

How EMV credit cards will protect you from financial fraud

Claire Davidson, NerdWallet 11:32 a.m. EDT June 20, 2015



(Photo: Tl_ser, Getty Images/iStockphoto)

If you've recently received a new credit card equipped with a shiny little microprocessor chip, you might feel a twinge of panic. If your old card was working fine, you wonder, why did your issuer send you a new one?

That chip is part of your credit card issuer's efforts to reduce in-person counterfeit credit and debit card fraud in the United States. Called an EMV chip, the little piece of equipment adds a layer of security at business' card terminals. EMV stands for Europay, [MasterCard](#) and [Visa](#).

In addition to reducing fraud, the issuer is protecting itself in anticipation of what's known as the "[liability shift](http://usa.visa.com/merchants/grow-your-business/payment-technologies/credit-card-chip/liability-shift.jsp)" (<http://usa.visa.com/merchants/grow-your-business/payment-technologies/credit-card-chip/liability-shift.jsp>), a policy that will change who foots the bill for in-person fraudulent card transactions based on who is — or isn't —

supporting EMV technology.

As more merchants install EMV card readers to limit their liability for fraudulent card transactions, you'll be able to use your new chipped card to make more secure payments. For your part, all you need to do is activate your chipped card and learn how to use it at EMV-enabled terminals.

Here's what you should expect:

You won't be swiping as much.

The new card readers will prompt you to dip your chipped card instead of swiping it. Once you insert your card, the reader will take a few seconds to process.

"The chips and the terminal are having a conversation," says Carolyn Balfany, who's leading the EMV rollout in the U.S. at MasterCard. "They're exchanging data and creating new data." (If you have a contactless EMV-enabled card or use Apple Pay, you may be able to complete the EMV transaction by tapping your card or phone to the reader instead, which could be faster.)

The EMV reader then generates a unique code for the transaction and uses it in place of your card number, Balfany says. This way, if someone were to hack into the store's records and use the payment data again, red flags would be sent up at the payment networks, and the fraudulent transaction wouldn't go through.

In the future, liability for fraudulent transactions will change.

The liability shift will change who's responsible for paying for fraudulent card transactions. Currently, the issuer covers these losses. After the liability shift on Oct. 1, though, the party that isn't supporting EMV technology — either the issuer or the merchant — will be liable for fraudulent card purchases. In 2017, this policy will be extended to automated teller machines and fuel dispensers at gas stations.

[Eric Dunn](#), who heads [Intuit's](#) payments and commerce solutions, gives an example of a \$250 watch purchased with a counterfeit card. If the store hadn't updated its terminals and the payment went through after the October liability shift, and the information that had been copied was from a card with an EMV chip, the merchant would have to accept that transaction as a \$250 loss. However, if the issuer hadn't updated the customer's card yet, and the fraud occurred on an account with a traditional magstripe card, the issuer would have to cover the cost.

The liability shift isn't a deadline, but it does provide an incentive for companies to switch over to EMV readers and help decrease in-person counterfeit card fraud. Almost half of the total fraudulent credit and debit card transactions in the world occur in the United States, even though only a quarter of the world's card transaction occur there, according to [First Data](https://www.firstdata.com/downloads/pdf/FirstData_EMV_TimelineAS.pdf) (https://www.firstdata.com/downloads/pdf/FirstData_EMV_TimelineAS.pdf), citing a 2012 Nilson Report.

One reason for this disparity is that EMV is already standard in several countries. Once it's fully adopted in the U.S., the amount of counterfeit card fraud is expected to decrease, reducing the total number of fraudulent card transactions.

It's a work in progress.

The adoption of EMV technology doesn't guarantee that a major data breach, such as the one that occurred at Target stores in 2013, won't happen again, Dunn says. But it's a big step in the right direction.

"EMV definitely helps, because there is an encrypted handshake between the card and the terminal," Dunn says. Other technologies can add additional layers of security. There's no silver bullet for eliminating all types of card fraud, he notes, but it's something companies can continue working on.

Making the transition

The new payment terminals will still allow you to use the magstripe option, Dunn says, so you'll be able to use your old card if your issuer doesn't send you a chipped one right away.

If you receive an EMV-enabled card in the mail and activate it, you'll generally be able to use it on all card readers, whether or not they're updated. All you need to do is follow the prompts.

Says Dunn, "I don't think it's anything consumers need to worry or fret about."

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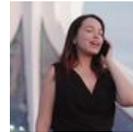
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