

Industry Tips

## Minimize Chargebacks

### Overview

For merchants, chargebacks can be costly. You can lose both the dollar amount of the transaction being charged back and the related merchandise. You can also incur your own internal costs for processing the chargeback. Although you probably cannot avoid chargebacks completely, you can take steps to reduce or prevent them. Many chargebacks result from avoidable mistakes, so the more you know about proper transaction-processing procedures, the less likely you will be to inadvertently do, or fail to do, something that might result in a chargeback. The following best practices will help you minimize chargebacks.

### For All Transactions

**Declined Authorization.** Do not complete a transaction if the authorization request was declined. Do not repeat the authorization request after receiving a decline or split it into smaller amounts. Instead, ask for another form of payment.

**Transaction Amount.** Obtain an authorization number for the full amount of the transaction only. Do not estimate transaction amounts. For example, restaurant merchants should authorize transactions only for the known amount on the check; they should not add on a tip.

**Expired Card.** Check “Good Thru” or “Valid Thru” date of the card to make sure the card is valid and has not yet expired.

**Legibility.** Ensure that the transaction information on the transaction receipt is complete, accurate, and legible before completing the sale. An illegible receipt, or a receipt which produces an illegible copy, may be returned because it cannot be processed properly. The growing use of electronic scanning devices for the electronic transmission of copies of transaction receipts makes it imperative that the item being scanned be very legible.

**One Entry for Each Transaction.** Ensure that transactions are entered only once and are deposited only once.

**Depositing Transactions.** Settle your transaction receipts as quickly as possible, preferably within one to five days of the transaction date; do not hold on to them.

**Requests for Cancellation of Recurring Transactions.** If a customer requests cancellation of a transaction that is billed periodically (monthly, quarterly, or annually), cancel the transaction immediately or as specified by the customer. As a service to your customers, advise the customer in writing that the service, subscription, or membership has been cancelled and state the effective date of the cancellation.

**Doing Business as Name.** When a transaction settles and flows through to the cardholder’s statement a descriptor of your business is displayed. This should be your “Doing Business As” name (dba name), the name on the front of your store or on your website. Since each card issuer has different requirements for the

descriptor, it might appear fine for one cardholder but indecipherable for another. Check your terminal or software setup process to assure your name and phone number are set up correctly.

**Retain Sales Receipts.** Set up a good filing system, whether online or paper, of the original sales transactions. When a dispute is received the merchant notification will have the transaction date, amount of the transaction, a truncated card number and in some cases a reference/invoice number. Using one of these pieces of information you will need to find the original receipt and any other documentation related to that transaction for your best rebuttal documents. A cardholder has up to 120 days and in a few cases as long as 540 days to initiate a dispute.

**Return Authorization Policies.** Have solid procedures in place for product returns. Issue return authorization numbers. Provide complete information to the customer on how to return the merchandise and make sure the return authorization number is visible on the outside of the package. Accepting a returned package that doesn't qualify for a refund leaves the merchant without any rights to dispute the chargeback.

### Face-to-Face Transactions

**Proof Card was Present.** Swipe or read the chip of the card. In the event of a Chargeback, this provides proof the card was present at the time of the transaction. A signature is no longer required to show proof the card was present for EMV-enabled merchants. If your return policy is printed on your receipt you still need the cardholder signature to show they received and acknowledged the terms of the sale.

**Disclosing Refund, Return, or Service Cancellation Policies.** If your business has policies regarding merchandise returns, refunds, or service cancellation, you must disclose these policies to the cardholder at the time of the transaction. Your policies should be pre-printed on your transaction receipts or other documentation that is signed by the cardholder. The signature needs to be within close proximity of the terms. Failure to have your customer sign your refund and return policies at the time of a transaction could result a non-reversal of a chargeback.

**EMV.** A "chip-on-chip" transaction (i.e., a card read via the chip by a chip-capable terminal) provides dynamic authentication data that brings a higher degree of fraud protection due to the chip which uses several measures to create a complex level of security that makes a chip card difficult to copy or counterfeit. With this liability shift, the party that is the cause of a chip-on-chip transaction not occurring (i.e., either the issuer or the merchant) will be held financially liable for any resulting card-present counterfeit fraud losses. Card Association policies state that chip cards must be read as chip cards at all times unless the card, chip-reading device, or terminal is malfunctioning. This means that chip cards may only be accepted via the magnetic-stripe when the chip cannot be read. Follow the prompts on the terminal for the most secure processing.

### Card-Absent Transactions (Mail/Telephone/Internet)

Verify the cardholder's address. Verify the Address Verification Service (AVS) response for the entered cardholder billing address. The best AVS response is "Y" for Yes or "Match". This means the cardholder has given you the same address as the billing address for the card. If you're still uncertain about the transaction (e.g., large transaction, 1st time customer), you can call the issuing bank or the Voice Authorization Center.

Require the V Code. Ask the customer for the V Code on the back of their card. This is a 3-digit number on the back of the card. American Express displays the 4-digit code on the front of the card. This helps to verify that the customer possesses the actual card. Most point of sale systems prompt you for this information and will return a negative response if the number given is not correct.

Shipping Product. Ship the merchandise to the AVS address and obtain a signed delivery receipt (signature of the cardholder) as well as a shipping tracer log or tracking slip. You will need to submit proof of the shipping address and signed proof of delivery in case of a chargeback.

Set Proper Expectation of Delivery Date. If the merchandise or service to be provided to the cardholder will be delayed, advise the cardholder in writing of the delay and the new expected delivery or service date. Charge the cardholder's account at the time the merchandise is shipped.

Return, refund, and cancellation policy. Your website must communicate its refund policy to the cardholder in either of the following locations: 1) In the sequence of pages before final checkout, with a "click to accept" or other acknowledgement button, checkbox, or location for an electronic signature, or 2) On the checkout screen, near the "submit" or click to accept button. The disclosure must not be solely on a link to a separate web page. For mail or phone order disclosure, your refund and credit policies may be mailed, emailed, or texted to the cardholder. As a reminder, the merchant must prove the cardholder received or acknowledged the policy in order for the disclosure to be proper.

For additional information to protect your business from chargebacks see our Guarding Against Fraud tip sheet.

April 2018