



National Grocers Association

March 7, 2016

Charles Scharf
Chief Executive Officer
Visa Inc.
900 Metro Center Boulevard
Foster City, CA 94404

Ajay Banga
President and Chief Executive Officer
MasterCard Incorporated
2000 Purchase Street
Purchase, NY 10577

Dear Mr. Scharf and Mr. Banga:

As you know, the National Grocers Association (NGA) primarily represents retail and wholesale grocers that comprise the independent sector of the food distribution industry. These businesses are essential parts of American communities. The independent supermarket industry accounts for nearly one million direct jobs, more than \$130 billion in annual sales, and more than \$30 billion in annual wages paid. NGA's members are the locally-owned grocers in most communities and range from single store operators to large regional supermarket chains, but are all privately held or family-owned companies.

Our members accept credit and debit cards for payment every day and spend considerable time, money and effort installing and maintaining the hardware and software to do that. Those efforts (and costs) include work to protect against payment card fraud. This past year has brought particular challenges. Your companies instituted a policy shifting liability for fraud to grocers and others who accept cards if the card involved in a fraudulent transaction had an EMV computer chip but the grocer did not have working and certified EMV card readers.

NGA's members have purchased EMV card readers and associated software costing, in most cases, more than \$1,000 per lane in stores. For many stores, this means costs of more than \$10,000 per store. In fact, some of our member companies spent more than \$100,000 to install these card readers and other required software and hardware upgrades in their stores.

Even those outlays of resources, however, were not enough for our members to be able to accept EMV-based transactions because your companies and the other major card networks had to certify them before they could accept EMV transactions. We have had many members

waiting for months to get their certifications and some have been waiting for more than one year. This is unacceptable! Your companies and other networks should have anticipated this demand for certification, and the timing of it, given that you set the date and parameters for the liability shift.

In short, our members spent the money to make the shift, but you did not. Our members are being penalized with growing numbers of chargebacks because your networks and others shortchanged us. These chargebacks have already run into the thousands of dollars for some of our members' stores. While that might not seem like much to you, in an industry that survives on profit margins of one to two percent, those are big numbers.

And, it rubs salt in the chargeback wounds for organizations of which you are a member to publicly blame merchants for not accepting EMV transactions. That public blame-game calls into question whether your goal is improving payment card security or making neighborhood stores a scapegoat.

Not only are our members getting charged back when they have done what they can to be able to accept EMV transactions, but they are being hit with chargebacks that are clearly inappropriate. For example, grocers have been charged back on transactions that occurred in late September 2015 – before the October 1st liability shift was scheduled to take place. Our members have also been charged back on mobile payments. There is obviously no EMV card to insert into a card reader when someone uses a mobile phone to pay for groceries so those chargebacks are simply the result of banks taking advantage of loopholes (intended or unintended) in your rules. Chargebacks have also been foisted onto our members in situations that don't involve fraud. These include issuing banks moving their credit risks onto merchants and initiating consumer fraud claims (and chargebacks) when there was no actual fraud.

This mistreatment needs to stop. Until all of the delays in certifying EMV card readers and all of these invalid, unfair chargebacks come to an end, your companies should cover chargeback costs on your cards or, alternatively, you should suspend the liability shift. Those are the only ways we see to restore some modicum of sanity to a policy change that has gotten out of control.

Thank you for your attention to this matter. I look forward to your prompt responses.

Sincerely,

A handwritten signature in cursive script that reads "Peter J. Larkin". The signature is written in black ink and is positioned above the printed name and title.

Peter J. Larkin
President and CEO

March 30, 2016

Mr. Peter J. Larkin
President and CEO
National Grocers Association
1005 North Glebe Road #250
Arlington, Virginia 22201-5758

Dear Mr. Larkin,

I write to respond to your March 7 letter to Charlie Scharf.

Visa appreciates that members of NGA have undertaken significant investments as part of the industry's migration to chip card acceptance. Chip cards enhance security and make it virtually impossible to replicate a counterfeit card. This additional security helps ensure that the entire Visa payments ecosystem remains secure and that consumers maintain confidence in electronic payments.

The goal of Visa's EMV terminal certification requirements is to ensure that every time a consumer inserts a Visa card at a merchant terminal, the transaction is processed securely and in a manner consistent across the Visa payments ecosystem. We recognize that it takes cooperation across multiple parties to ensure that EMV terminals can properly handle and transmit Visa transactions. Visa has invested heavily in efforts to educate all stakeholders about the migration to chip and has provided extensive resources for the acquiring merchant communities on terminal testing and configuration.

Visa has taken a number of steps to streamline our certification processes and requirements to ensure that merchants can become certified quickly and efficiently to accept electronic payments using Visa chip cards. For example, Visa has published minimum terminal requirements to help merchants and acquirers identify the least complex way to deploy chip terminals. Visa has also allowed merchants to conduct their own testing through online toolkits and to electronically submit their test results to the acquirer – if the acquirer provides that service. Further, for merchants that are not yet chip enabled, we have identified a number of best practices that they can adopt in the interim to help prevent counterfeit fraud in their stores. Visa has published a guide on www.visachip.com with fraud-prevention tips for non-chip enabled merchants.

Your letter also raises concerns about chargebacks. Counterfeit fraud chargebacks have historically represented a small portion of overall chargebacks. Since the 2015 liability shift, counterfeit fraud chargebacks continue to remain at low levels. We understand that some invalid chargebacks may have resulted from the EMV chip liability shift. However, Visa is closely monitoring chargeback volumes and as needed we take action to remove invalid chargebacks



William M. Sheedy
Executive Vice President,
Corporate Strategy, M&A, and
Government Relations

from the system. In addition, in the event of an erroneous or invalid chargeback, the merchant's acquirer can 'represent' that chargeback back to the issuer. We continue to educate issuers, acquirers and merchants on best practices regarding chargebacks including direct outreach to issuers, acquirers and merchants.

As you know, the industry's migration to EMV is critical for us all. We value your input and engagement and will continue to work closely with the merchant community to identify opportunities to ensure that Visa payments continue to provide compelling value to merchants, financial institutions and consumers alike.

Sincerely,

Bill Sheedy
EVP, Visa Inc.