What every government agency should know about chargebacks

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IntelliPay™

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Chargebacks Overview

Card payment processing for government agencies has a lot of nuances. One of those nuances is that most government agencies do not pay for their card payment processing, but rather their constituents do through service or convenince fees.

These fees are collected and paid by a payment solutions processor who processes the card payments on behalf of the government agency and assesses their constituent a service or convenience fee.

A payment solution processor will open a payment merchant account, which processes the constituent's payment and deposits the money into the government agency's bank account

The payment solution processor will also open a service or convenience fee merchant account, which deposits the service or convenience fee into the payment solutions processor's bank account.

The payment solution processor then uses the service or convenience fee to pay the card payment processing fees for both the payment and service or convenience fee merchant accounts. Because there are two card payment processing accounts, a constituent will see two separate card payments appear on their credit or bank card statement

One card payment will have a retail descriptor that looks something like Government Agency ST, and the service or convenience fee will have a retail descriptor of GovtAgencyST*Service Fee.

A key component of the two-transaction service or convenience fee is for the constituent to opt into the transaction by verbally agreeing or checking a box acknowledging they are paying the service or convenience fee to use their credit or debit card.

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Mechanics of Chargebacks

A constituent has 120 days to chargeback a card payment on their statement. After reviewing their statement, a constituent will contact their credit or debit card issuer online or over the phone to chargeback the card payment.

Because there are two card payments, a constituent can chargeback one or both card payments. As soon as the constituent files a chargeback, the card issuer issues them a provisional credit for the card payment amount.

What Happens Next - Back-end Processing

Before we jump into what happens on the back-end after the constituent files a chargeback, it is essential to understand the role of a back-end processor.

Their role is to route transactions from the issuing bank (constituents card account) to the acquiring bank (government agency's payment solution processor sponsoring bank) and ultimately deposits the funds into the government agency's bank account

Now back to our narrative, so when the constituent files a chargeback, the card payment amount is debited from the fees bank account on file with the back-end payment processor. Payment solutions processors are the ones who pay the card payment processing fees for the government agency.

Once a chargeback is filed with the card issuer, the payment technically no longer exists.

Like it Never Existed

At this point, the card payment the constituent made technically no longer exists. The government agency's books are now over, and they must back out the card payment. Their payment solution processors' books are now short because that card payment amount has come out of its bank account.

Since the government agency has already been deposited the card payment amount, the payment solutions processor will need to work with the government agency to debit the government agency's bank account so that both entities' bank accounts are whole.

Some payment processors charge a higher service fee to cover any chargeback payments

Some payment solution processors charge a higher service or convenience fee to cover the chargeback payment.

These processors pay the chargeback amount because it is easy revenue for them. In addition, government chargebacks are so infrequent the processor absorbs the cost with the revenue generated from the higher service or convenience fee**.**

Payment solution processors such as IntelliPay do not believe in charging a government agency's constituents a higher service or convenience fee for a rarely-occurring situation so that we can boost our revenue.

Two Charges an Agency Can See

Two charges a government agency might see are chargeback and retrieval fees. The government agency's backend processor debits the payment solution processor's bank account first. The payment solution processor then debits the government agency's bank account.

Government agencies can treat chargeback and retrieval fees like an NSF (non-sufficient funds) fee on a paper check and pass it along to the constituent, so the government agency is not out any money.

Retrievals are when the constituents issuing bank has to research a transaction because of a cardholders inquiry. Retrievals occur before chargebacks and sometimes can avoid chargebacks. However, there is a separate fee for a retrieval request.

After constituent charges back a card payment, a government agency will receive a chargeback notice from their back-end processor's chargeback center informing them of the chargeback and asking for supporting documentation.

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A Word about EMV

EMV is a security technology and payment processing standard developed By Europay, Mastercard, and VISA to reduce in-person credit card fraud.

EMV-compliant payment cards have a chip embedded and produce a single-use code when inserted into EMV compatible reader or POS terminal.

So, when a customer inserts or dips the payment card, the POS terminal authenticates the card with the card issuer's system, and a single-use transaction code is issued.

A wrinkle is the EMV Liability Shift, which went into effect in October 2015. The liability shift basically transferred fraud liability from the card issuer to the entity with the lessor technology with card-present (in-person) transactions. Whether that is the government agency, card issuer or the acquiring bank.

Suppose the government agency does not have an EMV card payment processing device and their constituent pays with their EMV card, which turns out to be fraud. It is the government agency who is responsible for the fraud. Now suppose the government agency does not have an EMV card payment processing device and their constituent pays with their EMV card, which turns out to be fraud. It is the government agency who is responsible for the fraud.

There are other scenarios where the acquiring bank could be responsible for the fraud.

If the goverment agency has an EMV card payment processing device and the card used during the card payment is EMV, then the card issuer is still responsible for the fraudulent card payment.

One of the many nuances to government payment processing is that government agencies have their own recourse because they can put a lien on a house, red tag a building project, or put a parking boot on a constituent's car.

Not to mention a government agency could have a constituent arrested and put in jail. So there is not much incentive for a constituent to chargeback a payment.

Whereas if that same constituent charged back a card payment from a local business, the only recourse the business has is to accept the chargeback or fight the chargeback. Merchants only win 21% of the chargebacks when they submit supporting documentation.

After the government agency submits its supporting documentation, the issuing bank will make its decision.

If the issuing bank finds in favor of the constituent like they do 79% of the time, it creates a hardship for the government agency.

It is important to emphasize that chargebacks in government payments are rare. Still, the issue a constituent causes with a chargeback is that card payment is public money used to fund the local government.

This article aims to help government agencies know what to expect when a chargeback occurs and to give them some food for thought about the chargeback process..

The benefits of accepting electronic payments giving constituents another way to pay, and speeding up revenue collection, far outweigh the rare instances of chargebacks.

Why Do ChargeBacks Happen?

Top Chargeback Categories

According to The Year in Chargebacks 2002 by Midigator, different categories are used to classify chargebacks. These categories vary slightly based on the card brand but can generally be divided into four general categories; fraud, cardholder chargebacks, authorization issues, and processing errors.

The cardholder's bank reviews each case and picks the category (or reason) that seems to be the best fit for the chargeback.

Midigator also found that for the fifth year, fraud-related chargebacks accounted for the majority of the chargebacks.

The second most common category was cardholder chargebacks. Processing errors and authorization issues combined accounted for less than 2% of chargebacks.

If a service or convenience fee is small, say $1.50, that is the card payment that is often chargebackd. Why? Fraudsters will run the card for a small amount to see if the cardholder will notice the fraudulent charge before using the card for a more significant purchase.

Other Chargeback Reasons

Here are some other reasons why a constituent might initiate a chargeback:

Descriptor

One is the billing descriptor, aka retail, statement, or merchant descriptor - the text and number series that identifies the party that received payment.

The cardholder uses the descriptor to identify to whom and why they made a payment. If the constituent's card statement's descriptor is unclear, the constituent can file a chargeback.

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Typically, the descriptor was set when the merchant account was opened, and if needed, can be changed by contacting the government agency's payment solutions provider.

Forgot

Government payment chargebacks also occur when a constituent does not remember agreeing to pay the service or convenience fee. This reason is especially valid for online payments where constituents blindly check boxes to complete the transaction.

Two Transactions

The constituent might not realize, when they read their statement, that their payment comes across in two transactions, one transaction for agency's invoice/bill amount and one transaction for the service or convenience fee. If the service or convenience fee descriptor is different than the descriptor used for the invoice/bill they paid, it only adds to their confusion.

How to Prevent Chargebacks

There is no silver bullet a payment processor or government agency can use to prevent constituents from charging back a government payment.

In-office

Government agencies can display conspicuous signage reminding constituents at the point of sale that there is a separate service or convenience fee for making card payments.

When a virtual terminal is in used, government agencies can also have their employees make sure to get a verbal acceptance from the constituent.

A government agency's payment solution processor can do their part by setting up the service or convenience fee merchant account with an accurate retail descriptor to display on the constituent's card payment statement.

Virtual and Online Terminals

Virtual terminals make it easier for staff to accept in-person (card present) constituent payments. However, since the constituent may not see the screen where the payment is recorded, staff should be trained to ask for approval.

Government agencies are not immune to chargebacks

Online payment pages should have a required check-box acknowledging the service or convenience fee.

If email receipts are given, best practice dictates that the receipt accurately itemizes all charges, including the service or convenience fee.

Summary

Service and convenience fees are a revenue-neutral form of payment processing used by government agencies because there is no processing costs to them. The government agency's payment solutions processor is the one who assess the service or convenience fee to the constituent.

Government agencies though are not immune to chargebacks, but they occur much less frequent than in the private sector.

The reasons for chargebacks differ from the private sector and usually evolve around constituents forgetting they agreed to pay the fee or not understanding the descriptors on their statements. There are common sense things agencies and their payment processor can do to reduce chargeback risk.

About IntelliPay

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