The credit card industry: navigating an evolving environment

EY Advisory Services
The path to profitability for card issuers has been increasingly challenged in recent years by a growing number of roadblocks and barriers, with high credit card default rates and a growing consumer preference toward debit card spending emerging as two of the most significant. In response to these and other barriers, many banks have responded by reducing their credit appetites and narrowing their card offerings, resulting in narrower margins.

To profitably compete in an environment of increased regulatory scrutiny and shifting consumer behavior, card issuers must continually reevaluate the effectiveness of consumer-facing sales and servicing activities, and maintain the alignment of those activities with the bank’s defined strategies in the consumer card marketplace. With new, potentially disruptive threats posed by new market entrants creating alternative payment channels and the maturing technology infrastructure observed across the industry, many banks are being forced to shift their economic business models away from the typically heavy reliance on fee revenue toward other models more centered around changing customer preferences concerning payment options.
Responding to regulatory requirements

Since the economic downturn, companies have been updating their product offerings and operating strategies to align with an expanded set of regulations and transparency requirements. Increased regulatory scrutiny has led the industry to initiate concurrent efforts to remediate oversights, strengthen its control environment and reduce operating expenses. The industry continues to react to regulatory agencies and policies, including the Consumer Financial Protection Bureau established by the Dodd-Frank Wall Street Reform; the Consumer Protection Act’s prohibition of unfair, deceptive, or abusive acts or practices in the collection of consumer debts; and consent orders requiring remediation of identified deficiencies by the Office of the Comptroller of the Currency.

Preventing fraud threats and protecting customer data

Credit card fraud continues to be a significant and dynamic risk to financial institutions as a result of both new threats and the increasing regulatory interest in fraud management programs. Emerging fraud threats and the solutions required to mitigate them are increasingly technically complex. To secure and maintain customers’ trust, financial institutions must prevent, detect and respond to fraud risk in an agile manner through fraud management technologies and predictive analytics. While the new US mandate of Europay, MasterCard and Visa (chip and PIN) technology will help decrease the risk of counterfeit transactions, financial institutions must remain vigilant, as fraudsters will certainly be crafting new modes of attack.

In addition to the active prevention and monitoring of fraudulent activity, issuers must also deploy strong, comprehensive data security and third-party governance models to protect the sensitive data of their customers. As the increasing number of highly publicized customer data breaches at retailers and other third parties would suggest, the expansion in payment channels, as well as the growth in the number of third parties retained by issuers in ongoing operations, has outpaced the current information security models intended to ensure safety and soundness in processes involving sensitive customer information. In addition to the additional burden of building and resourcing such governance programs, institutions have also endured significant expense in administering credit card reissuance events stemming from breaches, as well as growth in staff to respond to instances of fraud resulting from the challenges.

Delivering operational efficiency and capability enhancements

With changing consumer behaviors resulting in growing requirements for enhanced capabilities in operations, and aging technology infrastructure across the front and back offices that lacks features and flexibility, CIOs are challenged to deliver those capabilities requested by operations at a pace, or level of sustainability, that meets their expectations and the demands in the market. Supplementing or replacing legacy systems with highly configurable and flexible third-party offerings in the marketplace, such as Business Process Management (BPM) tools, to improve the level of automation, integration, and embedded controls for quality across operating and regulatory concerns will also be a vital element of the card issuer’s path to profitability.

Embedding consumer focus

Changes observed in customer needs and behaviors pose difficult challenges to banks and card issuers. With new payment innovations, customers feel empowered by new technologies and increasingly expect seamless payment transactions with minimal fees. As a result, credit card companies and banks are focusing on developing mobile capabilities to both retain current customers and attract new ones. The installation of appropriate routines and infrastructure to capture data from these customer interactions, combined with sophisticated data analysis tools and techniques, will play a significant role in enabling banks and card issuers to understand their customers’ behaviors; generate insights into how those behaviors translate into identifying a customer’s needs in an evolving landscape; and support the development of customer acquisition, pricing and servicing strategies that position the bank to better align with the needs of their target customers. To maintain relevance, banks’ strategic initiatives need to be customer-centric. They need to find ways to accommodate their changing expectations of specific segments of customers and, specifically, to serve the rapidly growing underbanked segment.

With consumer preferences shifting and the merchant-shopper dynamic entering a new digital era, financial institutions will need to explore new revenue sources by increasing their internal appetite for innovation. Banks are now facing the challenge of positioning themselves at the forefront of digital and mobile technologies while they continue to promote traditional credit card usage.
The credit card industry: navigating an evolving environment

EY Advisory Services

| vision | technology | transparency | initiative |
In conjunction with the focus on remediation efforts, financial institutions are shifting their attention to the growing need to reduce operational complexity. The credit card industry has been subject to the following emerging characteristics:

- Consumer preferences and regulatory demands have outpaced the functionality of legacy platforms.
- Newly introduced regulatory guidelines on “add on” products, credit bureau reporting and collections practices have limited the industry’s revenue sources.
- Existing policies and procedures must be refreshed to align with the latest guidance.

EY is currently assisting financial organizations as they transition to more sustainable and transparent operating models that position them for success. We have a proven set of frameworks and an experienced team with strong credit card-specific regulatory and operational knowledge. Our practitioners with deep card and payment industry knowledge combine an exceptional focus on execution with our enabling tools and methods to bring perspectives and an approach, providing clients with strategic and tactical advantages in this changing market.

EY Advisory Services supports the full life cycle of card and payment activities across a broad range of dimensions. Our card and payments team has deep experience with the end-to-end card processing life cycle, including acquirer, merchant, and issuer processing across the credit card spectrum and payment value chain. We can provide support in the following areas:

- Operational assessments and improvement
- Target operating model design
- Process mapping and design reengineering
- Business Process Management (BPM)
- Project Management Office (PMO)
- Consent order and regulatory response
- Risk and compliance management
- Third-party management
- Vendor solution selection
- Customer data protection
- Fraud prevention
- Customer analytics and segmentation
- Customer experience and service design
- Information technology
- Security and Payment Card Industry Data Security Standard assessment and solution implementation
Our track record

Our card and payments team has helped top card issuers overcome regulatory and operational challenges by assisting in improving internal capabilities to meet regulatory requirements, increasing the efficiency of clients’ processes and establishing robust target operating models.

Operating model redesign and optimization engagements
- We have assisted consumer bank clients with their payments operations by helping them validate alignment of mobile activities with their overall credit card and debit card payment program strategy, providing strategic comparisons to competitors’ activities and highlighting industry-leading practices across multiple banking channels.
- Our team developed road maps for major card issuers. The road maps were used to identify new service offerings and enhancements, increase spend and retention, drive low-dollar and micropayment transaction volume, and help improve affiliated partner brand recognition.
- Our team assisted large banks in evaluating their current roles, processes and technology platforms for the purpose of strengthening the control environment. The team helped redesign controls and develop people, process and technology recommendations to significantly reduce errors that result in regulatory noncompliance.

Technology transformation engagements
- We assisted a global credit card network with the review and validation of its issuer and merchant fraud management programs. We helped our client evaluate its risk assessment, performance metrics and policy as well as program governance, detection strategies and model validation methodology.
- Our team developed a heat map that integrated global cybersecurity threat data as well as card holder information stores. We helped our client assess the feasibility of creating a series of network enclaves to solve a global bank’s PCI DSS challenge and allow it to be more responsive to individual country regulations.

Through our proven success with end-to-end finance function process and technology assessment, we provided support to one of the largest card issuers with its prepaid card processes. We helped our client more effectively execute processes, reduce exceptions and enhance controls to better support robust automation.

Regulatory compliance engagements
- Our team assisted credit card issuers in enhancing their risk and control assessment programs by improving their foundational documentations’ alignment with regulator expectations. The team mapped all processes across the credit card life cycle, properly documented operational risks and controls, and identified control gaps. The team also helped develop evaluation criteria to rate the operational effectiveness of controls.
- We conducted operational process reviews at a major issuer’s outside collection agencies and fourth-party vendors to identify process gaps, highlight opportunities for improvement and promote consistent alignment with the most current regulatory guidance.
- Our team assisted a credit card institution with the creation of a centralized PMO capability to assess, prioritize and manage work efforts, including regulatory agencies and exams.
Cross-teaming to better serve clients

We take an account-centric approach to client challenges in order to intimately understand specific business issues. We deliver services through one or more of our four service lines: Advisory, Assurance, Tax and Transaction Advisory. Additionally, our dedicated Financial Services Office (FSO) brings together geographic, sector, service line and regulatory strengths specifically to serve financial services clients.
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

EY is a leader in serving the global financial services marketplace
Nearly 43,000 EY financial services professionals around the world provide integrated assurance, tax, transaction and advisory services to our asset management, banking, capital markets and insurance clients. In the Americas, EY is the only public accounting organization with a separate business unit dedicated to the financial services marketplace. Created in 2000, the Americas Financial Services Office today includes more than 6,900 professionals at member firms in over 50 locations throughout the US, the Caribbean and Latin America.

EY professionals in our financial services practices worldwide align with key global industry groups, including EY's Global Wealth & Asset Management Center, Global Banking & Capital Markets Center, Global Insurance Center and Global Private Equity Center, which act as hubs for sharing industry-focused knowledge on current and emerging trends and regulations in order to help our clients address key issues. Our practitioners span many disciplines and provide a well-rounded understanding of business issues and challenges, as well as integrated services to our clients.

With a global presence and industry-focused advice, EY's financial services professionals provide high-quality assurance, tax, transaction and advisory services, including operations, process improvement, risk and technology, to financial services companies worldwide.

© 2015 Ernst & Young LLP.
All Rights Reserved.

SCORE No. CK0917
1406-1262815 NY
ED 0133

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

Contact us
Our card and payments team is part of a national Banking practice and supports clients from core locations across the country. Please contact one of our regional leaders if you would like more information about our services or would like to schedule time with our team.

Clayton Baker
Principal
Ernst & Young LLP
Charlotte/Raleigh
clayton.baker@ey.com
+1 214 969 0665

Maurice Berbel
Principal
Ernst & Young LLP
Dallas
maurice.berbel@ey.com
+1 214 969 8404

Vince Fries
Principal
Ernst & Young LLP
Detroit
vincent.fries@ey.com
+1 313 628 8704

Margaret Weichert
Principal
Ernst & Young LLP
Atlanta
margaret.weichert@ey.com
+1 404 817 4854