

Finding solutions to the growing chargeback challenge

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Increasing sophistication in card fraud is reason for concern. Not only for banks, but most especially for online merchants, who are at risk of losing their ability to trade should they be implicated in repeat fraud attempts and excessive customer disputes.



Picture: SidPayment.com

While fraud is well documented, chargebacks as a result of a dispute can be just as debilitating. The financial services industry has made strides in card fraud protection with the implementation of 3D Secure for card transactions. However, what many merchants aren't aware of is that Instant EFT significantly reduces the chargeback risk.

According to statistics from the South African Banking Risk Information Centre (SABRIC), the banking industry's gross fraud losses due to SA issued credit card fraud decreased by 28.6%, from R353.3m in 2014 to R252.2m in 2015. However, 75% of fraud is due to card-not-present transactions which most affects e-commerce merchants.

What is a chargeback and why the problem?

A chargeback is essentially a dispute. The consumer would dispute the transaction based on various issues. This could be because the product is damaged, not what they thought they had ordered (in terms of the description of the product), or they may be disputing that they made the purchase in the first place due to stolen cards and fraud.

The unhappy customer would contact their bank and raise a dispute. The merchant's bank will refund the buyer and then debit the merchant for the refund, including an additional fee.

This will clearly impact the merchant's bottom line – not only in terms of them being out of pocket, but defending disputes can be a lengthy process which costs time and attention away from the business.

More than this, if merchants face too many chargeback claims their bank will revoke their merchant account. While they can apply to another institution for a merchant bank account, this process is tedious, admin intensive, and can take up to two weeks to set up. The loss of business during that time would be devastating to any merchant.

It is important to note that merchants will not find banks sympathetic when it comes to excessive chargebacks. Ensuring that chargeback ratios are kept in check is a core responsibility for a banking institution offering payment services, and one which they are answerable for to Visa, Mastercard, and other card networks.

Protecting your online store from chargebacks

It's clear that merchants need to reduce chargebacks as far as possible. Here are a few ways which can help them protect their business:

1. Describe your product or service properly to avoid disputes. This includes a clear description of the product (including dimensions where appropriate) and, where possible, good pictures from multiple angles.
2. Use the best delivery service possible to avoid damaged goods or late delivery.
3. Try resolve disputes as quickly as possible. This is not only a solid way to build customer loyalty, but in most instances, providing a fast and equitable solution to a problem is cheaper than going through a chargeback arbitration.
4. Have a clear dispute settlement process clearly explained on your website and work with an experienced team of mediators to ensure quick resolution.
5. Make sure you keep excellent records of your transactions, shipping documentation and delivery receipts. These will have to be produced in any dispute.
6. Encourage your customers to use Instant EFT. The customer will have to authenticate their purchase in the same way they do through regular online banking. Since it goes through an interface with the payment provider you are working with, you are guaranteed to get the exact amount quickly, and without the risk of chargebacks associated with card transactions.
7. To add to the levels of security, also look out for payment providers that have Shopper Protection Programme. Having a dispute resolution system in place protects customers who may have purchased a product, but have not received it, or if the product is not what was described by the merchant. While this is there to protect the customer, ultimately it also favours the merchant. Some programmes offer a 100% cash back guarantee (up to R10,000) on any transaction which was not authorised.

In the world of e-commerce, two things are guaranteed: The increasing sophistication of fraud attempts; and the growth of online competitors who will be competing for your customers' money. Working with a service provider which can offer you the means to transact quickly, safely, and with less operational risk could be one of the key ways to keep your company ahead of the pack.

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