

EQUIPMENT CLAIM TIMES

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Point-of-Sale System Claims



An electronic Point of Sales (PoS) system is defined in the Business Dictionary as "self-contained, computerized equipment that performs all tasks of a store checkout counter. It allows payments by bank or credit cards, verifies transactions, provides sales reports, coordinates inventory data, and performs several other services normally provided by employees."

However, the "self-contained" nature of PoS systems is a misnomer. PoS systems consist of numerous networked hardware components (e.g., terminals, printers, monitors, hubs/switches, back office server, etc.), software (primarily a proprietary retail/restaurant management system and computer operating system such as Microsoft® Windows), and third party services (e.g., credit card transaction services). The diversified nature of all of these components is what makes PoS system property damage claims particularly complex, especially with new credit card data security standards that impact both the hardware and software of pre-existing systems.

We have consulted on numerous hospitality, retail and fuel station PoS system damage claims and have noticed a recent trend develop over the past two years. This trend is related to continuing problems with PoS system "freeze-up" and inaccurate credit card processing totals that continues after "repair" of the system and reportedly occurs only after an insured damage event. The freeze-up issue results in the need for the Insured to constantly (typically once or twice a day) re-boot the PoS system, causing customer dissatisfaction in waiting for the completion of ordering or payment. The insured event can be something simple such as a break-in to a cash drawer, or more complex such as an electrical surge to several terminals or a back office server. Independent of the cause or

degree of hardware damage represented by the event, the freeze-up and credit card summation issues have occurred in several cases after the Insured's service provider has reportedly fully repaired the PoS system through replacement of the damaged component(s). The tendency is then for the Insured to attribute these difficulties to the event and request that the full PoS system be replaced under the insurance claim. A claim that originally had been several hundred dollars for a replacement component and service provider labor has now ballooned up to \$40,000 for a new system (including hardware, software, installation and training).

The key question here is: are these issues related to the insured property damage event?

The issues described above are related to the PoS retail/restaurant management operating software system ("PoS OSS"), and as such are not commonly impacted by a physical damage event that occurs to cash drawers, individual terminals or network switches. Although software systems can, at times be influenced by a hardware damage event through damage to a master terminal (when in a master/slave configuration) or back office server hard drive, the remote nature of back office servers (if not involved in the event) ensures that a software malfunction in the terminals would be diagnosed and could readily be repaired by a competent PoS system service provider. In addition, when terminals remain operational, this indicates that their hard drives and processors were not damaged by the insured event. Physical damages to a hard drive or processor would prevent the terminals from being able to boot.

Often, the Insured's normal service provider will diagnose the PoS system after the insured event, affect repairs through configuration and software updates and then believe the Insured is returned to a pre-existing condition. This is usually accomplished with single component (e.g., a terminal) or even without any hardware replacement. We often find that these re-configurations of the software system or the downloading of new device drivers to re-establish communications between terminals and back office servers are the actual cause of the freeze-up issues and are not associated with any physical damage to the hardware.

Although the Insured may report that there were no similar problems with the PoS system prior to the insured event, often times the occurrence of some form of event exposes pre-existing issues with software incompatibility with current technology or transactional protocols. We have seen numerous recent PoS system damage claims that have led to data processing and transactional inefficiencies becoming more evident or noticeable even after all damaged system components are replaced or fully repaired. Some of these issues have been related to a) the pre-event maintenance of the PoS OSS (utilizing old, unsupported software) combined with configuration changes by a service provider while attempting repairs, b) the continued use of old technology servers that cannot support the functionality of current terminal hardware, transaction rate or software requirements, and c) required changes in credit card transaction encryption requirements.

Evidence to this effect is provided when the credit card processing issue occurs with the freeze-up issue. The Insured describes a concern with discrepancies between credit card transaction local daily close-outs and the daily close-out statements provided by the credit card companies or a bank statement. This concern is a known issue related to recent changes in credit card encryption technology and data protection standards. The newer credit card transaction encryption standards (PCI Data Security Standard) are often not supported by older PoS OSS versions, although "work-arounds" are often employed to avoid the need for upgrading PoS OSS versions and purchasing

new hardware. Slight configurations changes to the Insured's PoS OSS, particularly if it has not been maintained with the latest software release or is no longer supported by the manufacturer, will cause the described transaction discrepancies by impacting the "work-arounds". Independent of the cause of the credit card transactional difficulties being software related or transaction processor related (i.e., the credit card payment service provider) an insured event would not produce any damages which could have impact credit card processing summations. Calculation processes are fully software based; such issues simply cannot arise by damage to, or loss of, hardware.

We have worked with numerous third-party qualified PoS service technicians to look into these issues and they have always found similar results after all damaged or potentially damaged PoS hardware components have been eliminated as a cause.

Are these issues covered under the insurance policy, and more specifically is the cost of full replacement of the PoS system due to these issues justifiable under the claim?

This is not our question to answer as technical consultants, and we have seen claims representatives address these issues in many different ways. We always encourage the Insured to seek a third opinion relative to the repair of their overall PoS system. However, purely from a technical standpoint, we will continue to maintain that the costs associated with replacement of all undamaged PoS hardware and software components (e.g., back office server, PoS OSS, terminals, receipt printers, kitchen printers, monitors, cabling and hubs/switches) are not associated with the insured physical damage event.

Please address any comments or questions on these articles via email to Mark Krzyzanowski at mark@eqdamcon.com. Please also feel free to suggest newsletter article topics related to technology equipment and property claims.

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