

## **Chargeback FAQs**

### **What is a chargeback?**

A chargeback occurs when a customer disputes a charge from a merchant with their issuing bank/credit card company. Some customers may choose to dispute a charge rather than directly contacting the merchant. When they initiate a credit card chargeback, they send the transaction back to the merchant's bank (or acquirer). The issuing bank requests the acquirer to take away the disputed funds and credit it back to the customer.

The acquirer then must contact the merchant, asking if they would like to challenge the claim. Response times vary, and if the merchant chooses to respond, this will lengthen the timeline for resolution.

### **What is the difference between a chargeback and a retrieval request (inquiry or request for information)?**

A retrieval request, inquiry or request for information happens when a cardholder or issuer questions a transaction, but the debit amount for the transaction is not sent. The cardholder's bank asks a merchant to send information about a transaction. A retrieval request doesn't cost the merchant anything, however, not responding to the request leads to a chargeback. If the issuing bank doesn't need more information about the transaction, they can skip this stage and issue a first chargeback.

### **How will I be notified of a chargeback for my department?**

Banking Services will be notified via fax or email that a chargeback has been initiated for a CSU merchant account. The Merchant Specialist, Samantha Roberts, will then notify the merchant contact for that department of the chargeback via email. The deadline for a rebuttal will be stated in the email.

### **How do I respond and submit documentation for a chargeback?**

The chargeback notification document will have instructions on how to respond to the dispute. TSYS provides a website for uploading documentation, <https://merlinkresponse.com>. It is best to include all sales receipts, documentation, and interactions with the customer in your response. American Express responses will be uploaded by the Merchant Specialist, Samantha Roberts, but the response will still need to be drafted by the department.

**Please see subsequent pages for detailed information on the chargeback process and tips for merchants.**

## What is involved with the chargeback process?

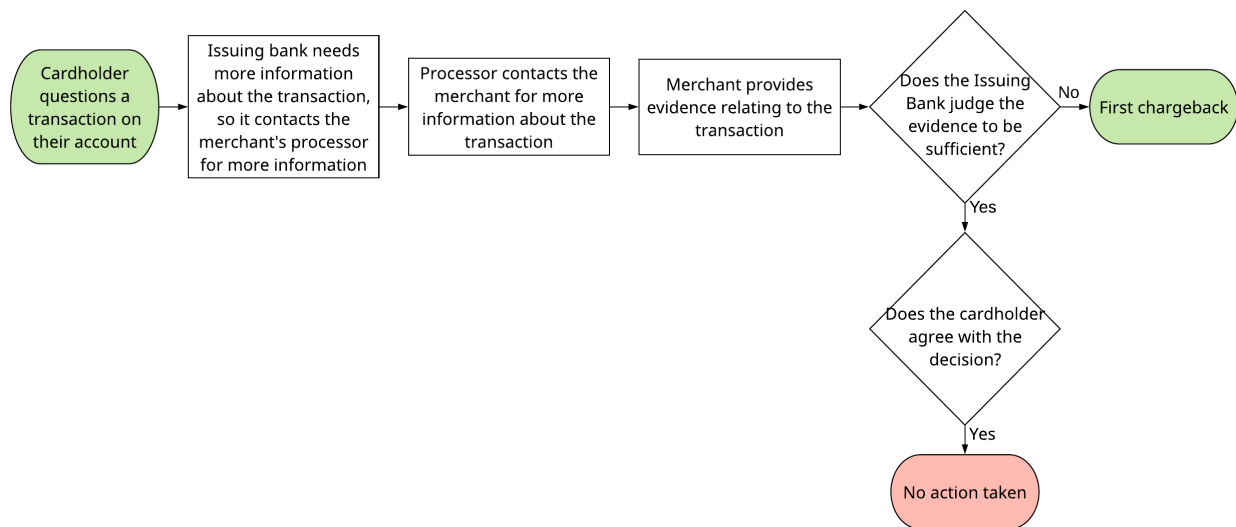
There are up to four stages in the chargeback process, which include the following:

- Retrieval request
- First chargeback
- Second chargeback, also known as pre-arbitration
- Arbitration

### Retrieval request

A retrieval request is when a cardholder's bank asks a merchant to send information about a transaction. A retrieval request doesn't cost the merchant anything, however, not responding to the request leads to a chargeback.

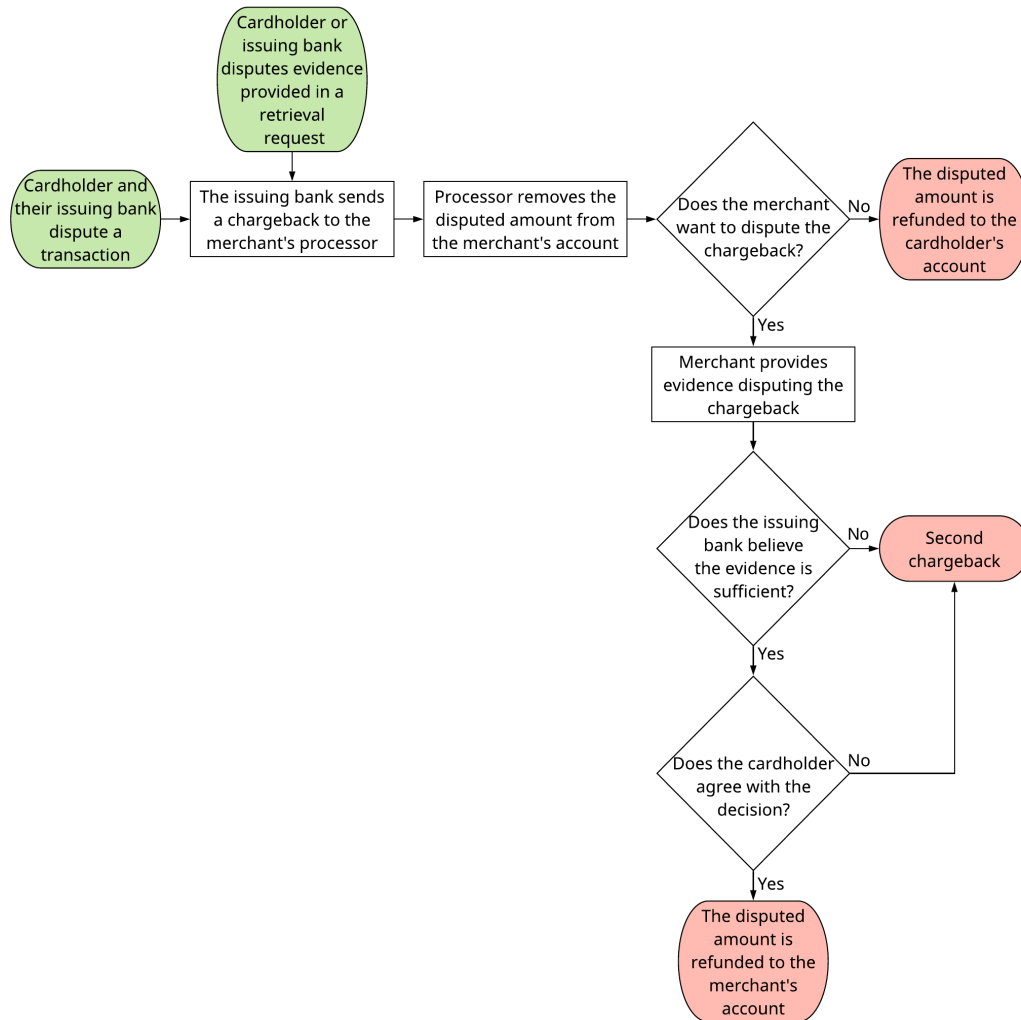
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### First chargeback

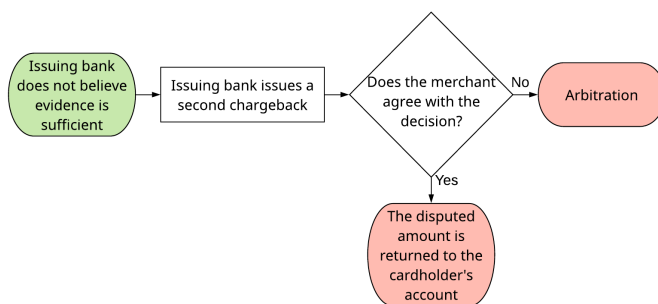
If a cardholder and issuing bank don't need any more information about a transaction, they can dispute the transaction by issuing the first chargeback. The issuing bank can also issue a first chargeback if the merchant doesn't provide sufficient evidence in response to the retrieval request.

If the merchant disputes the chargeback, the dispute moves to the next stage. If the merchant doesn't dispute the chargeback, the cardholder receives the disputed amount.



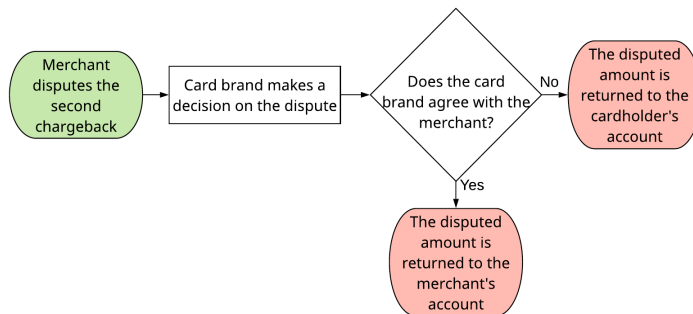
## Second chargeback

A second chargeback is also known as pre-arbitration. During the second chargeback stage, the issuing bank may issue a second chargeback. If the merchant disputes the chargeback the dispute moves to the arbitration stage.



## Arbitration

Arbitration is the last stage in the chargeback process, but most disputes do not end in arbitration. The card brand makes the final decision about whether the cardholder or the merchant receives the disputed transaction amount.



### **Why are credit card chargebacks bad for business?**

The chargeback process costs merchants money in the form of chargeback fees. Unfortunately, these fees can apply regardless of whether the merchant wins the arbitration process. Retrieval request fees generally range from \$5.00 to \$20.00. Chargeback fees vary per payment processor, ranging from \$20 to \$100 per incident.

If the dispute reaches the arbitration stage, the card brand can charge \$250 to \$500 in fees. The losing party is responsible for paying these fees.

On top of the fees, the major card brands have strict limits - generally 1% of sales volume - that can trigger additional fines or account termination.

### **How can businesses reduce chargeback fraud?**

Providing excellent customer service, clear communication, training staff properly on accepting payments, and maintaining payment security standards are essential to keeping chargeback fraud to a minimum.

-Merchants can oftentimes avoid chargebacks through open, direct communication and following these simple steps:

- Clearly describe offerings to customers to avoid confusion.
- Explain return, cancellation, and refund policies in detail, and keep it simple so customers do not feel like a chargeback is the only way to resolve the dispute.
- Share what the customer can expect in terms of after-sales service.
- For card-present or face-to-face sales, full return and refund policies should be on all receipt copies.

It's best to make full return and refund policies available on your website or application in card-not-present environments, in addition to a "Click to Accept" or other acknowledgment button, checkbox, or location for an Electronic Signature.

Use payment processing software that provides up-to-date security features. The software solutions that merchants use for managing their business and processing payments should include the most up to date security features to ensure they are reducing the potential for fraud as best as possible. Some examples include:

- EMV Quick Chip and EMV contactless. Cards with EMV chips are less susceptible to payment fraud, as it is difficult for fraudsters to skim and duplicate them. EMV-enabled hardware can also provide the documentation needed to defend your business when you submit your chargeback rebuttal.
- Tokenization. Tokenization is a best practice that replaces cardholder data (CHD) such as credit card information with one or more unrelated symbols it generates randomly or by algorithm. Including this feature in a security bundle will help keep large volumes of transactions secure.
- Encryption. Encryption is a process that encodes information so that it is unreadable unless decrypted by someone with knowledge of the decryption key. Including encryption as a security feature helps provide confidence that CHD is safe.

-Actively monitor disputes- when merchants receive a chargeback notification, they have an opportunity to respond and defend themselves. Merchants should:

- Follow all instructions in the chargeback notification.
- Respond by the due date given.
- Address all cardholder concerns in writing.
- Provide proper transaction documentation such as order forms, invoices, and more.