

# THE 7-PART DEFINITIVE GUIDE TO **VISA'S NEW** **DISPUTE PROCESS:**

VISA CLAIMS RESOLUTION (VCR)



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In April 2018, Visa is launching a new global policy for disputed charges. This new system, which will be known as Visa Claims Resolution (or VCR), is designed to move away from the current, litigation-based process to a model based on liability assignment. Visa's intent is to simplify the overall process. There will be some significant differences between the manner in which chargeback disputes are currently handled and the new procedures.

You're certain to have questions about how this new policy is going to affect you and your business. We're here to help walk you through the coming changes and get you acclimated to the concepts behind the new system so that you can anticipate the ways in which your own procedures and revenue might be impacted. This definitive guide will explain the reasons and methods behind the new VCR process, what to expect, and how to navigate it.



# 1. Why Visa is Changing the Dispute Process

The chargeback process was conceived in the 1970s. However, it has not gone through many of the changes necessary to keep up with the ways society has evolved in the meantime. Procedures that may have been more than sufficient to handle the volume and varieties of chargeback issues that existed then are no longer flexible enough to account for the sheer number and complexity of the issues that come up in the payment processing environments of the present day.



## **CHANGES ARE COMING TO THE WAY VISA HANDLES CHARGEBACK DISPUTES.**

The number of disputes keeps going up, leading to ever-increasing costs and time required to process them. VCR was designed to update the chargeback process for the era of e-commerce, by introducing automated tools and filters to speed up dispute resolution and identify fraudulent chargeback attempts.

With invalid disputes screened out early in the process, existing data put to use whenever possible, and streamlined methods intended to proactively resolve disputes in a shorter time frame, merchants should expect to find themselves working with a more efficient and easy-to-use system that should reduce the hassle of dealing with chargeback resolutions.





## 2. Objectives of the New Dispute Process

Tired of ending up in a multi-part episode of Law & Order: Credit Card Chargebacks Unit every time there's a dispute? The new process is intended to resolve problems in a simpler and faster way, making automated decisions and screening out invalid claims ahead of time.

Rather than adhering to the older, litigation-based model of dispute resolution, where two "sides" engage in an adversarial process to prove the validity, or lack thereof, of the claim, VCR has been described by Visa as liability-based.



### **THE CURRENT SYSTEM HANDLES DISPUTES MUCH LIKE A COURTROOM TRIAL.**

The fundamental idea behind this model of dispute resolution is that VCR will automatically assign liability whenever it is able to do so, reserving only the most complicated claims for a litigation-based process that requires human oversight and intervention to be resolved fairly.

By automating the assignment of liability whenever possible, VCR should speed up the resolution for the vast majority of claims, preventing as many of them as possible from falling into the lengthy, back-and-forth litigation process.

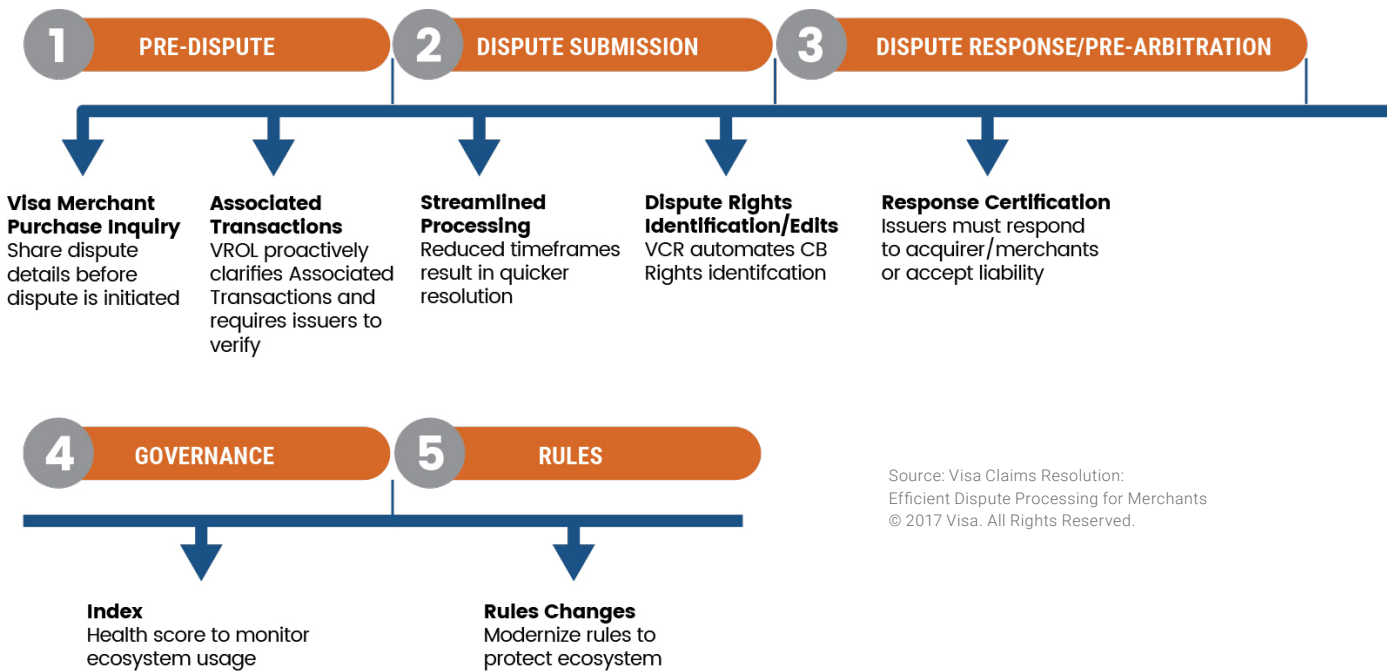


### 3. How the VCR Dispute Process Works

Visa is rolling out VCR as a new, global process for resolving chargeback disputes. There are several major changes being introduced, in order to streamline and accelerate the claim resolution process, including:

- The time allowed for a response from the merchant involved is being **shortened from 45 days to 30 days.**
- Certain types of invalid chargebacks will be automatically filtered out and rejected **before they are allowed to reach the resolution process.**
- Depending on the type, all claims will be sent through one of two **different workflow tracks.**
- The 22 existing chargeback reason codes are being consolidated into **four simplified categories.**
- Merchants will be required to present clear and compelling evidence, in order to **challenge decisions on fraud and authorization chargebacks.**





Under the new VCR system, chargeback disputes will proceed through several phases, as follows:

## 1. Pre-Dispute

- With the new Visa Merchant Purchase Inquiry (VMPI) tool, details of the dispute can be shared before the process is initiated.
- Visa Resolve Online (VROL) will proactively identify associated transactions and request that the issuers verify them. For example, if a merchant has already credited back a disputed charge, this can be flagged to invalidate the dispute, before the dispute continues any further.

## 2. Dispute Submission

- Streamlined, automated processing will result in shorter time frames, resolving disputes faster. Disputes that fail to meet certain criteria can be automatically identified and blocked as invalid.
- VCR will automate the process of chargeback dispute rights identification and editing.

## 3. Dispute Response/Pre-Arbitration

- Charge issuers are required to respond to evidence and counterclaims from the merchant or acquirer within a certain time frame or accept liability.

## 4. Governance

- All parties involved in a dispute—issuers, acquirers, merchants, and sometimes, even cardholders—are assigned a score and indexed, to allow for identification of abuses and for monitoring of the overall health of the payment processing ecosystem.

## 5. Rules

- To protect the ecosystem, rules will be updated and modernized as needed.

Under the current system, disputes typically take about 45 days to resolve, with more complicated and contentious disputes taking over 100 days. The purpose of the VCR system is to shorten these times, by automating certain aspects of the process, to increase its efficiency and reduce the amount of time the involved parties have to spend exchanging information and documents. The goal is for most disputes to be resolved within 31 days or less.

All disputes will be assigned to one of two tracks: the allocation workflow or the collaboration workflow. The purpose of the two tracks is to facilitate automated resolution. Chargebacks in the fraud and authorization categories will be assigned to the allocation workflow. If the case passes the initial automated tests for validity, liability will be assigned to the merchant by default. For chargebacks resulting from customer disputes or processing errors, the collaboration workflow will be used. This functions more like the existing system, in which information and documentation may be requested from the issuers and acquirers so that a decision can be made with human oversight.

For fraud and authorization disputes, VCR will proactively offer an automated decision, based on the Visa rules, and acquirers and merchants may, depending on the conditions, be given an opportunity to respond.

A decision might be reversed, if, for instance, the merchant has compelling evidence against the validity of the claim, if they have information that the cardholder no longer wishes to dispute the charge, or if they have already issued a credit to the cardholder. All parties will be given equal amounts of time to respond, while the dispute is in the resolution process.



### **THE VCR SYSTEM IS DESIGNED TO SPEEDILY RESOLVE CASES OF CREDIT CARD FRAUD.**

For disputes related to consumer and processing errors, the issuer will be required to fill out a dispute questionnaire, which will be used to obtain all of the required information from them, before the dispute process is initiated, allowing the system to proceed efficiently with all of the necessary details.

To address both card-present and card-absent fraud claims, VCR will implement new rules for the dispute process. There will be a limit of 35 card-absent fraud disputes that can be processed on a single account number, within a 120-day period. Additionally, if an issuer declines to close an account that has had fraud claims reported, future fraud claims against that account may not be accepted.



## 4. VMPI: An Enhanced Tool to Reduce Disputes

The VMPI is an easy-to-use plugin for Visa's global, online, dispute resolution software, VROL. It will effectively facilitate communication between the issuer and the merchant in the preliminary stages of the dispute process, allowing both parties to exchange information that may enable them to resolve the dispute before it proceeds to the arbitration phase.

Here's a rundown of how this can work: after the issuer identifies a problematic transaction within VROL, Visa can send a request to the merchant, asking the merchant to provide additional information.

The merchant can then furnish information that might potentially resolve the dispute to the issuer. For example, this might apply if a credit has already been issued, or if the transaction is valid but not recognized by the purchaser. At this point, the issuer can contact the cardholder, to let them know that the transaction is valid, or that it has already been credited back to them.

If the issuer confirms a transaction as fraudulent, the merchant can be notified via the VMPI, giving them an opportunity to suspend the account, cancel orders or stop further shipments, or contact the cardholder directly.

### HOW IT WORKS







## 5. Consolidation of Reason Codes

Under the current system, there are 22 different chargeback reason codes. In order to streamline processing and reduce complexity, those codes are being consolidated into four basic dispute categories:



### FRAUD

- EMV Liability Shift Counterfeit Fraud
- EMV Liability Shift Non-Counterfeit Fraud
- Other Fraud—Card-Present Environment
- Other Fraud—Card-Absent Environment
- Visa Fraud Monitoring Program



### AUTHORIZATION

- Card Recovery Bulletin
- Declined Authorization
- No Authorization



### PROCESSING ERRORS

- Late Presentment
- Incorrect Transaction Code
- Incorrect Currency
- Incorrect Account Number
- Incorrect Amount
- Duplicate Processing/Paid by Other Means
- Invalid Data



### CONSUMER DISPUTES

- Merchandise/Services Not Received
- Cancelled Recurring
- Not as Described or Defective Merchandise/Services
- Counterfeit Merchandise
- Misrepresentation
- Credit Not Processed
- Canceled Merchandise/Services
- Original Credit Transaction Not Accepted
- Non-Receipt of Cash or Load Transaction Value

## Moving Forward

Visa will continue to maintain detailed records of data pertaining to disputes and the reasoning behind them, and will, in many cases, be able to provide that data to merchants. However, Visa hopes to make dispute processing more efficient, by reducing the top-level categories for the reasons behind disputes.



## 6. How the New System Will Benefit Merchants

By creating a simpler, smoother process for dispute resolution, and by applying objective, automated decision-making, Visa aims to make the VCR system fair and beneficial for all parties involved.



### **STREAMLINED DISPUTE RESOLUTION SHOULD LEAD TO GREATER CONFIDENCE FROM ONLINE SHOPPERS.**

Merchants, specifically, will save time and money that might otherwise be squandered on the lengthy and contentious dispute process. Benefits to merchants will include:

- **Reduced dispute volume.** VCR actively evaluates and analyses data coming in through VisaNet, blocking invalid disputes before they can hit the resolution process, and reducing the overall load on the system.
- **Proactive dispute resolution.** Giving merchants the VMPI tool allows them to take the initiative to provide data and information that can resolve disputes before arbitration is required. By identifying associated transactions and finding remediating activity, like credits, charge reversals, and adjustments, Visa can help merchants quickly resolve issues that don't require dispute arbitration.
- **Identifying, tracking, and monitoring abuse.** By indexing the parties involved in disputes, Visa can spot abuses faster, adapt their rules and training to new situations and types of fraud, and resolve frequently-encountered issues more efficiently.
- **A better experience for consumers.** Shorter timelines and quicker resolutions provide cardholders with a positive and satisfying experience with what can often be a fraught and stressful problem.

Resolving disputes quickly and removing invalid disputes from the process will generate considerable savings for both merchants and issuers alike, as far as finances and time.

# 7. Frequently Asked Questions

## When is the new system going live?

Visa is planning a global launch of VCR on April 13, 2018. Development of the new system started in 2015. VCR was originally scheduled for launch in October 2017, but in most markets, the launch was delayed. Currently, VCR is live only in New Zealand and Hong Kong.

## Will we be required to use VCR?

All merchants, issuing banks, and acquiring banks who process Visa card transactions will be required to use the VCR system once it goes live.

## How is this going to affect VROL?

As the central means of communication between parties involved, VROL will still be an important part of the dispute resolution process. Before initiating a dispute, issuers will be required to request a transaction inquiry through VROL. VROL will also be the platform through which issuers and acquirers receive and exchange messages.

## How is VCR going to identify invalid disputes?

Chargebacks will be analyzed before they are sent through the dispute resolution process. Any case that fails to meet certain basic criteria will be blocked automatically. Two of the most common reasons a case might be blocked would be that the customer requested a chargeback after the merchant had already issued a credit, or that the customer requested the chargeback outside of the permitted time frame.

## What's the difference between a litigation-based and a liability-based system?

The current, older system is litigation-based, meaning disputes are handled in a manner similar to a trial in court. It effectively positions the cardholder as the plaintiff and the merchant as the defendant, forcing the merchant to either "plead guilty" and accept the chargeback, or fight the charges and present claims and evidence to dispute the chargeback. The issuer acts as judge and jury, making the final decision as to which side is right. If the ruling is not in the merchant's favor, they can "appeal" to Visa and have the decision reviewed through an arbitration process.

The new, liability-based system uses a rule-governed model to automatically assign liability to one of the parties involved in the dispute. Human analysts will only review those complex claims unable to be resolved automatically.

Under the liability-based system, merchants will have less of an opportunity to challenge claims based on fraud or authorization issues. "Clear and definitive" evidence and documentation may be required, in order for a merchant to have such claims decided in their favor.

## What should we do to prepare for the changes that are coming?

It's important for merchants to learn as much as possible about the new system before it goes live. Merchants should also maintain detailed and complete records, in case they are required to present evidence, to dispute a claim that might otherwise be automatically decided in the cardholder's favor. Finally, merchants need to familiarize themselves with the VROL platform, which will be a key element of navigating the VCR process.



# Make sure you're ready for the new system Visa will be rolling out in April.

Ultimately, the hope is that the new Visa Claims Resolution system will be a streamlined, impartial process for merchants, issuers, acquirers, consumers, and everyone else involved in chargebacks, all of whom should find cause to appreciate faster and more objective resolutions, no matter the outcome.

If you have more questions or concerns about the changes on the horizon, don't hesitate to contact Chargeback Gurus for knowledgeable, professional guidance in all things chargeback-related.

