MONEY & INVESTING

KPMG's Elevating Move

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HEARD ON THE STREET | C8

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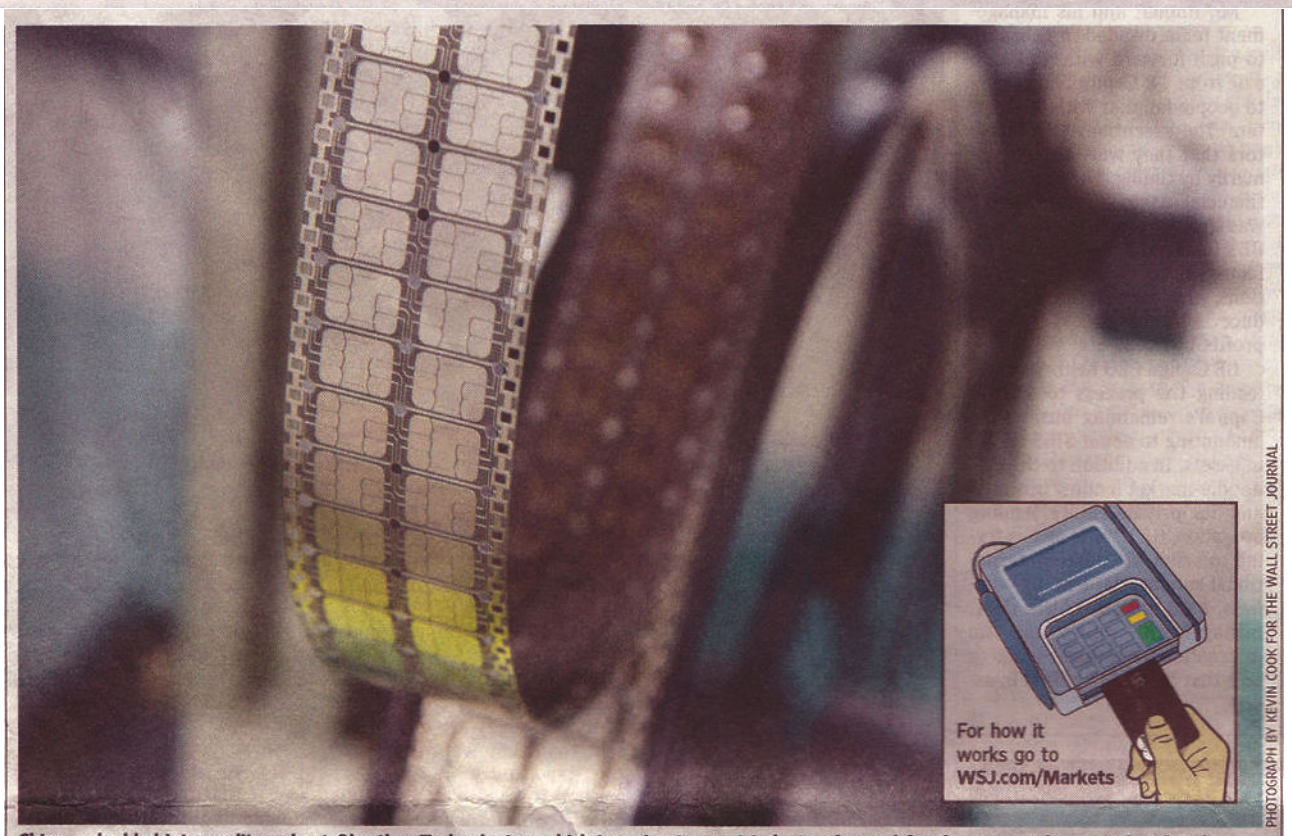
THE WALL STREET JOURNAL. Tuesday, April 21, 2015 | C1

DJIA 18034.93 ▲ 208.63 1.17% **S&P** 2100.40 ▲ 0.92% **NASDAQ** 4994.60 ▲ 1.27% **10-YR. TREAS.** ▼ 14/32, yield 1.897% **OIL** $56.38 ▲ $0.64 **EURO** $1.0739 **YEN** 119.19 See more on C5 and at WSJMarkets.com



PHOTOGRAPH BY KEVIN COOK FOR THE WALL STREET JOURNAL

Chips embedded into credit cards at Oberthur Technologies, which is racing to meet industry demand for the new cards to combat fraud.

Chip-Card Plant Rocks Around Clock

By Robin Sidel

EXTON, Pa.—Inside a one-story brick factory surrounded by a locked chain fence, more than a thousand workers toil in a plant that operates around the clock to help U.S. banks catch up to the rest of the world in credit-card security.

The owner of the plant, **Oberthur Technologies**, is racing to meet the banking industry's demand for new cards embedded with a computer chip in addition to a traditional magnetic strip. The goal: to reduce card fraud by making it harder for thieves to create counterfeit cards.

Some 575 million of the new cards—representing about three-quarters of U.S. credit cards and about 40% of debit cards—are expected to be in the wallets of American consumers by year-end, making it the biggest roll-out of new cards in decades.

Chip cards, which have been used throughout Europe, Asia and Canada for years, are coming to the U.S. after delays from banks that issue cards and the merchants who accept them.

But challenges remain: Even though tens of millions of new cards have already been shipped to customers, only **Wal-Mart Stores** Inc. and a few other large retailers so far have upgraded their payment terminals to accept the new plastic. Target Corp., which had a massive breach in late 2013, has upgraded its terminals and plans to start accepting chip cards in the

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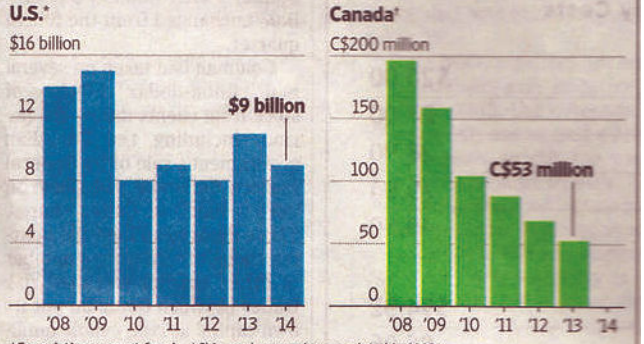
Purloined Plastic

U.S. fraud losses from debt and credit cards have been relatively flat in recent years, while Canada has seen sharp declines since introducing cards embedded with computer chips in 2008.



*For existing-account fraud †Chip-card conversion completed in 2012; 2014 data not yet released; 100 million Canadian dollars = $81.7 million
Sources: Javelin Strategy & Research (U.S.); Canadian Bankers Association

THE WALL STREET JOURNAL.

CARDS

Continued from the prior page

late spring, according to a spokesman.

Many merchants also are griping that they won't meet an October deadline, when the liability for fraudulent transactions will under certain circumstances shift from card-issuing banks.

A trade group representing tens of thousands of grocers and pharmacies last month asked **Visa** Inc., **MasterCard** Inc., **American Express** Co. and **Discover Financial Services** to delay the October deadline until 2016, citing backlogged orders for new equipment. It also expressed concern about potential delays in the checkout line during the holiday shopping season because consumers may be confused about how to use the cards, which must be dipped into a reader rather than swiped.

So far, the card networks haven't given any indication they will delay the plan.

As an additional complication, some small banks are saying they won't start issuing the more secure cards until next year at the earliest.

"Some of [the small banks] are struggling with the complexity of it, and the cost is a factor," said Jamie Topolski, director of alternative payment strategies at **Fiserv** Inc., which is helping small banks navigate the transition to chip cards.

The cards are as much as five times more expensive to make than traditional cards, costing roughly $1 each. Even for small banks, that could be an added expense of tens of millions of dollars, a big tab at a time when they are being squeezed by low interest rates and heightened regulatory requirements.

Card-issuing banks hope that the extra expense will be offset by a decline in fraud costs.

"We want them, and we hope the benefits outweigh the costs," said Doug Gulling, chief financial officer of **West Bancorp.** Inc., which has $1.5 billion in assets. The Des Moines-based bank, which operates 12 branches in Iowa and Minnesota, will start introducing chips on its debit cards next year.

The new cards are considered more secure because the chip creates a unique code for each transaction, making it more difficult for thieves to replicate the cards with stolen data. Traditional cards with a magnetic strip contain static data that can be duplicated, including account numbers and expiration dates.

Card manufacturers say that they are having a hard time convincing some financial institutions that the cards take longer to make than traditional cards, especially if designs need to be altered to make room for the computer chip that is embedded on the front.

"The large issuers are very sophisticated and have been working on this for years, but there are some people that are just scratching the surface," said Steve Montross, chief executive officer of **CPI Card Group**, a manufacturer that shipped about 70 million chip cards to U.S. issuers last year.

Chip cards represent about 80% of the cards being made these days at the Oberthur plant, which has a capacity to produce 20 million cards a month and is located about 30 miles west of Philadelphia. The company bought the Exton plant in 1999 as part of a plan to gear up for chip-cards production, thinking they were around the corner.

"It took a very, very long time, and now it's happening on an accelerated basis," said Martin Ferenczi, president of North American operations for Paris-based Oberthur, a printing firm founded in 19th-century Paris that has morphed into one of the world's leading manufacturers of credit and debit cards.

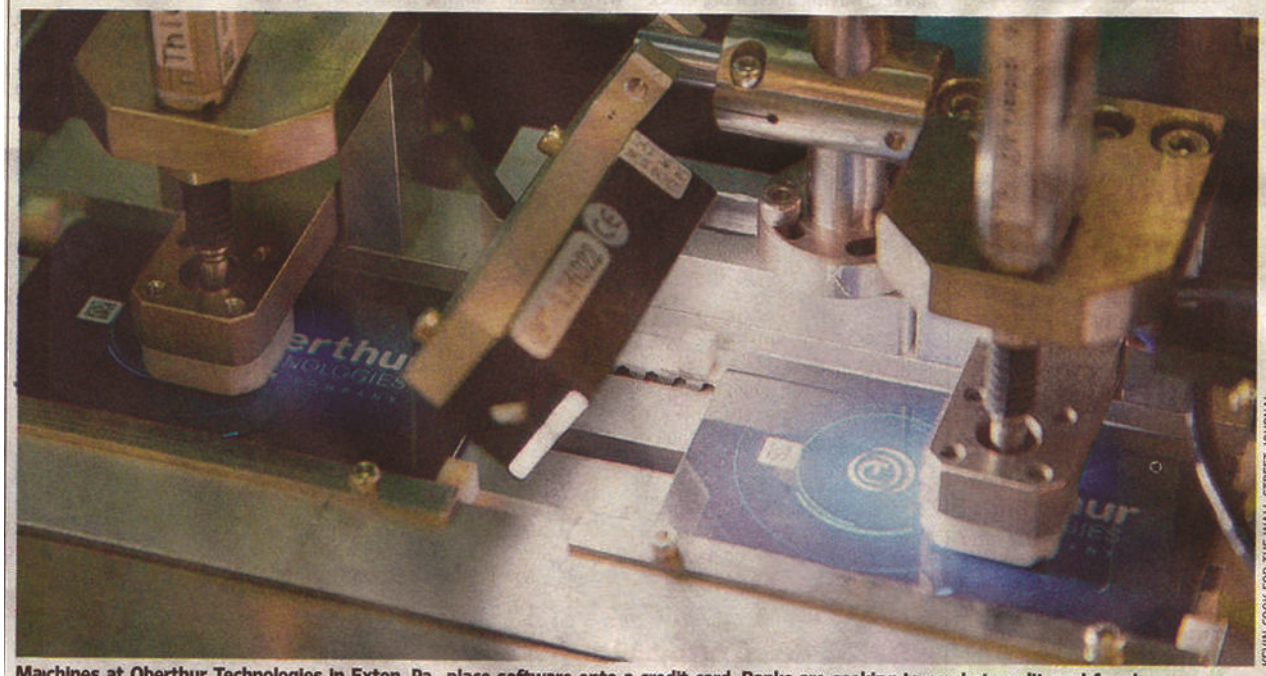
The plant now employs 1,080 workers, up 68% since 2013, and it recently moved to round-the-clock operations.

Security at the plant is tight. Workers who move through different sections of the facility must pass separately through multiple sets of locked doors that can only be accessed electronically with an identification card.

The plant was humming on a recent morning as nine rows of cages filled with hundreds of thousands of half-finished credit and debit cards waited for their chips.

The nation's largest financial institutions are ahead of smaller banks in getting the new cards to their customers.

J.P. Morgan Chase & Co., the nation's largest credit-card issuer, has issued more than 19 million chip cards so far and expects to have more than 70% of its credit-card portfolio converted by year-end, a spokesman said.



KEVIN COOK FOR THE WALL STREET JOURNAL

Machines at Oberthur Technologies in Exton, Pa., place software onto a credit card. Banks are seeking to combat credit-card fraud.