



# Windcave

## FAQs for Chargebacks

Version 1.1

## Copyright

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## Proprietary Notice

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## 1 What is a chargeback?

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A chargeback is a dispute initiated by a cardholder (merchant's customer) through their bank or card issuer ("issuer") to reverse a transaction and credit back the charge to the cardholder.

## 2 Why do chargebacks occur?

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Visa/Mastercard/American Express/Discover/UnionPay card schemes offer consumer protection, which means the cardholder can chargeback the transaction for multiple reasons (referred to as reason code) including fraud, unauthorized transactions, consumer dispute, goods not delivered, expired authorization, product as not described, amongst other reasons.

## 3 Can merchants provide information and challenge chargebacks?

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Yes, merchants can challenge chargebacks by providing evidence and documentation to their acquirer, who will represent the merchant's case to the issuer on the merchant's behalf. This may include proof of delivery, transaction records, and communication with the cardholder.

## 4 How does the chargeback process work?

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When a cardholder disputes a transaction, their issuer investigates the claim and sends the dispute to the acquirer. The acquirer gives the merchant the opportunity to provide the rebuttal documents/information to defend the dispute and presents the case to the issuer on behalf of the merchant. If the issuer is not satisfied with the merchant's case, they will reverse the transaction amount and charge it back to the merchant.

Flow of dispute between issuer and acquirer:

- 1) The cardholder queries a payment with the issuer, or the issuer has reason to believe the payment might be unauthorised.
- 2) The issuer raises a chargeback via the scheme rules.
- 3) The acquirer (Windcave) is notified and requests documentation from the merchant to verify the transaction.
- 4) If the merchant accepts chargeback liability, the merchant refunds the payment back to the cardholder via Windcave Payline, and provided Windcave with proof of documentation that the payment has been made. Case is closed.
- 5) However, if the merchant does not accept liability for the chargeback and are able to provide compelling documents to support its case, the acquirer (Windcave) will respond back to the issuer with the provided documentation and open a pre-arbitration case with the issuer. The issuer will determine whether the dispute is upheld in either the merchant's or cardholder's favour.
- 6) If the issuer determines in favour of the cardholder, the outcome is a chargeback where the issuer reverses the payment transaction and credits the amount to the cardholder. The merchant may be liable for a chargeback fee to the issuer and/or the acquirer.

## 5 What are the consequences of chargebacks for merchants?

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Chargebacks can have negative consequences for merchants, including loss of revenue, chargeback fees, increased scrutiny from payment processors and acquirers, and, in some cases, a higher risk of account termination.

## 6 What is the typical timeframe for the issuer/schemes to review and respond to the rebuttal documents submitted to contest a chargeback?

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The typical timeframe for the issuer to review and respond to rebuttal documents submitted to contest a chargeback varies but generally ranges from 60 to 90 days. However, this duration can fluctuate depending on the complexity of the case and the specific procedures of the issuer involved.

## 7 What is the difference between a chargeback and a refund?

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The difference between a chargeback and a refund is dependent on who initiates the chargeback or refund. A chargeback is initiated by the cardholder and involves the issuer reversing the transaction after the cardholder disputes the charge on their credit or debit card. A matched refund (reversal), on the other hand, is initiated by the merchant and involves them returning the cardholder's money directly, often as a result of a return or exchange, in accordance with the merchant's refund policy.

## 8 How much awareness should merchants have about chargebacks and how can merchants prevent chargebacks?

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Disputes are a common payment risk, but steps can be taken to reduce them. They may not always be the fault of the merchant/business. Errors can occur throughout payment processing. To minimize risk and protect their business, merchants can take several steps to prevent chargebacks by having or performing the following:

- Clear Terms & Conditions.
- Customer-focused service/prompt customer compliant resolution process.
- Beware of unusual behaviour, such as multiple card numbers or requests to transfer funds.
- Accurate product descriptions.
- Ensure payers recognize the statement description.
- Implementing fraud detection measures as detailed in Windcave's Merchant Operating Guide (see link [here](#))
- Ensuring refunds are processed against the original purchase/complete transaction. This is known as a matched refund.
- Only accept payments for your provided goods/services; third-party transfers make you liable for chargebacks.
- Do not accept payment authorization from anyone other than the cardholder.
- Remind payers of upcoming recurring payments.
- Consider processing transactions through EMV (PIN/Chip) and/or 3DSv2.
- Avoid processing manual transactions (MANPAN/MOTO).

## 9 Can chargebacks be fraudulent?

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Yes, chargebacks can be fraudulent when a customer falsely claims a transaction was unauthorized or disputes a valid purchase.

## 10 What is Fraud Liability Shift Protection?

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Schemes provide a mechanism called Fraud Liability Shift whereby merchants are protected against chargebacks under the fraud reason code. Fraud Liability Shift refers to the shift in responsibility for financial losses resulting from fraudulent transactions from acquirer/merchant back to issuer. If a transaction is processed under a higher standard of transaction security through EMV (PIN/Chip) or 3DSv2, the issuer cannot raise a chargeback under the fraud reason. Fraud Liability Shift only provides protection against chargebacks under the fraud reason code, and it doesn't apply to any other type of chargeback.

## 11 What types of transactions are not covered by Fraud Liability Shift Protection?

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Manual transactions (MOTO/MANPAN) and recurring/rebiling transactions (token transaction initiated by the merchant) are not covered by Fraud Liability Shift, which means merchants aren't immune to fraud chargebacks when performing these types of transactions.

## 12 What are the best practices to process incidental charges to reduce the risk of chargebacks?

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For merchants who operate in accommodation or car rental industries and collect delayed incidental charges after a service has been delivered, we recommend only low-ticket values for these charges. This reduces the overall risk for token transactions as they are not protected by methods like EMV or 3DSv2. Examples of delayed incidental charges through tokenization include toll, fuel, and damage charges. For any services with large ticket charges, we recommend an in-person transaction through EMV (PIN/Chip) or 3DSv2 to offset the liability of fraud chargebacks.

Windcave continues to observe a rise in chargebacks for token transactions which come under fraud reason code. As these token transactions are non 3DSv2 in nature, issuers have the upper-hand and will always push back on the representation of the chargeback. This is despite the merchant providing all documentation and Windcave representing the case on behalf of the merchant.

## 13 Why is Windcave processing a direct debit to deduct chargeback amounts?

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The merchant is liable for all chargebacks under the terms of its merchant services agreement with Windcave. As chargebacks are received by Windcave as the acquirer, Windcave in turn collects the amount from the merchant pursuant to the agreed terms and conditions between the parties.

Windcave has different processes of direct debiting the merchant dependent on the type of chargeback.

Fraud chargebacks: Windcave will process a direct debit immediately after a fraud chargeback appears, this is due to various factors involved with such transactions including possible lack of liability shift protection.

Consumer Dispute chargebacks: Windcave will process a direct debit immediately after a Consumer Dispute chargeback appears. If the merchant wishes to proceed with the representation and wins the case, Windcave will issue a manual payment to the merchant's nominated bank account.

Processing Error chargebacks: Windcave will process a direct debit if the merchant does not respond back within the requested timeframe and if the issuer declines the challenged/rebuttal documents.