EMERGING PAYMENTS ASSOCIATION

MAY 2021

Customer Disputes

A review of Chargebacks and Double Credits

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WELCOME

Thank you for your interest in this Emerging Payments Association (EPA) whitepaper created as part of our *Project Financial Crime* initiative.

This primary research draws on the support of industry stakeholders including the Project Financial Crime team, broader EPA membership, merchants, and service providers, along with valuable contributions from other trade associations.

Customer disputes and chargebacks are very important topics, but rarely receive the focus and coverage they deserve. Indeed, protections associated with card payments were scarcely fully understood outside of a small group of specialists - that is until the COVID-19 pandemic forced holidays, flights, hotels, concerts, theatres and entertainment events to be cancelled in 2020.

This research seeks to identify best practices and make recommendations with a view to improving efficiencies in managing and mitigating future chargebacks. A particular area of focus in this research was to investigate instances of “double credits”- why they happen, and whether they are cases of deliberate financial fraud.

I’d like to give a big “thank you” to Chargebacks911 and Fi911 for sponsoring this research and to EPA Ambassador Mark McMurtrie who conducted the interviews, analysed the findings and authored this report.

Initial research highlights were shared at the EPA’s Pay360 conference held virtually on the 17th March and then discussed in a panel session with experts from Mastercard, NatWest, FIS Worldpay and Chargebacks911.

I hope that, like me, you find it to be an interesting read. We welcome your feedback. ■

JANE JEE

LEADER, EPA’S PROJECT FINANCIAL CRIME
CHAIR, **KOMPLI-GLOBAL LIMITED**

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SAFE IN THE KNOWLEDGE

INTRODUCTION

Unsurprisingly, the COVID-19 pandemic has put extreme pressure on the dispute resolution process due to the unprecedented increase in the number of chargeback claims being made.

This is particularly true of the travel, hospitality and entertainment sectors where the pandemic has drawn closer attention to the issue of double refunds, due to the sheer number of claims that have had to be made.

When something goes wrong, the course of action should be for the cardholder to discuss the matter with the merchant to try and resolve the issue. If this is unsuccessful, then a customer has various other avenues to pursue in order to recover their money. With these avenues, however, comes the rise in 'double refunds' or 'double credits'' being paid to customers through two claims processes. Chargebacks on cards is typically one of these.

> ***"What is a double refund? A double refund is where a consumer gets a refund from a chargeback claim but is also refunded either by the merchant directly or by some other means, such as an insurance, bond or legal claim."***
>
> **Chargebacks911**

About the Research

> ***"For years we have been aware of cases of customers receiving more compensation than they were due – but prior to COVID-19 the number of instances were relatively low."***
>
> **Merchant Acquirer**

Between January and February 2021, the EPA conducted extensive primary research through detailed stakeholder interviews.

Interviewees included subject matter experts, as well as representatives of international payment networks, card issuers of all sizes, merchant acquirers, specialist technology providers, merchants and trade associations.

A key area of focus was investigating whether customers were receiving double credits for disputed transactions.

Interestingly, interviewees referred to this using a variety of terms including 'double refunds', 'double credits' and even 'double dipping'. ■

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Current Landscape

Consumer Protections

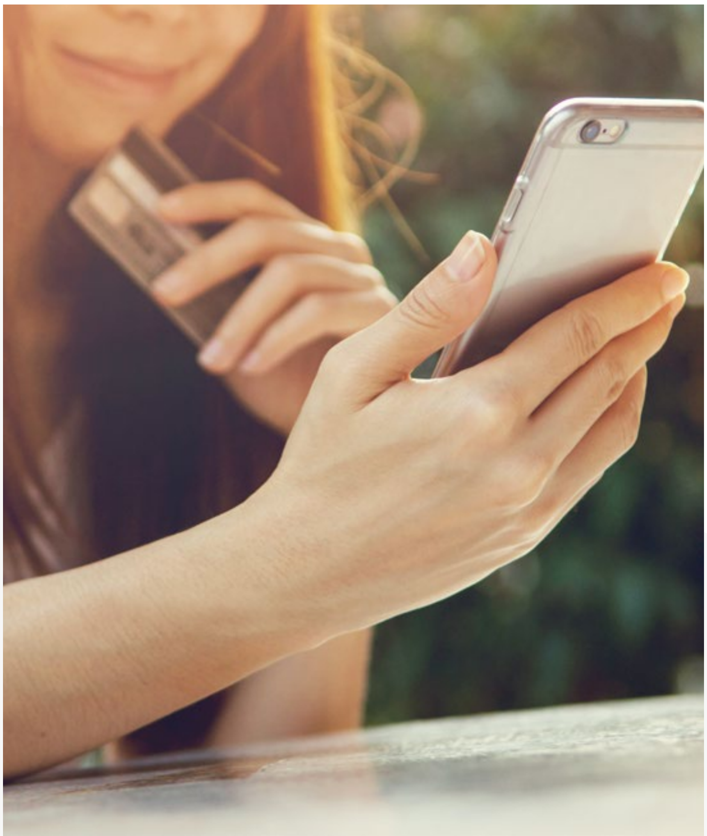
"Consumer advocacy groups help customers understand their rights, ensure they are treated fairly and receive refunds when something goes wrong."

UK consumers have a number of long-established protection rights if something goes wrong in the purchase of goods or services.

These vary between those established in law and regulation and those offered voluntarily by the card payment industry. Consumer rights champions such as Which? and Martin Lewis, the Money Saving Expert, regularly campaign on the topic and provide a wealth of advice to consumers.

In the event of a dispute between a cardholder and a merchant, the cardholder in question has a number of avenues through which to recover their funds. These include:

- **Chargebacks:** developed by the international card networks over time to resolve disputes. Each payment network has their own rules, terminology, timescales and dispute management tools designed to manage claims made by cardholders.
- **Section 75 Rights:** Section 75 of the Consumer Credit Act 1974 protects UK consumers if a credit card is used to make a purchase, but there is a subsequent dispute about the goods being faulty, undelivered, or if information about them is misleading.
- **Consumer Rights Act:** the UK Consumer Rights Act of 2015 sets out consumer refund rights, giving consumers 30 days to return faulty goods or request a refund. They may also be able ask for a refund or price reduction if the retailer has failed to replace or repair a faulty item.
- **ATOL:** the Air Travel Organiser's Licence scheme ensures protections for most air package holidays that include flights sold by travel businesses based in the UK. If a travel business with an ATOL ceases trading, the scheme protects consumers by offering refunds or repatriating the traveller.
- **ABTA:** this scheme provides protection for non-flight based holidays, linked travel arrangements and monies paid to travel agents. Packages that include a flight are covered by ATOL protection whilst those without a flight, such as cruises, coach and rail holidays, are protected by an ABTA bond.
- **Financial Ombudsman Service (FOS):** The FOS is a free and impartial service aimed at resolving disputes. If a chargeback cannot be resolved satisfactorily, this can be brought to the FOS to investigate. The FOS received over 10,000 complaints since March 2020, and this number is expected to increase.
- **Legal Action:** Both consumers and merchants have the right to take a financial dispute to the county court if they are owed money. However, mediation is always recommended as the first step. Going to court should be viewed as a final recourse.



"If [ATOL] vouchers cannot be redeemed in Summer 2021 then we will face another set of mass claims and customer disputes."

Tier 1 Card Issuer

“Over 10,000 complaints related to COVID-19 have been received by the Financial Ombudsman Service.”

FinTech Consultant

Chargebacks

As noted above, chargebacks are a long-established feature of the card payments landscape. We’ve observed exponential growth in chargeback issuances over the last decade. However, the COVID-19 pandemic and resultant disruption has tested the chargeback process like never before. Consumers can ask their card issuer to raise a claim for a number of reasons which generally include:

- Non-receipt of goods or services
- Cancellation of services
- Non-receipt of refund or credit
- Misrepresentation
- Cancellation of subscription/recurring billing
- Unauthorised transaction (fraud)

Interviewees informed us that, under normal conditions, there are predictable seasonal peaks in chargebacks being raised, which predictably coincide with peak trading periods and special events like Summer – Back to School, Black Friday, Thanksgiving and Christmas.

Additional spikes are also seen whenever a high-profile merchant collapses, Flybe, Thomas Cook Group plc, Debenhams, Monarch, British Home Stores and the Arcadia Group Ltd to name a few. Peak sales trends persisted in 2020 but were accelerated by the outbreak of COVID-19.

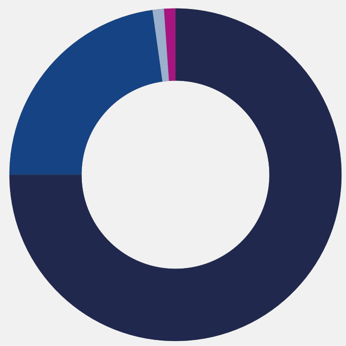
As well as the aforementioned verticals, a higher number of chargebacks were raised against businesses that are classified as being ‘delayed delivery merchants’ and those selling digital goods.

For the most part, interviewees noted that the system (from a card network perspective) withstood the strain in demand and that in the majority of cases claims are processed correctly. However, this perception was observed to vary dependent on the interviewee.

“We saw the number of non-fraud dispute cases increase by 333%”

Tier 1 Debit and Credit Card Issuer

Chargeback Categories



Fraud **75%**
Customer disputes **23%**
Authorisation issues **1%**
Processing errors **1%**

Double Credits

Size of the problem
Double credits have long-since been part of the payments ecosystem. Because it has not been explicitly reported on, however, the scale of the issue was relatively unknown. Instead, there is common acceptance of its presence in the industry, largely on anecdotal evidence.

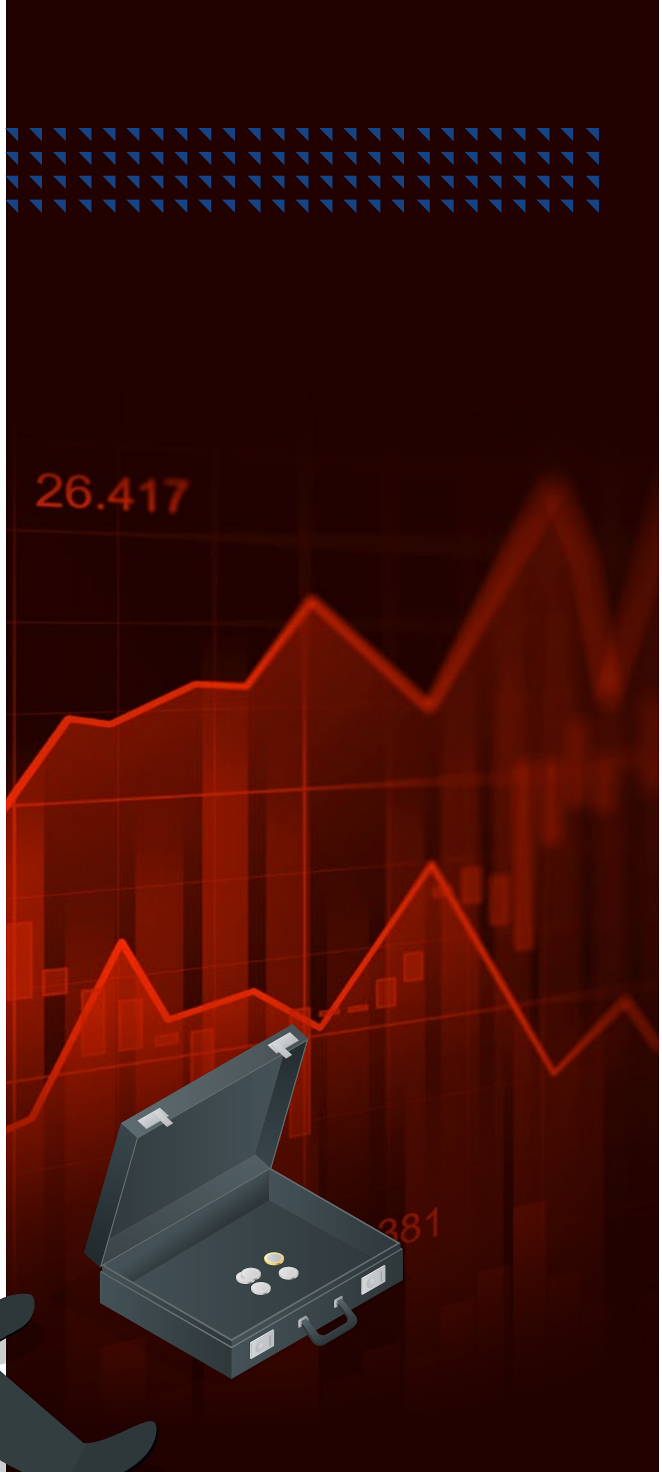
The impact of the pandemic significantly amplified the problem in 2020, with the percentage of customer disputes relative to fraud cases also rising.

In relation to the overall volume of payment transactions, the number of cases of double credits are statistically insignificant. Even with recent growth in numbers we are looking at sub-fractions of 1%. However, each incident represents a substantial loss to the merchant and other stakeholders.

"On average, cases of double credits increased by 15% to 20% in 2020."

Criminals are increasingly becoming more aware of the opportunity to profit through exploiting the dispute process. Indeed, we heard how some are now promoting a "Refund as a Service" (RaaS) and sharing the reclaimed funds with the customer.

While difficult to measure and not clearly understood, it is apparent that the problem exists and that more can be done to measure, detect and prevent this activity. ■



"More than 30% of interviewees commented that they had personally experienced a double credit being issued."

Emerging Payments Association

CONSUMER BEHAVIOUR

By the time a customer complaint progresses to a chargeback claim it is likely that the consumer's level of patience is strained.

Not only are they facing the disruption of their original transaction being cancelled (a flight, for example), but are frustrated with the merchant who is not being forthcoming with their refund, while possibly facing financial distress as a result of not receiving expected refund monies.

These factors can make cardholders much more likely to try and recoup their funds by any means necessary. We found that consumers were likely to contact their bank out of sheer frustration and will often initiate a second claim with the bank in parallel with another, giving rise to potential double credit scenarios.

Macro-economic factors resulting from the COVID-19 pandemic (furlough, unemployment, widespread closures and restrictions) have exasperated this behaviour and has led to more cardholders disputing transactions. In addition, our interviewees cited a definite increase in repeat behaviour.

Interestingly, data from Chargebacks911 would suggest that, consumers were 50% more likely to make a second chargeback claim within 60 days after a first success.

For example, we heard instances of customers disputing all of their monthly transactions. Financial difficulties have undoubtedly been one of the influences prompting customers to pursue credits from as many parties as possible while being impatient to wait for a response from a merchant.

"When faced with intense financial hardship, individuals will try anything to protect themselves and their families."

Credit Card Issuer

Social media has undoubtedly had a big impact on consumer behaviour – contributing to varying degrees of awareness and education among cardholders.

Some do not understand that merchants will have to pay for disputed transactions, believing instead that an industry compensation fund exists. In double credit scenarios, some consumers interestingly believe a chargeback was the 'refund' and that any second payment was 'compensation' – leading to confusion about entitlement to both.

"In other cases, social media and online forums can encourage customers to file disputes and learn from each others more efficient or alternative ways to achieve a refund. These platforms, therefore, play a critical role in increasing the number of chargebacks being initiated by consumers communicating loopholes that can be exploited.

Once you know your rights, you will keep asking for a refund. That's why we will continue to see more dispute claims."

Financial Institution

It is too early to know the long-term impact of the high volume of customers filing chargebacks in 2020. However, many interviewees expect this to result in a sustained increase in the number of disputes being raised as customers have learnt how to exploit the scheme.

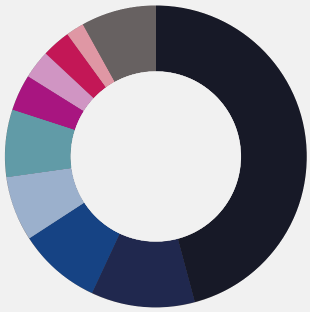
These responses are not universal, though. There appears to be a very clear cultural difference in attitudes regarding the raising of disputes and seeking refunds.

Research showed that Americans were the most likely to raise a dispute and demand their money back straight away, followed by the British. This is, in part, due to the maturity of these markets and the level of competition between card issuers.

> **"Within Europe the British file the most chargebacks and are more vocal in demanding refunds."**
>
> **International Card Network**

UK consumers have learnt about their chargeback rights, and this has positioned them at the top of the European League table in demanding their money back. What does this mean for other markets? Spanish cardholders frequently request chargebacks on transactions, while many central Europeans and Germans feel uncomfortable challenging their bank. This may be because some of the domestic European payment schemes provide fewer, if any, chargeback rights. Italy, for instance, has one of the lowest national chargeback-to-transaction ratios in Europe. ■

Chargeback Origination Source



United States	**46%**
Western Europe	**11%**
Asia	**9%**
Eastern Europe	**7%**
Latin America	**7%**
Canada	**4%**
Africa	**3%**
Australia	**3%**
Middle East	**2%**
Unknown	**8%**

DOUBLE CREDITS: WHY THEY HAPPEN

We identified the following as the seven most common reasons why double credits occur:

1. High volume of cases
2. Time pressures
3. Poor merchant practices
4. Poor communication
5. Process inefficiencies
6. Payment instruments
7. Vouchers

> **"Cases in the travel and entertainment sector were 10 times higher than normal"**
>
> **Card Issuer**

1 High Volume of Cases

A chargeback generally means a retailer is debited and a consumer is credited immediately. To challenge a chargeback claim, a retailer must undertake a rigorous process within a mandated timescale. Retailers dislike facing chargebacks and noted that they were costly to administer. Each party in the research had 'Business as Usual' (BAU) processes in place to handle disputes. It was noted, however, that any increase in volume can stretch this resource beyond its capacity to carry out the rigorous checks and processes needed.

In some businesses, the COVID-19 pandemic and associated spike in chargeback volume was an exceptional event in terms of high-volume stress.

> ***"Our chargeback volumes increased by 10x, peaking in July. At one point we faced a backlog of 50,000 cases and needed to bring in significant additional resources."***
>
> **Retail Card Issuer**

The volume of chargeback issuances increased at an unprecedented rate. We heard from all interviewees about a dramatic surge in chargeback volume, with one interviewee saying they faced more than 10,000 cases per month in March, April and May, with another issuer stating that there were 20,000 more cases in the first 6 months of 2020 compared to the same time the previous year.

Both retailers and banks face similar problems in relation to high volumes whether caused by the pandemic or not.

A lack of headcount and resource, coupled with a high volume of claims results in card issuers being unable to apply as much rigour to consumer claims as would be desired, acquiring banks may pass losses directly to merchants with no diligence and retailers will be unable to respond to the volume.

One major UK issuer reported that, even in early 2021, they were still facing twice as many dispute claims as would be normal. From an acquiring perspective, the period between June and October saw peak activity.

> ***"Our dispute team needed to more than triple in size to handle the number of disputes."***
>
> **Tier 2 Card Issuer**

Double credits are more likely in such circumstances because issuers may not carry out thorough checks at the start of the customers claim, acquirers may not carry out any diligence on claims and businesses do not have the resources to rebut high volumes of chargebacks despite a refund perhaps already having been given.

2 Time Pressures

The chargeback process has strict time deadlines for each party to respond at each stage, which vary between card schemes.

One issuer informed us that, interestingly, Visa had requested it make allowances for the high volumes of disputes, thus ensuring sufficient time was made available for a chargeback to be defended.

Several respondents struggled to process all of the chargebacks by these timelines, approaching the card networks for additional time to be allowed under hardship rules offered at times of natural disasters.

However, these requests were declined. We heard accounts of acquirers taking many days to batch together multiple chargebacks before forwarding these onto merchants. The net result being that merchants had even less time than normal to defend disputes. This led to many cases of merchants not representing transactions in time, and therefore losing the chargebacks in question.

"We struggled to comply with the chargeback timelines and had to increase headcount significantly."

Tier 2 Issuer

Alongside high volumes, time pressures can result in consumers receiving double credits as chargebacks go unchallenged by merchants.

3 Poor Merchant Practices

Delays and poor customer service by merchants in processing refunds can swiftly lead to many double refunds. Many customers can feel that they are being ignored or are not receiving their money back quickly enough. High customer frustration in these situations leads to a chargeback request being lodged before hearing a decision on a refund from the merchant.

Between this and time pressures faced, it is clear that the overlap between refund and chargeback timelines is one of the primary causes of double refunds. Card scheme rules are clear that no refunds should be initiated after a chargeback has started, but this directive was not followed by some merchants who had months of delays processing refund requests.

Indeed, if we consider the events of 2020, it was not until the end of the year that several hospitality merchants finished fully reconciling their refunds and chargebacks.

"UK cardholders know their rights and demanded prompt return of their money."

Card Scheme

We heard evidence of poor merchant performance (not from those named within this report) including cases of:

- Removing the customer service phone number from a website
- Changing T&Cs after a sale
- Making it difficult for a customer to request a refund
- Poor communication on refund status or timescales
- Forced decision to accept vouchers

Those retailers who had clear refund policies and effective communication policies suffered fewer chargebacks and cases of double credits.

"We made a quick decision to allow customers to change the dates of their stay without penalty or issue a quick full refund, despite cash flow implications, in order to maintain strong long term customer loyalty."

Hospitality Sector Merchant

4 Poor Communication

In addition to hearing of poor internal communications among merchants and consumers, we also learnt that the communication between acquirers and merchants proved insufficient during the crisis. Previous communication processes that were in place were not robust enough to withstand the dramatic increase in volume and workload.

Issuer-to-acquirer communications were also sub-optimal. In some instances, there may be several interested parties in a consumers claim, ranging from banks to insurers to bonding authorities and we heard that there is a need for increased openness and transparency between these parties. Improvements in this area were viewed as having the potential to reduce double refunds.

"The establishment of industry best communication practices would benefit all parties and reduce the number of instances of double credits."

Acquirer

5 Process Inefficiencies

Chargeback processes have a significant manual element for merchants, acquirers and issuers. Each dispute needs to be reviewed by a team member, actioned and reported. This, naturally, takes a considerable amount of time. Poor internal merchant processes lead to double credits occurring.

Operation teams typically handle customer refund requests, while a member of the finance team handles chargebacks. Often, these two departments use different systems, which are not integrated and access rights tend to be restricted.

Remote working has, in some cases, exacerbated poor communications between departments. This is unsurprising when we consider that the dispute process is subject to a number of clearly-defined manual steps and automatic checks to prevent a refund being issued after a chargeback are generally not in place.

Our research found that the difficulty of accurately linking the original purchase request with a refund transaction and to a chargeback was a common reason for double credits.

This applies throughout the payments value chain. The necessary transaction identifiers like TranID, TraceID and ARN and ARN are not available to allow each party to see the direct linkage between transactions. Variations exist between different scheme capabilities.

We also heard requests for enhancements to the authorisation message to allow greater real-time data sharing between the merchant and the issuer. A new message field or indicator may be required to fix this system issue, which would take considerable time to be rolled out to all parties.

This should be considered for when the industry migrates to ISO 20022 messaging for card payments. Another problem is minor variations in naming conventions, which can make data about a single transaction appear to look like two separate transactions.

"We have previously looked at adding a new indicator in the credit field to allow better linkage of transactions."

Card Network

Many organisations continue to rely on legacy systems, particularly for aspects of back-office processing like customer dispute handling and chargeback processing. These old systems simply do not have the same level of functionality or flexibility in agile IT platforms. This often increases the amount of manual effort required and limits data sharing and communications. ▸

"We would welcome system enhancements to generate warning notifications that a disputed transaction is already in the chargeback process."

Multinational Retailer

Card networks have, in recent years, created new claims resolution tools called Visa Resolve Online (VROL) and Mastercard Claims Manager (MCOM) to improve efficiencies and communications. These have delivered improvements; however, we heard suggestions that access should be extended to merchants. One of the merchant interviewees told us that their acquirer did not provide them with a portal to manage chargebacks and that they received no information back on whether their defence had been accepted or why it was being rejected.

The card schemes encourage greater use of pre-chargeback alerting services to reduce the number of chargebacks and encourage collaboration to resolve disputes. These tools offer benefits to all parties and are continually being enhanced with new capabilities.

6 Payment Instruments

Industry best practice states that refunds should be made back to the same payment card account used to make the original purchase. Indeed, Visa rules require this as it allows easy checks and controls to be put in place to prevent cases of double refunds. It was noted that this does not work as well for partial refunds or with instalment payments, however.

Our research found that merchants, in fact, use a wide variety of payment instruments to refund customers. In many instances, customers request the refund be made to a different card account for legitimate reasons. If the card number intended to receive the refund was from a different scheme, however, then Visa or Mastercard systems would lose the ability to spot a double credit. Further complications are added when prepaid cards or virtual cards have been used for the purchase.

Often refunds are made via a bank transfer such as a BACS payment or cheque and these payments would therefore not be visible to the acquirer, scheme or issuer. Some payment methods like Western Union, meanwhile, do not allow for a refund to be made.

The result of these combined factors makes it difficult to prevent double credits.

7 Vouchers

Merchants may elect to refund through a voucher or gift card, a practice that has become more prevalent during the pandemic. Unable to offer the choice of a refund, as they did not have sufficient funds available to pay back everyone immediately, Refund Credit Notes (RCN) were widely distributed to customers.

Due to the rapid implementation, effective controls were not always executed at the date of issuance, thus creating loopholes for customers to exploit. Issuers explained their difficulty in rejecting a chargeback request as merchants could not provide evidence that the customer had accepted a voucher in lieu of a cash refund. They also had no indicator that a voucher had been issued.

"We did not know if the customer was happy to accept a refund voucher or if it was being forced on them."

Card Issuer

Regulatory clarity was initially lacking on consumer rights to a voucher in lieu of a refund, and effective communication programmes were not in place fast enough. Multiple regulators being involved and different approaches being taken in neighbouring countries complicated this and confused consumers.

The UK Financial Conduct Authority (FCA) belatedly confirmed consumer rights to a cash refund and that vouchers must be voluntary. The Netherlands Government was faster in recognising the scale of the travel sector refund problem and created an innovative government-backed voucher bank.

In the UK, voucher terms were also often unclear on points such as validity periods and eligibility for redemption. As an example, some RCNs could be redeemed by an individual whose name was not on the original booking, further complicating name and transaction matching checks. We also heard instances where merchants could not subsequently void a voucher if a chargeback had been paid. This made it hard to avoid a double payout being made.

"At peak, in April, we were sending out 600 cheques a week as customer refunds as the card details we held on file had expired."

Hotelier

"Before processing a chargeback we check that a credit has not been paid, but have no way of knowing if a voucher has been issued."

Credit Card Issuer

Additional reasons for double credits

Naturally, COVID-19 restrictions resulted in a massive shift from purchasing in-store to eCommerce. For some consumers and merchants alike, this presented challenges previously unexperienced. Some disputes come as a direct consequence of merchant naivety and consumer unfamiliarity.

Customer dispute reviews must take into account the terms and conditions presented by the merchant at the time of the purchase. These will have explained the refund rights in the event of something going wrong, such as a planned event no longer going ahead. Issuer best practice includes checking these terms and conditions (T&Cs) as part of the chargeback investigation.

"We maintained a log of merchant T&Cs and noted when they tried to reduce consumer rights."

Tier 2 Retail Issuer

Many UK businesses utilised the government furlough scheme, which resulted in specialist dispute resources not being available to assist with claims and chargebacks. One airline inadvertently furloughed its entire chargeback team not understanding the implications of doing so.

Claims under Section 75 can be lodged with more than one card issuer, as the purchase may have been paid on two different credit cards. Detailed investigation needs to be undertaken in order to prevent a customer receiving funds from both financial services providers.

The sale of digital goods and services has increased significantly in recent years. In many cases, the purchase and delivery can happen in near-real time and this leaves minimal time for fraud checks to be undertaken. Once goods have been received, customers can exploit this situation by immediately filing a dispute or chargeback. This may be a case of deliberate fraud, particularly if an anonymous payment instrument has been used.

Even some high-profile businesses have not escaped the wrath of the global pandemic. The collapse of a merchant is, naturally, a reason for chargebacks to be raised.

Administration brings additional challenges and delays to the dispute process bringing heightened customer frustration and the raising of dispute claims in parallel. Administrators often lack access to all the data and systems that they need to handle claims efficiently. Communications between payment providers, administrators, bondholders and insurance companies has always proved tricky, and should be a focus area for improvement.

Some customers initiated refund claims with their insurance companies. Card issuers would not have known about these, which is another source of double dipping.

Upon receiving a customer dispute, some merchants credited funds to an in-house client account that could subsequently be redeemed for a new purchase at a later date. These types of refunds are difficult to associate with a chargeback without effective systems and manual effort.

COVID-19 has undoubtedly exposed some system weaknesses in the management of chargebacks and, unless action is taken, then they will remain a problem in the future.

"The immediacy of digital goods supply reduces the chance to spot duplicates and creates opportunities for loopholes to be exploited."

Digital Goods Merchant

TRAVEL-SPECIFIC CHALLENGES

The travel sector, historically, is a primary source of double credit challenges. Borne out of large-scale insolvency events which has been exacerbated by the COVID-19 pandemic.

In particular, the presence of bonding authorities or other insurances for certain categories of transaction creates complexity. Consumers can be confused as to the correct place to go for a refund request, and this can lead to multiple claims and inevitably double dipping on occasion.

Due to a large number of intermediaries often being involved in a customer travel booking and also delays between date of purchase and usage, not to mention the travel lockdown restrictions across the globe, the travel sector has been hit particularly hard by chargebacks and double credits.

This adds complexity when a customer dispute occurs, as there are different timescales for each party to make and receive payments. Customers continue to be frustrated by poor communications and not wanting to wait for a credit. Many of the parties lacked a detailed understanding of how the chargeback process worked and did not have effective processes in place to handle the high volume of disputes, particularly with offices being shut.

The situation was further complicated by many travel operators managing their business with limited cash flow and so were not in a position to immediately pay refunds until they had received a refund themselves back from the ultimate end merchant (such as the airline). This led to customers seeking money back from their card issuer by chargeback, thereby creating the opportunity for a later double credit.

As we all know holidays are often paid for through a series of instalments. This creates an added layer of complexity when refunds and chargebacks are both made at different time intervals. Some disputes also end up with partial chargebacks needing to be raised, adding further complications.

"We felt caught in the middle of the dispute, being asked to make a refund before receiving the money back from the end provider."

Travel Agent

For much of 2020, many airlines were in negative sales positions but did not have processes in place (or approvals) to make payments to acquirers. This is because chargeback fees are normally deducted from new sales revenues. ■

"The retailer will be liable for most cases of double refunds."

Card Network

WHO IS BEARING THE COST?

The dispute process seeks to establish which party should bear liability. The merchant is most likely to be held responsible for the cost of the disputed transaction unless it can successfully defend against the chargeback. The global value of chargeback claims exceeds $40 billion.

If a merchant has gone out of business, or otherwise does not have the funds on hand to cover the costs, then the acquirer will become responsible for the financial liability. They may have insisted on holding a reserve/retention of funds to provide protection against this risk or have an insurance bond to insulate themselves against risk.

Additionally, within the travel sector, bonds may be in place as part of ATOL or ABTA protection to cover claims from customer disputes. The majority of interviewees suggested the need for better communication between payment providers, the bonding authorities and insurance schemes as this was felt not to be working well today.

Under Section 75 of the Consumer Credit Act of 1974, the issuer must refund the customer for all legitimate losses when a breach of contract or misrepresentation has occurred. This is a legal duty and one that is taken very seriously and acted on promptly. Issuers often seek to recover these losses from the acquirer/merchant by using the chargeback process. However, the chargeback process operates under card scheme rules, which offer less protection than formal legislation.

"Issuers often seek to recover money they have credited a customer from a Section 75 claim through the chargeback process."

Acquirer

If they are still trading, merchants bear responsibility for most cases of double refunds, as they should not have issued a refund after a chargeback happened. In the worst-case scenario, the merchant may also have to cover the cost of the original goods unless these have been returned and in a resalable condition.

Chargebacks against "counterfeit" goods create specific challenges, as the fakes should not be sent back to the seller, or else they will simply be sold again. Issuers should have clear policies in place on how to handle counterfeits.

Visa and Mastercard rules include a 'good faith' process to allow an acquirer to request the return of unjustified funds back from the issuer. This can be used if a double credit payment is identified, but unlike the previous 'unjust enrichment' rule, it is purely voluntary. Evidence shows little chance of it being successful. ■

THE NEED FOR DATA SHARING

Throughout our research, we heard the request for more data to be shared between stakeholders. A large amount of data is being captured, but is not always being passed through the value chain. It therefore cannot be used to resolve disputes.

The critical gap appears to be the supply of data between the merchant, who has extensive product level and customer activity data and the card issuer who receives the chargeback request. We learnt how receipt of this additional data would allow more rigorous investigation to be undertaken leading to better and faster dispute resolution decisions.

"Greater real time data sharing would eliminate many chargebacks and save every party cost."

International Merchant

The new card scheme dispute resolution tools VROL and MCOM have helped share data between the issuer and the acquirer and improve the efficiency of the chargeback dispute process. We heard the case for merchants to be allowed access to these systems. Acquirers felt this option had merits and should be explored in more depth as part of a cross-stakeholder working group.

The insurance industry offers an example of another data-sharing model to prevent customers exploiting the system, committing fraud and being habitual offenders. This type of data lake would allow individuals committing clear cases of abuse and fraud to be identified. Further options raised by interviewees include adopting a consortium (network) approach to data sharing to improve dispute resolution and fraud prevention and implementing improved chargeback information communication to merchants as part of a migration to ISO 20022 messaging standards. Participation by relevant parties such as issuers, acquirers, merchants, insolvency practitioners, insurers and bonding authorities would be of considerable value.

"Consideration should be given to providing merchants with access to card scheme dispute portals."

Merchant Acquirer

Before adoption, though, privacy concerns need to be addressed, and any data sharing must be fully compliant with regulations such as GDPR. ■

BARRIERS TO CHANGE

Contributors to this white paper highlighted a number of barriers to change that must be overcome if we are to see the change we all want:

- Relatively small number of cases of double credits occurring in a typical year
- Global focus of card schemes and reluctance to making changes to their rules
- Lack of card scheme appetite to align proprietary customer dispute processes, timescales and systems
- Structural nature of the Travel and Entertainment (T&E) sector and current payment practices
- Expectation of a return to business as usual once COVID-19 is under control
- Complexity of identifying double credits and the high cost of making technical changes
- Difficulty in getting scheme rule changes adopted by issuers, acquirers and merchants
- Regulator decision that customers should not be presented with a deterrent to making a claim
- Privacy concerns preventing sharing of customer data and product level details
- Threat to chargeback revenue streams if changes are made
- Conflicts of interest that exist when an organisation is both an issuer and acquirer

Participants acknowledged that double dipping scenarios exist and have been more problematic as a result of the pandemic but that the scale of the problem in relation to the ecosystem as a whole has been the principal barrier to change. ■

"Approaches to stopping double credits have been discussed previously but a compelling cost benefit analysis has not been made."

Dispute Resolution Subject Matter Expert

RECOMMENDATIONS

Our interviews, research and subsequent analysis has allowed us to identify 10 key recommendation areas that are necessary if our industry is to take a much-needed step forward. Every stakeholder has a responsibility to engage in this ongoing process and be willing to make the required changes.

If adopted, we believe the long-term benefits will be invaluable to all parties.

	RECOMMENDATIONS
Improved communications	**a)** Increased openness and transparency between all stakeholders **b)** Enhanced cardholder understanding of rights and merchant terms and conditions **c)** Closer communications between internal merchant departments **d)** Closer communications with bonding authorities, insurance companies and regulators **e)** Creation and sharing of best communication practices
Greater collaboration	**a)** Agreement for more stakeholder collaboration, rather than the current "pass the parcel" approach **b)** Establishment of a new industry multi-stakeholder customer dispute working group **c)** Development of new industry plans to tackle rise in handling disputes relating to counterfeit goods
Process improvements	**a)** Align card network dispute rules, timelines and portals **b)** Simplify, tighten and streamline dispute process, making allowance for today's environment and nuances **c)** Introduce notifications to catch refunds being raised after a chargeback has started **d)** Encourage greater use of pre-dispute solutions **e)** Ensure merchants have sufficient time to defend against a chargeback **f)** Reduce the amount of time between payment being taken and goods being supplied
Greater flexibility	**a)** Agreement for 'hardship variance' usage in emergency cases (such as the COVID-19 pandemic) **b)** Granting additional time to allow parties to investigate and resolve chargebacks and disputes in exceptional circumstances **c)** Greater leeway given in cases involving multiple intermediaries, bonding authorities and insurance companies
Stronger guidelines for paying credits	**a)** Stronger controls to force refunds back to the original card **b)** Greater visibility and tracking when a refund is made to an alternative payment instrument **c)** Increased merchant understanding of the benefits of refunding by card, rather than using alternative payment instruments **d)** Enhancements to voucher refund and credit note processes and controls
Increased data sharing	**a)** Enhanced real-time data sharing between merchants, acquirers and issuers **b)** Enabling the greater sharing of product level, transactional and customer information with payment providers **c)** Creation of a consortium approach and an industry disputes data lake to catch more double credits and reduce fraud **d)** Establishment of a double credits reason code to allow accurate reporting
More investment in customer dispute technology	**a)** More investment in technology to improve the efficiency of the chargeback process, or to outsource to a specialist third-party provider **b)** Greater adoption of scheme dispute systems by acquirers and extending access to merchants **c)** Technical enhancements to allow linking of transactions, refunds and chargebacks, and greater identification of double dipping **d)** More automation and API access, delivering improved efficiencies and cost savings
Better regulatory involvement	**a)** Greater clarity on regulatory responsibility, oversight and positions **b)** Improved communications from regulators **c)** Coordination by UK Finance of a Section 75 review and agreement of best practices **d)** Consideration of a market consultation on ATOL and ABTA **e)** Review of future T&E advance payments acceptance
Strengthening dispute investigation	**a)** Issuers to conduct enhanced due diligence on cardholder claims before starting a chargeback process **b)** Customers to confirm accuracy of claim being submitted and being made aware of consequences of falsehoods **c)** Introduce a revised form of 'Unjust Enrichment' for use in clear cases where a customer has wrongly benefitted **d)** Provide merchants with greater explanations and insightful response codes
Enhanced use of fraud prevention tools	**a)** Greater use of machine learning and artificial intelligence **b)** Inclusion of additional data sources and elimination of data silos in order to prevent fraud **c)** More emphasis on spotting habitual abuse **d)** Establishment of a collaborative dispute network and industry data pooling

CONCLUSIONS

While customers benefit from multiple dispute protection to insure their interests, these may at times be confusing. Many aspects of claims processes are highly manual and inefficient and result in loss of revenue to all parties and importantly to the occurrence of double refunds to consumers

Our research found that cases of double credits do occur, which confirms previous anecdotal evidence. There are many reasons for this, including poor merchant behaviour, overlapping timescales or where alternative payment instruments are used to make a credit.

The consensus is that double credits are generally not a consequence of intentional fraud. If trace IDs existed to allow refunds and chargebacks to be more easily linked back to the original transaction, then the number of double credits could be reduced. We also learned that customers were discovering loopholes through social media and using these to exploit the system for illicit financial gain. This included criminals offering 'Refund as a Service' forums.

The exact scale of the double credit problem cannot be reported due to a lack of an agreed reason code. The number of cases is very low when compared against the number of chargebacks, and microscopic when compared to overall card transaction volumes. However, the outsized costs associated with double refunds make them a substantial threat.

The costs of double credits are largely borne by merchants, as they should not have made a refund once a chargeback was underway. In the event of a merchant going out of business, then the acquirer picks up financial liability. Handling customer disputes is an expensive venture for all parties, with significant additional resources needing to be applied in 2020 as a result of the spike in volumes.

The case for increased data sharing was made by the majority of interviewees and, in particular, the need to expand the data flow between merchants and issuers. Consideration should be given for extending access to card scheme dispute systems to merchants. It is clear that disputes can be resolved more quickly and fairly if increased data and detail is made available.

Several barriers to change exist, which must be overcome before improvements can be implemented, including the global nature of card schemes and the multiple stakeholders that will be impacted by the suggestions in this report. UK disputes also have to be managed in accordance with national legislation. Despite these barriers, improvements can be made if the desire is sufficiently strong.

While the pandemic has exacerbated the double credit issue and allowed more focus, we should not assume that the problem will fade. This problem has been underserved for a number of years and improvements are undeniably required. Stakeholders are encouraged to come together to propose changes that will benefit all parties.

We have identified a series of recommendations, improved communication, greater collaboration, process improvements, greater flexibility, stronger guidelines, increased data sharing, more investment in technology, better regulatory involvement, strengthening dispute investigation and enhanced use of dispute and fraud tools. We hope this research can act as a catalyst for action. ■

About Chargebacks911 & Fi911

Founded in 2011, Chargebacks911 is the first global company fully dedicated to mitigating chargeback risk and eliminating chargeback fraud. As industry-leading innovators, Chargebacks911 is credited with developing the most effective strategies for helping businesses maximize revenue and reduce loss in a variety of industries and sectors within the payments space.

Established by the dispute experts at Chargebacks911®, Fi911, empowers financial institutions with innovative back-office management technologies created specifically for the banking and payments industries. By offering direct communications between FIs and their ecosystems, the company's scalable payment product suite offers features that range from fast, flexible merchant onboarding to highly transparent and feature rich client portals.

Fi911's proprietary DisputeLab™ helps make resolving chargeback disputes faster and more efficient by optimizing each step in the dispute cycle. The company's unified platform also provides threat detection, reconciliation, and risk management tools, as well as the ability to generate commissions and ISO pay-outs directly through the system.

Research Participants

We heard from over 25 organisations as part of our research including those listed below. These came from across the payments ecosystem, with representation from the two largest international card networks, as well as large- and medium-sized card issuers and merchant acquirers, an airline, hotel operators, hospitality providers, general retail and digital goods merchants, specialist technology providers and trade associations representing these industries. The majority of these companies operate in multiple geographic countries. We conducted both detailed telephone interviews and questionnaires and would like to express our thanks for their support.

Our key questions included:

- Why do double payouts happen?
- Where are they most prevalent?
- Are double credits deliberate customer fraud?
- What are some of the top reasons for double credits occurring?
- If so, what is the scale of the problem?
- How can they be prevented?
- How does customer behaviour impact double credits?
- What can be done to overcome double credits?

IO Resolution

About Payments Consultancy Ltd

Payments Consultancy Ltd, the commissioned researcher and author of this white paper, is an award-winning payments consultancy that advises retailers, hospitality providers, banks, acquirers, issuers, payment providers and investors. The company provides specialist advisory services related to:

- Strategy development
- Market assessments
- Competitive analysis
- Supplier selection
- Commercial due diligence

Payments Consultancy's primary consultant is Mark McMurtrie who has over 25 years payments experience in mobile, face-to-face, ecommerce, Omni-channel and instant bank payments. Mark is an ambassador for the EPA, industry commentator, conference chairman, popular speaker and awards judge.

Emerging Payments Association

The News Building,
3 London Bridge Street,
SE1 9SG, UK

Tel: +44 (0) 20 7378 9890

Web: emergingpayments.org

Email: info@emergingpayments.org

@EPAssoc

in Emerging Payments Association

About the EPA

The Emerging Payments Association (EPA), established in 2008, sets out to make payments work for everyone. To achieve this, it runs a comprehensive programme of activities for members with guidance from an independent Advisory Board of 15 payments CEOs.

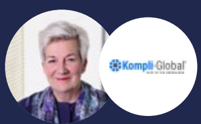
These activities include a programme of digital and (when possible) face-to-face events including an online annual conference and broadcast awards dinner, numerous briefings and webinars, CEO Round Tables, and networking and training activities. The EPA also runs six stakeholder working groups. More than 100 volunteers collaborate on the important challenges facing our industry today, such as financial inclusion, recovering from COVID-19, financial crime, regulation, access to banking and promoting the UK globally. The EPA also produces research papers and reports to shed light on the big issues of the day and works closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

The EPA has over 130 members that employ over 300,000 staff and process more than £7tn annually. Its members come from across the payments value chain including payments schemes, banks and issuers, merchant acquirers, PSPs, retailers, TPPs and more. These companies have come together to join our community, collaborate, and speak with a unified voice.

The EPA collaborates with its licensees at EPA EU and EPA Asia to create an interconnected global network of people passionate about making payments work for all.

EPA's Project Financial Crime

Mission Statement: To deliver community-driven solutions that address the problems posed by digital and financial criminal activity and position the EPA and its members as leaders in tackling financial crime.



Jane Jee
CEO
Kompli-Global

Philp Creed
Co-Founder and Director
fscom

Jonathan Jensen
Commercial Director Identity Europe
GB Group plc

Steve Pannifer
COO
Consult Hyperion

Tim Ayling
Vice President EMEA
Buguroo

Fabien Ignaccolo
CEO
Okay

Victoria Preece
Compliance Manager
allpay

Anthony Gudgeon
Fraud Manager
Contis

Rasa Striukaite
Digital Marketing & Operations
Cybertonica

Jonny Bell
Director – Customer & Third Party Risk Solutions, Data & Analytics
Refinitiv