

# This Little-Known Credit Card Perk Can Save You Big

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By Credit.com



One of the best reasons for paying for a purchase with a credit card instead of a debit card or cash is the power it gives you to dispute charges. If there is a problem with a purchase you've charged — you were billed the wrong amount or you didn't get what you ordered — all it takes is a simple letter, phone call or perhaps even a few clicks online to launch an investigation.

When you dispute a credit card charge, you initiate something called a "chargeback." It works like this:

You spot a problem on your credit card statement. Maybe you don't recognize a charge, you've been billed twice for the same item, or there was a problem with something you bought using your credit card. You dispute it with your card issuer.

Your card issuer (called the "issuer" in industry parlance) sends the chargeback notice to the merchant's bank or processor (called the "acquirer"). The acquirer may be able to resolve it there if there is clearly an error, but most likely it will forward the dispute to the merchant.

The acquirer forwards the chargeback to the merchant, either by snail mail or electronically. The merchant either accepts it or tries to challenge it by providing additional information that is transmitted back to the acquirer (this is called "representing" it). The acquirer will either accept the chargeback or forward it to the issuer.

The issuer ultimately makes most decisions about whether to credit the customer's account or challenge the chargeback request, and most disputes are resolved in the consumer's favor. If it can't be resolved satisfactorily at this point, Visa or MasterCard (which aren't issuers, but write the rules that their participating banks and merchants must follow) may get involved but by and large the process takes place without their direct involvement.

Finally, you, the cardholder, get notified of the resolution with a permanent credit to your account, a clarification of the charge, or an explanation of why your request for a credit has been denied.

## **How Chargebacks Affect Businesses**

Ultimately chargebacks cost merchants in several ways. They may be charged a chargeback fee, which usually ranges from \$5 to \$15 but could go much higher. "Chargeback fees vary, depending on the status the merchant enjoys with the acquirer" says Dennis Wood, CEO of Chargeback.com, a firm that helps merchants try to resolve chargebacks. If there is a fee, however, he notes that "the merchant will pay a fee regardless of whether they are right or not."

The cost of customer service in these cases can also be significantly higher than if the customer just called the seller directly. Why? Chargebacks are a hassle. "I liken the process to doing taxes for merchants. It's three to five pages of documents that they have to assemble every time, and there's a very specific format they have to follow," says Wood. He says each one takes a merchant, on average, about one and a half to two hours to process.

Plus, in a direct interaction, it can be a lot easier for the merchant to figure out what the problem is, and to find out what can be done to resolve it to the customer's satisfaction.

In addition, if a particular seller gets lots of chargebacks their fees may go up, some of their credit card sales proceeds may be held up for a period or time to make sure they have adequate funds to cover new chargeback requests, and in the worst-case scenario, their ability to accept credit cards will be revoked.

There can be shady merchants, of course, and that's why paying with a credit card is so much safer than debit cards or cash. But there can also be consumers who use this tool to game the system. They'll buy goods online to either use or resell, and then claim they never received the item in order to get a refund.

Request too many chargebacks, though, and you can be flagged in systems that identify consumers who are trying to defraud or abuse the system. You may then find you have to jump through more hoops to make purchases online in the future.

## **Are You Entitled to a Chargeback?**

The right to dispute a credit card charge is based in federal consumer protection law. It's called the Fair Credit Billing Act. Under that law, you have up to 60 days from the date the statement on which the charge appeared was mailed to you to challenge a charge. In addition, all credit companies give consumers up to six months to initiate a dispute.

Fraud is the top reason consumers contest charges on their statements, and there are measures merchants can take to help ensure that the person placing the order is the cardholder. But another big reason, says Wood, is customer service. “A high (level of) customer service availability is the best way to prevent chargebacks,” says Wood. “Cardholders are charging it back because they aren’t confident they can get the customer service they want.”

A recent survey from the Arizona State University’s W.P. Carey School of Business found that 56 million American households experienced at least one customer problem during the past 12 months, and that rate is on the increase.

Just this month I discovered a merchant double-billed me for a \$14.45 purchase. I could have easily pressed a button on my online credit card statement to dispute the charge, but in doing so I would have added another layer of cost and complexity for the merchant. I chose to call them instead. It’s a bit more work for me, but I knew that if I initiated a dispute through my card company, it could wind up costing them as much — or more — than they made on my purchase.

Of course, if they were unwilling to rectify their their mistake, you bet I’d initiate a chargeback.

I’ve got the power.



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