

## The Consequences of Non-Compliance

When conducting a fraud and disputes investigation, financial institutions must follow guidelines set out by the government. From the jump, these investigations are a highly involved and nuanced process. Banking institutions and Fintech organizations need to understand how this process affects their regulatory compliance, customers, and administrative overhead. The two primary banking regulations that come into play during a fraud and dispute investigation are Regulation E (Electronic Fund Transfer Act) and Regulation Z (Truth in Lending Act). These regulations are not new to the industry, but upholding Regs E & Z remains the most significant challenge facing issuers when remaining compliant to avoid fines and penalties.

## What happens when Reg E and Reg Z are not upheld?

If a financial institution displays an inability or unwillingness to follow government regulations, the government issues fines. Reg E and Reg Z fines are typically, \$1000 per violation, not to exceed 1% of a financial institution's total assets.

In more extreme cases, when a financial institution fails to comply, they can also be issued a Consent Order. A Consent Order is the OCC's last effort to force a financial institution to become compliant with regulations. If the Consent Order is not followed, the FDIC has the authority to shut down the financial institution in question.

## Why do Financial Institutions fall out of compliance during an investigation?

Reg E, Reg Z, Nacha, and card network mandates use many reason codes and rules stipulating everything from debit card issuance, provisional credit, online merchandise, and unauthorized transfers. However, the process in which financial institutions choose to work or prioritize dispute investigations is not regulated. This means that financial institutions are solely responsible for managing the fraud and dispute investigation process. The top three challenges to remaining compliant are manual workflows, human error, and lack of insight to outsourced processes. Luckily, there is a solution for each issue.



# Three Reasons Why Issuers Fall Out of Compliance

## #1 Manual Workflows

Many financial institutions manage disputed transactions with a combination of spreadsheets, emails, and forms. Issuers with manual processes rely heavily on their employees to define, uphold, and update complex workflows – all within mandated deadlines. Considering the ceaseless regulatory and network-mandated updates, on top of the plethora of sources from which to gather case information (e.g., account holders, networks, merchants, and core banking platforms), manual workflows are guaranteed to impact your organization negatively.

Quavo's QFD™ dispute management software automatically incorporates regulatory guidelines and updates for assured compliance. We have a dedicated team of experienced fraud and dispute investigators solely responsible for researching, understanding, and upholding Reg E, Reg Z, Nacha, and network and association mandates, keeping our software and therefore our clients fully compliant.

QFD integrates with merchant collaboration software like Ethoca and Verifi for seamless execution with complete case information and automated recovery processes. Our software also integrates with virtually any core banking system, automatically gathering pertinent claim information from affected accounts into one easily accessible place.



## #2 Human Error

Manually prioritizing and working disputes can be a daunting prospect if employees lack a thorough understanding of the industry's complexities or intuitive software with which to store information. Without seasoned fraud and dispute experts and/or automated workflows, information gathering, issuing provisional credit, and proper adherence to regulatory deadlines is often disorganized and prone to human error. Often, financial institutions mistakenly believe that their dispute resolution processes are compliant until an audit determines otherwise.

Our Disputes-as-a-Service offering includes QFD automated dispute management software, as well as ARIA™, our dispute management AI. ARIA conducts investigations as a human would without human error. She collects all the information required by regulators and auditors to deliver AutoPay, AutoDeny, and AutoRefer (to an agent) decisions within a matter of seconds. ARIA works with virtually any dispute management platform – whether it be a third party or a custom solution. When combined with QFD, ARIA can automate 90%+ of the dispute process.

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## #3 Lack of Insight to 3rd Party Outsourcing

Some financial institutions elect to outsource their fraud and dispute investigations. However, outsourcing does not ensure compliance if the vendor itself is relying on manual processes, which they often do. Third party vendors are often subject to fines for violating regulations because their processes are subject to the same human error that issuers have. When an FI outsources fraud and dispute investigations, they also tend to lose oversight of the process - not to mention direct interaction with their account holders.

Outsourcing back office dispute investigations to a third party only works when all teams use a unified and intuitive dispute management software that allows access to case information and full transparency, from intake to resolution. Solutions like Quavo's Dispute Resolution Experts™ human intelligence service provides issuers with autonomy and oversight over the entire dispute resolution process, while issuers retain control over account holder interactions.



## The Automated Dispute Management SaaS Offering

Quavo's complete Disputes-as-a-Service solution offering allows issuers to tackle fraud and disputes while also reducing costs and assuring compliance. We provide end-to-end solutions for all fraud and dispute claims, no matter how much or how many. The financial, Fintech, and payments industries are rapidly evolving. Isn't it time fraud and dispute management processes did as well?

To learn more about Quavo SaaS offering or for assistance building a business case for automation - contact our team [online](#) or via [experts@quavo.com](mailto:experts@quavo.com).