An Update on the Status of EMV Migration

Don’t look now, but in a little over a year, the most important milestone in the migration of the U.S. payments infrastructure from magnetic stripe cards to EMV-enabled cards will be upon us. Starting in October 2015, financial liability for card-present counterfeit card losses will shift from issuing banks to merchants if merchants receive EMV-enabled cards but have not yet installed EMV-capable terminals. This liability shift will apply to all merchants, regardless of size.

This comes as a surprise to some merchants, according to research recently completed by First Annapolis. Out of 200 merchants surveyed, only 24 percent were aware of the upcoming requirements for U.S. merchants to be able to accept chip cards, with 28 percent noting that they had heard of the requirements but did not know the details and nearly half indicating no awareness of EMV at all.¹

A Little Background
Given the impending deadline for becoming EMV-capable, now is a good time to take a look at the current status of the massive effort to migrate the U.S. payments system to EMV. But first, a little background:

EMV stands for Europay, MasterCard® and Visa®. This is a technical standard designed to ensure that microchip-embedded payment cards are compatible with the terminals of merchants who accept them. Chip-embedded payment cards are nearly impossible to duplicate — when combined with additional layers of security like encryption, tokenization and other strong authentication techniques, EMV significantly reduces opportunities for card payment fraud.

EMV was first introduced in Europe in 1993, and since then, most countries have adopted it. The U.S. is the last major world economy to migrate to EMV. A road map for EMV migration in the U.S. was introduced in 2012, culminating in the liability shift next October.

Some progress has been made toward EMV migration, especially among large retailers. For example, Target announced in April that it plans to partner with MasterCard to complete the conversion of its store-branded credit and debit cards to EMV by early 2015. The store also announced that payment terminals at all Target stores will be equipped to process chip-and-PIN cards by September 2014. Target’s chairman stated that moving to EMV was a top priority in the wake of the retail giant’s well-publicized data breach last year.² In addition, many small to medium sized merchants are updating their POS terminals in advance of the liability shift to better protect their businesses against counterfeit fraud.

Where Things Currently Stand
Earlier this year, the EMV Migration Forum estimated that more than 100 million EMV-enabled cards will be issued, and that 4.5 million EMV-capable point-of-sale terminals will be installed across merchant locations, by the end of 2014.³

A similar report issued by the Aite Group LLC predicted that 25% of U.S. credit cards and 8% of debit cards will be capable of performing EMV transactions as of year-end. The majority of the study’s respondents, which represent 56% of the U.S. credit card base, plan to convert credit cards prior to debit cards.⁴

Looking past the 2015 EMV deadline, Aite Group estimates that the number of EMV-enabled credit and debit cards will grow to 70% and 41%, respectively.⁵

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A lack of understanding among small and micro-business owners about exactly what EMV is and why it’s important may be a hurdle the card industry will need to overcome. Another survey found that EMV awareness among consumers is low: Almost nine out of 10 U.S. consumers responding to a survey conducted by Phoenix Marketing International said they do not know very much about EMV.6,7

A second potential issue is confusion over what EMV standard will be used. EMV technical specifications do not require that a specific form of cardholder identity verification — for example, chip and pin or chip and signature — be used. Instead, the issuing bank will specify which cardholder verification services are required for a transaction by placing specific rules on the chip.8

**Long-Term Benefits of Reduced Fraud**

While the migration to EMV in the near term may be costly and hit a few snags, experts say that this will be more than offset by the long-term benefits in terms of reduced card payment fraud. For example, after Canada migrated to EMV in 2009, losses due to credit card fraud fell from $142 million to just $38.5 million three years later.9

In addition, the migration to EMV will enable merchants to take advantage of new payment options that are supported by dual-interface, EMV-capable terminals. This includes both contact and contactless transactions, like tapping or waving the card instead of inserting it. There are many potential benefits of upgrading to these terminals:

- The terminals meet Visa’s merchant requirement for Technology Innovation Program (TIP) relief for PCI compliance reporting to Visa.
- It could aid in the adoption of mobile payments by U.S. consumers.
- It ensures global interoperability.

If you have more questions about the migration to EMV and how it will impact your business, please call PNC Merchant Services® at 800-742-5030. We would be glad to answer your questions and help you better understand how EMV will benefit your business and your customers.