A Prepaid EMV® Dilemma:

To Migrate or not to Migrate

cpi card group®

A Prepaid EMV Dilemma: To Migrate or not to Migrate

It's been a busy six months since new rules regarding credit card fraud liability went into effect in the U.S. Credit and debit card issuers are well under way converting magnetic-stripe (mag-stripe) cards to EMV cards, since, per the new rules, liability shifts to the portion of the payment process not supporting EMV transactions.

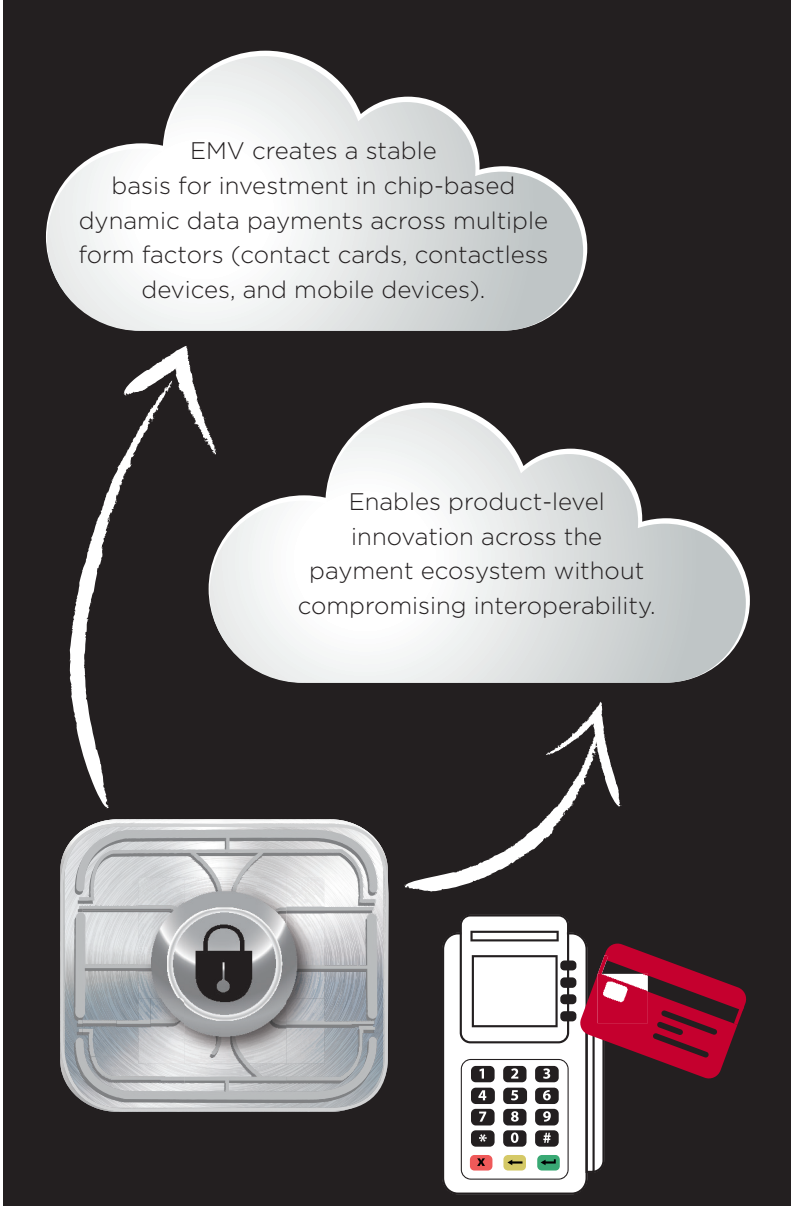
Certain key players in the payment process, however, are not far along the EMV migration path. According to a Bloomberg story including data from Mercator Advisory Group, "only about 20 percent" of merchants had turned on the EMV functionality within their new POS machines as of the end of 2015[1]. Per the article and other published accounts, the delays are caused by POS systems, processors and acquiring banks not all being certified to handle EMV transactions.

cpi card group®

Why Prepaid Has Avoided EMV Migration

For its part, the prepaid industry's migration to EMV has been limited. There are many reasons for the prepaid industry's reluctance, and chief among them is cost. Rules and regulations imposed on prepaid program managers have already squeezed profitability, and many are still trying to navigate through them to develop viable long-term programs.

As a second reason for reluctance, there has been a lack of compelling evidence indicating EMV-implementation would prevent various forms of fraud seen in prepaid. Third, during the beginning of the EMV transition, processors focused on credit and debit, with the prepaid market being secondary. The lack of attention in some cases meant the prepaid program managers had no other choice but to wait. At first glance, EMV appeared to be an unnecessary expense.



Only permanently issued GPR cards are expected to migrate to EMV.

What's Changing?

There are new dynamics for prepaid managers to factor in today. EMV transitions now cost significantly less than even six months ago. Emerging technology advancements enable attractive enhancements to EMV-enabled offerings. Plus, processors are now ready to focus on the prepaid market.

In addition to these positive developments for prepaid managers considering EMV, there are several ominous red flags that further encourage migration.

cpi card group®

> Red Flag No. 1: Prepaid fraud is on the rise

As credit card issuers bolster their security (for example, by distributing EMV-enabled cards), fraudsters are moving on to easier methods to swindle funds. Many in the prepaid industry assumed the next target following credit/debit EMV migration would involve card-not-present online transactions, mirroring the experience in other countries that deployed EMV years ago. However, the U.S. prepaid environment is much larger in size and volume than those other countries, presenting different dynamics for a shift in fraud. While card-not-present transaction fraud is rising as expected, early evidence suggests that prepaid cards sold in retail are seeing increased fraud as well.

> Red Flag No. 2: Mag-stripe cards are now the weakest link

One could easily surmise that fraudsters are latching on to the easiest ways to make a buck; profiting off of EMV-enabled credit cards just takes a lot more work. Prepaid cards without EMV chips are a far easier avenue for their handicraft, and the old-school mag-stripe prepaid cards stick out like a twenty-dollar bill dangling from a pocket.

Concerns about mag-stripe cards are further heightened by a reported increase in ATM skimming. An early April 2016 story in the New York Times noted a "sixfold increase" in ATM skimming in 2015, according to FICO Card Alert Service[2]. As more and more banks install EMV-enabled ATMs, it will be far easier for them to instantly cancel attempted transactions by counterfeit, non-EMV cards—which means criminals will be more selective in the cards they skim. Non-EMV prepaid cards are the obvious next target.

Fraudsters will avoid EMV-enabled prepaid cards; it's just too hard to profit off them.

Dual Interface and Tokenization are the next phase of EMV.

cpi card group®

> Red Flag No. 3: Consumers are accepting EMV technologies and will soon prefer them

Despite media reports on the various hiccups affecting the rollout of EMV-based credit cards, the transition to chip-based transactions is clearly well underway. According to CPI Card Group experts attending the Smart Card Alliance Payments Summit held in early April 2016, merchants noted a steady decrease in the average amount of time needed to complete an EMV-related transaction at checkout. An early complaint in the process centered on long lines at the POS terminals, but as consumers and merchants become more familiar with the concept, the delays are diminishing. Logically, such POS-terminal delays will be further reduced when EMV cards become near-ubiquitous, since consumers will instinctively insert their cards in the chip slots.

Consumers know chips make their cards more secure, and while they are experiencing a learning curve, it's logical to assume they might eventually avoid cards that don't contain the EMV chip. This eventuality is particularly probable within the growing millennial subset of prepaid card users, who instinctively understand data security concerns. Given the option of a non-EMV-enabled prepaid card or a chip-based debit card, it would not be a surprise if millennials opted for the more secure option, costing prepaid programs revenue.

> Red Flag No. 4: Data breaches and stolen card data – not going away

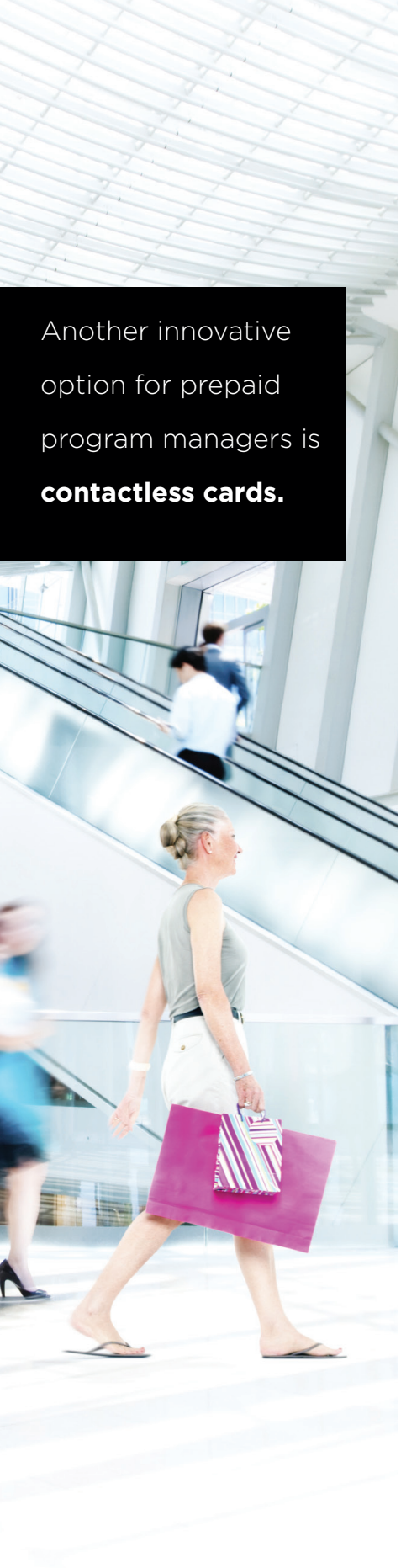
As noted above, hackers and their fraudster counterparts find the weakest link in any payments system and develop highly sophisticated attack methods to commit fraud. Most payment processing networks deploy a myriad of often overlapping technologies to guard against breaches. Security experts working at these networks investigate numerous software products and encryption techniques to best secure exchanged credit card information.

Within corporate IT networks and ecommerce infrastructures powering online and mobile transactions, organizations invest heavily on enterprise solutions that not only spot intruders, but aid in forensic investigations should breaches happen.

The hackers know this. They are relentless in their efforts to compromise transaction processes, and they will shift their focus, as appropriate, to the easiest methods for stealing credit card information and funds.

Best — practice security methods — not to mention logic — demand that prepaid issuers invest in EMV cards today to keep pace with the security defenses available throughout the rest of the payment processing chain.

cpi card group®



Another innovative option for prepaid program managers is **contactless cards.**

Is it Time for Prepaid to Hop on EMV?

Industry watchers agree that not all prepaid cards will ultimately be EMV-enabled. Gift cards, for example, are not expected to migrate given their very short life span and non-reloadable function. However, for permanently issued general purpose reloadable (GPR) cards, implementation of EMV makes sense.

In addition to providing enhanced security, EMV technology acts as a bridge allowing prepaid program managers to implement additional technologies that enable new opportunities. EMV implementation strengthens their product roadmaps for mobile, wearables and other new technologies on the horizon.

One emerging option, for example, involves EMV-based cards that enable tokenization. With tokenization, issuers can introduce a new level of security that is proving attractive within NFC mobile and wearable devices. Today, each card has a primary account number (PAN) normally printed on the front side. This data is extremely valuable, because fraudsters harvest PANs to produce counterfeit cards or to facilitate online transactions (card-not-present). With tokenization, a substitute PAN can be stored in the EMV chip and presented as the payment account at the point of sale. If card data were stolen from a tokenized transaction, or from a merchant's POS system, the card data cannot be used to make counterfeit cards, nor used online to make purchases. For managers needing an enhanced security solution for their programs, tokenization is an effective option.

Another innovative option for prepaid program managers is contactless cards. Offerings such as Apple Pay® and Samsung Pay® are driving U.S. and Canadian consumer interest in contactless transactions, and consumers enjoy the speed and convenience of tap-to-pay. Nearly all of the EMV-enabled POS terminals recently deployed by merchants can accept contactless transactions out-of-box. Issuing contactless dual-interface cards enables creative use cases for prepaid managers. In one example, such cards can serve as transit payment options. Public transportation agencies in several cities, such as Chicago, Philadelphia and Washington, have installed or are investigating systems that accept payment from open-loop contactless cards. Enabling transit payment could help drive usage and retention of a GPR card.

With cost reduction, additional security and new program opportunities, the EMV value proposition is more compelling and should encourage prepaid program managers to take a closer look at EMV today. Otherwise, they run the risk of falling behind and not being relevant in the near future.

cpi card group®

How CPI Card Group Meets the Needs of the Prepaid Market

CPI Card Group has developed a customer friendly solution for migrating to EMV chip cards, Chip Complete™ for Prepaid. Migrating to EMV takes time - between nine to twelve months for implementation. CPI is a long-term trusted partner guiding customers through the steps of the process. Chip Complete includes all of the elements needed to launch an EMV chip card program, including a step-by-step guide covering everything from product training to card issuance.

For more information on CPI Card Group's EMV and other services for prepaid programs, visit the prepaid portion of the CPI website at: http://www.cpicardgroup.com/our-solutions/prepaid/.

About CPI Card Group

CPI Card Group is a leading provider in payment card production and related services, offering a single source for credit, debit and prepaid debit cards including EMV chip, personalization, instant issuance, fulfillment and mobile payment services. With more than 20 years of experience in the payments market and as a trusted partner to financial institutions, CPI's solid reputation of product consistency, quality and outstanding customer service supports our position as a leader in the market. Serving our customers from ten locations throughout the United States, Canada and the United Kingdom, we have the largest network of high security facilities in North America, each of which is certified by one or more of the payment brands: Visa, MasterCard, American Express, Discover and Interac in Canada. Learn more at www.cpicardgroup.com.

cpi card group®

Sources

[1] Kharif, Olga. "Chip Cards Cause Headaches at Stores Across America," Bloomberg, April 13, 2016

[2] Carrns, Ann. "A.T.M. 'Skimming' Fraud Is Surging, but You Can Take Precautions;" New York Times, April 8, 2016

cpi card group®

www.cpicardgroup.com
U.S. 1-800-446-5036
Canada 905-761-8222
U.K. +44 (0)1206 845555

cpi card group®