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Chip and Pin – The Case for Implementation

With a high profile marketing campaign "safety in numbers" the card issuers and merchants are now pushing harder than ever for the uptake by merchants of chip and pin technology. The need for chip and pin originates from cardholder present fraud through lost and stolen cards and card skimming (duplicating an existing card). It is anticipated that chip and pin will reduce this type of fraud by 80%. Merchants from January 2005 who have not introduced chip and pin will have to meet the bill for card fraud from their outlets.

Many retailers are already well underway with selection and implementation of chip and pin solutions while many are currently adopting a 'wait-and-see' approach. Although the direct loss through fraud and the card fraud liability shift is the main focus for moving to chip and pin, other factors should also be taken into account.

The cost and timescale for implementation of chip and pin is cited as one reason for not moving to chip and pin. With our generically approved chip and pin devices that require no further bank chip and pin testing whether implemented as standalone solutions or integrated into POS software this is no longer the case.

5 factors that are relevant to the introduction of chip and pin are outlined below with further details on the following page.

Chip and Pin – Critical Factors

1. Direct loss through fraud
2. Increase in fraud loss due to migration
3. Loss of consumer confidence
4. Loss of reputation
5. Merchant service charges

Chip and Pin – Critical Factors

Direct Loss Through Fraud

The most obvious of reasons for implementing Chip & PIN is to prevent the direct financial losses that will be met by non-compliant retailers after the January 1st 2005 deadline. What is not currently known is the level of potential losses, as Acquirer figures on current losses may not paint the whole picture. What is known is that over 50% of current card fraud occurs in card present environments.

Increase in Fraud Loss Due To Migration

The great unknown is the level of cardholder present fraud migration from compliant retailers to non-compliant retailers after the liability shift. Industry opinion varies between increases of 100-500% and will obviously vary between merchant categories. History tells us, however, that card fraud will always migrate to the weakest link, the only question is "how much?" Furthermore the industry's robust marketing campaign towards Chip & PIN acceptance is generating the unwanted side effect of educating fraudsters about the vulnerability of non-compliant retailers, which is likely to increase their susceptibility.

Loss Of Consumer Confidence

The national marketing campaign towards Chip & PIN acceptance will result in cardholders becoming extremely cautious about using their cards at "magnetic stripe only" merchants. These consumers will regard Chip & PIN as the safety net for their card usage and their spending habits will change to suit.

Merchants that remain non-compliant will risk loss of footfall, loss of turnover and ultimately a reduction in bottom line profitability. Chip & PIN compliant competitors will make directly associated gains.

Loss Of Reputation

Consumers will always choose an environment which is both comfortable and safe. Consumer perception of a retailer is key to the retailer's success. By ensuring a safe card processing environment for consumers the retailer is protecting its reputation, showing a concern for its customers and enhancing consumer confidence. Loss of consumer confidence will damage the retailer's reputation which will have a direct impact on turnover. Non-compliance could also raise questions as to a merchant's capability and competence given the amount of time in which compliance could have been achieved. For tier 1 and many tier 2 merchants the damage potential is obvious and real.

Merchant Service Charges

"Carrot and Stick"! To encourage early Chip & PIN adoption, many retailers have been offered Merchant Service Charge (MSC) reductions by their Acquirers. As roll out continues to gather pace this "carrot" approach will diminish and the possibility exists that Acquirers will turn to a "stick" approach by increasing charges for non-compliant merchants.