



CREDIT CARD CHARGEBACK GUIDELINES- ADM PREVENTION

OBJECTIVE OF PAPER

The following guidelines are consolidated as a result of the ADM Management & Reduction Project's effort in identifying root causes of ADMs. Between 2015-2016, Card Chargebacks represented a mere 3-4% of all ADMs that could be categorized with a reason for issuance, yet it represented approximately 20% of the total value of ADMs globally. Whilst in the ADMs there is a lack of description for the reasons of the Chargebacks, the ADM Working Group discussed the difficulty in managing tight timeframes in providing evidence allowing the Airline to challenge the chargeback and remedy the Dispute.

The following guideline aims to lay out the process and, in collaboration with the Industry Fraud Prevention Project, to consolidate the best practices and useful information that may help the industry prevent for the occurrence of card Chargeback-related ADMs.

NOTE: Within the below paper, the Merchant is assumed to be the Airline, as such is the case for BSP Card Sales), which is the scenario in where ADMs apply. However, the same guiding principles apply in the attempted prevention, and remediation, of any chargeback received directly by an Agent who is the Merchant of Record.

THE PROCESS

ONE: ACCEPTING A CREDIT CARD AS A FORM OF PAYMENT FOR AIR TRAVEL PURCHASE

The Agent is the party accepting the card from the customer on behalf of the airline. As the customer-facing part of the process (either physically or virtually), some information can be gathered from your side at the time of sales, that would be useful either to consider the risk associated to making the transaction or throughout the Dispute enquiry and as a result, preventing a Chargeback ADM.

Tip 1 - Card Verification Value 2 (CVV2)

Card security codes are known under different terminologies, depending on the card payment schemes: Visa - CVV2, MasterCard - CVC2, American Express - CID, Discover - CMID, Union Pay - CVN2, JCB - CAV2.

In most cases, the card security code corresponds to a 3-digit number printed on the signature panel on the back of the card, and follows (not always) the last four digits of the Primary Account Number (PAN). For American Express, the card security code is composed of 4 digits, located on the front of the card, above the card number on the right hand side.

When conducting a card payment authorization request, it is important to add this security value to the other card details, and to take note, alongside the approval code, of the CVV2 verification result. Possible responses are:

- o "M – Match": cardholder's provided CVV2 was verified and validated by the issuer
- o "N – No Match": cardholder's provided CVV2 does not match
- o "P – Request not Processed": the verification was not performed (technical issue)



o “U – Issuer does not support feature”: in rare cases, the issuer is not registered with the card scheme to use this security feature

Resolution 890 stipulating how BSP card sales should be conducted recommends that, in view of the risk posed by a cardholder not being able to provide the correct CVV2, the Agent does not complete the sale.

An Agent should always submit the security code when soliciting an authorization request, and ensure it always receives the CVV2 verification result before deciding to finalize or not the sale.

Remember that:

A CVV2 Match response does not provide a payment guarantee, or allow to challenge a fraud chargeback as such data may have been hacked alongside the original card number. CVV2 is an additional element, besides other fraud prevention tools, which enables a card accepting entity to evaluate the fraud risk in a given transaction.

Storing CVV2 is absolutely forbidden under any circumstance.

For that reason, CVV2 does not apply to ‘lodge cards’, whose details are stored at the Agent for use when the cardholder, a regular client, books a trip. However, the user of a lodge card is presumed to be known personally by the Agent, thus making the payment with the lodge card safer than a card payment with a first time, unknown customer.

**Source: IATA Industry Memo 2016_1 – Card security code & IATA Industry Memo 2016_2 – Address Verification System (AVS) by IATA.*

Tip 2 - Address Verification System (AVS)

When accepting a credit card issued in Canada, United Kingdom or the United States, remember that you can use the AVS!

Address Verification System (AVS) helps “Card-Not-Present” merchants prevent fraudulent card use by verifying that the buyer making a “card not present” transaction knows at least to which address the monthly billing card statement is mailed to.

While collecting the client’s card billing address is not mandated by any industry standard, it is a useful step to identify discrepancies in a purchase that may point out to a fraud risk.

How does it work?

AVS is a security feature used by Visa, MasterCard and Discover, that verifies the billing address of the cardholder.

AVS verifies the numeric components of the cardholder’s billing address.

For example, if the address is “50 Montgomery Street, San Francisco, CA 94111, USA”, AVS will check 50 and 94111. The issuer will insert into the authorization response message, alongside the approval code (and alongside the CVV2 verification result) an AVS response code.

An AVS mismatch should be seen as a warning sign.

American Express supports 2 fraud mitigation tool which differ slightly from AVS:

- Automated Address Verification (AAV) allow to verify the billing address of a customer from any country



- Enhanced Airline Authorization data refers to the submission of ticket details in the authorization request, which enables American Express to make a better informed decision when approving or refusing a transaction.

An Agent should always submit AVS, AAV and Enhanced Airline Authorization data when soliciting an authorization request. It should ensure it always receives the relevant verification result before deciding to finalize or not the sale.

Remember that

As AVS only checks numeric portions, certain anomalies may be caused by apartment numbers for example, which can cause false mismatches; however, this is reported to be a rare occurrence.

When cards are issued in other countries than Canada, the UK and the USA, AVS does not apply.

**Source: IATA Industry Memo 2016_1 – Card security code & IATA Industry Memo 2016_2 – Address Verification System (AVS) by IATA.*



TWO: CUSTOMER RAISES A DISPUTE

The Dispute is a query about a transaction on the cardholder statement which he either does not recognize or that he disagrees with. Common reasons for which a cardholder raises a Dispute:

- A credit has not been processed when the customer expected it would be.
- Merchandise ordered was never received.
- A service was not performed as expected.
- The customer did not make the purchase; it was fraudulent.

*Source: *Chargeback Management Guidelines for Visa Merchants – 2015* by Visa.



Did You Know

Global studies indicate that our biggest issue is the so-called **“Friendly Fraud”** or **“First Party Fraud”** (60-80% of all Chargebacks across all industries).

The other top sources of Chargebacks are: Merchant Errors (20-40%) and Criminal Frauds (1-10%)

* Source: *Understanding the Sources of Chargebacks* by Chargebacks911.

So what is Friendly Fraud?

The term “Friendly Fraud” is somewhat a misnomer as it trivializes actual financial losses incurred by the card accepting merchant. Visa refers to this action as “First Party Fraud” which provides an apt description of the actual event.

“In today’s instant gratification society, consumers have learned that obtaining a bank-issued refund is often quicker and easier than dealing with the merchant. This abuse of the chargeback process is called friendly fraud...These customers authorized the transaction, received the purchased item with satisfaction, and later disputed the transaction”

* Quote: *Understanding the Sources of Chargebacks* by Chargebacks911.

Why?

“The real reasoning behind the cardholders’ actions is likely one of the following: the consumer experienced buyer’s remorse and regretted making the purchase, an authorized family member made the purchase but the primary cardholder didn’t want to pay for the transaction, or the original intention was to get something for free.

Other times, friendly fraud chargebacks are the result of a misunderstanding. The consumer might have simply asked the bank about a certain charge or requested additional information about a purchase. Some consumers have admitted they mistakenly thought the bank could cancel a recurring transaction. In these situations, the bank misinterpreted the consumer’s request.”

*Source: *Understanding the Sources of Chargebacks* by Chargebacks911.



Agents: A tip to help your customers (cardholder) recognize the card transaction

Inform your customer that on their statement they should not expect to see the name of your travel agency but instead the name of the Airline that the ticket is issued upon, and to remind them to try and verify the amount being charged before raising an inquiry or a Dispute with their card issuer.

THREE: CARD ISSUER WILL CONTACT THE MERCHANT FOR INFORMATION TO RESOLVE THE DISPUTE RAISED BY THE CARDHOLDER.

The cardholder may initially inquire with his issuer about a transaction he does not recognize. At this stage he would not claim not having made the transaction, he is simply looking for more details about the nature of the unrecognized purchase.

The issuer will send a request for further information to the acquirer of the merchant, which in turns asks the merchant. The request for information is sometimes called 'retrieval request' in card scheme language.

In the context of a BSP card sale, the airline may respond with the details it holds about the tickets sold, or revert to the Agent to ask him to provide information which may help the cardholder.

The relevant information must be sent back to the issuer via the acquirer within specified deadlines.

If the submitted information satisfies the cardholder, he will notify the issuer that the dispute is closed. Otherwise, he will then claim he did not engage in the transaction.



Quick Win

When receiving a request for information on the transaction, it may be more efficient for the Agent to contact his client and ascertain what the nature of his inquiry is.

The transmission of further details through the airline, acquirer and ultimately the issuer takes time and increases the chances of some information getting misplaced. Attempting to understand and solve the issue directly with the client may be the fastest way to resolve the issue and ensure he notifies his card issuer that he withdraws his inquiry.



FOUR: IF DISPUTE COULD NOT BE RESOLVED BY PROVIDING INFORMATION TO THE CARDHOLDER, IT WILL BECOME A CHARGEBACK.

Note: The card issuer may raise an Immediate Chargeback without going through a request for information/ retrieval request if at the time of the cardholder's enquiry the card issuer feels that it supports an immediate debit.

Step 1: Airline to check if the chargeback is within it's timeline imposed by the card acceptance merchant contract.

The general rule is that chargebacks related to fraudulent transactions must be raised by the issuer within 3 months from the transaction date.

If on the other hand the reason for chargeback was "Service not rendered", the timeframe to raise such chargebacks is approximately 12 months from the transaction date.

If the chargeback has been sent by the card issuer beyond the permitted period, the chargeback may be challenged as invalid.

The Airline merchant contract will stipulate what is the valid timeframe for receiving a chargeback. The first step should always be to ensure the chargeback is valid from a contractual point of view.

Step 2: Is the chargeback within the merchant agreement?

Always check your merchant agreement, to make sure the chargeback is within the parameters as the merchant agreement is the sole contractual document allowing financial losses to be passed onto the merchant. Besides the valid timeframe, it may have other stipulations such as which are the valid reasons for a chargeback.

If you detect patterns of gaps within your merchant agreement, note them and ensure that these clauses are clarified.

Step 3: Provide useful documents to increase the chances of fighting a chargeback.

On average, an Airline merchant is given 14-21 days by its acquirer to challenge a chargeback and provide any supporting documents. When required, the Airlines would in turn request the Agents to provide any missing information within 7-10 days, which would complement their reply to the issuer. Given the stringent timeframe, it is important that Agents and Airlines preserve the availability of necessary data for as long as a valid Chargeback could be issued. Resolution 890 demands that such records be kept by the Agents for 13 months; and route requests and responses with the greatest expediency possible.

Type of information an Airline may contribute in the resolution of a chargeback

- A copy of the Airline ticket
- Proof that a correcting transaction that directly offsets the disputed transaction has already been processed (Proof of a refund or credit transaction issued)
- Transaction information, Billing Information and Journey Information

Note: PAX information is only useful when the cardholder is the traveler.

Additional information Airline can provide – Compelling Evidence.



Compelling evidence is circumstantial evidence that is not direct proof of the transaction itself, or does not form part of the transaction being disputed. It may lead the card issuer or the card scheme to review the cardholder's dispute under a different angle.

The examples below are some compelling evidences that historically have been used successfully to answer to a cardholder's dispute.

- ✓ Information on related transactions
The e-ticket issued for an accompanying minor (infant or child) which was not disputed, while the ticket of the adult passenger was. Since an infant or child ticket cannot be issued or consumed without travelling with an adult passenger, the lack of dispute on the infant/child ticket allows to challenge the original claim.

Or

Paid services at the Airport such as excess baggage or seat upgrades, when such charges were not disputed allows to challenge the original claim.

- ✓ Customer disputing the card transaction but not the Frequent Flyer Miles that were credited. Since the policy of crediting mileages are based on flown segments only, a Chargeback should not lead to associated mileages being credited to the account holder.
- ✓ Flight manifest showing the names of the travelers. As flight manifests are voluminous records, it is important to only provide the relevant section, explain how to read the document and highlight the relevant sections, so that it is clearly readable by a third party (card issuer, cardholder or card scheme).

Type of information an Agent may contribute in the resolution of a chargeback

- A discussion with the customer at this stage may help reveal a misunderstanding or a query that was misinterpreted by the card issuer as the refusal to recognize and accept a charge; and the Agent can take the opportunity to clear up the issue and invite the customer to revert to the card issuer and withdraw or amend the claim that was recorded. In these cases, the Agent should try to collect a confirmation or statement from the customer to this effect, in case it is required in the future.

In other cases when contacting the customer is not feasible, the following information may also be useful in contributing to the resolution of a Chargeback:

- Clearly Signed (if applicable) Itemized Invoice / Receipts that supports the transaction including a copy of the booking and reservation notice
- Proof of confirmation for booking or reservation

Issue: PAX information is only useful when the cardholder is the traveler.

- Proof that the cardholder agreed to the transaction or authorized a 3rd party to make the purchase.



Often it is difficult to prove that the cardholder agreed to the transaction

A letter signed by the cardholder authorizing a transaction, of the accompanying copy of an ID often has no value in these circumstances as it can be easily argued to be forged, and do not allow to successfully remedy a Chargeback; as anyone can pretend to be the legitimate holder of a card and there is no way of verifying the name of a cardholder in a card transaction. The billing address, however, can be verified in some cases, as mentioned in section 1.

- A copy of your Terms and Conditions including your cancellation, return, refund and no show policy.

Whilst providing the Terms & Conditions it is important to also provide proof that such information was provided to the customer at the point of sale. This can be achieved through several manners, a few being:

- ✓ A copy or screenshots, or IT logs that can show the sequence of pages before final checkout and prove that before payment the client was fully advised, and clearly expressed consent through a “click to accept” or other acknowledgement button, checkbox, or location for an electronic signature, or on the checkout screen before moving to the payment phase.

Bear in mind that for internet sales a simple link to a separate web page is not an acceptable “proper disclosure”.

- ✓ For telephone and face to face sales the customer must have received (at the time of sales), a disclosure of the refund and credit policies via post, email or text message (sms).

**Source: Airlines- American Express Disputes Guide 2015 by AMEX & Chargeback Management Guidelines for Visa Merchants – 2015 by Visa.*

- ✓ Specific to face to face sales

BSP card sales are usually conducted through the manual entry by the Agent of the PAN (Personal Account Number) and other card data into the GDS work screen. In such process, there is nothing in the body of the resulting card transaction which differs from a ‘card not present, cardholder not present’ situation such as a telephone sale.

Historically, the card schemes have allowed the subsequent production of a signed manual imprint to prove that a card and cardholder were present at time of transaction, thus remediating a ‘card not present’ type of fraud chargeback. As a result, in Resolution 890 it is recommended for the Agent to make such an imprint in the case of a ‘face to face’ sale.

It is worth noting that Effective 04/2017, a signed manual imprint, traditionally known as the UCCCF in the airline industry (Universal Credit Card Charge Form) will no longer enable a merchant to remedy a MasterCard fraud chargeback worldwide.



FIVE: ARBITRATION

If all possible information has been provided and if the issuer maintains the chargeback, the Airline, as any merchant, has the right to go to an arbitration phase through which the card scheme will act as a judge of last resort and adjudicate the dispute between the issuer and the merchant.

However, in order to deter spurious cases, such procedure usually requires the loser to also lose a deposit meant to cover administrative fees. Hence this requires a party to be absolutely certain in the solidity of its argument before undergoing that final step.

TO BE AGREED/DISCUSSED WITH ADMWG:

- Some Airlines would first contact the agent in concern and request them for compelling evidence to submit to the acquirer. If information is received before due date, no ADM is issued. Whilst other Airline's approach is to issue the ADM to the agent, and expect to receive the documentation required through this process, whereby upon receiving the evidence the ADM is cancelled.
- As a best practice, the Airlines should always try to contact the Agent and request for information and only issue an ADM in the event that the Dispute enquiry has been rejected.
- What should happen when the agent suspects a fraud case and cancels the transaction?

1 it should also issue a complete refund to the card, in order to make the cardholder 'whole

2 it must issue this refund in full amount (do not deduct and cancellation penalty or adjust commission by yourself), as the cardholder is not party to the agreement between the Agent and the airline. Anything less than a full refund will lead the defrauded cardholder to raise a fraud claim for the full amount of the transaction he does not recognize

3 A sale cancellation and refund by the Agent may trigger commercial penalty fees which may not factor in the very specific case of fraud prevention. The industry needs further discussion on how to ensure that commercial conditions do not inadvertently inhibit proactive fraud prevention measures

Remember that even if you issue the card refund promptly, it may miss the billing report where the original card transaction is posted, thus leading the cardholder to raise a dispute (this is remedied with the airline proving that a full refund was issued).

The refunded amount, once converted into the cardholder billing currency, may vary from the amount of the initial purchase because of daily currency fluctuations. This can also cause the cardholder to raise a dispute, which is remedied by showing that the amount refunded was for the full amount in the purchasing currency

FOR ADDITIONAL INFORMATION:

Training courses:

<http://www.iata.org/training/courses/Pages/card-fraud-prevention-talf44.aspx>

Industry Fraud Prevention initiative for Airline Direct Sales:



<http://www.iata.org/whatwedo/airline-distribution/Pages/industry-fraud-prevention-initiative.aspx>

IATA FraudClear: Review suspect sales flagged for review, and challenge chargebacks (and ADMs) when there is a chance of success

<http://www.iata.org/services/finance/Pages/fraudclear.aspx>

IATA Perseuss: A platform to report customer data associated to card fraud and share with other Airlines and Agents.

<http://www.iata.org/services/finance/Pages/perseuss.aspx>