White Paper

Risky Business: Best Practices for Managing Cardholder Dispute and Chargeback Processes in Challenging Times

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"In the end, nobody that's ever taken good care of the customer has ever lost; I mean that is the name of the game."[1] Those words from renowned businessman, Chairman and CEO of Berkshire Hathaway Warren Buffet should be instructive to fi nancial institutions (FIs) struggling to regain and maintain profi tability amid a continuing economic storm.

For credit card issuing FIs, managing cardholder disputes is an essential part of providing excellent customer service. Indeed, it is becoming increasingly important as banks are forced to turn to their already hard hit customers to bolster profits through higher fees and interest rates — practices that are being looked upon unfavorably by consumers and government regulators. The resulting negative perceptions toward the financial sector could potentially lead to decreased customer loyalty and, ultimately, hurt FIs' top line growth in an already tough business climate. At the same time, a tsunami of issues — economic contraction, new legislation addressing credit card lending practices, a rise in consumers making minimum payments, a slow down in new account openings and unprecedented delinquency rates — has enveloped the industry, compressing FIs' potential profit margins traditionally generated from extending credit, interchange fees and interest charges.

Unfortunately, many FIs' current dispute and chargeback processes — which begin by placing an item into dispute and end with arbitration or the initiation of a compliance case — can be inefficient, expensive and contribute little to enhancing customer loyalty. However, if handled properly these processes could have a significant positive impact on customer relations. Dispute and chargeback processes involve multiple stakeholders — cardholders, merchants, acquiring banks and card issuers — and are often manual and labor intensive, requiring expert resources and a keen understanding of how to interpret Payment Networks' (the Association's) rules and Federal legislation affecting response time. An example of organizations that comprise the Association include Visa, MasterCard, Discover and American Express. Participating organizations establish terms for card issuing banks, merchants and acquiring banks. Furthermore, chargeback and dispute processing can be an expensive proposition that requires ongoing investment to sustain technology, manage employee training and turnover, and ensure compliance.

As the current economic environment continues to squeeze profit margins, many FIs are missing a golden opportunity to solidify customer relationships, while at the same time mitigating risk and reducing costs by revisiting their dispute and chargeback process models. This paper will outline some of the reasons why now may be the time to invest in an alternative model that improves the efficiency and effectiveness of FIs' dispute resolution departments and positions them to more easily weather the changing economic and legal frameworks in which they must operate.

In the sections that follow, this report will:

- Provide an overview of the current industry environment while addressing shifts in chargeback volumes, with an emphasis on fraud-related patterns;
- Outline challenges associated with differences between Federal regulations and Association guidelines;
- Highlight potential risks that could be easily mitigated;
- Identify key metrics for evaluating the success of an organization's cardholder dispute process, while understanding the hidden costs associated with managing the process in-house;
- Explore the value proposition associated with deploying an outsourced dispute and chargeback processing model, and identify key factors that should be considered when choosing a service partner; and
- List best practices associated with a highly efficient and effective dispute department.

Chargeback Lifecycle

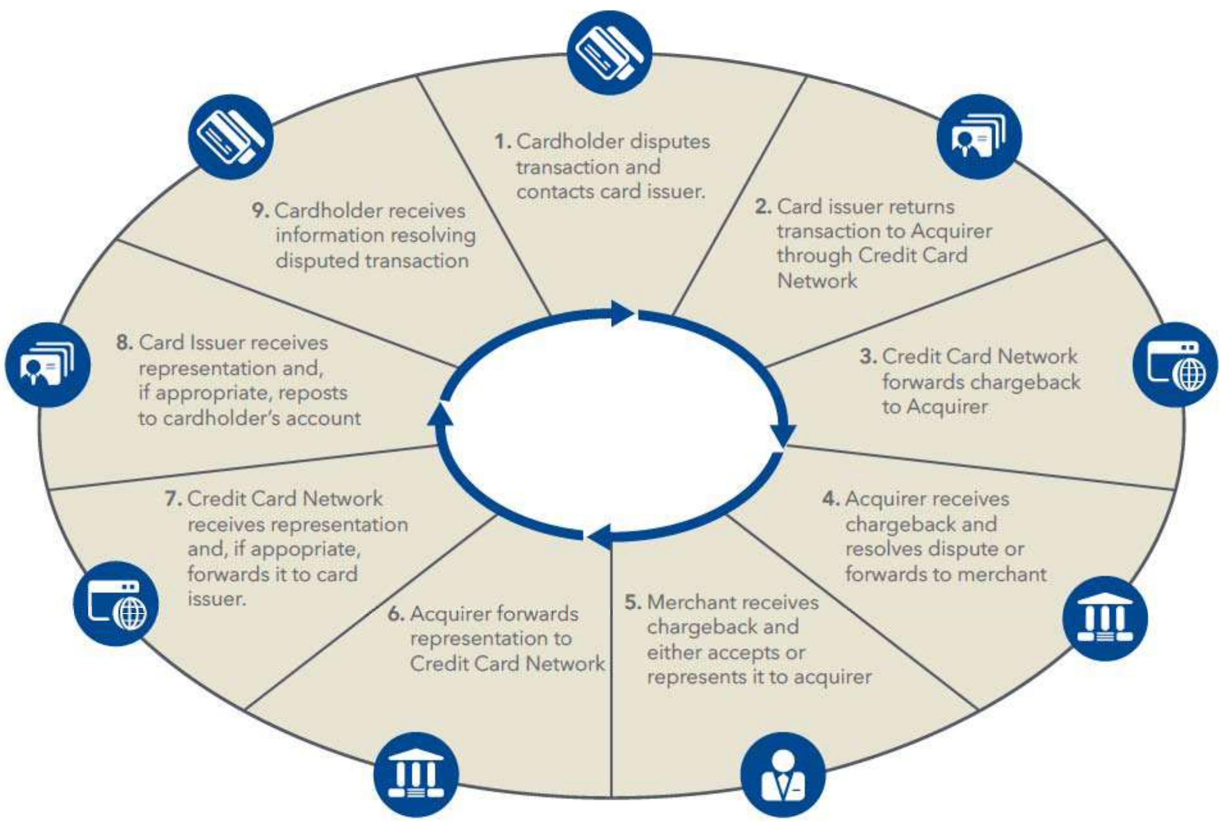

Exhibit 1

INDUSTRY OVERVIEW

Steady Upward Trajectory Of Consumer Payment Instruments Raises Chargeback Rates

Consumers are becoming more budget conscious and, in a response to decreasing disposable income, they are shifting to debit card use in record numbers. The number of active debit cards has now surpassed that of credit cards.[2] Nilson reported debit transaction volume grew 13 percent from 2007 to 2008 with double-digit growth forecasted through 2011.[3]

Naturally, a projected increase in payment card transaction volume — 30 percent over the next five years for credit and debit — and the revenue generated by these transactions should be a welcome sign for industry players, especially given the current market constraints.[3] However, increased transaction volume correlates with an increased percentage of cardholder disputes and chargebacks. From a resource perspective the dispute resolution process is time and cost intensive and risky for issuers, acquirers and merchants, and could reduce the revenue if the transactions are credited back to the card holder.

U.S. payment card purchase volume — from commercial and consumer general-purpose credit and debit cards — exceeded $3 trillion in 2008.[4] If one applies a conservative chargeback rate of 0.05 percent to the $3 trillion, the annual value of chargebacks is estimated to be $15 billion.

This hypothetical estimate is exclusive of the necessary time and monetary resources required to support the dispute and chargeback operations.

Fraud Drives Double-Digit Growth Of Disputes And Chargebacks

Some of the events that trigger chargebacks include processing errors, products that are never delivered, low-quality products or fraudulent transactions that are not authorized by the cardholder. Fraudulent transactions — transactions without the authorization of the cardholder — are one of the most common and costly reasons for chargebacks. Consumer adoption and the growth of online commerce are fundamental factors.[5] The 2009 CyberSource Fraud Survey found that 51 percent[6] of chargebacks are attributed to fraud, while up to 60 percent of disputes have resulted in chargebacks for larger entities, according to historical data observed across multiple VISA portfolios.

According to data from 15 small- to mid-size issuers supporting different payment mechanisms — consumer, commercial and debit — displayed in Table A, a significant spike in fraudulent transactions is evident over a 12 month period between 2008 and 2009.[8] It is speculated that this trend may be partially attributed to an increase in first-party fraud, or fraud intentionally committed by the cardholder. As delinquency rates rise, first-party fraud does as well. A recent TowerGroup report focused on first-party fraud reported that between 5 percent and 35 percent of bad debt write-offs can be attributed to first party fraud.[7] Additionally, the research group estimates that "intentional cardholder losses from abuse and fraud may cost the industry as much as $10 billion."[7]

Non Fraud Related	
Disputes	19%
Chargebacks	16%
Fraud Related	
Fraud Cases	21%
Chargebacks	21%

Table A: 2008-2009 Year-over-year % change of average monthly dispute and chargeback volumes.[8]

The above data suggests average monthly dispute and chargeback volumes experienced a double-digit increase from 2008 to 2009.[8] In an example scenario, if it is assumed that an issuer's annual dispute volume is 80,000 and that a minimum of 1.5 hours is required to address the investigation, documentation and submission of each dispute. Applying these conservative assumptions, this volume of disputes would require an annual minimum labor force of 61 full-time-employees, a substantial effort. In the example scenario, dispute volume experiencing 19 percent year-over-year growth would require an incremental 20,000 work hours or the equivalent of an additional 12 full-time employees. In order to handle the process both efficiently and effectively, this growth would entail immediate attention from highly skilled chargeback representatives with deep industry expertise coupled with training covering the latest industry- specific rules. An organization's ability to scale-up quickly becomes paramount.

Regulation Z Overview:

> Protect consumers from unexpected increases in credit card interest rates
> Prohibit creditors from issuing a credit card to a consumer who is under the age of 21 unless certain parameters are met
> Require creditors to obtain a consumer's consent before charging fees for transactions that exceed the credit limit.
> Limit the high fees associated with subprime credit cards
> Ban creditors from using the "two-cycle" billing method to impose interest charges
> Prohibit creditors from allocating payments in ways that maximize interest charges

Source: Federal Reserve Bank, Sept 29, 2009.

INDUSTRY CHALLENGES

FIs face many challenges with their dispute and chargeback operations. These challenges are centrally focused on ensuring compliance and containing operational costs, two areas of inherent risk that can be managed, limited or eliminated in some instances. Furthermore, with ever-changing Federal regulations and Association guidelines, compliance can be daunting and can present costly penalties. Many in-house operations continue to manage the chargeback and dispute process in a manual fashion, which is not only inefficient, but also error ridden, time-consuming and expensive, resulting in a substantial negative impact to the bottom line.

Compliance with Reg. Z and Reg. E

The following high-level overview of Reg. Z and Reg. E is specific to the dispute and chargeback process for consumer credit card and debit transactions. The summaries of both of these regulations are based on the appropriate sections of the Federal regulations.[9]

Regulation Z (Reg. Z), also known as the Truth in Lending Act, has undergone recent changes by the Federal Reserve Board. Reg. Z is intended to ensure fair treatment and protection to credit card consumers. According to Federal Reserve Governor Elizabeth A. Duke, "The rule bans several harmful practices and requires greater transparency in the disclosure of the terms and conditions of credit card accounts."[10] Other requirements cover fees associated with exceeding one's credit limit and those associated with a variety of actions including, but not limited to, subprime credit cards and unexpected increases in APR, to protect consumers from unexpected increases in credit card interest rates.[10] Recent findings from the Pew Safe Credit Card Project claimed, "72 percent of cards included offers of low promotional rates, which issuers could revoke after a single late payment."[11] This sentiment of protecting and treating consumers fairly extends to practices governing debit cards. Regulation E (Reg. E) governs transactions made electronically, including those made by debit card. Reg. E also referred to as the Electronic Funds Transfer (EFT) Act, "provides a basic framework that establishes the rights, liabilities, and responsibilities of participants in electronic fund transfer systems, such as automated teller machine transfers, telephone bill-payment services, point-of-sale (POS) terminal transfers in stores, and preauthorized transfers from or to a consumer's account."[9]

Two sections of Reg. Z directly affect the dispute and chargeback process.

1. Section 226.12(b)(3) states, "The card issuer may not automatically deny a claim based solely on the cardholder's failure or refusal to comply with a particular request, including providing an affidavit or filing a police report; however, if the card issuer otherwise has no knowledge of facts confirming the unauthorized use, the lack of information resulting from the cardholder's failure or refusal to comply with a particular request may lead the card issuer reasonably to terminate the investigation.[9A]

2. Section 226.13(c)(2) states, "The phrase two complete billing cycles means two actual billing cycles. For example, if a creditor on a monthly billing cycle received a billing error notice mid-cycle, it has the remainder of that cycle plus the next two full billing cycles to resolve the error."[9B] Additionally, Sections 226.13 addresses the error resolution procedures and the requirement to complete the investigation to determine whether an error occurred within two complete billing cycles. Section 226.13(c)(2) states, "Thus, for example, the creditor would be prohibited from reversing amounts previously credited for an alleged billing error even if the creditor obtains evidence after the error resolution time period has passed indicating that the billing error did not occur as asserted by the consumer.[9B]

Discrepancies Between Association Guidelines And Federal Regulations

Rarely do cases proceed to arbitration. According to VISA spokesman Randa Ghnaim, "At VISA, only one-tenth of one percent of disputes are decided in arbitration."[12] The leading card issuers are eager to resolve a consumer's dispute in a prompt manner, while adhering to both the Association guidelines and Federal regulations. Compliance with Federal regulations requires an investment of time, money and resources to address the necessary operational changes, further complicated by the labyrinth of guidelines. Furthermore, Association guidelines and Federal regulations differ from one another.

Many discrepancies exist between credit card association and Federal guidelines and are emblematic of the differences in their focus. Card Acceptance and Chargeback Management Guidelines for VISA Merchants are crafted to prioritize customer satisfaction,[13] whereas Federal regulations are created to protect consumers.

However, the primary difference between the different entities' guidelines is with dispute resolution timeframes. For example, The Mastercard Chargeback Guide suggests that the "timeframe for first chargeback is within 120 days."[14] VISA, allows up to 520 days from the transaction date to resolve a dispute. Yet, Federal regulation Section 226.13, states, "Disputes must be resolved within two complete billing cycles,"[9] in no event later than 90 days after receiving a billing error notice.

Disputes proceeding to arbitration will most likely exceed the 90-day timeframe. Along with the expense associated with pursuing the arbitration of a case, regulations could be interpreted in such a way that, despite whether an issuer wins or loses a case at the Association level, they could in fact end up absorbing the expense associated with the transaction in question should it fall outside of the new federally mandated, Reg. Z, timeframes that a dispute must be resolved within two billing cycles.

With the differing and ever-changing guidelines, the value of implementing robust training programs at regular intervals, as well as streamlining processes in order to resolve disputes quicker than ever before, is crystal clear.

The Dispute and Chargeback Process Requires Investment of Time and Capital

The credit card dispute and chargeback process has evolved since the first legislation — The Fair Credit Billing Act, passed in 1975 — and it will continue to do so. To many, it is a complicated process, including dozens of chargeback reason codes. It is further complicated by the need to ensure compliance with current Federal and Association rules. The MasterCard Chargeback Guide contains more than 500 pages with recently updated guidelines.[14]

Staying current with changing rules most likely requires process changes or new systems — an investment in both technology and employees. These people include those dedicated to quality assurance and compliance, chargeback representatives, management teams, as well as those preparing training materials and leading the training programs.

Highlights Reg. Z 226.13 Billing Error Resolution

1> Cardholder must notify issuer of a dispute within 60 days
2> Acknowledgment letter must be sent within 30 days
3> Dispute must be resolved within two complete billing cycles. Disputed transaction cannot be placed back on the account after two complete billing cycles
4> Final resolution letter must be sent
5> Finance charges and fees must not be assessed against disputed transaction
6> Upon resolution the card issuer may be responsible to follow additional requirements

Source: Federal Regulations, 226.13 - Z & 205.11 - E.

It can take an entry-level chargeback representative upwards of a year to become proficient in this complex process. Coupled with the fact that "statistics show they will generally leave the position within 18 months," this process of hiring and training a chargeback representative certainly does not seem like a sound investment.[15]

CHALLENGES AND CONSIDERATIONS FOR PROCESS IMPROVEMENTS

Challenges with the Dispute and Chargeback Process

What are the current challenges FIs face with the dispute and chargeback process? An increasing number of false positives — the rate items are placed into a dispute status that shouldn't be — are clogging up the dispute queues.

Pend queues are also backing up, because the majority of disputes — which require an excessive volume of outbound documentation — are handled in the back-office. The increased frequency of simple disputes reaching the more experienced chargeback representatives is contributing to lower levels of productivity and unnecessary delays, requiring additional support.

These operational challenges do not go unnoticed by customers who have expressed frustration with the time required to resolve disputes. Also, customers claim it requires multiple contacts to resolve a dispute, in some cases as many as three to four follow-up inquiries. Customers frequently report that they interact with customer service representatives (CSRs) who are incapable of providing dispute assistance.

An analysis from the payments strategy consulting firm Glenbrook Partners found that merchants engaging in e-commerce are electing to challenge 35 to 40 percent of chargebacks.[16] Due to the high percentage of chargebacks disputed by merchants, representment rates are exceeding industry standards.

Core Success Metrics

There are four key measurements for evaluating the success of the dispute and chargeback process.

1. **The measurement of false positives as defined earlier.** If managed properly, one should expect false positives to average less than 10 percent, but an industry standard has not been defined.
2. **Cardholder satisfaction.** VISA underscores the importance of this in its Rules for Merchants: "Chargebacks may indicate customer dissatisfaction…addressing their underlying causes should be an integral part of your customer service policies."[17] Since customer satisfaction is tightly aligned with loyalty and future transactions that directly influence FIs' financial health, a cardholder's satisfaction with the overall process is a key metric. Online channels that empower consumers' self-expression and provide the ability to reach thousands of potential future customers in near real time make this increasingly imperative.
3. **Pend timeframe.** This is the period of time when no further action can be taken since additional information is needed from the cardholder or merchant. A case is "pended" to provide time for one or the other party to respond to a request; for instance, for a consumer to provide a copy of a sales draft, or for a merchant or card issuer to send a cardholder a letter requesting additional information. On average, when pended, an item can go untouched for approximately 21 days. Greater efficiency could potentially reduce this timeframe to approximately five days.
4. **Representment rate.** The rate associated with "chargebacks that are 'represented' back to the cardholder's bank disputing the chargeback."[18] A desirable rate falls at or below the industry average of 20 percent (VISA) to 28 percent (MasterCard).

Automated Processes Optimize Performance

Dispute and chargeback tasks that require data capture and document generation for each case can result in an organization unnecessarily incurring financial loss from mistakes attributed to operating in a manual environment. While the overwhelming majority of disputes do not necessitate the costly arbitration process, extra expenses can be incurred when arbitration cases are filed unnecessarily.

Filing one in error can result in the assessment of fees ranging from $200 to $750 on average per dispute, plus the cost of the transaction in question, if the dispute is lost. Surprisingly, the majority of operations — upwards of 70 percent of small- to medium- sized FIs — continue with the time-intensive, manual processing of disputes and chargebacks. Automation can produce a substantial positive impact on business operations. When coupled with a well-structured dispute department, investment in automation has been proven to lower the end-to-end dispute resolution process cost by up to 50 percent.

Leveraging pattern recognition, automation improves response time with the increased efficiencies equating to a reduction of operational costs, specifically in the form of headcount reduction. A shift toward streamlined processes — such that front- and back-end representatives access the same system and case information — can both streamline customer communication and improve customer satisfaction leading to higher retention levels. As one would expect, an automated process enables the generation of enhanced and real-time reporting for management's review. Unlike the manual process, automation provides real-time dispute information allowing for immediate coaching opportunities. A Payment Card Industry (PCI) compliant automated system is critical to card issuers.

When considering outsourcing the process, look for a highly experienced partner with a proven ability to quickly adjust capacity, scaling up or down, as the market fluctuates. Also look for a partner who is considered within the industry to be a highly specialized vendor — one utilizing Internet-based systems. This allows for additional cost reductions to be realized through the use of trusted partners operating in an off-shore capacity, typically within less expensive markets. All of the aforementioned reasons emphasize the value proposition of running a dispute and resolution process supported by automated systems. Ultimately, the significant cost savings will more than justify the decision, whether that decision rests with in-house enhancements or the selection of a trusted partner.

Uncovering the Hidden Costs of an "In-House" Model

The dispute and chargeback process can be an expensive proposition requiring ongoing investments to sustain technology, manage employee training and turnover, and ensure compliance. Typically, the total cost associated with an in-house dispute and chargeback process is limited to the most significant expenses: direct labor and the associated technology platform. Many in-house financial models exclude costs associated with (1) facilities: building, security, maintenance, utilities and work space; (2) senior management: division heads and center heads; (3) IT: computers, servers and overhead; and (4) training: payroll, quality monitoring, workforce planning and human resources. Overhead costs often are portrayed as sunk costs, which are costs incurred regardless of whether the services are handled in-house or outsourced. A comprehensive understanding of the hidden total cost of the in-house model dispels any misconceptions about the cost associated with outsourcing.

An outsourced model reflects the true total cost of the dispute and chargeback process. Plus, it can bear substantial savings. On average, it should reflect a minimum of a 20 percent reduction in overall operating costs.[19]

Outsourcing Can Transform Risk Into Reward

Outsourcing allows FIs and merchants to seamlessly engage a third party for management of the dispute and chargeback process, whether end-to-end — from placing an item into dispute through the arbitration phase or initiation of a compliance case — or just a portion of it. Outsourcing entails eliminating some of an organization's functions. Resources could be reduced or re-allocated in the areas of compliance, quality assurance, research and training. Multiple vendor contracts supporting automated solutions could be re-evaluated and potentially eliminated as well. For example, one of the most frequent and expensive automation fees is the individual vendor licensing fees for each representative utilizing the system.

Additional cost savings are obtained through the elimination of server space and the need for contracted in-house data system platforms. An outsourced partner will absorb the risk associated with errors made in processing chargebacks. For example:

A recent on-site evaluation of an issuer's in-house process determined that $24,000 in monthly operating losses could have been prevented with outsourced dispute and chargeback processes handled by a seasoned third-party partner.

All too frequently, operating losses are hidden within the fraud charge-off figures when a valid chargeback right existed all along. Outsourcing the dispute and chargeback processes lowers risk and reduces cost. It ensures compliance, optimizes retrieval revenue, and enhances merchant relationships. The process efficiencies gained from shifting from an in-house to an outsourced model can improve the overall process' return-on-investment (ROI).

The Benefits of an Outsourced Dispute and Chargeback Process are Abundant and Attractive

As a FI considers whether to handle the dispute and chargeback process in-house or outsource to a trusted strategic partner, an organization needs to evaluate whether critical functions are core operating competencies, and whether the company has the ability to execute the function. There are many advantages to be gained from outsourcing the dispute and chargeback process. Albeit these are dependent upon identifying and selecting not just a vendor, but the right partner — a trusted one who has a specialized focus and customized solution truly capable of fulfilling an entity's needs.

The benefits of outsourcing the process are proven to significantly reduce false positives, dramatically increase customer satisfaction, and increase cardholder access to subject matter experts. Agents can assess the legitimacy of a dispute and take immediate actions up-front by placing an item into a dispute status, sending an acknowledgment letter, ensuring compliance, requesting a sales draft, or advising the cardholder of next steps.

A highly experienced outsourced partner can possess a depth of knowledge and industry-wide perspective when compared to an organization that focuses on their company portfolio alone. Working with multiple entities, a trusted partner can recognize industry patterns and trends much sooner. For smaller and mid-size FIs, tapping into this breadth of knowledge can be extremely valuable. A recent conversation with TowerGroup underscored one of the most compelling aspects of outsourcing the process.

> *"Outsourcing should provide the benefit of a broad industry perspective and hands-on experience with a variety of clients. This enables the outsourcer to develop tailored models based on pattern recognition across its entire client base including financial institutions that vary in size, scale and focus. The benefit to the customer is more effective models because the outsourced provider is able to capture and leverage more information that will produce lower losses."*
>
> *Dennis Moroney*
> *Research Director, TowerGroup*[20]

An outsourced staff's tenure and industry expertise is extremely valuable. With an outsourced dispute and chargeback process, a dedicated team consisting of industry veterans leverages its depth of knowledge to effectively handle the dispute and chargeback process.

A team focused exclusively on the dispute management process on the front end can greatly reduce the number of calls required for a single dispute. A highly skilled team can do more with less, including the ability to respond quickly to volume fluctuations by scaling capabilities up or down.

Of notable value, moving to an outsourced model can also reduce risk as the entity handling the dispute and chargeback process bears the risk. It's difficult to keep current with ever-changing Federal rules and Association guidelines and their respective penalty clauses. Not staying on top of the changing rules and allotted timeframes can result in lost chargeback rights, a costly oversight.

After computing the difference between the cost avoidance and the cost of service, perceptions of outsourcing as an expense are dispelled. Outsourcing the process enables FIs and merchants to leverage both expertise and innovative systems with no capital investment, yet reap the rewards and benefits from efficient and accurate resolution. Plus, it allows an institution to focus on its core business competencies.

BEST PRACTICES FOR THE DISPUTE AND CHARGEBACK PROCESS

FIs encounter challenges and risk exposure when ensuring compliance and limiting operational costs. FIs have the opportunity to improve the dispute and chargeback process in three ways: 1) utilize deep industry knowledge; 2) shift to an experienced, front-end chargeback representative model to enhance the customer experience; and 3) develop a highly-qualified central support team.

Whether the dispute and chargeback process is managed in-house or outsourced to a trusted partner, following is a list of best practices based on dispute resolution for more than three million disputes addressed for leading FIs and card issuers.

1. Utilize Organizations With Deep Industry Knowledge To Reduce Operating Costs

Outsourcing the dispute and chargeback process capitalizes on the depth and breadth of an organization that has handled the process for various entities, providing a unique vantage point that can be beneficially leveraged for FIs. Utilizing an automated system often means performing the process from anywhere in the world. There are numerous markets outside of the United States with solid track records that hold immense process-specific knowledge and can perform this work at a fraction of the in-house operating cost.

2. Shift To An Experienced, Front-End Chargeback Representative Model

Front-end customer contact can be a critical touch-point in the resolution process. In the best practices manual, Global Back Office Dispute Management Guide, VISA recommends shifting to a front-end process.[21] This involves documenting the dispute information up-front in order to gather the required information and to reduce the costs associated with having multiple agents "handle" the issue.[8]

Shifting dedicated chargeback representatives to the front-end of the process improves effectiveness and efficiency in handling customer issues. Gathering all pertinent information up-front reduces the time to resolve each dispute, which lifts customer satisfaction levels and lowers compliance-related exposure due to the new compressed timeframes. Experienced chargeback representatives positively impact the overall process by providing significant savings with correspondence expenses, reducing false positives and lowering representment rates. Those using a trusted partner could could see representment rates averaging 12 percent across multiple portfolios, well below the average industry rates ranging between 20 percent to 28 percent.[22] Achieving these lower rates is attributed to performing the proper due diligence on the front end of the process, such as involving a merchant, along with proper research of both posted credits and pending authorizations.

If one doesn't already exist, create a team of front-end chargeback representatives. The potential results include:

- Reduction of false positives by up to 35 percent
- Reduction of cardholder follow-up contacts by as much as 50 percent
- Reduction of a chargeback representative's time to handle each case as more simplistic cases are addressed on the front-end of the process

3. Develop A Highly Qualified Central Support Team

The central support team should be comprised of chargeback representatives with years of industry experience. These individuals should serve as the central hub for all ongoing communications within the department with a focus on three primary areas of responsibility:

Perform as a Central Group

The central team is responsible for receiving all dispute resolution-related issues, enabling a method for identification and elimination of gaps. The group serves as a single point for dispute and chargeback process improvement efforts; therefore, since work flow is funneled through one central team comprised of experts, hand-off issues are all but eliminated.

Ensure and Improve Internal Quality Assurance (QA)

Through the utilization of a central support team, an organization can expect highly trained staff to identify and correct mistakes before they escalate. This can dramatically reduce operational losses due to a decrease in mistakes. Real-time coaching and evaluation is valuable training that leads to a chargeback representative performing at a higher level. This becomes apparent as coaching significantly increases quality scores.

Support Training

The central team is able to produce a list of highly relevant topics for training since these issues are based on QA errors and real cardholder scenarios. Training is critical for staying abreast of updates and changes to Federal regulations and Association guidelines, ultimately, limiting or eliminating compliance violations. A central group can also provide the benefit of cross-training dispute agents, ultimately increasing the types of functions they handle by expanding the breadth of specialized knowledge and skills.

CONCLUSION

In order to effectively address FIs' current challenges, including the higher volume of disputes and chargebacks, streamlining and improving the overall dispute and chargeback process will ensure compliance with industry rules and capture operational efficiencies. Outsourcing part or all of the dispute and resolution businessallows a FI's customers to engage with only the most highly qualified CSRs and chargeback representatives strengthening relationships with cardholders, merchants and acquiring banks while allowing the FI itself to focus on core competencies in order to grow the business — and positively influence the overall process.

Whether managed in-house or outsourced, instituting best practices in the dispute and chargeback process contributes to process optimization, as performance is evaluated by the key success metrics — the measurement of false positives, customer satisfaction levels, pend timeframes and representment rates. Instead of attempting to react to changing market dynamics, characterized by fluctuating dispute and chargeback volumes and changing guidelines, instituting some of all of these best practices will help organizations maintain a strategic course. Ensuring the dispute and chargeback process is creating the greatest positive experience for customers is especially crucial for business success.

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[19] Note: Reduction in expense takes into consideration the "bundled" cost of performing a dispute, cradle-to-grave. In order for an organization to calculate this reduction in expense, they would have to bundle all of their internal and external (i.e. fees paid directly to the Associations) expenses incurred over the lifecycle of the Dispute/Chargeback process into a single dollar figure. For example, if it costs on average $10 for the dispute piece; $20 for the chargeback piece; $7 for the representment piece, and $12 for the pre-arb piece (assuming it didn't proceed to arbitration) their expense would be $49/dispute.

[20] Moroney, Dennis and Brian Riley. Telephone interview conducted by TSYS with TowerGroup. December 3, 2009.

[21] "Visa Global Back Office Dispute Management Guide: Best Practices for Issuers and Acquirers." Visa U.S.A. Inc. Print.

[22] TSYS Managed Services. Average representment rates based on an average ratio over the course of a 12-month period. Includes VISA and MasterCard clients.

ABOUT TSYS MANAGED SERVICES

TSYS Managed Services oversees the Company's global contact centers, customer-servicing, back-office and risk management operations for the issuing, acquiring, prepaid and loyalty markets. The group provides clients' with streamlined customer care, cardholder and merchant acquisition and retention tools that assist in minimizing servicing costs.

TSYS (www.tsys.com) is one of the world's largest companies for outsourced payment services, offering a broad range of issuer- and acquirer-processing technologies that support consumer-finance, credit, debit, healthcare, loyalty and prepaid services for financial institutions and retail companies in the Americas, EMEA and Asia-Pacific regions.

CONTRIBUTORS

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