



Chargebacks - What You Don't Know May Hurt You

A resource guide on the growing problem of Chargebacks (aka “reason Code 96”)
Updated June 2006 by NACS – The Association for Convenience & Petroleum
Retailing

High gasoline prices have led to a huge increase in credit card usage – and fees – at the pump. But beyond the escalating costs of interchange and processing for credit and debit cards is the growing problem of “chargebacks,” also known as “Reason Code 96.”

Under typical circumstances, retailers get paid for transactions on plastic – minus a “discount” of generally 2 to 3 percent for interchange and other fees – by the bank issuing the credit card. A chargeback occurs when the transaction is reversed. In other words, rather than adding money to your account, the bank deducts it.

Chargebacks can occur for a wide variety of reasons, such as double-charging, credit card expiration, bank error and customer disputes. But as gas prices remain elevated, NACS has increasingly heard from its members that chargebacks are on the rise and retailers are being denied payments if they allow a customer to fill up beyond a specified level.

Visa Reason Code 96 is used against retailers to, in a growing number of cases, to deny a payment in its entirety if a retailer preauthorizes a fill-up for more than \$50. MasterCard has a similar policy for fill-ups exceeding \$75 where it can withhold payments beyond that \$75 amount.

Because many SUVs have gas tanks of more than 30 gallons, it is not difficult for many customers to exceed these archaic limits set by the credit card companies. Retailers are left with two choices, both bad: risk alienating customers by having pumps shut off at a lower amount, or risk losing getting paid in full or in part for a transaction.

Worse, these rules are not spelled out in retailers in their contracts. They are generally not aware that they can be denied payment until they study their statements. But there are some remedies available to retailers. Here are some guidelines to assist you in minimizing the likelihood you will incur a chargeback.

The Chargeback Process/Dispute

A cardmember, or the card-issuing bank, has the right to question or dispute a transaction. In most cases, before a chargeback is initiated, the card issuing bank requests a copy of the sales record, via a “Media Request” or “Retrieval.” Once a Media Request or Retrieval is received from the card issuer, the processing firm will respond by sending a copy of the transaction, if available.



If the information provided is sufficient to warrant a reversal of the Chargeback, and within the applicable timeframe, your processor will do so on your behalf, but reversal is contingent upon acceptance by your customer's card issuing bank under Visa and MasterCard guidelines. If the chargeback is reversed, the card issuing bank does have the right to re-present the chargeback a second time.

Association rules and regulations require that a merchant must make a good faith attempt and be willing and able to resolve any disputes directly with the cardmember. It is a violation of Association rules and regulations to re-bill a customer for a transaction that was charged back.

What Causes Chargebacks?

- “Hot Cards” mailed by issuers that are stolen in the mail process
- Lost cards by customers
- Hand-keyed sales without an imprint of the card
- Allowing customers to pump over \$50 per transaction

Some possible steps to take:

One proposal is to “Lobby” for relief. Write a letter to Visa and your acquirer requesting a change in the current procedures.

- Ask for the \$50 pump limitation to be increased to \$75
 - MasterCard has already increased theirs to \$75
 - The \$50 pump rule is over 15 years old
 - Visa International allows \$100 limitation
- Ask that a Reason Code 96 require an affidavit from the customer
- Chargeback days should be shortened
- Mailed hot cards must be blocked from MCC 5542 until activated or, rules should be changed by Visa requiring customer activation prior to use
- Stolen cards from the mail should not be merchant chargebacks
- Standardized issuer formats for affidavits
 - Affidavits clearly state card status (i.e. never received, stolen, etc.)
 - Indicate if the account is closed from further use
 - Date the card was reported stolen or lost
- Credit cards reported stolen by customers must be turned to negative and authorized sales by the issuer after the reported stolen date are not the merchants responsibility
- Reasonable velocities by the issuers for pay-at-the-pump transactions (MC5542) for the entire industry per day
- Write a letter to your company’s financial institution relationships
 - The banks that handle depository, treasury services, debt and other related business for your company
 - Include same points as above
 - **Key Point:** Request your financial institution no longer charges your company for Visa Reason Code 96. This code is being abused by the banks to cover counterfeit and delinquencies



Deterrent Measures:

- Prepare and maintain legible sales records with complete sale and authorization information and/or respond to media retrieval request within the required timeframe.
- Settle and reconcile your batches daily. Ensure that the total amount settled and submitted balances with the credit card records of the transactions.
- Do not process a transaction prior to the effective date. Do not process a transaction after the expiration date.
- Respond to a chargeback as quickly as possible.
- Address all of the cardholder's pertinent claims.
- Be sure to supply "compelling" information to prove the true cardholder participated in the transaction, received the goods or services, and benefited from the transaction.
 - *Examples of compelling information*
 - Correspondence between the cardholder and merchant that proves the merchant spoke to the cardholder or received a letter stating that they acknowledge the validity of the transaction.
 - Evidence that the merchant swiped or imprinted the card, received an authorization approval, and the cardholder's signature.
- Create internal software
 - Implement Velocities at the Pump
 - Allow 2-3 transactions per 24-hour period, include name with velocities
 - Stop card checking at the pump
 - Stop one card from turning on multiple pumps at the same time (due to PCI, this can only occur while pumping)
 - Zip code prompt at the pump or inside
 - CVV2 inside for high-risk transactions
 - Manage your chargebacks and understand what causes a chargeback
 - Review by-store chargebacks, by reason code, by bank and by amounts
 - By brand and by card type

A Challenge:

- Review your credit card costs with chargeback costs by brand and by card type
- Break down by inside sales vs. pay-at-the-pump
- Drill down more and look at your costs based on cents per gallon