



Ministry and Banking Research Institute  
Central Bank of the Islamic Republic of Iran



Central Bank of the Islamic Republic of Iran



National Informatics Corporation

## 6<sup>th</sup> Annual Conference on Electronic Banking and Payment Systems

Renovation of the banking system in the era of modern communications

Milad Tower International Conference Center, Tehran, Iran  
2-3 January 2017

# Connecting to International Payment Systems – Challenges and Opportunities



## Topics

1. Types of membership
2. Eligibility criteria
3. Application submission
4. On boarding risk assessment
5. Impact on domestic processing system
6. Impact on bank's systems and processes
7. New opportunities
8. Common pitfalls



## Types of membership

- Principal – engages in any scheme related activities, card issuance, merchant acquiring and sponsorship of other entities
- Associate – operates under the sponsorship of one or more Principals. Conducts primarily card issuance
- Participant – sponsored by a Principal or Associate. Acts as an agent for the sponsor
- Affiliate – Global merchants, technology partners or co-branding businesses
- Third party agents and non-member processors – registered payment processors who provide services to scheme members or merchants



## Eligibility criteria

- The entity must accept consumer or commercial deposits or offer loans, credits or provide payment facilities via payment cards
- The entity must be authorised to perform financial transactions under the local jurisdiction
- The entity must be regulated or supervised by the relevant government agencies or authorities
- The entity must be able to comply and operate in a manner which is compliant with the scheme rules and regulations



## Application submission

- Business documents, banking license, registration and other relevant documents
- Audited financial statements
- Business plans for the issuance or acquiring programme
- Compliance attestations



## On boarding risk assessment

- Validation of eligibility (license, business registration...etc)
- Financial solvency, sovereign risk and institution's credit risk
- Checks on company's principals/directors
- Validation of business plan
- Compliance attestation to scheme rules and regulations
- Compliance to industry standards (PCI DSS and other requirements)



## Impact on domestic processing infrastructure

- Domestic processing infrastructure will require upgrading or replacing to support the processing of international payment tools;
  - Domestic switch upgraded to route international cards
  - Acceptance devices (POS, ATM, Cash Registers) replaced or upgraded to comply with international standards (EMV, PCI Pin Testing and PIN Security Standards...etc)
  - New acceptance and security standards adopted for online shopping interfaces (3D- Secure, CVV2, PA DSS)
  - Adopt new security solutions such as tokenisation and end to end encryption to enhance security of payment processing infrastructure



## Impact on bank's systems and processes – Card issuance

- Bank's systems;
  - Back office systems, authorisation systems upgraded to support international transaction and dispute processing requirements
- Develop new or revise internal processes to comply with scheme rules;
  - credit assessment of new and existing cardholders
  - cardholder contract
  - managing cardholder disputes
  - transaction authorisation management, fraud management and investigation in line with scheme requirements
- Training and marketing;
  - cardholder training on use of credit and payment cards
  - marketing and promotion activities to increase acceptance





## Impact on bank's systems and processes – Merchant acquiring

- Bank's systems;
  - Back office systems and authorisation systems upgraded to support international transactions and dispute processing requirements
  
- Develop new or revise internal processes to comply with scheme rules;
  - Due diligences on new and existing merchants
  - Merchant contract
  - Disputes and liability management
  - transaction authorisation management, fraud management and investigation in line with scheme requirements
  
- Training and marketing;
  - Merchant training on card acceptance
  - marketing and promotion activities to increase acceptance



## New opportunities

- Card based
  - New revenue stream (interchange fee, late payment fee, cash withdrawal fee annual membership fee, currency conversion fee...etc)
  - Reduction in operational cost, less use of branches
  - Enhanced customer service via online banking and smartphone services
  - Leapfrog to secure payment technologies (EMV, 3D Secure, Tokenisation)
  - Use of intelligent fraud management tools
  - Cross selling opportunities (insurance, loan, mortgage...etc)
- Merchant acquiring
  - Interchange fee
  - Terminal rental fee
  - Service fee



## Common pitfalls

- Inadequate credit policy resulting in bad debt
- Failure to conduct adequate compliance due diligence when purchasing payment applications or acceptance devices
- Bad authorisation management resulting in excessive fraud losses
- Inadequate due diligence on new merchants or merchant risk management
- Use of unregistered or non-compliant third party service providers
- Failure to comply with schemes' compliance programmes



*Thank  
you*



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