Target Data Breach May Bring Better Technology to American Credit Cards

January 23, 2014 - The Target data breach which occurred late last year may actually have a positive effect on American credit card issuers. This week, Target called for the adoption of Chip and Pin technology by American card issuers and retailers. And a number of other retailers are now jumping on the same bandwagon.

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Chip and Pin has been the standard in Europe for several years now and has reduced overall credit card fraud in Europe by 70%. But it has failed to catch on in the United States; largely due to the cost of implementation. The overall size of the Target breach appears to be breaking down opposition to Chip and PIN though as both retailers and banks can now have clear evidence that when consumer data is breached, the consequences can be financially devastating to the company causing the breach.

Implementing Chip and PIN in the United States will not be cheap or fast. But not implementing it could prove to be significantly more expensive.

Chip and PIN refers to credit cards that have an embedded, encrypted data chip in them. The chip replaces the unencrypted magnetic strip that traditionally appears on the back of credit cards. When a cardholder makes a purchase, the chip is read by a machine at the point of sale. The cardholder then has to enter a PIN number to complete the transaction.

Stealing the card number, or even the actual card, won't provide a thief with much information. Unlike the unencrypted information stored in a magnetic strip, data stored in the cards chip should be undecipherable by most thieves.

Chip and PIN significantly increases costs to credit card issuers. Cards with magnetic strips cost the issuer around 50 cents each. Chip and PIN cards cost about $2 each.

Costs to retailers will also be significant. Chip and PIN readers will cost them around $1,000 to install per cash register.

Even with these costs though, Chip and PIN is likely coming to the United States. And it is coming because the cost of losses due to fraud will be higher than the costs of implementing the new technology.
byJim Malmberg
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