US Credit Card Technology About To Change To Half-Baked Chip Without the PIN

November 20, 2014 - After the Target data breach last year, a push began in the United States to make credit cards much more difficult to counterfeit. The technology to accomplish this has actually been in use throughout Europe for the better part of the last decade. It is called Chip and PIN; referring to a computer chip embedded in their credit cards and requiring the card holder to use a PIN when they make a purchase.

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Chip and PIN works very well. And we were thrilled when several large retailers made announcements that it would be coming to the United States this next year. Unfortunately, Americans are only going to see half of this technology when it initially rolls out here. While their credit cards will have chips in them, no PIN will be required to use the cards. That means that the new cards are likely be far less effective at reducing fraud.

To be fair, the new cards (which are being called Chip and Signature) will be more difficult to counterfeit because of the computer chip they contain. When making an in-person purchase, new card readers will be able to read the chip and guarantee that the card is legitimate. When this technology was implemented in Europe, some forms of credit card fraud dropped by nearly 50% overnight.

But the lack of a PIN with the cards seriously limits their effectiveness in fighting fraud. In Europe, when someone loses their wallet or purse, they can be pretty sure that their credit cards will be useless to anyone who finds them. That's because the person finding a wallet wouldn't have access to the PINs associated with the credit cards it contains. But with Chip and signature, the person finding that wallet could walk into the nearest store and make charges all day long. The stores' card readers will verify that the card is real by reading the chip. But the lack of a PIN means that anyone in possession of the card can use it up until the card holder or the bank cancels the card.

Chip and Signature cards can't stop internet fraud either. In fact, the chip technology alone will have absolutely no impact on the way that these credit cards are processed. But forcing purchasers to use a PIN number would reduce fraud.

According to CNET, American retailers will eventually move to Chip and PIN, but probably not before 2018. The primary reason seems to be one of cost. The PIN technology is difficult to implement and the costs are significantly higher for legitimate purchases.

You can expect Chip and Signature cards to start replacing your existing cards within the next six months. And by October of next year, we expect that virtually every credit card in the United States will have been converted. After October, 2015, any merchant using the old magnetic strip swipe technology for in person purchases will be responsible for any losses they experience.
byJim Malmberg
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