



SCA Update

7th December 2020

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COMMISSION DELEGATED REGULATION (EU) 2018/389

of 27 November 2017

supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication

(Text with EEA relevance)

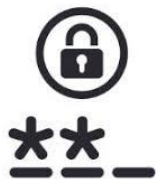
THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC ⁽¹⁾, and in particular the second subparagraph of Article 98(4) thereof,

RTS for SCA: what is it?

- Knowledge



- Possession



- Inherence



Allows a Payer PSP (issuer/bank) to:

- 1) verify the identity of a payment service user; or
- 2) Establish the validity of a specific payment instrument

SCA must be applied whenever a payment service user:

- 1) Accesses their payment account online
- 2) Initiates an electronic payment transaction
- 3) Any activity via a *remote channel* which may imply a risk of payment fraud or other abuses

Out of Scope Transactions

Source: Visa

Step 1 | Is the transaction out of scope of SCA?

There are 4 key out of scope transaction types



Merchant Initiated Transactions (MITs)

Where a cardholder has pre-agreed (and pre-authenticated) a future transaction(s), and may not be available to authenticate at the time that it is initiated



Mail Order, Telephone Order (MOTO)

MOTO transactions are those made remotely, via mail or telephone



One leg out Transactions*

Defined as those transactions where one of the issuer or acquirer is outside of the EEA

* Applied on a best-effort basis



Anonymous Transactions

Customers do not need to complete SCA when an anonymous payment method is used, e.g. a gift card



In scope - further checks required

If the transaction is in scope, it still could be exempt from the requirement for SCA



Out of scope - no SCA required

Where a transaction is flagged as out of scope, SCA is optional, but merchants may still choose to apply it

Step 2 | Can the transaction benefit from an SCA exemption?

There are 4 exemption categories that can be applied by the acquirer or issuer

SCA Exemptions

Source: Visa



In scope - further checks required

If the transaction is in scope, it still could be exempt from the requirement for SCA



Out of scope - no SCA required

Where a transaction is flagged as out of scope, SCA is optional, but merchants may still choose to apply it

Step 2 | Can the transaction benefit from an SCA exemption?

There are 4 exemption categories that can be applied by the acquirer or issuer



Transaction Risk Analysis (TRA)

The TRA exemption applies to all transactions deemed low risk, based on a Transaction Risk Analysis (TRA) assessment



Low Value Payments

Where TRA is not possible, it may be possible for the merchant or acquirer within certain cumulative limits to apply a low value exemption on any transaction below €30



Trusted Beneficiaries

Customers can add merchants to a trusted list, where SCA is generally only required on the initial transaction. Visa facilitates this through Visa Trusted Listing



Corporate Payments

The secure corporate payment exemption can be applied to all non-personal transactions that have been initiated from secure corporate environments on eligible cards



If no exemption applies, SCA is required

If a transaction is in-scope and no exemption could be applied, SCA is required and the customer will need to authenticate themselves via two factors as part of the checkout flow. If SCA is not performed, the transaction will be declined



Exemption(s) apply - SCA not required

The issuer has the final say on whether an exemption is applied. Where this is the case, no SCA is required

SCA Alert

#SCAday EU: 24 Days

#SCAday UK: 281 Days

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EBA: On the deadline (19th November 2020)

- No extension of 31st December 2020 deadline
- NCAs providing further flexibility are violating PSD2
- Soft-decline is a smart idea but too late
- T&E sector should also comply by December 31, 2020
- If cards do not work, other payment instruments should be used
- That the card industry is unable to organize itself so as to comply with the law is incomprehensible

18 months ago - Digital Identity Summit...

The New Collaborative Challenge: SCA

- Ecommerce under greatest ever threat
 - £45bn hit to UK economy
 - €160bn hit to EU/EEA economy
- Avoid the #SCAcliffedge
- Transition period beyond 14th September
- All stakeholders need to be involved
 - ...but they're not!
- Only regulators have power to stimulate collaboration
 - A competitive muddle

Connecting Payments

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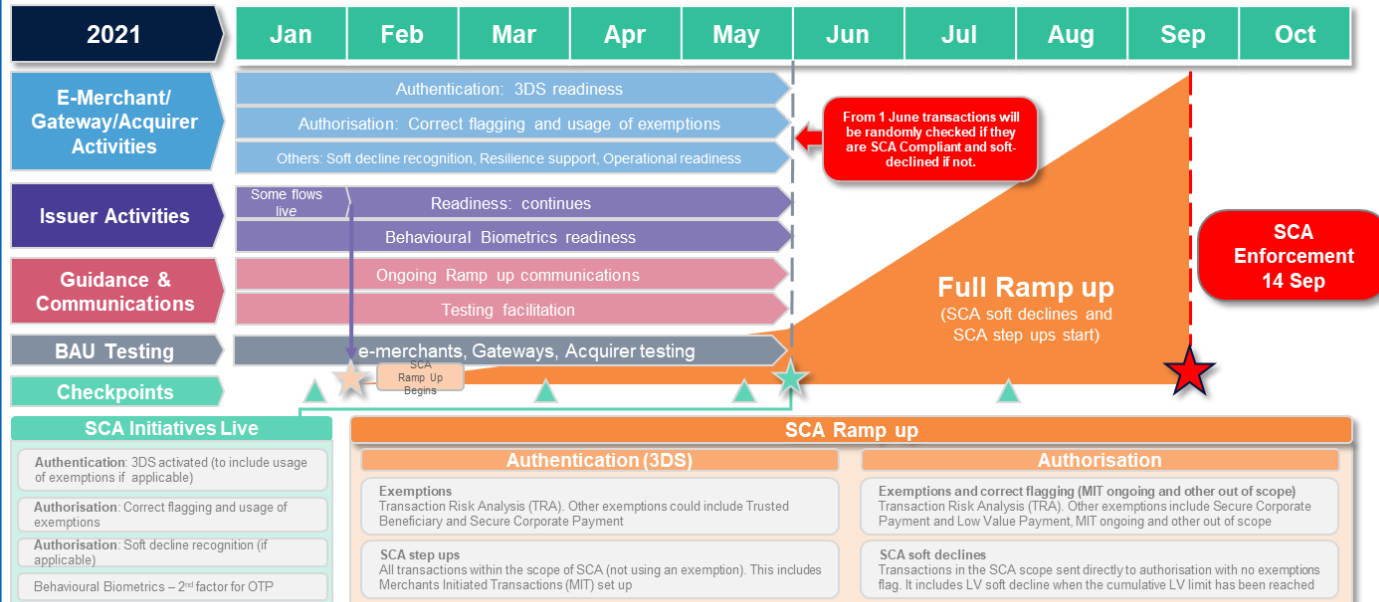
EBA: On the deadline (19th November 2020)

- **T&E sector should also comply by December 31, 2020.**
 - The EBA was already made aware 18-months ago of the technical complexities to implement SCA requirements for the T&E sector. Nonetheless, since Covid-19 significantly reduced travel operations, this *could have* been a good time to adapt the T&E infrastructure to the new SCA requirements.

Avoiding the cliffedge

SCA Implementation Plan – Avoiding the cliff edge

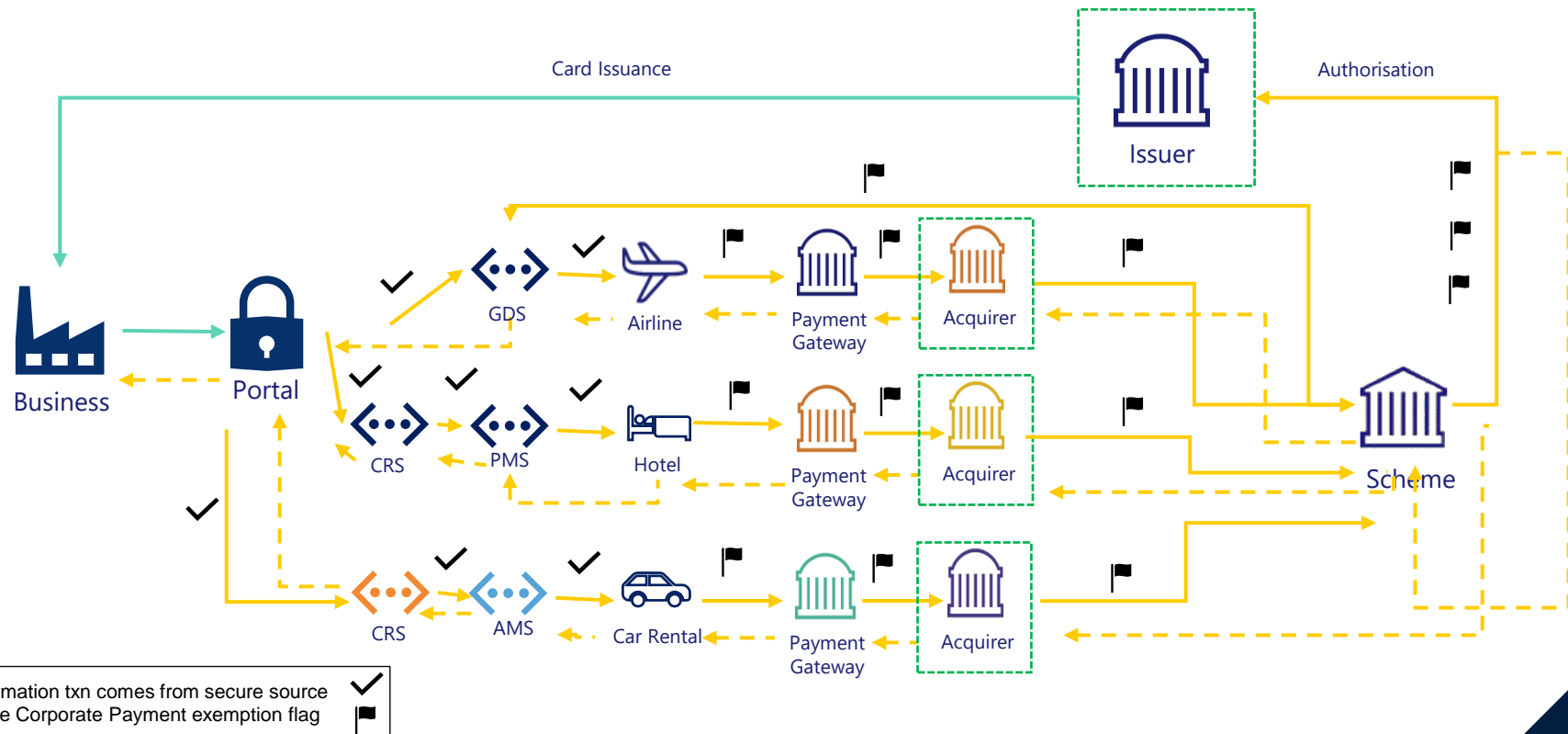
UK Only – 2021 activities (The enforcement date is 31 December 2020 across the rest of the EU)



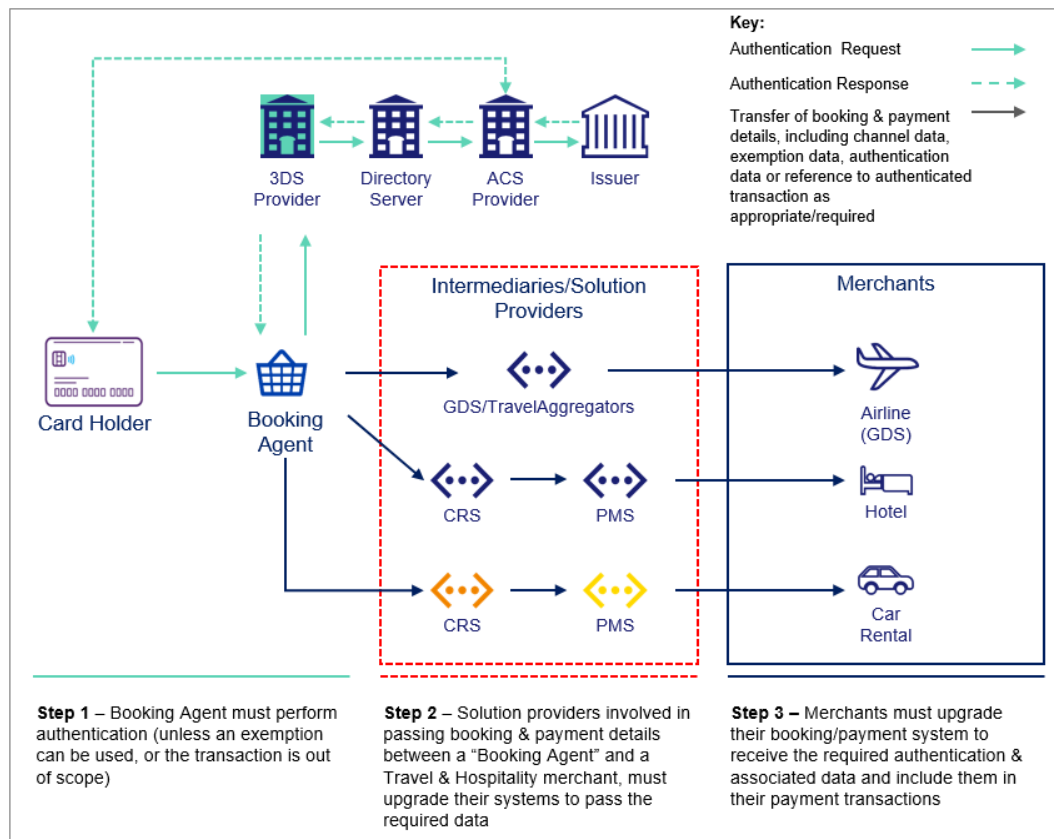
Through out the period, Issuers will continue challenging transactions as per their decisioning strategies

Complex network of inter-relationships

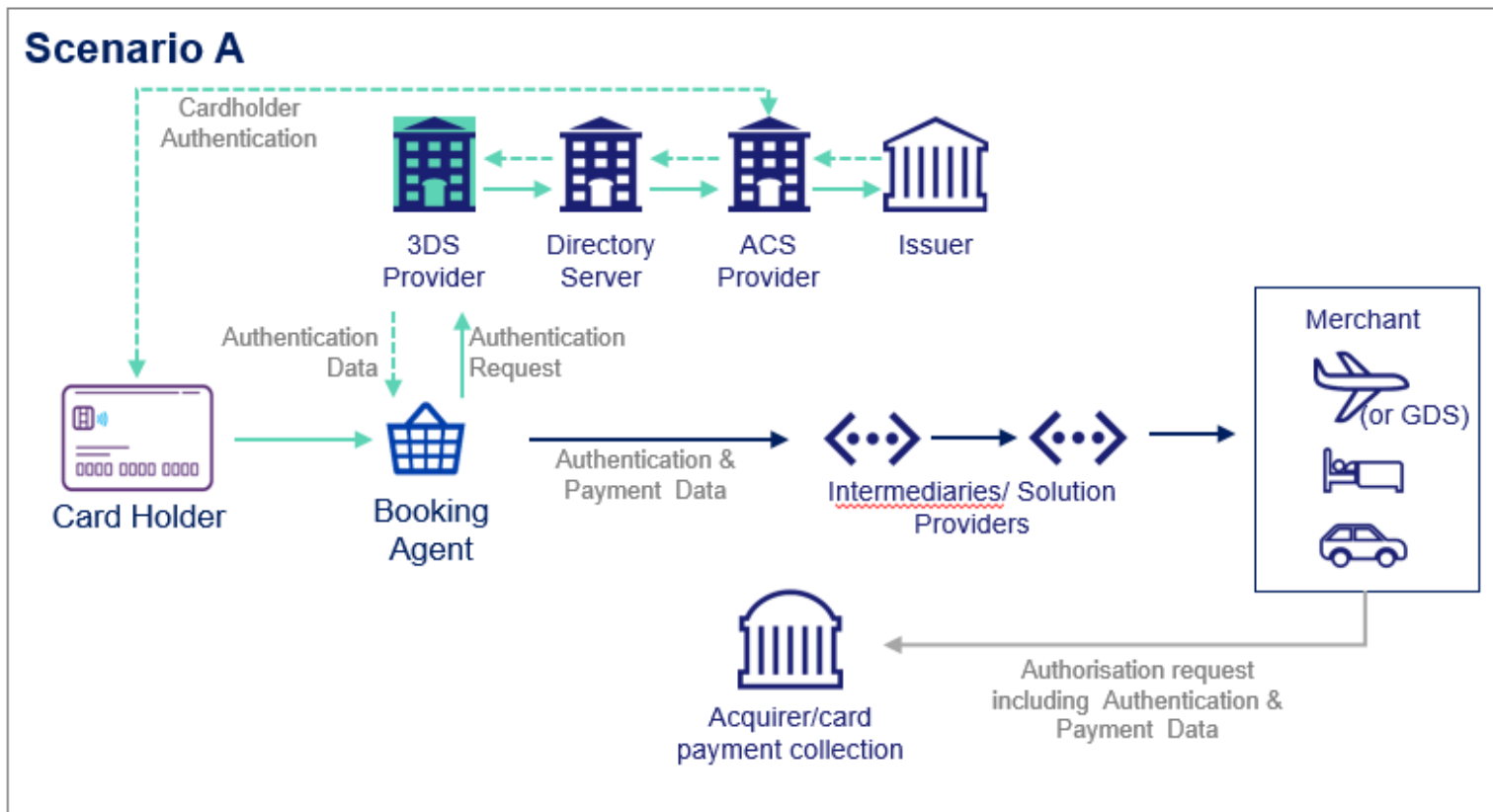
Issuers are liable for the Secure Corporate Payment exemption, but currently have no control over the use of their payment products in secure channels



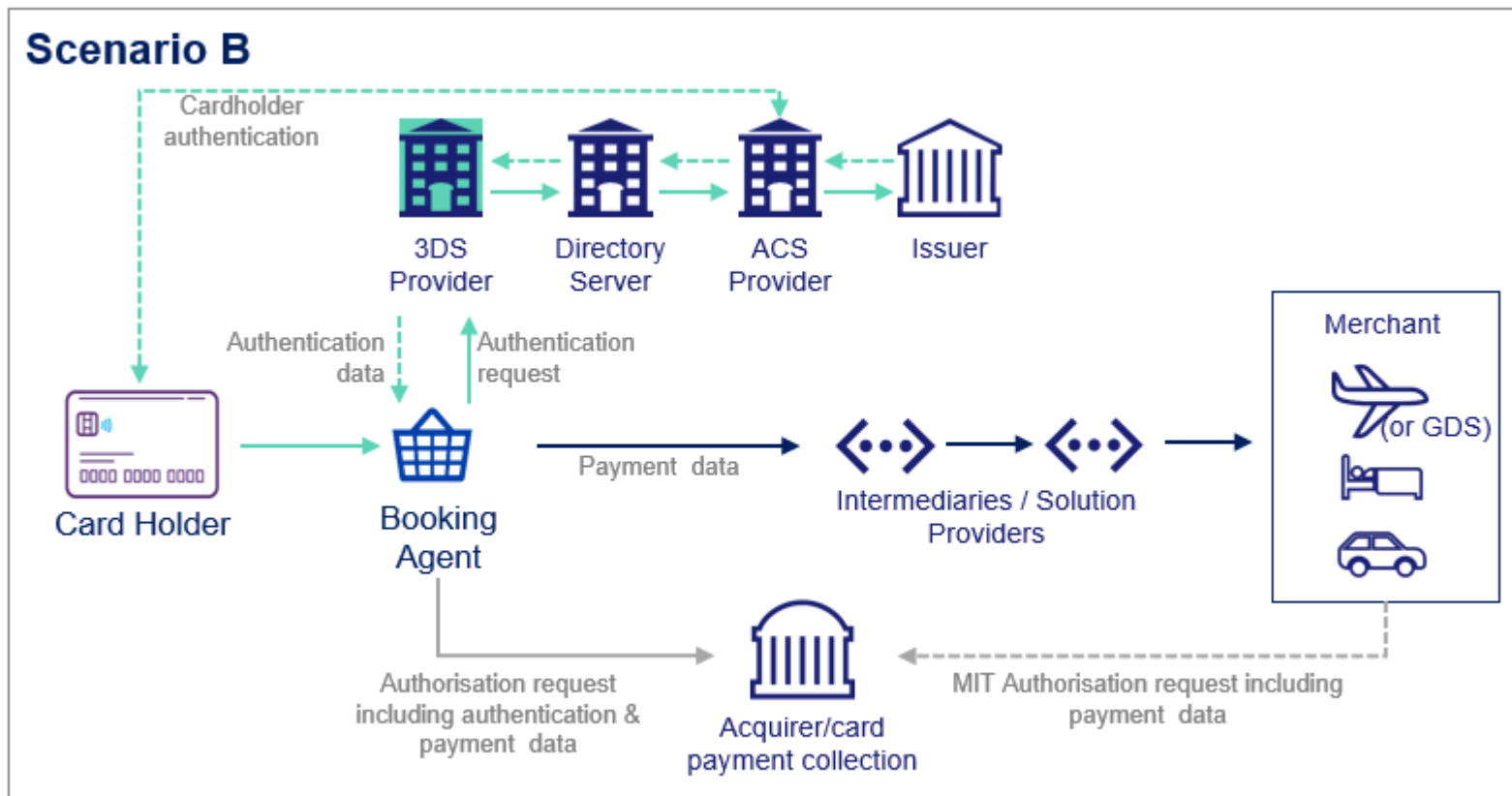
Action needed



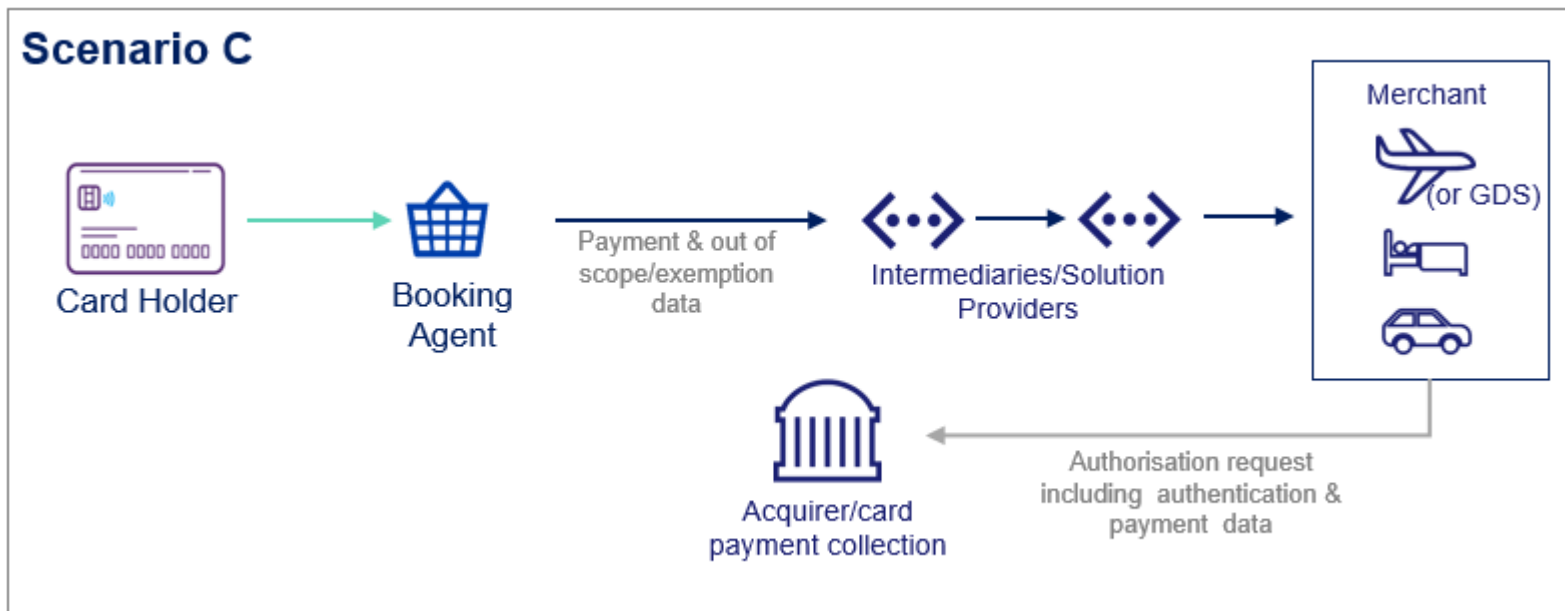
A: Booking agent authenticates, T&H service provider collects payment



B: Booking agent authenticates & collects payment, T&H service provider MIT



C: OOS or exempt transaction, T&H service provider requests authorisation



Merchant Comms Campaign

- Media Impact
 - ‘...65% overall readiness’ will simply not be good enough
 - the media will unfairly target merchants... because the regulator did not act in sufficient time
- Competition & Choice
 - Unintended consequences
 - Focus of the Programme on issuer and acquirer compliance
 - Gateways and merchants will go out of business as a direct result of SCA implementation.
 - Reduced choice of solutions providers that merchants will have
 - consumer spending being concentrated with fewer, larger multinational marketplaces

Merchant Comms Campaign

- Proposal - and it's only a proposal at this stage!
 - HMTreasury should quantify and recognise the impact on the wider economy
 - FCA and PSR should immediately commission and fund a merchant awareness communications campaign
 - Independently chaired
 - Content and messaging curated and resourced by senior above the line media professionals, drawn from regulated entities in the merchant payments sector
 - Plan for a budget of £15-20m



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