Over the last year, there has been an uptick in interest in EMV by US issuers, as they start planning and executing on their EMV migration plans. A number of US issuers have already launched EMV consumer card programs for segments of their card portfolios and the expectation is that this current market trend will continue. Key drivers for the change of pace include the upcoming liability shifts, overall fraud trends, and an increase in overall spending pattern of EMV cardholders.
Issuers are beginning to build viable business cases for EMV migration based on customer experience, risk and fraud improvements. At the same time, the EMV-ready vendor ecosystem has evolved considerably on a global basis, improving the costs and reliability of implementation. High-profile data breaches have further created a renewed interest in POS technologies that reduce fraud liability. However, questions still remain about the timeline of merchant adoption, impact on ATM infrastructure, and the regulatory implications of the Durbin Amendment. As a result, issuers must take a cautious, multi-pronged approach to EMV.

**Fraud patterns and migration**

Excluding the US, worldwide EMV adoption has been rising and currently stands at roughly 45% for EMV cards and 76% for EMV terminals (see figure one). The efficacy of EMV fraud prevention is a topic of some debate, but there appears to be a clear pattern of fraud migration from EMV card transactions to traditional card transactions. Cross-border fraud is also increasing as fraudsters counterfeit cards in chip-and-PIN markets and then use the cards in markets still relying on magnetic stripe technology.³ This makes the US the main country that fraud is migrating to, as can be seen by the 70% increase in bankcard fraud rates since 2004 (see figure two).

Unfortunately, implementing EMV alone might not reduce fraud rates. Countries that have already implemented EMV have found that fraud migrates to card-not-present (CNP) transactions.⁴ Evidence of fraud reduction in countries such as the UK might not apply to the US, since the UK has a system of fraud data collection and monitoring that is lacking in the US.⁴ This needs to be a consideration for US open-loop card issuers, while taking into account the impact of Durbin Amendment interchange rules, as they review their business cases for EMV migration.
Since 2004, bankcard fraud rates have increased by 70% in the United States.


First came the mandates, now come the liability shifts

Back in April 2013, the major US card brands (Visa, MasterCard, American Express and Discover) mandated that point-of-sale (POS) acquirers be prepared to process EMV transactions. The next prominent liability shift milestones are on October 2015 for merchants (excluding fuel dispensers) and October 2017 for fuel dispensers. The card brands have of course announced other milestones along the EMV deployment road map in the US, but basically the issuers are moving the liability to the weakest link along the card-processing chain (see figure three).

As a typical two-sided market where the innovation has taken place in the use of bank cards, the platform will choose the easier side to adopt the innovation, then promote the innovation gradually on the resisting side. Given the existing fraud trends discussed earlier, the upcoming liability shift, and the card payment industry being a typical two-sided market, there is going to be a significant concentration of liability on whichever part of the card payment value chain is not preparing for EMV.

<table>
<thead>
<tr>
<th>Figure three: EMV liability shift for domestic and cross-border counterfeit and fraud card-present POS transactions</th>
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<td><strong>Acquirer</strong></td>
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<td><strong>EMV-capable</strong></td>
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Issuer
A potential increase in card spend?

Results from early issuers of EMV cards in the US indicate that cardholders generally spend more after switching to EMV.\(^6\)\(^7\) This is widely credited to the millions of US cardholders\(^8\) who travel abroad each year and were previously less able to use their cards because the cards were mag stripe.

The overall increase in spend could also be attributed to EMV being more stable than mag stripe, resulting in fewer transaction declines as well as a better customer experience. Regardless of the underlying drivers, EMV card transactions appear to be increasing overall volume and spend.

Maturing EMV-ready vendor and support ecosystem

Over the last 10 years, there have been many discussions about how best to implement EMV in the US. These discussions brought minimal changes to the US card payment environment, mainly due to the economics of EMV migration for all stakeholders. This obstacle is now being addressed by the maturing EMV vendor landscape brought about by the demand from the worldwide adoption of EMV. For issuers, the mass production and competition in the chip card space has substantially reduced the cost of these cards. This is similar for merchants in the POS device space.

Moreover, issuers that already operate in EMV geographies abroad know that many of the capabilities required to deploy EMV in the US are already available in-house. Further, reliable business cases can be developed and analyzed by using data generated from existing transactions. This readily translates into a faster deployment to market as well as lower per-transaction fixed costs for EMV transactions as overall transactions increase in volume. For those that do not operate in an EMV territory, there are now case studies that issuers, acquirers and merchants alike can use for modeling their own EMV migrations.

The Durbin Amendment debit transaction routing uncertainty

An additional level of uncertainty and complication was introduced on 31 July 2013, when US District Judge Richard Leon overturned a Federal Reserve rule implementing the Durbin Amendment’s rules regarding the routing of debit transactions.\(^9\) The court found that the current implementation of the provision requiring merchants to have at least two routing choices between unaffiliated PIN and signature networks should be at the transaction level and not at the card level. In the current implementation, there could be instances where routing is performed on only one network due to limitations of the POS device.

It is still too early to know what the implications of this ruling will be on issuers’ EMV migration plans. It should not put a halt to EMV migration planning, but it might change the prioritization and timing of certain activities in the overall road map.
How EY can help

- EMV migration planning
- Card migration strategy
- Customer education
- Customer prioritization
- Risk management system impact assessment
- Customer support and operational systems impact assessment
- Vendor selection
- Competitive benchmarking
- EMV rollout
- Testing support

Timing is everything

So where do we stand today? The timing and approach of implementation will vary according to each issuer’s current environment and the diversity of its customer base, among other variables. Move too early, and face having to act while there are still open questions on debit EMV implementation. Wait too long, and one is faced with rushing through an implementation just in time for the liability shift, as others are doing the same and competing for limited resources. But the time for careful planning is now. With fraud migrating to countries still reliant on mag-stripe technology, a ready vendor environment, an upcoming shift in liability and a potential for increased card usage, issuers should start taking stock of their readiness for EMV migration.
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