

# Network Effect:

The Consequences of COVID-19 on Banking, Commerce, and  
Consumers May Be Permanent and Profound

A MyChargeBack™ White Paper





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The Consequences of COVID-19 on Banking, Commerce, and Consumers May Be Permanent and Profound

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## Abstract: Shelter in Place

As winter turned to spring in 2020 and the outbreaks of the COVID-19 novel coronavirus became a global pandemic, barely an aspect of human activity was left unaffected, not to say devastated. Commerce and banking were not least among them.

The forced shutdown of numerous places of business around the world, paralleling the requirement that people stay home as much as possible, resulted in a remarkable change in people's habits. Recent decades contain no precedent for such a sudden revolution in how we do things.

Thousands of bank branches were closed temporarily (perhaps) and countless bank employees were either furloughed, laid off, or forced to adapt to a radically unfamiliar work-from-home arrangement, often accompanied by altered or added duties. And like in every other industry, bank employees too fell victim to COVID-19 or were quarantined because they were in close proximity to someone else who was infected.

At the same time millions upon millions of the banks' customers were adapting in their own ways. Stuck at home, their spending and shopping habits underwent changes. Among these is a greater reliance on digital methods of getting things done, in terms of shopping as well as banking.

As sudden and unexpected as these changes were, they merely accelerated a process that was underway already.

The massive rise of card-not-present transactions predictably led to a flood of new payment disputes just as the banks — already falling behind in dispute resolution — were least prepared to deal with it.

This White Paper will detail the trends and factors that have brought us to the present situation. It will also describe the current realities and how they affect all the relevant parties. Finally, we will demonstrate how professional fund recovery services such as MyChargeBack will be a critical factor in speeding and smoothing the dispute resolution crisis.

## Banks

The days are long gone when nothing could get done at your bank without going to your branch and speaking face-to-face to another human being. And yet the branches remain, with plenty of people lining up for just about all their banking needs, whether they absolutely need to or not. At least they did before Corona Season.

So the trend among the incumbents has been a gradual development of digital banking while in parallel largely retaining all the traditional methods. But that's not the whole story, and it's not good enough for an increasing segment of the population.

Old incumbent banks were already feeling the squeeze from new challengers:

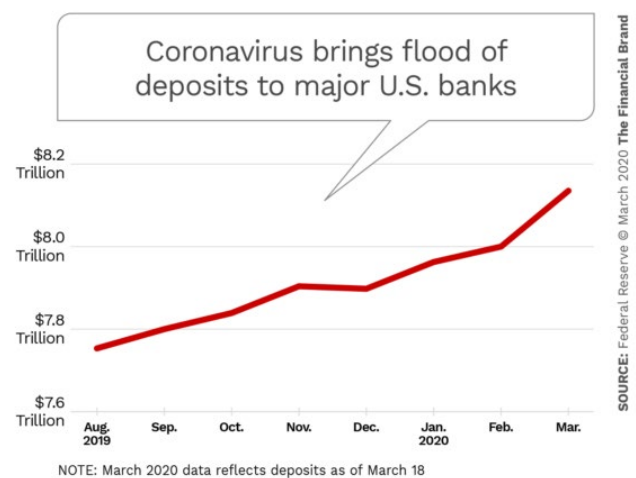
- Neobanks are in essence tech companies offering banking services.
- An online bank, on the other hand, generally works in partnership with an incumbent, or is even a daughter company doing business under a catchier more “millennial” name.

Incumbents have been struggling to keep up with good online services, with some succeeding more than others. COVID forced them to squeeze years of evolution into days and weeks<sup>1</sup>. Their newly discovered flexibility is both a challenge and an opportunity.

*COVID's effect on incumbents vs. challengers:*

Threats to incumbents: falling behind on quick, easy, and cheap online branchless services<sup>2</sup>. New technologies have made opening a neobank relatively inexpensive and simple while allowing it to offer many core banking services<sup>3</sup>.

Threats to challengers: less capital and profit to weather storms. During emergencies people flock to safe, large, well-established havens. In fact, the coronavirus crisis has witnessed a massive movement of capital *into* the incumbent banks (see chart at right)<sup>4</sup>.

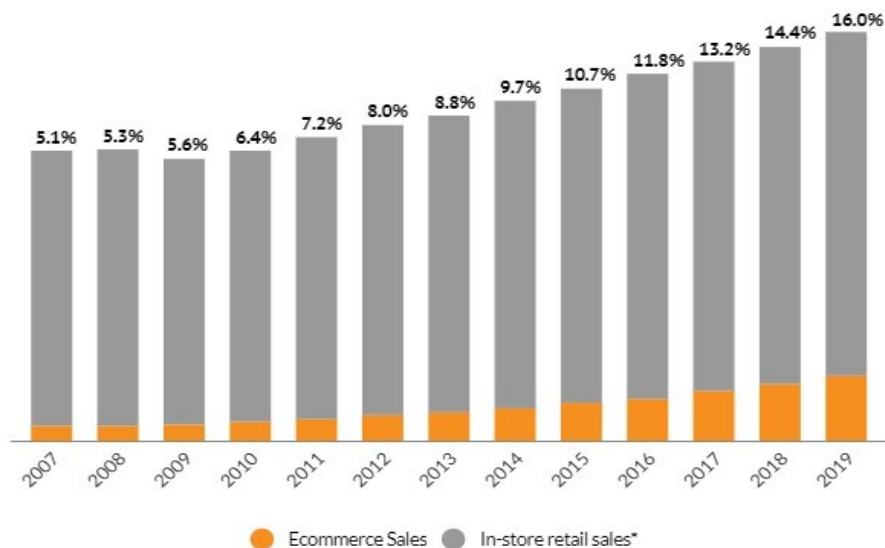


## Commerce and Consumers

Ecommerce is nothing new. Once upon a time it was, but the last couple of decades have allowed us to grow accustomed to making online purchases. The trend has been ever-upward since the '90s, with periods of increased acceleration around the time eBay and later Amazon entered the fray. In the twelve years from 2007 until 2019 the percentage of retail sales in the U.S. occupied by ecommerce more than tripled from barely 5% to 16% (see chart below)<sup>5</sup>.

### U.S. e-commerce penetration

U.S. e-commerce sales as a % of total retail sales



But COVID-19 took these existing trends and turbocharged them. Ecommerce purchase volume rose globally by 15% over the first half of 2020 compared to the same period in the previous year<sup>6</sup>. And Morgan Stanley expects that 2020 will see ecommerce account for a full 23% of U.S. retail sales<sup>7</sup>. Once consumers get used to a new and more convenient way of shopping, there may be no going back.

# Card-Not-Present: Dispute, Fraud and Manpower

Simply put, more card-not-present (CNP) transactions means more disputes:

1. Fraud

An ever-shrinking percentage of transactions happening face-to-face translates to an ever-growing list of opportunities for unauthorized users to make fraudulent purchases. The statistics during the pandemic bear this out, as the dollar value of fraud increased by nearly 5% over the first half of 2020<sup>6</sup>.

2. Friendly fraud

Also known as chargeback fraud, friendly fraud occurs when the legitimate cardholder disputes a transaction despite receiving the goods or services. It costs merchants tens of billions of dollars per year; in fact it consumes a full 28% of all ecommerce revenue today<sup>8</sup>.

3. Cardholder disputes over goods and services

Even with the best of intentions, it's clear that when purchases are made online, with less opportunity to closely examine the purchase or discuss it with the seller, the chances of dissatisfaction go up. In the shadow of the coronavirus, these disputes have become their own pandemic, with April 2020 seeing a shocking 27% increase over the previous year<sup>6</sup>. The magnitude is largely due to airline tickets and other reservations canceled because of the lockdown, but that simply exaggerated an existing phenomenon.

Bank dispute departments are tasked with processing chargebacks pertaining to the credit cards they issued. These departments were already swamped before the shutdown. This will only get worse as volume increases even as staffing grows tighter.

Unfortunately, too many dispute departments are poorly trained in understanding complex disputes, and they are only getting more complex just as bank employees are being forced to adapt to unfamiliar roles.

As a result, cardholders are going to lose:

- Disputes (bad for them)
- Patience (bad for banks)
- Confidence in the system (bad for the economy)

## The Professional Solution

Short of an overhaul of the whole system, which is probably not too realistic at present, the best solution to the payment dispute crisis may be an interface between uncertain/inexperienced cardholders and overworked/undertrained bank dispute officers.

MyChargeBack is just such an interface. We specialize in complex fund recovery scenarios involving authorized card-not-present transactions.

Being a professional fund recovery service with clients on six continents, it has been critical for us to learn:

- All the relevant card rules, as well as the laws and regulations for every jurisdiction.
- The official policies and unofficial preferences of literally hundreds of banks in dozens of countries.
- How to present the client's dispute in a way that is both effective for the client as well as clear and coherent for the banker.

Upon consulting with a potential client, if we believe that the case both has merit and would benefit from our involvement, we say so. Otherwise we let the person know that either the case is straightforward enough to present to the bank without our assistance, or conversely that they are unlikely to qualify for — or succeed in attaining — fund recovery.

The misconception that the process is an antagonistic one (i.e., that the bank is the enemy) is one that we are eager to put to rest. There's no reason we all shouldn't be on the same side, and MyChargeBack is happy to expedite matters.

## Summary

After several months of on-again-off-again lockdowns and no clear endpoint for the pandemic, it is becoming increasingly clear that there will be no “going back” to “normal,” at least not in the sense of some backward-looking future which ignores or undoes the changes that have occurred.

Part of the reason that there’s no going back is because these changes were underway and inevitable anyway, and the crisis simply sped them up. In addition, one must consider new habits and new routines as unavoidable factors.

At any rate, for the time being at least it is critical that all parties — customers, merchants, and banks — operate on the assumption that there will be more payment disputes going forward, while banks are struggling to catch up.

Therefore, professional fund recovery firms such as MyChargeBack are ideally placed to step into the gap and smooth what could be an all-too unpleasant and aggravating process for all involved.



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