**Brief News to the Payments Trade Press:**

**EPSM advocates a gradual SCA ramp up as of January 2021**
**– to avoid disturbances in EU ecom card payments**

Munich, 2nd December 2020

At the end of this year, the transitional exemption on PSD2-SCA for ecom card payments will end. EPSM appreciates the feedback received from many EPSM members that in their markets ramp up phases, respectively other areas of flexibility are considered in the dialogues with the national competent authorities. This flexibility is urgently needed.

Based on comments from EPSM members and other market participants, the current operational use of EMV 3DS V2.0 which is compatible with the SCA requirements is still below 20%, due to the fact that all involved entities (acquirers, issuers, network providers, merchants and card-holders) need to be prepared for a single transaction to go through.

From what EPSM sees at present, even a strong operational increase in the remaining 4 weeks will not achieve full compliance. Furthermore, it should be noted that experience from similar implementations in the past has shown that ramp up phases are crucial to identify and resolve challenges in complex technical environments such as remote card payments.

Considering the grown dependency of EU citizens on online purchases in these times, EPSM recommends a “better safe than sorry” approach, meaning a gradual SCA ramp up starting in January 2021 is favourable over unexpected consequences which are likely to happen in case of a “cliff-edge introduction”.

Consequently, EPSM appreciates the flexible approaches reported from many European markets and supports considerations of others to follow in order to achieve a successful SCA implementation for consumers with a European level playing field.

Appendix:
Statement of an EPSM Member, dated 19 November 2020 (see page 3)

**About the EPSM:**
The European trade association EPSM represents the interests of payment service providers for merchants, like acquirers and internet PSPs for payment acceptance. As a non-for-profit organization, it provides a cost-effective interest representation and general information exchange on payment topics to its members.

Since its founding in April 2005, the specialized EPSM has grown to 69 EPSM members with headquarters in 16 European countries (AT, BE, CH, CY, CZ, DE, FR, GR, HU, IE, IT, LU, LT, NL, SE, UK) and in the USA. There are voting (ordinary) members, like acquirers, payment network operators, and internet payment providers, and non-voting (extra-ordinary) members, like payment schemes, service providers, and terminal manufacturers.

In 2019, there were three EPSM Meetings with 40 – 60 participants and external speakers, held in Frankfurt, Germany (hosted by American Express), Mondorf, Luxembourg (hosted by 3C Payment), and Vienna, Austria (hosted by Blue Code). In 2020, due to Corona, all events have been virtual. Currently, there are virtual meetings typically each 4 weeks with app 50 participants from more than 10 European countries.

Recent new members have been JCC (Cyprus), Paystra (Lithuania), Web Shield (United Kingdom), Apple Payments (United States), LexisNexis Risk Solutions (United Kingdom), Cardlink (Greece), the Dutch Payments Association (Netherlands), New SIA Greece (Greece), Netcetera (Germany) and creditPass (Germany).

The association has been in contact with the European Commission, the ECB, the EBA, other European and national organisations and actively taken part in several consultations. EPSM representatives are active in the EU Payment Systems Market Expert Group (PSMEG) and the global PCI SSC Board of Advisors (PCI BoA).

The services for members include three EPSM Meetings per year with external speakers, up-to-date information by e-mail, a homepage with a non-public intranet, a small PSD2-SCA working group, and a regular “EPSM Market Research Newsletter” and “EPSM Legal Research Newsletter”.

For more information, please visit: www.epsm.eu or contact:

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**Appendix: Statement of an EPSM Member, dated 19 November 2020**

Dear EPSM,

We understand that, the Payment Systems Market Expert Group (PSMEG) is inviting members to provide feedback on their level of preparedness to be fully compliant with the SCA requirements for on-line payments by 31 December 2020. While the European Commission (EC) is closely following market developments of the PSPs with respect to the migration plan, in particular, it is having difficulties to assess merchants' preparedness.

Acquirer readiness
We, being one of Europe largest acquirers, have implemented, tested and rolled out the technologies that support SCA compliant authentication, SCA exemptions and out-of-scope of SCA transactions which are version of 3DS V2 and above. Our acquiring platform is technically ready to support 3DS technology. We are fully ready for compliance with SCA and the EBA Opinion. Our acquirer inbound protocols have been updated to cater for 3DS V2 and SCA. Provided that a merchant has a 3DS V2 certified product and their gateway vendor has certified with us, our protocols and host systems can currently support full compliance with the regulation.

However, the e-merchants contract is concluded directly with third party gateways and it is solely within the control of the gateways to make EMV 3DS technology available to e-merchants in order to support Payment Service User authentication. This is not within our control. In addition to informing merchants about the impact of not being ready for 31 December 2020, we have been and will continue communicating about who and how merchants can process transactions compliantly. However, is the ultimate responsibility of merchants to be ready, acquirers cannot "make them ready". Merchants' development costs and gateways' costs are not within the control of the acquirers. Merchants can agree to them, or not – together with their respective suppliers, vendors and/or gateways.

Merchant Readiness
Whilst many acquirers are fully ready for SCA compliance on 31 December 2020 we are concerned about the readiness of the general card payment market and believe there is a significant risk that high volumes of transactions could be declined/unsuccessful upon introduction of SCA on 31 December.

- Only 62% of our merchants are 3DS V2 ready. This means that 38% are not ready. Applied to the quarterly "in-scope" volumes (of more than € 5bn), this would represent a total risk to the e-commerce economy of more than € 2bn from our customers only.

- Additionally, only 14% of the 3DS V2-ready merchants have actually used it until now. From the merchant's viewpoint, this means: Even if they are technically ready to support 3DS V2, there is the need to set up and conduct testing and evaluate the results - to iron out any implementation issues including user experience and cardholder awareness. It is our view that many medium and small merchants do not have the time or financial resources to dedicate to testing, or have more pressing issues then spending resources in changing authentication technology testing.

Merchants have more urgent priorities over testing:
We have observed a notable reduction on online in-scope volume in Q2 2020 (reduction of almost € 2bn quarter on quarter basis) and a slowdown in engagement from merchants and gateways on achieving SCA readiness since March of this year. Through discussions with merchants and gateway partners it is apparent that this slowdown is due to COVID-19 and prioritisation of required critical actions taken by businesses to ensure survival through the crisis. These actions include:

- Reprioritisation: Merchants and gateways' focus and effort has shifted from the SCA migration to business continuity and the prioritisation of business-critical activities such as maintaining stability of their payment systems and supporting consumers through the crisis.

- Change to Operations: Merchant and gateways' had to change their operations to service new and pressing customer needs as customers turn to e-commerce for products they cannot get offline due to store closures and in some cases panic-buy essential items. The demand of online purchase for some products has increased dramatically, while the demand for others is in a steep decline.

- Layoff; furloughs and restrictions: Merchants and gateways are experiencing reduced workforces, necessitated by layoffs arising from falling revenues and access to offices being complicated by restriction of movement and social distancing measures.

Risks created by the dis-allowance of a ramp-up soft decline period

a) Accelerated implementation creating risk of disruption: The card payments ecosystem involves a high number of dependencies. Parties including merchants and technical partners must work together to implement SCA. To avoid declined transactions due to SCA non-compliance from 1 January 2021, merchants and gateways will accelerate implementation of SCA technology in a shortened period. This limits the time available for participants to test together, which is essential to a safe and controlled implementation. This creates a risk that payment systems will be disrupted, which will have a negative impact on both merchants and consumers.
b) Non implementation creating risk of disruption: Merchants and gateways will not have time to migrate to SCA technology solutions and will have their transactions declined by issuing banks due to lack of compliance with SCA rules. This will disrupt payments systems and negatively impact both merchants and consumers.