

EBA request for input on the preparedness to meet the requirements on strong customer authentication

1. The European Banking Authority (EBA) contributes to improving the functioning of the internal market, including, in particular, a sound, effective and consistent level of regulation and supervision. One of the EU Directives that fall within the scope of action of the EBA is Directive (EU) 2015/2366 on payment services in the internal market (PSD2).
2. Among other rules for payment services, PSD2 sets out strict security requirements for electronic payment transactions that protect consumers' financial data, ensure safe authentication and reduce the risk of fraud. In particular, PSD2 introduced the concept of strong customer authentication (SCA) that requires payment service providers (PSPs) to verify the identity of payment services users or the payment instruments the latter use based on the use of two or more elements categorised as knowledge (something only the user knows), possession (something only the user possesses) and inherence (something the user is).
3. In addition, the PSD2 conferred 12 mandates to the EBA – six Technical Standards and six set of Guidelines. One of these 12 mandates is the Regulatory Technical Standard on strong customer authentication and common and secure communication (EBA/RTS/2017/02) (RTS SCA&CSC), which underpin the new security requirements under PSD2. These RTS specify, among others, the requirements of SCA, the exemptions from SCA and the requirements to protect the confidentiality and the integrity of the payment service users' personalised security credentials. The RTS on SCA&CSC were published in the Official Journal (OJ) of the EU in March 2018 as a [Commission Delegated Regulation \(EU\) 2018/389](#) and apply from 14 September 2019.
4. To fulfil its statutory objective of contributing to supervisory convergence in the EU and to address queries that the EBA and national competent authorities (CAs) have received from market participants on the application of SCA, the EBA published a number of additional clarifications on the implementation and application of the RTS, which include the [Opinion on the implementation of the RTS on SCA&CSC \(EBA-Op-2018-04\)](#) published in June 2018, an

[Opinion on the elements of strong customer authentication under PSD2 \(EBA-Op-2019-06\)](#) published in June 2019, and a number of Q&As in the [EBA's Single Rulebook Q&A tool](#).

5. In the Opinion on the elements of SCA under PSD2, paragraph 12 and 13 in particular, the EBA acknowledged:
 - the complexity of the payments markets across the EU and the necessary changes required to enable the application of SCA, in particular by actors that are not PSPs, such as e-merchants, which may be challenging and may lead to some actors in the payments chain not being ready by 14 September 2019; and
 - that a key component for the successful application of SCA is to explain and make customers aware of such changes and that it is paramount for customers to be able to continue making payments, including online.
6. To avoid unintended negative consequences for some payment service users after 14 September 2019 in the area of electronic e-commerce payment transactions carried out with payment cards, the EBA therefore clarified that it would accept supervisory flexibility where CAs may decide to work with PSPs and relevant stakeholders, including consumers and merchants, to provide limited additional time to allow issuers to migrate to authentication approaches that are compliant with SCA and acquirers to migrate their merchants to solutions that support SCA. This supervisory flexibility is available under the condition that PSPs have set up a migration plan, have agreed the plan with their NCA, and will execute the plan in an expedited manner.
7. In order to fulfil the objectives of PSD2 and the EBA of achieving consistency across the EU, the EBA will later this year communicate deadlines by which the aforementioned actors will have to have completed their migration plans. The EBA wants to reiterate that the application date of the RTS by which all PSPs have to comply with the requirements of SCA is 14 September 2019 and therefore said supervisory flexibility should be as short as possible. Nevertheless, in order for the EBA to be in a position to set the deadlines based on robust information from a wide range of stakeholders, the EBA decided to carry out a fact-finding exercise with relevant stakeholders, including and acquiring PSPs.
8. In that regard, acquiring PSPs are kindly requested to provide responses to the questions set out below and each provider is asked to return one form.
9. We would be grateful if you could complete and return the questionnaire to janis.matevics@fktk.lv by **21 August 2019, cob**.

Respondent's identification

Member State: Latvia

Acquiring PSP: Finance Latvia Association Payments Subcommittee on behalf of all banks providing acquiring services

Name of the person: Edgars Pastars

Position: Chief Legal Officer

Email: edgars.pastars@financelatvia.eu

Tel. no: +371 29213847

Survey questions on the preparedness to meet the requirements on SCA with regard to electronic e-commerce payment transactions carried out with payment cards

- 1. How likely is it that you will be fully compliant to support the SCA requirements under PSD2 and the RTS on SCA&CSC with regard to electronic e-commerce payment transactions carried out with payment cards? If not fully compliant, what is the estimated level of preparedness to meet the requirements for SCA and the exemptions from SCA by 14 September 2019? (please indicate the number of solutions supporting SCA and the number of solutions supporting the exemptions from SCA to the total number of the solutions that are available to e-merchants)**

Banks as acquirers are fully compliant with 3DS SCA on the base of protocol #1. Introduction of 3DS protocol #2 is planned during 2020. Therefore, banks on September 14th, 2019, will be not fully compliant to support SCA under specific RTS requirements. Readiness differs by a reason:

- 1) Internet payments – **very high readiness**. SCA is supported, but relevant 3DS protocol #1 is not fully compliant to RTS dynamic linking requirement.
- 2) SCA exemptions – **medium readiness** (see more in section 3). Implementation of exemptions is closely related to introducing of 3DS protocol #2 in due time.

Specific scenario in hotels, accommodation and car rental sector – low readiness. Currently hundreds of hotels and other merchants are using card terminals solution to manually enter card data which is deemed not compliant solution anymore as it does not support SCA. Merchants need to radically change their ordering systems, adopt to totally new e-commerce solutions, re-educate consumers but time for merchants (until September 14th 2019) is not reasonable for organizational, technical changes and related educational activities.

- 2. What are the main obstacles/issues that prevented you from being compliant with the SCA legal requirements? In your view, how can these obstacles/issues be overcome now?**

The main issue is that an acquirer is just one among all other market actors who must adopt and change their processes to ensure compliance and to improve capability to apply for exemptions stated in RTS. Well managed rollout among all market actors across Europe is essential to ensure compliance and new practice establishment.

1. External vendors delay providing latest SCA solutions and new ways of SCA exemptions usage (3DS protocol #2 will be delivered only after 9-12-month period to the banks). Grace period is needed to deliver the latest SCA protocol to merchants.
2. As technical solutions delay on banks' side, as well it will delay implementation on merchant side. Merchants need to plan budgets, order technical development, perform internal organizational changes, instruct consumers. Grace period is needed to fully implement new ways to pay.

3. Industry partners have still under discussions on many payments use cases and demands to apply SCA and exemptions. Single position is not reached yet in some cases which lead to situations that different market players communicate different messages and requirements to merchants. Grace period is needed in order industry partners agree.
4. Different interpretations of RTS definitions, VISA/MasterCard rules and understanding of supervising authorities across the region.

3. What type of solutions supporting SCA (based on the non-exhaustive list of potential SCA elements as specified under Tables 1, 2 and 3 of the EBA Opinion on the elements of SCA under PSD2) and the acquirer exemptions from SCA do you intend moving towards?

Several banks do not plan to support any exemptions from SCA this year. Next year they plan to consider support of low-value payment below 30 EUR and low-risk exemptions.

Most of the banks intend to support Recurring payment, Low-value transactions and Transaction risk analysis for low-risk transactions exemptions. Other exemptions were not mentioned by member banks but could be considered, for example MOTO or MIT transactions.

Banks plan to adopt an interface to 3DS protocol #2 2.0 (web flow), making every option provided by issuing PSP available to our merchants.

In the market there are defined 2 versions of SCA protocols which allow Acquirer to reach Issuer and establish customer authentication process – 3DS protocol #1 and 3DS protocol #2.

Banks currently widely use 3DS protocol #1 and planning to use 3DS protocol #2 (both versions 2.1 and 2.2) in the nearest future. Despite 3DS protocol #1 supports secure SCA process, it is not fully compliant with latest RTS requirements. Only 3DS protocol #2 is deemed fully compliant to RTS due to specifics to comply with dynamic linking requirement.

4. Taking into account the limited supervisory flexibility that CAs can provide, what is the most expedient timeline for you to migrate to solutions supporting SCA and solutions supporting the exemptions from SCA?

In general banks consider that they do not need to migrate to solution supporting SCA as it is supported right now in most instances.

Transition to 3DS protocol #2 will take 18 months (effective if VISA/MasterCard and vendors deliver their specifications and solutions by the end of this year), and this includes up to 12 month of implementation time needed on bank side, and additional 6-month to ensure that merchants and their consumers have reasonable time to adopt to changes.

Some banks emphasized that the most expedient timeline for exemptions from SCA is to implement new, advanced risk management systems to support additional data parameters and scoring models for payment card transactions.

5. What main tasks (e.g. analysis, development, test and implementation/deployment) do you intend to carry out to meet the timeline specified in your answer to question 4? (please elaborate on each task and specify the time needed for their execution)

The total period of implementation on bank side is assumed to be of 12 months (effective if VISA/MasterCard and vendors deliver their specifications and solutions by the end of this year), of which:

- 1) Analysis of requirements is presumed to be done within the whole period of transition, considering the continuous updated of requirements to be done – approx. 12 months
- 2) IT development in internal systems – approx. 9 months
- 3) IT development at external vendors – approx. 9 months
- 4) Internal staff re-educations activities – approx. 2 months

We look forward to proceeding with following actions in a respective timeframe:

- 1) Approach merchants with initial communication in September 2019;
- 2) Develop 3DSv2 protocol by September 2020 (effective if VISA/MasterCard and vendors delivers their specifications and solutions by the end of this year).
- 3) Approach merchants with 2nd round of communication on specific technical requirements to be implemented.

6. How long would it take for merchants to incorporate those solutions?

Technical changes 3 - 12 months since all specifications are in place (RTS implementation will be done gradually and in parallel with bank development and taking into account merchant segments timing for changes will differ).

7. What main tasks do merchants need to carry out to meet the timeline specified in your answer to question 6? (please elaborate on each task and specify the time needed for their execution)

- Continue analysis of requirements – 12 months
- IT development in internal systems – 9 months
- IT development at external vendors – 9 months
- Internal staff re-educations activities – 2 months
- Consumers communication activities – 2 months

8. What is your readiness and the readiness of your merchants to flag transactions that are not subject to the requirement to apply SCA, such as payee-initiated transactions¹?

Flagging of such transactions depends on implementing 3DS protocol #2.

9. Taking into account the limited supervisory flexibility that CAs can provide, how much time do you consider necessary for raising awareness to e-merchants about solutions supporting SCA-compliant authentication approaches?

¹ Payee initiated transactions meeting the conditions specified in [Q&A 4031](#).

Up to 6 months from now.

Several banks have mentioned that all their e-merchants already support SCA in sense of protocol #1. In this instance, awareness raising could apply to transition to 3DS protocol #2.

10. What main tasks do you intend to carry out to raise awareness to e-merchants about solutions supporting SCA-compliant authentication approaches? (please elaborate on each task and specify the time needed for their execution)

Informative letters, meetings with merchants on changes, general info, new exemptions conditions and SCA methods communicated. Detail technical specifications of API to be provided. Extensive technical and competence support to merchants will be provided during all merchant transition project. Personal notification for merchants and/or information on homepage or via e-mail.

11. What is the percentage of e-merchants that already use the solutions supporting SCA approaches you make available? (please indicate the number of e-merchants that use solutions supporting SCA-compliant authentication approaches to the total number of e-merchants)

There are 2 different sectors which use remote card payments:

- Internet shops. Today we already support SCA using 3DS protocol #1 and it is enabled at more than **80%** of banks' merchants. 3DS protocol #2 – **none**.
- Hotels, accommodation and car rental sector merchants which use card terminal to enter card data manually. Usage of SCA supported approach – **none**.

Thank you for your cooperation.