First Data
b›yond the transaction

A First Data White Paper

Proven Best Practices for a Successful Credit Portfolio Conversion

Executive Summary

For a variety of reasons, a credit portfolio owner may consider converting its accounts from one processing system to another. Perhaps a merger or acquisition is forcing the conversion, or perhaps the prospective new system offers exciting new capabilities and flexibility that the company doesn't have today. Regardless of the reason, once the issuer determines that there's significant value in the new system, the organization's governing board must ask a very realistic question: *Is the increased value of the proposed new system sufficient enough to undertake a wholesale data conversion?*

A credit portfolio data conversion is a complex undertaking with many detailed parameters, and it has the potential to be disruptive to the business if not done right. In order to answer "yes" to the above question, the company must have the confidence that the conversion will be practically seamless, relatively painless, and of course, absolutely accurate.

The purpose of this document is to share a set of general best practices that can (and should) be applied in any conversion situation, regardless of the size of the portfolio or the vendor that is engaged to do the work. This advice is based on more than 30 years of experience in converting credit portfolios from one processing system to another. This experience includes:

- **Leading an average of 25 to 35 conversion projects a year**
- **Handling projects of all sizes, from small conversions involving fewer than 2,000 accounts to the largest ever single conversion event with more than 80 million accounts**
- **Converting all types of accounts, including retail, oil cards, equity lines of credit that leverage the credit platform, and of course, financial institution accounts**
- **Converting multiple credit products, including Visa, MasterCard, Discover, as well as private label cards not associated with a brand**
- **Conversions from in-house processing systems as well as third party vendor systems**
- **U.S. domestic and international/global credit portfolios and projects**

This broad range of experience has allowed First Data to develop a proven conversion process based on a solid set of best practices that we now share with the reader. These practices are regularly updated through continuous improvement as business environments, technical capabilities, and other conditions change over time. By applying these best practices, the portfolio owner can feel confident that the conversion outcome will be successful.

Take a Team Approach

Bring a focused team to the project, and staff it with the right people.

Perhaps the most important factor in delivering successful results is to have an experienced and knowledgeable team on the project. The conversion vendor's team should include people with extensive experience working on projects that are comparable to the one at hand. The team should bring best practices and a proven process to bear. This is no time for on-the-job training or figuring out what to do and how to do it as the effort progresses.

The team should be focused solely on the success of this specific conversion project, and members should be appointed for the duration of this project. Of course, it's helpful to appoint members who work together often in order to create a cohesive group in which each participant knows his or her role, as well as what to expect from each other.

A successful conversion project requires a team staffed with professionals in a variety of disciplines and roles: system consultants, conversion analysts, mapping analysts/data conversion specialists, product specialists, software developers, client services support, educational services—all under the watchful direction of an experienced lead project manager. This leader should ensure the project is managed to the timeframes that are agreed upon up front, and also act as the official liaison between the client (the portfolio owner) and the credit processor that will ultimately be the account of record for the credit portfolio.

The conversion team should also include members from the client's organization, as well—and it is important to thoroughly assimilate these members into the structure and culture of the overall team. Co-dedication is critical to the success of any conversion initiative, and constituents from both organizations should be aware that a true team effort is required in order to achieve the goals of the project.

For the best possible outcome, keep the team together, focused and accountable to the client throughout the life of the conversion project.

Take a Phased Approach

Break the project into distinct phases and validate milestones along the way.

As the old saying goes, even the longest journey begins with a single step. A portfolio data conversion is a long journey indeed. It's best to think of this project in terms of shorter, distinct phases with specific outcomes and deliverables. Then it's easier to use the results of one phase as a solid foundation for the next to help ensure a successful final outcome. One proven approach is to segment the entire process into four phases:

1. **Discovery and Planning**
2. **Development**
3. **Delivery**
4. **Post-Implementation**

A project management best practice is to define all the steps and milestones in each phase, which makes it easier to ensure they have been measured, met and validated:

The Discovery and Planning Phase

A critical piece of the overall conversion project is the initial planning, discovery and due diligence to understand precisely what all the aspects of the portfolio are so that when a project plan is built, it supports the complete and accurate conversion of the entire portfolio—to the penny.

Have a thorough understanding of *all aspects* of the portfolio to be converted.

In this discovery phase, the conversion vendor should be gathering reams of details in order to understand all aspects of the client's credit card portfolio. The vendor should seek to understand all the parties involved in the credit process; all the touch points between the parties; all the pricing aspects; all the regulatory requirements; and all the correspondence aspects. For example, it's critical to know about the letters and notices, plastics and statements that are sent to the cardholders, as well as the notifications to credit bureaus. Only when all these types of details are well understood can the conversion vendor plan for how the processes will work on the new system.

Create an all-encompassing project plan so that nothing is left to chance.

It's important to go through everything that's involved in processing the accounts; document it all; and develop a comprehensive plan that fully outlines the solution. To eliminate (or at least minimize) disputes or confusion later along in the project, the portfolio owner and the conversion vendor should agree that all information has been captured correctly before engaging in other project activities—especially the infrastructure build and the data mapping.

The Development Phase

In some instances, especially for large and complex portfolios, there will be the need for infrastructure build. This assures that the new (target) credit processing system can completely and accurately support all the needs of the credit portfolio that is being on-boarded. Success in the development phase is highly dependent on comprehensive and detailed output from the discovery and planning phase. Here are a few best practices for the development phase.

Use a parallel development process in order to condense the project schedule.

There are likely to be many activities that can be performed simultaneously; for example, the parameter build, the software build, and the data mapping conversion. A best practice is to hand off these respective tasks to their appropriate development teams and let the work be done in parallel.

Build the parameter-based settings according to how the portfolio owner wants them to be built.

In setting up the processing policies for the issuer, many system parameters must be set to assure all processing occurs as required to meet the strategic and operational requirements of the client. As such, a thorough review of all system parameters must be undertaken. These reviews require the commitment of both the processor and issuer teams to ensure ultimate success.

Precisely map the cardholder data on the old (source) system to the new (target) system.

The account data that resides on the old processor platform must be analyzed and accurately mapped to the new system so that the receivables—down to the penny—can be moved by account and appropriately identified as merchandise, cash, interest, late fees, and all the other fee structures that are involved. The resulting deliverable should be a very detailed specification document that's down to the level of every field on a cardholder account, and how that data will be moved to the new system. This scenario is complex yet necessary to fully protect the portfolio owner.

Perform comprehensive pre-delivery testing.

The conversion vendor should unit-test the code throughout the development process, and then bring the unit-tested code into a controlled environment to test the interaction of data between subsystems, and to verify integration and interfaces. Scripts for inputting, modifying, deleting and updating data should be created in order to fully test and verify the entire integration development process. Ideally, this stage of testing is conducted entirely by the vendor in order to reduce the client's resource requirements and to ensure a secure and stable testing environment. Finally, the tested code should be deployed in an environment set up by the vendor that is modeled after and runs parallel to the client's production system. This controlled test cycle, known as client acceptance testing, allows the client to test the implementation code and to become familiar with the production system before it is delivered.

The Delivery Phase

Once the infrastructure is built, the data mapping is complete, and preliminary testing conducted, it's time for the data conversion—but not without a series of mock conversions, data validations, statement mock-ups, and client test environments. These activities are a crucial part of the delivery phase.

Conduct mock conversions and validate the data.

A mock conversion is a test that simulates taking the data from the old system to the new one. Several simulations may be necessary to work out all the kinks in the data conversion process. Of course, data validation must be conducted after each mock conversion to ensure that the data is going to the precise accounts and fields as expected. It's possible to do manual validation from paper-based reports; however, automated validation tools are much preferred to reduce errors and save time. It's advisable to also do statement mockups by generating cardholder statements in a test environment. This allows the portfolio owner to compare statements created on the new system to those from the old system.

For sizable conversions, put a subset of the accounts into a test environment.

Taking a step beyond the mock conversions, it's helpful to put a subset of representative accounts into a properly secured test environment (the end cycle) so the data owner can see exactly how the accounts look on the new system. This is just one more way to ensure that the data is being converted accurately and as the owner expects.

Accept nothing less than 100 percent accuracy.

All of this testing is designed to uncover discrepancies in the conversion process or results long before they can ever affect real live accounts. A knowledgeable, experienced team of conversion experts should be able to overcome any challenges and ensure that the dollars are applied appropriately and that every account on the new system is in balance with where it came from on the old system.

Make the implementation seamless to the cardholder.

When the due diligence and upfront planning are done correctly, the conversion process can be completely seamless to the cardholders. In fact, it's possible to conduct all the actual data conversion from one system to another over the course of a single night, so that payments are routed to one processor on, say, Saturday, but to the new processor on Sunday—and cardholders are completely unaware.

The portfolio owner may choose to do a pre-conversion card reissue if account numbers are going to be changed in the conversion. Though it's not always necessary to change account numbers, such a tactic may be useful in reducing risk or preventing fraud. In this case, the retailer or financial institution can issue new cards in the days or weeks before a conversion and notify cardholders to begin using their new cards on a specific date.

The Post-Implementation Phase

Keep the team on the project for at least 30 days post-implementation.

The data conversion is done and every last penny has been transferred to the new account of record, but this is no time for the conversion team to pack up and go home. In a project where hundreds of thousands or possibly even millions of data elements are touched, there is always a risk for having challenges post-conversion. It's best to keep the team focused on the project at hand for at least 30 days post-conversion in order to mitigate any challenges that might arise and to resolve all post-conversion issues.

The 30-day period enables the team to get every cardholder through a statement cycle or a billing period to ensure that everything is working accordingly. This generally gets the portfolio owner through a single month-end and through daily and weekly reporting situations. By monitoring the results closely, everyone can be assured that the portfolio is processing the way it needs to be.

Choosing a Conversion Vendor

It takes a credit processor with significant experience and deep knowledge of the credit industry and regulatory liability issues to ensure a conversion that is on time, within budget, accurate to the penny, and seamless for stakeholders and cardholders. Here are some best practices to observe when selecting this critically important partner.

Experience matters. The portfolio owner should choose a vendor with experience in doing conversions that are very similar in scale and complexity.

A typical timeline for a mid- to large-size conversion project is about 12 months. Why so long? Because the typical project is very detailed with many, many data elements. It takes an experienced team to know precisely what to do and how to do it. This team should have a proven methodology that is flexible enough to adapt to any portfolio, regardless of complexity, origin or scale.

Compare apples to apples. When evaluating vendors, the portfolio owner should take the time to fully understand the scope of what is included in the conversion bid.

The financials behind credit accounts are much more complex than they were a few years ago. Therefore it's important for the client to take the time to fully understand what prospective vendors are proposing to do within their contracts; the scope of service may not be comparable. Consider, for example, if the processor is committing to rebuilding on the new system the balance of each and every account as it was on the old system. This is time-consuming and requires deep knowledge of the credit industry, but it's essential to ensure that each account's balance is divided into the proper categories.

Select a vendor that thoroughly understands the current regulatory and liability risks.

The Credit CARD Act of 2009 changed many of the rules for credit accounts. To maintain compliance with all regulations and minimize risk to the business, a portfolio owner must engage a conversion vendor that is knowledgeable on all current regulatory requirements and can ensure that all accounts are being converted properly.

Conclusion

For a company that derives revenue from a credit portfolio, it's never easy to undergo significant change that poses any sort of risk or disruption to that revenue source. Certainly transitioning from one credit processing source to another has the potential to be very disruptive to the business. However, the risk can be mitigated by choosing to work with an experienced data conversion partner that adheres to industry best practices and that brings a proven process to the table.

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