Where Banks are Mitigating Risks to Underbanked Populations by Automating Fraud & Disputes

Financial inclusion is a hot topic and area of focus for banks exploring solutions to retain customers and reduce the rate of underbanking in America, a rate which currently stands at 14.5% of households (18.7 million) according to the [2021 FDIC National Survey of Unbanked and Underbanked Households](). Yet the account holder touchpoints largely overlooked during this effort are those involved during the fraud and disputes process. Something that, if not managed efficiently, can exacerbate the problem, and further push underbanked communities toward nonbanking solutions.

In this article, we explore *how* the fraud and disputes process can impact financial inclusion, and *why* automating the process can be a gamechanger for underbanked account holders as well as their financial institutions.

How are underbanked people impacted by fraud and disputes?

1. Access to Funds

Issuers can help reduce risk for underbanked customers by improving their access to funds during the fraud and dispute process. A single fraudulent charge can have devastating consequences, even if it doesn't initially wipe out an account. For folks living paycheck to paycheck, one unplanned transaction can have a cascading effect, resulting in overdrawn checking accounts, drained prepaid cards, overdraft fees, account closures, and frozen platform credentials.

Taking immediate action to prevent further unauthorized transactions is the first step to mitigating the impact of disputed transactions. Many banks lack the ability to immediately act towards restoring an account holder's payment methods. For example, front-office representatives may be able to block a card, but not reissue it, requiring account holder to contact another department to issue a new card.

Provisional credit is another part of fraud and disputes that is more prone to risk for both account holders and issuing financial institutions. While crucial to improving access to funds, provisional credit should not be issued blindly. Federal regulations like Reg E stipulate guidelines around providing provisional credit to account holders within 10 days of receiving the dispute claim. Provisional credit is especially risky for prepaid card providers, if given prior to case investigation, as prepaid card holder information is less reliable if provided at all. Most financial organizations lack the internal resources to assure provisional credit will truly be provisional, as that would require a 10-day claim investigation.

Implementing automated technology and software that not only tracks claims but prioritizes them according to regulatory requirements, like those related to provisional credit, will help households already struggling with access to funds from suffering ongoing negative financial repercussions from unauthorized transactions.

2. Human Bias

We all have experienced biased customer service based on our appearance, accent, gender, race, and more. Still, it's undeniable that underbanked, marginalized people and minorities are more likely to experience bias and be disproportionately affected.

In a 2021 primer titled "Algorithmic Bias, Financial Inclusion, and Gender," the World Women's Banking organization notes, "It may be natural for a set of exemplary employees who care deeply about fairness to create a way of working on fairness. Unless these steps turn into clearly defined institutional and organizational processes, however, they could get deprioritized due to staff turnover and resource allocation."

When it comes to fraud and disputes, human bias is most evident during the intake process, risking inaccurate claim information received and unrecovered, yet recoverable funds. The risk of bias causing greater financial losses from fraudulent and disputed transactions may seem insignificant but multiply the average cost of a claim unrecovered due to human bias against total claim volumes and the severity becomes more evident. Security.org's 2023 Credit Card Report found that only 28% of the credit card fraud victims in their study reported that their banks reversed the fraudulent charges immediately, with 7% reporting that their cases were still open. The report doesn't detail the case status of the remaining 65% of card fraud victims studied.

When a bank incorrectly denies cases involving fraudulent or disputed transactions because of discrimination during the intake process, the financial impact on cardholders is virtually incalculable. Still, the ultimate effect on issuers is likely exponential. A 2021 Nilson Report stated that in 2020, card issuers sustained 65% of the total $28.58 billion in global fraud losses, forecasting that U.S. losses from card fraud will total $165.1 billion over the next ten years.

Regulatory-driven, standardized intake questionnaires help remove human error at the start of the dispute resolution life cycle, ensuring agents collect the correct information in one interaction, right from the start. Instituting a predefined intake questionnaire helps keep the customer experience professional, especially during a typically stressful situation. Furthermore, utilizing regulatory-driven software with automated and standardized account holder communications can eliminate customer touchpoints and the very possibility for biased interactions.

3. Banking History & Account Access

We cannot achieve financial inclusion without addressing banking history and account access. Not to be confused with credit history or scoring, a person's banking history impacts their ability to open a checking and savings account. In a consumer education article published in 2020, the CFPB states that banks or credit unions may deny checking account applications based on three factors that contribute to negative past banking history:

- Involuntary Closure – Account closure typically results from an unpaid negative balance on an account from an overdraft.
- First Person Fraud – When the person was suspected of fraud related to a checking account.
- Joint Account – Having a joint checking account with someone with an adverse banking history.

First-person fraud or "friendly fraud" often occurs on accounts where more than one person has access. Risk management provider SEON defines friendly fraud as either being accidental when "a customer makes a purchase but requests a refund from the bank due to either not recognizing the transactions in their bank account or forgetting it entirely" or intentional when "a consumer makes a purchase knowingly but still requests a refund from the issuing bank."

Given the obstacles low-income people face to obtain individual checking accounts, it's easy to understand how people in underbanked households dependent on one bank account are more susceptible to acquiring negative banking history that further prevents them from accessing traditional banking services.

Issuing financial organizations can help mitigate this trend with fraud and dispute management solutions that allow bank employees to access past and pending transaction data during claim intake and before an investigation is fully underway. Identifying accidental first-person fraud claims at intake and before case submission can help prevent the accrual of negative banking history and ideally increase access to safer banking solutions.

4. Customer Experience

Fraudulent or unauthorized transactions tend to occur at the most vulnerable moments. Just think about your own experience with disputing a transaction and how that impacted your opinion of the financial institution involved. Account holders working the same hours as call centers operate have difficulty calling or visiting branches during regular operating hours, especially during times of crisis. Couple that with the time needed for in-person registration for and access to government assistance programs like Medicaid, WIC, HEAP, and HUD, as well as longer travel times when using public transportation, childcare, and more, and one begins to understand how time is a scarce commodity in underbanked households.

Access to customer service and support during a financial emergency is frequently unaccounted for when cataloging factors influencing economic equality. Time spent on calls disputing transactions is something account holders working low-wage jobs can ill afford.

Underbanked populations tend to work in jobs with inflexible work environments. One of the nation's largest employers, Amazon, only recently halted its longstanding warehouse policy prohibiting employees from carrying cell phones. It lifted the ban temporarily during COVID-19 and permanently only after a warehouse collapse where workers lacked mobile devices for emergency response. Before lifting the ban, Amazon required workers to pass through security lines when entering warehouses. Unfortunately, Amazon's cellphone ban and similar policies are not uncommon, severely restricting account holder access to service channels through which to dispute financial transactions.

Offering self-service claim intake as part of the fraud and dispute process is a way in which both traditional banks and nonbanking providers can better serve unbanked and underbanked people. Automating account holder claim status updates through a variety of communication channels also helps solve customer service problems that contribute to underbanking.

How can we better serve underbanked households through fraud and dispute management?

All issuing financial institutions can help mitigate risks related to unbanked and underbanked households by streamlining their fraud and dispute management process. Partnering with fintechs that specialize solely in fraud and disputes solutions for issuing bank and nonbank providers is the first step.

Implementing end-to-end, cloud-based SaaS products, like Quavo's QFD® dispute management platform, so that both front-office and back-office agents have access to the same account holder claim information in one platform helps standardize the fraud and disputes process at an organizational level. QFD® seamlessly integrates with digital banking platforms to support self-service intake functionality and all customer service communication channels.

Automated workflows including work assignment, chargeback recovery tasks, and account holder communication, feature built-in regulatory and network mandate requirements to help prevent human error and biased behavior.

Quavo's out-of-the box Disputes as a Service™ offering eliminates traditional obstacles to fraud and dispute optimization, obstacles like implementation fees, staff and training issues, and disruptive onboarding. To learn more about how Quavo is helping mitigate risk for underbanked communities and the financial institutions they use, or for a demo of our automated SaaS solutions, contact our experts online or via experts@quavo.com.

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