How Fraud & Disputes Affect CFPB Complaints

When it comes to CFPB (Consumer Financial Protection Bureau) complaints, issuers typically resort to a chargeback-centered approach in response. This method increases losses to fraud, inundates back-office teams, and does little to nothing to improve consumer experience. If financial institutions applied a more efficient fraud and disputes process that resolved disputes efficiently with easy access to claim information, the volume of their CFPB complaints would go down.

The fraud and disputes process is a massive driver of CFPB complaints. When financial institutions lack timely dispute resolutions and streamlined communications, account holders are left frustrated and more likely to turn to the CFPB for help. As consumers are more likely to initiate a dispute with the issuer rather than the credit card company or the merchant, financial institutions bear most of the burden when it comes to receiving CFPB complaints concerning disputed transactions. This is easily solved by implementing a robust, end-to-end fraud and dispute management software that assures compliance, access to information, and full consumer communication.

At Quavo, our experts capitalize upon emerging technology to offer cloud-based automated fraud and dispute management solutions to allow automatic product and compliance updates. Quavo's automated dispute management solutions reduce operational expenses and fraud losses and increase customer satisfaction with faster resolution times.

In this article, Quavo experts examine the origins of the CFPB, how its level of enforcement tends to shift under each administration, and how Quavo's fraud and dispute management solutions provide the best defense against CFPB complaints.

CFPB definition

The Consumer Financial Protection Bureau (CFPB) is a U.S. regulatory agency created to oversee financial products and services offered to consumers." The CFPB serves to protect consumers from unfair, deceptive, or abusive practices, providing the information, steps, and tools needed to make an informed financial decision and taking necessary action on those companies that break the law.

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Origins of the CFPB

Following the financial crisis of 2008, the United States Government took action in response to the recession to prevent a similar catastrophe from occurring in the future. In turn, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was created in 2010 by the Obama Administration. The Dodd-Frank Act established new government agencies tasked to oversee the various components and aspects of the new act and the financial system in its entirety. Sectors of the financial system, including banks, mortgage lenders, and credit rating agencies, were targeted because it was believed that these organizations were the underlying cause of the 2008 financial crisis.

Within the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Consumer Financial Protection Bureau (CFPB or Bureau) was established. The CFPB enables consumers to understand the terms of a financial agreement before approving readily and governs other consumer lending tactics such as credit and debit cards, all while addressing consumer complaints. Under

the CFPB falls Federal Regulations, including those directly shaping the fraud and dispute management process, specifically Reg E and Reg Z. The CFPB ultimately supports consumers through providing one single point of accountability for enforcing federal consumer financial laws. Since the establishment of the CFPB in 2010, the Bureau has been under three different Presidential Administrations, Obama, Trump, and Biden. Each administration has had its own goals and influences on the Bureau.

Under the Trump Administration

Traditionally, defining abusive acts or practices within the financial industry has been far from straightforward, challenging, and subjective. Acting Director Kathy Kraninger sought to give the financial industry clearer guidance following this event by defining an "abusive" act or practice as "One in which the harm to consumers outweighs the benefit." Kraninger also indicated that the CFPB would focus on stand-alone violations of the abusive standard rather than combining abusiveness findings with unfairness or deception violations. The Bureau received backlash for this statement as advocates saw this as an attempt to limit the agency's authority and accountability towards supporting consumers. Kraninger intended to shift the focus from financial protection to financial literacy for consumers.

In a 2019 study by the Consumer Federation of America, using a 2015 baseline for comparison, enforcement actions during the Trump Administration plummeted by 80%, suggesting a less strict Bureau. During Trump's 2016 campaign, he promised to roll back the Dodd-Frank Act by deregulating banks. His overall goal was to free up banks to do more business and let smaller banks off the hook, allowing for more lending and saving money on stress testing. Indicating, banks with less than $250 billion in assets would no longer be subject to regular stress tests.

Overall, under the Trump Administration, the policies enacted forced consumers to have more responsibility for their financial limitations, retracting the support and guidance set forth by implementing the CFPB. Although the CFPB found itself less engaged with consumers and abandoning enforcement on financial companies under the Trump Administration, consumers continued to seek assistance.

Under the Biden Administration

As the new Biden Administration revisits the actions taken by Obama and Trump in the Bureau, how will these reflections impact the future of financial institutions? All signs point back to a consumer-focused agency. In an article published by the American Bar Association, the predicted changes under the Biden Administration were discussed. The volume of enforcement investigations and settlements will likely increase along with returning to a more aggressive legal theory of liability, impacting issuers and financial institutions. There will be more frequent and more significant penalties and restitution to those who fail to uphold the law. Finally, a shift back to resolving claims through enforcement channels in lieu of the supervisory process. It has been suggested that financial services companies reflect on the current strength of their compliance and with third parties following the change of administration.

Acting Director Dave Uejio released a statement noting his priorities are providing "relief for consumers facing hardships due to COVID-19 and the related economic crisis." In a May 2021 Press Release, Director Uejio addressed the actions taken thus far,

1. Rescinding policy statements made by the Trump Administration and made clear the full scope of the Bureau's supervisory and enforcement authority would be employed under the Dodd-Frank Act,

2. Inducted a new rule requiring debt collectors to provide written notice to tenants of their rights under the CDC eviction moratorium, and

3. Delayed the compliance date for the final Qualified Mortgage rule to avoid any disruption to the housing market and ensure borrowers have access to responsible home loans during this critical time.

While some changes have been implemented to return to a consumer-based approach, predictions of what is to come and how issuers will respond remain.

Recent and Current Impacts of CFPB

CNBC published an article reporting that complaints to the CFPB were up 60% in 2020 from 2019. While the Bureau was established to prevent another financial crisis, experiencing a global pandemic could not have been predicted. Complaints filed during the pandemic emphasized existing issues and addressed new dilemmas. In the 2020 Consumer Response Annual Report, 35,900 credit card complaints were received by the Consumer Financial Protection Bureau. The most common issue reported for credit card complaints best describing the problem experienced by the consumer? A problem with a purchase shown on a credit card statement. Consumers initiating the complaints regarding the purchases on their statement identify that card issuers were not resolving disputes related to fraud or identity theft, or refund requests.

Unauthorized transactions are a common concern reported to the CFPB. Often, consumers discovered fraudulent activity on their accounts only after the account had been overdrawn. Financial institutions provided advice rather than support in emphasizing the importance of safeguarding funds with elements such as two-factor authentication and timely fraud reporting. As unemployment rates continued to rise throughout the pandemic and fraudsters took advantage of those vulnerable, more fraud took place, leading to more stress in consumers and financial institutions. With an influx in claims, consumers were not receiving proper communication or effective solutions from financial institutions, leading to more CFPB complaints.

The 2020 Consumer Annual Report stated that consumers attempting to invoke chargeback rights reported communication and customer service issues with their card issuers. According to the same report, card issuers often directed consumers to contact the merchant to arrange a refund regarding the chargeback process. Unhappy account holders turned to the CFPB for assistance, and the Bureau must hold these financial institutions accountable for their unlawful actions.

CFPB Compliance for Fraud & Dispute Management

As we continue to see changes enacted by the new administration, the CFPB will likely devote more attention to Fintechs, payments, and open-banking, as these are areas of rapid innovation and growth. As these innovative areas continue to grow, new policies must be implemented by the CFPB to continue supporting consumers, ensuring that all the information is provided to consumers and ways to protect them from harm providing further enforcement as technology evolves within the financial world. A rise in CFPB and complaints across the financial industry as a whole will inevitably lead to increased audits and stricter enforcement. Meaning, fraud and disputes shops may experience resource drains due to the auditing process, in addition to a damaging façade as a result of unsatisfied consumers, turning future consumers away from these institutions.

A 2020 report published by the Consumer Financial Protection Bureau (CFPB) identified that complaints regarding “fraud or scams” have remained the most common issue reported by consumers in 2019 and 2020 concerning money services (check cashing service, U.S. money transfer, mobile or digital wallet, etc.). Fraudsters have continued to evolve their tactics and identified new ways of capitalizing on financial services and vulnerable people, increasing fraud or scam complaints by 41% from 2018 to 2020. These complaints have left consumers feeling helpless, scared, and concerned about their financial futures, especially as the economy recovers from the COVID-19 pandemic. In response to an abrupt financial crisis, consumers turned to the CFPB for guidance on how best to navigate this unprecedented time.

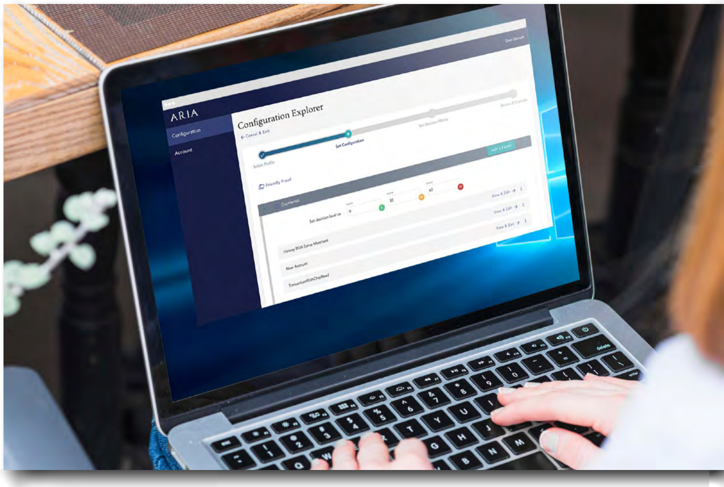
CFPB Compliance for Fraud & Dispute Management (cont.)

With an overall increase in complaints, financial institutions and issuing banks have resorted to a quick and easy dispute resolution process that does not fully adhere to the regulations set forth by the CFPB. The chargeback-centered and auto-write-off approach routinely taken by financial institutions increases FIs loss to fraud and does little to nothing to improve consumer experiences resulting in continuous CFPB complaints. Rather than realigning dispute management processes to support consumers, financial institutions have typically taken the easier route when it comes to CFPB complaints, creating a never-ending cycle of complaints.

Quavo's Automated Fraud & Dispute Management Solutions

Implementing a consumer-friendly fraud and disputes process will help decrease the number of CFPB complaints filed against your financial institution. Rather than suffering financial losses because of stricter CFPB enforcements, issuers can implement automated dispute management software and fraud management AI technology with Quavo's Disputes as a Service offering.

In a recent American Bar Association article, the Bureau's new leadership is not expected to shut down efforts in leveraging technology such as machine learning or innovative use of alternative data. The published article recommended that regulators should approach such initiatives with great caution. Implementing automated decisioning, AI, and non-traditional data sources have the potential for expanding access to credit. Quavo's fraud management AI, ARIA™, conducts fraud investigations as a human would – within seconds. ARIA removes the human error factor and bias, promoting financial inclusion and identifying when consumers have experienced actual financial harm.



Quavo's QFD™ automated dispute management software is another example of applying innovative technology to prevent CFPB complaints. QFD is the only cloud based, end-to-end chargeback management platform in the industry. Quavo's experts created QFD with decades of experience upholding CFPB requirements at some of the world's largest financial institutions. QFD's automated fraud and dispute management software also assures Reg E and Reg Z compliance with built-in factors like deadlines for provisional credit, case resolution, and customer communication. Financial institutions are now dealing with a consumer-friendly administration. Why not implement a consumer-friendly dispute management solution?

Quavo's Disputes as a Service offering features automated software, AI technology, and back-office investigation services that uphold compliance with continued support after onboarding by our dedicated team of experts. To learn more about Quavo's chargeback management SaaS solutions for issuing financial institutions and Fintech organizations, visit us online or via email at experts@quavo.com. Start automating for tomorrow, today.

