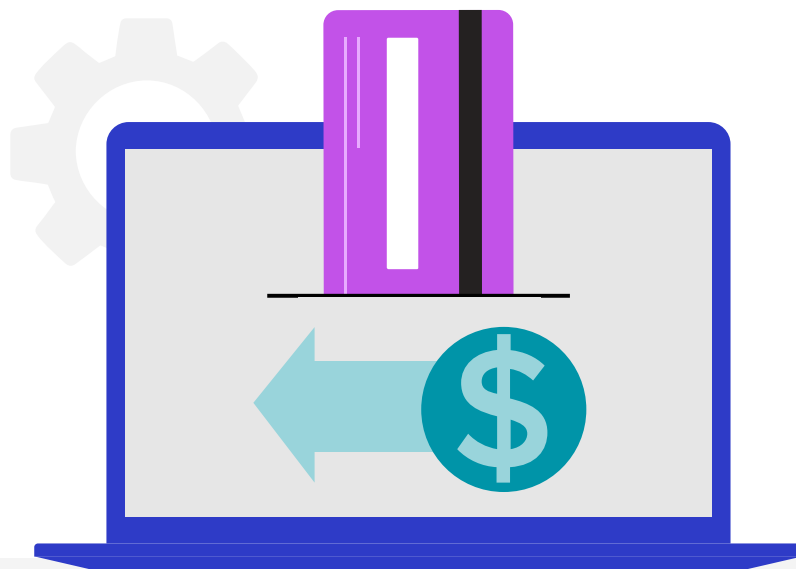


Transaction Risk: Chargebacks



A chargeback is a credit or debit card charge that is forcibly reversed by an issuing bank. This typically happens after a cardholder claims a transaction was the result of fraud or abuse.

Even the most reputable online businesses will struggle with chargebacks. For cardholders, chargebacks act as a shield against criminals or dishonest business practices. For merchants, however, chargebacks can pose a serious threat to revenue and business sustainability.

What merchants can do to prevent Chargebacks

Authorization Procedures

A “decline” code indicates that the card issuer does not approve the transaction. Authorizations should not be reattempted by reducing the amount requested or repeating the request. If a decline code is provided, the merchant should return the card to the customer and ask for another form of payment.

Card Not Present (CNP) Transactions

CNP transactions such as Mail Order, Telephone Order and Internet transactions are more prone to chargebacks. Merchants can add controls to reduce the risk of chargebacks for fraudulent or unauthorized transactions:

- Maintain a negative Database
- Limit the number of transactions by a single cardholder
- Use an Address Verification Service (AVS)
- Employ strategies that will allow you to know your customers,
- Publish a customer service phone number
- Use CVV2/CVC2 security features

More ways merchants can prevent Chargebacks



Credit/Refunds

To prevent Credit Not Processed chargebacks, merchants should quickly process refunds to their customers. Customers should always be made aware of a cancellation or refund policy in writing. If the merchant does not give refunds and will only offer in-store credit only, this information should be included on the transaction receipt. Refunds must be made using the same credit card as the original sale. Never refund a card purchase by cash or check.

Duplicate Transactions

To avoid duplicate transactions that result in Duplicate Processing chargebacks merchants should process one transaction at a time, balance deposits at the end of the day, create a separate invoice describing each purchase, and check the batch totals at the end of every day to ensure that customers were not charged twice. If a customer is charged twice in error, merchants should immediately credit the cardholder's account.

Merchandise or Service Not Received by Cardholder

If a cardholder does not receive merchandise or services, a Non-receipt of Merchandise chargeback may occur. Goods and services must be delivered before charging the customer. To avoid this type of chargeback, merchants should obtain a signed proof of delivery for all merchandise or services that are not immediately delivered at the point of sale.

Cardholder Disputes Quality of Merchandise/Service

Shipped goods should be properly packed. The goods should be suitable for the purpose for which they were sold. The customer should be provided with a clear understanding of how to return the merchandise.

To avoid such chargebacks, customers should be made aware of the merchant's return policy at the time of purchase. The return policy should be prominently displayed on the receipt and website. The return policy should be maintained and updated consistently.