



# Your Guide to PSD2 Compliance

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## What is PSD2?

PSD2, the EU's Second Payment Services Directive (2015/2366 PSD2), impacts European Economic Area (EEA) member countries and cooperating countries\* and aims to ensure consumer protection across all payment types, to promote a more open, competitive payments landscape. One of the principal requirements of PSD2 is Strong Customer Authentication (SCA) that will be required for electronic transactions.

\*Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lichtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

## What is Strong Customer Authentication (SCA)?

SCA requires businesses to provide card issuers with two-factor authentication during the time of a transaction. It requires payments to be authenticated using at least two of the following three elements:

- Something the customer *knows* such as a PIN number or password
- Something the customer *has* such as a mobile phone or card reader
- Something the customer *is* such as a fingerprint or voice recognition

## How does PSD2 impact me as a merchant?

EU regulations require SCA for digital payments starting September 14, 2019. However, the European Banking Authorities announced in October 2019 a new deadline for PSD2 enforcement of December 31, 2020.

Enforcement in the United Kingdom has been pushed to September 14, 2021 due to delays caused by the global pandemic.

Digital River is working with our partners, regulatory authorities, and the card schemes to ensure our platform is ready for the December 31, 2020 date specified by EU regulations and we will be enacting PSD2 for all countries at that time.

When SCA is fully enforced, there will be a substantial increase in the number of transactions requiring 3-D Secure authentication affecting all merchants who sell to residents using an EU/EEA issued credit card.

## What is the new 3-D Secure?

3DS2 is an industry standard for complying with SCA requirements. It is designed to be less intrusive than earlier versions. Because it allows more data to be sent to the customer's bank

to verify and assess the risk of the transaction, shoppers are only required to pass an authentication challenge if their transaction is determined to be of high risk.

## How will recurring transactions be impacted?

Recurring transactions are authorized for the amount of sale and authenticated for the recurring (renewal) amount. Subsequent payments are labeled Merchant Initiated Transactions (MIT) and fall outside the scope of SCA.

## How are free trials handled?

Free trials are immediately authorized for \$0 and authenticated for the recurring (renewal) amount. When the first required payment is due, the authentication captured at the start of the trial is then attached to the payment.

## How will non-EU/EEA shoppers be impacted?

Shoppers outside of the EU/EEA are out of scope for purposes of PSD2.

## What payment methods are in scope? Will non-card payment methods be impacted?

While PSD2 impacts all digital payments, SCA is needed only for credit card transactions.. Customers using alternative payment methods might be impacted when setting up or modifying their account. One example would be a customer adding a new credit card to their account or digital wallet.

## How will this impact my transactions?

The reality will likely be different from country to country.

There is a belief in the industry that implementing two-factor authentication to the authorization flow using solutions such as 3-D Secure will ultimately improve authorization rates. Digital River will be monitoring the percentage of impacted transactions and authorization rates closely as PSD2 is implemented.

## Is Digital River implementing two-factor authentication that clients can leverage?

Yes. Digital River is implementing two-factor authentication through our integration with 3-D Secure and this implementation will be available to all our clients at no additional cost.

## How do exemptions work and how do I take advantage of them?

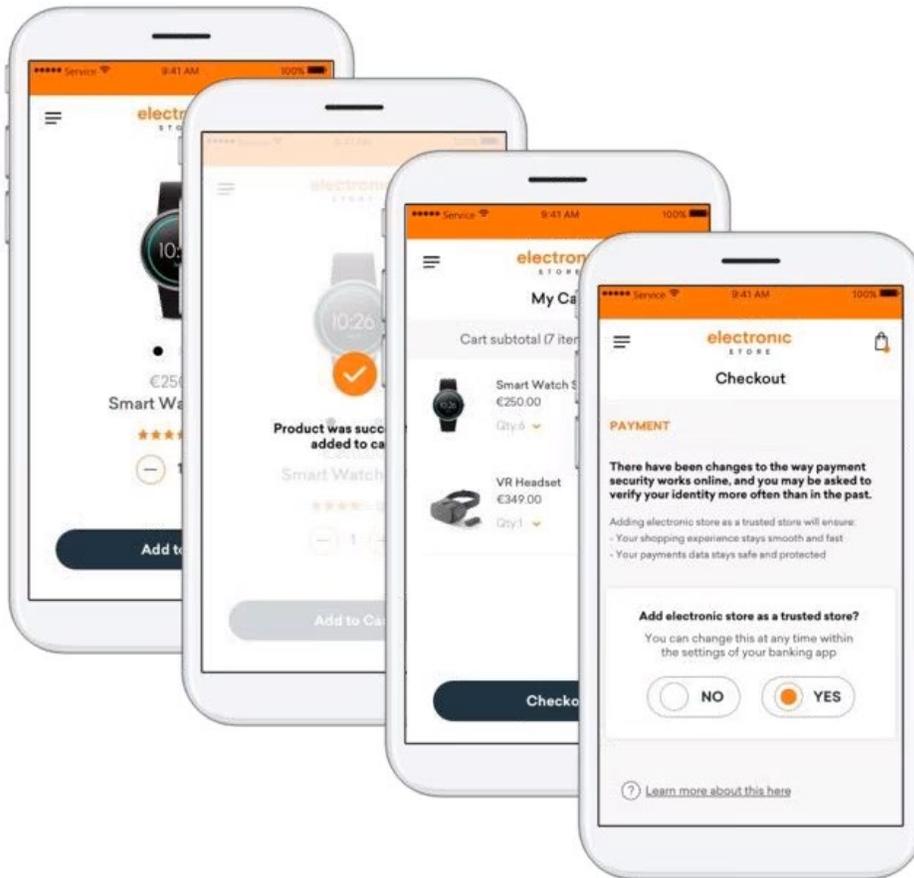
Exemptions are specific types of payments that banks consider to be low-risk and are therefore exempt from SCA. Payment providers will be able to request exemptions when processing a payment. The cardholder's bank receives the requests and evaluates the level of risk posed by the transaction.

Digital River will aggressively request all eligible exemptions to minimize friction in the shopping experience. Some examples of exemptions are "low value" payments under €30, fixed amount recurring subscription payments, merchant-initiated transactions (MIT), and "trusted beneficiaries" or whitelisted merchants. With any exemption, the bank has final say whether to immediately approve the transaction or whether authentication is still necessary.

## How does whitelisting work?

Banks, at their discretion, will offer whitelisting to consumers giving them the option to suppress future SCA challenges. The graphic below shows how the process may look to a consumer.

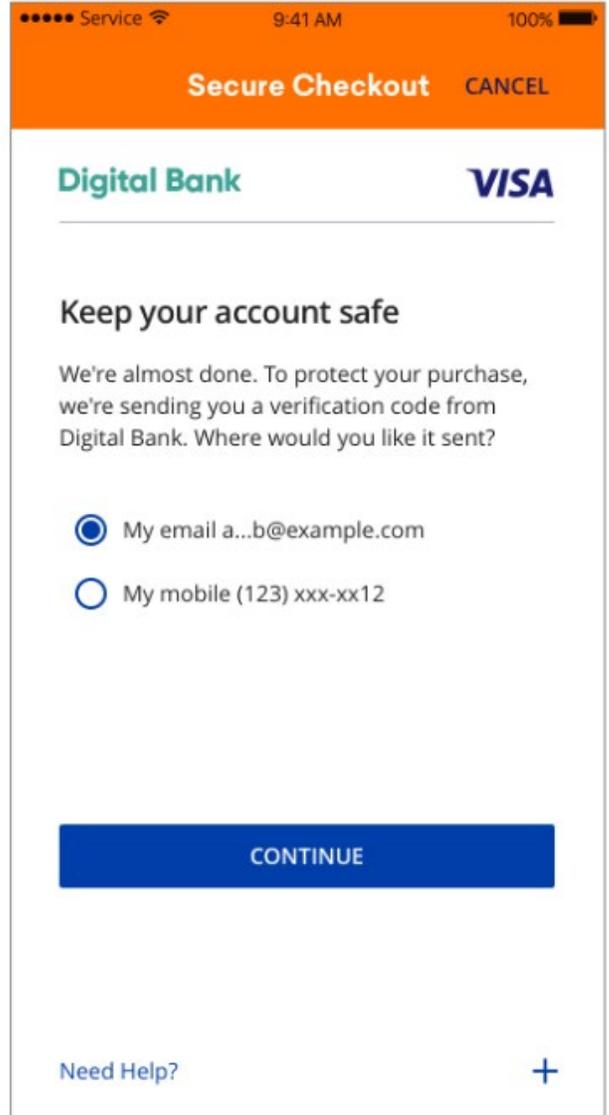
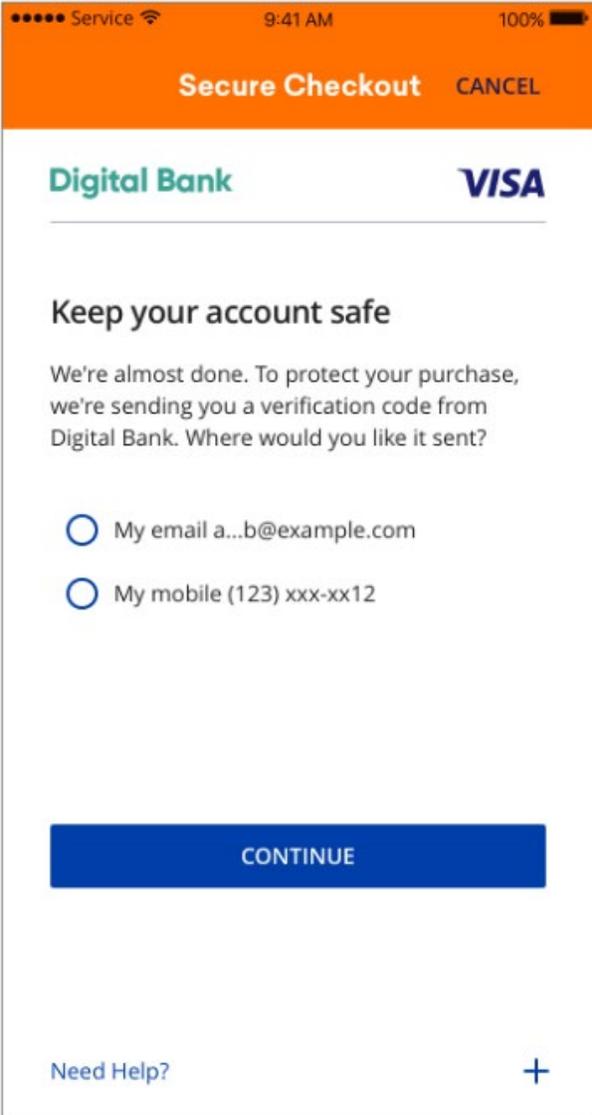
## Place order & add trusted store

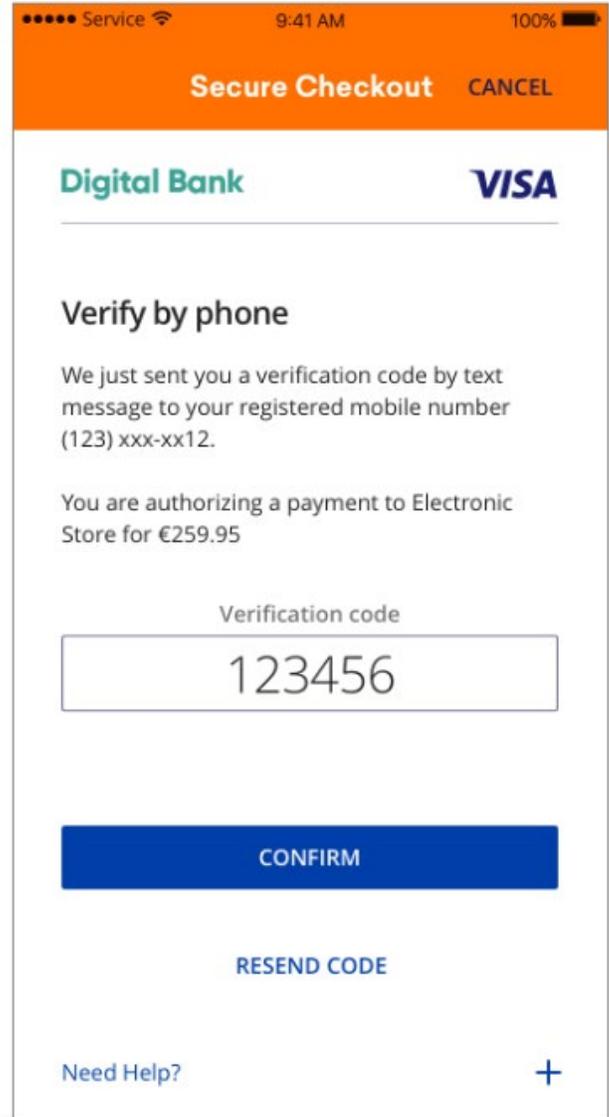
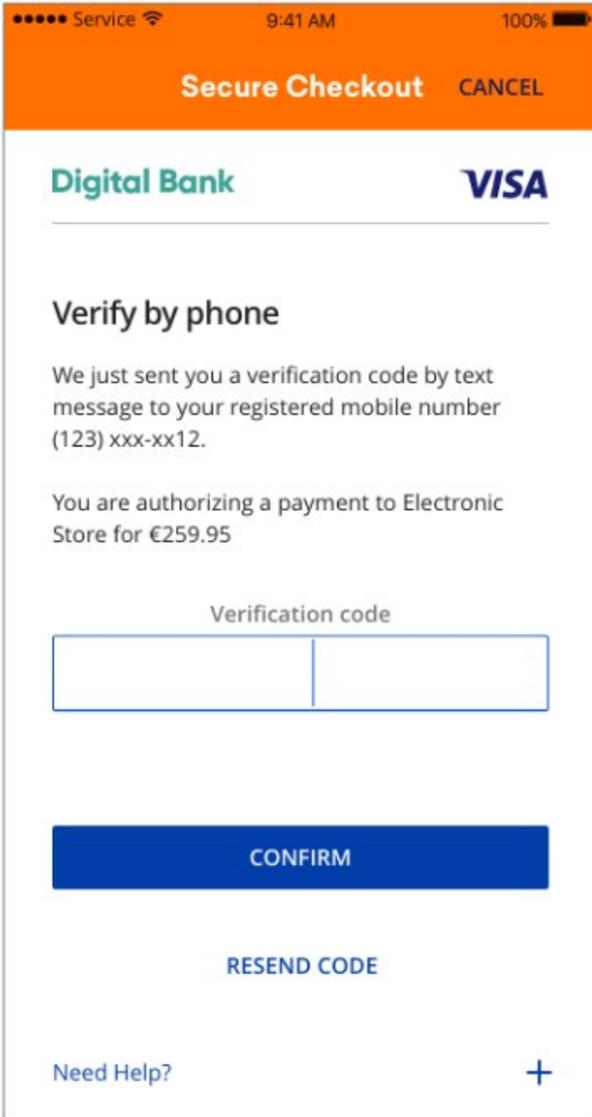


Source: Cardinal Commerce

## What does PSD2 look like for a shopper?

Below are examples of an example prompt with one-time passcode (OTP):





Graphic Source: Visa