

## **One of Every Four Debit Cards to be Converted to Chip by End of 2015**

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### *Cost of Chip Cards is Double That of Magnetic Stripe*

Ninety percent of U.S. financial institutions either have begun issuing chip (EMV) debit cards or currently plan to do so by the end of 2015, according to the *2015 Debit Issuer Study* commissioned by PULSE. Based on these plans, 25 percent of U.S. debit cards – approximately 71 million cards – will be migrated to chip by the end of 2015. The percentage is expected to rise to 73 percent by the end of 2016 and 96 percent by the end of 2017.

“The *2015 Debit Issuer Study* provides the most compelling evidence so far that we are quickly approaching the end of magnetic-stripe-only cards and entering the era of chip cards,” said Steve Sievert, Executive Vice President of Marketing and Communications for PULSE, one of the nation’s leading debit/ATM networks. “With fraud continuing to be a major concern among cardholders and a top priority for financial institutions, the issuance of chip cards represents a major step toward reducing losses from counterfeit cards.”

### **Majority of issuers plan accelerated migration**

While most financial institutions plan to begin issuing chip cards by the end of this year, the full rollout will take time. The majority of issuers (62 percent) plan to implement chip debit cards using an accelerated migration strategy.

That approach includes combining natural reissuance when their account holders’ debit cards expire, with a targeted reissuance to heavy card users, international travelers and other customers who request a chip card. The other approaches are natural migration (used by 23 percent of issuers) and mass migration (used by 15 percent).

As required by Regulation II, issuers will include the application identifier (AID) for at least two unaffiliated networks on their chip debit cards, with most planning to make chip-and-PIN the preferred approach for their cardholder verification method.

### **Chip card cost**

Financial institutions estimate the cost of a chip debit card will be double that of a standard magnetic-stripe card. Large banks report the lowest average cost of \$2.17 per chip card, while credit unions have the highest average cost at \$2.90 per chip card.

According to the study, 71 million debit cards will be reissued as chip cards this year. Based on the higher cost of chip cards, financial institutions will spend an incremental \$69 million to replace magnetic-stripe cards with chip cards in 2015 and \$266 million overall for the entire migration period.<sup>1</sup>

Migration to chip debit cards in the U.S. is motivated by increasing concerns about data breaches and has been facilitated by resolution of the barriers to chip debit card implementation, including the requirements of Regulation II for merchant routing options. Financial metrics are not driving chip card issuance. Only 56 percent of financial institutions have built a business case to support issuance of chip cards, according to the study.

“The industry’s migration to chip debit cards is not motivated by the promise of profits,” said Tony Hayes, a partner at Oliver Wyman who co-led the study. “Instead, issuers report that they are investing to help safeguard cardholder information, enhance the integrity of the overall payment system and protect their own reputation.”

### **Fraud continues to be a top priority**

More than 70 percent of issuers cite fraud as a key challenge for their debit business. Every financial institution participating in the study reported their cards were associated with a data breach in 2014. However, less than one percent of all cards experienced fraudulent activity.

Overall, issuers reported losses of 0.7 basis points to fraud when the debit card was used with a PIN and 6.1 basis points when the card was used with a signature. These reported loss rates translate into 0.3 and 2.2 cents per transaction, on average, for PIN and signature debit, respectively.

During the past decade, PIN debit loss rates reported by issuers have stayed constant (from 0.6 to 0.7 basis points), while signature fraud loss rates have increased by 30 percent (from 4.7 basis points in 2005 to 6.1 basis points in 2014).

Issuers expect signature debit fraud to increase and PIN debit fraud to remain stable as the industry ramps up chip card conversion. They anticipate lower fraud rates, however, once the more secure chip debit cards are fully adopted.

### **Chip card resources are available**

As institutions migrate their debit portfolio to chip cards, it is critical to ensure a positive cardholder experience during the conversion. To support these outreach efforts, PULSE has produced a [video](#) to help inform cardholders about the benefits of chip cards and how they work at the point of sale and ATMs.

In addition to the video, PULSE has resources available on its [Debit Resource Center](#), including a [white paper](#) that outlines tips for implementing a cardholder communication strategy when migrating to chip cards.

### **About the study**

The *2015 Debit Issuer Study* is the tenth installment in the series and was conducted by Oliver Wyman, an independent management consulting firm. The study provides an objective fact base on debit card issuer performance and financial institutions' outlook for the debit card business. Seventy financial institutions – including large banks, credit unions and community banks – participated. Collectively, the participants issue approximately 147 million debit cards, representing 47 percent of total U.S. debit transactions. The sample is representative of the U.S. debit market in terms of institution type, geography and debit network participation.

### **About PULSE**

PULSE, a Discover Financial Services (NYSE:DFS) company, is one of the nation's leading debit/ATM networks. Financial institutions, merchants, processors and ATM deployers across the United States and around the world depend on PULSE's comprehensive suite of products and services and its commitment to providing exceptional client service, flexibility, security and superior economics. PULSE also is a resource for debit education, research and knowledge drawn from more than three decades of industry experience. For more information, visit [pulsenetwork.com](http://pulsenetwork.com).

<sup>1</sup> This estimate does not include the additional cost of chip debit cards that will be issued to new account holders or replacement cards for chip cards that are lost, stolen or compromised.

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