



30 April 2021

European Banking Authority
Mr. Dirk Haubrich
Tour Europlaza
20 avenue André Prothin,
92400 Courbevoie
France

Re: Measuring the impact on Strong Customer Authentication in Europe

Dear Mr. Haubrich,

As representatives of the retail sector, we would like to draw your attention to some key issues identified by our sector arising from the roll out of Strong Customer Authentication in the European Union and call on the European Banking Authority for their help in defining and gathering information and data on the implementation challenges merchants are facing and their impact not only on implementation, but also on the market itself.

Increased transaction failure rates

We have observed a significant increase in transaction failure rates across the EU. The European weighted average is currently estimated at 31%¹, this compares with a pre-SCA implementation failure rate of c.2-5%². This needs to be addressed as a matter of urgency, though we recognise that there are important differences between European member states.

A preliminary analysis of the causes of the current failures indicate that a number of technical and implementation challenges still remain to be addressed. As the number of transactions requiring SCA continues to grow (where a phased or gradual enforcement activity is underway), the losses in revenue arising from transaction failures and customers impacted will, unless these issues are addressed, also continue to grow.

Our members' experience suggests the following structural problems with SCA compliance:

- Consumer 3DS enrolment with issuers;
- Issues with the availability, usability, or mis-interpretation of the available exemptions - notably those based on transaction risks analysis. In several markets, merchants are witnessing issuers challenging exemption requests and forcing strong customer authentication when it is not required;
- Access control server providers³ are failing to address issues arising from 3DS processes, creating a resolution bottleneck and;
- Timing and latency issues between the issuer's 3DS page and the final payment confirmation page;

Because of the difficulties encountered above, consumers are experiencing difficulties during the check-out process which results in confusion. They are subsequently abandoning the transaction - significantly impacting merchants' sales and conversion rates.

¹ See CMSPI SCA Economic Impact Assessment, Testing progress analysis February vs. January, March 2021, available online [here](#).

² for transactions going via 3DS (source CMSPI)

³ issuing bank needs to deploy an Access Control Server, also known as "ACS", in order to receive 3D Secure messages, process the messages, and authenticate the card user.

An overarching challenge for merchants is how to access further information on these issues across the different markets. There is also a problem of communication on the support for exemptions, for example on the timeline for the availability of these exemptions, but also on the application of these exemptions by issuers.

We believe there is a gap of available information pertaining to the **overall performance of SCA, and the impact on costs for merchants and fraud levels**. Information gathering at national level has been overwhelmingly focused on compliance rather than whether SCA is performing as intended, and therefore conclusions on the state of play of implementation, which in certain markets guide the next steps of enforcement, often does not reflect the actual circumstances faced within the market. The lack of any harmonised metric and approach also makes it difficult for merchants to operate cross-border.

We would also like to insist on the lack of harmonised process in place to assess the impact of the transition to SCA on fraud levels, which is a core objective of PSD2 and SCA. We fear that unless these concerns are addressed quickly, the impact on consumers and merchants resulting from lost sales will be significantly higher than the fraud losses the Regulation is intended to address.

New SCA-related fees

In addition to the difficulties in implementing SCA, new fees directly associated with SCA have been created or announced by the major card schemes. Most notably for Mastercard:

- Fee for the use of 3DS1 doubled from €0.02 cents per transaction to €0.04 cents per transaction from 1st January 2021 for 40 European countries⁴
- Fee for the use of 3DS2 in France has increased from €0.02 cents to €0.10 cents for certain transaction⁵
- Introduction of a 0.9 basis point fee for declined transactions
- Introduction of the Mastercard Acquirer Exemption Fee (€0.02 cents per transaction).
- Introduction of a Mastercard Minimum Authorisation Fee of 2,000 EUR per month, applied if more than 30% of authorisations do not go via 3DS.

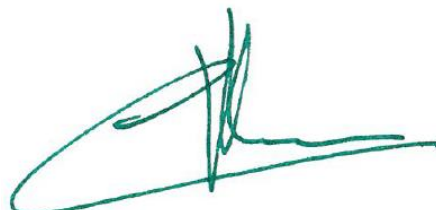
These new fees, which online merchants are unable to avoid, simply add to the losses they are already experiencing from the increasing failure rates across the EU. Over time, the income received from these new fees will far exceed the development costs incurred by the card schemes and will become another significant (and unregulated) revenue stream for them.

We therefore call on the EBA and the European Commission to coordinate the work undertaken by National Competent Authorities and stakeholders and to expand their monitoring of SCA beyond simple compliance but to also introduce appropriate measures to establish if SCA is working as intended, delivering the results expected and whether the new fees introduced are fully justifiable, especially in the context of expected reductions in fraud.

Yours faithfully,



Luca Cassetti,
Secretary General
Ecommerce Europe



Christian Verschueren
Director-General
EuroCommerce

⁴ In France there has been a three-fold increase to €0.06 cents per transaction (Source CMSPI)

⁵ The increase from 2 cents to 10 cents for 3DS2 in France is not across the board, although acquirer communications have not been clear about this as some have suggested the rate varies and that the 10c fee only applies for cross-border transactions