



Code Compliance Monitoring Committee

INQUIRY REPORT: CHARGEBACKS



January 2012

ABOUT THE CCMC

The Code Compliance Monitoring Committee (the CCMC) is an independent compliance monitoring body established under Clause 34 of the Code of Banking Practice.

The Code of Banking Practice 2004 (the Code) is a voluntary code of conduct which sets standards of good banking practice for subscribing banks to follow when dealing with persons who are, or who may become, an individual or small business customer of a Code subscribing bank or a guarantor.

The CCMC's vision is to promote compliance with the Code and thereby contribute to the improvement of standards of practice and service by the banks. The CCMC adopts a collaborative approach to working with banks in order to achieve compliant outcomes and continuously improve industry standards

The CCMC conducts a compliance program that reflects the objectives of the Code comprising three core activities namely: monitoring, investigating and influencing. The CCMC's influencing role includes conducting inquiries for the purposes of monitoring compliance into a particular requirement or requirements of the Code.

The CCMC is able to use a range of investigative and monitoring techniques when conducting these inquiries including:

- requests for information from subscribing banks;
- compliance visits to subscribing banks premises;
- market research activities such as mystery or shadow shopping, surveys and forums; and
- engaging external experts to provide additional assistance.

The findings of these inquiries are provided to all participating banks, so as to influence and encourage positive change in industry practices and promote industry improvements.

CCMC reports do not identify individual banks or consumers and after a period of consultation, they may be publicly available, via the CCMC website.

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WHAT WE DID

During 2011, the CCMC conducted an Inquiry into how well banks, who subscribe to the Code, met their obligations under Clause 2.2, Clause 10.5 and Clause 20 of the Code, when requested to process a 'chargeback' by a credit card holder. These clauses are attached in full in Appendix 4 of this report.

The Inquiry was conducted in two phases:

- a telephone based mystery shopping exercise, and
- a data gathering questionnaire, which requested information from the banks concerning chargeback data for the month of March 2011.

The Inquiry was restricted to Credit Cards, as Debit Cards and other payment methods are not within the scope of Clause 20 of the Code. Of the 14 subscribing banks, 10 provide credit cards and have responded to this Inquiry.

WHAT IS A CHARGEBACK?

A "chargeback" is the term given to the process by which a financial institution, at the request of a customer, can reclaim a debit on a credit card from a Merchant's bank. The financial institution, the card-operating scheme and the Merchant all enter into an agreement with operating rules that govern the credit card scheme. Under those rules, the financial institution can, in certain circumstances, claim a refund, or chargeback transaction within a specific timeframe.

There may be a number of different reasons for requesting a chargeback including:

- a transaction being duplicated (in error) by a Merchant
- a cardholder may not have been present at the point of sale causing an unauthorised transaction (possible fraud), and
- a cardholder not receiving goods purchased using their credit card.

The process of applying a chargeback is governed by the credit card scheme rules. Examples of chargeback rights that are excluded by scheme rules include circumstances where:

- the chargeback request is outside time limits (except where the ePayments Code applies) for the type of transaction, and
- the chargeback request is in respect of the quality of goods received.

WHAT WAS THE OBJECTIVE OF THE INQUIRY?

The objective of the Inquiry was to assess compliance with elements of the Code concerning chargebacks. Specifically the Inquiry sought to identify:

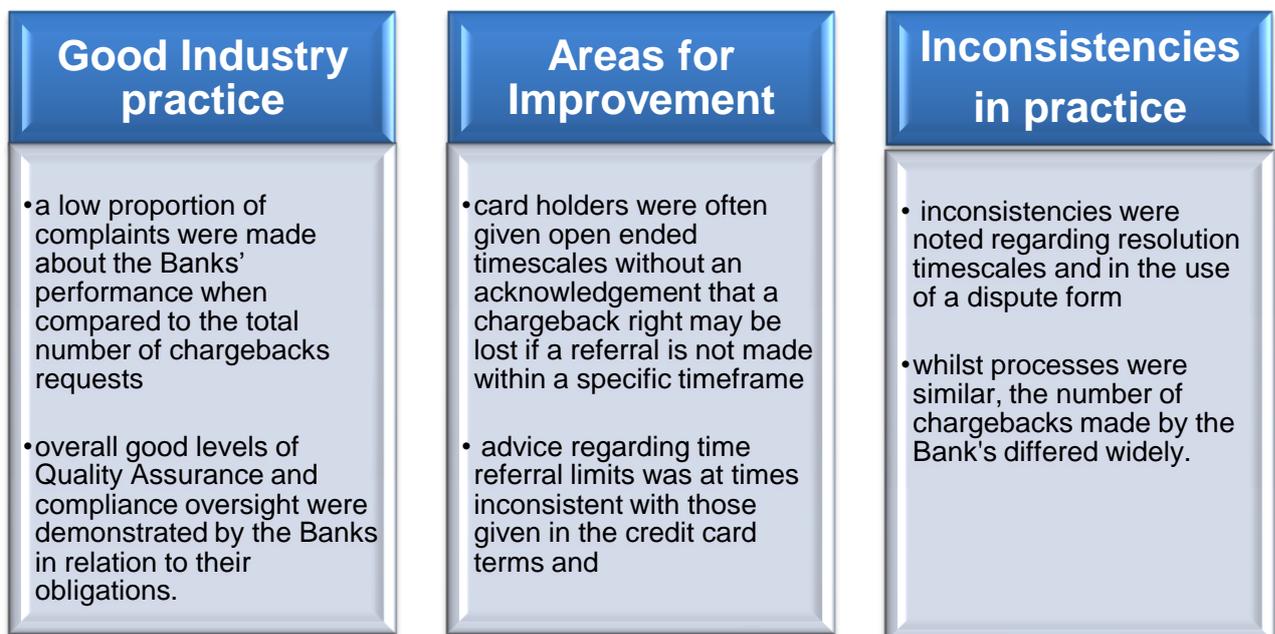
- examples of good industry practice
- current chargeback processes within banks
- whether banks were complying with obligations regarding chargebacks, in accordance with Clauses 2.2, 10.5 and 20 of the Code
- what key controls banks have in place to ensure compliance with Code obligations, and
- how often these key controls are monitored.

WHAT WE FOUND

In conducting the Inquiry we identified that the banks received in excess of 90,000 chargeback requests in March 2011, the sample month. In terms of the CCMC's other findings Figure 1 below outlines a summary of:

- good industry practice
- areas of improvement, and
- other inconsistencies noted

Figure 1: Summary of Findings

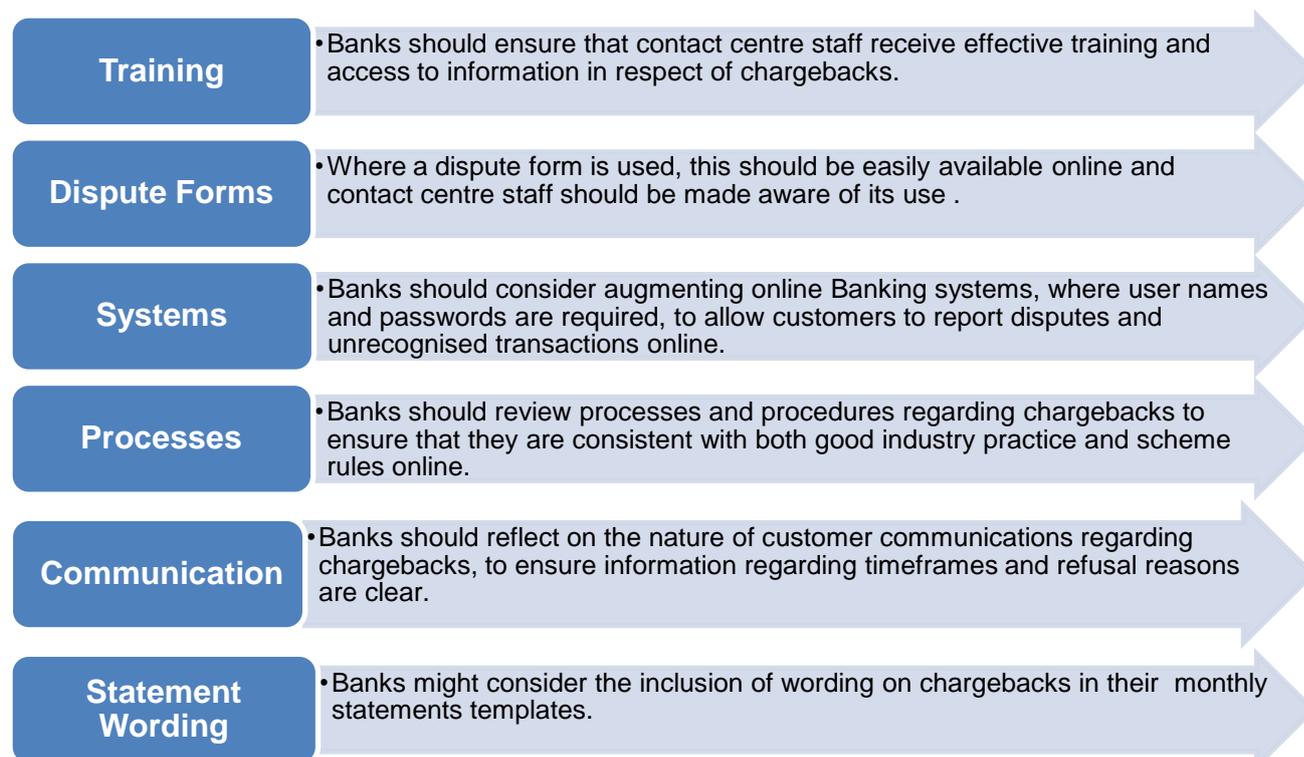


RECOMMENDATIONS

After conducting the Inquiry regarding chargebacks, the CCMC has made a series of recommendations.

A summary of these recommendations is outlined in Figure 2 below.

Figure 2: Recommendations



CONCLUSIONS

After conducting this Inquiry, the CCMC has concluded that banks operate robust systems and procedures with regard to meeting their chargeback obligations under the Code. The low proportion of complaints received in the sample month, when compared to the number of chargeback requests, suggests that these systems and controls are effective in an operational environment.

Whilst not citing the credit card scheme rules when conducting this Inquiry, the CCMC acknowledges that these rules, to which banks are contractually bound, provide a strong framework for processing chargebacks.

The CCMC is concerned, however, with the inconsistency of information provided at times by contact centre staff to customers when dealing with enquiries regarding chargebacks. Contact centres are, in many cases, the first point of contact for customers and it is essential that accurate information is provided. Chargeback obligations are straightforward and failure to provide accurate information may have a significant impact on individuals. The results of this mystery shopping exercise, and the previous exercise completed by the CCMC in respect of Direct Debits, highlight that further work is required by banks to raise the level of accuracy of the information provided to customers by contact centres in these areas.

The CCMC will carry out a follow up mystery shopping exercise in 2012 to determine whether standards have improved in contact centres. The CCMC encourages banks to carry out their own sampling and monitoring and take the necessary steps to improve compliance in this area.

The CCMC was initially concerned about the discrepancies between banks regarding the proportion of chargebacks made compared to requests. The rate of chargebacks made for March 2011 ranged from 17% to 92%. Under Clause 2.2 of the Code, banks are required to act fairly and reasonably, in a consistent and ethical manner, towards customers. The discrepancies between banks regarding chargeback rates may indicate that banks are applying scheme rules differently. Further discussions with banks, however, have indicated that the differences in rates may, in part, be attributable to differing recording criteria. In several cases, banks did not include the number of refunds made on a commercial basis which had not resulted in the chargeback process within the card scheme being implemented despite a refund being made to the customer. The CCMC recommends that banks consider reviewing their systems and procedures regarding chargebacks and refunds to ensure that they are consistent with industry practice.

During the course of gathering information in response to this Inquiry, one bank discovered that it had breached Clause 20 (d) by not providing the required information regarding chargebacks to its customers in the previous 12 months. This breach was reported to the CCMC, together with advice concerning the action taken by the Bank to rectify the breach and prevent reoccurrence. The bank subsequently confirmed that these steps had been completed.

FOLLOW UP

The CCMC discussed the findings and results of this Inquiry with the individual participating banks. These discussions included:

The results of the mystery shopping and the questionnaire phases of the Inquiry;

The relative position of the Bank with regards to complaints and proportion of chargebacks made; and

Any steps the Bank proposes to take to rectify Code compliance issues identified

In the 2012 Annual Compliance Statement, the CCMC will ask banks to detail what steps, if any, they have taken to implement recommendations and feedback received as a result of this Inquiry. This will include the steps banks have taken to address the inconsistent information provided by some contact centres to Bank customers. The CCMC encourages each bank to carry out further testing of contact centres and implement the necessary steps to improve compliance with Code obligations before that time.

The CCMC will also conduct a follow up mystery shopping exercise in late 2012 to compare subsequent levels of Code compliance against these results.

CONTACT US

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