Millions At Stake

Are You Losing Millions of Dollars a Year?

Merchants who do not have a strategic chargeback management strategy in place, and have not prepared for the rising costs of chargebacks, will likely risk a huge financial impact to their bottom line. And it will only continue to get worse. However, there are ways to limit this risk and prevent future losses from chargebacks.

Chargebacks occur when a cardholder disputes a merchant charge, resulting in a debit to the retailer's account. Regardless of whether the chargeback is successful or not, the merchant is charged a fee by the issuing bank. Merchants with a high ratio of chargebacks to transactions may also receive additional fines and run the risk of losing their payment processing privileges altogether.

Increasing chargebacks is a major problem for any merchant and can be troublesome for many types of merchants. Business classifications that are most susceptible to chargebacks are telcoms, magazine companies, credit scoring agencies, SaaS companies, membership organizations, and those deemed "high risk."

The bottom line is that chargebacks may be costing your online business many thousands of dollars each month. How much of your revenue is at risk and are you doing everything you can to claim your rightful share?

WHERE DO CHARGEBACKS ORIGINATE?

The chargeback mechanism was created to protect consumers against fraudulent behavior. The issue is that some consumers have found it easy to dispute legitimate charges. This form of "friendly" fraud creates a significant financial burden for merchants.

Chargebacks come in many forms and impact merchants of all sizes.Whether it be actual fraud (unauthorized transaction takes place) or "friendly" fraud (the customer makes a purchase and then requests a chargeback, even though they have received the goods or services), chargebacks create a negative consumer relationship. Chargebacks can also originate when a customer returns an item but the refund was never posted to their account; when a customer pays for an item they never received; because of technical issues; or when a transaction requested to be cancelled has not come to fulfillment.

The root of the problem comes back to these major gaps in the current process: the lack of communication and data made available during the transaction life cycle.

Where It Begins

Traditionally, purchasing data is left in merchants' systems, leaving the card issuer little choice other than to issue as fraud or a chargeback. Because there often is not enough data sharing among the three parties (merchant, issuer and cardholder), the process becomes more confusing, and costly. This creates extra, and often unnecessary, friction for those involved in the process.

As many as 86% of cardholders will call the issuer and bypass the merchant entirely to dispute a charge. This results in the resolution left in the issuer's hands and leaves little for the merchant to do to resolve the chargeback. This not only leads by default to lost revenue and lost customers, but it can also create a negative brand reputation.

Merchants do not have the opportunity to address cardholder issues directly, and card issuers do not have the information they need to resolve the customer's confusion, so the merchant is unable to resolve the dispute before it is too late.

These frustrations could be avoided by providing specific order details to all parties, in order to resolve the disputes before they become costly chargebacks. These order details would generate compelling evidence to support the legitimacy of the sale and reduce profit leakage and "double dipping," or acquiring a second refund from the merchant. With real-time visibility on the customer outcome, this would help resolve disputes more quickly. It would also enable collaboration in near real-time between merchants and issuers to manage the chargeback process. With the proper data available, gaps in information and the friction they create between the parties can be avoided. This leaves less chance that a purchase is flagged as fraud when in fact it is a legitimate purchase.

Bottom line: When more data is available to the right parties, understanding how and why a chargeback is originated and if it is legitimate becomes far easier to determine.

The Collaborative Advantage

By facilitating collaboration amongst the customer, the merchant, and the issuer, the major gaps in the process on each side of the transaction life cycle can be better addressed in a way that benefits each party. By the merchant providing the cardholder and issuer with more detailed purchasing information, it decreases the chance of the cardholder filing an accidental chargeback. This is one of the major reasons fraudulent chargebacks ("friendly" fraud) are filed. With a better ability to identify and reduce fraud, "friendly" fraud, and chargebacks, the cardholder, merchant, and issuer collaboration is enhanced with purchase details shared upon cardholder inquiry.

The additional benefits of this collaboration include: avoiding unnecessary chargeback fees, reduced fines, and operational drain researching and resolving disputes that could have been addressed without escalation. Faster access to compelling evidence requirements of the issuer prevents disputes from becoming chargebacks, and finally helps in validating the sale for the customer.

Multiple benefits include:

- Faster dispute resolution
- Increased interchange revenue
- Reduced chargeback inventory
- Fewer resources devoted to dispute management
- Less exposure to regulatory compliance issues and legal risks
- Increased cardholder satisfaction

Understanding the Numbers

According to Javelin Strategy and Research LLC, online fraud is costing online merchants more than 7.5% of their total revenues.[1] "Friendly" fraud is the most pervasive form of online fraud, occurring when a consumer makes a legitimate purchase, receives the goods or services, and then notifies the issuing bank they did not authorize the charge. There are many reasons consumers engage in "friendly" fraud. Some use chargebacks as a form of shoplifting; others claim they never received goods or services because of buyer's remorse.

The most common reasons for chargebacks for merchants include:

- Criminal Fraud
- "Friendly" Fraud
- Credit not processed
- Cancelled recurring transaction
- Not as described or defective merchandise
- Fraudulent multiple transaction
- Counterfeit transaction
- Technical problems

The Hidden Cost of Chargebacks

Chargebacks and "friendly" fraud have other costs as well. LexisNexis reports that merchants pay $2.40 for every $1 lost in fraudulent transactions.[2] These transaction types include fraud committed by consumers who capitalize and exploit the system due to buyer's remorse or criminals looking to steal from the merchant.

Chargeback fees – Regardless of whether the chargeback stands or is successfully disputed, merchants are charged fees for the process. Essentially, you pay for the time the credit card companies spend investigating the chargeback.

Penalties – Businesses that exceed a chargeback rate of 1 - 1.5 % for several consecutive months may incur penalties. To protect customers' best interests, credit card companies often charge fees and penalties to merchants who exceed chargeback rates and may even disqualify these merchants from payment processing in the future. Additionally, some credit card companies may charge "review fees" or other fines to merchants who do not have a chargeback reduction plan in place. These can quickly add up to many thousands of dollars.

Lack of relevant information – The lack of information that's available to issuers upon a dispute is often damaging to merchants, who might not know about the dispute until far too late in the process. The lack of relevant information, while not an explicit line item in the balance sheet, has a direct impact on the speed with which disputes are resolved.

When a chargeback happens, the merchant is accountable, regardless of the verification steps taken during the order process—and regardless of whether or not the customer received the goods or services.

From manual processing, reconciliation, and reporting to interacting with various issuing banks, these loss factors take many forms and are not always evident on the balance sheet.

Merchandise – Many payment processors require the product to be returned for a chargeback to be issued, or, at the very minimum, proof that the merchandise was damaged. Regardless, the chances of a merchant receiving the original product back are slim. Merchants selling subscription products must also account for services rendered where chargebacks occur. In these cases, the goods are non-tangible, leaving nothing to return and further complicating matters.

Excessive refunding – In some cases, the merchant provides the customer the same refund more than once. The fact that a refund has already been provided does not guarantee that a chargeback will not be initiated. It also means that a customer that has already filed a chargeback is not restricted from directly seeking a refund.

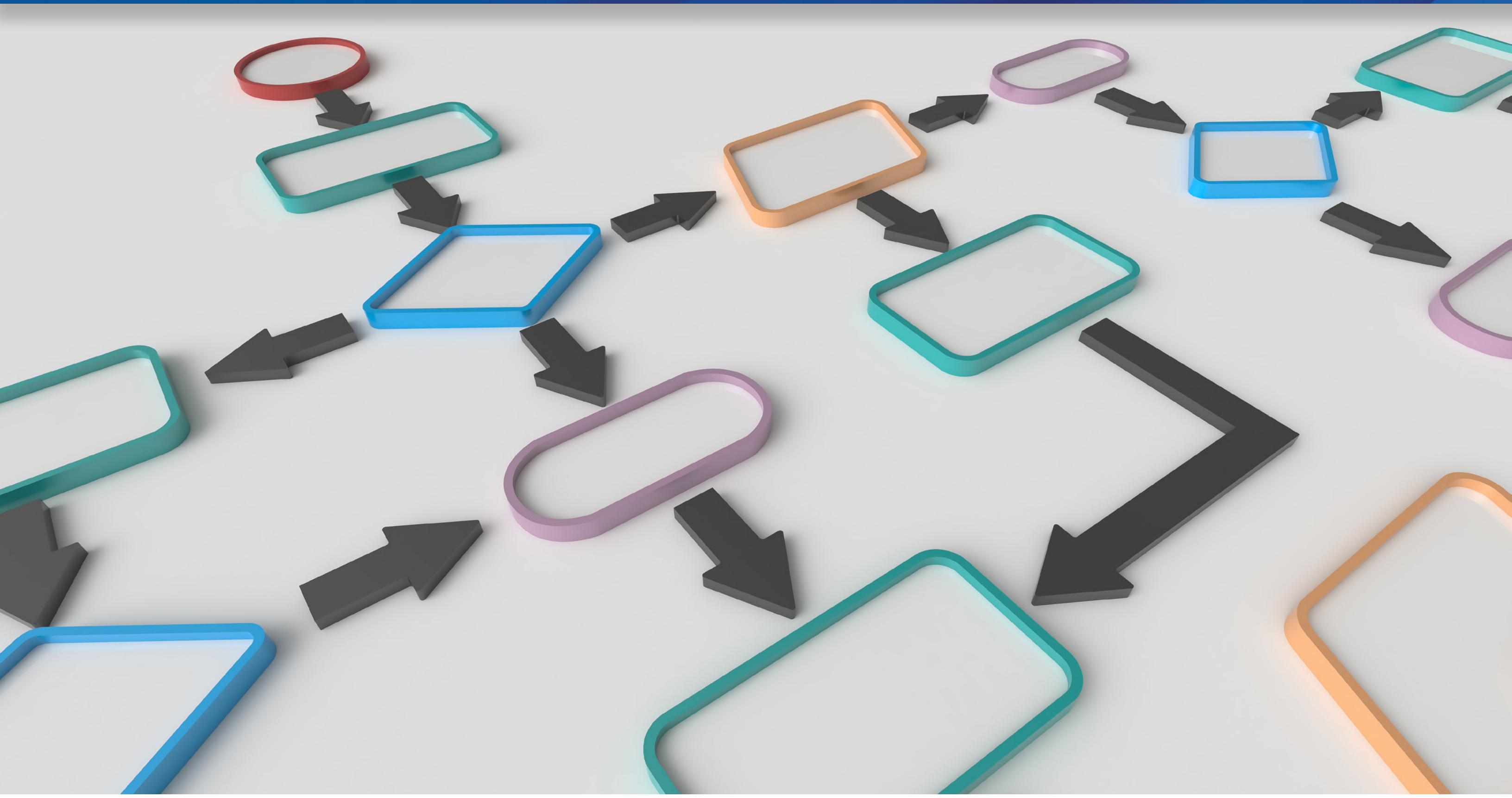
Understanding the Dispute Resolution Process

The chargeback process allows merchants to dispute and represent chargebacks, which they believe are fraudulent or inappropriate, by presenting compelling evidence to the issuing bank to prove the chargeback should be reversed.

One of two things may happen upon representing the dispute. Using Visa as an example, if no resolution is forthcoming, the issuer can request Pre-Arbitration or Arbitration, where a case is filed with the association by the issuer. Whereas in the case of MasterCard, the issuer may initiate a second chargeback. If there is no resolution, the acquirer may initiate Pre-Arbitration or Arbitration, where a case is filed with the association by the acquirer.

All Chargebacks Vary

In theory, all chargebacks can be contested, but not all of them should be. On average, merchants represent about 56% of their fraud-coded chargebacks, and almost 30% represent all their chargebacks.[3] When considering whether or not to represent, it is important to analyze each business case. Looking at the representment fee versus the return on fighting and winning a chargeback can aid merchants in determining if it is worth it in the long run. Other things to take into consideration include business and order processes, and whether or not the merchant is part of a high-risk market.



Removing Unwarranted Chargebacks

Aggressively preventing chargebacks from occurring and recovering funds lost to chargebacks should be a priority for every merchant. If you are not actively preventing them, they will have a major impact on your bottom line. One way to avoid this is having the ability to address unwarranted chargebacks up front.

With the support of full chargeback management solutions to stop both fraud and non-fraud chargebacks from occurring, merchants are better equipped to reclaim unwarranted chargeback losses. This is why having a chargeback management strategy in place really matters during the entire process of resolving, presenting, and recovering chargebacks

Making the Case for Representment

Once the concept of unwarranted chargebacks is addressed, the process becomes easier to make the case for representment, particularly for preventing future occurrences. The odds of winning disputes increase when a merchant has solid evidence to help the case. This type of evidence may, and should, include the following:

- Signed delivery receipts
- Proof that customer provided the correct CVV2
- Proof that billing and/or shipping address matches what was on file with an AVS check
- Other supporting evidence specific to the type of chargeback

It should be noted that there is often a short time frame to dispute chargebacks. If and when sufficient evidence is submitted, the issuer may reverse a chargeback and the merchant will be refunded. However, the issuer will still incur the chargeback fee for processing by VISA/Masterard. If the merchant cannot successfully represent the chargeback, they can elect arbitration which will result in additional fees.

During the representment process, it is important to understand your rights. Below is a list of steps a merchant must take for cases in which chargebacks are associated with the use of the Address Verification Service (AVS) and the Card Security Codes (CVV2, CVC 2, CID), in order to be represented by a processing bank.

- Merchant must submit a proof of the shipping address and the delivery if an AVS positive match was received in the authorization message and the billing and shipping addresses are the same. (Sales and order processing procedures should allow for easy retrieval and storage of billing and shipping Information.)
- Merchants must submit proof that they received a "U" response from a card issuer after submitting an AVS query. This signifies that the card issuer either does not support AVS or is unavailable but still protects the merchant because AVS verification was attempted.
- Merchants must submit proof that they received a "U" response from a card issuer upon submitting a Card Security Code verification request during authorisation. Similar to the point above, the merchant still receives protection, though the card issuer does not support the respective CSC code because verification was attempted.

The rules are complex and ever changing, so staying on top of this and using the appropriate resources is important, but it can be time consuming.

Process Improvement is Mandatory

There are a number of steps merchants can take to decrease chargebacks volume. Regardless of whether or not you choose to implement some or all of the following overlapping strategies, it is important to seek new ways to minimize credit card chargebacks. The most advantageous approach for everyone involved would be a data-sharing system that facilitates collaboration among the merchant, issuer and cardholder. Sharing information is essential to preventing chargebacks. Such a platform can provide merchants and issuers with the specific order details they need to help resolve disputes before they become costly chargebacks. This would generate compelling evidence to support the legitimacy of the sale and reduce profit leakage. Other steps include:

Improve the Process – Streamlining workflow and eliminating human error reduces the time and resources needed to process a chargeback. Automation allows for merchants to remain current on credit card processing rules and make the dispute process much simpler.

Prioritize – Businesses should have a fight-or-flight policy built into the chargeback process. It makes no sense to spend more time disputing a chargeback than one would incur in chargeback fees.

Data Control – Collecting information from chargebacks allows the merchant to adjust business practices if necessary and identify internal issues.

Clear Billing – By including a URL or contact number in the descriptor field on bills, it makes it easier for customers to recognize purchases made with their credit cards and reduces the chance of a mistaken chargeback by a customer that thinks he or she has been incorrectly charged.

Fix Operations – Excessive chargebacks might be an indication of problems in operations. Whether it is a quality control issue with merchandise, ineffective or misleading product marketing, or another root cause, identifying and addressing these issues can significantly reduce the occurrence of chargebacks and recover funds lost to chargebacks. For SaaS or subscription-based businesses, it is important to include billing frequency, billing date, the fixed payment amount, length of trial or promotional periods if applicable, and refund and cancellation policy in many areas of the website, not only on the checkout page.

Outsource – Managing chargebacks can be a complicated task during the entire transaction life cycle. From preventing chargebacks, resolving disputes, and fighting chargebacks, to recovering chargeback losses without a third-party partner, tackling all of the chargeback process can take up significant time, resources, and money. Partnering with a strategic outside company to help manage the process can easily free up those valuable resources, so merchants can spend more time on running their business.

When to Use a Vendor for Chargeback Representment

While many merchants choose to represent chargebacks in-house, it may be beneficial to let an experienced third-party vendor support these activities. Chargebacks can be costly, so it is important to weigh the benefits of utilizing vendor expertise over the cost of staffing and consuming in-house resources on the process. E-commerce is only going to increase, but many merchants are slow to adopt additional security. This could spell real trouble for merchants whose core competency is not chargeback management.

About Verifi

Verifi, an award-winning provider of end-to-end payment protection and management solutions, was founded in 2005 to help merchants effectively manage the payments challenges they face every day. Verifi helps merchants safely process payments, combat fraud, prevent and resolve costly chargebacks, as well as increase billings and retain loyal customers. Our premiere solutions and white glove support are trusted by a wide range of industries, from emerging companies to the Fortune 500. Headquartered in Los Angeles, California we currently serve more than 25,000 accounts globally. For more information, visit: verifi.com.

1. http://cdn2.hubspot.net/hubfs/425439/The%20Financial%20Impact%20of%20Fraud-%20FINAL.pdf

2. https://www.lexisnexis.com/risk/downloads/assets/true-cost-fraud-2016.pdf

3. https://www.jpmorgan.com/cm/BlobServer/13th_Annual_2012_Online_Fraud_Report.pdf?blobkey=id&blobwhere=1320571432216&blobheader=application/pdf&blobheadername1=Cache-Control&blobheadervalue1=private&blobcol=urldata&blobtable=MungoBlobs