Everything You Need to Know About Payment Chargebacks

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Despite the benefits of modern payment processing, chargebacks remain a challenge for law firms. A chargeback happens when a client disputes a card payment, triggering a refund.

While accepting card payments is valuable, your firm should be prepared to manage and prevent chargebacks.

In this post, we cover why chargebacks happen, how the process works, and how your firm can respond. Plus, if you use Clio Manage, we'll show how Clio Payments helps streamline chargeback handling.

With Clio Payments you can manage billing across your firm, including chargebacks, and offer clients flexible payment options, payment schedules, split billing and more.

What is a chargeback?

The cardholder's bank reverses a debit or credit card payment when the cardholder disputes the charge, creating a chargeback. The bank "charges back" the amount of the disputed payment to the merchant or service provider.

In the context of payments for legal services, chargebacks lead to the money being returned to the cardholder without the law firm's approval. The firm then has a limited amount of time to challenge the payment dispute and fight the chargeback.

Are chargebacks illegal?

While they may be frustrating to deal with, chargebacks are not illegal when customers feel they have a legitimate dispute. However, chargeback fraud—such as when a customer intentionally abuses the chargeback process or knowingly falsely reports a legitimate transaction for a chargeback—is a type of fraud.

Is a chargeback a refund?

While both a chargeback and a refund aim to return money to the customer, a refund is a voluntary action by the merchant, whereas a chargeback is a dispute resolution process involving the customer's bank.

Why might a legal client request a chargeback?

For merchants and non-legal service providers, customers may file chargeback requests for several reasons, such as:

- The customer may not recognize the transaction and suspects it is fraudulent.
- The services provided may not satisfy the customer.
- The customer may simply be making a bad-faith effort to obtain goods or services free of charge.

Examples of chargeback scenarios

As for legal clients, their typical reasons for chargeback requests are similar. These may include:

- **Unfamiliar charges.** It is possible for cardholders to simply not recognize your firm's charge, which is an easily resolved dispute.
- **Dissatisfaction with services.** Clients may be dissatisfied with the legal services they received or the amount charged. This issue often arises in areas where clients pay upfront for prepaid consultations or flat fees.
- **Fraudulent transactions.** If someone makes a payment to your law firm using stolen credit card information, the legitimate cardholder will likely report the transaction for a chargeback. There may be some overlap in unfamiliar and fraudulent reasons for chargebacks, as the card holder may claim a fraudulent transaction because they don't recognize it.

Debit Card vs Credit Card Chargebacks

When disputing a transaction, both debit and credit cards offer chargeback options, but there are important differences to be aware of.

1. Time Frames and Ease of Filing:

- **Credit Cards:** Typically allow up to 120 days to file a chargeback (dependent on issuer), with a straightforward process.
- **Debit Cards:** Often have shorter filing windows, sometimes as little as 60 days, and the process can be more complicated.

1. Consumer Protections:

- **Credit Cards:** Offer stronger protections for customers under the Fair Credit Billing Act (FCBA), limiting their liability for unauthorized charges.
- **Debit Cards:** Governed by the Electronic Funds Transfer Act (EFTA), offer less protection and carry higher potential liability if issues aren't reported promptly.

1. Resolution Process:

- **Credit Cards:** Typically faster and more consumer-friendly, with issuers often siding with the customer.
- **Debit Cards:** Can take longer, with stricter scrutiny from banks since the money is already withdrawn.

What happens when a chargeback is requested: Chargeback process

Broadly speaking, the chargeback process for law firms has two main phases—the client's initiation of the chargeback and the firm's opportunity to challenge the payment reversal.

1. Client initiation of the chargeback

The chargeback process begins when a legal client disputes the validity of a payment they made using an accepted credit or debit card. For law firms using Clio Payments to accept payment for services, these accepted cards include Visa, Mastercard, American Express, Discover, JCB, and UnionPay among others. Whereas accepted debit cards include Discover, Visa and Mastercard.

The chargeback initiation results in the funds being returned to the cardholder immediately, as well as an additional chargeback fee. The law firm must then shoulder the burden of proving the payment was legitimate and valid.

The issuing bank will assign a reason code to the chargeback, based on the client's reason for disputing the charge. Each of the major card carriers has a different set of standardized reason codes. For example, the American Express reason code AO1 signifies "Charge

Amount Exceeds Authorization Amount." Each chargeback case requires different handling because each reason code comes with specific types of required evidence and varying standards of proof.

When clients initiate chargebacks with their law firms, it's important to remember that the card networks determine the chargeback rulings, and Clio must adhere to their rules. With the standard procedure of all chargebacks, only the cardholder who has made a payment can initiate a chargeback—Clio has no control over when a cardholder decides to do this.

2. Challenging the client's chargeback

Once a cardholder initiates a chargeback, a law firm may either accept the chargeback or fight it through the process of representment. In fighting the chargeback, the following occurs:

- **Evidence gathering.** The firm gathers all appropriate documentation that helps prove the chargeback dispute reason as false.
- **Evidence submission.** The firm submits evidence to the "issuing bank" (AKA the bank that issued the credit card) that the transaction was valid and the chargeback claim should be overturned.
- **Review.** The issuing bank reviews the evidence and issues a ruling.
- **Result.** If the decision rules in favor of the law firm, the funds will be returned.

Accordingly, the law firm needs to submit the strongest evidence possible in order to prevail. The time limit for the firm to respond to the chargeback varies depending on the card network and the reason code.

Firms that are Clio Manage customers, will receive a message indicating that a chargeback has occurred and when it happened, asking them to contact Clio's Payment Operations team with any questions.

What is the chargeback process?

The chargeback process starts when a cardholder disputes a charge with their bank or cc issuer. If the bank or issuer finds the dispute valid, they reverse the transaction and deduct the amount from the merchant. The merchant can accept or dispute the chargeback by providing evidence. The bank or issuer then decides whether to uphold or reverse the chargeback. Frequent chargebacks can result in penalties for the merchant.

How to prevent chargebacks

Preventing chargebacks saves your firm time and money, while also delivering a better experience to clients. While it's nearly impossible to eliminate them entirely, law firms can use certain strategies to help avoid them.

Ensure clear and frequent communication

A key way to stop chargebacks before they happen is to actively ensure excellent communication with clients. Prioritizing clear and frequent communication in the following areas can make a big difference in reducing your firm's chances of chargebacks:

- **Set straightforward expectations.** By communicating exactly what clients are being billed for, and how they will be billed, you can help prevent misunderstanding and potential chargebacks. This could mean steps like providing a scope of work for flat fee services and having clear fee agreements.
- **Make sure your firm's statement descriptor matches your business name.** If a client sees an unrecognizable name pop up on their credit card statement, they may think that they've been mischarged or are the victim of fraud. Make sure that your statement descriptor (AKA the merchant name that shows up on your client's credit card statement) is recognizable and matches your firm.

Note: if you use Clio Payments, you can customize your statement descriptor in Clio.

- **Ensure clients can easily contact your firm if they need to.** If your client has a question or concern about a charge, it's important to make it simple for them to reach out to your firm for resolution—without having to request a chargeback.

Make sure your firm's payment policies are easy to find (for example, you can create an FAQ page with details on your website) and that it's convenient for clients to get in touch with your firm directly (making your law firm contact details readily available online can help).

- **Create a clear, low-hassle refund process.** Your firm's refund and payment dispute policies should be easy to understand, accessible, and communicated in writing. If a client contacts you about a legitimate error that qualifies for a refund under your policies, address it promptly. Don't make clients chase you for legitimate refunds, as this could lead to uncertainty and potential chargebacks.

Did you know that Clio offers split billing functionality, allowing for multiple payers on the same bill? Check out how we can change the way your firm bills clients.

Hold on to proof of work documentation

Having evidence that a chargeback request is not legitimate—such as payment authorization documentation or email communication from the client regarding payment—makes it much easier to dispute an erroneous chargeback. You may also consider asking clients to complete a payment authorization form, and keep those written records.

Your firm should clearly state in its terms and conditions that there can never be a guarantee of results and explicitly outline your policy for the cancellation of services.

Additionally, the cardholder, who may not always be the client, should sign authorization forms for each transaction.

Deliver a great client experience

Dealing with legal issues and paying for legal services is inherently stressful, but law firms that purposefully strive to deliver an excellent experience will generally have happier clients. Clients who have had an overall positive experience working with your firm are more likely to reach out directly if there's a payment issue rather than issuing a chargeback.

The chargeback process at Clio

Chargebacks are a breeze when you're a Clio Manage customer. The payment operations team at Clio will help your law firm every step of the way, from supporting you with disputing the chargeback, to helping you respond in a timely manner, and submitting all the best evidence.

Differences from eCheck returns

Another key point is that a chargeback is not the same as an eCheck return. Electronic checks (eChecks) are electronic transfers of funds between bank accounts and another form of payment facilitated by Clio Payments.

Unlike chargebacks, eCheck returns do not involve a merchant dispute resolution process. Instead, you simply return the funds to the client. You generally return eCheck funds for unauthorized transactions or those with incomplete information. Since eCheck reversals cannot be challenged by the firm, the firm will have to directly contact the client to resolve the issue.

This should be an important consideration for law firms when requesting eCheck payments as the preferred method of payment. Unlike credit cards, eChecks offer no merchant dispute resolution process that can be mediated by the bank or card network. Therefore, this implies more risk.

Final notes on chargebacks

Chargebacks may be a hassle, but they're a solvable challenge and should not dissuade your firm from accepting online payments. Taking proactive steps to improve client communication and set up clear payment policies goes a long way towards reducing the chances of clients charging back transactions—but you can't eliminate them entirely.

Law firms can prepare for client chargebacks by knowing how to react effectively. If your firm is a Clio Manage customer, Clio will help you respond to the dispute and provide the best evidence possible.

Learn how to activate the payments feature in Clio Manage, here, and discover how Clio can help you handle chargeback disputes, set up payment schedules, split bills, and more! Billing clients has never been so efficient.

Ready to streamline your firm's billing? Book a Clio Payments demo.

Book a Clio Payments demo

Frequently asked questions

What is the meaning of chargebacks?

A chargeback is a reversal of a payment, initiated by a customer through their bank or credit card company, usually due to an unauthorized charge or unsatisfactory goods or services. It serves as a consumer protection mechanism to recover funds when disputes arise.

What is a payment chargeback?

A payment chargeback occurs when a debit or credit card payment is reversed by the cardholder's bank because the cardholder disputes the charge. The bank "charges back" the disputed payment amount to the merchant or service provider.

What is the chargeback process?

Broadly, the typical chargeback process begins when a customer contacts their bank or card issuer to dispute a transaction. If the bank or card issuer determines that the dispute is valid, it then initiates a chargeback by withdrawing the disputed amount (as well as, often, a chargeback fee) from the merchant's account. The merchant is notified by their bank of the chargeback, and then has a limited amount of time to dispute a chargeback through the process of representment. If the customer's bank or card issuer decides in favor of the merchant after reviewing evidence, then the funds will be returned to the merchant; if the merchant accepts the chargeback or if the bank does not agree with their evidence of the transaction's validity, then the funds will remain with the customer.

About Clio

Clio is the global leader in legal AI, powering legal work across the profession, from law firms of every size to corporate legal teams, government agencies, and courts. Its Intelligent Legal Work Platform unites the business and practice of law, connecting the people, information, and processes behind legal work. Clio's AI brings the context together with legal sources drawn from Clio Library, a growing collection of more than one billion legal documents. Over 400,000 legal professionals in more than 130 countries rely on Clio to run their legal world. Learn more at www.clio.com.