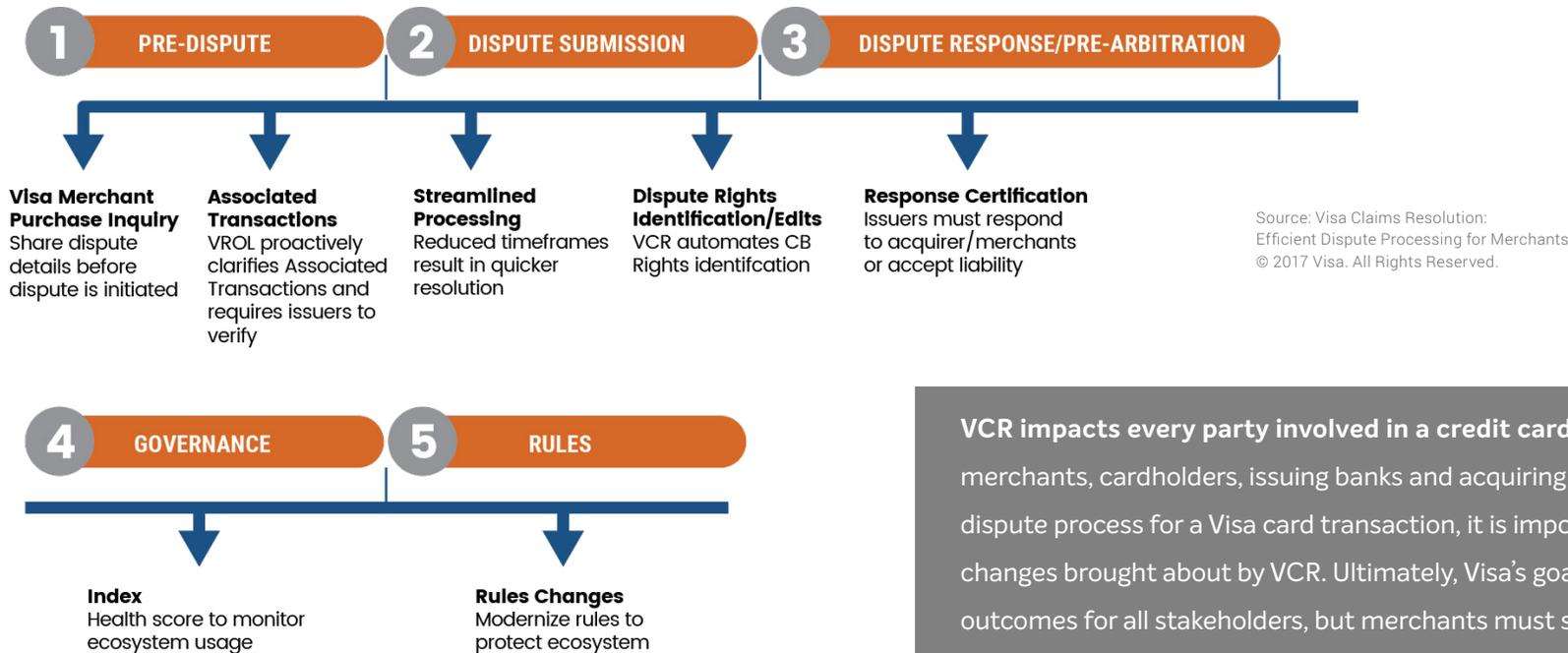

Visa Claims Resolution: The Impact of VCR on eCommerce and Card Not Present Merchants

White Paper

Understanding the Visa Claims Resolution Process

Last year, Visa rolled out a new mandate for merchants who process credit card transactions: Visa Claims Resolution, or VCR. This mandate established a new global policy for disputed charges, shifting away from a process modeled after litigation and toward a process based on assigning liability.

Every year brings more transaction disputes than the last, and the original procedures for handling chargebacks and disputes were developed in the 1970s. The purpose of VCR is to modernize and streamline the overall process to meet the present-day payment card environment, the an objective of reducing the number of invalid disputes and ensuring that legitimate ones get resolved faster.



VCR impacts every party involved in a credit card transaction dispute—merchants, cardholders, issuing banks and acquiring banks. To navigate the dispute process for a Visa card transaction, it is important to understand the changes brought about by VCR. Ultimately, Visa’s goal is to produce better outcomes for all stakeholders, but merchants must still learn how to operate within the new framework to maximize their chances of getting a fair and correct outcome when a valid charge is disputed.

Changes Made To Dispute Process

VCR has huge implications for ecommerce merchants, because the card-not-present transaction environment is rife with true and “friendly” fraud.

These five industries, which represent billions of dollars of daily charges, are among the most significantly impacted:

- Negative option billing merchants (recurring billing)
- Adult entertainment
- Online Gaming
- Mail order/telephone order (MOTO) merchants
- Travel

The major changes to the dispute process are as follows:

- Disputes are now placed in one of two categories:
 - Allocation—fraud and authorization claims
 - Collaboration—processing error and cardholder dispute claims
- No provisional credits are provided for Allocation cases
- Changes to dispute response time:
 - Allocation cases—24 days
 - Collaboration cases—18 days

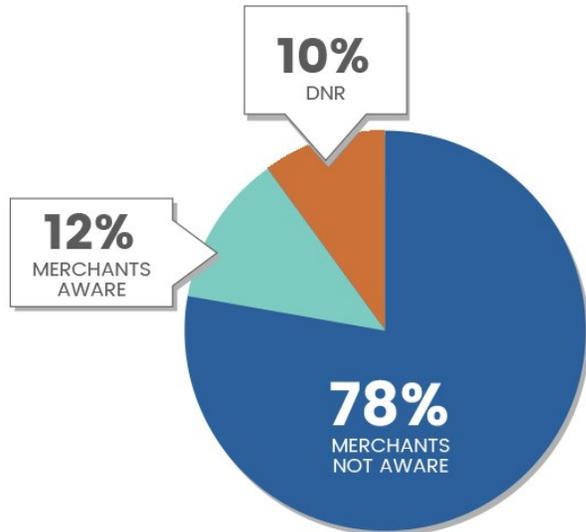
- Merchants must acknowledge chargebacks by either Accepting or Disputing them, or be subject to penalty fees
- Dispute response is only accepted for transactions with a verified AVS/CVV match

Merchants in those industries most heavily affected must be especially mindful of these changes, as they have significant bearing on how and when to proceed with dispute responses.



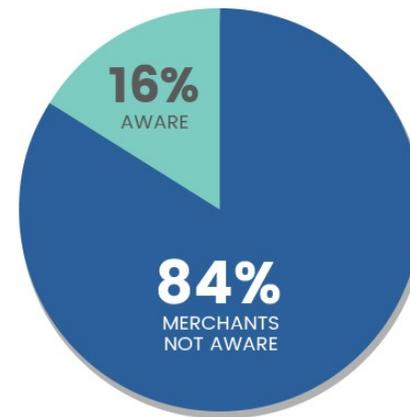
Dispute Acknowledgement Change

Why are merchants now required to formally acknowledge chargebacks? First, requiring merchants to make an immediate decision to either fight the chargeback or accept it helps expedite the resolution process. Second, it keeps merchants aware of the chargebacks they're getting. Finally, it permits better observation of merchants with a high dispute rate, and their reasons for disputing.



In a survey of the Chargeback Guru customer base, only 12 percent of merchants were aware of the requirement, with 78 percent unaware. Ten percent did not respond to the question. The lack of awareness comes at a price, but increasing that awareness will help merchants understand their chargeback situation and how it affects their business and customer experience.

Currently, merchants are charged between 75 cents and \$2.50 for failing to acknowledge a chargeback. Many merchants, however, remain unaware of the dispute acknowledgement requirement and the associated fees. A survey conducted by Chargeback Gurus revealed that more than three quarters of merchants are unaware of the acknowledgement requirements, and even fewer know how much the penalties would cost them.

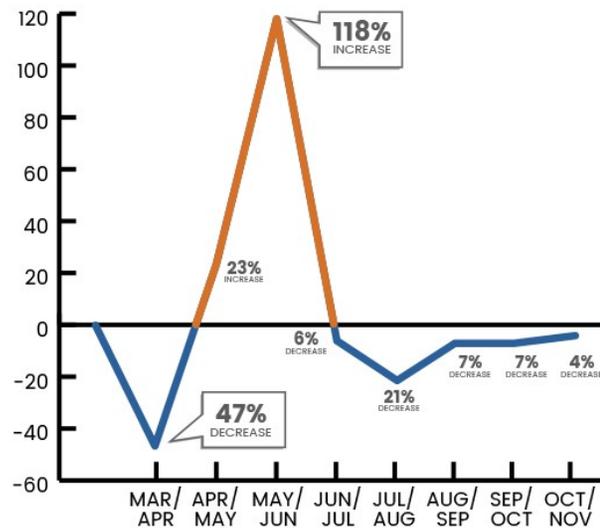


A survey of Chargeback Guru customers revealed that 84 percent of merchants did not know that there were fees associated with non-acknowledgement. This tells a powerful story about revenue management. This suggests that those managing an enterprise's finances only look at the bottom line without viewing individual line items, such as chargeback non-acknowledgement fees that can be easily addressed.

VCR Challenges At Initial Stages

When VCR was introduced in April 2018, there were some bumps in the road. Issuing banks did not all immediately update their computer systems to account for the changes mandated by VCR. Through the months of April and May, the number of chargebacks processed was greatly reduced.

Then in June, when the bottleneck gave way, there was a huge spike in chargebacks, as illustrated by the graph below:



Positive Impacts Of VCR

Having passed the rocky initial period of VCR's rollout, how well has it succeeded at delivering Visa's objectives? Can we fairly say, at this point, whether VCR is a net positive for merchants?

We've analyzed our internal data and quantified some of the positive outcomes of VCR to date:

- Overall chargeback volume reduced by 15-18%
- Bogus fraud claim disputes reduced by 13%
- Typical chargeback resolution cycle time reduced from 60 days to 30 days or less
- Consolidated reason codes are leading to more effective dispute responses
- The losing party in a dispute pays the arbitration fee (\$500)

Negative Impacts Of VCR

While VCR may have conferred real benefits to merchants, there are downsides as well.

Our analysis has identified the following areas where VCR may be doing more harm than good where merchants are concerned:

- Average time spent investigating and fighting disputes has increased from 20 minutes to 40 minutes
- Merchants are now required to acknowledge chargebacks or be penalized
- Cases without an AVS/CVV match can no longer be disputed
- Not all issuing banks are following Visa protocols when making decisions on cases
- The majority of issuing banks are not informing merchants of the reasons why they lost their disputes

Reason Codes Impacted By VCR



VCR has an effect on what types of chargebacks merchants are seeing. Changes to the process and to the list of reason codes has changed the occurrence rates of some types of chargebacks.

Our internal data shows that changes in volume to certain reason codes may be as high as the following:

Allocation Chargebacks

10.4: Fraud – Card Not Present (13% reduction) ↓

11.3: No Authorization (18% reduction) ↓

Collaboration Chargebacks

12.5: Incorrect Amount (9% increase) ↑

12.8: Duplicate Processing (5% reduction) ↓

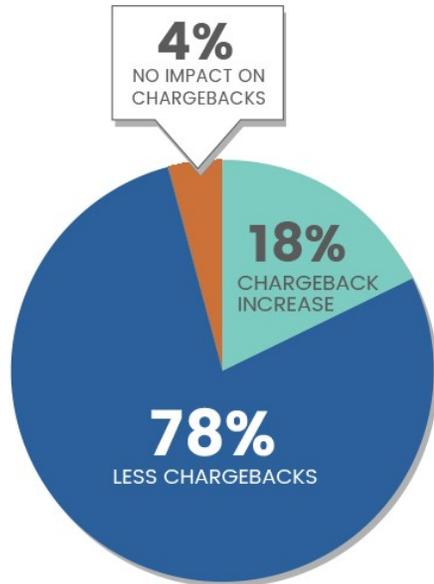
13.2: Cancelled Recurring Billing (13% increase) ↑

13.6: Credit Not Processed (6% increase) ↑

Merchant Survey

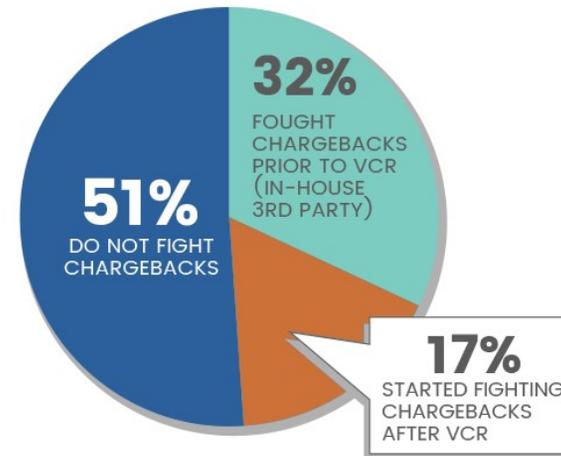
As part of the merchant survey we conducted, we asked merchants the following questions:

- How has VCR impacted your chargeback volume? Has it increased, decreased, or remained the same?



In a Chargeback Gurus survey of its customers, it found that 78 percent of merchants saw fewer chargebacks under the new VCR process, with 18 percent reporting increases in chargebacks with only 4 percent saying they saw no impact on chargebacks. This speaks directly to the effectiveness and need for the new VCR process as so many merchants are reporting fewer chargebacks.

- How has VCR affected your chargeback dispute practices?



Chargeback Gurus' customer survey discovered that after the new VCR process was implemented, 32 percent were fighting chargebacks prior to the VCR update, 17 percent of the merchants are now fighting chargebacks while 51 percent of the merchants still do not fight chargebacks. This told us that a majority of merchants were accepting chargebacks as the cost of doing business because of the manpower it takes and the amount of mandates they need to follow to dispute a case.

We also asked merchants to describe the most significant challenges they face with respect to chargeback disputes under VCR. According to them, their top five challenges are:

1. The time required to dispute chargebacks has increased due to changes in the dispute process workflow
2. After VCR, they found themselves winning fewer chargeback disputes
3. Inability to dispute chargebacks for transactions with AVS/CVV mismatch
4. The requirement to acknowledge chargebacks has increased their overall costs and time spent on dealing with them
5. Lack of clarity on the guidelines issuing banks are following to make their case decisions



Looking Ahead To 2019

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In April 2019, VCR will be one year old. In the year ahead of us, further elements of the VCR mandate will be introduced, along with new mandates from Mastercard. Merchants can expect Visa to roll out the provisions of VCR that deal with negative option billing merchants, as well as the Visa Merchant Purchase Inquiry (VMPI) program, which is intended to help merchants and cardholders resolve issues over unrecognized or questionable transactions before it becomes necessary to initiate a chargeback.

The 2019 Mastercard mandate will involve stored payment credentials, negative option billing, a chargeback mandate with a new dispute resolution initiative and refund authorizations.



Managing & Analyzing Chargebacks

For merchants, analyzing and managing chargebacks is key. Most merchants will find some provisions of the VCR helpful to them, while at the same time, some of the requirements may be onerous or costly. While familiarity with the aspects of the mandate that affect them is important, the best thing a merchant can do to mitigate the cost of chargebacks is to understand why they are occurring, fight them to the best of their ability, and modify their operational practices in order to prevent them from happening in the first place.

Analyzing chargebacks can help merchants understand the root causes behind them, enabling merchants to prevent similar chargebacks in the future. Managing chargebacks when they do come through—by acknowledging them promptly and disputing them whenever it is feasible to do so—helps merchants prevent non-acknowledgement fees, recover lost revenue, and stay in compliance with their banks and payment processors.

Importantly, good chargeback handling practices lead to improved customer satisfaction. Many chargebacks arise from failures to communicate accurate information or provide thorough and diligent customer service. By fixing the areas of their business that have led to chargebacks, many merchants end up providing a better experience for their customers—a most welcome side effect.

Tips For Merchants To Succeed



Confused, overwhelmed, or just plain fed up with chargebacks and the ever-shifting credit card payment landscape? It may seem daunting, but you've got this. Here are some of the most important tips we've come up with for merchants who find themselves confounded by chargeback problems.

- Stay informed and up-to-date on payment industry mandates and policy changes. The card payment environment is changing rapidly, and the rules and processes often change from year to year.
- Look closely at the your chargebacks and use analytics to uncover the root causes behind them so that you can improve your business operations and processes accordingly.
- At the absolute minimum, acknowledge all chargebacks. Better to accept a chargeback and avoid the penalty fee than ignore it and lose additional revenue.
- Seek expert advice and representation when issues with chargebacks are threatening the viability of your business. Left unchecked, chargebacks can cost you substantial revenue and jeopardize your ability to maintain accounts with reputable payment processors. If chargebacks are becoming an unmanageable problem for you, there are companies that can help!

Conclusion

We can't deny that VCR was designed with the best of intentions—to make the chargeback process faster, simpler, and fairer to all parties involved—but any time a set of rules undergoes a major overhaul, there are inevitably going to be snags, new problems and unintended consequences. VCR is here now, and merchants must learn to adapt to its new requirements while they (hopefully) reap the benefits.

Remember that when chargebacks and all their attendant issues get to be too much, you're not alone. Whether you just have some questions or need full-time support and representation to get your chargeback issues under control, Chargeback Gurus is here to help.

About Chargeback Gurus

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Chargeback Gurus provides comprehensive payments management solutions to help businesses recover lost revenue from chargebacks, prevent fraud, reduce payment loss and stay in compliance with payment industry regulations. Their chargeback representation and prevention services take the pain out of chargeback management and deliver true ROI for clients.

Chargeback Gurus' proprietary FPR-360™ tool with Root Cause Analyzer™ looks at over 40 different data points to identify business vulnerabilities and prevent up to 50% of chargebacks. Their Smart Chargeback Representation™ process combines automation, data analytics and expert analysts to help companies recover over 70% of chargebacks.

