Chargeback Prevention

TIPS FOR LOW, MEDIUM & HIGH-RISK BUSINESSES

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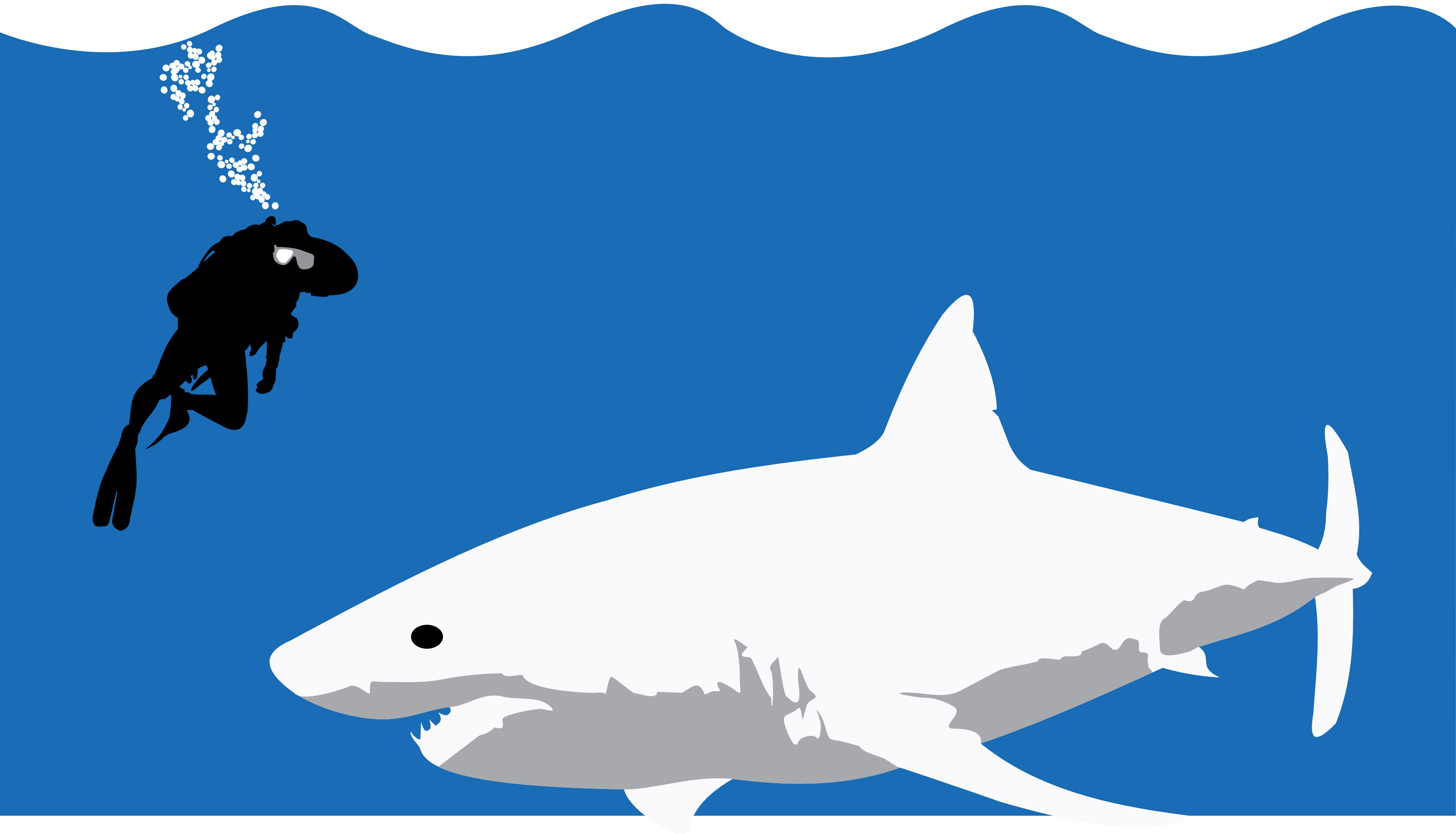


How Risky is Your Business?

Is Your Business Experiencing Chargebacks?

Do you understand where these chargebacks come from, what they're really costing you, and what you can do to stop them?

Today, most merchants aren't fully aware of the root causes and true cost of chargebacks. Often brushed aside as "just the cost of doing business", if ignored for too long, chargebacks can threaten an organization's very survival. The best practices for preventing chargebacks will vary from business to business and depend on your risk level.

When you're obtaining a merchant account, the acquiring bank will classify your business as either low risk, medium risk, or high risk.

Most brick-and-mortar retailers are low risk businesses as card-present (CP) transactions are less susceptible to fraud; some online merchants may qualify as low risk depending on their industry and processing volume.

Merchants selling online or in other card-not-present (CNP) environments are most likely to be classified as medium risk, as long as their chargeback rate remains below 1% and they do not operate in a high risk or subscription-based industry.

Businesses classified as high risk are those most likely to receive a high frequency of chargebacks. These includes merchants selling subscriptions and high risk industries such as travel or online gambling, as well as retailers selling high ticket items online.

Why Prevention is Key

Chargebacks exist to offer a consumer protection, safeguarding cardholders from merchants that sell fraudulent merchandise or fail to deliver a service that was promised and paid for. Cardholders can contact their issuing bank within a specified timeframe (usually 120 days) from the date of a transaction and reverse the transaction.

At this point, the burden of proof lies entirely on you, the merchant – it's your job to dispute the chargeback and to supply the requisite proof that you fulfilled your end of the bargain. However, this process can be time consuming, confusing and expensive. Most businesses lack the resources required to properly dispute chargebacks.

That's why the best way to fight chargebacks is to prevent them from happening in the first place.

The True Cost of Chargebacks

One of the biggest misconceptions about chargebacks is their cost.

Say a customer files a chargeback on a $50 sale – when the issuing bank reverses the transaction, $50 is removed from your account and returned to the cardholder. So you've only lost $50, right?

In reality, the business cost is much higher. On top of the value of the sale, you need to add the transaction fee, product value, marketing costs and operational expenses, plus a penalty charged by the bank which ranges from $15 to $40 per chargeback. **When added together, the true cost of chargebacks averages about 2.5 times the sale value, and many of these expenses are incurred whether or not you win the dispute.**

Making a priority out of chargeback prevention can mean the difference between a struggling business and a successful and sustainable organization.
Whether you are a low, medium or high-risk business for chargebacks and fraud, we've got you covered with some simple tips to help you prevent them.

Prevention Tips for Low Risk Businesses

Businesses classified as low risk generally include most merchants operating in a card-present environment, such as grocery stores and other physical mom and pop stores using a point-of-sale terminal.

It also includes some online businesses as long as they meet the following criteria:

- Operating in a low risk industry, such as books, office supplies or housewares
- Average ticket size of $50 or less
- Monthly processing volume of $20,000 or less
- Payment page hosted by the payment service provider

Low risk businesses are the least vulnerable to fraud and chargebacks, but nobody is immune.

Chargebacks are not only costly, if your chargeback rate rises above 1% you will automatically be reclassified as a high-risk business, which can mean finding a new (and much more expensive) merchant account. So follow these simple tips to reduce the most common causes of chargebacks among low risk businesses.

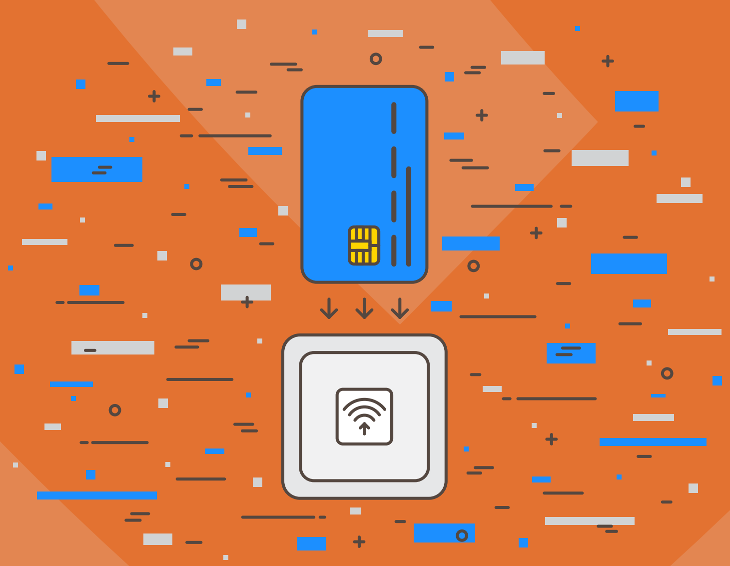
Simple Tips to Prevent Chargebacks

1. Upgrade to EMV/3D Secure

If you have not yet upgraded your point-of-sale (POS) terminal to an EMV-compatible terminal, then you are leaving yourself open to credit card fraud.

Using an EMV chip reader to process payment card transactions makes it harder for customers to use stolen credit cards, decreasing the likelihood of fraud. It also shifts the liability to the card issuer if the customer files a fraud claim, protecting you from chargebacks.

For online merchants, the equivalent is to validate all transactions using 3D Secure processing technology. Like EMV at the point-of-sale, 3DS technology decreases the instances of fraud and shifts the liability to the issuing bank for fraud claims.



2. Improve Customer Service

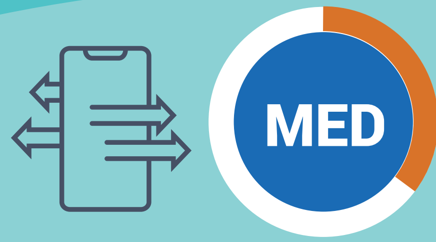
If you are a low risk business facing a high frequency of chargebacks, it may be caused by a problem with your customer service. Cardholders can file a dispute if they expected a certain quality of service and you failed to meet their expectations. If you leave a customer dissatisfied with their experience because of rude or unhelpful staff, they may take their frustration out on you by filing a chargeback.

3. Fix Automation Errors

Both online and at the point-of-sale, merchants are relying increasingly on automation, and errors in automation are one of the most common chargeback causes among low risk businesses. Many retail stores are moving toward self-checkout, where there is no cashier and the customer simply scans the items themselves and inserts their payment card into the machine. If the customer makes a mistake and accidentally scans an item twice, they may file a merchant error chargeback.

Merchant error chargebacks are also common online, usually caused by duplicate transactions or shopping cart errors. When the charges in question are small, consumers often don't notice or don't mind, but for larger items this can be a frequent cause of chargebacks.

Prevention Tips for Medium Risk Businesses

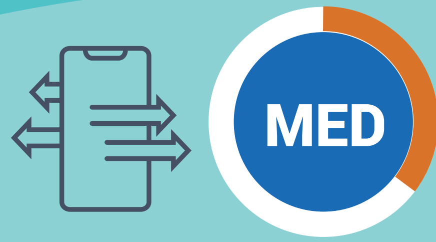


A medium risk business typically refers to a merchant in a card-not-present (CNP) environment (such as eCommerce), as long as they are not operating in a high-risk industry and there are no subscription-based sales or recurring billing.

It can also include some card-present retailers such as those selling high-value items that can be easily resold on secondary markets, such as jewelry, high-end handbags and concert tickets. Most acquiring banks classify online retailers as medium risk if they meet the following criteria:

- Operating in a medium risk industry, such as dietary supplements, online gaming or forex trading
- Average ticket size between $50 and $100
- Monthly processing volume between $20,000 and $100,000

If you operate a medium risk business, you are required to keep your chargeback rate below 1% or you risk losing your merchant account and being reclassified as a high risk merchant.

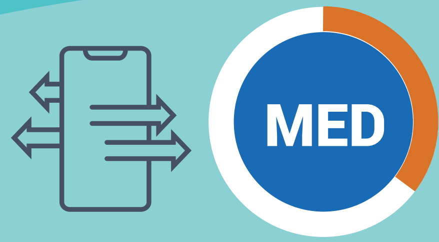


Simple Tips to Prevent Chargebacks

1. Identify Yourself Clearly on Credit Card Statements

One of the most common mistakes made by medium risk merchants is that their doing-business-as (DBA) name doesn't match what appears on customers' credit card statements. Consumers are distracted. It's easy to remember household names like Amazon but they may not remember all the purchases they made from smaller retailers.

Your name as it appears on their statement must be easily searchable on Google, preferably identical to your DBA name. This problem is more common for medium risk merchants as they tend to process higher value transactions, which are more likely to be scrutinized by cardholders reviewing their statements. It's a good idea to include a phone number as well so that consumers can call you directly rather than calling their bank to issue a chargeback.



2. Improve Customer Service

At smaller scales, merchants can't afford to offer round-the-clock customer service. To get around this, many merchants encourage clients to email them. But offering only email support increases your risk of chargebacks. If it takes more than 24 hours for you to respond to an email, many customers will lose trust in you – and because banks offer 24/7 phone service, if they really want a refund, a chargeback is the easiest way to get it.

Today, some banks are making it even easier, allowing their clients to dispute a transaction online with the click of a button. This is what you, the merchant, have to compete with. You need to make it as easy as possible for unhappy customers to get in touch with you so that you can stop a chargeback before it happens.

3. Manage Expectations

The next most common chargeback cause for medium risk businesses is that the quality of the service/merchandise was not received as described. This happens when you promise more than you can deliver, whether it's by describing the product in a misleading way, or not meeting the customer's expectation of quality (for example, photos that disguise flaws or make an item look larger than it is).

In the highly competitive online marketplaces, merchants tend to exaggerate their products or services in order to increase their conversion, but this just creates unhappy customers, many of whom will file chargebacks. Being clear, accurate and honest pays for itself.

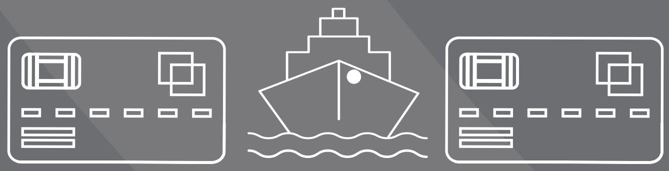
Prevention Tips for High Risk Businesses

High risk merchant accounts are the hardest ones to get and the most costly.

This is because acquiring banks are taking on the added risk of processing payments for merchants that have the highest likelihood of receiving chargebacks. High risk businesses process card-not-present (CNP) transactions for specific industries considered high risk, all businesses with a subscription model or recurring billing, and any merchant with a chargeback rate above 1%.

Some common characteristics of high risk businesses include:

- Operating in a high risk industry, such as travel, health and beauty, or online gambling
- Monthly processing volume of $100,000 or more
- Average ticket size of $100 or more
- Payment page hosted by the merchant



High risk merchants are at the greatest risk of true fraud and receive the highest frequency of chargebacks.

They also spend the most on transaction fees, lowering their profit margins. For these reasons, if you operate a high risk business it's critical that you implement the following chargeback prevention tips.

HIGH

Simple Tips to Prevent Chargebacks

1. Don't Leave Anything Unsaid

You want to close as many sales as you can and introduce as little friction into the customer's path to purchase as possible, so you may decide to hide certain unpleasant details or make them easily skippable. It's very common for merchants to fail to clearly notify the customer when they are enrolling in subscription billing or to hide it in very small font, and to automatically check the opt-in box so the customer doesn't have to scroll through the terms and conditions.

Most merchants believe that it's the customer's responsibility to read everything you present – no matter how much you discourage them to do so – but it's actually on you to make sure they are fully aware of the terms and conditions. If you don't make them explicitly aware of a recurring bill or a no-refunds policy, then you're setting yourself up for chargebacks.

2. Use Phone Verification

Businesses that do over-the-phone sales, such as ticket brokers, are almost always classified as high risk because it can be very challenging to validate the customer's identity. But many merchants are unaware of voice authorization, which involves having a three-way call with the customer and their issuing bank in order to validate their identity. This also shifts the liability to the issuer in the case of a fraud claim.

3. Fight Fraud

High risk merchants are especially likely to be targeted by cybercriminals. If your chargeback rates indicate a high proportion of true fraud, you need to implement stronger fraud prevention tools. The frequency of purchases being made with stolen credit cards is especially high for retailers selling high-value commodities that can be resold on the secondary market, such as tickets for concerts or sports games, jewelry, designer accessories such as handbags, etc.

4. Be Honest About Your Product

Mortgages are protected by the Truth in Lending Act. In eCommerce, there should be a truth in product offering. The frequency of chargebacks is directly correlated to the honesty of merchants. Whether it's the delivery time, quality of product, or customer service, many merchants don't fulfill the promises made on their website and by their sales team.

Today, Amazon and other eCommerce leaders have raised the bar significantly in terms of customer service and satisfaction, and for better or for worse, every online business has to compete with them. If you don't stand by your products and promises you will have a lot of very upset costumers, and a lot of chargebacks, and eventually it will drive you out of business. Honesty and ethics about products, service offerings, refund policy, subscription billing, etc., is no longer an option in eCommerce, it's an obligation.

For most businesses, dedicating the resources required to properly fight and prevent chargebacks in-house is not feasible. So how do you decide when it's the right time to hire a chargeback management company? Check out the eGuide, 4 Reasons to Hire a Chargeback Management Company.