

Dispute Resolution Management During COVID-19 (Update 2)

April 30, 2020

Mastercard is closely monitoring the impact of COVID-19 on the payment ecosystem and recognizes the challenges this may have on all participants, particularly when it comes to dispute resolution management. Over the coming months, we expect both issuers and acquirers to see a chargeback volume increase.

We strongly encourage issuers to have cardholders attempt to resolve disputes with merchants before processing a chargeback. In many cases, merchants are offering refunds, or have instituted flexible policies such as fee waivers, store credit or vouchers (collectively, 'reasonable alternatives') for future service. We support these efforts and encourage acquirers to recommend such practices to their merchants in order to reduce chargebacks. Ultimately, if an amicable resolution can be achieved between the cardholder and a merchant, this will be beneficial to the entire payment ecosystem during this unprecedented situation.

Best practices and frequently asked questions are provided in this document to guide customers through common dispute scenarios. This information is considered initial guidance and does not pre-empt the consideration or final disposition of an arbitration or compliance case. Every case is reviewed on an individual basis based on the facts and circumstances presented, and in accordance with the Mastercard Standards, including but not limited to, the *Chargeback Guide*.

As this situation is constantly evolving, we recommend monitoring Mastercard communications and announcements for any changes. If customers have specific questions on chargeback standards or arbitration that are not addressed in this document, they may contact Mastercard's Dispute Resolution Management team at:

All Regions	Dispute.Resolution@mastercard.com
Europe	Dispute.Resolution.Europe@mastercard.com

Best Practices for Dispute Handling

Mastercard encourages cardholders, merchants, issuers and acquirers to resolve disputes amicably and flexibly. These best practices are intended to serve as a guide for dispute resolution in order to minimize the impact on affected cardholders and merchants, particularly during this difficult time.

For Issuers:

- Advise cardholders to discuss and resolve disputes with merchants before filing a chargeback, as many merchants are proactively offering refunds and reasonable alternatives for future service.
- Take advantage of pre-dispute intelligence solutions designed to give cardholders more clarity on the nature of their purchase and related service terms. These solutions can be leveraged prior to both the formal dispute cycle and, in many cases, can avoid unnecessary fraud claims entirely.
- Inquire about any refunds being processed by merchants before filing chargebacks. Because of high volumes, it may take longer than usual for a merchant to process a refund. Merchants should be given at least 15 calendar days to process refunds.

For Acquirers:

- We recommend that you advise your merchants to proactively engage cardholders who will not receive services and provide cardholders with refunds or reasonable alternatives for future services in order to prevent chargebacks.
- Where possible, acquirers, should take advantage of Mastercard Collaboration pre-chargeback dispute resolution services (such as those offered by Ethoca) to enable merchants to proactively provide a refund to resolve the consumer's reason for dispute/complaint before the formal chargeback cycle.
- While merchants may consider offering reasonable alternatives for future service when the merchant has cancelled the service, such reasonable alternatives cannot be imposed on cardholders in lieu of refunds unless properly disclosed in the terms and conditions of purchase. To pre-empt chargebacks, merchants should consider processing refunds promptly after a cardholder declines a merchant offer for reasonable alternatives.
- When a cardholder is credited twice (once by the issuer as a result of a chargeback and again through a refund or reasonable alternative), the acquirer may process a second presentment which identifies the refund or reasonable alternative accepted by the cardholder.
- **(New)** Always document the merchant's rebuttal and support documentation (e.g. terms and conditions, government regulations, etc.) in the second presentment cycle.

Chargeback FAQs

Chargeback message reason code 4853 (Cardholder Dispute) governs dispute resolution for most scenarios that will arise from COVID-19-related disputes. This includes, but is not limited to:

- Goods or Services Not Provided
- Goods or Services Were Either Not as Described or Defective
- Credit Not Processed
- Failed Travel Merchant – Intra-EEA and Domestic European Transactions Only

Cardholder's Cancelling Services

- 1) Question: A cardholder declined use of available services due to concerns related to COVID-19. For example, the cardholder chose not to fly following precautionary advice or to avoid mandated quarantines upon arrival. Does an issuer have chargeback rights?**

Answer: No. The issuer does not have chargeback rights if a cardholder chose not to use services made available by a merchant, as the merchant has fulfilled its obligations linked to the transaction. This also applies to non-airline merchants, such as hotels and other venues that kept their obligations to deliver services.

Note: There may be a chargeback right if a refund is due per the terms and conditions properly disclosed to the cardholder at the time of the purchase and the refund has not been processed. For example, when the cardholder cancelled a refundable reservation in accordance with the cancellation policy. We strongly encourage issuers to have cardholders first attempt to resolve disputes with merchants before processing a chargeback however, even when not required by the Mastercard standards.

- 2) Question: A cardholder is unable to use available services because of travel restrictions on the cardholder. For example, a cardholder may not be permitted to board an operating flight due to their nationality or medical symptoms, or the cardholder cannot reach a hotel stay due to border closures. Does an issuer have chargeback rights?**

Answer: No. The issuer does not have chargeback rights if a cardholder cannot use or access services made available by a merchant, as the merchant has fulfilled its obligations linked to the transaction. This also applies to non-airline merchants, such as hotels and other venues that kept their obligations to deliver services.

Note: There may be a chargeback right if a refund is due per the terms and conditions properly disclosed to the cardholder at the time of the purchase and the refund has not been processed. For example, when the cardholder cancelled a refundable reservation in accordance with the cancellation policy. We strongly encourage issuers to have cardholders first attempt to resolve disputes with merchants before processing a chargeback however, even when not required by the Mastercard standards.

- 3) Question: A cardholder has been charged a no-show penalty because they didn't cancel a reservation as per the cancellation policy. Does an issuer have chargeback rights?**

Answer: No. The issuer does not have a chargeback right if the merchant (e.g. hotel) was open and made the service available to the cardholder, as the cardholder didn't cancel the reservation as per the cancellation policy.

Note: If the cardholder made a reasonable attempt to cancel the reservation but was unsuccessful (e.g., hotel closed or not responding to calls or emails), this may be considered sufficient for a chargeback if supported in the dispute documentation.

- 4) Question: A cardholder missed their flight (for any reason) and as a result, missed a subsequent separate non-refundable service, such as a cruise or prepaid hotel reservation. Does an issuer have a chargeback right for the subsequent missed service?**

Answer: No. The issuer would not have chargeback rights for the subsequent missed service unless the cardholder is entitled to a refund as per the merchant terms and conditions properly disclosed to the cardholder at the time of the purchase.

- 5) Question: A cardholder chose not to use a service made available by a merchant and did not have the right to a refund (e.g., cardholder did not show up for a scheduled massage, flight or other reservation, and did not cancel in advance). Although not required by the terms and conditions at the time of purchase, the merchant provided the cardholder a voucher or merchant-branded gift card for free as a gesture of goodwill. The voucher or merchant-branded gift card becomes unusable because the merchant is no longer in business. Does an issuer have chargeback rights?**

Answer: No. There is no chargeback right if the merchant provided a free voucher or merchant-branded gift card as a gesture of goodwill. Similar to Question 1 above, the cardholder does not have a chargeback right under the original transaction, since the cardholder chose not to use the services made available by the merchant. Since the cardholder did not pay for the voucher or merchant-branded gift card, there is no chargeback right if it becomes unusable.

Merchant Cancellations

- 1) **Question: The cardholder prepaid for services (e.g. flight or hotel reservation) and the cardholder was notified that the merchant will not be able to provide the services. No refund has been processed. Does an issuer have chargeback rights?**

Answer: Yes. There is a chargeback right when services are not provided, including when they are cancelled by a merchant due to government restrictions, insolvency or other exceptional circumstances, unless the merchant has a right to provide the cardholder with reasonable alternatives based on the terms and conditions properly disclosed to the cardholder at the time purchase, or based on applicable government legislation or regulation.

For example, there may not be a chargeback right, if the merchant is permitted by the government to impose (without the cardholder's consent) a voucher or other reasonable alternative on the cardholder in lieu of a refund.

In the second presentment documentation, acquirers may consider providing applicable terms and conditions properly disclosed to the cardholder at the time of purchase and/or applicable government legislation or regulation forcing reasonable alternative in lieu of refund.

Note: For Failed Travel Merchants involved in Intra-EEA or Domestic European transactions, please refer to the Chargeback Guide for chargeback rules concerning bond coverage. There is no chargeback right if the transaction is sufficiently covered by a bond.

- 2) **Question: The cardholder is notified that the date of service (e.g. concert, sports event, flight or package holiday itinerary) was changed/postponed due to COVID-19 restrictions; however, the cardholder cannot or does not want to use the service on the new date. Does an issuer have chargeback rights?**

Answer: Yes. There is a chargeback right when services are changed or postponed by the merchant and this is not accepted by the cardholder. Cardholders are not obligated to accept reasonable alternative services unless required by the terms and conditions properly disclosed to the cardholder at the time of the purchase, or applicable government legislation or regulations.

- 3) **Question: The cardholder purchased a travel package through a travel agent that included flights and other services, such as hotel accommodation or a cruise. The flights were cancelled but the other services are available for use. Does an issuer have chargeback rights for the entire transaction?**

Answer: Under these facts, the issuer would usually have chargeback rights for the entire travel package that was purchased. However, whether the issuer has chargeback rights for the entire transaction amount, or only a partial transaction amount, will depend on the travel package terms and conditions properly disclosed to the cardholder at the time of the purchase.

Note: If the cardholder created their own package and booked each item separately, then the flight cancellation would not give rise to chargeback rights on the other separately booked services. The cardholder would need to cancel the hotel, tour, cruise, etc. within the required merchant cancellation terms and conditions properly disclosed to the cardholder at the time of the booking.

4) Question (update): The merchant declines to process a refund for cancelled services citing a "Force Majeure" clause in the merchant terms and conditions properly disclosed to the cardholder at the time of purchase. Does an issuer have chargeback rights?

Answer: Mastercard will honor merchant terms and conditions properly disclosed to the cardholder at the time of the purchase. Due to the complexity of contractual disputes including the applicability of clauses like "Force Majeure" to COVID-19, Mastercard's review and ultimate determination of these disputes will be fact-specific.

Should an acquirer challenge this type of chargeback in a second presentment, we recommend that acquirers do the following:

- Provide the contract governing the terms and conditions of the purchase
- Specify the relevant section(s) of the contract under which the second presentment is being made
- Provide details on how the specific section(s) of the contract is/are applicable to the chargeback claim (i.e. if the "Force Majeure" clause is the basis of the second presentment, provide details (including dates) and documentation that support how each aspect of the clause has been met by the specific facts and circumstances at hand, and how such clause prevents or excuses merchant from providing a refund).

Note: Mastercard generally considers the terms and conditions agreed to at the time of sale as governing the transaction. If terms and conditions have changed without the cardholder's consent, this may be raised by the issuer within a chargeback's cardholder declaration or support documentation.

5) Question (new): The merchant has cancelled services and offered the cardholder a reasonable alternative for future service (e.g. voucher or delayed refund). The cardholder does not want a voucher or delayed refund but the merchant refuses to process an immediate refund citing government legislation or regulations in the merchant's country allowing them to do so. The cardholder is from a different country (based on where the card was issued). Does an issuer have chargeback rights since this is a cross-border transaction?

Answer: Yes. Mastercard will not consider a merchant rebuttal relying on government legislation or regulations for cross-border chargebacks. In such cases, acquirers will continue to be held responsible for services cancelled by their merchants, as per the Mastercard Standards. This does not remove a cardholder, merchant or other party's legal rights or responsibilities concerning compliance with applicable laws, however, is based on the scheme's right to determine transaction liability between issuers and acquirers.

Mastercard will only consider rebuttals relying on government legislation or regulations for domestic chargebacks, or in some intra-regional scenarios (e.g. within the European Union where member state or EU regulations may apply to the transaction).

A domestic transaction is defined as a transaction that occurs at a card acceptance location (e.g. merchant country) in the same country as the country in which the card was issued. In cases of cross-border acquiring, the acquirer's country is not usually a relevant factor.

Note: Issuers should be aware that duplicate first chargebacks submitted at a later date and against the same transaction are not permitted. As such, it is recommended that cardholders first try to resolve disputes with merchants directly before chargeback processing. This will enable issuers to prompt for such information beforehand and investigate the applicability of government legislation or regulations prior to chargeback submission.

- 6) **Question (new): The cardholder received a flight to their destination, but the return flight was cancelled. A repatriation flight was organized by the government and utilized by the cardholder. Is there a partial chargeback for the flight segment not provided by the merchant?**

Answer: No. In most cases, Mastercard considers a repatriation flight the equivalent of the same service paid for as long as this was not billed for separately.

If the cardholder opted not to use the repatriation flight, then a partial chargeback may be considered for the flight segment not provided. A cardholder is not obliged to accept an alternative service that differs from what was paid for.

In instances where extra services (e.g. seat assignments, class upgrades, etc.) were paid for but not honored on the repatriation flight, then a partial chargeback addressing these separate services may be considered.

Reasonable Alternatives for Services Cancelled by Merchants

- 1) **Question: The merchant has cancelled services and offered the cardholder a reasonable alternative for future service. Does Mastercard prohibit this?**

Answer: No. We are supportive of these efforts and encourage acquirers to recommend such practices to their merchants. Ultimately, if an amicable resolution can be reached between the cardholder and the merchant, this will be beneficial to the entire payment ecosystem during this difficult situation.

- 2) **Question: The merchant has cancelled services and offered the cardholder a reasonable alternative for future service. The cardholder declines this reasonable alternative but the merchant refuses to process a refund. Does an issuer have chargeback rights?**

Answer: Yes. Reasonable alternatives for future services cannot be imposed on the cardholder in lieu of a refund, unless the merchant has a right to provide the cardholder with such reasonable alternatives based on the terms and conditions properly disclosed to the cardholder at the of the purchase, or based on applicable government legislation or regulations that should be provided by acquirer in the dispute documentation.

- 3) **Question: The merchant has cancelled services and offered the cardholder a reasonable alternative for future service. The cardholder does not want this reasonable alternative but the merchant refuses to process a refund citing legislation or government regulation. Does an issuer have chargeback rights?**

Answer: Mastercard will review and factor in relevant and applicable legislation or government regulation aimed at addressing COVID-19 disputes. For example, the cardholder may need to accept a voucher in lieu of a refund if a government issues legislation or regulation that requires a merchant to provide a voucher in lieu of a refund.

In the second presentment documentation, acquirers may consider providing applicable terms and conditions properly disclosed to the cardholder at the time of purchase and/or applicable government legislation or regulation forcing reasonable alternative in lieu of refund.

Note: There may be cases where there are conflicting government legislations or regulations, particularly for cross-border transactions or within the European Union where member states may have taken positions contravening EU legislation.

Due to the complexity and uniqueness of the COVID-19 situation, we cannot pre-confirm the applicability of government legislation or regulation to individual scenarios prior to arbitration case filing.

- 4) Question: The merchant has cancelled services. The cardholder has a right to a full refund but has accepted a reasonable alternative for future service from the merchant. Does an issuer have chargeback rights if the merchant later becomes insolvent and the reasonable alternative cannot be used?**

Answer: Yes. By accepting the reasonable alternative for future service, the cardholder and merchant have agreed to new terms and conditions for the same purchase transaction, which is still considered a Mastercard transaction. In the case of a reasonable alternative (e.g. voucher or merchant-branded gift card) being provided after a merchant cancelled services, Mastercard allows issuers to submit chargebacks if the reasonable alternative is not useable as described, due to merchant becoming insolvent or the service not being otherwise available.

A chargeback may be considered within 120 calendar days of the voucher or merchant-branded gift card's expiration date, or if undated then 540 calendar days from the central site processing date of the original transaction.

Note: Contrast this scenario to the goodwill gesture scenario (with no chargeback right) where the cardholder cancelled, the cardholder had no right to a refund, and the voucher or merchant gift card was provided as a gift or gesture of goodwill.

- 5) Question: The merchant has cancelled services and the cardholder accepted a reasonable alternative for future service from the merchant, such as a voucher or merchant-branded gift card. Is there a chargeback right if the cardholder later changes their mind, asks for a refund and is denied a refund by the merchant?**

Answer: No. There is no chargeback right if the merchant and cardholder had reached an amicable solution where the cardholder accepted the reasonable alternative and the reasonable alternative is usable as described, even if the original reservation was refundable.

Note: There may be a chargeback right if the reasonable alternative cannot be used as described (e.g. the merchant is no longer in business or the voucher's terms and conditions state it is refundable).

In the second presentment documentation, acquirers may consider providing evidence that the cardholder accepted a reasonable alternative. Evidence of cardholder acceptance may include, but is not limited to, completed web forms or application logs showing the reasonable alternative was freely accepted by the cardholder.

- 6) Question: The merchant has provided a reasonable alternative for future service, such as a voucher or merchant-branded gift card. If unused, the reasonable alternative is redeemable for a monetary refund after a defined period as per the terms and conditions, or applicable government legislation or regulation. Is there a chargeback right if the refund is not processed after the defined period?**

Answer: Yes. If the defined period is exhausted, and the cardholder has not used or redeemed the reasonable alternative, then a chargeback may be considered within 120 calendar days of the voucher's expiration date or government-imposed time frame, or if

undated then 540 calendar days from the central site processing date of the original transaction.

We strongly encourage issuers to have cardholders first attempt to resolve disputes with merchants before processing a chargeback, even when not required by the Mastercard standards.

Note: For Failed Travel Merchants involved in Intra-EEA or Domestic European transactions, please refer to the Chargeback Guide for chargeback rules concerning bond coverage. There is no chargeback right if the transaction is sufficiently covered by a bonding authority or similar scheme according to local law.

- 7) Question (new): The issuer has submitted a chargeback for services cancelled by the merchant. In the second presentment, the acquirer has provided a merchant rebuttal referencing a government regulation permitting the merchant to impose (without the cardholder's consent) a voucher on the cardholder in lieu of a refund. The cardholder states they were never offered a voucher, or other reasonable alternative. Does an issuer have arbitration chargeback rights?**

Answer: Yes. A merchant rebuttal should not only demonstrate that a cardholder is required to accept a voucher in lieu of a refund, but also that the merchant made such a voucher available to the cardholder.

Acquirers should include and reference the government regulation and address how the regulation is applicable and how the requirements of the regulation have been met, such as whether a voucher or other reasonable alternative was offered to the cardholder (including details and evidence satisfying when and how). By including a detailed rebuttal, there will be more information available to resolve the dispute.

Other General Questions

- 1) **Question: The cardholder has incurred out of pocket expenses after the merchant cancelled services. Does the issuer have chargeback rights for the out of pocket expenses?**

Answer: No. As always, out of pocket expenses or other financial damages resulting from cancelled services cannot be included in a chargeback. Only the transaction amount can be charged back if there is a valid chargeback right.

- 2) **Question: The cardholder has ordered goods to be delivered but they have not arrived by the scheduled or mutually acceptable extended delivery date. For example, the merchant has shipped the goods but due to quarantines or travel delays the package has not arrived. Does the issuer have chargeback rights?**

Answer: Yes. As always, the merchant is responsible for ensuring the goods reach the cardholder by the latest expected delivery date. If the goods are expected to arrive late, issuers are encouraged to ask the cardholder for patience and flexibility to avoid the need for a chargeback.

- 3) **Question: Has Mastercard modified the limit of 15 fraud chargebacks per card under the Fraud Notification Service limits?**

Answer: No. There has been no change to the Fraud Notification Service limits.

- 4) **Question (updated): The cardholder's flight has been cancelled and the transaction was billed by an online travel agent (OTA). The OTA tells the cardholder that they are only responsible for making the reservation and not providing the flight. Does an issuer have chargeback rights?**

Answer: Yes. In these circumstances, Mastercard would view the OTA as the merchant of record, and an agent of the travel supplier, regardless of the terms and conditions disclosed to the cardholder. Under Mastercard Standards, the OTA, by accepting payment for the service purchased by the cardholder (e.g. flight) and not just for handling the reservation, assumes responsibility for chargebacks if the service is not provided. The OTA should work closely with its travel partners or travel suppliers to avoid a cardholder getting reimbursed twice for the same transaction. If the acquirer can document that the OTA and/or travel supplier made a voucher available to the cardholder and it was accepted, then they may have grounds for a valid second presentment.

- 5) **Question: Are there unique chargeback reason codes or rules for B2B virtual card transactions?**

Answer: No. While B2B transaction disputes may sometimes be more complex due to contractual arrangements between the cardholder and merchant, Mastercard arbitrates these disputes in accordance with the same standards found in the *Chargeback Guide*.

6) Question: Has Mastercard modified any of its performance monitoring programs in light of COVID-19's impact on chargeback volumes?

Answer: Mastercard has announced temporary changes to the Excessive Fraud Merchant and Excessive Chargeback Merchant programs. The intent of these changes is to support acquirers and merchants during these challenging times, but also to remain vigilant in helping to protect cardholders against scams, fraud and other deceptive activities.

Excessive Fraud Merchant

Effective April 1, 2020, assessments will be suspended for 6 months. During this period, Mastercard will continue to identify merchants with excessive fraud in the ecommerce space, and request that acquirers use this information to work with their merchants to manage the excessive fraud. Beginning in November 2020, for violations occurring in October 2020, Mastercard will commence assessments on acquirers for merchants identified in this program.

Excessive Chargeback Merchant

Effective April 1, 2020, and for 4 months, Mastercard will suspend Excessive Chargeback Merchant identifications for airlines, cruise lines, passenger railways and travel agents, since most merchants in these categories have been directly impacted by travel restrictions globally. Mastercard requests that acquirers continue to monitor other delayed-delivery merchants, such as event ticketing companies, gyms, car rental companies, hotels, etc., that might have been impacted by COVID-19 related events.

Acquirers still have the option to request an extension for compliance with our Standards, during which time assessments will not be applied. Where applicable, the acquirer must clearly explain why/how the relevant merchant or group of merchants have been impacted by any COVID-19-related events. We will work with acquirers to exercise discretion and flexibility. If you have questions on these performance monitoring programs, please contact acmp@mastercard.com.

7) Question (new): How should issuers and acquirers reference government legislation or regulations within the dispute cycles?

Answer: Acquirers are required to provide a merchant explanation and support documentation in response to each valid chargeback, as per the Mastercard Standards. Legal text may be considered support documentation, but by itself is not a merchant explanation. Moreover, support documentation citing legal text must be presented in accordance with the normal dispute requirements. For example, if an acquirer wishes to challenge a chargeback based on regulation then this should be documented in the second presentment as support documentation and not in a later dispute cycle. This is to ensure that all parties have adequate opportunity to review and respond if necessary.

It is recommended that customers avoid exclusive reliance on legal text and remember to focus on clear and concise cardholder/merchant explanations. While government legislation or regulations may be considered as described within this document, any determination Mastercard makes on a chargeback dispute is in accordance with Mastercard's interpretation of the Mastercard Standards and is not a determination of any party's liability under applicable law.

- 8) **Question (new):** Per Mastercard rules, some chargebacks require corroborating documentation from an expert or professional to support disputes about the level of quality or misrepresentation of goods or services. Would an issuer still have arbitration chargeback rights if the cardholder is unable to get corroborating documentation from an expert or professional?

Answer: No. While corroborating documentation is not required in the first chargeback under the "Goods or Services Were Either Not as Described or Defective" scenario, it may be required in the arbitration chargeback. Mastercard has not changed this requirement at this time. Issuers are encouraged to ask cardholders to be flexible and explore whether it's possible to obtain corroborating documentation remotely using video chat, email or other methods that maintain social distancing when appropriate.

- 9) **Question (new):** How can issuers gain insight into the latest merchant refund/cancellation policies?

Answer: At the end of March, in response to issuer and merchant requests for support, Mastercard/Ethoca developed a new resource to help customers cope with some of the impacts caused by COVID-19. Information is available here: www.ethoca.com/covid

This site consolidates merchant-provided information regarding COVID-19 messaging, refund policies, contact info, frequently asked questions and more. Issuers may consider using this information to assist cardholders and help resolve their disputes more effectively.

Note: Mastercard generally considers the terms and conditions agreed to at the time of sale as governing the transaction. If terms and conditions have changed without the cardholder's consent, this may be raised within a chargeback's cardholder declaration or support documentation.