

Managing Chargebacks (Cardholder Disputes)

April 2018

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Introduction

BOI Payment Acceptance UK (BOIPA UK) has recognised that fraud and chargebacks are becoming an ever-increasing problem for many merchants. For most merchants their fraud and chargeback problems will be related. BOIPA UK wants to warn merchants of the potential implications if they have excessive fraud and chargeback rates, especially the possibility for fines to be levied to encourage the correction of the underlying fraud and chargeback problems. BOIPA UK also wants to work with its merchants to help them reduce their fraud and chargeback problems. This is an information manual for merchants, to provide you with sufficient information to avoid issues and additional costs related to these fraud and chargeback programs.

This manual will outline:

- The rules that govern both the MasterCard and Visa fraud and chargeback programs;
- The practicalities of the MasterCard and Visa fraud and chargeback programs;
- The potential fines or other penalties that can be levied if fraud and chargeback problems are not rectified in a timely fashion; and
- How merchants can find possible solutions in cooperation with Account Management/Support.

What is a Chargeback?

A chargeback is initiated by the Card Issuing bank; either at the request of the Cardholder or when the issuing bank sees the need to do so via the schemes. BOIPA UK are governed by scheme rules and regulations. Common reasons for chargebacks / reversals are:

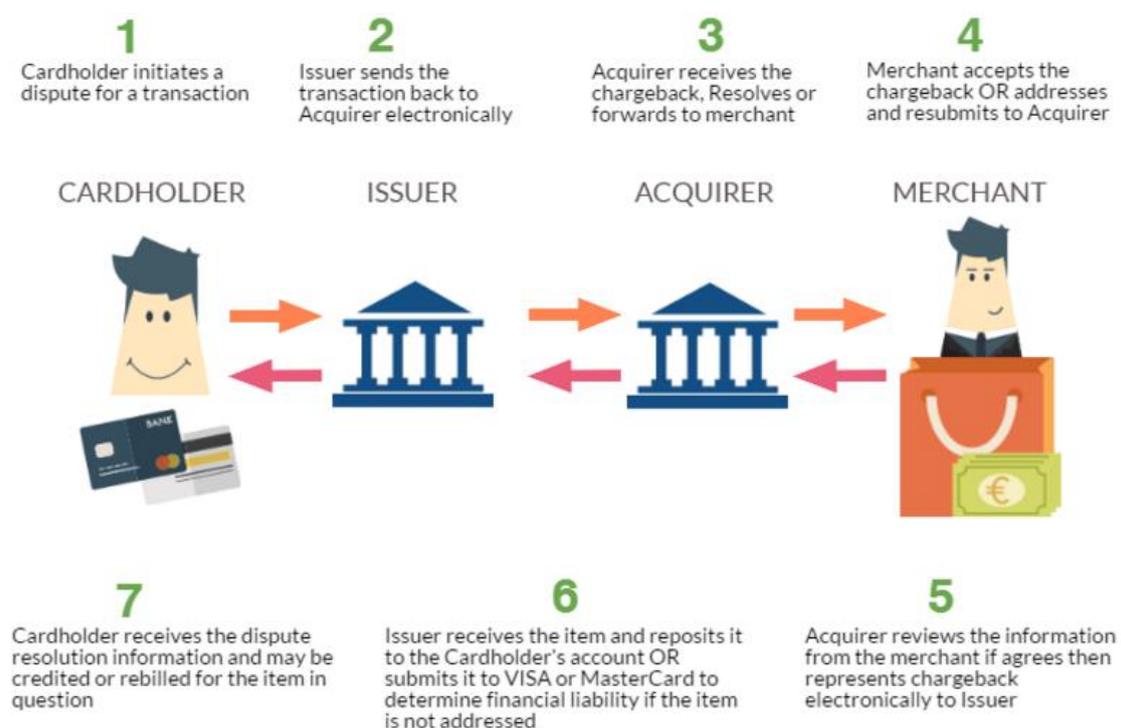
- Fraud enquiries – cardholder denies participating or authorising a transaction
- Cardholder disputes the sale for reasons such as failure to receive goods or service
- Cardholder disputes the sale for reasons of quality
- Cardholder does not recognise a transaction

All Merchants accepting debit and credit card payments run the risk of being liable for chargebacks. A cardholder or card Issuer has the right to question or dispute a card transaction. A chargeback can be received up to 120 days after the card transaction was taken. In the case of goods or services being delivered, a chargeback can be raised up to 120 days from agreed date of delivery. Certain exemptions to the 120 days may apply depending on the Card Scheme and the reason for the dispute.

Chargeback Process Overview

- When a chargeback is received the acquirer is automatically debited for the chargeback amount. This means that the card scheme gives the money back to the issuer straight away.
- **The debit is passed onto the merchant since he is ultimately liable for the transaction.**

- Acquirer has 30 days (Visa) and 45 days (Mastercard) to dispute the chargeback on the merchant's behalf. This requires merchant cooperation as he/she usually must provide documentation to defend the case. Adherence to timeframes is also vital.
- If a merchant can defend his case within the timeframe, the Acquirer represents the chargeback, gets the money back from the issuer and credits the merchant.
- If the issuer still wants to dispute, in some cases he may have rights to issue a second chargeback and the process is repeated.
- Even further disputes must be escalated to Arbitration stage during which the relevant card scheme rules on the case. Additional charges are imposed for the ruling and passed onto the losing party. During arbitration both parties may incur also additional fines if they are found to have breached regulations along the way.



Chargebacks – Common Misunderstandings

Some common misunderstandings in relation to chargebacks include:

- **An authorisation is not a guarantee of payment**
An authorisation proves the card has sufficient funds available at the time of transaction and / or the card has not been reported stolen at the time of the transaction. It does not vouch for the validity of the person using the card and is not a guarantee of payment.
- **I pay the Merchant Service Charge so I will not get chargebacks**
Chargebacks are separate to the Merchant Service Charge and are costed accordingly.

- **I should not be charged for the processing of chargebacks**

Processing chargebacks incurs a fee due to the administrative work required on the part of BOIPA UK in requesting and providing supporting documentation to the schemes. However, most chargebacks can be avoided by Merchant vigilance and the use of fraud detection measures.

What is a Retrieval Request?

This is a request for information about a Transaction that has been disputed. BOIPA UK will contact you via mail if we receive a retrieval request relating to your business. The letter will contain instructions for providing the evidence needed to prove the Transaction was legitimate. The letter will also contain a deadline for responding. If the evidence you submit is deemed by Visa or MasterCard to be insufficient, or submitted after the deadline, the retrieval request may become a Chargeback and BOIPA may debit your nominated account for the value of the Transaction. At the time of a retrieval request is received, a merchant is not debited.

Can all Chargebacks be defended?

No. The reason cited by the cardholder will mean that the cardholder’s bank can immediately issue a Chargeback without first issuing a retrieval request. **Some Chargebacks cannot be defended and in these cases your nominated account will be debited by BOIPA UK for the value of the Transaction.**

If the Chargeback can be defended, BOIPA UK will contact you via mail/e-mail and the letter/e-mail will contain instructions for providing the evidence needed to prove the Transaction was legitimate. The letter/e-mail will also contain a deadline for responding. If the evidence you submit is insufficient, or submitted after the deadline, the dispute will result in the value of the Transaction being charged back to you.

Important points about Chargebacks:

- Visa and MasterCard define a number of ‘reason code’ categories for disputes raised by cardholders. It is the reason code that determines if you have an opportunity to defend the dispute, or if it will be an automatic Chargeback.
- This means you will sometimes be contacted with a request to provide evidence, and sometimes your account will simply be debited for the Chargeback.
- The key for you is to always follow the instructions in any correspondence you receive from BOIPA regarding retrievals or Chargebacks and always submit your responses by the required deadlines.

Most Common Reasons for Chargebacks

Chargeback reason	Why this has happened?
Unauthorised/Fraudulent transaction	Cardholder believes the transaction was not authorised or is fraudulent.
Cardholder doesn't recognise transaction	This usually happens when a customer doesn't recognise your trading name on their credit card statement. You should always trade under the same name that you have provided to EVO for your merchant facility and make sure this appears on your transaction receipts.
Authorisation (for manual transactions) Proper authorisation was not obtained.	This might occur where a transaction has been processed above the floor limit and voice authorisation was not obtained. The chargeback may be raised by the cardholder's bank for the following reasons: <ul style="list-style-type: none"> • Declined authorisation • No Authorisation • Expired Card • Account number not on file
Processing error	Cardholder or issuer believes that you processed a transaction incorrectly. It may be caused by late presentment of the transaction, incorrect transaction amount / account number or paid by other means.

Duplicate processing	Cardholder believes the same transaction was processed more than once.
Non-Receipt Goods/Services	Cardholder or authorised person did not receive the merchandise/ services at the agreed-upon location or by the agreed-upon date.

Card Not Present

Merchants taking card not present transactions over the phone or internet should always proceed with extreme caution. Merchants assume all liability for card not present Chargebacks in both these scenarios. Merchants transacting card not present sales over the internet can use 3D Secure to minimize their liability in relation to fraud related chargebacks.

3D Secure for Online Payments

What is 3D Secure?

3D Secure is the payments industry authentication standard for internet / ecommerce purchases and has been developed as a joint venture by the major card schemes. Visa has called their version “Verified by Visa” and MasterCard have called their equivalent initiative “MasterCard Secure Code”. Collectively, these are referred to as 3D Secure.

3D Secure authentication requires the cardholder to register their card the first time they try to purchase goods and services from an enrolled merchant and will then be used to authenticate any future purchase at all enrolled member merchants. In order to register the cardholder must answer several questions to which only the cardholder and card issuer will know the answer. The cardholder then selects a password and a secret phrase which will be required during each online transaction with 3D Secure merchants in order to validate the authenticity of the person using the card. Cardholders are strongly encouraged by card issuers to only shop online with 3D Secure registered Merchants. 3D secure is effectively the online version of “Chip & PIN” technology and used in the same way on checkout of the online sale.

Why Should a Merchant Use 3D Secure?

- When a merchant registers their online sales business with the 3D Secure program, all cardholders must either be existing registered users of the 3D Secure program, or must register there and then to complete the purchase. Once the cardholder successfully validates their identity and completes the sale any fraud related chargeback liability shifts from the merchant to the cardholders’ issuing bank.
- Increased cardholder confidence in the merchant, leading to potential for increased sales and repeat business.
- 3D Secure is the online payments industry’s leading security system. It provides cardholders peace of mind that the merchant is concerned with their security as 3D Secure protects merchants and their customer from being left out of pocket by becoming victims of fraud.

Are There any Limitations to 3D Secure?

Ultimately, each Merchant is responsible for protecting themselves against fraudulent activity, however 3D Secure is a vital tool to allow Merchants to reduce their exposure to fraud, chargebacks and their associated costs.

- 3D Secure authentication should not be used as a Merchants only fraud prevention tool, but should be used in conjunction with existing fraud checks such as AVS and CVV2 to further minimise risk of fraud.

- 3D Secure fully protects Merchants from chargebacks arising from attempts at card fraud but a chargeback may still occur when a customer initiates a chargeback for failure to deliver goods or services but is not happy with the goods or services received.

Will it Increase the Time Customers Spend at Check Out?

3D Secure smoothly integrates into a websites checkout process and will usually only add a few seconds onto the usual transaction time. A small price to pay for increased protection for both Merchant and Cardholder. It will also reassure the Cardholder that you are a reputable Merchant and are protecting them against fraud.

Benefits for Merchants:

- The cardholder is certified as being genuine by their Issuer
- Provides the Merchant with additional protection from fraudulent payments on-line
- Minimal impact on merchant's interaction with consumer
- Increased sales by enhancing consumer confidence
- Reduced risk & cost of fraudulent transactions
- Decrease in disputed transactions

Benefits for Cardholder:

- The retailer is certified as being genuine
- Easy to use
- No special software is needed by the cardholder
- Enhances cardholder confidence and spending on-line'

Summary

BOIPA UK always works with its merchants to decrease their fraud and chargeback levels. Merchants are also required to monitor their fraud and chargeback levels, and adapt their Risk set-up and business practices accordingly, to ensure fraud and chargeback levels are at an acceptable level. If a merchant would like further clarification on any issue related to fraud or chargebacks, they can contact BOIPA UK and we will work with you to find an optimal solution.

For more information on Chargebacks, contact BOI Payment Acceptance UK on 0800 0325658 or support@BOIPA.com

Appendices

1.1 Chargeback Timeframes for Visa

Note: days are calendar days, not business days

Timeframe	Activity
Day 0	Acquirer processes transaction.
Day 75 – 120	Cardholder can dispute transaction up until day 75 for reason codes 11.1, 11.2 and 11.3 (see Appendix for details). All other reason codes are up to 120 days from the transaction date. In the case where goods or services are to be delivered, Cardholders can dispute up to 120 days from the date delivery was due.
On receipt of Chargeback	Issuer performs basic checks and if not met, forwards to scheme following Cardholder enquiry.
On receipt of Chargeback	Scheme forwards to Acquirer and debits Acquirer.
On receipt of Chargeback	Acquirer contacts Merchant by post, email or Insight report advising of transaction and reason code, requesting required documents and informing of latest response date. Merchant account is debited. Chargeback fee is applied.
Within 14 days of notification	Where applicable, the merchant must respond to chargeback within 14 days of initial contact, otherwise the debit stands and case is closed.
Re-presentation (Dispute Response) within 30 days of receipt of Chargeback by Acquirer	If the Merchant supplies documentation the team then assess the material for adequate defence. Assessment is always completed in accordance with scheme rules and regulations. On represented cases a credit is applied and the Merchant is informed by letter / email. If unable to represent, a debit stands and a letter / email is sent.
30 days from re-presentation	The Issuer has 30 days in which to raise the pre-arbitration. The Acquirer then has 30 days to accept or reject.
10 days from re-presentation	The issuing Bank has 10 days in which to raise arbitration.

*In the case of fraud and authorisation chargebacks (10.1-10.5 and 11.1-11.3 – see Reason Codes on the next page), merchants will only have the ability to respond under certain conditions. Please refer to a BOIPA representative with details of the disputed transaction in these instances.

1.2 Chargeback Timeframes for MasterCard

Note: days are calendar days, not business days

Timeframe	Activity
Day 0	Acquirer processes transaction.
Day 90 – 120	Cardholder can dispute transaction up until Day 90 for reason code 4808 on MasterCard (see Appendix for details), Day 45 for reason codes 4807 and 4812 (see Appendix for details). All other reason codes are up to 120 days from the transaction date. In the case where goods or services are to be delivered, Cardholders can dispute up to 120 days from the date delivery was due.
On receipt of Chargeback (Issuer)	Issuer performs basic checks and if not met, forwards to scheme
On receipt of Chargeback (Card Scheme)	Scheme forwards to Acquirer and debits Acquirer
On receipt of Chargeback (Acquirer)	Acquirer contacts Merchant by post, email or Insight report advising of transaction and reason code, requesting required documents and informing of latest response date. Merchant account is debited. Chargeback fee is applied.
Within 14 days of notification	Merchant must respond to chargeback within 14 days of initial contact, otherwise the debit stands and case is closed.
Re-presentation within 45 days of receipt of Chargeback by Acquirer	If the Merchant supplies documentation the team then assess the material for adequate defence. Assessment is always completed in accordance with scheme rules and regulations. On represented cases a credit is applied and a chargeback fee is applied. The Merchant is informed by letter/email. If unable to represent, a debit stands and a letter / email is sent.
15/45 days from re-presentation	The Issuer has 15 for international and 30 days for domestic transactions in which to raise the 2nd chargeback. Your account will be debited and

	notification sent. You will receive a further chargeback fee. Please respond within 14 days with further information.
45/60 days from re-presentation	The issuing Bank has 45 days for international and 60 days for domestic transactions in which to raise arbitration.

1.3 Visa Chargeback Reason Codes

Reason Code	Description
10.1	EMV Liability Shift Counterfeit Fraud
10.2	EMV Liability Shift Non-counterfeit Fraud
10.3	Other Fraud – Card Present Environment
10.4	Other Fraud – Card Absent Environment
10.5	Visa Fraud Monitoring Program
11.1	Card Recovery Bulletin
11.2	Declined Authorisation = Merchant received a decline response on a sale, but still processed transaction
11.3	No Authorisation
12.1	Late Presentment
12.2	Incorrect Transaction Code
12.3	Incorrect Currency
12.4	Incorrect Account Number
12.5	Incorrect Amount
12.6	Duplicate Processing/Paid by Other Means
12.7	Invalid Data
13.1	Merchandise/Services Not Received
13.2	Cancelled Recurring
13.3	Not as Described or Defective Merchandise/Services
13.4	Counterfeit Merchandise
13.5	Misrepresentation
13.6	Credit Not Processed
13.7	Cancelled Merchandise/Services
13.8	Original Credit Transaction Not Accepted
13.9	Non-Receipt of Cash or Load Transaction Value

1.4 MasterCard Chargeback Reason Codes

Reason Code	Description
4802	Requested/ required item illegible or missing
4807	Warning Bulletin File
4808	Required/requested authorisation not obtained
4812	Account number not on file
4831	Transaction amount differs/ Paid by other means
4834	Duplicate Processing
4837	Fraudulent Processing of transactions
4840	Fraudulent Processing of transactions
4841	Cancelled recurring transaction
4842	Late Presentment
4846	Correct Currency code not provided
4849	Questionable merchant activity
4850	Instalment Billing Dispute
4853	Defective/ not as described
4855	Non Receipt of merchandise
4859	Addendum, no show or ATM dispute
4860	Credit not processed
4863	Cardholder not recognised
4870	Chip Liability shift
4871	Chip/ Pin liability shift

