

**worldpay**  
from FIS

WHITE PAPER

# **PSD2: WHAT'S NEXT?**





## **A little about us**

Worldpay from FIS is a leading payments technology company with industry-leading scale and an unmatched integrated technology platform. We offer clients a comprehensive suite of products and services globally, delivered through a single provider.

On an annual basis, we process over 40 billion transactions across 146 countries and 126 currencies.

### **What this guide will cover**

This guide tells you the latest information about the new Payments Services Directive. You'll learn about the changes it means for the way you run your business, and the possibilities it unlocks. We see the new regulation as a real opportunity that our experts can help you maximise.

**This guide will focus on two main areas of PSD2:**

- **Strong Customer Authentication (SCA)**
- **Open Banking**



## **Reminder: What is PSD2?**

PSD2 introduces legislative changes to the way European payments are processed.

It means some big changes for anyone who handles money, including both you as a business, and your consumers. It really pays to be aware of what it means.

### **Let's start at the beginning**

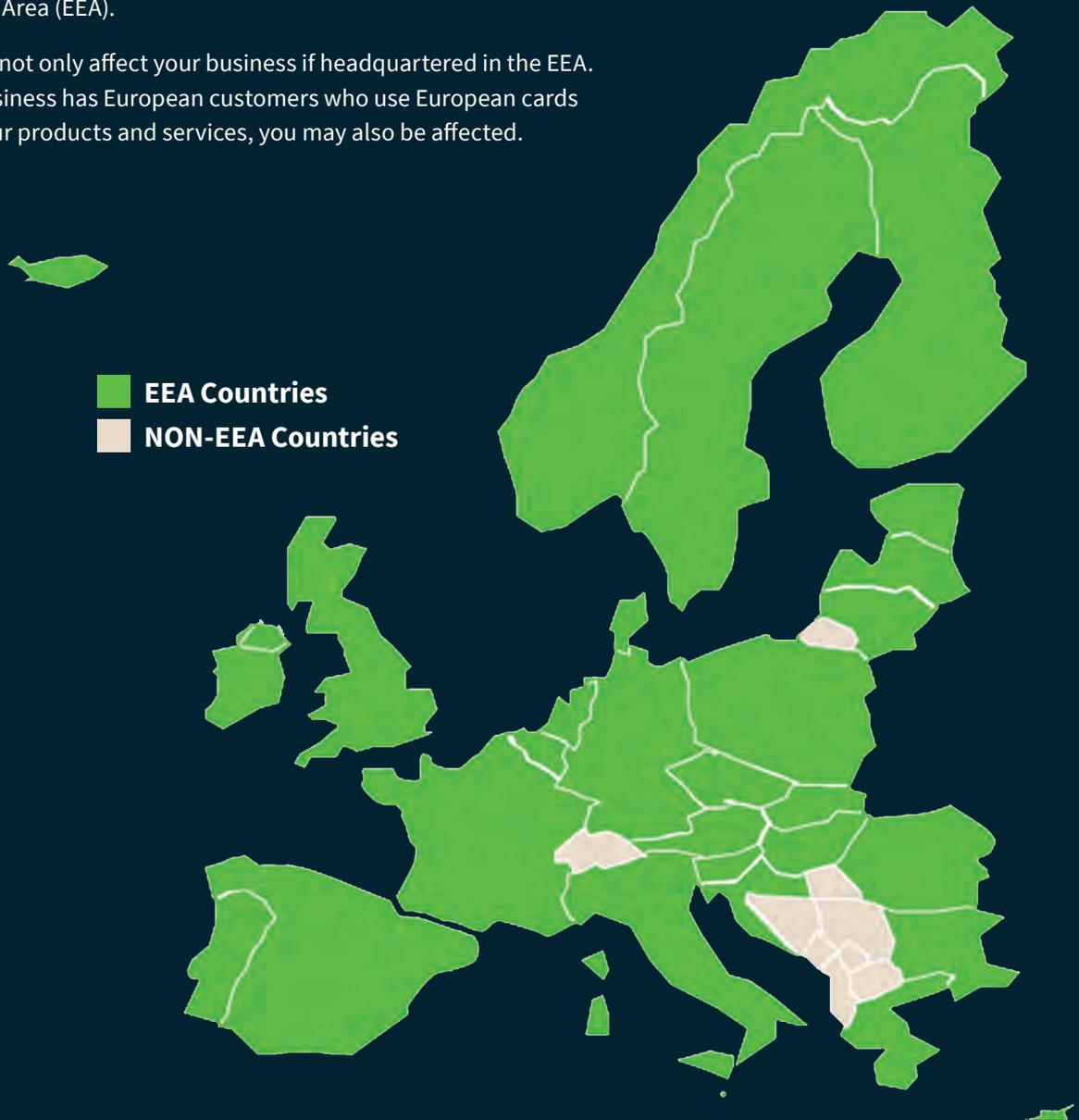
Back in 2007, the European Union's (EU's) first Payment Services Directive (PSD) was set up to regulate payment services throughout the EU. Its aim? To boost competition across Europe by allowing non-bank access to the industry and to create a more level-playing field for both consumers and payment providers. Fast forward to 2016 when the regulators decided to update the directive, and PSD2 was created. It's this legislation that will have a significant impact on payments in Europe.

**Let's get started...**

## Where does PSD2 apply?

PSD2 introduces new payment regulations in the European Economic Area (EEA).

This does not only affect your business if headquartered in the EEA. If your business has European customers who use European cards to buy your products and services, you may also be affected.



### Reminder: EEA countries

Austria	France	Lithuania	Slovenia
Belgium	Germany	Luxembourg	Spain
Bulgaria	Greece	Malta	Sweden
Croatia	Hungary	Netherlands	United Kingdom
Cyprus	Iceland	Norway	
Czech Republic	Ireland	Poland	
Denmark	Italy	Portugal	
Estonia	Latvia	Romania	
Finland	Liechtenstein	Slovakia	

# PSD2 Timeline



PSD2 came into force in the UK



Original enforcement date for the RTS for both SCA and access to accounts (XS2A) – now delayed



Visa mandate for all EEA issuers to support 3DS2.1



Mastercard Mandate for all merchants in the EEA to have sent a 3DS2 transaction



SCA enforcement to begin across the EEA -date may be delayed



UK SCA enforcement date



Visa Europe to remove liability shift from 3DS1



## What is PSD2 trying to achieve?

Aim	Impact on you
More innovation and competition	New ways to pay, and access to account information (with the consent of the account holder) to provide tailored service offerings
Improved security and reduced fraud	Less fraud, less risk and the opportunity to future-proof your business by getting ready for Strong Customer Authentication (SCA)



### Meet the expert

#### Introducing Charles Damen

In this guide, we're taking you through the main changes PSD2 will bring for your business, along with an expert view from Charles Damen, senior vice president of payment strategy at Worldpay.

Charles is responsible for PSD2 and Open Banking. He holds a dual bachelor's degree in European business and has over 20 years' experience in payments, mobile and internet.

*"One of the EU's most important objectives is increasing innovation and competition between financial institutions. This means the development of innovative financial services and payment methods by financial services institutions and fintechs.*

*The second objective is linked to increased security and lowering the overall fraud in the system. Two thirds of all fraud already comes from Card Not Present payments, and this figure is still increasing. It makes sense to try and find ways to reduce it."*

**Charles Damen**





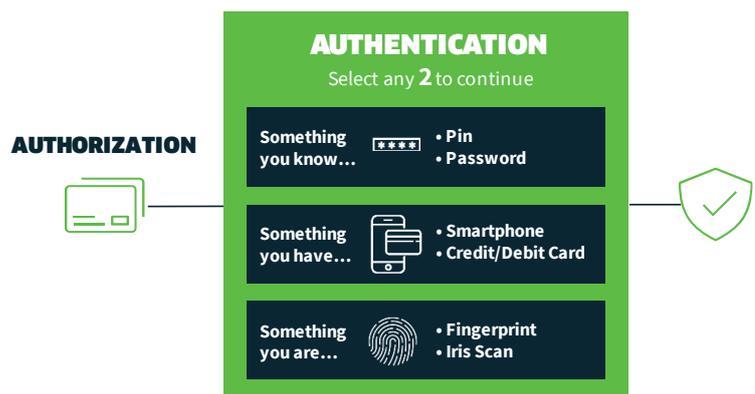
## Strong Customer Authentication (SCA)

SCA was introduced as a core component of PSD2 to combat the effects of fraud on consumers and merchants.

All electronic payments in the European Economic Area (EEA) will need an additional form of identification from the cardholder, to prove that the transaction isn't fraudulent. This is known as two-factor authentication.

### What is two-factor authentication?

Two-factor authentication requires the cardholder to authenticate their payment using the following two out of three factors:



Electronic payments should become more secure for everyone, increasing consumer confidence in buying online and reducing fraud.

However, it is possible that consumers will be put off completing their purchases if there are extra hoops to jump through – this is where SCA exemptions come in.

# SCA exemptions and exclusions

Once SCA is enforced, it does not mean that your customers will be challenged every single time they make a payment. It is possible to exclude or exempt certain payments from full SCA, in certain circumstances.

## SCA Exclusions

Some transactions are simply not in scope of PSD2, therefore SCA should not be required. The key exclusions are:

<b>One leg out transactions</b>	Payments where the issuer or the acquirer are based outside of the EEA should not require SCA
<b>Merchant Initiated Transactions (MIT)</b>	These are transactions that are initiated by a merchant on a customer's behalf, such as a recurring subscription or an instalment payment. SCA needs to be applied on the first transaction, but not on subsequent payments
<b>Mail Order / Telephone Order (MOTO)</b>	Payments taken over the phone or by mail do not require SCA

## SCA Exemptions

These are transactions that are in scope of PSD2, but can still avoid full two-factor authentication for a number of reasons, including:

<b>Low risk transactions</b>	<ul style="list-style-type: none"><li>• Transactions that have been assessed as low risk in real time via Transaction Risk Analysis (TRA), and where the PSP is below a required fraud threshold</li></ul>
<b>Low value transactions</b>	<ul style="list-style-type: none"><li>• Remote electronic payments under €30</li><li>• Applies up to five consecutive payments or cumulative amount since last SCA is under €100</li></ul>
<b>Corporate transactions</b>	<ul style="list-style-type: none"><li>• SCA is not required for B2B payments made using a secure dedicated process</li><li>• Corporate cards not used by persons - e.g. lodged cards and virtual cards - are exempted from SCA</li></ul>
<b>Whitelisted transactions</b>	<ul style="list-style-type: none"><li>• Customer can add a merchant to a 'whitelist' held by their bank</li><li>• SCA needs to be done on the first transaction, but subsequent transactions with that merchant on that card would not require SCA</li></ul>

Worldpay can help you maximise the number of exclusions and exemptions you receive, keeping your checkout flow as frictionless as possible.

## Delegated Authentication

Visa and Mastercard have enabled new frameworks whereby you, as the merchant, can perform two-factor authentication yourself, in line with SCA rules. This puts you in charge of the user experience, subject to strict technical and fraud conditions.





## Wasn't SCA supposed to have been enforced by now?

The original enforcement date of SCA across the EEA was 14 September 2019. As this date approached, it became clear that the industry was not yet ready for this big change.

As such, the European Banking Authority (EBA) announced in June 2019 that each country in the EEA could delay SCA implementation if they wished.

All markets decided to delay, and announced a range of new timeframes - typically giving an extra 12-18 months. This meant very minimal disruption to payments on 14 September 2019.

**In October 2019, the European Banking Authority announced a new SCA enforcement date – 31 December 2020. Countries across the EEA are generally expected to follow this new timeline.**

## What does this mean for businesses?

Practically, it means that you have more time to get SCA ready.

The 15 month delay means that you should have time to test and build 3DS2 and make full use of SCA exemptions. It also gives businesses with more complex payment flows - such as airlines, hotels and video games - time to design truly slick authentication solutions.

The delay also gives issuers more time to fully implement the tools needed to enable seamless SCA – including moving to 3DS2.2, embedding biometrics and rolling out delayed exemption types like whitelisting.

However, it is important that everyone does not use this delay to slow down preparations. Fraud reduction remains critical ahead of the new deadline, so that you can make full use of SCA exemptions. New products and flows need to be fully tested, well in advance of 31 December 2020.

European regulators are very unlikely to delay again – so when the new deadline comes, you have to be ready.



## Deep dive: Recurring payments and SCA

SCA can be worrying for merchants with a subscription model. It's almost impossible to authenticate a recurring payment, as the customer typically isn't there when a payment is taken.

But there is no need to worry. An important SCA exclusion can be used to avoid friction and increased declines on recurring payments. This is known as the Merchant Initiated Transaction (MIT) exclusion.

Under this exclusion, if a European cardholder signs up to a subscription service when SCA is live, they will have to authenticate their first payment – typically by going through 3DS or 3DS2. However, every subsequent recurring card payment can be sent with an MIT flag and a specific identifier from the original authentication. Once the issuer sees this, they should not require any additional authentication from the cardholder.

What is particularly useful about the MIT exclusion is that the recurring amount can vary. The exclusion will still work if your prices change, or if a cardholder is moving from an introductory price to a standard payment amount.

Another good thing about MIT is that recurring subscriptions that began before SCA was enforced can be 'grandfathered' – meaning that you do not need to re-authenticate all of your existing customers.

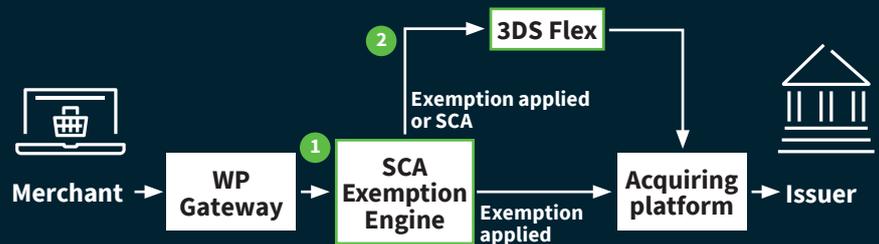
### Ask the expert

*“To make full use of the MIT exclusion, your transactions must be flagged correctly. The MIT framework has been around for a number of years, and is now mandated by Visa. Worldpay can work with you to ensure that these flags flow correctly and your recurring transactions remain seamless.”*

**Charles Damen**

## What new tools are available to help me ensure I am SCA compliant?

Worldpay has introduced two brand new products to help you cope with the challenges of SCA:



**SCA Exemption Engine:** Our brand new PSD2 decision service, which analyses European payments in real time to identify and apply the best possible exemption for a particular transaction. This cuts processing costs and reduces friction.

**3DS Flex:** Worldpay's market-leading authentication service, which dynamically optimises authentication between both 3DS1 and 3DS2 to achieve the best and most frictionless experience for your consumers. 3DS Flex is also available as a standalone, acquirer-agnostic service.

For more information on these products, please click [here](#) for the SCA Exemption Engine brochure, and [here](#) for the 3DS Flex brochure.

### What happens if I'm not SCA compliant by 31 December 2020?

If you're not yet ready for SCA, you risk a sizable increase in declines on European payments.

After 31 December 2020, EEA issuers will expect every payment to have either SCA – through 3DS2 – or an exemption flag. If the payment has neither of these, there is a significant chance that it will be declined – costing you revenue.

## Open Banking and Access to Accounts (XS2A)

Open Banking (or Access to Accounts - XS2A) brings two types of payment services activity under regulation for the first time: Account Information and Payment Initiation services.

### Open Banking has potential benefits for you and your customers

*“For merchants, fraud is minimised, chargebacks are reduced as the transaction is irrevocable, funds can be made available faster and there are potential cost savings in the processing of transactions. Consumers, on the other hand, will immediately see that they’ve paid, and the money will come directly from their bank account, so it’s easier for them to manage and control their spending. Instant refunds are another major benefit: instead of waiting several days for a refund, consumers will receive them instantly in their bank account.”*

**Charles Damen**





## What is Open Banking?

It's one of the most transformative parts of PSD2, giving regulated Third-Party Payment Providers (TPPs) access to consumer and business bank accounts, if the account holder gives their consent. This kind of access was previously restricted to issuing banks or unregulated providers using 'screen scraping'.

This change is leading to greater innovation in the payment industry, with new consumer experiences based on Account Information Services (AIS) and Payment Initiation Services (PIS).

For example, consumers could see all of their accounts across banks in one place, or make fast, secure payments for online purchases by bank transfer instead of credit card (60 percent of the EU population doesn't have a credit card<sup>1</sup>).

### What are the main benefits of Open Banking?

- 1. Guaranteed settled funds – no chargebacks**
- 2. Lower processing costs – no scheme or interchange fees**
- 3. Funds can be made available faster**
- 4. Support for instant refunds**
- 5. Secure - requires SCA**

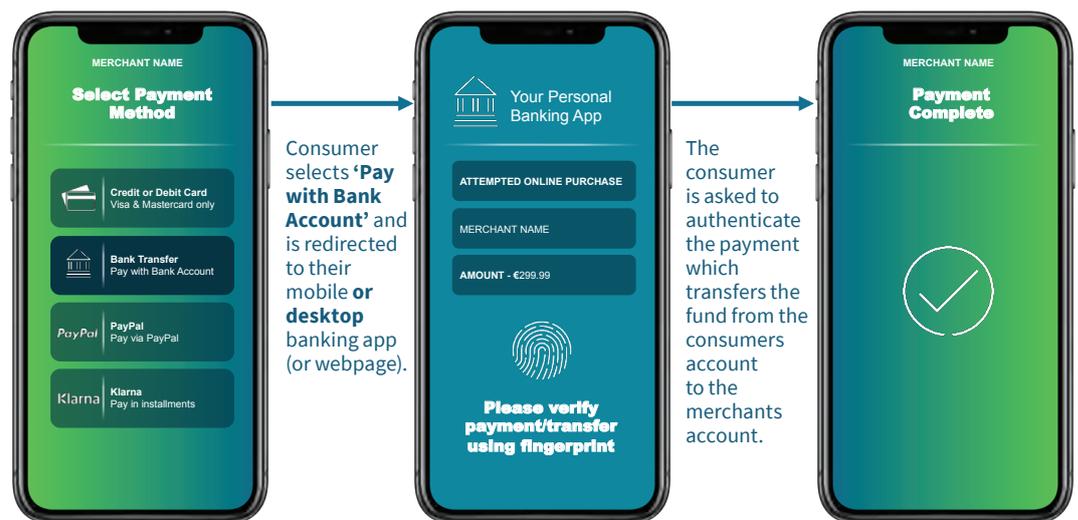
1. European Commission, Press Release, Payment Services Directive: frequently asked questions, 2018 [http://europa.eu/rapid/press-release\\_MEMO-15-5793\\_en.htm](http://europa.eu/rapid/press-release_MEMO-15-5793_en.htm)

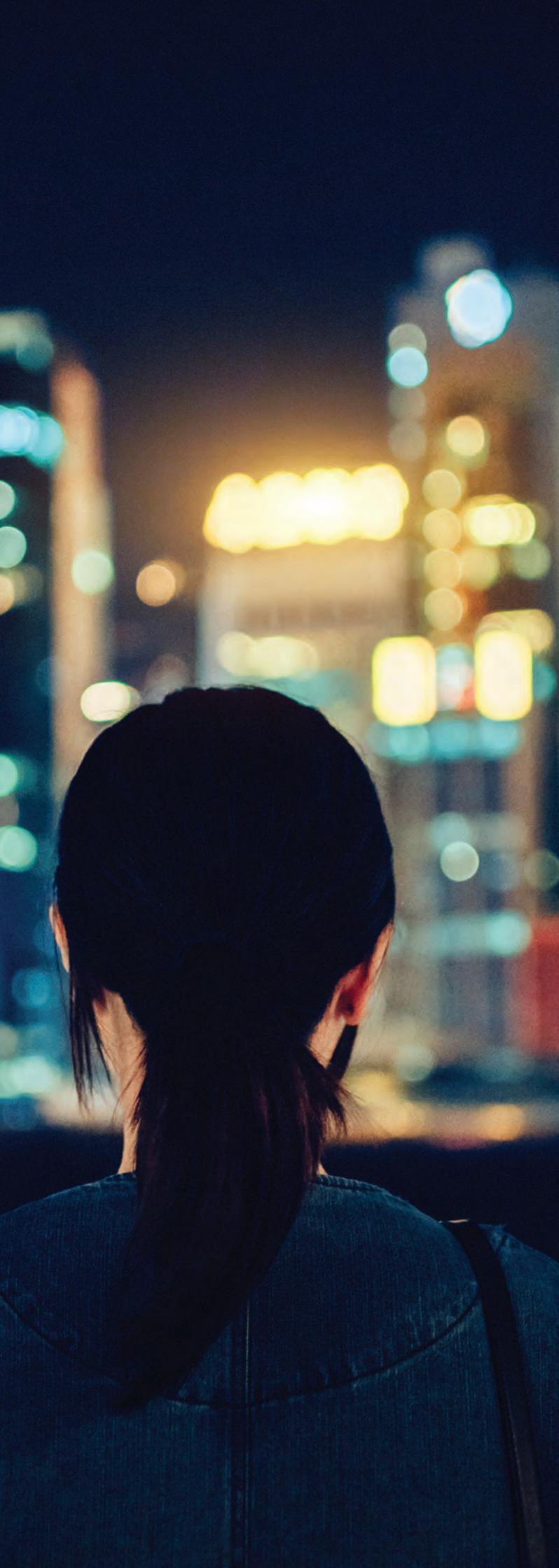
## How Open Banking works

Consumers paying online will be able to select a new 'Pay with Bank Account' option on the payment page.

The consumer selects their bank and is redirected to their mobile or online banking login – no need to enter bank account numbers or sort codes.

The consumer is asked for strong authentication – typically in their banking app. When successful, the Payment Initiation Service Provider (PISP) pushes a payment direct from the consumer's bank account to the beneficiary bank account. Reconciliation, settlement and reporting are provided by Worldpay to enable you, as the merchant, to manage your payments in one place.





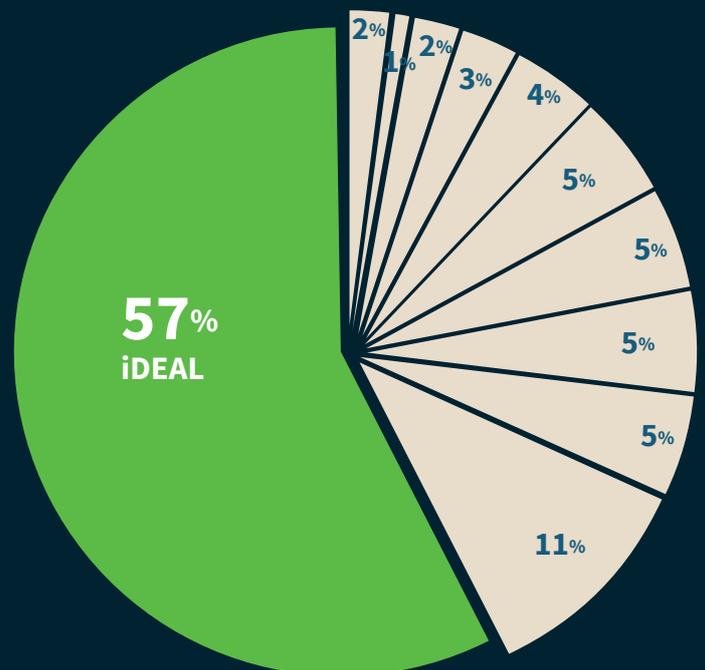
## Country deep-dive: Netherlands

While many of the new services based on Open Banking will be launching soon, similar direct payment services based on bank transfers are already popular with European consumers.

For example, iDEAL in the Netherlands works in much the same way as Open Banking.

Merchants selling in the Netherlands offer iDEAL to meet the payment preferences of consumers, and to offer a low cost and secure payment method. Like other direct payment methods, iDEAL transactions are irrevocable and confirmed immediately, so merchants are guaranteed to receive the funds.

It's because of these features that iDEAL is the most popular payment method for online transactions among Dutch consumers, with a 57percent market share in 2018 . It's the kind of success Open Banking could well emulate across the whole of Europe.



**iDEAL 57%**

**Credit card 11%**

**PayPal 5%**

**AfterPay 5%**

**Bank transfer 5%**

**Direct debit 5%**

**Debit card 4%**

**Gift vouchers 3%**

**Acceptgiro 2%**

**Klarna 1%**

**Other payment**

**monitor 2%**

1. <https://www.ideal.nl/en/ideal-information/>



## Ready to make PSD2 pay?

Change can be daunting. But being aware of how PSD2 could affect your business – and acting to manage it – means you're already in control of it. Together, let's help you use the new regulations as the starting point for your future growth.

### About Worldpay from FIS

Worldpay from FIS (NYSE:FIS) is a leading payments technology company that powers global commerce for merchants, banks, and capital markets. Processing 75 billion transactions topping \$9T for 20,000+ clients annually, Worldpay lifts economies and communities by advancing the way the world pays, banks, and invests.

 [www.fisglobal.com](http://www.fisglobal.com)

 [getinfo@fisglobal.com](mailto:getinfo@fisglobal.com)

 [twitter.com/fisglobal](https://twitter.com/fisglobal)

 [linkedin.com/company/fis](https://linkedin.com/company/fis)

©2020 FIS

Worldpay, the logo and any associated brand names are trademarks or registered trademarks of FIS. All other trademarks are the property of their respective owners. 942829

**FIS** | **ADVANCING THE WAY THE WORLD PAYS, BANKS AND INVESTS™**