

Chargeback Monitoring

Improve your business's prevention efforts by monitoring retrieval requests and chargebacks.

As with copy requests, monitoring chargeback rates can help merchants to pinpoint problem areas in their businesses and improve prevention efforts. However, while copy request volume is often a good indicator of potential chargebacks, actual chargeback rates and monitoring strategies vary by merchant type. Card-absent merchants may experience higher chargebacks than card-present merchants as the card is not swiped, which increases liability for chargebacks.

General recommendations for chargeback monitoring include:

- **Track chargebacks and representments by reason code.** Each reason code is associated with unique risk issues and requires specific remedy and reduction strategies.
- **Include initial chargeback amounts and net chargebacks after representment.**
- **Track card-present and card-absent chargebacks separately.** If your business combines traditional retail with card-absent transactions, track the card-present and card-absent chargebacks separately. Similarly, if your business combines MO/TO and Internet sales, these chargebacks should also be monitored separately.

Visa

Visa Chargeback Monitoring Programs

Visa monitors all merchant chargeback activity on a monthly basis and alerts acquirers when any one of their merchants has excessive chargebacks.

Once notified of a merchant with excessive chargebacks, acquirers are expected to take appropriate steps to reduce the merchant's chargeback rate. Remedial action will depend on merchant type, sales volume, geographic location, and other risk factors. In some cases, you may need to provide sales staff with additional training or review sessions on card acceptance procedures. In others, you should work with your acquirer to develop a detailed chargeback-reduction plan.

Visa has three chargeback monitoring programs:

- **Merchant Chargeback Monitoring Program (MCMP)**
The Merchant Chargeback Monitoring Program (MCMP) monitors chargeback rates for all acquirers and merchants on a monthly basis. If a merchant meets or exceeds specified chargeback thresholds, its acquirer is notified in writing.

First notification of excessive chargebacks for a specific merchant is considered a warning. If actions are not taken within an appropriate period of time to return chargeback rates to acceptable levels, Visa may impose financial penalties on acquirers that fail to reduce excessive merchant chargeback rates.
- **High-Risk Chargeback Monitoring Program (HRCMP)**
The High Risk Chargeback Monitoring Program (HRCMP) is specifically targeted at reducing excessive chargebacks by high-risk merchants. As defined by Visa, high-risk merchants include direct marketers, travel services, outbound telemarketers, inbound tele-services, and betting establishments. HRCMP applies to all high-risk merchants that meet or exceed specified chargeback thresholds. Under HRCMP, there is no warning period and fees may be assessed to the acquirer immediately if a merchant has an excessive chargeback rate.

Chargeback Monitoring (Continued)

Visa

Visa Chargeback Monitoring Programs

- **Global Merchant Chargeback Monitoring Program (GMCMP)**

The Global Merchant Chargeback Monitoring Program (GMCMP) is operated by Visa Inc. The program augments the U.S. Merchant Chargeback Monitoring Program (MCMP) in effect today and is intended to encourage merchants to reduce their incidence of chargebacks by using sound best practices.

The GMCMP applies when a merchant meets or exceeds specified International chargeback thresholds. Under GMCMP, there is no warning period and fees may be assessed to the acquirer immediately if a merchant has an excessive chargeback rate.

MasterCard

MasterCard's Excessive Chargeback Program (ECP) closely monitors chargeback performance to identify merchants who exceed monthly thresholds and are in need of proactive measures. MasterCard recently announced a new tiered structure for Excessive Chargeback Merchants (ECM) with incremental compliance requirements and assessments. The effective date for this change was October 27, 2012.

MasterCard eased the chargeback transaction rate threshold in 2012.

- **Chargeback-Monitored Merchant (CMM)**

A CMM has a Chargeback-to-Transaction Ratio (CTR) in excess of 100 basis points and at least 100 chargebacks in a calendar month. Designation is maintained until the CTR is below 100 basis points for two consecutive months.

- **Excessive Chargeback Merchant (ECM)**

A Merchant is an ECM if, in each of two consecutive calendar months (the "trigger months"), the Merchant has a minimum CTR of 150 basis points and at least 100 chargebacks in each month. This designation is maintained until the ECM's CTR is below 150 basis points for two consecutive months.

Tier 1 ECM

- MasterCard will classify a merchant Tier 1 ECM when identified as an ECM months 1 through 6 (whether consecutive or non-consecutive).
- This tier designation requires merchants to continue implementing changes to reduce their chargeback levels below thresholds.

Tier 2 ECM

- MasterCard will classify a merchant Tier 2 ECM when identified as an ECM months 7 through 12 (whether consecutive or non-consecutive).

- Additional Tier 2 ECM Requirements:

- MasterCard may advise of an action plan and other measures a merchant should take (or consider taking) to reduce chargeback levels.
- After a merchant has been identified as an ECM for 12 months (whether consecutive or non-consecutive), in addition to the standard ECM assessment, a non-compliance assessment of up to \$50,000 per month may be assessed for each additional month (after month 12) that the merchant remains an ECM.