

# Let's Do This Right: Patience Will be a Virtue as Credit Unions Migrate to EMV

The early rollout of EMV payment cards in the U.S. is underway, but the future of these chip-based cards and their impact on the nation's financial industry is still not entirely clear.

What is clear is that EMV migration by credit unions needs to be done right. As an issuer or acquirer, credit unions should not launch into something that isn't quite ready, for acting too early may result in costly changes or reissues in the future.

## A Game Changer—Eventually

Some observers believe EMV will be a game changer for the payment card industry by greatly improving security and reducing fraud (fraudulent charge losses in countries that have implemented EMV have dropped approximately 63%).

EMV-enabled cards are essentially miniature computer chips with an operating system, multiple interfaces and applications that process information through the use of an embedded microprocessor, and a gold- or silver-colored contact plate mounted on the front of the card. Cards have both the chip and the more traditional magnetic strip to ensure global interoperability.

EMV is a worldwide standard. According to the website of EMVCo, the global manager of EMV technology, approximately 1.55 billion EMV cards are in use internationally. The organization also points out that more than 21.9 million POS devices accept EMV cards for debit and credit payments, representing more than 42% of the total payment cards in circulation and 76.4% of the POS devices installed globally.

According to the digital security firm Gemalto, the majority of the world, minus the U.S., is EMV compliant or is in the process of migrating to EMV chip technology. NCR Corporation reported that France was the first country to launch EMV almost 20 years ago and has since experienced an 80% decline in fraudulent activity. Today, 97% of European ATMs are EMV compliant, as are 80 countries worldwide.

Interac Association, the debit network in Canada, reports that financial institutions have experienced a significant decline in card-related fraud losses due to skimming, dropping from \$142 million in 2009 to \$38.5 million in 2012. "The ongoing conversion to chip technology is a vital tactic in our fraud prevention strategy, which is supported by other core elements that are critical to our continued success," said Caroline Hubberstey, Head, External Affairs for Interac Association, in April 2013.

## EMV Comes to the U.S.

The United States is one of the last countries to migrate to EMV and things are moving ahead at a measured pace. The U.S. has a different payment landscape and is online all the time, which is different than the European model. There are also more considerations such as the impact of the Durbin Amendment and specifically how EMV will affect debit card transactions.

MasterCard®, Visa®, Discover® and American Express® are leading the EMV bandwagon in North America. The incremental launching of their programs in the U.S. took place in April 2013 with the mandate that all merchant acquirers and acquirer processors be capable of supporting merchant acceptance of EMV chip transactions.

But the EMV migration is far more complicated than the present payment card infrastructure can accommodate. The technical side of this effort involves the entire payments eco-system and it is critical to ensure that issues pertaining to specifications, business requirements and implementation are carefully evaluated. In this large of an undertaking, it is imperative that the industry sectors move in concert with each other. There are no mandates for issuers or acquirers, only liability shifts, so it is prudent to wait until the industry is ready with necessary policies and systems in place.

Nevertheless, there is some initial EMV movement in the U.S. financial industry as it prepares for the transition. One of the

nation's largest card processing companies, Moneris Solutions Corp., has just completed testing host capabilities required to support EMV transactions for Visa, MasterCard and American Express at POS terminals in the U.S. Anticipating EMV growth as it is adopted by the major card companies, CPI Card Group, a provider of financial and commercial card production and related services, said it will more than double its EMV chip milling in the United States in order to meet customers' needs as the nation further migrates to EMV chip cards.

## Durbin and Other Issues

Another major issue that needs to be addressed is the Durbin Amendment, Regulation II, which requires debit cards to support at least two unaffiliated debit networks.

Where EMV runs afoul of the regulation is that EMV payment applications are proprietary for individual networks. EMV cards here in the U.S. are being deployed with one application. As an example, if it is a Visa card, it would have one application, the Visa application, known as VSCD. Because that is a proprietary application, those transactions will only route to Visa or its affiliates. So, inadvertently, the issuer is no longer supporting two unaffiliated debit networks. And at an ATM terminal, we have the same problem—a Visa EMV card used at a terminal loaded only with the MasterCard application will terminate or revert to mag stripe.

Currently, there is no infrastructure for direct routing to other networks, such as CO-OP Network or NYCE. Complicating this situation is the fact that payment applications can only be added to a card at the time of issuance. If a credit union wanted to move to another network, it would have to reissue all its cards to add the new proprietary network application.

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While it's challenging, this problem can be solved with industry collaboration. The issue became clear early after Visa made its first announcement of EMV in the U.S. The Secure Remote Payments Council (SRPc), a nonprofit, inter-industry trade association, decided to tackle this problem by forming a consortium of PIN debit networks into a work group to collaborate and find a solution. The founding 10 debit networks, AFFN, ATH, CO-OP Financial Services, Jeanie, NETS, NYCE, Presto!, PULSE, SHAZAM and STAR, represent more than half of the PIN debit transactions in the U.S. The overriding principle of the governance and control of this collaboration is fairness and a voice for all networks as well as open ownership.

## CO-OP Takes Phased Approach

CO-OP Financial Services is using a phased approach to adopt EMV technology. CO-OP voted in favor of the SRPc Chip and PIN Workgroup's March 2013 agreement on a common U.S. debit AID (application identification) and application for EMV deployment. “Adoption of this common U.S. debit AID and application is extremely important to credit unions because it preserves their routing and network choices in connection with the emerging EMV standard,” said Stan Hollen, President/CEO, CO-OP Financial Services.

Another key step in CO-OP's approach was announced in April 2013. EMV-enabled Visa debit cards functioned successfully during a test in at least six countries overseas for members and staff of Bank-Fund Staff Federal Credit Union, with online transaction processing performed by CO-OP. Based on its work with Bank-Fund Staff FCU, CO-OP passed EMV certification with Visa.

CO-OP's roadmap for the remainder of 2013 and 2014 includes certification with MasterCard, implementation of the common U.S. debit AID and application; continued certification of various ATMs, beta testing credit and EMV prepaid travel cards.

## Be Prepared, Have a Plan

While the actual adoption of EMV technology by credit unions may be several years away, it is critical to gather information and a solid plan. The transformation from magnetic strip to computer chip is an enormously complex process with hundreds of moving parts and policies to match. Credit unions are not mandated to adopt EMV, but for competitive reasons they would be wise to do so to keep up with their banking brethren once the industry is ready.

Credit union executives are encouraged to stay informed by reading EMV newsletters and other communications, such as CO-OP's Financial Services EMV Resource Center (<http://www.co-opfs.org/solutions/card-payments/emv-resource-center>), as well as Visa and MasterCard EMV resources (<http://blog.visa.com/tag/emv> and <http://www.mastercard.us/mchip-emv.html>, respectively). Also, sign up for industry journals/newsletters along with setting Google alerts for key words such as EMV, chip card, Durbin Amendment and Near Field Communications.

While all U.S. financial institutions are investigating and contemplating EMV, what remains in question, especially for credit unions, is the status of the U.S.-based adoption rates. Experts believe the transition could be costly and take up to 10 years for full deployment of EMV-capable ATMs and merchant terminals to achieve industry wide "merchant terminalization."

## Implementation Costs an Issue

What is critical for all stakeholders in EMV payment processing—from card issuers and merchants to terminal manufacturers and processors—is the varied costs involved in moving to the chip technology from the traditional magnetic stripe used on all U.S. credit and debit cards today.

Analysts believe the transition will be expensive for all participating financial institutions with upfront costs, including new hardware, software, certification, re-issuance of cards, etc.

There is far more to the transition to EMV than simply adding this chip-based technology to existing platforms. The investment per credit union could range from \$25,000 to \$60,000 and higher, with any meaningful return on investment taking up to a decade. Of course, this could change with the advent of new, advanced processing and communication technologies that might be on the drawing board today. And as cited earlier, if an issuer issues EMV cards with the functionality to only route to one network, they will need to reissue all those cards once the common solution is ready, in essence doubling their costs.

## EMV and Credit Unions

Early stage adoption of EMV technology is being planned in phases between now and 2017, but the proverbial writing is on the financial industry wall. CO-OP Financial Services recommends that the best strategy at this juncture for credit unions is to be fully aware of the plusses and minuses of EMV and be ready when the market is ready. However, the time to begin formulating your strategic plan is now.

For instance, EMV chip card issuers need to determine whether to use contact or dual interface—i.e., contact and/or contactless—cards. The latter is more expensive and the jury is still out as to when the market will see a critical mass in contactless acceptance.

There is also the question of the return on investment for EMV cards, which will be dependent on many elements, not just fraud reduction, and will most likely take many years to achieve. Consider all factors when making your EMV decision, including marketing strategy, cardholder acquisition, cardholder retention and collaborative affiliations.

Once a credit union has made the decision to move ahead, the next step is to determine if its processing providers are also ready to move forward, which includes assessing personalization vendors, EFT processors and potentially the core processor. CardPro, CO-OP's card personalization vendor, is already producing EMV cards and is certified with Visa and MasterCard for EMV card personalization.

Also, keep in mind that the uncertainty swirling around EMV deployment on debit cards does not extend to credit cards. For those credit unions with credit portfolios, starting the EMV migration with the credit card portfolio is considered a prudent way to embark.

As far as actual implementation goes, CO-OP's message to credit unions is don't be pushed into something that isn't ready. Let's do it right—credit unions should be using this time to gather their data points, fully understand the technology, prepare operational policies and procedures, and plan your EMV roadmap carefully.

*For up-to-date information on EMV and how it affects your credit union, visit our EMV Resource Center at [www.co-opfs.org/EMV](http://www.co-opfs.org/EMV)*