ethoca by Mastercard

2024 Outlook:

Strategic insights for issuers and merchants

2024 REPORT

Navigating the payments landscape changing dynamics

A vast web of complex dynamics, more than ever before, is influencing how businesses operate and the strategic initiates they prioritize. The most transformative include technological advances and consumers' growing preference for using digital channels for everything from entertainment and shopping to banking and payments. Determining the right priorities for your business can be difficult with the swells of emerging technologies and ever-shifting consumer expectations.

With the payments landscape facing a myriad of changes, it's important to focus on initiatives that will make a positive impact on your business, such as customer satisfaction, operational efficiency and bottom-line revenue.

This report provides merchants and issuers with valuable insights and predictions, as well as strategic recommendations. It provides businesses with a closer look at consumers' current preferences and behaviors, along with chargeback volume predictions. As the nature of fraud has changed, for the first time, our outlook report takes a closer look at first-party fraud and the growing risk it poses. It also discusses the emerging data-driven solutions critical for the industry to defend against first-party and card-not-present (CNP) fraud.

Understanding the current outlook will enable merchants and issuers to shape their approach for fighting fraud, preventing disputes, reducing chargeback volumes and improving the customer experience.

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Digital receipts help cardholders

Digital receipts are eliminating the strain on issuers and merchants as they help cardholders recognize their transactions.[1]

42% increase from 2023

Global chargeback volume is projected to reach 337 million transactions in 2026, a 42% increase from 2023 levels.[2]

24% didn't recognize the purchase

50% of consumers investigated a transaction they made in the last 12 months and 24% did so because they didn’t recognize the purchase.[1]

$28.1b fraud loss by 2026

Global CNP fraud losses are estimated to reach $28.1 billion by 2026, a 40% increase from 2023.[2]

Consumers continue to adopt digital experiences

Winning over and retaining today's customers requires offering a digital user experience — it's no longer optional. Even in brick-and-mortar industries, consumers expect integrated digital options that will add to or streamline their experiences in real life. For instance, people are using a mobile app, from home or anywhere that's convenient for them, to place a take-out order at a restaurant that they plan to pick up in person.

As more and more companies aim to advance their digital presence, it's becoming harder for businesses to create unique digital experiences that offer a competitive edge. Tackling this requires businesses to hyper-focus on what consumers truly want and need, which is continually shifting. Adding to the complexity is the consumers' desire for seamless experiences. They want an integrated experience and access to the information they need at anytime — regardless the channel they choose. For instance, when making a purchase online from their computer, they will expect the ability to easily check the order status or manage returns from a digital application, whether that is online or via their mobile phone.

Consumers' expectations for seamless experiences have given rise to "super-apps." These super-apps bring together previously siloed digital experiences, combining them into one app. This eliminates the need to toggle between multiple apps and offers a single sign-on. One app delivers a better user experience with its proposition of simplicity and convenience.

Digital banking apps improve the consumer experience

Fifty percent of consumers investigated a transaction they made in the last 12 months and 24% did so because they didn't recognize the purchase.[1] To help solve for this, digital receipts are eliminating the strain these queries put on issuers and merchants. Including digital receipts within digital banking apps meets consumers' growing preference for them. Research found that 93% of cardholders who receive a digital receipt find it either "very useful" to "somewhat useful."[1] They're popular for their convenience and replacing paper receipts, ease of saving receipts and for making returns.

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Another area consumers find challenging is canceling or pausing a subscription;

35%

find it "somewhat difficult" or "very difficult."

What to know:

Seamless digital experiences can make a positive impact on consumers and an issuer's operations. Cardholders can tap into their digital banking apps to access more details about their purchases. This reduces customer service call center and chargeback volumes, as it resolves potential transaction confusion upfront. Plus, it helps reduce operating costs and improve customer satisfaction ratings for merchants and issuers alike — regardless of the channel used.

Actions to take:

The majority of consumers, 80%, with an unrecognized transaction "agree" or "strongly agree" that having easier access to information about the merchant and their purchase would have improved the investigative process.[1] Greater collaboration between merchants and issuers will make this type of information more readily available to consumers and unlock new possibilities for delivering a better experience and transforming operations.

Actions to take for Issuers

Most consumers, 84%, turn to their bank to resolve a transaction issue.[1] Half of consumers who didn't recognize a purchase transaction contacted their bank while over 35% requested a refund from their bank or card issuer.[1] With every live service interaction costing companies more than $7, issuers increasingly need to implement more cost-effective ways to support customers.[3]

Providing cardholders with greater insight and control over their purchases together with self-serve options allows them to get the information they need and want. These easy-to-use self-service options allow consumers access to richer transaction information, which benefits issuers' operations too. It helps reduce the number of calls to customer service and better positions a representative to answer customer queries; this decreases call transfers and improves first-call resolution rates.

These improvements influence an issuer's Net Promoter Score® and Customer Satisfaction Score (CSAT) — underscoring the importance of prioritizing the customer experience.

Actions to take for Merchants

Providing more information via text, email, chat bots or by phone is helpful, but many consumers seek out reviewing their transaction details in their digital banking app. Extending your brand's presence and making information available in multiple places, like a digital bank app, helps reduce transaction confusion and potential disputes upfront, and provides an experience that prioritizes your customers' needs.

Harvard Business Review found that "Across industries, 81% of all customers attempt to take care of matters themselves before reaching out to a live representative."[3] This is consistent with the growing popularity of digital receipts. Over half of tech-savvy consumers find them in online/mobile banking apps "very useful," as well as about 33% of those traditionalists who are less-tech savvy.[1]

Chargeback volumes continue to grow

As consumers prefer digital channels for shopping and making purchases, it's boosting e-commerce retail sales around the world. Sales will continue soaring to reach $7.3 trillion in 2025.[4]

Disputes and chargebacks will grow as consumers increasingly make purchases using smartphones in-store, online and with mobile apps. Global chargeback volume is projected to reach 337 million transactions in 2026, a 42% increase from 2023 levels.[2] Different regions around the world will experience varying chargeback growth rates and probably will continue to until more countries mandate strong customer authorization (SCA) tools.

In general, U.S. merchants have shied away from SCA tools like 3D Secure (3DS), a tool provided to reduce digital payment fraud. The primary reason why, warranted or not, centers around the concern with introducing friction into the customer purchase experience. U.S. merchants are paying the cost; they're shouldering a heavy percentage, 10%, of the total global volume. By 2026, U.S. chargeback volume is estimated to reach 146 million, a value of $15.3 billion.[2] The European Union requires SCA; it's an effective tool that's proven to slow down chargebacks. Even so, European countries will be contending with chargeback values in the billions.

By 2026, chargeback volume is expected to grow

U.S. chargeback volume is expected to reach

146 million

in 2026, worth over

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Global chargeback volume is projected to reach

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a 42% increase from 2023 levels.

What to know:

Chargebacks are a necessary way to help instill trust and confidence in consumers; if they can dispute a transaction, they won't waiver with making purchases. But as volumes rise, the associated fees and operational costs that negatively impact a company's bottom line will become more pronounced.

Actions to take:

With chargeback volumes projected to increase, businesses should refine and optimize their current chargeback prevention strategies or employ chargeback prevention strategies, if not in place. Depending on the volume and complexity of a company's fraud operations, it's helpful to automate the dispute resolution. Seek out solutions that use rules-based decision making and automatically process incoming alert.

Actions to take for Issuers

Use your dispute data to your advantage by turning it into actionable alerts. Collaboration networks offer tools for securely and reliably sharing payments intelligence in real-time to resolve disputes faster, reduce losses and lower chargeback volume. Seek out solutions that help improve customer experience and reduce operational expenses, such as with call centers.

Actions to take for Merchants

Implement tools such as chargeback alerts that allow your business to proactively respond to disputes before they become a chargeback. Alerts will reduce the financial losses associated with processing chargebacks and eliminate your team's time spent handling them. Plus, alerts will allow your business to take action to stop the fulfillment of potentially fraudulent orders.

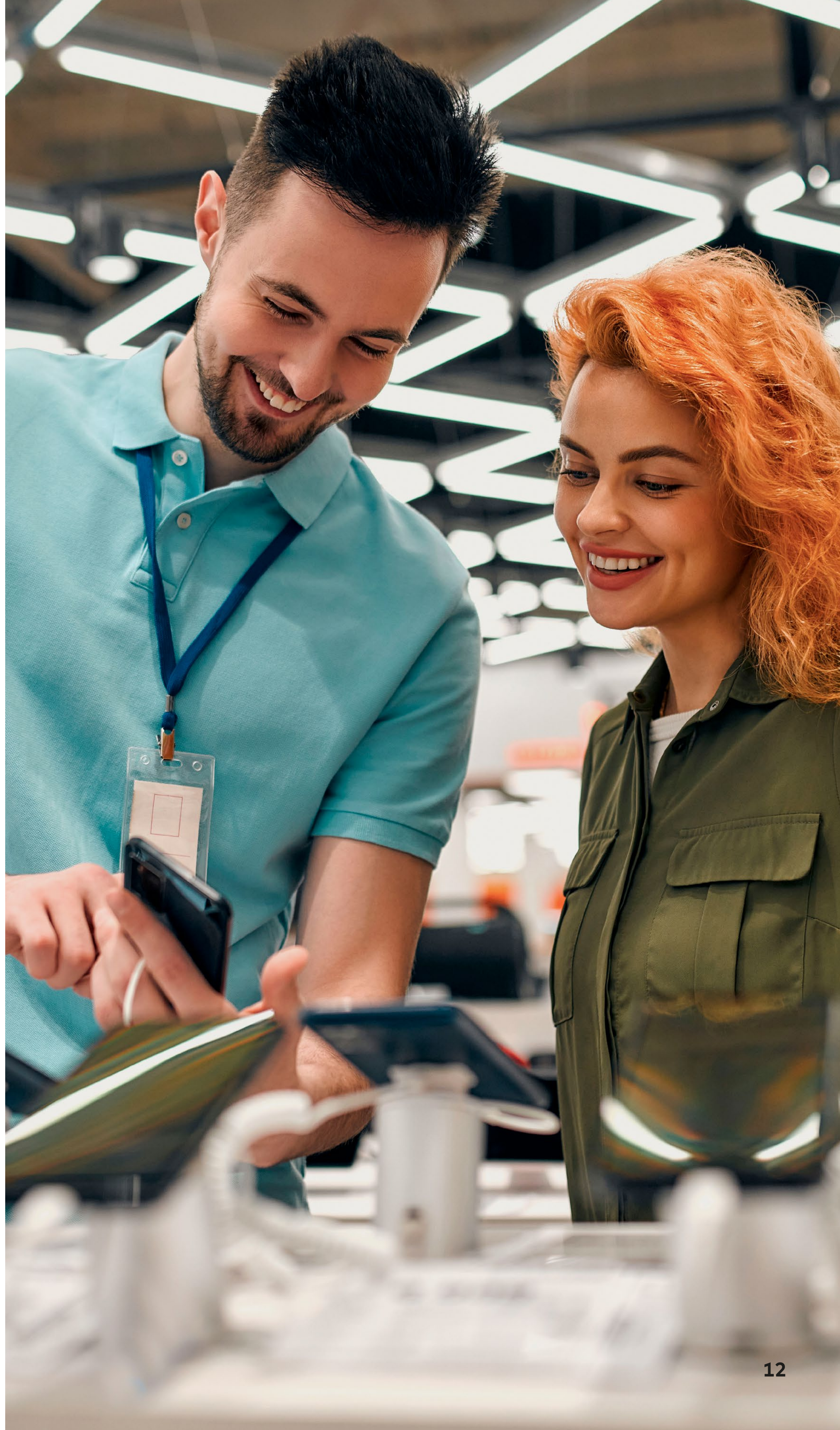
Risk of chargebacks from first-party fraud increases

Different types of chargebacks exist. There are legitimately fraudulent ones committed by fraudsters; another type is associated with cardholder transaction confusion and first-party fraud. First-party fraud is a rapidly growing problem significantly impacting issuers and merchants. Recent research revealed 75% of fraud experienced by digital goods' merchants is estimated to be the result of first-party fraud.[2] It's important to understand this type of fraud, along with its complexities.

Often known as a "friendly fraud," first-party fraud occurs when a cardholder makes a legitimate purchase, receives the goods or services from the merchant and later intentionally claims the transaction as fraudulent. This could occur because the cardholder doesn't recognize the charge on their statement or because they misuse the chargeback process to receive a refund based on dissatisfaction or buyer's remorse.

First-party fraud is a significant concern for merchants primarily focused on selling digital goods, as they typically shoulder the brunt of the cost for these fraudulent claims.

75% of fraud experienced by digital goods' merchants is estimated to be the result of first-party fraud.



What to know:

Chargebacks due to first-party fraud negatively impact a business. Whether due to confusion or purposeful misuse, the result is the same — a chargeback. There are associated costs and it requires time for managing the process. The use of these resources to handle chargebacks can drive up operational costs. Furthermore, there are the time and cost to serve customers seeking out a live customer service representative to question a charge. With e-commerce growing, increased safety and transparency of payments for merchants is no longer optional, but a necessity.

Actions to take:

Since first-party fraud is tough to identify, it requires better data and collaboration to manage it effectively.

Merchants and issuers need to leverage tools and programs available to help mitigate the impact of friendly or first-party fraud. They should seek out tools that offer increased insights and transparency by providing additional transaction details to help customers identify their purchases, such as digital receipts.

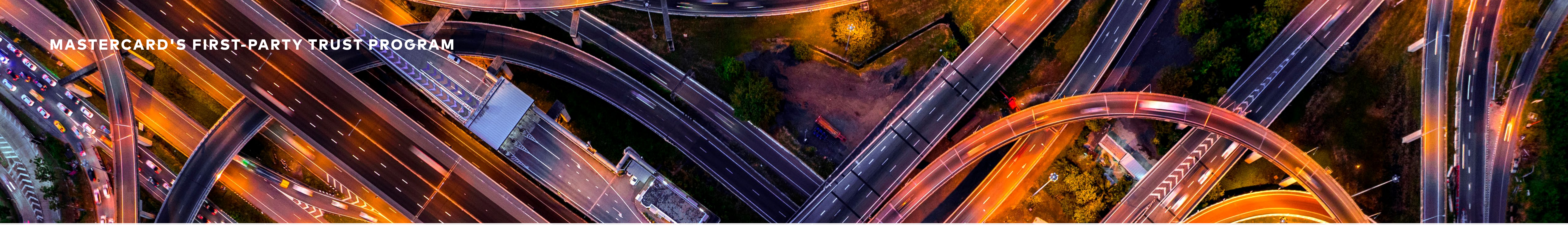
Solutions like Mastercard's First-Party Trust program will help the industry to more effectively tackle the challenge of legitimate transactions being questioned by cardholders.

Actions to take for Issuers

For issuers the First-Party Trust program will help more accurately identify cases of first-party fraud and have more reliable information when discussing disputes with their cardholders. Also, it will shift liability back to issuers for transactions that are found to be first-party fraud.

Actions to take for Merchants

The First-Party Trust program aims to create greater transaction transparency by giving merchants the opportunity to submit pertinent insights to counter first-party fraud. While merchant participation is not mandated, if they don't enroll and provide the required information to verify good transactions, they won't benefit from the liability shift to issuers.



A new, powerful way to fight first-party fraud

Mastercard's First-Party Trust program will help secure the payments ecosystem by reducing unnecessary chargebacks. This will help prevent first-party fraud and the burden it places on businesses.

The program is designed to help merchants and issuers significantly reduce first-party fraud by using artificial intelligence-driven transaction insights and risk modeling. This approach helps to spot and prevent first-party fraud and prove genuine transactions made by the cardholder.

By using enhanced data and new rules defining compelling evidence to help confirm genuine purchases, the program enables issuers and merchants to share information to reduce cardholder confusion and more effectively spot instances of first-party fraud, which can lead to better approval rates. This is possible by making additional data elements—such as purchase history, device, delivery information, identity elements and geographic location—available during both the pre-authorization and dispute stage.

CNP fraud losses will continue to impact businesses

Card-not-present (CNP) fraud has been increasing with the huge uptick of e-commerce and mobile payments, as merchants increasingly provide their customers with contactless payment options. Globally, CNP fraud losses are estimated to reach $28 billion [1] by 2026, a 40% increase from 2023.[2] Some countries will experience higher fraud losses, while the adoption of SCA tools has better contained it in other countries. Annual growth is estimated at 13% in the U.S. and APAC. Most notably, when compared to the U.S., Europe is experiencing a more modest 4.8% year-over-year growth. Yet, with losses estimated to reach $2.15 billion by 2026, CNP fraud losses are still a concern for Europe.[2]

CNP fraud is expected to grow in 2026

CNP fraud losses will grow to reach

$12.87b

in the U.S.,

up from $9.20b in 2023.

CNP fraud will reach

$5.02b

in APAC,

up from $3.66b in 2023.

CNP fraud will grow to

$2.15b

in Europe,

up from $1.86b in 2023.

What to know:

It's important to note that even if a purchase is made in person, it's not always considered card-present. With digital technology blurring the line between what is an in-person versus online purchase, businesses can find themselves processing CNP transactions even when they might not expect it, such as with mobile in-app or QR codes.

Typically, merchants are liable for fraudulent CNP transactions. It's why businesses need to prioritize tightening up their cybersecurity strategies and do everything in their power to prevent it. The customer experience is a core consideration. It's critical to avoid adding friction into the purchase process which can lead to cart abandonment at check-out and attrition.

Actions to take:

Creating a positive and secure journey from the moment a customer visits your website to their post-purchase experience, including the review of their card statement, will be critical.

Actions to take for Issuers

Using multiple tools will help minimize fraud and identify good customers throughout every step of the purchase journey, while implementing the tools will help increase authorization rates. Consider building a better cardholder experience that makes it easier to recognize transaction details. Offer digital self-serve features that will put more information and control at consumers' fingertips.

Actions to take for Merchants

Balancing fraud and acceptance rates will be critical to delivering a seamless customer experience while reducing fraud and related costs without impacting revenue. Adopt technologies that include dispute notifications that alert your business when a charge is being disputed. This will allow you to address the issue or refund a purchase to avoid a chargeback altogether.

Taking action for the year ahead

Businesses that take action based on the insights and recommendations from this report will be better positioned to remain competitive with meeting customers' expectations and engaging them longer-term. And this will positively impact your operations.

As your business navigates the changing landscape ahead, you don't have to go it alone. You can rely on a trusted partner with the experience helping companies improve their operations through deploying the latest solutions that help reduce disputes and chargebacks, along with the ones available to help mitigate the impact of friendly or first-party fraud.

Are you ready to improve your customers' digital experience while improving your operations and reducing chargebacks?

Connect with a fraud expert today.

Connect →

Solutions that empower businesses

Ethoca is an award-winning provider of collaboration-based intelligence and technology solutions that empower businesses around the world to fight fraud, prevent disputes and improve the customer experience.

Powered by the ever-growing Ethoca Network, our solutions provide rich intelligence throughout the purchase journey to close costly communication gaps between all stakeholders in the payments ecosystem. Thousands of the world's biggest e-commerce brands, the largest banks, service providers and consumers benefit through this collaboration. For the first time, fraud, customer dispute and purchase insights are now available and actionable in real time — delivering significant revenue-growth and cost saving opportunities for all. Ethoca was acquired by Mastercard in April 2019.

To learn more, please visit www.ethoca.com.

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SOURCES

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