

Principles of Successful Pre-Arbitration Disputes in International Payment Systems (Visa and Mastercard)

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Abstract

In the context of the globalization of e-commerce, effective management of customer disputes (chargebacks) has become a critically important factor for the financial stability of merchants. This article presents a comprehensive analysis of pre-arbitration dispute resolution procedures in the leading international payment systems—Visa and Mastercard. The study examines in detail the dispute lifecycle, the roles of key participants, and the regulatory framework of the process. A comparative analysis is conducted of the structural and philosophical differences in the approaches of Visa (Visa Claims Resolution system) and Mastercard (Mastercom platform), highlighting their impact on merchant strategy. Based on an examination of operational regulations and practical case studies, four fundamental principles of successful pre-arbitration resolution are formulated: proactive prevention and data integrity, procedural expertise and time discipline, strategic evidence management, and economic rationality. The article will be useful for practitioners, legal professionals, and managers responsible for risk management and revenue protection in the field of e-commerce.

Keywords: chargeback, pre-arbitration resolution, Visa, Mastercard, dispute management, payment systems, representment.

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Introduction

The rapid expansion of global e-commerce has made international payment systems (IPS), such as Visa and Mastercard, the backbone of the global digital economy. However, as transaction volumes have increased, so too has the number of disputes initiated by cardholders. These disputes, known as chargebacks, represent a significant economic threat to merchants on one side and to cardholders on the other side. They result in direct

financial losses in the form of the disputed amount and the loss of the value of the goods or services, as well as significant operational costs [1]. In this context, the development of effective dispute management strategies is transformed from a routine administrative task into a key element of risk management.

A critically important stage in the dispute lifecycle is the pre-arbitration period. It covers the entire sequence of actions from the moment a claim is filed by a cardholder until its possible escalation to formal arbitration—a

costly and final process associated with additional fees and reputational risks [2]. It is at the stage of pre-arbitration proceedings that the seller or cardholder has the main opportunity to resolve the conflict in their favor. However, the resolution processes at Visa and Mastercard have fundamental structural and philosophical differences, requiring both merchants and cardholders to have a deep understanding of the nuances of each system.

The objective of this study is to analyze and systematize the principles of successful pre-arbitration dispute resolution within the Visa and Mastercard payment systems. The research tasks include analyzing the structure and stages of a dispute, providing a comparative characterization of the Visa and Mastercard processes, and formulating practical recommendations for merchants and cardholders.

Materials and Methods

This research is based on a qualitative document analysis using methods of systematic review, content analysis, and comparative analysis. This approach was chosen to ensure a deep and comprehensive study of the regulatory and operational environment in which pre-arbitration disputes occur. The analysis was based exclusively on primary sources—official documentation published by the international payment systems Visa and Mastercard [4]. This guaranteed that the study's conclusions are based on current and authoritative rules governing the activities of all participants in the payment ecosystem.

The primary materials used were operational regulations, dispute management guides, and technical documentation. For the analysis of the Visa system, key sources included materials related to the Visa Claims Resolution (VCR) initiative, such as "Visa Core Rules" Visa Claims Resolution: Efficient Dispute Processing for Merchants" and "Dispute Management Guidelines for Visa Merchants." For the Mastercard system, the "Chargeback Guide," "Chargebacks Made Simple Guide," and documentation for the Mastercom platform were examined. Materials were selected purposefully to cover all aspects of the pre-arbitration process.

The analysis process consisted of several stages. In the first stage, a systematic review of the selected documents was conducted to identify sections related to the dispute lifecycle. In the second stage, content analysis was applied, during which specific data were extracted and systematized from the text: the structure and sequence of stages (first chargeback, representment/second presentment, pre-arbitration), the classification of disputes by categories and reason codes, formal requirements for the evidentiary basis (including Visa's concept of "compelling evidence"), and strict timeframes for each stage. In the final stage, a comparative analysis was used to compare the data obtained for both payment systems. This made it possible to identify both procedural similarities and fundamental philosophical differences in their approaches: Visa's automated, data-driven approach based on liability allocation within the VCR framework, and Mastercard's more traditional, cyclical, and adversarial approach [1]. The interpretation of the results was conducted through the lens of procedural law concepts, viewing the dispute resolution systems as private regulatory regimes, and economic analysis to assess the merchant's strategic decisions from a cost-benefit perspective.

Results

The dispute resolution process is a strictly regulated procedure involving four parties: the cardholder (initiator), the issuing bank (representing the cardholder's interests), the acquiring bank (serving the merchant), and the merchant (bearing financial responsibility) [4]. The entire system operates within a two-tiered regulatory structure. The lower level is national consumer protection legislation, such as the Fair Credit Billing Act (FCBA) in the United States, which establishes the basic rights of customers to dispute transactions [2]. The upper, and essentially supreme, level consists of the operational regulations of the Visa and Mastercard payment networks themselves. These rules are imperative and describe in detail every aspect of the process, from dispute reason codes to the strictest timeframes, the violation of which leads to an automatic loss of the right to dispute. The main roles and responsibilities of the participants are shown in Table 1

Table 1 – Roles and Responsibilities of Participants in the Dispute Resolution Process

Participant	Role	Key Actions and Motivation	Sources
Cardholder	Dispute Initiator	Contact their bank to challenge a transaction. Motivation: to recover funds for a transaction they consider unauthorized or improper.	[4]
Issuing Bank	Cardholder’s Representative	Initiates the chargeback process on behalf of the client in accordance with payment system rules. Motivation: winning a dispute in compliance with the rules of the payment system.	[4]
Acquiring Bank	Merchant’s Representative	Forwards chargeback information to the merchant and submits the merchant’s response (representation) back to the payment network. Motivation: support merchant clients in risk management.	[7]
Merchant	Dispute Respondent	Incurs direct financial losses. Provides evidence to contest the dispute. Motivation: to prove the legitimacy of the transaction and recover funds.	[1]

The introduction of the Visa Claims Resolution (VCR) initiative fundamentally changed the dispute resolution process, shifting the focus from manual review to the automated, data-driven allocation of liability [5]. VCR divided all disputes into two main streams. The first, the Allocation track, is used for fraud and authorization disputes. In this case, the Visa system automatically makes a decision based on available data, such as authorization records. The burden of proof shifts to the merchant, who must provide "compelling evidence" to refute this decision [5]. The second stream, the Collaboration track, is applied to processing errors and consumer disputes, such as "goods not received" or "not as described." This track is more similar to the traditional exchange of documents but is optimized for time [5].

The key goal of VCR is to accelerate the process (with a target of up to 31 days) and to proactively block invalid disputes before they even reach the merchant [2]. For the merchant, this means that success in the Visa system depends on the ability to provide a concise yet irrefutable package of evidence that directly responds to the specific claim encoded in the dispute reason code [2].

Mastercard retains a more traditional, adversarial approach to dispute resolution, managed through the Mastercom platform. The process has a clear cyclical nature, beginning with the first chargeback initiated by the issuer [9]. This is followed by the second presentment—the merchant's formal response, in which they present evidence of the transaction's legitimacy. If the issuer rejects the second presentment, it may initiate pre-arbitration. This is the last opportunity for the parties to settle the dispute before it is submitted to formal arbitration. The merchant has 30 days to respond, and a lack of response is equivalent to accepting liability [4].

A unique feature of Mastercard is the existence of a parallel system of compliance cases. This mechanism is used when one party has incurred financial losses due to another party's violation of Mastercard rules, but none of the standard chargeback reason codes apply to the situation [4]. This underscores the quasi-legal nature of the Mastercard system, where both the facts of the transaction and procedural rule violations can be contested. A comparative overview of the two systems is presented in Table 2.

Table 2 – Comparative Overview of Visa and Mastercard Pre-Arbitration Processes

Parameter	Visa (VCR)	Mastercard (Mastercom)	Sources
Process Philosophy	Automated allocation of liability based on data.	Cyclical, adversarial exchange of evidence between the parties.	[4],[5]
Key Stages	1. Dispute initiation (with automated check). 2. Representment (merchant response). 3. Pre-arbitration.	1. First chargeback. 2. Second presentment. 3. Pre-arbitration.	[4],[5]
Merchant Response Deadlines	30 days for representment.	Varies, but 30 days for pre-arbitration response.	[4],[5]
Evidence Requirements	Emphasis on “compelling evidence” capable of overturning the automated decision.	Preparation of a full documentation package to contest the claim at the second presentment stage.	[4],[5]
Unique Features	Two processing tracks (Allocation and Collaboration); proactive blocking of invalid disputes.	Parallel compliance-case system for contesting procedural violations.	[4],[5]
Merchant Strategy	Focus on data quality at the transaction stage and prepare a concentrated evidence package.	Focus on meticulous documentation and building a “case” for the adversarial process.	[4],[5]

Thus, the analysis shows that despite general regulation and strict timeframes, the approaches of Visa and Mastercard to dispute resolution differ significantly. Visa emphasizes automation and processing speed, whereas Mastercard maintains the adversarial nature of the process and allows for the consideration of procedural violations. These differences determine the merchant's strategy: in the Visa system, the key factor is the quality of data at the transaction stage, while in the Mastercard system, it is the thorough preparation of a documentary basis to defend interests in the event of an escalation.

From the cardholder’s standpoint, pre-arbitration represents a structured safeguard for exercising consumer rights. Within the Visa Claims Resolution (VCR) framework, the system’s automation allows for faster reimbursement in valid cases, minimizing the burden on the cardholder to provide extensive documentation. Mastercard’s Mastercom platform, on the other hand, maintains a more manual and adversarial

model that may extend the dispute timeline but offers greater transparency of procedural control through direct engagement with the issuing bank.

The issuing bank acts as the cardholder’s procedural advocate, responsible for the timely filing of the chargeback and ensuring that the dispute reason code accurately reflects the claim. In both systems, the quality of communication between the cardholder and the issuer largely determines the likelihood of a favorable outcome. Consumers who provide detailed transaction evidence—order confirmations, correspondence, and shipping proof—help the bank construct a stronger case within the time constraints established by the payment network.

From a consumer protection standpoint, the Visa allocation model serves as a preventive mechanism against procedural fatigue, reducing the risk of “dispute abandonment” by clients overwhelmed with documentation. Mastercard’s cyclical model, however,

preserves the cardholder’s opportunity to participate more actively in proving their claim, aligning with due process principles. These design differences illustrate the trade-off between speed and procedural control in consumer financial justice.

Discussion

The analysis of the operational structures of Visa and Mastercard reveals that, despite the common goal of resolving disputes, they are based on fundamentally different philosophies. This, in turn, dictates the need for merchants to develop tailored strategies. A synthesis of the identified differences and requirements allows for the formulation of four universal principles that form the basis of an effective dispute management strategy.

While merchants must master procedural discipline to avoid losses, cardholders face an opposite challenge: maintaining awareness of their rights and responsibilities throughout the dispute process. Education plays a critical role—many consumers remain unaware of their ability to

initiate a chargeback for non-delivered goods or recurring charges after cancellation. The existence of transparent and accessible dispute interfaces in online banking applications could dramatically improve cardholder engagement and reduce the share of unresolved conflicts. Strengthening cardholder literacy is, therefore, a key vector of systemic improvement for both Visa and Mastercard ecosystems.

The best way to win a dispute is to prevent it. This requires shifting focus from reaction to prevention. Key preventive measures include several aspects. Clear communication with customers by plainly stating return and cancellation policies is essential. Timely fulfillment of obligations, which implies prompt shipment of goods and processing of returns, is crucial. Transparency on the card statement, achieved by using a recognizable merchant name in the transaction descriptor, is also important. Finally, prompt communication, such as informing customers about potential delivery delays, is vital. The mapping of typical dispute reason codes to corresponding preventive actions is presented in Table 3.

Table 3 – Mapping of Common Dispute Reason Codes to Merchant Preventive Actions

Reason Code (Visa/Mastercard)	Cardholder Claim	Merchant Preventive Action	Sources
Visa 13.1 / MC 4855	Goods/Services Not Received	Use delivery services with tracking; retain proof of delivery to a verified address; clearly communicate delivery timelines.	[1]
Visa 13.3 / MC 4853	Not as Described / Defective	Ensure maximum accuracy of product descriptions, specifications, and images on the website; retain screenshots of product pages at the time of purchase.	[1]
Visa 12.6.1 / MC 4834	Duplicate Processing	Implement technical checks to prevent double-billing; ensure proper procedure for canceling erroneous transactions.	[1]
Visa 13.2 / MC 4841	Canceled Recurring Transaction	Provide a simple subscription cancellation process; immediately stop billing upon request; send confirmation of cancellation.	[1]
Visa 13.6 / MC 4860	Credit (Refund) Not Processed	Process refund requests as quickly as possible; inform the client about refund status; retain documentation of completed refunds.	[1]

In rule-driven systems, procedure is inseparable from substance. A thorough knowledge of the regulations and impeccable adherence to deadlines are decisive factors. Missing an established deadline, such as the 30-day window to respond to a pre-arbitration, leads to an automatic loss of the dispute and the forfeiture of all rights to further contest it, regardless of the merchant's actual merit [3]. This requires the implementation of a reliable internal system for tracking cases and monitoring deadlines.

The provision of evidence must be strategic, not mechanical. The evidence must be directly linked to the dispute reason code and form a compelling narrative that refutes the customer's claim [2]. For example, for a "goods not received" dispute, the key evidence will be a tracking number with delivery confirmation, while for a "not as described" dispute, it will be screenshots of the product page and correspondence with the customer confirming their awareness of the product's characteristics. The response should be brief, concise, and focused on refuting the specific assertion.

It is not advisable to fight every dispute to the end. A strategic approach requires a sober assessment of the economic prospects of each case. The merchant must weigh the dispute amount against the internal costs of managing it and the potential non-refundable arbitration fees, which can reach \$400–\$500 in case of a loss [3]. Accepting liability for a small-amount dispute or one with weak evidence is often the most economically sound decision. This allows resources to be concentrated on fighting for larger and more promising cases, turning dispute management into an element of financial planning.

For cardholders, the evolution of pre-arbitration mechanisms signifies the emergence of a truly consumer-centric dispute resolution paradigm. Automated liability allocation, faster refund cycles, and enhanced transparency reflect a broader trend toward financial democratization within global payment systems. The ultimate goal should be a balanced ecosystem where technological efficiency does not compromise the fairness and accessibility of remedies for end users.

Conclusion

This study confirms that successful pre-arbitration dispute resolution in the Visa and Mastercard systems is not the result of disparate tactical actions but the

consequence of applying a holistic strategic system. This system is based on the synergy of four key principles. Proactive prevention lays the foundation by minimizing the very probability of disputes arising. Procedural mastery acts as a navigation system, allowing the avoidance of losses due to formal errors in a complex regulatory environment. Strategic evidence management is the tool of argumentation, ensuring the formation of a convincing and relevant evidentiary basis. Finally, economic rationality provides the entire system with necessary flexibility, allowing for sound business decisions rather than engaging in every dispute at any cost.

The integration of these principles into business processes marks a fundamental shift in the perception of dispute management: from a reactive, administrative burden and an unavoidable cost center to a proactive, strategic function capable of protecting and preserving revenue and enhancing the overall operational resilience of the business. It is a transformation from "firefighting" to creating a reliable fire prevention system.

A look to the future shows that the dispute resolution landscape will continue to evolve dynamically under the influence of technological and regulatory changes. It is expected that artificial intelligence and machine learning will be increasingly applied to detect fraud and to automate the dispute response process itself, from analyzing the reason code to automatically gathering relevant evidence from internal systems. Initiatives for real-time data exchange, such as the Visa Merchant Purchase Inquiry (VMPI), indicate a trend towards "pre-dispute" resolution, where conflicts are resolved even before their formal escalation.

At the same time, the constant evolution of fraudulent schemes, including attacks on new technologies like NFC, will require payment systems to continuously update their rules and merchants to constantly adapt their strategies. Thus, long-term success in the digital economy will depend not only on the masterful application of existing rules but also on the ability to anticipate future changes and flexibly integrate new technologies and approaches into one's risk management strategy.

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