
Locking Down Risk Or Playing Hopscotch

by [Steve Brown](#)

The retail store Target has an interesting history, starting out being as part of a large retail chain that began in MN in 1902 as Dayton's Dry Goods Company. The first Target store opened outside Minneapolis in 1962 and over time became the largest division of Dayton, prompting the company to change its name in 2000 to Target Corporation. The store name "Target" was coined by the company's publicity department in the 1960s and was intended to differentiate the discount chain from the department store Dayton's. Sadly, it would seem that with the recent data breach affecting some 110mm shoppers, Target has indeed become a target.

Security experts would say a big reason for this breach (as well as others) is that U.S. credit cards still use magnetic stripes, while most of the rest of the world has moved on to chip and PIN systems that require dual authentication at the time of purchase. When such cards are stolen, the PIN can be changed so the stolen card is useless. The system we use is certainly less secure and thus has a big target painted on its back.

Of note, starting Oct. 2015, consumers will no longer swipe a credit card and will instead insert it into a slot in a new machine. The machine then reads a microchip (not the stripe) and allows for a PIN number or signature. The expenses for this shift are high and the scope of the job is enormous. Think of every merchant terminal and every single place a card can be used as needing an upgrade. The "stick" being used by the credit card companies to assure the switchover occurs is to transfer fraud liability to any party that has not upgraded its equipment by the cutover date. After that point, those who don't switch will have to pay for any fraud that occurs.

These new payment terminals for chip and PIN cards are designed to generate a unique random number to authenticate transactions and this approach has mostly provided protection from fraud. There are exceptions, of course, and research in the UK found some terminals were producing unique numbers with predictable patterns that could be replicated by thieves, so there is still room to improve. To be sure, there will always be exceptions, but the developing technology certainly makes it harder for thieves.

At a recent financial technology conference attended by many international financial service providers, we found that an explosion in mobile payment technologies is taking over in many markets, especially in Europe. While there are certainly security issues surrounding mobile payments, we wonder if this avenue could offer the U.S. payment landscape an opportunity to hopscotch over the replacement of physical machines in every place of business. Consider that there are merchant specific mobile payment technologies already available (like at Starbucks), but overall the use of mobile payments through digital wallets is still pretty rare. The latest data finds Google Wallet is accepted at around 20 merchants and Apple Passbook can manage app and loyalty cards but not debit or credit cards. Meanwhile, Lemon Wallet can store cards and uses a PIN to access the information, but once again the merchant needs to have the technology to accept the payment.

We think the next 12 to 18 months in the payments space are going to be a very interesting time as Americans shift the way we pay for goods and services. Some may say it will take longer for behavior

to change, but looking at how quickly mobile banking has transformed our industry, we think 18 months is a long time these days--stay tuned.

BANK NEWS

Rate Hikes

Fed Chair Yellen reiterated in a recent speech that the FOMC intends to remain accommodative. As a result, some economists now project tapering will end in Oct, reinvestment of existing cashflow into the portfolio could end by Q2 2015 and Fed Funds rate hikes may occur by Q3 or Q4 2015.

Mortgages

The OCC reports 91.8% of mortgages were current and performing as of Q4 2013 vs. 91.4% in Q3 and 89.4% in Q4 2012. Overall, some 3.4% of mortgages were seriously delinquent as of Q4.

Lawsuit

CNBC reports Wal-Mart has filed a \$5B lawsuit against Visa, saying it is passing through unreasonable fees to shoppers that use credit or debit cards at its stores.

Jobs

CareerBuilder and Economic Modeling Specialists International report 2.9mm workers had temporary jobs in 2013, a 28% increase vs. 2010. Looking forward, they expect temporary jobs to continue to increase this year as well.

Excess Cash

The Fed reports banks are currently holding \$7.5T in loan assets.

Targeted Savings

Banks may want to alert young couples to the fact that a report by the Schwab Center for Financial Research that projects it will cost more than \$300,000 for newborns to attend an in-state college and \$592,000 to attend an out of state school. Start them saving now.

Tough Jobs

A new study by economists at Princeton finds only 10% of those out of work for 6 months or more will get hired each year. Currently, about 3.8mm people without jobs have been actively seeking one for at least 27 weeks (about 3x higher than the pre 2008 period prior to the crisis).

Wages

The Labor Dept. reports 3.3mm workers were paid the federal minimum wage of \$7.25 per hour or less or about 4.3% of all hourly workers. This is the lowest level since 2008.

Copyright 2018 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.