

Best Practices for Chargeback Management

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Introduction

Chargebacks are often an arduous aspect of any business, particularly for online, digital merchants. The temptation exists to ignore the problem with the hope that it takes care of itself. As tempting as that route is, ignoring the problem will not help your business. Chargebacks can provide an outsider's view into your business and provide you with valuable information that will not only help your business grow, but help your business evolve into one that attracts and retains the best customers.

The most beneficial approach to chargebacks is one of informed action, where in-depth analysis is done of your chargebacks and, through that analysis, smart decisions are made concerning your chargebacks and business model. It is not enough to simply respond to your chargebacks. There is a wealth of intelligence that can be gained through chargebacks, and you owe it to your business's bottom line to learn from them. Whether you enlist the help of third party providers or rely on your own resources, there are actions that can be taken to turn chargebacks into a manageable learning experience.

Know your merchant processor.

Your merchant processor is working for you. Fostering a positive business relationship with them can help them become a valuable resource for your business.

- Identifying your account manager at your processor and making regular contact with them is the first step in creating a beneficial working relationship with them. Your account manager will be able to inform you of regulation changes at the card associations that may impact your business, help you understand the requirements for successfully disputing chargebacks, and assist you in maintaining a low chargeback rate.
- Understanding all the tools your processor makes available to their merchants and choosing the ones that work best for your business can make chargeback management easier for you. Many processors offer online chargeback management tools, such as interfaces you can upload your chargeback rebuttal documents to, that may be more convenient and efficient than dealing with faxes or snail mail.
- Reviewing your monthly statement can bring billing discrepancies and errors to your attention. If there are discrepancies or errors, contacting your processor soon after receipt of your statement can expedite the resolution of the matter. Particular attention should be paid to the number of chargebacks that are being reflected. If your statements are showing more chargebacks than you are receiving notice of, working with your processor can help you determine why it differs from your records and what can be done to resolve the issue.
- If your processor is no longer meeting your needs, is charging excessive fees, or is unresponsive to you, consider finding a new processor. There are many processors who will compete for your business and finding one that is a good fit can save you a lot of frustration.

Value the importance of good record keeping.

Tracking your chargebacks and the metrics surrounding them can provide invaluable intelligence that can inform your business practices.

- Tracking chargebacks issued on transactions that were returned with a non-definitive CVV response can help you gain relatively easy reversals. If the CVV is submitted to the issuer as part of the transaction authorization process, and the issuer failed to respond

- with a “Yes” or “No” response, they are precluded from issuing chargebacks for fraudulent claims in most cases. If they do, these chargebacks can often be reversed by contacting your processor.
- Tracking the BINs that yield the highest number of chargebacks can help you identify which issuing banks are creating the most problems for you. Most processors have BIN mapping books or databases available to their merchants that will help you. Once identified, contacting the issuing bank directly to understand why you are receiving so many chargebacks from them will give you the opportunity to hear their side and for them to hear your side. They may not understand the product or service you are offering, giving you the opportunity to educate them, and may be able to offer suggestions to improve your website and customers’ shopping experience that will help you cut back on the number of chargebacks you are receiving from them.
 - Tracking win and loss rates by issuer can help you understand which issuers are being “friendly” and which are not. This is an important metric to track because, in the case of those issuing banks who always reject your chargeback rebuttals, it may be necessary to contact them directly to find out why they are rejecting you when other issuing banks are not and to possibly consider legal action against them.
 - Monitoring your chargeback rate from month to month can alert you to potential problems. If you begin to edge towards the “danger zone” of 1% set by the card associations, you have time to take immediate steps to lower it in order to protect your merchant account and to avoid heavy fines and penalties. Additionally, if your chargeback rate suddenly spikes, you can trace it back to changes you may have made to your business or pricing models.

Listen to what your customers are telling you.

Valuable intelligence can be gained from your customers if you listen to them. They can often bring to light issues about your business model that you are not aware of and can help you make improvements that will attract the best customers.

- Reviewing all cardholder documentation that is included with the chargeback notice can provide insight into your customers’ experience and helps you to identify places for improvement in your business process. For example, if you have a lot of customers claiming that they are getting a busy signal whenever they attempt to call your customer service department, it may become apparent that your current staffing levels need to be re-evaluated.
- Flexibility with your return and refund policy may pay off in the long run. If customers are returning merchandise outside of the “proper” procedure, such as failing to call customer service first to get a “Return Merchandise Authorization”, consider refunding the customer anyway. If they can prove to the issuing bank that the merchandise was returned and they did not receive credit, it will be extremely difficult, if not impossible, to successfully challenge the chargeback.
- If you have customers who are very vocal about their dissatisfaction, or are openly threatening to charge back, consider issuing a credit before the customer can issue a chargeback.
- If you have customers who are repeatedly causing problems for you, such as claiming they never receive merchandise that was shipped, repeatedly requesting credit for services that were rendered, or who repeatedly open new accounts and then issue chargebacks, consider making a business decision to no longer do business with them to eliminate the risk they pose to your business.

Appropriately manage your chargebacks.

Chargeback management entails more than simply responding to every chargeback you receive. Just as it does not make sense to ignore your chargebacks, it does not make sense to respond to everything. Employing sound judgment in deciding which chargebacks to challenge will increase your success rate, and ultimately, your bottom line.

- Disputing the chargebacks that you can *reasonably* dispute is good for your bottom line. If you have proof that the customer used the service, if all of the information you have on file - such as name, billing address, positive AVS and CVV - matches the information presented in the cardholder's documentation, it is a sound business practice to dispute the chargeback.
- Do not make decisions to dispute based solely on reason codes. There are many times when the issuing bank will assign incorrect or inaccurate reason codes to a chargeback so it is important to review the cardholder's documentation to ascertain the real reason for their chargeback. By addressing the cardholder's real complaint, you increase your chances of success.
- Disputing chargebacks that are issued on transactions that are obviously fraudulent is not good for your business. If there is clearly inaccurate customer information - such as bogus email address, fake name and billing address - and it does not match the information on the cardholder documentation, do not challenge it. Doing so can create friction with your processor and with issuing banks as you are creating additional and unnecessary work for them.
- Immediately shutting down accounts that have had a chargeback issued on them can help prevent future chargebacks, especially when you are offering a product or service with recurring billing. If you continue to charge the customer after receipt of a chargeback, it will be nearly impossible to successfully dispute them should the customer issue another chargeback.
- Immediately responding to retrieval/ticket requests can prevent chargebacks. If you do not respond to the retrieval/ticket request, it will turn into a chargeback that you have no recourse for. There are many cases where the customer is simply requesting a copy of the ticket for record keeping, taxes, expense reports, etc. and by responding promptly, you will prevent the chargeback.
- Including all pieces of evidence you have for the transaction in your original response to the chargeback will help protect you if you are successful and the customer or issuing bank continues to dispute the charge. If you successfully recover your funds, and the cardholder continues the dispute for a second round, or to arbitration, Visa and MasterCard regulations prevent you from introducing new evidence so it is important to include the terms and conditions, screenshots of the signup process, usage data, proof of delivery where appropriate, and any other information proving your customer did participate and use your services the first time.
- Selectively arbitrating chargebacks that are not successfully recovered gives you the opportunity to challenge unfair regulations or unfair practices. If you successfully arbitrate, the costs must be paid by the issuing bank and you may be able to effect change that is beneficial to your business.

Understand your chargeback threshold.

A certain level of chargebacks is an inevitable part of any business. Understanding your business's tolerance level will ensure you maximize your revenue stream while minimizing your chargebacks.

- Depending on whether you have a high profit margin, as do many intangible goods merchants, or a low profit margin, as do many tangible goods merchants, you should make business decisions about the information you require from customers at the time of transaction and the amount of fraud you can tolerate. Your business may be losing more money through shopping cart abandonment than from fraud. If you have a healthy business model and low chargeback rate, your bottom line may be better served by reducing the information you require from potential buyers.
- Having “levers” available can ensure a robust business model that is adaptive to changing circumstances. If your chargeback rate begins to increase, and you are getting close to the danger zone of 1%, changes that can be implemented quickly, like requiring CVV to cut down on fraudulent transactions or increasing the amount of information you require from customers at the time of transaction, can help lower it quickly, saving your merchant account from penalties, fines, and possible closure.
- Implementing fraud screening technologies can help you stop fraudulent transactions before they turn into chargebacks. Transactions that exceed your risk threshold can be credited to the customer before the customer has the opportunity to issue a chargeback, reducing chargeback rates and saving your company money in the long run.

Regardless of what sort of product or service you offer, your business will inevitably encounter chargebacks that will require your attention. While it can be a daunting task, ultimately chargeback management gives your business the opportunity to learn and grow from many divergent resources that may have been ignored in the past. When used and managed appropriately, your processor, the issuing banks, your customers, and the chargebacks can help build a stronger, more robust business that will attract and retain the best customers, and result in a stronger bottom line.

Selected Resources

Visa Chargeback Management Guidelines:

http://usa.visa.com/download/merchants/rules_for_visa_merchants.pdf

MasterCard Chargeback Management Guidelines:

http://www.mastercard.com/us/wce/PDF/Chargeback_Guide_Nov_2007_no_contact_info.pdf

Discover Card Fraud Prevention Guidelines:

<http://www.discovernetwork.com/merchant/resources/data/fraud.html>

American Express Merchant Resources:

www.americanexpress.com/merchant

PayPal Merchant Resources:

https://www.paypal.com/us/cgi-bin/webscr?cmd=_home-merchant

Merchant Risk Council:

<https://www.merchantriskcouncil.org>

Direct Response Forum:

<http://www.directresponse.org>

About Vindicia

Vindicia offers an integrated, on-demand billing and fraud management solution for online merchants. Vindicia CashBox™ is a best-of-breed billing system for creating and managing recurring payments and helps merchants improve customer retention and maximize profit. Vindicia ChargeGuard™ provides automated fraud screening and chargeback management services that enable merchants to recover lost revenue. A PCI Service Provider Level 1 company and SAS 70 Type 2 audited, Vindicia is a key payment management resource for some of the best-known brands on the Internet.