

How to Refine the Checkout to be SCA-Ready

SCA implementation is delayed, but what does this mean for your customers?

A guide for merchants wanting to understand how consumers might interact with secure customer authentication and what impact this could have on their journey.

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A new SCA deadline has been set, but what does this mean for your customers? A discussion and action points for merchants to review ahead of peak.



IMRG

Payment provision is a vital part of any transaction. However, having invested a lot of resources into getting a purchaser to this point in the process, merchants are naturally nervous about the introduction of anything that can add friction. Using IMRG data, insight from the payments industry and expertise from JPM, this report provides merchants with background views and action points around the key changes required, background to changing customer expectations and some views on the future of payments.

With the payments landscape changing and some new deadlines looming, our report aims to give the reader some 'food for thought' as well as some pointers as to the way forward.

Andrew McClelland, Consultant, IMRG



J.P.Morgan

PSD2 will spark payments innovation and allow merchants to retain full engagement with the consumer experience and benefit from flexibility to adapt to local market conditions, e.g. data analytics on declines and issuing bank behaviour.

This report provides merchants with insight and action points around the key changes required, background to changing customer expectations and some views on the future of payments.

Colm O'Monacháin, VP Product Solutions, J.P. Morgan

The digital revolution that has had such a massive impact on retail over the last 15 years is reaching out to other industries. Some of this is being driven by changing consumer behaviours, but in some rare cases, policy is being used to drive this change. Policy and technology don't always make for good bedfellows but in the case of the Payment Services Directive 2 (PSD2), it is acting as a catalyst for some major changes.

For many readers of this report, payments will be a 'back office' process that probably doesn't get the attention it deserves, in terms of value to the customer and its potential for impacting the overall financial performance of the digital offering.

However, this report will look at the changing face of financial services, how this is being driven through the opportunities opened up by PSD2 and the impact on payment choices post-SCA.

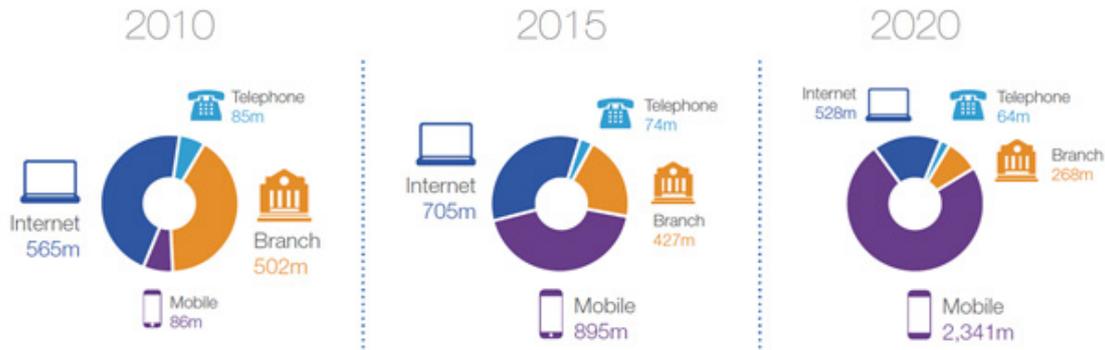
About which, the Financial Conduct Authority (FCA) announced on the 13th August that the September deadline for the introduction of secure customer authentication would be delayed by 18 months. It is interesting to note that the policy notice also includes the statement *"The FCA will not take enforcement action against firms if they do not meet the relevant requirements for SCA from 14 September 2019 in areas covered by the agreed plan, where there is evidence that they have taken the necessary steps to comply with the plan."* This could be said to include a caveat that means industry must be able to show they are taking steps to comply within the forthcoming period if they are investigated by the FCA.

Merchants should be interested in these changes as their choice of acquirer and payment service provider (PSP) will have a major impact on how SCA is implemented. These choices will ultimately determine the potential impact of SCA on the customer journey.

JPM comment: Strong Customer Authentication (SCA) is all about finding a balance between the best possible fraud prevention with the least friction to the customer experience. The Financial Conduct Authority (FCA) extension to the SCA deadline gives merchants time to continue implementing the necessary software (known as 3DSecure 2.0) across their payment flows and to do all the necessary optimisation work to ensure checkout experience and conversion rate remain unaffected.

Consider the changes: customers

Back in 2010, 86 million global subscribers used their mobile devices to conduct banking activities. By 2020, this is expected to reach 2,341 million, according to figures published by the British Banking Association. Interestingly, over the same period, 'desktop' access is expected to fall from 565m to 528m whilst visits to a branch will have halved to 268m.



Customers changing use of banking channels:
Source - The Way We Bank Now: World of change, British Banking Association - 2015

Data from an IMRG-Marui/Matchbox survey in August 2019 showed that 89% of all banking customers surveyed utilised online banking service, with usage penetration well over 90% in the 18 to 44 age categories.

	Age						
	Total	18 to 24	25 to 34	35 to 44	45 to 54	55 to 64	65+
Yes	89%	94%	95%	93%	88%	83%	82%
No	11%	6%	5%	7%	12%	17%	18%

Table 1. Online banking usage.
Source: IMRG-Marui/Matchbox consumer behaviours survey August 2019

This change is being driven by 18-34-year-olds. Payments Card & Mobile magazine reported 89% of this age group is using m-banking.

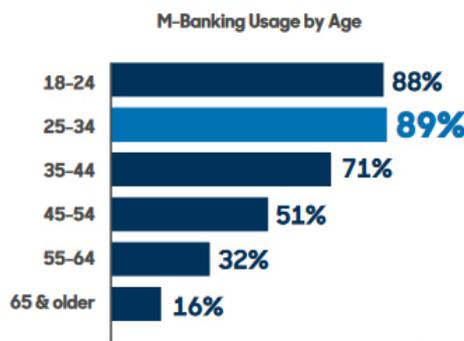


Figure 1. m-banking App usage by age.
Source, Mobile banking apps: Data from the UK market, Payment Cards & Mobile, Oct 2016

With m-banking comes exposure to new security methods and protocols. The advent of biometric readers in mobile devices, the humble thumbprint and facial recognition, have become central to the two-factor process required to use financial services websites and apps. The ability to manage finances ‘on the fly’ enables the customer to ensure they have funds in the right place for every transaction. It therefore makes sense for merchants to ensure they are offering the payment choices to facilitate this mindset.

JPM comment: In the longer term, the biggest challenge will not be which country implements SCA when, but how we will enable biometric authentication without excluding large sections of the population who either feel uncomfortable “authenticating by selfie” or who just don’t have a smartphone. It’s becoming increasingly clear that biometrics (voice, retina and face,) are some of the safest ways to authenticate and is likely to be the “winner” in terms of technology. The challenge will be to find an alternative so everyone is comfortable and as in all elements of SCA, we will only solve that challenge by working as partners, issuers, merchants, acquirers and regulators together.

So, how are customers currently paying for products and services online? An IMRG-Marui/Matchbox survey in August 2019 highlighted that cards are still the predominant payments mechanism in the eyes of customers.

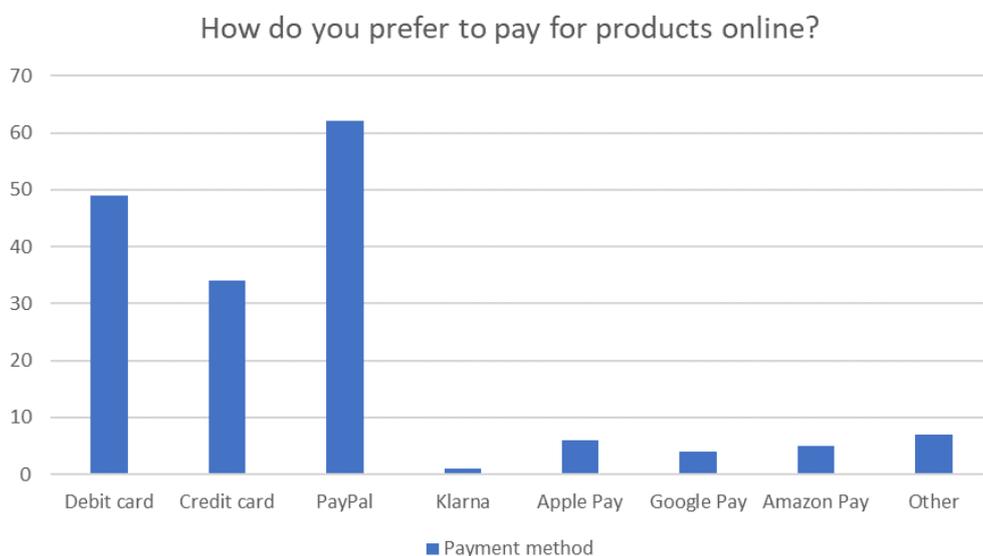


Figure 2. Customer payment preferences for online transactions.
Source: IMRG-Marui/Matchbox survey, August 2019

Debit cards still provide the biggest source of transactions for merchants with credit almost 15% behind. PayPal is ahead in terms of mechanism, but it is worth remembering that this is predominately an eWallet. For many transactions, even PayPal is facilitating the use of a card. The same could be said of Google Pay, Apple Pay and Amazon Pay. What is different is the reduced number of interactions these mechanisms require when compared to entering card details directly. Often contact and delivery information is included in the eWallet transaction flow: a key potential factor in a good 3DS2 experience.

PayPal’s usage is much more even across the generations, whereas products such as Klarna, which allows consumers to order against a credit facility, is used mainly by the 18-34 age group – probably a reflection on the early adopting merchants and availability of this service.

ACTION: Review your customer payment choices: are you giving the right level of prominence to popular options and are there ways these options can be adjusted to smooth the customer journey?

Cards are still the dominant method of payment online. Don't confuse form factor with function though. We as consumers are used to talking about payment cards, although increasing numbers are using contactless, various digital wallets and faster payments to make direct payments without ever getting the physical card out.

According to UK finance¹, 48% of UK adults used mobile banking in 2018 and 16% use eWallets on a mobile device. With 40% of all card transactions in the UK being done by contactless technology and a belief by 50% of shoppers that phones will replace physical wallets over the next 5 years, the groundwork is in place for a truly seamless payment experience, being driven by the customer.

A customer who is already used to using biometrics to confirm secure transactions will result in a minimising of the impact of SCA.

PSD2 is driving massive change in the financial services space. For the first time, non-banking institutions are able to offer transactional services and open banking initiatives are making it possible for banks to provide customer access to all their accounts in one place. This might be through the banking app of one provider or a similar service from a non-banking organisation. Merchants would be able to provide an account area to their customer where all their payment choices are available: customers could see which mechanism has available credit, more favourable terms, or perhaps options around buy-now-pay-later services, all without leaving the merchant's website.

Some of these services might allow for the merchant to transact directly with the customer's bank account, making bank-to-bank transactions. This could have transaction cost benefits, but, as an irrevocable payment, presents its own challenges to the customer and treasury function: reconciliation could be an issue, for example, as could fraud management.

Opening the market in which they operate will drive change at a pace not seen before and their customers will start demanding the same innovation in their suppliers of choice, be they merchants, service providers or enabling technology.

Banks have already taken a leadership role around the incorporation of biometrics into their customer security proposition. A banking customer will soon find these security requests much more natural when presented as part of the online shopping journey.

Has your bank sent you a message about how online payments are changing and that you may need be asked for a code or fingerprint to confirm your identity?

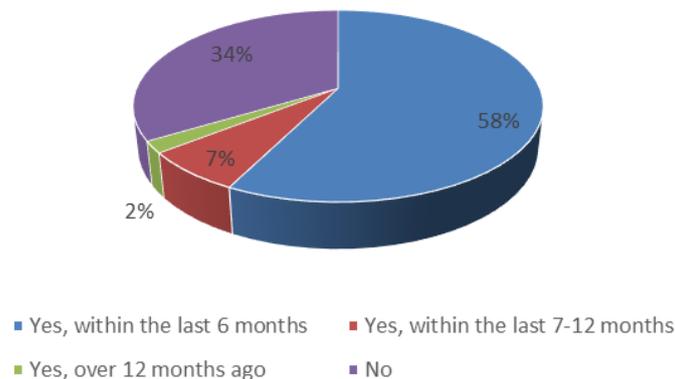


Figure 3: Customer awareness of SCA.
Source: IMRG-Marui/Matchbox survey, August 2019

However, an IMRG/Maru consumer trends survey in September found that whilst banks have been at the forefront of introducing biometric and 2-factor authentication processes, their customers are still in discovery mode. 58% of those customers surveyed had not received, or taken notice of, messaging from their bank about these changes. A significant number of customers are now aware though, so will not be surprised when they see these requests as part of a transaction journey.

Consider the changes: the merchant



When 3D Secure was first introduced, IMRG campaigned hard for increased consumer awareness messaging from card issuers. At the time there was little appetite as the main mechanism for banks and card issuers to talk to their customers was the monthly statement. The theory went “why waste one of only 12 opportunities every year to sell services to our customers with a safety message. Besides, online retail isn’t that important”. Merchants were rightly worried about the potential for increased basket abandonment and often turned 3DS off at peak times to mitigate the impact of this and service availability issues when the verification service couldn’t cope with the volume of requests, causing false-positive rejections. Equally, customers didn’t know why these screens were being presented in the checkout process. The message got more confusing as developments in fraud technology meant that often the 3DS screen wasn’t seen by the customer (apart from a ‘whizzy wheel’ on a page branded by their card issuer), as dynamic authentication took the load.

JPM comment: Don’t be afraid of 3D Secure 2.0 and don’t be tempted to de-prioritise this now that the SCA deadline has been extended by the majority of local EEA regulators. 3D Secure 2.0 is mobile-enabled, app-enabled and can form part of an omni-channel customer experience. This migration period gives merchants more time to put 3D Secure in place and minimise friction for the customer.

ACTION: Review the customer 3DS experience ahead of peak, especially on mobile. Look to reduce friction and fraud levels. Merchants should focus on implementing 3DS now to allow time to test, tweak and test again before the deadline.

Roll on a few years and major technological changes and the maturing online marketplace means that the ecosystem is now much more open to new technological measures, not just reducing fraud but also removing friction from the buying process. Concerns still remain about how stronger authentication will impact the customer journey, but with the massive increase in the use of mobile banking and biometrics, perhaps the future lies in biometrics. The humble thumbprint could unlock a delivery address, payment mechanism and marketing preferences, moving the discussion beyond security and on to experience.

ACTION: Review every customer touchpoint and use experience as the lens: forget silos and think holistically about the customer experience

Moving away from SCA for a moment, PSD2 introduces new opportunities for merchants. Certainly, some merchants reading this will blanch at the thought of building a customer portal which displays their financial products. Account takeover was the fastest growing fraud attack post-3DS implementation. After all, if the card security has increased, you could almost guarantee that customers account credentials would be easier to crack. A Pymnts.com fraud index² reported a 45% Q2 2017 increase in this activity, and with card details being stored to make repeat custom easier, the fraudster would find rich pickings. Yes, this does gloss over the introduction of tokenisation and PCIDSS, but the point is valid: reducing friction by taking advantage of Open Banking reform can make sense for the merchant with the right customer protection, which brings us back to SCA.

ACTION: Understand what changes PSD2 is encouraging and review how you as a merchant might be impacted – does a competitor offering payment choices in an account area impact your point of differentiation?

Customers are starting to understand the benefits of SCA, even if they don’t know what it’s called. Perhaps there is an opportunity for merchants to start exploring the benefits this might bring with closer customer relationships. Who would you trust with your thumb?

²Global Fraud Index, pymnts.com, October 2017

A few points on SCA. The card issuer and merchants acquiring bank are crucial in the customer experience for the merchant. Without a direct relationship with the issuer, the key to success will be with the acquirer. There are a number of exclusions specified where certain transactions can either have a level of dynamic authentication or occasional presentation of a second factor of authentication. These are based on the fraud control performance of the acquirer and value of the transaction. These factors could form an integral part of a merchant's RFP process when selecting an acquirer (perhaps on a transaction-by-transaction basis for top tier merchants).

Fraud rate	Trigger levels for confirmed low-risk transactions
Up to 0.01%	Up to €500
Up to 0.06%	Up to €250
Up to 0.13%	Up to €100

Table 2: Transaction values for SCA challenge.

Source: <https://www.jpmorgan.com/europe/merchant-services/insights/psd2-are-you-ready-for-strong-customer-authentication-sca>

JPM comment: Merchants can look to filter out low-risk transactions using Transaction Risk Analysis. As with all fraud prevention techniques, quality of data is important and ongoing use of these tools is as important under SCA as it is with 3D Secure 1.0 (the initial security protocols introduced to payment and authentication flows in 2001).

This focus on the overall fraud rate can drive closer cooperation between merchant and acquirer on fraud reduction and ensures there is still a focus on using effective fraud reduction tools.

For confirmed low-risk transactions, there are values below which the SCA challenge won't be seen by the customer. However, whilst these levels are set by the acquirer's performance, the exceptions can be overruled by the card issuer based on their own internal rules.

3DS 2.0 provides all parties in the handshake with greater opportunity to share information about the transaction. Richer data sharing will lead to increased conversion rates, VISA reports³, a 70% reduction in abandonment over 3DS 1.0 and an 85% increase in transaction times. This doesn't avoid the need for customer intervention in the process but will reduce the friction in these situations and the frequency they are witnessed. The latest version also takes into account the increased use of mobile devices optimised for a better user experience in this channel.

PSD2 also talks about the use of biometrics as a suitable component of SCA. Yes, a second factor might include sending an SMS or email with a code, but increasingly we are witnessing the use of eWallets as part of the process, where biometrics are integral.

Consumers are already becoming more aware of these requests and IMRG survey data indicates 43% have seen these requests in the last 6 months. Currently, these SCA requests are coming from financial services and some technology organisations but this increase should reassure merchants that when they have to implement the technology, their customers will already be used to interacting with it.

³<https://usa.visa.com/dam/VCOM/global/visa-everywhere/documents/visa-3d-secure-2-program-infographic.pdf>

Have you been asked to confirm your identity by another means when logging in to an online account. For example, giving your mobile number?

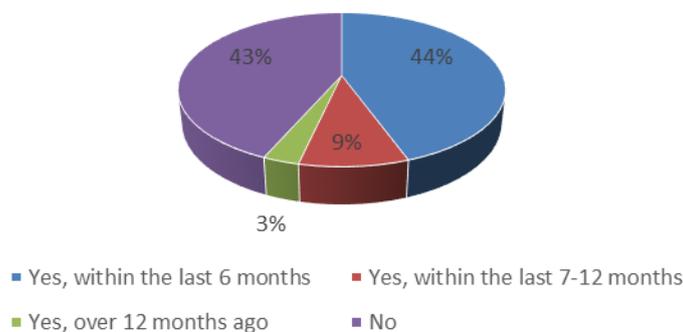


Figure 4: Customer exposure to SCA requests.
Source: IMRG-Marui/Matchbox survey, August 2019

That’s not to say that the experience is going to be seamless when encountered on a desktop, but we have seen online banking and email clients overcome this challenge with a simple action on another device: perhaps confirming a message via mobile app.

ACTION: The enforcement for the introduction of these technologies and processes has been delayed in the UK to March 2021, and to December 2020 throughout most of the rest of Europe. That doesn’t mean nothing happens. Merchants can use this time to work with their partners to implement 3DS 2.0, assess quality of data sharing (within GDPR rules) and perhaps review their supplier roster.

JPM comment: Make sure that resources are available to ensure that the latest versions of the SDKs (software development kits) from acquirers are implemented promptly. 3D Secure 2.0 requires a high-quality data feed for a smoother implementation.

So, will SCA drive a cultural change in the way that payment methods are used? The proliferation of these types of authentication techniques across different service providers, and the increased ubiquity of biometric functionality in devices, will ensure that this type of authentication will become the norm.

We are already seeing the 'card' changing in form factor and the payment rails used to facilitate their use will evolve and continue to provide the backbone of the majority of these payments. The biggest challenge to the dominance of 'cards' will come from the innovations that PSD2 enables. Direct payments will undoubtedly increase and the ability of non-banking entities to present a consumer's portfolio of payment services at any point of sale will increase choice and informed purchasing decisions.

At first glance, this increase in choice suggests an impact on conversion rates. However, post-purchase regret also leads to an increase in returns – probably the higher of the two cost impacts. Providing clarity and choice at point of sale will lead to improved customer relationships, the potential to reduce costs, and a smoother customer journey.

SCA shouldn't be viewed on its own. As part of PSD2 it is important and does not signify the end of 'card' payments. PSD2 is really the driver of change and merchants should look to innovate and take advantage of the new liberalised marketplace.

JPM comment: PSD2 will spark payments innovation and allow merchants to retain full engagement with the consumer experience while benefiting from flexibility to adapt to local market conditions, for example, running data analytics on declines and issuing bank behaviour.

About IMRG

For over 20 years, IMRG (Interactive Media in Retail Group) has been the voice of etail in the UK. We are a membership community comprising businesses of all sizes – multichannel and pureplay, SME and multinational, and solution providers to industry.

We support our members through a range of activities – including market tracking and insight, benchmarking and best practice sharing. Our indexes provide in-depth intelligence on online sales, mobile sales, delivery trends and over 60 additional KPIs. Our goal is to ensure our members have the information and resources they need to succeed in rapidly-evolving markets – both domestically and internationally.

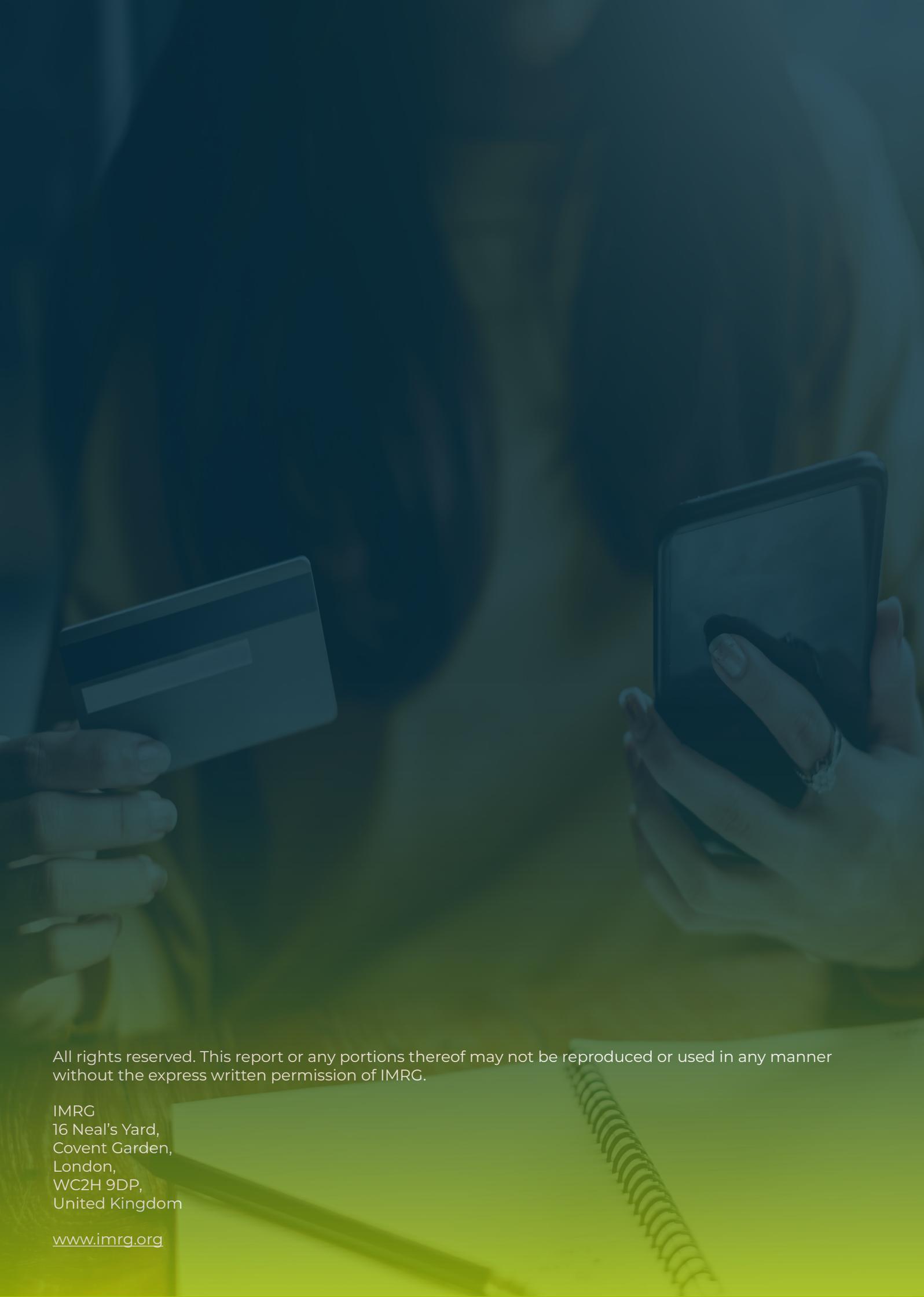
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About J.P.MORGAN

Merchant Services is the payment acceptance and merchant acquiring business of JPMorgan Chase & Co. – a global financial services firm with assets of \$2.5 trillion and operations worldwide. It is a leading provider of payment, fraud management and data security solutions, capable of authorising payment transactions in more than 130 currencies. J.P. Morgan, through its Merchant Services business, has uniquely combined proven payment technology with a long legacy of merchant advocacy that creates quantifiable value for ecommerce companies. Its processing platforms provide integrated solutions for all major credit and debit card payments as well as mobile payments and processed more than \$1.3 trillion in payment transaction volume worldwide in 2018. According to The Nilson Report, it is also the top merchant acquirer of ecommerce transactions in Europe¹.

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¹The Nilson Report, #1153, May 2019.

A person is holding a credit card in their left hand and a smartphone in their right hand. The background is a blurred image of a person's face. In the foreground, there is a spiral-bound notebook and a pen. The entire image has a blue and green color overlay.

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