What do merchants need to know about exemptions?

Exemptions are like benefits to the PSD2 SCA requirements. It's in everyone's best interest – the consumer, merchant, acquirer and issuer – to reduce friction caused by SCA through exemptions, to keep the shopping experience as frictionless as possible, while keeping fraud at bay. One of the most important things merchants need to know about exemptions is that most exemptions are at the issuer's discretion, and some are based on the acquirer's performance. What this means is that if a merchant requests an exemption, the issuer may not agree and may go ahead with SCA to ensure fraud doesn't occur. Other exemptions, like the TRA exemption (transaction risk analysis), depend on the acquirer's or issuer's overall fraud rate.

About TRA

TRA, as outlined by the Regulatory Technical Standard (RTS), should look at risk scores, confirm that no abnormal spending or behavioral patterns of the payer have been identified, and take into account other risk factors. Under PSD2 SCA, if the transaction is qualified as low risk, an exemption may be requested by the merchant/acquirer (PSP), depending on the overall transaction amount and the acquirer's fraud rate.

If a transaction is not qualified as low risk, SCA must be applied. If the acquirer's fraud rate is higher than 0.13% or if the transaction is more than €500, SCA must be applied.

Any value over 500 EUR requires SCA and cannot have a TRA exemption

Transaction Value Band	PSP Fraud Rate
< €100	13 bps / 0.13%
€100 - €250	6 bps / 0.06%
€250 - €500	1 bps / 0.01%

Acquirer TRA - What is it?
TRA, or Transaction Risk Analysis, as outlined by the Regulatory Technical Standard (RTS), looks at risk scores and other account risk factors to confirm that no abnormal spending or behavioral patterns of the payer have been identified. Under PSD2 SCA, TRA exemptions can be applied at either the acquiring or issuing side of the transaction.
From a merchant's perspective, if a transaction is qualified as low risk, an exemption may be requested by the merchant/ acquirer (PSP) which would weigh the overall transaction amount and the acquirer's fraud rate to determine whether an exemption can be made.

Issuer TRA – What is it?
The other TRA exemption can be applied on the issuing side of the house. If the merchant doesn't ask for an acquirer TRA or any other exemption, the issuer can request this exemption. The issuer will then consider the risk and amount of the transaction and apply that to their overall fraud rate on their card portfolio. This is great news, because when SCA is not performed in Issuer TRA, the cardholder will have a frictionless experience. It follows the same table of fraud rate to transaction amount threshold that the acquirer would follow.

What this means to you?
- If your PSP has a low fraud rate, you may be able to take advantage of the TRA exemption for transactions at higher amounts.
- Merchants should work with their acquirer(s) to make sure they qualify for exemptions they are entitled to take, or find out if the acquirer plans to use exemptions. The acquirer should be tracking their overall fraud rate for all of their merchants. If your fraud rate is higher or lower than the acquirer's overall rate, you may want or need to change acquirers.

Delegated authentication (Visa Delegated Authentication)

Delegated Authentication is the PSD2 regulation that allows an issuer to 'delegate authority' for SCA to a third-party (e.g. wallet provider, merchant). The Delegated Authentication program(s) allow merchants who qualify and have an SCA compliant solution to perform SCA on behalf of the issuer or accept recently performed SCA under certain conditions to reduce checkout friction.

Each network has different program rules for support of DA, and we recommend merchants work with their acquirer or network contact for qualifying factors.

If you're a merchant who supports authentication solutions for your consumer accounts/profiles, you could apply for these programs.

Merchants who have built savvy and SCA compliant authentication programs into their consumer account profiles are able to use this program to reduce consumer friction during checkout.

Merchants and issuers can use Cardinal's rules engine to set rules to manage these exemptions:

- To quantify exemption requests not to evoke SCA.
- To force SCA on an EMV 3DS transaction.
- To route transactions properly via supported 3DS protocols.
- To maintain card network differentiators.
- To maintain country differentiators.

Why would I get a soft decline once PSD2 SCA goes in force and what does it mean?

A soft decline is when an issuer responds to the authorization request with a response code that asks for the transaction to be authenticated. For instance, if a transaction is submitted for authorization with an exemption request that can't be accepted and without SCA, the issuer may soft decline it and request that it be resubmitted with a successful authentication. Remember, issuers know a lot about their cardholders, and if they receive exemption requests and they suspect the transactions are not good, they may not accept the exemptions. Instead, they will challenge the transactions through SCA, letting the cardholders validate themselves, vs declining the transaction outright.

What is the recommended strategy for the majority of merchants to address PSD2 SCA readiness?

Cardinal's recommendation is that all merchants implement EMV 3DS as soon as they can. What this means is that merchants will have the most up-to-date version. Merchants should minimally support version 2.1, with support for version 2.2 to extend into early 2021. EMV 3DS v2.2 includes updates to manage SCA exemptions and prepare for SCA, and will be helpful to merchants if and when they would like to take advantage of exemptions. Contact Cardinal for more information on our certification status.

We also recommend that when merchants are ready with their EMV 3DS implementation that they send all

their traffic through 3DS, to keep the payment transaction flow intact. Merchants should ask for exemptions, and allow the issuer to perform SCA if the issuer feels it is necessary. This process helps lower latency and helps with consumer experience and authorization approvals.

How will challenges impact merchants and their consumers?

First of all, challenges today are much less intrusive than before. The primary and recommended challenge method to solve for SCA is biometrics, like using a fingerprint or facial scan. Consumers regularly use this method to log in to online banking apps and other secure applications, and in turn, have become comfortable using them.

Where does fraud screening fit? If I am doing 3-D Secure, do I still need fraud screening?

EMV 3DS for authentication is part of a recommended layered approach and balanced way to reduce fraud and increase approvals. More shared data from multiple tools helps authenticate the identity of the cardholder, realize when an attack is happening, and provide additional validation of the consumer or potential fraud. When 3DS and other tools are layered together, merchants can send the right transactions for authentication and issuers can reduce SCA and authorize with greater confidence.

Are there fines/punishment for non-compliance to PSD2 SCA deadlines?

There are going to be fines and fees for non-compliance but the worst consequence is that good orders may not be able to be authorized without having SCA or a valid exemption. Check with your acquirer for details on what may happen if merchants don't comply with PSD2's SCA requirement, and to find out what penalties are in place for specific countries.

With so much information coming at merchants from every direction, it's important to have a source you can trust. When you work with Cardinal, you get the power of Visa.

Cardinal has been doing authentication as long as authentication has been around. It's what we do.

Choose experience, choose Cardinal.

Let's talk.

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