

# Debit Network Routing Debate for EMV Transactions under Durbin Simmers

By Kate Fitzgerald, Emerging Payments Editor, Paybefore

With less than three years to go before U.S. EMV liability-shift deadlines begin to take effect, payment industry participants beginning to make their plans are facing their first obstacle, as the U.S. debit networks wrestle with options for choosing a technology approach for routing chip-based debit transactions under the Durbin Amendment network non-exclusivity rules. Observers expect the issue to be resolved in the foreseeable future, but debate continues about which path the industry will choose.

The debit network-routing technology debate took center stage at the Smart Card Alliance Payments Summit in Salt Lake City [earlier this month](#), coinciding with the release of technology options MasterCard and Visa put forth in recent weeks as proposed solutions for the dilemma facing U.S. debit networks. Both approaches could work, debit industry executives say, but neither MasterCard's nor Visa's offering meets all the items on their wish lists. And until debit networks find a solid technology path for processing EMV transactions under Durbin, uncertainty lingers, creating ripple effects for other payment industry players.

## Unique U.S. Market EMV Challenge

While dozens of markets worldwide successfully migrated to the EMV standard over the last 15 years without major hitches, the United States has a few unique factors making debit card processing via chip cards uniquely challenging. The first is that unlike other countries, the United States has numerous domestic debit networks that compete for market share in processing and/or routing debit transactions. The

second factor is the Durbin Amendment, implemented as part of the Dodd-Frank Act, requiring that U.S. merchants have the option to choose from at least two unaffiliated debit networks for processing debit transactions.

Existing magnetic-stripe cards enable merchant acquirers to easily route debit transactions to various debit networks using bank identification numbers (or BINs), experts say. But in a typical EMV transaction, debit network routing is determined between the terminal and the chip before going to the acquirer, so an "application identifier" (AID) is needed to encrypt the transaction.

As a result, introducing EMV to U.S. debit creates a need for industry participants to ensure that the applications built into EMV cards have sufficient capacity and flexibility for fair routing of debit transactions to various existing networks, experts say.

"The uncertainty surrounding the deployment of EMV for debit is causing a temporary holdup in the EMV planning process," Joshua Gilbert, a principal with First Annapolis Consulting, tells Paybefore. Issuers particularly want to ensure the debit-routing technology dilemma is resolved before ordering their own EMV cards "because they don't know what to plan for and they don't want to get stuck with something that requires reissuing cards or making system changes later under different specifications," Gilbert says.

Stephanie Ericksen, Visa's head of authentication product integration, adds: "The main question is related to chip debit. Issuers are asking, what can I put on my card to serve the networks that I have relationships with today? Merchants are asking, what solution is going to come forth that will allow me to confidently deploy EMV knowing I still have the same routing choices I have today? Everybody needs to work together to figure out how this is going to happen," she says.

## Call for a 'Common AID'

To help sort out the problem, a consortium of payments industry participants including issuers, acquirers, processors, major card networks and regional debit networks, among others, for months have been discussing various



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options. The council formed a work group last year to find common technology ground in complying with EMV under Durbin. In December 2012, regional debit networks, represented by the Secure Remote Payment Council (SRPc), called upon the payments industry and card networks to agree on "a common" AID, to help the industry to find a path forward for routing EMV debit transactions under the Durbin requirements.



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—Paul Tomasofofsky, *Secure Remote Payments Council*

Since then [MasterCard Inc.](#) and [Visa Inc.](#) each has proposed a [unique AID](#) that would enable merchants to choose between two unaffiliated debit networks when processing debit transactions with EMV technology. Each of the card networks' proposed AIDs is "a step in the right direction," Paul Tomasofofsky, SRP(c) president and executive director, tells Paybefore. But each has different features and neither meets all of the industry's objectives.

More than a dozen U.S. debit networks participating in the SRPc are "continuing to work on a more satisfactory solution," but it is impossible to say how long that will take, says Terry Dooley, SRPc chairman, who is also a senior vice president and chief information officer at Shazam Inc., a Johnston, Iowa-based regional debit network. "I'm somewhat optimistic that we will find an approach that gives all debit networks an equal voice in governing debit-routing for the long-term," he says. "We're moving as fast as we can, but we don't want to rush into an approach that will hurt debit network competition and limit our options." Each debit network must make its own decision about which AID it will use, "but ultimately we are after a solution we can all coalesce around," Dooley says.

### Weighing the Options

[MasterCard Worldwide](#) moved first, announcing plans on Jan. 18 to license its proprietary Maestro AID as an option "to address virtually all of the common AID solution requirements jointly identified in our conversations across the U.S. market," a MasterCard spokesperson tells Paybefore. MasterCard's AID is "a proven, market-ready solution" that allows routing of debit transactions that are authorized either online or offline and using both contact and contactless cards, and provides the most robust and versatile path for processing debit transactions in all types of retail environments, including those without a steady network connection, said Michael Weitzman, MasterCard's group executive of global products and solutions, U.S. market.

On the plus side, observers say MasterCard's option covers all types of transactions, including those for low-ticket purchases that don't require a signature. The Maestro option "preserves merchant and routing choice similarly to how it's done today," MasterCard's spokesperson says, "creating consistency and simplifying overall costs." But one of its drawbacks is that U.S. debit transactions would be routed through MasterCard, aligning users with MasterCard's brand and intellectual property, some observers say. "MasterCard has said its debit-routing solution will let transactions be routed through any network, but they must first go through MasterCard's gateway," said Jane Cloninger, a partner with Edgar, Dunn & Co., and that gives some debit networks pause.

[Visa Inc.](#) on Feb. 4 [proposed a different approach](#), offering a generic AID to debit networks with no licensing fees. Visa's approach "would support online PIN only, which is the most consistently supported cardholder verification method across U.S. debit networks today and allows for simpler implementation," Visa's Ericksen tells Paybefore. "We have developed a proposal we believe best suits the needs of the industry and that can be implemented quickly, easily and in a cost-effective manner without imposing any routing restrictions or incremental fees," she says. "The reality is that the more functionality the solution supports, the more complex and costly it will be to implement. (Visa's option also covers EMV requirements for ATMs, while MasterCard's AID does not address ATM transactions.)"

While Visa's AID option includes no gateway-routing requirements and its solution would be free, unlike MasterCard its option doesn't support contactless debit transactions, Cloninger notes. "Independent debit networks are worried that a solution that doesn't include an approach for contactless transactions could cost them market share in terms of volume," she says.

It remains to be seen whether debit networks will adopt various approaches or a single, unified option, Cloninger says. "In theory it makes sense to have some competition in the market and multiple solutions, but it also seems reasonable that the industry wants to pull together to have a single solution they can all agree upon."

The SRPc hopes to sort out its options "soon," Tomasofofsky says. "We are further than we were a few months ago, and we are making progress," he adds, but declines to speculate on when the issue may be resolved.

### **ATMs Dueling Deadlines for EMV Compliance**

In addition to offering an AID for debit network routing, Visa on Feb. 4 also expanded its EMV incentives to include a mandate for ATM third-party processors to be able to process chip card data by April 1, 2015, and introduced a liability shift for U.S. ATM operators effective Oct. 1, 2017.

Visa's move was followed by a reaction from the National ATM Council Inc., which sent a letter on Feb. 14 to MasterCard requesting that the network revise its earlier liability shift for counterfeit ATM transactions occurring in the U.S. with Maestro cards issued overseas from the original date of April 19, 2013. MasterCard established that milestone in 2011.

The council asked MasterCard to consider aligning its ATM liability-shift deadlines with Visa's new date, citing the confusion surrounding the payment industry's lack of "a universally accepted AID" consistent with debit network routing rules under the Durbin Amendment. "With little more than two months until MasterCard's April 19 liability shift for Maestro cards, there is still no universally applicable AID for EMV in the U.S.," Bruce Renard, the ATM council's executive director, said in a press release, adding that "the industry needs reasonable time for certification, deployment, testing and trouble-shooting" of EMV within ATMs.

MasterCard is "continuing to work with customers and partners" to meet the April 2013 liability-shift date, MasterCard's spokesperson says, and is developing "a new service for U.S. ATM acquirers that will seek to identify and prevent counterfeit fraud at non-EMV ATMs," he said.

### **Overall EMV Compliance Readiness**

Apart from the U.S. debit network routing debate, EMV planning is moving forward for some industry players. Merchant acquirers, which are required to support chip transactions by April 1, 2013, are "moving well along" in that process, Randy Vanderhoof, Smart Card Alliance executive director, tells Paybefore.

U.S. merchants preparing to adopt EMV "can follow the path of merchants that have already done this around the world," Visa's Ericksen says. "Most new POS terminals already have EMV contact chip hardware, and contactless is available as a 'bolt-on' option."

As for prepaid cards, "planning for prepaid cards is a bit further out as the industry evolves toward EMV," Ericksen adds. Issuers will have to determine whether the business case for adding EMV to prepaid is justified for prepaid cards that carry significant value, like salary cards, "but those decisions will be further down the line" after more immediate issues like EMV cards for consumer credit, commercial credit for international travelers and then domestic debit and international debit," she says.

*Look for more details on the U.S. transition to EMV and the implications for a variety of stakeholders in our Spring issue of Paybefore Magazine.*