



Restaurants and EMV: How to Prepare for the Liability Shift

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The goal of this white paper is to provide a high-level overview about EMV® to restaurateurs to help them understand the EMV liability shift and have confidence that the services Pilothouse provides can help them meet their pricing and security needs.

What is EMV?

EMV stands for Europay, MasterCard® and Visa®, the three organizations that initially collaborated in 1993 to create a worldwide standard for the protection of secure credit and debit cards at the point of sale, as well as at the ATM. The standard is now overseen by EMVCo, a six-member consortium of American Express, Discover, JCB, MasterCard, UnionPay, and Visa which exists to facilitate worldwide interoperability and acceptance of secure chip-based payment transactions.

EMV chip-based cards, otherwise known as smartcards, contain a visible contact pad that is connected to a computer chip containing the information necessary to transact a sale, but doesn't contain key cardholder data that is typical of a traditional mag-stripe reader. Chip card readers use unique codes comprised of cryptographic algorithms providing authentication of the card throughout the transaction process. EMV transactions are completed by "dipping" the chip card into an EMV card reader, or by waving the card within a few inches of an NFC-enabled device, known as contactless payments.

EMV was first introduced to Europe in the 1990's to help reduce the massive amount of credit and debit card fraud at the point of purchase. With the introduction of Chip and PIN verification, participating countries saw user fraud and counterfeiting greatly reduced. For example, UK retailers saw losses fall 67% since implementing EMV in 2004, and Canada's losses fell from \$142 million to just \$38.5 million in one year after instituting the chip card in 2008.

In 2011, when Visa, MasterCard and American Express announced their 5-6 year plan to roll out EMV, relevant participants – processors, acquirers, issuers and merchants – began to take notice. The real impetus to adopt more payment security processes, namely EMV, came over the course of 2014 when merchant data security breaches happened to giant retailers like Target, Michaels, Home Depot and Neiman Marcus, to name a few. After seeing first-hand that fraudulent activity was on the rise in the US as mag-stripe technology was now the easiest technology to exploit worldwide, migration to EMV acceptance in the US is in full swing with the first milestone of October 1st fast approaching.

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What is the EMV Liability Shift?

As part of the migration strategy to chip acceptance, Visa, MasterCard, Discover and American Express all have mandated liability shifts for fraudulent transactions effective October 1, 2015. In general, the party using the least secure technology for authentication during a face-to-face transaction will bear the financial responsibility for any fraudulent activity. For example, if a merchant swipes a chip card through a POS device that isn't EMV-enabled, the merchant would be charged for the fraud loss. On the other hand, if a merchant has a device that reads the chip, but is given a fraudulent card for payment that only has a mag-stripe, the loss would be the responsibility of the issuer. The infographic below details various scenarios of how the liability could fall to either the merchant or the issuer. If neither party has implemented EMV strategies, the current fraud liability standards remain intact.

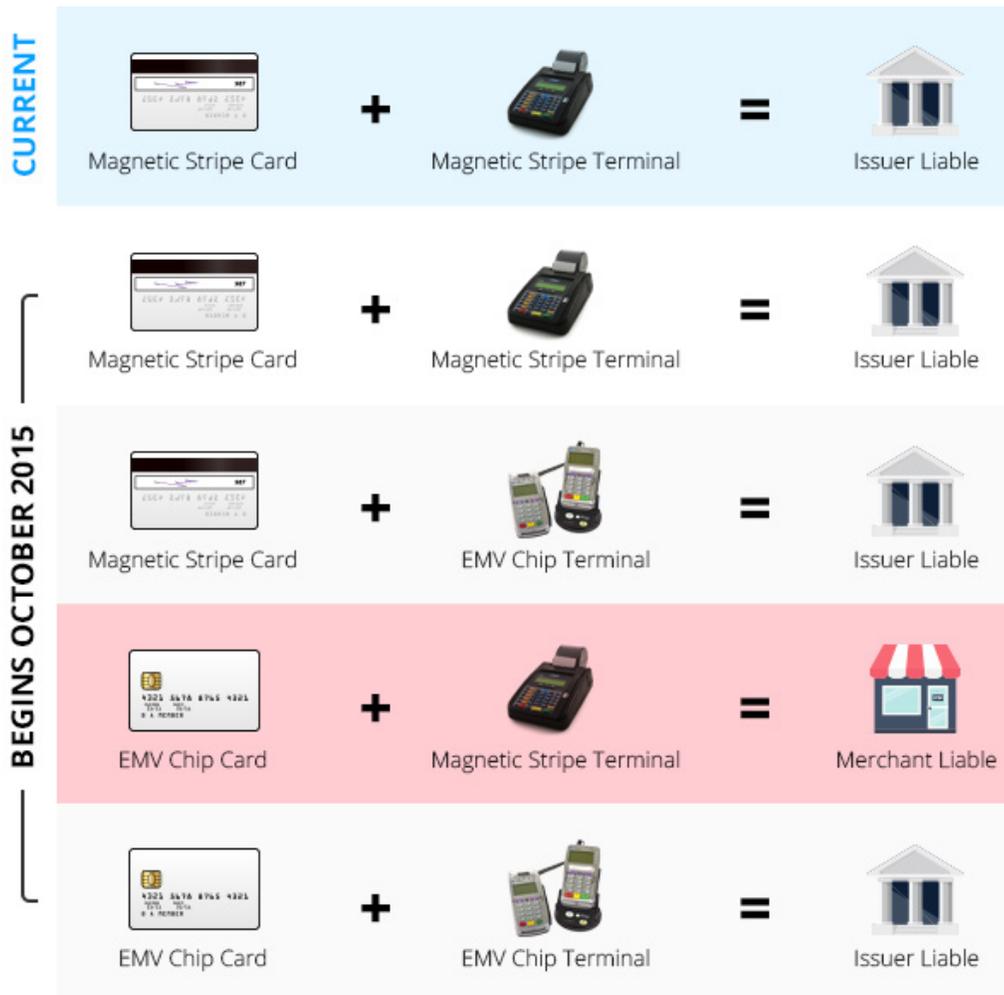


Figure 1: [EMV Truths Made Simple. Saltsha.com](http://EMVTruthsMadeSimple.Saltsha.com); posted by Keith Sampson on July 24th, 2015.

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With EMV migration come changes to payment acceptance processes known as preferred Cardholder Verification Methods (CVM). Depending on the payment brand's guidelines and issuers preferences, chip cards will more than likely support multiple CVMs which will help ensure EMV acceptance at as many merchant terminals as necessary. Since there will be many variables to CVM (Chip and Signature, Chip and PIN, Mag-stripe), it will be vital for merchants to train their front-line staff on EMV acceptance.

It's also important to understand that EMV is not a mandate like PCI compliance. EMV is a risk decision that merchants need to make. It's not a regulatory one.

How Does EMV Affect the Restaurant Industry?

As merchants across the US are assessing the costs and need to implement EMV solutions into their daily business by the October 1st deadline, the Restaurant industry is certainly looking at how EMV will impact the way they do business, especially when it comes to interaction with the customer at the end of the transaction. Although EMV means Chip and PIN to the majority of the world, here in the US, EMV-enabled terminals and devices, as well as the majority of chip cards from issuers (MasterCard is issuing Chip and PIN) will implement Chip and Signature functionality, and will also keep mag-strip capabilities intact for the foreseeable future. The needs of restaurants vary with the type of restaurant established – counter service, QSR, table service and casual dining – and all look at EMV in a different way, according to how it impacts their day-to-day operations and the multiple CVMs that the merchant implements based on their technology and the types of cards they accept at the point of sale.

To a restaurant implementing EMV, Chip and Signature means that the impact to their business is minimal. Instead of swiping the card, the server simply dips the card into the EMV device to run the card, returns the receipt to the customer to sign and add a tip, and the server completes the transaction by adding the tip amount to the captured transaction, when the system allows for tip adjustment. The user experience for the customer remains largely unchanged, tipping is done as normal, and the risk of taking a fraudulent card is virtually eliminated. But with Chip and PIN, EMV guidelines recommend that any gratuity is added to the transaction amount before the EMV transaction starts. This ensures that the final billing amount is both presented to the card during the transaction and shown to the cardholder at the time of PIN entry. With Chip and PIN, restaurateurs will have to choose how they want to handle the tipping process. To find a happy medium between old processes and new, some restaurants are thinking about setting a predetermined tip amount that the customer would choose at the time of the payment. On

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a positive note, the customer will know exactly what the total amount of the bill is, but on the other hand, there is a concern as to what level the predetermined amount should be set, and if customers would be frustrated with being guided towards choosing a specific amount.*

Another way to introduce Chip and PIN is to use a pay at the table solution. In the appropriate environment, such as a full-service restaurant, it makes most sense to bring the external device to the customer. With the pay at table scenario, the server brings the device to the table, hands it to the customer to enter the tip amount, guides them to entering their PIN and then asks for the device back in order to complete the transaction and print the receipt for the customer, all while never leaving the customer's sight. For Chip and PIN, the restaurant will need to work with their POS vendor and understand CVM as it pertains to issuer preferences, to determine what type of payment options are best for their business model, either a WiFi terminal that is integrated with the POS system, or a stand-beside payment peripheral which may only be semi-integrated. Again, it will be vital for restaurant owners to examine their payments equipment and software in partnership with their processor and POS provider to create an acceptance strategy that will work within their budget and implementation schedule.

EMV acceptance not only affects the technology in play, but will also impact the staff and customers who will interact with the payment process, especially with CVM. As the transition to EMV begins, restaurateurs will need to ensure that their employees are well-educated on the new processes in place; whether they are Chip and Signature, Chip and PIN, or a combination of both, and that they are comfortable using the new devices and can answer customer questions about how the new technology works, as well as the benefits of the added security that EMV literally brings to the table.

Weighing the Costs of EMV Implementation

With the EMV deadline of October 1st fast approaching, it can still be difficult for merchants to make a decision as to how and when they will implement EMV, especially with the barrage of information and statistics from the media and their providers. And with a variety of surveys and statistics touting EMV-readiness, it only adds to the confusion of what to do. In the past few weeks, numerous studies and surveys have been released regarding readiness. The Strawhecker Group released survey results finding that only 27% of the merchants surveyed will be EMV-ready by the liability shift, and Javelin Strategy and Research is reporting that a significant chunk of SMBs (over 44%) have no knowledge of the liability shift at all. Combined with Visa reporting that only 20% of the Visa credit and debit cards issued to date are EMV-enabled, it's important

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for each restaurateur to determine whether a case exists for switching to EMV now, or develop a strategy for a slower integration.

Restaurant owners need to consider the following ideas in order to adequately prepare for EMV-readiness and take action to meet the liability shift:

EMV is NOT a regulatory requirement; it is an EMV chip implementation process for contact and contactless POS transactions. The card brands have modified their contracts to shift the liability to the merchants that choose not to implement chip-reader technology, which begs the question as to how large of an impact will card present fraud impact the day-to-day business of the restaurateur? Since penalties happen only if defrauded through the use of a counterfeit or stolen card, business owners should review their chargeback history with their processor to help determine how much risk they are likely to face.

Secondly, assess the costs and benefits associated with technology upgrades. In order for EMV to improve the security of the transactions and for the merchant to reap the benefits of upgrading technology, it's important to determine how the transaction is best processed, and at what cost. Since both Chip and Signature and Chip and PIN will be rolled out with EMV in October, merchants can partner with their processor to help understand the issuer's options, and choose the validation method that works best in their environment.

In tandem, it's vital to examine the payment equipment and software already in operation to help determine what changes will be required to accept the validation method chosen. As restaurants work to upgrade their POS systems, they should ensure that the upgraded systems are not only EMV-enabled, but that they provide additional security features like end-to-end encryption and tokenization which will encrypt and scramble customer card data and provide protection at the swipe. These technologies will help protect the restaurant from hacking and data breaches while the data is in transit from the merchant to the processor.

It's equally important to choose systems that support new contactless technologies like mobile and Near Field Communication (NFC) payments. The goal with providing the next-generation in payment technology is to give consumers a more secure and more powerful payment experience. Apple Pay, Samsung Pay and Android Pay both use network-based, encrypted, tokenized security methods. While still not a part of

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mainstream technology, Forrester Research predicts that mobile-based payments such as Apple Pay and Android Pay will grow over a five-year period, from \$52 billion in 2014 to \$142 billion by 2019.

For those merchants focused on implementing future technologies that help improve business performance, the upfront costs to implement a chip reader that will also transact contactless and NFC transactions could far outweigh the costs of adding future functionality, let alone the time and resources spent to re-certify systems for PCI compliance. Again, merchants who partner with their service provider can best develop strategies and implement solutions best for their growth.

Training and education will be a key component to EMV acceptance for both the staff and the customer. The shift to EMV not only affects the restaurant's technology but everyone who interacts with it, including all customer-facing staff, and in turn, the customer themselves. Regardless of whether Chip and Signature or Chip and PIN are used, investing in the time needed to train the staff on new procedures and systems will be crucial to how the customer reacts to the new process. Personnel should be educated on how to answer customer questions on the new technology, and understand possible wait time differences involved with using a chip reader.

EMV Readiness – The Pilothouse Difference

The EMV liability shift provides merchants the opportunity to partner with their merchant service provider to help understand the implementation strategy and roll out schedules for EMV acceptance. The ideal payments acceptance partner should have a complete understanding of the security issues in question, and can help the merchant understand their history of counterfeit fraud chargebacks. Understanding the potential risk should play a big part in making the decision to implement EMV in a timely fashion.

They should collaborate with the restaurateurs to recommend the right EMV choices as they pertain to the POS system that is best for business practices now, and scalable for the transaction processing of the future.

A strong advisor provides the tools and knowledge necessary for merchants to continuously educate their personnel on the procedural steps of implementing a new POS system, and also

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provides them with the scripts necessary to talk through the new changes with the customer, providing insight as to how the changes benefit the customer, and addressing any questions that might be asked throughout the transaction process.

EMV is a dramatic shift in accepting payments, but it doesn't need to be a painful or expensive one for restaurants. Pilothouse is committed to educating their merchants about EMV and advising them of the best technologies and strategies for payment security.

Throughout the year, Pilothouse has worked step in step with processors and the necessary POS providers to ensure that we are EMV-ready well before the October 1st deadline, and are ready to schedule personalized calls with the merchants to discuss options and strategies for implementation and hardware/software upgrades if necessary.

Pilothouse partners with industry-leading hardware and software providers such as Verifone, Ingenico and the PayAnywhere Storefront, all which provide EMV Level 1 and Level 2 certification, to meet the migration plan for restaurants using terminal-based, tablet or EZ Dine solutions. In fact, we are bundling it with the demand and need to accept mobile payment solutions like Apple Pay and Google Wallet via NFC-enabled payment methods. We work closely with our merchants to find the most cost-effective and competitively-priced solutions for payment acceptance.

We also understand how education and training are critical to the successful roll out of EMV, so we've created an EMV-Ready center within the Saltsha pages (mysaltsha.com) which includes supporting documents, FAQs, educational articles and papers to help our merchants gain a full and continuous understanding of the EMV liability shift, how it impacts their business, and how they can help create a smooth transition for their customers.

To learn more about EMV and its impact on Restaurants or businesses in general, please contact the Pilothouse Customer Relations Department at (574) 269-0792.

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EMV is a registered trademark in the U.S. and other countries, and is an unregistered trademark in other countries, owned by EMVCo.

1. http://www.emvco.com/about_emvco.aspx. EMV is a registered trademark in the U.S. and other countries, and is an unregistered trademark in other countries, owned by EMVCo.
2. <http://www.thatsemv.com/stats/>
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6. [EMV Issuer and Application Security Guidelines v2.4, released April 2014. https://www.emvco.com/best_practices.aspx](https://www.emvco.com/best_practices.aspx)
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