

Regulatory Compliance is Tricky, Ignoring it is Costly

A [2021 U.S. Public Interest Research Group Report](#) stated the CFPB received over 9,000 complaints from April 2017 to April 2021 regarding a pattern of issues with digital wallets, including problems with fraud and unauthorized transactions. The same report indicated that more than two-thirds of these complaints focused on three leading companies: PayPal, Block (formally known as Square), and Coinbase. While these evolving digital platforms diverge from conventional banking, it is essential to note that traditional banks' federal regulatory guidelines still apply to modern card issuance companies. In this article, Quavo's fraud and dispute experts address non-bank issuers, cryptocurrency, and issuer processor regulatory obligations, as well as the importance of consumer protection and customer service within the digital banking sector.

Non-bank Issuers

Non-bank financial companies (NBFC) or non-bank issuers provide bank-like financial services but do not hold a banking license. However, NBFCs fall under the CFPB, meaning credit, debit, or prepaid cards issued by a non-bank fall under Regulation Z and Regulation E umbrellas. More than 5,200 complaints concerning mobile or digital wallets were received from April 2020 to May 2021, according to the CFPB. In a [2020 Credit Suisse report](#), institutions such as Paypal, Venmo, Block (Square), and Apple have been defined as non-bank issuers. These organizations directly own the relationship between themselves and the cardholder.

For example, suppose one of Digital Bank A's credit-card holders discovers an unauthorized transaction on their account. In that case, they will most likely contact Digital Bank A's customer service, expecting to file a dispute for this charge rather than going to the merchant. Financial institutions are solely responsible for managing the fraud and dispute investigation process and the regulations that follow. However, Digital Bank A is a non-bank issuer, focusing on non-traditional banking practices and chargeback management may not be the top priority for the company. Financial institutions that deviate from the traditional banking sector may not have a fraud and dispute management process to handle the consequences of issuing cards. Quavo experts help to serve underequipped FIs who struggle in the face of emerging financial technology and consumer trends. This is especially true for organizations that do not have a chargeback management process in place, let alone a fraud and dispute management team. Non-bank issuers can completely outsource the all-encompassing fraud and dispute management process with Quavo's innovative [Disputes as a Service™](#) offering. Our cloud-based SaaS solutions can be white-labeled and integrated without lengthy or costly implementation. Our experts provide continued support after onboarding, while our solutions are automatically kept up to date with the latest network mandates and regulatory requirements. Quavo's Disputes as a Service™ offering features a pay-per-action pricing model, so issuers pay only for what they use. Our QFD™ automated dispute management software works across multiple channels, ensuring easy access to information and transparent processes.

Cryptocurrency

In an [American Banker article](#), 1,433 complaints were filed to the CFPB regarding cryptocurrency companies year-to-date as of December 2021. Of these complaints, 1,009 targeted Coinbase, the largest crypto exchange, identifying complaints detailing the lack of customer service provided. A [2021 Bloomberg article](#) describes the details behind cryptocurrency debit cards. "Financial technology firms are partnering with chartered banks and debit card issuers to offer these cards, using their partner's logistical and regulatory framework to automatically sell your cryptocurrency behind the scenes, converting it into dollars and allowing retailers to accept it. This means that your digital funds are accepted wherever many regular debit cards are."



Regulatory Compliance is Tricky, Ignoring it is Costly

Cryptocurrency (cont.)

Digital banking and cryptocurrency platforms aim to veer away from traditional banking practices and regulations. It is essential to note that imitated techniques such as making a debit and credit card transaction or using an A.T.M. come with responsibilities aligned under the conventional banking sector. Coinbase Card is a Visa debit card issued by MetaBank® that lets you spend any asset in your Coinbase portfolio, including U.S. dollars, wherever a Visa debit card is accepted. Due to the essence and nature of cryptocurrency, most assume that the government does not regulate the funds. This statement holds true until the crypto is converted into money on a prepaid or debit card. As soon as a transaction is made through credit, debit, or prepaid card, the issuing organization must adhere to Regulation E or Z.

Importance of Consumer Protection & Customer Service

Despite the issuing financial organization, if a transaction is made on a credit, debit, prepaid card, through an ATM, etc., the institution falls under the regulatory guidelines established by the CFPB. In a Morning Consult article, Melissa Baal Guidorizzi, a former CFPB senior enforcement official, reported, "Practically, one of the reasons why these products [cryptocurrency, digital wallets, and virtual currency] are getting more complaints is that digitally native products are advertising that they function as a bank and that they have all the same consumer protections. If they aren't living up to the promise, that's where the complaints are coming from." In the same Morning Consult article, Lauren Saunders, associate director at the National Consumer Law Center, addressed the lack of consumer protection in the mobile wallets and payments technology division. "When fintech companies streamline their services, customer service representatives are often the first to go, so consumers who have a complaint can have difficulty getting an issue resolved and might make a complaint to the CFPB."

That said, organizations that do not have an explicit chargeback management process in place are using their customer service team to handle complaints. With the loss of customer service representatives, complaints are now going to the CFPB. A rise in CFPB complaints will inevitably lead to increased audits. These audits may lead to a damaging façade as a result of unsatisfied consumers, turning future consumers away from these institutions. Financial institutions must realize the importance of consumer protection and customer service. In a 2021 Talkdesk Research Report, 82% of CX professionals believe that clients increasingly expect financial services institutions to anticipate and resolve their needs proactively. At Quavo Fraud and Disputes, our clients' consumer protection, customer service, and regulatory compliance are top concerns. Quavo is the only provider of chargeback management software to support issuers by keeping their platform up to date with regulatory and association mandate requirements. This effort is part of Quavo's ongoing dedication to client experience, supporting users with automatic card network bulletin and association mandate updates to their fraud and dispute management SaaS solution, QFD™. Quavo's expertise and commitment to service give clients peace of mind knowing that their automated chargeback solutions are equipped to handle the challenges of constant industry changes and bi-annual mandates. Quavo's QFD™ dispute management software and ARIA™ fraud management AI tool are the only cloud-based solutions of their kind, allowing for seamless updates and integrations. Quavo's chargeback solutions feature API-enabled integrations with core banking platforms, financial service applications, merchant collaboration software, and major card networks (Visa, Mastercard, and AMEX). Quavo's team of experienced fraud and dispute management experts support these solutions during and after the onboarding process to facilitate seamless regulatory, product, and UI/UX updates that do not require external IT resources, system interruption, or costly upgrades.

Even if chargeback management is not a core part of an issuer's business, fraud and disputes still result in a sizeable operational expenditure. One that can be avoided with innovative SaaS solutions like our QFD™ automated dispute management software. Quavo's expertise and commitment to service give our issuing clients peace of mind knowing that their automated chargeback solutions are equipped to handle the challenges of constant industry changes and bi-annual mandates, all while protecting consumers and upholding customer service.

To learn more about Quavo's fraud and dispute SaaS solutions, visit us [online](#) or email experts@quavo.com.