7 Mistakes Recurring 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 he or she did authorize, and is also known as "I didn't buy that" fraud or cyber shoplifting. This kind of fraud is seen by recurring or subscription-model merchants fairly often, especially when auto renewals are involved.

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.).

In any case, the chargeback dispute process does not favor recurring merchants. Issuing banks and credit card companies require very little proof from consumers to validate a dispute claim because they often lack the necessary information that could strengthen the merchant's case, and because keeping the cardholder happy is one of their top priorities. There are 40 billion reasons why recurring merchants should have a solid foundation for fighting chargebacks in place.[1] This article outlines the basics on chargeback representment, as well as common mistakes recurring merchants make when it comes to fighting chargebacks.

Fighting Chargebacks 101

Some chargebacks are unavoidable, but with the right chargeback reason code knowledge and expertise, they 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 is a list of some of the basic requirements needed when preparing to fight a chargeback.

Documentation and Information Required When Representing a Recurring Transaction Chargeback

Item 1

In some cases, a recurring 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 recurring 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]

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

It's a lot of information to gather and manage, which is why merchants, issuers and cardholders alike could benefit from the use of a data-sharing system that can provide all the necessary details of a charge and help resolve disputes quickly before they become a chargeback. A collaborative approach through one of these platforms gives issuers the information they might not otherwise have access to, thus reducing operational costs spent investigating. It produces a speedy resolution and a positive experience for the cardholder and it helps merchants avoid chargebacks and reduce fraud.

Timeline Required to Represent a Chargeback

Stage 1

Information Gathering

The merchant has a maximum of 45 days from the date of the chargeback, according to card scheme regulations. Though this varies greatly between processors/acquirers, merchants should understand the specific submission requirements of their processors/acquirers. 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 its acquirer within those time frames stating the issuer rejected the representment, the merchant can assume it has won the case.[4]

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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 recurring merchants from successfully recovering money that is rightfully theirs.

Mistake 1

Fully Understanding Chargeback Reason Codes

Effective chargeback representment requires strong knowledge of chargeback reason codes and compelling evidence requirements. The chargeback 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 2015, 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 undisputed 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.

A recurring transaction is one in which a cardholder authorizes a merchant to automatically charge his or her account for the recurring delivery of merchandise or services (e.g. Dollar Shave Club, Stitch Fix, fitness club memberships, lawn care, SaaS providers, etc.).[6]

Recurring transactions are processed without the cardholder swiping a card or submitting an order each time, which makes them susceptible to disputes. The most common reason codes for recurring merchants include:[7]

Visa Code #	MasterCard Code #	Reason
41	4841	Cancelled Recurring Transaction
53	4853	Not as Described or Defective Merchandise
57	4840	Fraudulent Multiple Transactions
62	4870/4871	Counterfeit Transaction

Being familiar with the potential chargeback reason codes gives recurring merchants the ability to respond more quickly and resolve (or win) the dispute before suffering losses.

Mistake 2

Not Fighting

While recurring 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 percent of its profits in every chargeback case. Merchants should seek to recover as much of their money as possible. As it relates to recurring merchants, perhaps a customer claims to have agreed to six months for a particular service, but was charged for a year. The merchant might only be on the hook for a partial refund. As always, it is in the best interest of the merchant to resolve these issues directly with the consumer rather than having the cardholder file a dispute through the issuer.

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Mistake 3

Not Maintaining Customer Service Best Practices

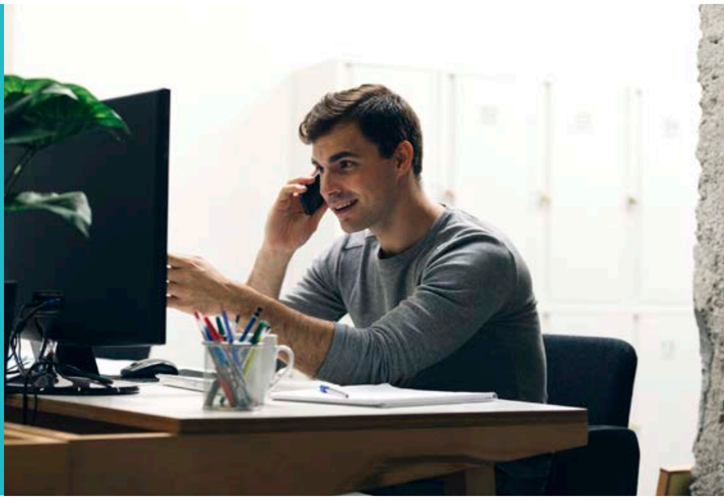
Customers are less likely to initiate a chargeback if they feel they can quickly and easily resolve their concerns through a company's customer service department. Proactive and effective customer service is often overlooked as a way to both prevent and successfully represent chargebacks. Recurring merchants should clearly display customer service contact information on their website and on their checkout page, alongside clear refund policies.[8]

For many recurring merchants, especially SaaS companies, it can be somewhat challenging to provide a detailed description of their products and the features within. It's imperative to provide as many details about how the subscription works, what comes with the package the cardholder has ordered and perhaps screenshots to better illustrate exactly what they're getting.

In terms of pricing, it's always a good idea for recurring merchants to place this information in many areas of their website. Make it clear that the cardholder will be automatically charged on a recurring basis (monthly, yearly, etc.), and include opt-out procedures. It's also imperative to provide clear billing descriptors of what the charge is specifically for on a cardholder's statement.

Pricing and automatic charging/renewal should be mentioned in at least the following areas:[9]

- Pricing page
- Terms of Service
- Checkout page
- Emails a few days before you charge your customer
- Emails immediately after charging your customer



If a cardholder 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.[10] 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 representment.

Generally, if a customer complaint is valid, the recurring 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. Recurring 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.[11]

Mistake 4

Wasted Effort

Recurring merchants may be doubling their efforts, wasting time and resources by working cases that are already handled by the acquirer.[12] 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 recurring 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.[13]

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 chargeback.[14]

Duplicate Chargeback (MasterCard & Visa)
If a full chargeback is initiated on the same presentment twice, an automatic action represents the incoming chargeback.[15]

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 chargeback.[16]

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 occurs.[17]

Mistake 5

Ignoring Red Flags

Recurring 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

Recurring merchants must learn from their chargeback data and quickly identify what went wrong. Maybe information provided to the consumer isn't clear or is misleading, or perhaps the way a consumer is billed is creating an increase in chargebacks. For example, some recurring merchants use the negative option billing system. Negative option billing is a model that includes goods or services that are provided automatically wherein the customer must pay for the service or specifically decline it in advance of billing. This method can create quite a bit of contention between the cardholder and recurring merchant for obvious reasons, and it might not be worth the trouble.

Simply reacting to chargebacks will not keep future chargebacks from occurring. It's the information gleaned from each instance that will help recurring merchants make smarter operational decisions and create a strategy to fill in the perhaps once-unknown gaps.[18]

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Mistake 6

Not 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 third-party representment service providers boast a 90-percent 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 (second 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. According to a JPMorgan report, the average win rate is 27 percent, however, this is slightly misleading.[19] There is a wide disparity in how merchants represent chargebacks; on average, merchants represent 56 percent of their fraud-coded chargebacks, with nearly 30 percent representing all of their chargebacks.[20] All merchants report winning 40 percent of disputed chargebacks on average. The true win rate average is actually 22 percent (56 percent average of fraud-related chargebacks disputed multiplied by 40 percent average win rate); however, the 27 percent average looks at the metrics on a merchant-by-merchant basis.[21] Merchants should also note that the majority of chargebacks reported as represented are fraud related, leaving a large gap for non-fraud related chargebacks.

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 percent of operational budget.[22] Resource allocation is also a significant concern for merchants. That same study showed that 58 percent of digital goods merchants believe it's necessary to maintain a dedicated in-house fraud and management staff dedicated to fraud and chargebacks, but almost the same amount, 53 percent, said that level of commitment significantly takes away budget from other revenue-generating projects and departments.[23]

Merchants of any size 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 one 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

Recurring merchants who 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, with the intangibles associated to many subscription-based or SaaS businesses, it can be complex and difficult to determine when to dispute a chargeback and when to walk 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 and future chargeback prevention.

About Verifi

Founded in 2005, Verifi is an award-winning provider of end-to-end payment protection and management solutions. Our experienced team is recognized for deep expertise, thought leadership, a highly personalized approach and a passion for helping merchants safeguard the entire payment lifecycle. Verifi offers best-in-breed solutions and white glove support to help you combat fraud, prevent and resolve costly chargebacks, increase your billings and keep loyal customers as well as process your payments in a safe and user friendly environment.

As our client's needs have changed over time, our innovation has focused on enhancing our existing solutions as well as developing new products and services to help merchants manage the payment challenges they face every day.

Trusted by emerging companies to the Fortune 500, Verifi works with a wide range of industries, including top omni-channel and e-commerce merchants to maximize payment yield across the entire transaction lifecycle. Headquartered in Los Angeles, California, we process more than $20 billion transactions annually and currently serve more than 8,900 accounts (merchants and partners) internationally.

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