

A Beginner's Guide to Chargebacks

It's early in the morning, and you're sipping coffee while reviewing your bank statement – a routine check that turns into a moment of panic. There it is: an unfamiliar \$399 charge from a merchant you've never heard of. You frantically scroll through your recent online purchases and text your family members. It hits you: you've just become one of the millions of cardholders who face mysterious charges each year.

Or perhaps you've experienced this: After weeks of research and budget-planning, you finally order that perfect 65-inch smart TV for your living room. The delivery arrives, but instead of your dream entertainment setup, you're staring at a 45-inch model that's nowhere near what you paid for. The merchant's customer service is giving you the runaround, and you're reconsidering the purchase altogether.

In both scenarios, you have a tool at your disposal: the chargeback. While it might seem like a simple "undo" button for cardholders – just a quick call to your bank to dispute the charge – the reality behind the scenes is much more intricate. Chargebacks, a part of the dispute resolution process, involves multiple stakeholders: cardholders, merchants, issuing banks, acquiring banks, and card networks, all operating under strict regulatory guidelines.

In this guide, we'll pull back the curtain by starting with defining chargebacks, learning what constitutes a chargeback, and concluding with what is involved in the chargeback process.

Defining Chargebacks

A chargeback functions as an "undo" button – a transaction reversal initiated by your bank that withdraws funds from the merchant's account and returns it to your card.

The Fair Credit Billing Act of 1974 mandated groundbreaking legislation that transformed the payments landscape. The Act created a safety net, empowering consumers to increase spending activity with newfound confidence in having recourse should anything go wrong. This protection became even more critical in the digital age, where we regularly transact with merchants and people we'll never meet face-to-face.

More Than Refunds

Although chargebacks are similar to refunds, a refund is when a merchant voluntarily returns your money – a handshake agreement between you and the seller. A chargeback, on the other hand, is a formal dispute process where your bank advocates on your behalf, usually without the merchant's initial cooperation.

Before reaching out to your bank to file a dispute, pause for a moment. While chargebacks are a powerful consumer protection tool, they shouldn't be your first line of defense. Initiating a direct conversation with the merchant often leads to better outcomes for everyone involved, as it helps prevent merchants from facing negative financial impacts exceeding the return of your payment. Merchants stand to lose through loss of product value, shipping costs, fees, and reputation.

The merchant-first approach offers advantages like faster resolution through direct refunds, which are processed within 5 business days instead of chargebacks, which can take up to 90 days. Merchants can offer flexible solutions like store credit, immediate exchanges, and discounts for future purchases. Additionally, you can maintain a relationship with the merchant. Many online merchants will sever business relationships with you by deleting your account if you initiate a chargeback.

Card Protections

When it comes to transaction disputes, not all cards are created equal. While chargeback rights apply to both credit and debit cards, the level of protection and your potential liability varies depending on which card you swipe.

Credit Card Protection

Credit cards boast the gold standard in consumer protection with robust regulations.

- Maximum liability of \$50 for unauthorized transactions
- Protection kicks in immediately upon card compromise
- You're disputing the bank's money, not your own
- Most issuers now offer zero liability policies

Debit Card Protection

While debit cards also offer protection, they have stricter timelines.

- \$50 liability cap if reported within 2 business days
- Up to \$500 liability if reported between 3-60 days
- Potential unlimited liability after 60 days
- Zero liability policies often apply

What Constitutes a Chargeback

There are several situations where disputing a charge is not just justified; it's your right as a cardholder.

Fraud & Unauthorized Charges

- Purchases you did not authorize
- Charges after the card was lost or stolen
- Unauthorized recurring charges

Delivery Issues

- Items never arrived at the specified address
- Package marked as delivered but not received
- Partial orders with missing items

Product or Service Quality Problems

- Item arrives broken or damaged
- Product is counterfeit or fake
- Item or service differs from description

Billing Errors

- Duplicate charges for the same transaction
- Incorrect amount charged
- Currency conversion errors

Initiating a Chargeback

To dispute a transaction, cardholders must contact their bank or credit card provider. Depending on the provider's digital options, this can be done via phone, text, chat, email, or self-service tools. After the dispute is submitted, the bank follows a standard process to review and address it. Once your bank receives your dispute, they follow the steps below.



The Chargeback Process

When it comes to transaction disputes, not all cards are created equal. While chargeback rights apply to both credit and debit cards, the level of protection and your potential liability varies depending on which card you swipe.



Cardholder Initiates Dispute

- Customer contacts their bank
- Requests refund for transaction
- Provides reason for dispute



Bank Investigation

- Evaluates claim validity
- If valid, the chargeback occurs to remove funds from merchant



Bank Decision

- Bank reviews all evidence
- Determines outcome
- Either accepts the merchant's response or pursues recovery

Initial Review is Conducted

- Reviews initial complaint
- Categorizes dispute type
- Assigns standardized reason code



Merchant Bank Review

- Receives dispute notification
- Reviews available evidence
- Either accepts chargeback or challenges it with evidence



Wrap Up

As the payments landscape rapidly evolves, so does the complexity of managing chargebacks and disputes. Financial institutions face mounting challenges: rising dispute volumes, intricate regulatory requirements, tight processing deadlines, and the constant pressure to maintain operational efficiency while delivering excellent customer service.

Quavo helps financial institutions overcome these challenges through its award-winning QFD solution. Our platform transforms complex dispute management into a streamlined, efficient process that helps financial institutions stay competitive in today's fast-paced digital economy.