Chargebacks

What is chargeback?

In simple words, chargeback is a dispute against a particular transaction raised by the cardholder (end-user), and reported to their card issuing bank.

A chargeback is a provision by banks and card networks such as Rupay, Visa & MasterCard to protect buyers from unauthorized or fraudulent payments.
Once the cardholder files a complaint, the bank reports the same to Razorpay and initiates an investigative Procedure.

Purpose of Chargeback

- One of the driving forces behind chargebacks is customer satisfaction. The risk of a forced reversal of funds keeps many merchants focused on providing exceptional customer service.
- Chargebacks also serve as a deterrent to merchants who might be tempted to sell sub-par products or services. Cardholders will claim the products or services were not as described.
- The threat of chargebacks helps merchants stay honest. Customers can't be expected to pay for something that was never delivered, charges that shouldn't have been made in the first place, or refunds that never got issued.
- Criminal fraud flourishes in today's society. Many cardholders aren't surprised when they learn unauthorised transactions have been made on their account. Filing chargebacks on fraudulent card transactions can help innocent victims recoup their money.

Stages of Chargeback: -

- First level of Chargeback
- Pre-arbitration
- Arbitration

First level of Chargeback:-

It is the process where the merchant submits the required proof once the chargeback is raised. The acquiring bank will electronically re-present the chargeback dispute information to the issuing bank, who will then review the information. One of three things will happen:

1. The issuer rules in merchant's favour.
The representment case sufficiently validates the original transaction. The transaction amount is again charged to the consumer's account, and the funds are returned to Merchant's bank account.

2. **The issuer rules in favour of the cardholder.**

When Merchant's "compelling evidence" does not convince the bank to reverse the chargeback.

The merchant wins, but the issuer files a second chargeback. The issuer has the right to file a second chargeback, (called a Pre- Arbitration) for the same transaction. Reasons for a second filing might include the discovery of new information or a change of the reason code.

The TAT given to a merchant for the Chargeback case is usually *3 working days*. With one reminder sent for each case. In case a response is not received from the merchant within the mentioned deadline, the case is closed in favour of the cardholder.

PRE-ARBITRATION:-

1. Pre-arbitration proceedings, sometimes known as Pre-Arbs, occur when a cardholder disputes a transaction for a second time.

2. This can only happen when a merchant wins the first chargeback and is generally the final round of contestation for a disputed charge.

3. Although the ruling fell in favour of the merchant the first time, While new and compelling evidence can potentially aid a merchant, it can be difficult to muster new information for an old case.

The TAT given to a merchant for the Pre-Arbitration case is usually *2 working days*. With one reminder sent for each case. In case a response is not received from the merchant within the mentioned deadline, the case is closed in favour of the cardholder.

Furthermore, we would request the merchant to provide extra additional documents to make the merchant claim stronger as the documents provided during the first level of chargeback was already rejected by the bank upon review, hence sharing the same documents provided during the first level chargeback may result in the documents getting rejected for the second time and the dispute being raised to the ARBITRATION level.

ARBITRATION :-

The arbitration chargeback is one of the later/last stage of the chargeback process.

An Arbitration is raised when the parties involved- the bank, cardholder and the merchant are unable to resolve the dispute. A representative of the card scheme/network is asked to intervene and make a judgement.

The TAT given to a merchant for the Arbitration case is usually *1 working day*. With one reminder sent for each case. In case a response is not received from the merchant within the mentioned deadline, the case is closed in favour of the cardholder.

Furthermore, in case an Arbitration is raised the merchant will be charged the Arbitration Fees as levied by the respective Card Network.

Acquiring banks and merchants would often want to avoid entering into an arbitration, due to the large penalties (as levied by the card networks), time and effort involved.
Usually the Arbitration Fees/Penalty are often around US$500-900 on average, and more depending on the card association. The entire Arbitration process takes an average of around 10-45 days to the whole chargeback process.

Merchants may choose to avoid entering into arbitration for transactions below a certain amount, but find it worth the effort on transaction worth thousands of dollars.

Also, please check the chargeback guide here which might help you to understand and follow few best practices