



7 Mistakes Merchants Make When Fighting Chargebacks

Fighting chargebacks is not an easy task

Chargebacks are a complex, expensive and aggressive problem. First, they come in all shapes and sizes and impact all types of merchants. There are two main types of chargebacks – fraud (which includes true and friendly fraud) and non-fraud. True fraud chargebacks occur when the purchase was not made by the cardholder, as in a case of identity theft. Friendly fraud chargebacks happen when a cardholder disputes a charge that s/he did authorize and is also known as “I didn’t buy that” fraud or cyber shoplifting. There are also non-fraud chargebacks, which are purchases made intentionally by cardholders and then disputed under a claim (e.g. they never received the goods, the goods were damaged, they did not place the order, etc.).

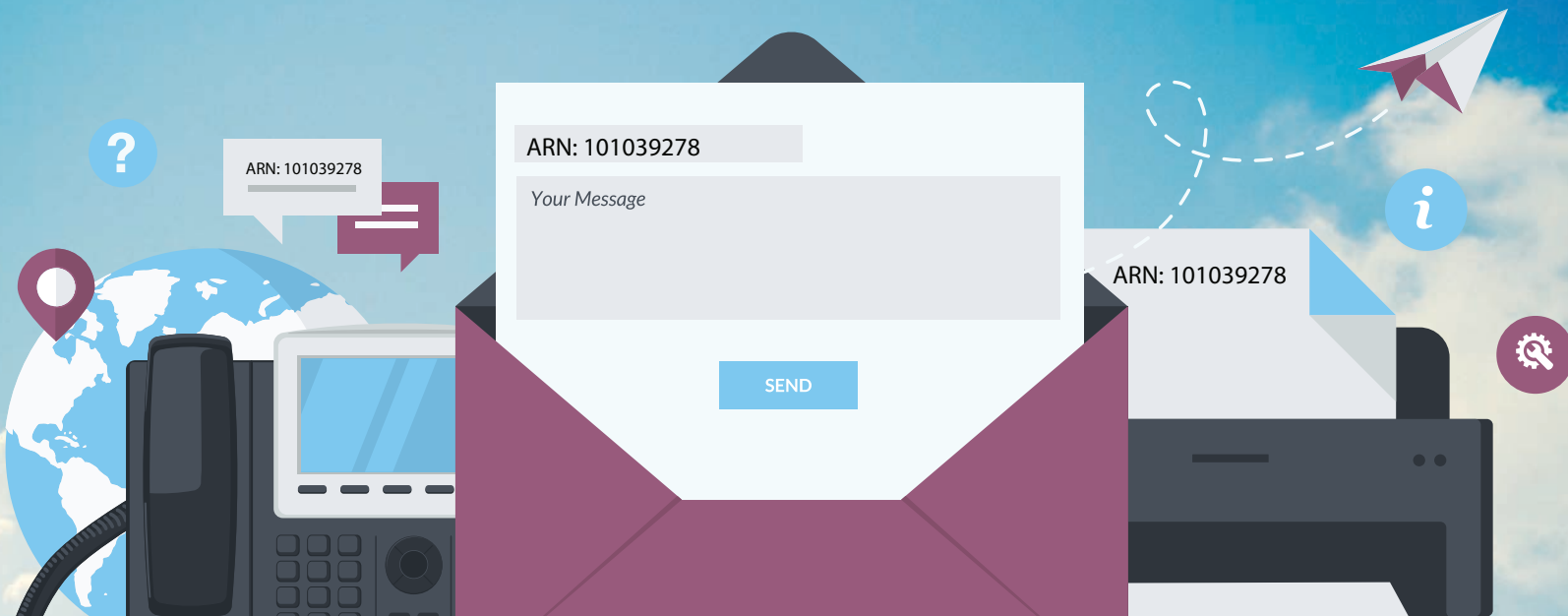
The fact is, in either case, the chargeback dispute process does not favor merchants. Banks and credit card companies require very little proof from consumers to validate a dispute claim. There are 40 billion reasons¹ that merchants should have a solid foundation for fighting chargebacks in place. This article outlines the basics on chargeback representment as well as common mistakes merchants make when it comes to fighting chargebacks.



Fighting Chargebacks 101

Some chargebacks are unavoidable but with the right knowledge, can be disputed effectively. The chargeback process allows for merchants to dispute chargebacks they believe are unwarranted by presenting compelling evidence to the issuing bank that proves the sale associated with the chargeback was authorized. The following chapter lists some of the basics requirements needed when preparing to fight a chargeback.

Fighting Chargebacks 101



Documentation and information required when representing a chargeback

Item 1 In some cases a merchant must first, include the Acquirer Reference Number (ARN) or case number provided by the processors/acquirers in all email communication, dispute documentation and other communication.²

Item 2 Additionally, the merchant must submit sufficient compelling evidence for challenging the chargeback in accordance with the reason code for the chargeback, including all relevant documentation.

This may include, but is not limited to:³

- | | |
|--|---|
| <input checked="" type="checkbox"/> Proof of Delivery
Signed delivery receipts or other proof of delivery for physical goods | <input checked="" type="checkbox"/> Acceptance of Terms & Conditions
Signed or similarly authenticated contract of acceptance |
| <input checked="" type="checkbox"/> Documented Communication
Email or other documented communication with the cardholder | <input checked="" type="checkbox"/> AVS Check
Evidence that the AVS check confirmed billing address match |
| <input checked="" type="checkbox"/> Confirmed CVV
Evidence that the CVV was provided by the cardholder | <input checked="" type="checkbox"/> Refund Issued
Evidence that the merchant issued a refund to the customer |

Fighting Chargebacks 101



Timeline required to represent a chargeback

Stage 1

Information Gathering

The merchant has a **maximum of 45 days** (though this varies greatly between processors/acquirers – merchants should understand the specific submission requirements of their processors/acquirers) **from the date of the chargeback to represent a chargeback**, according to card scheme regulations. Due to the time it takes to process a representment case, merchants should **start collecting all necessary documentation** as soon as possible, at least **within 14 days of receiving the initial chargeback**. This ensures the merchant has enough time to review all documents, request additional information or clarification and request amendments.

Stage 2

Representment Processing

If a representment is processed correctly, the funds may be offered as provisional credits to the merchant upon forwarding the representment documentation on to the issuer. Additionally, the **Issuer may choose to challenge the representment** and has **up to 30 days for Visa and 45 days for MasterCard** to do so. Some processors/acquirers will provide credit upon response, others several weeks later. This can make managing cash flow very challenging for the merchant, as numerous credits and deductions can take place during the lifecycle of the representment. If the merchant doesn't receive communication from their acquirer within those time frames stating the issuer rejected the representment, **the merchant can assume it has won the case.**⁴



7 Common Mistakes to Avoid When Fighting Chargebacks

While the timeline and steps for representing a chargeback seem straightforward, there are several obstacles and potential mistakes that can keep a merchant from successfully recovering money that is rightfully theirs.

7 Common Mistakes to Avoid When Fighting Chargebacks



Mistake 1

Fully Understanding Chargeback Reason Codes

Effective chargeback representment requires strong knowledge of chargeback reason codes and compelling evidence requirements. The **reason code classifies the type of chargeback, the reason for why the dispute has been requested by the customer and establishes the required elements necessary** if a merchant is disputing the consumer's claim. Understanding reason codes and associated representment requirements is critical to preparing an effective chargeback dispute case.

In October of this year, Visa increased the allowable evidence for certain reason codes primarily for airline and digital goods merchants, opening up more options to merchants disputing specific types of chargebacks. The **broad range of evidence and data now allowed includes proof of usage on prior non-disputed transactions, photographs for merchandise and services and more.**⁵ Maintaining a strong understanding of chargeback rules, regulations and required compelling evidence is critical to a merchant's representment success.

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Mistake 2

Not Fighting

While merchants shouldn't fight every chargeback, it's worse to do absolutely nothing. Careful analysis of every chargeback claim is necessary to ensure that the chargebacks that can be fought are fought. In some cases, the amount a merchant stands to win is significant. In these cases, the merchant should follow through with chargeback representment. **Doing nothing means the merchant is guaranteed to lose 100% of its profits** in every chargeback case. Merchants should seek to recover as much of their money as possible.

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Mistake 3

Maintaining Customer Service Best Practices

Customers are less likely to initiate a chargeback if they **feel they can quickly and easily resolve their concerns** through a company's customer service department. Proactive and effective customer service is often overlooked as a way to both prevent and successfully represent chargebacks. Merchants should clearly display customer service contact information on their website and on their checkout page, alongside clear refund policies.⁶

Alternatively, if a customer does initiate a chargeback, it can be beneficial to directly contact the customer and inquire about the reason for the chargeback. The merchant has **7-10 days to dispute the chargeback via the channels expressed by the card brands**; contacting the customer during this window can possibly spur the customer to undo the chargeback by contacting their issuer. **Timely customer service is key to possible reversal of these claims.**⁷ Even if the dispute is not reversed, this outreach can aid in the collection of information about the chargeback complaint which may be helpful during representation.

Generally, if a customer complaint is valid, the merchant should issue a refund as soon as possible. However, if it appears the complaint is without merit, a merchant must consider the costs of fighting the chargeback vs. accepting the chargeback. Merchants should consider the amount of supporting evidence they have for their case as well as the time and resources that will be required. **If the cost of fighting and the potential outcome is likely to not be successful, the merchant should consider offering a refund outright, which is preferable to losing a chargeback dispute down the line.**⁸



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Mistake 4

Wasted Effort

Merchants may be doubling their efforts, wasting time and resources by working cases that are already handled by the acquirer.⁹ The acquirer on behalf of the merchant often initiates automatic representments; however, basic requirements to support automatic representments vary between acquirers. It is important for merchants to know which disputes qualify for automatic representment, so they aren't working cases that are already being taken care of for them. Below is a list of instances where automatic representment is possible because certain criteria are met whereby an issuer should not have charged back under card scheme regulations.¹⁰



Fraud Notification Service (FNS – MasterCard) When the card number involved in a dispute that is listed in the MasterCard Fraud Notification Service Program before presentment date, an automatic action is taken to represent the incoming fraud chargeback¹¹



Transaction Already Refunded (MasterCard & Visa) When a merchant issues a credit or refund to the cardholder and still faces a chargeback, this automatic action represents the incoming chargeback¹²



Duplicate Chargeback (MasterCard & Visa) If a full chargeback is initiated on the same presentment twice, an automatic action represents the incoming chargeback¹³



Out of Time (MasterCard & Visa) If a chargeback is initiated beyond the 120 day window for non-service related chargebacks, an automatic action of representment occurs¹⁴






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Mistake 5

Ignoring Red Flags

Merchants should track each chargeback dispute from beginning to end since much can be learned. In some cases, chargeback reasons may point to elevated fraud, which can prompt merchants to look into their fraud prevention measures for improvements or added protection. Track common chargeback reasons, as this may influence return and/or customer service policies moving forward. In tracking chargebacks, pay close attention to these red flags:

-  1 Reasons for chargebacks and disputes
-  2 Common cardholders/issuing banks initiating chargebacks
-  3 Percentage of chargebacks related to fraud
-  4 Reason for unsuccessful representment (Reversal Denial)
-  5 Win/loss rate

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$$\text{TRUE WIN RATE} = \frac{\text{TOTAL \# OF DISPUTES REPRESENTED (NOT INCLUDING EXCEPTIONS)}}{\text{TOTAL \# OF DISPUTES (REGARDLESS OF OUTCOME)}}$$

Mistake 6

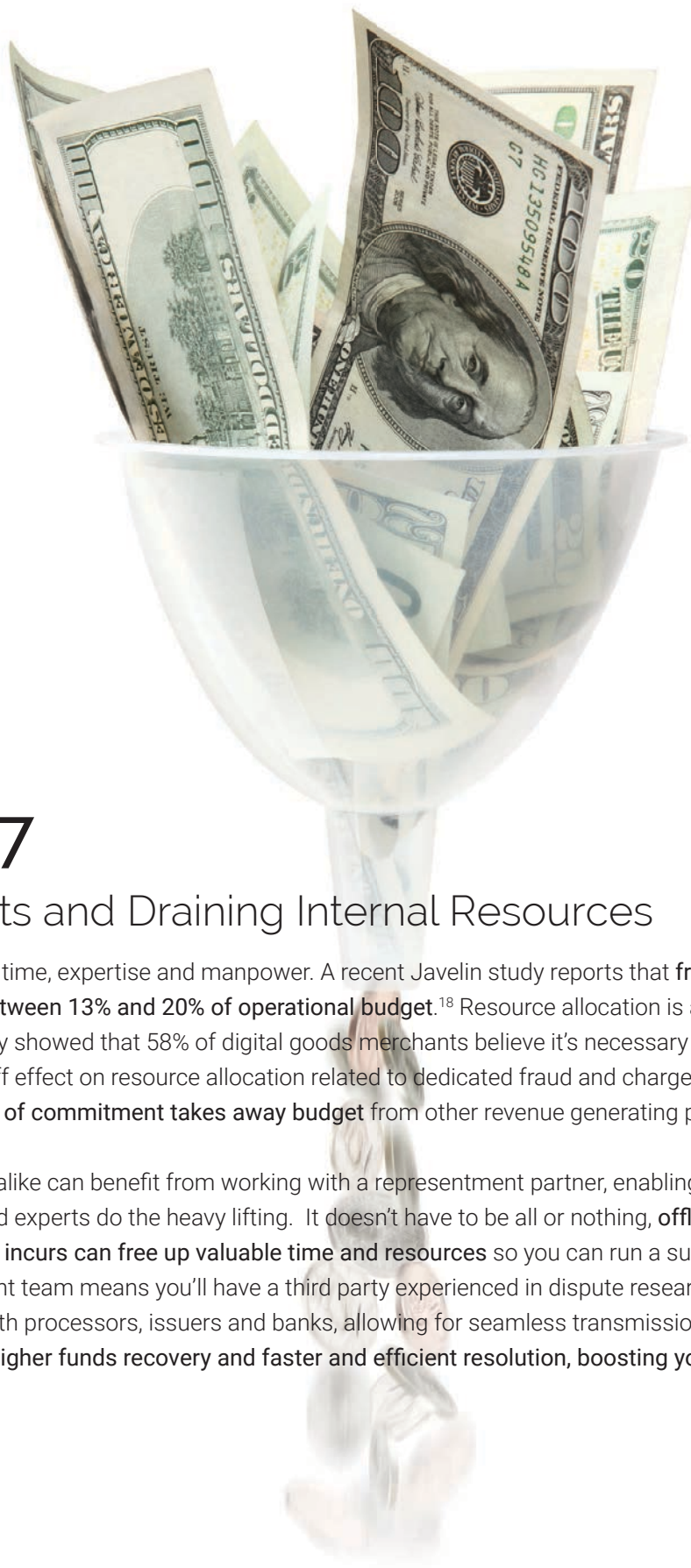
Evaluating Success and Your TRUE Win Rate

Having insight into your win/loss rate is especially important as there is great disparity in how win rates are calculated. **Many 3rd party representation service providers boast a 90% win rate;** however, those calculations are generally based solely on first representments. **This is an exaggerated notion of success** because often, a first representment may result in a reversal. Also, there is a dependency on the processor/acquirer as not all will indicate a reversal and provide a provisional credit when the response documentation is forwarded on to the issuer. There are also considerations where merchants have signed waivers that allow the processor/acquirer to forward the response automatically to the issuer and bypass any internal review processes.

Calculating a win rate on **first representment alone is misleading** because the end result may still be a chargeback. Additionally, many of these vendors selectively fight chargebacks, meaning they do not represent all chargebacks that can be represented. True win rate should be calculated by looking at the total disputes represented successfully without subsequent exceptions (2nd representment, pre-arbitration, or arbitration) divided by the total number of disputes, regardless if they are represented or not.

There are many different ways to measure these metrics as well; let's take a look at a real world example taken from a recent report. According to a JP Morgan report, the average win rate is 27%, however this is slightly misleading.¹⁵ There is a wide disparity in how merchants represent chargebacks; on average, merchants represent 56% of their fraud-coded chargebacks, with nearly 30% representing all of their chargebacks.¹⁶ All merchants report winning 40% of disputed chargebacks on average. The true win rate average is actually 22% (56% average of fraud-related chargebacks disputed multiplied by 40% average win rate); however, the 27% average looks at the metrics on a merchant-by-merchant basis.¹⁷ **Merchants should also note that the majority of chargebacks reported as represented are fraud-related, leaving a large gap for non-fraud related chargebacks.**

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Mistake 7

Increasing Costs and Draining Internal Resources

Fighting chargebacks takes time, expertise and manpower. A recent Javelin study reports that **fraud and chargeback management consumes between 13% and 20% of operational budget**.¹⁸ Resource allocation is also a significant concern for merchants. That same study showed that 58% of digital goods merchants believe it's necessary to maintain a dedicated in-house fraud and management staff effect on resource allocation related to dedicated fraud and chargeback staff, but almost the same amount, **53% said that level of commitment takes away budget** from other revenue generating projects and departments.¹⁹

Small and large merchants alike can benefit from working with a representment partner, enabling them to focus on their core business and let trained experts do the heavy lifting. It doesn't have to be all or nothing, **offloading even some of the chargebacks your business incurs can free up valuable time and resources** so you can run a successful business. Working with a professional representment team means you'll have a third party experienced in dispute research and support and that has established relationships with processors, issuers and banks, allowing for seamless transmission of chargeback data. **This type of partnership can ensure higher funds recovery and faster and efficient resolution, boosting your bottom line.**



Conclusion

Often businesses attribute disputes as a cost of doing business that can add additional losses related to excessive refunding or lost merchandise that never gets returned. Merchants who do choose to fight chargebacks face a time-consuming, expensive process that can drain internal resources (or where internal resources may lack the required expertise). Additionally, it can be complex and difficult to determine when to dispute a chargeback and when to talk away. Whether a merchant has the internal expertise and resources to fight chargebacks or needs to augment or entirely outsource the process, they should consider the common mistakes outlined in this paper to ensure the best chances at successful revenue recovery.



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 everyday. Verifi helps merchants safely process payments, combat fraud, prevent and resolve costly chargebacks, as well as increase billings and keep loyal customers. Headquartered in Los Angeles, California, we process more than \$20 billion transactions annually and currently serve more than 8900 accounts worldwide.

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Citations

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