

## **Inventory Information Approval System or IIAS: Looking back...**

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Shockwaves hit the industry, and particularly payment card vendors when IRS Notice 2006-69 was released. Will any of us forget the spirited exchange at ECFC's Administrators' Symposium in Dallas after the notice was issued? Not only were we scrambling for quart-sized zip-lock bags to be able to transport our toiletries home in carry-on baggage, but we also had a spirited exchange with IRS officials on the impact of the change. Notice 2006-69, from the IRS's perspective, expanded the use of payment cards to discount stores, grocery stores and supermarkets, as well as other non-health-care merchants, as long as the merchants adopted an inventory control system to allow only eligible health care expenses to be purchased using the card. This inventory control system is referred to as an Inventory Information Approval System, or IIAS. Many card issuers and vendors, as well as many TPAs had been allowing the use of payment cards at these merchants, so to the industry, this was a significant curtailment and not an expansion, as the IRS had intended. In addition, there were merchant-specific IIAS systems that had been in place for several years. These merchant systems were more than likely what the IRS used as models and examples for the 2006-69 Notice.

In an unprecedented effort of cooperative action, merchants, card issuers, card processors and the card associations met with the IRS and lobbied for relief, which was granted in the form of IRS Notice 2007-02. This notice not only delayed the IIAS requirement to January 1, 2008, it also approved the use of payment cards at discount stores, grocery stores and supermarkets through the end of 2007. In an unexpected twist, it also required most drugstores and pharmacies to implement an IIAS effective January 1, 2009. One reason the IRS may have elected to require drugstores and pharmacies to use an IIAS is the high volume of non-medical items these retailers offer in their stores.

Of course, there was an exception for some drugstores and pharmacies. This exception, the "90% rule," allows the payment card to continue to be used without an IIAS at drugstores and pharmacies where, on a location-by-location basis, more than 90% of the gross receipts during the previous year were attributable to eligible medical expenses. (These transactions will require substantiation unless they meet the co-payment match, recurring transaction, or real-time verification criteria established by the IRS.

So, how did the industry respond once transitional relief was granted? While a successful solution was in place with a major drugstore chain and some online drugstore merchants, the prospect of implementing and maintaining one-off solutions with several vendors seemed daunting, expensive and inefficient. The informal lobbying effort was replaced with an intentional group that ultimately incorporated as a non-profit industry group known as SIGIS (Special Interest Group for IIAS Standards) in December of 2007. This industry group worked collectively to develop a standard for all merchants to use. It addressed several industry-wide concerns:

- A desire for the participant to have a consistent experience at IIAS merchants. This includes both the experience at the point of sale and consistency among the items that can be purchased using the card.
- Standardized card identification. In order for a transaction to be successful, a merchant must be able to properly identify a card as being a healthcare debit card in the first place, as opposed to an ordinary debit or credit card. Merchants are able to identify the cards through a

standardized process of communicating the participating BIN numbers to member merchants. A BIN number (or Bank Identification Number) is the first set of debit card numbers (typically 6, but may be more). These numbers identify who issued the card. Card issuers provide the payment card networks with the BIN numbers for the card programs that should be included in the IAS process, and from there, the payment card networks include those numbers in an existing process to communicate them to individual merchants. It is as a result of this process that merchants can apply special IAS processing and store product level detail for only those cards that require it.

- A desire for efficiency and consistency in the processing operations.
- A consistent method for merchants to assure compliance with the IAS standards set forth by the IRS.

It's important to note that the SIGIS standards are just one of the IAS-compliant methods in the market. Other merchants may adopt and maintain other methods that are equally compliant. Whether through the SIGIS standard or other methods, it's safe to say that IAS in general has revolutionized the payment card industry.

So, what's the SIGIS standard and what has it offered the industry?

- Consistent list of eligible products. SIGIS contracts with a third-party vendor, Hamacher Resource Group (HRG), to provide a list for review on a monthly basis by the List Working Group. The List Working Group is composed of about 18 TPAs who are SIGIS members with substantial claims adjudication experience. In addition to reviewing the actual list contents, the List Working Group has established criteria for items on the list, as well as processes to be used for including private label items. The current list (as of August, 2008) has more than 26,000 eligible items. Additionally, the process for submitting items for consideration by the Working Group (both items to be added and those that a SIGIS member feels should be deleted) has been established. Each month, several SIGIS member merchants and others submit data, which, along with HRG data, is submitted to the Working Group for consideration. Every item is discussed and reviewed before the List Working Group submits the final list for loading to the SIGIS website.
- Consistent merchant process. SIGIS-certified merchants agree to use the list (and only the list, unless they are adding private label items) and to pass a certain card transaction format.
- Consistent certification process. SIGIS-certified merchants go through an extensive self-assessment and testing process with their acquirer before their methodology is approved by the SIGIS certification committee.
- Consistent data retention guidelines. Merchants agree to have the detailed line-item data on IAS transactions stored for 5 years to accommodate an IRS audit of health care claims.
- Consistent transaction formats. The SIGIS standard provides card vendors, issuers and TPAs with a standard format for transactions that is easily understood and managed.
- Consistent checks and balances. SIGIS has developed an important process for review, investigation, and correction of concerns with any step of the process. For example, any SIGIS member can submit additional items for the list and also, report items for the List Working Group to consider removing. In addition, there's a process for SIGIS members to bring concerns to the association for investigation.
- Consistent exploration of other applications. The SIGIS Board is currently exploring expanding the application of the SIGIS standard for both a Medicare call letter issued earlier this year and for the 90% rule allowing the use of health care payment cards at drug stores and

pharmacies where, on a location by location basis, 90% or more of gross receipts are attributable to the sales of eligible health care items. Additional applications or expansions of SIGIS would benefit the industry.

In addition, while these are not requirements of the IRS guidance, SIGIS did request some optional processing be supported. An additional Rx claim field was added to the authorization in order to support specific plans such as an HRA Rx-only program. Also, partial authorization capability is being suggested to merchants, since the highest reason for declines is “insufficient funds.” These optional processing “best practices” are supported by over 50% of the SIGIS-certified merchants today. In the near future, some significant retailers will be adding these capabilities, which is another win for the industry.

In summary, SIGIS incorporated in December of 2007, just a few weeks before widespread active use of the transactions. Certainly, we had our bumps and bruises as an organization and as use of the SIGIS standard ramped up. Merchants encountered issues, and TPAs experienced greater call volumes when participants' cards did not work at merchants that were not yet IAS certified. In the early weeks, any card disruption or denial seemed to be “blamed” on IAS. Careful, thoughtful and deliberate investigation of each denial strengthened the process and assured things were working as expected.

How are things from SIGIS' perspective? The implementation of the SIGIS standard for IAS is a win. Industry-wide cooperation toward meeting IRS requirements in a timely manner, consistently and easily has provided increased substantiation rates and the highest transaction approvals ever seen in the industry for healthcare transactions at grocery stores, discount merchants and supermarkets. As 1/1/2009 looms closer, continued improvements on the substantiation rates are anticipated as pharmacies implement IAS.

This is good news as recent industry studies show that debit card usage for these types of benefit programs is likely to increase by 50% in the next two years. Having a scalable standard to address that growth is key.

What can be done to make the process even better? SIGIS is taking steps to help educate TPAs and retailers about the use of the standard and the benefits of the cards for the consumer, with the goal of improving the cardholder experience. Steps are being taken to design certification logos and displays that could be located in the retailers' window or by the register to inform the cardholder that their benefits cards will be accepted there and will work according to the standard. There is also effort underway to study the feasibility of adding that logo directly to the card. This would help cardholders more easily tie the use of their cards to a particular retailer's location.

SIGIS continues to build its web presence to include educational materials for TPAs and retailers, and is even looking to develop educational materials for cardholders to help make the experience better for all involved. SIGIS encourages you to visit the site often at [www.SIGIS.com](http://www.SIGIS.com) for posting of new material. Members can also read about these updates in SIGIS newsletters that are regularly distributed or in telewebinars hosted by SIGIS for its members.