PaymentsEd FORUM

Chargebacks: 101

DRF PAYMENTS EDUCATION

Karen Coffey, VP, National Solutions, First Data Inc.

Chantal Gaspie, VP, Relationship Management, J.P. Morgan

Overview

1. Chargebacks 101- The Business of Chargebacks

2. Basics –Who, How, Why

3. Types of Chargebacks

4. What Chargebacks can tell you

5. Preventing Chargebacks

6. Trends and Recent Changes

The Business of Chargebacks

Part of

- Transaction Cycle
- Consumer Protection
- Issuer Protection
- Merchant responsibility

Cost of doing business

Acceptable loss

Customer is not always right

Emotions vs process

Types of Chargebacks

Customer Initiated

- Fraud
  - Friendly
  - Lost/Stolen
- Duplicate
- Credit Not Processed
- Not as described
- Cancelled Recurring

Technical

- Originated by the issuing bank and are a result of lack of authorization
- Refunds (if the refund cannot be processed back to the original card because it's closed, etc. a chargeback is issued to indicate to the merchant they need to refund by other means)
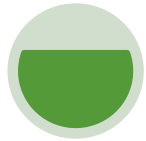
Chargeback Players

Cardholder → Issuing Bank → Card Networks → Acquirer → Merchant

Chargeback Process

Inquiry

Retrieval Request

- Cardholder Initiated
- Seek Information
- No Financial Impact
- No response/fulfillment results in chargeback
- Response may provide enough info to cardholder
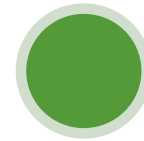- Must be fulfilled within 30 days

Dispute

First Chargeback

- Cardholder Initiated
- Reason Code
- Financial Impact/Funds taken from Merchant

Technical Chargeback

- Issuer Initiated
- Authorization related
- Financial Impact/Funds taken from Merchant

Respond

Representment

- Merchant disputes chargeback
- Provides supporting documentation based on reason code
- Financial Impact/Funds returned to Merchant

Pre-Arbitration/Arbitration

- Escalated from Issuing Bank
- Network involved to resolve dispute
- Large fees
  - Visa $250 Review Fee; $250 Filing Fee $100 Technical Violation
  - MasterCard $150 Review fee; $250 Filing Fee $100 Technical Fee
  - Discover $475 Losing party fee

Chargeback Process

Visa
Issuing Banks have 120 days to issue

Certain codes do have a limit of 75 days (declined auth, no auth and expired card)

MasterCard
Issuing Banks have 120 days to issue

Certain codes do have a limit of 45 days (no auth, account number not on file)

Discover
Issuing banks have 120 days to issue

Certain codes allow up to 540 days from the processing date of the transaction

Chargeback Issuance Timeframes

Card Network Monitoring & Thresholds

Visa

- Current month sales count to current month chargeback count; not to exceed 1%

MasterCard

- Previous month sales count to current to current month chargeback count; not to exceed 1.5%
- MasterCard looks at billing descriptor level

Preventing Chargebacks

Disclosures and your T&C's

- Ensure that your billing descriptor is clear
- Consumer communication (email, text)
- Return policy is easy to understand
- Easy to find customer service numbers
  - Make sure they have multiple channels (email, phone and chat)
- If recurring, cancellation policy should be noted

Refund policy

- Too many chargebacks- your refund policy maybe too tough
- Not enough chargebacks- are you giving money away
- Upselling/cross selling during cancelation or refund request increases chargebacks

What Chargebacks can tell you

Cause and Effect

- Scenarios:
  - Increase in credit not issued
  - Increase in service not received, not as described
  - Cancelled recurring transaction
  - Authorization not obtained

Monitoring and Reporting

- Setup review standards
- Daily, weekly, monthly
- Remember chargebacks are post event items, so they can lag for up to 120 days
- Win/Loss ratio for Representments

Trends and Recent Changes

- EMV Liability Shift Impact to chargeback dispute
- Recent announcements Card Brands
    - Effective Aug 2016 merchants will not be liable for counterfeit fraud chargebacks under $25
    - Amex: end of 2016 limit number of counterfeit fraud chargebacks to 10 per card

Thank you!

- Contact your acquirer for guidance and best practices

Karen Coffey, Vice President Strategy and Programs, National Solutions, First Data

603-498-1725

Karen.Coffey@firstdata.com

Chantal A. Gaspie, Vice President Relationship Management, J.P. Morgan

615-721-5985

Chantal.Gaspie@jpmorgan.com

If you have any questions about the presentation, go to our LinkedIn Group (the Payments Education Forum) and request an invitation
(this is a closed group specifically for the payments industry).