

Ready or Not: New Credit Cards Arrive

FINANCE: Changes in Liability Practices to Be Implemented
By **MICHAEL LIPKIN**

Visa, MasterCard and American Express are hoping to speed adoption of an anti-fraud technology for credit and debit cards this month by warning retailers they may be liable for fraudulent activity in their stores unless they get new card readers.

But retailers seem slow to upgrade their point-of-sale systems and say the cost may not be worth it in industries with low-value transactions.

More than 100 million Americans already have the new types of cards in their wallets, with an embedded rectangular chip. Instead of swiping the magnetic strips on the back of their cards, consumers will now insert the chip cards into updated terminals. The technology is called EMV, which stands for the initial backers of the chip roughly a decade ago: Europay, MasterCard and Visa.

The cards, ubiquitous abroad for years, are designed to protect consumers from credit card fraud. The cards' magnetic strips essentially boil down to a string of numbers used to authenticate transactions. If that number was stolen and used to create a dummy card, thieves could easily use it to rack up purchases.

The EMV chip, however, generates a unique number for every transaction. That means hackers, such as those behind the massive 2013 attack against Target, won't be able to use numbers stolen from point-of-sale machines to create phony cards. The chip won't offer any added protection against hackers who use stolen numbers to make online transactions as the credit card number itself is still static.

Clone Wars

"You can't create clones with this because the software on the chip doesn't get duplicated easily," said Murray Jennex, a professor of management information systems at San Diego State University. "The smart card is a better technology. Getting people to upgrade their readers is important, and credit card networks just need to get people to buy into it."

Jennex is referring to the sluggish adoption rate among retailers. Only 27 percent of merchants are expected to be ready to accept EMV chips by this October, The Strawhecker Group said last month, predicting half of retailers still won't be ready by June 2016.

The credit card companies have said since 2012 that the way they handle fraud claims will change this month. Typically, the banks issuing credit cards are responsible for those claims. But on Oct. 1, the fraud liability shifted to retailers who swipe EMV-equipped cards. If banks haven't issued the new cards yet, or both parties have switched to EMV technology, banks will remain liable.

The liability shift won't occur for gas stations until October 2017.

What Credit Card Change?

Credit card companies cautioned that retailers are still allowed to use swipe machines but will have to be responsible for potential fraud. A Wells Fargo survey last month found that only 49 percent of small business owners who accept credit cards were even aware of the liability shift.

"The liability shift is a milestone for the U.S. but not a deadline," said Carolyn Balfany, a senior vice president with MasterCard Worldwide.

"Merchants are encouraged to assess their business and their risk as well as the experience they want their customers to have and migrate when it make sense for them."

Cost to Retailers

Major retailers including Target and Wal-Mart have already converted their systems, but the California Retailers Association said smaller shops have lagged behind, mostly due to the costs associated with the EMV readers.

New machines and software can run up to \$1,000 per device. The machines also take several seconds longer to authenticate transactions.

NPC Payments, the San Diego affiliate of the second-largest credit card processor, said its EMV terminals are \$350 but are free for customers for the next two years.

CEO Bill Barger said some clients, such as restaurants, have decided not to upgrade because the threat of fraud and average transaction size are low.

"They haven't been anxious to make that move yet," Barger said.

Retailers are expected to be a greater bottleneck than financial institutions, which are on track to convert 75 percent of credit cards and 40 percent of debit cards by the end of the fall, the Federal Reserve Bank of Chicago said in May. Most of that has come from Bank of America, Wells Fargo and other big banks, which have begun issuing new cards to customers as their old ones expire.

Smaller banks, however, will take longer to switch because the chip cards can cost up to 10 times as much to manufacture as a magnetic strip card, the Federal Reserve Bank of Chicago said.

The progress of local institutions has been mixed. San Diego County Credit Union finished switching all of its credit cards in August and expects to finish debit card conversion by the end of this month. Mission Federal Credit Union will only start issuing EMV cards this month.

Many San Diego-based banks are focused on business clients or aren't large enough to have their own internal credit card department, relying on a third party to issue and manage their cards. Seacoast Commerce Bank said its new cards will cost it about \$5 per card, compared with \$1 for the older cards. But CEO Richard Sanborn said the expense is worth it.

"We've seen a lot of breaches happen where the merchant could have stopped the breach," he said.

"This is a sunk cost that everybody needs to pay. It's unfortunate it's taken this amount of focus for everyone to jump on board."