



Chargeback trends and outlook

2023 REPORT



01

Executive summary
Page 3

02

Key insights
Page 5

03

Chargeback growth
Page 6

04

e-Commerce growth
Page 9

05

CNP fraud losses
Page 11

06

Chargeback
prevention solutions
Page 13

Settling into a new experience-driven normal

50%

of consumers are willing to switch banks if they're not getting the services they want and expect.²

Around the world we've experienced rapidly changing dynamics over the last few years. There's been large-scale transformation to the workforce and global supply chains, along with the emergence of new consumer attitudes and shopping behaviors. Today, people expect easy-to-use, seamless digital experiences when engaging with their favorite brands, services and businesses for everything from ordering coffee and groceries to checking their bank statement.

In addition, how we pay is also shifting. Driven by its speed and convenience, Mastercard reports contactless payments make up 50% of global in-person transactions.¹ And digital banking has become an integral channel, with 50% of consumers willing to switch banks if they're not getting the services they want and expect.²

Note: The data sourced in this report, unless otherwise indicated, came from Datos Insights, July 2023.

01. EXECUTIVE SUMMARY

During COVID-19, e-commerce experienced a huge growth spurt as people turned to online shopping for everything from groceries and household goods to clothing. Online grocery and a range of delivery services continue to be popular, with online grocery spend remaining 70% above pre-pandemic levels, compared to 25% for in-person grocery.³ As consumers increasingly adopt more online shopping and digital experiences, the rise in Card-not-Present (CNP) transactions opens the door for more disputes and an increase in chargeback volume.

As these new consumer preferences and habits gain traction, it's shifting traditional card-present transactions to CNP ones — propelling CNP volume to new heights. Many businesses traditionally relying on card-present transactions now rely heavily on CNP ones for the first time. Along with the switch to CNP is the transfer of fraudulent purchase liability to merchants from card issuers.

While the growth of many of these new shopping habits and payment methods may no longer be poised for a sharp upward trajectory, they remain much higher than their pre-pandemic levels, and e-commerce is here to stay. This indicates people are settling into a new normal — a digital one.

So how do all these market dynamics translate to the current and future state of chargebacks? This report looks at chargeback trends around the world, along with the growth of e-commerce — a key factor influencing chargeback volumes and CNP fraud. Even with some regions mandating Strong Customer Authentication (SCA), what's clear is that chargebacks aren't going away in the near term. If you're not currently taking a multilayered approach to help reduce or prevent them, the time to do so is now.



Chargeback volumes are expected to grow into 2026, but by how much varies by region



Global chargeback volume forecast to reach 337 million

By 2026, it's estimated that global chargeback transaction volumes will reach 337 million, a 42% increase from 2023 levels.⁴



Worldwide retail e-commerce total sales set to grow to USD 7.3 trillion

Worldwide e-commerce levels experienced a huge 25% upward spike in 2020. Retail e-commerce total sales are expected to reach USD 7.3 trillion by 2025.⁵ As more payment transactions happen online and digitally, the threat of an increasing number of consumer disputes and fraudsters grows.



CNP fraud losses will soar to USD 28.1 billion

Global CNP fraud losses will reach a value of over USD 28.1 billion by 2026. This represents a 40% increase from USD 20 billion in 2023.⁴



SCA tools reduce digital payment fraud

Even though it's proven to help reduce fraud, U.S. merchants have been slow to adopt 3D Secure (3DS) since they want to avoid lost sales due to any potential friction with customer interactions. The SCA requirement has dented CNP fraud in Europe and helped to stabilize it.

03. CHARGEBACK GROWTH

Chargeback volume to increase 42%

Global chargeback volume is projected to reach 238 million this year.⁴ By 2026, the global volume will reach 337 million, a 42% increase from 2023 levels.⁴ Yet, it's important to realize the growth rate varies across different regions.

Some regions of the world, like the U.S. and Asia-Pacific, expect higher chargeback growth from now through 2026, compared to other regions. Since providing a good customer experience is critical to creating positive interactions, U.S. merchants have been hesitant to adopt 3DS to avoid lost sales due to any potential friction — even though it's proven to help reduce fraud. Still, both of these regions expect e-commerce sales will continue to rise.

Meanwhile, Europe's future chargeback volumes are expected to be relatively stable. This is most likely attributed to the EU requiring that businesses adopt SCA tools like 3DS to authenticate transactions for digital payments.

238M

chargebacks (globally)

In 2023, there will be over 238 million chargebacks in the ecosystem, globally.

105M

With an estimated chargeback volume of 105 million in 2023 and as an individual country, U.S. holds the lion's share of global chargebacks.⁴

133.7M

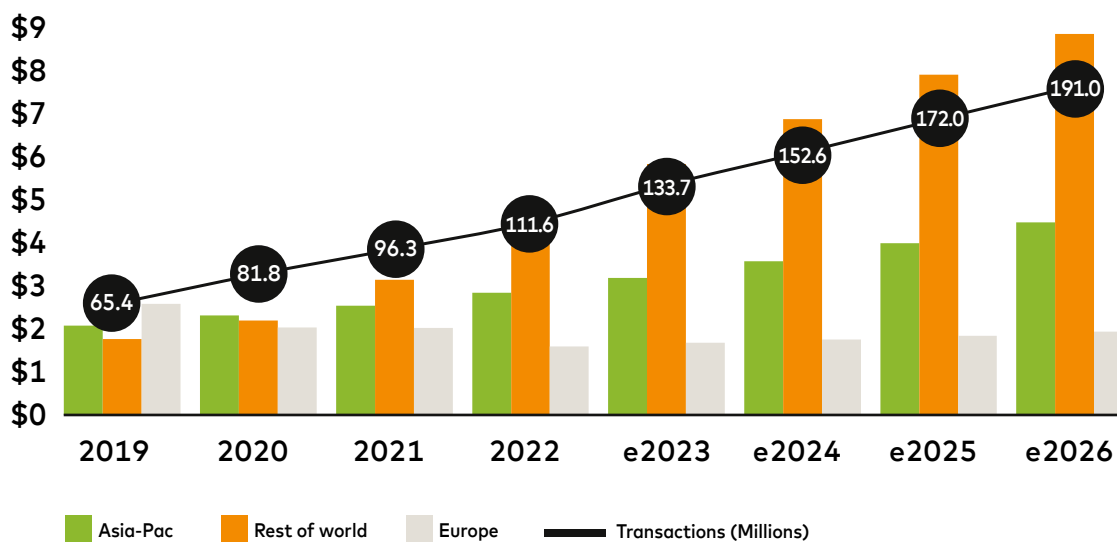
Collectively, the rest of the world is estimated to have 133.7 million chargebacks in 2023.⁴



Chargeback trends around the world

(excluding the U.S.)

Non-U.S. Chargebacks (excluding U.S.), 2019 to e2026
(USD Billions)



Datos Insights, July 2023



Key trends and dynamics

Chargebacks are increasing, but at different rates across the regions

Europe's chargeback volume is expected to plateau and remain steady over the next few years. Chargeback volumes are set to decrease to USD 1.9 billion in 2026 from USD 2.6 billion in 2019. The SCA requirement has dented CNP fraud in Europe.

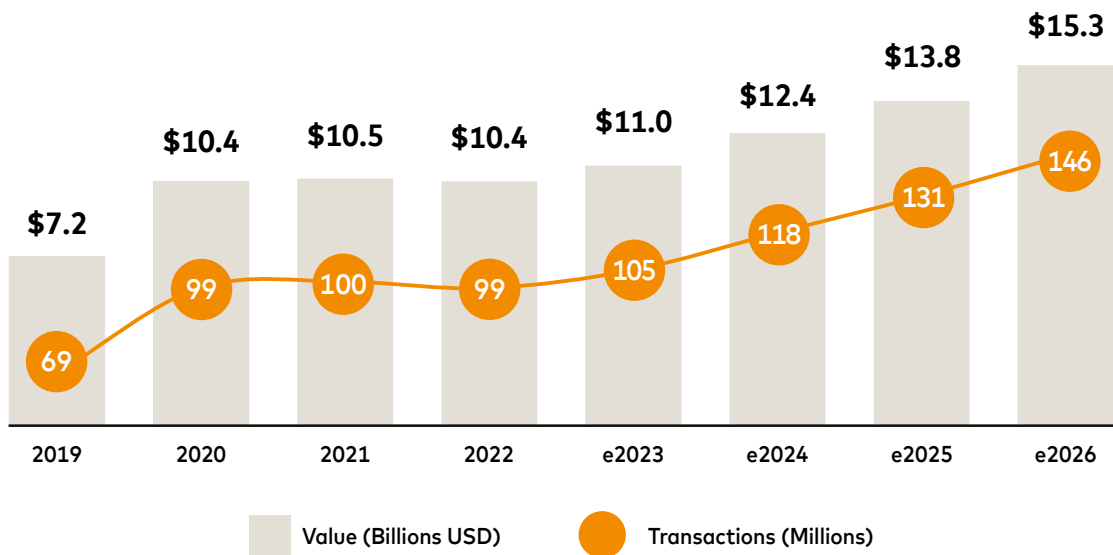
Asia-Pacific is positioned for steady chargeback growth over the next few years. This is likely due to the region's steadily rising retail e-commerce sales set to reach USD 2.5 trillion by 2024.⁶

The heavy use of alternative payments and SCA mandates — in countries like India and South Korea, along with Australia where it is pending — is expected to help limit chargeback growth, but it won't eliminate it. The region's chargeback growth is expected to double, reaching USD 4.5 billion in 2026, up from USD 2.1 billion in 2019.

The rest of the world, including Latin America, is projected to experience a substantial increase, reaching USD 191 billion in 2026, up from USD 133.7 billion in 2023. This could be due to the meteoric rise of e-commerce transactions and the digitization of experiences.

U.S. chargeback volumes projected to climb

U.S. Chargeback Volumes, 2020 to e2026



Datos Insights, July 2023



Key trends and dynamics

U.S. chargebacks experience significant uptick

The U.S. experienced a significant spike in chargeback volumes in 2020 when compared to 2019. Volumes reached higher levels for a few reasons. First, there was the exponential growth of e-commerce due to the pandemic, which paved the way for more CNP transactions online. Second, consumers increasingly used disputes with their card issuers to address service-related issues such as the receipt of damaged products. While service-related disputes eased in 2021, the automated fuel dispenser (AFD) liability shift added to chargeback volumes. Even though only 48% of AFD terminals were chip enabled in April 2021, it helped reduce fuel-related chargebacks, resulting in a slight dip in 2022.⁷ Another probable reason for a decline in 2022 is that the growth of CNP transactions slowed as people started visiting merchants in person again. While 3DS usage remains low, chargeback volumes will continue to track closely with rising CNP fraud rates in the U.S. market.

What to know about chargeback trends

Chargebacks are rising around the world, with different rates of growth across the regions. While Europe may experience a slight decline, businesses there will still be contending with chargeback values in the billions. The

factors influencing chargeback volumes vary — from rising e-commerce transaction volumes to varying adoption rates of 3DS for digital payments. It is in every issuer's and merchant's best interest to protect themselves against any volume of transaction disputes.

While chargebacks are a critical factor helping ensure trust in the ecosystem and protecting consumers, there's a downstream cost to businesses. Chargeback fees and the operational costs to process them negatively impact the bottom line. Issuers and merchants need to protect themselves and prevent as many chargebacks as possible, especially for those operating in regions where volumes are growing more quickly.

Businesses should implement tools offering reliable and secure payments intelligence through real-time collaboration networks. With better data sharing across merchants and issuers, these solutions can help prevent chargebacks. This will help merchants lower operational costs by speeding up time to resolution, reduce the overall number of potential disputes from turning into chargebacks and avoid costly chargeback fees altogether.

e-Commerce growth is driving chargeback volumes higher

A significant driving force behind chargeback volumes is the explosive growth of online transactions. Retail e-commerce total sales are expected to reach USD 7.3 trillion by 2025 — up from USD 3.35 trillion in 2019.⁵ As more payment transactions happen online and digitally, the threat grows for an increasing number of consumer disputes and fraudsters.

This shouldn't be surprising given consumers increasingly favor seamless digital experiences. Even traditional in-person card-present purchases for food shopping or carryout meals have become digitized through the use of mobile payments and apps. Subscription growth is spurring on digital transactions as people buy more online and on a recurring basis — everything from workout classes to meal kits and streaming entertainment. According to *Forbes*, the global subscription e-commerce market size is forecast to reach USD 904.2 billion by 2026, up from USD 72.91 billion in 2021.⁸

As e-commerce and chargeback volumes go hand in hand, it is important to consider that not all chargebacks will be true fraud. Complexity with the classification of real fraud versus transactions referred to as nonfraud are clouding the overall chargeback volumes.

Sometimes nonfraudulent transactions contribute to overall chargeback volumes — meaning legitimate purchases are disputed. As consumers continue engaging with merchants using digital channels, there is more potential for situations driving nonfraud chargebacks. These are often classified as first-party fraud and include transaction confusion, friendly fraud or purposeful misuse of the dispute process.

Unclear purchase descriptions can lead to consumer confusion and result in a dispute. In the case of a service-related issue, a dispute might occur if a customer is unhappy with a purchase or simply loses track of their subscription status. No matter the issue, cardholders are misusing the process and disputing transactions directly with their bank or card issuer. We saw a significant spike in retail e-commerce sales in 2021 — with a global average of 21%.⁵ While growth rates are expected to dip as consumers shift back to in-person experiences, retail e-commerce sales will continue to experience significant growth into the near future.



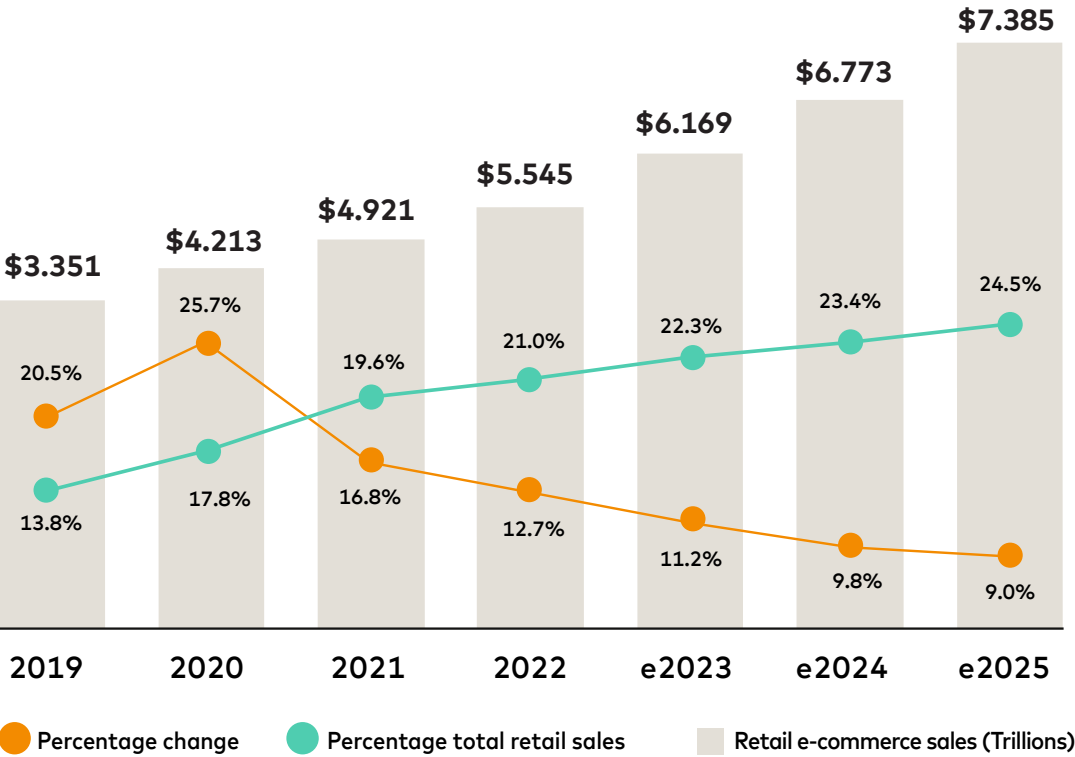
We saw a significant spike in retail e-commerce sales in 2021 — with a global average of

21%⁵

Retail e-commerce sales worldwide

Retail e-commerce sales worldwide, 2019-e2025

Trillions, percentage change and percentage of total retail sales



Key trends and dynamics

Global retail e-commerce sales will soar to reach USD 7.3 trillion

Worldwide e-commerce growth rates experienced a significant boost in 2020, up 25% since 2019.⁵ Merchant and consumer preferences were transformed by COVID-19, leading to the rapid adoption of digital channels and contactless technology. In some markets consumers still rely heavily on e-commerce. In the UK, 31% of retail sales were made by e-commerce compared to a global average of 21%, as of 2022.⁹

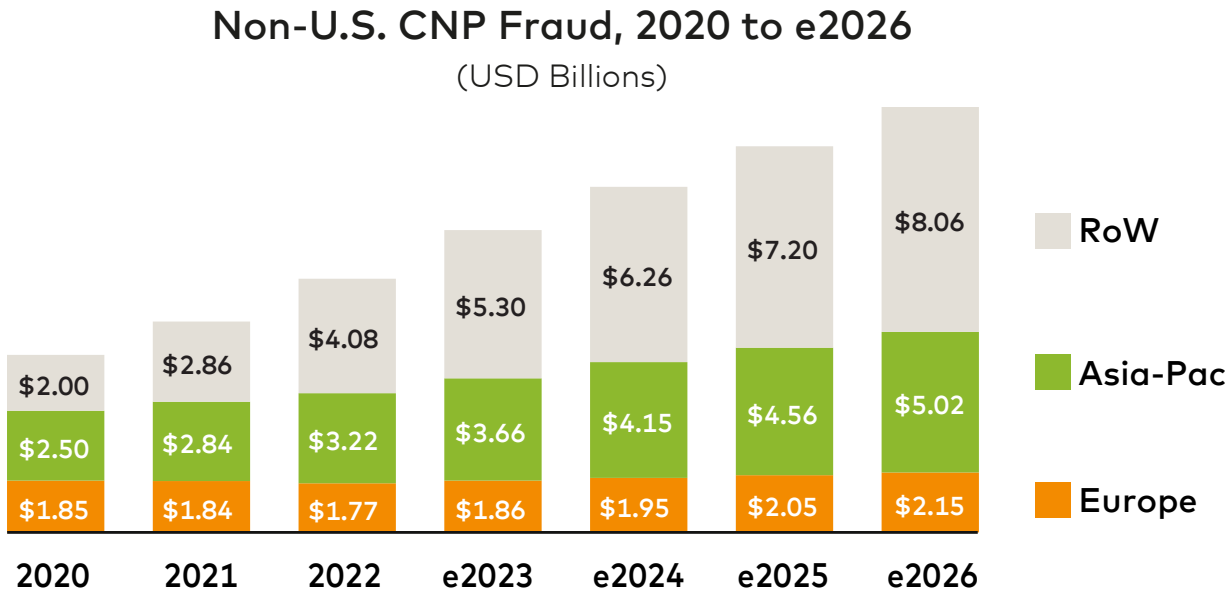
As these massive changes start to settle down and we see a return to in-person experiences, e-commerce retail sales growth rates are declining from the heights reached in 2020. Even so, e-commerce growth rates are expected to remain strong into the future — with a 12% CAGR from 2020 to e2025.⁵

What to know about e-commerce growth

Omnichannel experiences are the path forward for businesses, as evidenced by three digital payment trends that have taken hold: buy online and pickup in-store, mobile in-app purchases and the use of QR codes for placing orders in person at a business.

For businesses, the shift from card-present to Card-not-Present poses a unique challenge. It opens up the potential for a greater volume of purchase transactions becoming disputes. Even if a purchase is made in person, it's not always considered card-present. That's because of the acceleration of merchants providing more omnichannel shopping experiences that incorporate digital, mobile-device-based payment options like QR codes. Understanding the implications of CNP transactions is an imperative first step to preventing CNP fraud and protecting a business's bottom line.

CNP fraud losses
will grow alongside
e-commerce volume



Datos Insights, July 2023



Key trends and dynamics

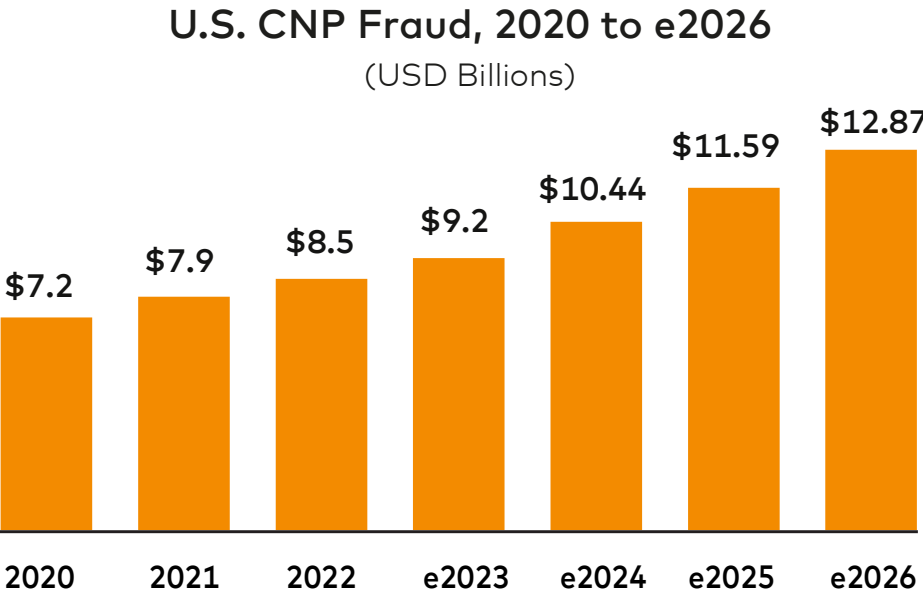
Global CNP fraud losses to reach new heights driven by U.S.

Global CNP fraud losses will reach a value of over USD 28.1 billion by 2026.⁴ This represents a 40% increase from USD 20 billion in 2023. Europe saw decreasing CNP fraud with the introduction of SCA; however, the initial dip is offset by rising CNP volumes.

While Europe’s value of CNP fraud losses is forecast to remain relatively flat, countries across Europe still face losing USD 2.15 billion to CNP fraud.

The global growth of CNP fraud loss will be driven largely by markets like the U.S. In comparison, Asia-Pacific will experience more moderate growth in CNP fraud-related losses. The losses will be driven by the region’s growing number of e-commerce transactions.

U.S. will shoulder a big portion of global chargeback losses



Datos Insights, July 2023



Key trends and dynamics

U.S. fraud will grow, keeping pace with e-commerce

The U.S. will face over 40% of the global CNP fraud, with estimated fraud losses totaling over USD 12.8 billion in 2026.⁴ U.S. CNP fraud losses continue to grow at a pace commensurate with e-commerce growth. Furthermore, 3DS has not reached a tipping point in the U.S. Only a mere 2%-4% of U.S. CNP transactions invoke 3DS. Seventy-five percent of digital goods' merchants' CNP fraud is estimated to be the result of first-party fraud.

What to know about CNP fraud losses

Consumers' preference for digital interactions means we will likely continue to see high levels of CNP transactions — especially in previously card-present-heavy environments like grocery. CNP fraud losses will continue to impact businesses across the globe, although to varying degrees.

Because merchants are typically liable for CNP transactions reported as fraud, they must do all in their power to prevent CNP fraud. Regardless of the region, businesses will need to pay attention to their CNP fraud, employing a multilayered approach that can resolve fraud, disputes and chargebacks at every touch point.

With the right tools, businesses can avoid chargebacks

A chargeback prevention solution is essentially just that — a tool designed to help businesses take measures to avoid chargebacks.

So, how can merchants and issuers prevent chargebacks and all of the damage they can do? The best way is to use a chargeback prevention solution that can help eliminate disputes and chargebacks before they happen.

Four factors to consider when seeking a chargeback solution provider



Speed of dispute alerts

Chargeback resolution tools work by receiving confirmed dispute information from an issuer and then notifying the merchant so they can refund or cancel the order — avoiding the need for a chargeback altogether.



Ease of implementation

Solutions via an online, cloud-based portal offer the fastest way to get started, with setup often possible in under 48 hours. Moreover, with a cloud-based solution, any updates to the solution happen automatically and seamlessly without the need for time-consuming manual software upgrades.



Size of network

Chargeback solutions that offer brand-agnostic data — that is, dispute data from all card brands — are generally the better choice because they will provide more alerts, giving businesses more opportunities to prevent chargebacks.



Automations

Depending on the volume and complexity of a company's fraud operations, it's helpful to automate the dispute-resolution process as much possible — such as by enabling rules-based decision-making and automatically processing incoming alerts. API-based integrations make it easy to plug into software and tools.



Reducing chargebacks and CNP fraud while improving the customer experience

Fortunately, solutions exist to help reduce or even prevent chargebacks and CNP fraud.

There's no one solution, so taking a multilayered approach using Ethoca Alerts and Consumer Clarity™ to reduce as many chargebacks as possible, wherever they occur, will help businesses reduce the associated costs, while improving the digital customer experience.



Ethoca Alerts

Connects issuers, acquirers and merchants to share fraud and dispute data, speeding up the dispute resolution process. By receiving real-time fraud alerts, merchants can quickly identify fraud, stop order fulfillment, issue refunds and prevent the need for chargebacks.



Ethoca Consumer Clarity

Provides recognizable purchase information to issuers and cardholders through their banking app. The ability to easily recognize purchases means fewer disputes caused by transaction confusion, improving the overall customer experience and reducing nonfraud and chargeback costs.

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 customer purchase journey and close costly communication gaps between all stakeholders in the payments ecosystem. These include thousands of the world's biggest e-commerce brands, the largest banks, service providers and consumers. 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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