

CHIPS N PINS

by [Steve Brown](#)

Traveling is usually fun and you always come home with some good pictures to remind you of the great time you had. If you get the chance to travel to France, see what happens when you pay the bill at a restaurant with a credit or debit card. The waiter will bring "la machine," a mobile charge device to the table that generates a charge slip on the spot. No one in Europe walks away with your credit/debit card and this technology has been used overseas for 15Ys. "La machine" does not accept VISA cards with magnetic strips and you must have a chip and PIN or EMV technology.

It is amazing to some that the US is behind the rest of the world in anything, let alone financial matters, but that is true here. Consider trials for EMV cards in the UK began in 2003 and the initial rollout of cards with chips was in 2004. Initially cards had both magnetic strips and chips, but gradually the magnetic strips have disappeared as cards reached their expiration dates and were replaced with chip cards.

The real card evolution though was in France, with the Carte Bleue system, which has used smartcards since 1992. Initially the pure Carte Bleue only worked in France, but now it is used in a combination card that works like any other VISA card. When a card holder of a chip and PIN card wishes to make a purchase, the card is placed in a point of sale terminal, which accesses the chip on the card. Once verified, the customer enters a 4 digit PIN which is submitted to the chip on the smartcard. If there is a match, the chip verifies and the transaction is completed. Experts say there is more security with the chips, because they can't be readily counterfeited. That must be true, because the data shows France has cut card fraud by more than 80% since the introduction of the Carte Bleue.

So what the heck is going on in the US banking industry and when are we going to adopt chip and PIN, you might be wondering. There are some cards available from the largest banks that have chips, but not many in circulation. These are the highest level cards that you can only usually get if you are a private client or travel heavily overseas. To test this, we made a quick call to American Express to see about getting a card with a chip and found that it's only available at the Platinum Level AMEX card with an annual fee of \$450.

The key reason things are crawling over here relates to the control VISA and MasterCard have over payments and the cost of converting so many point-of-sale terminals at businesses across this country. That is changing, however, as MasterCard recently announced this year conversions will occur for ATM machines and merchants will have until 2015 to change.

The good news is that while chip and PIN technology initially will cost more, the advent of smartphones means they will be adopted quickly by consumers and businesses. That will be followed by savings on fraud and that too is good.

No matter when this ancient technology finds its way to our shores, it is coming and both banks and customers will need to change in the next few years. Until then, enjoy the magnetic strip on your plastic card as we all evolve toward digital money offered through point and click terminals and digital wallets.

BANK NEWS

Banking

Research by the ABA finds 62% of people say the internet is their preferred method of banking, followed by 20% who say the branch.

Branch Staff

Research by Cornerstone Advisors finds branch staffing levels have fallen from 13 FTEs in 2004 to only 6 in 2010.

Farmland Risk

At the most recent FOMC meeting, the minutes show members felt "Agricultural land prices are veering further from what makes sense" and "Members believe the run-up in agriculture land prices is a bubble resulting from persistently low interest rates."

Out

Private equity (PE) investors pumped money into failing banks during the depths of the recession with a typical plan to get out 5Y to 7Y later. Those investment alarm clocks are now beginning to sound and lately, some of these investors have begun reducing positions and ownership. Look for more of these banks to come to market with an IPO or be bought out in the next 2 to 4Ys, as these PE firms seek to return capital their own investors.

Muni Crackdown

The SEC charged the city of Harrisburg, PA with securities fraud for allegedly making misleading statements about its financial condition, credit rating and notices related to bond offerings. The city has agreed to settle but no fine has reportedly been levied.

Small Biz

A survey of small business owners by Constant Contact finds 66% use a mobile device (smartphone or tablet) in their business. In addition, 82% use a calendar app, 74% communicate with customers, 52% use GPS and mapping, 44% use accounting or invoicing and 44% read industry news.

ALLL

An RMA survey finds the position most banks say is primarily responsible for calculating the allowance for loan and lease losses (ALLL) is the chief credit officer (about 96%). They were followed by the chief financial officer (at about 84%), other (58%), chief executive officer (50%), chief lending officer (42%) and the chief risk officer (36%).

Channel Cost

Research by CEB TowerGroup finds the average transaction cost including labor and technology was \$4.04 for a call center, \$4.00 for a branch, \$0.61 for an ATM, \$0.19 for mobile and \$0.09 for online.

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