

# CHARGEBACK MANAGEMENT

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June 2020



What are chargebacks?



The process



Best practices



COVID-19



FAQ



The Worldpay  
solution

# What are chargebacks exactly?

Disputes, also known as **chargebacks**, occur typically when a consumer contacts their card issuer to request their money back for goods or services purchased, rather than you, who they bought them from.

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- ▶ The majority of consumers have admitted to have raised a dispute **out of convenience**, what is known as 'friendly fraud'. 
  - ▶ There is also the matter of **criminal fraud**: customers who simply want something for nothing. 



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'Friendly fraud' makes

**67%**

of all disputes

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- ▶ The majority of consumers have admitted to have raised a dispute **out of convenience**, what is known as 'friendly fraud'. 
- ▶ There is also the matter of **criminal fraud**: customers who simply want something for nothing. 

Fraud-related chargebacks are infuriating and expensive. There's also the risk of being placed on a card scheme chargeback compliance program if your chargeback levels are excessive

Card schemes and banks are often reluctant to refuse chargeback claims, and managing those chargebacks can prove costly and labor intensive. Taking preemptive measures can often have a negative impact on acceptance levels

# The process



**The chargeback  
lifecycle**



**Visa and Mastercard  
specific cycle**



**Timeframes**



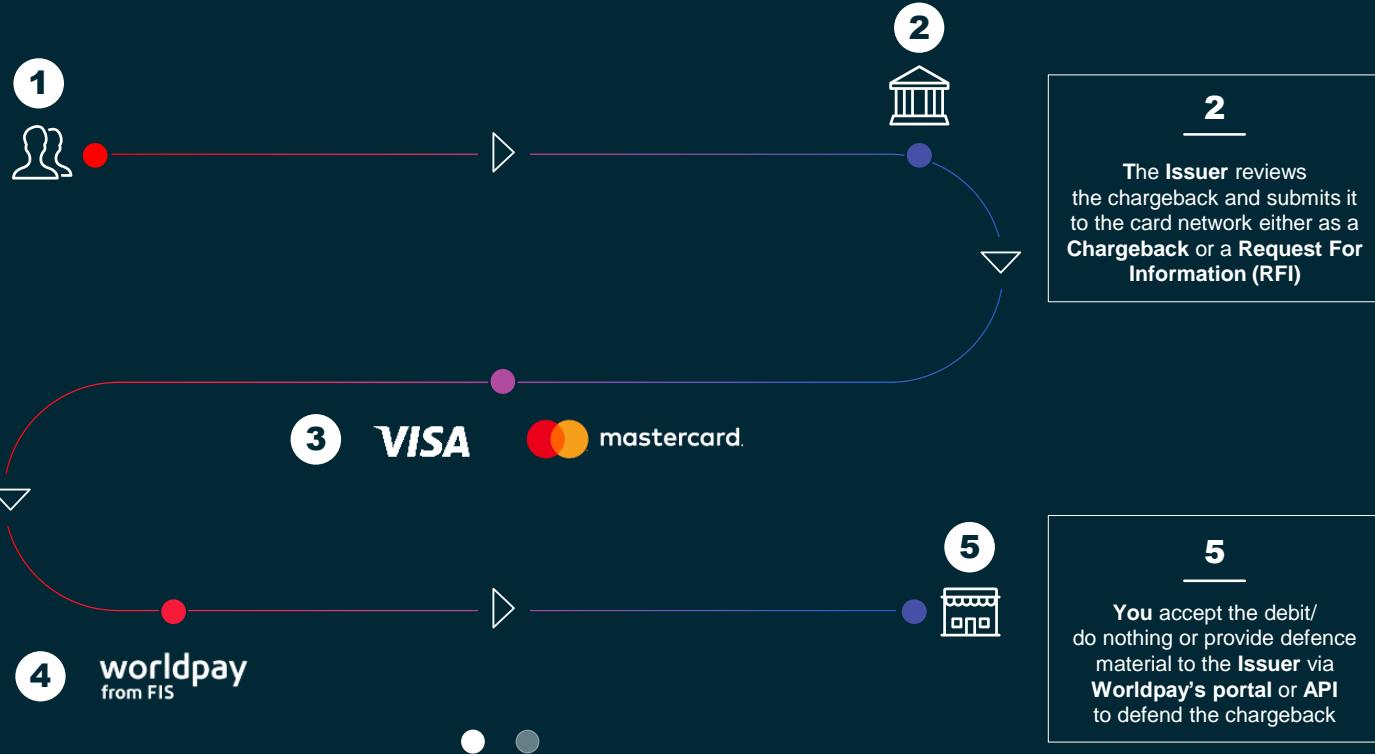
**Reconciliations**

# The chargeback lifecycle

**1**  
The Cardholder initiates a dispute via their bank or credit card company

**3**  
The Scheme screens the chargeback, rejects it if issuer hasn't met technical requirements for the reason code used, otherwise it is passed on to Worldpay (RFIs are usually passed on)

**4**  
Worldpay receives Chargeback or Retrieval request or an RFI and notifies you via EMIS, WPG, or an alert from the Worldpay Disputes Portal

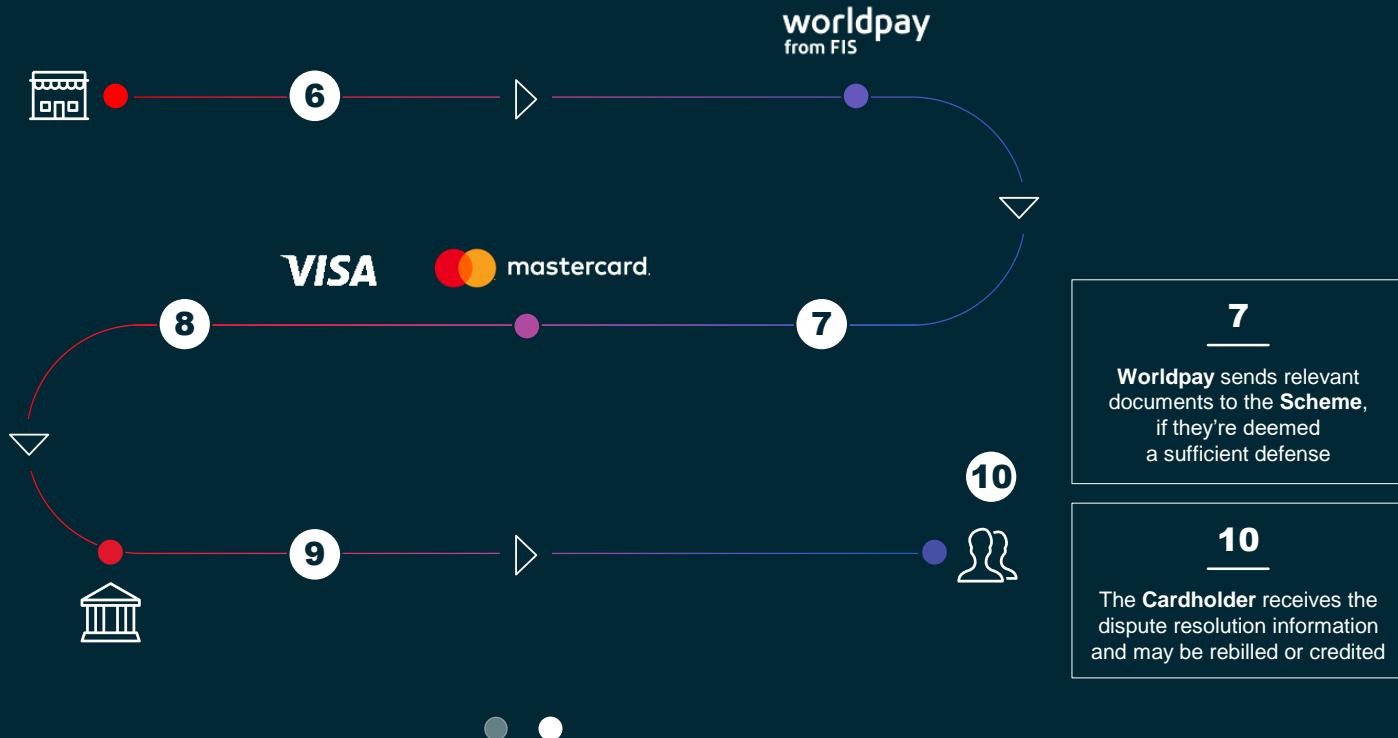


# The chargeback lifecycle

**6**  
You provide defence material to **Worldpay** within the required timeframe

**8**  
**Scheme** transmits the dispute from the **Acquirer** to the **Issuer** along with documentation provided by **you**

**9**  
The **Issuer** reviews evidence and charges back payment from **you<sup>1</sup>** to the **Cardholder** or drops the dispute. If the payment is charged back, a handling fee is charged to **you**, debited in the invoicing currency of the MID used for processing



<sup>1</sup> In the originally used settlement currency

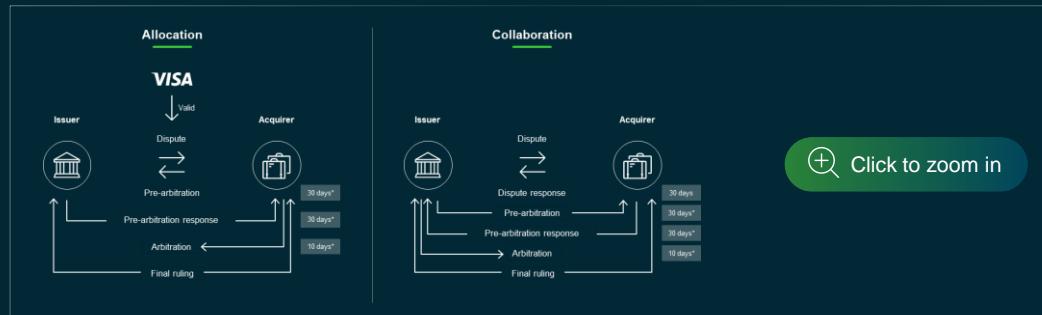
# Visa and Mastercard specific cycle

Each card scheme has their own unique chargeback cycle.

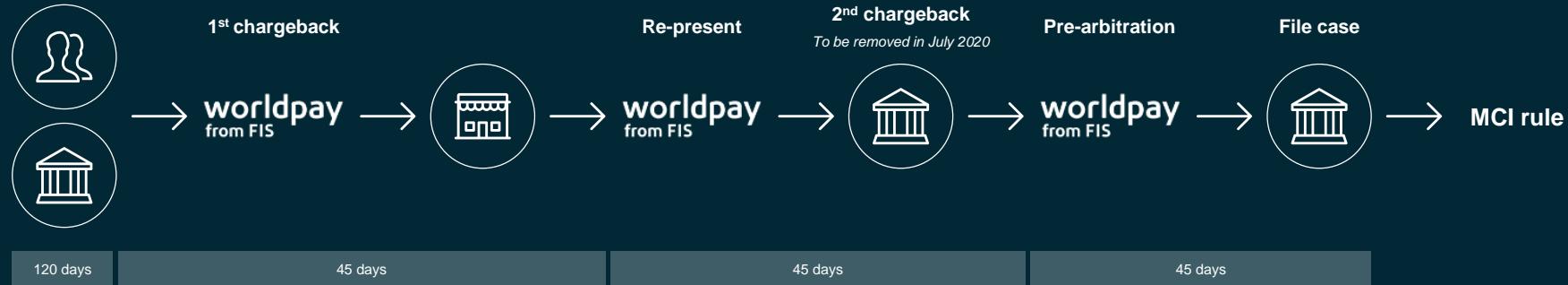
► **Mastercard** currently uses a 'Second chargeback' process, however this stage will be removed for all 1<sup>st</sup> chargebacks raised on/after 17 July 2020



► **Visa** goes from 'Re-presentment' directly to 'Pre-arbitration' stage. With chargebacks for fraud a 'Pre-arbitration' is raised instead of a 'Re-presentment'.

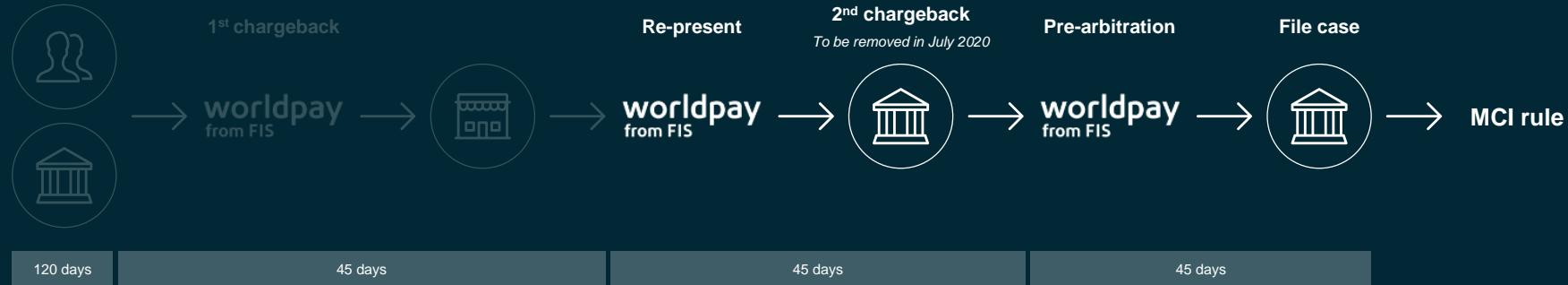


# Mastercard cycle



▷ **Second chargeback**

# Mastercard cycle



## ► Second chargeback



Our ability to defend you relies on the documentation you submit. It should address the Reason Code and allow us a 'Re-presentment' right. However, please note that a '**Re-presentment**' **isn't a guarantee of successful defence**. It's essential to include all relevant information within the initial stage. If the issuing bank changes Reason Codes or continues the chargeback based on information missing from our 'Re-presentment', then we can't rely upon it at a filing stage.

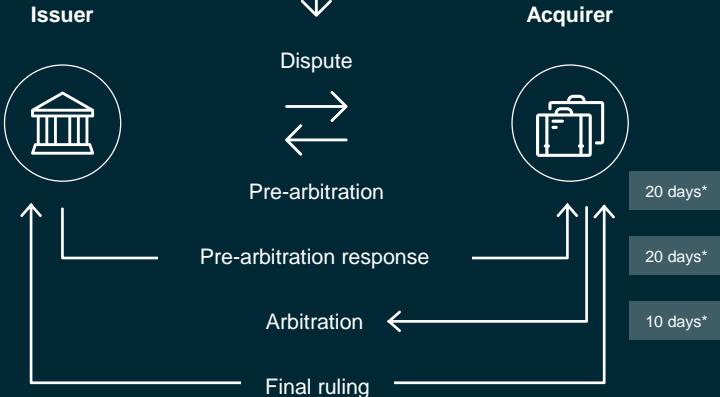


# Visa cycle

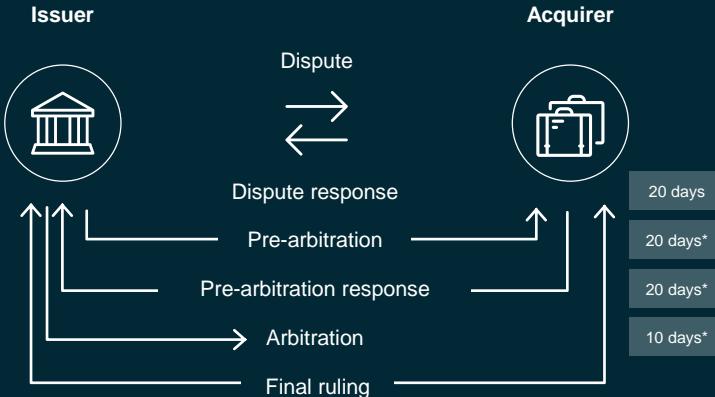


## Allocation

**VISA**



## Collaboration



\* Hard timeframes

# Timeframes



## Raising chargebacks

For most Reason Codes, the Cardholder has

**120 days**

from the processing date of the transaction to raise a chargeback (or from the expected delivery date of the services, such as a flight date, for 'Services not received' type chargebacks).

## Cardholder receiving funds from chargebacks

The timeframe depends solely on the issuing bank and their internal policy. It may also be affected by the Cardholder's bank account. Some banks issue a temporary credit upon raising the chargeback.

We'll receive a debit when the chargeback is raised. While we can confirm when/if this debit will be passed to you, we're unable to influence when the funds are passed to the Cardholder, if resolved in their favour.

# Reconciliations

When a chargeback is received, we receive a debit from the issuing bank. We hold it while we verify if it's a valid dispute and that the issuing bank hasn't made any technical errors. If valid, we'll seek defence material from you. For CNP (Card Not Present) fraud disputes, a debit will be automatically applied to your account on the

## 14<sup>th</sup> day

and the chargeback will complete, if documentation is not submitted in time to prevent the debit (taking into account our administrative processes). If the documents provide a 'Re-presentment' right and are received in time, we'll send this debit back to the issuing bank, without having debited you<sup>1</sup>.

- ▶ **NOC**<sup>2</sup>

- ▶ **AOS**<sup>3</sup>

Note: The process above doesn't apply to NAP

1 Domestic CNP fraud excluded, which issues an unavoidable debit within 14 days of the AOS. This debit is reversed if we are able to 'Re-present'

2 Notification of Chargeback

3 Adjustment of Status



*Please note that there are multiple factors which may affect the debit date of a chargeback to you and that these timeframes are based on circumstances where you do not respond to a dispute.*

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**NOC** will show as  
'Charged back – Action required'  
within WDRC, in

# 15 days

from the issuance of the NOC,  
an 'Advice of Net Settlement'  
will be issued

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# Best practices



*Please be aware that including this information with your documentation may give us the strongest chance of winning the dispute, however it in no way guarantees this. The card schemes are the ones to make the final decision regarding the outcome of a chargeback.*



Prepare a summary page of the key points of the case, to prove why the chargeback is invalid



Break down the order/booking details and the individual cost of the separate segments



Provide any documentation from any third parties, relevant to the case



Attach your Terms and Conditions, with e-signature/signed by the Cardholder



Send over the confirmation email detailing order/booking/price (including the currency)



Provide information that will help the Cardholder to recognise the transaction



Forward any communication with the Cardholder to support your case



Add social media/photographic evidence linking the Cardholder to the transaction/services



Make copies of all related services and a breakdown of any exchanges



Expected impact  
across industries



Rules & policy updates  
from card schemes



Chargeback liability  
factors



Business survival  
strategies

# Expected impact across industries



## ▷ Potential positive impact



Source: Moody's.com/coronavirus

### Low exposure

Construction/materials

Defense

Equipment & transportation

Rental

Packaging

Pharmaceuticals

Real estate, REITS

Food/food retail

Telecoms

Waste management

### Moderate exposure

Beverages

Chemicals

Manufacturing

Media

Metals and mining

Oil and gas/oilfield services

Property developers (China)

Protein and agriculture

Services companies

Steel producers

Technology hardware

### High exposure

Apparel

Automotive manufacturers

Automotive suppliers

Consumer durables

Gaming

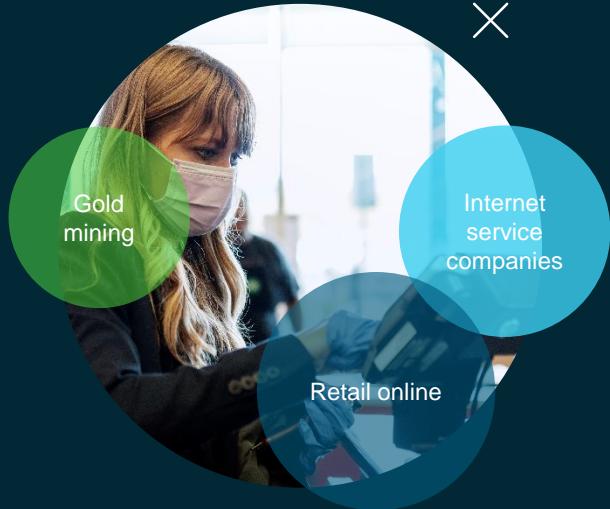
Lodging/leisure and tourism

Passenger airlines

Retail (non food)

Global shipping

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## Low exposure

Construction/materials

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Rental

Packaging

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Real estate, REITS

Food/food retail

Telecoms

Waste management

## Moderate exposure

Beverages

Chemicals

Manufacturing

Media

Metals and mining

Oil and gas/oilfield services

Property developers (China)

Protein and agriculture

Services companies

Steel producers

Technology hardware

## High exposure

Apparel

Automotive manufacturers

Automotive suppliers

Consumer durables

Gaming

Lodging/leisure and tourism

Passenger airlines

Retail (non food)

Global shipping

# Rules & policy updates from card schemes

## Rules

Require issuers to withdraw invalid chargebacks, if instructed by the scheme

## Monitor

Issuers are submitting quality disputes and not abusing the system

## Be proactive

Reach out to customers early and prevent a chargeback

## Refund timely

Honor your promises and obligations

## Be ready to defend

Always represent where you can

## COVID-19 monitoring

## Best practices



## Law & regulation

### Vouchers and credits

Use to prevent and defend chargebacks

### Legal override

You may have protection if Government Legislation prevents you from providing the service

## Compliance programs

### Fraud & chargebacks

Relaxation of monitoring and penalties for some categories

### Other rules

Continue as normal – required standards are maintained

# Chargeback liability factors



Supply-line  
interruption



Increased  
consumer fear



Overwhelmed  
customer support



Fulfillment and  
service delays



Financial  
volatility



Increased  
fraud activity



Current policies  
inadequate



Changing plans  
and needs



No payments  
on contracts



Plus many  
hidden factors

**Businesses across  
all sectors should  
expect increased  
levels of disputes**

# Business survival strategies

Under normal business conditions



Define core priorities



Leverage outside assistance and expertise



Refine Customer Service policies



Utilize alternative refund options



Confront worst case scenario

# Business survival strategies

Under normal business conditions



Use multilayer fraud detection



Share your contact info



Optimize your response



Notify customers of delays



Make cancelling easier



Deploy smarter chatbots



Deploy Alerts and AMPI



Adhere to best practices



**Please describe your chargeback fee structure from chargebacks to ‘Arbitration’. Do you charge a chargeback fee when your system auto-presents on the chargeback? What are ‘Re-presentment’ policies that have fees associated with them (i.e. technical fines)?**

This is part of our commercial discussion and the details can be discussed with you individually.

**Please describe differences in the chargeback management process by card schemes, by region or by country.**

This is part of our current process to support Apple in Japan, specifically today, and managed as such.

**If providing access to new card associations (i.e. not VI/MC/AMEX), what are the timelines for the Cardholders, Issuers and us in the chargeback process? (i.e. how long do customers have to dispute transactions? What is process with their issuing banks? How do Issuers confirm validity of chargebacks? Are there regulations to be aware of for issues – like Reg E/Reg Z? What are our response timelines? etc.)**

We don't tend to manage the dispute process for card schemes that we don't acquire. However, we could discuss it on a market specific basis.



Please explain, in detail, the ‘Pre-arbitration’ and ‘Arbitration’ process by card scheme. What additional information we need to provide in these situations? What new information is shared with us in ‘Pre-arbitration’ and ‘Arbitration’ cases? What is likelihood of us winning these cases?

## VISA

Visa splits their disputes under two main groups: ‘Allocation’ and ‘Collaboration’. ‘Allocation’ contains dispute Reason Code categories: 10 (Fraud) and 11 (Authorization), while ‘Collaboration’ categories: 12 (Processing Errors), and 13 (Consumer Disputes). The ‘Pre-Arbitration’ process differs depending on which group the dispute falls under.

### Allocation

When defending a chargeback under the allocation group, we (Acquirer) submit a ‘Pre-Arbitration’ to the Issuer. The Issuers upon receipt of the ‘Pre-Arbitration’ can either accept, decline or ignore it. If accepted or ignored, the case is closed and we (and you) win. If the Issuer declines, we can submit the case for ‘Arbitration’<sup>1</sup>, in which case the Issuer will either accept, or Visa will rule and make a decision as to which party is liable. If the Issuer has made an invalid first chargeback, we can miss out the ‘Pre-Arbitration’ stage and go straight to ‘Arbitration’<sup>1</sup>.

### Collaboration

When defending a chargeback under the collaboration group, we (Acquirer) submit a ‘Re-presentment’ to the Issuer. The Issuer upon receipt of the representment can either accept/do nothing (we win), or raise a ‘Pre-Arbitration’/go straight to ‘Arbitration’<sup>2</sup>, if we have undertaken an invalid defense. If the Issuer raises a ‘Pre-Arbitration’, we review the evidence and make a decision whether to accept it as a valid chargeback, or decline. If declining upon receipt of this, the Issuer has the option to file for ‘Arbitration’<sup>2</sup>. If they do, we can either accept the ‘Arbitration’ or allow Visa to rule and make a decision as to which party is liable.

<sup>1</sup> Additional fines/fees apply to the losing party

<sup>2</sup> Per allocation additional fines/fee apply in Arbitration



For the 'Pre-Arbitration' process under allocation you are required to provide evidence that refutes the chargeback. For example, for a fraud case we'd expect to see compelling evidence. If a case does progress further to 'Arbitration' you will rarely, if ever, be contacted for further information, as Scheme rules don't allow new evidence to be presented. The same applies to 'Collaboration' (i.e. the evidence to defend will have been provided at the 'Represent stage').

Likelihood of winning 'Pre-Arbitration' varies depending on the Reason Code and strength of evidence provided. For 'Arbitration', our win rates tend to be high but you need to consider that very few cases get to 'Arbitration' stage, and we only ever pursue then when we are confident of winning. With many years of experience working chargebacks we are able to estimate which cases have a potential to be a win.



In case of Mastercard the Issuer raises 1<sup>st</sup> chargeback, then we can represent with defense. When the Issuer raises a 2<sup>nd</sup> chargeback, we can send a 'Pre-Arbitration' or 'Arbitration'.

'Pre-Arbitration'/'Arbitration' following receipt of 2<sup>nd</sup> chargeback follows the same route as Visa 'Allocation'.

Effective for 1<sup>st</sup> chargebacks raised on/after 17 July 2020 Mastercard is going to introduce a new chargeback process and will remove the 2<sup>nd</sup> chargeback stage. As such, for new chargebacks the process to dispute following our represent will be the same as Visa 'Allocation'.

Answers to new information shared and likelihood of winning are the same as per Visa.



## **Please explain how case updates for chargebacks are provided to us. How do you differentiate those updates from the initial chargeback record?**

The standard process doesn't provide you with many updates. Simply, if you receive a notification of chargeback and provide evidence to refute and don't receive a debit, you can assume the evidence has been used to defend. Likewise, if you receive a debit, provide evidence to defend, then receive a re-credit you can assume the evidence has been accepted and used to defend the case. Unfortunately, this is not ideal, as the Issuers have quite a long window to continue their case following an initial defense (30 days for Visa, 45 days for Mastercard) – you have to take these into consideration to know if it's a definite win.

## **What is technical and financial process of crediting us after we have a successful 'Re-presentation'?**

This can be discussed with you individually.

## **What is technical and financial process of crediting us after a chargeback reversal?**

A chargeback reversal (as received from the Issuer) is processed in the same way as a 'normal' chargeback. The only difference would be if we hadn't charged you for the 1<sup>st</sup> chargeback, then we would net the reversal off this.



# The Worldpay solution



We're putting your business in control with more options. Defend disputes your way, and keep more revenue.

## Grow with experts

Identify growth opportunities with the power of payments experts plus robust data and reporting

## Maximize global acceptance

Remove the complexity from accepting payments anywhere, any way around the world



REACH



REVENUE



RESPONSIVENESS

## Protect your revenue

Keep more revenue with leading-edge security, fraud and loss mitigation solutions

## Convert sales & save

Increase revenue with higher authorization rates at optimized cost

## Pay & get paid your way

Choose from a variety of funding options ranging from currency choices to speed of settlement



# The Worldpay solution

## ResolvIt: Worldpay Disputes

Our Protect your Revenue solutions include

**ResolvIt: Worldpay Disputes**, a true end-to-end global chargeback management suite, from prevention through 'Re-presentment'.

- ▷ **Disputes Deflector**
- ▷ **Disputes Defender**
- ▷ **Disputes Portal**
- ▷ **Disputes Direct API**

Contact your Relationship Manager today to learn about more about Worldpay Disputes products.



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Contact your Relationship Manager today to learn about more about Worldpay Disputes products.

With **Disputes Deflector** you can quickly deflect disputes before a chargeback claim is initiated. It aggregates dispute information from card brands, so you can act on customer claims faster and reduce the number of chargebacks and revenue losses.

If you want to be notified earlier in the disputes cycle, so you have the opportunity to prevent a dispute turning into a chargeback



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Fight back against chargebacks with **Disputes Defender**, powered by Chargebacks911. From prevention to 'Re-presentment', our dual layer approach drives more revenue recovery and proactively reduces your chargeback volume. We make it easy with multiple integration options – including a direct connection to your CRM system.

**If you want to let Worldpay handle disputes on your behalf**



# The Worldpay solution

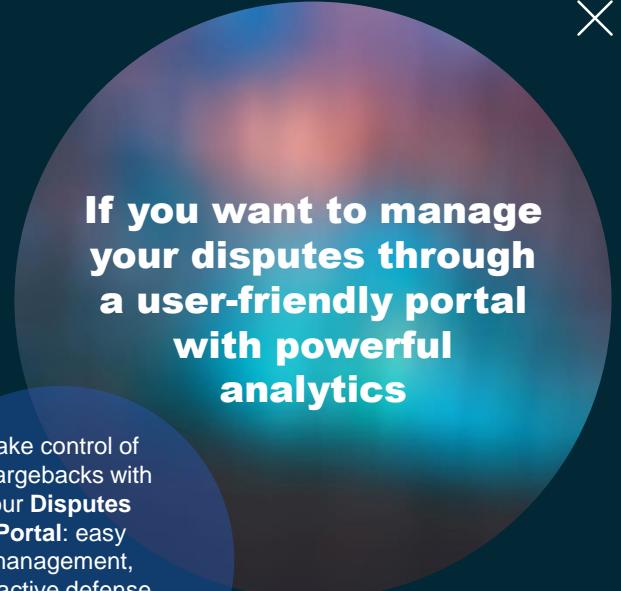
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If you want to manage your disputes through a user-friendly portal with powerful analytics



Take control of chargebacks with our **Disputes Portal**: easy management, proactive defense, and enhanced reporting. All in one place.

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**Disputes Direct API** gives you control to flexibly manage your chargebacks through an API, so you can increase operational efficiencies while decreasing costs.

**If you want to defend your disputes through API calls, rather than a portal**



**worldpay**  
from FIS