THE STATE OF EMV:

Countdown to 2015

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Introduction

Last year, Harland Clarke surveyed financial institutions to determine their preparedness for the October 2015 EMV (Europay®, Mastercard®, Visa®) liability shift. We recently completed a 2014 follow-up to understand the progress made since that time. The 2014 survey covered a varied sample of financial institutions, ranging in asset size and annual card volumes.

Financial institutions have made great strides to expand their understanding of EMV, consult knowledgeable industry sources and lay the groundwork for implementation. Ninety percent have begun researching the technology, versus 74% last year.

Respondents are feeling more confident about their knowledge of EMV than at the same time last year. Seventy-five percent of respondents rate themselves as "somewhat knowledgeable" or "very knowledgeable," significantly higher than last year's 53%.

With less than 18 months until next year's liability shift, 58% of financial institutions have not yet committed to a particular program — EMV only, versus dual interface. Costs of issuing EMV cards and upgrading existing terminals are principal concerns, with almost half saying the high cost of implementation for issuers and merchants is a chief consideration. Issuers wonder whether many merchants can afford new retail terminals. In addition to costs, they feel pressure to make the "right" decision about the new cards they will issue.

2013's widely reported security breach at retail giant Target® did much to further the cause of EMV. Media reports of the breach mentioned EMV prominently enough to heighten consumer awareness of the technology. One-third of issuers said the breach, media attention and consumer concerns made EMV more of a priority for them.

Key Findings

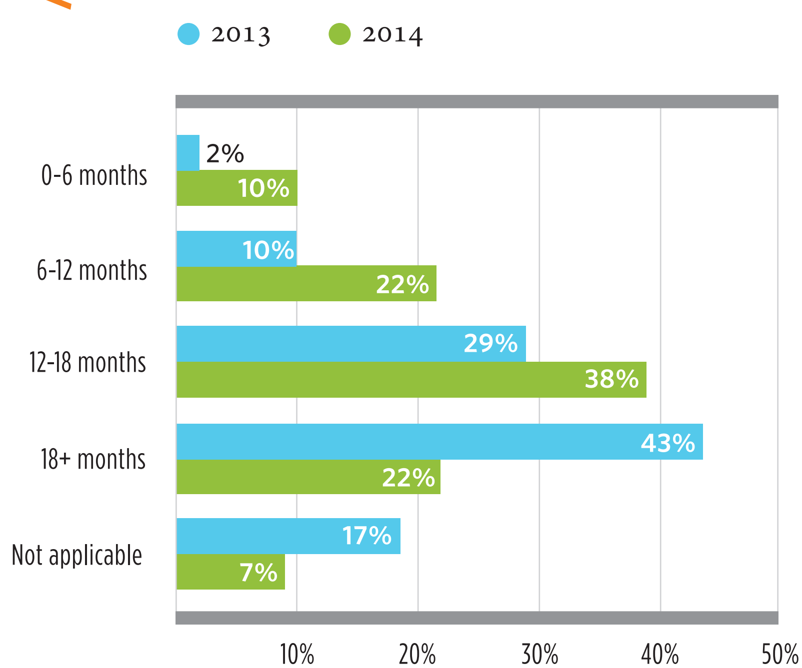
Shortened Time Frames Until Implementation

A significant majority of respondents, 70%, say they will implement EMV within 18 months. Still, 22% report that they will implement EMV in more than 18 months.

The 18-month time frame roughly corresponds to the October 2015 liability shift from card networks to issuers. In instances of fraud, liability will shift to issuers that have not implemented EMV technology.

Across the board, time frames for EMV implementation have shortened. While shorter, the time frames are still in line with last year's responses, suggesting that financial institutions remain committed to their implementation goals.

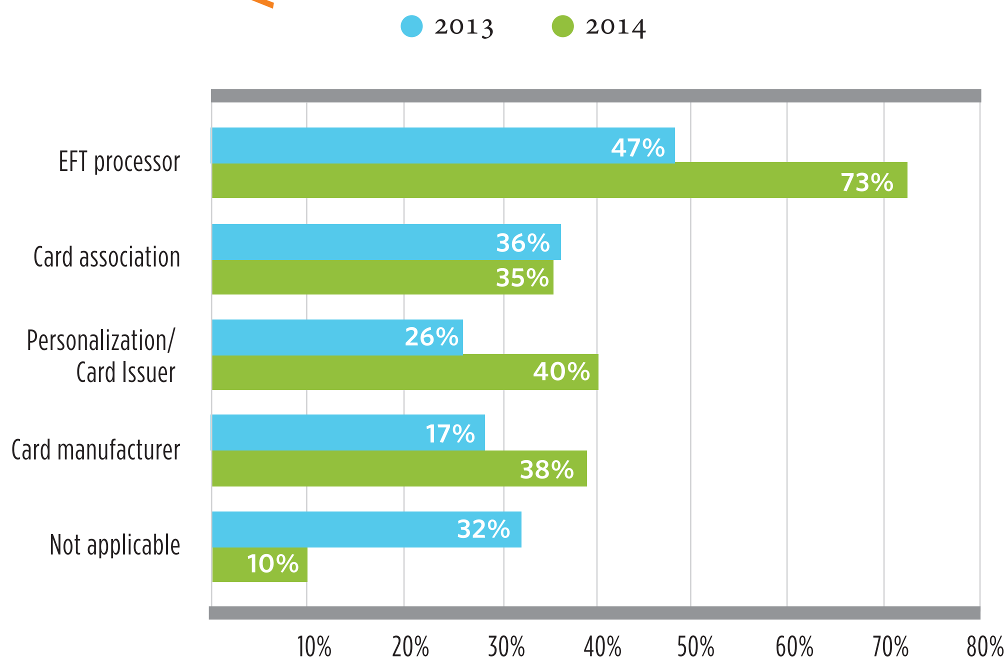
Q1: What is your time frame for implementation?



Financial Institutions are Engaging EFT Processors in Their Research

A striking change from last year's survey is the number of financial institutions that have consulted their EFT processors about EMV implementation. A year ago, 47% said they had engaged their EFT processors; this year's figure surged to 73%. "The results show respondents are more informed about whom they need to engage," said Greg Kuyava, senior product manager, Card Services, Harland Clarke. "Processors can provide details on which chip platforms to select, as well as the coordinated processes and programs for those platforms."

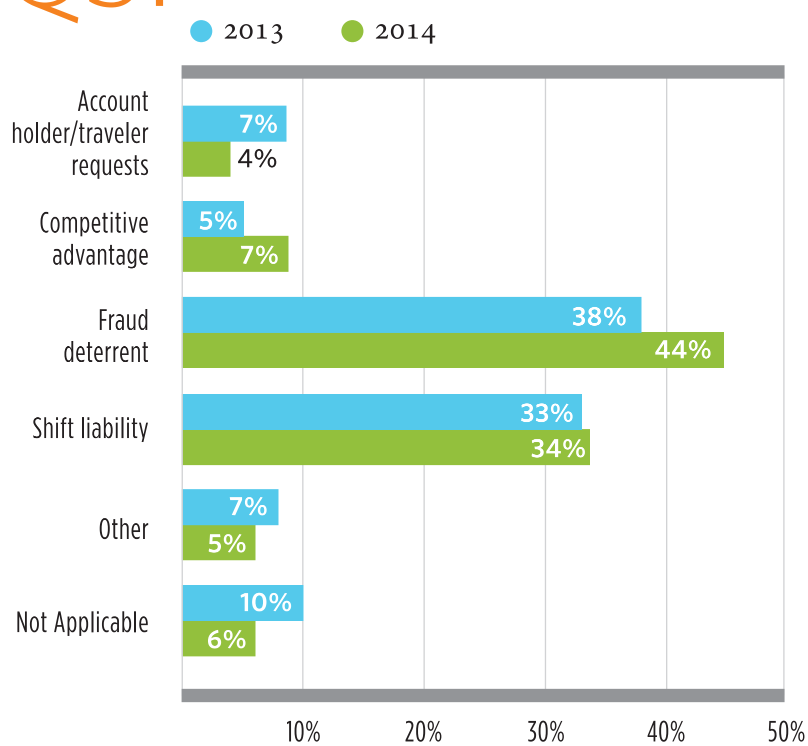
Q2: Who have you engaged in your process/research?



Fraud, Liability Shift Continue to Drive Implementation

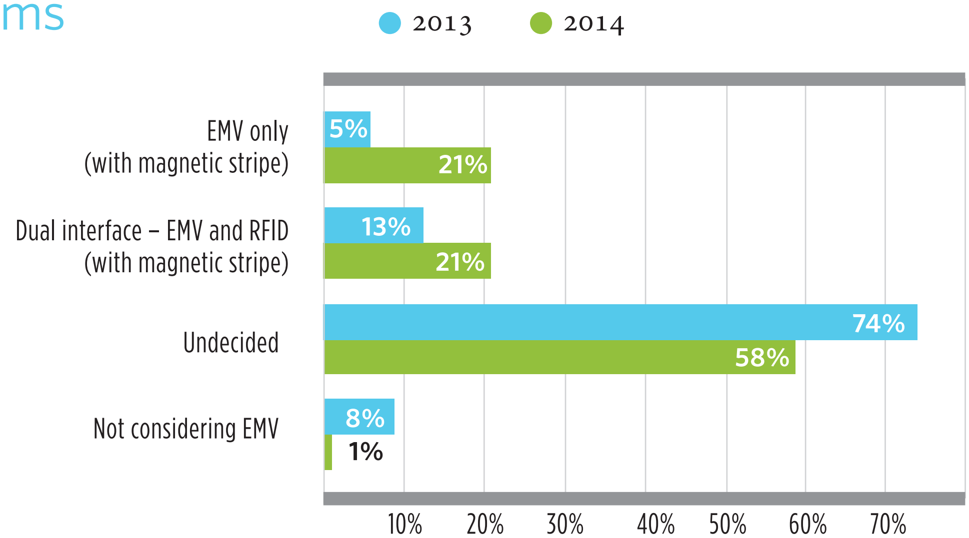
When asked about their motivations for migrating to EMV, most respondents cited fraud deterrence (44%) or the 2015 liability shift (34%). Like last year, these factors remain the top two reasons for moving toward EMV.

Q3: What is your main reason for migrating to EMV?



Financial Institutions Still Largely Undecided About EMV Programs

Q4: What type of EMV program are you considering?

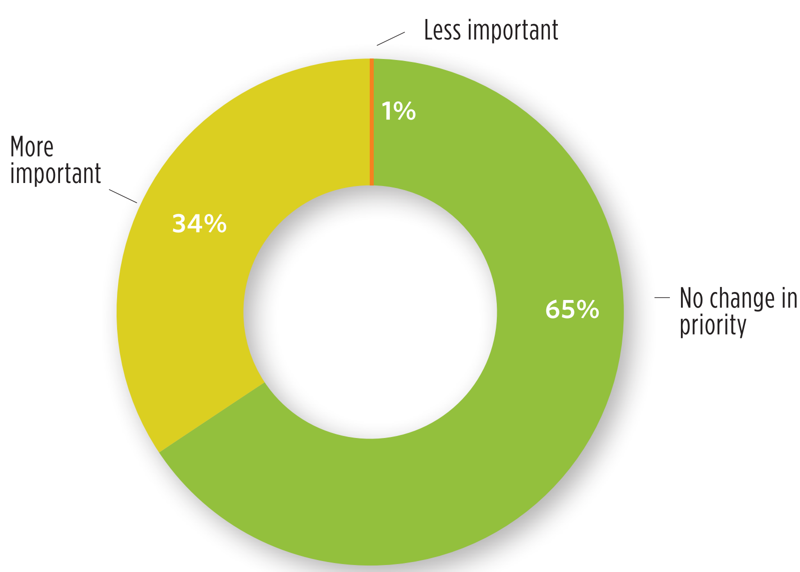


Despite the many preparations respondents have made — research and education, consultation with industry experts and commitment to an impending date — more than half (58%) of financial institutions have not yet decided on a specific EMV program. Among those that have decided, 21% said they will implement an EMV-only program; another 21% will implement a dual interface program with EMV and RFID (radio frequency identification).

"The high percentage of financial institutions that remain undecided seems inconsistent with the efforts made to prepare for implementation. On the other hand, they are aware of the need to reissue cards and the related expense. They are likely ensuring that they get the right strategy in place before moving forward. Financial institutions may also be reluctant to decide on a direction, hoping the industry moves towards more standardized EMV chip specifications and platforms," said Kuyava. He also pointed out that the 42% of financial institutions that have decided on the program to implement shows good progress.

Despite Security Breaches EMV Priorities Remain Steady

Q5: Has the Target Breach changed your financial institution's priority of EMV?



In this year's survey, we asked financial institutions whether the past year's highly publicized security breach of Target stores' customer information affected their prioritization of EMV. About two-thirds (65%) reported that it had not impacted their EMV priorities; 34% said EMV has become a more important priority because of the breach. A few (1%) said it is less important.

Cost Dominates Issuer Concerns

The cost associated with issuing new cards remains the biggest EMV-related concern for a majority of financial institutions. The expense to issuers is substantial and respondents feel pressure to "get it right."

Financial Institutions also worry about whether the adoption of EMV cards will really reduce fraud or will simply push it to a different channel. Respondents commented that cards used over the internet will still be vulnerable. Merchant acceptance/readiness and the need for consumer education are also top concerns for issuers.

While financial institutions are better informed regarding EMV requirements, they are still not fully prepared to implement. Questions concerning cost, return on investment and which program is best for their needs must be resolved before moving forward. Clearly, there is still much work to be done within a rapidly shrinking time frame.

Harland Clarke surveyed 750 financial institutions in May 2014 for this report.

For more information on how Harland Clarke can assist with your card services needs, including expertise on making a smooth transition to EMV, please contact us at **1.800.277.7637** or visit **harlandclarke.com/cards**