

SECTION 6 Chargebacks

What's Covered

- Why Chargebacks Occur
- Customer Dispute Chargebacks
- Invalid Chargebacks
- Chargeback Remedies
- Avoiding Chargebacks
- Chargeback Monitoring
- When Chargeback Rights Do Not Apply

A chargeback is a transaction that a card issuer returns to a merchant bank as a financial liability and which, in turn, a merchant bank may return to a merchant. In essence, it reverses a sales transaction, as follows:

- The card issuer subtracts the transaction dollar amount from the cardholder's Visa account. The cardholder receives a credit and is no longer financially responsible for the dollar amount of the transaction.
- The card issuer debits the merchant bank for the dollar amount of the transaction.
- The merchant bank will, most often, deduct the transaction dollar amount from the merchant's account. The merchant loses the dollar amount of the transaction.

For merchants, chargebacks can be costly. You can lose both the dollar amount of the transaction being charged back and the related merchandise. You also incur your own internal costs for processing the chargeback.

Why Chargebacks Occur

The most common reasons for chargebacks include:

- Customer disputes
- Fraud
- Processing errors
- Authorization issues
- Nonfulfillment of copy requests (only if fraud or illegible)

Although you probably cannot avoid chargebacks completely, you can take steps to reduce or prevent them. Many chargebacks result from easily avoidable mistakes, so the more you know about proper transaction-processing procedures, the less likely you will be to inadvertently do, or fail to do, something that might result in a chargeback (see *Avoiding Chargebacks* on page 76).

Of course, chargebacks are not always the result of something merchants did or did not do. Errors are also made by merchant banks, card issuers, and cardholders.



Your Responsibility

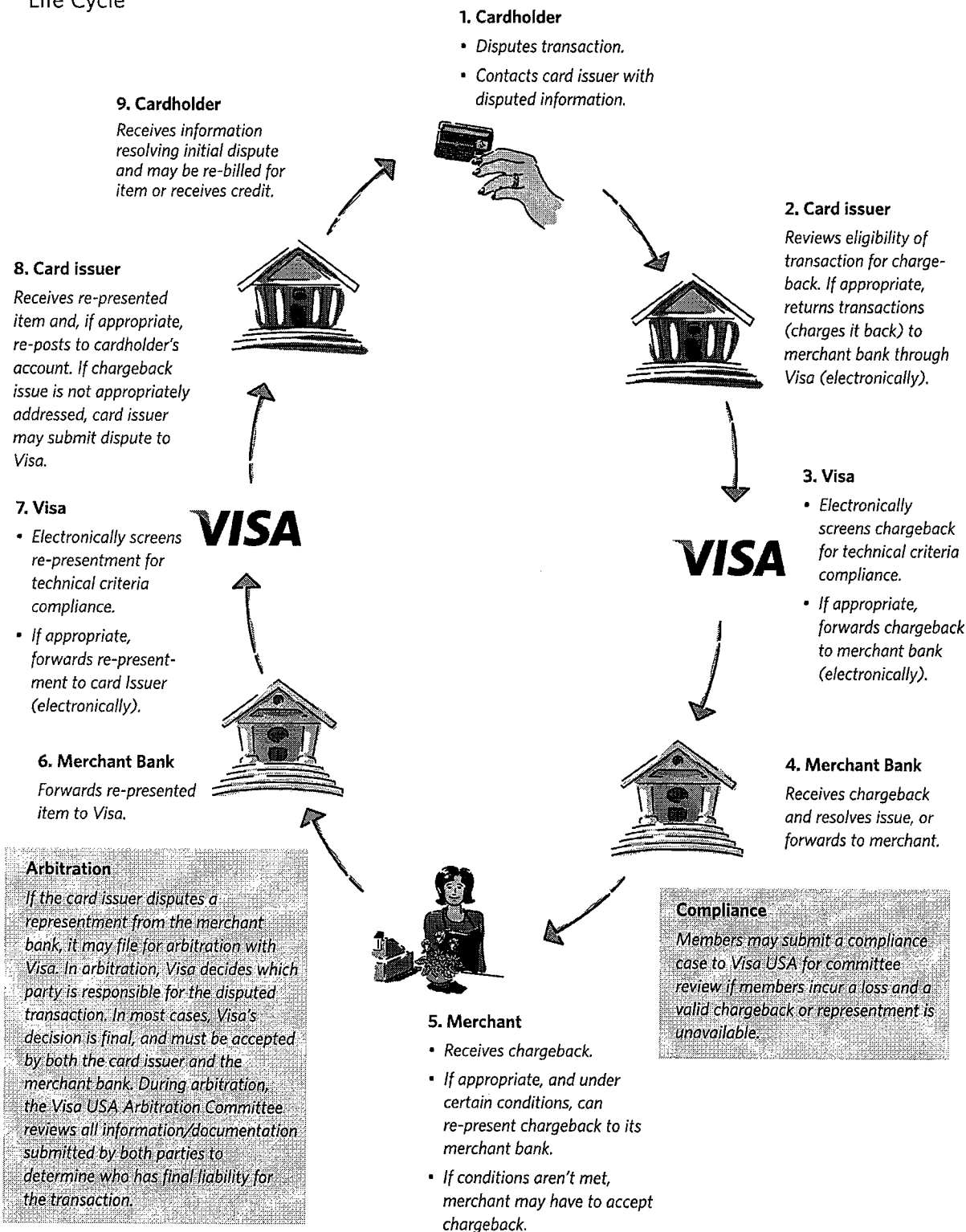
From the administrative point of view, the main interaction in a chargeback is between a card issuer and a merchant bank. The card issuer sends the chargeback to the merchant bank, which may or may not need to involve the merchant who submitted the original transaction. This processing cycle does **not** relieve merchants from direct responsibility for taking action to remedy and prevent chargebacks. In most cases, the full extent of your financial and administrative liability for chargebacks is spelled out in your merchant agreement.



For more information on the most common types of chargebacks merchant receive, see *Section 7, Chargeback Reason Codes*.

The Chargeback Life Cycle

The following illustration shows the chargeback life cycle.



Customer Dispute Chargebacks

Customer disputes are one of the most common reasons for chargebacks. A customer may dispute a transaction because:

- A credit has not been processed when the customer expected it would be.
- Merchandise ordered was never received.
- A service was not performed as expected.
- The customer did not make the purchase; it was fraudulent.

Because these chargebacks may indicate customer dissatisfaction—and the potential for lost sales in the future—addressing their underlying causes should be an integral part of your customer service policies.

Invalid Chargebacks

If a cardholder with a valid dispute contacts you directly, act promptly to resolve the situation. Issue a credit, as appropriate, and send a note or e-mail message to let the cardholder know he or she will be receiving a credit.

Responding to the needs of card issuers, merchant banks, and merchants, Visa has implemented sophisticated systems that significantly reduce chargebacks and vastly improve the chargeback process. When Visa systems detect an invalid chargeback, it is automatically returned to the card issuer that originated it, and the merchant and merchant bank never see it. Many merchant banks also have systems that routinely review exception items, allowing them to resolve issues before a chargeback is necessary. Together, these systems ensure that any chargebacks you receive are usually those that only you can respond to or that cannot be remedied in any other way.

Chargeback Remedies

Even when you do receive a chargeback, you may be able to resolve it without losing the sale. Simply provide your merchant bank with additional information about the transaction or the actions you have taken related to it. For example, you might receive a chargeback because the cardholder is claiming that credit has not been given for returned merchandise. You may be able to resolve the issue by providing proof that you submitted the credit on a specific date. Send this information to your merchant bank in a timely manner.

The key in this and similar situations is always to send your merchant bank as much information as possible to help it remedy the chargeback. With appropriate information, your merchant bank may be able to resubmit, or “re-present,” the item to the card issuer for payment.

Timeliness is also essential when attempting to remedy a chargeback. Each step in the chargeback cycle has a defined time limit during which action can be taken. If you or your merchant bank does not respond during the time specified on the request—which may vary depending on your merchant bank—you will not be able to remedy the chargeback.

Although many chargebacks are resolved without the merchant losing the sale, some cannot be remedied. In such cases, accepting the chargeback may save you the time and expense of needlessly contesting it.

Represent- ment Rights for Card- Not-Present Merchants

Card-not-present merchants should be familiar with the chargeback representment rights associated with the use of Address Verification Service (AVS), Card Verification Value 2 (CVV2), and the option to provide compelling information. Specifically, your merchant bank can represent a charged-back transaction if:

- You received an AVS positive match in the authorization message and if the billing and shipping addresses are the same. You will need to submit proof of the shipping address and signed proof of delivery.
- You submitted an AVS query during authorization and received a “U” response from a U.S. card issuer. This response means the card issuer is unavailable or does not support AVS.
- You submitted a CVV2 verification request during authorization and received a “U” response from a U.S. card issuer. This response means the card issuer does not support CVV2.

Verified by Visa participating merchants are protected by their merchant bank from receiving certain fraud-related chargebacks. If you are not participating in Verified by Visa at this time, see pg. 45 for more information.

- You can provide documentation that you:
 - spoke to the cardholder and he or she now acknowledges the validity of the transaction, OR
 - received a letter or e-mail from the cardholder that he or she now acknowledges the validity of the transaction.

If you believe you have AVS, CVV2, or compelling information representment rights on a charged-back transaction, work with your merchant bank to ensure that all supporting evidence for the representment is submitted.

Avoiding Chargebacks

Most chargebacks can be attributed to improper transaction-processing procedures and can be prevented with appropriate training and attention to detail. The following best practices will help you minimize chargebacks.

Point of Sale



- **Declined Authorization.** Do not complete a transaction if the authorization request was declined. Do not repeat the authorization request after receiving a decline, ask for another form of payment.
- **Transaction Amount.** Do not estimate transaction amounts. For example, restaurant merchants should authorize transactions only for the known amount on the check; they should not add on a tip.
- **Referrals.** If you receive a “Call” message in response to an authorization request, do not accept the transaction until you have called your authorization center. In such instances, be prepared to answer questions. The operator may ask to speak with the cardholder. If the transaction is approved, write the authorization code on the sales receipt. If declined, ask the cardholder for another Visa card.
- **Expired Card.** Do not accept a card after its “Good Thru” or “Valid Thru” date.
- **Card Imprint for Key-Entered Card-Present Transactions.** If, for any reason, you must key-enter a transaction to complete a card-present sale, make an imprint of the front of the card on the sales receipt, using a manual imprinter. Avoid capturing an impression of the card using a pencil, crayon, or other writing instrument. This process does not constitute a valid imprint. Even if the transaction is authorized and the cardholder signs the receipt, the transaction may be charged back to you if the receipt does not have an imprint of the embossed account number and expiration date.
- **Cardholder Signature.** The cardholder’s signature is required for all card-present transactions. Failure to obtain the cardholder’s signature could result in a chargeback if the cardholder later denies authorizing or participating in the transaction. When checking the signature, always compare the first letter and spelling of the surname on the sales receipt with the signature on the card. If they are not the same, ask for additional identification or make a Code 10 call.
- **Digitized Cardholder Signature.** Some Visa cards have a digitized cardholder signature on the front of the card, in addition to the hand-written signature on the signature panel on the back. However, checking the digitized signature is not sufficient for completing a transaction. Sales staff must always compare the customer’s signature on the sales receipt with the hand-written signature in the signature panel.

- **Fraudulent Card-Present Transaction.** If the cardholder is present and has the account number but not the card, do not accept the transaction. Even with an authorization approval, the transaction can be charged back to you if it turns out to be fraudulent.
- **Legibility.** Ensure that the transaction information on the sales receipt is complete, accurate, and legible before completing the sale. An illegible receipt, or a receipt which produces an illegible copy, may be returned because it cannot be processed properly. The growing use of electronic scanning devices for the electronic transmission of copies of sales receipts makes it imperative that the item being scanned be very legible.



“No Chargeback” Sales Receipts

Independent entrepreneurs have been selling sales-receipt stock bearing a statement near the signature area that the cardholder waives the right to charge the transaction back to the merchant. These receipts are being marketed to merchants with the claim that they can protect businesses against chargebacks; in fact, they do not. “No chargeback” sales receipts undermine the integrity of the Visa payment system and are prohibited.

Sales-Receipt Processing

- **One Entry for Each Transaction.** Ensure that transactions are entered into point-of-sale terminals only once and are deposited only once. You may get a chargeback for duplicate transactions if you:
 - Enter the same transaction into a terminal more than once
 - Deposit both the merchant copy and bank copy of a sales receipt with your merchant bank
 - Deposit the same transaction with more than one merchant bank
- **Voiding Incorrect or Duplicate Sales Receipts.** Ensure that incorrect or duplicate sales receipts are voided and that transactions are processed only once.
- **Depositing Sales Receipts.** Deposit sales receipts with your merchant bank as quickly as possible, preferably within one to five days of the transaction date; do not hold on to them.
- **Timely Deposit of Credit Transactions.** Deposit credit receipts with your merchant bank as quickly as possible, preferably the same day the credit transaction is generated.
- **Ship Merchandise Before Depositing Transaction.** For card-not-present transactions, do not deposit sales receipts with your merchant bank until you have shipped the related merchandise. If customers see a transaction on their monthly Visa statement before they receive the merchandise, they may contact their card issuer to dispute the billing. Similarly, if delivery is delayed on a card-present transaction, do not deposit the sales receipt until the merchandise has been shipped.

- **Requests for Cancellation of Recurring Transactions.** If a customer requests cancellation of a transaction that is billed periodically (monthly, quarterly, or annually), cancel the transaction immediately or as specified by the customer. As a customer service, advise the customer in writing that the service, subscription, or membership has been cancelled and state the effective date of the cancellation.

Customer
Service

- **Delayed Delivery.** If the merchandise or service to be provided to the cardholder will be delayed, advise the cardholder in writing of the delay and the new expected delivery or service date.
- **Item Out of Stock.** If the cardholder has ordered merchandise that is out of stock or no longer available, advise the cardholder in writing. If the merchandise is out of stock, let the cardholder know when it will be delivered. If the item is no longer available, offer the option of either purchasing a similar item or cancelling the transaction. Do not substitute another item unless the customer agrees to accept it.
- **Disclosing Refund, Return, or Service Cancellation Policies.** If your business has policies regarding merchandise returns, refunds, or service cancellation, these policies must be disclosed to the cardholder at the time of the transaction. Your policies should be pre-printed on your sales receipts; if not, write or stamp your refund or return policy information on the sales receipt near the customer signature line before the customer signs (be sure the information is clearly legible on all copies of the sales receipt). Failure to disclose your refund and return policies at the time of a transaction could result in a dispute should the customer return the merchandise.
- **Return, refund, and cancellation policy for Internet merchants.** This policy must be clearly posted to inform cardholders of their rights and responsibilities (e.g., if the merchant has a limited or no refund policy, this must be clearly disclosed to cardholder on your web site before the purchase decision is made to prevent misunderstandings and disputes). The limited or no refund policy must be displayed on a screen that requires the cardholder to "click and accept" the terms of your policy. This policy page cannot be bypassed.

Chargeback Monitoring

As with copy requests, monitoring chargeback rates can help merchants to pinpoint problem areas in their businesses and improve prevention efforts. However, while copy request volume is often a good indicator of potential chargebacks, actual chargeback rates and monitoring strategies vary by merchant type. Card-not-present merchants may experience higher chargebacks than retail merchants as the card is not swiped, which increases liability for chargebacks.

General recommendations for chargeback monitoring include:

- **Track chargebacks and representments by reason code.** Each reason code is associated with unique risk issues and requires specific remedy and reduction strategies.
- **Include initial chargeback amounts and net chargebacks after representment.**
- **Track card-present and card-not-present chargebacks separately.** If your business combines traditional retail with card-not-present transactions (MO/TO or Internet), track the card-present and card-not-present chargebacks separately. Similarly, if your business combines MO/TO and Internet sales, these chargebacks should also be monitored separately.

Visa Chargeback Monitoring Programs

Visa monitors all merchant chargeback activity on a monthly basis and alerts merchant banks when any one of their merchants has excessive chargebacks.

Once notified of a merchant with excessive chargebacks, merchant banks are expected to take appropriate steps to reduce the merchant's chargeback rate. Remedial action will depend on merchant type, sales volume, geographic location, and other risk factors. In some cases, you may need to provide sales staff with additional training or review sessions on card acceptance procedures. In others, you should work with your merchant bank to develop a detailed chargeback-reduction plan.

Visa USA has three chargeback monitoring programs:

1. Merchant Chargeback Monitoring Program (MCMP)

The Merchant Chargeback Monitoring Program (MCMP) monitors chargeback rates for all merchant banks and merchants on a monthly basis. If a merchant meets or exceeds specified chargeback thresholds, its merchant bank is notified in writing.

First notification of excessive chargebacks for a specific merchant is considered a warning. If actions are not taken within an appropriate period of time to return chargeback rates to acceptable levels, Visa may impose financial penalties on merchant banks that fail to reduce excessive merchant-chargeback rates.

2. High-Risk Chargeback Monitoring Program (HRCMP)

The High Risk Chargeback Monitoring Program (HRCMP) is specifically targeted at reducing excessive chargebacks by high-risk merchants. As defined by Visa, high-risk merchants include direct marketers, travel services, outbound telemarketers, inbound teleservices, and betting establishments.

HRCMP applies to all high-risk merchants that meet or exceed specified chargeback thresholds. Under HRCMP, there is no warning period and fees may be assessed to the merchant bank immediately if a merchant has an excessive chargeback rate.

3. Global Merchant Chargeback Monitoring Program (GMCMP)

The Global Chargeback Monitoring Program (GMCMP) is operated by Visa International and administered by each region. The program augments the U.S. Merchant Chargeback Monitoring Program (MCMP) in effect today and is intended to encourage merchants to reduce their incidence of chargebacks by using sound best practices.

The GMCMP applies when a merchant meets or exceeds specified International chargeback thresholds. Under GMCMP, there is no warning period and fees may be assessed to the merchant bank immediately if a merchant has an excessive chargeback rate.

When Chargeback Rights Do Not Apply

Compliance— Another Option

Sometimes, a problem between members is not covered under Visa's chargeback rights. To help resolve these kinds of rule violations, Visa USA has established the compliance process, which basically offers members another dispute resolution option. The Visa compliance process can be used when all of the following conditions are met:

- A violation of the *Visa U.S.A. Inc. Operating Regulations* occurred.
- The violation is not covered by a specific chargeback right.
- The member incurred a financial loss as a direct result of the violation.
- The member would not have incurred the financial loss if the regulation had been followed.

Typical
Compliance
Violations

There are many different violations that can be classified as a compliance issue. The list below offers a quick peek at some of the compliance violations most commonly cited.

- The cardholder stays at a lodging merchant and is also billed a no-show from the same location, for the same date.
- The merchant adds a surcharge for using a credit card as a means of payment.
- The merchant bills the cardholder for a delinquent account, or for the collection of a dishonored check.
- The merchant re-posts a charge after the issuer initiated a chargeback.
- The merchant insists that the cardholder sign a blank sales draft before the final dollar amount is known.
- The cardholder is billed for an advance deposit and the deposit amount is **not** applied toward the balance of the stay.
- A merchant, which does not hold a Visa account through a merchant bank, processes a transaction through another Visa merchant.
- The cardholder cancels the airline transaction and the merchant fails to issue credit or prove that proper disclosure was given to the cardholder at the time of the transaction.
- The cardholder arrives at a lodging merchant, but leaves within a reasonable time period due to the poor quality of the accommodation.
- The merchant has failed to properly disclose their return policy to the cardholder at the time of the transaction.
- The merchant failed to compare the signature on the card to the signature on the transaction receipt.
- Cardholder was credited more than once for the same transaction.

Compliance
Resolution

During compliance, the filing member must give the violating member an opportunity to resolve the issue. This is referred to as pre-compliance. If the dispute remains unresolved, Visa's Compliance Committee will review the information presented and determine which member has final responsibility for the transaction.

SECTION 7 Chargeback Reason Codes

The chargebacks discussed in this section are grouped into six classifications:

- Non-Receipt of Information
- Fraud Codes
- Authorization Errors
- Processing Errors
- Cancelled or Returned
- Non-Receipt of Goods or Services