

Harland Clarke Card Services Webcast 10/2/2013
The State of EMV - Q&A
TRANSCRIPT

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Greg: There are a number of questions that came in through chat. We will also open up the phone lines at this time to be able to queue up and get in line for your question and as we prepare for that, I'd like to invite Jamie to come back in and give instructions how people can ask questions on the telephone.

Jamie: Thank you sir. If you would like to ask a question live over the phone, please signal by pressing *1 on your telephone keypad. If you are using a speakerphone today, please pick up your handset or to press your mute function before pressing *1 to ensure that our equipment can hear your signal. Again, *1 for any questions and back to you, sir.

Greg: Thanks. There are a number of questions that came in through the chat line, so what I will do is I will start going through those questions, and any questions that we may or may not be able to get to or answer today, if time doesn't permit it, we can send out a full response to all the different types of questions. As people are starting to queue up via the phone line, let's handle some of the chat questions.

The first question comes is: "**Does the EMV card have a mag stripe to accommodate non-EMV merchants?**" And the short answer to that is yes with all the same data as it has today and can still be stolen/swiped. As we indicated earlier today, the EMV card that will be going out in the market will have the magnetic stripe with the information that is encoded on there. As far as the liability shift, there is going to be the information that would normally be on a magnetic stripe, so that's really what the liability shift comes into and why Visa and MasterCard and American Express and Discover are putting together this program in order to put incentives out there for merchants as well as financial institutions to implement an EMV program and incentivize them to have their cardholders do their transactions via the EMV whether it be PIN or PIN offline or those types of things.

Nicole, did you want to add anything to that?

Nicole: I think one of the pieces of the liability shift, just to be clear, so if you are an issuer and you have a card, you're issuing cards that are EMV compliant, and your cardholder goes to a merchant who does not process the transaction via an EMV terminal— in other words, they either decided if they had an EMV terminal but they didn't process it that way, or they have a standard mag stripe terminal— if the card presented is EMV and it is not run through like an EMV transaction, any fraud that's happening on that card, the merchant would then be liable. The converse is true; if you're an issuing bank or financial institution and your cardholders do not have an EMV card, and they go to a merchant who has upgraded all of their terminals to EMV and the merchant tries to run the card as an EMV transaction and is not able to and fraud happens on that card, then the issuer is now liable.

I'd like to add if the issuer has an EMV card and the merchant has an EMV terminal and it processes as such, and then for whatever reason there's still fraud on that card, then the association, Visa, MasterCard and American Express, etcetera, would take that on just as they do today. But what they're saying is they're no longer going to be doing that for magnetic stripe transactions.

Greg: Excellent and that actually goes to another question that we had in your response; it speaks directly to **'Does the liability shift on those dates if the card is an EMV but the merchant can't process it as an EMV?'** You're exactly right. If you have a card that is EMV but the merchant does not process that card as an EMV transaction, that's exactly what the liability shift is referring to and vice versa if you're not issuing an EMV but the merchant can handle that where the shift actually lies.

There was another question that came in that says **'We've been told we should hold off on starting to issue EMV ready plastic because the EMV standards are still being settled in the industry and we may end up having to reissue once things settle. True or false?'** Tough for us to say whether that is a true or false statement. What we can tell you is in our interactions with a number of EMV card manufacturers as well as EFT card personalization providers and their experience with the EMV processes are there are a number of platforms that are available, Java, Multos, maybe a native platform very specific, to maybe a card personalization or an EFT processor. There are certainly a number of different chip sizes based on the need of whether it's just contact-with, whether it's contact-and-signature or whether it's contact-and-RFID.

Where there may not be one set standard program that's sitting out there right now, whether it will ever be agreed upon as the set standard, is still yet to be seen. I think as long as you understand what your needs are, then your card association will help you do that. As long as you engage your EFT processor and your card issuer and you understand how all those will link together in the different programs, I think you're going to be okay issuing that card. What I think is most important is understanding what your fraud and what the liability shift means to your fraud and your risk to the urgency of what you want to do.

Jamie, do we have anyone queuing up on the phone?

Jamie: We have no one in queue at this time. Again, that is *1 if you'd like to signal.

Greg: Fantastic. Thank you for that. **We did have another question, and it was about a comment, Nicole, that you had talked about earlier and I think someone was looking for additional clarification on emerging market with mobile,** and if you just want to maybe provide a little bit more detail or clarify what you meant by emerging market with mobile.

Nicole: Sure. The contactless or RFID technology is what the mobile transactions are running on today, and so if you were going to set your infrastructure at your financial institution with being able to deal with contactless cards, you are positioning yourself fairly well to be able to issue to be able to offer mobile payments via the phone, or what have you, when those come down the pipe.

Greg: Excellent. We have another question here that says **'With the offline PIN transaction, will the FI be able to set a limit of the transaction?'** Again, I think this is a perfect example of different things

of your program, different parameters of your program that you really want to get with your card association, fill out the questionnaire, and be able to make those determinations yourself. I can't stress that enough; if I've said it once, I know I've said it at least 50 times on being able to set those types of things.

We have a question here that asks about the presentation itself, **'Will we be received the recorded session?'** Yes. What we will send out is both the presentation as well as the recording of this. If you had trouble getting in originally due to a connection or just getting on, you'll be able to receive the full presentation. There are a couple questions along that.

A question here that says **'Does Harland Clarke have an instant issue solution for EMV?'** Many of you on the phone may know that Harland Clarke does provide an instant issue solution; it's called Card@Once. It has been in the market for a little over three and a half years. It is truly unique software for service solutions that makes it not only affordable, but also easier on your resources than traditional instant issue solutions, and I am happy to announce that we are providing EMV ready printers for this solution. At this point, once your financial institution is up and ready to handle their EMVs and distribute EMV cards, our instant issue solution is also ready to handle that.

I would also just add to that that I think instant issue provides an interesting distribution channel for EMV because as you're going through your process and you're thinking about implementing the program, distribution obviously is going to be a part of that overall project plan, and as Nicole has indicated early and talked about our EMV survey results. Whether it is something that you're going to do a mass issue of, you're just going to replace all cards that are out in the market, or you wait till they're going to actually expire and so you're going to do it over the next two or three year period, but how do you handle your immediate needs and what's a very cost effective way to do that?

I think instant issue is a great way to handle that. If someone is going overseas within the next week or within the next couple of days and they realize that they're going to probably need an EMV because they were talking to someone that went overseas or internationally and they couldn't use their magnetic stripe, instant issue is a great distribution channel where you can send them to a branch that is providing instant issue cards and you can handle those immediate needs one-off versus having to overnight a card immediately and sending that out. We're proud to announce that we do have an EMV solution in our instant issue solution and if you'd like to know more about that, please contact your Harland Clarke account executive, and they'd be more than happy to send that out to you.

Jamie, I got a number of questions here. While I want to queue these up, I will just ask is there any one sitting in the queue on the telephone?

Jamie: Yes, we do have a couple callers.

Greg: Great. Let's get to those.

Jamie: We will go first to Vicki with Columbia Bank.

Vicki: Hi, I think I typed it in chat by mistake but I guess that's private. **I'm wondering with new technology and the payments, are they not going to surpass the chip cards? So many people are loading the codes onto your phones that you don't need chip cards for Starbucks or whatever and I would think with advancements that it'll bypass those cards.**

Greg: Nicole, would you like to provide your thoughts?

Nicole: I think one of the things again that you need to determine for your financial institution really comes around the liability shift. Is that going to make a big enough financial impact to your financial institution to go ahead and move to EMV because if you wait to bypass into the mobile payments, who knows when that really is going to come into play? It may be a couple years, it may be more than that, but you still have the situation of the liability shift, and you still have the issue of if you have card holders at your financial institution or travelling abroad or having issues using their cards which once a card holder has their card experience, its game over. You're going to have to weigh some of those items to really determine do we just wait and see if we can bypass everything and go to mobile or is it prudent to make a change now.

Vicki: Thank you. We're an issuer; we always take the liability.

Greg: Jamie, any others?

Jamie: Yes. We'll go next to Melissa with United.

Melissa: Hi, just two quick questions. **With the liability shift to the merchants for March 2013, is there something that the Visa and MasterCard and Discover that they're doing to help the merchants with the cost of that? Secondly, could you just help define the difference between the merchants acquires March 2013 and the point-of-sale liability shift in October '15?**

Nicole: Sure. April 2013, that's requiring it's acquire of processors to be able to support transaction that utilize chips, so that's the folks that are running the transactions behind the scenes. The merchants themselves, to have the liability shift, comes in for the merchant themselves the same as when the issuers happen and that's 2015. There are some incentives for merchants and I don't know if Visa or MasterCard are giving specific extra money to them, I have not heard that some of the incentives that they're doing for merchants is that they are allowing merchants that have I believe over 85% of their merchant terminals EMV compliant to not have to go through the annual PCI audits which can be quite expensive. Not that the merchants don't have to follow the PCI controls and requirements, but that they do not need to have, in some cases, an external audit or come in and do that audit which can be tens of thousands of dollars and maybe even hundreds of thousands depending on the size.

Melissa: Perfect. Thanks.

Greg: We'll continue on with the phone if there are any additional ones.

Jamie: No further phone questions as this time.

Greg: Here's another question coming in that says **'Are you 100% sure that an EMV card at an EMV merchant that is somehow fraudulent Visa or MasterCard plan to eat that?'** We've never seen Visa eat anything so far, merchant or bank. Obviously, there's some skepticism within this particular question. Again, I cannot speak on behalf of Visa or MasterCard. Our lawyers obviously do not permit us to do that, and that's really a conversation that you should have directly to them. Nicole, I'll let you weigh in on this, but that's exactly what the liability shift is all about, and the incentives that Nicole had also spoken to— who's going to handle that liability on those types of transaction and an environment that the issuer as well as the merchant both have the security that both Visa and MasterCard and American Express and Discover are asking to put in place. Am I 100% sure? I wouldn't put 100% on almost anything, other than we are going to end this call in about eight minutes, but that's a great conversation to have, and Nicole, if you have any additional ones, that's exactly what the liability shift and the incentives that are being put in place is all about.

Here's a question. It's around the cardholder verification methods and the question is **'Is the CMV determination which dictates how a cardholder uses their EMV card at a place where they have to go to mag stripe, for example, do we dictate that they have to use a PIN when they do internet transactions or do mag stripe where an in-person can't be done as EMV?'** Again, that's where you set the parameters of your actual program itself. Going through that whole process, you can understand just by the nature of a lot of these questions, and our response is there are a lot of different determinants that you need to walk through and work through in order to understand what is the best program for you and the parameters based on the situation of the transaction that you want in place. These are all excellent examples of what needs to be uncovered and discovered as part of that conversation that you're having that needs to occur starting with your card association, and then moving to your EFT processor to make sure what programs they can handle.

I don't know Nicole if you wanted to add anything else on that.

Nicole: I don't think so.

Greg: **'Just returned from Europe, there was no issue with using magnetic stripes throughout seven countries. More of an issue that many merchants would not accept cards period. What types of terminals in Europe are there issues?'** Nicole, want to jump on that?

Nicole: I certainly can. You have had a much better experience than most I would say. A lot of the infrastructure in Europe is offline so it's not in an online situation. For example, when you're at the train stations in Paris trying to purchase a ticket, because they're not manned stations with someone who, if you were going to go afterhours or later when they wouldn't necessarily have an attendant on duty, you would run into issues. There are also issues with pumping gas. Some countries don't have folks stationed at their gas stations; it's just basically gas pumps and that's it. I know I've personally had some pushback in restaurants in Europe, so I think it's hit or miss. Certainly if you have a card holder who has gone to Europe and is not able to use their card after sitting down to an expensive meal in Paris, it's going to be a problem, but it's good that you had a great experience.

Greg: And Nicole, anecdotally, you had a personal experience with your card when you were going over and compared to often times you'll see merchants now put up signs saying Visa, debit or card transactions only; we don't accept checks under a certain dollar amount. Tell us the signs that you were seeing when you were over there.

Nicole: I saw a few signs; there were a couple pubs in London that had signs that said 'only chip and PIN cards accepted.' At the time I actually did have an EMV card but I did not have a PIN associated with it; it was a signature based EMV card and they wouldn't take it.

Greg: Excellent. We have another question, '**Can you explain how the PIN is utilized in the EMV environment.**' One of the reasons that this is being pushed in the EMV environment is the usage of a PIN versus a signature transaction. In a PIN type of transaction, you'd utilize it just as you normally would as a point of sale transaction where instead of signing on that signature, you would enter in your PIN and that would verify the actual transaction itself. Again, those are parameters and those are things that you can set up as far as your program goes.

Jamie, I'm going to check with the phone lines one more time because I want to make sure that if we have anyone queued up there that we get to them. There are still a number of questions I have left in chat that we can get to. What do we have?

Jamie: No questions on the phone.

Greg: Excellent. There was a question here and I lost it and I want to see it again, but let me go to the bottom here. '**What is the exact final cut over date that we have to comply with EMV?**' For the most part, you're going to be looking to the 2015 deadline because that's really where the transaction within the actual merchant is going to happen; however, with that being said, that would be for most financial institutions. Whether that is your cut over date and that is the date that you feel like you need to transition over to, again here is the 51st time I've mentioned it, talk with your card association, understand your own liability and the risks that's associated with not hitting that particular date and what that means to you.

Nicole I don't know if you want to add any additional comments to final cut off dates and what they should be thinking about when it comes to that.

Nicole: I think you've pretty much hit it. We all just need to remember that this is not a mandate; you don't have to do it, but depending on your financial institution situation, your fraud risk portfolio, your cardholder base, etcetera, and some of the things that are getting put into place by the associations. They are really doing what they came to help nudge people towards this, being an EMV infrastructure. Most of the dates that would really apply to financial institutions take place in 2015 and it's October.

Greg: Last question because we're coming up to the end of our hour, and I just want to hit this real quick. '**Will the EMV PIN transaction be a less costly transactions for the merchant similar to where a PIN point-of-sale is less costly than our signature transaction?**' That is an excellent question for your EFT processor and for your network that's handling that type of thing. What their cost structures will be for an EMV program all goes back to understanding what type of card you need, what your



CVMs are going to be in place, and what their cost structures are going to be based on the different CVMs. That would all be part of building that project plan, understanding your costs and putting everything implemented in.

We're going to end our Q&A at that point. I think we handled just about everything that came through and on the line. Again, I would like to thank everyone on behalf of Nicole and myself for attending this presentation and this webcast. We will send out a copy of this PowerPoint as well as a recording of this. If you would like to take a look at our article that we created based on the survey results that we shared with you today, you can contact us either using the card services email address that is provided or please feel free to contact me directly at gregkuyava@harlandclarke.com.

With that, we conclude our presentation.