



Actively Manage SCA Exemptions and Protect Your Profits



Executive Summary

The last piece of the PSD2 puzzle might have been delayed, but that doesn't mean there is time for merchants to rest on their laurels. When it comes to strong customer authentication (SCA), there is more to tackle than compliance — customer relationships and business profitability are at stake and you must keep control of your risk exposure to ensure your business doesn't suffer.

A Quick SCA Recap...

When does SCA apply?

SCA checks are mandated for every electronic payment over €30. SCA also applies to transactions under €30 where there have been more than five previous transactions, or where the card has accumulated transactions over €100 without SCA being applied.

Out of scope transactions include:

- Recurring transactions
- Mail order/telephone order (MOTO)
- One-leg-out transactions
- Direct debits

Explaining Exemptions

Transactions can be exempted from SCA if the cardholder has applied to have the merchant with which they are transacting white-listed with their card issuer, and the bank has agreed. Issuers and acquirers may also exempt a transaction under €500 if the merchant has demonstrably low levels of fraud. This requires that transaction risk analysis (TRA) is in place and fraud is kept below set exemption threshold values (ETV).

1 The Good, the Bad and the (Really) Ugly of SCA

The good news is that SCA is designed to more accurately authenticate customers, so reducing fraud rates. 3-D Secure version 2, widely recognized as the right tool for meeting the authentication requirements of SCA, also removes friction from the payments flow by eliminating the static password that caused so much cart abandonment under 3DS 1.0 and replacing it with multi-factor authentication.

The bad news is that the liability shift under SCA is not as straightforward as it seems. For transactions that are subject to SCA, liability rests with the issuer or acquirer. Whoever applies an exemption is liable for the transaction, but the final say lies with the issuer, who can override the acquirer and insist on authentication. In most circumstances where an acquirer applies an exemption, they are likely to pass liability or costs back to the merchant. So, as a merchant, you lose control of the authentication process, but don't necessarily avoid the associated costs.

The really ugly news is that, left to chance, and without proper attention around exemptions, SCA has the potential to have a very negative impact on your customer experience and profitability. Not only could you be saddled with the cost of any fraud loss on transactions exempted by the acquirer, but you also face increased friction for customers in the event that the issuer refuses to allow an exemption applied by the acquirer. The added friction from too many SCA transactions will likely cause cart abandonment, lost sales and damage to your customer relationships.

The Potential Impact of SCA



Increased **Friction**
in the buying process



Deteriorating
Customer Experience



Decreased
Conversion Rates



Increased unexpected
Fraud Costs

2 Reducing the Risks: The Importance of Fraud Screening

Retaining a strong fraud solution has always been necessary to help merchants avoid scheme fines, as well as the usual costs of fraud and chargebacks. The introduction of SCA doesn't negate any of this. All merchants will need to be able to perform SCA where issuers request authentication and demonstrate due diligence in order to secure exemptions from issuer and acquirer. Merchants also need to prevent fraud on transactions that are out of scope of the regulations.

PSD2 requires that fraud rates are assessed at the payment provider (that is, issuer or acquirer) level, not for the individual merchant. This TRA is a strict set of fraud metrics that the issuer or acquirer must adhere to or run the risk of having to authenticate their entire portfolio. For transactions to be exempt from SCA, you must ensure your fraud rate remains low enough not to pull the overall fraud rate of the issuer or acquirer over the documented threshold. Where you don't continue to fraud screen (and provide evidence of low fraud rates), you should be prepared for an increase in challenges and declines, as payment providers seek to hold down their own fraud levels.

So, **fraud screening at the merchant level remains vital** for de-risking transactions, protecting the customer experience and ultimately securing revenue growth. It isn't enough to rely on issuers and acquirers to carry out risk analysis. You should understand the behaviors and needs of your own customers better than anyone else — and you have significant amounts of transactional data which can be used to profile customers and prevent fraud. There is every reason to continue doing so, and no good reason to stop.



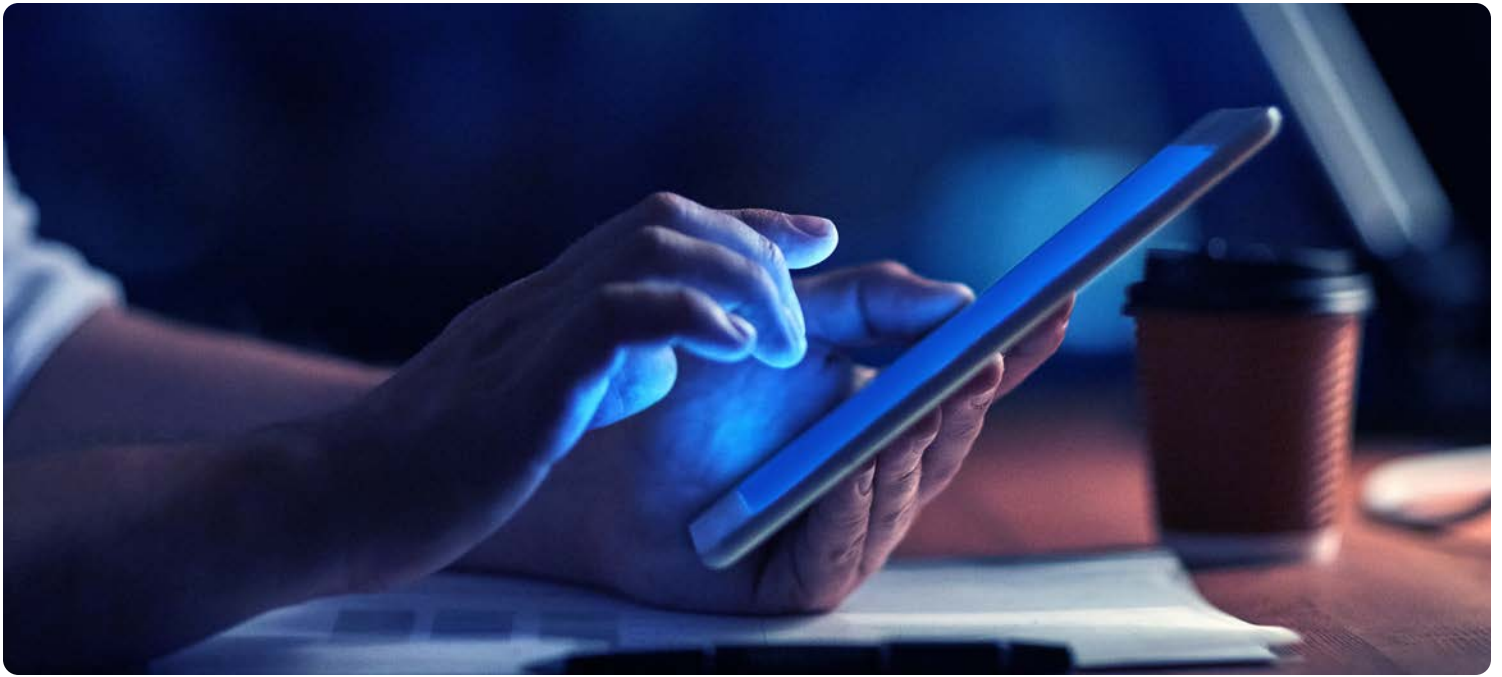
3 How to Take Control of Your Exemptions

Without the right measures in place, authentication is a major risk to conversion success. It's vital that you retain control of the customer journey and do all you can to deliver a simple, fast checkout experience. There are several ways to ensure this happens:

1. **Continue fraud screening and have full visibility of your fraud rates**, with the ability to track trends that define SCA exemption options. This will help you to monitor and adapt to keep control of your fraud and cost exposure.
2. **Actively engage with your acquirer to discuss and agree on an exemption strategy**. You can and should actively seek exemptions — and it is critical to fully understand, and push for, the exemptions you want. There also may be some situations where you don't want an available exemption to be applied. Don't sit back and wait for your acquirer to decide, go and argue for what you need. You should jointly agree on your exemption strategy with your acquirer to make sure you are only taking on risk at a level you are comfortable with, and in a way that fits with your goals for customer experience.
3. **Monitor your acquirer's adherence to TRA fraud metrics**. Don't wait for them to get out of control before looking to switch your traffic to an alternative provider.
4. **Ensure you can switch acquirers**, route transactions to acquirers with the best fraud levels and negotiate acquiring services whenever you need to. Those merchants with robust fraud strategies hold all the cards when it comes to picking the acquirers that offer the best conversion rates, SCA strategies and commercials.



Ultimately, they're your customers, your conversion rates and your fraud liability at stake. Make sure they aren't taken out of your hands. To learn more about how you can manage fraud and secure SCA exemptions, contact us at merchantpayments@aciworldwide.com.



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