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Chargebacks 101: A Guide to Fraud Prevention

With the shift in consumer purchasing habits towards an increase in card-not-present spending, the industry has seen an increase in fraud-related chargebacks. The most typical form of ecommerce fraud happens when someone makes a transaction using a fraudulent payment method.

The most common form of fraud reported to Merrco by our merchants is criminal fraud, whereby a criminal makes a purchase using stolen cardholder information. Because some information from the transaction matches that of the customer in store and the transaction has been put through the system, the transaction doesn't seem suspicious at first. It only gets discovered when it shows up in the cardholder's account. In addition to the cost of the merchandise, the business is also on the hook for the chargeback to the cardholder.

This tool is designed to help guide you through what you can do to decrease your chances of fraud-related chargebacks.

Red Flags: Here's What to Look For

The Merrco team encourages you to be vigilant in keeping your eyes peeled for potentially fraudulent activities. Here are some of the red flags you should watch out for:

- Unusually high ticket purchases
- Multiple orders by the same individual/group of individuals within a short period of time
- Same card/email address/phone number shared by multiple individuals
- Inability to produce a physical copy of the card used in the transaction or physical copy of a valid ID
- Discrepancies in name between ID, credit card and/or transaction details
- Reversal of first and last names in transaction details or typos/punctuation that does not match ID or credit card
- Out-of-province ID and/or phone number
- For delivery, orders to non-residential areas or temporary lodgings (such as hotels)

Verifying Purchaser Details

When someone orders online and then comes to your store for pickup, it's important to make sure that the cardholder on the transaction matches the person in front of you. This is confirmed by:

1. Reviewing a government-issued ID
2. Verifying the credit card

Reviewing a Government-Issued ID

When you ask for ID, ensure that a physical document is provided and then make sure to:

1. **Check that the cardholder's name** is an exact match (no nicknames, typos, misplaced punctuation, reversal of first and last names) to that on the transaction details.
2. **Check the ID expiry date** to ensure the card is still valid.
3. **Check the ID photo** to verify the customer's identity.

Request alternate ID if you notice:

- Extra thickness around the photo
- Inconsistency between letters and numbers

Verifying a Credit Card

When you ask to verify the card used for the purchase, make sure to:

- **Ensure that a physical payment card** is provided
- **Check that the last four digits of the card** are an exact match to receipt
- **Check that the name** is an exact match to both ID and transaction details
- **Check that the account number** matches card brand:
  - American Express starts with 3
  - Visa starts with 4
  - Mastercard starts with 5

Request payment via POS terminal if you notice:

- Skewed numbers (these should be evenly spaced and aligned)
- Logo is incorrect, distorted or oddly positioned
- Hologram sticker on front/back is dull-looking and not shiny
- There is no CVV next to the signature box on the back of the card (or to the top right of the card number on an Amex card)
- Any mismatches between payment card details and ID/transaction details

Best Practices

It's important to know what your business can implement immediately to help prevent fraud-related chargebacks for your business. We recommend the following steps be taken as precautions for your day-to-day business practices:

1. Use your Merrco terminals to process zero-dollar chip-and-PIN verifications (for credit cards) and $0.01 chip-and-PIN transactions (for debit cards) on high-risk orders to validate the card used and to verify that the customer knows the PIN
2. Require signature upon delivery/pickup (dated and time stamped) and compare signature to that on the credit card and ID
3. Retain a copy of the customer ID or record of ID number
4. For delivery: confirm billing address verified by AVS is an exact match to the delivery address (per the Merrco back office)
5. Issue a credit and return uncollected orders to inventory within a defined period of time (we recommend 24-48 hours)

Need help?

If you're ever in doubt of a transaction, please cancel the transaction immediately and request that the customer pay via chip and PIN on your POS terminal. Please report all unusual activity to risk@merrco.com, and don't hesitate to contact us with any questions or concerns you may have.