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Dispute Resolution from First Principles

By **Nick Brown**, March 19, 2025

With the growth of electronic payments in Developing Countries over the last couple of decades, payment fraud is becoming a major problem, and will continue to grow.

What do you do if you buy something remotely, and receive an empty box?

What is needed is a Purchase Guarantee on electronic transactions, which means nothing without some sort of Dispute Resolution process to resolve any issues.

There is only one mainstream Payment Method out there that provides these services, and that is Credit Cards. Their method does not easily translate to other Payment Methods, especially in Developing Countries where transaction amounts can be small, however we can learn from their approach.

A good place to start is to go back to first principles, and consider what is needed for any Dispute Resolution system to work.

Note: The following has recently been added to the Purchase Guarantees & Dispute Resolution section of the Payment Infrastructure Glossary™.

Assumptions:

Assumption: Original Purchase Transaction

a. There is a Purchase Transaction between a Buyer and a Seller.

b. Funds would have been sent electronically from the Buyer's account at their Financial Institution to the Seller's account at their Financial Institution.

c. The ***Payment Method*** selected would have resulted in the transaction being facilitated between the FIs by the appropriate ***Transaction Facilitator***.

d. A transaction dispute is always raised by the Buyer.

Assumption: There are bad people out there

Most people & businesses are honest, and when there is a legitimate issue they will try to reach an amicable solution, though this is not always possible.

However: When there is money involved, someone out there will try to abuse the system.

Important: Fraud can be perpetrated on the Buyer side, or the Seller side.

From First Principles:

1: Clearly Defined Dispute Resolution Rules & Processes

Rules & Processes must be made known to all parties involved prior to any transaction taking place.

Valid: Allowable reasons for a dispute to be raised by the Buyer.

Evidence: Appropriate supporting evidence necessary.

Time Limit: Time limit for the Buyer to raise a dispute, including when the clock starts.

Processes: Step by step process for all parties involved, with timelines.

2: Successful Dispute results in the Buyer Made Whole

The end result of a successful dispute is for the Buyer to have returned to their account the disputed transaction amount.

There may be instances where the returned amount differs from the original amount (if detailed in the Rules), for example as a result of inflation or currency exchange.

3: Resolution Process must be Enforceable

Dispute Resolution is pointless unless it is enforceable on all parties involved.

4: Involves all parties from Original Transaction

In order to follow each step of the original transaction, as well as apply enforcement, every party involved in the original transaction must also be involved in Dispute Resolution.

5: Financial Institutions represent Buyer & Seller

Buyer: A dispute is always raised by the Buyer. The only party the Buyer can approach relating to the original transaction is the FI from which funds were sent to the Seller.

Seller: The primary party for the Seller to respond through is the FI into which funds were received.

FIs: Buyer's FI must provide a mechanism for the Buyer to raise a dispute, and Seller's FI for the Seller to respond. These FIs now in effect represent the Buyer and Seller.

6: Ability to Retrieve Funds from Seller

The only way to guarantee a Seller will participate in the Dispute Resolution process is to proactively forcibly retrieve appropriate funds from the Seller's Account.

These funds can be held until resolution by the Seller's FI, the Transaction Facilitator, or independently.

Alternatively, these funds can be transferred to the Buyer's account until resolution. This would require being able to forcibly retrieve those funds from the Buyer and returned to the Seller if necessary on resolution.

7: Requires a Guarantor of Seller

There are instances where Sellers have insufficient funds in their account, or more challenging they may be going out of business. There are also many Fake Sellers.

In order to accommodate all of these scenarios, there must be an independent third party that will financially vouch for the Seller, effectively becoming the ***Guarantor*** on purchases from this Seller.

8: Transaction Facilitator facilitates Dispute Resolution process

The Transaction Facilitator, having facilitated the original transaction (between FIs), is the only viable entity to facilitate the dispute (between FIs/Guarantor).

This could be as minimal as connecting the FIs and Guarantor together to let them sort it out, all the way up to managing the entire process.

Ultimately, disagreements between involved parties (FIs/Guarantor) must be resolved by the Transaction Facilitator.

9: Transaction Facilitator sets the Rules

The common set of rules/processes must be defined and maintained by the Transaction Facilitator, and they must seem fair and impartial.

The different parties involved should be included in drafting any amendments to these rules/processes.

10: Transaction Facilitator enforces the Rules

The Transaction Facilitator enforce these Rules on the FIs/Guarantors. There must be a penalty for not following the Rules, likely discontinuance of services as well as legal action.

The FIs/Guarantors are responsible for enforcing these Rules on the Buyers and Sellers.

11: Transaction Facilitator should be International

With the continuing growth of international transactions, the Transaction Facilitator is already likely to be international, and if not should plan on becoming so.

Currency Exchange is a component of international transactions.

Managing currency exchange for international disputes can be challenging due to the time it takes to resolve a dispute, especially with varying exchange rates and inflation.