

Legacy infrastructure is limiting the ability for financial institutions to approach digital transformation and leading financial institutions to believe they are further along in their transformational journey than they are. A 2022 [Cornerstone report](#) indicated that seven in ten banks and three-quarters of credit unions don't plan to replace their core systems as part of their digital transformation, yet 70% of respondents said that their institution's current technology infrastructure was a barrier to this change. Financial institutions that are not seeking alternatives to legacy infrastructure are constrained in their ability to automate and streamline lengthy and manual processes, such as fraud and dispute management. In this article, Quavo experts detail ways financial institutions can accelerate their digital transformation and how a more modern approach can benefit your chargeback management process.

What is digital transformation?

[Forbes](#) describes a digital transformation in banking as a cultural, organizational, and operational change through technologies. In short terms, digital transformation is the transition to digital customer services via the internet. In a larger sense, digital transformation means improvements in a wide range of areas related to offerings, process automation, customer experience, data integration, and organizational flexibility and sales. Financial institutions can initiate their digital transformation by transitioning from legacy infrastructures and adapting a cloud-based core banking software.

Daniela Hawkins, Managing Principal at Capco, touched on digital transformation in banking at the 2022 Bank Automation Summit, "The line is being blurred between financial institutions and fintechs. If banks do not invest in core changes, it will become really difficult to stay ahead of the game." However, the industry has a long way to go, and banks are still dipping their toes in the digital water. In a 2022 Cornerstone Report, only 47% of banking institutions have deployed cloud computing, 26% plan to invest and/or implement in 2022, 16% have discussed the opportunity, and most shockingly, 11% do not have it on their radar. Cloud computing is no longer an emerging technology, but a necessity, and those FIs that do not shift to a cloud-based core banking software will suffer as an archaic institution.

Cloud-Based Core Banking Software

A recent [Fintech Weekly article](#) reported that if traditional banks can transform their organizational model and technologies to match the rapidly changing market better, it will help them build a system with better access to user data and, consequently, a better understanding of their customer's needs and behavior. Historically, financial institutions have housed their core banking systems in data centers managed by an IT team on-site, incurring high overhead costs for comprehensive, on-premise data centers that are not vital to their core business offering. Financial institutions must turn toward cloud-based platforms to support digital and global banking initiatives and keep up with changing industry trends. A [2018 Gartner report](#) predicted that 80% of legacy financial services providers will be extinct by 2030 unless they take action in the digital revolution. Financial institutions can not afford to fall behind due to outdated technologies and practices. Managing data on a cloud-based server also aids in data changes and increased information challenges. Cloud servers offer FIs more flexibility to the ever-changing fraud and disputes market in addition to consumer needs.

Traditionally, financial institutions' fraud and dispute management processes have been managed in-house or off-shored, leaving room for human error, regulatory fines, and CFPB audits. Overall, institutions suffer losses from traditional manual fraud and dispute workflows. By modernizing existing technology, automating operations and workflows can accelerate growth for financial institutions. Cloud-based core banking platforms also help reduce administrative overhead in the front and back-office, as cloud technology facilitates more comprehensive integrations with specialized third-party services. For example, Quavo's automated fraud and dispute management software is the only fully automated, cloud-based SaaS offering for issuers. Our cloud-based solutions allow our experts to provide continued support after onboarding and consistently deploy product enhancement updates, so issuers don't need to divert internal IT resources from other projects.



Automating Operations

A recent Forbes article stated, “contrary to common misconceptions, the digital transformation won’t make traditional banking institutions go extinct. Instead, it is an opportunity to reimagine financial services, making banks customer-centric, innovation-driven, and future-ready.” Before APIs and cloud technology, financial institutions typically contracted outside organizations for custom software builds or outsourcing.

Quavo’s CEO and Co-Founder, Joe McLean, sat on a panel discussion among other financial executives from PNC, Green Dot Corporation, Citi Ventures, etc., and spoke on how resistance to change in FIs is limiting the digital transformation in banking. McLean stated, “You must understand what success looks like to everybody (operations, technologists, executive team, account holders) to take an idea forward or to adopt a new product or technology. People don’t understand why they need to change and how it helps the company’s needs to change....” He goes on to add, “These are conversations that need to be had early in the process to make sure that everyone agrees. One of the largest barriers to ideation that I have consistently seen is that people don’t adopt the change that comes with the vision [new product or technology].”

Custom builds rely on project-based business relationships that result in deficient knowledge transfer and limited technology (e.g., once a project is complete, the business relationship ends, preventing continuous innovation). In a highly regulated industry such as fraud and dispute management, outsourced processes are less likely to uphold compliance with federal regulations. For example, issuers who outsource their entire fraud and disputes process tend to be blind-sighted when it comes to compliance, often receiving fines and penalties for the noncompliance of their outsourcing partner. However, with digitalization such as API integration and cloud-core banking opportunities, more efficient and robust Software as a Service (SaaS) solutions become more easily accessible, namely automation. A 2021 Finextra article noted that as a result of digitalization, the level of awareness also increases within financial institutions leading to changes in the planning and decision-making process, allowing the company to allocate resources and delegate tasks smartly - saving on resources and budget. Financial institutions can alleviate high-volume and time-consuming business processes through automation, for example, the chargeback management process.

A 2018 Gartner CEO survey reported, “while financial services CEOs continue to prioritize revenue growth, there has been a clear shift toward emphasizing efficiency and productivity improvements and the importance of management as growth levers.” Automated operations reduce human error and deliver faster results, produce audit trails aligned with compliance, enhance data, and increase employee productivity and customer satisfaction. Automation is critical in a cost-driven business such as fraud and dispute management. Through employing an automated dispute management solution, such as Quavo’s QFD™, financial institutions can reduce the costs associated with the chargeback process while increasing the opportunity for recovery consistently and successfully. Quavo’s innovative Disputes as a Service™ offering for issuers eliminates up to 90% of the manual work required to manage fraud and disputes through automated software, AI technology, and human intelligence services.

Implementing AI Technology

"The banking industry will achieve digital transformation when AI is embedded and integrated into the range of applications and systems that support both back-office and customer-facing functions," stated a [2020 Forbes article](#). A 2021 McKinsey report titled, *Building the AI bank of the future*, said as financial institutions continue to transition to digital channels, there is more room for opportunity for these FIs to service more customers, expand market share, and increase revenue at a lower cost. Additionally, financial institutions can lower costs by automating practices such as document processing, review, and decision making while building a more substantial customer acquisition. Overall, through automation comes increased efficiency, creating superior customer experiences for account holders. The advances in cloud computing, API integration, and automation have made AI technology more easily accessible to organizations. As the world continues to push towards a more digitalized plan, it is imperative to understand and decipher the next steps into accelerating your chargeback management digital transformation.

Quavo's fraud management AI tool, [ARIA™](#), integrates with any fraud detection, fraud alerts, chargeback management, or merchant collaboration software. She is cloud-based and tech agnostic, enabling issuers to use her without altering their current dispute management platforms and requires virtually no integration. ARIA™ is supported by our experts, who consistently analyze her model and evolve algorithms based on factors such as geovariance, declined velocity, trial merchants, and IP addresses to make better, more consistent decisions. ARIA™ can be white-labeled to uphold your company's standards, providing personalization factors when used as a multi-tenant platform.

Financial institutions must resolve the weaknesses inherent to legacy infrastructures and systems to reap the full benefits of automation and AI technology. Quavo's [Disputes as a Service™](#) offering reduces expenses and losses while increasing customer satisfaction by facilitating faster resolution times, easily accessible information, and robust digital communication channels. What's more, these solutions do not require costly upfront payments because they feature a pay-per-transaction pricing model. It's time to start automating your chargeback management process for tomorrow, today. Contact an expert at experts@quavo.com to learn more.

