



# Case Study: PenFed EMV

## PenFed Leverages Collaboration and Technology for Success with EMV

### Overview

#### Credit Union Profile

Pentagon Federal Credit Union (PenFed), headquartered in Alexandria, VA, has \$16.8 billion in assets, over 1.3 million members and 566,000 credit card accounts. The credit union was established in 1935 and serves members (active and retired) of the U.S. military and employees of the U.S. government.

#### Business Challenge

Migrate to EMV chip cards to respond to members' issues with using mag stripe cards outside the U.S. and to prepare for the liability shift deadlines set by Visa and MasterCard and AMEX.

#### Solution

Leverage the deep EMV knowledge of an in-house expert; gather the experience and lessons learned of fellow credit unions that have migrated to EMV cards, and partner with PSCU for additional expertise and talent in EMV program implementations and card production.

#### Results

By the end of 2014, PenFed will have issued 180,000 EMV cards as replacements for members' expiring mag stripe cards, enhanced their members' transactional experience in foreign countries, and positioned the credit union for the impending liability shift in 2015.

## The Journey Begins

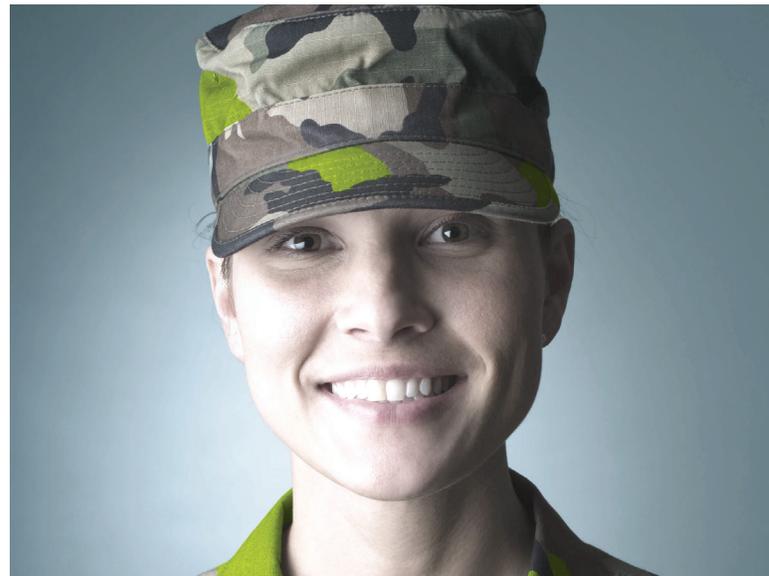
Back in 2011, the thought of a credit union taking the first bold steps to issue EMV cards to members was a reach given the low volume of merchants equipped to accept and process chip card transactions in the U.S. But for some credit unions, especially those with a predominantly military-based membership, or those with a substantial number of high-value members who travel internationally, EMV technology was taking the shape of a mandate on member service and convenience. Liability shift implications aside, when enough members voice their frustration over the inability to use their mag stripe cards abroad at certain merchants or unattended kiosks, a movement is born and plans take shape. Such was the climate then for Pentagon Federal Credit Union. This study takes a look at the road PenFed traveled to EMV card issuance, the lessons learned along the way and the value of collaboration and partnerships in making their journey a successful one that continues today.

## The Case for EMV at PenFed

PenFed's membership base includes members of the military, many of which who are based in countries outside the U.S. or who travel frequently to regions where EMV chip cards are the standard payment method, rather than cards with mag stripes. The seeds for EMV at PenFed were sown in 2011 when PenFed members were reporting problems with using their mag stripe cards at some merchants outside the

U.S. Either the merchants refused to accept mag stripe cards, or unattended kiosks (such as those at train stations), were equipped to accept EMV cards only.

Although PenFed was aware of the liability shift timelines from Visa and MasterCard, their primary decision point on entering the EMV game pivoted on the member's payment experience. Stories of member inconvenience and card non-acceptance landed on their CEO's desk and in February 2012, PenFed's EMV migration project began in earnest. "We knew that with as many cards we had in our portfolio and as many members that needed payment capabilities abroad, we had to make migration to EMV a priority to better serve our members," said PenFed's Scott Young, VP, Card Services.



## Reissuance Pipeline Big Driver in Deployment Strategy

Rick Paden, PenFed's Sr. Manager of Card Projects and a former EMV expert with First Data, drove the project. PenFed began by doing their homework and comparing notes with neighboring State Department FCU, which had already embarked on a migration to EMV cards. "Our collaboration with State Department and their experience in the process was invaluable in helping us accelerate the learning curve," said Young "We also benefitted from our partnership with PSCU's implementations team and their relationships with First Data and the EMV card manufacturer."

Once PenFed had learned the nuts and bolts of the EMV implementation process, they began with a "soft" launch to members who opened new credit card accounts and presented them with the option of an EMV or a traditional mag stripe card on any of their four Visa card products. The credit union averages 3,000-5,000 new accounts per month.

Rather than pursue a mass reissue effort with their credit card portfolio, which consisted mostly of Visa programs, the credit union aims to transition to all-EMV cards through the natural reissue process, or upon the expiration/reissue dates of the accounts. Looking out through 2016, their natural reissue pipeline looks like this:

2014 – 180,000 accounts  
2015 – 60,000 accounts  
2016 – 125,000 accounts

PenFed assigns the same profile to each of its EMV cardholders, which means the cards will work in any of the various online and offline chip and PIN or chip and signature cardholder and transaction verification modes, depending on the terminal's EMV configuration. "We wanted to be sure to accommodate our members who need payments capabilities at unmanned kiosks, because that was a noted source of frustration for them." said Young.

## Focus on Service and Convenience, Not Immediate ROI

PenFed's primary motivation for issuing EMV cards centered on member convenience rather than any high expectations for savings from fraud losses. The credit union did not cite any tangible metrics on fraud loss reduction to date and noted that in foreign countries fraud is migrating to card-not-present (CNP) transactions. "We viewed EMV as a 'must-do' to better serve our members," said Paden. "While the added expense of issuing EMV cards was certainly a consideration, we were focused more on getting our members the right technology for their needs."

With regard to CNP fraud, Paden noted the credit union is watching closely developments on the tokenization front as the most promising CNP fraud fighting technology. "But we don't expect to see a reduction in type of fraud until more global adoption by merchants happens in the U.S."

## Experience Gained, Lessons Learned

Even with the benefit of a seasoned EMV implementations partner in PSCU and resident expertise in the technology in place at PenFed, the credit union offered several insights about their EMV experience to date:

- Credit unions should budget for higher expenses in the transition to EMV. Larger credit unions like PenFed with massive card bases benefit from reduced card production costs due their scale and purchasing power; smaller credit unions may feel more of a financial crunch.
- Issuing EMV cards through affinity program partners costs more, due to the lower volume of cards in these programs.
- PenFed needed to change some internal processes that required special and manual intervention due to limitations of its initial card production partner.
- The credit union noted resources challenges associated with member-selectable PINs; PenFed currently uses system-generated PINs for their EMV cards, but is working to design processes and tools to support members' preferences for selecting their own PINs.
- Member education was a challenge to acclimate cardholders to a new way of performing a transaction – “dipping” the card rather than swiping. “People have been swiping cards for 40 years, so although it’s an apparently simple change, it still represents a departure that can cause some confusion and questions,” noted Young.
- PenFed used statement insert messages as its primary communication vehicle to advise members on how to use the EMV cards. Since its first large reissue event in January 2014, PenFed has since broadened its educational outreach with more instructions on its card carriers.
- Not unexpectedly, older credit union members are more likely to need coaching in how to use the new cards; Millennials not so much because of their familiarity with new technology in general.
- Although fraud loss reduction has been difficult to quantify with the EMV cards, members' perception of card security has been enhanced. The credit union has received numerous compliments from its international traveling members who are happy to have the technology in their wallets.
- Don't overlook the value of internal communications within the credit union. It's essential to educate your Board and executive team as well as deliver cross-divisional education to staff to ease the transition to EMV.
- Be prepared to field some inquiries from members about the new cards and why they are receiving them. Although PenFed did not experience a flood of questions, they did have some members asking “What is this new card?” They also had some members who wanted their old card back because of fears (unfounded) about potential compromise from RFID scanning.

## The Really Good News on EMV – It's Getting Easier

PenFed's experience with their migration to EMV cards offers an encouraging outlook for other credit unions planning to make the move to EMV. With each EMV migration all parties in the loop have improved their tools and processes, making it easier for the next migrations to go smoothly.

Repetition, like practice, makes perfect. For example, the use of implementation templates has streamlined and shortened the time to deliver cards to members. Also, Visa and MasterCard are removing themselves from the certification process and instead empowering EMV-experienced processors and CUSOs, like PSCU, to perform that task.

In addition, First Data and PSCU developed a streamlined process that removes many of the complications from the decision making process on EMV.

PenFed's next priority is to migrate its debit card portfolio to EMV, but the credit union, like many other issuers, is waiting to see how the new standards for network transaction routing unfold.

## About PSCU and EMV

This section would report some metrics and status about PSCU's progress with EMV. For example:

PSCU is an industry leader in EMV implementation and production technology. The CUSO has been recognized for several "firsts" in the EMV landscape:

- First CUSO to issue Reloadable Prepaid EMV Cards
- First CUSO with a CU to process Maestro EMV™ ATM transactions

PSCU currently has migrated 24 credit unions that are now issuing EMV cards to members; another 140 are in their implementations and certification pipeline for migration and card issuance prior to the liability shift on October 15, 2015.

PSCU expects all 500 of the CUSO's credit card-issuing credit unions to have EMV credit cards issued in time for the October 2015 deadline.

