A Merchant’s Guide to Maximizing Consumer Experience and Network Routing at POS

Driving more efficient, convenient and secure transactions
Executive Summary

As U.S. merchants deploy chip-compatible POS terminals in compliance with the October 2015 liability shift, there is still confusion about how to configure terminals to align with the merchants’ best interests, while keeping the process simple and convenient for consumers. Further complicating this challenge, default settings on many terminals prompt the consumer to choose the debit network to route the transaction—or other configurations that have a similar impact—and take away the merchants’ legally protected network routing choice. This guide outlines proven best practices for configuring chip-compatible POS terminals to deliver streamlined consumer experiences and enable merchants to take full advantage of the debit network routing options provided by federal law.

Introduction

When the U.S. payments sector began the cumbersome process of overhauling magnetic stripe payment cards with cards embedded with sophisticated chips (a security standard also referred to as EMV™), U.S. card issuers initially focused their efforts on credit cards. This was in large part because the EMV specifications for credit cards were released earlier than the debit card specifications. With issuers now accelerating their release of chip-enabled debit cards, merchants must ensure that their POS terminals are configured to not only accept chip-embedded cards, but also to preserve merchants’ debit transaction routing rights as provided under U.S. law.

For merchants, the existence of the Common Application ID (Common AID) in U.S.-issued EMV debit cards enables chip-compatible POS terminals to be configured to maximize benefits to the consumer and the business. Consumers expect simple prompting to select their preferred payment source. Configuring the POS terminal to select the Common AID gives merchants a wider range of routing options for debit transactions, consistent with rights afforded to them under federal law. The resulting competition among debit networks—each vying to be selected by the merchant for routing—serves both consumer and merchant interests, creating price competition and driving innovation in security, usability and convenience.

However, even as merchants deploy and upgrade their EMV POS terminals, there is still confusion over how to configure terminals to take full advantage of these routing options.

The Evolution of Debit Networks

To understand the current state of the debit network space, it’s helpful to understand how they evolved from the early ATM networks. Regional processing networks supported the ATMs of the early 1970s. Many separate ATM networks meant ATM cardholders could only transact with machines that matched their specific card brands. When it became clear consumers wanted more universal availability, the regional networks merged to provide national coverage.

PIN debit networks were a natural extension of the booming ATM market. Issuers recognized that PIN transactions were more secure, while merchants liked that debit transactions settled faster than credit. American consumers also began using debit over credit, preferring the up-to-the-minute budgeting and lack of interest charges.

As debit card usage increased, community banks, regional banks, credit unions and global issuers participated in regional PIN networks that expanded accessibility for their respective ATM/debit cardholders. By the early 1990s, these regional ATM/debit networks were growing quickly, with the resources necessary to expand debit card usage beyond the ATM and to the retailers’ point of sale.
Global Brands Create Exclusive Arrangements that Limit Merchant Choice

Debit card usage exploded in the late 1990s and early 2000s, as consumers increasingly recognized the many benefits of PIN debit transactions. From 1995 to 2002, the Kansas City Federal Reserve Bank reported that debit card usage at the point of sale grew 32 percent. For the first time in 2003, U.S. consumers conducted more debit transactions than credit.

Global card networks, which had primarily focused on the credit card market, could not ignore consumers’ clear preference for debit cards. This prompted several of them—in order to capture a share of the growing debit market—to purchase their own PIN networks. Shortly thereafter, some of these global networks began offering incentives to the 10 largest debit card issuers—whose transactions comprised 80 percent of annual debit volume in the U.S.—to drop the national PIN debit networks from their debit cards and enter into exclusive arrangements with the global networks. At the time, two of the global networks were associations owned by financial institutions (they have since become publicly traded companies).

Also during this period, regulators relaxed “equal prominent” rules that required all network logos to be displayed with equal prominence on cards. In effect, this often relegated the national PIN debit network logos to the back of the card—or off the card altogether. With global networks’ logos dominating card fronts, it’s no surprise that cardholders began to assume cards only worked with the network whose name appeared on the front of the card.

These exclusive contract arrangements resulted in a dramatic shift of transaction volume away from the national PIN networks to the global networks. This shift severely undermined the robust competitive environment that existed in the debit network market until then.

Federal Regulation Restores Competitive Environment

With global networks gaining dominance in the debit market and increasing debit interchange rates to match credit card interchange levels (despite PIN debit transactions’ greater security and efficiency), many in the payments industry believed regulation was imminent. After the 2008 U.S. financial crisis, as legislators considered measures to prevent future crises, several members of Congress and the Federal Reserve Board became aware of what was occurring in the debit network environment. Senator Dick Durbin (D-IL) incorporated language into an amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act aimed to put a stop to the exclusive contract deals between global networks and the largest debit card issuers.

In 2010, Congress passed the Dodd-Frank Act, including the so-called Durbin Amendment. Among its several requirements, the Durbin Amendment mandated that every debit card issuer in the U.S. participate in at least two unaffiliated debit networks. In addition, it specified that networks and issuers could not inhibit a merchant’s right to choose a debit network for routing of each debit transaction and that merchants are allowed to steer consumers to a particular authentication method (such as entering a PIN or signing for the transaction).
Around the same time as the enactment of the Durbin Amendment, two of the global networks announced plans to bring chip technology to electronic payments in the U.S. by imposing a “liability shift.” The liability shift dictated that, after October 1, 2015, the responsibility for fraud occurring at the point of sale fell on either the merchant or the debit-card-issuing financial institution—whichever had weaker security. The global networks reasoned that the threat of bearing these fraud costs would incentivize U.S. merchants and financial institutions to spend the time and money to make the migration to chip technology.

**Common AID Enables Merchant’s Network Choice for Chip Cards**

However, the U.S. couldn't simply adopt the same chip technology deployed in other countries. The EMV application used in the rest of the world—known as the Global Application ID (Global AID)—could only route transactions to the one network found on the front of the card. This singular routing option would violate the requirements of the Durbin Amendment. While the national PIN debit networks urged the global networks to include them in the Global AID, the global networks opted instead to create a second application ID for chip cards: the Common AID. Whereas the Global AID limits routing to the global networks, the Common AID enables merchants to select from any of the 12 debit networks, including the major global networks, based on the merchant’s routing preference.

**Good for All: Creating Price Competition and Driving Innovation in Security, Usability and Convenience**

The Durbin Amendment was intended to establish a competitive debit network environment and usher in a technology boom for debit networks. To differentiate and compete, debit networks began making investments in security, reliability and expanded access. Key innovations included enabling non-PIN transactions for bill payment and other eCommerce transactions, as well as offering PINLess debit POS transactions. Most recently, leading debit networks have begun deploying predictive fraud scoring to reduce debit fraud to even lower rates. These innovations deliver greater security and convenience to consumers. Merchants benefit from this enhanced risk mitigation and network competition also helps keep interchange rates at fair market levels.

**New Chip-Enabled POS Terminal Screen Prompts Confuse Consumers, Limit Merchant Network Choice**

Leading up to October 2015, U.S. financial institutions were faced with the monumental task of issuing more than 1.2 billion chip-enabled payment cards, while merchants faced the challenge of replacing or upgrading more than eight million POS terminals to make them chip-compatible. Immediately after the October 2015 liability shift, as more merchants deployed chip POS terminals, both consumers and merchants began reporting new, confusing screens that were displayed on terminals when the cardholder attempted a transaction using a chip-enabled debit card. After inserting the chip debit card, the terminals were prompting the consumer to choose the debit network to route the transaction—despite the fact that this choice was the merchant’s right under federal law. Giving the consumer this choice was confusing and added an extra step that slowed the transaction. Moreover, the vague and unfamiliar language pushed consumers to select the global networks—the household brand names they recognized on the front of their cards.
Federal Reserve Board Moves to Protect Merchant Choice

As more reports of these confusing POS screens spread across the industry, market watchdogs and merchant advocates began raising concerns. Legislators and regulators soon learned of the confusing screens, and immediately recognized them as a threat to the debit network competition the Durbin Amendment was intended to protect. This led the Federal Reserve Board to update its guidance regarding the Durbin Amendment—specifically, adding a new FAQ to address POS screens. The FAQ restates the Durbin Amendment’s protection of a merchant’s right to steer transactions to their preferred routing network. It also makes it clear that the Federal Reserve Board views network actions or requirements that force a merchant to give up this routing choice—including what was happening with the screens in question—as a violation of federal law.

A Merchant’s Guide to Maximizing the Benefits of Debit Network Choice

Though the Federal Reserve Board’s guidance is clear, it is ultimately the responsibility of the merchants to deploy and optimize their chip-compatible POS terminals. Fortunately, there are several established best practices for configuring EMV POS terminals to enable merchants to take full advantage of the debit network options guaranteed by federal law.

• Automatically route transactions through the Common AID

EMV terminals should be configured to automatically route all debit transactions through the Common AID. This enables merchants to choose from the full range of debit networks—both national and global networks—unlike the Global AID, which limits routing choice to the global networks. The Common AID is also compatible with all card verification methods (CVMs), enabling the merchant to offer its desired range of consumer transaction choices (i.e., PIN, PIN bypass, etc.).
• Automatically prompt consumer for PIN entry

Before the introduction of chip cards, after the debit card was swiped and the magnetic stripe was read, the POS terminal traditionally offered the consumer the choice of “debit” or “credit.” In reality, choosing “credit” did not somehow enable a credit transaction with a debit card. It was merely a way for a consumer to elect not to enter a PIN for verification. In the chip card world, best practice is to dispose of the confusing “debit/credit” language, moving instead to a screen that allows for PIN entry or PIN bypass. Displaying the “debit/credit” screen adds an extra step for the consumer, slowing down the transaction and potentially confusing the consumer.

In other words, if a merchant’s preferred CVM is PIN (because of its inherent security and efficiency benefits), the POS terminal should be configured to immediately prompt the consumer for PIN entry after the card is inserted. If the merchant chooses to provide consumers with the option to skip PIN entry, that choice can be provided via another prompt on the PIN entry screen.

Many large national retailers implemented this best practice more than a year ago when they first deployed chip terminals. This field-tested approach continues to win over more retailers.

How Merchants Can Optimize PINLess Debit

In some cases, the POS terminal may have default settings that interfere with a merchant’s ability to exercise its full routing rights. As a result, First Data strongly recommends that merchants express a preference to their terminal manufacturer or software vendor that they want their POS terminal configured to select the Common AID for every debit transaction. As a reminder, the Common AID allows access to all networks — both national and global networks.

The Merchants’ Guiding Principle: Steer POS Transactions to Maximize Benefits

Today, merchants can deploy POS terminals that enable various forms of verification—including PIN debit, signature debit, PINLess debit as well as biometrics used in debit transactions via mobile wallets. Even in the case of emerging mobile payment or other non-plastic card payment methods, federal law still gives merchants the right to choose from at least two different routing options. Thus, configuration of these terminals should follow one simple principle: No matter the debit access device, terminals should steer the transaction to align with the merchant’s preferences—the preferred routing option and the preferred CVM. This approach not only protects the best interests of the merchant—it streamlines the transaction process and reduces confusion for the consumer.
Conclusion

Healthy Competition: An American Ideology that Benefits All

From its inception, the U.S has definitively followed the “mixed economy” ideology—a balancing act of promoting free-market competition while sparingly using regulation to protect the best interests of its citizens. Precedent shows that protecting market competition is good for business, good for consumers and good for the economy as a whole.

The continued evolution—and regulation—of the debit network market exemplifies this core American ideology in practice. Today, merchants and issuers have a choice of 12 debit networks. Merchants can choose the best routing option for debit transactions that originate in their stores. This choice empowers them to make decisions based on price, security and reliability. For issuers—particularly community banks and credit unions—this choice provides critical leverage when negotiating debit network membership costs and fees. Moreover, competition among debit networks drives innovation toward more efficient, more convenient and more secure transactions—an outcome that benefits merchants, issuers and consumers, too.

Carrying a Legacy of Innovation into the EMV Era

As one of the industry’s first major PIN-debit networks, First Data’s STAR® Network has helped shape the evolving debit card market for nearly four decades. We carry our legacy of innovation into the EMV/chip card era, as the first independent debit network to support EMV debit transactions for Apple Pay®, the first debit network to adopt the Common AID, and one of the first debit networks to support mobile wallets.