Joint Industry Statement on SCA Implementation

August 2019

Introduction

The co-signatories are highly supportive of the goals of SCA to reduce fraud and increase consumer trust in electronic payments. However, we would like to reiterate that a migration towards SCA requires significant changes for all participants in the payments industry and they would need sufficient time to implement resilient systems that comply with the new requirements. We believe that an inconsistent enforcement and/or fragmented managed roll out of these requirements by individual NCAs will have a negative impact on the market and will result in the decline of legitimate transactions thus damaging the consumers' experience in e-commerce. The increase in transaction declines and abandonment will also have long lasting negative consequences on consumer trust in electronic payments, which is contrary to the rationale of PSD2. According to a study commissioned by Stripe[1], in the first year, SCA will result in an estimated loss of €57bn in the economic activity of European business due to purchase abandonment as a result of added friction at checkout point.

SCA affects the way consumers authenticate themselves, and therefore their purchasing experience. The effective management of authentication and exemptions to ensure a seamless and secure payment experience to customers will be one of the key drivers for e-commerce growth in Europe. Exemptions listed in the RTS and the rapid development of authentication technologies, such as biometrics, can help provide a good customer experience while ensuring security of transactions. However, stakeholder engagement and readiness ahead of the September launch date is uneven across Europe.

For SCA to work effectively there needs to be awareness and acceptance of the new PSD2 requirements among not only the PSPs (including card issuers and acquirers), but merchants and consumers. PSPs are also expected to inform their merchants of the upcoming changes related to the checkout process, necessary upgrades to their systems, and the introduction of new data fields to capture transaction types and other information such as phone numbers to allow consumers to complete the authentication process.

For those reasons, the co-signatories welcome the EBA Opinion on SCA published on 21st June that acknowledges the complexity of the payments markets across the EU and the challenges arising from

1 The Impact of SCA – Shaking up Europe's online Economy. Study commissioned by Stripe

the changes that are required. The EBA Opinion permits NCAs to provide or grant a degree of flexibility in the practical implementation of SCA requirements. However, considering payment-processing activities are pan-European and as PSPs have the ability to passport their activities across the different Member States, it is important that NCAs align on industry readiness with an agreed European wide roadmap. The industry is not prepared for the situation where NCAs may adopt different approaches towards industry readiness. More specifically the e-commerce industry will be highly impacted, as both merchants and PSPs which operate across the EU will need to adapt their technology and their customer journey according to specific readiness plans as defined by their NCAs, which in the case of some NCAs could be at the level of individual PSPs. This would result in inconsistent user experiences and confusion to consumers.

The implementation of the SCA rules need to also factor in an effective understanding and consistent application of the exemption regime across the EU as foreseen under the PSD2. The more fragmented the implementation of SCA across Europe, the more complex it will be for merchants, particularly those with a pan-European footprint, to provide a consistent user-friendly payments experience to European consumers.

Regulatory flexibility

While the co-signatories fully support the objectives of PSD2 to ensure fair competition, innovation and security in the payment sector, we would like to point out the complexity of this ecosystem and the many different business models involved in the payments chain. In order to fully comply with PSD2 requirements all elements of the payment chain must be operationally ready.

EPIF held a workshop last June to discuss the readiness of the payments industry and it was clear that not all industry players would be ready for the 14th September implementation deadline. For that reason, we fully support the EBA Opinion in providing the possibility for NCAs to give limited additional time for PSPs and others to comply.

In order to make sure this works effectively, the co-signatories urge all NCAs, the European Commission and the EBA to work with all stakeholders to agree on a pan EU migration roadmap and to ensure the roadmap is applied in a harmonized way across all Member States. To maintain market stability a consistent EU migration plan should be identified before the 14th September implementation deadline.

We believe the payment ecosystem needs a transition period of at least 18 months and perhaps longer for certain sectors and in clearly defined use cases, with key milestones and clear and consistent metrics identified in that period and which take into account merchants peak trading periods. During this period, issuers and acquirers should be accountable to their respective NCA on ensuring they are compliant by March 2021 for the majority. This proposed deadline is in line with the EBA Opinion establishing that migration plans must be executed in an expedited manner.

During the period of flexible enforcement, issuers shall be allowed to authorize transactions as before, and they should also be allowed to use legacy-solutions for authentication. To avoid disruption to e-commerce and European payments the industry assumption is that the EBA will give further clarity on the grace period, and will operate on the basis of this after September 14th even if there is no Europe-wide announcement made before that date by NCAs.

The co-signatories would encourage authorities to reach a consensus on a common European roadmap and a common European deadline before the 14th September and would welcome a clear communication from the NCAs to their respective national markets before the 14th September that they will grant a transition period.

Looking at some of the provisions of the EBA Opinion more specifically, the EBA Opinion provides a non-exhaustive list of the authentication approaches currently observed in the market and states whether they are considered SCA compliant. The co-signatories note that the Opinion introduces significant changes which fundamentally alter the assumptions that industry has been working on. Such new requirements will affect the payment ecosystem technology roadmap. Furthermore, the EBA Opinion implies that 3DS as currently conceived (including all 2.x versions) is not, by itself, a valid SCA inherence factor as none of the data points, or their combination, exchanged through this communication tool appears to include information that relates to biological and behavioural biometrics. That being said, if future data points exchanged via such protocols enabled the PSP to identify ‘something the PSU is’, such protocols might possibly be considered inherence elements in the future.

The industry notes that there are significant lead times for development, testing and deployment of such protocols particularly if additional factors will be required with the current 3DS solution.

We would also ask the EBA to encourage the industry to develop data based inherence factors. Many issuers and acquirers have developed very advanced AI that can offer a secure and compelling alternative to a static password or a challenge question. In addition, data driven inherence is probably one of the most fraud proof factors, and as such we urge the EBA to look closer at these new technologies which mitigate fraud and are frictionless for consumers.