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FOOD INDUSTRY ASSOCIATION EXECUTIVES

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# Day In Washington

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## EMV Migration and Payments Security

### Background

In late 2011 and early 2012, the major card brands (Visa, MasterCard, etc.) announced their road map to migrate the United States to chip card technology (EMV). Unfortunately, they did not give American merchants the same time and security considerations they gave others around the world. For example, the U.S. was required by Visa and MasterCard to implement the EMV transition in six fewer years than Canada, despite the U.S. having significantly more retailers and point-of-sale terminals that required updating. Visa and MasterCard set an arbitrary liability shift deadline of October 2015 for merchants and card issuers to be EMV-compliant. Merchants were not consulted nor considered when Visa and MasterCard set this deadline. Now, months after the liability shift, American grocers are still waiting on their vendors to be able to complete the migration to EMV, while facing extraordinary liability costs for fraudulent chip card transactions.

The card companies were not willing to extend the deadline as they had in other countries nor were the card companies willing to offer a “safe harbor” exception for any retailer who had taken all the steps they could to become EMV-compliant but were still awaiting their vendors to actually certify and enable them to accept chip cards. The card companies enticed card issuing banks to issue the chip card by removing their liability to fraudulent transactions. Conversely, merchants were threatened with higher liability costs if they did not migrate, without any reduction in fees or costs of accepting credit cards.

### Position

Grocers are seeking some form of relief from the liability shift and are seeking assistance in addressing the criminals that are targeting their stores. We are receiving unprecedented chargebacks on supposed fraudulent chip card transactions. These are often several large charges on one single card. It is not clear what has happened on the issuer and card network fraud monitoring side that is allowing these transactions to go through in the first place.

We are being hit with what appear to be erroneous EMV chargebacks but are often without recourse to challenge the chargeback. Instances like these have only significantly increased over the last few months.

Coordination with law enforcement is essential. Merchant groups are currently working with both state and federal law enforcement to identify opportunities to take down these crime rings and identify possible areas where federal laws need to be strengthened to help with this.

### Grocers Need a Seat at the Table

Grocers, like all merchants, do not have any ability to affect card rules and policies. EMVCo, the standard setting body for EMV is run by the card brands, without any merchant voting representation. Merchants are seeking equal representation on the EMVCo voting board so their concerns are considered and addressed during the policy making decision process.

### **Supermarket Industry Impact**

Since the arbitrary October 2015 deadline, non-EMV compliant grocers have been notified of further delays in their migration process and have been hit with extraordinary EMV card chargebacks. Non-EMV grocers are being targeted by sophisticated international and domestic crime rings. Non-EMV retailers have instituted several policies to try and reduce their exposure to these criminals; however, these crime rings are incredibly sophisticated and continue to find ways to carry out fraud in stores.

The card companies required chip and PIN technology everywhere else they implemented EMV. This solution certified that both the card and the presenter were valid. Unfortunately, the card brands decided to experiment with the untested "chip-only" cards and not require a PIN in the U.S. Grocers have been PIN-enabled for decades and strongly support PIN authentication, which is proven to reduce fraud by up to 700% according to the U.S. Federal Reserve, and grocers do not see fraud and chargebacks on PIN transactions. Only requiring chip was a missed opportunity to truly strengthen our broken and fraud prone payments system.

Grocers have taken all the necessary steps to become EMV-compliant. They rely on vendors to provide the solutions to actually get them to compliance. Unprecedented delays have left grocers in extraordinarily long queues waiting to migrate, all-the-while exposed to skyrocketing chargebacks.