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The Durbin Debit Dilemma with EMV

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Actions have consequences, I have been told often, and more often than not, unintended ones. A case in point in the US is the Durbin Amendment which has arguably had the most significant impact on the shape of the payments industry in the last decade. Some as expected, some truly unanticipated. Reduced credit interchange, experimental checking account fees, the rise of bank and non bank issued prepaid cards... the list is long of repercussions that Durbin's sweeping changes have brought to the domestic payments landscape. But, there is one last surprise up Durbin's sleeve that has yet to come home to roost, and this could prove highly problematic in the next few years. It stems from a requirement of Durbin to enable any debit card presented to a merchant to be processed on at least two independent debit networks - one for signature debit and one for PIN. The text of the final rule... ***"...prohibits an issuer or payment card network from restricting the number of payment card networks on which an electronic debit transaction may be processed to fewer than two unaffiliated networks, regardless of the method of authentication"***

Nothing wrong with this in the context of introducing the means for competition at the checkout. Just one problem though. EMV was never designed to do this. The Smart Card Alliance describes the problem in the context of the proprietary nature of a network's chip application - EMV is designed so that transactions only go to the network specific to that chip on that specific card, there is no room for choice. One chip, one network, using a single Application Identifier (AID). The search therefore is on for a "Common AID", one that can be shared by all of the debit networks with the level of ubiquity that is currently seen with magnetic stripe cards. But, the issue here is some of the proprietary systems are owned by the very parties that Durbin was seeking to control - Visa and MasterCard. As a result of this, there is effectively a three horse race in terms of solutions to the Durbin Debit Dilemma and predictably, two of these have been presented by Visa and MasterCard, with a third from the cornucopia of regional debit networks.

In January, MasterCard released that they would open a proprietary AID associated with their Maestro debit network and in February, Visa announced a similar "generic unbranded application identifier". The regional debit network collective, under the group name of Secure Remote Payments Council (SRPc) is considering a third common AID using Discover's EMV technology. The SRPc has concerns relating to autonomy and, as a result, a stalemate. The current three way standoff, reminiscent of the closing gun battle of Reservoir Dogs, could be a serious impediment to the deployment of EMV by the anticipated merchant transitionary date of 2015. Jason Oxman, CEO of the Electronic Transactions Association doesn't mince his words. I asked him for the position of the ETA on the Durbin Debit Dilemma... *"Our view is that the absence of a single AID for Durbin debit routing requirements means the EMV migration cannot move forward on the current timetable. We have communicated to the card networks that they should delay the liability shift for whatever period of time it takes for the industry to settle on a debit routing solution that complies with Durbin."*

With what appears to be an inevitable delay in EMV due to this, it is the time to ask whether EMV is the right solution for the US at all. When deployed in Europe, EMV was the right technology for the time - the era of Napster and Motorola RAZRs. Back then, EMV was designed to solve for spiking POS card fraud resulting from batch processing of transactions at off peak times and criminals exploiting the offline window of opportunity with counterfeit cards. Due to real time authorization in the US, that problem never existed in the US, and still does not. Neither does EMV address the pervasive problem of card not present (CNP) fraud, a problem that has been seen elsewhere to become exacerbated when other channels for card fraud become locked down.

There is the argument made that EMV will solve for the increasing problem caused by the separate evolutionary paths of the US payments industry vs. the rest of the world and the real problems experienced by US travelers visiting EMV countries. It is indeed becoming less easy to pay with a magnetic stripe card outside of the US, as I can personally attest. But with just 36% of the US population owning passports would it not make more sense to simply issue EMV cards to US travelers on an on-demand basis rather than instigating a complete upheaval of the US payments system?

The fact is that the longer it takes for EMV to become implemented in the US, the more likely it is that more nimble, cheaper and advanced forms of authentication at the POS could leapfrog the technology. Given the momentum behind contactless and, by association, NFC, this seems to be the way the industry will go, but nothing is for certain and the growth of cloud based wallets certainly seems to be plugging the void between the rapidly evolving personal

technology market and the glacial evolution of legacy payment hardware, as Starbucks can attest. If EMV is the Trojan horse for contactless deployments at the POS and a move to control future payments, then the card networks should maybe get a move on before the Trojans lose interest and decide to go with the Persian rabbit instead…

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