Q2

Taming the Beast

Five ways to improve your dispute resolution process

Every year, more and more consumers fall victim to card payment fraud, creating expense and work for financial institutions (FIs). Detection and prevention are important—but fraudsters continue to have the upper hand.

As a result, FIs are forced to manage a growing number of disputed transaction claims. The ever-increasing workload involved in processing these disputed transactions can't be managed using traditional tools and techniques. FIs need better, more scalable processes and technology to tame the growing beast of dispute resolution.

Financial institutions, developers, consultants, and retailers invest a lot of time and money in hopes of effectively combatting payment card fraud. By some estimates, online retailers and FIs will be spending a combined $9.3 billion on fraud detection by 2022.[1]

Unfortunately, no investment or effort can catch every fraudster—or, it seems, stem the current increase in fraud. Fraudsters are adapting quickly to security measures, exploiting human trust, and finding new ways to steal. A Javelin Strategy and Research report reveals that, from 2018 to 2019, losses due to fraud rose more than $2 billion to a total of $16.9 billion lost to fraud in the U.S. alone.[2]

The point? Fraud is on the rise. This has a significant impact on consumers, retailers, and especially the financial institutions who, more often than not, foot the bill. And, in addition to the money lost to fraud, FIs are forced to invest significant hours and dollars in the management of the disputed transactions that result from fraud.

Certainly, fraud detection and prevention strategies are an important part of the FI response to fraud—and they do prevent billions more in losses every year—but dispute management needs to be addressed as well. Many FIs that boast cutting edge analytic security technology, for example, still take disputes from their account holders with pen and paper. Dispute resolution procedures have not kept pace with fraud volume and, as fraud continues to grow, traditional dispute management practices simply won't scale adequately to meet the problem. The result—if not addressed—is an operations staff that can be over-burdened with disputes leading to errors, shortcuts and possible compliance violations.

FIs facing an increasing dispute workload need to consider new options, strategies, and tools—and be ready to embrace better processes and technology to tame that beast.

From 2018 to 2019, losses due to fraud rose by more than $2 billion to a total of $16.9 billion lost in the U.S. alone.

[1] https://www.bai.org/banking-strategies/article-detail/the-banking-industrys-multi-billion-dollar-problem/
[2] https://www.javelinstrategy.com/coverage-area/2020-identity-fraud-study-genesis-identity-fraud-crisis

5 Ways to improve your dispute resolution process

To tame the growing beast of your dispute resolution workload, consider the following improvements to enhance the account holder experience, automate processing, and simplify compliance. Even if your FI has not begun to fully feel the burden of increased dispute volume, these fixes will help you free up resources, save money, ensure compliance, and more.

1. Provide a positive experience

In the eyes of an account holder, a potentially fraudulent transaction might already be seen as a strike against your FI. Providing an inconvenient or cumbersome experience as they're reporting the dispute to your staff can turn a slightly concerned account holder into a thoroughly disgruntled one.

Too many FIs are still taking account holder disputes with pen and paper. In the digital age—where battles are fought with fraudsters online—relying on paper processes doesn't inspire confidence. Nor does it create efficiency, sufficiently support compliance, or help prevent errors.

It's crucial that you equip your front-line staff with processes and tools to better serve and reassure your customers. Consider, also, the possibility of self-service disputing from within your digital channel to save your account holders from hold-times and other inconveniences.

2. Reduce back-office workloads

As with paper-based dispute taking, many FIs are using spreadsheets and manual processes to manage disputed transactions. It's time to leverage technology so dispute processing is more efficient, scalable, and audited. Replace your spreadsheets and automate everything from letter-generation and posting adjustment transactions to tracking representments and regulatory timelines.

Automation will make your operation more resilient in times of high volume. Without an automated solution, a single breach can quickly overwhelm dispute management processes that rely on a lot of

Providing an inconvenient or cumbersome experience as they're reporting the dispute to your staff can turn a slightly concerned account holder into a thoroughly disgruntled one.

manual touch points. Many FIs have learned this lesson the hard way, when a single breach resulted in overwhelming dispute volume. How would your FI cope?

It's also crucial to cross-train your back-office staff and distribute duties to help avoid bottlenecks or delays when key personnel are out of the office. Relying on one person to manage all of your dispute processes creates significant operational risk.

3. Gain insights

Your dispute management process should provide management oversight, have in-depth reporting capabilities, and offer analysis to help your FI understand the impact of fraud.

Reporting
The ability to track and report on dispute activity is imperative. This is very difficult with Excel and other traditional solutions. Whatever tool you use for reporting should be simple yet comprehensive, with the ability to tailor reports to the needs of your staff or to the details of a specific breach. You should be able to create reports on both fraud and non-fraud disputes, including adjustment transaction reporting for both current-day and historical activity.

Management oversight
Make sure management has visibility into your fraud volume. This should include automated alerts for dramatic changes in activity, specifically sudden increases.

Fraud analysis
Traditional dispute management doesn't do much to shed light on the financial impact of fraud. The right technology will track the outcome of a dispute at the transaction level, helping management understand and monitor fraud losses—which is crucial in the face of a significant breach. Furthermore, understanding the fraud activity associated with each data breach is valuable when trying to grasp the magnitude of the event and its impact on the FI.

4. Maintain compliance

Automating dispute processes can help ensure your FI remains compliant with both Reg E (for debit cards) and Reg Z (for credit cards). Your dispute administration solution should include comprehensive compliance reporting to provide a full audit of all activity. Anything less leaves you at risk.

Even if you're FI has never had a compliance violation, outdated procedures pose operational risk that can—and will—be exposed when there is a significant influx in fraud due to a breach.

5. Upgrade your technology

Systems integration
A solution that integrates with your core, card processor, customer service portal, and other archives and tools can help you leverage existing data to streamline dispute processes and reduce the effort to resolve disputes.

In-house implementation vs. SaaS
Weigh the pros and cons of in-house dispute management software versus the Software as a Service (SaaS) model. The former might feel safer or more reliable, because all data remains on your network, but robust SaaS processing has become a secure and accepted option. Many factors play into this discussion, including technical expertise and systems integration requirements.

Build vs. buy
Larger FIs may have the resources to build dispute management solutions, but many community FIs don't. Even if the FI has internal programmers on staff, the scope of an internal development project can be significant—and must be repeated for future upgrades. For most community FI's, partnering with a proven vendor is the best option.

For the vast majority of community FIs, the dispute resolution process is in dire need of an overhaul. It's time to leverage technology to more efficiently and accurately manage disputed transactions. Fraud is an unpleasant reality, and will continue to be so for the foreseeable future—but the workload fraud creates doesn't have to be as unpleasant, or as unmanageable, as it is today. It's time to tame the beast!

About Q2

Q2 is a financial experience company dedicated to providing digital banking and lending solutions to banks, credit unions, alternative finance, and fintech companies in the U.S. and internationally. With comprehensive end-to-end solution sets, Q2 enables its partners to provide cohesive, secure, data-driven experiences to every account holder—from consumer and small business to corporate. Headquartered in Austin, Texas, Q2 has offices throughout the world and is publicly traded on the NYSE under the stock symbol QTWO. To learn more, please visit Q2.com.

Biography

Brad Johnson
Director, Solutions Consulting, Q2

Brad Johnson, Director, Solutions Consulting at Q2, is an accomplished financial services executive. He's spent his career designing best-in-class banking technology solutions and supporting/training financial institutions on technology best practices. Brad was a principal with Centrix Solutions, which was acquired in 2015 by Q2. Prior to joining Centrix, Brad spent 16 years in various capacities at Fiserv, holding senior positions in sales, product management, and customer service. Brad is an accomplished speaker and leader with a keen understanding of bank operations—including deposit, treasury, lending, and compliance—and a passion for helping financial institutions maximize their technology investment.

For more information go to Q2.com or call (833) 444-3469.