

ELECTRONIC VALUE TRANSFER CONTRACT (EVT)

CREDIT CARD CHARGEBACKS

What is a Chargeback?

A chargeback is a reversal of previous sales transaction resulting when a cardholder or card issuer disputes a charge posted to their account. Chargebacks generally occur after the established dispute resolution process has been completed and is found in favor of the cardholder or card issuer. Examples of situations that can result in a chargeback include:

- a cardholder failing to recognize the transaction description or amount on their credit card statement,
- the same transaction appearing multiple times on a cardholder's statement,
- an incorrect account number being captured, resulting in a transaction being posted to the wrong account, or
- a transaction being processed for an incorrect amount.

To minimize the instances of chargebacks, agencies should ensure that the descriptor appearing on cardholders' monthly statements clearly identifies the transaction from the **cardholders'** perspective. The descriptor should include the name of the agency or program as well as a description of the item being charged. Note: agencies should work with the EVT Contractors to develop this descriptor when completing Form EVTA-2.

To minimize the instances of chargebacks, agencies should build adequate edits and validations into automated systems to prevent erroneous transactions. Examples include:

- preventing customers from erroneously submitting the same transaction multiple times,
- eliminating the need for customers to enter payment amounts and preventing them from modifying payment amounts computed by automated systems,
- utilizing card number check digit routines, and
- utilizing address verification and credit card security codes.

Address Verification and Credit Card Security Codes

Address verification and verification of credit card security codes are services available for Visa, MasterCard, American Express and Discover cards enabling agencies to reduce the risk of fraudulent transactions. For many government programs the risk of fraud is already minimized since customer identifiable information is often tied to the payment. For other programs, which are more similar to retail environments in which identifying information is not obtained, the risk of fraud is greater.

Address verification services (AVS) is required, however, for agencies to receive the lowest possible interchange rate for Visa transactions accepted through non-face-to-face programs. Failure to utilize AVS will result in substantially higher rates. For example, a hypothetical Internet application accepting payments for \$50 permits would be eligible for a 1.694% rate from Visa and MasterCard transactions if AVS was used, this may increase to 2.005% for Visa transactions if AVS was not used.

Agencies accepting Visa cards through non-face-to-face programs should utilize address verification services to receive the lowest possible rate.

Address verification matches the billing address or zip code provided by the cardholder against the address files of the Visa and MasterCard issuing banks and American Express' and Discover's processing systems. Address verification is most useful for non-face-to-face transactions (i.e., mail order, telephone order and Internet order). Address verification is performed at the time the transactions are being authorized, and may result in the declination of the address verification, but approval of the transaction itself.

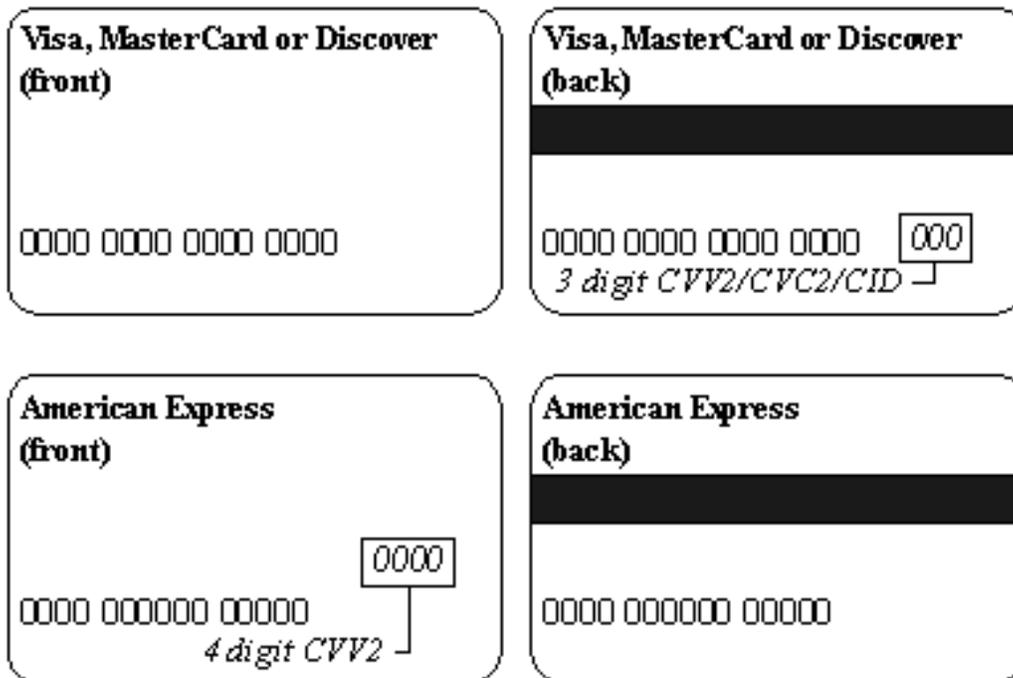
Agencies utilizing address verification will need to decide upfront whether they wish to accept or reject transactions which are approved through the authorization process but fail address verification.

Security codes are printed on the cards, but are not part of the account number, and can be compared against the values on file with the MasterCard and Visa issuing banks and American Express' and Discover's processing systems. These numbers are sometimes used for Internet payment as a fraud prevention measure to verify the customer has physical position of the card being used. Following are the names and abbreviation of these codes for the different card types:

Card	Security Code	Abbreviation
Visa	Card Verification Value 2	CVV2
MasterCard	Card Validation Code	CVC2
American Express	Card Verification Value 2	CVV2
Discover	Customer Identifier	CID

The location of these codes, which appear in reverse italic, are represented in diagram 3.

Diagram 3., Location of Credit Card Security Codes



Like address verification, this service is most useful for non-face-to-face transactions and is also performed during authorization.

Agency's processing transactions in a non-face-to-face environment which could be exposed to fraud, should consider utilizing address or security code verification.

Agencies will **not** receive a lower rate if security code verification is used

Multiple Payments, Single Transaction

Agencies should be aware that multiple payments totaling to a grand total are processed as a single credit card transaction. For example, an Internet application enabling cardholders to apply for multiple permits which totals the fees for the individual permits to a grand total will create a single credit card transaction for the grand total amount. Cardholders may dispute either the entire transaction or only a portion of the transaction. Depending upon how the transaction is disputed, the entire transaction may be charged back or only a portion may be charged backed.

Additional Information

The following addresses the specific chargeback process for [Visa/MasterCard/Discover chargebacks](#). Agencies which are implementing EVT programs using the KMS and American Express contracts should also familiarize themselves with the chargeback sections of these vendor's Card Acceptance Guides found within each contract or via each vendor's website. ([KMS/Elavon Operating Guide](#), [American Express Operating Guide](#)).

Visa/MasterCard/Discover Chargebacks

Dispute Resolution Process

The process for handling disputed transactions is stipulated by the Visa, MasterCard and Discover associations and was developed to comply with [federal cardholder's rights legislation](#). The typical steps in the Visa, MasterCard and Discover dispute resolution process is as follows:

1. A cardholder not recognizing a charge on their credit card statement contacts the bank that issued their card.
2. The issuing bank creates a *retrieval request* containing all the pertinent information related to the disputed transaction.
3. The retrieval request is sent to the applicable card association (i.e., Visa, MasterCard and Discover), which, in turn, sends the request to KMS.
4. KMS reviews the retrieval request to determine if the disputed transaction was valid and if KMS has already responded to the request. In some instances KMS will respond directly to the retrieval request, otherwise the request is forwarded to the agency for response. In forwarding a retrieval request to an agency, KMS may include additional information to aid the agency in researching the dispute (see below for a sample of retrieval request forwarded from KMS to an agency). An agency may request whether they want to have retrieval requests mailed or faxed to them. KMS will also provide a timeframe for when a response is required back from the agency.
5. The agency performs research to verify both that the transaction occurred and that it occurred for the appropriate amount and provides supporting documentation back to KMS. For point-of-sale programs, supporting documentation would be a copy of a signed sales receipt. For automated programs (e.g., Internet applications) supporting documentation might be a reproduction of the electronic record of the disputed transactions. Agencies should reply by fax whenever possible to expedite the process.
6. KMS will image the documentation and will forward the data back to the issuing bank through the appropriate association. Note: if responses to retrieval requests are not returned to the issuing

What Can You Do if You Disagree With a Chargeback Decision?

If an agency receives a chargeback but disagrees with the decision, they may:

1. Challenge the decision by re-submitting their response with additional information justifying a reversal of the decision (this action is referred to as *representation*).
2. Request arbitration, where for a fee that's paid by the agency, a group of individuals will review the case.
3. Contact the cardholder directly.

Tools to Aid in Reducing and Responding to Retrieval Requests

The following Design Considerations will assist agencies in reducing the number of retrieval requests and in responding to retrieval requests.

For face-to-face and automated programs (e.g., Internet applications) clearly state your return policy and identify what the payment is for. For example, is a license fee for the license itself or for processing the license and is the fee refundable if the license is denied.

For face-to-face programs, retain copies of sales drafts for at least three years (this is required by federal cardholder right's legislation).

KMS' on-line reporting tool provides details and summary information regarding retrieval requests and chargebacks. This information can be used to manage responses to retrieval requests to ensure timely responses.

Agencies should dedicate adequate resources to respond to retrieval requests in a timely manner.