

Improve payment success rates and comply with SCA





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The European Union's Revised Payment Service Directive (PSD2) regulation came into effect on September 14, 2019. PSD2 requires Strong Customer Authentication (SCA) for electronic payments. SCA is an authentication process that involves the use of two or more of the following: something you know (like a password), something you have (like a phone), or something you are (biometrics).

Against the backdrop of the continued growth in e-commerce transactions, SCA aims to increase consumer protection, improve legal certainty and make the payments market more integrated and efficient.

Since its launch, SCA has changed the e-commerce payments market. Several of these changes are positive. However, there are also implications for businesses regarding increased friction in the customer journey, internal process changes, and concerns with checkout declines and abandonment rates. Although, several steps can be taken to mitigate these challenges and gain an advantage.



How has SCA changed the e-commerce payment landscape?

One of the most significant changes due to SCA is the reduction in e-commerce fraud levels. By making it more difficult for fraudsters to access customer accounts and make unauthorised payments, businesses can protect themselves from losses due to fraudulent activity. For example, in May 2022, the Nationwide Building Society in the UK reported 2000 fewer online card fraud cases monthly and attributed this directly to SCA changes.

However, safer card payments have resulted in more friction in the customer journey and increased consumer demand for alternative payment products. A study by Trustly in 2021 highlighted that 55% of consumers abandon e-commerce carts and never return to the retailer's site if the checkout process is too long or complex. Also, Amazon has calculated that each additional click in the payment journey increases abandonment by 15%.

As a result of SCA safeguards introducing more friction in the customer journey, more open banking and account-to-account (A2A) payment solutions are being adopted to tackle conversion issues, false declines and abandonment issues. This is because bank payments have higher acceptance rates than credit or debit cards. One option is to introduce A2A into the checkout experience or make it the primary checkout option. The latest data from Reporterlink shows the global open-banking market is growing fast, with a CAGR of 24.7% forecasted in 2028.

However, using open banking and A2A solutions to improve payment success rates is only one way to remain compliant with SCA. There are other innovative solutions and ways to improve payment success rates. The goal is to deliver a great customer experience while keeping fraud losses and operational costs low.



Ways to improve payment success rates whilst remaining compliant



Using an exemption strategy based on an analysis of transaction risk, you can reduce the number of SCA-required transactions and make the process easier for your customers. The first step is to analyse your transactions to identify which are high risk and which are low risk. High-risk transactions are more likely to be fraudulent, such as large in value or involving new customers. Conversely, low-risk transactions are less likely to be fraudulent, such as small-value transactions or transactions from repeat customers. For example, transactions under €30 (\$33) are exempt from SCA, as are transactions where the customer has made a purchase within the past 8 days with the same merchant using the same card. Once you've identified high-risk and low-risk transactions, you can exempt low-risk transactions from SCA.



Using a compliant exemption strategy based on an analysis of transaction risk can reduce the number of SCA-required transactions and make the payment process easier for your customers. Adopting this approach is one way of streamlining the process for your customers and reducing friction during checkout. But, of course, you'll still need to monitor low-risk transactions closely to ensure they're legitimate.



Prioritise mobile payments. This is one of the most popular alternatives to traditional credit and debit card payments. These methods are not only less likely to be subject to SCA, but they also offer several other benefits. For one thing, mobile payments are generally faster and more convenient than credit and debit card payments. And because they're not subject to SCA, they're less likely to be disrupted by the EU's regulations. Although certain payment methods may be more expensive for a merchant than cards, the extra costs should be weighed against the benefits.



Chargebacks often occur as a result of fraud. However, they also occur due to customer disputes and processing errors. Preventing chargebacks from occurring and reducing their levels can reduce costs and make businesses more eligible for SCA exemption based on transaction risk assessments.

Bring it all together

SCA has changed the e-commerce payments market. The new rules provide better e-commerce fraud protection. However, this has brought challenges and issues regarding increased friction levels in the customer journey and the knock-on effect on payment success rates. Also, various solutions and steps can be taken to deliver a great checkout experience, lower fraud losses and improve operational costs.

More open banking and A2A payment solutions are being adopted to mitigate conversion problems, false declines and abandonment issues. In some cases, this involves making A2A the primary checkout option. In addition, using an SCA exemption strategy based on transaction risk and prioritising mobile payments ensures SCA compliance whilst improving payment success rates.

Businesses that want to deliver a great customer experience and keep fraud and operational costs low will need to consider these points when optimising their payment acceptance rates.



Contact us for further analysis and how Bankbrokers can assist with banking and merchant services. Our team of friendly experts can help your business secure the support you need.

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