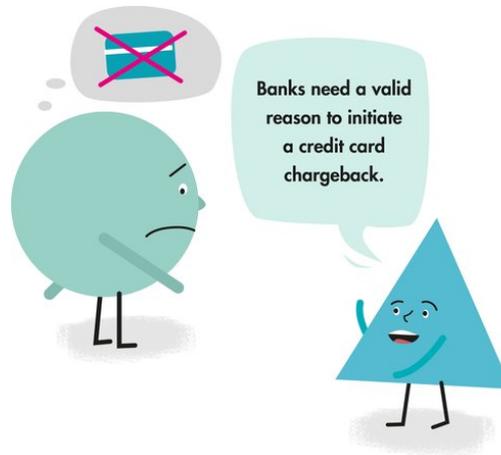


Chargebacks

Cardholders need a valid reason in seeking a refund on a disputed transaction.



If you make a payment with a credit or debit card through the Visa or MasterCard payment platform, you can ask your bank to charge the transaction back to the merchant's bank, which will then debit the merchant's account. Note: payments processed through EFTPOS cannot be charged back. You have no automatic right to demand a chargeback, but it is industry practice to charge back disputed transactions if there is a valid reason. Merchants themselves sometimes complain to us about chargebacks.

Participants in card transactions

Every credit or debit card transaction involves:

- the cardholder
- the merchant
- the card issuer – the cardholder's bank
- the card company – the business operating the payment network (for example, VISA and MasterCard)
- the merchant's bank, which gives the merchant the means of accepting credit card payments.

Payment process

When a cardholder makes a purchase, the cardholder's bank pays the merchant's bank and the merchant's bank transfers the money to the merchant. The cardholder repays the bank.

The only direct relationships are between the cardholder and the cardholder's bank, and the merchant and the merchant's bank. These relationships are governed by the respective conditions of use. There is no direct relationship between the issuing bank and merchant bank, and no contract between cardholder and card company. The card issuer, merchant's bank and card company are involved to the extent they provide technology to enable payments to be made between them.

Card-issuing banks and merchant banks link up with international card companies (usually VISA or MasterCard), which are the central link in facilitating transactions. These global networks enable the relationship between card-issuing banks and merchant banks.

Chargeback rules

A card company's chargeback rules determine whether:

- the cardholder's bank (that is, the cardholder) has to pay for the disputed transaction or
- the cardholder's bank can charge the amount back to the merchant's bank so the cardholder's bank (that is, the cardholder) isn't liable.

Chargeback process

Grounds for attempting a chargeback vary according to card company rules. A cardholder has a specified time under the credit card's conditions of use to dispute a transaction. Failing that, it is assumed the cardholder has accepted responsibility to pay.

A chargeback attempt may fail if there is not a valid reason for it, and card issuers are unable to force a merchant's bank to refund credit card payments.

If a customer makes a chargeback request on the basis that he or she has not authorised the transaction, the customer's bank will charge the transaction back to the merchant's bank. The merchant will be asked for proof of the transaction. If the merchant has information showing the cardholder authorised the transaction, and no other chargeback right exists, the transaction is processed back to the cardholder's account.

If proof of purchase isn't supplied within the required timeframe, the cardholder's bank can charge the transaction back. If the merchant's bank can't then establish that the cardholder authorised the transaction, it has to accept the chargeback and debit the merchant.

Other situations in which card company rules may allow for a chargeback include:

- The cardholder paid for, but did not receive, goods or services (such as when a gift card has been bought from a store that then closed down before the card is used).
- The cardholder received defective or incorrectly described items (the cardholder must first attempt to resolve the dispute with the merchant or return the goods).
- The merchant entered the wrong amount for the transaction.
- The merchant duplicated the transaction.
- The cardholder cancelled a recurring payment set up on the card account, but the merchant continued to

process payments.

Generally, banks and card companies have no role in disputes between cardholder and merchant about the supply or quality of goods or services.

Complaints from cardholders

We look at whether the:

- credit card company's rules about the deadline for disputing a transaction, and the consequence of failing to do so by then
- cardholder received appropriate and timely information and forms to dispute a transaction
- cardholder's bank processed the chargeback request appropriately, including using the proper chargeback reason code for each disputed transaction, and completing chargeback documents and other requirements correctly
- cardholder's bank correctly assessed the response of the merchant's bank to the chargeback.

If we find a cardholder's bank failed to carry out a transaction dispute process correctly, we may award compensation. We may also require a bank to attempt a chargeback if they have not already done so. We usually cannot uphold a complaint about an unsuccessful chargeback if we find the bank followed the chargeback process correctly.

The complaints we receive are mainly from customers disputing transactions because they believe they have been misled by the merchant about the service offered or they have discovered that the service was a scam. We recommend bank customers exercise caution before providing their credit card details online.

We occasionally get complaints about credit card payments to companies that provide services online, such as betting and binary options trading. The binary options companies are usually based overseas and provide a platform for customers to trade on whether stocks or currencies will rise or fall in value. Trading in binary options involves speculation and you either win or lose as a result of your trade. A bank may be able to chargeback a transaction in very limited circumstances, if a company refuses to allow a withdrawal of an available balance.

Complaints from merchants

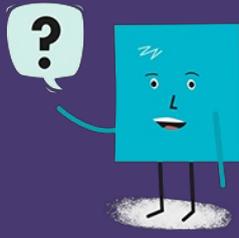
A merchant may complain that its bank was wrong to allow a chargeback, arguing the bank had no right to take money out of its account, or disputing the reason for the chargeback request.

The relationship between the merchant and merchant's bank is governed by a contract between them relating to the card-processing facility, which usually includes a merchant agreement and operating guide.

Merchant complaints often arise when the merchant has been the victim of fraud. A fraudster may have used a stolen card to buy the merchant's goods or services – usually by phone or internet. Such transactions, being unauthorised, will be charged back to the merchant. Both merchant and cardholder are innocent victims, but the merchant is liable for such transactions under its contract with the bank.

Merchants can reduce their risk of unauthorised online transactions by using security measures such as Verified

by VISA or SecureCode.



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