

Analysis of Controversies Surrounding the "Refund Only" Clause on E-Commerce Platforms

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Abstract: Since the implementation of the "refund only" clause by e-commerce platforms, it has played a positive role in safeguarding consumer rights and encouraging merchants to improve product quality. However, certain issues have emerged during its enforcement: some consumers abuse their civil rights, violating the principles of good faith and fair trading by bypassing merchants and directly applying for refunds through platform rules. This has left merchants in a difficult situation where they lose both money and goods, seriously infringing upon their legitimate rights and interests. This paper analyzes the legal effect of the "refund only" rule on e-commerce platforms and discusses the legal risks it may trigger and the differing viewpoints of court judgments. The essential reason is that loopholes exist in the rule itself, necessitating improvements. This not only involves clarifying the scope of application of the rule but also establishing provisions for punishing malicious refunds and creating an effective complaint and dispute resolution mechanism.

Keywords: Refund Only; E-Commerce Platform; Consumer; Online Trading Platform

1. Background and Issues

With the rapid development of the internet, online shopping has become an indispensable shopping method for most consumers. To enhance user experience and safeguard consumer rights, the "refund only" rule has expanded from individual platforms in China to become a standard feature of Chinese e-commerce platforms since the end of 2023. Currently, overseas e-commerce platforms such as Temu and Amazon have also introduced this clause.

The "refund only" rule refers to the practice in online shopping where consumers can directly apply for a refund without returning the goods when certain conditions are met. This rule aims to encourage consumers to place orders by simplifying the return process and simultaneously screening merchants through market forces.

However, after being widely promoted by various e-commerce platforms, "refund only" cases frequently end up in court. Most cases involve consumers purchasing and actually receiving the goods in question on a shopping platform. Due to dissatisfaction with the goods, they apply for a "refund only" on the platform, which the e-commerce platform approves. Alternatively, during communication between consumers and merchants, the e-commerce platform proactively intervenes by popping up the "refund only" option, which consumers click to agree upon, ultimately resulting in the consumer receiving a refund for the goods in question without returning them to the merchant. Overseas, this behavior is known as return fraud. Such behavior is very common in the United States. Data reports indicate that nearly 14% of returns in the United States in 2023 were fraudulent, causing losses of up to \$101 billion.[1] With the promotion of the "refund only" rule, numerous guides on how to obtain refunds without returning goods have emerged on overseas social media, placing merchants in an awkward position of losing both money and goods.

Obviously, the "refund only" rule has many loopholes, which has sparked strong dissatisfaction among merchants and intensified conflicts between merchants and platforms. In 2024, China's State Administration for Market Regulation conducted a special investigation into this issue, discussing major e-commerce platforms regarding issues such as platforms using the "refund only" rule to squeeze merchants' living

space and encourage low-quality, low-price competition, and put forward specific rectification requirements to implement the primary responsibility of platform enterprises.[2] However, policy requirements cannot replace legal analysis. Further analysis is needed for both litigation in courts and the analysis and governance of platform loopholes. This paper focuses on the risks and judicial viewpoints arising from "refund only" to propose correct practices and, combined with the legal loopholes of this rule, offers suggestions for improvement.

2. Definition and Origin of the "Refund Only" Clause

The "Refund Only" clause is an after-sales policy introduced by e-commerce platforms, allowing consumers to obtain refunds without returning the purchased goods under specific conditions. The introduction of the "Refund Only" model was initially aimed at addressing specific issues arising in online consumption, such as spoilage of perishable goods and loss of goods during transportation.[3] In the face of such issues, consumers can choose to file a refund-only request with the seller without returning the goods, representing a service designed to safeguard consumer rights. The purpose of this rule is to protect consumer rights by simplifying the after-sales service process and reducing the cost of rights protection for consumers. With the rapid development of e-commerce and the enhancement of consumer rights protection awareness, "Refund Only" has gradually become a "standard configuration" for major e-commerce platforms. However, this policy has also sparked some controversies in practice, particularly regarding its potential for abuse and its impact on merchant rights.

3. Legal Risks Arising from the "Refund Only" Clause

The "Refund Only" service enhances the shopping experience for consumers. However, some consumers exploit loopholes in platform rules to apply for refunds without returning goods for unreasonable reasons, leaving merchants without both money and goods, thereby giving rise to legal disputes. Courts across China hold differing opinions on whether to support merchants' claims in such cases.

3.1 Rejection of All Claims by the Merchant

Most Chinese courts believe that both merchants and consumers are operators on e-commerce platforms and agree to abide by platform rules. Therefore, when e-commerce platforms approve consumers' "Refund Only" applications in accordance with relevant agreements such as the "Dispute Resolution Rules" and "After-Sales Service Rules," it is the direct reason for consumers to obtain refunds without returning goods, and consumers do not engage in malicious breaches of contract. Therefore, merchants' requests for consumers to refund the purchase price and pay fees such as legal consultation and file retrieval fees lack factual and legal basis and should not be supported. Of course, if merchants believe that the handling results of e-commerce platforms affect their legitimate rights and interests, they can resolve the issue separately in accordance with their agreements with the platforms. However, this viewpoint simplifies transaction relationships and broadly recognizes platform handling rules. In reality, platform handling rules inevitably do not support malicious refund behaviors and do not want merchants to lose both money and goods, so merchants' claims cannot be simply rejected in their entirety.

3.2 Support for All Claims by the Merchant

A few Chinese courts rule that although consumers and merchants are platform participants, refund decisions made without the merchant's consent should not be binding on both parties. Consumers who request refunds from merchants but refuse to return goods and cannot provide substantial reasons for not returning them should bear corresponding liability for breach of contract in accordance with the law. However, this viewpoint is somewhat one-sided. Merchants have signed contracts with platforms and agree to decisions made through automated decision-making by platforms. According to the rule of "estoppel," it cannot be considered that decisions made by platforms are not binding.

3.3 Judgment Ordering Consumers to Refund the Purchase Price

3.3.1 Refund required upon contract termination

After receiving the goods, consumers apply for a refund on the grounds of quality issues and successfully receive the refund, thereby terminating the sales contract between the parties. According to Article 566(1) of the Civil Code, upon termination of a contract, if performance has not yet commenced, it shall cease; if it has already commenced, the parties may request restitution of the original state or the adoption of other remedial measures based on the performance status and the nature of the contract, and have the right to claim compensation for losses. E-commerce platforms are not the actual sellers or owners of the goods purchased by consumers. Based on the principles of fairness and equality, consumers should return the goods for which they have received refunds to the merchants. In cases where consumers are unable to return the goods, they should pay the merchants the price of the goods. Therefore, merchants' claims for consumers to refund the purchase price should be supported.

Otherwise, consumers' behavior of only requesting refunds without returning goods constitutes a breach of contract. According to the Civil Code, both parties to a contract shall perform their respective obligations, with consumers required to pay for the goods and merchants required to provide goods or services that meet the agreed standards. When consumers apply for refunds without returning goods without legitimate reasons, they fail to fulfill their obligation to pay for the goods, violate the contract terms, and constitute a breach of contract. Merchants can require consumers to continue fulfilling their obligation to pay for the goods or, in cases where refunds have already been issued, require consumers to return the corresponding funds. If merchants suffer losses due to consumers' malicious refund behavior, they also have the right to claim compensation for losses incurred, including goods costs, shipping fees, platform service fees, and in some disputes, merchants may also claim compensation for losses such as legal fees and transportation expenses.

Similarly, according to the Implementing Regulations of the Law of the People's Republic of China on the Protection of Consumers' Rights and Interests, consumers returning goods without reason should follow the principle of honesty and credit and must

not harm the legitimate rights and interests of operators and other consumers by exploiting the no-reason return rule. If consumers abuse the "Refund Only" clause through false statements, fraud, or other means, it may constitute unjust enrichment, requiring them to bear corresponding legal responsibilities.

3.3.2 Consumers may constitute fraud

Malicious refund behavior that involves taking possession for illegal purposes by fabricating facts or concealing the truth, causing merchants or platforms to issue refunds based on misunderstandings, may violate relevant provisions of the Criminal Law of the People's Republic of China regarding fraud. If the illegally obtained amount exceeds a certain threshold, it may constitute fraud, subjecting the individual to criminal responsibility. In some cases, consumers exploit platform rules to take advantage of the situation, applying for "Refund Only" after receiving the goods and refusing to return them. If such behavior is organized, continuous, and involves large amounts of money, it may constitute fraud, potentially leading to criminal penalties.

4 Legal Loopholes in the "Refund Only" Clause

As the domestic e-commerce market enters a phase of relatively stable growth, major e-commerce platforms compete for existing market share. By offering the "Refund Only" service, e-commerce platforms can increase user stickiness, making this service one of the standard offerings of e-commerce platforms. This mechanism, designed initially to lean towards protecting consumers' interests, also contains numerous legal loopholes.

4.1 Ambiguity in the Review Rules for "Refund Only"

The current adjudication of cases related to the "Refund Only" clause, as well as the specific operational procedures, applicable conditions, and definition of rights and obligations for consumers and merchants, lack clarity, easily leading to inconsistent execution standards in practice. E-commerce platforms include a "Refund Only" option in their after-sales service types, supporting consumers in applying for "Refund Only" when conditions are met. This after-sales service commitment is a more favorable promise made by e-commerce platforms as online trading

platform providers to consumers. Consumers have the right to submit after-sales applications based on the types of after-sales services provided by the platform, which are then reviewed by the e-commerce platform. However, due to the current ambiguity in platform review rules, automated decision-making and rough, one-size-fits-all processing are predominantly used in reviews, leading to frequent occurrences of malicious "Refund Only" practices.[4]

4.2 Lack of Punishment Regulations for Malicious Refunds

Current laws have certain deficiencies in punishing malicious refund behavior. Although liability for breach of contract or unjust enrichment can be pursued through the Civil Code, specific legal provisions targeting malicious "Refund Only" behavior in online shopping are not yet clear. This results in merchants facing potential legal challenges when dealing with malicious refunds from consumers, as they may lack sufficient legal means for effective rights protection. Such a lenient legal environment fails to effectively curb abusive behavior and may instead encourage dishonesty. Due to the lack of clear legal consequences, malicious applications for "Refund Only" are difficult to constrain, damaging not only merchants' interests but also disrupting the fair trading order in e-commerce.

4.3 Inadequate Complaint Mechanism

In some cases, e-commerce platforms may overly lean towards protecting consumers' rights while neglecting the reasonable rights of merchants. An overly lenient "Refund Only" mechanism exacerbates the game between merchants and consumers, potentially leading to a certain level of social conflicts.

Currently, merchants mainly rely on after-sales complaints, but the success rate of these complaints is low, often failing to yield satisfactory results, while the cost of litigation for rights protection is excessively high. During the complaint process, merchants may face difficulties in providing evidence, needing to present sufficient proof to demonstrate the unreasonableness of consumers' refund requests.[5] When merchants encounter unfair treatment or consumers maliciously exploiting rules, the lack of effective complaint channels

and handling mechanisms makes it difficult for merchants to safeguard their legitimate rights and interests.

5. Suggestions for Improving the "Refund Only" Clause

The "Refund Only" service is not a simple refund service. In its implementation, e-commerce platforms need to establish a sound review mechanism to ensure fairness and impartiality in refunds. At the same time, platforms also need to strictly supervise consumers and merchants to avoid abuse of the "Refund Only" clause, jointly maintaining a good online shopping environment through collaboration among platforms, consumers, and merchants.

5.1 Clarify the Scope and Conditions of Application for the "Refund Only" Clause

When defining the scope and conditions of application for the "Refund Only" clause in relevant laws and regulations, key factors to consider include ensuring a balance between consumer rights and merchant rights, and clarifying refund conditions, processes, and responsibility allocation.

Firstly, it should be clarified that the "Refund Only" clause applies to situations where there are quality issues with the goods, descriptions do not match, or consumer rights protection laws are violated. If consumers violate the principle of good faith by applying for "Refund Only" with false reasons, and applying the "Refund Only" rule is manifestly unfair to the operator, the operator within the platform has the right to require consumers to continue paying for the goods or return the goods, or bear other liability for breach of contract.

Secondly, platforms should set specific conditions for the "Refund Only" clause, such as the integrity of the goods and time limits for refund applications, to avoid abuse. Considering the characteristics of different goods and changes in the market environment, differentiated "Refund Only" policies should be set for different categories of goods.[6] For example, more lenient refund conditions can be set for perishable goods or time-sensitive products,[7] while stricter conditions can be set for durable consumer goods. At the same time, the transparency and timeliness of the

refund process should be clearly stipulated to ensure that both consumers and merchants can conduct transactions and dispute resolution in a fair environment. In addition, merchants' right to appeal and consumers' right to know should also be guaranteed, and either party has the right to raise objections when they believe they have been treated unfairly.

Lastly, "Refund Only" should not be a mandatory option but a selectable one. Platforms can strictly limit the "Refund without Return" option to customers with no history of abuse in returns, and merchants can also customize the "Refund Only" clause. The Amazon platform adopts this approach, where sellers can customize return and refund policies based on business needs, and only sellers with good credit (defined and determined by Amazon at its sole discretion) can register for Amazon's Fulfillment by Amazon (FBA) Refund without Return solution.[8]

5.2 Improve Punishment Regulations for Malicious Refunds

Clarify the definition of malicious refund behavior and legislatively specify what circumstances constitute malicious refunds, including but not limited to repeatedly applying for "Refund Only" without justification, engaging in "Zero-dollar Shopping" by exploiting platform rule loopholes, and providing false evidence. Legislation should also increase the legal consequences for malicious refunds.[9] To effectively combat such malicious behavior, platforms can consider establishing and improving a blacklist system. Through information sharing among major e-commerce platforms, a blacklist for platforms and market supervision can be established to restrict such activities by malicious "refund seekers" on the platform and increase the cost of violating the law. These measures can gradually and effectively curb and punish malicious refund behavior, maintaining a fair and honest market transaction order.

5.3 Establish an Effective Complaint and Dispute Resolution Mechanism

Establishing an effective complaint and dispute resolution mechanism is crucial for handling "Refund Only" disputes on e-commerce platforms. Firstly, this mechanism

should ensure transparency and impartiality, so that both merchants and consumers understand the complaint process and possible outcomes. Complaint channels should be easily accessible and simple to operate, reducing the time and economic costs for both parties. Secondly, platforms should provide customer service support with quick responses to intervene promptly in disputes and provide professional mediation services. Moreover, the complaint mechanism should not only include reasonable assessment of evidence, ensuring that both parties have the opportunity to submit evidence and receive a fair hearing, but also include identification and preventive measures for malicious complaint behavior, protecting honest operators from unfair treatment. For consumers who abuse their right to appeal, platforms can take restrictive measures, such as limiting their number of appeals or raising the threshold for appeals.

Lastly, the platform economy involves value co-creation between platform operators and participants, and platform operators should maintain their neutral position in platform governance. Platforms need to fully respect the free will of participants and should not excessively intervene, thereby causing uncertainty in transactions.[10] When necessary, a "crowd review mechanism" can be introduced to continuously improve community autonomy norms, and manual reviews should be conducted by professionals to ensure the accuracy of decisions [11].

6. Conclusion

With the rapid development of e-commerce and the enhancement of consumer rights protection awareness, "Refund Only" has gradually become a "standard configuration" for major e-commerce platforms. However, this policy has also caused some controversies in practice, especially regarding its potential for abuse and its impact on merchant rights. The "Refund Only" dispute is a complex issue between consumer rights protection and merchant rights maintenance in the development of e-commerce. To protect consumers' legitimate rights and prevent merchants' rights from being improperly infringed, e-commerce platforms must ensure transparency, impartiality, and compliance with legal provisions when formulating and enforcing the "Refund Only" clause. At the

same time, when exercising their rights, consumers should also follow the principle of good faith and reasonably use their refund rights. When facing malicious refund behavior, merchants should actively use legal means to defend their rights. Through legal regulation and self-discipline of market entities, a healthier and more orderly online transaction environment can be built to promote the sustainable development of e-commerce.

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