The October 1 EMV Liability Shift: Everything You Need to Know

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The financial services, payment processing and retail sectors have been in a state of constant evolution for about a decade now, driven by the rapid transformation of relevant technologies and customer preferences. In many ways, the very technology that has been released and immediately revolutionized the transaction processing arena has presented a wealth of compliance and security challenges for all entities involved.

Unfortunately, the United States has not been all that successful in its endeavors to reduce the frequency and subsequent damages of financial information-related breaches and card-present fraud, as rates have gone up significantly over the past few years. However, strides are being made in the compliance and security arena, with card carriers leading the way in this regard through the implementation of EMV, encryption and tokenization.

EMV cards have been popular in Europe and other regions overseas for years, but the United States is just beginning to see the technology's spread. As a result of the incorporation of the security feature – which is believed to be more secure than the traditional swipe-and-sign method – a major liability shift will occur on October 1, 2015 that will affect retailers and point of sale providers.

As a note, EMV is not a mandate, but rather a simple shift in responsibility and liability when fraud occurs due to counterfeit payment cards, including debit and credit. Installers, vendors and dealers will need to know the basics of the liability switch, as well as what is to come from the shift.

The Basics

To illustrate the magnitude of this shift, consider a report from consulting firm Boston Retail Partners that forecasts the rate of retailers supporting EMV to increase by 650 percent by October 1. Interestingly, this appears to be part of a bigger push for more modernized security frameworks and POS capabilities, as the firm also found that end-to-end encryption is rising in popularity and tokenization will be far more widespread as well.

As for the October 1st EMV shift, the liability following fraudulent activity will transfer from card issuers to acquirers, and then one step further to retailers that have not yet started to accept the payment method. This means that retailers are not going to get outright fined should they not oblige this latest update to their processing systems, but they will be taking on additional per-transaction risk should fraud occur.

Retailers can retain the authority to make their own EMV decision, and might benefit from running a cost analysis that compares the price of upgrading systems against the potential financial risk should fraud take place. However, it's important to remember that the retailers will only be responsible for the amount of the fraudulent transaction.

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Put more simply, there will not be fines and other damages levied by courts or regulators that exceed the raw amount of money lost in one of these events, as would be the case with a site-wide data breach. Additionally, should the issuer be the one responsible for not meeting the new requirement and the retailer indeed has the necessary POS systems in place to process the EMV chip-enabled card, the liability falls back to the issuer.

This whole movement is meant to simply motivate retailers, payment processors, card issuers and others to begin leveraging more effective security technology.

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Predicting the impact

In addition to the much higher percentage of U.S. retailers leveraging EMV-processing technology, other predictions and forecasts have been released that might help POS providers and retailers with decision-making in the next few months. For one, Payments Leader pointed to a study from Javelin Strategy and Research that estimated nearly 15 million POS systems would need to be upgraded in the United States.

That would equate to a $6.75 billion price tag, illustrating one of the main reasons retailers might be a bit timid when approaching the liability shift. Several studies conducted throughout the past few years have indicated that a large portion of American retailers will either willingly balk on these deployments, or will simply run out of time before the liability shift occurs.

From a POS supplier and installer standpoint, though, there are plenty of reasons to push this technology to clientele, given the safer path that it presents. Additionally, EMV cards are a bit more complex than only working to improve security, as the functionality of the systems and cards themselves is more modernized than those of the past.

After all, utilizing a Point of Sale solution with support for chip-based payment processing infers that the payments interface was recently updated and re-certified with each payment processor. This implies in most cases that data security and general payments functionality was concurrently updated as well, ensuring that the merchant is securely handling transactions in accordance with the largely transformed retail landscape.

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Technical considerations

The amount of investment required to add EMV-capability to existing Point of Sale applications will vary depending upon the versions of POS that retailers are currently using. For example, in some situations, a simple software and application upgrade will be the sole requirement to handle the move to EMV, while in others, hardware will also need to be replaced.

Installation flexibility creates opportunities for POS providers to expand their reach to additional merchants in new verticals. The "one-size-fits-all" hardware approach drastically limits merchant opportunities going forward. POS providers should contact their payments partners to discuss their roadmap for EMV hardware support. Look for a roadmap that includes support for a collection of devices ranging from entry-level and cost-effective to higher-end customer-facing options to purpose-built mobile hardware. Also look for devices that solve multiple vertical scenarios; unattended, pay-at-the-table, etc.

EMV chips are only included in cards, but mobile payments, encryption, tokens, data acquisition/analysis are all still factors that should be considered for any payments update. An integrated, all-in-one interface will generally be the strongest option in terms of end user experience, reliability, reporting and support for on-going improvements.

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What to look for in a service provider

Because all providers of these technologies will not be the same, dealers and installers will want to look for those that can offer the most competitive functionality and pricing on the equipment and software. To ensure that the best options are being presented to retailers, dealers and Point of Sale developers should look to identify payments providers that can offer the following strategic differentiators:

Experience: As noted above, EMV has been rolled out in other nations over the past few years, meaning some competitors will already have gone through EMV development, certifications and product deployment for EMV. One that is certified in the United States and has relevant experience elsewhere will likely be a stronger option than those new to the technology or new to the US market.

Dealer-focused: Plenty of POS sellers will primarily focus on direct merchant sales, and not be all that entrenched in the unique demands of resellers. Choosing one that is indeed dealer-centric can help boost the financial and operational successes of these projects

Hardware selection: Dealers and installers will likely struggle to convert retail prospects to loyal customers when they can only offer one hardware option. After all, each retailer will have a unique set of requirements and objectives – leveraging a provider that can offer several options will inherently boost success.

Platform agility: Look for EMV support that translates throughout all processing partners rather than just one, as this will also increase the rate and volume of retailers who will be willing and able to pull the trigger on the investment.

The October 1st liability shift will be a major point of progress for the POS community, retail sector and financial data security arena. There is plenty of evidence to support the idea that avoiding EMV implementation altogether is generally a poor decision.

Retailers, payment processors, card issuers, and POS resellers should take the time to understand their own unique risk levels compared to the cost of implementing EMV-ready equipment today to avoid the strain of rushing later in the year. Furthermore, leveraging the support and technology of a reliable manufacturer, software and service provider can streamline the deployment process for those who do choose to embrace EMV.

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