MANAGE DISPUTES IN-HOUSE

3 STEPS TO COMPREHENSIVE DISPUTE MANAGEMENT

Chargeback

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INTRODUCTION

With card-not-present claiming a greater share of total transactions every year, and card networks making streamlined dispute resolution a priority, it's time for merchants of any kind, in any industry to take control of dispute management.

But your dispute management journey can take one of two distinct paths: managed internally or outsourced to a third-party. At first glance, the latter sounds appealing. It's one less thing that your company has to manage. But there are dangers that come with outsourcing disputes. It can put your company's security, win rate, and bottom line at risk.

Ultimately, it's the path of internal dispute management that holds the largest opportunity for most companies. The inherent knowledge your own employees hold regarding the intricacies of your business and product simply cannot be replicated by an outsourced team. But with the right approach, you can replicate the extensive dispute and chargeback knowledge offered by outsourced options.

In this how-to guide, we'll outline the three steps to creating, maintaining, and analyzing internal dispute management. At the end of each step, you'll find checklists to help you start your own in-house initiative. We've also provided 30, 60, and 90 assessments to help track your efforts.

IN THIS HOW-TO GUIDE

STEP 1:
PERFORM AN OPPORTUNITY AUDIT

STEP 2:
READY YOUR INTERNAL MANAGEMENT

STEP 3:
MAINTAIN GOOD DISPUTE "HYGIENE"

LET'S GET STARTED...

Before dismantling any of your existing dispute management procedures, it's critical to gain an **accurate representation of where you currently stand**. Whether you're currently responding to disputes or not, there is much to be gained from an in-depth analysis.

Key Questions to Answer Right Away

For companies that aren't currently responding to disputes, the current landscape audit will consist of understanding the participants in your commerce stack. What processors are your company using to facilitate payment acceptance? Your company's size and risk level typically influence how many processors are used.

On the other hand, for companies that are currently responding to disputes, there's more data to analyze. Here are key questions to consider right away:

1. "What's our current risk exposure?"

The first thing you want to know about your current dispute situation is the risk exposure created by disputes. How much revenue is tied up in disputes? How many disputes are coming in and how does that compare to the total number of transactions? Is the number of disputes coming in putting your company at risk of having MID(s) shut down?

2. "What's our win rate?"

Second, find your overall win rate. Out of the disputes that your company responds to, how many are ruled in your favor by the card networks? This number will serve as a benchmark moving forward. It will also provide an understanding, although on a very basic level, of the success your company experiences in its current response process.

3. "What's our dispute ratio?"

The dispute ratio is the number of disputes divided by the transactions. The industry-wide maximum is 1%. In other words, a dispute ratio that's greater or equal to 1% can harm your business. Are you close to 1% or are you well below? Conversely, is your dispute rate at absolute zero (aka 0%)? That can also indicate issues. Namely with overly-strong front-end fraud filters blocking legiti-

mate transactions. Could you have a false positive problem?

4. "What's our win rate by processor?"

After finding your win rate, take it a step further by finding the specific win rate experienced under each processor. Your company may have a half dozen processors and the win rate within each could vary greatly. For the processors that have higher win rates, why could this be the case? Does the response process differ? Perform the same analysis for processors with lower win rates.

Analyzing Disputes as Lagging Indicators

Beyond win rate, your company's unique dispute ecosystem provides valuable insights into operational aspects of your business. Every dispute processed is categorized under an applicable reason code.

Reason codes represent the grounds for the customer dispute while indicating the required compelling evidence to refute the dispute. Across all card networks, reason codes fall into one of four categories: Authorization, Consumer Disputes, Fraud, and Processing Errors.

Authorization: Disputes related to authorization issues. For example, transactions where authorization was required, but not obtained. Or, when authoriza-

tion was declined, but processed anyway.

Consumer Disputes: Disputes initiated by the cardholder in regards to product, service, or merchant issues. Also referred to as Cardholder Disputes, Card Member Disputes, and Service Disputes.

Fraud: Disputes related to fraudulent transactions. No cardholder authorization, EMV liability, Card Present and Card Not Present fraud are all found within the Fraud category.

Processing Errors: Also referred to as Point-of-Interaction Errors, represents disputes like duplicate processing, late presentment, credit processed as charge, and addendum/"no show" disputes.

Every merchant will have a unique breakdown of reason codes it receives. Knowing and understanding your company's breakdown allows you to identify anomalies and shifts in reason code volume by type.

This matters because these shifts directly correlate to activities carried out by your company. Reason codes and win rates serve as powerful lagging indicators pertaining to business operations.

We've outlined three potential scenarios on the following pages that might apply to your company — and what they might indicate for your business operations.

Potential Scenario 1: Winning a Small Percentage of Disputes

If your current dispute ecosystem is dominated by fraud and no authorization reason codes and your win rate is low, your company is likely experiencing true fraud disputes.

True fraud is when a fraudster uses stolen card credentials to make a purchase, then the true cardholder disputes the transaction. True fraud disputes are not winnable by merchants because the merchant is liable to prevent a fraudulent purchase from happening.

In this scenario, you'll want to check that your front-end fraud prevention solutions are really protecting your company from fraudulent transactions.

Your company should absolutely have the basics in fraud protection; like CVV and AVS. If those are already being used and true fraud rates are still high, you can consider adding more advanced safeguards. Automated transaction scoring, rules-based filters, geolocation, device ID, device fingerprinting, and 3D secure tools are just a few of the technologies to consider putting into place.

Potential Scenario 2: Winning a Large Percentage of Disputes

When you win a dispute, the customer either disputed the transaction based on either a **misunderstanding** or **malicious intentions**.

The former represents **friendly fraud**. In this case, you should work to understand where the customer misunderstanding occurred and how to prevent it from happening again in the future. For example, it may be that your merchant descriptor is the legal name of your business instead of the recognizable public name.

While the latter represents **chargeback fraud**, which is the purposeful misuse of dispute rights in an attempt to receive a refund while retaining the merchandise acquired. Customers who failed in their attempt to commit chargeback fraud against your business should be blacklisted and not allowed to purchase on your site moving forward.

To prevent both types, make contacting your customer service as easy as possible. Prominently displaying your phone number on every page of your website is necessary.

Making your merchant contact information easy to find can be the difference between a dispute and a legitimate return. Include customer service contact information in confirmation email communication, merchant descriptors, in social profiles, and anywhere else customers may look.

It is also helpful to make your return process as easy and simple as possible. Disputing a charge can be as easy as a quick phone call or a couple clicks on an issuing banks website. Make sure your

process can compete with that. Not only will it help lower disputes, it will increase positive customer experiences. Disputing a charge can be as easy as a quick phone call or a couple clicks on an issuing banks website. Make sure your process can compete with that. Not only will it help lower disputes, it will increase positive customer experiences.

Potential Scenario 3: There's a High No-Fraud Dispute Rate

If you're encountering a high rate of no fraud reason codes, the subsequent required actions on your part depend on the particular no fraud reason code you're seeing the most frequently. Product or service related reason codes have a few different subsets, each of which are important to monitor as lagging indicators.

For example, a large volume of disputes categorized under reason codes related to shipping and delivery without a doubt indicate an operational issue. Shipping and delivery could indicate internal issues regarding customer communication with tracking information or shipping delays. It could also indicate issues with a particular shipping provider. In this case, it's critical to contact the necessary parties and work to remedy the situation.

On the other hand, the non-fraud dispute you're seeing could represent the product not meeting expectations of the customer set by the merchant. In this case, you need to immediately look at your product descriptions and photography. "Product not as described" reason codes often point to inadequate, incomplete, or incorrect product descriptions on a merchant's website. Ones lacking in specifications, photos, videos, reviews, and related materials can result in disputes that could easily be prevented.

Talk to the Customers that Dispute

Customers who dispute a purchase, regardless of the outcome, can provide a wealth of information. Plus, reaching out to the customers whose dispute cases you've won can help you determine whether the motive was friendly fraud or chargeback fraud. In a few interviews, you'll start to identify big trends your business should address.

Discerning between chargeback fraud and friendly fraud becomes clear as you speak to the customer responsible. If the customer is still adamant about being the victim of fraudulent activity, or avoids contact from you altogether, it's a pretty clear indication that they were trying to carry out chargeback fraud. However, speaking to a customer who committed friendly fraud will likely result in their admitted confusion about the purchase. It could have been made by a family member, or they just forgot they had made that purchase.

☐ **Review Dispute Risk Exposure Metrics**

Revenue tied to disputes is:

Average monthly rate of disputes is:

Rate of disputes to transactions is:

Number of MID(s) at risk is:

☐ **Calculate Dispute Win Rate**

Overall Dispute Win Rate is:

☐ **Calculate Win Rate by Processor**

Processor Name:	Win Rate:
Processor Name:	Win Rate:
Processor Name:	Win Rate:

☐ **Determine Reason Code Breakdown**

The Top Five Reason Codes We See:

1.	Action Item?
2.	Action Item?
3.	Action Item?
4.	Action Item?
5.	Action Item?

☐ **Customer Interviews**

Interviews Conducted:

Determined to be Friendly Fraud:

Determined to be Chargeback Fraud:

STEP TWO: READY YOUR INTERNAL MANAGEMENT

Every internal dispute management system consists of three parts: **a team**, **aggregated data sources**, and an "**expert system**". Each of these components work together to accomplish effective internal management of disputes.

Build Your Dispute Management Team

If you don't already have a team dedicated to managing disputes, the thought of creating that team is nothing short of overwhelming. Questions including the following can arise:

- Do you need a full time employee or will part-time suffice?
- Will peak season transaction increases change the level of employee status needed?
- Can or should an existing employee assume the role of dispute analyst or manager?
- Does a new employee with special experience and/or qualification need to be hired?

The answers to these questions hinge on your unique business and dispute landscape (which you can accomplish through the processes in Step One). But in general, you'll want to let your dispute losses and volume help guide your decision-making.

- Low* dispute losses ($), low dispute volume: 1 part-time or 1 partially-dedicated full-time employee
- High** dispute losses ($), high dispute volume: 2+ full-time employees
- High** dispute losses ($), low dispute volume (#): 1 full-time employee

*Less than $3,000 per month.
** More than $10,000 per month.

If you decide to hire additional employees, check out the sample **Dispute Analyst Job Description** in the Appendix.

Educating Your New or Existing Team

Whether you're team consists of dispute beginners, experts, or both, you'll want to ensure everyone is playing from the same base level of knowledge.

Accomplishing this can be difficult and

asking each team member to read the rules and regulations from Visa, American Express, MasterCard, and Discover is more of a punishment than career progression.

Instead, opt for a [free certification course](#) that focuses on disputes and chargebacks. Even a basic course covering the fundamentals of disputes allows you to rest assured that every member of your team understands the processes and players in the dispute process.

Identify & Aggregate Your Data Sources

To create the most compelling dispute response possible, merchants need to provide the specific evidence requested by the card networks. The evidence required by the card networks varies depending on the dispute reason code and transaction modifiers.

Populating the response document with the necessary compelling evidence requires the dispute analysts to pinpoint and access many data elements; including:

- **Payment Service Providers**
- **Shopping Cart Platform**
- **Customer Service Portal**
- **CRM Software**
- **Fraud Scoring Solutions**

In fact, access to data sources is one of the most common reasons why merchants choose to manage disputes in-house. These merchants cannot provide access or credentials to these sources that contain sensitive customer or company information to third party providers. So, the only option is to restrict access to employees.

Aggregating Data Points into a Single Record

Even with access restricted only to employees, the process of mining these data sources for the necessary pieces of compelling evidence is no small feat.

Traditionally, the dispute analyst logs in to each data source one-by-one, then copies and pastes the information into the response document. This is not only highly inefficient, but leaves a big margin for simple input errors.

Alternatively, merchants can work to aggregate this disparate data into a single record. To do this, you need to take care to ensure transactional, order, and customer data pulled from various sources is linked together accurately. Accomplishing this with your own development resources can be challenging — or nearly impossible based on their bandwidth.

So instead, you can look for a dispute management software that has already created the API-driven connections that pull and aggregate the necessary information from your data sources.

Create Your "Expert System"

You're probably tired of reading this, but crafting a winning response document means following the compelling evidence requirements as outlined by the card networks. The required evidence is dependent on the card network, reason code, and any applicable transaction modifiers. We refer to this extensive knowledge base as an "**expert system**".

The expert system contains a large amount of domain-specific knowledge. Unfortunately for many companies, all of this expertise is contained in one single individual. The entirety of their companies understanding of the disputes they receive, the process they follow, and how to respond is stored in the mind of an employee.

It goes without saying that this creates a pretty big risk for your business. What happens if your knowledge base changes roles? Leaves the company? Your entire dispute management operation can have the rug pulled out at any moment.

This is why creating a knowledge base with the goal of making every person on your dispute team an expert is necessary. There are a few ways to approach creating your expert system: using Dispute Template Library, Excel Workflows, or Dispute Response Generation Software.

Option A: Create and Use a Dispute Template Library

Creating a dispute template library is the most basic way to make responding to disputes more efficient and effective. Although this method will still required quite a bit of labor, it cuts out the research required and standardizes the responses each analyst puts out. Thereby creating a normalized workflow for the analyst, allowing them to construct a routine and a fast process.

The key to this method is to diligently create a well researched template for each reason code. The card networks set the compelling evidence required for the reason codes. The only way to win a dispute is by supplying the exact information they ask for.

Also keep in mind that a real person will be reviewing the response document and deciding the outcome. So the clearer you can make the evidence and easier you can make the document to understand, the better.

How to Build a Dispute Template Library

- **Step 1.** Research the specific reason code and the evidence required
- **Step 2.** Create context around the piece of evidence to make it easily understandable by the person reviewing the document
- **Step 3.** Leave places for your analyst to fill the specific transaction and

order data for the specific dispute

- *Step 4.* Repeat for all reason codes

Dispute Template Library Pros and Cons

Pros
- No research of reason codes requirement for analysts
- Creates a uniform workflow

Cons
- Still requires quite a bit of labor from the dispute analyst
- High initial labor requirement to create
- Templates must be created with precision or the responses will not contain the correct elements to win a dispute
- Must be continually updated when the card networks update rules

Option B: Create and Use Excel Workflows

Creating an Excel workflow will be an investment of time and research, but it allows merchants to bring a bit of automation into the dispute response generation process. With Excel workflows, a system of merge fields (aka transaction, customer, and order information) entered by the dispute analyst populates placeholders on a corresponding template.

How to Create Excel Workflows

- *Step 1.* Follow the above steps on

how to make a dispute response template

- *Step 2.* Create Excel sheets where analysts can put the necessary transaction and order information
- *Step 3.* Create merge fields that put the evidence in the necessary places
- *Step 4.* Repeat for every reason code

Excel Workflows Pros and Cons

Pros
- No research of reason codes
- Basic level of automation
- Creates a uniform workflow

Cons
- Requires advanced Excel skills to set up
- Requires a document generation tool to house templates where information is populated
- Still requires quite a bit of labor from the dispute analyst
- High initial labor requirement to create
- Templates must be created with precision or the responses will not contain the correct elements to win a dispute
- Must be updated when card networks update rules

Option C: Use Dispute Response Generation Software

Investing in software that automates the dispute process allows merchants to save time and labor effort. Automatically generating response documents

allows merchants to create comprehensive responses that adhere to the network rules with minimal analyst labor.

How to Use Dispute Response Generation Software

- *Step 1:* Research and choose a provider that aggregates data points and populates response templates
- *Step 2:* Connect your data sources via integrations or API connections
- *Step 3:* Automate responses

Dispute Response Generation Software Pros and Cons

Pros
- No research of reason codes or card network rules
- Updated for you when card networks rules change
- Uniformly formatted documents
- Low amount of labor required to create the response documents
- Integrations that automatically populate responses
- Analysts don't have to login to data sources to get information

Cons
- Monthly subscription cost

☐ **Employee Resources**

Monthly Dispute Volume:	
Monthly Dispute Transaction Value:	
Required Resources	# FTEs:
	# PTEs:
# Existing Employee(s) to be Dedicated:	
# New Hire(s) Needed:	

☐ **Data Sources Containing Response Data**

Payment Processor(s):
Shopping Cart Platform:
Fraud Scoring Solution:
Customer Service Portal:
CRM:
Other:

☐ **Data Aggregation Method**

☐ Manual

☐ API

*If Manual, list employees requiring access to data sources:

Access Granted Date:
Access Granted Date:
Access Granted Date:

Now that you've analyzed your current dispute landscape and readied your internal dispute management processes, it's time to "set it and forget it", right? **No way!** Disputes aren't something your company should just respond to and never analyze.

Metrics to Track

Good dispute management is like good hygiene. It keeps your company on top of more than just credit card fraud.

The metrics gathered from dispute and the dispute resolution process are important to more than just accounting and finance. The types of reason codes you see can indicate adjustments needed from the fraud department, all the way to marketing and sales, and even product and operations.

Consistently collecting dispute metrics allows you to provide each relevant department in your organization the information they need to iterate and improve existing processes, and even create new ones where necessary.

Here are some of the most basic dispute metrics to track across your internal management ecosystem:

Dispute ratio
Dispute ratio by processor
Dispute ratio by network

Win rate
Win rate by processor
Win rate by card network

Recovered revenue

Lost revenue

Dispute volume by network
Dispute volume by BIN
Dispute volume by zip code

Reason codes seen by network

Products frequently disputed

Frequently disputing customers

Location of disputing customers

Key Performance Indicators

Each metric you track serves a purpose in providing insight to company operations. However, four metrics specifically speak to the success or shortcomings of the company's in-house chargeback management process.

These key performance indicators are:

- Dispute ratio

- Win rate

- Recovered revenue

- Lost revenue

These four KPIs should be reported and reviewed every 30 days by pertinent company employees and/or leadership.

Actual Fraud Cost

How much your company actually loses to fraud is the result of more than just the revenue lost to disputes. Your company's actual cost of fraud, when accurately estimated, is a critical yet underutilized KPI for dispute and fraud management.

To estimate your company's actual cost of fraud, you need to consider the following:

- Fraud filtering solutions and tools
- Manual review time and labor
- Dispute response employee(s)
- False positives and opportunity costs
- Churn rate and acquisition costs

Each of these elements contributes to what your company actually loses to fraud. Efficient management of the dispute resolution process should allow your company to lower its actual cost of fraud. The actual fraud cost is a critical KPI in dispute management.

☐ **Reporting Standards Created**

☐ **Analysts Trained on Reporting Best Practices**

☐ **Dispute Management Initiatives and Expectations**

☐ **Communicated to other Departments**

☐ **Baseline Measurements**

Estimated Total Cost of Fraud:

Average Monthly Dispute Ratio:

Average Monthly Win Rate:

Average Monthly Revenue Recovered:
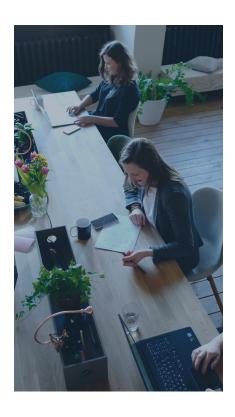
Average Monthly Revenue Lost:

A Delicate Balancing Act

Fraud will continue to be a challenge for businesses as long as you accept credit cards as a form of payment. Implementing the right type of front-end fraud solutions while continually optimizing the dispute resolution process requires skillful resource allocation.

At the end of the day, it's a delicate balancing act. You must protect your company from large-scale attacks from hackers and organized crime, while still making the purchase process as easy as possible for legitimate customers. But it's not just the front-end solutions. Continuously optimizing your company's response to disputed transactions is equally as critical in safeguarding against large-scale losses.

Creating in-house procedures to govern a process that's inherently confusing is a true challenge. That being said, it's the only approach your company has to reclaim revenue that would otherwise be lost to chargeback fraud and friendly fraud.

Find the Right Solution to Support Your In-House Initiatives

Find out how the SaaS-based, real-time dispute management from Chargeback empowers your internal team with aggregated data sources, response document auto-generation, and more to **lower your dispute rate**, **increase your win rate**, and **save time and labor**.

GET A DEMO & ROI ANALYSIS

Dispute Analyst Job Description (Sample)

Dispute Analysts play a critical role and must be highly detail oriented. Analysts must ensure dispute representment and documentation to a payment processor is complete and without error. Analysts are expected to work efficiently to meet goals and to cross train in other areas of the business to understand the full scope and impact of chargeback fraud and friendly fraud. Experience in Quality Assurance is helpful.

Responsibilities

- Research credit card disputes and build dispute cases to recover funds for merchants.
- Validate appropriate data from internal and third party systems and ensure appropriate course of action is being pursued.
- Ensure accurate and appropriate responses to disputes.
- Monitor disputed transactions for possible fraudulent activity.
- Serve customers by resolving product and service problems.

Qualifications

- High School Diploma
- Strong computer skills required
- Proficiency in MS Office and Google Docs preferred
- Experience in disputes or in the payments industry preferred
- Excellent communication skills
- Detail-oriented and results-driven
- Ability to listen to customers and resolve conflict
- Ability to analyze information, think through difficult problems, and make critical decisions based on limited information

30-Day Assessment

Revenue Recovered (Last 30 Days)	Revenue Lost (Last 30 Days)
Average Monthly Revenue Recovered	Average Monthly Revenue Lost

Overall Snapshot	Monthly Average	Day 1	Day 30
Dispute Ratio (Overall)			
Win Rate (Overall)			

Most-seen reason codes:	Most-disputed products:
1.	1.
2.	2.
3.	3.
Customers with most dispute offenses:	Regions/Cities with most dispute offenses:
1.	1.
2.	2.
3.	3.

Processors	1.	2.	3.	4.
Dispute Ratio				
Win Rate				

Networks	Visa	MasterCard	AmEx	Discover
Dispute Ratio				
Win Rate				

60-Day Assessment

Revenue Recovered (Last 60 Days)	Revenue Lost (Last 60 Days)
Average Monthly Revenue Recovered	Average Monthly Revenue Lost

Overall Snapshot	Monthly Average	Day 1	Day 30	Day 60
Dispute Ratio (Overall)				
Win Rate (Overall)				

Most-seen reason codes:	Most-disputed products:
1.	1.
2.	2.
3.	3.
Customers with most dispute offenses:	Regions/Cities with most dispute offenses:
1.	1.
2.	2.
3.	3.

Processors	1.	2.	3.	4.
Dispute Ratio				
Win Rate				

Networks	Visa	MasterCard	AmEx	Discover
Dispute Ratio				
Win Rate				

90-Day Assessment

Revenue Recovered (Last 90 Days)		Revenue Lost (Last 90 Days)	
Average Monthly Revenue Recovered		*Average Monthly Revenue Lost*	

Overall Snapshot	Monthly Average	Day 1	Day 30	Day 60	Day 90
Dispute Ratio (Overall)					
Win Rate (Overall)					

Most-seen reason codes:	Most-disputed products:
1.	1.
2.	2.
3.	3.
Customers with most dispute offenses:	*Regions/Cities with most dispute offenses:*
1.	1.
2.	2.
3.	3.

Processors	1.	2.	3.	4.
Dispute Ratio				
Win Rate				

Networks	Visa	MasterCard	AmEx	Discover
Dispute Ratio				
Win Rate				