Chargebacks 101 – The Basics

Presenter:  Caleb Burke
Agenda

- Housekeeping
- Presenters
- About Conexxus
- Presentation
- Q & A
Housekeeping

This webinar is being recorded and will be made available in approximately 30 days.

• YouTube (youtube.com/conexxusonline)
• Website Link (conexxus.org)

Slide Deck
• Survey Link – Presentation provided at end

Participants
• Ask questions via webinar interface
• Please, no vendor specific questions

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Speakers
Caleb Burke
Payment Card Operations Manager CITGO Petroleum
About Conexxus

• We are an independent, non-profit, member driven technology organization
• We set standards…
  – Data exchange
  – Security
  – Mobile commerce
• We provide vision
  – Identify emerging tech/trends
• We advocate for our industry
  – Technology is policy
<table>
<thead>
<tr>
<th>Month/Date</th>
<th>Webinar Title</th>
<th>Speaker</th>
<th>Company</th>
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<tbody>
<tr>
<td>November 27, 2018</td>
<td>Fuel Fraud</td>
<td>Andrew McGloin</td>
<td>Visa</td>
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<td></td>
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<td>Robert Alandt</td>
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<td></td>
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<td>Sydney Green</td>
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<tr>
<td>November 29, 2018</td>
<td>Building a Scalable Security Engineering Team</td>
<td>Joe Basirico</td>
<td>Security Innovation</td>
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<td>December 13, 2018</td>
<td>A beginners guide to Chargebacks – What causes them and how you can win at them</td>
<td>Caleb Burke</td>
<td>CITGO Petroleum</td>
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<tr>
<td>January, 2019</td>
<td>Preventing Ransomware by using Managed Detection &amp; Reporting (“Smart Logging”)</td>
<td>Mark Carl &amp; Tom Callahan</td>
<td>ControlScan</td>
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<td>February, 2019</td>
<td>Small Petroleum Retailer Simplified PCI Compliance</td>
<td>Elizabeth Terry</td>
<td>PCI Security Standards Council</td>
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<td>March, 2019</td>
<td>Protecting Your Stores and Main Office from Data Security &amp; Ransomware Attacks</td>
<td>Dirk Heinen</td>
<td>Acumera</td>
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<td>April, 2019</td>
<td>Don’t Get Phished!! Train Your Employees To Avoid Ransomware</td>
<td>TBD</td>
<td>Security Innovation</td>
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Conexxus thanks our 2018 Annual Diamond Sponsors!
About the Presenter

Caleb Burke - Operations Manager CITGO Petroleum

Responsible for:
• Chargebacks
• Fraud & Fraud Mitigation

Seven years of experience in the Petroleum Payment Card Industry
What is a Chargeback?

A Chargeback is “a debit to a depositor’s account that offsets a previous credit.”

What does that mean to us as merchant’s?

A Chargeback is really a forced return of funds to the customer without return of the good or service.

Chargebacks = ? + ?
The Chargeback Process:

1. **Cardholder Initiates chargeback request**
2. **Bank sends chargeback to merchant acquirer**
3. **Acquirer sends chargeback notice to merchant**
4. **Merchant accepts or rejects the chargeback**
   - **ACCEPT**
     Merchant is debited the amount of the chargeback.
   - **REJECT**
     Merchant supplies documented proof in response to the chargeback.

*Conexxus: Chargebacks 101*
Why Do Chargebacks Occur?

FRAUD
Authorization
Customer Disputes
Processing Errors

Chargeback Volume by Category

80% of Chargebacks are FRAUD related
# Most Common Chargeback Reasons

<table>
<thead>
<tr>
<th>Reason</th>
<th>Visa</th>
<th>Mastercard</th>
<th>Amex</th>
<th>Discover</th>
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</thead>
<tbody>
<tr>
<td><strong>Fraud (EMV)</strong></td>
<td><strong>10.1</strong> Counterfeit</td>
<td><strong>4870</strong> Chip</td>
<td><strong>F30</strong> EMV Counterfeit</td>
<td><strong>UA05</strong> Chip</td>
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<tr>
<td></td>
<td><strong>10.2</strong> Non- Counterfeit</td>
<td><strong>4871</strong> Chip and PIN</td>
<td><strong>UA06</strong> Chip and PIN</td>
<td><strong>UA06</strong> Chip and PIN</td>
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<tr>
<td><strong>Fraud (Lost &amp; Stolen)</strong></td>
<td><strong>10.3</strong> Other Fraud</td>
<td><strong>4837</strong> Customer Did Not Authorize Use of Card</td>
<td><strong>F24</strong> Customer Did Not Authorize Use of Card</td>
<td><strong>UA01</strong> Fraud</td>
</tr>
<tr>
<td></td>
<td><strong>10.4</strong> Other Fraud CNP</td>
<td></td>
<td></td>
<td><strong>UA02</strong> Fraud CNP</td>
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<td></td>
<td><strong>10.5</strong> Visa Fraud Monitoring</td>
<td></td>
<td></td>
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<tr>
<td><strong>Authorization</strong></td>
<td><strong>11.2</strong> Declined Auth</td>
<td><strong>4808</strong> Authorization Related</td>
<td><strong>A02</strong> No Valid Authorization</td>
<td><strong>AT</strong> Authorization Noncompliance</td>
</tr>
<tr>
<td></td>
<td><strong>11.3</strong> No Auth</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Processing Errors</strong></td>
<td><strong>12.5</strong> Incorrect Txn Amount</td>
<td><strong>4831</strong> Txn Amount Differs</td>
<td><strong>P05</strong> Incorrect Txn Amount</td>
<td><strong>DP</strong> Duplicate Processing</td>
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<tr>
<td></td>
<td><strong>12.61</strong> Duplicate Processing</td>
<td><strong>4834</strong> Interaction Error</td>
<td><strong>P08</strong> Duplicate Charge</td>
<td></td>
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<tr>
<td></td>
<td><strong>12.7</strong> Invalid Txn Data</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Customer Disputes</strong></td>
<td><strong>12.62</strong> Paid by Other Means</td>
<td><strong>4855</strong> Goods Not Received</td>
<td><strong>C02</strong> Credit Not Processed</td>
<td><strong>AA</strong> Does Not Recognize</td>
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<tr>
<td></td>
<td><strong>13.1</strong> Goods Not Received</td>
<td><strong>4860</strong> Credit Not Received</td>
<td><strong>C08</strong> Goods Not Received</td>
<td><strong>RG</strong> Goods Not Received</td>
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<tr>
<td></td>
<td><strong>13.3</strong> Defective Goods</td>
<td><strong>4863</strong> Cardholder Does Not Recognize</td>
<td><strong>C14</strong> Paid by Other Means</td>
<td><strong>RM</strong> Cardholder Dispute</td>
</tr>
<tr>
<td></td>
<td><strong>13.6</strong> Credit Not Processed</td>
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</table>
Fraud

Fraudulent chargebacks occur when a counterfeit or lost/stolen card is used to pay for goods or services.

Overall fraud increased 33% in 2017!

AFD Fraud has increased 60% since 2015

80% of fraud is “Friendly”

If you are still waiting on EMV:

• Require ZIP Verification (AFD)
• Prompt for the last four digits of the card (Inside)
• Limit high fraud merchandise (i.e., gift cards, cigarette cartons, etc.)

If already EMV compliant:

• Limit fallback
• Prompt for PIN when available
• Complete all schedule POS updates

Fraud migrates to non-EMV businesses; can you afford to not upgrade?

Source: www.chargebacks911.com/chargebacksexplained

Conexxus: Chargebacks 101
Authorization

When possible, obtain an electronic (online) authorization:

- Never make up an approval code
- Never enter a code provided by the cardholder
- If the card cannot be electronically approved, you have the right to ask for an alternate form of payment
- Keep a record of all sales transactions

If for any reason you are unable to approve a transaction electronically, call the number provided by your brand/acquirer for voice authorization.
Processing Errors

Your Point of Sale (POS) is key in chargeback prevention:

• Complete all software updates in a timely manner
• Verify any applicable taxes are being calculated correctly
• Periodically verify the date and time in your POS
• Train your staff on proper sales procedures
Customer Disputes

Cardholders may chargeback a transaction if the goods or services are:

- Damaged or Defective
- Not As Described
- Not Received
- Does Not Recognize Merchant Name

Make sure cardholders can recognize your business name on their credit/bank statements. Your statement descriptor should be reflected on prominent signage at your location.
Receipt Best Practices

To minimize confusion, each receipt should contain:

- Business Name and Address
- Itemized Charges, Including Taxes and Fees
- Last Four of the Card Number
- Approval Code
- EMV Data (if applicable)
- Customer Name and Signature (if applicable)
- Transaction Date and Time

It is also recommended that somewhere on the receipt, you disclose any return/cancellation policy you may have.
General Dispute Guidelines

Remember, the burden of proof lies with us, the Merchant. That means **WE** can directly impact the results!

- Have a roadmap for how to handle chargebacks
- Consider the cost of re-presentment
- Review chargebacks to confirm they are valid
- Respond to all requests in a timely manner
- Provided all relevant documentation during the initial re-presentment

Conexxus: Chargebacks 101
Disputing A Chargeback

- Receipts
- Statement of Work/Work Order
- Any Communication(s) with the Customer
- Additional Sales Data
- Correcting Sales Data
- Subdrafts
- Rebuttal Letter

Re-presentation: The process of “re-presenting” a transaction to the customer’s issuing bank.
Automated Fuel Dispenser (AFD) Chargebacks

Did you know you can represent AFD Chargebacks? Use a Subdraft to recreate an AFD receipt. Subdrafts should contain at minimum:

- Terminal (Merchant) ID
- Location Name and Address
- Transaction Date and Time
- Card Type Used
- Last Four of Card Used
- Approval Number
- Product Purchased
- Price Per Gallon
- Fuel Quantity
- Total Price
- Disclaimer

Subdrafts can easily be created using Microsoft Word or similar products.
## Excessive Chargebacks

### Excessive Chargeback Thresholds

<table>
<thead>
<tr>
<th></th>
<th>American Express</th>
<th>Mastercard</th>
<th>Visa (Standard)</th>
<th>Visa (Excessive)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any location with a fraud-to-sales ratio of 1% for three consecutive months</td>
<td>Any location with a fraud-to-sales ratio of 1.5% and at least 100 chargebacks a month for two consecutive months.</td>
<td>Any location with a fraud-to-sales ratio of 0.20% and $10,000 in chargebacks during one month.</td>
<td>Any location with a fraud-to-sales ratio of 1% for three consecutive months.</td>
<td></td>
</tr>
<tr>
<td>Additional chargeback fee of $25 per chargeback over the 1% threshold</td>
<td>Counterfeit outdoor EMV transactions charged back</td>
<td></td>
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</tr>
<tr>
<td>Locations can remediate out of the program by reducing fraud levels to below acceptable limits.</td>
<td>Locations can remediate out of the program by reducing fraud levels to below acceptable limits.</td>
<td>Locations can remediate out of the program by reducing fraud levels to below acceptable limits within 1-2 months or for three consecutive months.</td>
<td>Locations can remediate out of the program by reducing their fraud to sales ratios. Visa will make individual decisions on repeat offenders.</td>
<td></td>
</tr>
</tbody>
</table>

### Effective Oct. 1, 2017

- Applies to American Express cards only.
- The AFD EMV liability shift deferment by Visa and Mastercard does not apply to cards issued outside of the US.
Changes to the Chargeback Environment

Visa Claims Resolution (VCR)

- Live April 2018
- Designed to simply chargebacks
- Allocation vs Collaboration
- Prevent invalid issuer chargebacks
- Streamline customer experience
- Removes the ‘REFCO’ process
- Shortens response time to 30 days

MasterCom Claims Manager

- Estimated go-live April 2019
- Align reason codes
- Shorten cycles
No Signature Rules

Recent rule changes regarding signature are to have no impact on chargeback representment rights.

- Visa – No signature is required on transactions so long as you are EMV capable
- Mastercard – No signature required on any transaction
- American Express – No signature required on any transaction
- Discover – No signature required on any transaction

Questions regarding No Signature should be directed to your Brand/Acquirer.

Merchants do have the right to continue asking for signatures.
Chargeback 101 Summary

• Chargebacks fall into one of four categories:
  • Fraud
  • Authorization
  • Processing Errors
  • Customer Disputes

• Develop a roadmap for working chargebacks:
  • Is the cost of the chargeback worth it?
  • Can I reasonable expect to win the case?
  • What has my success rate been historically?

• Respond to requests in a timely manner and included all related documents.
• Visa and Mastercard are streamlining their chargeback processes for customer experience.
• Prepare for increased chargeback costs if EMV is not implemented.
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• Email: info@conexxus.org
• LinkedIn Profile: Conexxus.org
• Follow us on Twitter: @Conexxxusonline