



Chad Horal / Photo by Bob Giglione

Credit card companies holding biz liable for fraud

By: [Claude Solnik](#) April 20, 2015 0

Businesses that routinely accept payment with credit cards have rested easy knowing that, if fraud occurs typically off the hook. The financial institution that issues the card ordinarily will take the hit.

But as security improves, many businesses will soon find an ironic shift: They themselves often will be liable for fraud.

Credit and debit card firms have been pushing businesses to update equipment, so they can process card microchips, considered far safer than magnetic bar codes.

But credit and debit card companies as of October plan to hold merchants responsible for fraud committed with cards that have embedded chips, if their terminals can't process these newer products.

The merchants will be able to process the transaction with a bar code, but at their own risk.

Most of the world already shifted to EMV – or Europay, MasterCard and Visa – chips for credit and debit cards.

The United States for many years refused to change its stripes. Banks instead monitored data, looking for transactions as red flags indicating fraud.

While each credit card firm has a slightly different schedule, they're all shifting to chips – and asking businesses to do the same.

Visa, as of April 2013, required companies that process credit card transactions to be able to handle cards with chips. On Oct. 1, Visa will shift liability to retailers, restaurants and other businesses with in-person transactions if they can't process chips.

In October 2017, Visa will shift liability for ATMs and automatic fuel dispensers at gas pumps. Since chips are used in person, online vendors aren't affected.

American Express, MasterCard and Discover as of different dates in October 2015 all will shift liability for

in this brave new world.

While this affects all retailers, small retailers without information technology departments are more likely caught unaware – or be late in the change.

“The adoption of chip technology has the potential to virtually eliminate counterfeit fraud when widely adopted,” said Ellen Richey, chief enterprise risk officer at Visa based in Foster City, Calif., said of the upside.

Visa said 71 percent of the merchants it surveyed believe accepting chip technology will benefit their business, while 71 percent believe their current card reader can process chips.

“They’re trying to eliminate fraud, hacking and theft of card-holder data,” said Joseph Palazzo, territory sales manager for Long Island for [National Cash Register](#), an Alpharetta, Ga.-based provider of payment processing equipment. “It’s good for us. But quite honestly, it’s a challenge. There are so many moving parts that have to be coordinated between multiple parties.”

While Palazzo said some merchants are buying new technology to avoid an October surprise, many have not yet come on board.

“Merchants want to be compliant,” Palazzo said. “Many are upgrading their systems or deploying new systems they protect themselves and their guests.”

More than 77 percent of small- and medium-sized merchants Visa surveyed are aware of chip technology, but 77 percent of processors said that doesn’t mean they made the shift.

“They’re kind of ignoring it. I don’t think they’re too aware,” said Chad Horal, president of [Ronkonkoma-based Metropolitan Business Payment Solutions](#). “When the deadline draws near, we’ll have more activity.”

Although it might seem as if the credit card companies are forcing firms to buy new technology, that’s not necessarily the case.

Credit card firms, which include the liability shift in their operating agreements, are simply imposing consistency on merchants that don’t adapt.

“They’re not forcing anything,” Horal said. “The only thing they’re enforcing is a liability shift.”

Companies can buy entirely new equipment or upgrade existing terminals with new pads that accept EMV.

A Visa spokesperson said chip-reading equipment can cost as little as \$30, although costs can be far higher for larger networks. Even phones can be adapted to read chips.

“[Merchants are] going to have to upgrade machines,” Horal continued. “If they upgrade to an EMV reader, the EMV readers are compatible with Apple Pay and Google Pay.”

The change comes as other types of payment, made through telephones, catch on, leaving a big question over how consumers will pay in the future.

While much of the world already shifted to chips, that doesn’t mean the end of old-fashioned credit cards and magnetic stripes. Palazzo said even in Europe, where chips are the norm, only about 60 to 70 percent of merchants have made the shift.

“I don’t want to imply that as of this date in October, the whole world will make a change,” he said. “It’s a gradual adoption.”

Visa doesn’t expect magnetic stripes to go away anytime soon, even if chips become the new standard for the credit and debit card industry.

“We’ll continue seeing magnetic stripes in the market for years to come,” a Visa spokesperson said. “The cards being issued with chips still have a magnetic stripe.”