

The case for the bankcard business

Mohamed Belarj, general manager of Payment Systems Consulting, examines the pros and cons of the booming bankcard industry.

The bankcard business is a fast growing business. It has enjoyed over 40% compounded annual growth during the last decade. Having said that, the numbers are still quite low, with an average card ownership of less than four credit cards per 100 people in the Arab world. There are roughly 200 financial institutions involved with cards in MENA, all in all issuing around eight million credit cards. There are over 80 card-processing set-ups, counting in-house and outsourcing processors.

The bankcard business is largely dependent on state of the art technology. Driven by competition, fraud levels and technology, the card associations, MasterCard and Visa, have never been as active in enhancing their systems, adding more features. It is estimated that the features, systems and enhancements introduced during the last four-five years are more significant in number, scope and depth than all the systems implemented since the card franchise was introduced in the late fifties, early sixties. To the banks, this means a constant call on new investments to support enhanced functionality upgrades, new security requirements and compliance.

The bankcard business is very complex and has some unique features. At the outset, the card business is a vital core business for the banks, the flagship of retail products and in some cases it represents a large chunk of their profit, so it cannot be outsourced under the common traditional practice 'outsource non-core business'. Then, it has to do with the customer relationship with the bank, a long-lasting relationship, not a one-off purchase. It is also a relationship that has to do with money, 'the customer's money', with all the implications that has. Finally, the business has a scary aspect to it as it has been targeted by counterfeiters, fraudsters, hackers, ID thieves and other delinquents. This has gained tremendous press coverage.

1. Why outsource? The pros.

Lower costs

First and foremost, the bottom line. Moving to an outsourced environment is increasingly done to generate cost reduction and efficiency gains, leveraging the scale, the technology and the unique expertise of the service provider. Lowering hardware, software and headcount costs have been the key drivers in outsourcing in the bankcard business.

Competition

The Global Players (GP) are indeed entering the Middle East markets with highly specialized skill sets, clearly focused on mono-line credit card, using proven acquisition channels and cherry-picking the most profitable segments. The GPs leverage their scale and produce cost-effective transactions, a fraction of the incumbents' cost, out of centralized processing hubs. These are now the new competition for the incumbent banks.

Speed to market, speed to volume

Most of the processors can allow the financial institutions to shorten their time to market. Most of the products have already been tested and launched with other banks. Credit, prepaid, payroll, corporate, Islamic products, premium products and even debit cards and loans have already been implemented in certain cases. So, a new card launch for the bank is really just another programme for the processor.

Access to technology

Following the adage 'Machines don't fight wars', hardware and software are not absolutely essential in terms of processing, but are nonetheless very important. The processors usually have the scale, so they can afford and they do invest in technology. Whether in the core card processing systems or additional, value added systems including credit scoring, collections management, automated charge-backs, fraud detection/security systems, compliance systems and personalization. Of course, the most recent addition is chip processing.

Compliance and security

Investments are going to be required for compliance and security. EMV compliance is going to be the driving force towards outsourcing and the killer application is going to be the chip. The mandates are already due and some of the banks need to make some tough decisions. While a bank can take the risk for a while, it will be quite a risk on the system if it went on for months or years. Fraud is always lurking nearby and looking for a soft target. As the environment toughens up, getting ready for chips in the nearby European and Asian markets, the noncompliant MENA financial institutions will become targets.

Access to expertise

Card specialist resources are extremely scarce in MENA. Building the team takes time, effort and money, and is very volatile. Besides, for small operations, the bank cannot have staff for every function. Obviously, the squeaky wheels will get the resources, not necessarily the critical functions.

So, all in all, there are benefits to outsourcing the bankcard business.

2. What's in it for the banks processing in-house? The cons

The most important argument is obviously to keep control of core functions. It is an important decision to depend on somebody else. And some bank managers are refusing to make the call. We have already raised some of the aspects regarding the kind of relationship the bank has with the cardholder and the relationship the cardholder has with his money. Maintaining security and data integrity is key.

Choose the right partner

It is quite easy to get stuck with the wrong partner and, because of the nature of the business, it is very difficult to exit. A great outsourcing idea can turn into a management nightmare. So, it is critical to identify the best-qualified service provider. There are four or five processors that can be considered, some of them have quite sophisticated end-to-end outsourcing solutions, but all have their strengths and weaknesses that need to be scrutinised.

Gap analysis

First, the bank has to perform a gap analysis to determine the functions it wants, the ones the processor has and a plan for implementing the difference. The bank has to determine the level of outsourcing that fits its strategic objectives. It can consider a basic utility model, outsourcing transaction processing and maybe some personalisation services. It can also consider a more advanced end-to-end solution targeting a sustainable competitive advantage. They need to assess how the outsourcing arrangement will support the institution's objectives and strategic plans and how the service provider's relationship will be managed.

Due diligence

Due diligence is required. Governance, basic fundamentals in terms of financial strength, proven track record and disaster recovery are just a couple of things to investigate. Deep pockets and commitment to outsourcing are key elements.

CRM strategy

The service provider has to demonstrate that it has a CRM strategy in place with service level agreements, dedicated resources, 24/7 coverage and other ingredients.

Compliance

It has to demonstrate its compliance to all regulatory and payment systems compliance regulations and have fraud protection systems in place.