

# How Banks Can Transform Fraud and Dispute Management



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## Introduction

Has your bank modernized the way it handles fraud and dispute claims? This is a question banks must consider as they look to improve efficiencies, enhance the customer experience, and drive greater profitability in a highly competitive market.

Faced with increased customer demands and growing fraud concerns, financial institutions can no longer afford to rely on antiquated systems and manual processes. Doing so leads to significant operational inefficiencies, greater risk of human error, and, ultimately, the erosion of customer loyalty.

Said Darius Alcaire, Director, Account and Card Operations at BECU, “A lot of banking institutions still have antiquated systems. Traditional banking has fallen behind a little in updating and refreshing internal systems. That is why you see some of these fintechs on the rise — financial technology companies that are introducing new ways to bank. So, I think for traditional banking financial institutions, it is really highly manual work that those institutions are doing.”

Fortunately, banks are not powerless. With the right tools and resources in place, banks can transform fraud and dispute management and maintain their competitive edge.

To help today’s financial institutions better navigate the complexities, this white paper will explore some of the key challenges banks currently face and will provide actionable insights into how they can take fraud and dispute management to new heights.

## (H2) State of the Industry

The bank dispute process is a critical function of consumer protection. However, properly managing disputes and fraud claims can prove challenging and time-consuming.

The process is often fraught with many variables and moving parts, and failure to reach the proper outcome can result in losses for the bank and its customers. In a highly competitive market, this is a risk that financial institutions cannot afford to take.

Once a dispute or fraud claim is initiated by a customer, banks are then tasked with figuring out how to recover those funds and handle any potential losses they may face. Typically, banks have one of three outcomes:

- The bank is able to recover the funds for the cardholder through the association recovery process.
- The bank takes a loss as the claim is found in the cardholder’s favor, in spite of not being able to recover the funds.
- The bank holds the account holder liable for the funds, either because they are unable to recover or it is deemed to be “first-person fraud.”



For most banks, this a very manual process, from intake through investigation and recovery. On top of that, it is a highly regulated process with intense oversight.

Historically, banks have hired people to scan data and make decisions, and the team of investigators can be vast. In fact, some of the larger banks may have as many as 2,000 or 3,000 people conducting investigations. This can lead to significant inefficiencies and human error given the volume of data.

Furthermore, the process can be very time-consuming. Lengthy investigations place an even greater strain on resources and increase the total cost for banks. The faster banks can effectively investigate disputes and fraud, the lower their overall costs.

In today's increasingly cashless and e-commerce environment, one can expect that fraud and dispute claims will continue to rise. As disputes rise, so do customer expectations of a prompt and seamless resolution. Failure to do so results in a poor customer experience.

Research has shown that global chargeback volume is estimated to hit \$117.47 billion in 2023. In many instances, chargebacks are the result of first-party fraud, also known as friendly fraud.

Further underscoring this point, preventing fraud and chargebacks has become even more critical for online merchants worldwide, with 46 percent of e-merchants prioritizing it in their fraud management strategy in 2023, up from 40 percent in 2021.

Therefore, it is critical that banks have the right tools and technologies in place to successfully resolve fraud and dispute claims and mitigate any potential losses.

## **(H2) A better way to manage fraud and disputes**

It is imperative that today's banks leverage advancements in technology, such as artificial intelligence (AI), to modernize the fraud and dispute management process.

**“Fraud is typically data-driven, so I can see AI benefiting right away in that space because you are traditionally looking at data points and making decisions...”**

– Darius Alcaire

Director, Account and Card Operations at BECU

Bidding adieu to manual processes in favor of AI-capabilities and automation enables banks to improve operational efficiency, reduce losses, and improve the customer experience. It also helps banks ensure regulatory compliance, shorten recovery times, and do more with less as fraud and dispute volume increases.

“There’s two pieces to it,” said Alcaire of BECU. “You have fraud and you have non-fraud, which are your merchant disputes. Fraud is typically data-driven, so I can see AI benefiting right away in that space because you are traditionally looking at data points and making decisions. For the non-fraud piece, machine learning will play a big role in how to decision cases. There’s more back and forth and there’s more gray on the non-fraud side of the house, but a good AI, with machine learning capabilities, can fully automate that process.”

Continued Alcaire, “That is truly where I see it going—adding those capabilities, fine-tuning those AI and machine learning actions so that the reps can focus on the member.”

With the right solution in place, data can be pulled into AI models and engines to help determine the liability of a claim. AI can look at risk factors such as:

- Recovery outcomes
- Spending
- Transaction usage
- Transaction details, like geographic location, etc.
- Does it fit the consumer’s spending patterns?

By collecting and analyzing data pertaining to the risk factors, AI can determine the probability that an account holder has been the victim of true fraud or if this is a first person or familiar fraud scenario. This eliminates the need for a costly, long, and fragmented manual investigation process.

Automation not only reduces investigation costs but also decreases the level of sundry losses from low dollar disputes. The cost of claim investigation proves far less than the cost of auto write-offs.

When considering a solution, it is important to ensure it delivers such key elements as:

**Real-time resolution:** Historically, it could take days or even months for issuers to complete an investigation and recover funds to an account. This is too long of a wait for today’s customers, who expect an immediate resolution. Consider a solution that can complete investigations in seconds, providing customers with the real-time resolution they expect.

**Reduced fraud losses:** All required information for claim investigations, regardless of volume or amount, is automatically collected without the need for additional resources. The cost to investigate and recover fraud and dispute claims should not outweigh the cost of the claims themselves.





**Auditable case information:** The solution automatically compiles all case information and transaction data into one, easily accessible place. This is not only helpful for audits, but also provides issuers with everything needed to complete a successful chargeback recovery without draining valuable time and resources.

**Ensures compliance:** The solution can automatically update to bi-annual association mandates, keeping the team Reg E and Reg Z compliant to eliminate even the possibility of fines.

Take, for instance, Quavo, a provider of automated fraud and dispute solutions for financial institutions. Quavo's premier software solutions are ARIA® (Automated Reasonable Investigation Agent) and QFD® (Quavo Fraud & Disputes).

ARIA is fraud management AI that performs automated, reasonable investigations on behalf of the issuer. This automated intelligence tool collects data, conducts an automated reasonable investigation, and then delivers the decision to the issuer in an organized, easy-to-access format.

Quavo's QFD is an end-to-end disputes management software that features automated workflows, assured compliance, and seamless digital banking integrations. The solution requires minimal to no configuration or customization from an issuer. QFD communicates with merchant bank systems automatically through platforms like Verifi and Ethoca.

Banks can further unlock the power of innovation by pairing ARIA with QFD. In fact, when paired with QFD, ARIA is capable of automating 90% of the fraud and dispute resolution process.

**“If you are in an organization where your disputes team and fraud team are separate, Quavo makes it a lot easier to blend those teams.”**

**– Raquel Gilreath**  
VP, Senior Operations  
Department Manager at KeyBank

Clients who have implemented Quavo solutions have experienced, on average, a 50% reduction in operating costs over their current fraud and disputes process.

Among those financial institutions leveraging Quavo solutions is KeyBank. Looking to streamline processes, manage risk of errors, and enhance customer experience, the Cleveland, Ohio-based regional bank deployed Quavo's QFD automated dispute management platform in spring 2022.

QFD integrates with KeyBank's credit card platform and merchant collaboration software to automatically gather and assess transaction data with the information provided by the cardholder. This reduces back-office processing time, human capital, and operational resources.

Furthermore, since implementing Quavo, KeyBank has created a disputes operations group within KeyBank, said Raquel Gilreath, VP, Senior Operations Department Manager at KeyBank.

“Because of the way that the system is built, regardless of claim type, the system itself is very similar. So, it makes it a lot easier for teammates to be cross-trained, to learn new skills that they didn't necessarily have before, and to decision claims that they may not have decided before,” said Gilreath. “So as an example, if you are in an organization where your disputes team and fraud team are separate, Quavo makes it a lot easier to blend those teams. Because of that, one of the things we did fairly early once we started rolling out Quavo, was create a disputes operations organization within KeyBank.”

BECU has also implemented Quavo's technology. As explained by Alcaire, BECU desired a solution that would enable the bank to automate manual tasks and mitigate risk of human error, especially as it scaled in size.

“Volume dictates. So, as you scale and as you grow as an institution, you get more volume, and it is hard to manage that volume manually. Before, we had a patchwork effort of creating a case management system but no automation,” said Alcaire. “Today, we have a lot more automation, and the chargebacks themselves have become a lot more automated. You take an eight-minute process and you bring it down to almost zero... That FTE savings, that ROI, allows you to continue to grow and scale, while remaining flat from an FTE standpoint.”

Alcaire added, “The immediate benefit was the FTE savings, around 4.5 a year in savings, soft costs. And then we started to see value-add back to the member in email communication and better engagement at intake. There's no longer forms, faxes, and letters. It is all within the system in a digitized way. So, those are all experience gains that we have received but also the cost benefits we've gotten back as well.”

**“This is the sort of technology that is going to allow banks to get to the work in time without having to hire massive amounts of people.”**

– Joseph McLean  
Quavo CEO and Co-Founder

Those financial institutions that have implemented Quavo’s solutions are no doubt reaping the benefits, but the solutions provider is not resting on its laurels.

Advancements in technology are moving at a rapid clip and Quavo is looking to maintain its competitive edge by tapping into the benefits of Generative AI. Generative AI hit the spotlight with the 2022 debut of ChatGPT by OpenAI. ChatGPT is an AI-powered language model that can create humanlike conversational dialogue.

As explained by Quavo CEO and Co-Founder Joseph McLean, Generative AI has “opened up another whole new level of AI” that issuers can leverage. In fact, Generative AI has the power to fully automate the investigation of fraud and dispute claims process.

“Now, you combine that with technologies like OCR, which can read documents and pull data out, and you can dump that data into something like ChatGPT,” said McLean. If you’re building the right Generative AI prompts and your AI in the right scripts, you can effectively make decisions based off the documentations that are coming in without humans ever having to look at it.”

McLean added, “This is the sort of technology that is going to allow banks to get to the work in time without having to hire massive amounts of people.”

Quavo is currently piloting the addition of Generative AI in its QFD solution as an extension.

“What we’re trying to do is, instead of having banks pay people to sit around and investigate claims, what they can now do is take those same resources and apply them to things that actually generate revenue for their company. ... That’s really how we are looking to add it into our stack as an extension of our QFD software. So, it is going to replace the manual processing that we have today inside of the system,” McLean said.

## **(H2) Crawl, walk, run**

Change isn’t easy and transforming the fraud and dispute management process can seem daunting. However, there are steps that banks can take to help them achieve greater success. This involves taking a crawl, walk, run approach.

“We definitely did a phased approach by claim type. Technology did a lot of the program and project management, but dispute operations really led the project in terms of what we were looking for, what we wanted the system to do, and all of the business requirements and build out,” said Gilreath of KeyBank. “Once we had the context of what we wanted the system to do, it was a lot easier for us to select a vendor that could deliver on those sets of business requirements for us.”

Alcaire of BECU stressed the importance of the discovery phase. Before automating, first map out current processes and workflow to identify areas that need to be fixed. "I'm a true believer that, before you automate, you need to fix the process, or else you are automating a bad process," Alcaire said.

"It is important to then review the bank's current tech stack to unlock the power of automation," Alcaire noted. Are there integratable APIs available to enable automation? Where is it offered? Does the bank's IT team need to build APIs in-house?

It is also essential that banks employ SMEs who understand the various scenarios that will be imported into the AI technology. "Pulling in SMEs who really understand all of the various permutations and scenarios that can happen in fraud and dispute cases is paramount to success," McLean added. "Where AI tools are very helpful is that the actual development of them and the technology behind it isn't complicated."

In short, it is essential to consider the following when getting started:

- If a bank is still dealing with antiquated processes and labor-intensive, manual workloads it is critical to first clean up and automate those processes before leveraging AI. This is important to reap the full benefits of AI.
- Bring in SMEs who are experts in AI; who understand its feasibility as well as the various scenarios that will be input into AI.
- Turn to a provider, like Quavo, that has the SME knowledge needed and has handled vast amounts of transactional data.
- Partner with a provider, like Quavo, that is witnessing trends from all around the industry and bringing that back to their clients.

## Conclusion

Fraud and dispute investigations are complex, time-consuming and error prone. But they don't have to be.

With the right tools and resources in place, banks can drive change. This involves bidding adieu to manual processes in favor of AI-capabilities and automation.

The good news is banks are not alone in their journey. By turning to a partner like Quavo, which has the innovative technology and expertise needed, financial institutions can ensure they are on the path to success in today's highly competitive market. The time for change is now.



## About Quavo

Quavo is the world's leading provider of automated dispute management solutions for issuing banks and financial organizations. Quavo's premier SaaS platform QFD® (Quavo Fraud & Disputes) can automate the entire dispute lifecycle, from intake through investigation, chargeback recovery, and resolution. Combine QFD® with our back-office investigation team, DRE™ (Dispute Resolution Experts) for a partial or fully outsourced fraud and dispute processing solution. For issuers experiencing high-volume fraud claims, Quavo's revolutionary automated intelligence tool ARIA® (Automated Reasonable Investigation Agent) performs entire fraud investigations within seconds to deliver auto decisioning as a human would, without the risk of human error.

For more information about Quavo, visit [www.quavo.com](http://www.quavo.com).