



## How Can CFIs Navigate Continuing Bank Card Chip Woes?

payments

**Summary:** The chip shortage keeps going. Supply issues continue wreaking havoc on many industries, including banking, with some chip deliveries taking up to 20 weeks. Because of this delay, over 1B cards globally could go unissued. We lay out six strategies to minimize the effects of the card disruptions.

Did you know that nitrogen gas is filled in potato chip bags so that they are full when you buy them at the store? In 1994, scientists found that adding nitrogen to a bag of chips extended its shelf life and made them tastier. I guess we shouldn't complain when we open that yummy, yet half-empty, bag of potato chips!

One thing that many of us are complaining about these days is the lack of computer chips. The computer chip shortage was originally expected to crest this year, but it is looking as bad as ever. Some analysts and chip makers are predicting only a gradual improvement in 2022, with a return to normalcy in 2023. That is a worrisome situation for many industries, including the banking industry. We covered this in a [previous BID article](#) and today provide you with an update.

### The effects of continued supply issues

How bad is it? The chip shortage is causing dramatic dislocations in the production of everything from cell phones to automobiles. Bloomberg reports that [the time from when a chip is ordered and then received has peaked at 20 weeks](#). Chips have become so crucial to new cars that an estimated 7.7MM fewer new cars will be built in 2021 than expected, [costing global automakers \\$210B](#) in revenue. Apple recently said it anticipated making 10MM fewer iPhones than expected in 2021 because of the chip shortage.

### Bank cards are still vulnerable

Financial institutions are looking at a dramatic slowdown in the production of bank cards that rely on chips. Up to 347MM cards globally are in danger of not being issued in 2021, and almost 740MM more may not get produced in 2022, if the chip shortage persists. That's [over 1B cards globally that could go unissued](#), if the chip shortage persists. That giant stack of unissued cards will weigh heavily on community financial institutions (CFIs), which have already had to deal with delays in card deliveries. Now, they will need to double down to deal with the shortage.

### What strategies can your institution implement to minimize the impact of this continued shortage?

1. **Assess the problem immediately.** If you haven't done this already, conduct an audit of your new chip card needs to understand the size of the impact for your institution. Get a clear picture of how many cards are needed and when.
2. **Tackle the supply situation.** With a solid understanding of upcoming needs, you can discuss the situation with card issuers and devise a plan going forward. Additionally, you may want to establish relationships with other card issuers who might be able to supply cards sooner.

3. **Review issuance.** A CFI's need for cards is based on its rate of new issuance. But that rate can be dramatically slowed by delaying and cutting back on new card issuance. Newly-designed cards can wait to be introduced to customers. Also, existing cards may not need to be replaced as quickly as scheduled. Existing cards are generally replaced before their useful life is up. You may want to work with issuers to extend the expiration dates on cards, then contact customers to inform them of the new expiration dates.
4. **Look for alternatives.** CFIs can seek other ways for customers to accomplish transactions that rely on cards. For example, your institution can promote alternate payment methods like digital wallets or even virtual cards, like Capital One's Eno virtual card.
5. **Understand the risks.** The chip shortage is not just a matter of customers being inconvenienced by delayed card issuance. There are also associated risks like the loss of revenue if payments are not made through cards. There is also reputational risk, if a CFI is less effective in handling the chip shortage than rivals. Institutions should understand these risks and be prepared to manage them.
6. **Learn from the shortage.** Use the chip disruptions as an opportunity to improve risk management of supply chains and devise effective plans for these disruptions. For example, a chip card risk management strategy could identify the vulnerability of existing card and chip sources, as well as find alternate sources in the event of another disruption.

CFIs have felt the pinch in many ways over the past few months, one of which is with supply chain issues. These six strategies can help your institution successfully navigate these challenges to continue servicing your customers and community.

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## ECONOMY & RATES

Rates As Of: 11/02/2021 12:34PM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.05	0.00	-0.04
6M	0.06	-0.01	-0.03
1Y	0.14	-0.01	0.04
2Y	0.45	-0.05	0.33
5Y	1.15	-0.04	0.79
10Y	1.55	-0.01	0.63
30Y	1.96	0.03	0.31
FF Market	FF Disc	IORR	
0.08	0.25	0.15	
SOFR	Prime	OBR	
0.05	3.25	0.07	

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