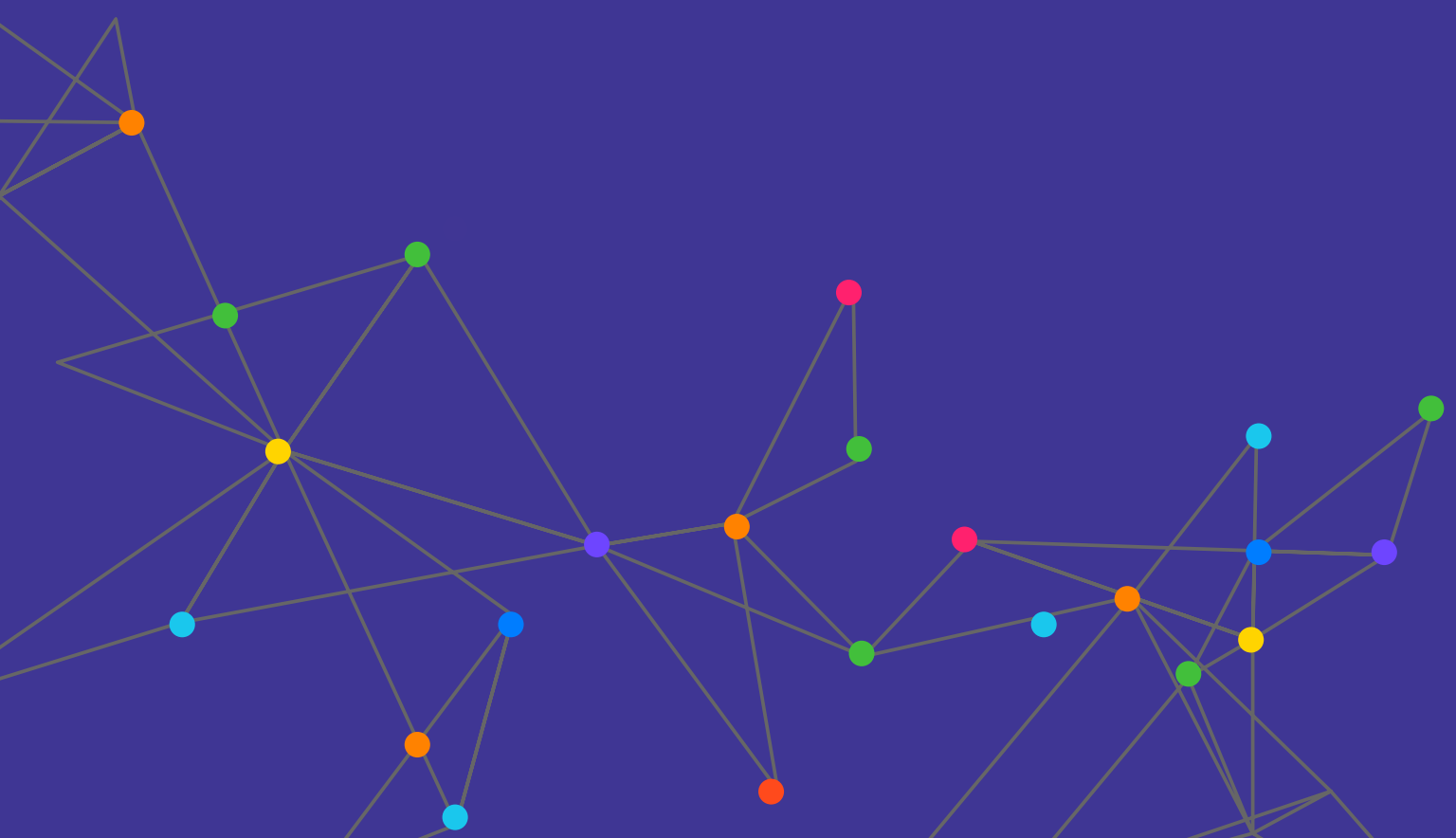# EKATA

PSD2 SCA:

How Ready Are Issuers?

As we know, the revised Payment Services Directive (PSD2) went into effect this past January 1st for many countries across Europe. In an effort to make payments safer, increase consumer protection, and foster innovation and competition throughout the industry (while ensuring a level playing field for all), the payment's ecosystem was prepped ahead of time of the new regulations. So, the question today is: How truly ready is the payments ecosystem and what is the customer impact?

In referring to the payment's ecosystem, we include merchants, issuers, credit card networks, access control servers, acquiring processors, and more. However, in this paper, we focus on issuers and their state of preparedness to abide by the revised directive.

Jan 2020
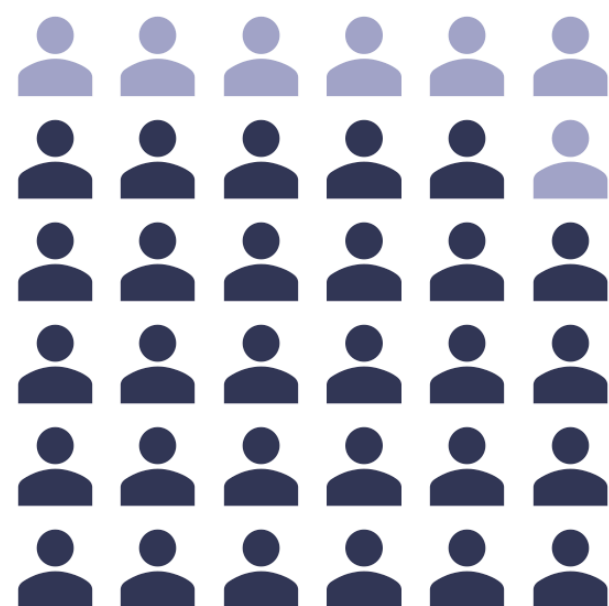
Oct 2020
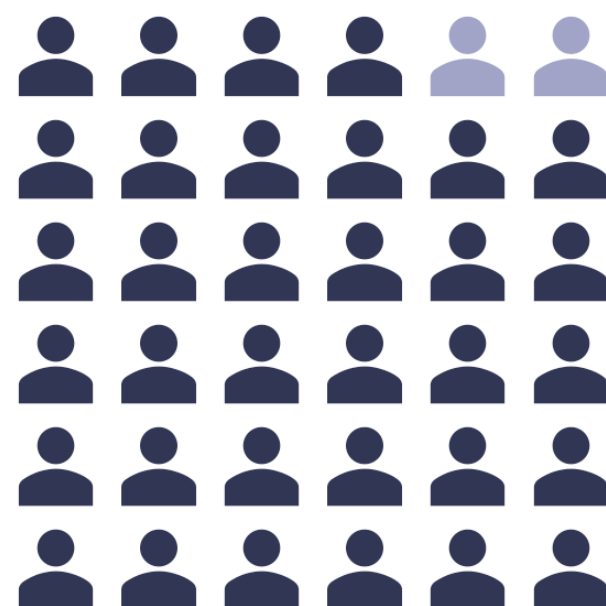
80%+

95%+

consider SCA strategic

THE OPPORTUNITY FOR ISSUERS

PSD2 Strong Customer Authentication (SCA) provides rich opportunities for issuers should they strategise accordingly. Because issuers want to stay "front of wallet," it is in their best interest to focus specifically on the customer experience. Because let's face it, any friction experienced by the consumer means the possibility of abandoning a transaction. So, here issuers on top of their game have the opportunity to truly differentiate. They can do so by:

- Utilising rich data

- Applying for exemptions and

- Managing fraud in real-time

By doing this, issuers (and indeed others within the payment's ecosystem) ultimately reduce the compliance risk that accompanies PSD2.

THE LIABILITY FOR ISSUERS

In general, PSD2 shifts more liability to issuers. Specifically:

Authorisation Flow: In the case of a 3DS merchant initiating a transaction, once the issuer accepts the authorization check the liability officially lies with them. Should the merchant not be 3DS enabled, liability would stay with the merchant and, in some cases, acquirers may step in and take on liability. Still, this is not the pervasive model.

Transaction Acceptance: It is understood that when an issuer takes on the liability for a transaction, they are less likely to accept that transaction. While this makes sense in terms of risk reduction, why accept the authorisation request in the first place if you're not going to approve it? This speaks to an ultimate disconnect between authentication and authorisation flows.

THE SURVEY

In late 2020, Ekata teamed up with STRATgranat (now Allyiz) to survey both European issuers and acquirers (for sake of comparison) to better paint a picture of the opportunities and challenges ahead. The objective of this survey is to inform and assist all within the ecosystem over the coming months.

DEMOGRAPHICS:

- Over 500 issuers were surveyed

- Business scale covers large and medium players (for issuers and platforms)

- Issuing platforms surveyed serve the entire European region

- Individual issuers surveyed focussed within the two main eCommerce countries (UK and France)

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KEY FINDINGS:

While 55% of issuers surveyed are currently focusing on compliance, the other 45% are implementing PSD2 as an engine for differentiation.

COMPLIANCE-FOCUSED

"We are first filling the gaps towards compliance, later we will explore the new opportunities arising from it."

"Regulatory requirement to deliver and support"
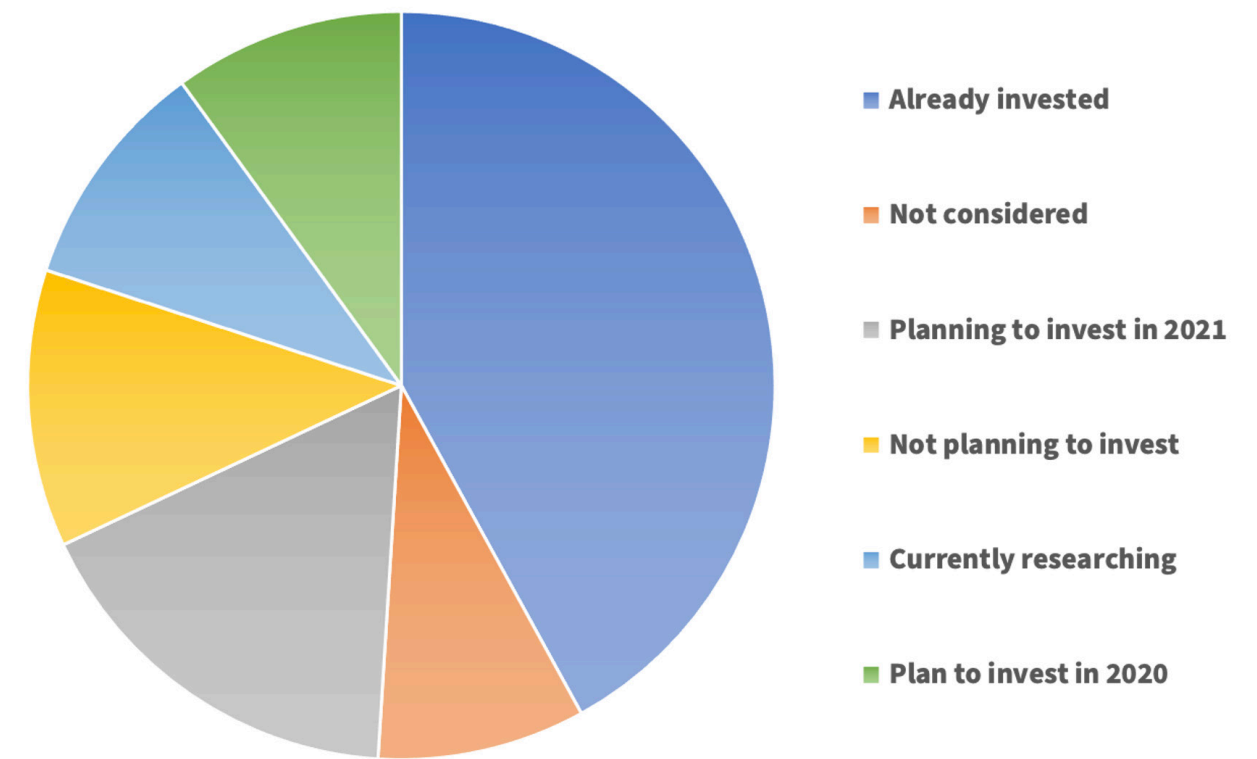
DIFFERENTIATION-FOCUSED

"A must do, but the opportunity to move bank and customers forward through an improved customer authentication experience – time for change."

"SCA is an integral part of risk-based judgement on transactions. It is a fundamental feature."

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Weighted Average

Legend: ■ <20% ■ 20%-40% ■ 40%-60% ■ 60%-80% ■ 80%-100%
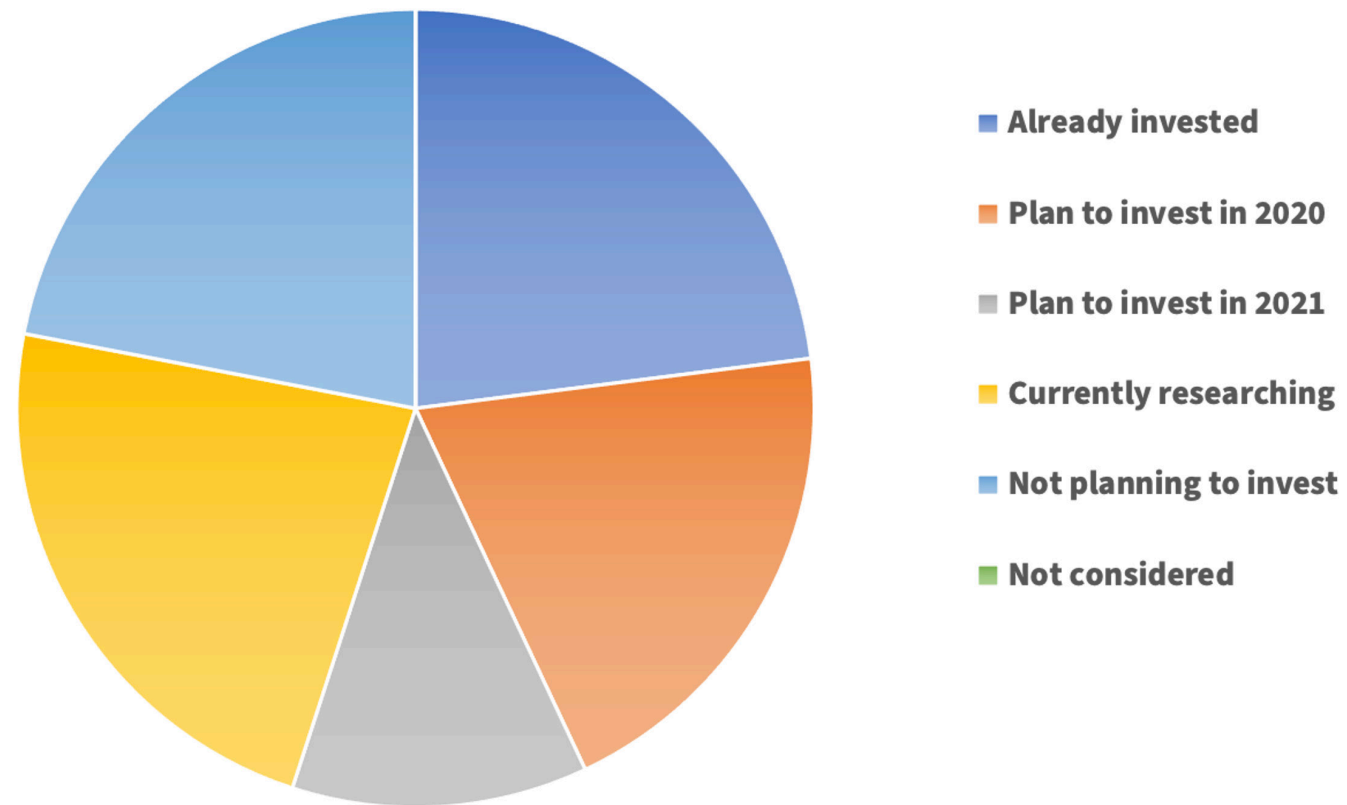
Low-Value — 32%

TRA — 25%
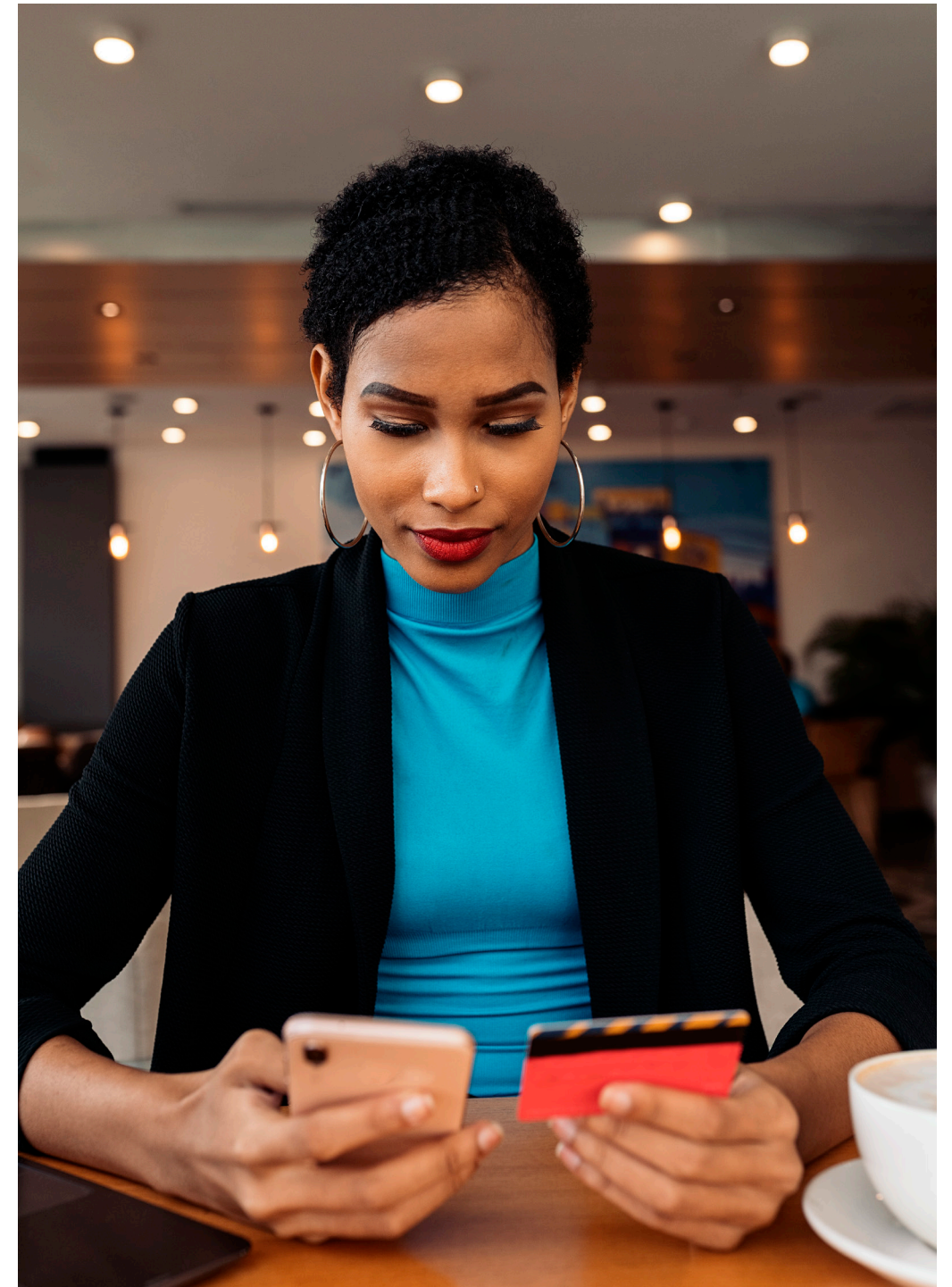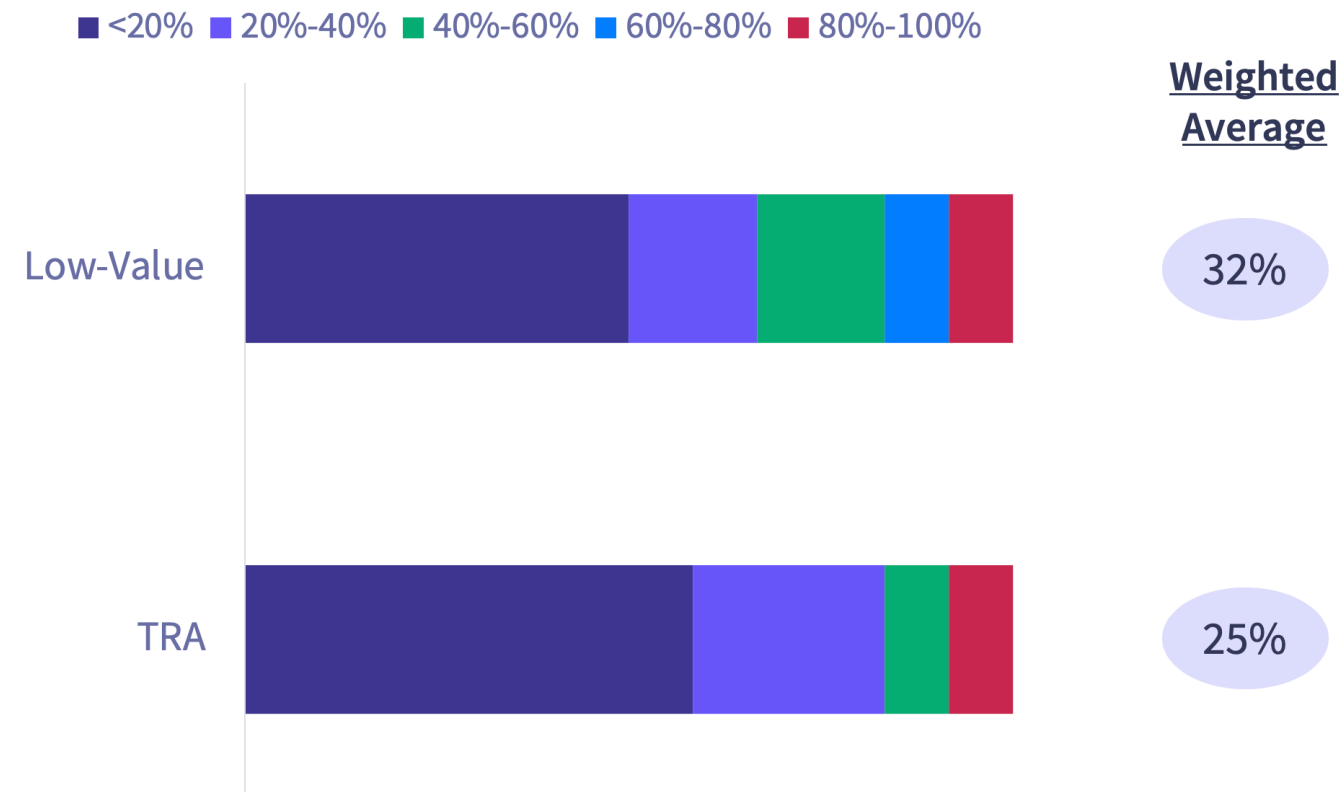
Issuers expect the top two exemptions to be Transaction Risk Analysis (TRA) and low-value. (Meanwhile, acquirers see TRA as applying to largest portion of transaction volume).

Pie chart legend:
- Already invested
- Not considered
- Planning to invest in 2021
- Not planning to invest
- Currently researching
- Plan to invest in 2020

A majority of issuers are investing in machine-learning and rules-based engines.

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Pie chart legend:
- Already invested
- Plan to invest in 2020
- Plan to invest in 2021
- Currently researching
- Not planning to invest
- Not considered

Bar chart legend: ■ Use ■ Don't Use

Categories (top to bottom):
- Payment amount
- Payment instrument
- Device
- IP
- Email
- Phone
- Billing and Shipping addresses
- Product
- Biometric
- User Behavior

Axis: 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Many issuers are investing in 3rd party data in order to triangulate and benefit from historical and probabilistic insights.
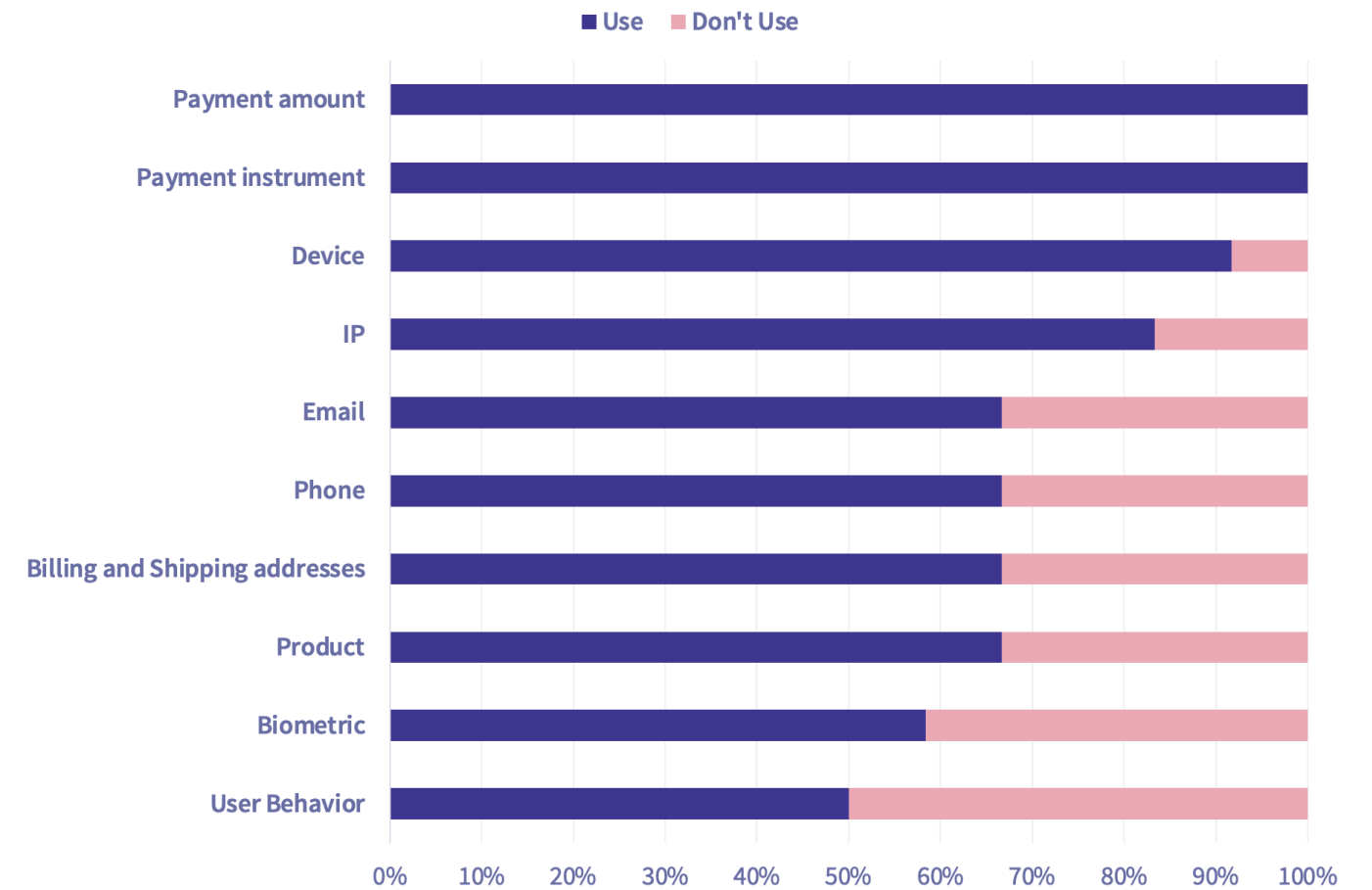
There is an increasing importance placed on rich data.

- EMV 3DS is the de-facto standard for authentication, making it critical for issuers to utilise real-time decisioning.

- Issuers currently not using data (such as IP, email, phone, and address) intend to start using them now.

- Biometrics and user behaviour are expected to grow early 2021.

Final Thoughts

- While issuer readiness isn't where it needs to be, it is much further along than previously anticipated.

- All within the payment's ecosystem are working towards the same goal.

- Exemption strategy is key.

  - TRA and low-value exemptions will cover over 50% of all transactions.

  - SCA step-up is only expected on 20-25% of all transactions at this stage.

Figure 1.2.
The Ekata Identity Engine™
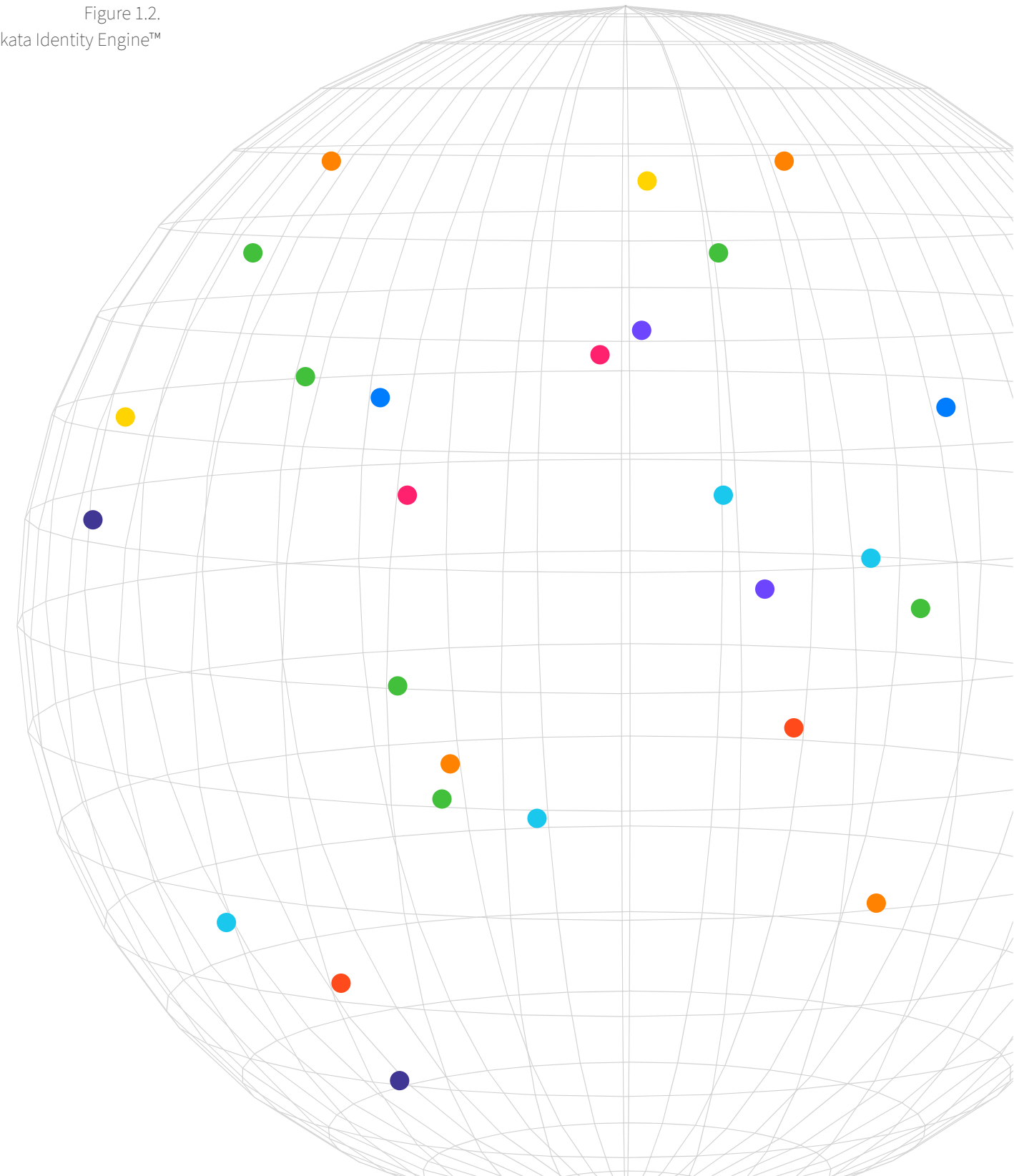
How Can Ekata Help?

PSD2 provides the opportunity to differentiate your business and services

The latest update to our award-winning **Transaction Risk API** is built to help businesses like yours improve the efficiency of authorisations, allowing you to offer your end-users more SCA-exemptions and deliver higher authorisation rates.

Because PSD2 provides the opportunity to differentiate your business and services through transaction smart routing, machine learning fraud screening, and pre-authorisation fraud screening, Transaction Risk API's update provides everything you need to stand out from the pack.

To learn more about how Ekata can help you score the overall risk of an identity behind a transaction and deliver a concise response for easy model integration at scale, please contact us for a demo.

To watch the full webinar: PSD2 SCA: How Ready Are Issuers?
Please click here.

Making the Change

About Ekata

Ekata provides global identity verification solutions via enterprise-grade APIs for automated decisioning, and Pro Insight, a SaaS solution for manual review for cross-border businesses to grow revenue by maximizing their predictability of good transactions. Our product suite is powered by the Ekata Identity Engine (EIE), the first and only cross-border identity verification engine of its kind. It uses complex machine learning algorithms across the five core consumer attributes of email, phone, name (person or business), physical address, and IP, to derive unique data links and features from billions of real-timetransactions within our proprietary network and the data we license from a broad spectrum of global providers. Businesses around the world including checkout.com, Microsoft, Klarna, and Airbnb leverage our product suite to increase approvals of more good transactions, reduce customer friction at account opening, and find fraud.

Contact us to learn more.https://ekata.com | 1.888.308.2549