THOUGHT LEADERSHIP

DISPUTE MANAGEMENT IN A REAL-TIME ENVIRONMENT: CHALLENGES AND OPPORTUNITIES FOR INNOVATION
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THE CHANGING STATE OF PAYMENT SYSTEMS IN AMERICA

America’s payment systems are complex and evolve incrementally over time. While the pace of change may be slower than that which occurs in other countries, the state of U.S. payment systems is changing. In its public consultation paper on payment systems improvement, the Federal Reserve Banks stated, “The U.S. payments system is undergoing a remarkable period of change, driven by rapid adoption of technology and evolving end user expectations.”

Real-time payments are emerging as a viable option within America’s payment systems. Although U.S. payment systems do not currently have the capability to institute ubiquitous near-real-time retail payments, the Federal Reserve believes that “the U.S. payments system has begun to migrate incrementally toward faster payments primarily through private sector innovations.” Without government regulation forcing a change in American payment systems, the Federal Reserve is looking to the private sector to create lasting changes through collaboration and innovation, particularly in regard to real-time payments. Consumer use of real-time payments in the marketplace starts in the back offices of banks and payment processors across America. As payment processing applications and procedures are made more efficient, particularly in regards to credit card charge dispute management activity, a framework capable of supporting ubiquitous real-time payments can be established.

THE EMERGENCE OF REAL-TIME PAYMENTS

WHAT ARE REAL-TIME PAYMENTS?
Real-time payments employ a variety of channels and devices including smartphones, non-branded cards, mobile phones, laptops and computers to deliver instant, secure and inexpensive payments directly between two parties anywhere in the world. They facilitate quick, secure, cost-effective and compliant transactions between consumers and retailers, financial institutions and billers. In addition to offering new ways of paying, real-time payments make person-to-person (P2P) payments faster and easier than traditional payment methods.

As is currently being borne out in emerging markets, real-time payments on mobile devices require only a phone number or email address to complete and are an intuitive, safe, quick and convenient way for people to pay each other. P2P technology is enabling anyone to pay anyone else for any number of common activities; friends can pay each other for a shared cab ride or dinner bill, while parents can pay their babysitters by transferring money from their accounts to the sitter’s straight from their device of choice.

WHAT ARE THE BENEFITS OF A REAL-TIME PAYMENT SYSTEM?
The benefits of real-time payments abound. In addition to convenience and speed, which have already been alluded to, real-time payments promise a variety of benefits to the key stakeholders involved in American payment systems.

WHY SHOULD THE U.S. MOVE TOWARD A REAL-TIME SYSTEM?
Real-time payments enable cross-selling opportunities for merchants. By tracking consumer spending habits and purchasing histories through various mobile technologies, retailers can enhance customer relationship management systems and improve cross-selling opportunities. Perhaps the greater motivation for moving toward a real-time payments system, however, is that consumers are demanding it. As the Federal Reserve states in its paper, “End users of payment services are increasingly demanding real-time transactional and informational features with global commerce capabilities.”

At the heart of the Federal Reserve’s vision to improve the speed and efficiency of U.S. payment systems is an awareness that consumer demand for real-time payments stems from an existing access to powerful communications technologies that are changing how consumers want to make payments and manage their
The hard reality is that as technology advances and reduces barriers to shopping and banking, as well as communicating and publishing, legacy payment systems lack key features necessary for consumers to take advantage of the improvements technology offers. The Federal Reserve has identified these missing features as:

- A real-time validation process assuring the payee that the payer’s account exists and it has enough funds or available credit to cover the payment
- Assurance that a payment will not be returned or reversed
- Timely notification to the payer and payee that the payment has been made
- Near-real-time posting/availability of funds to both the payer’s and payee’s accounts

Remarkably, when the Federal Reserve solicited public feedback to its identification of these gaps from a diverse set of stakeholders, 75% of the 200 million respondents agreed with the Federal Reserve’s assessment of these limitations. Furthermore, that same percentage of respondents agreed that the following qualities are essential for a real-time payments system:

- Ubiquitous participation
- Confirmation of good funds
- Speedy payment settlement and delivery of information

As banks and other stakeholders devise collaborative and innovative ways to address these limitations, a truly ubiquitous real-time payments system and the advancement of American economic activity become possible.
ENSURING SECURITY, THWARTING FRAUD
Risk management for card-issuing and acquiring banks, as well as merchants and consumers, has always revolved around mitigating losses due to defaults and fraud. Card issuers have found success mitigating fraudulent activity by working together and sharing resources. In their book Payment Systems in the U.S., Benson and Loftesness point out that card networks play a primary role in facilitating fraud-fighting efforts.

An additional fraud-related difficulty that a real-time payments system should seek to resolve is to reduce the current complexity in how fraud is treated differently in card present and card-not-present environments. As Benson and Loftesness point out, “Card network rules allocate fraud liability to the card issuer in card-present acceptance environments, while the fraud liability in card-not-present acceptance environments is allocated to the card acquirer (and, therefore, is ultimately borne by the card-not-present merchant).”

MISALIGNED OPERATING SYSTEMS
Perhaps the biggest obstacle to overcome in the effort to establish a real-time payments system comes not from fraud but from the back offices of banks across America. While changes to industry infrastructure are required, payment industry participants must also modernize their core back-end systems to incorporate real-time payment features.

INEFFICIENT DISPUTE MANAGEMENT ACTIVITY
At this point, there appear to be two divergent paths toward the establishment of a real-time payments system, particularly in regard to how that system handles disputed payments. The first path to real-time payments has been discussed at length and mainly involves achieving the benefits of the new system, namely improved payments productivity, reduced fraud and enhanced customer satisfaction.

The second path is a bumpier one and involves the dispute resolution system. If dispute processes and the underlying technology don’t keep pace with other evolutions within the payments infrastructure, there will be a critical disconnect between the good (when payments work) and the bad (when a payment is disputed). Any goodwill created by the system on the part of consumers and merchants will quickly erode when a consumer faces a lengthy resolution timeframe, cumbersome paperwork and forms, and many hours trying to resolve their issue.

If payments can be made from anywhere and any device, and authorized and settled in real time, this will create significant pressure on existing dispute systems. If consumers see transactions in their accounts within seconds of interactions, thanks to real-time alerts, will their expectations change if they can’t dispute unauthorized or fraudulent transactions in real time? If a payment can be made in real time, a payment dispute service should also be made available with the same access method and efficacy as the payment initiation service.

A brief evaluation of current methods for managing disputes, along with a consideration of how they can be improved is critical in paving the way for improved operational procedures capable of supporting a real-time payments system and the benefits it brings.

THE CURRENT APPROACH TO DISPUTE MANAGEMENT

HOW BANKS HANDLE CHARGE DISPUTES TODAY
Current dispute management operation at any financial institution is a costly, resource-intensive process. In 2014, Gatepoint Research invited selected executives from financial services companies to participate in a survey themed “Strategies for Efficient Charge Dispute Management.” The research found that most firms (60%) deal with fewer than 1,000 charge card disputes on a monthly basis, yet an astonishing 52% take more than two weeks on average to resolve card disputes. In fact, 56% spend more than 1.5 hours on each dispute. With nearly half of all participating firms choosing to investigate all disputes under $50, dispute management activities represent a significant time and cost burden.

WHAT ARE YOUR GREATEST CHALLENGES IN MANAGING DISPUTES AND CHARGEBACKS?

- Customer satisfaction: 3.31
- Lack of automation: 3.21
- Write-offs: 3.14
- Inefficiency: 2.92
- Risk uncertainties: 2.95
- Human errors: 2.74

1.0 2.0 3.0 4.0 5.0
determine how much money they’re saving, or losing, due to their current
dispute management operations. ACI’s robust calculator factors in
capital at risk from disputes, how much capital is saved through dispute
activity, and how efficient dispute activities are to determine a firm’s time
and money saved through its current dispute management operation.

PREPARING FOR
DISPUTES IN A REAL-TIME
ENVIRONMENT

HOW CAN BANKS PREPARE FOR
DISPUTES IN A REAL-TIME PAYMENT
SYSTEM?
So how are banks preparing their
operations for more transactions at
lower ticket prices and the inevitable
increase in disputed transaction
volumes that a real-time payments
system is likely to bring? Gatepoint
Research’s findings suggest that
banks are focusing on optimizing
workflows, automating documentation
and improving productivity in their
dispute operations. How are they
doing this? It looks like they are
trying to improve control over their
resourcing allocations and staffing
levels, automating the capture and
manipulation of images all with
resource drain for financial services
firms. Other insights uncovered by the
research included:

• Dispute management is handled
mostly by card services (44%) and
operations (40%)
• The top two priorities for improving
the dispute management process are
technical in nature – automated
capture and manipulation of images
and browser-based access to dispute
information and transaction data

The bottom line for financial services
firms is that many institutions must
maintain a large pool of trained
resources to ensure they can resolve
exceptions and disputed transactions,
and maintain compliance with
industry and government regulations
throughout the entire process.
However, many companies inevitably
write off numerous cases each year,
negatively impacting profit margins
and available capital.

A BETTER WAY: EFFICIENCIES
GAINED THROUGH IMPROVED
OPERATIONS
An inefficient disputes management
operation can have an immense
economic and operational burden on
all parties in the payments process:
issuers, acquirers, merchants and
processors. The economic value of
dispute cases that are written off each
year across the industry amounts
to billions of dollars. By reducing
the level of human interaction in the
disputes process and replacing it with
robust software capable of allowing
analysts to automate the capture and
manipulation of images, the processing
of incoming and outgoing network
adjustments (such as chargebacks and
representments), and case opening,
tracking and matching, companies
can experience fewer operator errors,
limit losses and accomplish dispute
management operations in less time.

Financial firms can use helpful online
tools, like ACI’s Disputes Productivity
and Efficiency Calculator to quickly

determine how much money they’re
saving, or losing, due to their current
dispute management operations.

HOW MUCH MANPOWER ON AVERAGE IS SPENT ON EACH DISPUTE DURING
THE RESOLUTION PERIOD?

These are the right first steps to take
to prepare dispute operations for
the increased volume of consumer
payments and the increased velocity
of these transactions. As the Federal
Reserve and the industry look to the
future, they must not forget the back-
end systems that comprise the entire
retail payments industry. Operational
efficiencies and improvements here
are critical to achieving the overall
goal of implementing a ubiquitous
real-time payments system in the
United States.

Another area that should not be
overlooked is consumer ability to
dispute transactions in a real-time
environment, which is something banks
will need to prepare for to encourage
the successful adoption of a real-
time payments system. Consumers
need to know that they can dispute
transactions with the same level of
confidence that has become regarded
as a minimum service by today’s major
payment network brands. Consumers
may not feel the impact of real-time
payments at the time of purchase, but
they may when:
• They receive broken goods or don’t receive their purchased goods at all
• They attempt to make a return or exchange to a company that is no longer in business
• They cannot repay merchant-funded installments, leaving merchants or financial institutions at a loss
• Real-time payments are made to wrong accounts

Only with a trusted, efficient automated disputes management system can financial institutions maintain the level of service consumers have come to expect in a real-time environment, and support the trend toward alternative payments with the same level of consumer protection that has been built up and refined over the years with traditional payment methods. Such challenges are just as worthy of preparation as the operational procedures financial institutions already have on their radar.

SUMMARY

Consumers, industry leaders and the Federal Reserve understand that the future of payment systems in America involves the establishment of a ubiquitous real-time payments network. The benefits of such a network include increased access to funds, speed, convenience and economic value. There is a sense that the time is right to move toward a real-time payments system. As the Federal Reserve stated in its recent paper on the matter, “Going forward, opportunity exists to improve speed and efficiency of payments and to maintain payments system safety in the face of escalating threats.” As the Federal Reserve positions itself to foster an environment where innovative payment services can be developed to meet consumer demand without sacrificing the efficiency advantages of a real-time network, financial firms ought to do the same. Those who choose to get ahead of the curve today when it comes to real-time payments will be leaders in the payments space tomorrow.

KEY BENEFITS OF AUTOMATED DISPUTE MANAGEMENT SOFTWARE

ACI Automated Dispute Manager™ leads the industry in delivering reduced operating losses and improved customer satisfaction. The key benefits it offers include:

• Productivity – Reduces time required to resolve disputed transactions
• Efficiency – Cuts costs through removal of paper-based resolution systems
• Quality and compliance –Eliminates operator/analyst keying and decision errors and tracks cases in accordance with industry and government regulations
• Financial risk management –Limits financial risks of write-offs and losses
• Customization –Highly parameterized business rules allow users to modify case management procedures quickly
• Integration –ACI’s solution integrates with document management systems, email systems, and network gateways and creates cases from internet or LAN browser workstations, files and web services

ACI supports its industry-leading product with an active stream of R&D investment to ensure it remains a robust and relevant choice for automated exception and dispute case handling.

A SUCCESS STORY IN DISPUTE MANAGEMENT: WOODFOREST NATIONAL BANK

In 2007, Woodforest National Bank saw its exception handling operations strain to the point of breaking. A period of rapid growth was revealing a lack of features, integration and technical capabilities with its dispute management activity at the time. Operators had to manage paper-based artifacts with each case and the system lacked direct interfaces into systems like VROL and MCOM. The bank had a decision to make: either increase staffing levels or update its operating model. Woodforest decided to seek out a third-party software platform that would allow them to maintain an optimal staffing model without increasing their labor pool to support exception items. Items that were once written off or ignored are now worked actively through automated procedures or addressed by operators who have a productive and efficient tool that minimizes financial impact. Through it all, Woodforest was able to maintain the exceptional level of customer satisfaction it has become known for throughout the southwestern United States. Woodforest’s story illustrates the benefits that automated dispute management solutions can bring to financial firms seeking to improve operational efficiencies.

Sources cited
WHAT A PROFIT-GENERATING RETAIL PAYMENTS ENGINE LOOKS LIKE

BRINGING MERCHANT ACQUIRERS INTO THE 21ST CENTURY

IS YOUR ISSUING SYSTEM HOLDING YOU BACK?

THE RISING PROBLEM OF DISPUTES

OVUM DECISION MATRIX: SELECTING AN ELECTRONIC PAYMENT SWITCH PLATFORM

ABOUT ACI WORLDWIDE

ACI Worldwide, the Universal Payments company, powers electronic payments and banking for more than 5,000 financial institutions, retailers, billers and processors around the world. ACI software processes $13 trillion in payments and securities transactions for more than 250 of the leading global retailers, and 21 of the world’s 25 largest banks. Universal Payments — Universal Payments — is ACI’s strategy to deliver the industry’s broadest, most unified end-to-end enterprise payment solutions. Through our comprehensive suite of software products and hosted services, we deliver solutions for payments processing; card and merchant management; online banking; mobile, branch and voice banking; fraud detection; trade finance; and electronic bill presentment and payment. To learn more about ACI, please visit www.aciworldwide.com. You can also find us on Twitter @ACI_Worldwide.