How are chargebacks **REALLY** impacting your bottomline?

REDUCING THE OPERATIONAL COSTS OF CHARGEBACKS

Chargebacks cost card-not-present (CNP) merchants millions of dollars each year. CNP merchants should take measures to prevent chargebacks and aggressively work to recover funds lost to chargebacks.

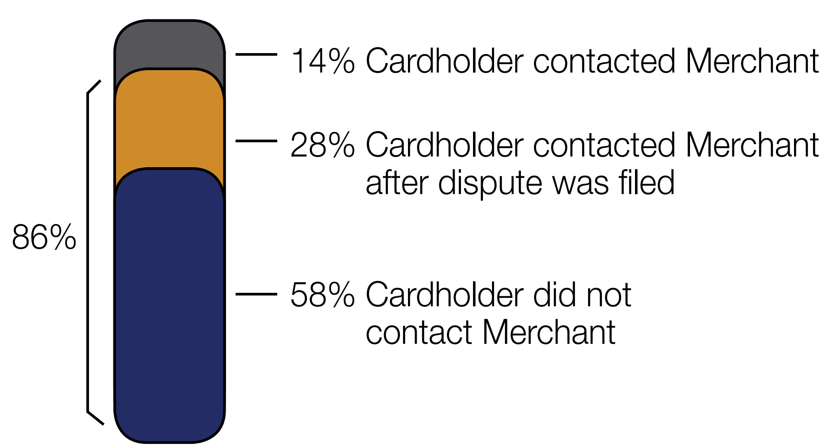
Chargebacks occur when a cardholder disputes a merchant charge and a debit is made to the retailer's account. The issuing bank charges merchants a fee for every chargeback received. Merchants with a high ratio of chargebacks may also receive additional fines and or run the risk of losing their payment processing privileges all together.

While the chargebacks mechanism was created to protect consumers against fraudulent behavior, some consumers have found that it is easy to dispute legitimate charges –this form of *friendly fraud* creates a significant financial burden for merchants.

Why do chargebacks happen?

Credit card charges are disputed for a number of reasons. One reason is the cardholder claims that he or she did not make the purchase. Other reasons include lack of satisfaction with a purchase. To dispute a transaction, the cardholder simply contacts the credit card company and says; "I didn't do it." This type of *friendly fraud* puts the burden of proof on the merchant to show that the debit or credit card was used in good faith and authorized by the cardholder.

Based on recent findings, **86%** of the time cardholders will not contact the merchant until after a dispute was filed...or not at all!

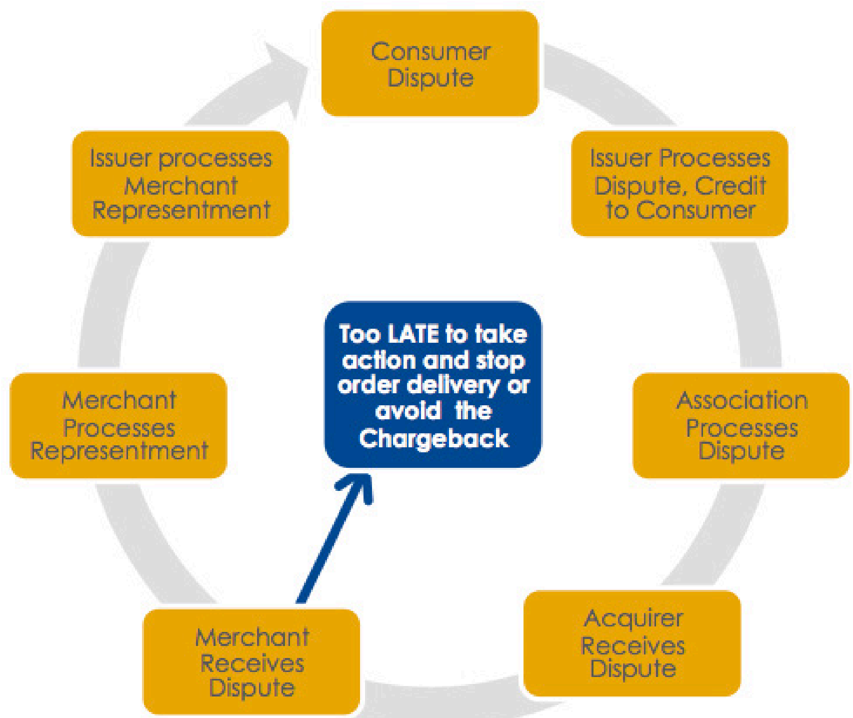


Merchants incur a $308 loss for every $100 in fraud losses.[1]

The burden of proof is expensive. There are many costs associated with chargebacks. In fact, a recent LexisNexis report estimates merchants incur a $308 loss for every $100 in fraud losses. The total losses for the business are based on a number of factors:

- **INEFFICIENT USE OF RESOURCES AND STAFF** is expensive. The dispute resolution process is complex, time consuming, and labor intensive and requires an expert understanding of payment network rules. From manual processing, reconciliation and reporting to interacting with various issuing banks, inefficiency takes many forms and is not always evident on the balance sheet.

THE CHARGEBACK PROCESS IS COMPLEX AND TIME CONSUMING



- **CHARGEBACK FEES** are charged regardless of whether the chargeback stands or is successfully disputed. Essentially, you pay for the time the credit card companies spend investigating the chargeback.

[1] http://www.lexisnexis.com/risk/newsevents/press-release.aspx?id=1379105834100604

Chargebacks are often mistakenly viewed as a cost of doing business. Nothing could be further from the truth.

- **PENALTIES** could be incurred when businesses exceed a chargeback rate of 1 - 1.5%* for several consecutive months. To protect customers' best interests, credit card companies often charge fees and penalties to merchants that exceed chargeback rates and may even disqualify these merchants from payment processing in the future. These rates increase if the merchant continues to realize chargeback rates of 1 - 1.5%* or higher. Additionally, some credit card companies may charge "review fees" or other fines for merchants that do not have a chargeback reduction plan in place. These can quickly add up to many thousands of dollars.
- **MERCHANDISE** There is the very real cost of merchandise and/or services not returned. 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. Businesses selling subscription products must also account for services rendered where chargebacks occur. In these cases, the goods are non-tangible, leaving nothing to return.
- **EXCESSIVE REFUNDING** In some cases, merchants provide a customer the same refund more than once. The fact that a refund has already been provided does not guarantee that a chargeback won't be initiated. It also means that a customer that has already filed a chargeback won't try to seek a refund directly.

To recover funds lost from the chargeback process, the best way for a merchant to contest a chargeback is to give the bank evidence that proves the transaction was authorized and that the cardholder was aware or received value from the purchase. This is done by providing evidence usually captured in a merchants CRM such as:

- Customer identity (PII data-email, address, physical address, name, DOB, etc)
- Purchase history and usage information
- Shipping details
- Contact history

This is no easy task. Resolving these disputes takes time – and during this time, the revenue from the sale is withheld from the merchant's account. Unfortunately, time spent on these tasks is time away from making sales and supporting customers.

* Dependent upon Card Association regulations

Chargebacks are often viewed as a cost of doing business and many merchants believe there is nothing they can do about chargebacks. Nothing could be further from the truth. Aggressively preventing chargebacks from occurring and recovering funds lost to chargebacks should be a priority for every merchant.

Winning the Battle

So how should a merchant prevent chargebacks from occurring and also recover funds lost to chargebacks?

According to Matthew Katz, founder and CEO of Verifi, Inc., there are overlapping strategies a merchant can employ to reduce and recover the costs of chargebacks:

Chargebacks cost merchants millions of dollars and divert attention from your core business.

Verifi helps merchants stop chargebacks before they occur, dispute tens of thousands of chargebacks each month and successfully recover **up to 50%** of all disputed charges.

- **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 she/he has been incorrectly charged.
- **FIX OPERATIONS** Excessive chargebacks may indicate 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.
- **OUTSOURCE** Tasking a third party with all or some of the chargebacks a business incurs allows the business to free up resources and valuable time that can better be spent on running a successful enterprise.

Regardless of whether or not you choose to implement some or all of these overlapping strategies, it is imperative to seek new ways to minimize chargebacks.

Fraud and risk management should be a priority for every merchant. Luckily, today, a business can implement all of the best practices mentioned above and have a full-strength chargeback recovery program. Protecting against thieves or unscrupulous customers requires a solid strategy for recovering funds lost to the chargeback process.

About Verifi

Verifi is a full-service provider of global electronic payment and risk management solutions for card-not-present (CNP) merchants. We believe that there is no silver bullet to combat fraud or mitigate all operational risks to an online business. Knowing this, we have built our payment management platform around a holistic approach to addressing each business' unique circumstances by providing a multi-layered solution. Our products and services enable clients to gain control and transparency into the entire payment process – from global payment acceptance and processing, order screening, revenue recovery and maximization to fraud and risk management and enterprise payment security.

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