

Merchants Payments Coalition: Debit Card Fast Facts

Fact # 11: Merchants do not receive a payment guarantee when a customer pays with a debit card. Visa and MasterCard reserve the right to issue a “chargeback,” which can leave the merchant out the sale amount, merchandise, and any fees/fines.

The Federal Reserve’s survey results found that merchants bear 43 percent of all fraud losses in the debit card market. Additionally, merchants assume approximately 76 percent of signature debit card fraud for card-not-present transactions, such as Internet and pay-at-the-pump purchases.¹ One way merchants end up paying for fraud is through chargebacks. Also, according to a 2009 Lexis Nexis fraud study: “Of the three constituents affected by fraudulent transactions, retail merchants are by far absorbing the vast majority of this cost.”²

According to Visa, Inc.: “A chargeback is the reversal of the dollar value (financial liability), in whole or in part, of a particular transaction by the card issuer to the acquirer, and usually, by the merchant bank to the merchant. **For the merchant business, chargebacks can be costly. You may lose both the dollar amount of the transaction being charged back and the related merchandise. You also incur your own internal handling costs to process a chargeback.**”³ According to Visa, Inc. a chargeback can be triggered, “for many reasons, primary among which are customer disputes, fraud, processing errors, authorization issues, and non-fulfillment of copy requests.”⁴

Both Visa and MasterCard have hundreds of pages of operating rules dedicated to chargebacks and dispute resolution. The Visa rules are available in Chapter 9 (ref. pg. 722) of Visa’s International Operating Rules.⁵ MasterCard has a separate chargeback guide.⁶ Chargebacks are classified by Reason Codes, of which there are 50 between Visa and MasterCard⁷; 17 of those offer the merchant little or no recourse to dispute the chargeback.

When a chargeback is issued, it sets off the chargeback cycle.⁸ It is the responsibility of the merchant to respond to a copy/retrieval request from the card issuer with a signed transaction receipt.⁹ This requires each merchant to retain copies of receipts for close to two years, if they wish to minimize the chargeback costs because a chargeback can be issued up to 540 days (18 months!) after the sale.¹⁰ Even if the merchant supplies the requested information, the issuer can claim the signature does not match the cardholder’s and then issue a chargeback. There is an arbitration process, but the networks have discretion over the process and charge the merchant for using it.¹¹

Chargebacks in the PIN debit market are almost non-existent due to PIN authentication.

Lastly, Visa reserves the right to assess irreversible and excessive chargeback fines and penalties on merchants as part of their Global Merchant Chargeback Monitoring Overview.¹²

¹ <http://edocket.access.gpo.gov/2010/pdf/2010-32061.pdf>. Pg. 81741.

² http://www.riskfinance.com/RFL/Merchant_Card_Fraud_files/LexisNexisTotalCostFraud_09.pdf. pg. 22

³ http://usa.visa.com/merchants/operations/chargebacks_dispute_resolution/index.html

⁴ http://usa.visa.com/merchants/operations/chargebacks_dispute_resolution/index.html

⁵ <http://usa.visa.com/download/merchants/visa-international-operating-regulations-main.pdf>

⁶ http://www.mastercard.com/us/merchant/pdf/TB_CB_Manual.pdf

⁷ <http://usa.visa.com/download/merchants/visa-international-operating-regulations-main.pdf>, pgs.754 through 861.

http://www.mastercard.com/us/merchant/pdf/TB_CB_Manual.pdf, Chapter 3

⁸ http://usa.visa.com/merchants/operations/chargebacks_dispute_resolution/chargeback_cycle.html

⁹ http://usa.visa.com/merchants/operations/chargebacks_dispute_resolution/copy_requests.html#anchor_2

¹⁰ http://www.mastercard.com/us/merchant/pdf/TB_CB_Manual.pdf, pg. 35.

¹¹ http://www.mastercard.com/us/merchant/pdf/TB_CB_Manual.pdf pg. 364; <http://usa.visa.com/download/merchants/visa-international-operating-regulations-main.pdf>, pg. 865.

¹² <http://usa.visa.com/download/merchants/visa-international-operating-regulations-main.pdf>. pg. 656.