



5 Fraud & Dispute Facts that Challenger Banks Need to Know

You MUST Have a Chargeback Management Process

Challenger banks are doing away with a lot of processes of traditional banks, but chargeback management - or really dispute management since not all disputed charges result in chargebacks - is not something that can be ignored. There is no way around it. Every issuing financial institution must have a dispute management solution - whether it be **outsourced** or managed internally. It is not just consumer protection laws that challenger banks need to be concerned with, but also Regulations E and Z, card network mandates, and the fines and penalties associated with them all.

The biggest mistake a challenger or neobank can make is to categorize dispute management as only a customer service perk. Sure, offering a streamlined solution for account holders to dispute a charge or report fraudulent activity will increase the customer experience, but that is simply a result, and not the only reason to implement a dispute management solution.

The Importance of Reg E & Reg Z Rules & Penalties

When it comes to chargebacks, issuing financial institutions must adhere to two laws, the Electronic Fund Transfer Act and the Truth in Lending Act. These laws are known in the financial services industry as Reg E and Reg Z, respectively, and their penalties for noncompliance alone make a case for having a streamlined dispute management process.

Reg E stipulates rules for electronic fund transfers, providing guidelines for issuers and sellers of debit cards. Reg E states that financial institutions have 10 days to make a final decision on a disputed charge, but that this can be extended to 90 days if a provisional credit is issued within the first 10 days. Noncompliance with this law results in a \$1,000 fine per violation, not to exceed 1% of the financial institution's assets.

Reg Z outlines the rules for merchants and credit card issuers. It also outlines the responsibility of account holders or "consumers" to dispute a charge within 60 days of the statement date. If the consumer misses the 60-day deadline, the financial institution can deny the dispute outright. However, issuers must have a means through which consumers can dispute a charge in order for this to be effective.





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Card Networks' Bi-Annual Mandates Require a Keen Understanding

The major card companies or “card networks” have their own regulations for chargeback resolution. Visa® and Mastercard® release their own rules, reason codes, and timelines for the chargeback process via lengthy guides. Chargeback guides are typically updated bi-annually for merchants and financial institutions alike.

It takes a seasoned expert to not only understand these guides, but how to effectively apply them. One of the biggest take-aways for issuers from the last bi-annual update was **Mastercard’s new pre-arbitration mandates**. Understanding these guides will help your team recover funds during merchant disputes.

Automated Dispute Management is a Competitive Advantage

Challenger banks will do well by learning from the mistakes of traditional banks and dispute management is no exception. Traditional banks lose out not only to fraudulent charges, but also to outdated processes by which they manage fraud and disputes. Most traditional banks still use spreadsheets and PDF forms to manage the fraud and dispute process. Using dates in Excel to manage regulatory deadlines is often inefficient, leading to penalties and fines.



To combat losses to dispute management processes, many banks have an auto-write off policy where they automatically refund disputed charges that do not exceed the cost of investigating a disputed charge. Auto write-offs are used when automated dispute management technology is not employed.

Humans are not Required to Conduct Fraud & Dispute Investigations

The most important fraud and dispute fact is that no regulation or mandate says that a fraud investigation must be conducted by a human. This is a huge opportunity for financial institutions to automate their dispute management process to deliver case resolution within a matter of seconds, and at the time a consumer makes a dispute. Quavo, Inc. was the first to apply AI technology to the disputes process with **dispute management AI technology**, ARIA™.

ARIA performs the entire investigation on her own. She uses dozens of investigation factors to return decisions consistently, pulling all case information into one place for easy access. For challenger banks operating with lean teams, conducting all investigations within regulatory deadlines can be a daunting task. ARIA is automatically updated with new regulatory mandates to keep your team 100% compliant.

Challenger banks are revolutionizing digital banking processes, it is only fitting that you employ the best automated dispute management technology available.

Whether your team is just beginning to explore dispute management solutions or you need help improving processes, think of Quavo as your one-stop fraud and disputes knowledge resource. No matter what dispute process or banking platforms you currently have, we can help. Contact our experts at experts@quavo.com for more information.