THOUGHT LEADERSHIP

DISPUTE PROCESSING IN AN EFT PROCESSOR ENVIRONMENT
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EXECUTIVE SUMMARY

Various domestic and international EFT processing organizations are offering shared dispute handling services to their client base. Most of these systems in use today are “home-grown” systems, systems that are rapidly becoming outdated due to lack of scarce business and IT resources tending to their maintenance and enhancement. Meanwhile, the processor’s customer base is constantly demanding additional services, bringing additional pressures to bear on the delivery of new payment services. This white paper discusses the basic requirements of modern dispute handling systems in complex processor environments. It will aid third-party processing companies with the process of evaluating both in-house development options as well as vendor-supplied software product options for dispute management services.
MULTI-TENANT ENVIRONMENTS

Automated Dispute Manager can be leveraged to serve the different needs of multiple customers' business and technical security levels. The functionality and data management capabilities go far beyond those of an in-house dispute processing environment with a single set of internal users.

Issuing customers must only be able to access and process transactions based on their own BINs, acquiring customers must be segregated by terminal, and each corporate entity can only be allowed to view, process and queue their own dispute cases. This requires separation logic that can operate with inputs from one or more data warehouses in multiple payment switch environments.

Each customer entity must be able to select and/or be assigned to specific service levels, within which disputed items can be assigned workflows and various user groups can be assigned work.

Multi-tenant system capability and service level adaptability are crucial features in a complex processor dispute environment.

PAYMENT CHANNELS AND INTERCONNECTIVITY

Today’s financial institutions and merchants are required to offer different types of payment products to satisfy customer needs — from debit and credit products to prepaid cards and internet bill payments. Both PIN and signature authentication methods must increasingly be extended with EMV standards as new payment technologies such as chip cards, contactless and mobile continue to pressure implementation teams to stay abreast of consumer needs.

Since payment instruments must be accepted and processed by each institution’s ATM and POS terminal devices, a process must accommodate a growing number of payment networks and gateways, with increasingly complex routing paths — each with its own interchange fee schedules. And of course, when a payment is disputed, it must travel in the same path in reverse.

The processing of the dispute must adhere to the network/gateway rules, government regulations, adjustment processing methodologies and dispute transport mechanisms.

A solid dispute processing system must “understand” the nuances of many payment channels and their routing mechanisms through networks and gateways, in order to provide system transparency for the dispute analyst.

ISSUERS AND ACQUIRERS

The issuer, serving its own cardholder constituency, will typically create disputes on the basis of consumer complaints and fraud. Such disputes, being governed by various regulatory laws (Reg E for debit and Reg Z for credit products), may require debits or credits to consumer accounts, statement adjustments and signed cardholder letters. These disputes and associated documentation will then be passed through to the merchant acquiring organizations, in reverse order, through the acquiring network or gateway processor (“Us-on-them”).

The typical acquiring customer is on the receiving end of the issuer dispute, mostly in the form of incoming requests for copies and chargebacks. However, similar needs persist, namely responding with image fulfillments as well as representations with imaged documentation (“Them-on-us”).

Lastly, when issuers and acquirers exist in the same processing environments, an opportunity exists to process disputes as “intra-processor”, a form of “On-us” transactions where the issuer processor may or may not be part of the same entity, but disputes are processed on the same platform or by the same processor. In such cases, disputes may be settled directly within the processor environment, as a special workflow process.

In large processor environments, separate or highly segmented processing platforms may exist to support the specific requirements for debit, credit or prepaid issuing, and ATM or POS merchant processing for acquirers. The dispute handling platform must be able to access, interrogate and update each platform independently.

Dispute processing workflows and interfaces must of necessity be capable of recognizing the role and configuration of each of the parties of the transaction and accommodate each combination appropriately.

ENTERPRISE INTERFACES

Traditional dispute processing is known for its complexity in terms of data access requirements from a large number of enterprise systems, both during the initial case research phases and in later phases when consumer accounts must be adjusted and chargebacks processed.

Systems such as the following are all required access points for analysts during the processing of disputes:

- Transaction data warehouses
- Card management for status and name/address information
- General ledger for account adjustments, balances, fees and interest
- Imaging systems for statements, forms and letters
- Merchant management systems for contact methods
- Terminal management systems for location data, fault and balancing information
Dispute systems should offer a comprehensive set of interfaces to these systems that can access required data and affect changes on these systems through each phase of the dispute lifecycle.

Enterprise system interfaces must be provided to automate the access to large numbers of systems required by human analysts and workflow logic.

**Workflows, Questionnaires, Forms and User Interfaces**

Workflow processing safeguards quality and efficiency in complex business scenarios — and dispute handling is no exception. The processor environment, however, further complicates the situation since each customer may demand special handling and processing of their dispute work.

Workflow technology should be utilized to enable not only the flow of information between systems and people, but it should also be used to define interactive questionnaires, letters and forms, and, in the final instance, the input and output screens used by the analyst staff. This technology should also have the intelligence to detect the environment in which it is being invoked, dynamically associating itself to customer identity, payment products involved in the dispute, issuers and acquirers in specific transactions, and the transaction types themselves.

The technology must also provide flexible configuration tools and a development-free configuration environment that can support constant change, as new customers are brought online and existing requirements change. Time to market is a critical issue in the competitive processor environment.

Workflow technology can be used to deliver “custom” facilities based on customer attributes, as well as transaction dispute contexts.

**Case Management**

Dispute handling must be managed under a comprehensive case management paradigm. When implemented correctly, case management can automate the functions below and/or assist the analyst staff with commonly performed actions such as:

- Case creation
- Expedited case research
- Correct contextual handling of dispute transactions
- Alerting and timer management
- Compliance issues
- Correct sequencing of decisions and subsequent actions
- Collation of financial transactions and images under one case file

“Parent/child” handling of single consumer interactions representing one or more disputed transactions can aid the analyst tremendously through “group” operations, such as issuing provisional credit to many transactions with a single action step, and automatic copy-creation of documentation when filing chargebacks with Visa, MasterCard and various other payment networks or gateways. Such approaches will greatly improve the productivity of any dispute operation.

Comprehensive case management coupled with a robust analyst queuing system for workload distribution will eliminate a large amount of manual work from complex, high-volume dispute environments.

**Elimination of Paper Records**

Paper continues to present challenges for most dispute departments. In fact, for 80% of consumer disputes in the United States, signed affidavits must accompany a dispute case and possibly be sent along to the acquirer via payment networks, namely Visa and MasterCard. In all instances, paper records should be converted to electronic images as early in the cycle as possible and carried as digital images with the case throughout its lifecycle. This will have a tremendous impact on handling, storage and the transport of such records between issuers and acquirers.

Image interfaces must be implemented to digital fax servers and email systems, along with digital signature pads in issuer branch locations. Similarly, MasterCard’s MCOM and Visa’s VROL image exchange systems must be utilized — in automated fashions — to eliminate printing and scanning of documentation as the case moves between retrieval request fulfillment to chargeback and representment.

Significant productivity gains can be achieved by entirely eliminating paper handling during the dispute process. A robust dispute system will have automated all of these processes through digital imaging technology and advanced payment system interfaces.

**Multi-Networks for Dispute Resolution**

Each network has invented its own method for dealing with disputed transactions. This is the reason that so many adjustment systems exist across the world. While they adhere to certain ISO standards in the handling of their transaction (first presentment), each network requires specific protocols and rules for dispute handling. Timeframes and escalators, reason codes, documentation, retrieval requests, chargebacks, representations, compliance and
adjustments all are specific to each network and transaction type.

Network-specific interfaces are required to exchange data and documentation related to dispute handling between issuers, networks and acquirers. These include:

- STARStation from STAR
- PIX2 from Pulse
- NICS from MasterCard
- VROL from Visa
- Faxes and letters
- MCOM and VROL image handling

Most organizations implement these interfaces using computer terminals and human staff.

Efficient dispute handling systems must be capable of interfacing both financial transactions and image handling in a seamless manner, regardless of which network and gateway is required to settle the dispute.

**MULTIPLE LANGUAGES AND CURRENCIES**

The number of cross-border payment transactions is increasing, as is the trend in outsourcing various functions for a variety of economic and demographic reasons. As international business continues to consolidate, large processor organizations will of necessity situate their data centers and staff in various countries to serve the needs of local consumer and merchant populations and to comply with local or regional regulations.

Language constructs governing user interface displays, customer questionnaires, dispute workflows, forms and letters must therefore be adaptable to both the user of the system as well as the parties involved — namely the cardholder and the merchant. Similarly, transaction currency, settlement currency and posting currencies may therefore vary, requiring adjustments for gains and losses due to changes in foreign exchange rates.

Industrial strength dispute and adjustment systems must cater to both of these variables, appropriately.

**COMBINED DISPUTE AND FRAUD HANDLING**

Fraudulent transaction disputes can represent 40-50% of overall dispute volumes, whether consumer-reported fraud or system-detected fraud. In either case, consumer financial adjustments must be made, chargebacks produced, networks notified (Visa and MasterCard fraud reporting), cards blocked and re-issued, and consumer affidavits produced and collected — all reasonable functions of a comprehensive dispute handling system.

Fraud-based workflows can automate many functions and should be used to capitalize on existing personnel skills and staff complements. Interfaces should be employed to capture confirmed fraud transactions from real-time fraud detection engines such as ACI Worldwide’s ACI Proactive Risk Manager™ and FICO’s Falcon.

A sufficiently flexible dispute engine can assume many fraud-related functions and should be utilized with appropriate interfaces to installed systems.

**ECONOMIES OF SCALE**

The processor industry survives on the basis of combining hardware, software and human resources into a cohesive entity to reduce the unit cost of processing to levels which individual organizations cannot achieve. Each processor will provide value-added services using the base infrastructure to differentiate their position in the market. Thus, processors will compete not only on lowest possible cost, but also on adding services around their core offering to attract as many issuers and acquirers as possible.

The availability of value-added services is often a competitive advantage. A shared dispute processing service is no exception. However, delivering this type of value-added service requires specific core competencies. Using a modern dispute processing system, automated functions will replace manual efforts, write-offs will be minimized by reducing errors and compliance issues will be eliminated through strict timeframe controls through workflow processing. Not only can this create improved margins or even new sources of revenue, but this will also create a distinct competitive advantage for the processor.

A declining cost per dispute, through automation, paper elimination and improved disputes/FTE ratios will assist the processor in offering improved dispute handling services at lower costs.

**VENDOR EXPERTISE**

The dispute processing world is very complex and presents a significant learning curve to many software development teams, whether in house or vendor supplied. Serious consideration must be made when selecting a path forward since the provisioning of this kind of system is far more than the development of workflows.

The industry expertise of the provisioning team should play a major role in the selection process.

**SUMMARY**

Automated Dispute Manager from ACI Worldwide has been designed to allow for domestic and international processing companies to perform the exact functions as outlined above.

Based on a flexible, configurable
workflow engine with a variety of supplied interface plug-ins to payment networks and systems. Automated Dispute Manager can process large volumes of disparate disputes from an unlimited set of payment products. Every system is delivered fully configured and in a production-ready state.

By integrating workflows and digital image-handling in a multi-network environment, Automated Dispute Manager can fulfill the needs of today while providing the flexibility to deliver the new exception handling processes of tomorrow.

Automated Dispute Manager is marketed by ACI and serviced by Lean Industries. Lean Industries employs highly specialized resources with decades of experience in payments and dispute processing who can discuss customer requirements in detail. The solution has been installed and proven in some complex dispute processing environments, including:

- The handling of all EFT debit and credit card, ACH and bill payment disputes for KeyBank Corporation in the United States
- The processing of all customer complaints and merchant responses for the country of Portugal through the national switch company SIBS; this includes international transactions through Visa, MasterCard and American Express
- The processing of all merchant disputes for Euronet Worldwide in Hungary
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 each day 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 – 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.