



MEMORANDUM

TO: NRLA Members

FROM: NRLA Government Affairs Department

SUBJECT: New Credit Card Standards

DATE: June 30, 2014

As of October 1, 2015, merchants will be subjected to new credit card terminal standards – a shift from magnetic-stripe cards to chip-and-PIN cards. The new credit card standards will have a major effect on the entire retail industry.

Background

The chip-and-PIN cards have been around for a longtime, but have not been the standard in the U.S. The specifications for chip-and-PIN cards were developed by Europay, MasterCard, and Visa (EMV) and first made available in 1996. In fact, the U.S. is the last major market to convert to chip-and-PIN cards.

American Express, Discover, MasterCard, and Visa have all announced their plans to transition to the EMV system. Some U.S. banks, such as Bank of America, have already started issuing new cards with both chips and the magnetic stripe. While the new cards will feature chip technology, at this point the cards will not require PINs in the United States. Most merchants will still require a signature when the card does not require a PIN.

The driving force behind the transition to EMV is due to recent credit card breaches at large retailers like Neiman Marcus and Target. Chips are harder to duplicate and manufacture; making it more difficult for fraud to occur, whereas magnetic stripes can be copied very easily.

The National Federation of Retailers endorses the change to the chip cards, but they are lobbying for both a chip and a PIN, in order to further curtail fraud and for uniformity across borders.

Implications

Compliance with EMV is not mandated for merchants and processors, meaning retailers are not required to upgrade their credit card terminals and systems to read chip-and-PIN cards; however, merchants who do not use the new terminals and software will be liable for any fraudulent purchases. Currently, the bank that issued the card typically assumes the liability for fraud, but starting on October 1, 2015 a merchant that processes a transaction without a

chip reader will now be held liable for the fraud and will have to absorb the cost of the fraud. Credit card companies will no longer honor the transaction and the merchant will have to suffer the financial loss. Some cards will have a liability hierarchy depending on the percentage of EMV to non-EMV cards processed. You will want to check with your processing company about the different hierarchy each card will have. Some companies will also offer incentives to switch to the EMV technology.

This is an increasing concern as we have seen instances of fraud recently where an order is placed using a credit card and then a refund is requested for a different credit card. Under this new system the original purchase will not be honored and the merchant will lose the money from that sale as well as the money from the refund issues.

The compliance deadline is October 1, 2015, which provides merchants with enough time to upgrade their hardware and software to meet the new standards. A new credit card terminal with the chip reader costs approximately \$40, but can cost as much as \$100 if it comes with a PIN keypad.

As of October 1, 2015, customers with the new chip-and-PIN credit card will now insert their card into the credit card terminal instead of swiping it. In Europe, when customers insert their card in the terminal, they are required to also enter their PIN for extra security. At this point, entering a PIN will not be a requirement in the U.S.; however, banks can choose to issue cards with a PIN number.

At this point there does not appear to be a shift in liability for orders taken online, via mail, or over the phone, known as card-not-present (CNP) transactions. There is technology available for both consumers and merchants, but to date these have not been adopted due to the high cost for merchants or resistance by consumers. There may be shifts in the future towards using this technology for CNP transactions as well, including "Verified by VISA" or "Secure Code". Nonetheless, as security for card-present transactions increases there will be an increase in CNP fraud. You may want to consult with your processors about updating your best practices and policies to combat CNP fraud.

Other Important Dates

- On April 1, 2013 Visa required all acquirer processors to be able to support chip transactions.
- On October 1, 2013 MasterCard reduced a merchant's liability for fraud costs in the case of a data breach (known as Account Data Compromise or ADC) by 50% if the merchant processes at least 75% of its MasterCard transactions on terminals capable of both contact and contactless EMV.
- All ATM owners will need to upgrade to the new EMV standards by October 1, 2016.
- By October 1, 2017 all gasoline pumps will assume liability for fraud if they have not been converted to chip technology.

The Government Affairs Department will continue to monitor the new credit card standards, and will update members on any new developments. If you have any additional questions or concerns, please feel free to contact Jeff Keller, Director of Legislative and Regulatory Affairs, at 518.880.6376 or jkeller@nrla.org.