Bank of America

Merchant Services

A Business Owner's Guide to Card Payment Chargebacks

(and How to Reduce Them)

WHAT TRIGGERS A CHARGEBACK?

When the customer presents a card to you to pay for a purchase, it is called a Card Present (CP) transaction. Typically, in processing a CP sale, you swipe the customer's card, or follow manual key entry procedures if their card will not swipe. Then you verify the security features on their card by matching the embossed account number with the printed account number, checking the hologram, and comparing their signature with the one on the card. Failure to follow these procedures can result in a CP chargeback. The most common triggers for CP chargebacks are: forcing a sale after a decline by manually entering the sale without proper authorization, failing to imprint the card after manually entering the card number, and failing to indicate on the customer's sales receipt that "all sales are final" if that is your store policy.

When you are processing a sale over the phone or online and the customer is paying with a card, it is considered a Card-Not-Present (CNP) transaction. In this case, it is vitally important to compare the cardholder's address with the delivery address and ship merchandise via a carrier that can provide you with parcel tracking information and delivery confirmation. Failure to do so may result in a chargeback.

WHAT HAPPENS IF YOU DO RECEIVE A CHARGEBACK NOTIFICATION FROM BANK OF AMERICA MERCHANT SERVICES?

When we send you a request for documentation about a transaction, it indicates that we have received a chargeback, but are giving you, as the merchant, an opportunity to respond. We will provide you with key transaction elements to help you retrieve necessary information and a due date by which our request must be fulfilled. Once we receive this information, our chargeback investigators will review the transaction details, applying the rules and regulations set forth by the payment card organization. Based on our findings, your chargeback claim may be resolved, or we may request additional information from you. Your Bank of America Merchant Services account representative can assist you in determining what information may be required.

Bank of America Merchant Services is dedicated to helping you — and your business — succeed. Every transaction we process is backed by years of credit and debit card expertise. For more information about payment card chargebacks and what you can do to avoid them, please contact your Bank of America Merchant Services account representative.

Today's fast-paced business environment virtually demands that all brick-and-mortar stores and eCommerce sites accept payment cards. It's a plus for consumer and merchant alike. When paying by card, consumers may increase their sales total by buying impulse items or add-ons to their initial purchase. For merchants, accepting payment cards is easier and more secure than checks, eliminates the cost and delay of issuing and processing invoices, and creates a retail-friendly environment that encourages customers to buy, either in person or online.

Depending on the type of business you're in, you may accept any or all of the following payment cards: standard credit cards, signature debit (check) cards, pre-paid gift cards, or unembossed cards (these may be credit cards, debit cards or pre-paid gift cards). If you or your employees follow the correct processing protocol, most of your transactions will be processed, posted and paid smoothly. There are times, however, when a card issuer may require additional information about a transaction, potentially resulting in a card payment chargeback.

WHAT IS A CHARGEBACK?

Simply stated, a chargeback occurs when all or part of the amount of a transaction is "charged back" to your financial institution due to a dispute or a violation of card rules or regulations.

WHO'S WHO IN THE PAYMENT CARD BUSINESS

There are multiple parties involved in every payment card transaction. Here are the key players in the process:

– **Cardholder** – an authorized card user
– **Issuer** – the financial institution that provides the cardholder with the payment card and maintains a contract for payment with the cardholder
– **Merchant** – the business or service provider who accepts the payment cards
– **Acquirer** – the merchant's financial institution who accepts the cardholder's card for payment
– **Card Organizations** – the consumer payment system (e.g., Visa and MasterCard); members are financial institutions that issue payment cards and/or sign merchants to accept

Type of chargeback	How to avoid	How to defend
Card Present		
Non-receipt of information	– Fulfill all retrieval requests in timely manner with complete documentation	– Supply signed sales receipts, invoices, rental agreement
Processing/Authorization errors	– Follow authorization protocol required by card organization – Obtain valid authorization on day of transaction for correct amount – Settle transactions in a timely way – Use Address Verification System (AVS) when a card will not swipe or with non-face-to-face transactions	– Verify account number, hologram, signature
Fraud	– Magnetically swipe card – Imprint card if swipe fails – Match merchant descriptor with name of business – Use alternative account verification to validate cardholders I.D.	– Provide signed, imprinted or magnetic copy of transaction document – Provide written letter of acceptance from cardholder – Respond with documentation showing a positive Verified by Visa® or MasterCard® SecureCode response
Non-receipt of information	– Keep copies of transaction documents for 18 months – Ensure that your business name, location, and/or customer service phone number is provided on all transactions – Respond in a correct and timely manner to retrieval requests – Make sure card number and transaction amount are legible	– Provide clear, legible copy of sales drafts – Provide information that will assist cardholder in recognizing transaction, including invoices, emails, etc. – Follow other instructions on Chargeback notice
Card-Not-Present (CNP)		
Authorization	– Obtain valid authorization on day of transaction; if shipping after 7 days re-authorize transaction – If transaction is declined, request another form of payment	– Respond in timely manner that authorization was obtained – If voice approval was received, note that on your response along with approval code
Processing errors	– Ensure that transactions are not processed multiple times – If transaction was processed more than once, immediately issue voids or credits – Process MasterCard® transactions within 7 days, Visa® within 10 days, except for multi-location centrally accumulated, travel & entertainment and service station merchants (20 days) – Verify account number and transaction amount – Review/reconcile statement reports daily to identify potential duplicate files – Supply addendum data (cardholder name, flight itinerary, check in/check out dates) in settlement records – Make sure swipe reader is clean and in working order	– Provide proof that processing error did not occur – If processing error did occur, show proof that account was credited – If processing error occurred and no credits were issued, accept the chargeback – If there were two legitimate transactions, provide proof of both transactions
Cancellation/returns	– For recurring transactions, make sure your customer understands your billing and cancellation policies – Do not continue to bill customer after cancellation or receipt of a chargeback for recurring transactions – Process credits daily – All credits must be applied to the account which the debit originally posted – Establish and properly disclose cancellation/return policies to the customer – All policies should be outlined on the receipt in close proximity to signature; online, make sure customer "clicks to accept" to acknowledge terms of your return policy	– Provide copy of credit slip and date credit was processed – If partial credit was issued, explain why full credit was not due – Provide copy of contract stating terms/conditions of billing, certification stating that cardholder did not cancel and that it was properly disclosed – If credit is not due, provide a written explanation of reason and provide all supporting documentation

This chart is an overview of the types of chargebacks you may encounter, what you can do to avoid them, and how you can defend against them. For step-by-step instructions on the correct way to respond to each type of chargeback, contact your Bank of America Merchant Services account representative.