

EPIF Workshop on SCA Implementation

21 May 2019

EPIF held a workshop on Tuesday 21st May that brought together EPIF members, other representatives of PSPs and the card schemes on the one hand, with the representatives of the merchant community (both from EU and Member State level) on the other. Also attending was the European Commission and representatives from national competent authorities. The aim of the workshop was to facilitate a discussion concerning the requirements and challenges in implementing SCA and explore possible difficulties in meeting the September deadline.

The three main key takeaways from the discussions are:

- There is a general commitment to lower fraud
- Merchant readiness is an issue
- There is a need for a harmonised European approach

Compliance is feasible but it comes at a certain cost which is disruption of e-commerce. The industry would welcome a pragmatic way to look at this issue to avoid a socio-economic impact.

Speakers set out SCA into the wider context of fighting fraud and presented some data points on the economic impact of payment fraud and reiterated that fraud prevention is everyone's problem.

Session One: Status Update on SCA

This session looked at PSP and merchant preparedness. The panel consisted of representatives of the merchant community and the PSP community and addressed what is the practical impact on merchants. The focus was on compliance and more specifically on what to achieve and how.

Please find below the key takeaways of this session:

The market is facing a collective **challenge to meet SCA** objectives by the 14th September deadline. Industry representatives fully support the objectives of the PSD2 but are concerned about the lack of readiness. It is important to differentiate between readiness and compliance. Representatives from the e-commerce space noted that complying with the legal requirements by 14th of September would be possible for all the big players however, this would have a huge economic impact as many transactions will be abandon or blocked along the payments chain.

Technical challenges were also raised. Participants pointed out that many industry players will not be ready to use 3DSv2 in time for 14th September. Consumers' representatives noted that there are other alternatives to card payments that could be more secure and easier for consumers.

It was also reiterated by different industry representatives the **importance of communication**, both along the payment chain between different players but also with the end customers so they understand what SCA means for them and how this will change the way they make transactions. It is important to raise awareness around PSD2 and SCA requirements with consistent and simple messaging so we minimise friction in the payment journey and support new entrants to the market while building trust for the new services.

With regard to the **exemptions to SCA**, the majority of the participants agreed on the need to make sure there is **effective and harmonised application**. Some industry representatives from the acquiring and merchant side noted that by leaving the issuers the ability to decide on whether or not an exemption can be applied the merchant loses control over the customer experience and this could have very a negative impact and increase the average abandonment rate. Moreover, if merchants have to authenticate all transactions because issuers decide not to apply exemptions this would increase the costs and could ultimately effect the final customer.

Another challenge that was identified by the participants was the **cross-border dimension** and the risk of having different interpretations by supervisors among Member States. All participants agreed on the need to have an harmonised approach.

Participants agreed that at the end, it is all about the **customer journey**. It is important to develop systems that are secure and are as seamless as possible for the end-consumers.

Session Two: Challenges of implementation

This session looked at how payment service providers are preparing for SCA and how this relates to merchant expectations. The payments sector presented concrete practical experiences, including 3DSv2. The aim was to identify where the challenges are coming from and how it affects merchants, especially small merchants.

Merchant representatives from the hospitality sector pointed out the **difficulties of implementing EMV 3DS** when working with many PSPs on the EU market and many acquires, making a high number of cross-border transactions. They believe more time is needed to make sure that all actors in the payment chain are ready to implement SCA requirements. It was also noted by several participants, that **authentication** should not be limited to 3DS and that other methods should be explored. Belgian representatives note that in Belgium they use QR codes and finger print authentication and that the acceptance of these payments increased dramatically in the last year.

Big e-commerce merchants highlighted some concerns such as a **high latency** and how this could raise the abandonment rates. Not everyone has a phone that supports biometrics authentication methods or that allows access to the banking app to double authenticate themselves. This would require consumes to link with their email address making the **process much longer**. Participants discussed how damaging this outcome could be for consumers and for business.

Other concerns were raised around the **trusted beneficiaries or low value exemptions**. Merchants stressed the importance of readiness from the issuers side. Sometimes issuers could put in place very specific software to analyse these transactions but smaller devices might not be able to support it. Issuers have the final say on the exemptions but the fraud does not sit with the issuers.

Industry participants also noted that there are key bits of information/ clarifications that came up later than the RTS and therefore the financial services industry will need more time to take these on board. The **importance of a consistent application** through the payment chain and among Member States was reiterated. Having a variety of approaches will stifle innovation.

SEMs highlighted the **complexity** to comply with all the different layers of requirements such as regulation and interpretation at the EU level, the layer from the card schemes, acquirers and PSP implantation. The level of understanding that a merchant needs is very high and normally smaller companies do not have the capacity to absorb all the information.

Session Three: Recommendations

This session summarized the discussion through the day. The moderator pointed out the key messages that came out of the discussions:

- All parties agree on the ultimate objective of reducing fraud
- It is clear that something needs to be done collectively.
- Having a good customer journey is also key and education and awareness raising will play an important role on this area.
- More work needs to be done to come up with good technological solutions that could help to improve the situation
- There needs to be a homogenous approach on the application of exemptions.

A representative of the e-commerce sector noted that there is a lot of uncertainty. Readiness of the full ecosystem is key to ensure the well-functioning of the market. She stressed the importance of communication towards merchants, as smaller ones do not have the resources to address this issue on their own.

Debrief and exchange of views with Eric Ducoulombier from the European Commission and national competent authorities

National competent authorities were present at the workshop. The UK representative stressed the need for collaboration among industry representatives. It was also noted that SCA should be a tool to reduce fraud and that it is important to take into account the diversity of consumers. One size fit all approach will not be the solution.

The FCA is looking at an industry shared roadmap with concrete actions of what needs to be done from now to September and should be done as of the September deadline. Another NCA representative was more conservative and said they are behind in this matter. NCAs are now going to engage with market stakeholders to understand how big this issue is for them and as a second step they will decide on what can be achieved before 14th September.

The Commission was asked to close the discussion and give their views based on what was discussed during the day. The Commission reiterated that SCA is first and foremost about fighting fraud and that is the guiding principle for the Commission. SCA is also about innovation and the RTS are a strong driver for innovation. These should allow companies to design more sophisticated methods.

The Commission went through the three main issues that were raised by the participants of the workshop:

1. **Legal uncertainty.** Industry representatives are still waiting for clarifications on some of the issues around the RTS. The Commission is working with the EBA and NCAs to bring more clarity to the outstanding issues given the complexity of the issues. The Commission committed to try to accelerate the process.
2. **Questions around technology.** The Commission noted that 3DS is not the only authentication tool
3. **Information and communication:** there seems to have been little and late information and communication. The Commission agreed it should take part of the responsibility but this should be shared with industry players. It was recognised that the 14th September deadline is close but there is still some time to prepare and raise awareness to improve the taking up of the new protocols that will facilitate SCA requirements.

The Commission agreed with the participants that this has to be done collectively. **With regard to the request for a delay**, politically this would send a wrong message. A delay would also be to the detriment of those companies that invested time and resources to be on time for the 14th September deadline. The Commission acknowledged that not all PSP and merchants can be ready at the same time given the magnitude of this issue and any decision on this matter will have to be discussed and consented to the Commission EBA and Member States.