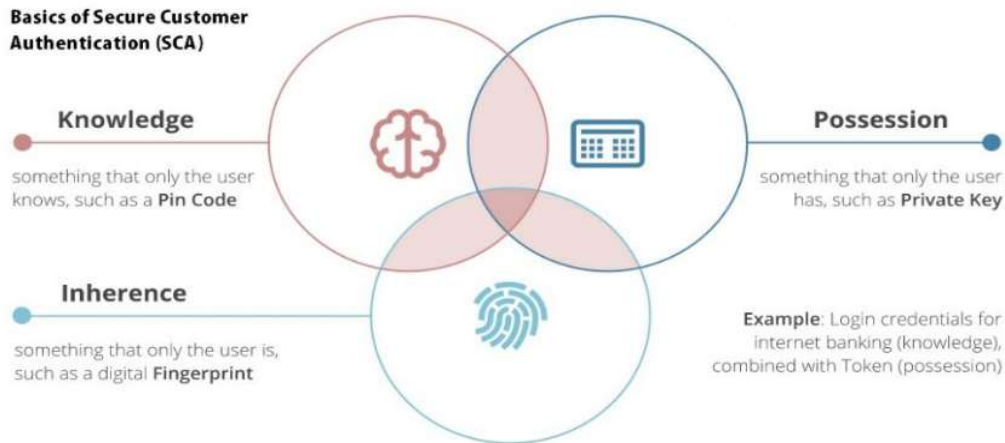


ATFS Bulletin December 2021 SCA Impact on UK Payments

What is SCA

Strong Customer Authentication (SCA) ensures the authenticity of a customer by using multi factor authentication (MFA) to confirm that a customer is genuine. Two separate elements are required to check a user's identity, and these must come from possession, knowledge and inherence categories.

The PSD2 regulations set out the need for payment system users to be authenticated in accordance with Regulatory Technical Standards (RTS). SCA is being introduced to tackle eCommerce remote purchase card fraud which according to UK Finance, data has grown by 170% since 2011 to £376 million in 2020.



When does SCA come into force?

Strong Customer Authentication was due to come into force in the UK on 14 September 2021. The Financial Conduct Authority (FCA) announced a further 6-month extension to the deadline in recognition of the exceptional circumstances of the Covid crisis. The new timeline of 14 March 2022 replaces the 14 September 2021 date.

From June 2021, card schemes began their implementation of Strong Customer Authentication and e-Commerce transactions will increasingly now be checked for 3DS compliance. We recommend that Universities enable 3DSv2 to ensure no disruption to payment processing as the ramp-up begins.

UK Readiness for SCA

The UK market readiness for SCA compliance has come from a strong starting point. The initial version of 3DS authentication technology has been widely deployed in the UK for 15 years and more recently issuers have successfully applied Risk Based Authentication (RBA) to reduce the amount of friction being added to eCommerce checkout journeys. This UK starting position differs from Continental Europe, where the deployment of such authentication technologies has been less widespread until more recently. Correspondingly, the pre-SCA fraud rates in Continental Europe were higher than those in the UK.

UK issuers have successfully enrolled credit and debit cards into EMV 3DS ACS systems. This means that they are ready from a compliance perspective for SCA. The additional time granted has allowed most issuers to support the later EMV 3DSv2.2 specifications offering more authentication options and exemptions.

Data from issuers shows that eCommerce transactions are either being authenticated through 3DS, or being sent direct to authorisation, or being processed as Merchant Initiated Transactions. However, it has been raised that a significant minority are not being correctly flagged and so may well be declined or soft-declined. Visa data shows that UK issuer adoption of EMV 3DS is complete and more than 80% of UK eCommerce payment volume is enabled on EMV 3DS2.2.

Exemptions to Strong Customer Authentication

Under this new regulation, specific types of low-risk payments may be exempted from Strong Customer Authentication. When receiving the payment request, the cardholder's bank will assess the risk level of the transaction, and ultimately decide whether to approve the exemption or whether authentication is still necessary.

The following are some of the payments that may benefit from exception, but the decision lies with the issuing bank; card payments below €30, fixed amount subscriptions, Merchant initiated transactions (including variable subscriptions, trusted beneficiaries, phone transactions and some corporate transactions).

SCA Impact on Fraud

The major driver behind the introduction of SCA was to reduce fraud levels. Positive trends already are offering encouragement to the reduction of fraudulent activity. Overall fraud rates are showing signs of continual decline in markets that have implemented SCA. The EBA have confirmed that the average value of fraudulent card transactions across the EU has fallen by 50% for issuers between June 2020 and April 2021, from 0.12% to 0.06% and by 40% for acquirers from 0.17% to 0.10%. Between the European SCA deadline of the end of December 2020 and the end of April 2021, the average value of fraudulent transactions fell by 33% for issuers from 0.09% to 0.06% and by 30% for acquirers from 0.14% to 0.10%.

Data from Visa also shows that fraud levels in Europe are on a downward trajectory. Between January and May 2021, the period corresponding to increasing adoption of 3DS, the levels of reported fraud fell by 20% and the fraud rate on 3DS transactions was less than half that for non 3DS transactions. SCA has been a catalyst for both issuers and acquirers to strengthen their fraud defences through greater use of real-time systems, stronger fraud rules and investment in greater headcount capacity.

SCA Considerations

- Update PSPs/Gateways with the latest version of 3DS (3D Secure), 3DS version 2.2 or higher if available.
- Ask your PSPs/Gateways/Acquirers to make sure the transactions received are flagged correctly to avoid declined transactions. This will also mean out of scope and exceptions will be identified correctly, for example MOTO transactions are not on the same MID as Ecommerce transactions.
- Communicate the changes to staff and students to maintain a good student payment experience.
- Encourage mobile adoption as this will increase biometric use to simplify the payments process.
- A transaction where either the card Issuer is located outside the EEA, or the UK, is considered out of scope and not requiring SCA. However, SCA should still be applied on a "best efforts" basis.
- Request SCA updates and how your acquirer is looking to assist in keeping the payment journey as simple as possible, when you next meet with your relationship manager.

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