

Contact

Business-building ideas for TD Merchant Services customers

Important information about chip cards inside

Visa cards get even smarter, with chips

How can a credit card be “smart”? Just ask Visa Canada. It will soon be leading its members in introducing a new generation of *Visa** cards – called *Visa* chip cards or smart cards – that are embedded with a microcomputer chip.

With this new technology, these chip cards can securely store software and confidential information, perform calculations and support a host of additional functions.

The new cards will require a personal identification number (PIN) at the point of sale in place of a signature. And that provides added protection and convenience to merchants and customers alike.

While the *Visa* chip card is new to Canada, approximately 400 million of these payment cards are already in use in countries around the world, including the U.K., France and Japan. Over the next five to seven years, *Visa* chip cards will gradually replace magnetic-stripe cards across Canada. (See sidebar on Page 2 to find out how TD Merchant Services will help you make the transition.)

How it works

The chip on the card is essentially a tiny computer that can store more than 100 times the information contained on a magnetic stripe, including encrypted information identifying the cardholder.

BUSINESS BOOSTERS



A cardholder simply inserts his or her chip card into a chip-enabled point-of-sale (POS) card reader instead of having it swiped and then enters a PIN on a keypad (instead of providing a signature) to

verify identity. When the PIN is entered, the encryption devices on the card and in the reader recognize each other, and validation occurs instantly.

Continued on Page 2

In this issue

2 / Business boosters

- Getting ready for new chip cards

3 / Managing your business

- Chip Q&A
- Fast facts

4 / Fraud prevention

- 7 steps to reduce chargebacks
- Countering counterfeiters



Visa cards get even smarter

Continued from Page 1

Visa chip cards will also continue to have a magnetic stripe so cards can be accepted by Visa merchants who do not yet process chip cards.

Key features

The new Visa chip cards have a number of security enhancements. For example, it is relatively difficult to extract information from a card's chip or to make a counterfeit copy of the card. As well, if someone other than the owner gets hold of a chip card, purchases cannot be made without knowing the PIN.

The chip and PIN combination can also help make paying faster and lineups shorter. A customer receipt will still be printed, but the customer won't need to sign a sales slip, or have his or her signature verified.

Chip and PIN will also allow merchants to more closely align their Visa processes with those of other payment organizations, such as *Interac*® Direct Payment.

Future uses

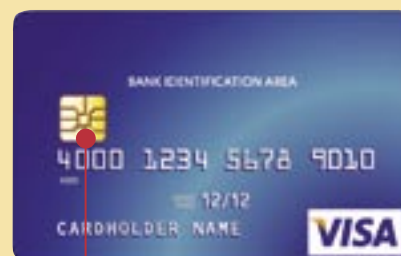
The chip platform opens up a host of future possibilities. The chip's ability to hold software may allow the card to handle unattended or remote retail payments, keep track of customer spending records and strengthen relationships with customers through optional add-on applications, such as loyalty and rewards programs.

With the introduction of chip technology, Canadian merchants can discover the benefits of combining the chip and PIN: a faster, more convenient and more secure sales transaction experience and improved customer service. Ultimately, that should mean a boost for your business. For more information about Visa chip cards, visit www.visa.ca/chip ■

Please note: For many years to come, the new Visa chip cards will also continue to have a magnetic stripe so cards can be accepted by Visa merchants who do not yet have new chip-reading terminals.

Getting ready for new chip cards

TD Merchant Services will help you make a smooth transition to chip technology by giving you the support and information you need. Here is an overview of what to expect and when.



In the next few years, expect to see more Visa cards bearing this tiny, yet powerful, microcomputer chip.

2005

- Canadian merchants may already be seeing Visa chip cards that have been issued by financial institutions primarily outside North America.
- TD Merchant Services provides its customers with updates on the migration to chip.

2006

- TD Merchant Services continues to update its merchants on the migration to chip and begins to inform merchants of the date their POS terminals will be replaced with chip-capable terminals (or upgraded with new software).
- Merchants to be provided with instruction manuals, training sessions and other support during the installation of the new devices/software.

2007 to 2010

- Visa Canada, along with other associations, will conduct a pilot study in a specific region to test the effectiveness of communication and education strategies for merchants and cardholders regarding chip transactions.
- Chip-embedded Canadian Visa cards and bank cards – including TD Visa and TD Canada Trust Access Cards that support *Interac* Direct Payment – are introduced.
- Visa chip cards are issued to Canadians in greater numbers, gradually reaching a noticeable volume.
- Critical mass is reached: Most Canadian cardholders and merchants become chip-equipped.

2010 and beyond

- POS terminals continue to be converted to chip-capable terminals.

The current magnetic-stripe technology will remain in use so merchants with non-chip-enabled terminals can continue to meet the payment needs of all their Visa customers. Watch for updates, and more details about this timeline, in future issues of *Contact*.

Chip Q&A

The adoption of new technology inevitably gives rise to questions from those affected. Here are some of the most frequently asked queries about the new chip cards.

When will merchants be required to install chip-reading terminals?

It is expected that by 2010, most *Visa* and bank cards in Canada will feature chip technology, and most merchants will have the equipment to accept them. This transition will happen gradually, and TD Merchant Services will keep you informed every step of the way.

Is Visa Canada eliminating magnetic-stripe cards right away?

No. *Visa* chip cards will also continue to have a magnetic stripe to ensure universal acceptance.

Will magnetic-stripe cards work in new chip-reading terminals?

Yes. New chip-reading terminals will accept both magnetic-stripe and chip cards for many years to come. When a *Visa* chip card is inserted into a new POS chip reader, the terminal will prompt the cardholder for the appropriate method of authentication. If a cardholder uses a *Visa* magnetic-stripe-only card, a signature will be requested. If a *Visa* chip card is presented, terminals will request a PIN.

What happens if a European visitor wants to use his or her chip card in Canada before the new terminals are in place?

Since *Visa* chip cards will continue to have a magnetic stripe, a visitor using a *Visa* chip card in Canada will be prompted to provide a signature at a non-chip POS terminal.



Will Canadian *Visa* chip cards work at all *Visa* merchant locations around the world?

Yes. Canadian *Visa* chip cards will employ technical specifications that meet the global standard to ensure global acceptance (visit www.emvco.com for more information on these specifications). And where merchant terminals only accept magnetic-stripe transactions, the card will be accepted using magnetic-stripe technology.

Are *Interac* and other payment card providers moving to chip technology?

Each card association is currently reviewing the migration to chip technology to determine how it will affect each individual association. *Interac* has confirmed it will be incorporating this technology.

For more information about the *Visa* chip card and the technology behind it, visit the following websites:

- Visa Canada, www.visa.ca/chip
- Visa International: Global Smart Acceptance, www.international.visa.com
- Smart Card Alliance, www.smartcardalliance.org
- U.K. Chip and PIN Programme Management Organisation, www.chipandpin.co.uk
- EMVCo., www.emvco.com ■

Fast facts

- Over the coming decade, chip-enabled *Visa* cards will gradually replace more than 24 million Canadian-issued magnetic-stripe *Visa* cards.
- *Visa* Canada estimates that 270,000 chargebacks are processed every year in Canada at significant cost to merchants. *Visa* chip cards should help reduce chargebacks, potentially saving millions of dollars annually.

PIN preference

- By using *Interac*, Canadian consumers have become familiar with the use of a PIN to authenticate transactions. The majority of Canadian consumers favour the use of a PIN over signature at the point of sale, according to Maritz Thompson Lightstone, a leading Canadian consulting and research firm.¹
- A 2004 pilot study by *Visa* Canada confirmed that PIN-based transactions can help customers check out faster. The study found that PIN-based transactions are faster than signature-based transactions. This makes them a useful tool for reducing lineups and boosting customer service.

International impact

- In a 2003 pilot study on *Visa* chip cards in Northampton, U.K., 98% of the 120,000 cardholders involved found chip and PIN transactions to be "very" or "fairly" easy to use. The three-month study involved 1,000 merchants, including retail stores, restaurants and gas stations. These merchants reported such benefits as reduced administration costs related to receipt tracking, and reduced customer lineups because of faster chip and PIN payment processes.²
- One country that has already migrated to chip technology is France, where all *Visa* cards have been chip-equipped since 1992.

7 steps to reduce chargebacks

As the busy holiday season approaches, it's the ideal time to review your card-processing procedures. Here are some helpful reminders that can help minimize your risk of chargebacks:

1 Make sure the *Visa* card presented is valid. Check the standard identification and security features, such as the flying dove hologram, a valid expiration date, a signature panel that bears the repeated word "Visa" in blue and gold, and other features, which can be found in the merchant section of www.visa.ca/securewithvisa

2 Check the customer's signature. For face-to-face transactions, ensure the customer signs the sales draft and that it matches the signature on the back of the card. Never accept an unsigned card.

3 If you're using a manual imprinter, make sure you have a clear, legible imprint of the customer's *Visa* card on all copies of the sales draft. Note the authorization number on manual sales drafts. When you call for authorization, write the number in the space provided.

4 Ensure proper authorization procedures are followed and always obtain an authorization number, when required, before processing a transaction.

5 Stay on top of recurring payments. Keep a file of your signed agreements with your customers and submit your transactions on a timely basis.

If you process a recurring transaction after a customer cancels or changes the arrangement, it may be charged back.

6 Deposit *Visa* sales drafts on time. Your merchant agreement tells you how many days you have from the date of a transaction in which to deposit your sales drafts with TD Merchant Services.

7 Respond promptly to all copy requests. If your customer inquires about a sales charge on his or her credit card statement, you might receive a request from TD Merchant Services for a copy of the transaction receipt. Respond by the due date specified and check that your copies are legible and clearly show the following: account number, transaction date and amount, card expiry date, your company name and location and the customer's signature (for in-person transactions). ■

Time to order paper?

The following companies are preferred suppliers of paper for TD Merchant Services point-of-sale terminals. To ensure you are dealing with a reputable dealer, give one of them a call when you need paper.

- Main-Tech Industries, 1-800-268-5120
- Maxwell Media Products, 1-800-561-6406

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1. Source: *The Road to Chip & PIN*, Visa Canada, 2005.
2. As reported by the Chip and PIN Programme Management Organisation on behalf of Chip and PIN Limited, APACS and the British Retail Consortium, 2003.

Countering counterfeiters

If a discarded credit card receipt bearing a cardholder's account number finds its way into the wrong hands, it can be used to create a counterfeit card, or to make fraudulent online transactions.

In an effort to prevent the misuse of customer information, Visa Canada has required that, as of March 1, 2004, all POS terminals provided to merchants disguise or suppress at least four digits of the cardholder's account number on customer receipts. Effective April 1, 2007, all terminals must meet this requirement.

The merchant's copy of the receipt, however, will retain the full card account number, in order to facilitate the fulfillment of copy requests for chargeback disputes. TD Merchant Services requires that these receipts be kept in a secure area for 12 months and then recommends destroying them.

In our ongoing efforts to help you deliver reliable, secure and convenient payment options to your customers, TD Merchant Services has taken steps to ensure that all our new POS devices comply with the Visa Canada requirement and that our older terminals will be upgraded by the April 2007 deadline.

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