

Preparing for PSD2 in the UK

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Agenda

✓ **PSD2 – Where are we now?**

✓ **UK PSD2 Enforcement**

The context

Frictionless 3DS

Probable impact in the UK

✓ **Managing impact on Revenue**

Worked example

Forter Merchant Case Study

✓ **Preparing for Enforcement**

PSP Strategy – exemptions

Recurring payments

Other things to consider



PSD2

Where are we now?

PSD2 – Where are we now?

- PSD2 enforcement in EEA started Dec 31st 2020
- PSD2 is now enforced in all EEA Countries
- Under PSD2, any transaction with a **card issued in an EEA country and used with an EEA merchant**, must have an **SCA (Strong Customer Authentication)**, unless an exemption or exclusion can be granted
- 3DS is currently the main SCA method used
- The addition of 3DS friction results in a conversion drop of **up to 30%**, and reduces **bottom line revenue by up to 10%**

Merchants' Feedback

- **Performance Monitoring** - Less than 50% of merchants are actively monitoring performance, mainly because of a lack of data available from their providers
- **TRA (Transaction Risk Analysis exemption) is critical for merchants** - Merchants are frustrated with acquirer (in)ability to offer TRA exemptions, some are planning to move to multiple PSPs or putting pressure on PSPs to provide better service
- **Configuring SCA strategy** - One of the biggest challenges that merchants face is working with individual PSPs to configure their SCA strategy (when to apply 3DS)

The two most common approaches

Try to
exempt all

Try to
process all
with 3DS

Both approaches achieve suboptimal results

When are exemptions important?

	Exemption Success	3DS Performance
France	High	Average
Germany	High	Low
Italy	High	Low

Merchants need to maximize exemptions especially in low 3DS performance segments



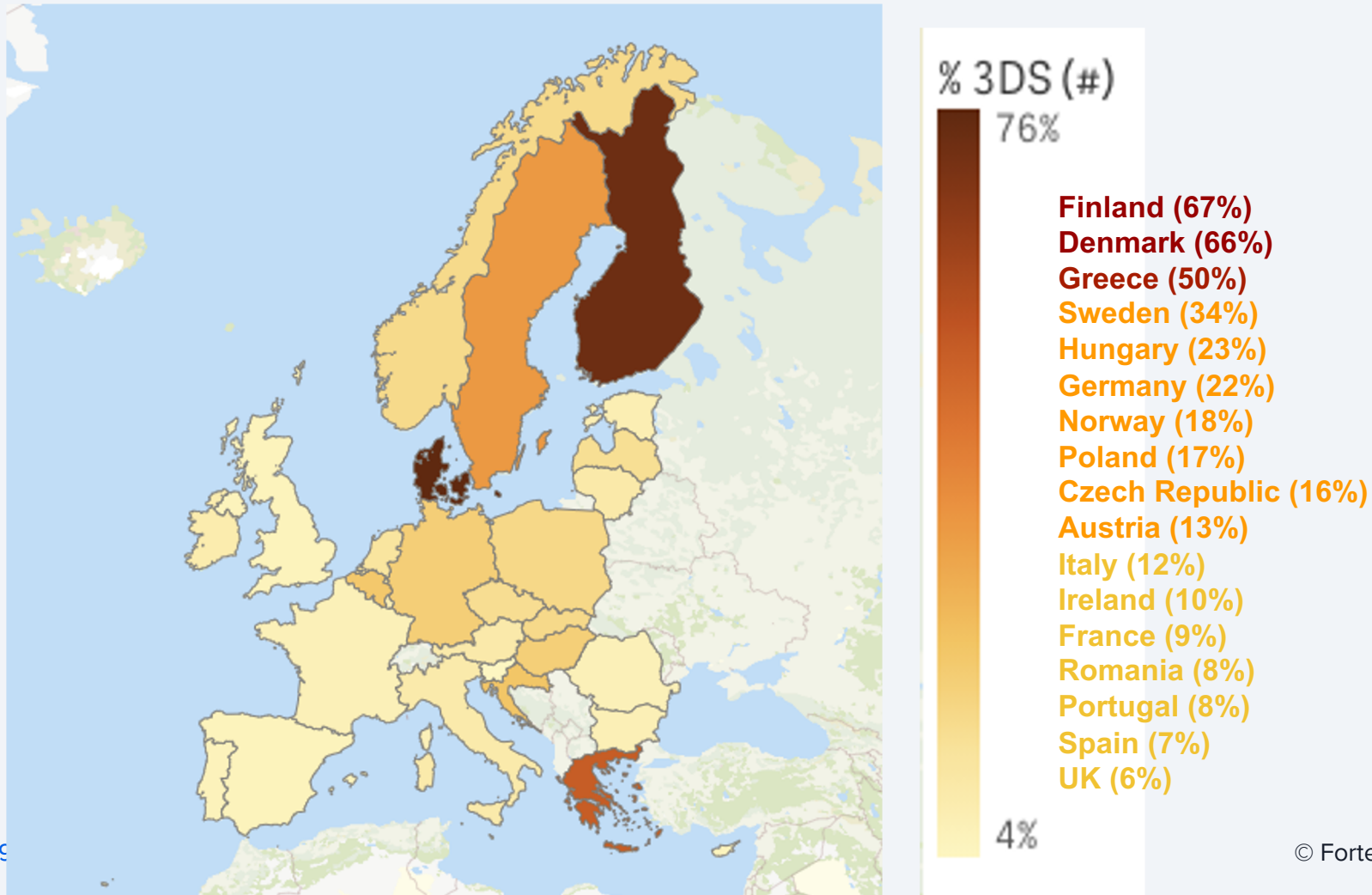
3DS Fail and Abandonment – 20–30%

	3DS Success	3DS Fail	3DS Abandonment
France	77%	9%	14%
UK	79%	12%	9%
Spain	73%	12%	15%
Germany	70%	15%	10%
Italy	66%	17%	17%



Current state – % 3DS per Country Vs Exemption

(amount <250 EUR when merchant is smartly applying exemptions)

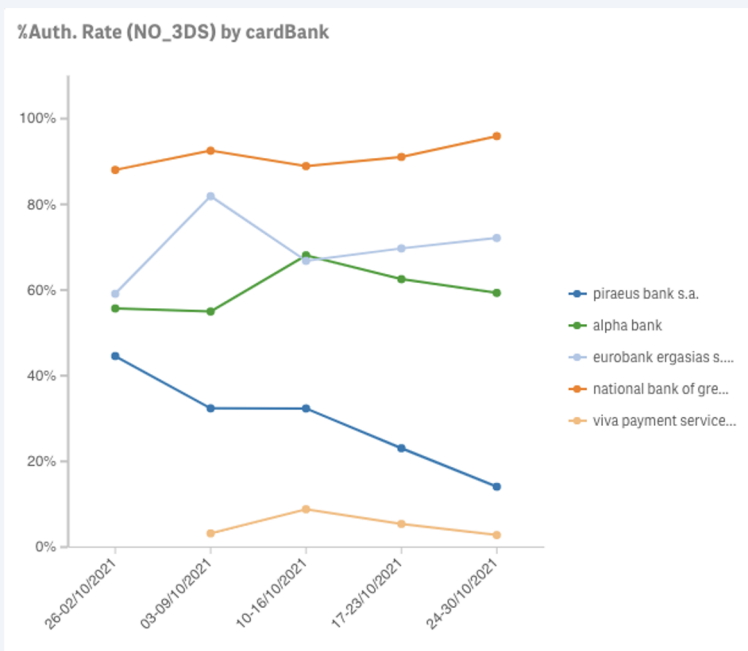


Exemption acceptance rate per issuer

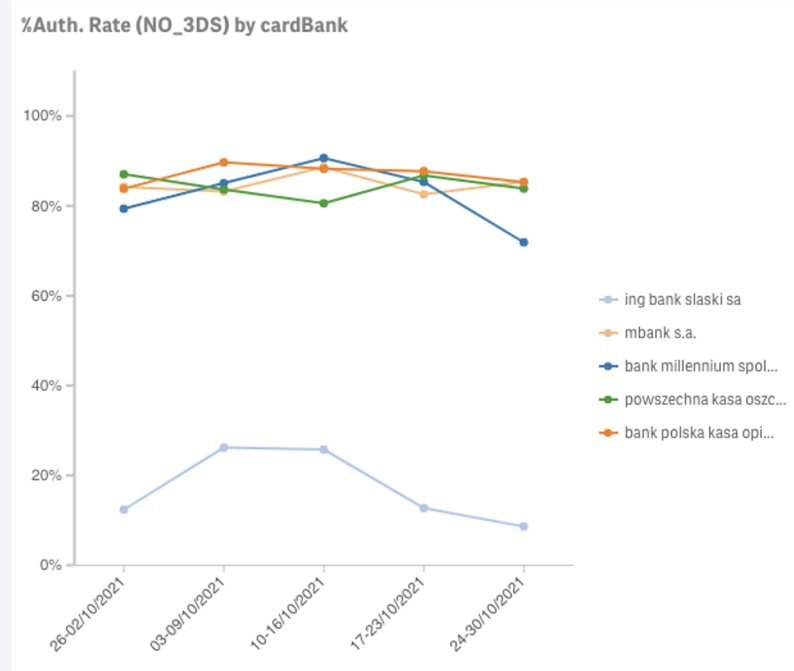
Key Takeaways: Different issuers, even in the same country, treat exemption requests differently.

PSD2 exemption engine must consider the issuer level to make an optimized decision

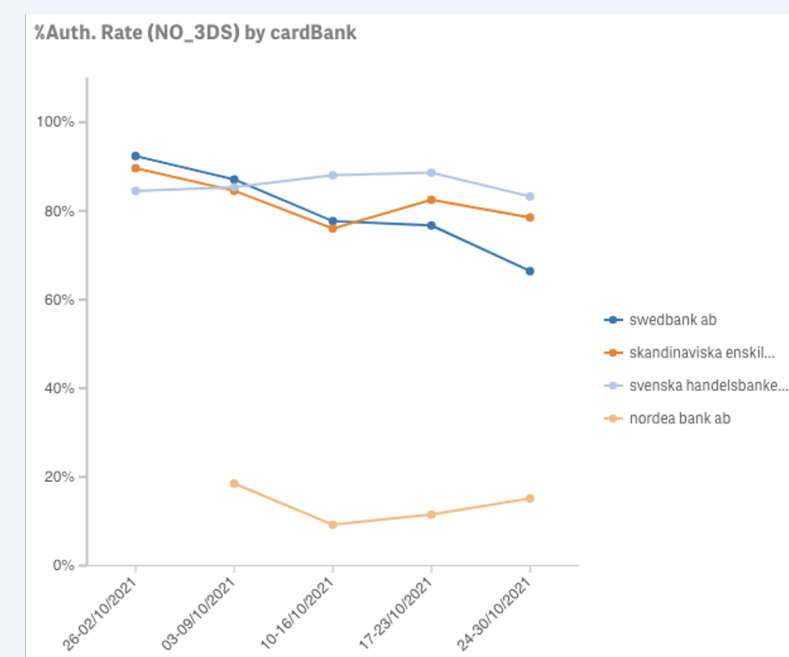
Greece



Poland



Sweden



PSD2 Exemptions via the 3DS rails

3DS2.2

Visa - Over 80%

MC - Over 50%

3DS2.1

Over 95%

What are Exemptions via 3DS2.1 (MC only) and 3DS2.2?

- Enables exemption requests via the 3DS rails rather than via authorization

Benefits

- Enables the merchant to step up and present a 3DS challenge in case issuer declined the exemption request, without proceeding to authorization
 - Provides a better user experience by avoiding bank declines

Being Smart about it

- Make the right decision whether to request exemption via the rails or via authorization



UK PSD2 Enforcement

The Context

The UK Context

When? Will it really happen this time?

- FCA has set full UK Enforcement on March 14th 2022
- SCA declines are set to increase from Jan 18th until enforcement date
 - According to UK finance issuers must soft decline transactions which have not had SCA applied and are not correctly flagged as either exemption or out of scope
 - 10% today
 - 30% by Jan 31st
 - 50% by Feb 14th
 - 75% by Feb 28th
- We can benefit from nearly 1 year of data and learnings from the EEA countries

Our recommendation: Start applying PSD2 SCA strategy today

Frictionless conversion \neq PSD2 Conversion

What is Frictionless 3DS?

- Uses 3DS2
- User is not required to complete any challenge
- Dependent on the card issuer

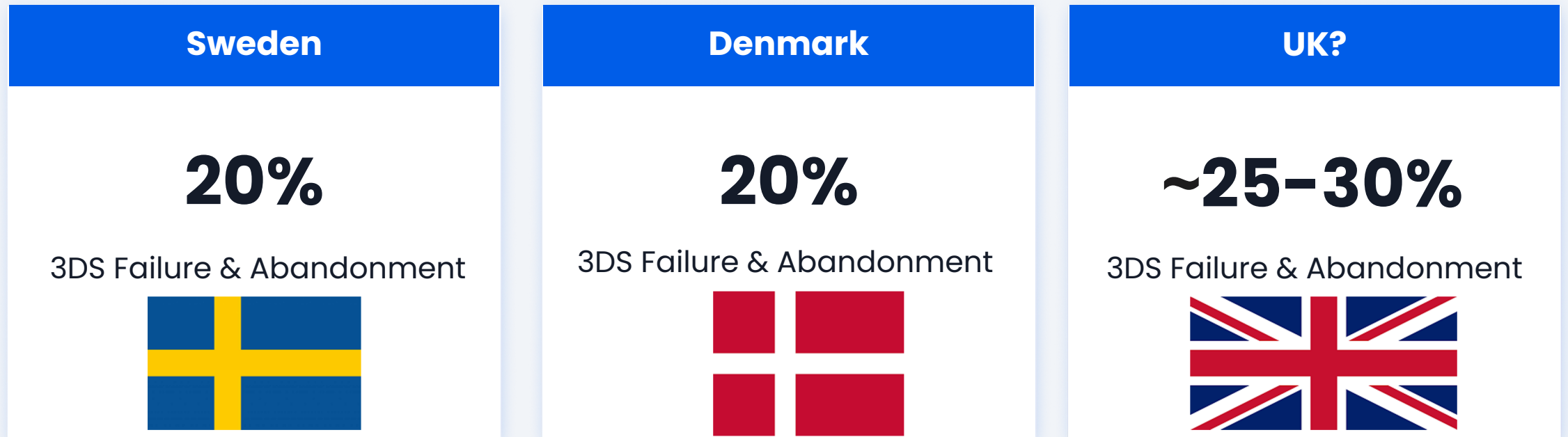
What proportion of 3DS is Frictionless?

- 60% of 3DS in the UK is currently frictionless

Why isn't frictionless 3DS PSD2 Compliant?

- PSD2 regulation requires an SCA
- Current frictionless % of all 3DS in most countries 2-10% (DK, SE, ES, PL)

Predicting the UK impact of 3DS





Managing Revenue Impact Worked Example

Major EMEA Fashion Retailer



All EU
Transactions

All EU Transactions



100% of EU transactions were sent to 3DS

34% of transactions were being lost due to:

- 3DS Abandonment
- Authentication Failure
- Failed Authorization

Lost
Transactions

Successful
Transactions

€6m / month

Revenue impact of lost transactions

PSD2: Case Study

Major EMEA Fashion Retailer

Challenge

- PSD2 compliance was reducing revenue by €6m per month
- 34% of EU transactions were being lost to 3DS failure & abandonment
- Reports from payment processors did not show full revenue impact as many customers abandoned without responding to the 3DS challenge

Strategy

- Forter identified that 95% of retailer's volume were transactions <€500 and the acquirer fraud rate low enough for all TRA exemption tiers
- Low value and low risk transactions were flagged for exemption
- 3DS was applied where both end user and issuer were more likely to successfully complete the process

Results

85%

3DS exemption rate

-33%

Reduced 3DS failure
& abandonment

€4.7m

Additional revenue / month



PSD2 Optimisation

3DS Fail & Abandonment Reduction

Reduce 3DS Fail and Abandonment by 33%

By sending transactions to 3DS that have a higher likelihood of completion

Tap into the full potential of exemptions

Exempt up to 90% of your eligible traffic

By ensuring a match between exemption and issuer

Maximize Conversions

Achieve conversion uplift of 6% or more

By utilizing a better portfolio understanding to create the best solution



Preparing for Enforcement

Our Advice

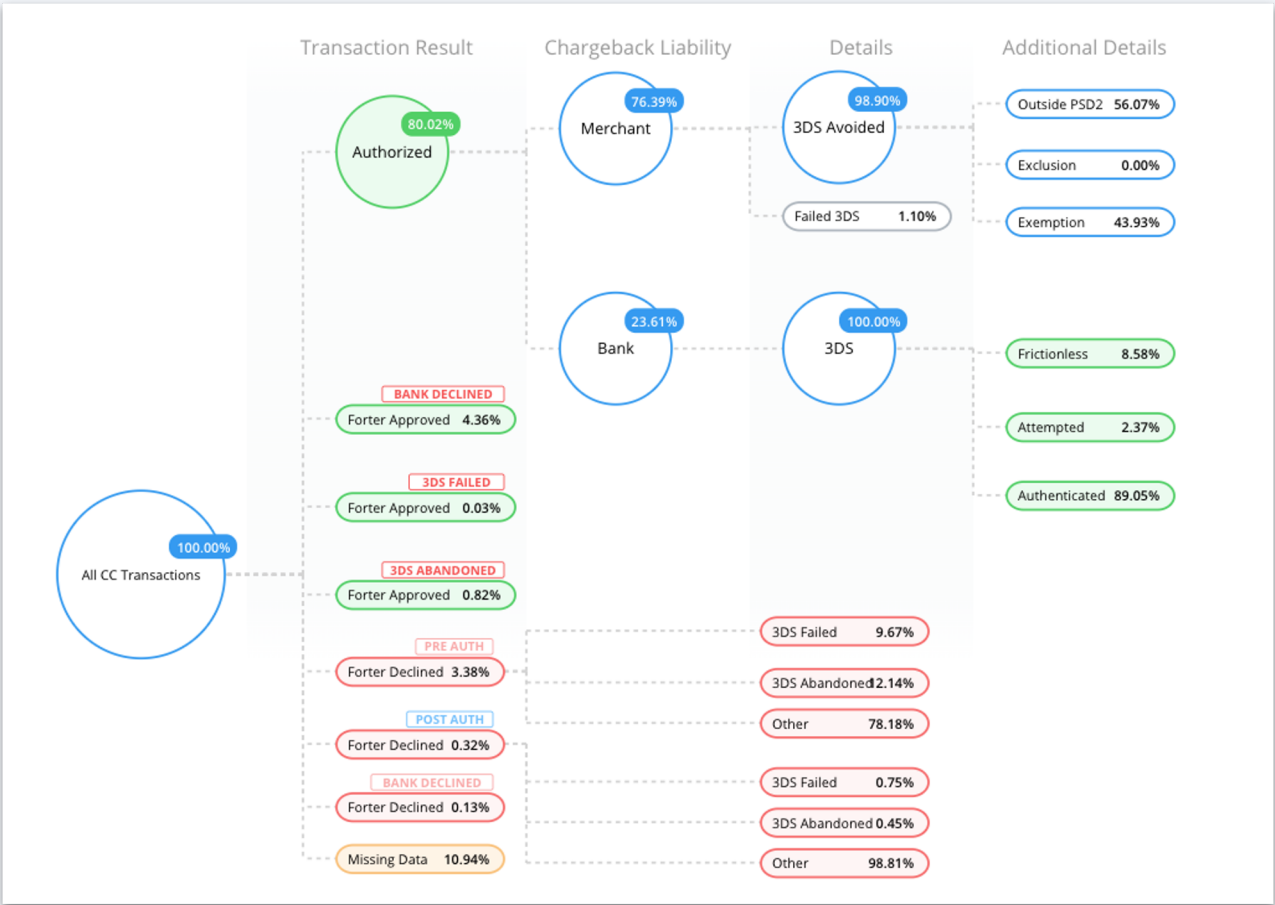
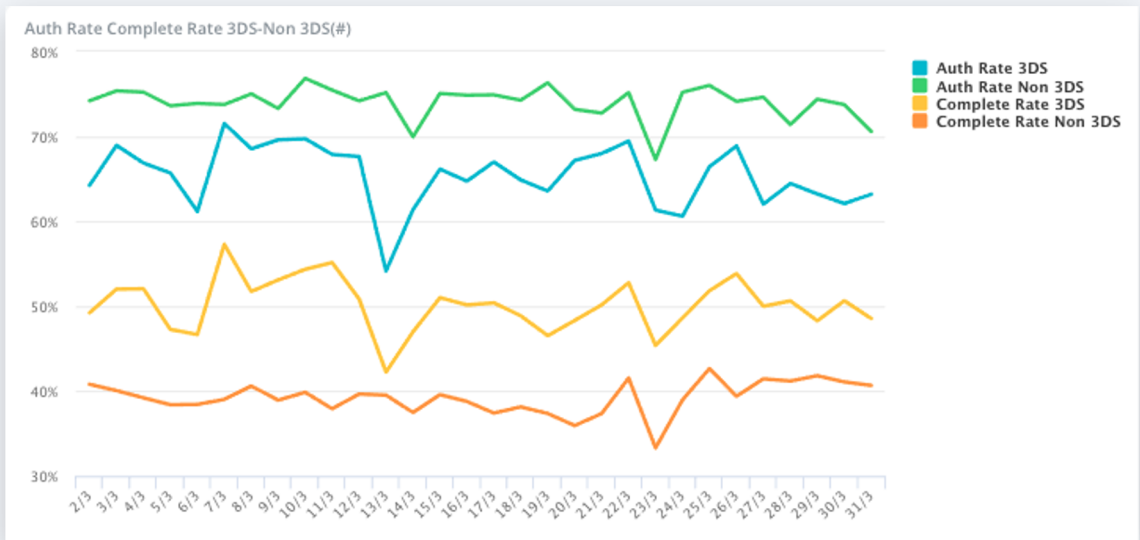
PSP strategy – exemptions

- Maximising exemptions is key to success under PSD2
 - Remember Merchant & PSP interests are not completely aligned
 - Different acquirers have different TRA exemption thresholds
 - Exemption threshold is dynamic and depends on the acquirer's quarterly fraud rate
 - Some major PSPs/acquirers currently support **exemptions up to 500 Eur while other PSPs only up to 100 Eur**
 - Reduce dependency on a single acquirer (integrations can take 2-4 months)

Visa estimates 40-50% of transactions are expected to be exempt

Reporting

Full-funnel PSD2 reports - separate out abandonment, authentication failure, authorisation failure



Recurring Payments

First transaction of a recurring series of payments

- It's a mandate to bill future transactions (same / different amount)
- 3DS is required
- Exemptions do not apply to mandates for online-only transactions

Recurring payments

- If 3DS was completed when the mandate took place, it is considered a recurring payment (or MIT - merchant initiated payment).
- These transactions do not fall under the PSD2 regulation and therefore there is no need for any 3DS or any exemption. Process it with a link to the first transaction

Direct debit mandates (bank payments)

- Do not require SCA (because there is no payment processor involved)

Delegated Authentication

What is Delegated Authentication?

- Delegated Authentication programs are offered by the Payment Networks
- Returning customers, with a saved card, will experience the merchant authentication instead of the standard issuer 3DS SCA
- Initially, the payment networks will select from merchants who meet their criteria
 - The schemes will each provide qualification criteria that must be met by merchants before they can enroll onto the program. Delegates, with support from the Acquirers, will need to complete enrollment forms detailing the SCA factors and how they will meet regulatory requirements

Benefits

- Reduced cart abandonments caused by 3DS SCA
- Merchants gain control over the full user experience, customers enjoy seamless experience
- Complimentary to smart PSD2 exemptions

Managing fraud is key

- Merchants are required to meet fraud performance on an entry and ongoing basis
- Issuers are required to maintain fraud monitoring and to request additional SCA on a delegated authentication transaction if a risk is identified

Key Takeaways

Checklist

- ✓ Apply PSD2 to your UK traffic today – don't wait till March 14th
- ✓ **Smart use of TRA exemptions** is critical to protect your revenue and to maintain great customer experience
- ✓ Applying 3DS on 100% of your traffic will cost you **6-8% of your revenues**
- ✓ Maintaining a **low level of fraud** is key to providing a frictionless and seamless payment process, and enables you to leverage exemptions and delegated authentication
- ✓ **Monitor your performance** – Complete rate, Auth rate, % 3DS, 3DS success rate



Thank you!
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