



What is a chargeback?

In e-commerce, a chargeback is a reversal of a payment card transaction. The chargeback procedure is initiated by a bank that issued the card (card issuer) at its own or cardholder's request. It is a process in which a buyer questions a card debit in the context of a given card transaction. It is available only to users who pay with their credit or debit cards. Cardholders have the right to dispute any transaction processed by Visa/MasterCard. In the chargeback process, the burden of proof is on the merchant. If the merchant provides documents proving that a transaction was correct, the transaction amount will be credited back to its account. However, if the merchant fails to do so or does so after the deadline, the disputed amount will be refunded to the account of a consumer being a party to the dispute.

Reasons for chargeback

Chargebacks arise for a variety of reasons but most often they are initiated if the cardholder has not received a product, is dissatisfied with the purchase or has been a victim of a fraud. To secure a debit or credit card transaction, the online-selling merchant can use 3D-secure, a service whereby the cardholder secures a transaction with a secret password set in electronic banking

Reasons for chargebacks available at PayU.pl:

- Product not received (cardholder claims that a product has not been delivered)

- Product not as described (a product has been damaged or does not match its description on the website)
- Duplicated transaction (cardholder placed one or more orders for the same product and was charged for every transaction)
- Fraud (transaction made by an unauthorized person)
- Transaction not recognized (cardholder does not recognize a payment and does not remember ever making it)
- No refund (cardholder has not received a refund to a transaction despite its cancellation or product return).

Impact of chargeback

A chargeback impacts all participants of the payment process, that is:

- Payment service provider - PayU S.A. or another payment institution taking part in a transaction (Acquirer)
- Bank, card issuer
- Merchants
- Customers (cardholders)

Chargeback process

1. The cardholder contacts a bank that issued the card in order to dispute a transaction. The card issuer considers the dispute to determine whether there is sufficient evidence to support the cardholder's claim.
2. The card issuer starts the chargeback procedure by assigning a code relevant for a selected reason for chargeback. The issuer is then credited with a disputed amount.
3. The payment service provider (Acquirer - PayU S.A. or another payment institution) receives the chargeback described by the chargeback code.
4. The payment service provider informs the merchant that the chargeback has been recorded and requests that the merchant analyze the complaint and provide documents proving that the complaint is groundless.
5. The merchant informs the payment service provider about accepting or rejecting the complaint. In order to reject a chargeback, it is necessary to provide documents proving its irrelevance. If the merchant accepts a complaint or if provided documents do not sufficiently prove that the complaint is irrelevant (pursuant to Visa and MasterCard regulations), the chargeback process ends and the acquirer charges the merchant's account with the disputed amount.
6. If the merchant rejects the chargeback and provides documents successfully proving that the complaint is irrelevant, the payment service provider also rejects the chargeback, charges the card issuer with the disputed amount and presents information and documents justifying the rejection.
7. In such case, the card issuer informs the cardholder about irrelevance of the complaint and charges the card account with the disputed amount again.

In some cases, in response to the cardholder's complaint and prior to launching the chargeback procedure, the card issuer requests that the payment service provider send a copy of transaction confirmation. The provider may then request that the merchant produce such confirmation as well.

What is necessary to reject a chargeback?

Failure to deliver a product or provide a service

- Customer's confirmation of receiving a product (confirmation that a product was shipped is insufficient to reject a complaint) or service.
- Copy of information presented to the customer during transaction which contains a product/service description and specifies a shipping date and method.
- Information on whether the cardholder contacted the merchant directly with a request to consider the complaint, how the complaint was handled and why it was rejected (if applicable).

Product not matching description, damaged product or service provided otherwise than described

- Copy of information presented to the customer during transaction which contains a product/service description and specifies a shipping date and method, and which proves that the product/service does not match its description.
- Document proving that the customer received the product and confirmed that it was not damaged.
- Merchant's written statements and documents (if available) if:
 - ✓ product was not returned by the customer
 - ✓ product/service was repaired or missing elements were completed
- Information on whether the cardholder contacted the merchant directly with a request to consider the complaint, how the complaint was handled and why it was rejected (if applicable).

Multiple payment for the same product/service (payment by the same card, different card, transfer or otherwise)

- Documents confirming that payments concerned different products/services.

Merchant did not refund a transaction amount

- Confirmation that a relevant refund was made
- Merchant's written statements and documents (if available) if:
 - ✓ product was not returned by the customer
 - ✓ merchant did not accept the return or service cancellation
 - ✓ merchant presented the resignation and return policy upon purchase

Chargeback resolution

Reasons for closing a chargeback at PayU.pl:

- Refund granted (merchant accepts the chargeback and refunds the disputed amount into the cardholder's account)
- Refund denied (merchant can prove that the chargeback is unfounded and so the payment is valid)
- Chargeback lost (merchant does not respond in due time or cardholder's bank has evident proof that the chargeback is relevant)

Avoiding chargebacks

Any time a credit card payment is involved in a transaction, there is a risk of chargeback. Sometimes buyers are not satisfied with their purchases, or their order never arrives, or their credit card has been used fraudulently. The best way to deal with chargebacks is to prevent them from happening in the first place. However, there are several simple steps that can be taken to minimize chargebacks caused by a customer error or failure to recognize your charge on their account.

- Order confirmation page must specify the name, phone number and e-mail address of a company so that the customer can recognize the charge when it appears on a monthly credit card statement. Failure to recognize a charge is the main reason why customers issue chargebacks.
- Send your customers e-mail confirmation that contains the same company data.
- Have the refund policy clearly stated on the website. Make it a requirement that customers read the policy before their order can be completed.

- Place contact data on the website so that customers can lodge complaints directly with the merchant. Many reasons for chargebacks require the cardholder complain directly to the merchant beforehand.
- Provide accurate descriptions of your products on the website.
- Respond to a chargeback as quickly as possible.

Conclusions

From the customer's point of view, efficient chargeback procedures reinforce credibility for card payment systems. In fact, chargeback rules protect customers throughout the process. This generates trust in the systems and motivates customers to prioritize cards over other payment methods.