

# THE STATE OF EMV

Financial institutions grapple with costs and look for guidance

# Introduction

**Europay<sup>®</sup>, MasterCard<sup>®</sup> and Visa<sup>®</sup> (EMV)**, a new global payment standard that uses computer-chip technology on credit and debit cards to authenticate transactions, has become a top consideration for financial institutions because its chip is more secure than a magnetic stripe. But the question for financial institutions is not so much whether EMV will become a popular payment technology, but rather, when to adopt the standard and how to go about it.

EMV is already a mainstream payment technology in Europe, Asia, and Canada, with the United States remaining the last market in the industrialized world to adopt the standard. But despite being more secure, implementation of EMV has some practical hurdles to overcome.

The biggest obstacle to rollout in the United States is cost, for both merchants and issuers. The card networks have developed incentives for U.S. merchants and issuers to be EMV-ready by October 2015, or they will face liability for losses in the event of fraud. As a result, merchants must upgrade existing terminals or buy new ones. Financial institutions also face a tall task: reissuing upwards of an estimated 1.1 billion debit, prepaid and credit cards.<sup>i</sup> With costs for producing one card running in the \$5 to \$7 range, many issuers are taking a wait-and-see approach, while at the same time investigating the best options for vendor selection and card features.

## Industry Readiness: Harland Clarke Research Reveals Key Trends

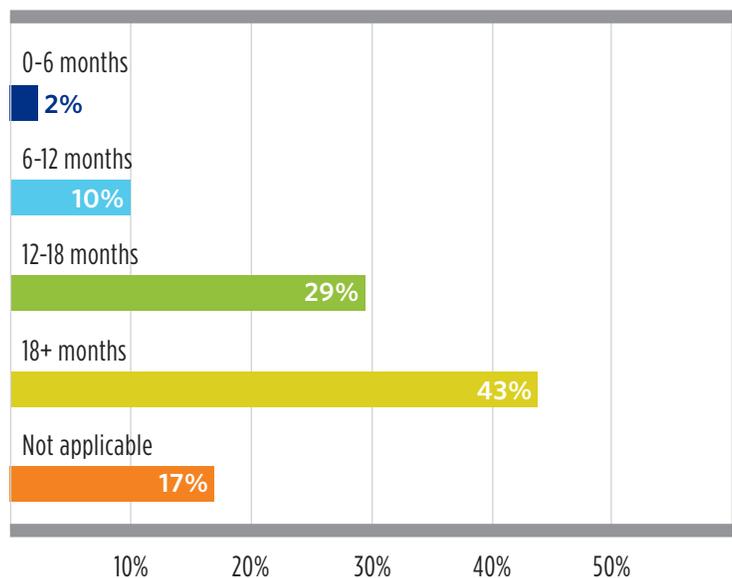
Harland Clarke recently surveyed more than 750 financial institutions in order to understand their EMV readiness. The survey covered a varied sample of financial institutions, ranging in asset size and annual card volumes. Highlights from the survey reveal that 74% of respondents have started researching EMV, while only a quarter of them haven't embarked on learning what they'll need to know.

# Key Findings

## ➤ Financial Institutions Look to the 2015 Deadlines

As the 2015 deadlines loom, a majority of users indicate they have more than an 18-month timeframe for implementation. Only 2% of the group cite the next six months as a window for implementation. The early adopters may be at an advantage. As more financial institutions wait to implement EMV, the time required to set up their program could also be extended as thousands of financial institutions queue up for programming and manufacturing.

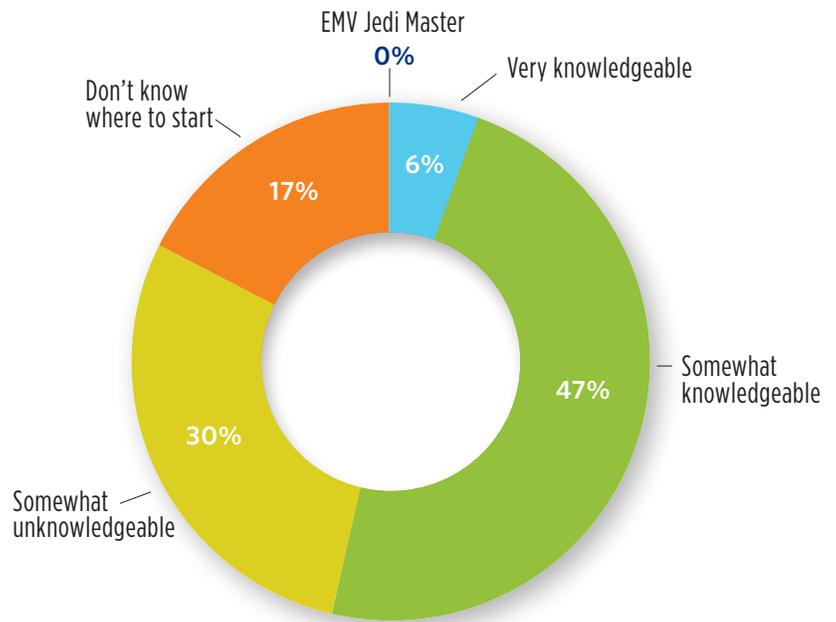
Q1: What is your time frame for implementation?



## EMV Self-Education Lagging

None of the respondents are comfortable enough to classify themselves as EMV “experts,” and only 6% characterize themselves as “very knowledgeable.” About half of the group — 47% — consider themselves “somewhat knowledgeable.” So, even though 74% of financial institutions have started their EMV research, they still have a lot more information to gather. Much of this is due to the variables of chips for EMV cards; establishing their specific card needs and matching them with the correct chip takes time and understanding.

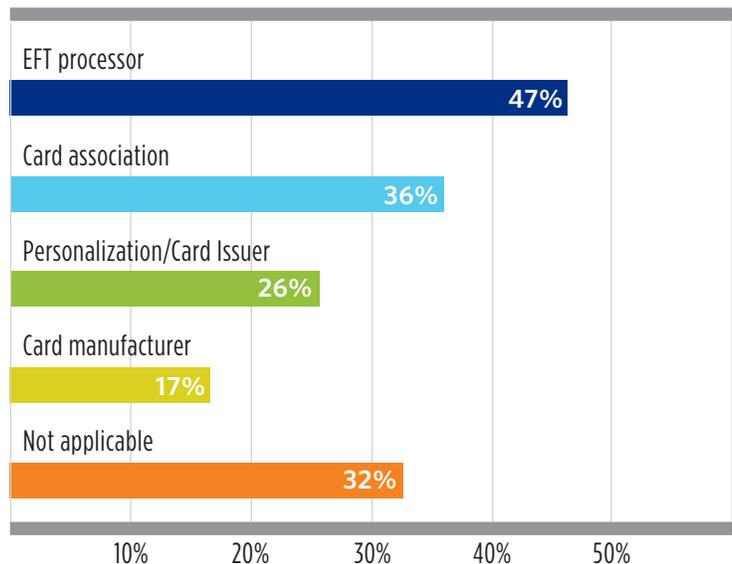
**Q2:** How knowledgeable are you about implementing an EMV program?



## Financial Institutions Rely on Various Sources to Research EMV

Financial institutions are taking a more holistic approach to researching EMV. They are not limiting their findings to a single source, but instead engaging multiple resources, including EFT processors, card associations and card manufacturers.

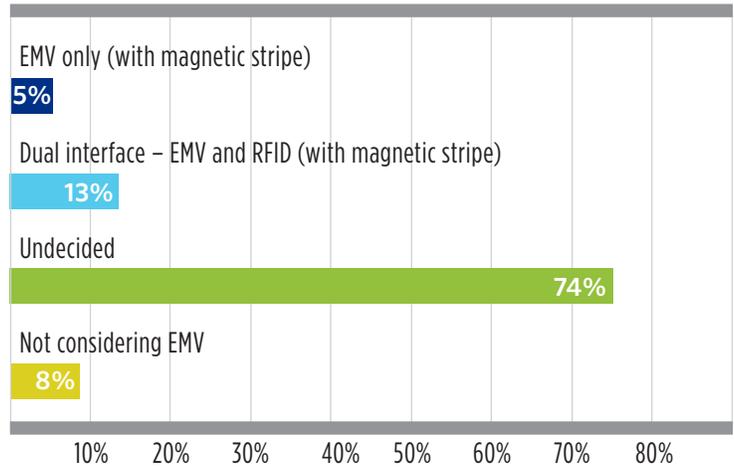
**Q3:** Who have you engaged in your process/research?



## > Issuers Remain Indecisive on What Program Type to Implement

Most financial institutions — 74% — remain undecided regarding what type of EMV program and chip to implement. Almost all EMV cards will continue to be produced with the magnetic stripe. The indecision comes down to the type of chip. About 13% of financial institutions will use a dual interface, chips that are capable of handling both EMV and RFID (radio-frequency identification). About 5% will go with EMV only, and another 8% are not considering EMV.

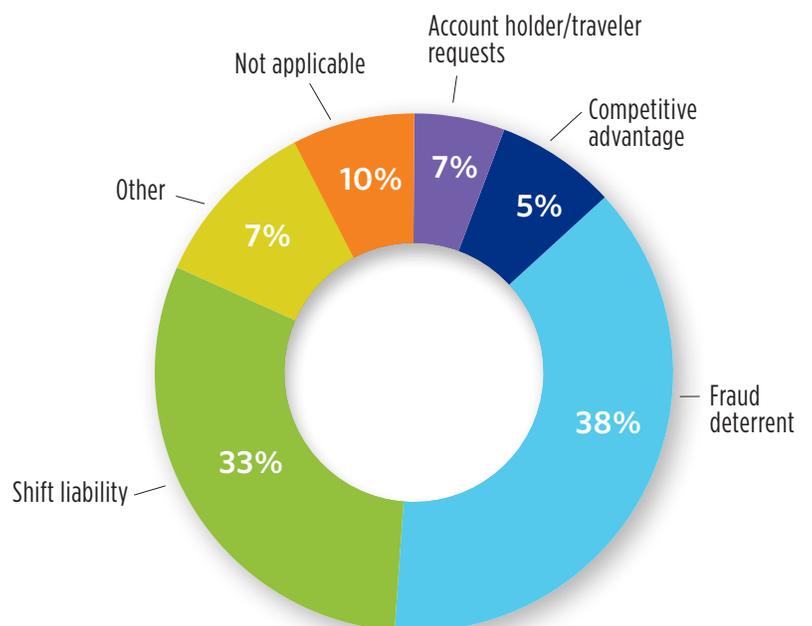
**Q4:** What type of EMV program are you considering?



## > Reducing Fraud a Main Motivation; Liability Shift Close Behind

About 38% say EMV's advantage as a fraud deterrent, more than any other motivation, is the reason for migration to the new format. The liability shift ranked second, cited by 33% of respondents as the main reason. Only 7% say it is due to account holder requests for overseas travel, while another 5% say it is due to competitive advantage.

**Q5:** What is your main reason for migrating to EMV?



## Cost Dominates Issuer Concerns

The expense of the new cards was by far the biggest challenge mentioned by issuers, with 72% percent of respondents citing it as the main concern. Other challenges include “not knowing enough about it,” and the merchant’s ability to migrate to the technology. Respondents also cite the difficulty of meeting the card association deadlines and the ability to offer dual-interface cards. Some financial institutions question whether EMV would really reduce fraud incidence, with one respondent suggesting that keeping a magnetic stripe undermines the extra security provided by a chip. There is also a worry about the ability of the card production company to provide dual-interface cards. Questions on acceptance also remain: some respondents are concerned about backwards compatibility with older terminals, while others question the ability to meet the card associations’ liability deadlines.

## Knowledge of EMV is Key

EMV will be widely adopted in the coming years in the United States. While most financial institutions have started the process of researching and understanding what needs to be done, there are still a number of unanswered questions and concerns. Cost is a major factor. Education on the nuances of how to develop an EMV program — from card format to rollout — remains a general challenge. Yet despite the hurdles, banks and credit unions need to consider adopting the technology sooner rather than later in order to maintain a competitive advantage as the market begins to make the switch en masse.

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*Harland Clarke surveyed 750 financial institutions in May 2013 for this report.*

*‘The Nilson 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](http://harlandclarke.com/cards)**