

# AA

## Managing Chargebacks

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## Introduction

Card Pay from the AA has recognised that fraud and chargebacks are becoming an ever-increasing problem for many merchants. For most merchants their fraud and chargeback problems will be related. Card Pay wants to warn merchants of the potential implications if they have excessive fraud and chargeback rates, especially the possibility for fines to be levied to encourage the correction of the underlying fraud and chargeback problems. Card Pay also wants to work with its merchants to help them reduce their fraud and chargeback problems. This is an information manual for merchants, to provide you with sufficient information to avoid issues and additional costs related to these fraud and chargeback programs.

This manual will outline:

- The rules that govern both the MasterCard and Visa fraud and chargeback programs;
- The practicalities of the MasterCard and Visa fraud and chargeback programs;
- The potential fines or other penalties that can be levied if fraud and chargeback problems are not rectified in a timely fashion; and
- How merchants can find possible solutions in cooperation with Account Management/Support.

## What is a Chargeback?

A chargeback is initiated by the Card Issuing bank; either at the request of the Cardholder or when the issuing bank sees the need to do so via the schemes. Card Pay are governed by scheme rules and regulations. Common reasons for chargebacks / reversals are:

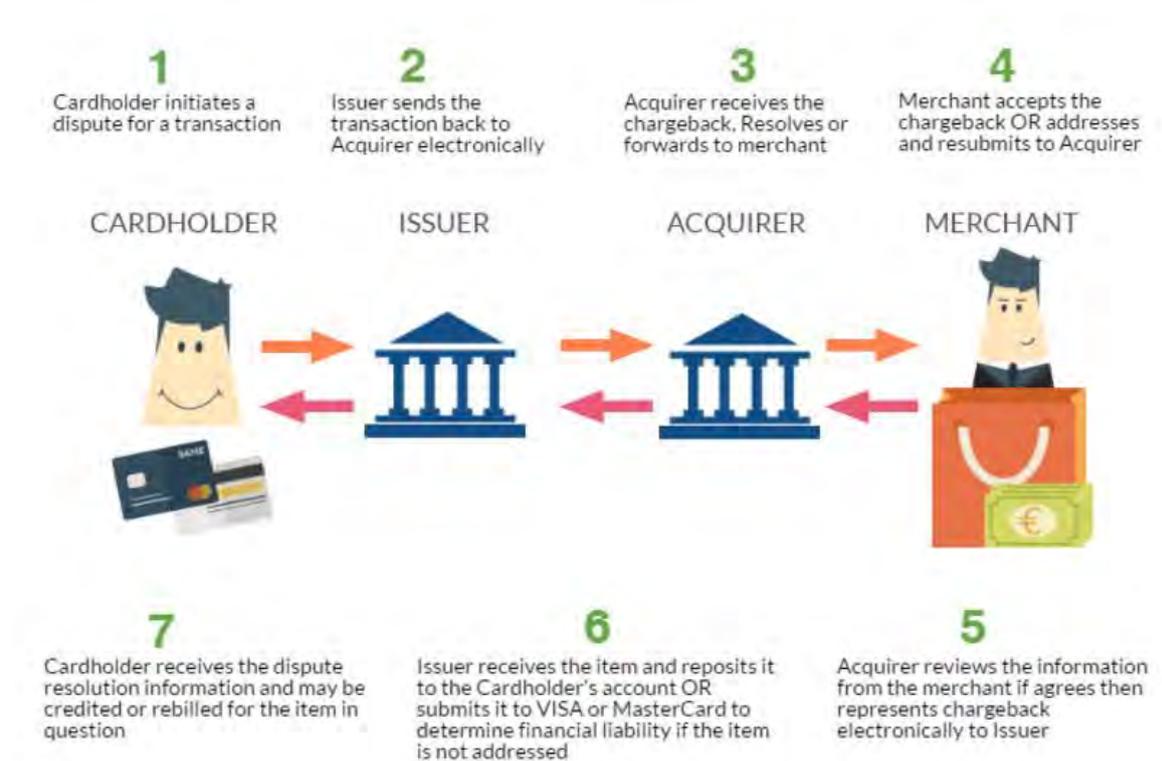
- Fraud enquiries – cardholder denies participating or authorising a transaction
- Cardholder disputes the sale for reasons such as failure to receive goods or service
- Cardholder disputes the sale for reasons of quality
- Cardholder does not recognise a transaction

All Merchants accepting debit and credit card payments run the risk of being liable for chargebacks. A cardholder or card Issuer has the right to question or dispute a card transaction. A chargeback can be received up to 120 days after the card transaction was taken. In the case of goods or services being delivered, a chargeback can be raised up to 120 days from agreed date of delivery. Certain exemptions to the 120 days may apply depending on the Card Scheme and the reason for the dispute.

## Chargeback Process Overview

- When a chargeback is received the acquirer is automatically debited for the chargeback amount. This means that the card scheme gives the money back to the issuer straight away.
- The debit is passed onto the merchant since he is ultimately liable for the transaction.
- Acquirer has 30 days to dispute the chargeback on the merchant's behalf. This requires merchant cooperation as he/she usually must provide documentation to defend the case. Adherence to timeframes is also vital.
- If a merchant can defend his case within the timeframe, his Acquirer represents the chargeback, gets the money back from the issuer and credits the merchant.

- If the issuer still wants to dispute, in some cases he may have rights to issue a second chargeback and the process is repeated.
- Even further disputes must be escalated to Arbitration stage during which the relevant card scheme rules on the case. Additional charges are imposed for the ruling and passed onto the losing party. During arbitration both parties may incur also additional fines if they are found to have breached regulations along the way.



## Chargebacks – Common Misunderstandings

Some common misunderstandings in relation to chargebacks include:

- **An authorisation is not a guarantee of payment**  
An authorisation proves the card has sufficient funds available at the time of transaction and / or the card has not been reported stolen at the time of the transaction. It does not vouch for the validity of the person using the card and is not a guarantee of payment.
- **I pay the Merchant Service Charge so I will not get chargebacks**  
Chargebacks are separate to the Merchant Service Charge and are costed accordingly.
- **I should not be charged for the processing of chargebacks**  
Processing chargebacks incurs a fee due to the administrative work required on the part of Card Pay in requesting and providing supporting documentation to the schemes. However, most chargebacks can be avoided by Merchant vigilance and the use of fraud detection measures.

## What is a Retrieval Request?

This is a request for information about a Transaction that has been disputed. Card Pay will contact you via mail if we receive a retrieval request relating to your business. The letter will contain instructions for providing the evidence needed to prove the Transaction was legitimate. The letter will also contain a deadline for responding. If the evidence you submit is deemed by Visa or MasterCard to be insufficient, or submitted after the deadline, the retrieval request may become a Chargeback and Card Pay may debit your nominated account for the value of the Transaction.

## Can all Chargebacks be defended?

No. The reason cited by the cardholder will mean that the cardholder's bank can immediately issue a Chargeback without first issuing a retrieval request. Some Chargebacks cannot be defended and in these cases your nominated account will be debited by Card Pay for the value of the Transaction.

If the Chargeback can be defended, Card Pay will contact you via mail and the letter will contain instructions for providing the evidence needed to prove the Transaction was legitimate. The letter will also contain a deadline for responding. If the evidence you submit is insufficient, or submitted after the deadline, the dispute will result in the value of the Transaction being charged back to you.

## Important points about Chargebacks:

- Visa and MasterCard define a number of 'reason code' categories for disputes raised by cardholders. It is the reason code that determines if you have an opportunity to defend the dispute, or if it will be an automatic Chargeback.
- This means you will sometimes be contacted with a request to provide evidence, and sometimes your account will simply be debited for the Chargeback.
- The key for you is to always follow the instructions in any correspondence you receive from Card Pay regarding retrievals or Chargebacks and always submit your responses by the required deadlines. Please see over for most common reasons for Chargebacks.

## Most Common Reasons for Chargebacks

| Chargeback reason  | Why this has happened?   |
|--|--|
| Unauthorised/Fraudulent transaction  | Cardholder believes the transaction was not authorised or is fraudulent.   |
| Cardholder doesn't recognise transaction                                       | This usually happens when a customer doesn't recognise your trading name on their credit card statement. You should always trade under the same name that you have provided to Card Pay for your merchant facility and make sure this appears on your transaction receipts.  |
| Authorisation (for manual transactions) Proper authorisation was not obtained. | This might occur where a transaction has been processed above the floor limit and voice authorisation was not obtained. The chargeback may be raised by the cardholder's bank for the following reasons: <ul style="list-style-type: none"><li>• Declined authorisation</li><li>• No Authorisation</li><li>• Expired Card</li><li>• Account number not on file</li></ul> |
| Processing error   | Cardholder or issuer believes that you processed a transaction incorrectly. It may be caused by late presentment of the transaction, incorrect transaction amount / account number or paid by other means.   |
| Duplicate processing   | Cardholder believes the same transaction was processed more than once.   |
| Non-Receipt Goods/Services   | Cardholder or authorised person did not receive the merchandise/ services at the agreed-upon location or by the agreed-upon date.  |

## Card Not Present

Merchants taking card not present transactions over the phone or internet should always proceed with extreme caution. Merchants assume all liability for card not present Chargebacks in both these scenarios.

## Summary

Card Pay always works with its merchants to decrease their fraud and chargeback levels. Merchants are also required to monitor their fraud and chargeback levels, and adapt their Risk set-up and business practices accordingly, to ensure fraud and chargeback levels are at an acceptable level. If a merchant would like further clarification on any issue related to fraud or chargebacks, they can contact Card Pay and we will work with you to find an optimal solution.

## Appendices

### 1.1 Chargeback Timeframes for Visa

*Note: days are calendar days, not business days*

| Timeframe   | Activity   |
|---|--|
| Day 0   | Acquirer processes transaction.  |
| Day 75 – 120  | Cardholder can dispute transaction up until day 75 for reason codes 70, 71, 72, 73 and 78 on Visa (see Appendix for details). All other reason codes are up to 120 days from the transaction date. In the case where goods or services are to be delivered, Cardholders can dispute up to 120 days from the date delivery was due.       |
| On receipt of Chargeback  | Issuer performs basic checks and if not met, forwards to scheme following Cardholder enquiry.  |
| On receipt of Chargeback  | Scheme forwards to Acquirer and debits Acquirer.   |
| On receipt of Chargeback  | Acquirer contacts Merchant by post, fax or Insight report advising of transaction and reason code, requesting required documents and informing of latest response date. Merchant account is debited. <sup>3</sup> Chargeback fee is applied.   |
| Within 14 days of notification                                      | Merchant must respond to chargeback within 14 days of initial contact, otherwise the debit stands and case is closed.  |
| Re-presentation within 45 days of receipt of Chargeback by Acquirer | If the Merchant supplies documentation the team then assess the material for adequate defence. Assessment is always completed in accordance with scheme rules and regulations. On represented cases a credit is applied and the Merchant is informed by letter / fax. If unable to represent, a debit stands and a letter / fax is sent. |
| 30 days from re-presentation  | The Issuer has 30 days in which to raise the pre-arbitration. The Acquirer then has 30 days to accept or reject.   |
| 60 days from re-presentation  | The issuing Bank has 60 days in which to raise arbitration.  |

### 1.2 Chargeback Timeframes for MasterCard

*Note: days are calendar days, not business days*

| Timeframe   | Activity   |
|---|--|
| Day 0   | Acquirer processes transaction.  |
| Day 90 – 120  | Cardholder can dispute transaction up until Day 90 for reason code 4808 on MasterCard (see Appendix for details), Day 60 for reason codes 4801 and 4802 (see Appendix for details). All other reason codes are up to 120 days from the transaction date. In the case where goods or services are to be delivered, Cardholders can dispute up to 120 days from the date delivery was due. |
| On receipt of Chargeback (Issuer)                                   | Issuer performs basic checks and if not met, forwards to scheme  |
| On receipt of Chargeback (Card Scheme)                              | Scheme forwards to Acquirer and debits Acquirer  |
| On receipt of Chargeback (Acquirer)                                 | Acquirer contacts Merchant by post, fax or Insight report advising of transaction and reason code, requesting required documents and informing of latest response date. Merchant account is debited. <sup>4</sup> Chargeback fee is applied.   |
| Within 14 days of notification                                      | Merchant must respond to chargeback within 14 days of initial contact, otherwise the debit stands and case is closed.  |
| Re-presentation within 45 days of receipt of Chargeback by Acquirer | If the Merchant supplies documentation the team then assess the material for adequate defence. Assessment is always completed in accordance with scheme rules and regulations. On represented cases a credit is applied and a chargeback fee is applied. The Merchant is informed by letter/fax. If unable to represent, a debit stands and a letter / fax is sent.                      |
| 15/45 days from re-presentation                                     | The Issuer has 15 for international and 30 days for domestic transactions in which to raise the 2nd chargeback. Your account will be debited and notification sent. You will receive a further chargeback fee. Please respond within 14 days with further information.   |
| 45/60 days from re-presentation                                     | The issuing Bank has 45 days for international and 60 days for domestic transactions in which to raise arbitration.  |

### 1.3 Necessary Documentation

| Information required by Chargeback type  | Reason Codes Visa | Reason Codes MasterCard | MasterCard Documentation Required   |
|--|-------------------|-------------------------|---|
| Refund not processed Chargeback  | 85                | 4860                    | Evidence that a refund has been processed. Or proof to substantiate the refund was not valid  |
| All Fraud-related Chargebacks  | 57,75,83,93,81    | 4863,4837, 4840,4847    | If the transaction was processed as 3D secure please provide MPI log. Customer details including delivery address and a description of what the service/goods were provided. Specifically for gaming merchants – If you can provide evidence of a long trading history or credits being paid to this same card please send through details which may enable us to defend the transaction. |
| All 'Goods not received' Chargebacks   | 30                | 4855                    | Provide signed Proof of Delivery or proof that the service has been provided  |
| All Cancelled re- occurring, Credit not processed and cancelled subscriptions/orders | 41                | 4841                    | Due to rules changes there is no valid defence to this chargeback.  |
| All Airline Chargebacks  | 42                | 41                      | Due to rules changes there is no valid defence to this chargeback.  |
| All Authorisation Code Chargebacks   | 71,72,73 77       | 4808, 4812, 4835        | Provided a valid authorisation code   |
| All Duplication Chargebacks  | 82,86             | 4859,4834               | If more than one transaction has been processed proof that all of the transactions are valid and authorised by your customer. Or details of a refund which may have been processed to correct if the duplication was an error.  |
| All Not as Described/ Defective damaged Chargebacks                                  | 53                | 4853                    | This should include descriptions of the goods, and any subsequent cardholder contact  |
| Late Presentment   | 74                | 4842                    | Proof of the transaction date and processing dates.   |
| Non Transaction processed through VisaNet/ processing error.                         | 76,80             | 4850                    | Proof the cardholder was aware of the dynamic currency conversion. Receipt to show cardholder's authority to process transaction.   |

### 1.4 Chargeback Reason Codes

| Code | Title   | Description   | Chargeback time limit                   | Retrieval required |
|------|---|---|---|--------------------|
| 1    | Split Sale  | In an effort to avoid the authorisation process, the Retailer splits one transaction into two or more individual sales, on the same day, that in total add up to the complete single sale value | 30 days (from central processing date)  | No                 |
| 2    | Account holder did not perform the transaction which had been PAN-key entered | Bona fide Cardholder did not carry out transaction. Card number was pan-key entered without the Cardholder being present and without the Cardholder's authorisation                             | 120 days (from central processing date) | No                 |
| 3    | Transaction exceeds floor limit   | When the transaction amount is higher than the Retailer's floor limit and the Retailer did not obtain authorisation for the transaction   | 70 days (from central processing date)  | No                 |
| 4    | Expired card  | When a transaction takes place on a Card that was expired at the time   | 30 days (from central processing date)  | No                 |
| 5    | Late presentment  | When the central processing date is more than 30 calendar days after the transaction date and only when   | 30 days (from central processing date)  | No                 |

|    |   |   |  |     |
|----|---|---|--|-----|
|    |   | the Cardholder disputes the delayed posting   |  |     |
| 6  | Duplicate processing  | When there are two or more transactions on an Account that exhibit the same card number, retailer number, transaction amount, transaction type and transaction date, processing date  | 120 days (from central processing date)  | No  |
| 7  | Refund not processed  | When the Cardholder has proof that a Retailer was due to refund their Account but the refund has not yet been credited to their account (the Issuer must wait 15 calendar days from the refund date for the credit to be credited to the Cardholder's Account before raising this Chargeback) | 120 days (from central process)  | No  |
| 8  | Transaction amount differs  | The Cardholder admits to performing a transaction but when the transaction is debited to the Account the Cardholder believes that he or she was charged an incorrect amount in relation to the transaction. The Issuer charges back the difference  | 120 days (from central processing date) (sing date)  | Yes |
| 9  | Non-receipt of copy voucher   | Following a retrieval request, the Issuer can raise a Chargeback if the Acquirer did not respond within 45 days with a copy of the transaction receipt  | Issuer must wait 45 calendar days from the retrieval request date and then process the Chargeback within 55 calendar days of the retrieval request date. (A Chargeback can only be raised if the retrieval was sent within 120 calendar days of the central processing date) | Yes |
| 10 | Requested receipt illegible   | The Acquirer provided an illegible copy of the requested receipt  | 10 days from the date of receipt of illegible voucher and within 120 days from the central processing date.  | Yes |
| 11 | Unauthorised multiple processing  | When the Cardholder admits to at least one transaction at a Retailer but subsequent transactions at the same Retailer on the same day on that Card were not authorised by the Cardholder  | 120 days (from central processing date)  | No  |
| 12 | Non-matching Account number/ Card number. Account number/ Card number not on file | When a transaction is processed on a Card that does not match any account number/card number on file  | 30 days (from central processing date)   | No  |
| 13 | Requested authorisation declined  | A Retailer processed a transaction after receiving a Declined Authorisation response  | 30 days (from central processing date)   | No  |
| 14 | Invalid or no signature   | The Cardholder denies participating in a transaction where the signature on the voucher is missing or completely different to the Cardholder's  | 30 days from receipt of retrieval fulfilment   | Yes |

## 1.5 Visa Chargeback Reason Codes

| Reason Code | Description   |
|-------------|---|
| 30          | Services Not Provided of Merchandise Not Received   |
| 41          | Cancelled Recurring   |
| 53          | Not as Described or Defective Merchandise   |
| 57          | Fraudulent Multiple Transactions = cardholder agrees to one transaction but no more.  |
| 62          | Magnetic Stripe Counterfeit Transaction   |
| 70          | Card Recovery Bulletin  |
| 71          | Declined Authorisation = Merchant received a decline response on a sale, but still processed transaction  |
| 72          | No Authorisation = Transaction has not been authorised by merchant or maybe above the merchants floor limit   |
| 73          | Expired Card  |
| 74          | Late Presentment  |
| 75          | Transaction Not Recognised  |
| 76          | Non Transaction Currency Through Visa Net = Cardholder agreed to transaction in another currency other than the one processed. i.e agreed Euros but put through in sterling. The whole amount can be charged back.                              |
| 77          | Non Matching Account Number = incorrect/invalid card number   |
| 78          | Service Code Violation = mag stripe or chip indicated that the card was invalid for the transaction & merchant did not obtain authorisation. Generally used on electron cards where cards can only be used electronically & must be authorised. |
| 80          | Processing Error = incorrect transaction amount, account number, altered voucher.   |
| 81          | Fraud - Card Present Environment = Applies when merchant did not process as a chip & pin transaction or on imprint & signature (fall back) in a card present environment. Cardholder denies participating in this transaction.                  |
| 82          | Duplicate Processing  |
| 83          | Fraud - Card Absent Environment = Cardholder did not authorise or participate in transaction  |
| 85          | Non Receipt of Credit Transaction Receipt   |
| 86          | Paid By Other Means   |
| 90          | Non receipt of Cash   |
| 93          | Risk Identification Service   |
| 96          | Transaction exceeds limited amount  |

## 1.6 MasterCard Chargeback Reason Codes

| Reason Code | Description                                     |
|-------------|---|
| 4802        | Requested/ required item illegible or missing   |
| 4807        | Warning Bulletin File                           |
| 4808        | Required/requested authorisation not obtained   |
| 4812        | Account number not on file                      |
| 4831        | Transaction amount differs/ Paid by other means |
| 4834        | Duplicate Processing                            |
| 4837        | Fraudulent Processing of transactions           |
| 4840        | Fraudulent Processing of transactions           |
| 4841        | Cancelled recurring transaction                 |
| 4842        | Late Presentment                                |
| 4846        | Correct Currency code not provided              |
| 4849        | Questionable merchant activity                  |
| 4850        | Instalment Billing Dispute                      |
| 4853        | Defective/ not as described                     |
| 4855        | Non Receipt of merchandise                      |
| 4859        | Addendum, no show or ATM dispute                |
| 4860        | Credit not processed                            |
| 4863        | Cardholder not recognised                       |
| 4870        | Chip Liability shift                            |
| 4871        | Chip/ Pin liability shift                       |

## 1.8 Examples of liability

| Evidence required to challenge the chargeback   | You are liable:  |
|---|--|
| <ul style="list-style-type: none"> <li>Signed/PIN or imprinted receipt voucher for Card Present transaction provided by the required deadline</li> <li>Online Transaction was processed using MasterCard Secure Code or Verified by Visa.</li> </ul>  | <ul style="list-style-type: none"> <li>If the transaction performed was a manual or card not present transaction</li> <li>If you do not submit a response by the required deadline</li> <li>An Imprint and Signature or PIN was not obtained.</li> </ul>   |
| <ul style="list-style-type: none"> <li>Signed imprinted/PIN voucher for Card Present transaction by the required deadlines and other additional information includes one or more of the following:               <ul style="list-style-type: none"> <li>- Merchant Trading Name</li> <li>- Merchant Location</li> <li>- Transaction Amount</li> <li>- Transaction Date</li> <li>- A description of the merchandise or services</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>If the transaction performed was a manual/card not present transaction</li> <li>If you do not submit a response by the required deadline.</li> </ul>  |
| <ul style="list-style-type: none"> <li>Documentation to prove that proper authorisation was obtained.</li> </ul>  | <ul style="list-style-type: none"> <li>If you did not obtain proper authorisation within the timeframe for the disputed transaction</li> <li>The transaction was processed over your floor limit</li> <li>Card was expired prior to the transaction date</li> <li>A transaction with an account number does not match any account number on file from issuing bank.</li> </ul>   |
| <ul style="list-style-type: none"> <li>Signed transaction receipt and other additional signed documentation to prove the transaction was processed:               <ul style="list-style-type: none"> <li>- Within the required time limit</li> <li>- With correct transaction amount/account number</li> <li>- That is not paid for the same merchandise or service by other means.</li> </ul> </li> </ul>  | <p>If no legible transaction receipt and documentation is presented to prove the transaction was processed correctly.</p>  |
| <ul style="list-style-type: none"> <li>Two separate signed or imprinted transaction receipts or other record to prove the validity of the separate transactions</li> <li>Documentation to show that the credit was issued and processed to the same cardholder's account through the same payment channel that the cardholder originally used to make the payment</li> </ul>  | <ul style="list-style-type: none"> <li>If the same transaction is accidentally entered twice in a point-of-sale system or EFTPOS terminal and you are unable to provide valid documentation to support two separate transactions</li> <li>A credit was previously issued to a different account or processed through a different payment channel to the one the cardholder originally used to make the payment.</li> </ul> |
| <ul style="list-style-type: none"> <li>Signed documentation (e.g. signed delivery docket) to prove that the cardholder or authorised person received the merchandise/services on agreed-upon date or at agreed-upon location.</li> </ul>  | <ul style="list-style-type: none"> <li>Cardholder or authorised person did not receive the merchandise/services at the agreed-upon location or by the agreed-upon date</li> <li>You are unable or unwilling to provide merchandise/services.</li> </ul>  |

For more information on Chargebacks, contact Card Pay on 0800 085 3867 or [support@CardPayAA.com](mailto:support@CardPayAA.com)