



The Great Microchip Shortage May Be Ending

technology industry update

Summary: More than half of tech executives say the chip shortage should be over early next year; some say it has already waned. We review the microchip shortage's impact on financial institutions and how quickly the changes are expected.

Poker has given the English language a full house of idioms. There's wild card, trump card, card up one's sleeve, ante up. One poker phrase that has had symbolic meaning for bankers lately has been the old line "when the chips are down."

In the case of microchips, supplies have been down in recent years. Semiconductor chip manufacturing and distribution, processes vital for the issuance of credit and debit cards, were greatly affected by a cease or slowdown in production due to the COVID-19 pandemic lockdowns. The wait for microchips stretched out to [two months or more](#), causing headaches for consumers and their financial institutions. Community financial institutions (CFIs), in particular, were hit the hardest by this and experienced longer delays because they lack the economy of scale that much larger financial institutions have. That computer chip shortage has led to long delays in the issuance of credit and bank cards, but the shortage may finally be easing up.

A majority of industry observers say chips should become more available by the end of this year or next. Financial institutions that have had to develop strategies to deal with long waits can look forward to improved microchip supplies that should speed up the issuance of new cards.

The History of Chipped Cards

Debit and credit cards with embedded chips are a fairly recent innovation. For years, cards stored information on a magnetic strip. Motivated by a rise in hackers able to steal personal information using magnetic strips, card issuing companies such as Visa began demanding that financial institutions use new cards containing semiconductor chips that were harder to hack. By 2022, an estimated [70% of cards were being issued with chips](#), and 85% of transactions used chip-enabled cards.

Despite the growth of virtual payments, [nearly eight of 10 consumer purchases are still made with physical cards](#). That includes about 50% with debit cards and 30% with credit cards. All of which means that the microchip shortage was a big headache not only for financial institutions and their customers, but also for retailers as well.

The End of a Long Wait

The potential end of the semiconductor chip shortage is welcome news for CFIs that have had to ration new bank cards and credit cards. Microchips power most payment cards these days. Without them, financial institutions have had to delay or forego issuing new cards, or get creative and institute "instant issuance" so that customers can use the card before their physical card arrives in the mail. Before the shortage, customers who needed a replacement payment or ATM card, including ones that were lost or stolen, typically waited a week or less for a new one to arrive.

According to S&P Global Mobility, there is room for cautious optimism for the future of all industries affected by the chip shortage, including the financial industry. There have been fewer semiconductor chip [production disruptions](#) this year, although the supply is still not what it was pre-pandemic. As demand increases, this could continue to constrain availability in the coming years, but not anywhere near the levels seen during the pandemic.

Predicted Outlook

But financial institutions aren’t necessarily out of the woods yet. As chip production recovers, the replenished supplies will most likely go to the auto industry and the industrial sector first, which were hit hardest by the shortage. In fact, [the auto industry is already seeing a major improvement](#) in semiconductor chip supply. Bank cards should be high on the list after that.

In fact, some financial institutions are already talking about new services that take advantage of chips in cars. For example, JPMorgan Chase is planning [new digital hookups](#) with chip-rich vehicles that would allow drivers to order and pay for food and lodging through interfaces in their cars. Bank payment information would be stored in the car’s digital memory. All of which means that banks will become even more reliant on chips going forward.

As the banking microchip shortage begins to ease, chip makers are likely to increase supplies first to their best customers, which means that banking giants will likely see shorter wait times first. But smaller financial institutions shouldn’t be far behind if production ramps up as quickly as tech analysts expect.

The microchip shortage has been a long and difficult burden on financial institutions, but with the chip shortage now showing signs of abating, those long waits should start to dissipate.

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ECONOMY & RATES

Rates As Of: 10/10/2023 05:37AM (GMT-0700)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.63	0.08	1.21
6M	5.59	0.06	0.83
1Y	5.37	-0.07	0.67
2Y	4.99	-0.05	0.56
5Y	4.65	0.04	0.64
10Y	4.70	0.13	0.82
30Y	4.88	0.18	0.92
FF Market	FF Disc	IORR	
5.33	5.50	5.40	
SOFR	Prime	ORER	
5.31	8.50	5.32	

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