



Avoiding a Nuisance

A Summary of Chargebacks

They don't occur very often, but when they do, they can be costly and a major nuisance if not handled correctly. They are chargebacks.

According to the official card brand definition, a chargeback is a reversal of dollar value, in whole or in part, for a particular transaction. Chargebacks comprise less than one percent of all transactions processed, and usually arise out of a dispute between a business owner and cardholder over a purchase.

The Chargeback Process

The chargeback process begins when a cardholder initiates a complaint about a purchase with their card issuer. The issuer in turn contacts the business owner's payment processor, like TSYS Merchant Solutions, to hold or return funds associated with the purchase until the dispute is resolved.

At this point, your processor issues a *Chargeback Debit Advice* or a *Sales Draft Request* to the affected business owner asking for more information about the transaction.

A *Chargeback Debit Advice* is issued when detailed information from the business owner is needed to refute a chargeback. A *Debit Advice* is also used as follow up when a business owner fails to respond to a *Sales Draft Request*. Information gathered in a *Debit Advice* gives business owners the opportunity to refute the chargeback.

The *Sales Draft Request*, which is only requested if the reason for the dispute can be remedied with a sales draft, may simply ask for a copy of the sales receipt, or request all documentation associated with the transaction, including any communication between the business owner and the cardholder, reason for the dispute and proof that a product or services were delivered.

Strict deadlines for the return of documentation have been established by the card associations, and if deadlines are not met, business owners run the risk of forfeiting funds associated with the sale.

Because chargebacks can evolve into a "he said/she said" situation, the best defense for business owners is to quickly provide all requested transaction documentation to your processor, and ensure all documentation is clear and concise. Your processor may ask for additional explanation to ensure all aspects of the dispute are understood.

Armed with the documentation, your processor will help handle the chargeback. TSYS Merchant Solutions handles all legwork associated with the chargeback when assisting customers. In most cases, the chargeback is reversed and the business owner receives payment while the card issuer is reviewing documentation with the cardholder. If the chargeback is not resolved, your processor will notify the business owner if there is a next course of action.

Chargeback Arbitration

Arbitration is imposed when a chargeback related dispute cannot be resolved. In disputes involving Visa®, arbitration is requested by the card issuing bank; for MasterCard®, the merchant acquirer requests arbitration. Each association has a \$250 fee to review the case; in addition, Visa imposes a \$250 filing fee, MasterCard a \$150 filing fee plus \$100 for each technical violation associated with the transaction. For both, fees are assessed to the loser of the arbitration.

At this point, the loser of the arbitration has one last appeal open to them – both Visa and MasterCard offer a final arbitration process. Visa limits appeals at this level to transactions totaling \$5,000 and less; MasterCard does not set a limit. Fees for this final round are 10 percent of the transaction amount for Visa and



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\$500 for MasterCard. Again, fees are passed on to the loser of the appeal. In both associations, the final ruling stands.

Avoiding Chargebacks

An important best practice to avoid chargebacks is proper disclosure of your return policy before the sale. After the sale, maintain legible, easily accessible transaction records. If a dispute arises, document all cardholder communication and explore every avenue to resolve the situation before it is escalated to the card issuer.

If a chargeback occurs and a *Sales Draft Request* is issued by your processor remember to:

- Respond within deadlines
- Provide all requested documentation
- Ensure documentation is complete, clear and legible

WHO WE ARE

TSYS Merchant Solutions is a leading payment processor with more than 30 years of experience providing first-rate service and comprehensive end-to-end payment solutions to businesses accepting payments across North America. Our dedicated, experienced team of industry professionals provides innovative card-acceptance solutions and unparalleled customer service every day to meet the long-term needs of our customers.

TSYS Merchant Solutions is a wholly owned subsidiary of TSYS® (NYSE: TSS). TSYS delivers advanced technology and enhanced value to many of the world's leading companies, making it possible for hundreds of millions of consumers to use their credit, debit, commercial, private-label, prepaid and chip cards safely and securely.

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