

Strong Customer Authentication



Contributors

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Strong Customer Authentication - What it means for your business



When running a business, we know that sometimes you have so much to keep up with, it can be difficult to see what's urgent and what's just more 'jargon' being thrown your way.

With this in mind, we wanted to take some of the uncertainty out of the upcoming Strong Customer Authentication (SCA) September 14th 2019 deadline, giving you a brief overview of why it's being introduced, what it entails and what exactly you need to do in preparation for it.

Why is Strong Customer Authentication being introduced?

Paying for goods and services online is something that the majority of us do every single day. And yet it can still be something that many consumers are often wary about due to fears around fraud and security.

In 2007 the EU first introduced a regulatory directive to help improve security around online payments known as the **Payment Services Directive (PSD1)**.

This saw the introduction of a single payment area within the European Economic Area (European Union, Iceland, Norway and Liechtenstein - otherwise known as EEA) as well as recommended increased security measures for retailers for example the "Verified by Visa" additional security check used by some retailers when we're shopping online.

Not every retailer had previously opted for the additional security checks, however, that looks likely to not be an option for most online payments going forward.

With the growth of online payments and issues that arise from that, a revised regulation needed to be introduced to ensure consumers, retailers and card issuers are better protected. 2018 saw the introduction of the revised **Payment Services Directive (PSD2)**.

Strong Customer Authentication (SCA) is a key revision in PSD2, requiring most online payments to upgrade their customer authentication process to include a second level of authentication. The deadline for SCA is September 14th 2019, which means it's important to get an understanding of how your business may be affected and, most importantly, what you need to do now to ensure your business is compliant.

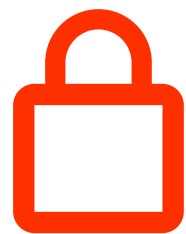
What is Strong Customer Authentication?

The revised EU payment services directive (PSD2) will have an impact on businesses as they get ready to comply with the enhanced security measures required under Strong Customer Authentication (SCA).

As of September 14th 2019, businesses trading in or selling to customers in the **European Economic Area (EEA)**, will be required to ensure that there are 2 layers of authentication where the cardholder's bank and the business accepting the transaction are located in the EEA.

It's important to recognise that the updates in this revised EU payment services directive (PSD2) mean that businesses are required to review their current payment flow and authentication process to ensure they meet the regulatory requirements of PSD2.

Under SCA, companies will have to verify a customer's identity by two of the three following elements:



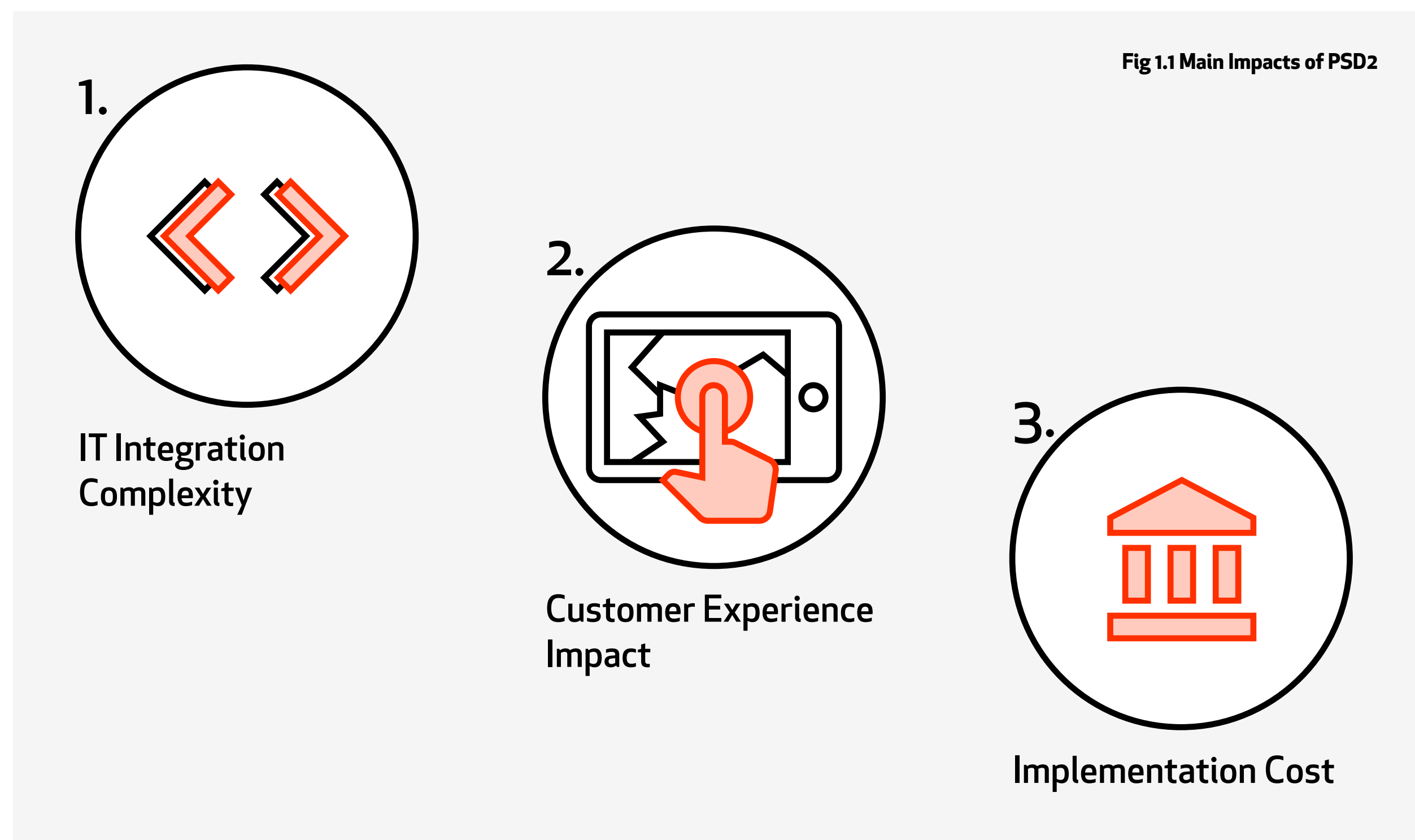
Something the customer knows
(eg. password or PIN)



Something the customer has
(eg. phone or hardware token)



Something the customer is
(eg. biometrics)



When is Strong Customer Authentication required?

SCA will apply to “customer-initiated” online payments within Europe. Most card payments and all bank transfers will require SCA.

With the exception of contactless payments, in-person card payments are also not impacted by the new regulation. Recurring direct debits are considered “merchant-initiated” and will not require strong authentication.

Exemptions

Under this new regulation, specific types of low-risk payments may be exempt from Strong Customer Authentication. It is imperative that your payment flows incorporate these exemptions without impacting conversion rates.

Conversion rates will be greatly impacted by failure to manage exemptions in a dynamic manner. Managing the payment flow while incorporating exemptions under SCA will greatly impact the customer experience and therefore conversion rates. It is imperative that a business be aware of the key exemptions that impact their business and that they have a payment partner that has SCA ready tools in their payment infrastructure.

69% Online shopping cart abandonment rate worldwide.

<https://www.statista.com/statistics/477804/online-shopping-cart-abandonment-rate-worldwide/>

27% Drop off related to complicated payment flows.
User Experience is central to reducing this figure.

<https://baymard.com/blog/perceived-security-of-payment-form>

How do you prepare your business for Strong Customer Authentication?

1.

The first thing to know is that it is mandatory for any business to be SCA compliant. Failure to do so could mean your business may not be able to process payments. Your business should have a simple and unified integration for all the major authentication methods (3D Secure 1 and 2, Apple Pay etc)

2.

Each payment flow can be different, your business could take regular payments or could take one off payments for example. It's important to understand how SCA impacts your business. How will your business manage exemptions and how does this impact your conversion rates.

3.

Technology infrastructure needs to be reviewed. If your business is handling payments on your mobile device then iOS and Android SDKs will need to be updated and, depending on the provider, some implementation changes might be required. Your current payments engine will have updated their APIs and payments infrastructure to be SCA compliant and your business will need to be re-integrated with the revised SCA ready payments engine. Do not underestimate the time involved.

4.

Depending on the business there should be a review of the payment flows from a User experience

perspective. Poor authentication UX will hurt conversion rates. Ensure the payment experience is right for your business.

5.

September 14th is just the beginning. We expect both the regulation and banks logic to evolve over time. Ensure you have a payment flow that can evolve with the regulatory changes that are coming with **Open Banking**, PSD2 and increasing demands from consumers around biometric authentication etc.

6.

Future proof your business by ensuring you have a correctly architected backend. Having a correctly architected tech stack can enable your business to handle change in what is a rapidly changing payments and **Open Banking** landscape. How quickly can your business iterate (refunds, biometric logins, multi-currency payments, GDPR impacts on data capture) will impact your ability to focus growth. Trust, security and scale should underpin your payment flows and should be augmented by your wider architecture.

Key Points to remember :

- Don't underestimate the impact SCA will have on your business and how important checkout experience is to your customers.
- Ensure your payment partner can minimize friction for your customers.
- Review your Payments Flow immediately with your internal resources or with an SCA expert. Do not wait until September.

Further Reading

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

<https://publications.europa.eu/en/publication-detail/-/publication/dd85ef2e-a953-11e5-b528-01aa75ed71a1/language-en>

European Banking Authority produced Regulatory Technical Standards (RTS)

<https://eba.europa.eu/regulation-and-policy/payment-services-and-electronic-money/technical-standards-on-the-eba-register-under-psd2>

Stripe “What Internet businesses need to know about the new European regulation” July 2019

<https://stripe.com/ie/guides/strong-customer-authentication>

Showoff is a Verified by Stripe Partner and recommends Stripe's suite of SCA ready tools. If you would like to discuss your companies readiness for SCA and what it could mean for your business please **get in touch**.

Author

Denis Ryan is Chief Growth Officer with Showoff. Having previously worked in retail banking he is well placed to support our customers navigate the complex payments ecosystem. Denis works with our FinServ clients.

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