

Financial Impact of the MasterCard Excessive Chargeback Program (ECP)

Introduction

Vindicia is beginning to see merchants' revenue adversely impacted by the new MasterCard Excessive Chargeback Program (ECP) that began on October 1, 2006. In this program, merchants that are categorized as a MasterCard "Excessive Chargeback Merchant" (ECM) will be assessed sizable additional fees and fines. There is *no grace period* for the merchant to lower its chargeback-to-transaction ratio (CTR) before the fees and fines are assessed.

Overview of the MasterCard Excessive Chargeback Program (ECP)

The MasterCard ECP is new and many merchant processors are still in the process of communicating program guidelines and the implications of the ECP to their merchants. The general definitions and guidelines are:

- The **chargeback-to-transaction ratio (CTR)** is defined as the number of MasterCard chargebacks a merchant receives in a calendar month divided by the number of MasterCard sales transactions in the preceding month.
- A **Chargeback-Monitored Merchant (CMM)** is defined as a merchant that has a minimum of 50 chargebacks in a calendar month and a CTR of greater than 0.5%.
- An **Excessive Chargeback Merchant (ECM)** is defined as a merchant that has a minimum of 50 chargebacks in a calendar month and a CTR of greater than 1.0% for 2 consecutive calendar months. These two months are called the "trigger months." The merchant continues to be designated an ECM until the merchant's CTR is below 1.0% for two consecutive months.
- **IMPACT:** Merchants will be assessed additional fees and fines without limits beginning on the first day of the first trigger month (this is referred to as the "ECM Claim Period"), and these fees and fines will continue to be assessed until the merchant is no longer an ECM. There is *no grace period* where the merchant is given a chance to get its CTR below 1% before the additional fees and fines start being assessed.

Financial Impact of Being a CMM or ECM

It is important to contact your merchant processor account manager/customer service department to get specifics on how your processor is implementing the MasterCard ECP and assessing additional fees and fines to its merchants. Here is how fees and fines are generally being assessed:

- CMMs will be assessed an extra \$50 reporting fee per month
- ECMs will be assessed an extra \$300 reporting fee per month
- ECMs will also be fined (1) \$25 per chargeback that exceeds the 1% threshold (this is in addition to a merchant's standard chargeback fee), and (2) a violation assessment that is the total chargeback fine multiplied by the merchant's CTR in basis points, then divided by 100. [Examples of how basis points are defined: 1% = 100 basis points, 1.5% = 150 basis points, 1.22% = 122 basis points, and so on]

Sample Case Study

Assume Merchant X has the following MasterCard sales transactions and MasterCard chargebacks, and CTR (calculated in both percentage and basis points):

Month	November	December	January	February
MasterCard Sales Transactions	98,000	110,000	105,000	103,000
Chargebacks		900	1,250	1,350
CTR in percentage		0.92%	1.14%	1.29%
CTR in basis points		92	114	129

In early March, Merchant X is notified by its processor that because Merchant X had a CTR of over 1% for the months of January and February, it is now an ECM and will be subject to extra chargeback fines, violation assessments and reporting fees (\$8,311 for January and \$17,443 for February; calculations are shown in the table below). The processor explains to Merchant X that because there is no grace period associated with the MasterCard ECP, the fees and fines begin in January, the first “trigger month” that the merchant has a CTR of greater than 1%.

Month	November	December	January	February
MasterCard Sales Transactions	98,000	110,000	105,000	103,000
Chargebacks		900	1,250	1,350
CTR in percentage		0.92%	1.14%	1.29%
CTR in basis points		92	114	129
Number of chargebacks at 1% CTR		980	1,100	1,050
Number of chargebacks in excess of 1%		not over 1%	150	300
Chargeback fine (\$25 per chargeback over 1%)			\$3,750	\$7,500
Violation assessment			\$4,261	\$9,643
\$300 ECM reporting fee			\$300	\$300
Total fees/fines:			\$8,311	\$17,443

Characteristics of Merchants Who Are Most Susceptible to Becoming an ECM

- Merchant is not responding to chargebacks and retrieval requests
- CTR is steadily climbing from month-to-month
- CTR is just barely below 1% every month (0.7% or higher)
- Merchant is experiencing rapid growth or has experienced seasonal sales increases
- Merchant is understaffed in its customer service department
- Merchant has launched a new product/service or implemented a new business practice that is confusing to customers and adding a strain to customer service resources
- Merchant's business has generated a large number of dissatisfied customers who are not being adequately managed
- Merchant allows multiple or unlimited account sign-ups on a single credit card

Summary

It is more important than ever that merchants watch their chargeback rates closely. The financial impact of going over 1% CTR can be significant on a merchant's business. If a merchant continues to be over 1% CTR for several months, the consequences may become more severe, including additional penalties and losing one's merchant account. If you have already been designated a MasterCard CMM or ECM, or your business exhibits one or more characteristics of a merchant that is susceptible to becoming an ECM, contact Vindicia to learn how we can help.

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.