



CHARGEBACKS 101: UNDERSTANDING CHARGEBACKS & THEIR ROOT CAUSES





TABLE OF CONTENTS

Introduction	1
What is a Chargeback?	4
How Does the Chargeback Process Work?	5
Types of Chargebacks	6
Chargeback Classification by Reason Code	7
Chargeback Thresholds	12
Chargebacks vs. Retrieval Requests	15
Pre-arbitration and Arbitration	16
Most Common Causes of Chargebacks.....	18
Chargeback Representment & Prevention	21



Chargebacks are one of the biggest challenges facing merchants today. Not only do they equate to millions in lost sales every year, but because of associated fees—the costs to manufacture, market and ship the product, and the potential damage to valuable merchant accounts—they typically mean a financial loss of 2.5 times the sale price.

Sadly, the problem is getting worse, too. From 2016 to 2017, the rate of chargebacks jumped 179 percent from four years prior, and merchants lost a whopping 1.9 percent of their revenue.

Merchants who want to stop the ever-growing chargeback trend and protect their revenues, merchant accounts and reputation, must take steps to understand the problem. Knowing the causes of chargebacks, as well as how the overall chargeback process works, is vital to both fighting customer chargebacks and preventing them in the first place.





WHAT IS A CHARGEBACK?

A chargeback occurs when a consumer contacts their bank or credit card issuer, disputes a charge on their account, and requests a refund.

It typically occurs when they spot a charge on their bank or card statement that they either 1) don't recognize or 2) are unhappy with in some form or fashion.



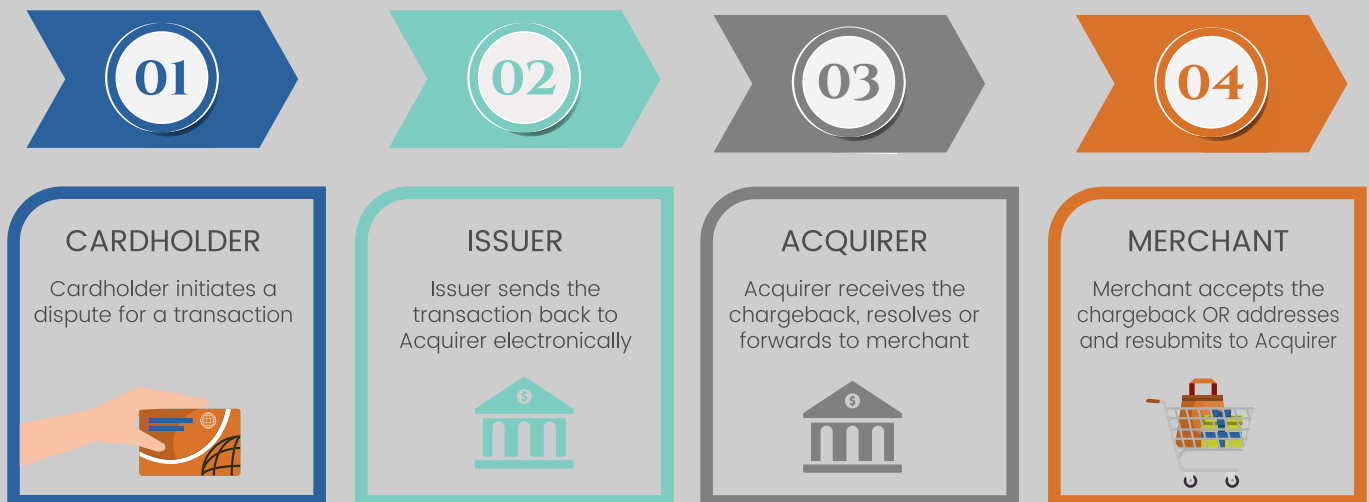
Consumers may file chargeback disputes for various reasons, including dissatisfaction with the product or service they purchased, a higher-than-expected cost, late or delayed shipment, or unknown charges due to true fraudulent activity or identity theft.



HOW DOES THE CHARGEBACK PROCESS WORK?

The chargeback process has many steps and includes the consumer, the issuing bank, the retailer and the retailer's acquiring bank. If the retailer has engaged a chargeback representment firm, they will also be involved in the process.

Here's how it works:

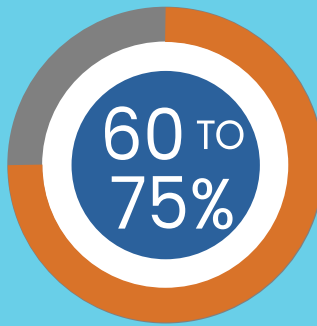




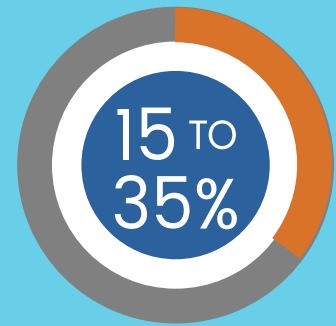
TYPES OF CHARGEBACKS



True Fraud Chargebacks



Friendly Fraud Chargebacks



Merchant Error

There are three main categories of chargebacks: merchant error, true fraud and friendly fraud.

Merchant error involves charges made accidentally or erroneously by the retailer. These may occur when a merchant makes duplicate charges, authorizes the wrong transaction amount or, in some cases, fails to issue a refund as promised.

True fraud chargebacks stem from identify theft, hacking or credit card theft. In short, someone other than the cardholder made the charge, and the customer had no knowledge that their card was being used.

Friendly fraud chargebacks occur when a customer disputes a charge they – or a family member – knowingly made. They may dispute the charge if they were unhappy with the transaction, product or purchase, or if the charge was more than they expected.

Instances of family fraud also fall into the friendly fraud category. These occur when a cardholder's spouse, mother, father or other loved one uses their card without their permission. When the transaction shows up on a statement as unrecognizable, the cardholder disputes the charge, not knowing it was their family member that made the purchase.



CHARGEBACK CLASSIFICATION BY REASON CODE

A reason code is a numeric code that describes the motivation behind a chargeback dispute. Each major credit card network – Visa, MasterCard, Discover and American Express – has its own unique set of reason codes.

As a merchant, reason codes can shed light on why your customers are filing chargebacks and help you both fight and prevent future disputes.

Visa

As of April 15, 2018, the card network, as part of the Visa Claims Resolution (VCR) Initiative, consolidated 22 legacy reason codes into four dispute categories. Previously there were 23 reason codes. Both old and new codes are as follows:





REASON CODES

OLD

- 30** Services Not Provided or Merchandise Not received
- 41** Cancelled Recurring Transaction
- 53** Not as Described or Defective Merchandise
- 57** Fraudulent Multiple Transactions
- 60** Illegible Fulfilment
- 62** Counterfeit Transactions
- 70** Card Recovery Bulletin or Exception File
- 71** Declined Authorization
- 73** Expired Card
- 74** Late Presentment
- 75** Transaction Not Recognized
- 76** Incorrect Currency or Transaction Code or Domestic Transaction Processing Violation
- 77** Non-Matching Account Number
- 78** Service Code Violation
- 80** Incorrect Transaction Amount or Account Number
- 81** Fraud - Card-Present Environment
- 82** Duplicate Processing
- 83** Fraud - Card Absent Environment
- 85** Credit Not Processed
- 86** Paid by Other Means
- 90** Non-Receipt of Cash or Load Transaction at ATM or Load Device
- 93** Risk Identification Service
- 96** Transaction Exceeds Terminal Amount

NEW

10 FRAUD

- 10.1** EMV Liability Shift, Counterfeit Fraud
- 10.2** EMV Liability Shift, Non-counterfeit Fraud
- 10.3** Other Fraud, Card Present Environment
- 10.4** Other Fraud, Card Absent Environment
- 10.5** Visa Fraud Monitoring Program

11 AUTHORIZATION

- 11.1** Card Recovery Bulletin
- 11.2** Declined Authorization
- 11.3** No Authorization

12 PROCESSING ERRORS

- 12.1** Late Presentment
- 12.2** Incorrect Transaction Code
- 12.3** Incorrect Currency
- 12.4** Incorrect Account Number
- 12.5** Incorrect Amount
- 12.6** Duplicated Processing/Paid by Other Means
- 12.7** Invalid Data

13 CONSUMER DISPUTES

- 13.1** Merchandise/Services Not Received
- 13.2** Canceled Recurring
- 13.3** Not as Described or Defective Merchandise/Services
- 13.4** Counterfeit Merchandise
- 13.5** Misrepresentation
- 13.6** Credit Not Processed
- 13.7** Canceled Merchandise/Services
- 13.8** Original Credit Transaction Not Accepted
- 13.9** Non-receipt of Cash or Load Transaction Value



REASON CODES



mastercard.

- | | |
|--|---|
| 2 Requested/Required Information Illegible or Missing | 47 Exceeds Floor Limit, Not Authorized, and Fraudulent Transaction |
| 7 Warning Bulletin File | 49 Questionable Merchant Activity |
| 8 Requested/Required Authorization Not Obtained | 50 Credit Posted as a Purchase |
| 12 Account Number Not On File | 53 Cardholder Dispute, Defective / Not as Described |
| 31 Transaction Amount Differs | 55 Non-receipt of Merchandise |
| 34 Duplicate Processing | 57 Card-Activated Telephone Transaction |
| 35 Card Not Valid or Expired | 59 Services Not Rendered |
| 37 No Cardholder Authorization | 60 Credit Not Processed |
| 40 Fraudulent Processing of Transactions | 62 Counterfeit Transaction Magnetic Stripe POS Fraud |
| 41 Cancelled Recurring Transaction | 63 Cardholder Does Not Recognize-Potential Fraud |
| 42 Late Presentment | |
| 46 Correct Transaction Currency Code Not Provided | |



REASON CODES



AL	Airline Transaction Dispute	TF	Dispute Initiated by Discover Network for Violation of Operating Regulations
AP	Automatic Payment	TNM	Discover Network ATM Transaction, Transaction Improperly Posted to Cardholder's Account
AW	Altered Amount	UA01	No Authorization
CA	Cash Advance Dispute	UA02	Declined Authorization
CD	Credit Posted as Card Sale	UA32	Address Verification Service Failure, Card Not Present Card Transaction
CR	Canceled Reservation	UA99	Non-compliance with Operating Regulations
DA	Declined Authorization	UA03	Sale Exceeds Authorization Amount
DP	Duplicate Processing	UA10	Request Transaction Receipt for Swiped Card Transaction
DPI	ATM Duplicate Processing	UA11	Swiped Card Transaction, No Signature
EX	Expired Card	UA1	Swiped Card Transaction, Invalid Signature
IC	Illegible Sales Data	UA18	Swiped Card Transaction, Illegible Copy
IN	Invalid Card Number	UA20	Request Transaction Documentation for Keyed Card Transaction
IS	Missing Signature	UA21	Keyed Card Transaction, No Signature
LP	Late Presentment	UA22	Keyed Card Transaction, Invalid Signature
N	Discover Network ATM Transaction, No Funds Dispersed	UA23	Keyed Card Transaction, Invalid Imprint
NA	No Authorization	UA28	Keyed Card Transaction, Illegible Copy
NC	Not Classified	UA30	Request Transaction Document for Card Not Present Transactions
P	Discover Network ATM Transaction, Partial Funds Dispersed	UA31	Card Not Present Card Transaction, Invalid Proof of Delivery
RG	Non-receipt of Goods or Services	UA38	Card Not Present Card Transaction, Illegible Copy
RM	Cardholder Disputes Quality of Goods or Services		
RN1	Additional Credit Requested		
RN2	Credit Not Received		
SV	Stored Value Dispute		



REASON CODES

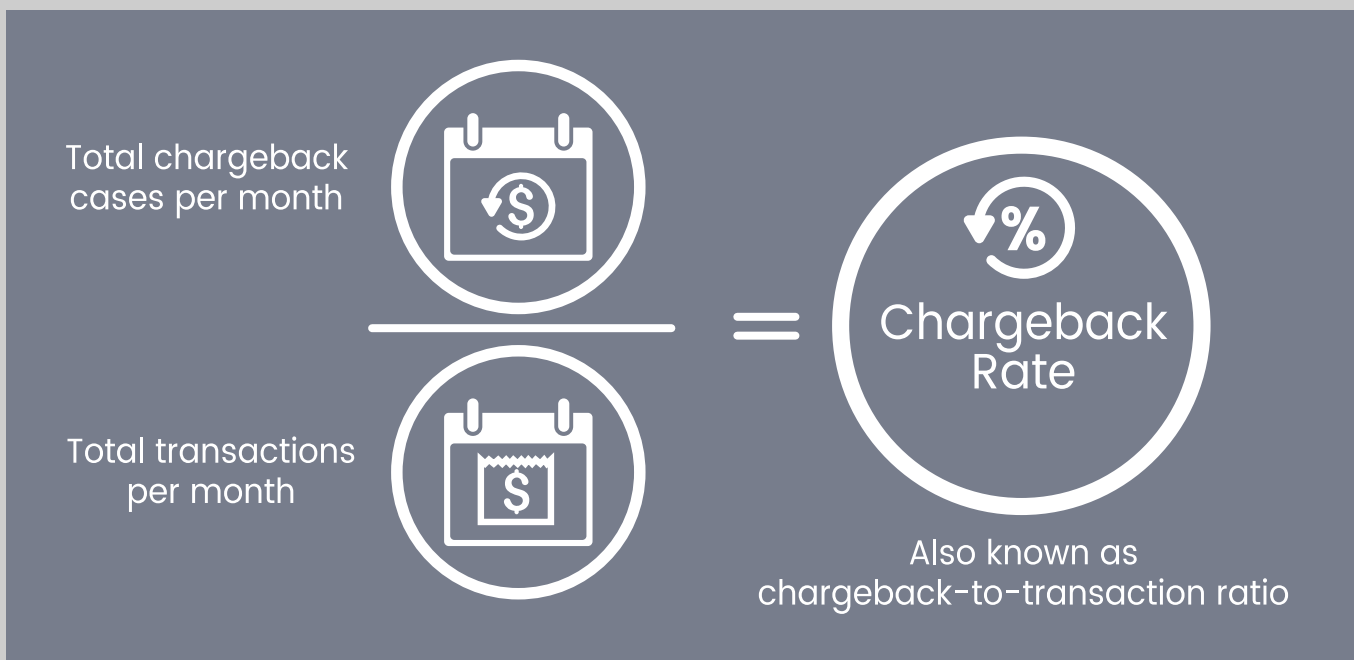


- 16** Credit Purchase Amount, Damaged Goods
- 93** Charge Origination Unknown
- 024** Return Authorization, Damaged Goods
- 030** Merchandise Defective, Credit Requested
- 059** Repair Damaged Goods
- 063** Dissatisfied Customer
- 127** No Purchase Made
- 155** No Merchandise Received
- 173** Duplicate Charge
- 176** No Knowledge of Charge
- 177** Authorization Not Given
- 193** Fraudulent Charges
- 680** Overcharged
- 691** Provide Documentation
- 712** Services Not Provided
- 4544** Recurring Subscription Cancellation
- A01** Charge Amount Exceeds Authorization Amount
- A02** No Valid Authorization
- A03** Authorization Approval Expired
- A04** Merchant Failed to Call
- C02** Insufficient Credit
- C04** Goods/Services Returned or Refused
- C05** Goods/Services Canceled
- C06** History of Chargebacks, Chance to Resolve
- C08** Goods/Services Not Received or Only Partially Received
- C10** Continuing to Bill
- C14** Paid by Other Means
- C18** No Show or CARDeposit Canceled
- C28** Canceled Recurring Billing
- C31** Goods/Services Not as Described
- C32** Goods/Services Damaged or Defective
- C42** Card Not Present Fraud
- F10** Missing Imprint
- F14** Missing Signature
- F22** Expired or Not-yet Valid Card
- F24** No Card Member Authorization
- F28** Ticket/Mail Fraud
- F29** Card Not Present
- F30** In Possession-Unauthorized
- FR2** Fraud Full Resource Program
- FR4** Immediate Chargeback Program
- FR6** Partial Immediate Chargeback Program
- M01** Merchant Initiated-Fraud Suspicions
- M10** Vehicle Rental, Capital Damages
- M36** All Encompassing
- M49** Vehicle Rental, Theft or Loss of Use
- P01** Unassigned Card Number
- P03** Credit Processed as Charge
- P04** Charge Processed as Credit
- P05** Incorrect Charge Amount
- P07** Late Submission
- P08** Duplicate Charge
- P22** Non-matching Card Number
- P23** Currency Discrepancy
- R03** Insufficient Reply
- R13** No Reply



CHARGEBACK THRESHOLDS

Every card network sets a maximum chargeback threshold for its merchants, which caps the merchant's monthly chargeback ratio. This ratio is determined by dividing the total number of chargebacks per month by the merchant's total number of transactions for that time period. For example, a retailer that has 10 chargebacks in May on a total of 100 transactions would have a 10 percent chargeback ratio for the month. (10 divided by 100).

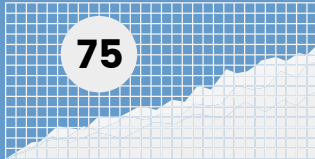


These thresholds help ensure merchants are operating a fair and honest business, and that consumers are served to their expectations.

Merchants who exceed their card issuers' thresholds may see their merchant accounts shut down as a result. They will be unable to open a new merchant account without a new business or company ID.

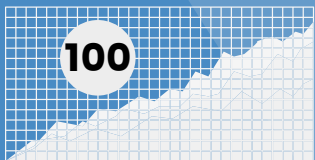


Here's what the thresholds for each card network look like:



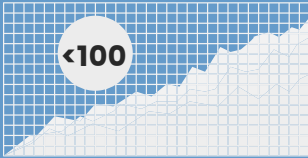
VISA

Visa's chargeback threshold is 75 chargebacks per month and a 0.75 percent chargeback ratio. If a merchant hits these numbers for any given month, Visa will place them on a pre-monitoring program. If they surpass 100 chargebacks and a 1 percent chargeback ratio, the network moves them to a Merchant Monitoring program.



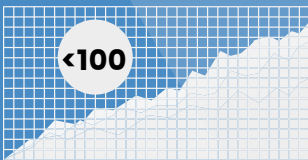
 **mastercard**

MasterCard's chargeback threshold is similar in structure to Visa's, though it leaves a little more room for error, capping chargebacks at 100 per month and a chargeback ratio of 1 percent. If a merchant exceeds these, they are placed on what's called a Chargeback Monitored Merchant program. If they exceed 100 chargebacks and a 1.5 percent ratio in a month, they're considered an Excessive Chargeback Merchant.



**AMERICAN
EXPRESS**

American Express doesn't have hard-and-fast thresholds but instead considers the merchant's overall risk level, chargeback count and chargeback ratio. Generally, merchants should avoid exceeding 100 chargebacks and 1 percent chargeback ratio in a month.



DISCOVER

Like American Express, Discover is also more relaxed when it comes to its chargeback thresholds. Again, merchants should attempt to keep their chargebacks under 100 for the month and avoid exceeding a 1 percent chargeback ratio.



CHARGEBACKS vs. RETRIEVAL REQUESTS

Merchants often confuse chargebacks and retrieval requests, as notifications for both come straight from the merchant's bank. Sometimes called "soft chargebacks," retrieval requests occur when a consumer wants more information on a purchase they've made from a merchant.

Here's how it works: the customer calls their card issuer to request more information on a recent purchase. The issuer contacts the acquiring bank, who then contacts the merchant. The merchant must then produce the receipt, invoice, tracking number, shipment info or other details requested by the consumer, which is then sent back to the issuing bank.





Here's what the chargeback retrieval request process looks like:





While retrieval requests don't result in immediate financial losses, they can lead to potential chargebacks **if the merchant doesn't produce adequate documentation**. If merchants respond to retrieval requests thoroughly and on time, they may be able to prevent some chargebacks from occurring.



PRE-ARBITRATION AND ARBITRATION

In some cases, a card issuer may decide to take a chargeback dispute into arbitration. This may be because the reason code changes, new information has come into play, or the merchant's documentation or evidence was incomplete or inaccurate. The issuing bank and the acquiring bank can also request arbitration, should they be unhappy with the result of the initial dispute.

When arbitration occurs, the merchant will once again have a chance to produce evidence and fight the dispute. The card network will have the ultimate say in the outcome of the case. For Visa card-related disputes, there is an added step just before entering arbitration, dubbed "pre-arbitration."



Arbitration typically comes with a few overhead costs.

For MasterCard disputes, for example, there are filing fees (\$150), administrative fees (\$250), withdrawal fees (\$150) and technical fees (\$100).

These costs and fees vary by card network. Merchants are best served by preventing arbitration by responding to retrieval requests and chargebacks promptly and thoroughly at the outset.

REPRESENTMENT

Process ends if issuing bank **is satisfied** with the representment

Process advances to the next cycle if issuing bank **isn't satisfied** with representment

PRE-ARBITRATION

Process ends if merchant **accepts liability**

Process advances to the next cycle if merchant decides to **request arbitration**

ARBITRATION Final phase



MOST COMMON CAUSES OF CHARGEBACKS

As you can see by the list of reason codes, there are hundreds of reasons a customer may dispute a charge. Still, the majority of chargebacks stem from one of five common root causes. These include:



Friendly Fraud

Friendly fraud is a category that includes a number of different scenarios. Many times, the customer is trying to cheat the system, purchasing the product or service and then filing a chargeback to obtain that purchase for free. In other cases, customers may dispute a charge because they never received the product or service, their purchase was defective, the merchant continued to charge them after cancelation, or they never received a refund after being promised one. A shocking 60 to 90 percent of chargebacks are due to friendly fraud.



Affiliate Fraud

Affiliate marketing can often lead to chargebacks, particularly when merchants don't vet their affiliates carefully. Many unsavory affiliates will generate large numbers of bad transactions in order to increase their income. By the time the merchant notices the significant volume of chargebacks on these transactions, the affiliate has cashed out and left. Affiliate-related chargebacks account for 10 to 60 percent of all charge disputes, depending on the industry.



Bad Customer Service

Poor customer service is another common cause of chargebacks. Long waits with call center representatives, delayed response times, understaffing and otherwise lacking operational policies can push a customer to file a dispute out of dissatisfaction. Bad customer service accounts for 10 to 30 percent of all chargebacks.



Fulfillment Issues

Fulfillment and shipping issues often lead to chargebacks. Shipments sent late, to the wrong address, without tracking numbers or without proper quality control checks, may cause a customer to file a chargeback and dispute a transaction. These issues account for anywhere from 1 to 15 percent of chargebacks.



Canceled Subscription

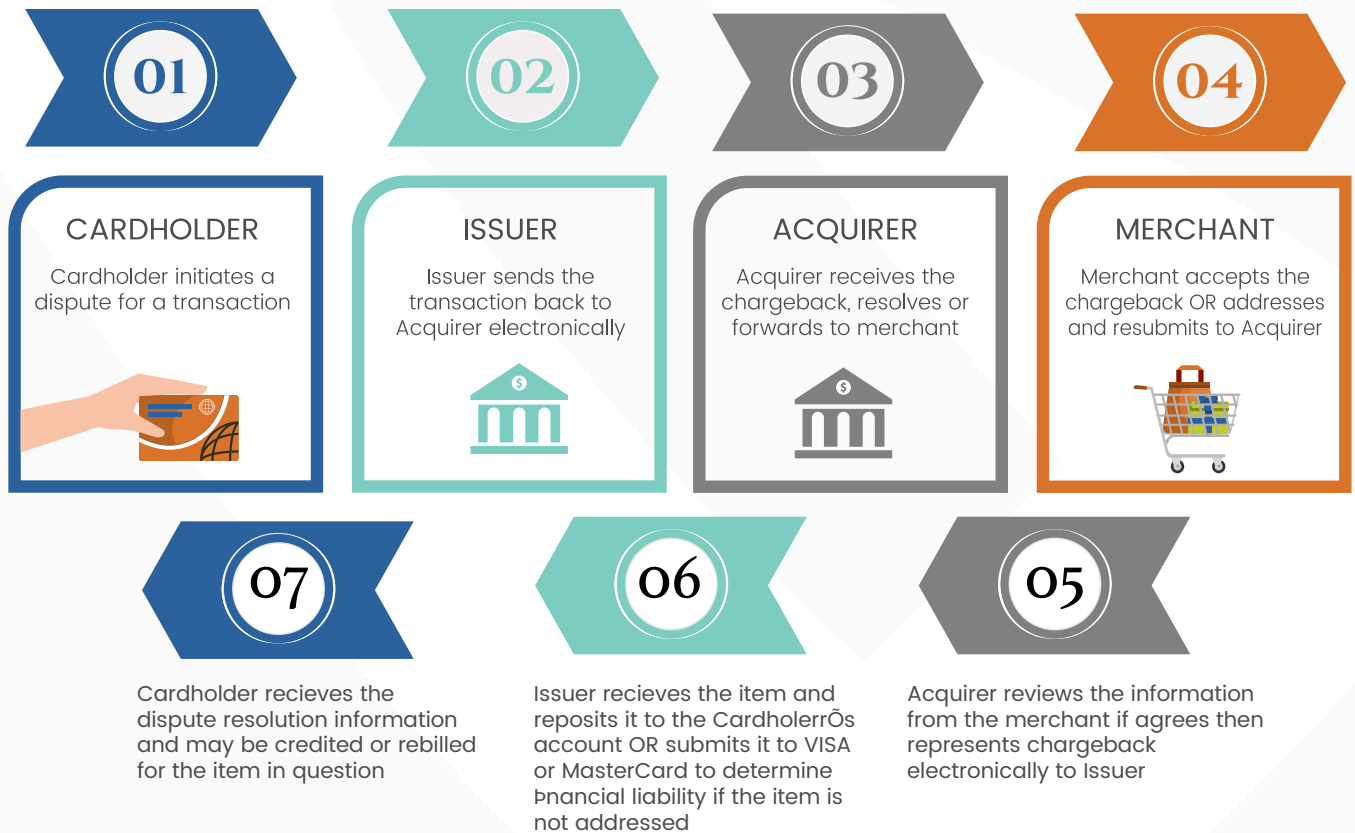
For subscription-based merchants, canceled subscriptions are one of the most common reasons behind chargebacks. Customers file these disputes if they were charged after already canceling their subscription. They may also file them as a way to cancel their subscription or after they receive the product, so as to keep both the product and service charge.



CHARGEBACK REPRESENTMENT & PREVENTION

Merchants have the right to dispute a chargeback should they feel it is unmerited. If the merchant knows they've fulfilled their obligation to the client, delivered their goods and services, and has proof, they may be able to fight the chargeback and recover their lost funds. This is called chargeback representation.

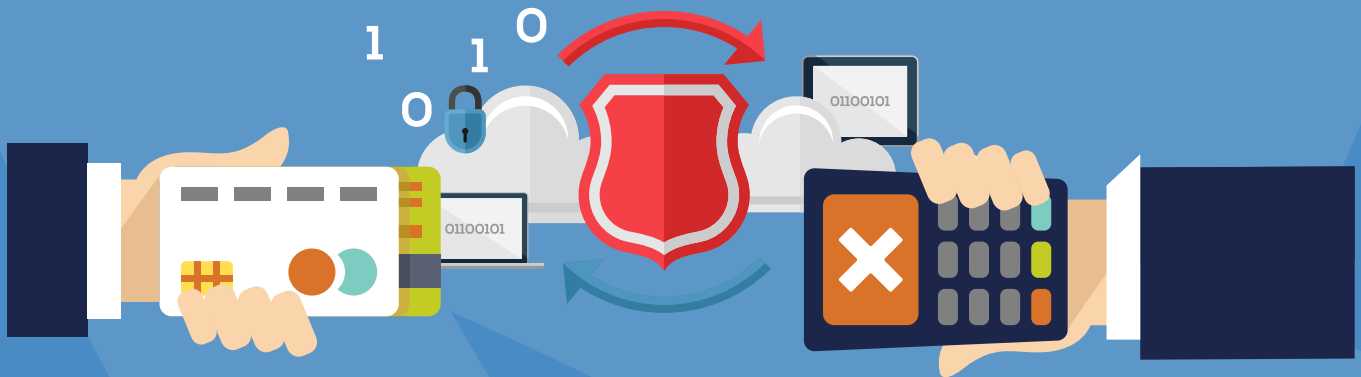
Here's what the chargeback representation process looks like:





It's very important that merchants fight chargebacks whenever possible.

As chargebacks cost merchants in lost sales, cost of goods, marketing expenses, transaction fees and more, they often result in significant financial losses. They can also threaten the very merchant accounts necessary to do business.



Ultimately, the best way to fight chargebacks is through prevention.

Merchants can often keep chargebacks from ever occurring with honest, ethical and efficient back-end operations. This means:

- Being up-front, honest and ethical in marketing and advertising efforts
- Clearly explaining all terms and policies
- Having iron-clad quality control and fulfillment processes
- Tuning in to customer feedback and responding appropriately
- Employing a 24-7 customer response team





Because the chargeback industry is constantly evolving, with changing regulations, rules and timelines, enlisting a chargeback representment firm is the best way to successfully fight and prevent chargebacks.

If you're managing your chargebacks in-house, however, then you might as well be strategic about it. Don't fight chargebacks the same old way, fight them the smart way!

Check out the eGuide, [The Smart Way to Fight & Recover Chargebacks](#).