

# UNFCU smart card experience: Is chip migration a business case?

Von Merrill Halpern



Die Bank der Vereinten Nationen hat sicher eine sehr spezielle Klientel. Das Phänomen wachsender Akzeptanzprobleme mit Magnetstreifenkarten schlug bei ihr deshalb vermutlich stärker durch als bei anderen US-Kartenemittenten. Kundenzufriedenheit und Kartenumsatz sanken. Auch die Fraud-Problematik nahm spürbar zu. Die Chipmigration wurde für die UNFCU deshalb zur Notwendigkeit, berichtet Merrill Halpern. Angesichts der vergleichsweise kleinen Kartenbasis wurde es aber schwierig, Dienstleister zu finden, die die Migration zu vernünftigen Kosten umsetzen konnten. Fündig wurde man bei Gemalto und First Data. Kundenreaktionen auf die Chipmigration bei den Platin-Karten waren dermaßen positiv, dass mittlerweile eine weitere Chipkarte herausgegeben wird. Hierfür sind Inhaber einer bisher gebührenfreien Karte sogar bereit, eine Jahresgebühr zu zahlen. Red.

Call it David versus Goliath – a financial cooperative becoming the first issuer to launch a globally compliant Europay-Mastercard-Visa (EMV) chip and personal identification number (PIN) credit card in the United States. Last fall, New York City-based United Nations Federal Credit Union, which serves the active and retired

staff of the United Nations, its specialized agencies and their families, attracted significant attention by bringing the smart card concept stateside. With this development and against considerable odds, the barrier for additional chip cards coming to the U.S. market was effectively broken, changing the payments landscape forever.

## A truly unique customer base

UNFCU had a strong business case given our international membership base, which spans six continents, comprising more than 200 countries and territories. EMV fit



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squarely into the service-focused strategy and member input and research of the bank, not only generated raw data on customer behaviour patterns, but also surprising results on cardholder usage. Challenges based on such member-diversity range from operating in multiple languages and time zones to deploying mail to remote duty stations and dispersed families.

Members, who currently number 94,100, happen to be among the most frequent international travellers in the world. With such a uniquely transient membership base, valid transactions could even appear to be fraud when for example, a member travelling through Kenya would withdraw ATM cash locally on Friday only to purchase jewellery in Thailand over the weekend. A member might use her card in East Timor on Monday, Australia on Tuesday and then in the Middle East all during a seven-day-period.

Beyond conventional offices, members work in a range of environments – peace-keeping zones, temporary field shelters and humanitarian project sites – often with limited telephone or Internet access. How does UNFCU partner and build relationships among this dynamic group?

In many ways, UNFCU payment card services are equivalent to those of a Private Bank without minimum balance requirements and because we are fo-

cused on delivering total member satisfaction, member feedback drove EMV's arrival.

### Customer challenges: increasing acceptance issues

During their journeys throughout the UN system, members increasingly faced acceptance issues using their UNFCU payment cards in a growing EMV-standardized world, they reported first-hand. With a firm commitment to innovation, our smart card experience was sparked by the ongoing frustrations of many U.S. residents using magnetic stripe bankcards abroad, especially in offline applications like taxis, or unattended ticketing, metro station and other payment kiosks.

Many endured embarrassing experiences having to leave long queues forming behind them only to rush to ATMs for cash or walk away dispirited from bike rental stations or meals or metro rides altogether. Although the majority preferred their UNFCU cards because of low interest rates, rewards programs and free access to over 400 worldwide VIP airport lounges, and coffee was sometimes free thanks to sympathetic wait staffers, members loyalty could only go so far. The UN community of cardholders began to switch to cash or opened a local account to be able to transact overseas.

Declined transactions were becoming the norm, which translated into our losing "top-of-wallet" status and subsequently purchase volume. It did not take long for our management to view the need for EMV as essential to our business and a cost analysis was developed immediately.

A survey conducted by the Aite Group, a Boston, Massachusetts-based financial research and consulting firm, reinforced our findings.

- It noted that 74 percent of cardholders were "extremely frustrated" when their US issued cards did not work overseas;
- another 59 percent reported it "Made me think my card company is not aware of the needs of international travellers."

### Development tactics

As a company whose mission is "Serving the People Who Serve the World," we owed it to our members to give them a card that could be used everywhere. I reached out to different processors and card manufacturers who had chip processing experience. In many cases, we would talk to a potential vendor who

agreed to help, but when they heard that the cardholder base was so small (35,000 total cardholders, 5,000 Visa Platinum or high-net worth individuals who travelled the most frequently for the

initial roll-out), they could not justify the set up costs.

Contacting Dutch firm Gemalto in 2009 proved the turning point and the timing was right. Gemalto, an international leader in digital security and provider of our World Traveller Program, had gained substantial experience in Canada, where EMV had taken hold, and wanted to form an alliance with a partner like UNFCU to begin issuance in the U.S. Gemalto had supported our complete issuance service, including full card design, production and personalization. (This had enabled UN-

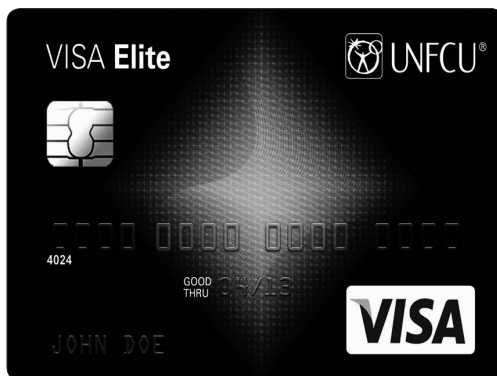
FCU to speed emergency response to members in the field in extreme situations, such as after the earthquake in Haiti when cards were delivered to the Dominican Republic.)

Moreover, Gemalto also had particular expertise in payment process integration and an ability in the future to provide UNFCU with all of the associated services, such as the SMS-based PIN reminder service if a cardholder forgets their PIN, and the global emergency card replacement service if the card is lost or stolen. This ensures the best possible experience of our cardholders. By partnering with Gemalto, UNFCU leveraged Gemalto's ability to work with payment institutions around the world to quickly achieve worldwide compatibility. This ensures the microprocessor payment card issued to our members is globally accepted.

Additionally, we also received structure for EMV specification from US-based First Data, one of the world's largest merchant processors, as well as credit union processor The Members Group. Our "North America Cooperation Team" of key partners which hailed from Nebraska, Iowa, Texas in the U.S. and Ontario, Canada all aligned to produce a global product. We also gained advice from Royal Bank of Canada, which was the first issuer in that country to offer EMV, helping us set parameters aimed at European offline terminal success. Royal Bank also recommended 24/7 service, which we were quick to implement.

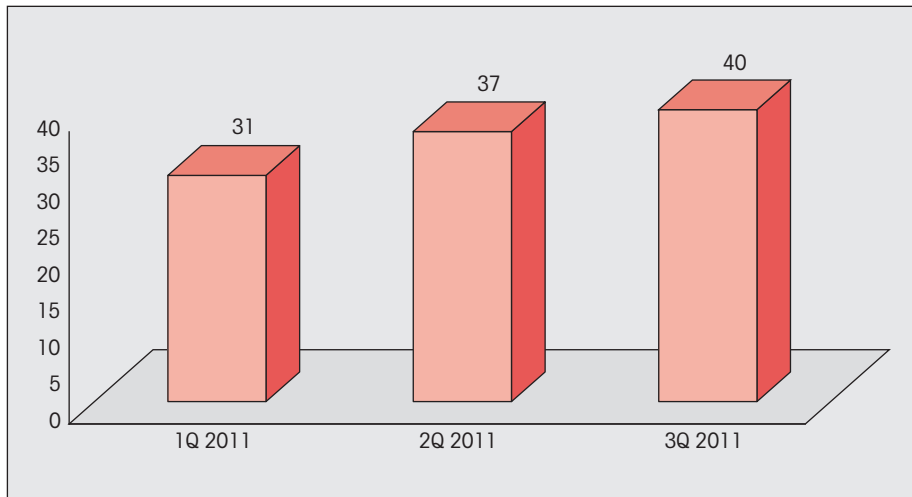
For UNFCU, having a globally accepted dual contactless product with the enhanced security a chip card brings was extremely attractive. Through Gemalto, the bank was able to reach out to Visa's Chip Implementation Team for assistance and connect with the right processing partners to pull the program together.

Additionally, Visa's recently announced Authentication Roadmap added credibility



### UNFCU EMV Card – Year-to-Date Purchase Volume Growth 2011 versus 2010

(in percent)



to our program and I had fully expected Visa to take the leadership role with EMV. From the implementation perspective, the Visa Personalization Assistant enabled UNFCU, as newcomers to chip, to have access to a detailed tool that clearly specific parameters and how they would operate. We also had the capability to set authorization limits by account type, geography and merchant. This provided UNFCU with a great structure within which to work.

#### Steps to counter global fraud

The vast migration of fraud from other parts of the world to U.S. shores because of the lag in smart card implementation, underlined the call to action. According to The Nilson Report, (11 September 2011), the U.S. currently accounts for 47 percent of global card fraud, even though it generates only 27 percent of purchase and cash volume.

At any time when fraud occurs around the world, UNFCU and other international financial institutions are exposed and our membership is so incredibly diverse. It is not uncommon for a representative of our 18-member card service team to receive a call from a primary cardholder from Mongolia to report that a secondary card-

holder in Bulgaria has a PIN that is not working. We often deliver payment cards to remote, non-standard addresses in Afghanistan, Bhutan, Burkina Faso, Gabon, Pakistan or Mozambique to name a few peacekeeping and humanitarian zone locations. At other times mail can only be addressed by "Mile Post Number" or "opposite the church."

Having the card EMV compliant provides members with an extra level of security once the card is activated. Moreover, the card simply can not be used without a PIN and it is almost impossible to replicate an EMV based card, according to "Safe E-payments", a publication which recently reported on data from Working Group on Securing Card Present Transactions. Moreover, a unique digital seal or signature in the chip proves its authenticity in an offline environment and helps reduce the number of fraudulent transactions resulting from counterfeit, lost or stolen cards.

#### EMV PIN management is not an obstacle to consumer satisfaction

UNFCU's decision to include full Chip and PIN instead of Chip and Signature stemmed from the aim to maximize acceptance opportunities, focus on service expectations and ensure transportation

acceptance, plus the elimination of transportation fraud. Chip and PIN was a more intensive development, however, it was absolutely necessary for our clientele. Moreover, the absence of a complete turn-key solution added time, but also created an opportunity to customize our card as an early adopter.

Development centered on intensive testing which was essential before the launch. As acceptance procedures vary by region, merchant and terminal, we found terminals to test in several locations, including "pure" offline terminals in Geneva and Rome, two major UN hubs where we have representative offices. We also conducted additional testing in Toronto, Canada, using this and other EMV prevalent locales to view consumer behaviour in action at railways, self checkouts, face-to-face and in rental shops.

Smart card adopters in the U.S. must recognize that EMV PIN Management is not an obstacle to consumer satisfaction.

■ UNFCU used pre-assigned PINs in the First Phase with PIN mailers used for forgotten PINs. The bank also planned to re-issue cards if different PINs were requested. None has been so far.

■ In the Second Phase, we envision adding an IVR PIN change and the capability by visiting an EMV-equipped ATM. Going forward, widespread issuance in the U.S. will require more EMV capable ATMs.

#### Positive member feedback

Limiting EMV at first to our most lucrative card, Visa Platinum proved an effective strategy to bring the cards to market and we introduced as the Visa Elite credit card in October 2010. Since then, the cards have been very well-received. Members reported being extremely happy that they now have a card that they can confidently use wherever they travel.

As a result of this product, UNFCU is achieving its goal and this is even more remarkable given the turbulent global economy, recessionary fears and general lack of consumer confidence in the U.S. and abroad.

Based on our obtaining ongoing member feedback and conducting extensive research we developed a new credit card product. A data-driven direct marketing strategy also bolstered the global launch efforts. Using the MCIF system and CRM or customer relationship management software, the Marketing Department, identified affluent global travellers, who according to the psychographic data would be most likely interested in a premium card with an annual fee.

The Visa Elite credit card roll-out relied on direct mail as the primary channel, however, the effort also included branch signage at branch locations in the U.S. and representative offices abroad, emails and online banners. The message on the collateral materials focused on the benefits of the credit card's travel-related features and generated a response rate which exceeded industry standards.

### **Increases in member demand, satisfaction and spend**

We saw significant increases in member demand, satisfaction and spend, as a result of our debuting EMV. UNFCU card applications, credit lines booked, revolving balances and overall purchases jumped 153 percent, 275 percent, 20 percent and 20 percent, respectively during the first five months following the EMV card's issuance compared to the previous year.

Moreover, cardholders who previously did not want to pay an annual fee of USD 50 to obtain a Visa Elite card are now willing to do so, as they now have the ability to fulfil transactions in environments where they previously experienced difficulty or

loss of face. "Why does everyone else not have a problem renting a bicycle?" is a question we no longer hear.

Mag-stripe was never designed to provide security and as the only significant mag-stripe environment left, the U.S. has been isolated. According to EMVCo, the organization responsible for managing the EMV specifications globally, approximately one billion EMV cards have been issued worldwide and 15.4 million point-of-sale terminals accept EMV cards.

### **The deadline for the liability shift is a game changer for issuers**

Collaborative action on the part of issuers and acquirers, merchants and associations can bring about tremendous benefits to our mutual customers. For example, Visa announced a program of incentives designed to help the U.S. payments industry move to EMV cards as an industry standard by the middle of the decade.

The deadline for the liability shift is definitely a game changer for issuers. Large acquirers and retail chains in the U.S. need to take action. Perhaps, the biggest shift will occur when consumers actually see functioning chip terminals, become curious and express interest to their financial institutions. A large supermarket or department store chain, or other big box retailer can also be truly influential in creating a huge jump in awareness among consumers. Gradually you will see further EMV migration to the U.S.

The Smart Card Alliance has recognized UNFCU for having led the way forward towards the introduction of the new smart card technology in the U.S. for the benefit of all. This and our advocacy role for EMV in the U.S. are tremendous distinctions to which we are most proud. Being able to assist that one traveller who would have previously been unable to board a TGV to make a connection to her next humanitarian mission stop is however the best way to demonstrate the true value of EMV to UNFCU. ■■■