report uncovers the opportunities for merchants.



Methodology

Riskified partnered with Opinium Research to interview 500+ senior directors at large ecommerce businesses (\$50m+ annual revenue). Each executive is involved in fraud, risk, and policy abuse within their business, and representatives span seven major ecommerce markets including US, UK, France, DACH, Mexico, Brazil, and Australia/New Zealand. In addition, the Center for Economics and Business Research (CEBR) created cost insights by layering over economic modeling data and analysis. It set out to discover:

- The state of returns, refunds, and exchanges today
- How merchants are mobilizing against policy abuse
- The biggest challenges in managing refund and returns fraud
- Strategies that can help merchants balance customer satisfaction and minimize losses



Key findings

Return, refunds, and exchange abuse overwhelms

75% of merchants

Returns, refunds, and exchanges constitute a staggering \$394 billion expense for retailers across the key ecommerce markets surveyed, at least \$28 billion of which is perceived to be impacted by fraud and abuse*. Merchants feel they have no control over the impact of policy abuse on this critical cost center.

Teams lack the technology and collaboration to fight back

Competing teams, lack of technology, and inefficient processes collectively increase the indirect costs of policy abuse.

The “generous policies at all costs” era is over

What was a priority for merchants in recent years has shifted, and consumers now pay the price of fraud and abuse.

Identifying sophisticated abuse requires more work

Returns and refund abuse and fraud have become more prolific and more challenging to detect, driven by forums like the Dark Web and availability of malicious generative AI tools.

Growing appetite for AI-powered & identity-based approaches

These reduce instances of abuse more proactively and deliver a great customer experience to ideal customers.

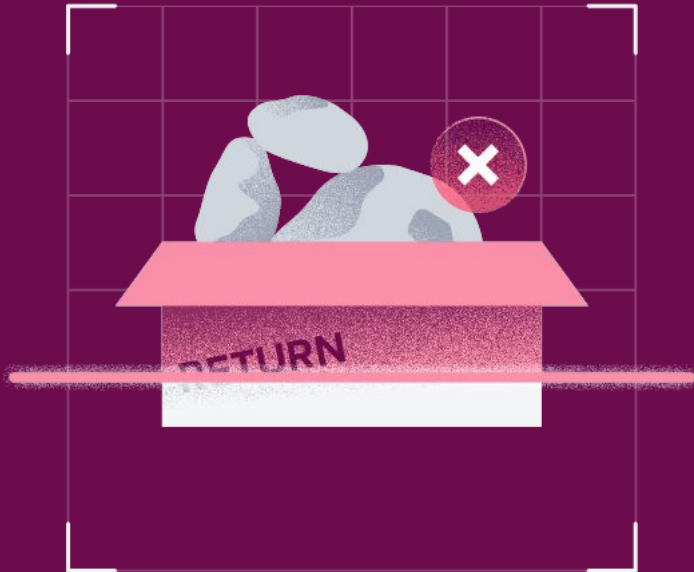
*Policy abuse. This term is used to describe whenever consumers exploit a merchant's terms and conditions for personal gain, whether that is intended fraud or an abusive claim. Examples of policy abuse include returning worn or damaged items, false item-not-received (INR) claims, reselling goods for profit, and promotional code misuse.

Fraudulent claims vs abusive claims. Claims are considered fraudulent claims when there is intentional deception for gain, whereas abusive claims involve exploiting systems and policies without necessarily lying.



01

The state of returns, refunds, and exchanges today



It's a cruel irony that what makes a great customer experience also makes a great fraudster experience, especially when it comes to returns, refunds, and exchange policies. Instant refunds make it easier to get away with sending back an empty box. A long grace period creates more opportunities for wardrobing (wearing an item and then sending it back for a full refund). Lenient thresholds for exchanges and refunds invite INR (item not received) claims and reseller schemes.

84%

of merchants say it is harder to identify fraudulent activity today

76%

agree policy abuse is becoming more sophisticated

In 2023, 93% of merchants said offering generous returns and refund policies was vital to engaging and retaining customers.* **Today, you cannot continue to offer this blanket generosity.**

Just a year later, **three-quarters of merchants feel overwhelmed by the volume of potential fraudulent or abusive return, refund, and exchange claims they receive.**

Fraudsters and abusers are repeatedly exploiting loopholes in your returns and refund policies. They are behaving in a more organized, systematic, and sophisticated way, driven by information sharing on the Dark Web and the availability of more advanced technology such as generative AI tools.

The majority of policy abuse – in which consumers knowingly exploit a merchant’s terms and conditions for personal gain – exists on a blurred ethical spectrum for customers, meaning “abusers” are a mix of “good” customers and professional fraudsters, compounding the problem.

[**“Policy abuse and its impact on merchants: Global benchmarks 2023.” Riskified, 2023.](#)

Many merchants have tightened up policies reactively, but good customers are paying the price.

This report finds:

- 01** Professional fraudsters on the Dark Web continuously evolve refunds and returns abuse tactics, staying one step ahead of policy changes.
- 02** Not enough energy and effort is invested in preventative solutions.
- 03** Customers – good, bad, and everything in between – receive a far poorer experience



RECAP

The returns & refunds story

The industry's understanding of complexity surrounding return, refund, and exchange fraud and abuse has risen in recent years, supported by research. Here's the story to date.

A monster of a merchant's own making

During the peak of the ecommerce growth in recent years, offering super consumer-friendly returns, refunds, and exchange policies became the norm. Kick-started by Amazon, every brand felt compelled to keep up and retain customers by offering long returns windows, speedy deliveries, promotional offers, and more.

During a sales boom, the losses incurred from such generous policies were easy to overlook. But, as the market normalized and more consumers got savvy to abuse and fraud methods, it feels like we are left with a monster of our own making.



Returns are out of hand – fraudulent or not

*Two-thirds of retailers recoup less than half the total value of a returned item. One merchant even quipped, “We would have been better off financially if the customer had broken into our warehouse and stolen the item, versus the expense of returning it.”

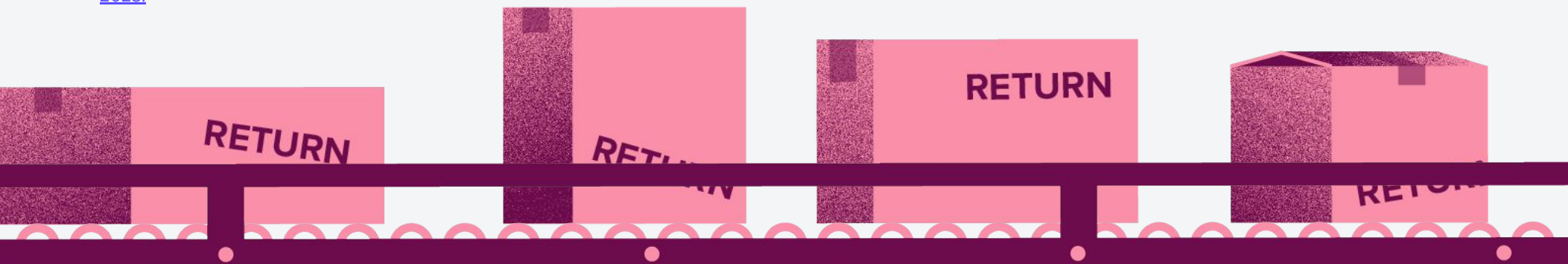
Returns massively drain profits. Merchants offering returnless refund options demonstrates how unprofitable the returns process is that it might preferable to forfeit the products. This has, however, created another new area ripe for fraudsters to exploit.

“

We would have been better off financially if the customer had broken into our warehouse and stolen the item, versus the expense of returning it.

Merchant, big retail company

[**Policy abuse and its impact on merchants: Global benchmarks 2023.” Riskified, 2023.](#)



Dark Web “Robin Hoods” run circles around retailers

Forums thrive on the Dark Web, Reddit, and Telegram, offering tips and tricks for even novice fraudsters to manipulate terms for substantial personal gain. Many view themselves as vigilante figures, congratulating themselves and celebrating that large corporations “have it coming.”

*Fraud-as-a-Service kits sell at a low cost, and advice is refreshed constantly to give guidance on how to overcome new defense measures retailers put in place – like delivery trackers – and which loopholes are ‘hot’ for exploitation.

*For a deep dive into policy abuse scams online, check out Riskified’s webinar [“Exposing policy abuse on the Dark Web—stop the threat at the source”](#)

A wave of malicious new AI tools like WormGPT are turbocharging this activity. Together, these activities spur more sophisticated attacks and welcomes a wave of novice fraudsters to the policy abuse game.



It's a “gray” area for consumers

“Good” customers form part of the problem – and they aren’t even sure it’s all that bad. A 2024 UK and US study* from Riskified found a 50:50 split between shoppers who feel guilty and those who don’t in abusing merchant policies. Surprising demographics like the middle-aged, middle classes are anecdotally identified too, dubbed “white lie fraud” in the UK and driven by a collective feeling “everyone is at it secretly”. Factors like increased financial pressure and summer social events were also identified as encouraging abuse.

[**“Consumer attitudes toward policy abuse: An international pulse survey.” Riskified, 2024.](#)

The behavior became more normalized online too - many influencers position retailer loopholes as “deals,” for example. Consumers have a gap in understanding this behavior hurts retailers, which in turn hurts investment in the customer experience.



The massive cost of abuse

Returns, refunds, and exchanges are a major cost center, with the direct and indirect costs of all forgone revenue from returned and refunded goods, lost stock, and logistics of returns totaling nearly \$394 billion for the merchant respondents.

The phantom pain of policy abuse creates additional strain. Merchants think that \$28.4 billion, or 7%, of the cost of returns and refunds are potentially fraudulent or abusive. For returns alone, tabulated to cost at least \$196 billion for retailers, the impact of abuse bumps up to 9.6% or \$19 billion.

The scary truth is, the reported impact of fraud and abuse are likely being underestimated due to the difficulty of pinpointing abuses with precision and the gray zone of customer behavior. To put it into perspective, direct analysis performed by retailers leveraging Riskified's machine learning capabilities have uncovered that up to 20% of returns and refund claims are abusive.

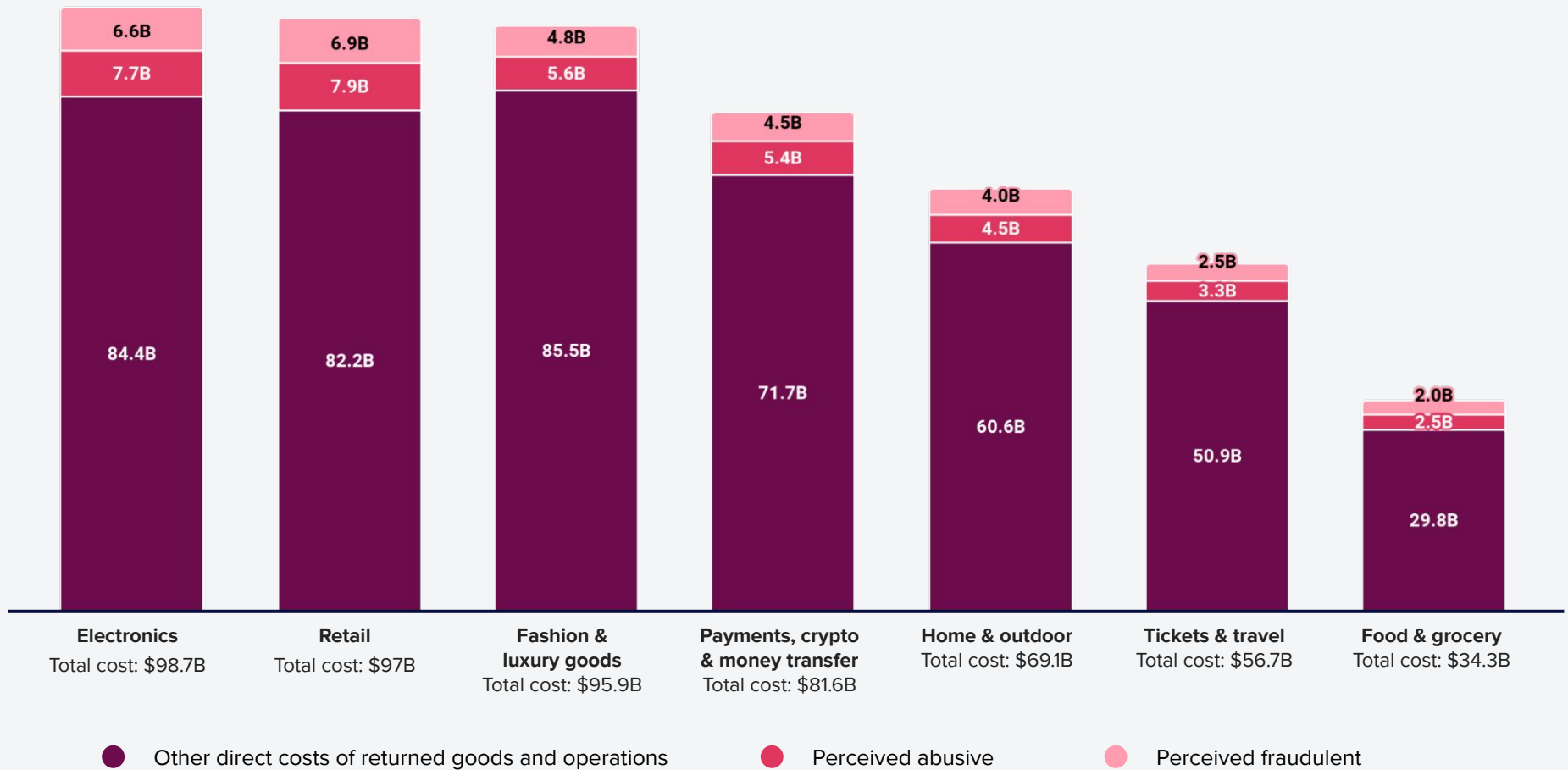
TOTAL COSTS OF RETURNS, REFUNDS, EXCHANGES BY COUNTRY





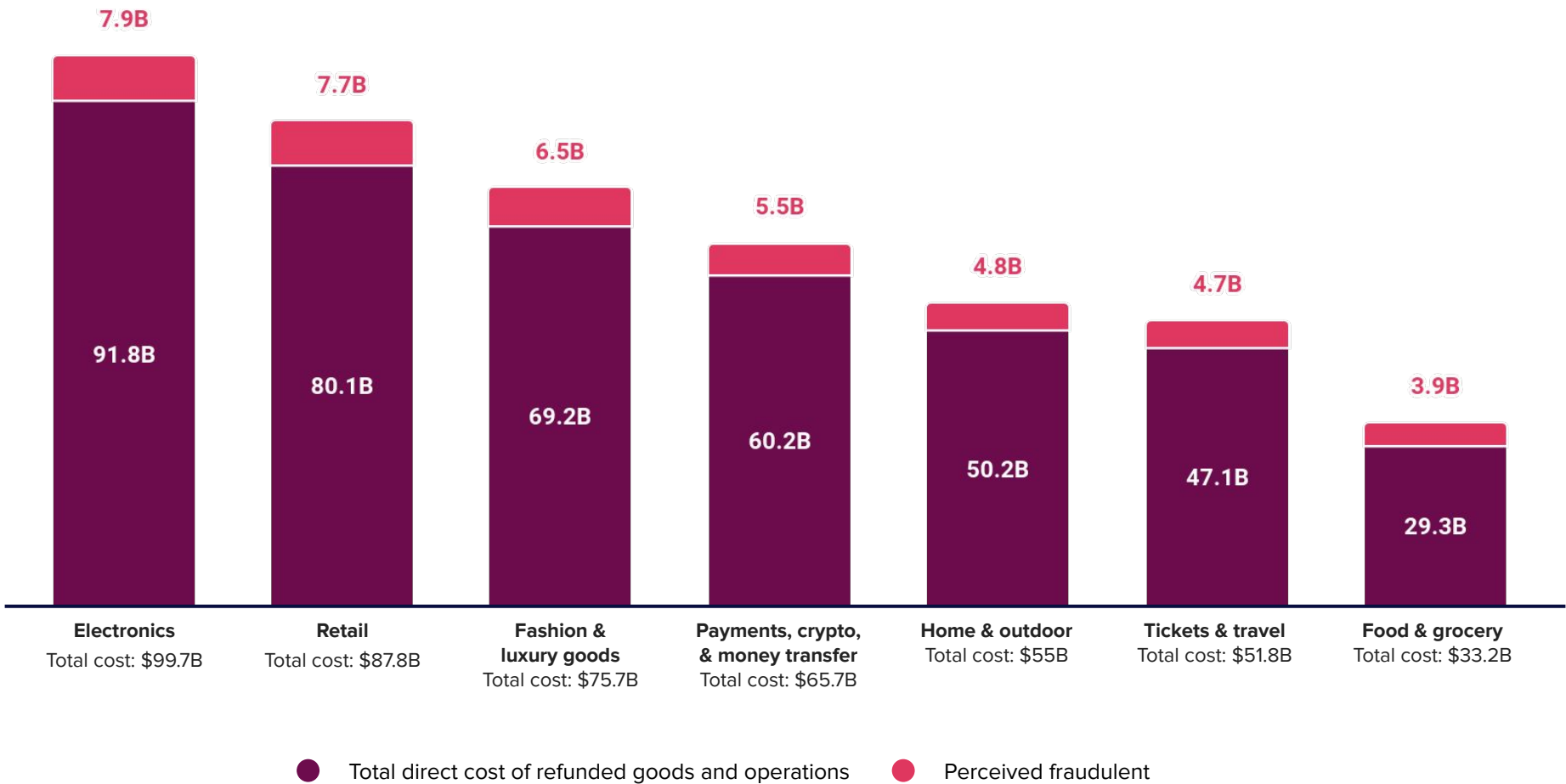
THE COST OF RETURNS BY SECTOR

Direct, fraudulent, and abusive



THE COST OF REFUNDS BY SECTOR

Direct, fraudulent, and abusive



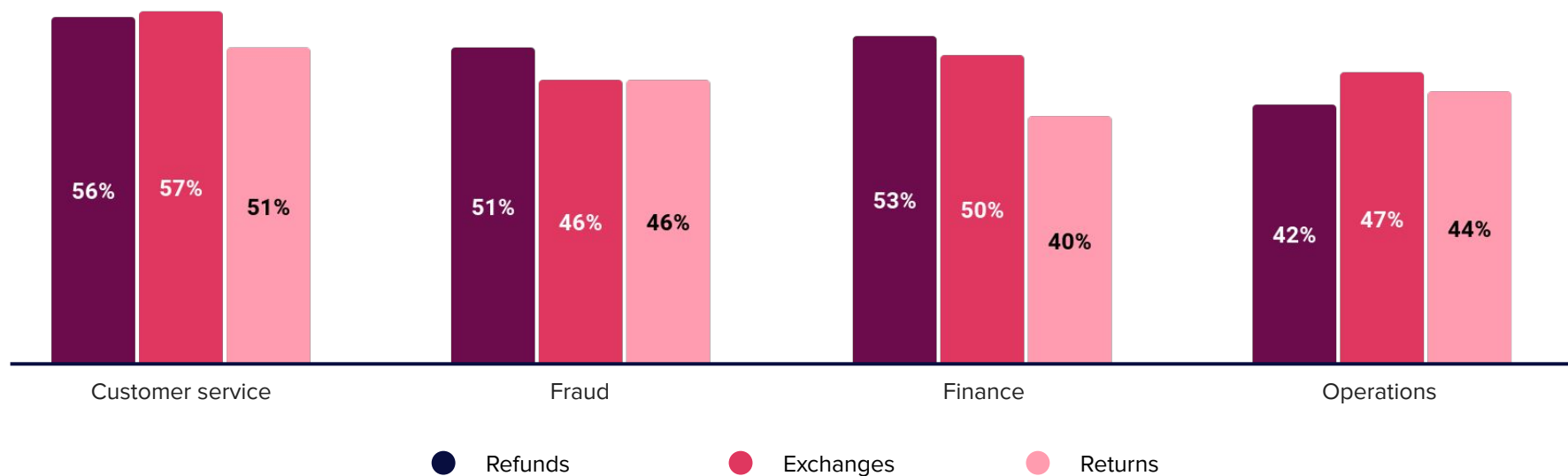
Managing customer policy abuse and organized fraud incurs surprising indirect costs, including the human time spent resolving abusive and fraudulent issues, and the opportunity cost of forgone revenue. Staff in logistics and customer service roles invest significant time in particular handling refunds, returns, and INR claims. Businesses employ a number of staff solely focused on this area. Retail has the highest staff costs focused on processing returns at nearly \$20bn per year, with fashion and luxury, and electronics close behind at \$18.5bn and \$18.25bn respectively.

Calculating the true price tag of managing returns, refunds, and exchanges is near impossible, but two things remain clear:

- The cost is far too great to be ignored or seen as “a business cost”- management of these policies needs to be tightened up and improved
- A sizable chunk of claims are abusive or fraudulent, with the actual number likely to be higher than estimates

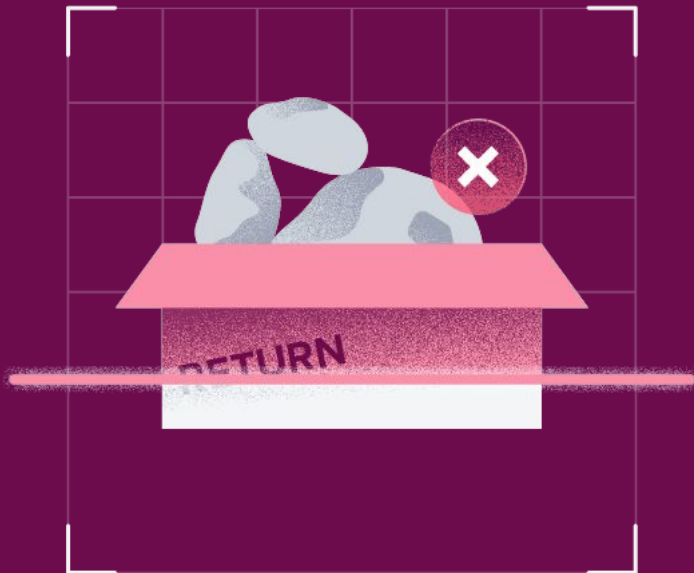
TEAM INVOLVED IN PROCESSING RETURNS, BY TYPE OF CLAIMS

What departments are involved with processing the following customer requests within your business?



02

Customers are paying the price of policy abuse



Historically, flexibility at all costs was the top priority when implementing returns and refund policies. Now, the cost has become too high and the findings in this report show that it's clear: **customers are paying the price.**

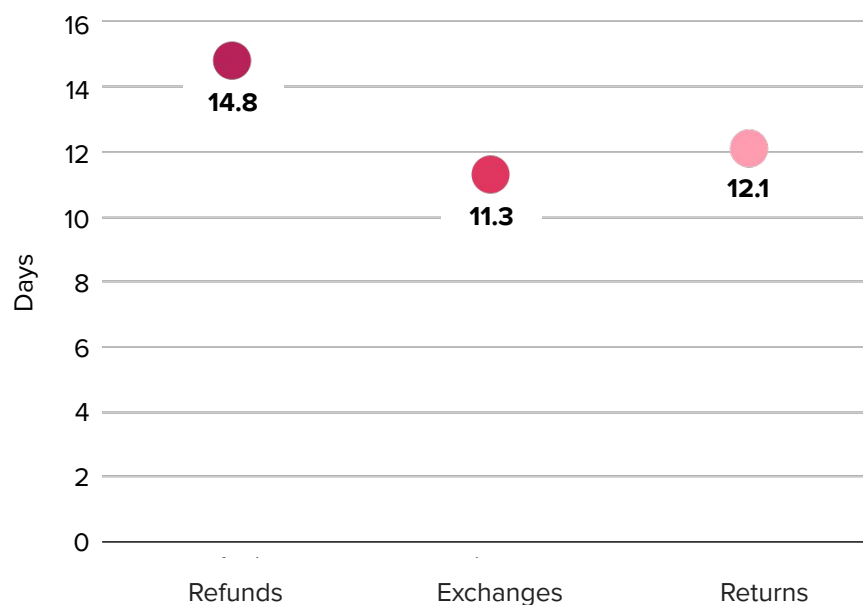
How are customers paying the price?

- **Charging returns fees:** A third of retailers now charge a fee for returning an item, with numerous big brands beginning to launch similar policies and experiencing backlash.
- **Issuing credit or exchange-only:** Similarly, consumers financially suffer with exchange-only and store credit-only policies, also introduced by a third of retailers.
- **Shrinking grace periods:** Across all types of claims, many retailers allow only seven days to file a request. About two in five (39%) major retailers allow only seven days for a refund request. This rises to over 40% and 42% of retailers offering only seven days for exchanges and returning items respectively. Even if you consider the online average of 11 days, this covers just over a third of the typical 30-day period bricks-and-mortar stores usually offer to issue a refund.
- **Rejecting customer preference:** Less than a quarter of merchants grant refunds if a customer changes their mind or dislikes an item (24% and 23% respectively).

- **Tightening claim acceptance:** Operational policies and processes tackle policy abuse most often, making it harder for customers to receive a refund. Barriers include issuing refunds only after product inspection (39%) and applying deterrents like requesting a police report (38%).

MERCHANT GRACE PERIODS TO MAKE A CLAIM FOR REFUND, EXCHANGE AND RETURNS

How long is your grace period for each of the following? By this, we mean a time limit in which a customer must register their request?



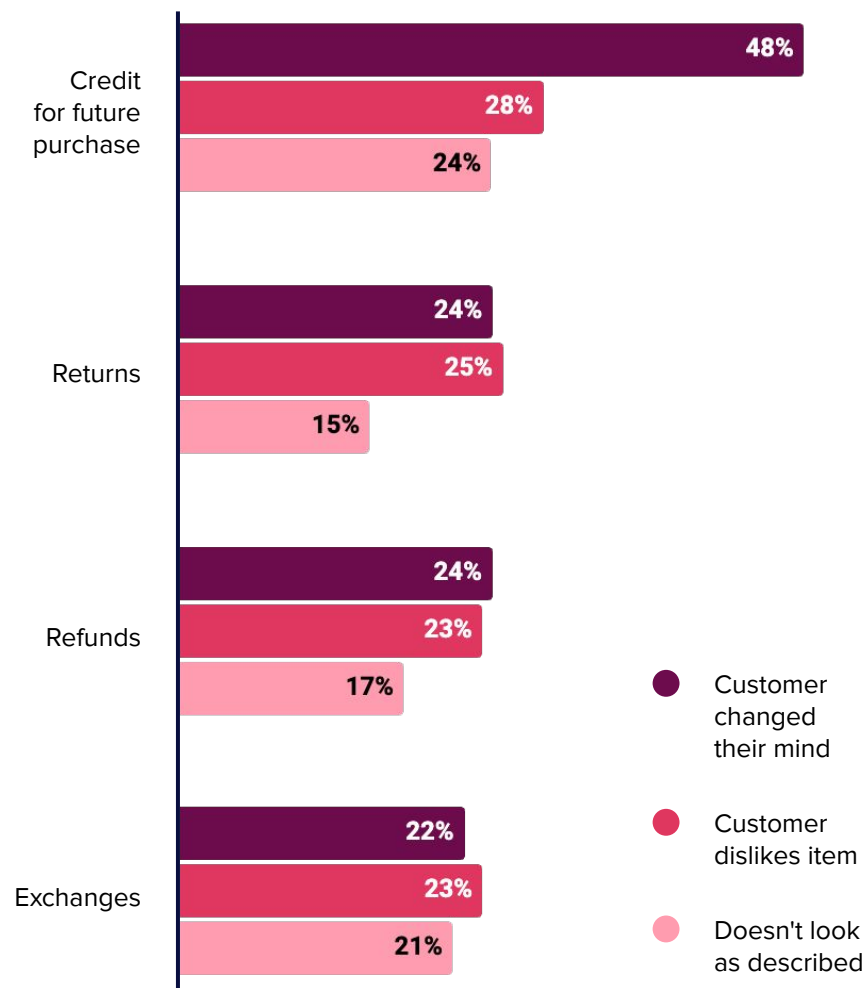
Flexible policies by default are over – but has goodwill gone?

The reality is that the operational and business costs of returns, refunds, and exchanges, paired with the possibility of fraud and policy abuse, raise risk far too high to continue offering all customers generous policies. On the flipside, offering “good” customers a poor experience is too risky.

One-size-fits-all policies are restrictive and damaging and these measures indicate a loss of trust that punishes good customers, disincentivizes repeat business, and sends a message to customers that goodwill has gone. You can tackle abuse and fraud more directly to rekindle the feeling of mutual trust.

MERCHANT ACCEPTANCE OF CUSTOMER PREFERENCES TO ISSUE REFUNDS AND RETURNS

In what situations do you accept the following?





Consumer obsession – an opportunity for merchants?

Easy wins in retail don't exist. The heady rush of online shopping during the pandemic has ended, competition keeps tightening, and markets are becoming more commoditized.

While many are cutting back on flexible policies to recoup costs and losses, the irony is **the customer experience is now your most crucial competitive vector**.

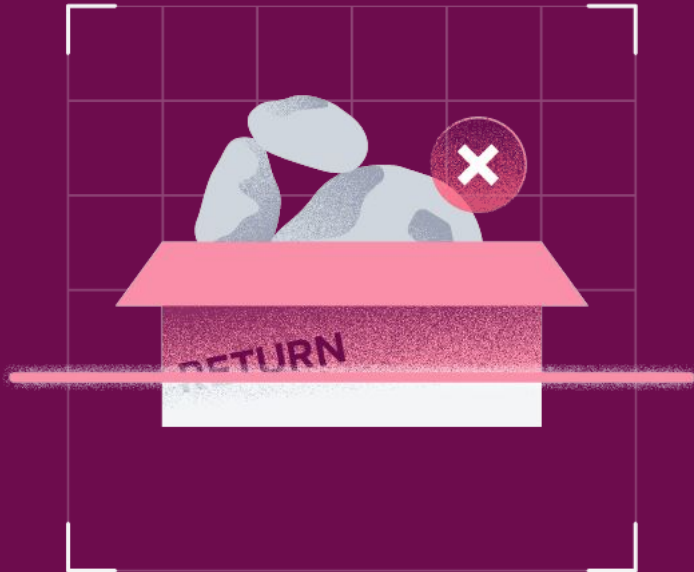
Forrester's "**customer obsession**" best illustrates this trend. The super-charged successor to customer-centricity, customer obsession is a philosophy for success that puts the customer's needs, desires, and satisfaction at the forefront of all business decisions and actions.

Becoming customer obsessed provides an opportunity to stand out, win big, and thrive. The problem is doing this sustainably while outsmarting the risks of being highly customer-driven. Taking an identity-driven approach is key – but more on that later.

**The customer experience is now
your most crucial competitive vector**

03

Behind the curtain: Why is it so challenging to get returns and refunds right?



Identifying and mitigating returns and refund fraud is challenging by nature. Managing claims spans multiple departments, finding evidence of abuse is tricky, and the broad spectrum of “abusers” requires nuanced decision-making. Under the umbrella of customer obsession, if you have a customer that regularly buys from you, it can be beneficial for the occasional returns and refund abuse to go unquestioned to secure loyalty.

Digging into the internal challenges with merchants revealed several elements driving costs and damage:

- **Human resource cost:** A significant number of people and teams work across returns and refund challenges, spanning departments as diverse as logistics, customer services, finance, and fraud. **US merchants estimate \$13 million of human resource time is spent annually, with the real figure likely even higher.**
- **Customer service distraction:** The customer service team spends the most time tackling policy abuse and fraud. In a customer-obsessed age, this is even more notable as a distraction from delivering superior, value-adding experiences.
- **Silos and lack of collaboration:** Poor cooperation between teams drives the most significant challenge in tackling abuse. The top ranking challenges all relate to this theme: lack of data integration between teams (26%), competing objectives between teams (25%), and lack of collaboration more generally (24%). Interestingly, these connectivity barriers ranked higher than a lack of time or skills, demonstrating what's needed most is better tools and processes to unify teams.



Riskified risk analysts have found Dark Web fraudsters are exploiting these gaps in communication between departments

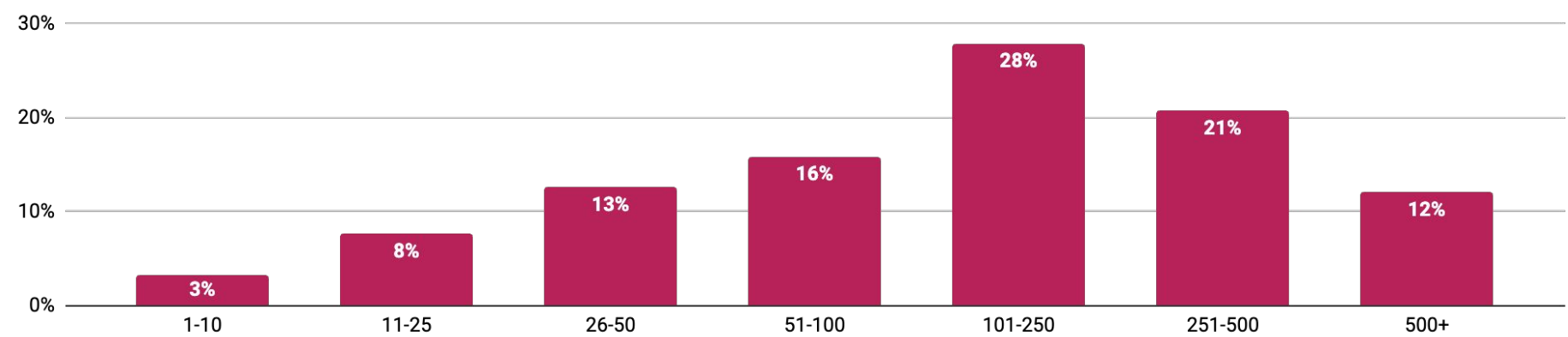
Omnichannel businesses create even greater risks of siloes, and opportunities for fraud and abuse to go undetected

- **Reactive not proactive:** Only 30% of respondents indicated that they have implemented a strategy to prevent incidences of return policy abuse or fraud.



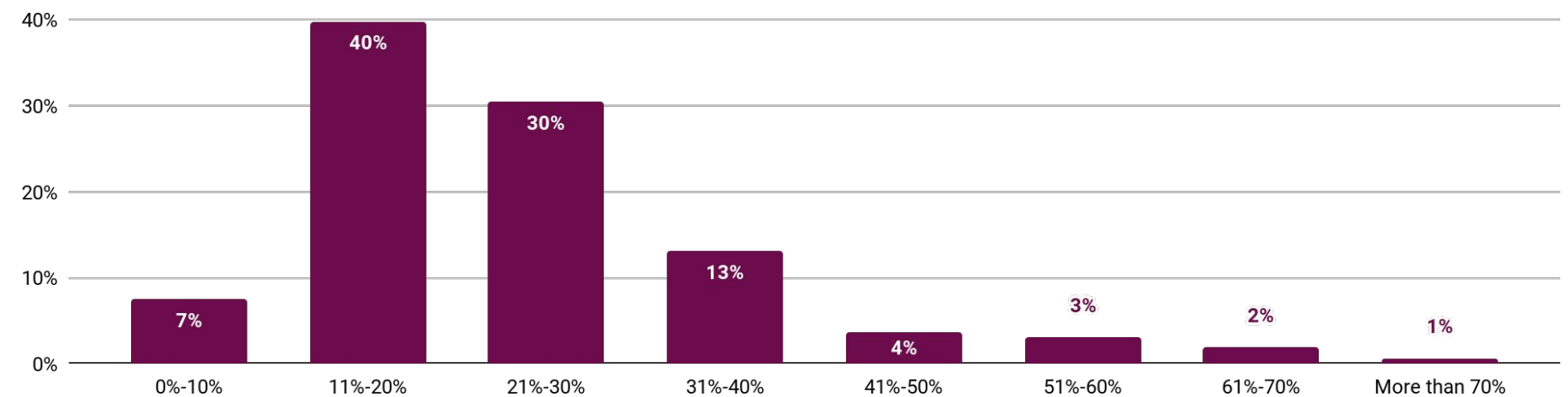
NUMBER OF CUSTOMER SERVICE STAFF EMPLOYED OR SUBCONTRACTED

Approximately how many customer service staff do you employ or subcontract? Please provide your answer in terms of full-time equivalent staff. If you don't know for sure, give your best estimate.



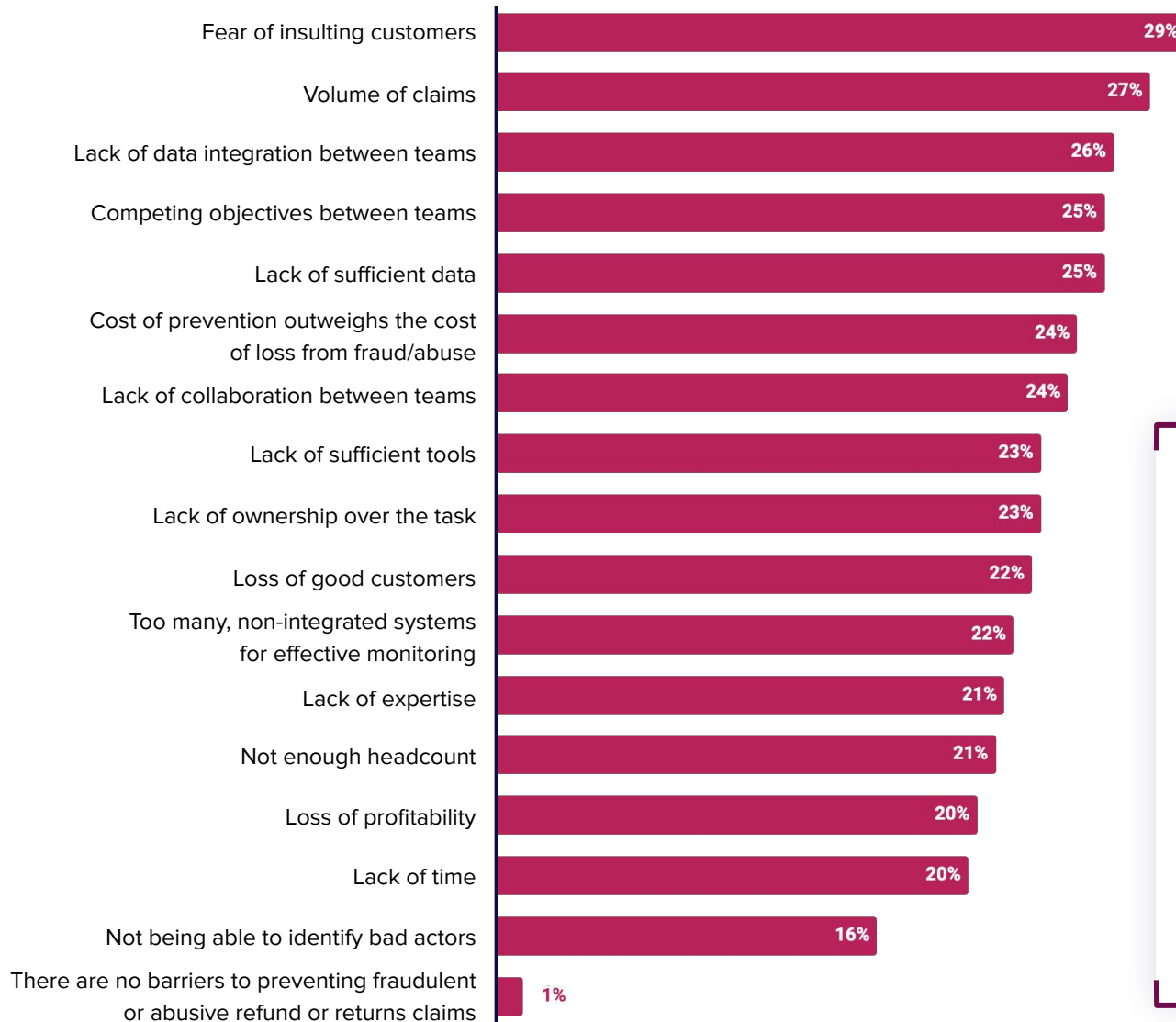
CUSTOMER SERVICE TEAMS ARE SPENDING SIGNIFICANT TIME HANDLING POLICY ABUSE

As a percentage of their working hours, how much time do your customer service employees spend dealing with returns, refunds, and items not received claims? If you don't know for sure, give your best estimate.



BIGGEST BARRIERS MERCHANTS FACE IN PREVENTING FRAUDULENT AND ABUSIVE REFUND AND RETURNS

What are the biggest barriers your business faces with preventing fraudulent or abusive refund and returns?



79% of merchants accept policy abuse losses as a cost of doing business

Only three in 10 merchants say they have implemented a strategy to reduce instances of fraud and policy abuse



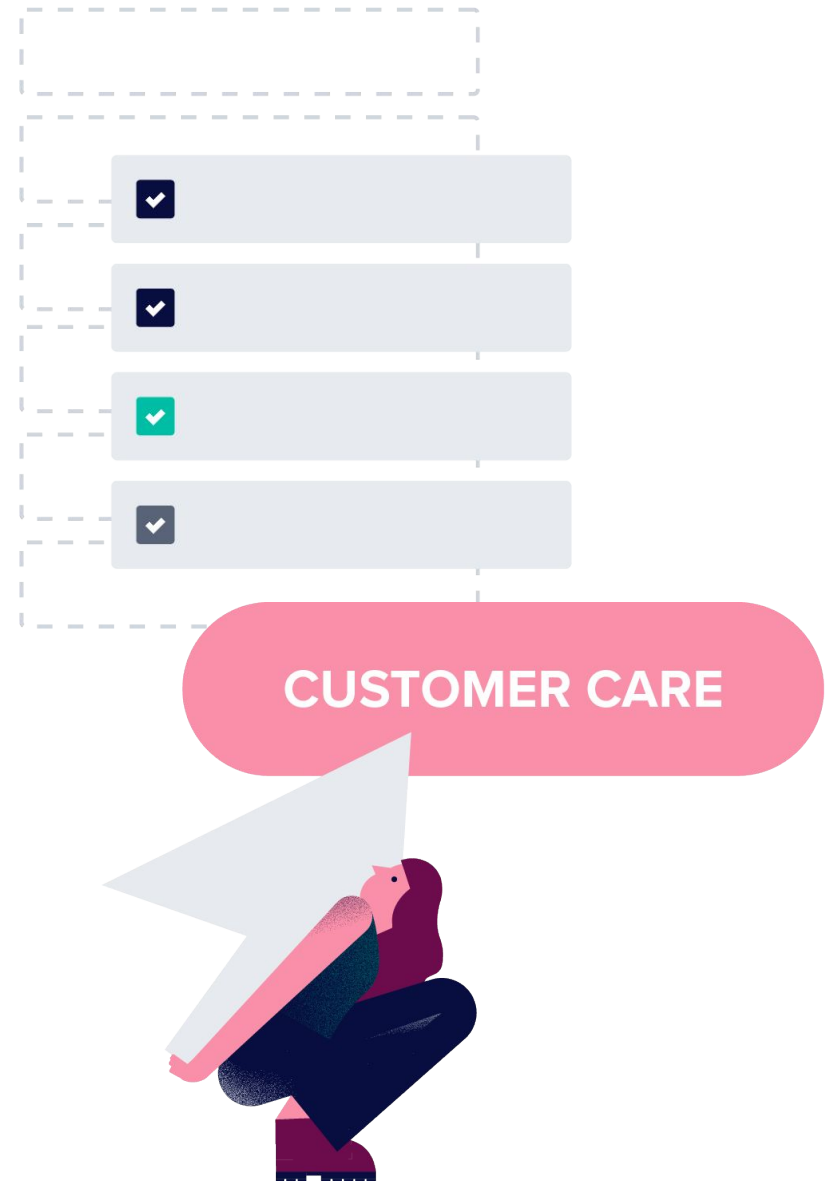
Exacerbating the problem?

You might unknowingly make the problem worse in two ways.

First, fragmented internal processes drive up the indirect human cost of returns and refunds.

Second, focusing on reactive strategies that directly impact consumers, rather than preventing abuse in the first place.

Technology can be the lynchpin to bring your teams together and tackle this challenge at the source, without hurting the experience of ideal customers.





Deep dive on electronics

The electronics industry faces acute, unique challenges when it comes to fraud and abuse. This highly competitive industry with thin margins makes the room for error small. Research from Riskified uncovered fraud rings specifically target several “hot” items that are high volume, relatively expensive, and easily re-sellable, like video games, headphones, and smartphones. It’s high stakes – mobile phones and computers generated 50% of revenue but 60% of the fraud attempts in dollars.

Zooming in on returns and refunds, unsurprisingly electronics incurred the highest costs, losing nearly \$100 billion due to product returns. Around 8% (\$7.7bn) are expected to be abusive returns, while 6.7% (\$6.6bn) are expected to be fraudulent - the key difference being fraudulent claims are about intentional deception for gain, whereas abusive claims involve exploiting systems and policies without necessarily lying. Electronics also incurs the second highest losses to INR

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Fraudsters purchase high value electronic devices in bulk using stolen credit card information or counterfeit payment methods and they distribute these devices too.

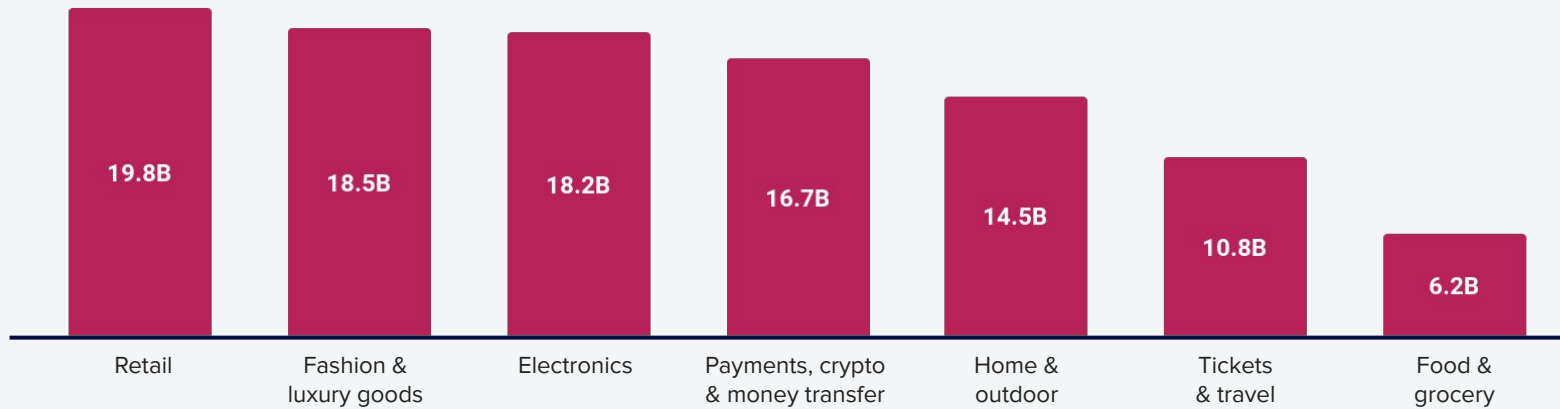
Merchant, large electronics retailer

abuse, estimating around \$21.65bn in losses. This includes the value of forgone revenue for the product lost and the logistical costs associated with either resending items or refunding. Electronics also ranked third as the sector that incurs indirect costs from returns due to staffing.

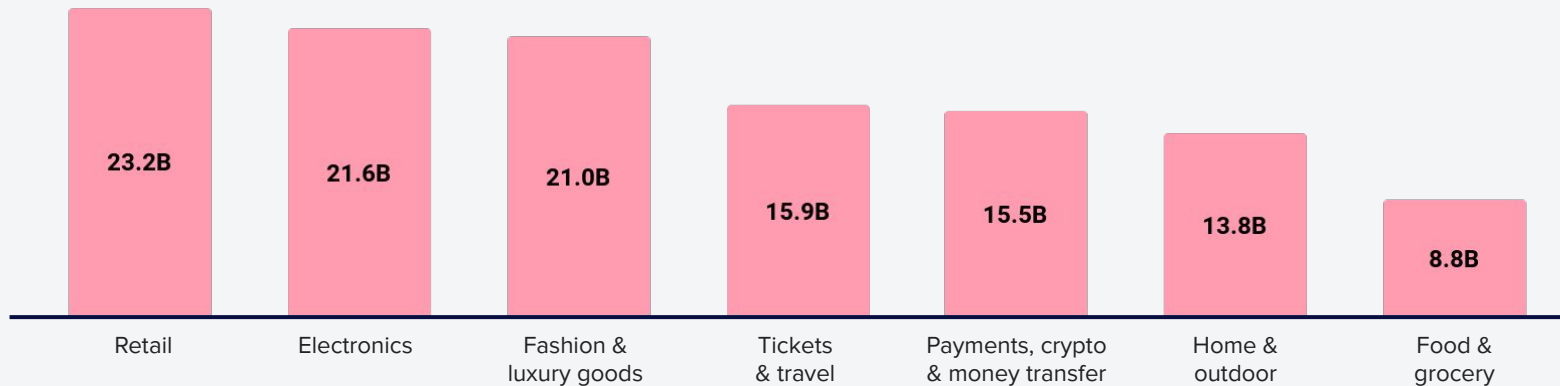
What would make the difference? For this industry, taking a more proactive approach to managing returns, refund, and exchange risks is even more important. The small window for error makes targeted, identity-based approaches a much more impactful option to minimize losses while retaining revenue.



COST OF STAFF FOR PROCESSING RETURNS BY INDUSTRY

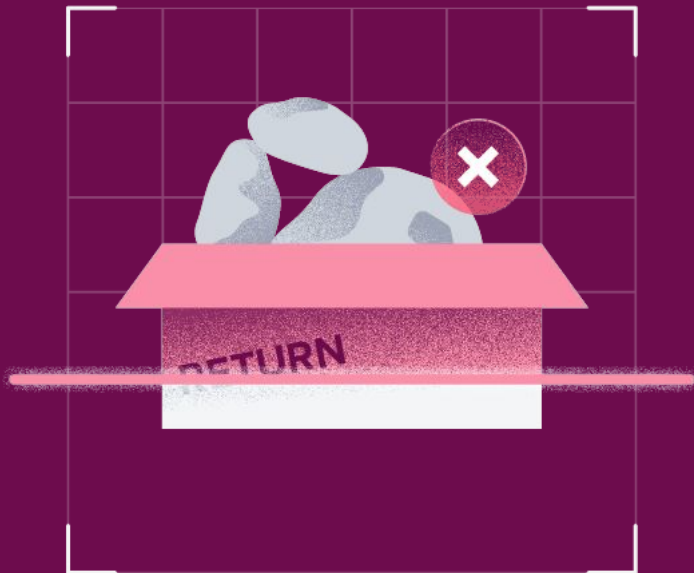


INR ABUSE LOSSES BY INDUSTRY



04

How an identity-based approach can reduce abuse and drive better customer experiences



The secret to managing returns and refund abuse lies in identifying who is behind each transaction. It can become unaffordable and unmanageable to offer every customer super-flexible policies, but an identity-based approach allows you to mitigate and prevent fraud while offering fantastic terms to your ideal customers. This dynamic strategy empowers you to decisively make decisions when facing “gray area” customers too - those that sit somewhere between ideal-target customers and fraudsters.

We know you want better processes to overcome these challenges. With the help of technology, an identity-based approach makes this possible, and some early adopters are beginning to take this route.

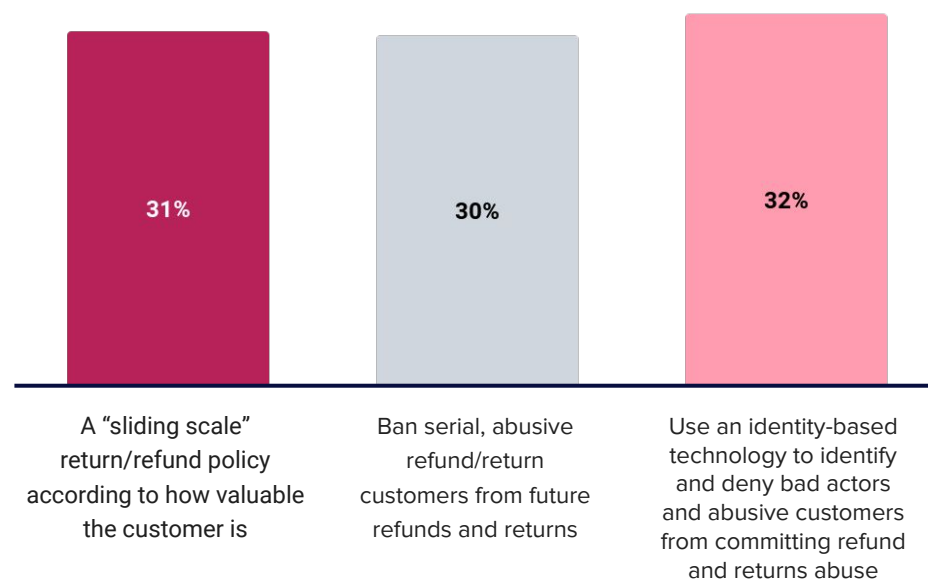
30% Banning serial abusive refund and returns customers

31% Implement a “sliding scale” returns/refund policy based on customer value

32% Are using an identity-based technology to identify and deny bad actors and abusive customers from committing refund and returns abuse

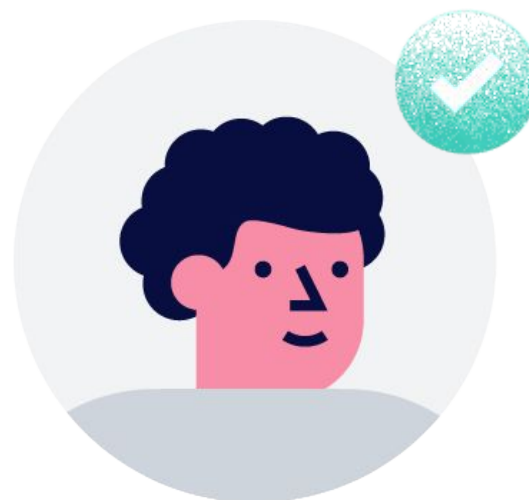
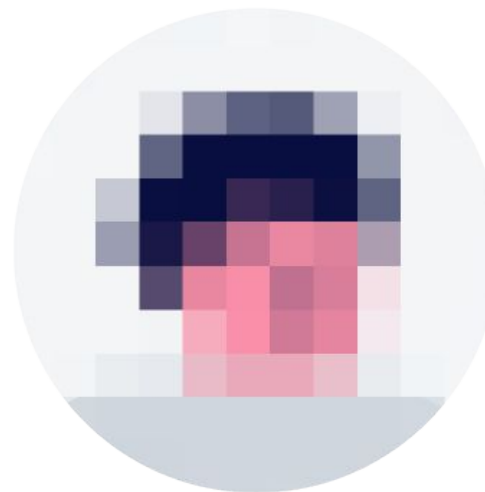
STRATEGIES EARLY ADOPTERS ARE TAKING TO TACKLE POLICY ABUSE

Which of the following have you implemented to prevent fraudulent or abusive refund or returns claims?



Identity-based strategies empower merchants in the following ways:

- 01 Proactive and dynamic:** Prevent losses by scaling back on drastic or punitive actions that directly hit the customer.
- 02 Increased data transparency:** Implement strategies that detect fraud and abuse by enhancing data-sharing and analyzing detailed customer data, such as past purchase and returns history. Ensure all departments facilitate this effectively.
- 03 Automation and AI-powered:** Leverage AI and automation to free teams up, allowing them to focus on more high-risk and complex claims. These tools help correlate data and make insights actionable.
- 04 Better customer experiences:** Focus on best and ideal customers, delivering flexible policies without fear. This approach empowers customer experience teams to “wow” customers and drive loyalty too.



Although adoption is currently low, tides are changing, and merchants are increasingly demanding more technology-based and dynamic solutions.

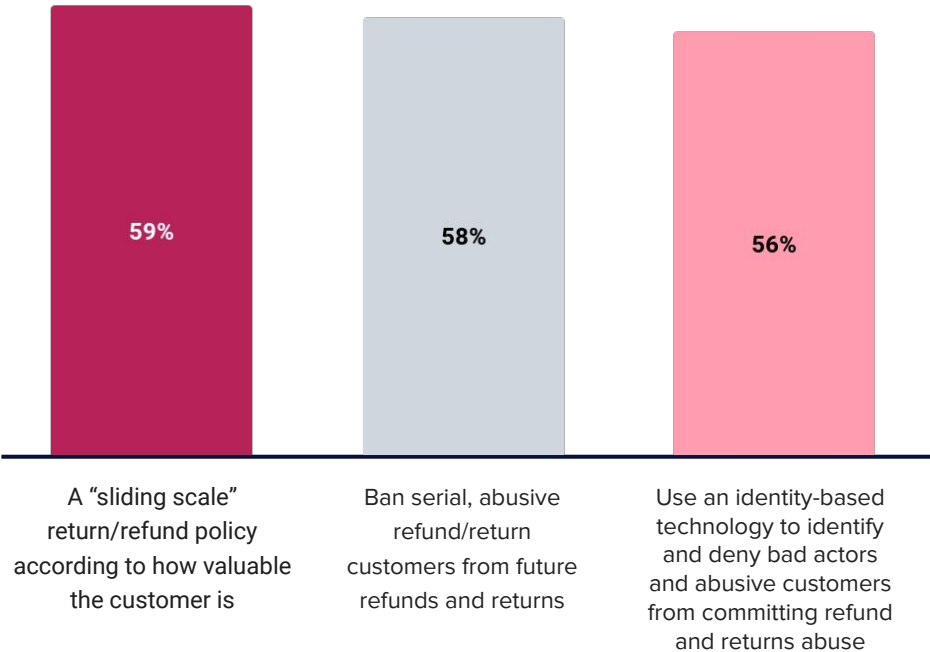
58% **Banning serial abusive refund and returns customers**

59% **Implement a “sliding scale” returns/refund policy based on customer value**

56% **Are using an identity-based technology to identify and deny bad actors and abusive customers from committing refund and returns abuse**

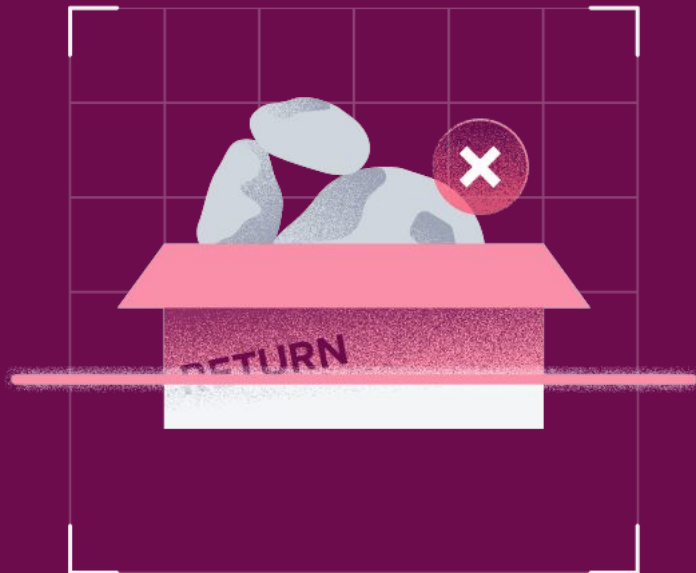
STRATEGIES MERCHANTS ARE CONSIDERING TO TACKLE POLICY ABUSE

Which of the following would you consider implementing, to prevent fraudulent or abusive refund or returns claims



05

Take action against abuse: What should merchants do now?



Policies around returns, refunds, and exchanges evolve as customer preferences, technologies, and business needs change. “Flexibility at all costs” is a thing of the past, and customers start paying the price of fraud and abuse.

Returns and refunds morphed from a **cost issue** to a **customer service** conundrum.

In today’s intensely competitive market, customer experience has never been so important. Tackling policy abuse doesn’t have to come at the detriment of that - in fact, the best strategies embrace excellent customer experiences. It’s all about being strategic in who to give that great, superior experience to.

The good news - you likely already have much of the data you need, and there are partners who can enrich your data to make even smarter decisions. Technology enables that decision-making and provides a powerful way to connect different teams and their respective insights to create action.

An identity-based approach, powered by AI technology, covers the following five important steps:

01 Strategic

Directly target progression fraudsters and customers committing policy abuse strategically – avoiding the blanket “one-size-fits-all” approach.

02 Proactive

Pivot toward proactively preventing abusive behavior and proactive policy management

03 Collaborative

Improve cross-functional collaboration and success across all teams involved in returns and refunds claims

04 Data synthesis

Connect data across departments with powerful technology that can help collate, assess and translate insights into action

05 Enriched flexibility

Offer loyal and ideal customers flexible policies and more enriched “wow” experiences

Ready to defeat policy abuse and win your customers' hearts and loyalty?

Riskified's **Policy Protect solution** will empower you to offer an excellent shopping experience while preventing return, refund, promotion, and reseller abuse.

[Learn more](#)



About Riskified

[Riskified](#) (NYSE:RSKD) empowers businesses to unleash ecommerce growth by outsmarting risk. Many of the world's biggest brands and publicly traded companies selling online rely on Riskified for guaranteed protection against chargebacks, to fight fraud and policy abuse at scale, and to improve customer retention. Developed and managed by the largest team of ecommerce risk analysts, data scientists and researchers, Riskified's AI-powered fraud and risk intelligence platform analyzes the individual behind each interaction to provide real-time decisions and robust identity-based insights. Riskified was named to CNBC's World's Top Fintech Companies in 2024. Learn more at [Riskified.com](https://riskified.com).

About Opinium

Opinium is an award-winning strategic insight agency built on the belief that in a world of uncertainty and complexity, success depends on the ability to stay on the pulse of what people think, feel and do. Creative and inquisitive, we are passionate about empowering our clients to make the decisions that matter. We work with organizations to define and overcome strategic challenges – helping them to get to grips with the world in which their brands operate. We use the right approach and methodology to deliver robust insights, strategic counsel and targeted recommendations that generate change and positive outcomes.

About CEBR

Cebr is an independent London-based economic consultancy specializing in economic impact assessment, macroeconomic forecasting and thought leadership.