Taking care of business in the U.S.

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Come this fall, the way business is done will change for merchants and their customers. Starting Oct. 1, the new standard for credit or debit card purchases will be to insert or tap, rather than swipe. And with this, U.S. merchants must have EMV chip-enabled POS systems at checkout or they risk becoming liable for fraudulent transactions. The only exception to this rule will be at self-serve fuel pumps. These merchants will have until October 2017 to be EMV-compliant and will follow existing fraud liability rules until then.

What are EMV cards and why does this matter?

Major hack attacks to retailers such as The Home Depot, Target and Staples have cost billions of dollars in losses and doubts with consumers about their credit card protection. The U.S. is the last G20 country to adopt chip-equipped cards even though magnetic-striped credit cards, which have been used in the U.S. since the 1970s, are a key driver of cyber vulnerability. According to a report from Trend Micro, the U.S. accounted for 30 percent of worldwide point-of-sale infections, the leader by a wide margin. This is a significant issue for retailers and consumers alike, because according to The Nilson Report, credit card losses due to fraud are expected to reach more than $10 billion in the U.S. this year.

So what are these cards? The most common type is EMV, which stands for EuroPay, MasterCard and Visa. They developed this chip-embedded card, featuring a microprocessor that is the global standard for fraud protection. The chip is a small, metallic square on the front of cards, and every time an EMV card is used for a purchase, the chip will create a unique transaction code that can't be used again.

Banks are expected to spend about $1.4 billion to issue these cards. According to estimates from the Smart Card Alliance, about 120 million Americans had already received an EMV credit card by February of this year and a total of almost 600 million will have one by the end of 2015. These cards offer better security by requiring a consumer to either use a PIN or a signature with each in-store purchase. Plus, there are added authentication measures for purchases done online and elsewhere. And the best part - the card doesn't ever leave the consumer, protecting them from lost or stolen credit cards.

Here's how it works:

- The embedded microprocessor connects with an EMV-enabled POS device/terminal.
- Securely stored information is briefly accessed from the chip.
- The consumer signs or enters a PIN to validate the purchase.
- The financial institution then confirms the consumer's information, completing the transaction.

Because of the added layers of security with chip-equipped cards, transactions will take five to eight seconds longer. As of now, the U.S. will first switch to chip-and-signature cards with chip-and-PIN cards to follow in a few years, according to numerous reports. Countries that already implemented chip-embedded cards saw dramatic reductions in fraud. For example, counterfeit credit card fraud in the U.K. dropped significantly from $151 million in 2004 to $67 million in 2013, according to Aite Group.

It's you, no, it's me now

So with the implementation of chip-equipped cards, what does this mean for the business owner? Well, potentially a lot. With these new cards comes the shift in liability for fraudulent transactions. If fraud does occur, the party who is the least EMV-compliant will be held responsible. For example, a merchant could be responsible if someone pays for a purchase using a counterfeit credit card and the store doesn't have a POS terminal that can read EMV credit cards. The cost of the fraud will fall back to the merchant. Banks will no longer be on the hook for fraud in this situation. And any business not EMV-ready by this October could face higher costs if a large data breach occurs.

Playing catch-up

According to various studies and surveys, small businesses are slow to make the switch to EMV-compliant POS systems for numerous reasons. They said they lacked financial resources to invest in fraud prevention, access to experts who could help them make the switch, or didn't have time to do research. For example, in a survey by Intuit, the average annual spend for small businesses to run their POS systems, including upgrades, rent, maintenance and others fees, was about $189, NerdWallet reported. And for businesses with fewer than six employees, it cost less than $100 a year. Intuit questioned 504 owners or managers of businesses that had 1 to 100 employees and used mobile readers and/or physical POS terminals.

While 64 percent of small businesses knew about EMV cards, only 42 percent planned on making their terminals EMV-compliant by the October deadline, according to the Intuit survey. Other results included:

- 85 percent said they weren't aware of the financial and legal liabilities they'll be responsible for starting in October.
- 86 percent said they might not be able to handle these liabilities from fraudulent transactions.
- 37 percent of respondents hadn't heard of EMV-chip credit cards, and the number jumped to 54 percent with businesses with fewer than six employees.
- About half said they're looking to issuers and financial institutions for more information.

As a result, there's been a huge push to help support small businesses become EMV-compliant in the coming months. For example, American Express, MasterCard and Visa all have EMV migration relief incentives.

And there are also educational resources available to help small merchants. Square launched a newsletter and has a site dedicated to businesses to make the switch and inform about its EMV-compliant readers. The Smart Card Alliance, a nonprofit smart card advocacy association, has FAQs, tutorials, white papers and other resources, to educate small merchants about EMV. Banks, credit card companies and other associations also have educational information available.

Change is known to make people anxious, concerned or stressed. And while this is a major undertaking for merchants, especially small ones, to become EMV-compliant, the cost of not doing it may prove too much in business and reputation.

Do you need support with your EMV conversion program?

With Sysnet's Merchant Contact Services we can reach out to your merchants and help them become EMV compliant. We offer a wide range of services from outbound merchant contact to encourage terminal upgrades to inbound contact support services for EMV related questions and ISO outreach campaign support to ensure your ISO-channel merchants become EMV compliant. For further information or to request a call back visit **Merchant Contact Services**, email sales@sysnetgs.com or call **770 804 6429**.