



UK
FINANCE

Strong Customer Authentication (SCA)

Proposed Managed Rollout

2 August 2019

Public Version

Request for a managed rollout



Why does the industry need a managed rollout

Context: UK Finance and our members are fundamentally committed to fighting fraud and have been working on the implementation of PSD2 and the accompanying requirements in both spirit and letter of the law for a number of years. The related EBA Regulatory Technical Standards on Strong Customer Authentication (SCA), aimed at making electronic transactions more secure, apply from the 14 September 2019.

Despite the best efforts of the payments and retail sectors, introduction of these new rules has experienced a number of setbacks, including regulatory uncertainty (e.g. EBA Q&A tool and recent EBA Opinion still revising guidance), insufficient or delayed availability of technological solutions, and low awareness among merchants. **Research indicates that more than 75% of merchants are unaware of SCA requirements and less than 5% of merchants are currently using 3D Secure 2.1 (the technology required for applying SCA).** The implementation of SCA requires merchants and PSPs to work together with technology suppliers, card schemes and many others to deliver SCA in a way which works well for customers. The assumptions and goals which the industry was previously working towards was also moved significantly by the EBA Opinion.

Impact of no change: Blanket introduction of SCA in September 2019 will lead to significant negative impacts for consumers across the EU. Transactions will be declined, bill payments missed, and high levels of confusion experienced by consumers not understanding why they cannot make purchases. **Estimates suggest around 25-30% of transactions will fail as issuers will decline any non-3D Secure transaction not subject to an exemption;** or that they may be unable to identify exemptions. This would have a significant impact on consumers and the retail sector across the EU. We focus in this paper on 3D Secure as it facilitates the vast bulk of e-commerce transactions.

Solution: The payments and retail sectors have prepared this managed rollout. Due to the cross-border nature of payments, we believe this should be a European-wide solution as merchants are often centrally acquired i.e. from another member state. A managed rollout will achieve the overall aims of PSD2 and SCA in a way which gradually reduces fraud whilst protecting retail business and encouraging better customer experience across the EU. **Having engaged across the retail sector and finance sector, we believe an 18 month managed rollout is plausible for the rollout to merchants and to comply with mobile banking and one time passcode solutions as well as delivering an accessible solution for customers based on behavioural biometrics (OTP + inherence).** The industry is fully committed to fighting fraud and over and beyond the managed rollout are working on a number of other strategic solutions which fight fraud. The industry will continue to invest in these in the medium to longer term initiatives outside of the scope of this proposal.

Proposed rollout

The UK is and will remain one of the most sophisticated payment markets in the world with some of the best anti-fraud tools currently in use. The UK will maintain this long term view of the fight against fraud by implementing a long term rollout of compliant SCA solutions which deliver the best for customer experience whilst being at the cutting edge of innovative authentication to drive down fraud. We therefore propose two strategic but concurrent paths.

The first is a biometric and mobile app based solution for more sophisticated customers, however considering that not all customers use mobile banking, we also propose a long term accessible solution which suits the majority in society. This takes the form of a one time passcode (OTP) plus behavioural biometrics (inherence) to deter fraudsters and combat effectively against scams and social engineering.

European rollout

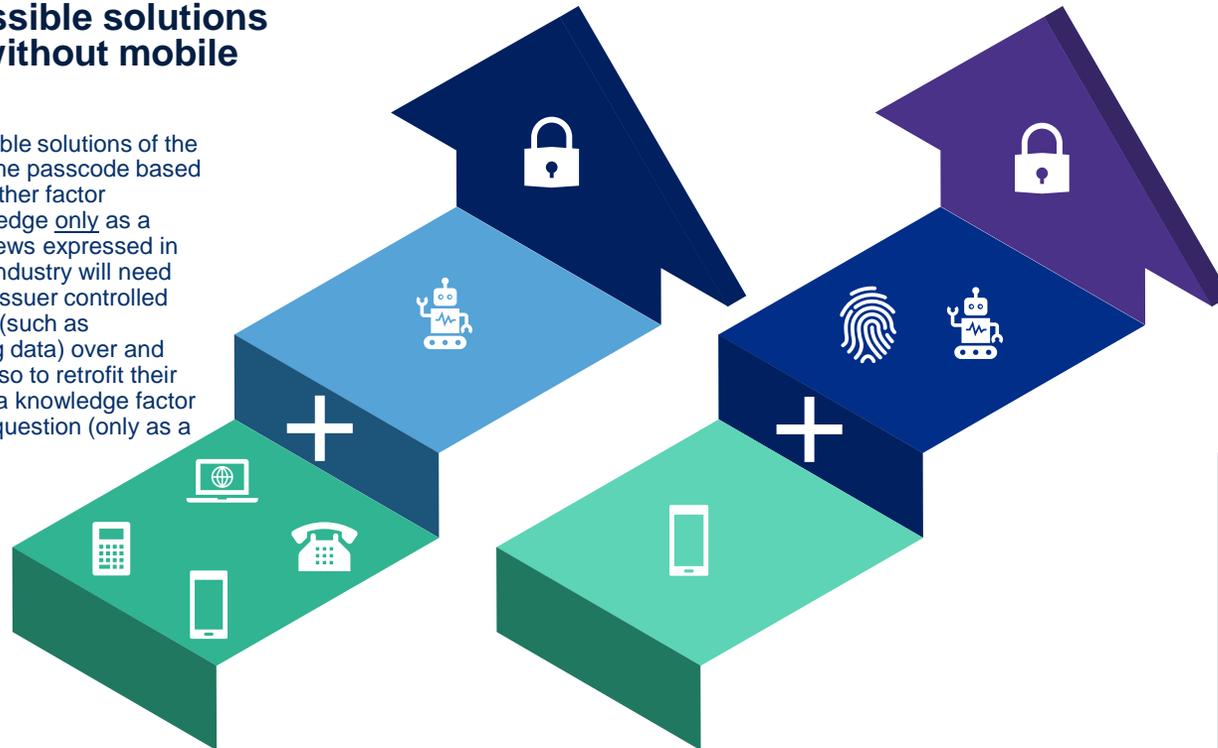
This roadmap was designed with the UK landscape in mind. However, due to the cross-border nature of payments, we strongly believe this issue requires an EU wide solution. Research indicates 75% of all online retailers in Europe may be unaware of the requirements that SCA brings.

Issuers path to full compliance

Authentication: Two concurrent paths

Path 1: Accessible solutions (customers without mobile banking)

The long term accessible solutions of the industry will be one time passcode based (possession) plus another factor (inherence with knowledge only as a fallback). Given the views expressed in the EBA Opinion the industry will need time to implement an issuer controlled behavioural biometric (such as keystrokes + spending data) over and above the OTP, but also to retrofit their implementations with a knowledge factor such as passcode or question (only as a fallback).



Path 2: Biometric and mobile app based solutions (digitally savvy customers)

The industry recognise that long term, the solution which works best for many (and a growing number) of customers is to allow for authentication through biometric and mobile app based solutions. However, there are a number of dependencies related to mobile banking adoption, versioning of 3D Secure (app to app redirection is needed) and the potential build of biometric solutions for many issuers. This will take time to fully implement.

Medium to long term

Over time, the industry will continue to invest in the reduction of fraud through many strategic initiatives which are being actively discussed with the industry (eg tokenisation of the checkout process), with SCA seen as a short to medium term fraud reduction measure.

Knowledge factor



For a number of reasons the recommended implementation is an OTP in combination with behavioural biometrics, however as a fallback the industry needs to retrofit to include another knowledge factor, the industry will need 24 months to fully implement a behavioural biometric solution which is future proofed. Our view is that use of 'knowledge' factors, such as a static password or sensitive information such as mother's maiden name, would both add friction to the checkout process and increase the risk of cyber threats and data breaches.

One time passcode (OTP)

One time passcodes could be used in the form of an SMS OTP, card reader, landline call or email. The industry was prepared and ready to implement SCA through one time passcodes. Given the impact of the EBA Opinion (with card details and current 3DS data not being considered a factor) the industry will need time to implement the additional factors proposed. However, given the industry's commitment to reducing fraud, OTP will be phased in through active testing, whilst the second factor is built. With the adoption of 3DS 2.x (within 18 months) this will provide valuable risk-based data to support the authentication as an interim second factor to OTP.

Exemptions



To create the right incentives for industry and merchants, exemptions should also be phased in over time, however it will take some time for some to be fully scoped and operationalised to be as consistent as possible. These are 1. Transaction Risk Analysis (our view is this should be phased in over the 18 month period in a way agreed under the project management office) and 2. Trusted beneficiaries (our view is that the industry will need time to deliver more holistic solutions for this, but again these will be phased in over time but will take 18+ months to come in)

Proposed managed rollout

Overall high level timelines for the roadmap

**14 September
2019**

Existing deadline Compliance Point 1

14 September is the existing deadline, we propose there is a managed rollout. On the 14 September, issuers would continue to apply risk based analysis as they do today and **continue to step up transactions as they do today and will not decline just because transactions aren't SCA compliant.** In other words, the status quo will apply.

1 Feb 2020

Step Ups Commence

From the 1 February 2020, issuers will begin to step up transactions (in active collaboration with merchants) using both risk based authentication (RBA) and OTP where available. Merchants will begin more widely flagging in an SCA compliant way.

14 March 2020

Compliance Point 2

By point 2, there should be wider certainty on regulatory requirements as well as greater technological readiness. By this point, issuers will be able to cater fully for 3DS v2.X. Merchants that were already aware of requirements should be testing actively with v2.1 and 2.2 of 3DS. We propose focus here is given to the awareness of small merchants to ensure they are aware they will need to begin the path to SCA readiness if they haven't already.

14 September 2020

Compliance Point 3

By review point 3, adoption rates will continue to increase and products will begin to be rolled out on a mass scale, there is still need for time for smaller merchants to implement. Suggested focus on customer readiness.

EU Wide 3DS 2.2/ 2.1 Mandate

We are currently proposing that there is a card scheme mandate in September 2020 to encourage merchants towards migration. The format of the mandate is still under discussion to ensure it provides the best incentive to merchants, current assumption is this **should point to adoption, not active use. As the step from 3DS v1 to 2 is significant for merchants and testing is required.**

18 months

Operational readiness

**14 March
2021**

Active supervision Issuers decline

On the 14 March 2021 we propose that active supervision begins, we also propose that issuers begin declining those transactions that are straight to authorisation (that are not flagged or subject to exemptions or exceptions under the RTS). This offers a substantial incentive to all to migrate in a timely manner.

OTP solutions and mobile banking based solutions will be ready. Behavioural biometrics + OTP should be delivered (will be reviewed throughout).

Programme Management Office (PMO)



UK Finance PMO for SCA managed rollout

To facilitate ongoing commitment to the managed rollout and for the best customer and industry outcomes, UK Finance is setting up a central programme management office which will begin work in mid-August. The PMO will deliver additional planning and metrics. Its governance will be broad and open.

UK Finance is in the process of appointing a programme director and is setting up secondments from membership to begin work in earnest by mid-August, the PMO will have three urgent and initial focus areas beyond its other activities:

1. **Detailing further metrics on behalf of the industry.** This will be done in partnership with membership, other trade associations and the FCA, this will include detail on how the industry will report as well as more detailed metrics for measurement on an industry basis.
2. **Setting up the governance of the SCA steering group and underlying working groups.** The PMO has a major role in coordinating all parties on SCA and its governance will be broad including the FCA, UK Finance and its members (representing issuers, schemes and acquirers), as well as other trade associations representing retailers, consumers and other financial services providers.
3. **Providing clarity.** There are a number of unanswered issues which need to be resolved for the industry to move forward. This includes finalising the UK Finance issues log as well as areas of uncertainty (eg on dynamic linking and online grocery shopping).

UK Finance will engage on a wide basis, however success of the managed rollout requires the full commitment of all parties in the financial services and retail industries.

There is also a need for the PMO to work actively with the hospitality and travel industry on a solution for their complex payment systems.

Stakeholders consulted on the managed rollout



UK Finance has sought to engage far and wide on this proposal

Financial services

UK Finance has engaged with its members which includes issuers of all sizes (banks and non-banks), acquirers and schemes. We have also engaged with a number of other industry associations such as the Electronic Money Association, Emerging Payments Association and Vendorcom

Retailers and consumers

UK Finance has sought to actively engage with many representative associations of numerous sectors in the UK retail sector including the British Retail Consortium (BRC), Confederation of British Industry (CBI), Federation of Small Businesses (FSB), Government Banking Service, Institute of Directors (IoD), Institute of Fundraising (IoF), Tourism Industry Council, Association of Leading Visitors Attractions (ALVA), Association of British Travel Agents (ABTA) UK Hospitality and the consumer organisation Which?

UK Finance has also engaged with a number of retailers on an individual basis as well as holding webinars and events, or speaking at member committees with other associations including with BRC, CBI, Vendorcom, ALVA.

We have also sought to spread the message by either co-organising events with the CBI or charities sector, or through conferences like the Retail Expo.

UK Finance has also sought to engage heavily at EU level on the managed rollout, firstly, to demonstrate the need for a harmonised and pan-European approach, but also to share our views with a number of European associations and bodies.

Communications plans

For retailers and consumers



UK Finance are also scoping a consumer and retail communications plan for SCA to ensure both retailers and customers are aware of the changes coming over and above existing member communications. Once fully scoped and agreed we will share directly with the FCA.

This is subject to active discussion with our membership and is currently being progressed to be discussed by our membership governance in more detail in mid-September 2019. Under our PMO the proposal is that there will be a specific WG on communications, which will not only look at coordination, but also at communications planning for retailers, issuers and acquirers. This will likely target both merchants and consumers.