MERCHANT PAYMENTS ECOSYSTEM

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SCA Enforcement: Lessons Learned

10th November 2021

Session Aims

✓ Review payment data from a number of actors within the European Economic Area (EEA).

✓ Provide insights into the impact of Strong Customer Authentication (SCA) within the EEA.

✓ Understand how the UK market will be impacted by SCA enforcement.

✓ Discuss how to prepare for enforcement.

Card issuers and acquirers, within the EEA, need to apply 2-Factor Authentication (2FA) for all in-scope payments:

Remote Payments

2FA required unless certain exemptions apply

Exemptions

- Secure Corporate Payments
- Transaction Risk Analysis (TRA) up to €500
- Low Value Remote Transactions
- Recurring Billing (Fixed Amount Only)
- Trusted Beneficiaries

Out of Scope

- Non-EU/EEA Acquired Merchants
- Non-EU/EEA Issued Cards
- Merchant Initiated Transactions
- Mail Order/ Telephone Order (MOTO)

VISA SECURE

AMERICAN EXPRESS SafeKey®

mastercard ID Check

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DENMARK
Full Enforcement
11 January 2021

GERMANY
Full Implementation
15 March 2021

Jan >€250 | Feb >€100

FRANCE
Full Enforcement
15 May 2021

Jan >1,000 | Feb >€500

Apr>progressive soft decline €500

UNITED KINGDOM
Full Enforcement
14 March 2022

Ramp up began 01 June 2021

Issuers to step up randomly

SPAIN
Full Enforcement
01 March 2021

Jan >€250 | Feb >€30

ITALY
Full Implementation
01 April 2021

Jan >€1,000 | Feb >€500

Mar >€100

IRELAND
Full Enforcement
01 July 2021

Mar >€750 | Apr >€500

Mar >€250 | Jun >€100

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Strong Customer Authentication Makes Waves in the EU Payments Industry

Will PSD2 Lead to a rise in declines?

They mean it this time: Strong Customer Authentication enforcement is coming to the UK

UK FCA Consults on Changes to Strong Consumer Authentication, Dedicated Interfaces, and Guidance on Payment Services

The Real Impact of PSD2

The future of fraud after PSD2's Strong Customer Authentication deadline

Impact of SCA:
Payment Consultancy

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Payment Consultancy (CMSPI)

CMSPI are a global independent payments consultancy who work with many merchants within the EEA.

Based on their August data CMSPI estimate the failure rate at 24% across the region (based on August data).

Source: https://cmspi.com/eur/resources/sca-assessment-august-2021/
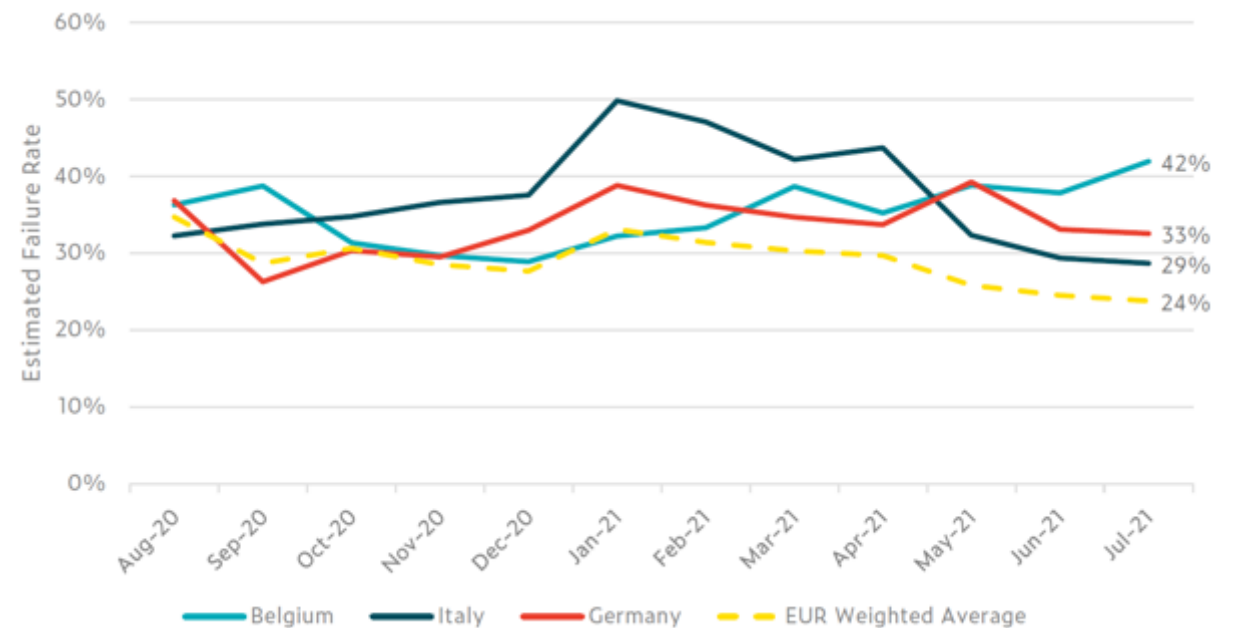
⚪cmspi Payment Consultancy (CMSPI)

CMSPI also published this graphic in their latest (September) report.
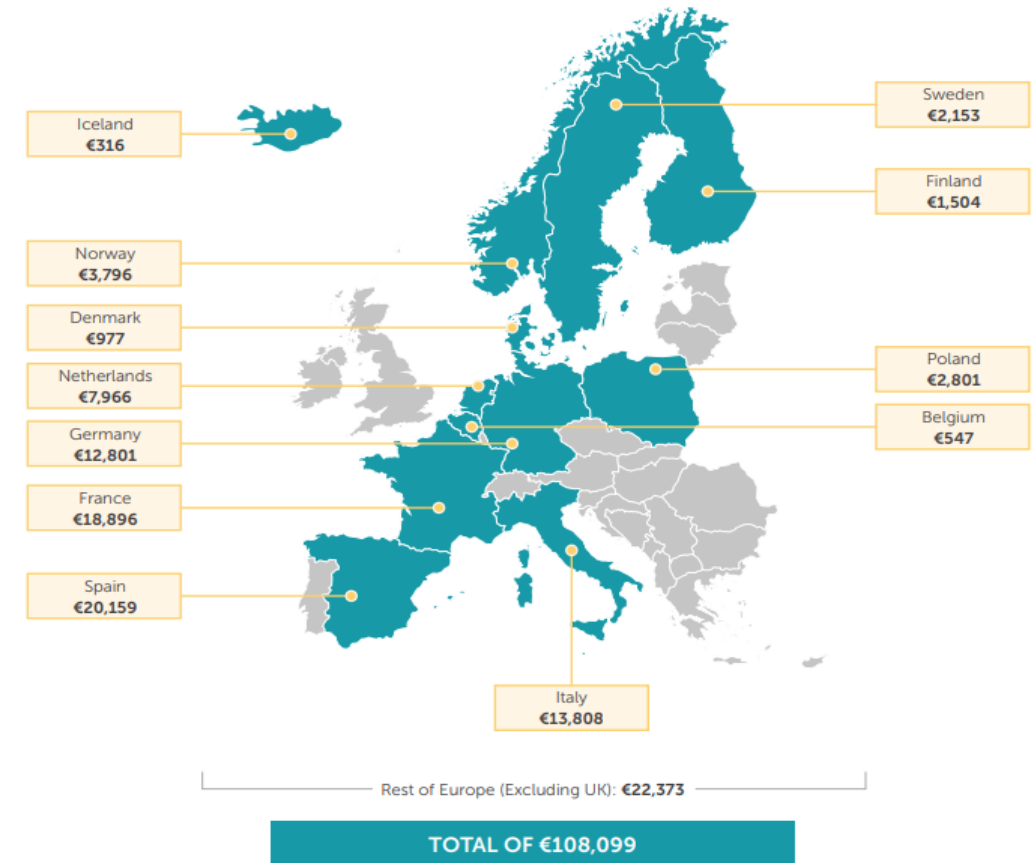
It shows the estimated value of sales that are at risk, in 2021, due to SCA requirements.

In the commentary CMSPI state that:

"The key reason for this significant disruption to online commerce is due to the performance of EMVCo 3D-Secure version 2 (3DS2)"

Source: https://cmspi.com/eur/resources/sca-assessment-september-2021/

Sales at Risk (Millions)

Iceland €316
Sweden €2,153
Finland €1,504
Norway €3,796
Denmark €977
Netherlands €7,966
Germany €12,801
France €18,896
Spain €20,159
Poland €2,801
Belgium €547
Italy €13,808

Rest of Europe (Excluding UK): €22,373

TOTAL OF €108,099

DEFINITION: Sales at Risk = (Value of 3DS Eligible Card Not Present Sales) x (Market Challenge Rate) x (Challenge Abandon Rate + Challenge Decline Rate) i.e. the value of sales which are at risk of loss due to the introduction of SCA into the authentication process.

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Impact of SCA: Merchant

Microsoft (Visa & MasterCard)

Microsoft have a large European footprint and have been providing monthly commentary on the impact of SCA on their business.

This table was shared by Dean Jordaan who is a payment specialist at Microsoft.

The latest Visa/MasterCard scorecard, for September, which excludes the UK, highlights issues such as, high abandonment and challenge rates as well as low authentication and challenge success rates.

Visa/Mastercard performance for September, EU and UK:

	App	Browser	
Authentication success	66%↓8pt	74%↓4pt	Significant decline in app performance in September. Authentication success rates are too low overall
Authentication abandonment	20%↑6pt	12%↑2pt	Abandonment increased in September. Many markets show high abandonment (>25%) or app-based authentication
Challenge rate	68%↑17pt	72%↑9pt	Significant increase in challenge rates in September
Challenge success	54% ↑1pt	68%→0pt	Challenge success rates are too low, especially for app-based authentication
Authentication stand-in	2% ↓1pt	2%→0pt	Stand-in rates are at a reasonably low level. This reflects progress by issuers enrolling their card ranges and customers

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Microsoft (AMEX)

Dean Jordaan also complied an AMEX specific table, which clearly demonstrates the success of the AMEX approach over those of Visa and Mastercard.

Every metric on the AMEX scorecard shows better performance, some significantly better, when compared to Visa and Mastercard.

KEY PERFORMANCE INDICATORS

American Express performance for September, EU incl UK

	App	Browser	
Authentication success	95% ↓1pt	91% ↓2pt	Authentication performance is good
Authentication abandonment	2% →0pt	4% ↑1pt	Abandonment is low
Challenge rate	6 →0pt	37% ↑8pt	Challenge rate for browser increased in September
Challenge success	68% ↑7pt	85% ↓1pt	
Authentication stand-in	<1% →0pt	<1% →0pt	

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Impact of SCA: Scheme

AMERICAN EXPRESS

American Express (AMEX) has a unique perspective within the EEA as they act as issuer, scheme, and acquirer. This enables AMEX to have an end-to-end view of the payment ecosystem and to better manage the merchant and cardholder SCA experience.

How has AMEX met the challenge of SCA?

- Decline rate, across the EEA, is 0.18%, for the 4 weeks up to 18th September.

- 3DS2 usage within the EEA remains high, at over 97% (>€250) in August 2021.

- Implemented 'Trusted Beneficiary' which enables a cardholder to add merchants to a trusted list.

- These merchants are then exempt from SCA, i.e. not 2FA is not required.

- As of April AMEX had over 1.4m cardholders enrolled in their Trusted Beneficiary solution.

Source: American Express proprietary data

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Impact of SCA: Accertify

Impact of SCA Enforcement in EEA
AT A GLANCE

- ✓ Significant reduction in fraud rates.

- ✓ 3DS2 is not yet fully optimised.

- ✓ Higher than expected challenge and failure rates for Visa and MasterCard payments.

- ✓ Estimated value of annual sales at risk, across the EEA, is over €108 billion (using 2019 sales volumes).

- ✓ Exemptions and scope checks are essential for merchants who have a large volume of in-scope payments.

How can Accertify Help?

✓ We strongly advise merchants to take control of their SCA compliance strategy.

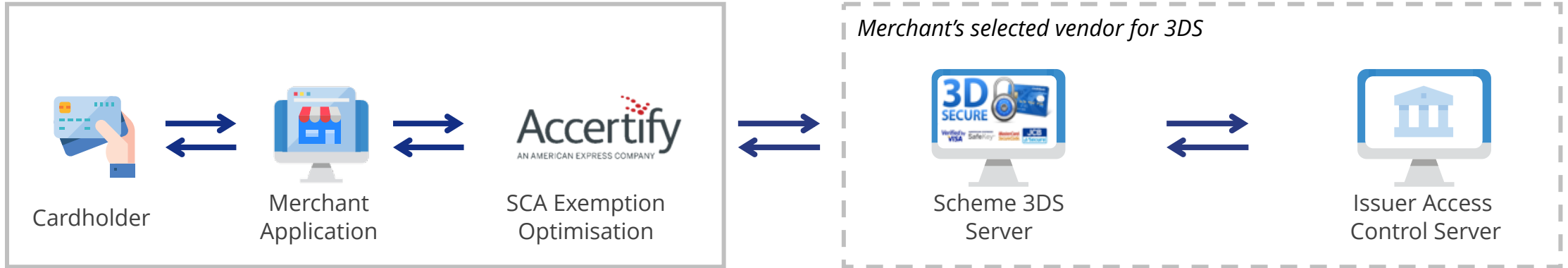One way for a merchant to do this is to use the Accertify SCA Optimisation solution.

This solution ensures the optimal checkout experience for every customer.

✓ Furthermore, we have the expertise to assist merchants with any SCA related issue, whether it be soft declines, managing exemptions, or 3DS2.

Accertify Intelligent Authentication

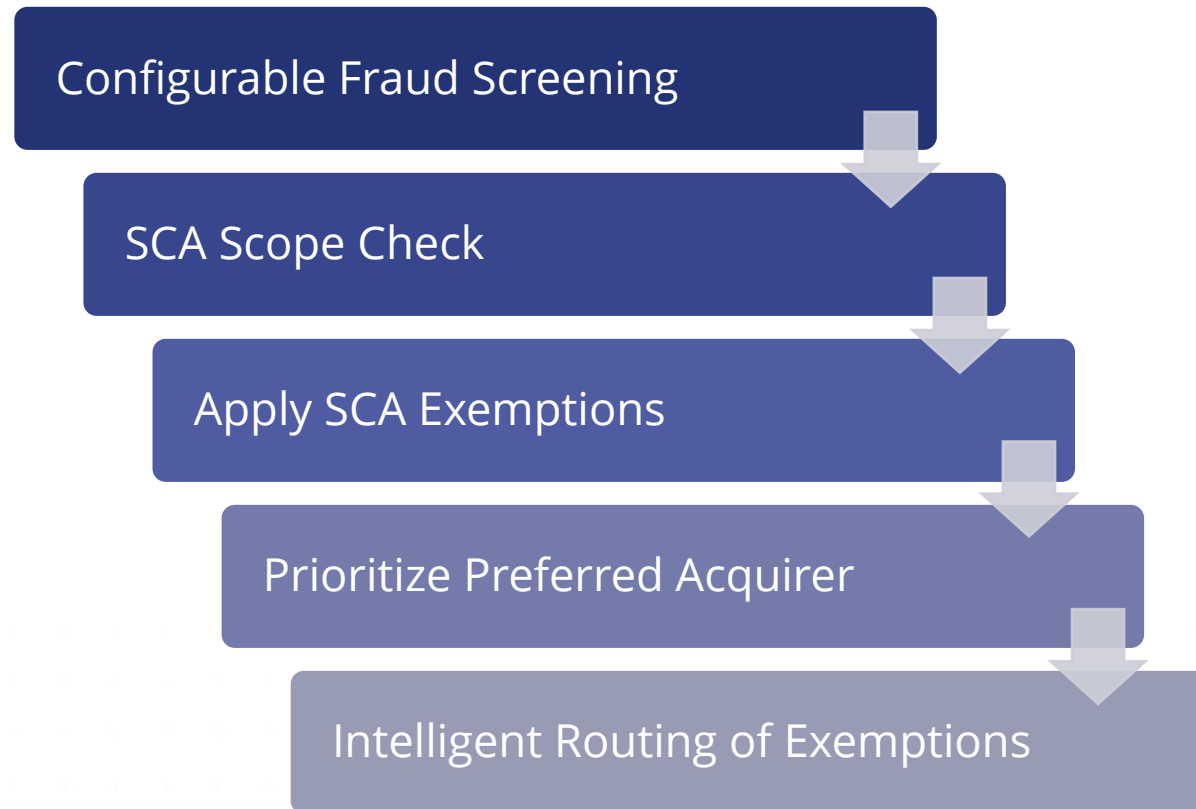## Option 1 – Pre-Authentication SCA Screening

Cardholder → Merchant Application → Accertify AN AMERICAN EXPRESS COMPANY / SCA Exemption Optimisation

Merchant's selected vendor for 3DS

3D SECURE — Scheme 3DS Server → Issuer Access Control Server

Option 2 - Pre-Authentication SCA Screening & 3DS Authentication

Cardholder → Merchant Application → Accertify AN AMERICAN EXPRESS COMPANY / SCA Exemption Optimisation → 3D SECURE / Scheme 3DS Server → Issuer Access Control Server

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Pre-Authentication Functionality

Configurable Fraud Screening

SCA Scope Check

Apply SCA Exemptions

Prioritize Preferred Acquirer

Intelligent Routing of Exemptions

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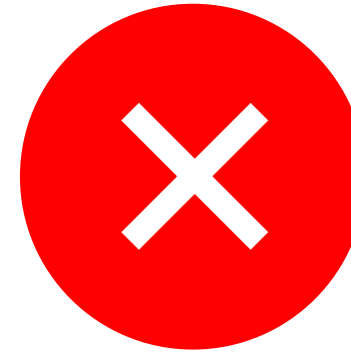
Summarised Outcomes

FRICTIONLESS

Low Risk/Out of Scope and/or Exempt

2FA

Medium Risk/ In-Scope & Not Exempt

REJECT

High Risk

AMEX apply TRA exemptions using the AMEX issuer TRA threshold and therefore, the recommendation for all, in-scope, AMEX transactions will always be 2FA required.
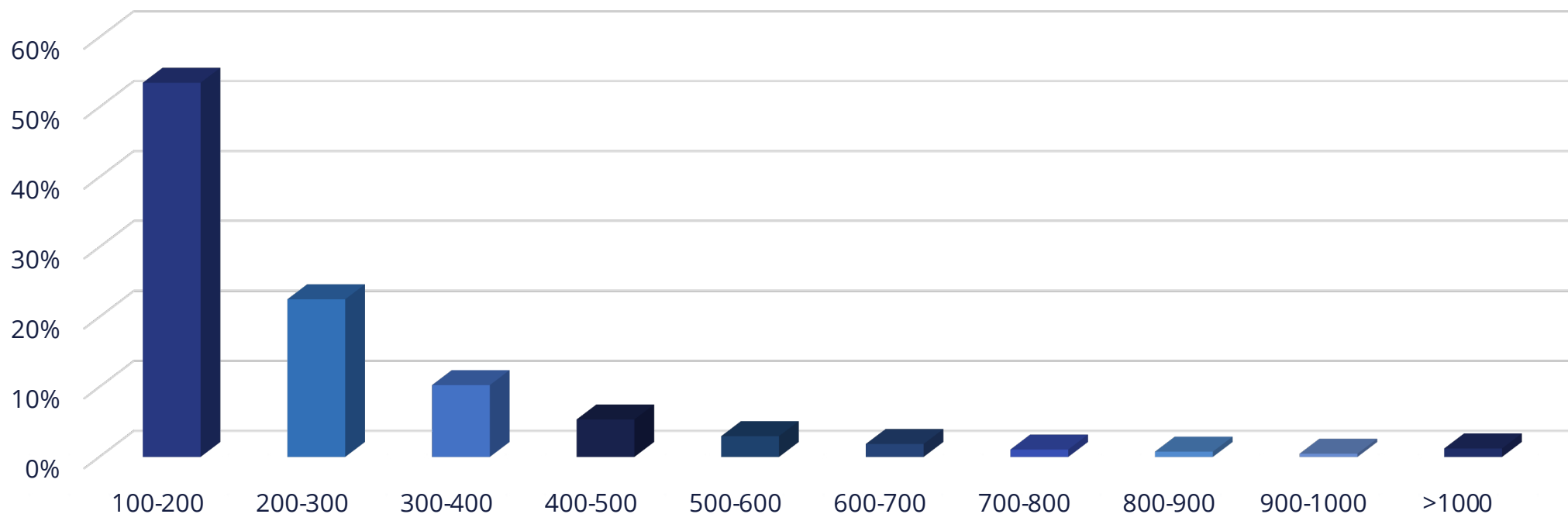
Example Business Case

Client required help with balancing customer experience with SCA compliance.

Concerned that adopting a 100% 3DS strategy would have significant negative impacts.

The merchant processes through three different acquirers.

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Example: All Merchant Transactions by Value

- €500 is the highest exemption threshold.
- 87% of the merchants transaction are below €500.
- Significant scope for exemption optimisation.
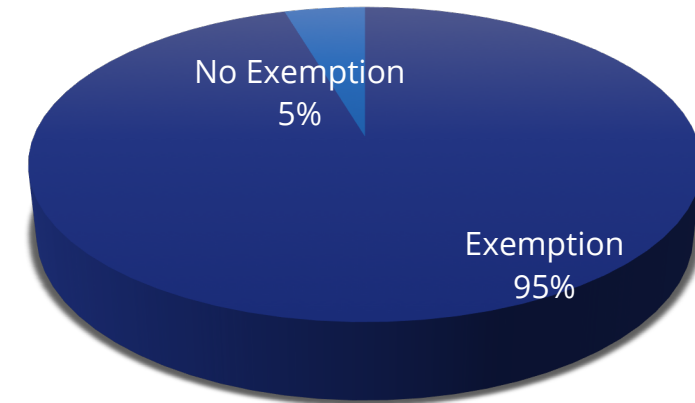
* These values are for illustrative purposes only.

Example: SCA Pre- Authentication Screening

All Transactions

Out-of-Scope 41%

In-scope 59%

In-Scope Transactions

No Exemption 5%

Exemption 95%
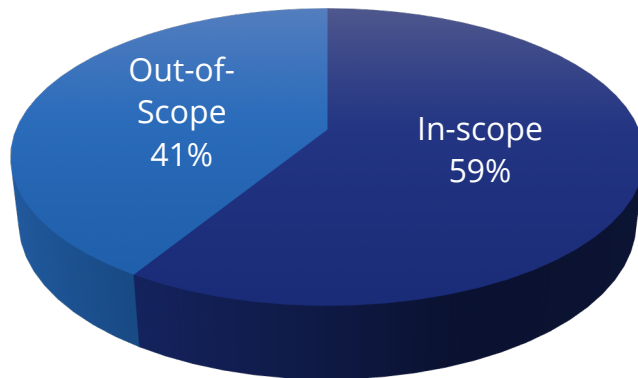
- First we identify out-of-scope transactions.

- 41% of transactions are out-of-scope

- Therefore, 3DS is not required for 41% of payments

- 59% of the transactions were in-scope of SCA.

- These transactions are assessed against SCA exemptions.

- 95% of these transactions were candidates for exemption*.

*Assumed acquirer TRA threshold of €500.

All values shown are for illustrative purposes only.

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Example Savings: SCA Exemptions

Trans Volume	100% 3DS @ €0.02	4% 3DS @ €0.02	SCA Exemptions Savings
1,000,000	€20,000	€800	**€19,200**
5,000,000	€100,000	€4,000	**€96,000**
10,000,000	€200,000	€8,000	**€192,000**

All values are for illustrative purposes only.

The merchant had no SCA screening logic in place. Their initial strategy was to request 3DS an all transactions.

Using Accertify's solution, we identify that 96% of the total volume of transactions are either, out of scope or are candidates for exemption.

Therefore, the merchant need to only request authentication on 4% of their total transaction volume.

Visa and Mastercard do not permit issuers to systematically decline authorisation-based exemptions.

Other schemes will approach compliance differently.

Therefore, the merchant need to only request authentication on 4% of their total transaction volume.

Accertify SCA Customer Case Study
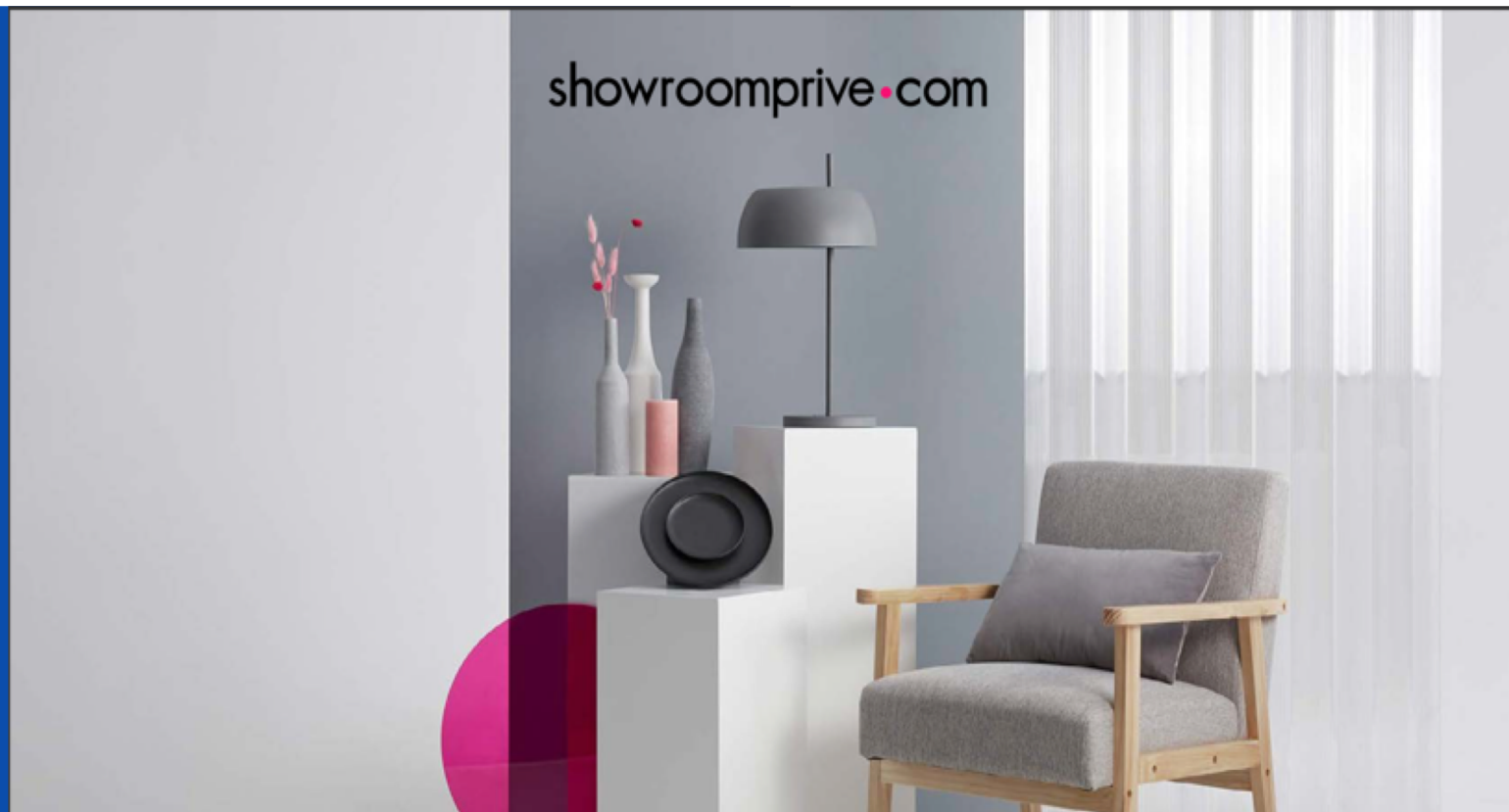
showroomprive•com

Showroomprivé SCA Optimisation Case Study

Showroomprivé is an innovative, event-driven, online sales business that specialises in fashion. They are based in seven European countries, including France.

Since its inception, Showroomprivé has become one of the largest online retailers in Europe with over 25 million members, more than 950 employees and a net turnover of 697.5 million Euro in 2020.

Showroomprivé & Accertify

Accertify successfully transitioned Showroomprivé to SCA by enabling Transaction Risk Analysis (TRA) to maximise a frictionless experience, for their Visa and MasterCard transactions, resulting in 90% of its members getting a seamless checkout experience whilst mitigating fraud risk.

Reduced fraud loss on revenue	More efficient use of time	Enabled specialisation by analysts	Efficient, comprehensive screening	SCA Transition

Next Steps for Merchants

TAKEAWAYS

1. Reach out to experts in the market.

2. Understand how SCA may impact your business.

3. Optimise your payment strategies to minimise any negative impacts.

4. Test all cardholder journeys with the relevant parties, e.g., vendor, processor, gateway, scheme etc.

5. Remember that transactions that don't go through 3DS2 are more at risk of fraud.

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Accertify SCA Optimisation

**won the Global eCommerce Awards 2021
for best Global Payment Solution Technology**

As stated by the judging panel, "SCA Optimisation is a useful tool that includes some very impressive tech! We all agreed that it offers a wealth of value to large eCommerce sites. Well done!"

Read more about the award **HERE** or visit the **GLOBAL ECOMMERCE AWARDS** site to see a list of winners for all categories.

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