

# 10 Ways To Prevent Chargebacks



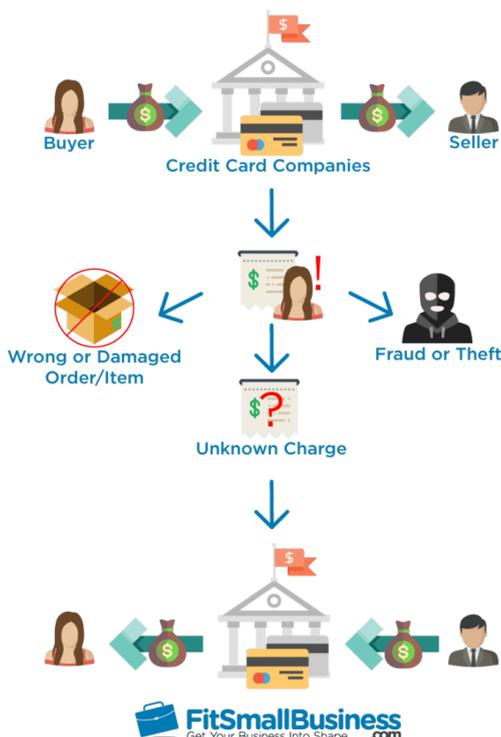
# 10 Ways To Prevent Chargebacks

A chargeback occurs when a buyer contacts their credit card issuer and disputes a charge to their account. The seller is debited the amount of the charge, plus a fee called a chargeback fee. Sellers are given a chance to defend the charge, but if resolved in the buyer's favor, those funds are gone for good.

Obviously, chargebacks are irksome for sellers. But there are ways you can protect yourself from the frustration and financial losses, plus professional help is available to fight chargebacks if needed. Let's take a closer look at what happens when you're hit with a chargeback, and what you can do about it.

## What Is A Chargeback?

When a customer disputes an amount that you, the seller, charged to their card, the card issuer charges that amount back to you. Thus, the term **Chargeback**. Here's the truly frustrating thing: First, they remove the funds from your account, then they notify you. Surprise!



The good news is you'll get a chance to defend the chargeback. But it's a time-consuming process and even with the best documentation, credit card companies sometimes find in favor of the buyer. When that happens, you're out the money, the **Chargeback Fee**, and the product or service provided.

No fair, you say? You're absolutely right. But, as in life, business isn't always fair. The best thing you can do is understand why chargebacks occur and put measures in place to prevent those situations whenever possible. Let's look at ways to do that now.

## 10 Things Sellers Can Do To Prevent Chargebacks

There are several ways you can protect yourself from losses due to credit card chargebacks. Some, like validating ID for in-store shoppers, are simple to do. Others, like requiring signatures on all ecommerce deliveries, are unrealistic. The first step is to recognize and minimize your risk with these 10 chargeback prevention tips.

### 1. Understand why chargebacks occur

Customers initiate chargebacks for many reasons, so knowing why they happen is the first step in preventing chargebacks. Sometimes actual fraud is the culprit, meaning the cardholder's information was stolen and used to make unauthorized purchases, but not always. Here are the top reasons why customers dispute credit card charges:

The customer doesn't recognize the store or recall the purchase

# 10 Ways To Prevent Chargebacks

This is one of the top reasons chargebacks are issued. Sometimes it's legitimate fraud where card information was stolen, but that's not always the case. It's very common for online shoppers to search several sites before making a purchase. Often, they simply don't recall the name of the seller, don't recall making the purchase, or don't mentally connect that item with your store. Other times someone authorized to use the card made the purchase but did not share that information with the card holder.

## The customer felt they were incorrectly billed

Billing disputes occur in all types of businesses. Questions over sale prices, unexpected shipping fees, added service charges, or automatic billing can trigger a customer dispute that leads to a chargeback.

## The customer didn't receive the item ordered

This is all too common in ecommerce sales. Consumers are rarely home all day, so requiring a signature can be a major inconvenience. Though, [remote signature capture](#) is available with select providers and offers added protection. Signature or no, ecommerce packages are generally left on the porch and can, on occasion, go missing. In other cases, customers claim they received the package, but that it didn't contain all of the items that they ordered.

## The customer felt an item was not as described, defective, or service was misrepresented

This is another chargeback that's common in both sales and in service businesses. In online selling, buyers can't examine items in person and sometimes are surprised by actual dimensions, colors, or other factors. Chargebacks also occur when a customer purchases something in-store or online, then has a problem with it. Often, they don't want to bother returning it and dispute the charge based on a defective item.

Once you understand the common causes for chargebacks, you can put the following preventative measures in place.

## 2. Use an accurate Payment Descriptor on your merchant account

The **Payment Descriptor** is how your business name and contact information appears on customers' credit card statements and online account screens, as shown below.



Jun. 25, 2017	DOVER SADDLERY - H HOUSTON TX Get up to \$10 off	\$ 42.18	\$ 3,721.72
Jun. 24, 2017	HCTRA EZ TAG REBILL 281-8753279 TX	\$ 40.00	\$ 3,679.54
Jun. 23, 2017	KROGER #362 CYPRESS TX	\$ 36.99	\$ 3,639.54
Jun. 23, 2017	WALGREENS #3449 CYPRESS TX	\$ 9.73	\$ 3,602.55
Jun. 21, 2017	T-MOBILE/AUTO PAY 800-937-8997 WA Recurring Charge	\$ 317.62	\$ 3,592.82
Jun. 21, 2017	KROGER #362 CYPRESS TX	\$ 45.30	\$ 3,275.20
Jun. 20, 2017	RELIANT ENERGY 0866227100 TX	\$ 198.38	\$ 3,229.90
Jun. 20, 2017	SMARTPAK 8004618898 MA	\$ 164.77	\$ 3,031.52
Jun. 20, 2017	AMAZON MKTPLCE PMTS AMZN COMBILL WA	\$ 19.99	\$ 2,866.75

Ideally, your payment descriptor includes your actual store name and a working phone number, like T-Mobile, above. Businesses that use a different name than their store for their descriptor, such as a parent company, are prone to chargebacks since buyers don't connect that name to the store where they shopped.

# 10 Ways To Prevent Chargebacks

Real story: I ran two websites, KidSmartLiving.com & SimplySmartLiving.com, but had one merchant account for both under my corporate name, SmartLiving Co., Inc. I saw the connection clear as day, but many customers did not. So, after a few months of answering chargebacks from customers not recognizing the SmartLiving Co. name, I changed my descriptor to read: KidSmart & SimplySmartLiving. Problem solved.

If you're not sure how your payment descriptor reads, simply contact your merchant account service and they'll tell you. They typically use the business name you provided when creating your merchant account, but it's a good idea to check if you're unsure.



“Mystery shopping your own website is the only way to know for certain how your company name appears on shoppers' credit card statements. Shop your site with your personal credit card, then check that your bill shows your company's correct, recognizable name and phone number.”

— Srii Srinivasan, Co-founder, [Chargeback Gurus](#)

## 3. Employ best practices for card-present and card-not-present charges

Understand the information you're required to verify for credit card purchases and make these practices part of your daily routine. A few simple precautions can make a big dent in the number of chargebacks you receive.

For **card-present (CP) operations** such as retail stores and sales make using a mobile card reader, always ask for ID and make sure the card name and signature is a match. This sounds simple, but it's a surprisingly rare practice these days. This one habit can drastically reduce your exposure to chargebacks due to stolen cards. It's also wise to have customers sign your receipt copy, no matter how small the charge.

# 10 Ways To Prevent Chargebacks

For **card-not-present (CNP) operations** like online stores, ensure that you use a [secure ecommerce platform](#) and enable address verification (AVS). AVS matches the billing address provided to the one on record with the buyer's credit card issuer. Also require that shoppers provide their card ID (CID), which is the 3-digit number on the back of Visa, MasterCard, and Discover cards, or the 4-digit number on the front of American Express cards.

The same precautions apply to **service companies** that accept credit card payments. Ask for ID if you accept credit cards in-person. Use a secure payment system like [Square](#) for [online invoicing](#) and [recurring automatic payments](#). And always get payment authorizations and contractual service agreements in writing to protect you from chargebacks after services are rendered.

## 4. Use a reputable payment processor with fraud detection and seller protection features

Many [payment processing solutions](#) are designed with the needs of small sellers in mind and that includes seller protection and fraud prevention features. If your current payment provider doesn't offer these benefits, it might be time to shop around.

**Fraud prevention features** can include monitoring that goes above and beyond standard AVS and CID verification. These include advanced rules that let you control which charges are automatically approved, define instances where orders are accepted but held for review, whitelisted and blacklisted account numbers, and more.

**Seller protection features** actually cover chargeback losses for eligible transactions, up to a certain amount (\$250 for Square) each month. Both [Square](#) and [PayPal](#) offer [seller protection](#) programs, as do many other merchant account providers. PayPal even offers an alternative [dispute resolution](#) process via their platform, while Square has a convenient [dispute management](#) screen within your [Square dashboard](#).



# 10 Ways To Prevent Chargebacks

“While most payment processing services offer some level of fraud detection and prevention, they don’t guarantee the transaction. This means their approved charges actually can be fraudulent. When that happens, you’ll lose that money in an unrecoverable chargeback, plus pay their chargeback fee. Chargeback protection firms apply far more data to ensure the viability of each transaction and back each approved order with a chargeback guarantee. Most cover both U.S. and international orders, too, making it safer for small sellers to expand into global selling.”

— Sourabh Kothari, Director of Merchant Advocacy, [Signifyd](#)

If you receive chargeback notification, research the purchase and contact the customer first. I guarantee they will be surprised and even impressed that someone cares enough to hear them out. Often, the issue can be sorted out over the phone by simply jogging the buyer’s memory or explaining the charge.

Real story! My online store [KidSmartLiving.com](#) sold baby safety items along with kitchen goods like plastic tableware and vinyl placemats. But, buyers didn’t always connect a “kid company” to their placemat, drinkware, or dishes purchase. I cannot tell you the number of chargebacks I resolved through a simple phone call to explain the charge. Lesson learned! I soon after [launched SimplySmartLiving.com](#) to sell these items and had far fewer chargeback issues.

## 5. Respond to customer issues and complaints ASAP

Many times, a potential chargeback can be stopped before it happens using good ol’ customer service. Make it a policy to respond to customer issues via phone or email immediately or within a few hours. Have a liberal return policy and process refunds for returns promptly.

Of course, you can’t please everyone, some people are crooks trying to game the system, and some packages actually do disappear off porches. But a simple call is a cheap way to clear up some of these issues.

## 6. Post a clear return policy in-store, on websites, and on receipts

# 10 Ways To Prevent Chargebacks

If you have a chargeback involving a return, you'll be asked to provide proof that your return policy is clearly posted and available to customers to review. If you don't have this, it's almost guaranteed the credit card company will side with the buyer in a dispute. So, create a return policy, post it in-store, on its own page on your website, and include it on receipts or in packing materials.



“Clear customer service terms and conditions can reduce customer issues that lead to chargebacks by setting expectations up-front. Include this information everywhere, including website and checkout pages, order confirmation and status emails, and printed on receipts and packing slips.”

— Srii Srinivasan, Co-founder,  
[Chargeback Gurus](#)

## 7. Record pertinent information for every sale

Gone are the days of hand-written sales tickets and charge receipts. In-store [point-of-sale](#) systems are low-cost and easy to use, and even entry-level [ecommerce platforms](#) have order management features and [shipping management tools](#) that track every sale in detail.

If you have these systems in place, when a chargeback strikes, you can easily access the products sold, buyer information, payment details and, if needed, proof of delivery in just a few keystrokes.

## 8. Be selective when fighting chargebacks

No small business owner likes to lose money, but not every chargeback is worth fighting. When faced with a dispute, you have the option to refund the customer and not fight the dispute. If the amount is minimal, or if it seems unlikely that you will win because of circumstances like a lost package or service fee question, it's sometimes best to just refund and move on.

Here's why. Payment processors frown upon accounts that have a high number of chargebacks. If you fight them all and lose a high percentage of those, your account could be in jeopardy. The last thing any seller wants is to be considered a high-risk account. That comes with all sorts of inconveniences including held funds, higher rates, added fees, and even account suspension. That's a lot worse than eating a few losses each year.

## 9. Know if your business is at a higher risk for chargebacks

# 10 Ways To Prevent Chargebacks

Every business that accepts credit cards is at risk for chargebacks. There's no business model, selling opportunity, or credit card processing system that catches every potential problem. But, two types of businesses are at higher risk than others. You need to know if yours is one so you can take extra precautions.

## All online sellers

Online sellers operate under the card-not-present (CNP) model which means they have no way to physically verify the identity of the person making the payment. Cyber criminals know this and focus their thieving efforts online.

## Sellers of high-risk products like tech gadgets and high-value luxury goods

Certain items attract thieves, plain and simple. High-value designer goods like watches, purses, and tech gear can easily be purchased on stolen credit cards and quickly resold by criminals for cash.

Real story! On SimplySmartLiving.com, my primary product collection is plastic tableware. Now, plastic plates and glasses rarely top a criminal's list of must-have items, so we had pretty lax order flagging standards... at first. Three large second-day air orders and more than \$700 in unrecoverable chargebacks later, we changed our policy to flag, hold, and personally verify large expedited orders. If fraudsters will steal plastic glasses, believe me, no business is immune.

To avoid chargebacks, high-risk businesses should put additional verification procedures in place for certain types of orders. Here are some things to look for:

- Large or high-value orders with expedited shipping
- Orders with different bill-to and ship-to addresses
- Orders listing an email from a free service (like Hotmail)
- International orders
- Orders with a suspicious mix of products
- Any order that fails AVS

**10. Use a chargeback protection service to verify sales**

# 10 Ways To Prevent Chargebacks

If your business receives a number of chargebacks each month due to your overall volume or industry, [chargeback prevention services](#) can help. Companies like [Signifyd](#), [Chargeback Gurus](#) and [Chargeback Hero](#) work with sellers to prevent and fight chargebacks in many ways.

Some chargeback prevention services integrate with your sales systems to provide chargeback protection up-front via advanced fraud protection tools. For example, Signifyd reviews ecommerce transaction in real-time against its vast database and 3rd party data, and guarantees all approved transactions with 100% financial protection against chargebacks.



“Chargeback protection firms use more data sources than standard credit card processors to approve each order, allowing them to catch a greater percentage of fraudulent orders while avoiding false declines. If a chargeback does occur on a guaranteed transaction, sellers are protected from the loss. Chargeback protection firms assume fraud risks and effectively eliminate chargeback concerns for ecommerce sellers.”

— Sourabh Kothari, Director of Merchant Advocacy, [Signifyd](#)

Other services take on the chargeback fight for you and charge a percentage of any funds recovered.



# 10 Ways To Prevent Chargebacks

“Chargeback prevention services give sellers an additional layer of protection by analyzing their clients’ exposure to chargebacks and setting a range of remedies and alerts in place to catch a potential chargeback before it happens. If one does occur, the service manages the response and works toward a favorable resolution.”

— Srii Srinivasan, Co-founder,  
[Chargeback Gurus](#)

Of course, [chargeback prevention services](#) come with a fee, but for some high-volume or high-risk companies, the benefits are worth the costs.

## What To Do When a Chargeback Occurs

Even if you execute all of the above perfectly, every seller that accepts credit cards will eventually face a chargeback. Here are the 5 things you need to do when it happens to you.

### 1. Open every letter from your payment processor

Don't assume that a letter or email from your merchant account provider is a statement. Chargeback notifications are generally mailed or emailed just one time, and you have a limited amount of time to respond. Credit card companies don't offer extensions for nonreceipt or for not opening a notification in a timely manner. After the response deadline, it's too late and you have absolutely no recourse.

### 2. Respond to chargeback notifications immediately

This is your money we're talking about here. Yes, pulling the documentation needed to fight a chargeback is a hassle. But, leaving it to the last minute is risky and can even result in added fees from your credit card processor. Do it too many times and your merchant account could be suspended. Then you really have a headache on your hands.

### 3. Contact your customer if appropriate

Often, good customer service is all that's needed to resolve a chargeback in your favor. Avid online shoppers are notorious for not recognizing the names of stores or forgetting purchases altogether. A friendly email or phone call can jog their memory. Plus, you'll find they appreciate the personal follow-up and will remember you the next time they shop.

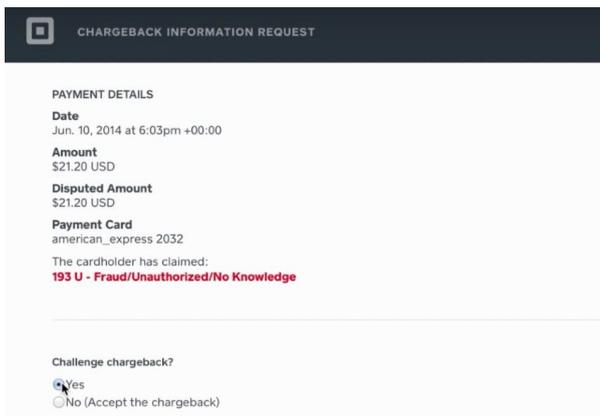
### 4. Gather all documentation regarding the purchase

Chargeback notifications include a checklist of documentation required to verify the charge. Depending on the type of sale, you'll be required to provide some combination of these six items:

# 10 Ways To Prevent Chargebacks

1. Completed chargeback notification form
2. A copy of the sales order, invoice, or receipt
3. Customer signatures for in-store receipts, contract agreement, and recurring charge authorizations
4. Charge documentation showing the billing address verification (AVS) results
5. Proof of delivery for online orders
6. A copy of your return policy in the case of a denied return

Once you have everything gathered, complete the form listed on your chargeback notification, write your case number on every piece of documentation, and send per the instructions on your notification. Many payment services ask you to fax this information but some like [PayPal](#) and [Square](#) have an online submission, as shown below:



The image shows a screenshot of a 'CHARGEBACK INFORMATION REQUEST' form from Square. The form is titled 'CHARGEBACK INFORMATION REQUEST' and contains the following information:

- PAYMENT DETAILS**
- Date:** Jun. 10, 2014 at 6:03pm +00:00
- Amount:** \$21.20 USD
- Disputed Amount:** \$21.20 USD
- Payment Card:** american\_express 2032
- The cardholder has claimed:** 193 U - Fraud/Unauthorized/No Knowledge

At the bottom of the form, there is a section titled 'Challenge chargeback?' with two radio button options: 'Yes' (which is selected) and 'No (Accept the chargeback)'.

Image Source: Square

## 5. Wait for the final decision

After you provide all required information, the buyer's credit card company reviews the case and makes a determination. If decided in your favor, the funds are returned to your account and any chargeback fee is refunded, too. If decided in the customer's favor, the funds and fee are gone for good.

Eating the loss is always painful. Whenever this happens, use it as an opportunity to review the reasons the chargeback occurred and why you lost the dispute. Then take a hard look at your sales approval policies and fraud prevention measures to spot areas for improvement to help prevent future chargebacks.

## The Bottom Line: Chargebacks

Chargebacks are part of business these days and every seller that accepts credit card payments is at risk. Sadly, credit card issuers often take the buyer's side, even after you, the seller, provide adequate proof that the purchase is valid. This is especially true with ecommerce sales where the customer can easily claim the item did not arrive, even when you have proof of delivery. Sadly, this is just something online sellers must deal with.

That's why it's a good idea to use a payment service that offers chargeback protection, like [Square](#), or employ the services of a [chargeback prevention company](#) to provide an additional layer of protection.

Do you run a small business that accepts credit cards? How do you handle customer disputes and chargebacks? We'd love to hear about your experiences and solutions in the comments.