

MERCHANTS

Chargebacks: how they work, what they cost and how to keep the ratio down

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What happens when a customer disputes a card payment, why a chargeback costs more than the sale, which ones are worth fighting and what brings the ratio down.

A chargeback is a card payment reversed by the customer's bank. The customer does not ask the merchant for the money back. They ask their card issuer, and the issuer takes it from the merchant's payment provider, which takes it from the merchant. It exists to protect cardholders from fraud and from merchants who do not deliver, and it works whether or not the merchant agrees.

That makes it different from a refund in every way that matters. A refund is the merchant's decision, costs only the sale, and leaves no mark. A chargeback is the bank's decision, costs more than the sale, and is counted against the merchant by the card schemes.

How a dispute moves

1. **The customer disputes the charge** with their bank. Under Visa's rules they generally have up to 120 days, counted from the transaction or from the date the goods or service were due.
2. **The issuer raises the dispute** with a reason code and takes the money back through the card scheme.
3. **The acquirer debits the merchant** for the amount, adds a fee, and passes on the reason and the deadline.
4. **The merchant accepts or responds.** Responding, known as representment, means sending evidence that the charge was valid. The schemes allow about 30 days at Visa and 45 at Mastercard, but the provider's own deadline is shorter and is the one that counts.
5. **The issuer decides.** If either side rejects the result, the case can go to pre-arbitration and then to the scheme itself, where the loser pays a further fee.

Why they happen

Visa sorts disputes into four families, and Mastercard's reason codes follow the same lines.

FAMILY	WHAT THE CUSTOMER IS SAYING
Fraud	"I did not make this payment."
Authorisation	The payment was taken without a valid approval.
Processing errors	Wrong amount, wrong currency, charged twice, or presented late.
Consumer disputes	Not received, not as described, a cancelled subscription still billed, or a refund that never arrived.

The fraud family hides two different problems. One is true fraud, where a stolen card was used. The other is the cardholder's own purchase disputed as fraud, usually called friendly fraud: a charge they do not recognise on the statement, a family member's purchase, or a subscription they forgot. The two need different remedies, so it is worth knowing which one you have.

What one costs

- **The sale.** The full amount goes back to the customer.
- **The goods.** Whatever was shipped or delivered is rarely returned.
- **A fee.** The provider charges for every chargeback, and in most cases keeps the fee even if the merchant wins.
- **The time.** Someone has to gather evidence against a deadline.
- **The ratio.** Every chargeback counts toward the figure that decides what the account costs and whether it stays open.

The last is the expensive one. A single chargeback is a small loss. A rising ratio changes the terms of the whole account.

The ratio

The chargeback ratio is the number of chargebacks in a month divided by the number of transactions. The card schemes run monitoring programmes on it, and a merchant inside one brings its acquirer fees and scrutiny. Visa counts reported fraud alongside disputes and treats 1.5% as excessive; Mastercard's programme starts at 1.5% together with 100 chargebacks in a month. Our article on [high-risk merchant accounts](#) sets those thresholds out in full.

Most providers act long before those lines, and few are comfortable above 1%. What they look at is the ratio, its direction, the mix of reasons, and whether the merchant responds to disputes at all.

Preventing them

Most chargebacks are decided before the sale is finished.

- **Make the charge recognisable.** The billing descriptor should be the name the customer knows, with a phone number or web address where the scheme allows one.
- **Make a refund easier than a dispute.** A customer who can reach someone and get their money back has no reason to call the bank. Publish the refund policy and answer quickly.
- **Make cancelling easy.** State recurring charges before the first payment, remind customers before a renewal, and stop billing the day they cancel.
- **Deliver, and be able to prove it.** Use tracked delivery for goods and keep access logs for digital services.
- **Authenticate.** With 3-D Secure, liability for most fraud disputes moves from the merchant to the issuer. Address and security-code checks screen out more.
- **Use dispute alerts.** Services run by the schemes, Verifi at Visa and Ethoca at Mastercard, tell a merchant about a dispute before it becomes a chargeback, so it can be refunded instead. A non-fraud dispute settled this way is reported to stay out of Visa's ratio; a fraud one still counts.

Fighting them

Not every chargeback is worth contesting. Accept the ones where the customer is right, and the ones where the evidence is thin or the amount is smaller than the time it takes. Contest the rest, because providers notice merchants who never respond.

The evidence that wins depends on the reason:

- **Not received:** carrier tracking showing delivery to the address given, or logs showing the digital product was used.
- **Not as described:** the product description the customer saw, and the correspondence with them.
- **Cancelled subscription:** the terms accepted at sign-up, the date of the cancellation request and the billing dates around it.
- **Fraud:** the 3-D Secure result, and the customer's history. Under Visa's Compelling Evidence 3.0 rule, two earlier undisputed payments on the same card, between 120 and 365 days old and sharing details such as the IP address or device with the disputed one, can settle a friendly-fraud dispute in the merchant's favour.

Answer the reason code that was raised and nothing else, keep the response short, and send it before the provider's deadline.

One mistake is worth naming. Once a chargeback has been filed, do not refund the customer as well. The bank has already taken the money, and a refund on top pays them twice.

What to track

Count chargebacks every month, by reason and by product. Watch the ratio against your transaction count and not against revenue, because that is how the schemes measure it. Note how many disputes you answered and how many you won. A provider reviewing the account, or deciding whether to open one, will ask for exactly these numbers.

Sources

- [Chargeback Gurus: the Visa chargebacks guide](#)
- [Chargeback Gurus: chargeback time limits](#)
- [Chargeback Gurus: Visa's change to the monitoring rules](#)
- [Qualpay: Visa Compelling Evidence 3.0](#)

Read online: <https://payments-marketplace.com/insights/chargebacks-explained/>

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