

2016 - The Year of the Chip

Joy Pelaez | EVP Core Services

EMV, EMV, wherefore art thou, EMV? EMV is top of mind in 2016. We are all witnessing the painfully slow process of adoption by our favorite retailers while adjusting our behavior in the check out line. Is it swipe or insert? Having said that, the majority of the banks we work with are still in the process of finalizing their EMV plans. Some have been putting it off due to too many irons in the fire while others take a more strategic approach. In this issue of Tech Revelations I am going to give you a little history on EMV, give you some food for thought as you finalize your plans and provide some ideas for offsetting the cost of EMV.

EMV 101

EMV is a standard for globally, interoperable secure payments. This is accomplished through a computer chip embedded in cards. The computer chip produces a one-time use code for each transaction. When a transaction is performed, the card is dynamically authenticated, verified and then authorized. The dynamic authentication has unique information that makes it almost impossible to replicate, thereby making the face-to-face (card present) transactions performed with these cards very secure and thus reducing the risk of counterfeit fraud.

EMV has been used overseas for a number of years and the US is the last major country to adopt the standard (see timeline). EMV will ultimately help issuers, payment brands, merchants and processors close the gap on “card present” fraud.

For a better part of the year leading up to October of 2015, EFT vendors were all over community financial institutions to sign up for EMV so they would be ‘ready’ for the liability shift when it occurred. Disappointingly, for those that made the jump early to sign contracts, vendors have been slow to deliver and costs have been all over the board. Many FI’s elected to take a “wait and see” approach given how slow the merchants have been to implement chip ready POS terminals. Not to mention the EFT vendors being woefully slow to implement, their decision to wait and see was not shortsighted.

Regardless, the EMV train has left the station and we are now starting to see the “insert” prompt pop up at our favorite POS terminals nationwide. If you have been sitting on the sidelines now would be the perfect time to crank up and finalize your game plan for EMV.



Timeline:

Oct. 1, 2015

The fraud liability shift date for card and POS devices. This is not a mandate so there is no penalty for non-compliance. What it does mean is the party that cannot support EMV, be it issuer or the merchant, assumes the liability for counterfeit card transactions.

Oct. 1, 2016

The liability shift date for the ATM's for MasterCard.

Oct 1, 2017

The liability shift date for pay-at-the-pump gas stations and for VISA ATM's.

NOTE: Effective October 14, 2016 Visa is requiring issuers to offer consumer cardholders the option to enroll in a service that provides alerts for Visa branded transactions routed through VisaLink, Interlink or PLUS networks. Expect MasterCard to follow suit at some point.

Formulate a Game Plan

As you gear up to tackle EMV we recommend that you take the time to carefully evaluate your strategy, the costs associated with moving to EMV and conduct a comprehensive review of the agreements you are required to execute.

When choosing your EMV strategy we are simply referring to how you will tackle the re-issuance of your existing cards to EMV enabled cards. There are three fundamental strategies to tackling EMV. First you let your cards expire and re-issue the EMV cards one at a time. Conversely, you can re-issue them all at once or, depending on the size of your card base, re-issue them in blocks. When considering which strategy to adopt you may want to closely examine the following:

- ✓ The size of your card base and your ability to support a mass re-issue vs. as they expire.
- ✓ The ability of your processor to provide supplemental call center support during the re-issue.
- ✓ The level of “card present” fraud you currently experience each month.

Your ability to support the migration to EMV is obviously a primary concern but you do not want to overlook the protection afforded under the liability shift if you experience an unusually high level of “card present” fraud on a month to month basis.

Once you determine your strategy it's time to understand the cost to move to EMV. Preparing a cost of ownership analysis will help you get your arms around the key cost considerations related to EMV:

1. Cost of Plastics
2. Card Re-Design and Artwork Design
3. Cost of Implementation - Vary by Processor
4. Cost to Update Information in Core Platform
5. EMV Specific Transactional Premiums - The cost of the EMV transaction is in addition to your current “per transaction” pricing model.
6. PIN Network Related Fees: If you use an unaffiliated PIN network you should get a clear understanding of the fees they will charge for the EMV shift as well. This varies from network to network but we are seeing some charge additional fees. After all, they have costs associated with certification and are passing along to issuers.

Getting a landscape view of your Cost of Ownership can be a time consuming process especially if you use multiple vendors for core processing and card processing. The complexity starts to build even more if you use a host of un-affiliated networks. Now is an excellent time to take a look at your network mix and determine if you have the most efficient model in place.

Along with the cost of EMV is the contracts you must sign to get on the waiting list for implementation. I am not going to spend a ton of time on this but I want to be sure that you conduct a comprehensive review of the entire agreement. Pay special attention to the term language. Your processor may have an expectation that a term extension is in order. It can be rather hard to identify this language in an agreement especially when they start pointing to past agreements or amendments that are not readily available as you ink the deal. Your commitment to EMV should not include any additional term on your ATM or Debit Card Processing agreements or network agreements (unless incentives and/or new pricing has been negotiated). A simple and easy way to make sure is to get your account representative to confirm in writing via email that there are no term extensions in the contract or better yet, a clarifying statement in the contract to that effect.

Offsetting the Cost of EMV:

As I outlined above, the cost of EMV can pile up quickly and can get out of control if you do not plan accordingly. There are ways to offset the cost but they can slow the process down quite a bit, especially if you do not have the resources to dedicate to the project...then again, you can also choose to let us help alleviate the stress and guesswork in the following strategies.

Brand Flip: Now is the perfect time to consider competing proposals from the various brands. Visa, MasterCard and Discover are throwing a lot of money at banks of all sizes to acquire new business and market share while they have this very short window of opportunity. Entertaining competing offers from Visa, MasterCard and Discover can yield significant returns and more than offset the cost of a mass-reissue. Depending on your current brand you could receive a signing bonus and marketing incentives to strengthen your card base. A brand flip can be a very lucrative project, especially if you have a strong card base. Also, it is important to note that your current brand may make a very attractive offer to retain your business so you may do the legwork of a brand analysis and not end up having to switch to another brand.

Contract Renewal/Vendor Consolidation: Now is the perfect time to roll your EMV negotiations into a renewal effort with your core processor or ATM/debit card processor. If your card processor is different from your core processor, you can view this as a vendor consolidation initiative and rolling your card services into your core contract. Your current card processor may offer incentives to keep your business and your core processor will stand ready and willing to aggressively earn your card business. If you use the same company for both card services and core processing, chances are they will offer some incentives to secure a new long-term contract with your institution. Either way, take the time to perform a holistic view of your vendor relationships while considering EMV. It can make your life a lot easier as well as help offset the cost of EMV.

Simply Put - Negotiate: If you do not have the time to consider a brand flip and your contract is in the middle of it's term then I recommend you simply ask for incentives and discounts. Sometimes asking nicely while making the assumption that no pricing is set in stone will encourage your vendors to come to the table and help. Keep in mind that the EMV initiative has been a pretty hefty financial burden on the vendors but in our experience they most always will look for a way to keep you happy.

If EMV is in your rearview mirror, we would love to hear which strategy you used and how the process went for your bank. We have created an EMV thread in our online forum "The Beacon" so feel free to post your thoughts and insights. If you are still putting your plan together we hope that we were able to shed some light on a very time consuming initiative. See you next month in Tech Revelations.