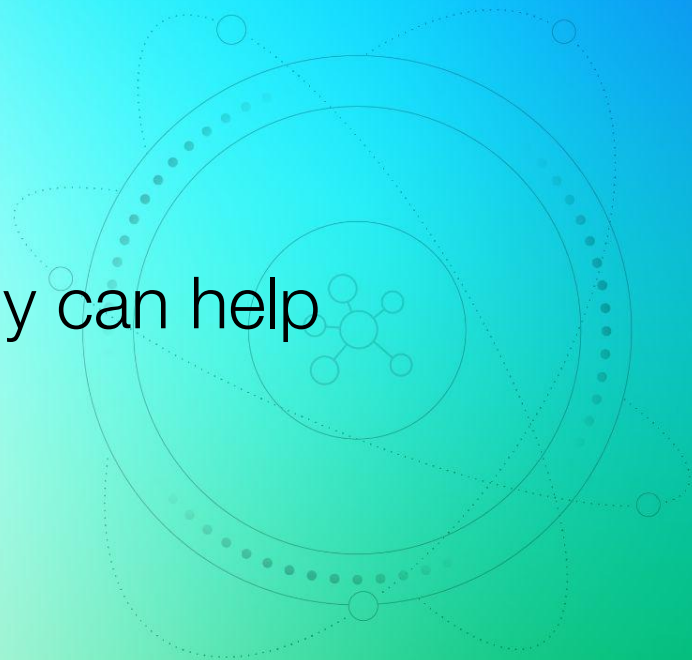




MERCHANT  
PAYMENTS  
ECOSYSTEM

How passwordless technology can help  
you overcome PSD2 pain





**Alan Moss**

*Managing Director, Western  
Europe Newland Payment  
Technology*



**Kevin Lee**

*VP Trust and Safety, Sift*



**Cory Hinton**

*Product Marketing Manager, Sift*



# Agenda

PSD2: A History

Strategies for Today

What's next for PSD2?





# PSD2: A History

LEWIS'S  
Topographical  
DICTIONARY  
OF  
ENGLAND.  
A to C

LEWIS'S  
Topographical  
DICTIONARY  
OF  
ENGLAND.  
D to K

LEWIS'S  
Topographical  
DICTIONARY  
OF  
ENGLAND.  
L to R

LEWIS'S  
Topographical  
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OF  
ENGLAND.  
S to Z

VERCHERI  
DE ARTE  
MAGNETICA

HARRINGTONS  
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STANLEY'S  
HISTORY  
OF  
PHILOSOPHY

NEWTONI  
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# PSD2 Overview

Create more open and secure online payments, and encourage innovation

Impacts online payments where both the issuer and acquirer are in the EEA

Requires Strong Customer Authentication (SCA) for digital payments

SCA started rolling out in Sept 2019 and has experienced several delays along the way



# Out of Scope Transactions

These do not require SCA under PSD2.



## One-leg out transactions

Cases where either issuer or acquirer is outside of the EEA



## MOTO

Mail order or telephone order payments



## Merchant initiated transactions (MIT)

Recurring payments for the same amount to the same merchant

# Exemptions

Certain transactions may be exempted from SCA. These exemptions are requested by the acquiring banks and payment providers, and approved by the issuing bank.



## Low value payments

Transactions below €30. (If used 5 times or previous exemptions exceed €100, SCA is required.)



## Corporate payments

Lodged cards and virtual card numbers



## Low risk transactions

Exemptions up to certain amounts if real-time risk analysis determines they are low risk.



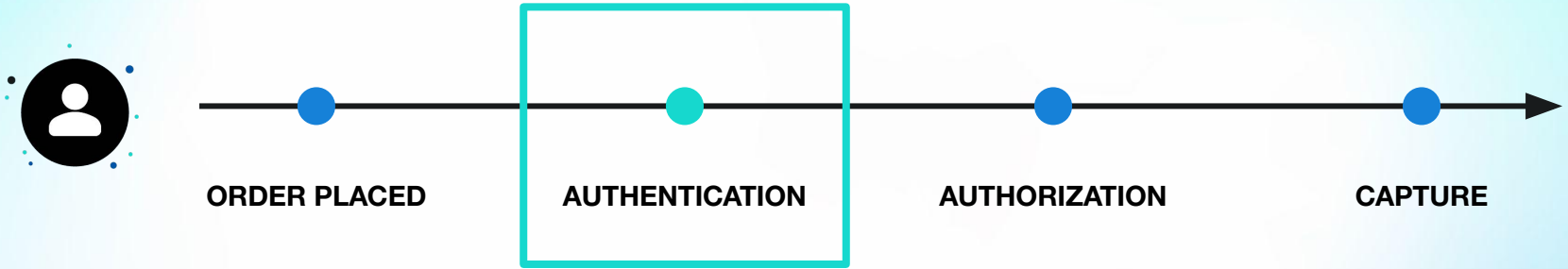
## Trusted beneficiaries

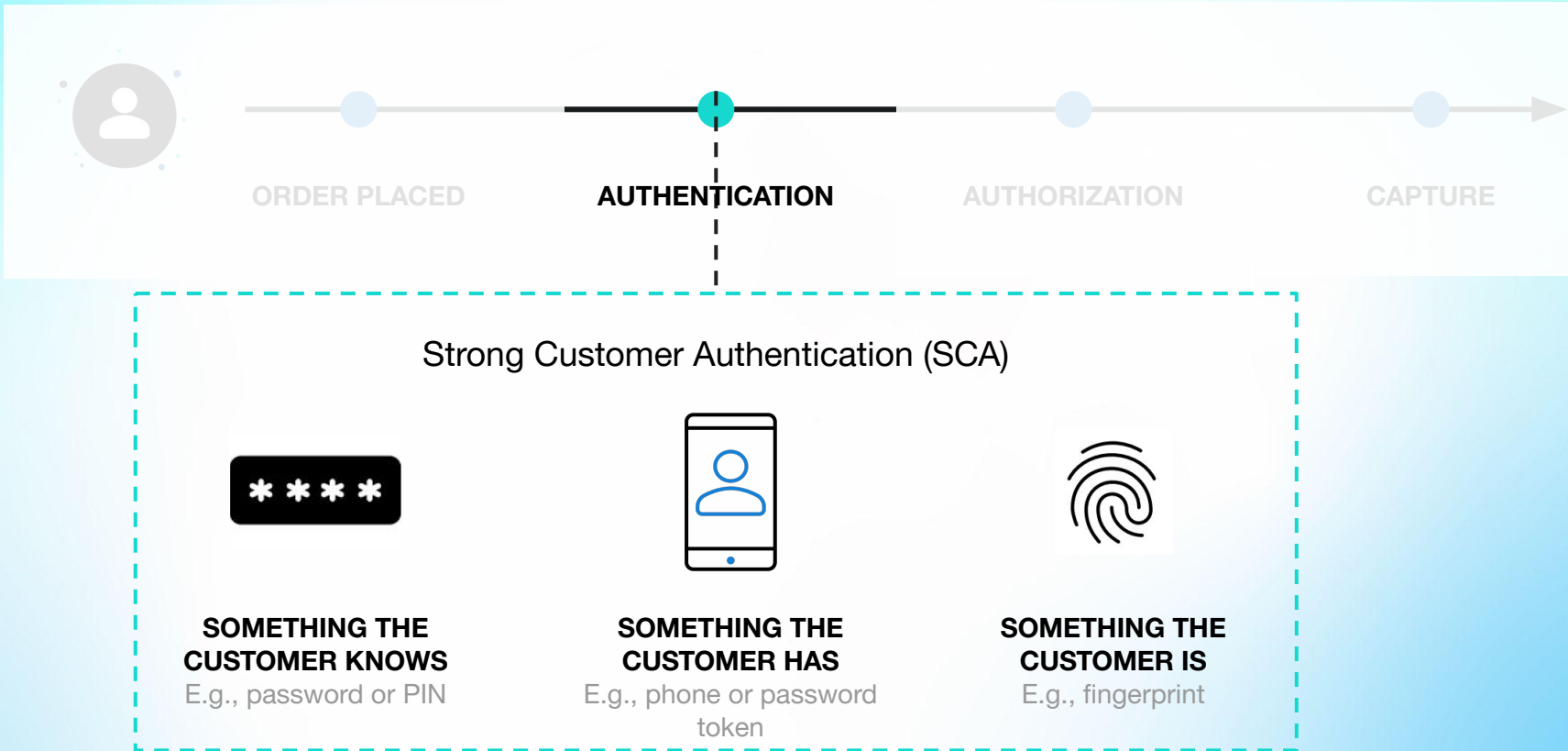
Shielded merchants provided to issuers by consumers



Payment service providers (PSPs) and merchants can request exemptions if they attain target fraud rates and leverage a solution that operates in real-time.

Exemption threshold value	Reference fraud rate (%)
€100	0.13
€250	0.06
€500	0.01







What we've heard from you

# Ready or not...

**Nadja Bennett** @NadjaBennett · Aug 8  
It appears the UK Government is ahead of many eCom businesses as I've just experienced Secure Customer Authentication #SCA in the wild for the first time when I added some funds to my Tax Free Childcare account. #PSD2 #3DS.

**Nadja Bennett** @NadjaBennett · Aug 8  
Then my phone flashes up asking me to open my Santander Banking up (yup, not with one of the challenger banks - just don't get the same interest on account balance! 🤔) and I see this:

**Nadja Bennett** @NadjaBennett · Aug 8  
So you go back to this to click "I've verified this with my mobile app" and you're done! Easy-peasy, isn't it? (NOT) 😊

**Nadja Bennett** @NadjaBennett · Aug 8  
First you see this on the payment page:

**Nadja Bennett** @NadjaBennett · Aug 8  
You confirm and get this (I used Face ID, which probably improved the experience):

**Santander Verified by VISA**  
TFC  
XXXX XXXX XXXX  
ReferenceID: [redacted]  
Authorise this payment through your Santander Mobile Banking app  
Simply open the app and follow the steps you're shown.  
When you're done just confirm below.  
I've verified this with the mobile app  
Cancel this payment Send an OTP instead?  
#3DS | Contact Us

**You're requesting a card payment for £[redacted]**  
If someone is asking you to authorise a card payment you haven't set up yourself, stop now - it's likely to be fraud.  
I requested this payment  
I didn't request this payment

**Use Face ID to authorise?**  
Remember though, that if your phone is set up to recognise anyone else's face, that person will be able to authorise transactions.  
Use Face ID to authorise



“We’re still trying to figure out with our PSPs, issuers and acquirers one by one.”

“We are seeing **challenge rates of 65%- 70%** across Europe.”

“Our Payments PM is on a well-earned holiday after working hard to achieve stock purchase conversion rates we saw pre-SCA in the UK”

“Now in the world of SCA, we have found that customers are **more likely to abandon their baskets** if they have a checkout process that has friction in it. They are more likely to not complete the transaction successfully if they don’t have their mobile phone with them [for instance].”

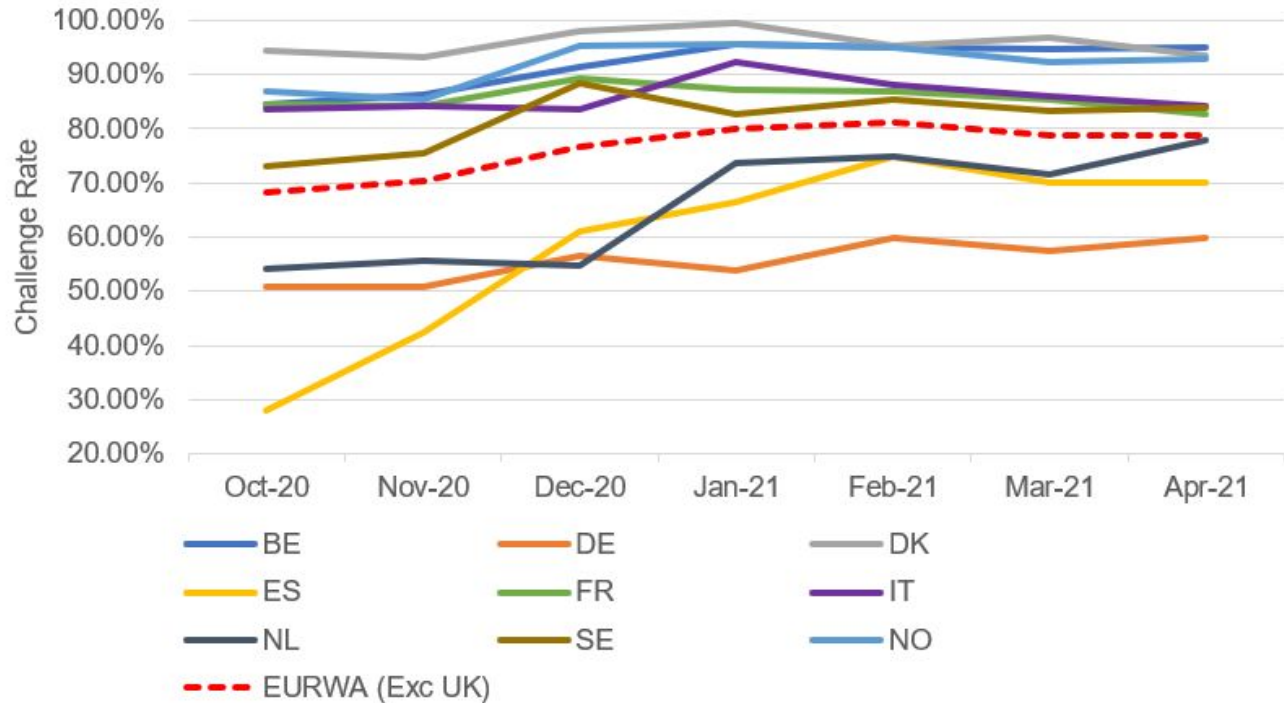
“We are focused on **optimising what transactions we can request an exemption for.**”

“Our overall blended (CNP and CP) fraud rate is low yete are now forced to **put our most loyal customers** with our biggest baskets **though an uncomfortable process.**”

“Given our low fraud rates, we are **not reducing our fraud substainstally** but **heavily impacting our conversion rate.**”

“We’ve never had to think about our acquirer fraud rates with regards to TRA.”

# Challenge ... Accepted?



# What does PSD2 mean for the payment ecosystem?



## Better security for consumers

Users' online payments are more secure



## Decreased conversion

SCA friction has led to increased cart abandonment & churn



## New focus areas for fraud

Out of scope txns, exemptions, and more surface areas are targets for fraud



## Compliance risks

Balancing PSD2 and GDPR compliance poses concerns



## Complex integrations

Adding SCA to an existing identity stack can be frustrating



## Increased costs

2FA can be expensive

## Two main goals for merchants:



### **Minimize Risk**

Use real-time risk analysis to stop fraud proactively and keep fraud rates low



### **Maximize conversion**

Balance exemptions and SCA to keep friction low for consumers

CHOOSE YOUR OWN ADVENTURE®

# THE MAGIC OF THE UNICORN

13994-0 \* \$1.50 \* A BANTAM BOOK



CHOOSE FROM 27 ENDINGS!

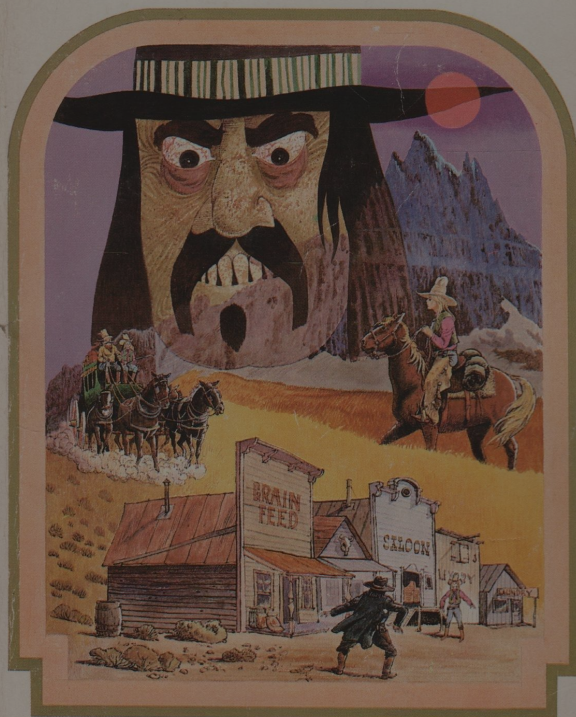
BY DEBORAH LERME GOODMAN

CHOOSE YOUR OWN ADVENTURE™ 8

YOU'RE THE STAR OF THE STORY!  
CHOOSE FROM 37 POSSIBLE ENDINGS.

# DEADWOOD CITY

BY EDWARD PACKARD



ILLUSTRATED BY PAUL GRANGER

CHOOSE YOUR OWN ADVENTURE® 3

# SPACE AND BEYOND



CHOOSE FROM 44 ENDINGS!

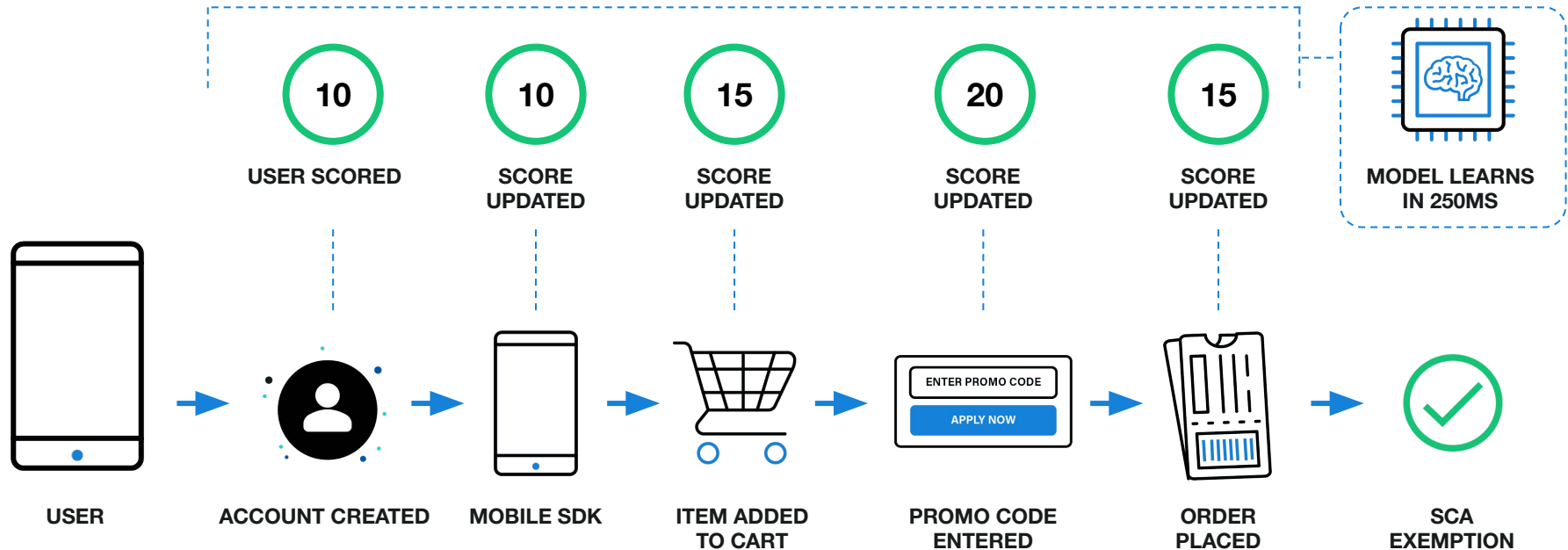
BY R. A. MONTGOMERY



# Adopt dynamic friction to create better experiences



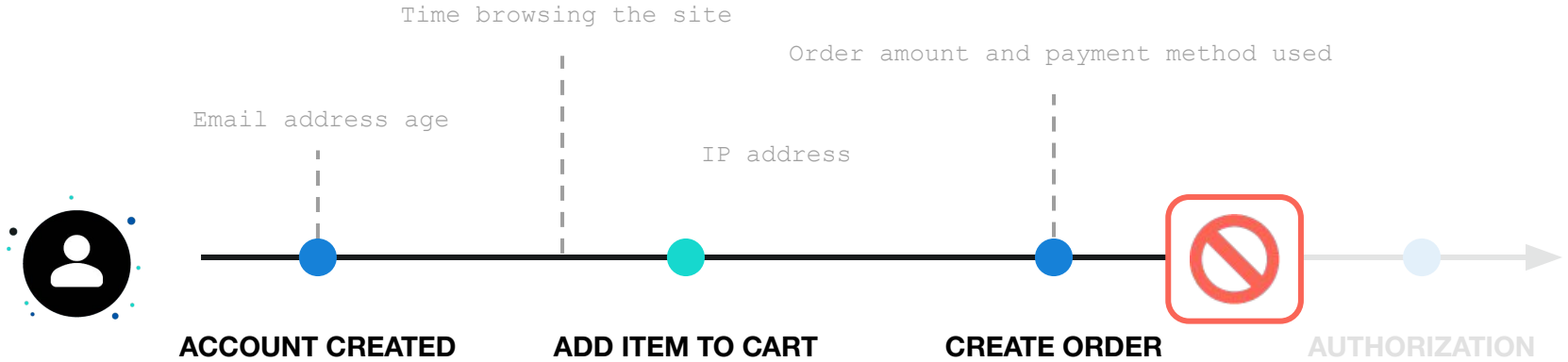
# Real-time transaction risk analysis



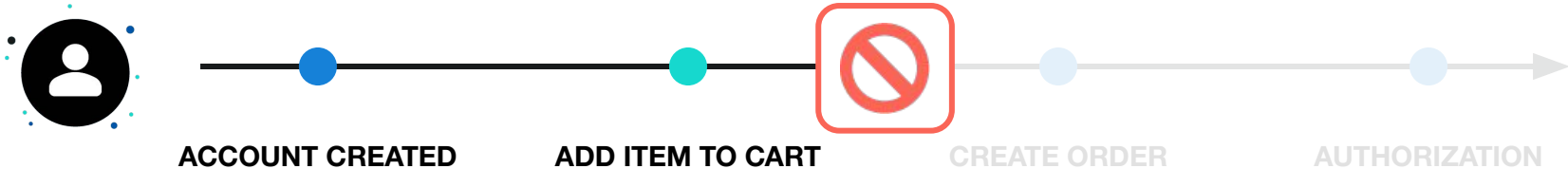
# Proactively stop fraud with real-time risk assessment



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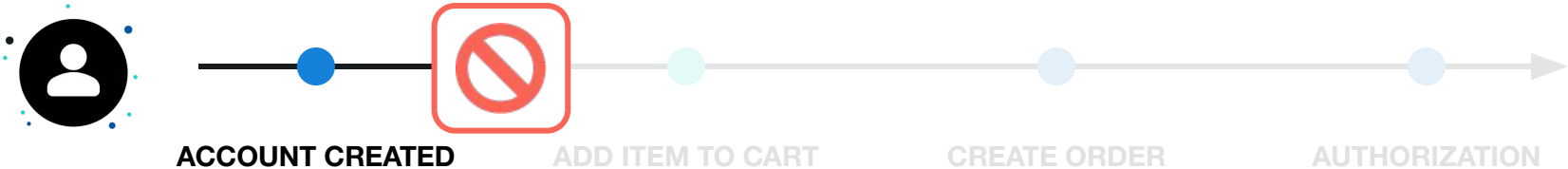


# Proactively stop fraud with real-time risk assessment





# Proactively stop fraud with real-time risk assessment



**Where do we go now?**

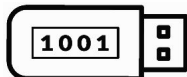


**Authentication** has evolved to include various methods that could potentially fulfill **SCA** requirements:

**Password:** \* \* \* \* \*

**Pin:** 1238

**Hard Token:**



**Soft Token:**



These provide moderate security and varying degrees of usability...

However...

**Biometrics** provide an opportunity for payment providers to become leaders in providing frictionless authentication experiences, while still doubling down on security and compliance.





## Simplify security

Built-in 2FA that eliminates fraud, phishing and credential reuse



## Eliminate customer friction

Avoid customer authentication fatigue and cart abandonment by applying industry leading techniques



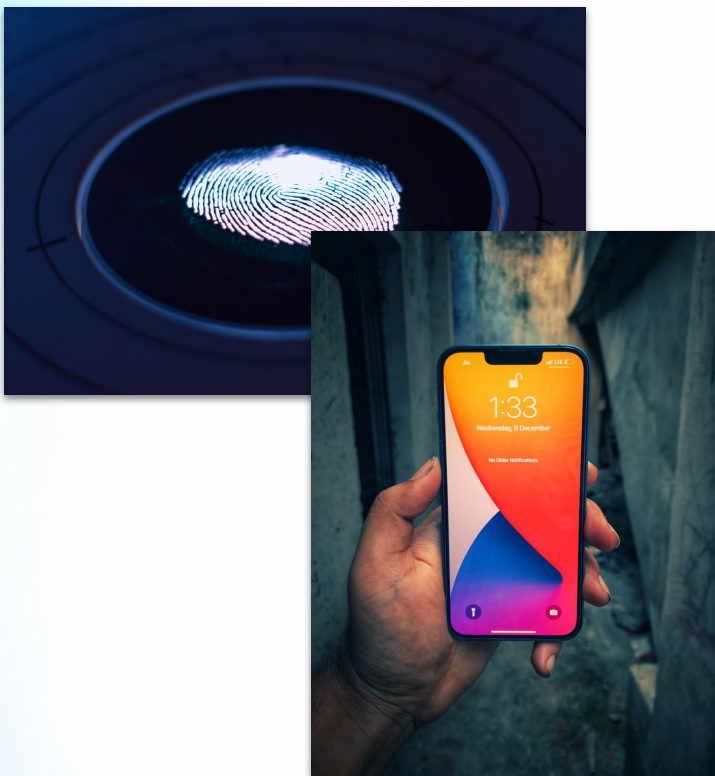
## Enhance user experience

Seamless authentication for any user, on any device, from anywhere



## Dramatically reduce costs

Save on enrollment costs for multi-device use cases, and on insecure, costly SMS messages

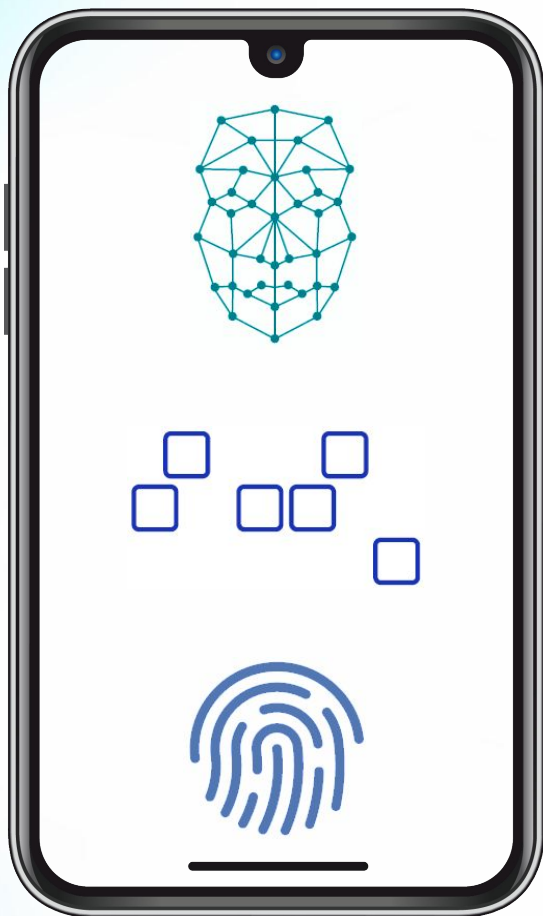


### Device-native biometrics

- Touch ID
- Face ID

### The drawbacks...

- Cannot provide full end-user coverage
- Users can opt-out at anytime
- Inconsistent experience and security
- Lacks cross-device functionality
- Low assurance

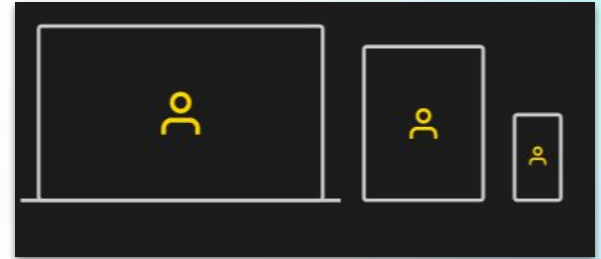


### Non-native biometrics

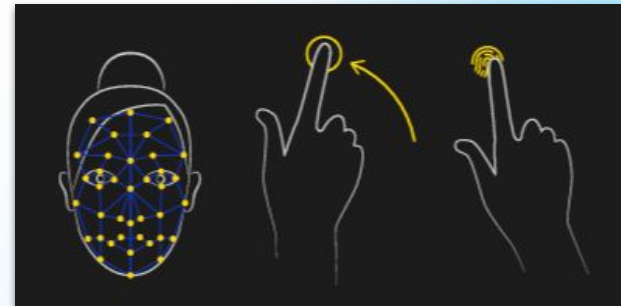
- Software-only
- Universal authentication experience
- Passwordless with no stored biometric data

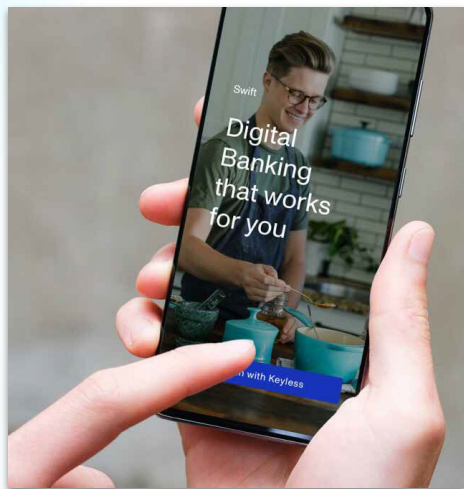


### Ownership



### Inherence





### **Accessible on any end-user device**

Hardware and operating system agnostic – full user coverage



### **Built-in user identification**

Make sure the customer is who they claim, built-in to the authentication flow



### **Enroll once, use everywhere**

Self-service multi- device capabilities, no re-enrollment required at all



### **Backup and recovery**

Users can recover their identity in case of a lost or stolen device



## Where should I be now?



### **Continue the conversation**

Talk to your PSP and Acquirers to understand how they can help with PSD2



### **Aim to maximize exemptions**

Understand your rates and remove friction from the user experience to keep conversions high



### **Protect yourself from fraud**

Adopt a real-time solution that proactively stops fraud and keeps rates low



### **Consider alternative forms of payment**

Can be implemented alongside existing payment methods

# Where should I be in the future?



## **Differentiating for the next stage**

PSD2 has had a slow rollout—rightfully so



## **Low friction & privacy preservation**

Compliance can be complex



## **Passwordless authentication:**

- Nothing to Remember
- Nothing to Steal
- You are the Key

## Questions?



Kevin Lee  
[klee@sift.com](mailto:klee@sift.com)



Cory Hinton  
[chinton@sift.com](mailto:chinton@sift.com)

Learn more at:  
[www.sift.com/psd2](http://www.sift.com/psd2)