



DECRYPTING AUTHORIZATION CHARGEBACKS

Understanding Authorization



What is Authorization?

Authorization is the first step in the transaction process, where the merchant's payment gateway transmits the card details to the issuing bank to ensure that the consumer's card is valid and has sufficient funds or credit available for the transaction. At the same time, certain fraud prevention checks may be conducted, such as:

- ➔ CVV/CVC Verification
- ➔ AVS (Address Verification System)
- ➔ PIN Entry
- ➔ 3-D Secure
- ➔ Risk-Based Authentication (transaction amount, location, and user behavior)

If the transaction is approved, an authorization code is sent back to the merchant. The merchant then captures the funds by submitting the transaction for settlement along with the authorization code. Transactions are often settled at the end of each business day. In some cases, however, merchants may wait longer before capturing funds.



Authorization Terminology

- **Preauthorization/Authorization Hold:** These terms refer to when a merchant requests an authorization for a transaction that either won't be immediately captured or where the final transaction amount may change.
- **Incremental Authorization:** This is a request to authorize additional funds for the same transaction, typically used when the final transaction value exceeds the authorized amount.
- **Reauthorization:** This is used when the original authorization has expired, and a new authorization needs to be obtained for the same purchase.
- **Deferred Authorization/Offline Authorization:** This is used when system or connectivity issues prevent the merchant from being able to authorize the transaction at time of payment.



Authorization Time Limits

While some merchants have their payment gateways set up to automatically capture funds as soon as authorization is approved, it's common in many industries to delay capture for various reasons. How long merchants can wait depends on the Merchant Category Code (MCC), the nature of the transaction, and the card network.



Visa Authorization Time Limits

Transaction Type	Time Limit
Merchant-initiated transactions and most card-present transactions	5 days
Card-not-present transactions	10 days
<ul style="list-style-type: none"> • Aircraft rental • Bicycle rental, including electric scooters • Boat rental • Clothing and costume rental • DVD and video rental • Equipment and tool rental • Furniture rental • Motor home rental • Motorcycle rental • Trailer parks and campgrounds 	10 days
<ul style="list-style-type: none"> • Cruise lines • Lodging • Vehicle rental 	30 days



Mastercard Authorization Time Limits

Transaction Type	Time Limit
Preauthorization	5 days
Other authorizations	10 days

For Mastercard transactions, any incremental authorization that is approved will reset the time limit. This is not the case for Visa transactions. American Express does not impose a time limit on authorizations.

Understanding Authorization Chargebacks



What are Authorization Chargebacks?

Authorization chargebacks occur when a merchant doesn't follow the card network's rules around authorization and the issuing bank files a chargeback.

Some issuers have automated systems that check for valid authorizations for all transactions. If the authorization is expired or if the transaction exceeds the authorized amount, they will automatically issue a chargeback. Most issuers, however, will check the authorization only when a cardholder disputes a charge. If the authorization is invalid, that will be used as the justification for a chargeback.

In cases where the transaction amount is greater than what was authorized, a partial chargeback may be filed for the difference. These partial chargebacks will still result in a chargeback fee and will still count against a merchant's chargeback ratio.

Authorization chargebacks can have significant financial impacts on businesses. In addition to the immediate financial losses from the reversal of funds and the chargeback fees, businesses may also face additional fees and penalties if their chargeback ratios exceed certain limits.



Common Reasons for Authorization Chargebacks

- **Expired Authorization:** The merchant processed the transaction after the authorization period had expired
- **Missing Authorization:** The merchant failed to obtain proper authorization from the card issuer before processing the transaction.
- **Declined Authorization:** The merchant authorization was declined, but the merchant processed the transaction anyway.
- **Exceeded Authorization Amount:** The amount charged was higher than what was authorized by the card issuer.

Preventing Authorization Chargebacks

The most effective way for merchants to prevent authorization chargebacks is to consistently secure a new authorization whenever required. This includes instances where the final transaction amount is higher than the initial authorization amount or when the initial authorization has expired.

If your business is experiencing frequent issues due to final transaction amounts exceeding the authorization, one option is to request a larger preauthorization as standard practice. However, card network rules instruct merchants to authorize only the estimated final amount without any wiggle room for possible additional charges. Merchants who consistently request authorization for amounts much higher than the final transaction value may find themselves in hot water.

If an authorization is nearing the time limit, it's generally best to capture the authorized amount and, if necessary, request a new authorization for any further charges.

Unfortunately, not all payment systems make it easy to break up a transaction into multiple parts like this. Merchants whose systems don't allow this solution may need to explore other options. For Mastercard transactions, requesting an incremental authorization for \$1 can extend the time limit. For Visa transactions a new authorization must be requested.

Of course, obtaining an authorization for the full amount of the transaction isn't always possible. Sometimes incremental authorization requests will be denied. When that happens, the merchant has some difficult choices to make about how to proceed.



Handling Declined Incremental Authorizations

Merchants handle declined incremental authorizations in a number of ways. Some of these methods are compliant with card network rules, some are not. Any method that is not compliant with card network rules can result in a chargeback, but some merchants choose to take that risk regardless. Here are some of the most common strategies merchants use:



Retrying Authorization

Some merchants choose to wait and retry a declined authorization at a later date. Retries are common in the world of subscriptions, where merchants will often try to submit authorizations at strategic times, such as on the 1st or 15th day of the month when many U.S. employees get paid.

Retries are less common in other industries because managing them at scale is complicated and often requires a dedicated system. Note that retrying an authorization for the same amount within 24 hours is against card network rules, as is attempting authorization for lower and lower amounts to see what will be approved.



Force Posting

One method many merchants use is force posting. This term commonly refers to transactions that are submitted without any authorization, which are automatically rejected. In this case, however, we're referring to situations where an incremental authorization was declined, but the merchant attempts to capture the full amount anyway, using the original approved authorization code.

Force posting is against card network rules and can result in a chargeback. As noted previously, some issuers will automatically detect and chargeback such transactions. In addition, if the customer disputes the charge for any reason, the merchant won't be able to defend the additional amount charged even if the charge was legitimate. However, some merchants report a high rate of successfully capturing funds with this method.



Billing the Customer

Another option is to settle the transaction for the authorized amount and send the customer a bill for the remainder. This has the advantage of being both relatively simple and compliant with card network rules. However, some merchants report that this method has a very low rate of success.

The right strategy for dealing with declined incremental authorizations will vary from one business to another based on their system capabilities, the frequency and value of declines, and the cost of chargebacks. Testing different methods and analyzing the results is often the best way to find the ideal strategy for maximizing revenue.

Chargebacks Gurus



Chargeback Gurus helps businesses protect and recover revenue by providing effective chargeback management solutions, AI analytics and insights powered by our proprietary **FPRONE™** platform.

By understanding our clients' needs and fully aligning with their goals, we help them reduce chargebacks and increase recovery rates to maximize revenue retention. Our technology solutions use powerful data science and AI analytics—combined with deep industry expertise—to deliver hundreds of millions of dollars in recovered revenue to our clients.

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