



UNDERSTANDING:

CHARGEBACKS

White Paper Series

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Understanding Credit Card Chargebacks

If you run a business, you've probably had customers dispute a credit card transaction and create a chargeback from your account. The cardholder is entitled to file a request to the credit card issuer asking for a fund reimbursement. This customer protection is known as a chargeback. Chargebacks are quite an ordeal for merchants as they come in favor of consumers. With them, you are not in the battle to win, but rather not to lose. For this reason, understanding credit card chargebacks is crucial to prepare and equip you for any such occurrence.

How do Credit Card Chargebacks work?

- A consumer files a dispute 30-180 days from the time of transaction. Should the issuing bank find the consumer to blame, the procedure stops.
- In most cases, the issuing bank deems the complaint valid
- The consumer's bank commences a chargeback and notifies your bank.
- On verifying the request, your bank conducts an investigation and lets you in on the continuous chargeback processing.
- Merchants' banks rarely consider chargebacks invalid. Following that, you will have up to 45 days to dispute your case. The response time limit depends on the credit card processing company. Put your best foot forward in proving the legitimacy of the transaction to attempt a chargeback reversal.
- If you are found clean, the card issuer strikes the chargeback off the log and removes the funds from the cardholder's account. Even so, if at fault, the issuing bank refunds the consumer their money from your bank. Also, it strips you of a chargeback fee that ranges from \$20-\$100.

Keep in mind that card issuers take complaints seriously as they stand to gain from it all.

General Reasons for Chargeback and how to Counter Them

Understanding credit card chargebacks means clearing out what caused them in the first place. Then you can set up measures to keep them at minimal levels. They include;

1. You might not have hit the customers' expectations with sold merchandise/services. Purchase misunderstandings among cardholders are common and mostly occur due to date errors. For example, thinking that their subscription was for a ten-month service when it was only for five. In defense of this chargeback, provide evidence in the form of transaction documentation such as signed delivery or pick up receipts.

2. The cardholder might not recognize their credit statement. Give the acquirer bank all details of the services/merchandise purchased. This should match with what's in the customer's statement.
3. Authorization issues. This one's entirely on the consumers. An invalid expiration date or card account might very well disapprove a credit card. The card issuers should be able to defend this chargeback with information on their systems.
4. The cardholder did not receive the stock he/she ordered. What if the customer returned goods or canceled their booking without a refund? Or they received defective goods/services? Or they are still being charged off a canceled transaction? Good for you if you have a no-refund policy. Fight this chargeback with evidence from your terms and conditions.
5. Fraudulent purchase. The customer denies any involvement in the transaction. They also claim of not having been aware of the use of their card to make payments. Prove the customer authorized or was present during the transaction. A fully signed delivery receipt or sales voucher by the cardholder does the trick. Use camera records too where applicable.
6. A processing error occurred. This happens on a wide scale due to a large number of reasons. The card issuers can dispute this particular chargeback as they have all the data. They can contact you should they require your input.

Preventive Measures for Credit Card Chargebacks

The primary networks (Master Card, Visa, Discover, and American Express) have set the following policies and guidelines to steer you free of chargebacks. Prevention, after all, is better than cure.

1. Obtain proper customer verification. Ensure their bill clearly depicts your business name. Also, certify the signature on the receipts to show the consumer received the service or goods.
2. Make sure you work by the Payment Card Industry standards. These keep you off the hook from credit card faults.
3. Confirm the legitimacy of the cardholder. Verify signatures on the back of their cards and ensure they match with those on sale receipts. The names and digits on the consumer's cards and receipt should identify them as the same person.
4. Watch out for expired cards. These are likely to be declined by the reader.
5. Structure your business according to current security standards. Consider the EMV technology. EMV readers store personal information on an integrated circuit chip which is

more difficult to forge as compared to the earlier magnetic strips. They cut down cases of fraud.

6. Reject credit cards with no back signatures. A 'not valid unless signed' statement on the credit card stresses the need for a backhand stamp.

7. Put in place a competent employee workforce and echo the right card handling procedures to them.

Chargeback Codes

<u>Visa Codes</u>	<u>Cause</u>
86	<i>Paid by Other Means</i>
85	<i>Credit Not Processed</i>
83	<i>Fraud-Card Absent</i>
82	<i>Duplicate Processing</i>
81	<i>Fraud-Card Absent</i>
80	<i>Incorrect Transaction Number/Amount</i>
77	<i>Account Number Doesn't Match</i>
76	<i>Incorrect Currency/ Transaction Code</i>
75	<i>Transaction Not Recognized</i>
74	<i>Late Representment</i>
73	<i>Expired Card</i>
72	<i>Unauthorized Transaction</i>
71	<i>Declined Authorization</i>
62	<i>Counterfeit Transaction</i>
57	<i>Fraudulent Multiple Transactions</i>
53	<i>Defective Merchandise</i>
41	<i>Invalid Recurring Transaction</i>
30	<i>Goods Not Received/ Services Not Provided</i>

<u>MasterCard</u>	<u>Cause</u>
<u>Codes.</u>	
63	<i>Potential Fraud-Cardholder Doesn't Recognize</i>
62	<i>Magnetic Stripe POS Fraud-Counterfeit Transaction</i>
60	<i>Credit Not Processed</i>
59	<i>Services Not Rendered</i>

57	<i>Activated Telephone Transaction</i>
55	<i>Non-Receipt Merchandise</i>
53	<i>Not as Described Cardholder Dispute</i>
50	<i>Credit Posted as Purchase</i>
49	<i>Questionable Merchant Activity</i>
47	<i>Not Authorized/ Fraudulent Transaction/Exceeds Floor Limit</i>
46	<i>Correct Payment Currency Code Not Given</i>
42	<i>Late Representment</i>
41	<i>Invalid Recurring Transaction</i>
40	<i>Fraudulent Transaction</i>
37	<i>Unauthorized Cardholder</i>
35	<i>Expired/ Invalid Card</i>
34	<i>Duplicate Processing</i>
31	<i>Differing Transaction Amount</i>
12	<i>Account Number Not Filed</i>
8	<i>Requested Authorization Not Obtained</i>
7	<i>Warning Bulletin File</i>
2	<i>Unclear/ Missing Requested Information</i>

Since Chargebacks come across as what may be an inevitable truth of trade, business owners do little to fight them. In truth, you stand to lose penalty chargeback fees, sold products/services, etc. Even the alleged friendly fraud is not so kindly. Furthermore, it doesn't take long for credit card companies to label your business as fraudulent should your account start receiving too many chargebacks. Take the managerial initiative to accurately display your policies to your consumers and make them conscious of their sales rules. To finalize, understanding credit card chargebacks begins with knowing how they work. Figure out their causes, the disputing strategies, and institute the right measures to keep them in check. This article arms you with everything you need to lead consumers, card issuers, and network providers well off your trail.