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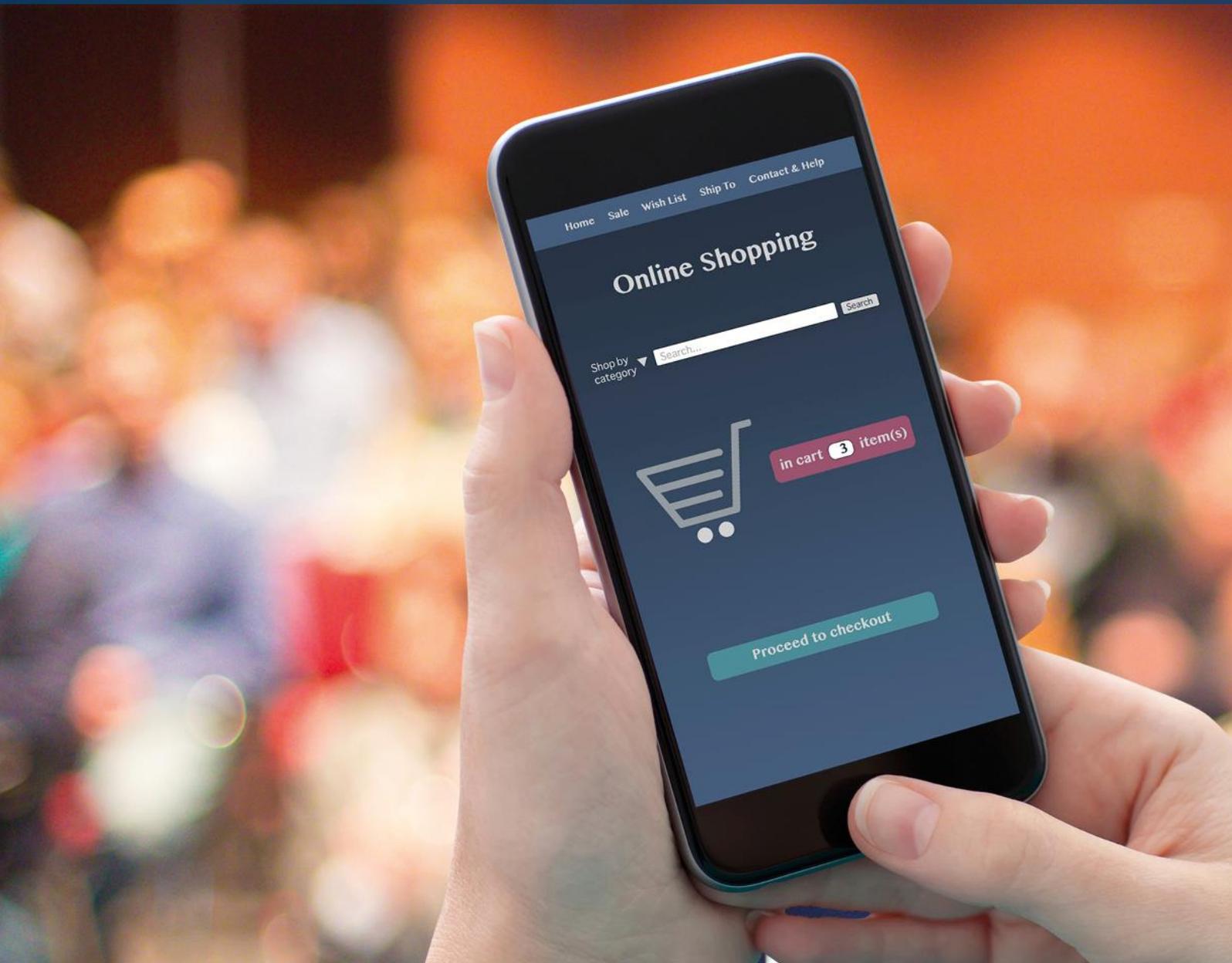
Striking a balance – Transactional risk-based assessment under the EBA's RTS on Strong Customer Authentication

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Ecommerce Europe's recommendations on e-Payments

Ecommerce Europe is the voice of the e-commerce sector in Europe. Through its 19 national associations, Ecommerce Europe represents over 25,000 online shops across Europe. Its mission: boost the e-commerce industry by helping decision makers shape policies fit for future sustainable growth. To do so, Ecommerce Europe takes initiatives to come up with innovative market solutions and provides a platform for expert discussion, connect online retailers with relevant stakeholders. It also highlights the importance of e-commerce to the economy through the provision of in-depth research on the European and global markets. Additionally, Ecommerce Europe stimulates the industry by developing initiatives like its European Trustmark label - provided for free to more than 10,000 certified online shops across Europe.

The Internet has revolutionized the way people buy and sell goods and services. It has created technically savvy and demanding consumers that want to shop anywhere, at any time. The future of e-commerce is bright and the emergence of mobile platforms, personalization, data analytics, omni-channel services and the sharing economy has also enabled online shops to quickly innovate and develop new business models that meet ever evolving customer demands.

According to the Ecommerce Europe Cross-border Barometer 2016, concrete issues related to online payments remain a burdensome challenge for online merchants when trading cross-border:

- High costs: burdensome interchange fees and processing fees of banks and third-party payment providers continue to prevail - especially for convenient and easy-to-use payment solutions;
- Identification of the consumer: a lack of uniform electronic identification systems forces consumers and merchants to go through a burdensome process of consumer authentication and identification;
- Complicated check-out processes: conversion is lost because consumers leave the process prematurely when authorization and authentication requires too many steps.

A substantial part of the growth in the sector comes from continued innovations in mobile commerce and innovative mobile payments solutions. In light of the nature of mobile shoppers, complicated check-out procedures and authentication methods pose a particularly serious problem, as they tend to leave the process after the first step.

RECOMMENDATIONS ON AUTHENTICATION

- **Revise the Reference Fraud Rate percentages for remote card-based payments to account for market realities**
- **Expand the application of transactional risk-based assessment to online merchants and online merchants' Payment Service Providers**

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Ecommerce Europe welcomes the Payment Services Directive 2, which promotes an open, innovative and safe European electronic payments landscape. A substantial part of the continued growth in the e-commerce sector is underpinned by the innovative solutions in mobile commerce and mobile payments solutions. In light of changing online customer expectations, in particular of mobile shoppers, towards seamless and convenient shopping experiences, complicated check-out procedures and authentication methods pose a particular problem.

The revised regulatory technical standards (RTS) on Strong Customer Authentication and common and secure communications, as published by the European Banking Authority on 23 February, are a critical step in the right direction of facilitating the Directive's three underlying goals of increasing convenience, competition and security in the electronic payments landscape. Ecommerce Europe welcomes the European Banking Authority's acknowledgement, under Article 16, of the crucial role transactional risk-based assessments of electronic payments play to the business models and the competitiveness of online merchants. As a technologically neutral alternative to fighting online fraud, transactional risk-based assessments allow online merchants and their Payment Service Providers to adapt to new and evolving parameters and fraud patters, while ensuring the high level of check-out convenience European e-commerce shoppers have become used to.

However, based on the EBA's draft RTS, the European e-commerce sector stresses its strong concern that the required Reference Fraud Rates under Article 16.2(a) are set too stringent, not in line with market realities and in contradiction to the PSD2's competition objectives, thus effectively pushing a significant number of payment transactions to undergo Strong Customer Authentication. The currently proposed 3-tiered reference-fraud levels of 0.13%, 0.06% and 0.01% for €100, €250 and €500 respectively, does not account for the greatly varying fraud levels between different EU countries, e-commerce industries and online merchant profiles. The continued-one-size-fits-all approach proposed by the European Banking Authority, therefore will prove inadequate in the ongoing fight against online fraud, while disproportionately impacting upon low-risk transactions through applying Strong Customer Authentication to European SMEs.

Ecommerce Europe calls on European legislators to revise the Reference Fraud Rate percentages under Article 16.2(a) to bring them in line with market realities and SEPA-area fraud levels[1], to clarify exactly how the 3-tier monetary thresholds for electronic transactions are calculated and how the thresholds will adapt to take into account the sophistication of fraudsters who will seek to exploit fixed regulatory thresholds.

Furthermore, the proposed exemption to Strong Customer Authentication under Article 16 only applies to Payment Service Providers. Online merchants, who often have access to more and higher quality customer historical, tracking and identification data to assess transactional risk than Payment Service Providers, are not allowed to avail of this exemption. Facilitated by increasingly sophisticated data analytics, online merchants today can efficiently, and in real-time, track and analyze the fraud-risk of an individual customer. Online merchants should be free to choose their preferred electronic payments authentication technique if they provide an equally high level of payment fraud protection as Strong Customer Authentication.

In any case, the draft RTS' provisions for the payer's Payment Service Provider to have the final say on the application of Strong Customer Authentication is not in line with Article 97 of the PSD2 and should be expanded to provide the payee's Payment Service Provider with equal powers to apply Transactional Risk Assessment.

[1]According to the European Central Bank's 4th Annual Card Fraud Report (July 2015), the SEPA fraud share was 0.039% from an acquiring perspective.

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