Is SET Ready for Prime Time?

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Nearly two years after its initial announcement, the Secure Electronic Transaction (SET) protocol has become the focus of a much tension within the financial services and industries. Technology companies point fingers at each other, and merchants and customers continue to wait for SET-enabled software. Amid the muddle, the question has from "when will SET happen" to "will SET happen at all?"

One has only to listen to the tone of rhetoric in the industry to see that SET is truly in a state of flux. In February 1996 when SET was first announced, indications were given by its primary drivers, the credit card associations Visa and MasterCard, that blueprints would be in the hand of developers by late 1996, and that SET would be on the streets this time in 1997. The reality has turned out to be something quite different.

After lengthy testing of SET 0.0, specs for 1.0 are now out, and developers are moving to build SET-enabled applications. However, a number of snags have brought smaller developers to their wit's end: the slow pace of development has stressed the finances of many developers, and a perception exists that the card associations are favoring large players in terms of information sharing and technical specs.

We believe these issues will soon come to a head, as IBM and VeriFone have announced the issuance of an interoperability manual is forthcoming, and guidance of SET will soon be turned over to a newly formed independent entity called SETCo. Both actions mark a further erosion of independence in the minds of non-aligned developers, as SETCo is already perceived as being a mouthpiece for the card associations and their interests. The time it has taken to arrive at SETCo's formation has also led to the feeling among some technology providers that MasterCard and Visa continue to lack clear strategies concerning SET. While the large technology companies are not as far ahead in development of some components of SET as smaller developers have demonstrated, frustration among small developers is compounded by a feeling thatVeriFone, IBM, and others have the marketing budgets and cash flows to take their time rolling out interoperable SET components. Moreover, the large technology companies can do so without regard to the needs of the smaller developers.

We see this pattern continuing. Despite the feelings of many in Silicon Valley that open standards should be just that - open and standard - the technology game, particularly since the rise of the Internet, continues to be one where a group of aligned companies decide what the rules will be, call it a standard, and then guide its development to benefit themselves. In this case, the card associations and companies (American Express and JCB included) have (legitimate) interests and investments to protect, risk to manage, and brands to promote. Large technology providers such as VeriFone and IBM have many of the same concerns. While it would be "nice" if many companies could participate, and it would most likely be beneficial to SET's overall growth if smaller companies could actively participate in the development of the standard and provide unique solutions for implementing SET, we believe that this will continue to be an inside game, controlled by the circle of major companies that built the existing physical payment infrastructure, but with smaller companies continuing to bear the load of innovation.

Looking forward, while it is tough to settle on a strategy even now, there are probably a few safe roads vendors and users should take to navigate the ever turbulent waters of SET. Major vendors should open interoperability discussions with all vendors in order to speed development of multiple solutions and therefore speed uptake of SET broadly. Smaller vendors and developers should explore partnerships which will allow for end-to-end deployment without reliance on VeriFone or IBM, including bundling components with the myriad of shipping commerce/merchant solutions, and banking solutions now becoming available.

As for end-user adoption of SET, we believe the question of whether or not to use SET applications is moot. Merchants who choose to accept credit card payment over the Internet - 100 percent for all intents and purposes - will have no economic choice but to implement SET, as interchange fees will be adjusted to create a strong incentive to process online payments via SET. The best strategy at this point is to keep a close watch on SET's progress, but not to expect it to arrive in full form until late 1998 at best. Budgets should be adjusted accordingly, however, as upgrades to commerce systems (SET-ready payment modules, certificate management applications, etc) will be necessary in calendar 1998. End-users should keep pressure on the banks, card associations and companies, and technology providers to keep the ball rolling. SET implementation will not be easy, nor will it necessarily yield overnight results. It is, however, the cost of doing business on the Internet, and is likely the shape of things to come.