A Friendly Introduction to Regulation E

Compliance is a fundamental aspect of the financial world, governing many departments including fraud and disputes. When studying the claims process, you'll no doubt come across Regulation E (Reg E), but what is it exactly? Why is it important and how does it affect fraud and dispute case management?

Understanding Regulation E is essential for anyone involved in financial and payment services. In this article, we'll review the origins of Reg E, take a look at its requirements, and understand its role in the dispute process.

What is Reg E

Established in 1978, the Electronic Fund Transfer Act (EFTA) protects consumers engaging in electronic fund transfers (EFTs). These transfers include a range of electronic money movements, such as online payments and in-store debit card transactions.

Regulation E is a set of rules that outline procedures for handling disputes by financial institutions. It specifies what transactions can be disputed, sets timelines for investigations, provides guidelines for provisional credits, outlines necessary notices, and establishes deadlines. These rules ensure a consistent and fair experience for accountholders, regardless of who they bank with.

Reg E applies to more than just banks. Credit Unions, card servicers, processors, financial technology companies, and digital banking providers must also abide by Reg E rules.

What is Error Resolution

Under Regulation E, error resolution is the set of procedures that outline what to do when something goes wrong with an electronic fund transfer (EFT) on a personal checking or savings account. The process is designed to make sure accountholder concerns are taken care of quickly and fairly.

Errors include unauthorized electronic fund transfers, incorrect electronic transactions to or from the accountholder's personal account, and incorrect amount of money received from or deposited to an electronic terminal (ATM).

Covered Transactions

Reg E categorizes the following as EFTs:

- Direct deposits such as payroll deposits, government benefits, and tax refunds
- Direct ACH debits like automatic bill payments, loan payments, and insurance premiums
- ACH transfers including internal and external transfers between accounts
- Point of Sale (POS) transactions such as debit card purchases and e-checks
- Cash withdrawals, deposits, and transfers at an ATM
- Online and mobile payments including bill payments, digital wallets, and peer-to-peer payments

In short, Reg E covers transactions whenever money is being moved electronically, including using a debit card or account info for purchases.

Notification and Limited Liability

It's important to regularly check your bank statements. If you spot an error, let your financial institution know within 60 days of the transaction showing up on your statement. You can do this either in writing or by calling them, though they might ask for a written follow-up. You can still report the error after 60 days from receiving the statement where the transaction appears, but you may not have the same regulatory protections.

Notifying your bank of a lost or stolen debit card in a timely fashion is crucial to maintaining financial health. If you report your card was lost or stolen within two business days, you can only be liable for up to $50 of unauthorized activity. If you report the lost or stolen card after two business days, you could be liable for up to $500 of the fraud charges. Although your bank may decide you're not liable at all, accountholders should keep a close eye on their accounts and escalate any red flags immediately.

Investigation and Disclosures

Providing accountholders with clear and detailed information about using EFT services, explaining any applicable fees, and outlining accountholder rights in the event of errors isn't just required by Reg E; it's the right thing to do.

Once the error has been reported, your bank will start looking into it. They'll review the transaction to figure out what happened. Reg E requires that banks complete their investigation within 10 business days from the day you notified them of the error. If the bank needs more time to complete their investigation, they will issue a provisional credit and notify the accountholder within two business days. This temporary credit is designed to provide immediate relief while the investigation continues, and you'll have full use of the funds for the duration of the investigation.

Regarding new accounts, the 10-business day deadline changes to 20 business days if the transaction occurred within 30 days after the first deposit to the account was made.

After provisional credit has been issued, and other criteria are met, the bank may take up to 90 days to complete the investigation for debit card POS transactions and foreign ATM withdrawals. For non-debit card POS transactions and U.S. ATM transactions, the bank may take up to 45 days to complete the investigation.

The bank will communicate its findings to the accountholder within three business days once the investigation concludes. If there was an error, they'll correct it and advise you that the provisional credit has been made final. If they didn't find an error, they'll explain why and let you know that the provisional credit will be withdrawn.

You may request the documents that were relied on when your bank made its determination.

Reassertion

It can be frustrating and confusing when your bank determines no error had occurred, thus denying your claim. Accountholders may request that their bank reinvestigate the error, however, your bank may require that you provide new information or stronger evidence.

Note that accountholders can request to reopen the investigation if they had originally withdrawn their case. Your bank will complete a full investigation as long as the claim is reasserted within 60 days of the transaction showing up on the statement.

Penalties

Penalties can vary based on the specific violation and circumstances, but generally noncompliance with Reg E results in a $1,000 fine per violation, not to exceed 1% of the bank's assets. In addition to fines, banks may also see legal fees, popular distrust in their services, and additional monetary loss associated with corrective actions.

Wrap Up

Regulation E establishes a transparent process to ensure accountholders are treated fairly and errors are resolved on personal checking or savings accounts efficiently. Financial institutions must send timely disclosures and complete a comprehensive investigation to resolve the error. Deadlines and communication requirements keep financial institutions accountable for the performance of their payment services departments.

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