

By

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DIRECT SELLING NEWS

DIRECT SALES on the INTERNET— MANAGING CHARGEBACKS & FRAUD

In recent years, the Internet has become an important sales tool for direct selling and network marketing organizations. While the opportunity is obvious, there are many challenges to accepting payments online of which companies and their distributors need to be aware. Unlike the traditional environment of a face-to-face transaction, on the Internet, the credit card holder is not present and there is no signed credit card receipt for the transaction. In this “card-not-present” scenario, the company or distributor is exposed to greater risks for fraud and chargebacks. A chargeback, not to be confused with a refund, occurs when a cardholder complains directly to his/her issuing bank rather than going to the merchant to get a transaction credited. If chargebacks are not kept below monthly thresholds set by Visa/MasterCard, a company’s ability to accept online credit card payments can be jeopardized and even terminated.

Tips for Reducing Online Chargebacks

There are many reasons that a cardholder would chargeback a transaction and in most cases they can be averted by following “best practices” of accepting online payments.

The first place to start minimizing chargebacks is directly on the Web site. Always set clear expectations for the customer as to what they are buying. Over inflating features

In a card-not-present environment, it is important to keep accurate and accessible sales records including:

- ❖ A signed agreement from member
- ❖ The cardholders’ account number
- ❖ The cardholders’ name, billing and ship to address
- ❖ The card’s expiration date
- ❖ Date of transaction
- ❖ Description of goods/services sold
- ❖ The authorization code obtained
- ❖ The AVS response code obtained

and benefits might be good for sales but will only lead to customer frustration, which can then trigger a chargeback based on the “goods or services not as described” reason code.

A Web site should also have clear contact information and staff available to communicate

the merchandise is shipped. If the delivery time exceeds the customer’s expectations based on an explicitly stated time frame, they may initiate a chargeback based on the reason code that “the merchant did not deliver the goods or services.” If you cannot ship within the given time frame,

Chargebacks and fraud are an everyday reality for companies doing business on the Internet.



with customers concerning any issues they may have with their purchase. If a customer is unable to reach someone at the company from which they purchased the goods, they may react with a chargeback of their transaction.

It is also important to have a clear refund policy on your Web site and that you process refunds within a timely fashion. There is a “non-receipt of credit” chargeback reason code which can be invoked by customers when a company fails to provide a refund based on their stated policies. It is also imperative to make the refund process as simple as possible for a customer to avoid chargeback arising from consumer frustration or confusion.

Another best practice for organizations is to never submit a transaction for processing before

keep your customers updated on the delays or back orders.

Direct selling and network marketing organizations should also make sure that their credit card descriptor, which appears on the purchaser’s credit card statement, contains a recognizable company name and a toll free number. If the purchase is not recognized by the customer, they may chargeback the transaction.

One of the top reasons for chargebacks is customers claiming the “transaction was unauthorized.” Since there is no imprinted or magnetically swiped transaction, it is important to maintain proper sales records and data to be able to dispute these claims. It will be up to the direct sales company to provide the data for that transaction. If the required information is not provided, the chargeback will stand in the consumer’s favor.

To properly manage “transaction not authorized” disputes, Visa/MasterCard recommends that merchants accepting online transactions keep accurate and complete transaction data on file. The most important data to record are the authorization code and AVS response code. Both of these are captured by the gateway at the time of transaction and can easily be stored. To be fully compliant, contact your merchant account provider and request complete information—they are the experts and can help companies minimize losses.

Beware of Downline Chargebacks

Network marketing organizations also have to beware of three common sources of chargebacks that originate from downline members. As

many purchases made by members also fall in the card-not-present environment, they are highly susceptible to chargebacks.

The first source of chargebacks occurs with the opportunity of bringing on a leader with a large existing downline. This might be enticing from a sales perspective, especially if there are hundreds of potential new members at stake. However, it is not uncommon that these new members have been instructed by their leader to chargeback purchases made with their previous organization. This type of behavior is often habitual and may result in company after company being subjected to enormous amounts of chargebacks. Stopping these individuals from joining your organization in the first place is the best preventative measure available.

A second possible source of downline chargebacks is members buying multiple positions to achieve a higher commission level. Often these needed multiple positions are purchased by one individual who may then chargeback the transactions at a future date. To avoid this type of chargeback, limit the amount of transactions per credit card.

The third source of downline chargebacks concerns members that use their credit cards to process enrollment fees for new members. They will often pay the organization by credit card on behalf of another individual and obtain cash from the new member. These individuals may then chargeback the transactions at a later date while keeping the other member's money. To avoid these types of chargebacks, network marketing organizations should clearly communicate a policy that prohibits this type of credit card use.

Minimizing Online Fraud and Losses

Managing online credit card fraud can also be a major challenge for direct sales and network marketing companies accepting orders via the Web. The most effective place to manage online fraud is directly through the gateway. All of the popular gateways such as CyberSource, VeriSign and Authorize.net have fraud settings that manage risk and compliance including Address Verification Service (AVS) check that validates the billing address provided with the information on record and Card Verification Value 2 (CVV2), which prompts the cardholder for the three digit number printed on the card in an effort to confirm the cardholder has a genuine card in their presence. Most gateways also offer a variety of scalable fraud settings that can be implemented based on the complexity of the business.

While these fraud detection tools can help

Negative Impact of Online Fraud

- ❖ Chargebacks
- ❖ Loss of revenue
- ❖ Loss of goods
- ❖ Increase in staff resources
- ❖ Chargeback fines
- ❖ Loss of customer goodwill
- ❖ Revenue reconciliation inefficiency
- ❖ Higher discount rates
- ❖ Bank fees
- ❖ Increases in reserves and holdbacks
- ❖ Shipping and handling expenses

reduce fraud at the time of the transactions, it is also important to maintain a certain amount of vigilance when orders are processed. A "bill to" address that differs from the "ship to" address (particularly different states or countries) may be a sign the credit card is stolen. Spikes in sales from one geographic region or country may also be a sign of organized credit card fraud. Many companies accept foreign orders without knowing that international fraud is four-times greater than domestic fraud – posing a higher risk. Careful consideration must be given as to how this risk can be mitigated, otherwise losses can accumulate quickly. It may also make sense to manually review orders that seem suspicious and in some cases, call the customer for order validation.

Another important tool being adopted by businesses that sell on the Internet is "Cardholder Authentication," a service that validates a cardholder's account ownership in real-time during the online transaction. All major credit cards offer this type of program, among others "Verified by Visa" or "MasterCard Secure Code." When the

customer provides their credit card information for the purchase, the information is processed for validation. If the card is recognized, the cardholder is prompted to enter a password. The issuer of the card then confirms the cardholder's identity and the transaction is authorized. If the information provided does not match records on file for that cardholder, the transaction is rejected, thereby helping to reduce fraud.

Chargebacks and fraud are an everyday reality for companies doing business on the Internet. In order for a direct selling and network marketing organizations to effectively maximize online sales, it is important to learn how to apply best practices, employ best technology and re-engineer order review and acceptance processes. These preventative measures will not only optimize the business but will also minimize the costs of chargebacks and fraud. 🌐

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