

Chip-And-Pin Cards Coming: But Mag Stripe Still Standard In United States

By Mary Ann McNulty
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Like Mexico last year and Europe for many years, Canada this year embraced the chip-and-pin credit card security standard. That means U.S.-based corporate travelers increasingly may find that magnetic stripe credit cards aren't accepted in automated pay machines in such places as train stations, taxis and gas stations. American Express, MasterCard and Visa require merchants to accept any card--whether mag stripe, chip-and-pin or chip-and-signature. But at locations where kiosks are designed to speed such transactions, travelers complain that it slows them down to find an employee to swipe their card.

Eric Hart, BMO Financial Group's director of commercial products, implementation and service, told *Procurement.travel* that the company will "be one of the first in the U.S. market to issue chip cards." BMO plans to issue chip-and-pin for its Diners Club portfolio starting this fall and chip cards to BMO small and mid-size accounts in the next two quarters, then "begin issuing in earnest the balance of our large corporations, mostly through fiscal 2012."

"All of our Canadian corporate customers will be issued chip and pin and the U.S. customers will be done on an exception basis" if the customer requests it, Hart said. "For the majority of domestic transactions, the chip and pin won't be of any value" to U.S. cardholders.

Pin Authorizes Transaction

BMO customers won't see any increased card, transaction or other costs due to chips, Hart said. But corporations and BMO will have to educate travelers about use of the pin, which must be entered to complete each transaction.

Developed in 1999, chip-and-pin security launched in Europe in 2005 and is used in more than 130 countries to reduce fraud. Data is encrypted on the chip and read by a point-of-service terminal. To authenticate a transaction, the cardholder enters a four-digit pin into the terminal instead of signing a receipt. Magnetic stripes still appear on the back of such cards to allow cardholders to use them anywhere. However, the European Payments Council in December recommended that card schemes be allowed to refuse magnetic stripe transactions and issue chip-only cards in Europe.

"The European market showed that fraud could be, not eradicated, but effectively shut out of a number of dimensions, and the savings were significant," Hart said. "The larger scare though is that if you are the one who chooses not to do chip, all the fraud migrates to you. Beyond normal market growth rates of fraud, the risk always is that if you are the last one in, you will end up carrying all the fraudsters. That is happening in Canada now. We watched that with our Diners portfolio in Canada which is not yet on chip. Fraud levels of the portfolio are higher than our proprietary base."

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MasterCard executives said they expect other issuers to soon announce their chip-and-pin plans to ease global acceptance. Wells Fargo and Chase in April also announced plans to pilot chip-and-signature cards for consumers. Wells Fargo announced it would pilot with 15,000 cardholders who travel internationally a Visa Smart Card that combines a chip and magnetic stripe. Chase said it would debut chip-and-signature cards in June with some of its highest-spending cardholders.

But chip-and-signature, Hart argued, "doesn't solve the unattended transactions in Canada or in Europe. Merchants can make a choice to continue to accept mag stripe on an unattended device or say that they're doing 100 percent chip. In Europe, they've already made that choice" and converted kiosks to chip-only, so travelers will find that magnetic stripe cards don't work in unattended machines. "As markets mature and chip markets become more chip, the reality is that travelers coming from a non-chip market will get shut out" of automated transactions, Hart said.

Issuers in the United States, he added, have been slow to issue chip-embedded cards because "it's expensive," initially four to five times the cost of a mag stripe card. The bigger problem is that issuers haven't found many chip partners to encode and personalize the chips to card network standards. "Our chip partner isn't fully there yet in the United States," Hart acknowledged.

Fraud Fear Spurs Action

To incentivize movement toward chip-and-pin, the MasterCard and Visa networks are promoting merchant conversion using "liability shift" rules," Hart explained. "MasterCard effectively disincentivizes merchants who don't have chip terminals. Liability for fraud that occurs on a chip card being used at a magnetic swipe terminal actually shifts to the merchant. Normally in the credit card market, all fraud accrues back to the issuer unless we can prove that the merchant took the wrong signature or have other legitimate charge-back issues. Merchants are motivated to get the new terminals because they see the coming expense. In Canada, our liability shift just took effect in March and about six months ago there was a fairly significant run on chip terminals."