

## **Debit Begins Its Shift to More Secure Types of Transactions**

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### *The 2016 Debit Issuer Study Details the Evolution of Chip Cards and Mobile Payments*

The *2016 Debit Issuer Study*, commissioned by PULSE, takes stock of the debit industry's shift to chip (EMV) cards and mobile payments. As a result of the October 2015 liability shift, financial institutions have begun their chip debit card roll-out in earnest with optimism about the technology's potential for enhancing the security of payment card transactions.

The study also details financial institutions' move to support more mobile payment options as competition grows among mobile wallet providers.

"In this sea of change, core debit performance metrics remain strong, with debit use growing with each installment of the study," said Steve Sievert, Executive Vice President of Marketing and Communications for PULSE. "This year's results provide key facts behind the shift to chip debit cards and mobile payments, two of the most significant developments within the payments industry."

### **Issuers rapidly upgrading to chip technology**

The October liability shift marked a key milestone for issuers' transition to chip card technology. By the end of 2015, almost half (45 percent) of issuers had begun issuing chip debit cards, although this is much lower than the 90 percent of issuers that indicated in the prior year's study that they expected to have chip cards in the market by the end of 2015.

Based upon issuers' actual card migration, the study estimates that one-third of all debit cards featured a chip by year-end 2015. The study forecasts that approximately three in four debit cards will be chip-enabled by year-end 2016.

### **Chip usage is limited, growth surging**

Largely due to the slower-than-anticipated pace of merchant adoption, the use of chip cards at chip-enabled terminals remains limited. Even among consumers using chip debit cards, only 11 percent of their chip card transactions were at chip-enabled terminals. The remaining 89 percent were processed as traditional magnetic stripe or card-not-present transactions, such as online purchases.

When taking into consideration all debit card transactions, chip debit transactions (chip cards used at chip-enabled terminals) accounted for only 4 percent of total debit transactions.

Nonetheless, chip debit transactions are growing at triple-digit rates year-over-year. Issuers view the shift to chip debit cards as a critical step toward increasing the security of card-based transactions and reducing fraud loss rates.

### **Mobile payments gaining traction but usage is limited**

More financial institutions are supporting the ability to pay at the point of sale with a mobile phone. By the end of 2015, two-thirds of issuers had debit cards eligible to be loaded into a mobile wallet. The previous Debit Issuer Study found fewer than one-third had that capability, signaling a year-over-year increase of more than 100 percent.

The *2016 Debit Issuer Study* notes that mobile wallets have greater adoption with financial institutions than with cardholders. Apple Pay dominates the market, with approximately 3.5 percent of eligible debit cards loaded, compared to 0.2 percent each for Samsung Pay and Android Pay.

Cardholder usage was higher for Samsung Pay and Android Pay in January 2016, averaging 1.8 and 1.7 transactions per enrolled card per month, respectively, compared to 0.7 transactions for Apple Pay. Combined, the three "Pays" generated approximately 8 million debit transactions per month at that time.

"Despite limited usage, mobile payments have now become a table-stakes offering for financial institutions,"

said Tony Hayes, a partner at Oliver Wyman who co-led the study. "Issuers foresee a near-term boom in mobile payments – nearly half of issuers project mobile payments to make up over 25 percent of debit transactions in five years' time. That would make mobile a primary payment method."

### **Debit continues to grow and maintain top-of-wallet status**

Issuers saw sustained growth in penetration, activation and usage metrics in 2015. On consumer debit cards, transactions per active card increased four percent year-over-year to 22.1 per month. The penetration rate ticked up slightly from 76 percent to 77 percent. Business debit also saw similar gains, with transactions per active card per month growing from 14.5 in 2013 to 15.0 in 2015.

### **Fraud continues to challenge issuers**

Data breaches remained the most common source of fraud but accounted for 33 percent of fraud losses in 2015, a decline from 57 percent in 2014. This was offset by an almost three-fold increase in skimming – from 7 percent to 20 percent of all fraud losses.

The increased skimming – and related rise of in-footprint fraud (i.e., fraud within a financial institution's primary market, which requires more sophisticated techniques to mitigate) – led to a tripling of PIN POS fraud to \$0.008 per transaction. By contrast, when a debit card is used without the added security of a PIN, the loss rate is three times higher, averaging \$0.026 per transaction.

"Issuers expect that broader adoption of chip cards, and the tokenization of transaction data that is tied to mobile payments, will help to mitigate against losses resulting from debit card fraud in the future," said Jim Lerdal, PULSE Vice President of Fraud Operations. "It's never been more important to have access to experts who can track fraud in real time, enabling rapid response and minimal impact on cardholders."

### **About the Study**

The *2016 Debit Issuer Study* is the 11<sup>th</sup> installment in the study 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-two financial institutions – including large banks, credit unions and community banks – participated in the study. Collectively, the participants issue approximately 153 million debit cards and operate about 77,000 ATMs. These cards represent approximately 48% 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).

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