

Credit Card Chargeback Guide

As a small business, credit card transactions are essential to ensure a convenient experience for your customers. Unfortunately, credit card transactions are subject to chargebacks that are not only frustrating, but hurt your bottom line.

A chargeback occurs when the merchant charges a credit card to complete a transaction, and the cardholder later disputes the charge. Often this occurs when the cardholder is a victim of fraud, however, some buyers will file a chargeback request with their credit card company even if the purchase was legitimate.

A chargeback is considered a triple loss financially—the merchant loses profit on the sale, the processor incurs a chargeback fee, and the money invested in the item (including restocking it) is likewise lost. There are preventative measures businesses can take to help avoid financial losses, as well as ways to fight a chargeback if it occurs.

Why Do Chargebacks Happen?

There are three main instances in which credit card chargebacks occur: credit card fraud; friendly fraud; and merchant or processor error.

In the instance of credit card fraud, the customer's credit card information was stolen and used.

Friendly fraud occurs when the cardholder receives the product or service but disputes the charge anyway. This will occur because of:

- Forgetting about the purchase
- Not recognizing the merchant name
- Unsatisfied with the product or service
- Unclear return policy

Merchant or processor errors will typically occur when a customer is double charged, incorrect information was entered, or a credit card processing platform fails.

How to Fight a Chargeback:

The action of fighting a chargeback is known as a chargeback representment. This is a process where the merchant submits evidence to the bank to prove that the transaction was valid, and recommends the decision be overturned. As much as consumers hold the right to file a chargeback request, the merchant has equal rights to fight it. Fighting back against friendly fraud will not only protect your bottom line, but ensure protection of your good reputation with banks.

Navigating Representment:

The first step of this process is uncovering where the charge came from. The dispute can come from the cardholder or issuer, but the decision to file a chargeback ultimately falls on the bank.

Once you receive the claim, you must identify the reason (or condition) code.¹ This alphanumeric code can be referenced from a predetermined list provided by the issuing bank. This will assist you in understanding why the charge is being disputed in the first place, and will identify the type of dispute including:

- An unauthorized transaction
- Misrepresentation of the product
- Incorrect account number
- Duplicate processing
- Incorrect amount

Even if the reason (or condition) code does not reflect the true cause of the chargeback, you must respond to the chargeback based on the code.

It is also a good idea to review relevant aspects of your merchant services agreement pertaining to chargebacks so that you understand the policies and appeal process.

Submitting a Representment Case:

Step 1: Respond ASAP

When a chargeback is issued, you have a limited time to respond, and that window is critical. If you miss the submission deadline by even a day, you forfeit the ability to dispute the chargeback. The amount of time that you have will vary based on the

¹ See for example Mastercard's Chargeback Merchant Guide (2023) available [here](#), or Visa's Chargeback Merchant Guide (2023) available [here](#).

card and reason (or condition) code. Your bank may even send a chargeback debit advice letter providing a straightforward outline for when and how to respond to the specific reason code.

Step 2: Compile Your Evidence

In order to win a chargeback dispute, you will need to provide what is considered “compelling evidence” by the bank. Compelling evidence can be characterized as the following:

- Copies of the sales receipt or order forms
- Tracking numbers and proof of delivery
- A copy of your return policy, and proof it is easily accessible on your website
- Communications between you and your customer indicating a successful delivery

All evidence must be given in response to the reason code even if the reason is believed to be false.

Step 3: Drafting A Rebuttal Letter

In addition to the supporting evidence described above, you must also submit a formal outline called a chargeback rebuttal letter. This letter should contain a summary of your evidence and explain why the evidence shows that the transaction was valid. This letter should be succinct, objective, and avoid emotion.

Step 4: Submit Your Materials

Submit all forms in a timely manner and make sure all details are in order. You should also double check how the issuer wants to receive these forms. Some banks prefer to use email whereas others prefer forms submitted by fax.

You can find additional information on drafting a chargeback response [here](#).

What Happens Next?

After you submit your representment forms, the issuer will review the evidence and either rule in your favor by reversing the chargeback, or decide in favor of the cardholder. Even if you win the reversal, the cardholder can dispute the transaction a second time while providing new evidence. You are entitled to refute this claim again; however, it will require additional evidence beyond what you already submitted.

If the card issuer rules against you a second time, a business can then request arbitration. The arbitration process works a bit like a legal proceeding in a court, although usually arbitration is more informal. If the evidence for disputing the chargeback was not strong enough, the cardholder's issuing bank may reject the case. It is at this point you can accept the arbitration case, or appeal to the arbitrator from the card network to review the representment again. Arbitration cases can be costly and time consuming, so it is important to weigh the costs and benefits of engaging in arbitration. In some cases, it could be cheaper to accept the chargeback than arbitrate. You can learn more about the chargeback arbitration process [here](#).

The Last Option:

If you have lost your arbitration, you can still pursue the cardholder through a debt collection process. If the good or service is sizeable enough for you to pursue compensation through the legal process, we recommend reviewing [NFIB's Debt Collection Guide](#).

Preventing Chargebacks – Be Proactive, Not Reactive

Unfortunately, single-handedly winning a chargeback dispute is extremely difficult. In fact, statistically speaking, merchants win only 32% of the time. The best way to win a chargeback is to prevent it in the first place. Following the preventative steps below is a good place to start for avoiding future chargeback disputes.

Step 1: Update Your Merchant Account Name

One of the easiest ways to prevent future chargebacks is to update your merchant account name. It is important to ensure that the name of your business is clearly

stated so that when a customer checks their bank statements, they recognize the charge.

Step 2: Have a Clear Return Policy

Make sure that customers can easily locate or are informed of your return policy upon purchasing an item. In addition to this, providing an email address and phone number will encourage the customer to reach out to you first before the credit card issuer. This can potentially help resolve the issue without having to go through the extensive process of a chargeback reversal.

Step 3: Provide Detailed Product Information on Your Website

If the product order was not what the customer thought it was, this can result in a chargeback. Ensuring that your products are represented clearly and accurately could prevent future chargebacks and assist in a representment case.

Step 4: Keep Thorough Records

Keep detailed records of transactions. This includes order details, shipping and delivery information, and customer communication. All of this information can be useful in the event a chargeback dispute is initiated.

Other steps you can take to prevent chargebacks include:

- Using a secure payment gateway
- Obtaining customer signatures, especially when shipping a product
- Requesting identification for card transactions
- Responding promptly to any customer inquiries
- Regularly monitoring your account for disputes or any suspicious activity

Takeaways:

Chargeback disputes are common and something that most small business owners will encounter at some point. They are often costly, time consuming, and frustrating, but despite the headache, representment can provide the merchant the

ability to recoup losses. Additionally, if the representment does not work, merchants have the options of arbitration or debt collection. Furthermore, proactive steps can help merchants avoid chargebacks. We encourage all business owners to take the time to review this guide as well as their merchant agreements to better understand chargebacks.

This Guide is not intended to provide legal advice. For questions related to your specific situation, you may need to check with your attorney.

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