

The Smart Way To

Fight & Recover Chargebacks





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The Chargeback Process



How Are Chargebacks Impacting Your Company?

Whether dealing in goods or services, more transactions than ever before are conducted over the internet. This change has ushered in a heightened risk of chargebacks for merchants. While the frequency of chargebacks varies from one business to the next, one unavoidable consequence is the financial toll incurred. On average, the cost of a chargeback amounts to 2.5 times the original transaction value. This reality underscores the imperative for businesses to proactively address chargeback risks, emphasizing the importance of robust fraud prevention measures and diligent customer service practices to mitigate these financial burdens.



How is a Chargeback Filed?

There are five parties involved in a chargeback:



The Cardholder



The Issuing Bank



The Card Network



The Merchant



The Acquiring Bank



Cardholders can contact their issuing bank within a specified time frame (usually 120 days) from the date of a transaction and request that the charge be reversed. The bank will ask them why they are disputing the charge, then assign the appropriate reason code to the chargeback. The reason codes, which are defined by the card networks, help you to understand the cardholder's claim and what supporting documents you're going to need if you choose to dispute the chargeback.



How the Dispute Process Works.

When a cardholder calls their issuing bank to request a chargeback, the bank takes the customer's explanation at face value. If the customer claims fraud, the bank attaches a reason code indicating fraud. If the customer says it was a merchant error, the bank believes them. What this means is that if you believe the customer is incorrect or lying, the burden of proof lies entirely with you. It's your responsibility to prove that you fulfilled your end of the bargain.

Just because a customer claims they never authorized a transaction doesn't make it true.

The bank can be defrauded just as easily as you can, so it's always best to do your own analysis of the transaction rather than taking the issuer's word for it. If you believe that a chargeback is illegitimate, you have the right to fight back.

To dispute a chargeback, you will need to submit a dispute package arguing your case and presenting supporting documents. These documents are sent to your acquirer, which then forwards them to the issuing bank. The requisite documents vary depending on the exact nature of the chargeback, so there is no one-size-fits-all process for winning a dispute.

Adding an additional challenge to this process is the fact that it can often take days for the issuer to inform the acquiring bank of the dispute and for your acquirer to inform you, reducing the already limited time you have to present your case.

This is why you need to fight chargebacks the smart way.

The process can be confusing, the rules and regulations governing it are frequently changing, and the amount of time you have to fight back is limited, so be prepared. If you're handling your chargeback management in-house, you need to have a smart strategy in place in order to win.

The Causes of Chargebacks

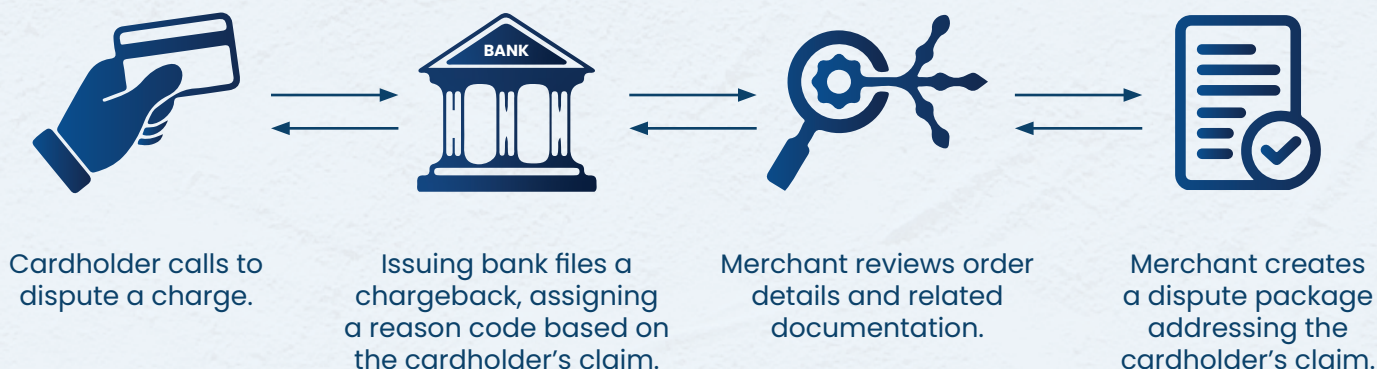


Reason Codes Aren't the Same as Root Causes.

Each network has their own set of chargeback reason codes, and these codes can be a valuable tool in determining the root causes of your chargebacks. But because issuing banks always take the cardholder's explanation at face value, these reason codes often don't line up with the truth.

Some merchants assume that a reason code indicating a fraudulent transaction always means true fraud, so they don't dispute these chargebacks. But making this assumption can cause you to lose up to 25% more revenue to chargebacks. It's best to do your own analysis in order to discover the true cause of chargebacks so that you can maximize your success and recover the most revenue.

Representing a chargeback requires understanding its root cause, not blindly relying on issuer bank reason codes. Chargebacks are typically categorized into True Fraud, Friendly Fraud, and Merchant Error.





True Fraud

True fraud occurs when an unauthorized third party makes a transaction without the cardholder's knowledge. The merchant is liable in these cases, so you shouldn't try to dispute the chargeback. Instead, you should review your fraud prevention strategy to help reduce these chargebacks in the future.



Friendly Fraud

According to Visa internal reporting, about 75% of all chargebacks claiming fraud are actually friendly fraud. This is when a cardholder knowingly authorized a transaction but disputes the charge anyway in order to get their money back. If you have documentation to prove that you verified the cardholder's identity at the time of sale, you can win these disputes.



Family Fraud

A subcategory of friendly fraud, this is when a family member of the cardholder authorized the transaction. In this case, the cardholder is still liable for the transaction.



Merchant Error

The third most common cause of chargebacks is merchant error. Examples include incorrect transaction amounts, duplicate transactions, non-delivery of goods or services, or failing to issue a promised refund. You are liable for these errors, so you should not dispute the chargeback. Focus instead on reviewing your operations to fix any recurring problems.

The Dispute Package



The Centerpiece of Any Dispute is the Dispute Package.

The dispute package should be customized to the reason code, highlighting key points to direct reviewer attention and decision-making.

At the issuing bank, the person who is ruling on your dispute may only have five minutes to evaluate all your supporting information, so you need to make your case clearly and concisely. State the key points proving your case and provide a list of all the supporting documents provided in the order they appear.

The key is to make it easy for the issuer to rule in your favor, so keep the rebuttal letter to one page if possible and keep your paragraphs short. Sometimes excluding weak evidence entirely can help keep the focus on the main points of your case.

Compelling Evidence

The card networks have established guidelines for what kinds of documentation qualify as compelling evidence to reverse a chargeback. The types of evidence available will depend on what kind of business you operate and what kind of goods or services were involved in the specific transaction in question.



Retail

In point-of-sale retail, chargebacks are typically filed on high value purchases, often as a result of buyer's remorse. To dispute these chargebacks, you may need to prove that you verified the cardholder's identity at the time of purchase. Processing transactions using a card's EMV chip will insulate you from liability in these cases. When an EMV chip wasn't used, certain records can also serve as effective evidence if a chargeback occurs.

○ Scanned ID

○ Invoice

○ Signed receipt



Physical Goods

When selling physical goods online, a signed proof of delivery is your best weapon. Any online transactions should also be supported by Address Verification (AVS) and a CVV match (the 3-digit code on the back of a credit card). If all else fails, photos posted on social media showing the customer using your products can also qualify as compelling evidence.

- AVS & CVV match
- Proof of delivery
- Photos showing the customer using the product
- A copy of all customer service communications



Digital Goods and Subscriptions

Selling digital goods and/or subscriptions makes it more challenging to prove the delivery of the product. At the time of sale, it's a good idea to match the location of the customer's IP address to the billing address associated with the credit card. You may also be able to use their IP to collect proof that they have used your product, for instance by downloading a program or logging into a platform.

- AVS & CVV match
- IP address match
- Emailed invoice
- Proof of usage
- A copy of all customer service communications
- Terms & conditions (only include the sections relevant to the case)



Travel

For travel – including ticketing agencies, hotels, vacation rentals, etc. – an AVS and CVV match is crucial. For phone sales, voice authorization offers you the same protections as an AVS and CVV match does for online sales. For brokers, some airlines and hotels will also share with you the check-in confirmation for customers who purchased tickets or accommodations through your agency, which can be very helpful.

- AVS & CVV match
- Voice authorization
- A copy of the tickets
- Check-in confirmation
- For family purchases, social media confirmation of the family relationship
- Terms & conditions (only include the sections relevant to the case)



Ever-Changing Rules & Regulations



If You Think You Have the Perfect Template for Disputing Chargebacks, You're Wrong.

Merchants who use the same strategy to dispute every chargeback are going to lose most of them. As discussed earlier, each dispute package needs to be customized to the case at hand, but there are other factors prohibiting a one-size-fits-all solution as well. The card networks each have different rules and regulations for how to dispute a chargeback, and these rules are frequently updated and revised. You need to know which reason codes call for what kinds of evidence and keep up to date with the best practices for presenting your case.

If you're fighting chargebacks in-house, it's a good idea to set up Google Alerts to notify you every time one of the card networks releases a new set of regulations.

These documents are publicly available and will help you to understand the changes in policy and ensure that you continue to meet the requirements and win your disputes.

Fighting Chargebacks the Smart Way



There Are Many Different Reasons Why a Cardholder Might File a Chargeback, so There Are Just as Many Ways to Dispute Them.

With so many parties involved – acquiring and issuing banks, card networks, customers, and merchants – you need to understand what each of these parties is thinking and how they relate to your supporting documents.

For example, you may have 4 different merchant accounts for your business. If you receive two chargebacks through different accounts, but with the same reason code and for the same products, you may be tempted to submit the same support documents in each dispute. But because they're going through two different banks, you might win one and lose the other.

Every little difference should factor into your strategy, but the only way to know what works and what doesn't is by collecting data.

Only through experience can you learn which acquirers don't send you chargeback notifications promptly, which card networks cause your recovery rates to drop, and which of your products have the highest frequency of chargebacks.

Tracking and analyzing all these metrics is time consuming, but it's also critical to maximizing your revenue recovery. It will help you choose which chargebacks are worth fighting, increase your chances of winning, and provide valuable data that can inform your business decisions.

Being smart means investing in your data and analytics in the short term in order to put in less effort and recover more of your losses in the long term. If you're managing your chargebacks in-house, then you need to be strategic about it. Don't fight chargebacks the same old way, fight them the smart way!

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