



UNDERSTANDING
EXCESSIVE CHARGEBACK RATIOS

White Paper Series

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Understanding Excessive Chargeback Levels:

Chargebacks are practically inescapable. Merchants worldwide cannot seem to get rid of this dangerous menace. In turn, they have been forced to endure this burdensome risk of doing business and have learned to just roll with it. A chargeback once in a while, you can deal with. But what happens when the number of chargebacks escalate, especially within a shorter timeframe?

Many chargebacks drive up what is known as a **chargeback ratio**. A high chargeback ratio results to excessive chargeback levels.

Determining The Chargeback Ratio

VISA and MasterCard being the most common card networks have put in place programs to monitor chargeback levels. Chargeback-to-transaction-ratio assists the providers in weighing the stakes.

- For Visa, the current monthly number of chargebacks divided by transactions in the current month gives the CTTR, i.e. 200 chargebacks in March /20000 transactions in March equals 1% CTTR (100 base points).
- For MasterCard, the current monthly number of chargebacks divided by transactions in the previous month gives the chargeback-to-transaction-ratio, i.e. 200 chargebacks in March /20000 transactions in February equals a 1% CTTR (100 base points)

MasterCard's Chargeback Monitoring Program

MasterCard's excessive chargeback program is an examination of your chargeback activity. Set chargeback thresholds assist acquirers to monitor and anticipate chargeback risk. The chargeback-to-transaction ratio influences the thresholds. The program is divided into two;

1. Chargeback Monitored Merchant.

You are named a CMM should your monthly analysis read as follows;

<u>Group</u>	<u>Number of chargebacks</u>	<u>Chargeback Ratio</u>
Chargeback Monitored Merchant	Within the limits of 100 chargebacks	1% Chargeback Ratio (Within the limits of 100 basis points)

For you to get out of this level, your basis points have to drop to a standard score. The geographical location of an acquiring bank impacts how thresholds are computed.

2. Excessive Chargeback Merchant.

You enter the ECM level if your thresholds overstep for two months straight.

<u>Group</u>	<u>Number of chargebacks</u>	<u>Chargeback Ratio</u>
Excessive Chargeback Merchant	Within the limits of 100 chargebacks	1.5% Chargeback Ratio (Within the limits of 150 basis points)

For six consecutive months, you are known as a *tier 1* excessive chargeback merchant. If you are still in the ECM level after the sixth month, you are renown as a *tier 2* from the seventh to the twelfth months. This is a critical stage. At this point the network advice the acquirer to take measures to handle your chargeback-to-transaction ratio.

What's more, MasterCard has put **fraud thresholds** in place to check for excessive fraud. Here's a look at the violation policies.

<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>
✓ From \$3000 in recorded fraud	From \$4000 in RF	From \$5000 in RF
✓ 3%-4.99% Fraud-to-sales ratio	5%-7.99% FTS ratio	From 8% FTS ratio

Visa's Chargeback Monitoring Program

The program is divided into three categories;

1. Global Merchant Chargeback Monitoring Program (GMCMP)

Structured to empower global merchants to handle chargeback mitigation with confidence.

<u>Group</u>	<u>Number of Chargebacks</u>	<u>Number of Transactions</u>
GMCMP	Within the limits of 200 foreign chargebacks	Within the limits of 200 foreign transactions

This program has a retractable workout period that gives you time to get your chargebacks in check before Visa charges you. Like MasterCard, Visa's thresholds vary with the location of the acquiring bank.

2. U.S. Merchant Chargeback Monitoring Program(MCMP)

Eligible if you are a U.S merchant.

<u>Group</u>	<u>Number of Chargebacks</u>	<u>Number of Transactions</u>
U.S. MCMP	Within the limits of 100 chargebacks	Within the limits of 100 transactions

The Visa credit network notifies your acquirer of your enrollment into the program. The acquiring bank should communicate this to you in the next 10 days.

3. High Brand Risk Chargeback Monitoring Program(HBRCMP)

The HBRCMP targets high-risk merchants and guides them on minimizing their chargeback thresholds. You are suitable for this program if your review has at least 100 chargebacks and 100 transactions. Your acquirer should communicate to you of your enlistment within 15 days. Visa's **fraud thresholds** are as follows;

<u><i>Domestic Merchant Fraud Performance Program</i></u>	<u><i>Interregional</i></u>	<u><i>Extreme interregional</i></u>
✓ From \$10,000 in recorded fraud	From \$25,000 in RF	From \$250,000 in RF
✓ From 1% Fraud-to-transaction ratio	From 2.5% FTS	From 2.5% FTS

What Do Excessive Chargeback Levels Mean for You?

It is the acquiring bank's responsibility to watch out for your business' account. To see to it that you don't hit the excessive chargeback levels. Otherwise, they stand to suffer costs imposed by the credit card networks. In the case that your chargeback levels are a risk, banks will settle for the easy way out. Rather than work with you to solve the chargeback problem, they merely discontinue your account.

You end up losing your payment processing capacity. Your business is likely to undergo restrictions to cash payments only. With credit card transactions being the most common, this could very well be the end of your venture following the massive loss of revenue.

Also, you could find your way into the Member Alert To Control High-risk list. This is like a blacklist for businesses. The MATCH list keeps you from entering an agreement with any merchant processing bank. Harsh, huh! In the end, you are forced to work with a High-risk Payment Processor.

Integrity for Merchants

The payment industry created chargebacks to protect consumers from fraud or corrupt merchants. A good majority of the merchants are clean and playing their part well. Most disputes filed are as a result of criminal and friendly fraud. A recent study showed that 85% of chargebacks are friendly. Are consumers abusing their powers?

It doesn't seem fair for merchants to bear these many fraudulent chargebacks. Sure thing, they could trigger excessive chargeback levels. Banks owe it to you to adequately investigate all chargeback fraud before signing them off. Dishonest cardholders deserve penalizations too. That should send a message warning against such unacceptable behavior.

Dealing with Excessive chargeback levels

Chargeback mitigation works best here. Prevention and representment regulate the number of chargebacks you receive. Hence improving your chargeback ratio.

Ultimately, understanding excessive chargeback levels is of note to your credit card processing. Of course, to well grasp this basis, you have to be conversant with calculating chargeback ratio for networks such as Visa and MasterCard. Know what their chargeback monitoring programs entail along with the tallies involved. Be sure to use this article to your full advantage. Gauge yourself as a merchant and do what needs be done to be safe.