



Merchant's Handbook to Travel Chargebacks



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1. Introduction

Merchants in the travel industry know the pain of chargebacks all too well. According to Juniper Research¹, 46% of all fraudulent transactions target airlines and related travel businesses. Nearly every act of credit card fraud eventually ends up as a chargeback, which is why every \$1 of fraud costs businesses an average of \$3.75². While it can be tempting to write chargebacks off as an unavoidable cost of doing business, these numbers illustrate how unsustainable that approach is.

Aside from revenue loss, there is another danger to chargebacks. Card networks don't want to see reckless or unscrupulous merchants damaging consumer trust in the credit card system, so they monitor merchants' fraud and chargeback rates. Merchants with excessively high rates can be referred to mitigation programs, which cost additional fees and may place restrictions on their transaction processing activities. In most cases, a chargeback rate of just 1% per month can put a merchant at risk of getting sent to one of these programs.

The worst-case outcome, for merchants who can't get their chargeback rate back down, is that their merchant accounts may be terminated. This can make it difficult or even impossible to open a new account with a normal acquirer or processor for a period of several years.

¹ Juniper Research, 2020

² LexisNexis, 2022





What Merchants Can Do About Chargebacks

There are two ways for merchants to avoid chargebacks. You can prevent them ahead of time, or you can fight them after the fact.

Prevention is always best, but it requires you to know why certain types of chargebacks keep happening. However, some chargebacks cannot be anticipated, because they're based on false claims. These chargebacks, known as "friendly fraud," may occur because of an honest mistake or confusion on the cardholder's part, but oftentimes, the fraud is intentional. Merchants can fight these chargebacks by looking up the chargeback reason code³ and representing the charge with the exculpatory evidence specified by the reason code.



2. Chargebacks in the Travel Industry

Every retailer deals with chargebacks to some extent, and for many industries, it's a persistent and aggravating problem. Few have it harder than merchants in the travel industry, though. There are a number of reasons why this is the case.

Because of the high value and desirability of the things the travel industry sells, travel merchants attract a lot of attention from credit card fraudsters and other cybercriminals. It's also true that payments to travel companies often involve some combination of the following:

- High customer expectations
- Detailed sales contracts and payment agreements
- Charges placed against a card-on-file for damages, overstays, and incidentals
- Unexpected delays and cancellations
- Foreign currency exchanges
- Stressed-out, jet-lagged cardholders

All of which can lead to complicated, subjective dispute scenarios that can be difficult to adjudicate. However, travel merchants and the payments industry have been dealing with these issues for years, and some chargeback reason codes address specific travel-related disputes. That said, many chargebacks will show up under generic reason codes familiar to retailers everywhere:

- Fraud
- Merchandise/Services Not As Described
- Merchandise/Services Not Received
- Transaction Not Recognized

When you receive an ambiguous chargeback, the first thing to do is look up the transaction and review any documentation or correspondence associated with it. Your objective is to determine whether or not the claim is true and valid. If so, you have to accept the chargeback and resolve to prevent similar ones in the future: there's no reason to waste your time fighting a legitimate chargeback. But if it's friendly fraud, you can fight it with representment and recover your revenue.

The COVID-19 pandemic also had a major impact on chargebacks in the travel industry, as consumers and businesses alike had to navigate a massive shift in expectations around scheduling and cancellations. While the conditions that caused such disruption in the early days of the pandemic have largely been addressed, standards and expectations aren't as easy to reset.



Preventing Travel Chargebacks

Some of the most effective chargeback prevention methods are also the most universal. Before digging into the details of travel-specific reason codes, it's worth reviewing your policies and procedures to ensure that you're following the best practices for avoiding fraud and disputes.

- 1. Provide excellent customer service.** Cardholders often dispute charges with their bank because they can't get the merchant to respond to them in a satisfactory way. Be available 24/7 and work constructively with your customers to find a happy resolution when they come to you with a complaint.
- 2. Communicate your policies clearly.** Make sure your customers read and agree to your terms and conditions before you take their payment. It's especially important to be upfront about things like your refund policy, cancellation fees, add-on charges, and exchange rates.



- 3. Offer alternative payment methods.** The chargeback process is only applicable to credit card transactions. Other payment methods may have their own dispute mechanisms, but few are as harmful to merchants as credit card chargebacks.
- 4. Be transparent about your charges.** Provide customers with detailed, itemized invoices and receipts. If you're going to add on charges they might not be expecting, give them advance notice. Also, make sure the merchant descriptor that appears on their billing statement is easy to recognize and includes contact information.



Why Is it Important to Fight Chargebacks?

Fighting chargebacks through the representment process can be time-consuming, and it isn't always successful. Nevertheless, it's important and valuable to fight fraudulent chargebacks.

The obvious benefit of chargeback representment is revenue recovery. When you get hit with a chargeback, you're out the cost of goods sold, the purchase amount, and the fees tacked on by the card network and payment processor. When the facts are on your side, there's no reason to give all that hard-earned money up without a fight.



The other reason is that friendly fraudsters are often repeat offenders. When merchants don't fight chargebacks, they're seen as easy targets, and word gets around. When a fraudster sees that you're going to respond to their false claims with facts and evidence, they're likely to leave you alone.

Now let's take a look at the chargebacks unique to certain travel industry sectors.



Airline Chargebacks

Plane tickets can be expensive, and for some fraudsters, the only way to fly is on somebody else's dime. Third-party fraudsters will try to purchase airfare with stolen credit cards, and real airline customers may try to steal their tickets after the fact by engaging in friendly fraud.

Airline Chargeback Reason Codes:

Discover

- Reason Code RG, Non-Receipt of Goods, Services or Cash
 - » When this reason code includes an "Airline Transaction" modifier, you can fight it by providing proof that the cardholder used the ticket that was purchased, or that they submitted an invalid lost ticket application.

American Express

- Reason Code C08, Goods/Service Not Received or Only Partially Received
- American Express, Reason Code F29, Fraud—Card Not Present
 - » When either of these reason codes includes an "Airline Transaction" modifier, you can fight it by providing proof that the cardholder used the ticket that was purchased, proof that they earned frequent flier miles from the flight, or receipts from authorized transactions related to the initial purchase.
 - » If the dispute refers to bankruptcy proceedings, provide proof that the ticket was for an available flight.

Mastercard

- Reason Code 4837, No Cardholder Authorization
 - » When this reason code includes a “CNP Airline Transaction” modifier, you can fight it by providing a boarding pass, ticket, or flight manifest bearing the cardholder’s name; documents that establish a relationship between the cardholder and the passenger; proof that the ticket was delivered to the cardholder’s billing address; proof that they earned frequent flier miles from the flight; or receipts from authorized transactions related to the initial purchase.

Visa

- Reason Code 30, Services Not Provided or Merchandise Not Received
- Reason Code 81, Fraud—Card-Present Environment
- Reason Code 83, Fraud—Card-Absent Environment
 - » When any of these reason codes includes an “Airline Transaction” modifier, you can fight it by providing proof that the cardholder’s name is on the flight manifest and itinerary.

Proof that a cardholder used a ticket would usually consist of a flight manifest or scanned boarding pass. Some merchants have seen success with more creative forms of proof, such as photographs from social media showing the cardholder boarding the flight.

“Transactions related to the initial purchase” would include seat upgrades, baggage fees, and in-flight purchases.

Hospitality Chargebacks

Hotels, motels, and similar facilities often face chargebacks from guests who believe they've been overcharged. No-show fees, pay-per-view charges, minibar purchases, and other add-ons are a frequent source of disputes, even when the customer may have accepted liability for such charges upon check-in.

Hospitality Chargeback Reason Codes:

American Express

- Reason Code C18, "No Show" or CARDeposit Cancelled
 - » This reason code is to be used when a merchant charges a no show fee inappropriately, or submits an American Express CARDeposit charge that had previously been cancelled. To fight it, you must provide proof that the charge was in accordance with the no-show/cancellation policy that the cardholder agreed to, or that a credit has already been issued to reimburse them.



Mastercard

- Reason Code 4834, Point-of-Interaction Error
- Reason Code 4853, Cardholder Dispute
 - » When either of these reason codes includes an “Addendum/‘No Show’ Dispute” or “Timeshare Cancellation” (4853 only) modifier, you can fight it by providing proof that the charge was in accordance with the no-show/cancellation policy that the cardholder agreed to, or that a credit has already been issued to reimburse them.

Whenever possible, submit separate authorizations for add-on charges as needed. If you lump all charges into a single transaction, the entire amount may end up subject to a chargeback, even if the cardholder is only disputing a small part of it.





Auto Rental Chargebacks

It's very easy for vehicle renters to run up a lot of expenses—damage, citations, fuel, tolls. To stay solvent, auto rental companies need to be able to recoup these costs by charging the renter. Unfortunately, many renters will dispute the validity of these charges to get out of paying for them.

Auto Rental Chargeback Reason Codes:

American Express

- Reason Code M10, Vehicle Rental—Capital Damages
 - » This reason code is to be used when a renter receives a charge for vehicle damage that exceeds 110% of the amount stipulated in the rental agreement, or if the merchant made an error in calculating the total. You can fight it by providing proof that the charge was in accordance with the rental agreement the cardholder signed, or that a credit has already been issued to reimburse them.

- Reason Code M49, Vehicle Rental—Theft or Loss of Use
 - » American Express provides \$75,000 in coverage for rental vehicles that get stolen or left unusable. If the merchant charges the cardholder for costs that are covered under this policy, the cardholder can dispute them under this reason code. You can fight it by providing proof that the disputed charges are unrelated to theft or loss of use, or that a credit has already been issued to reimburse the cardholder.

Note that rental companies may also receive “no show” chargebacks as described in the section on Hospitality Chargebacks.

Transparent communication and thorough documentation can help rental companies avoid chargebacks. On your rental agreements, have customers initial beside each of the add-on charges for which they might become liable. Take photographs of vehicle damage, forward the repair invoice to the customer, and offer them alternative means to pay before charging the card you have on file. Whenever a customer incurs a new charge, notify them immediately and submit a separate authorization to process the new charge.



Travel Agency Chargebacks

While e-commerce and do-it-yourself bookings have made travel agencies scarcer on the ground than they used to be, these businesses still deal with high rates of fraud and chargebacks.

One reason for this is that, as intermediaries between the consumer and the airlines, they provide fraudsters with a way to get around the robust cybersecurity that major airlines can afford. The airline might immediately detect a stolen card, according to this logic, but the small town travel agency might not. If the fraudster can pay the travel agent to buy the tickets for him, he can bypass the anti-fraud defenses that might have caught him.

The only way for travel agencies to ensure they don't get played like this is to not be the weak security link. Fast fashion retailers and other e-commerce shops that depend on impulsive purchases can't afford to add too much friction to the purchasing process, and often get by using basic checks like AVS. Travel agencies, however, should always take the time to validate their customers' identities and ensure that they are who they claim to be before processing their payments. This additional security can be provided by an AI-driven fraud tool or by a system of simple risk scoring in combination with manual review.



Conclusion

Chargebacks affect every industry, but not equally. In fact, every merchant's chargeback problem is as unique as a fingerprint. There may be common issues and trends that affect certain merchant categories, but every merchant presents a unique set of vulnerabilities, customer base, and countless other factors that impact their exposure to fraud and chargebacks.

Depending on their approaches to things like fraud prevention and customer service, two merchants in the same industry sector can have two very different experiences with the type and volume of chargebacks they receive. The only way to understand the true shape of your



problem—and how best to deal with it—is to analyze your chargeback data and trace each dispute back to its root cause.

Travel industry merchants can recover significant amounts of revenue and bring their chargeback rates down by following time-tested prevention advice and mastering the chargeback representment process. When that isn't enough to get a ballooning chargeback problem back under control, it might be time to call in the experts. A team of experienced industry professionals like Chargeback Gurus can help you develop a personalized chargeback defense strategy that can deliver measurable results.

About Chargeback Gurus

Chargeback Gurus is a global fintech company that helps merchants prevent, fight, and reverse chargebacks. Merchants often fail to grasp the full extent of the impact chargebacks are having on their revenue and their reputation. With help from the experts at Chargeback Gurus, merchants can recover lost revenue, increase customer retention, and protect their bottom line. Chargeback Gurus can augment in-house staff or manage the entire dispute process end-to-end.

To learn more, visit www.chargebackgurus.com

☎ (866) 999-3758

✉ win@chargebackgurus.com

