

There's been a lot of talk lately about how PSD2 SCA impacts the payments industry, and the changes happening in Europe starting in September 2019. This paper will walk you through what you need to know, so you understand how it affects you and your business.

Let's get started.

First, the basics. What are PSD2 and SCA?

PSD2, the Second Payment Services Directive, was established to benefit consumers by driving payment innovation and data security. It mandates new security processes, reduces competition and encourages standardized technology. SCA stands for Strong Customer Authentication and is a major component of PSD2 for digital transactions. To comply, issuers and merchants will face new challenges.

The goal of SCA is to reduce fraud, by requiring merchants and issuers to validate consumers when they use electronic payment methods in the European Economic Area (EEA).

PSD2 SCA goes into effect on September 14, 2019. Mastercard has required that all merchants, issuers and acquirers support their EMV® 3DS solution, Identity Check, as of April 1, 2019.



What does this mean?

This means you'll need to have a two-factor authentication system in place.

At least two of the following three are required to complete a digital transaction –



Something only the customer **has** (like a mobile device or token).



Something only the customer **knows** (like a passcode or PIN).



Something only the customer **is** (a biometric, like a fingerprint, iris or facial scan, or voice recognition).

How do I know which countries are in the EEA?

Austria	Latvia
Belgium	Liechtenstein
Bulgaria	Lithuania
Czech Republic	Luxembourg
Cyprus	Malta
Denmark	Netherlands
Estonia	Norway
Finland	Poland
France	Portugal
Germany	Romania
Greece	Slovakia
Hungary	Slovenia
Iceland	Spain
Ireland	Sweden
Italy	United Kingdom



Is this for EVERY SINGLE digital transaction in the EEA?

Maybe. You'll need to challenge all your customers unless you can manage the complex exemption options.

There are exemptions available to reduce checkout friction in some cases. Some exemptions include low value transactions (under 30 euros), transaction risk analysis (based on the acquirer's fraud rate), recurring transactions and trusted beneficiaries (whitelisting).

But first, you'll have to know if you are even eligible for exemptions. This is where we can help.

Let's break down some of the main exemptions available.

Transaction risk analysis

Transaction risk analysis (TRA), as outlined in the RTS, should combine scores of risk analysis, confirm that no abnormal spending or behavioral patterns of the payer has been identified, and take into account other risk factors. When a payment cannot be qualified as low risk, the PSP should revert to SCA.

This plays into the strength of EMV 3-D Secure. One of the pillars of EMV 3DS is sharing enhanced data about the consumer and the transaction so the issuer can authenticate transactions without impacting the consumer's checkout experience, i.e., that are user friendly, and that if risk is detected, the consumer is challenged for more information, like a one-time passcode or biometric challenge.

Trusted beneficiaries

There is an exemption for trusted beneficiaries. A consumer can create a list of trusted beneficiaries (aka whitelist) with their card issuer (account servicing payment service provider). SCA is not required when the payer transacts with a merchant on their list of trusted beneficiaries. Issuers who use Cardinal for authentication can rely on Cardinal's rules to manage whitelists tied to each PAN, to ensure cardholders can transact with their whitelisted merchants easily.



THE SCA REQUIREMENTS
UNDER PSD2 WILL BE
EFFECTIVE STARTING
SEPTEMBER 14, 2019

Recurring transactions

Recurring transactions are a permitted exemption to SCA, provided the payer is authenticated for the first transaction using SCA, and each transaction in the recurring series is for the same amount and to the same payee. In this case, all but the first transaction in the series are exempted from SCA.

Low-value transactions

There is an exemption for low-value transactions. To qualify, transactions need to be under 30 euro. Additionally, the cumulative amount of previous remote electronic payment transactions since SCA was applied must not exceed 100 euro, and the number of transactions since SCA was applied must not exceed five consecutive transactions. Issuers must have the capability to track the amounts of these low-value transactions, when they exceed 100 euro, and when five transactions have used this exemption. Cardinal has the technology and capabilities to create rules for issuers to accommodate tracking for this exemption.

The RTS states that PSPs must ensure that their overall fraud rate (for transactions authenticated using SCA and those executed using any exemptions) are below a certain level (TBD – not specified in the RTS). There also will be requirements for PSPs to record and monitor the value of fraudulent payment transactions, the resulting fraud rate, with a breakdown of which transactions were authenticated using SCA and which were handled under exemptions, to be shared with the EBA and other authorities upon request.

The Regulatory Technical Standard states that exemptions are **not** permitted the first time the payer accesses online the designated payment account or when more than 90 days have elapsed since the last time the payer accessed online that account or was authenticated via a SCA method.

How can you manage SCA exemptions?

Because the specs for EMV 3DS 2.2, which are the specs for how to manage exemptions, were released recently, the technology for this is still in development.

This is a work in progress, and we'll work with you to have the solutions you need before the deadlines.

Some exemption-handling may also take place at the card network level and work in conjunction with Cardinal Consumer Authentication. For instance, Visa has introduced Visa Trusted Listing and Visa Transaction Advisor as upcoming solutions for whitelisting/trusted beneficiaries and Acquirer Transaction Risk Analysis (TRA) exemptions.

Other exemptions, like low value and the handling of one-leg-out and recurring transactions, can be solved with Cardinal's rules engine.

For instance, Cardinal's rules engine can be used –

- To identify one-leg-out transactions using the BIN.
- To force SCA if the consumer's IP address is on a black list.
- To determine which version of EMV 3DS the issuer is using.

There are more exemptions available, and more information coming out as we get closer to the deadlines. We can have a technical discussion to walk through your use cases and devise a plan based on what we know now to help you maximize authentication and exemption handling.

To take advantage of exemptions, merchants and issuers can use EMV 3DS. Cardinal Consumer Authentication fulfills the SCA requirement and allows exemptions by leveraging EMV 3DS.

What is EMV 3DS?

3DS is a set of protocols that authenticates Card-Not-Present transactions and EMV 3DS is the newest version. Benefits include reducing fraud and false declines, and increasing good orders, and limiting friction for consumers during checkout.

EMV 3DS enables merchants and issuers to use what they know about their mutual consumers and work together to make better risk decisions. It uses more than a hundred data points from the merchant, the device, and the transaction. For instance, the issuer can compare the device being used for the transaction with devices they recognize from logging into online banking. The issuer can use these data with what they know about the consumer to make more confident risk decisions. And unlike a traditional fraud tool, 3DS doesn't reject orders. It allows the merchant to save sales that may appear risky. The result is more good orders and more happy buyers.

How does 3-D Secure solve for SCA?

The SCA requirement means that the electronic payment service must be secure, guarantee that the buyer is authenticated safely, and that the risk of fraud is reduced. 3DS does this by supporting the requirements of SCA:



Something only the customer **has**.



Something only the customer **knows**.



Something only the customer **is**.

For example, 3DS can authenticate using a consumer's mobile phone (something the consumer has) to deliver a one-time SMS message (something the consumer knows) and can use a biometric like a fingerprint (something the consumer is) to login to a mobile banking app. Any **two of the three** fulfills the requirement.

How to protect your shopping cart with 3-D Secure

Many popular shopping carts and gateway providers already support 3-D Secure. To make things easier for you, we've listed a few of our shopping cart and gateway partners that are compatible to the 3-D Secure solution.

Gateway Partners:



Shopping Cart Connections:



If your shopping cart or gateway does comply with PSD2 SCA, you can install plug-ins that we offer for your online store. Instructions on how to install each plug-in are available on our site.

The Cardinal 3-D Secure plug-in provides a more secure customer experience, chargeback liability shifts to merchants, and helps solve for PSD2 SCA.

Activating SCA

SCA can be activated once your shopping cart, gateway, and plug-in supports 3-D Secure. To do this, you must obtain API (Application Programming Interface) credentials from your gateway provider and your 3DS provider.

Once you've installed an SCA enabled plug-in, gateway, and shopping cart, we encourage you to perform a test transaction. It's important to test in both your test and production environment for each payment method you accept. To assist with your integration efforts, reach out to your 3DS provider to see if test case guides are available for you to use during your testing period.

After you've completed several successful test transactions, you can migrate to your production eCommerce site.

How can I prepare for SCA?

**PSD2-SCA requirement timeline**

Cardinal has you covered.

SCA is essentially making consumer authentication (3DS) core to payment processing. Without successful authentication, your authorization rates will suffer.

You have choices, but if your authentication solution goes down, is slow, or doesn't know how to apply exemptions, you'll be spending a lot of time, money and resources trying to manage it. Experience matters. We have over two decades of experience focusing on consumer authentication. You need an authentication provider you can count on, whose solution has high uptime reliability and system redundancies, like Cardinal.

Because we support authentication for both merchants and issuers via our Cardinal Authentication Network, we have visibility into data on both sides of the transaction. This means better data sharing and better risk decisioning, which can translate to more authorizations, less fraud, and happier consumers, while fulfilling the SCA requirement.

With Cardinal, everybody wins. At the end of the day, we help reduce fraud, limit false declines and pass more good orders for merchants and issuers.

**Authentication First**

Authentication is and always has been Cardinal's top priority.

Let us tell you why Cardinal Consumer Authentication (with 3DS) is better.

- The power of the data: using the data we can access gives you the confidence to authenticate – and authorize – transactions, for more sales, less false declines and less fraud.
- EMV 3DS will be updated periodically and will require re-certification every two years. If you decide to build your own system, you'll need to maintain it and upgrade it whenever a new version is released. We take care of that and have you covered.
- When you use us, you can take advantage of our technology and authentication experience, including high uptime, hosting redundancy and business continuity solutions.
- We were the first to be certified for four 3-D Secure components: Access Control Server (ACS) for issuers, 3DS Server for merchants, and two 3DS Software Development Kits (SDKs) for in-app delivery for iOS and Android operating systems.
- We focus, innovate and deliver. We have been doing authentication for more than two decades, with award-winning and industry-leading solutions for merchants and issuers. It's what we do.

Want to know more?

We also help merchants stay off the Visa fraud monitoring list (when a merchant has excessive chargebacks). CCA can also help merchants:

- Increase sales by reducing fraud, manual review, merchant reversals and false declines.
- Reduce overhead for manual review, chargeback fees and labor.
- Manage rules in near-real time using CCA's portal and reporting tool.
- Monitor the ecosystem to help merchants know how specific BINs perform during authentication.

Next steps.

If your digital business is based in AND sells to consumers in the European Economic Area (EEA), you need to prepare NOW for PSD2 SCA. It is in effect for Mastercard transactions as of April 1, 2019, and will be in effect for all other qualifying transactions starting September 14, 2019.



**What are you doing to make sure you are in compliance?
Using Cardinal Consumer Authentication as your 3-D Secure solution fulfills
the SCA requirements of PSD2.**

We support both merchants and issuers with a 3-D Secure solution, so talk to us now. We can help you both comply and create a better consumer experience by enabling merchants to share transaction and device data with issuers. We'll put our intelligence and analytic capabilities to work for you.

Don't feel overwhelmed. We're here to help you.

About Cardinal

For over two decades we've been bringing new merchants, issuers, and shoppers together in an experience where everybody wins. With singular focus, proven technology, and dedicated service, we drive the payment authentication standard worldwide. We put authentication first because we believe digital commerce should be as safe, trusted, and engaging as possible.

As an added bonus, Cardinal is a Visa company. Take advantage of our combined expertise – you'll get Visa's risk engine and industry strength plus our focus and experience in payment authentication. This brings added security to digital transactions, while reducing fraud and supporting digital commerce. The cool thing is, Visa and Cardinal offer unparalleled intelligence – combining merchant and issuer data for smarter risk-based decisions for a better consumer experience.

Did you know CCA can help outside of the EEA?

CCA helps merchants comply with SCA and various other country-specific mandates around the globe.

We know you have a lot of choices.
Choose experience, choose Cardinal. We do 3DS right.

visit cardinalcommerce.com call +1.440.352.8444 email info@cardinalcommerce.com