

# Chargebacks:

What they are and  
why you need to know  
more about them

September 2023

Taking payments sometimes means dealing with a customer dispute. We'll explain the **fundamentals of the chargeback process**—and best practices for handling them.

### What is a chargeback?

A chargeback is initiated by a financial institution to reverse a credit card payment. Typically the chargeback, otherwise known as a dispute, is for a Card Not Present transaction (this means the cardholder does not physically present their card at the point of sale).

The cardholder or issuer requests a credit, refund, or reimbursement, claiming an invalid or incorrect transaction. The chargeback process will reverse a payment and trigger a dispute resolution process. This resolution process involves your business and the credit card issuing bank or a cardholder.

### When would a chargeback be used?

A chargeback is typically initiated by the cardholder's payment card issuer (such as a financial institution or credit card company) in response to a dispute regarding a transaction. Chargebacks are used in various situations to protect cardholders and ensure fair and secure transactions.

There are four classes of chargebacks:

- Fraud-related;
- Authorization-related;
- Cardholder-disputes; and
- Errors in processing

We're here to help you identify the chargeback filed against your business and the required documentation for the dispute in more detail.

## Common examples of chargeback scenarios

**Unauthorized transactions:** If a cardholder's payment card is used without their authorization or if they suspect fraudulent activity, they can initiate a chargeback to dispute the transaction.

**Billing errors:** If there are discrepancies between what the cardholder was charged and what they agreed to pay, they can initiate a chargeback to rectify the billing error.

**Non-delivery of goods or services:** If a cardholder paid for goods or services but did not receive them, or if the received items are significantly different from what was promised, they can initiate a chargeback to recover their funds.

**Cancelled orders:** If a cardholder cancels an order and is still charged, they can use a chargeback to reverse the charge.

It's important to note that chargebacks are subject to specific rules and procedures set by the payment card networks (Visa, Mastercard, etc.) and the issuing bank. Cardholders must often provide evidence and documentation to support their claim during the chargeback process. Your business has the right to dispute chargebacks and present evidence of your own to defend the transaction.

Chargebacks can provide a mechanism for cardholders to help protect themselves from fraudulent or unfair transactions. However, they should be used responsibly, as excessive chargebacks can lead to consequences for both cardholders and businesses, including potential restrictions on using credit cards or even account closures.



## The chargeback process

The chargeback process involves several steps and parties, including the cardholder, the cardholder's issuing bank, your business, and your acquirer.

### Step 1 Cardholder identifies discrepancy

The process begins when the cardholder notices an issue with a transaction on their credit card statement, such as an unauthorized charge, a billing error, non-delivery of goods, or dissatisfaction with a product or service.

### Step 2 Cardholder contacts the issuing bank

The cardholder contacts their issuing bank (the bank that issued their credit or debit card) to report the issue and initiate the chargeback process. They may need to provide information about the transaction, the issue they're facing, and any evidence they have to support their claim.

### Step 7 Resolution of the chargeback

Depending on the outcome of the review, one of the following scenarios occurs:

**If the chargeback is upheld:** The funds are permanently debited from your business account, and the cardholder's account remains credited.

**If the chargeback is overturned:** The funds are returned to your business account, and the cardholder's account is debited again.

### Step 6 Issuing bank reviews your response

The issuing bank reviews your response and evidence. Based on the information provided by both you and the cardholder, the bank makes a decision regarding the validity of the chargeback.



### Step 3 Issuing bank reviews claim

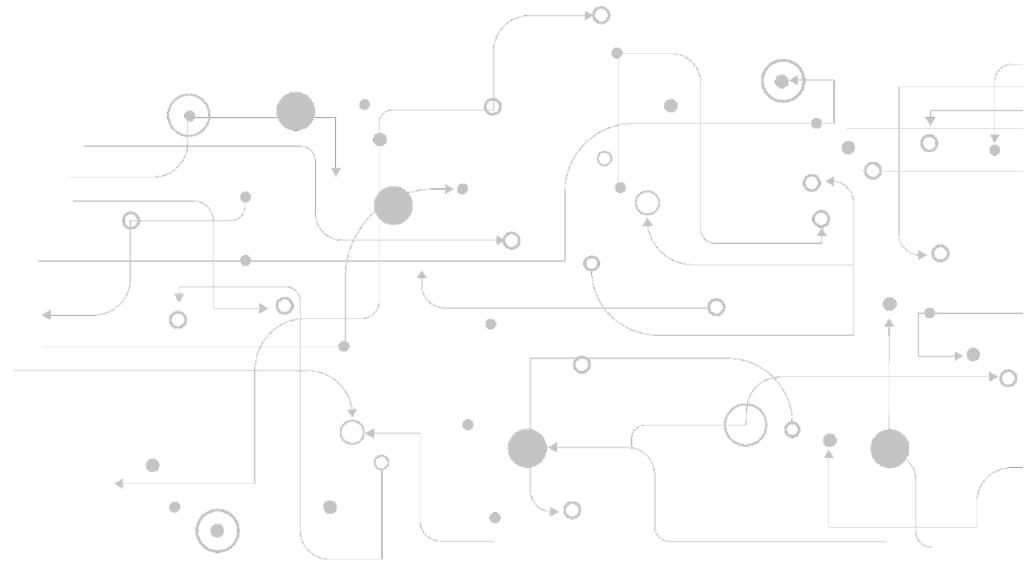
The issuing bank reviews the cardholder's claim and supporting evidence. If the claim seems valid, the bank initiates the chargeback on the cardholder's behalf. They debit the transaction amount from your acquirer and credit the cardholder's account.

### Step 4 Acquirer notifies you

The acquirer, which handles your payment processing, receives the chargeback notification from the issuing bank. The acquirer then informs you about the chargeback and provides you with details of the dispute.

### Step 5 You respond to the chargeback

You have the opportunity to respond to the chargeback by providing evidence the transaction was legitimate and that the cardholder's claim is unfounded. This might involve submitting transaction records, receipts, shipping information, and any other relevant documentation.



Card issuers and business owner/operators are impacted **\$10–20** in operational costs associated with a single chargeback<sup>1</sup>

### Best practices to help avoid chargebacks/disputes

To help minimize losses, you need:

- An adequate chargeback tracking system like our Disputes Management tool to help you organize and be alerted by email in real-time
- Procedures in place to avoid unnecessary chargebacks, and
- A thorough understanding of your rights

For a full, detailed and actionable list of best practices and recommended preventative measures, refer to [Best practices to help avoid chargebacks/disputes](#) on the Help Centre.

<sup>1</sup> Chargeback Gurus: 2021 Chargeback fees – the true cost of your chargebacks. 2020.

### Frequently Asked Questions

#### Who can initiate a chargeback?

The cardholder, with the support of their issuing bank, can initiate a chargeback by disputing a transaction.

#### What information is required to initiate a chargeback?

Cardholders typically need to provide transaction details, reasons for disputing the transaction, and any supporting evidence they have.

#### What is a chargeback reason code?

Chargeback reason codes are numeric or alphanumeric codes that categorize the reason for the chargeback. Different codes correspond to different types of disputes (e.g., unauthorized transactions, merchandise not received). For a complete list of reason codes, refer to [Chargeback reason codes](#) on the Help Centre.

**Can I dispute chargebacks?**

Yes, you can respond to chargebacks by providing evidence that the transaction was legitimate. Your acquiring bank will review the response.

**What evidence can help me defend against chargebacks?**

Evidence might include order information, proof of delivery, communication records, refund or return policies, and any documentation that shows the transaction was valid.

**Can chargebacks be prevented completely?**

While you can take measures to reduce the likelihood of chargebacks, it's difficult to prevent them entirely due to factors beyond your control.

**What are the consequences of excessive chargebacks?**

Excessive chargebacks can result in higher processing fees, restrictions on accepting certain payment methods, and even closure of your Global Payments account.

**How long does the chargeback process take?**

The chargeback process can take several weeks to months, depending on the complexity of the dispute and the responsiveness of the parties involved.

**Can cardholders request a chargeback for digital products or services?**

Yes, they can request chargebacks for digital products or services if they have valid reasons to dispute the transaction, such as non-receipt of the product or dissatisfaction with the quality.

**Is there a chargeback fee for cardholders?**

Cardholders typically don't pay a chargeback fee directly, but the costs associated with chargebacks can impact your business and you might opt to pass those costs onto customers indirectly.

**Are there time limits for initiating a chargeback?**

Yes, there are time limits known as "chargeback timeframes." They vary depending on the reason for the chargeback and the payment network, but they generally range from a few weeks to a few months from the transaction date or the expected delivery date.

**What should my business do to prevent friendly fraud chargebacks?**

To prevent friendly fraud (when a customer falsely claims a charge as unauthorized), you can provide clear billing descriptors, use email receipts, and maintain good customer communication records.

**Can I challenge a chargeback decision?**

Sometimes, you can appeal a chargeback decision if you believe it was made in error. The process for challenging a chargeback decision varies by payment network and issuer.

Staying informed about these policies and maintaining strong customer relations can help minimize the impact of chargebacks on your business.

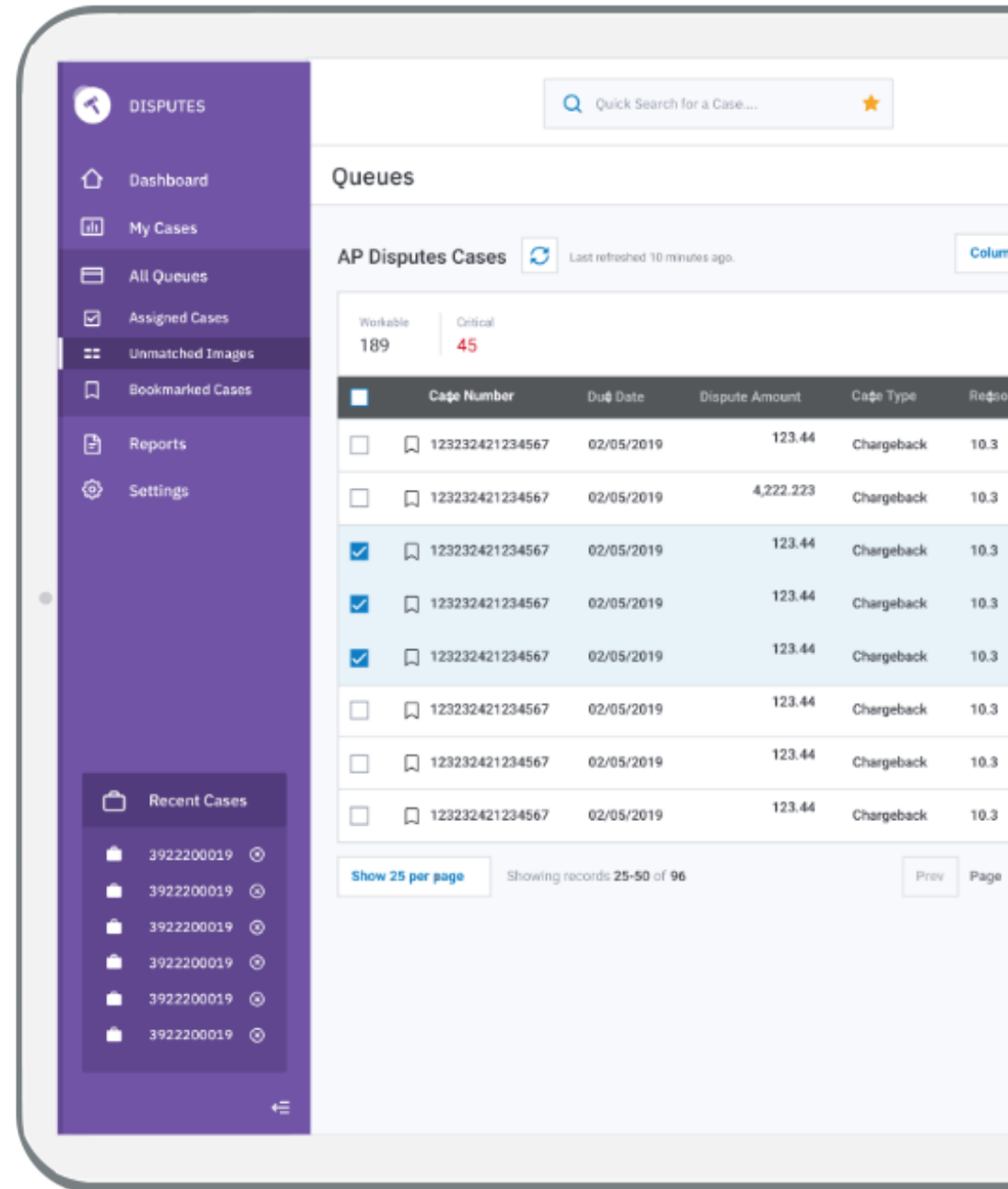
# Despite your best efforts, chargebacks can still occur

When they do, it's important to respond promptly, provide any necessary evidence, and work with us and the issuing banks to address the issue.

Your online account management platform gives you 24/7 access to the Disputes Manager tool. It allows you to:

- View the case information for both open and resolved (closed) cases
- Submit a copy of a receipt
- Accept liability for a dispute case
- Rebut (refute) a dispute case and provide documentation in support of that position
- Get insights into the likelihood of winning a dispute based on the win/loss probability scores
- Receive email notifications of new disputes allowing the ability to act quickly

By taking proactive measures to prevent chargebacks and maintaining good relationships with your customers, you can minimize the risk of disputes and maintain a positive reputation.



**We're here to help** Our cloud-based productivity and performance tools—combined with our expert insight and guidance—help you build your business, whatever stage you're at.

**Please call us at +1 800 361-8170**

**Or learn more at [globalpayments.com/en-ca](https://globalpayments.com/en-ca)**

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