

Industry Compliance: The Engine that Drives Change in Card Payments

If the terms 'Global Technology Symposium,' 'Business Enhancements Workshop,' 'GCMS Technical Specifications,' or 'Business Enhancements Release Documentation' have meaning for you, then you are most likely directly involved in industry compliance-related activities. These are but a few of the many names given by MasterCard and Visa to elements of their respective processes for rolling out and facilitating the implementation of their semi-annual changes, the Spring and Fall Releases as they are commonly referred to. For all involved—and that is every organization in the payments system: merchants, merchant banks, ISOs, processors, issuers and, of course, MasterCard and Visa themselves—the Releases are a very large and critical undertaking. It is through these Releases that the branded card products are continually improved and through which the payments system adds value to the payment transaction chain and implements risk and security features.

There is another acronym that has taken center stage in the payments lexicon, at least as the public and the lawmakers see it. That is PCI DSS. On September 7, 2006 American Express, Discover Financial Services, JCB, MasterCard Worldwide, and Visa jointly announced the establishment of the Payment Card Industry Data Security Standard (PCI DSS) Council. This council will establish global standards and common procedures for all payment products for the security and treatment of card information. The council will identify important changes and required processes that will have to be implemented across the payments system. These PCI changes may be introduced in future Spring and Fall Releases, or they may be announced and rolled out separately, as some have been in the past. In any case, implementation of these changes will look and feel much like a Release in terms of process, if not in scope.

It is not uncommon for the various payments system participant groups to be in disagreement regarding areas of focus, priorities, methods for implementation, and timeframes, since each represents very different interests. But there are three things that everyone would agree on: these changes, whether they emanate from a Release or PCI, are (1) essential, (2) difficult, and (3) very expensive.

A Semi-Annual Managerial and Logistical Challenge

If you consider that every organization in the payments system is working on each Release at the same time, with the same deadlines and some amount of centralized control, it is possible that the implementation of each Release would rank fairly high on the list of the largest projects undertaken. The technical specifications that describe each Release, GCMS Technical Specifications and Banknet Technical Specifications (in MasterCard parlance) or Business Enhancement Release Documentation (in Visa language), are typically two to three inches thick. The release documents are updated prior to the implementation date with additional versions that include new programs or changes to the original document. These documents are augmented by workshops and symposiums which are supplemented by conference calls and help desks. This system, if you will, has evolved as an effective means for each card association to insure that their partners understand what it is they are about to do.

It would be an understatement to say that everyone involved can justifiably take pride in the fact that they are able to come together as a group twice each year and

implement significant change into every aspect of the payments system, and the general public is none the wiser.

The Implications for Each Type of Organization

It is worth noting here that the real purpose of a Release is to improve the products and processes associated with the payments system, improve data integrity and system performance, and to address related security issues.

Releases are intended to improve the business proposition for some or all of the payments participants, yet almost all of the focus and energy surrounding each Release is directed at technical implementation. Unfortunately, the only aspects of Releases that are mandated are those that impact all participants, and it is around these that the process and timelines are built. Typically there are no mandates driving system-wide adoption of a new product or feature. At least from an issuer's perspective, product decisions are typically made by individual organizations. Consequently, implementation of the technological change is orchestrated across the system and happens in a timely manner, but the product-related changes that represent business opportunities for each individual organization have no champion and often goes wanting.

Because of their disparate viewpoints and business models, no single payments system participant, including the card associations, has a complete understanding of the total impact Release changes will have on all participants. As a result, an iterative give-and-take refinement of the Release specifications occurs during every Release, as the various participants analyze the Release documentation and raise questions with the card associations. This process is time consuming and expensive because it is done during the project—not during the planning—and everyone has to analyze and review each iteration.

Each group or class of payments system participant (e.g., issuers or merchants) is uniquely impacted by Releases and each type of payment participant has unique responsibilities in implementing Release changes.

- **The Card Associations** are responsible for the rules and governance that define the use of their products and services. Visa and MasterCard are foremost in our minds when we think of card associations, but we need to recognize that Discover and American Express are now card associations too, and they mandate changes to their partners as well. The card associations publish their respective Release information packets between four and six months prior to the scheduled go-live date. They too must make the changes required in their own infrastructure necessary to meet policy and technical requirements mandated by a Release. In addition, they host seminars and conference calls to aid their partners in understanding Release requirements, they receive feedback and update specifications, they schedule and support the testing each requires of their participants and, finally, they monitor the system post-implementation for problems.
- **Card Issuers**, with few exceptions, are financial institutions and members of the card associations. As such, they receive Release information directly from the card associations. Most issuers are members of one card association, some are members of two. In any case, their task is less onerous because Releases do not typically affect cardholders, the issuer's customers, which results in a fairly self-contained effort. Because the Release mandates do not usually include timelines for offering products and there is little customer coordination required, the effort required of issuers is less than that of other participants. However, if issuers

have multiple processors or internal systems, tracking the impacts and changes becomes more challenging.

- **Merchant Banks**, like issuers, are members of the card associations and receive their Release information directly. Unlike issuers however, they typically have a relationship with all of the card associations and EFT networks, rather than just one or two. They have thousands of merchants that are dependent on them for information regarding policy changes and obligations that are introduced in a Release, and they must effectively communicate with all of them prior to the Release implementation deadline.
- **ISOs** own the business relationship with the merchants they have brought into the system, and are their primary contact for matters of business and product. It is often not clear, however, where their responsibility ends and the processor's or the merchant bank's begins. Depending on the division of labor, they may have little or no responsibility, or they may be responsible for communicating changes and mandates to their merchant constituencies.
- **Merchants**, from the perspective of Release impact, fall into two categories: those that have payment terminals or POS systems that are maintained by merchant banks or payments processors and those that have internal systems and infrastructure for payments acceptance. The former are minimally impacted by the technical changes; the impact to the latter's technology and related infrastructure is similar to that of a processor. It is equally true for both categories of merchants that their business model and their obligations may be significantly altered by business or product changes introduced through a Release. Most are dependent on their merchant bank or ISO to communicate such changes to them and educate them on the impact.
- **Processors**, as outsourcing organizations to which issuers and merchant banks look for a processing platform and/or back office operations, typically support all available payment types and they have many customers with whom they must coordinate change. Many are 'the experts' regarding Releases in the eyes of their customers, and those customers look to them to understand the business implications of each Release. Except for the relative few that have direct access to the card associations' Release information, processors are dependent on their financial institution customers for Release information and seminar sponsorship.

Even though each group of payments system participants is unique, there are some situations that can occur in any organization that will exacerbate the size and scope of a Release implementation, in addition to the items enumerated above.

Organizations that process their payment products internally will have the same responsibilities as processors. Those that have grown by acquisition, as many have in the financial services industry, will have substantial additional work for every Release unless they have been disciplined about consolidating platforms or otherwise eliminating redundant capabilities. For organizations that have multiple platforms, the analysis and implementation of Release contents not only has to be performed for each card association, but for each surviving platform as well. This legacy burden is the cause of significant recurring expense and adds opportunities for errors.

Time for a Closer Look

Perhaps because it is so familiar; maybe because it is so intense, or maybe because it appears as though it would be cost prohibitive, the Release process has not changed much over the years. Whatever the reason, we are still managing Releases as we always have, albeit somewhat more efficiently.

We continue to follow existing processes in spite of the fact that fundamental change has occurred and is occurring in every other aspect of card payments. American Express and Discover Financial Services are expending significant effort to gain traction with their bankcard products. MasterCard is now a public company and, at the very least, Visa is changing its governance structure; it too is likely to become a public company soon. Gift cards and other forms of prepaid cards are being issued by nearly every merchant and are being shared by some.

When taken together, these changes are so significant that only one conclusion can be reached: every organization, from the card associations all the way to the smallest merchant, needs to rethink the payment products it chooses, why it chooses them, and how it deploys and manages the infrastructure to support them. Together and separately, each participant must examine opportunities to improve processes and reduce expenses, and evaluate their respective roles. As Dorothy said, "Toto, I've got a feeling we're not in Kansas any more."

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