3D Secure

Handling SCA Exemptions and Soft Declines in Computop Paygate

No fear of conversion losses because of 3-D Secure 2:

COMPUTOP PAYGATE SCA ENGINE AND DYNAMIC 3DS.

With the mandatory introduction of the 3-D Secure 2 protocol as of 2021, many online merchants fear an increased shopping cart abandonment rate for credit card payments in the webshop, as customers may be requested to take additional authentication steps.

With the use of strong customer authentication (SCA) exceptions, merchants will be allowed to bypass the 3-D Secure 2 protocol for certain credit card transactions.

As our customer, you can rest assured: In Computop Paygate, the handling of SCA exemptions and any resulting soft declines is easier than you think. Fully automated and customizable to your own risk experience, the SCA Engine and Dynamic 3DS procedures will help you to easily find the ideal balance between conversions and fraud risk when using SCA exemptions.
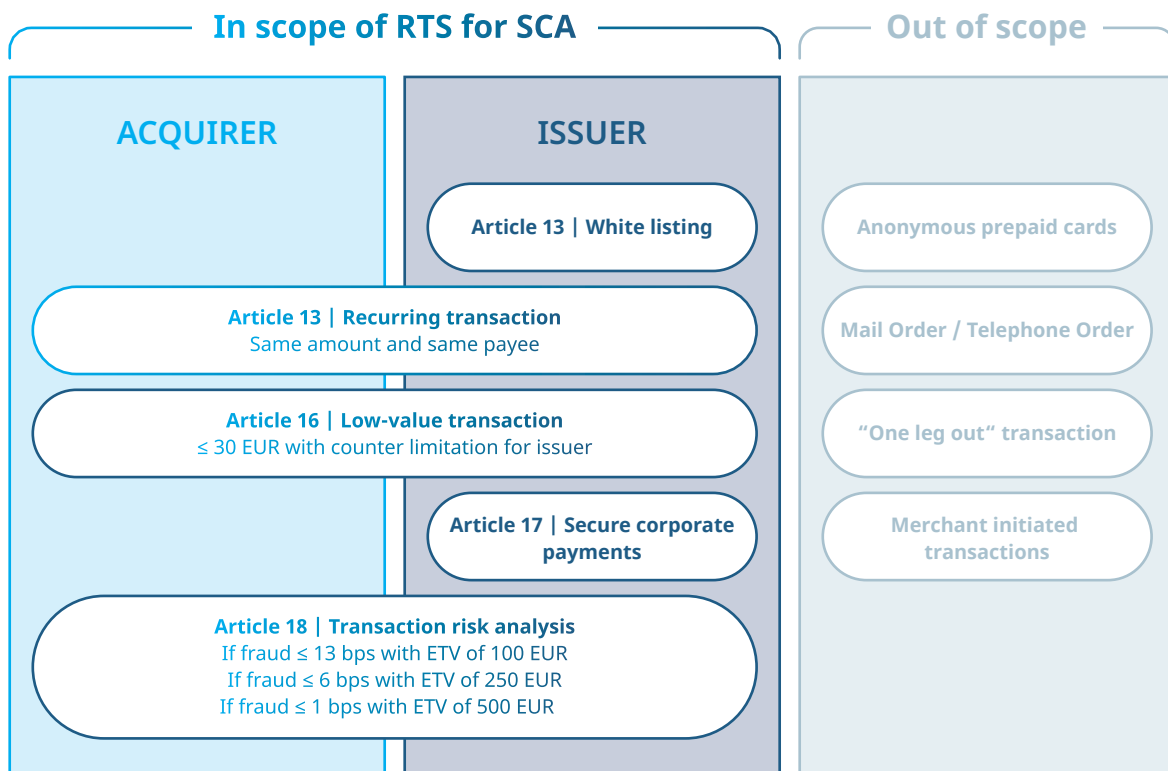
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1. INTRODUCTION

The European Banking Authority (EBA) mandates that all payers who initiate electronic payment transactions through a remote channel must be strongly authenticated (aka Strong Customer Authentication (SCA)).

For card-based payments, the 3D-Secure protocol (3DS) is used as the standard for SCA.

There are some important exemptions to SCA according to the regulatory technical standards (RTS) that may apply in various conditions, which are depicted in the below diagram.

In these cases, SCA is not mandated.

In scope of RTS for SCA   Out of scope

ACQUIRER	ISSUER	Out of scope
	Article 13 | White listing	**Anonymous prepaid cards**
Article 13 | Recurring transaction Same amount and same payee		**Mail Order / Telephone Order**
Article 16 | Low-value transaction ≤ 30 EUR with counter limitation for issuer		**"One leg out" transaction**
	Article 17 | Secure corporate payments	**Merchant initiated transactions**
Article 18 | Transaction risk analysis If fraud ≤ 13 bps with ETV of 100 EUR If fraud ≤ 6 bps with ETV of 250 EUR If fraud ≤ 1 bps with ETV of 500 EUR		

Thus, to achieve higher conversion rates, many merchants would like to make use of the exemptions depicted above, so they can skip 3D-Secure for eligible transactions.

IMPORTANT:

- **As the first step, merchants should inquire whether exemptions are supported by their acquirer(s).**

- **For any questions regarding liability shifts, we also advise merchants to directly contact their acquirer(s).**

2. CHALLENGE

To fully leverage the SCA exemptions and skip 3D-Secure whenever possible, merchants need to establish a consistent logic on their side, dealing with topics like:

- Identification of cards that are not in the scope of PSD2 (SCA not mandated)

- Deciding about which exemption should be preferably used, in case a transaction qualifies for different exemption types

- The handling of scenarios where an SCA exemption is not accepted by the issuer and the payment, in consequence, is soft declined

3. SOLUTION: COMPUTOP SCA ENGINE

Computop insourced the handling of all those challenges into the Paygate platform and is introducing a new solution for this.

3.1 CONFIGURATION OF EXEMPTIONS

Transaction Risk Analyses (TRA)

Merchants are eligible to agree with their Acquirer on using TRA-based exemptions and the according TRA limits. The TRA limits depend on the overall fraud rate of the Acquirer. There are currently 3 TRA limits/thresholds:

- Up to 100 EUR
- Up to 250 EUR
- Up to 500 EUR

All information about TRA and TRA limits is configured in Computop Paygate. During transaction processing, Computop Paygate evaluates the transaction amount and decides if TRA can be applied.

Low-Value Payments (LVP)

Merchants can agree with their Acquirer about using LVP-based exemptions. Currently, transaction amounts up to 30 EUR qualify as low-value payments.

All information about LVP is configured in Computop Paygate. During transaction processing, Paygate evaluates the transaction amount and decides if LVP can be applied.

Secure Corporate Payments

This exemption may cover payments made through dedicated corporate processes, initiated by businesses, and not available for consumers (e. g. lodge cards, central travel accounts, and virtual cards). All information about processing this kind of transaction can be configured in Computop Paygate.

3.2 SKIPPING 3DS FOR CARDS ISSUED OUTSIDE OF EEA

Cards issued outside of the EEA (European Economic Area) are not in the scope of PSD2, therefore do not require SCA. In case a merchant would like to skip 3DS for cards issued outside of EEA, this can be configured in Computop Paygate.

3.3 AUTOMATED SOFT DECLINE HANDLING

In case a transaction is missing SCA, issuers might respond with so-called soft declines. This means that the transaction authorization request is declined by the issuer, however, the same transaction can be initiated again.

The main reason for soft declines emerging in the context of 3D Secure is that issuers are not accepting SCA exemptions requested by the merchant.

In this case, as this is a decline response, Computop Paygate will follow the standard decline flow. The merchant will receive a response code pointing to a soft decline.

The merchant is then responsible to evaluate this response and act accordingly.

The best practice is to restart the payment including 3DS.

With Automated Soft Decline Handling configuration, Computop Paygate will react to the soft decline response by automatically restarting the payment. Computop Paygate will then automatically create a new payment on behalf of the merchant and include 3DS flow.

IMPORTANT:

- **From a user's point of view, customers will not notice any difference and will not need to re-enter their credit card data. The whole process is managed by the Computop Paygate platform.**

- **Please note that this solution is not available for server-to-server integrations, as Computop Paygate does not have the client (browser) in control to start the 3DS flow. For server-to-server integration, please consult our online documentation.**

- **Also, please note that Computop Paygate will automatically create a new payment, which will be charged according to agreed standard pricing. This is due to the fact, that Computop Paygate is just facilitating what a merchant would need to do anyway, which is to start a new payment.**

Sequence diagram: Automated Soft Decline Handling
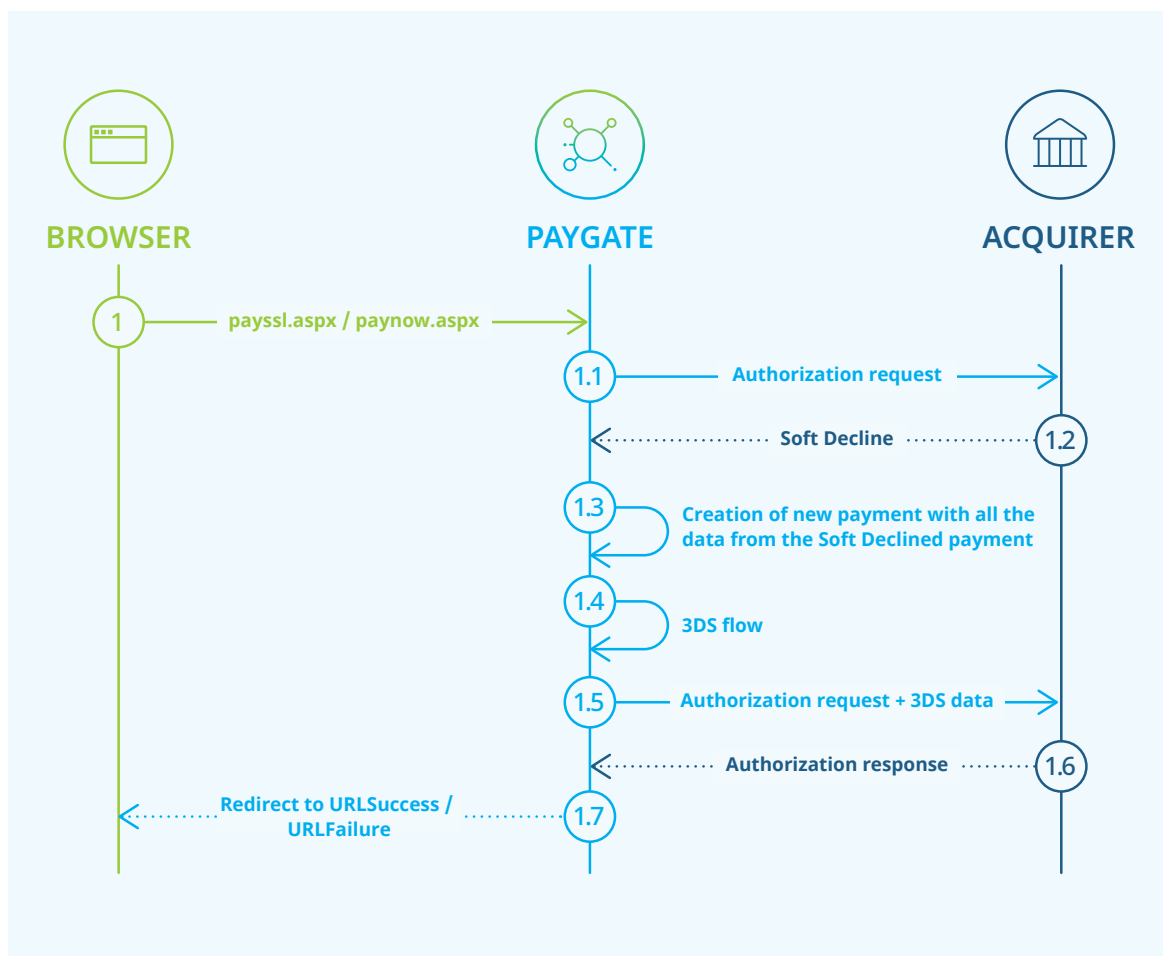
4. SCA ENGINE, ENHANCED BY DYNAMIC 3DS

For merchants who would like to further optimize the balance between conversion and risk, the combination of SCA Engine and Dynamic 3DS is the perfect solution.

4.1 DYNAMIC 3DS

Dynamic 3DS is a rule engine integrated into Computop Paygate, enabling merchants to define specific transaction criteria. These criteria form a rule set, which automatically decides whether a transaction should be subject to 3DS or not.

Transaction criteria that can be configured:

- The transaction amount
- The country where the card was issued (BIN recognition)
- The country from which the payment is initiated (IP address recognition)
- The shipping country

4.2 POTENTIAL USE CASE

A merchant operating in Germany has agreed with his acquirer on a TRA exemption with a threshold of 250 EUR. This means, that all transactions up until 250 EUR do not require SCA and therefore can be done without 3DS.

However, the merchant would not like to use this exemption for all traffic, but only for transactions that, based on his experience, are considered as "low risk".

By using SCA Engine & Dynamic 3DS, the merchant could decide for

- all transactions a) initiated in Germany, b) up until 200 EUR and c) with cards issued in Germany to be processed without 3DS, using TRA exemptions,
- all transactions above 200 EUR with cards issued in Germany and initiated in Germany to be processed with 3DS, therefore receiving liability shift (TRA will not be applied),
- all transactions with cards not issued in Germany or not initiated in Germany to be processed with 3DS, therefore receiving liability shift (TRA will not be applied).

4.3 A PERFECT BALANCE BETWEEN CONVERSION AND RISK

The correct application of SCA exemptions gives merchants the chance to bypass 3D Secure for a considerable number of transactions. But still,

- merchants requesting SCA exemptions take all the risk for fraudulent credit card transactions, as the liability shift towards the issuer does not apply,

- issuers have the final say in deciding whether to accept or not accept an exemption request.

Dynamic 3DS, combined with SCA Engine helps merchants to yield the best conversion/fraud ratio while using SCA exemptions, depending on their risk appetite.

By adding the security layer Dynamic 3DS to their exemption handling, merchants are given the possibility to individually adjust the EBA standard criteria that apply for SCA exemptions. This will increase the likelihood that a) an issuer will eventually accept the exemption request and b) the transaction will not be fraudulent.