

Credit and debit card transaction chargebacks

13 December 2016

We sometimes receive complaints about credit and debit card chargebacks. Complaints come from cardholders and merchants. Every credit or VISA/MasterCard debit card transaction involves the following:

- the cardholder
- the merchant
- the card issuer – the cardholder’s bank
- the card company – the business operating the payment network (for example, VISA and MasterCard)
- the merchant’s bank, which gives the merchant the means of accepting credit card payments.

What happens when a credit card is used for payment?

When a cardholder makes a purchase, the cardholder’s bank pays the merchant’s bank and the merchant’s bank transfers the money to the merchant. The cardholder repays the bank.

The only direct relationships are between the cardholder and the cardholder’s bank, and the merchant and the merchant’s bank. These relationships are governed by the respective Conditions of Use. There is no direct relationship between the issuing bank and merchant bank, and no contract between cardholder and card company. The card issuer, merchant’s bank and card company are involved to the extent they provide technology to enable payments to be made between them.

Card-issuing banks and merchant banks link up with international card companies (usually VISA or MasterCard), which are the central link in facilitating transactions. These global networks enable the relationship between card-issuing banks and merchant banks.

What is a “chargeback”?

A transaction may be disputed. But credit card transactions can’t be cancelled so when there is a transaction dispute, somebody still has pay for the goods and services purchased.

How to contact us

In certain circumstances, a bank can, on behalf of its customer, charge a transaction back to the merchant's bank, which will then debit the merchant's account. Chargeback arrangements, rights and timeframes are explained in the card company's rules.

Chargebacks aren't covered by consumer rights legislation, but it's industry practice to charge back disputed transactions if there is a valid reason. Cardholders have no automatic right to demand a chargeback.

A card company's chargeback rules determine whether:

- the cardholder's bank (that is, the cardholder) has to pay for the disputed transaction, or
- the cardholder's bank can charge the amount back to the merchant's bank so the cardholder's bank (i.e. the cardholder) isn't liable.

The chargeback process

Grounds for attempting a chargeback vary depending on card company rules. A cardholder has a specified time under the credit card's Conditions of Use to dispute a transaction. If they don't, it is assumed they have accepted responsibility to pay.

Chargeback attempts may fail if there is not a valid reason for it, and card issuers are unable to force a merchant's bank to refund credit card payments.

If a customer makes a chargeback request on the basis that they have not authorised the transaction, their bank will charge the transaction back to the merchant's bank. The merchant will be asked for proof of the transaction. If the merchant has information showing the cardholder authorised the transaction, and no other chargeback right exists, the transaction is processed back to the cardholder's account.

If proof of purchase isn't supplied within the required timeframe, the cardholder's bank can charge the transaction back. If the merchant's bank can't then establish the cardholder authorised the transaction, it has to accept the chargeback and debit the merchant.

Other situations in which card company rules may allow for a chargeback include:

- the cardholder paid for, but did not receive, goods or services (such as when a gift card has been bought from a store that then closed down before the card is used)
- the cardholder received defective or incorrectly described items (the cardholder must first return the goods and get acknowledgement of their receipt from the merchant)
- the merchant entered the wrong amount for the transaction
- the merchant duplicated the transaction
- the cardholder cancelled a recurring payment set up on the card account, but the merchant continued to process payments.

Generally, banks and card companies have no role in disputes between cardholder and merchant about the supply or quality of goods or services.

How to contact us

Complaints about chargebacks from cardholders

In considering chargeback complaints, we look at whether the:

- conditions of use set out the deadline for disputing a transaction, and the consequence of failing to do so by then
- cardholder received appropriate and timely information and forms to dispute a transaction
- cardholder's bank processed the chargeback request appropriately, including using the proper chargeback reason code for each disputed transaction, and completing chargeback documents and other requirements correctly
- cardholder's bank correctly assessed the response of the merchant's bank to the chargeback.

If we find a cardholder's bank failed to carry out a transaction dispute process correctly, we may award compensation. However, we usually cannot uphold a complaint about an unsuccessful chargeback if we find the bank followed the chargeback process correctly.

We occasionally get complaints about credit card payments to companies that provide services online, such as betting and binary options trading. The binary options companies are usually based overseas, and provide a platform for customers to trade on whether stocks or currencies will increase or decrease in value. Trading in binary options involves speculation and you either win or lose as a result of your trade.

The complaints we receive are mainly from customers disputing transactions because they believe they have been misled by the merchant about the service offered or the returns, or they have discovered that the service was a scam. A bank generally can't charge back these transactions because the customer authorised the transactions, and the merchant has provided the service. We recommend bank customers exercise caution before providing their credit card details online.

Complaints about chargebacks from merchants

A merchant may complain that its bank was wrong to allow a chargeback, arguing the bank had no right to take money out of its account, or disputing the reason for the chargeback request.

The relationship between the merchant and merchant's bank is governed by a contract between them relating to the card-processing facility, which usually includes a merchant agreement and operating guide.

Merchant complaints often arise when the merchant has been the victim of fraud. A fraudster may have used a stolen card to buy the merchant's goods or services – usually by phone or internet. Such transactions, being unauthorised, will be charged back to the merchant. Both merchant and cardholder are innocent victims, but the merchant is liable for such transactions under its contract with the bank.

Merchants can reduce their risk of unauthorised online transactions by using security measures such as Verified by VISA or SecureCode.

How to contact us

Case note 1

Mr G traded, or bet, on whether stock and currency values would increase or decrease. He made several deposits to his trading accounts, providing his credit card details so the merchants could charge his card. Unfortunately for Mr G, his trades were unsuccessful and he lost most of his money.

He contacted his bank to dispute the charges on his credit card from two separate merchants. He alleged the charges by the first merchant were unauthorised, and that the second merchant hadn't provided the services he had paid for.

The bank initiated the chargeback process but both merchants disputed the chargebacks. The first merchant provided a signed authorisation form and the second merchant provided a screenshot showing Mr G had engaged in numerous trades using money he had deposited to his online account. Therefore the bank couldn't chargeback the transactions. Mr G didn't accept this and complained to our office.

We looked at whether the bank followed the chargeback process appropriately and whether it had correctly assessed each merchant's response. The first merchant's authorisation form clearly showed Mr G had authorised all deposits he disputed. The account screenshot the second merchant provided showed Mr G had engaged in numerous online trades which was the service the merchant provided.

We were satisfied the bank was unable to charge back the transactions and advised Mr G that we were unable to assist him further.

Case note 2

Mr M opened an account with online betting company XYZ Ltd and placed a \$6,000 bet, which was accepted. He gave XYZ Ltd his credit card details to charge his credit card. A few days later he received a message from XYZ Ltd asking him to verify his identity. His account access was restricted until it could successfully do this.

Mr M contacted his bank to retrieve the payment. His bank initiated a chargeback and the bank contacted XYZ Ltd, which provided evidence Mr M had authorised the disputed payment. For this reason, the bank was unable to charge back the transaction. Mr M did not accept this and complained to us.

We were able to consider only his bank's involvement in the transaction because XYZ Ltd wasn't a member of our scheme. We found that because Mr M had given his credit card details to the company, he had authorised the payment and his bank was obliged to follow his instruction.

We then sought to establish whether the bank should have charged back the payment. We referred to international credit card operating rules, which detail circumstances in which transactions can be charged back. One is where goods or services aren't supplied or don't perform as promised. We considered Mr M's payment was for placing a bet, not buying an XYZ Ltd account. The bet was placed successfully, so Mr M had received the service he had paid for.

How to contact us

Mr M didn't accept our findings and argued XYZ Ltd had breached its terms and conditions by allowing him to place a bet without verifying his identity first. We suggested he sought legal advice about difficulties with his XYZ Ltd account.

Case note 3

Mr S entered his credit card details on a movie streaming website to see whether he could receive the service. He was then charged by the merchant for a service he says he never received. He contacted his bank to make a complaint about the credit card provider and the merchant. He also wanted the charges removed from his card.

The bank initially responded saying it could do nothing because he had authorised the transactions by entering his card details on the website. As a goodwill gesture, the bank refunded the money charged to his credit card. However, Mr S didn't think the bank had gone through the proper process when he complained to it and the merchant had not been held accountable, so brought his complaint to us.

We found the bank had failed to advise Mr S properly about the chargeback process and that it could have required the merchant to provide evidence that he authorised the transaction. The bank's poor handling of Mr S's complaint resulted in his missing the opportunity to dispute the transactions. The bank agreed its service was poor and offered \$500 to compensate for inconvenience. We advised Mr S this was a reasonable offer, and he accepted it.

Case note 4

Mrs T owned a shoe shop and received a telephone call from a Singapore customer asking her to send shoes there. The customer gave his credit card details and Mrs T made a manual transaction through her shop's EFTPOS terminal.

Payment was credited to her account and Mrs T processed five more orders from this customer. Several weeks later the bank advised Mrs T the payments had been made with a stolen card and it would reverse nearly \$4,000 for the fraudulent transactions.

Mrs T complained the bank shouldn't be able to do this. When the funds were credited to her account she assumed the orders were legitimate and wouldn't have continued to send the shoes if she had known they weren't. The bank explained that she had signed an agreement to accept only face-to-face, or in-person, transactions, and referred her to the merchant agreement provision that the merchant bears all the risk of a "card not present" transaction. Mrs T complained to us.

We asked the bank to provide the form Mrs T had signed and the merchant agreement. The form confirmed Mrs T had agreed to accept only face-to-face transactions. The merchant agreement clearly stated the merchant accepted the risk for any other type of transaction. We explained to Mrs T that she, as merchant, bore the risk of accepting transactions not made in person.

How to contact us