



Understanding Cardholder Disputes and the Associated Regulations

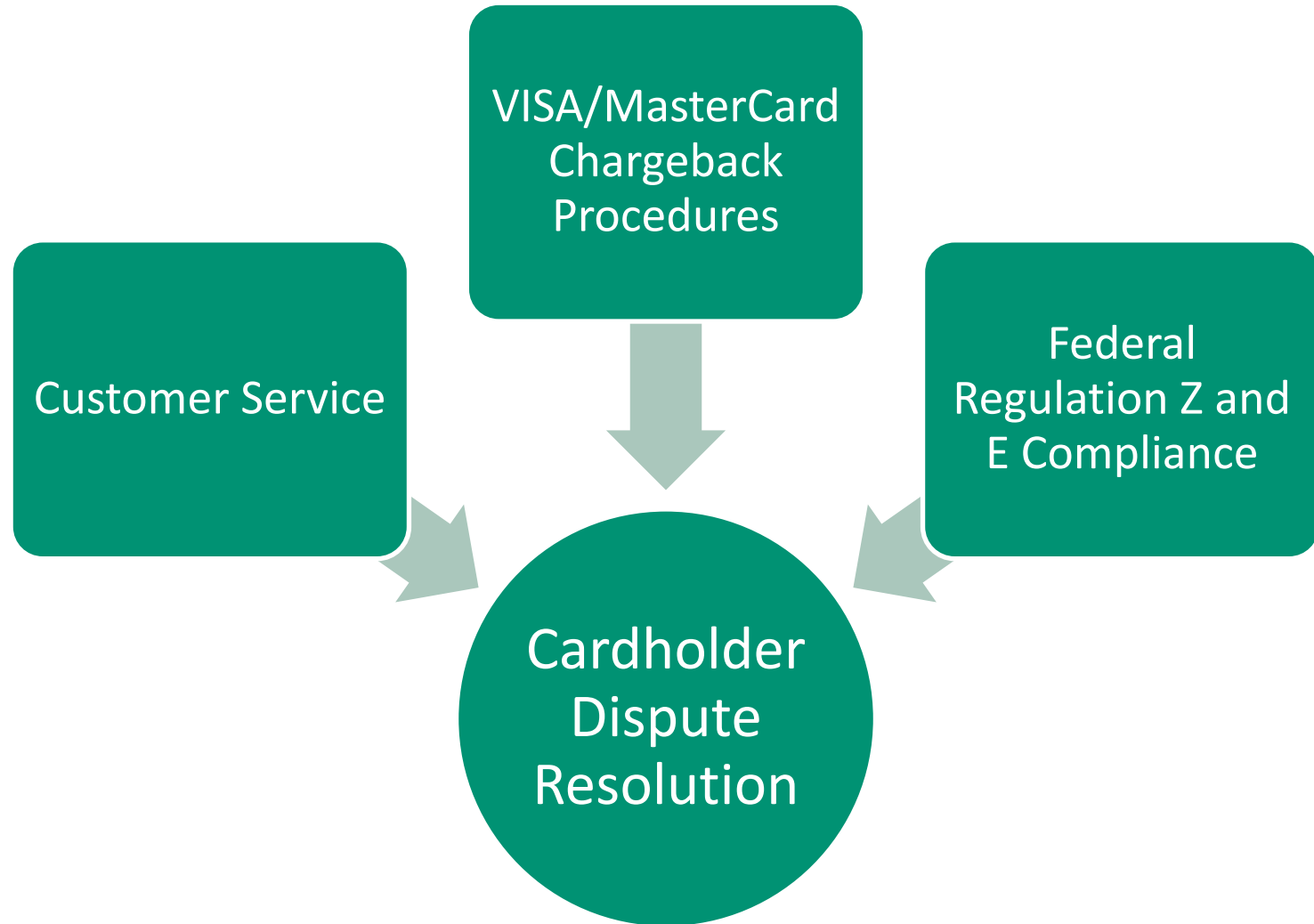
February 2015



Disclaimer

This presentation should not replace compliance guidance found in the VISA/MasterCard operating guidelines or the dispute resolution provisions found in Federal Regulation Z/E. In the event of inconsistencies or conflict in material or interpretation, the card association regulations or Federal Regulations will take precedence. In the event this presentation results in a decision to change any processes or procedures, please seek guidance and approval from your organization's compliance team.

Overview



Qualification of a Protected Billing Error under Federal Regulation Z

- **Timeframes –**

- For cardholder participation disputes, the claim must be raised within 60 days from the transmittal date of the periodic statement where the charge appears. (Ex. Transaction occurs on January 15th. Statement cycle falls on January 30th. The cardholder must raise their claim by March 31st to be protected by Regulation Z)
- For unauthorized/Fraud reports there is no time limit to raise the dispute

- **Criteria –**

- The claim must meet the following categories to be a protected billing error.
 - Unauthorized Charge
 - Request for additional documentation or clarification of and item on a periodic statement
 - Non-receipt of service or merchandise
 - Credits not processed
 - Billing for service or merchandise that was cancelled when the cardholder followed the merchant's cancellation policy
 - Unrecognized charges
 - Duplicate processing
 - Billing for incorrect amount
 - Credit posted as a debit
 - Paid by other means when the merchant states the transaction did not go through and the cardholder supplied another means of payment

Protection Under Regulation Z

- **Protection –**

- If the consumer's claim meets the criteria in the prior slide, they must not be in any way held accountable for the transaction unless the investigation concludes that no error occurred.
- VISA/MasterCard chargeback rights are to be used as a mechanism to recover funds for the consumer. These chargeback rights and their timeframes do not cover all protected billing errors. As with fraud cases, when chargeback rights do not lead to full recovery of the disputed amount, the cardholder must not be held responsible for the charge. In this situation, the transaction is treated as a loss to the Financial Institution.

Timeframes for Resolution

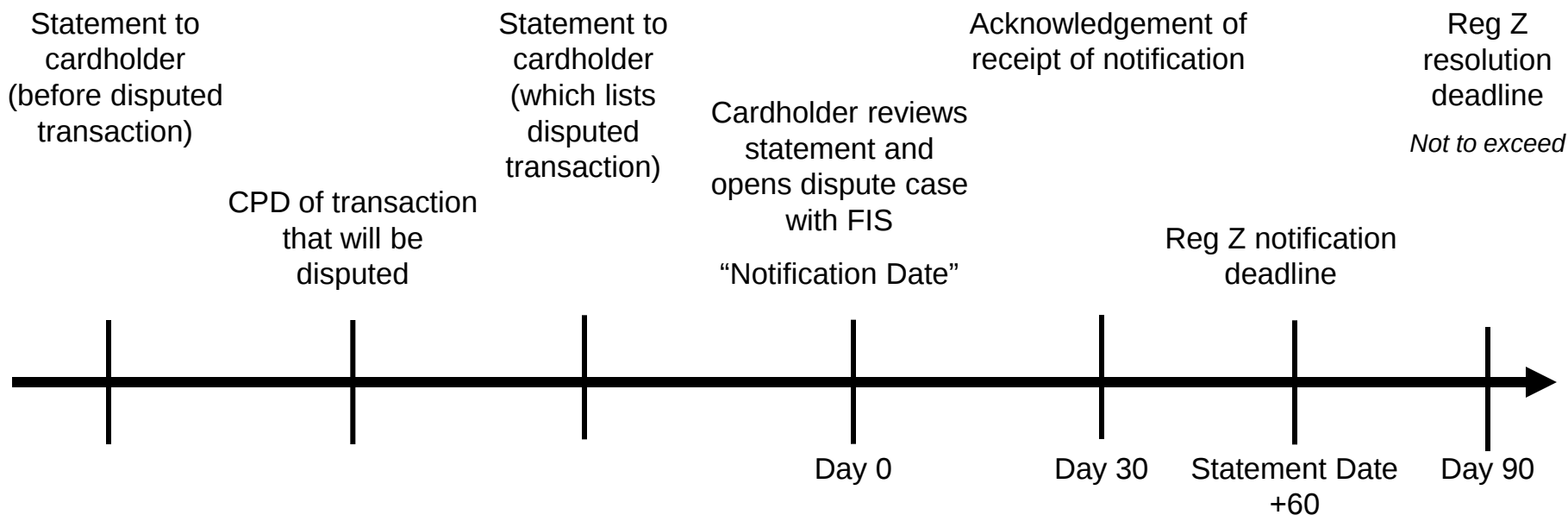
- **Two billing cycles**

- The consumer must be notified in writing of the resolution of the claim or that the claim has been disqualified as a protected billing error within two billing cycles and not to exceed 90 days from the notification date. (Ex. Cardholder notifies us of a protected billing error on February 1st, must be resolved in two billing cycles and in no event longer than May 2nd)
- VISA/MasterCard rules may extend beyond the 90 day resolution date if the first chargeback does not resolve the claim.

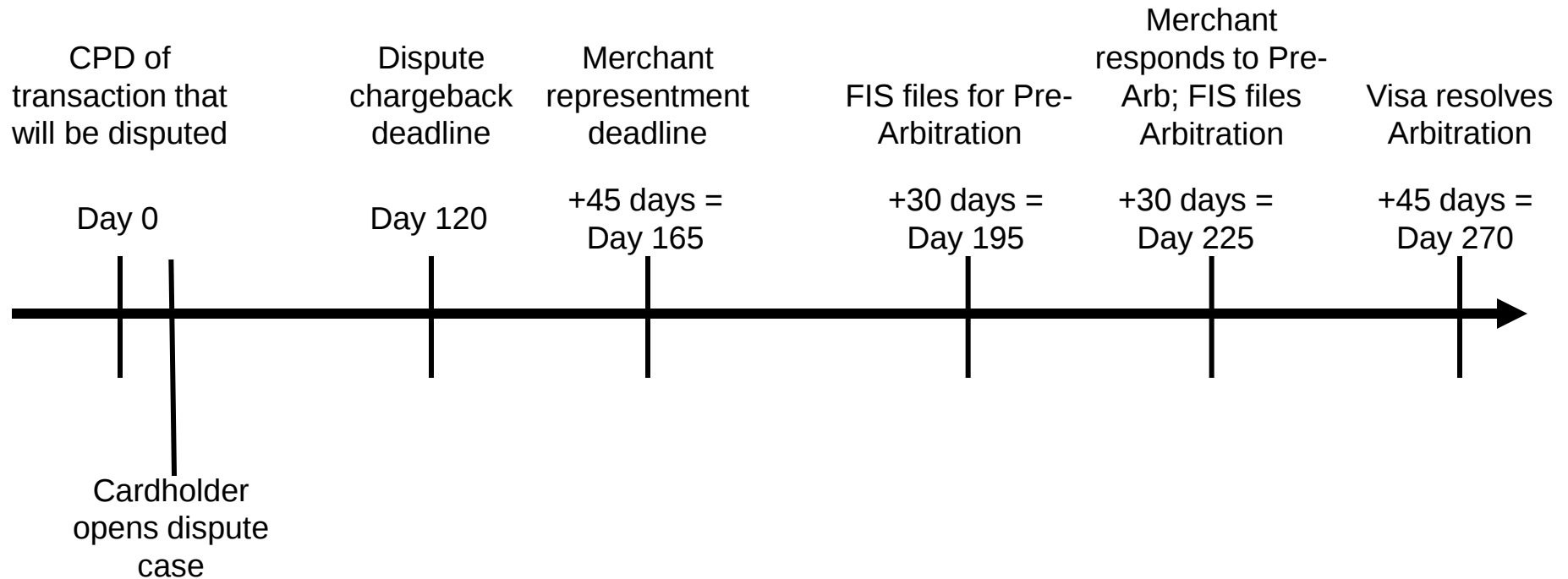
Chargeback & Reg Z Timelines - Example

	Calendar	Chargeback Timeline	Reg Z Timeline
Statement to cardholder	January 20		
Transaction that will be disputed	January 26	Day 0	
Statement to cardholder	February 20		
Cardholder reviews statement and opens dispute case with FIS	March 15		Day 0
Reg Z notification deadline	April 21		Statement Date +60
Dispute chargeback deadline	May 26	Day 120	
Reg Z resolution deadline	June 13		Day 90
Merchant representment deadline	July 11	+45 days = Day 165	
FIS files for Pre-Arbitration	August 10	+30 days = Day 195	
Merchant responds to Pre-Arbitration; FIS files Arbitration	September 10	+30 days = Day 225	
Visa resolves Arbitration	October 25	+45 days = Day 270	

Reg Z Timeframe



Chargeback Timeframe



Regulation E Overview



Qualification of a Protected Billing Error

- **Timeframes –**

- The claim must be raised within 60 days from the transmittal date of the periodic statement where the charge appears. (Ex. Transaction occurs on January 15th. Statement cycle falls on January 30th. The cardholder must raise their claim by March 31st to be protected by Regulation E)
- For unauthorized/Fraud reports there is no time limit to raise the dispute

- **Criteria –**

- The claim must meet the following categories to be a protected billing error.
 - An unauthorized electronic fund transfer.
 - An incorrect electronic fund transfer to or from the cardholder's account
 - Omission of an electronic fund transfer from a periodic statement
 - A computational or bookkeeping error made by the financial institution relating to an electronic fund transfer
 - A Cardholder's ATM receipt displays an incorrect amount dispensed from an electronic terminal
 - An electronic fund transfer not properly identified on the receipt
 - A Cardholder request for additional documentation or clarification

Protection Under Regulation E

- **Protection –**

- If the consumer's claim meets the criteria in the prior slide, they must not be in any way held accountable for the transaction unless the investigation concludes that no error occurred.
- Regulation E requires that the cardholder receive a written acknowledgement that the dispute has been received. This letter must be mailed and the dispute amount must be credited no later than 10 days after the notification date.
- VISA/MasterCard chargeback rights are to be used as a mechanism to recover funds for the consumer. These chargeback rights and their timeframes do not cover all protected billing errors. As with fraud cases, when chargeback rights do not lead to full recovery of the disputed amount, the cardholder must not be held responsible for the charge. In this situation, the transaction is treated as a loss to the Financial Institution.

Timeframes for Resolution

- **45 Days**

- For domestic ATM disputes the consumer must be notified in writing of the resolution of the claim or that the claim has been disqualified as a protected billing error within 45 days from the notification date. For Regulation E, domestic, or “state” transactions include the 50 states, all US territories, and all US embassies/military bases. (Ex. Cardholder notifies us of a protected billing error on a Domestic ATM transaction on February 1st, we must have resolution completed by March 18th)
- Visa/MasterCard rules may take us beyond the resolution date if the first chargeback does not resolve the claim.

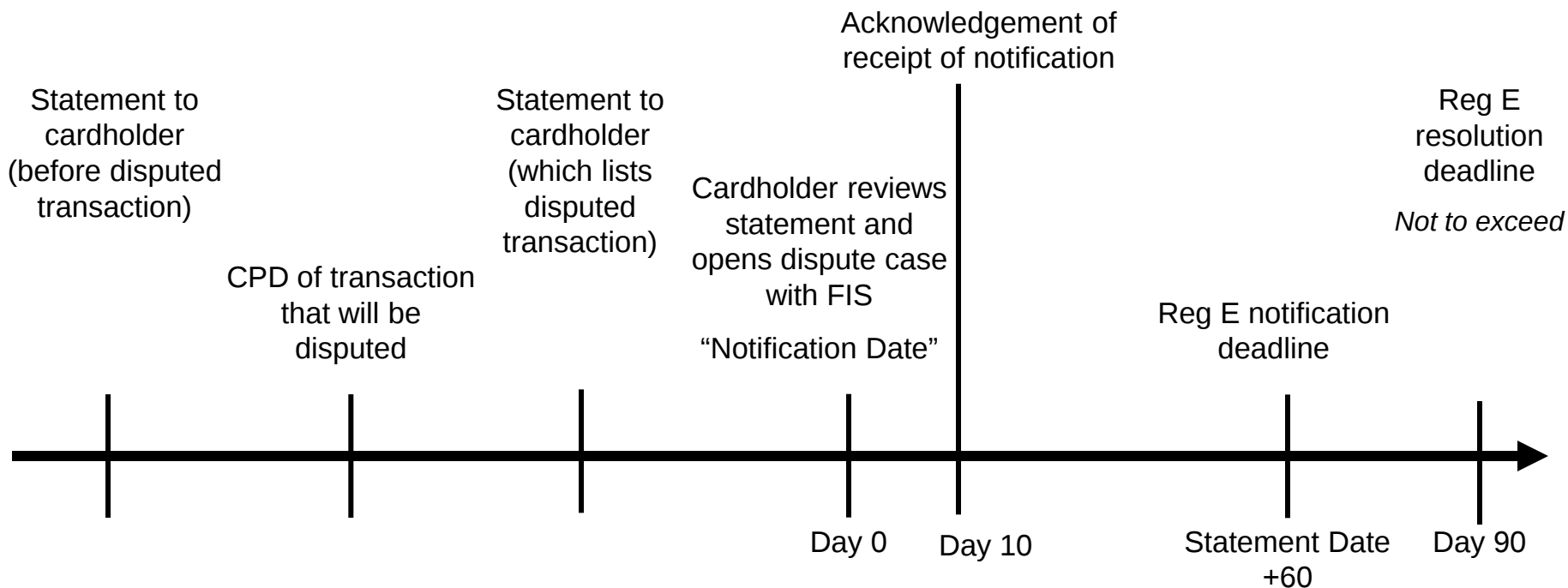
- **90 Days**

- The consumer must be notified in writing of the resolution of the claim or that the claim has been disqualified as a protected billing error within two billing cycles not to exceed 90 days from the notification date. (Ex. Cardholder notifies us of a protected billing error on February 1st, we must have resolution completed by May 2nd)
- Visa/MasterCard rules may extend beyond the resolution date if the first chargeback does not resolve the claim.

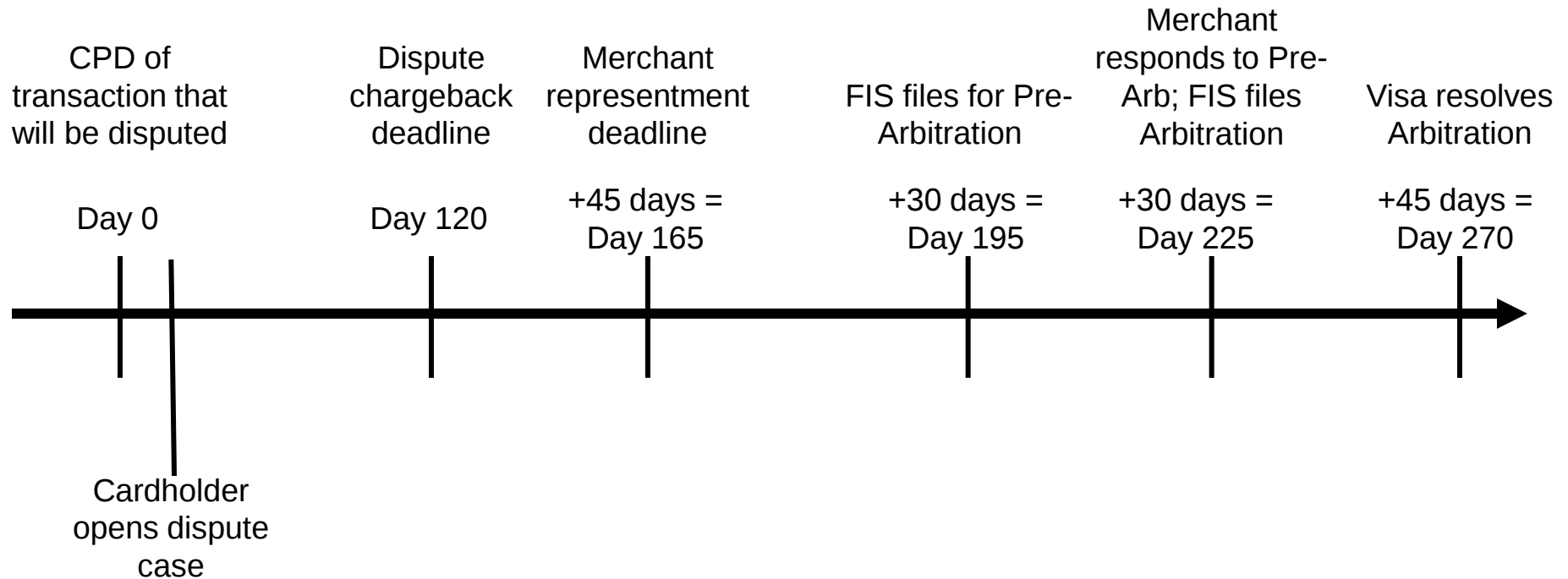
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Reg E Timeframe



Chargeback Timeframe



Card Brand Dispute Resolution



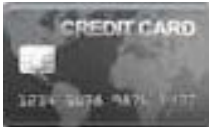
Dispute Groups

Dispute Group	Description	General Requirements (Not a comprehensive Listing)
Non Receipt of Information	This dispute group is generally used to help a cardholder recognize a transaction or gain information from the merchant.	Little is required of the issuer to support the chargeback but this group would carry a higher representment rate from the merchant.
Fraud	Used to address disputes related to counterfeit fraud, card present fraud, card absent fraud	Account must be blocked, transactions must be fraud reported, and may need supporting documentation from the cardholder.
Authorization Errors	Used to resolve disputes committed by the merchant's failure to follow the transaction authorization process	Little support or documentation is required.
Processing Error	Used to address disputes where the merchant committed an error in processing a transaction. Examples, the cardholder was billed twice, the incorrect amount, or the cardholder paid the merchant by another means.	Cardholder may be required to attempt to resolve with the merchant and/or supply supporting documentation

Dispute Groups (continued)

Dispute Group	Description	General Requirements (Not a comprehensive Listing)
Cancelled/Returned	Used to address disputes where the cardholder canceled or returned merchandise/services but the merchant will not reverse the billing	Cardholder may be required to attempt to resolve with the merchant and/or supply supporting documentation
Non-Receipt of Goods or Services	Used to address disputes where the cardholder never received the merchandise or services.	Cardholder may be required to attempt to resolve with the merchant

Putting It All Together

	Card Issuer	Cardholder	Merchant
Responsibility for Dispute			
Billing Error with No Chargeback Rights	\$		
Billing Error with Chargeback Rights			\$
No Billing Error with Chargeback Rights			\$
No Billing Error with no chargeback rights		\$	

Terminology

- **Chargeback** – a message sent via the card brand network to debit the merchant and credit the issuer for a cardholder dispute.
- **Chargeback Reason Code** – Each chargeback contains a reason code that signifies the reason for the dispute and the rules that must be followed by the issuer and the merchant in order to resolve the dispute.
- **Billing Error** – a cardholder dispute that meets the criteria for protection under Federal Regulation Z/E
- **Dispute** – A cardholder's claim that a transaction processed on their credit/debit card was not handled properly by the merchant.
- **Notification** – Notice placed to or received from a cardholder regarding a disputed transaction.
- **Final Resolution** – A requirement of Federal Regulation Z and E that requires the issuer to notify the cardholder that their dispute has been resolved and their credit is permanent.
- **Chargeback Timeframes** – The time allowed for the issuer to initiate a chargeback against the merchant. Normally this timeframe is 120 days with some exceptions.

Reference Materials

- **Federal Regulation Z dispute resolution procedures – Section 226.13**
- **Federal Regulation E dispute resolution procedures – Section 205.11**
- **VISA Operating Regulations**
- **MasterCard Operating Regulations**