

The Importance of Automated Dispute Management in an Increasingly Complex Card Market



In the changing payment card market, customer service is a key differentiator. The handling of disputed transactions is an integral part of card management and a major driver of customer satisfaction and retention. This is especially important as the cost of customer acquisition rises as more players enter the payment card business. In the U.K. market, for example, the cost to recruit a new credit card customer is estimated to be £120. Banks need to implement innovative solutions to ensure their dispute management systems are cost effective, coordinate with their risk strategies and prevent customer attrition.

The payment scheme chargeback rules for magnetic stripe transactions date from the 1970s and were broadly based on American consumer protection legislation. This underpins the current chargeback ethos, wherein the purchaser is typically reimbursed before the resolution process begins. Visa and MasterCard have specific definitions of reason codes, each of which has its own time frame for resolution. These codes force all parties to be proactive throughout the term of any dispute — the party that misses a deadline loses the case. Both MasterCard and Visa regularly review their chargeback rules, and banking systems typically need to be updated twice a year to ensure compliance.

Managing such changes requires flexible IT solutions, as waivers are rare. The schemes' rules are important because the chargeback system would break down if each issuer around the world created its own set of chargeback rights corresponding to the particular consumer protection laws in its country.

Why Disputes are Changing

Several factors contribute to the growth in the number and complexity of disputes that payment card providers handle, as well as to the changing nature of those disputes.

EMV

EMV was designed to offer increased security and reduce the number of disputes, and therefore the cost of chargebacks by using a new, smaller set of chargeback reason codes. Thus, some magnetic stripe reason codes were eliminated following the introduction of EMV. In reality, the number of disputes raised has actually increased; the liability shift to the non-EMV party in the transaction has caused fraud to migrate to the card-not-present (CNP) environment where EMV has a lesser impact.

The Internet

As the popularity of the Internet has grown, it has become a key target for organised crime. Consequently, the rate of disputes for online shopping is up to seven times higher than the rate for face-to-face transactions. Banks are considering solutions such as Verified by Visa, MasterCard SecureCode or tokens to address this, but these solutions should be coupled with a sophisticated chargeback processing tool to ensure that customers can remain confident when using payment cards online. Banks and processors with automated chargeback systems have seen that increased volumes of chargebacks from CNP transactions can easily be managed within their existing staffing levels.

New Products

Card systems are changing regularly to keep up with consumer demands and market trends. This means banks must review and update their dispute management procedures more often to meet the changing nature of those products.

Automated Dispute Management

One example is that of contactless transactions. Currently, most banks have a minimum chargeback threshold of around \$50, below which pursuing a chargeback is uneconomic because of the associated fees and processing costs. However, a \$20 limit will initially be set for all contactless card transactions. Under the current procedures, all disputed contactless transactions are written off without investigation, offering an opportunity to organised criminals as well as to less-than-honest cardholders.

Furthermore, with contactless cards, banks also want to aggregate transactions on statements to reduce costs, which may further complicate the situation.

SEPA

SEPA is designed to encourage more cross-border transactions at the same cost as those conducted domestically. This is likely to affect dispute volumes, for example, in terms of recognising the merchant involved once more SEPA Cards Framework-compliant cards are issued. However, this is just one element in the dynamic regulatory framework in which cards operate.

The Need for Excellence in Dispute Management

When it comes to dispute management, the different participants in payments processing all have their own requirements for the procedure.

Issuers

Issuers are at the front line of disputes. They must be able to accept notifications of disputes through a number of different channels, and they need a comprehensive understanding of customer problems to provide speedy resolution. Increased regulatory intervention has meant that issuers must be more transparent in the processing of claims and offer accurate explanations of issues and resolutions.

Merchants and Acquirers

Merchants demand more from both their issuers and their acquiring banks. It is essential that requests for retrieval are straightforward and disputes properly explained. Thus, many of the automation requirements have eliminated manual errors and the subsequent large volumes of transactions that needed to be reworked.

Improving chargeback processing is a strategic opportunity for merchants to grow revenues and profits. In particular, online merchants can improve business operations and response times to reduce their chargeback rates. To achieve this, they need efficient reporting and processing from sophisticated chargeback systems, which collate all the relevant data to reduce the number of disputes they write off.

EMV has also improved the dispute management process for merchants because they no longer have to store original vouchers for the duration of chargeback time frames and can respond quickly with electronic versions of vouchers. This puts further pressure on issuing banks to automate systems on their side of the chargeback process.

Third-Party Processors

Issuers and acquirers can use card processors to handle dispute management if they do not see dispute management as a core competence. However, because of the customer service implications of mishandled chargebacks, the majority believe it needs to be handled in-house.

Processors want to operate at maximum efficiency and take advantage of economies of scale. However, handling larger volumes for numerous issuer and acquirer banks requires more automation to maximise revenue. Processors require a flexible approach to manage the specific dispute management procedures of each customer bank, as well as adherence to the various card schemes' chargeback rules. This gives processors little opportunity to move staff between clients and schemes; therefore, many are also looking for efficient tools to handle chargeback processing.

Customers

Efficient chargeback processing reinforces the overall credibility of card payments for customers. Most banks emphasise that chargeback rules protect consumers, which they hope generates trust and encourages customers to use cards instead of other payment methods. Providing a high level of customer service and interaction is the cornerstone of retaining this spending preference, and some banks have demonstrated to customers that they have undertaken transactions initially disputed as a result of having better information available.

Automated Dispute Management

How Banks Benefit From Automated Chargeback and Dispute Processing

Automating the chargeback function has some clear, measurable benefits for banks. They can reduce staffing levels and costs through greater efficiency, and the direct access they have to the original transaction data delivers improved workflow and process automation. The resulting improvements allow banks to absorb the further migration of cash payments to card products, including the introduction of new products like contactless and prepaid cards, which focus on lower-value transactions below banks' normal write-off limits for chargebacks.

Chargeback handling automation has resulted in error rates becoming almost non-existent (0.02 percent). This compares to reported rates as high as 10 percent on some manual systems.

In the case of multiple transaction chargeback situations — for example when the U.S. retailer TJX, the parent company of the U.K. chain TK Maxx, had 45 million card numbers stolen from its computer system — an automated multi-case management system allows banks to handle these volumes. In some banks, automation has allowed an increase of up to 70 percent in the number of chargeback cases it can handle, leading to a reduction in net write-offs and in staff numbers. Chargeback cases created per employee can increase by 40 percent, and calls answered at call centres can increase by 30 percent. This is because more efficient processing reduces the number of re-presentments.

Using the right tools, automation can dramatically reduce costs because it allows banks to staff a smaller, better informed and more engaged team in the chargeback area, backed up by systems and procedures designed to provide expert decision-making. Automation ensures that disputes are categorised and processed appropriately and within the scheme time frames to deliver the desired levels of customer service.

A bank will also be able to utilise its staff more effectively because automated procedures reduce errors and improve efficiency. Consolidation of disparate tools, removal of redundant processes and double entry reduce staff training time and free up capacity within the system to handle increases in volume. Improved management information also highlights areas requiring detailed attention.

Many factors drive banks to review their dispute handling processes:

- ▶ The need to optimise customer service by giving call centre staff access to information about disputes online
- ▶ The need to reduce processing costs or improve efficiency
- ▶ Projects such as the migration to EMV from a magnetic stripe environment
- ▶ Mergers or acquisitions
- ▶ New solutions, such as contactless cards
- ▶ Business process redesign
- ▶ The centralisation of dispute handling from a range of silos in the organisation
- ▶ Use of image processing to improve customer service
- ▶ A changing fraud mix
- ▶ A need to reduce the use of temporary staff resources due to insider fraud volumes becoming unacceptable

Many existing legacy dispute systems cannot be adapted to meet these needs, so companies must go back and completely reengineer their dispute management processes and systems. An automated chargeback system reduces dependence on manual procedures and temporary staff, allowing experienced staff to be redeployed to more efficiently handle more complex chargebacks. Some financial institutions have experienced reductions in staff numbers of up to 50 percent together with improved service.

Many banks with manual systems have a large value and volume of write-offs due to missing the deadlines of the payment schemes because they have nonexistent or inefficient diary systems. In addition, the use of validation rules helps avoid mistakes, such as using the wrong chargeback reason code, and finds the correct response to a chargeback. Given the change in the nature of fraud, particularly post-EMV, automated systems can alert banks to possible fraudulent activity. Furthermore, reducing temporary staff can reduce the amount of insider fraud losses.

Automated Dispute Management

Finally, using a vendor-supplied system that is automatically updated with the new reason codes and validation rules mandates of the payment schemes every six months also ensures that the chargeback process is fully compliant.

Conclusion

In a recent study, Gartner concluded that banks have three strategic objectives: cost reduction, revenue growth and improved risk management. These factors, alongside the issue of compliance, underpin all the activities of a financial institution. Dispute management has long been a forgotten area in card payment processing; however, it is a valuable tool to help banks meet all three strategic objectives. With the right automation tools, dispute management can actually be a value add for banks, keeping customers informed of progress when they make contact and improving efficiency through the effective processing of disputes and the reduction of write-offs.

Banks need to implement dedicated tools that combine efficient accounting procedures, management of changing chargeback rules and workflow management. Failing to do so means they will allow costs to rise through manual and inefficient processes, inhibit revenue growth by losing dissatisfied customers who were expensive to recruit, and badly manage risk by missing deadlines.

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