



EMV In 2016: The Payment Providers' Perspective

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A few months removed from the EMV liability shift, payment experts weigh in on where we go from here.



By most analyst estimates, fewer than a third of U.S. retailers were ready for EMV by the October 1, 2015 liability shift. While more merchants have managed to update their systems to accept chip cards during the busy fourth quarter, Russell Harty, SVP of key accounts and partner channel at Cayan, says there's a bottleneck in payments providers becoming EMV-certified and merchants upgrading. "I estimate that as we headed into the 2015 holiday shopping season, fewer than half of retailers were EMV-certified," he says.

How long will it take for the rest of the industry to catch up? Patty Walters, SVP of EMV issuing and acceptance strategy at Vantiv, Inc., underscores the point that the transition to EMV is a long migration cycle. "On day one of the liability shift, we saw many of the nation's top merchants in the retail, supermarket, and drug store verticals beginning their technology rollouts," she says. "In the middle markets, ISVs and suppliers to the same verticals are busy integrating their technologies in order to supply their merchants with solutions in 2016."

Small-to-midsize merchants in those same high-risk verticals are showing significant progress toward understanding the importance of EMV enablement. "These cycles will mature by the fall of next year so that we will find a significantly greater number of small, medium, and large national merchants in the high-risk categories EMV-enabled," says Walters.

Harty acknowledges that no one expected EMV to flip on like a switch. 2015, he says, was the year of educating merchants and cardholders about EMV and how it impacts their business and purchasing experiences. "For 2016, the merchants that are still not EMVready will need to take steps to upgrade their systems and security measures for customers." Harty adds that heading into the holiday season, about half of all cardholders still hadn't received their chip cards, a gap that will need to be addressed in the coming months. "2016 will be about seeing the EMV education and security efforts come to fruition," he says.

At Electronic Payments, CEO Michael Nardy says the news cycle has turned the page on the EMV sense of urgency. "Urgency has waned because the media has nothing to sensationalize after a story has ended; certainly, no one is looking back and saying, hey, remember that liability shift thing that happened a month and a half ago? The October 1st liability shift deadline was more of a starting line than a finish line," he says. "There are still numerous integrations and processor certifications taking place."

Chargebacks are on the rise, however — generally for stolen cards — and Nardy posits that they're the result of banks charging banks the last 20-30 transactions on a card — using EMV liability shift as a reason — when a card is reported lost or stolen. “Many of these sales were valid, but because of the shift, the merchants are now unable to win the chargeback,” he says. “Going forward, many of these numbers — the influx of phone calls about EMV, the number of terminals being deployed, and the increase in certain chargebacks — will all level off to a predictable and reliable number.” Nardy says retailers’ responses to the impact of EMV are dependent on how prepared they were going into 2015. “If you deployed terminals, how many were EMV-ready [i.e., contained the equipment necessary to run EMV, not necessarily the software], and how many POS systems used a semi-integrated solution with this EMV-ready equipment?” He says his company deployed more than 3,000 EMV-ready terminals in 2014 and another 7,000 through the end of November 2015. “This was a choice in lieu of saving \$25 to \$50 on a non-EMV terminal, and it resulted in significant long-term cost savings with a short-term spike in expenditure.”

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Patty Walters SVP, EMV issuing and acceptance strategy, Vantiv, Inc.

Is EMV An Innovation Enabler?

Vantiv’s Walters says the wholesale upgrade of technology and systems that EMV will require offers the U.S. market a golden opportunity to innovate, and that we’re already seeing evidence of that in the mobile and security spaces. She cites the lack of point-to-point encryption and tokenization before EMV, and the significant conversion effort in support of these new security options as a result of the upgrade. “Many merchants are taking the opportunity to add these tried-and-true security techniques during their EMV upgrade cycle, something that might not have happened had that upgrade cycle not been required.” As mobile goes, Walters cites the resurgence of NFC-based mobile options as a byproduct of the EMV liability shift. “These are actually riding the specification rails of the EMV message format, thereby offering a relatively painless upgrade cycle to merchants and their systems providers in support of mobile acceptance, all because of the EMV upgrade,” says Walters. “Post-EMV, the future will certainly bring more opportunity to utilize the new U.S. payments infrastructure to its fullest advantage, all with a backbone of strong cryptographic security techniques offering a solid platform from which to grow.”

Harty agrees, going so far as to say that mobile payments are hot not because of what Apple, Android, and Samsung are up to, but because of EMV. “Because EMV required so many merchants to upgrade hardware in the last year, opportunists saw this as a way to kill two birds with one stone,” he says. “In upgrading hardware and software, many payments companies enabled their new systems to accept EMV and NFC, the technology behind many popular mobile payment platforms. One lift resulted in two upgrades.”

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Russell Harty, SVP, key accounts & partner channel, Cayan

Meanwhile, Apple, Android, and Samsung all have mobile payments products on the market, just as peer-to-peer payments via Venmo and PayPal have become popular. “It’s quite likely that 2016 will be the year that mobile payment adoption becomes commonplace,” predicts Harty. “I think that we’ll see real adoption and winners emerge in the space when digital wallets focus less on the ‘cool factor’ of paying with

a phone and more on p2p payments and loyalty, plus offers that are both attractive opportunities for consumers and merchants.”

For his part, Nardy adds a word of caution on mobile payments. While he acknowledges that Apple and Samsung Pay, mobile wallets, and myriad other technologies using QR codes and other mechanisms to facilitate payments will continue, he says their adoption will be dependent upon the Card Associations and what interchange categories are allocated to such technologies. “If QR codes can be read to process a stored card at a rate corresponding to key-entered, versus Apple Pay at a swiped rate, the natural market forces will drive to the lower cost of card acceptance,” he says. “This has been seen before, with biometric payments and the lack of any preferred interchange rate for a thumbprint payment transaction. The hurdle of pricing, plus the cost of equipment to implement the technology, were too great to justify. That’s why it fizzled,” says Nardy.

Will Fraud Simply Migrate?

Payments fraud is an opportunist’s game. While EMV intends to close one door, will another one open? That’s highly likely, say our experts. “With the adoption of each new technology intended to increase security, fraudsters will find an alternate, more vulnerable channel to disrupt,” says Harty. “For example, with the implementation of EMV and its increased protection against card-present fraud, CNP [card-not-present] fraud becomes the preferred target. In fact, after the U.K. implemented EMV in 2005, card-not-present fraud spiked 79 percent by 2008.”



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Michael Nardy CEO, Electronic Payments

To prepare for that here in the states, Harty says retailers should attempt to anticipate these trends and adopt the highest security measures possible to take their POS out of the liability scope for fraud and thus protect the trust of their customers. “While you can’t always prevent fraud, ensuring that you have the most up-to-date security measures in place at the POS will make you a less attractive target for hackers,” he says.

Walters adds that EMV is an important tool for combating fraud for card-present transactions, but the very nature of payments is changing. “Merchants increasingly see payments not as discrete transactions, but as part of an ongoing customer relationship spanning the store, the Web, and the mobile device,” she says. “Traditional brick-and-mortar merchants are going online and expanding their order sources to include e-commerce and mobile commerce.” As the POS becomes a harder target to hit, says Walters, fraudsters are likely to shift their focus toward softer targets handling CNP transactions, like the merchant’s website and mobile platforms.

As the dust settles around EMV, Nardy takes a pragmatic view of its role in the greater context of payment acceptance. “Payments is still very much dominated by a field of fewer than 50 companies, and the technologies to emerge in the years to come will likely come from any number of these businesses.

Disruption happens, but it doesn't recur," he says. He points to the advent of Square, which was certainly a disruptor to the small merchant acquiring space in 2009, and the 2010 introduction of Stripe in the e-commerce space, as examples. "Remember, the last disruptor, PayPal, preceded Stripe by about a 12-year period," says Nardy. "These disruptions don't repeat yearly. There is typically a disruption, followed by adoption, followed by a use case, and a new disruption if the companies do not evolve on their own." But the merchant backbone, he says — the POS — is still the retailer's greatest opportunity. "Moving forward, the most successful companies will emerge with omncommerce-based POS systems that support physical in-store systems, tablets, Web-based applications, logistics and shipping management, and analytics, all linked together in a seamless ecosystem," he says. And, with EMV and PCI in place, at least one element of that ecosystem should be secure.

