

## The One Good Thing to Come Out of the Target Data Breach: Chip-and-PIN Coming to the US

May 20, 2014 - When Target was forced to announce a massive data breach last year, American retailers were forced to take a hard look at the technology they were using to protect consumer data. As a part of that analysis, it was immediately clear that American retailers were far behind their European counterparts who have been using a technology known as chip-and-PIN for many years now. But an announcement from Target this week that the chain will adopt chip-and-pin by next year is likely to mean that this technology will be adopted industry wide. That's good news for American consumers.

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American retailers and banks have resisted the conversion to chip-and-pin for years. The technology, which will replace the magnetic strips on the back of credit and debit cards, is considerably more expensive. Traditional credit and debit cards with a magnetic strip cost around 50 cents. Chip-and-PIN cards cost approximately \$2 each.

But it isn't just the cost of the cards that concerns retailers. They also need to replace the equipment they use at each cash register to read and process card transactions. For its part, Target has said that they expect the technology conversion to cost \$100 million. And that's just one retailer. Industry wide, the conversion will cost billions of dollars and is likely to take several years.

Even with the additional costs, retailers now have real incentive to make the conversion. After the data breach at Target, the company saw its sales fall dramatically. By the end of the fourth quarter of 2013, quarterly sales for the company were down 46% when compared to the prior year. Most of that was due to the data breach.

Target is also facing several law suits from banks and consumers as a result of the breach. Those suits are likely to result in tens of millions of additional dollars in cost to the company. In the end, spending \$100 million to convert to chip-and-pin is likely to be much less expensive.

But what does the technology actually do to prevent data breaches?

By itself, chip-and-pin might not have prevented the computer hacking that led to the target breach. But it would have made the data stolen in the breach much more difficult to use. That's because chip-and-pin credit cards actually have a chip installed in the card that authenticates transactions. Unlike the magnetic strip on most American credit cards today, the chip is very difficult to duplicate.

This means that even if someone gets their hands on your credit card number, if the card possesses a chip, the card number alone is virtually useless.

Hopefully, other retailers will see the wisdom in Target's conversion and follow suit. While it may be impossible to prevent data breaches, chip-and-pin will make it much more difficult for criminals to victimize American consumers using stolen credit card data.

by Jim Malmberg

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