



OPERATIONS

March 13, 2017

What To Do When A Customer Disputes



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DS Digest

According to The Nilson Report, \$31 billion will be lost to chargebacks by 2020

Retailers should have a solid strategy for how to handle chargebacks

70 percent of customer disputes involve fraudulent/mistaken or unfounded product/service-related chargebacks

Customer disputes are painful. And costly. According to [The Nilson Report](#), \$31 billion will be lost to chargebacks by 2020.

But chargebacks don't have to claim any more of your business' hard-earned revenue. With proper post-transaction

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fraud management, you can recover the revenue from chargebacks filed fraudulently and/or mistakenly, as well as the unfounded product or service-related chargebacks. Typically, these represent as much as 70 percent of customer disputes.

In this post, we're going to explain how merchants should handle customer disputes to recover the most amount of revenue possible.

Here's what to do when a customer disputes.

Step 1: Don't Panic

If you're a merchant who hasn't yet encountered many disputes, finding out a customer has filed a chargeback can feel like a personal attack. Did you accept a stolen credit card? Is a legitimate customer experiencing issues unsatisfactory enough to dispute a transaction? Do you have an underlying operational issue that's impacting product or services?

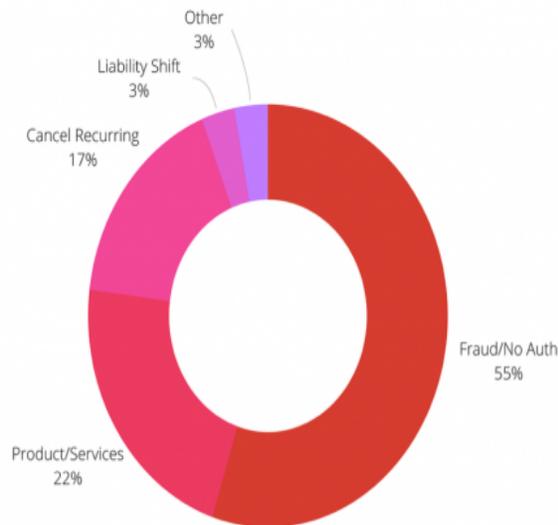
The truth is, everyone experiences chargebacks! If you accept credit cards, you're going to deal with customer disputes. A business' chargeback ratio is largely dependent on the industry in which you operate. Unfortunately, ecommerce merchants, regardless of industry, experience a chargeback ratio that far surpasses it's in-store counterparts. The [Kansas City Fed](#) reports that revenue lost to disputes for card-present merchants are 3 bps, while card not present merchants see losses exceeding 38 bps.

What's the good news? For honest merchants with basic fraud filtering tools, the majority of customer disputes can be overturned. So take a deep breath, don't take it personally, and turn your focus to creating an incredible chargeback response.

Step 2: Research the Chargeback Reason Code

Every customer dispute is assigned a network-specific reason code. Across Visa, Mastercard, American Express, and Discover, there are 151 different [chargeback reason codes](#). The reason code assigned to the dispute you're crafting a response for is critical in understanding what compelling evidence will be most relevant and most likely to increase your chances of having the chargeback ruled in your favor.

In general, chargeback reason codes can be bucketed into [5 categories](#). The breakdown of reason codes you see is unique to your industry and business. In addition, reason code breakdowns also vary by card network. But overall, Fraud / No Authorization chargebacks account for 55 percent of all disputes. Product / Service chargebacks represent the next largest group of chargebacks at 22 percent. Cancel Recurring Billing Disputes are a close third, at 17 percent of all chargebacks seen. Liability Shift and Other chargebacks represent just 3 percent of chargebacks, respectively.



It's important to do your due diligence in reason code research to help you identify what compelling evidence is most applicable to the dispute at hand.

Step 3: Gather Compelling Evidence

Now that you've researched the chargeback reason code, you're ready to start **compiling the compelling evidence**. Keep in mind that issuers and banks review a large volume of chargeback responses every day. As such, the data you include in your response should be relevant to the original transaction.

Fraud-Related Chargebacks

As you learned earlier, Fraud / No Authorization disputes represent 52 percent of all chargebacks. Being concise is key in your chargeback responses, but don't omit added details like phone logs, email communications, social media profiles, and other data points that could validate the customer's identity. Proving the cardholder authorized the transaction is critical and requires the following data points:

- AVS (Address Verification System) matches
- CVV confirmations
- Signed receipts or contracts
- IP address matches cardholder location

Non-Fraud Related Chargebacks

Non-fraud related chargebacks include disputes pertaining to products or services, cancelled recurring billing, and chip liability. While not as frequently seen as fraud-related disputes, non-fraud chargebacks can be a symptom of bigger problems at your business.

If disproportionately large number of customer disputes arise related to poor quality or defective goods, it's likely that issues in quality control or product sourcing need to be addressed.

It's also possible for non-fraud related chargebacks to come as the result of a faulty order fulfillment system or unreliable shipping partner if the cardholder claims they never received the merchandise.

That being said, stores without product or shipping issues still have to deal with non-fraud related chargebacks. In these cases, you need to provide proof that the cardholder received the goods or services as promised.

Physical Goods: Provide proof of shipment and confirmation of delivery. Always choose a carrier provides tracking numbers and delivery confirmation.

Note: American Express will automatically award the chargeback to the cardholder if the shipping address and billing address differ. Therefore, the rules in your store for accepting American Express versus Visa or Mastercard need to differ as well.

Digital Goods: Provide evidence that the cardholder used/accessed the software or service; including: IP logs, system notes, etc.

Note: It's critical to include contextual information in addition to the data you provide in your chargeback response. Instead of providing the IP address, also include where this IP address is in relation to the billing address. Don't assume the issuer will look up the information – you need to provide it!

Remember that fine print matters in the world of chargebacks. Be prepared to provide proof that the customer agreed to your terms and that they did not follow your return or refund policy. Make this part easier by requiring your customers to understand and agree to your terms and return/refund policy before they make a purchase.

Step 4: Format the Chargeback Response

Compelling evidence is the heart of a chargeback response. But without proper formatting, your response will quickly be tossed aside by your processor before it even reaches the issuing bank. The person performing the manual review of your chargeback response decides quickly whether or not your proof is sufficient enough to prove the cardholder's claims invalid. Make their job as easy as possible:

Highlight or bold important points

Include a table of contents

Keep it short, when possible

Keeping your response short is most applicable when it comes to inclusion of your terms and conditions. If the dispute is related to your cancellation or refund policy, include

that specific section in your response and provide a link to the full copy.

Step 5: Review Chargeback Response for Accuracy

You've just spent a great deal of time creating this chargeback response. So, it's worth taking the few moments to proofread your response and double-check for accuracy. Ensure the proper information is included on every page of the response document. Now is also a good time to ensure the case number or case ID is included on every page of your response. It seems trivial, but it's a requirement from the card networks. Without the case ID your entire response could be dismissed.

Step 6: Successfully Submit the Chargeback Response

The final step in handling a customer dispute is submitting the chargeback response to your processor or acquiring bank through the designated channel. How you submit the response depends on the preference of who you're submitting it to, and can vary from an online upload in your processor's web portal, an FTP transfer, email or fax. Most banks only accept responses via fax. If that's the submission method for your chargeback response, make sure the text and/or images will be legible in the fax transmission.

If you're still trepidatious about creating your chargeback response, you can download [chargeback response templates](#) for some of the most commonly-seen reason codes for ecommerce.

And remember, chargebacks are inevitable for ecommerce companies. So equip your online store with the right [post-transaction fraud and chargeback management tools](#) to face them with confidence.

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Dave Wilkes is CEO of Chargeback. Wilkes has dedicated the last 20 years of his life to the payments industry. He started out with a company called ProPay back in 1999 where he was the senior vice president of business development, managing every aspect of sales, business development and product development there.

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