



EMV Chip Cards Expected for Upscale U.S. Cardholders

According to The Nilson Report¹, most top U.S. issuers will have EMV²-compliant chip cards available to select customers by the end of 2010. These cards will be used for purchases made outside the U.S., particularly in Europe where most point-of-sale (POS) terminals and automated teller machines (ATMs) are EMV-compliant. The cards may be marketed to upscale frequent international travelers, who spend six times more than the average cardholder and comprise nearly 4% of overall credit card spending³. The number of international travelers needing EMV-compliant cards will grow as Canada and Latin America continue their roll-out of EMV.

Increasingly, U.S. cardholders are inconvenienced when using their credit and debit cards while traveling, and are falling back on ATM cash withdrawals⁴. Travelers are finding they are unable to use magnetic stripe cards at unattended chip-based terminals for train tickets, parking, tolls or gasoline. Since seven of the top ten countries visited by Americans are converting to EMV chip and PIN cards⁵, the problem may get worse. Some smaller merchants are refusing magnetic stripe cards from fear of fraud or confusion on the part of the store clerk. The European Payments Council, the governing body responsible for achieving a single payments market throughout Europe, recently announced it is considering a ban on magnetic stripe cards within the next couple of years⁶.

In a bid to maintain "top of wallet" status with their best customers, U.S. issuers are expected to offer select customers an EMV compliant chip card as part of a newly redesigned upscale card product. U.S. issuers are following in the footsteps of the Royal Bank of Canada, which took a similar approach in 2003 with the Avion Platinum microchip card, issued to upscale international travelers. Chip cards will be more readily accepted internationally and increase convenience for travelers. The chip's secure authentication mechanism reassures the issuer that the card is genuine, so issuing banks can reduce authorization errors and authorize more international transactions that were previously considered too risky.

To implement an EMV program, issuers will need to:

- Educate their customers on using the cards
- Modify authorization processing to accommodate EMV-compliant authorization requests or use a stand-in service from a payment brand
- Determine if offline authorization will be allowed
- Decide how to handle emergency card replacement
- Decide if their programs will be implemented using PIN, signature or both for cardholder verification; both are accepted by the EMV specification. However, PIN verification would be needed to support offline transactions, which are more common in Europe.

Implementation could be simplified by offering EMV signature cards without offline authorization ("online only"). The business case for issuing EMV-enabled cards to the affluent customer segment should be fairly easy to justify, since it leverages the existing EMV-enabled POS infrastructure in Europe and Canada.

¹ "Chip Cards in the U.S.," The Nilson Report, #930, July, 2009

² Europay MasterCard Visa. Specifications developed by Europay, MasterCard and Visa that define a set of requirements to ensure interoperability between payment chip cards and terminals.

³ According to the Nilson Report, 5 million upscale cardholders generate 19% of all U.S. credit card spending among U.S. cardholders. Approximately one million of them travel enough to use a chip-and-PIN card in Western Europe.

⁴ "For Americans, Plastic Buys Less Abroad," New York Times, October 4, 2009, <http://www.nytimes.com/2009/10/04/travel/04pracchip.html?pagewanted=1& r=1>

⁵ Mexico, Canada, UK, Italy, France, Germany and Spain all converting to EMV. "U.S. credit cards becoming outdated, less usable abroad," www.creditcards.com, October, 2008

⁶ "U.S. magnetic stripe credit cards on brink of extinction?" www.creditcards.com, August, 2009

The Smart Card Alliance endorses these efforts as part of a new course for the U.S. market. Using chip card technology is the best way for the payments industry to ensure global interoperability and acceptance and to effectively reduce fraud in the long term. The Smart Card Alliance recommends that U.S. issuers consider issuing dual-interface contact/contactless EMV compliant chip cards, so that the dynamic cryptogram feature can also protect contactless transactions made in the U.S. For more information about the use of contactless for fraud protection, see "End-to-End Encryption and Chip Cards in the U.S. Payment Industry," a Smart Card Alliance position paper, at <http://www.smartcardalliance.org/pages/publications-end-to-end-encryption-and-chip-cards-in-the-us-payments-industry> and "Fraud in the U.S. Payments Industry: Fraud Mitigation and Prevention Measures in Use and Chip Card Technology Impact on Fraud," a Smart Card Alliance white paper at <http://www.smartcardalliance.org/pages/publications-fraud-in-the-us-payments-industry>.

About the Smart Card Alliance Contactless and Mobile Payments Council

The Contactless and Mobile Payments Council is one of several Smart Card Alliance technology and industry councils. The Council was formed to focus on facilitating the adoption of contactless and mobile payments in the U.S. through education programs for consumers, merchants and issuers. The group is bringing together financial payments industry leaders, merchants and suppliers. The Council's primary goal is to inform and educate the market about the value of contactless and mobile payment and work to address misconceptions about the capabilities and security of contactless technology. Council participation is open to any Smart Card Alliance member who wishes to contribute to the Council projects.

About the Smart Card Alliance

The Smart Card Alliance is a not-for-profit, multi-industry association working to stimulate the understanding, adoption, use and widespread application of smart card technology.

Through specific projects such as education programs, market research, advocacy, industry relations and open forums, the Alliance keeps its members connected to industry leaders and innovative thought. The Alliance is the single industry voice for smart cards, leading industry discussion on the impact and value of smart cards in the U.S. and Latin America. For more information please visit <http://www.smartcardalliance.org>.