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OCTOBER 2019

SCA IMPACT PLAYBOOK

Subscription Commerce And The SCA Opportunity

The SCA Impact Playbook, a PYMNTS and GoCardless collaboration, examines how strong customer authentication will affect subscription businesses in the European market and reveals how they can turn emerging regulations into strategic opportunities.

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This SCA Impact Playbook was done in collaboration with GoCardless, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

INTRODUCTION

The European payments landscape is undergoing a seismic shift. The revised Payment Services Directive (PSD2), enacted by the European Union in 2015, is steadily being implemented to create a more integrated, efficient and secure financial system across the continent.

Strong customer authentication (SCA) is one regulation component that is shaking up Europe's $600 billion online commerce industry. The security protocol requires that online payments undergo two of three forms of authentication through biometric, password- or device-based methods. The rule was slated to go into effect in mid-September, but regulators in most European Economic Area (EEA) countries have delayed enforcement following pushback from the industry.[1]

Subscriptions represent one online commerce area that has received scant attention amid SCA discussions, but it is arguably one of most dynamic. Amazon Prime, Netflix and a growing array of subscription box services, such as HelloFresh and Stitch Fix, generate hundreds of billions of dollars in annual revenue.

The SCA Impact Playbook, a PYMNTS and GoCardless collaboration, will shed light on what SCA means for cross-border subscription-based enterprises and how they can adapt to Europe's new regulatory reality. It will also offer perspectives from online commerce leaders and executives who have their ears to the ground in Europe and explore solutions that could help merchants avoid the potential looming conversion cliff.[2]

INSIDE A NEARLY $400 BILLION INDUSTRY:

The value of consumer subscription/recurring payment services in Europe totals $385 billion and is growing.[3]

$33 BILLION
Amount European consumers spent on consumable subscriptions like grocery delivery in 2018

$55 BILLION
Total spent on durable goods, such as wardrobe and beauty boxes, in 2018

$33 BILLION
Amount spent on print and digital content in 2018

$264 BILLION
Total spent on recurring service/utility payments, such as internet and electricity, in 2018

[1] SCA delay: payments opportunity in disguise? PYMNTS.com. 2019. https://www.pymnts.com/digital-payments/2019/sca-delay-a-payments-opportunity-in-disguise/. Accessed October 2019.

[2] Author unknown. Now that we subscribe to music, are tools and toiletries next? ING. 2018. https://think.ing.com/reports/opportunities-and-challenges-for-tangible-goods-subscriptions/. Accessed October 2019.

[3] Author unknown. Now that we subscribe to music, are tools and toiletries next? ING. 2018. https://think.ing.com/reports/opportunities-and-challenges-for-tangible-goods-subscriptions/. Accessed October 2019.

Our research indicates that SCA is a challenge subscription businesses must be prepared to handle, but it also presents a great opportunity. One of the subscription model's appeals is that it makes the payments experience largely invisible, allowing subscribers to pay for services without repeatedly pulling out their wallets.

From a practical standpoint, this means SCA will snag lower payment volumes from subscription merchants compared to conventional online retailers. It offers subscription-based enterprises a crucial statutory advantage, too, as recurring payments initiated by merchants — as opposed to payers — are exempt from SCA's rules. This shields subscribers' monthly payments from repeated authentication requirements.[4]

These practical and legal advantages can give subscription-based businesses false senses of security, however. Initial sign-up payments made with credit cards, which represent vital gateways for subscription enterprises' success and viability, would still be subject to SCA requirements. A subscription business that wrongly rejects payment credentials may not only be losing one-time purchases, but also may be missing out on customer relationships that could last years, after all.

SCA's exemptions for recurring payments will mean little if merchants do not know how to take advantage of them, though. Subscription businesses without solid grasps of SCA and strategic plans to navigate its rules could still face daunting and unexpected issues. These challenges can be summed up with three Cs: conversion, churn and card-based risk.

[4] Strong customer authentication. The Financial Conduct Authority. 2019. https://think.ing.com/reports/opportunities-and-challenges-for-tangible-goods-subscriptions/. Accessed October 2019.

A LOOMING conversion cliff?

A LOOMING CONVERSION CLIFF?

PSD2 and SCA will likely create layers of security for online commerce and subscription in Europe, but these regulations also pose challenges to merchants.

Stricter online security is often closely linked to reduced conversion rates, and the impact can be especially strong when security measures are enforced through the blunt force of regulations.

Conversion rates plummeted by an estimated 25 percent when India implemented an online payment authentication system in 2014, for example, which would represent losses of approximately $125 billion USD if the same happened in today's European market.[5] Other researchers have projected a more modest but substantial loss rate of 10 percent, or about $62.1 billion.[6] Peter Robinson, payments advisor at EuroCommerce — a consortium of retailers from 31 European countries — gave an even grimmer estimate in a recent interview with PYMNTS. He says more than one-third of merchants' online payments could fail due to lack of compliance.[7]

Exemptions for merchant-initiated recurring payments under SCA might suggest the coast is clear for subscription-based enterprises, but this is not the case.

[5] Stripe on SCA's $100B-a-year problem. PYMNTS.com. 2019. https://www.pymnts.com/news/regulation/2019/strong-customer-authentication-compliance-stripe/. Accessed October 2019.

[6] McKee, J. The impact of SCA: Shaking up Europe's online economy. 451 Research. 2019. https://d37ugbyn3rpeym.cloudfront.net/content-store/upload-media/f9c7073dccf370b2da7541e292e4efa8f36ceac4.pdf. Accessed October 2019.

[7] EuroCommerce on why merchant, consumer awareness is critical to SCA. PYMNTS.com. 2019. https://www.pymnts.com/news/regulation/2019/eurocommerce-merchant-consumer-awareness-sca/. Accessed October 2019.

THE CURSE OF subscriber churn

THE CURSE OF SUBSCRIBER CHURN

Onboarding new customers might seem like an insignificant hurdle, but the registration experience plays a vital role in subscription businesses gaining new users and maintaining their loyalty.

PYMNTS' research indicates that negative experiences when registering for subscriptions correlate with plans to terminate services. United States-based consumers who plan to cancel streaming subscriptions are nearly four times more likely than those keeping them to describe their registration experiences as "difficult," "slightly easy" or only "somewhat easy." Those who report having "very easy" experiences are far more likely to maintain theirs, however.[8]

Our research further demonstrates that entering payment information is a particularly vexing pain point. Streaming content subscribers who must update their payment details more than once per year are far more likely to cancel their accounts, for example, and the ratio of account closers to keepers is more than 10-to-1 among those who report having to enter them weekly.

Recurring subscription payments are theoretically shielded from repeated authentication under SCA's merchant-initiated transaction (MIT) exemption. It is still incumbent on merchants to provide evidence to their payment service providers (PSPs) that payments qualify as MITs, however. Cards issuers and PSPs may otherwise reject payments out of caution since they are ultimately responsible for compliance.

This demonstrates that subscription companies are far from being immune to SCA, but can instead be uniquely vulnerable to it. Their business models are often predicated on growth, which requires gaining and maintaining consumers' loyalty in a market growing ever-more crowded with competitors. Subjecting users to repeated authentication is a surefire way to alienate would-be subscribers.

[8] Subscription Commerce Conversion Index – Q2 2019. PYMNTS.com. 2019. https://www.pymnts.com/study/subscription-commerce-conversion-index-2/. Accessed October 2019.

THE CARD conundrum

THE CARD CONUNDRUM

SCA was crafted to deal with theft and misuse of credit card information, which is sometimes referred to as card-not-present (CNP) fraud and has become prevalent in the internet era.

No fraud detection system is foolproof or can avoid the threat of conversion rates, however. SCA raises an important question for subscription businesses, particularly those that operate across borders: Are there payment methods aside from credit cards that might be better suited for subscriptions? Utility bill payments offer one answer. This realm of recurring payments may lack the buzz of beauty boxes and streaming content, but it has nonetheless proved reliable.

North American and European consumers have long used direct debit to pay for electricity, cable, internet and phone services, authorizing merchants to withdraw amounts owed for bills from their bank accounts on a recurring basis.[9] This is, in many ways, a natural process for paying entities consumers trust and rely upon for ongoing services.

Direct debit has also shown itself to be a much smaller target for fraudsters. Fraud rates in the U.S. are exponentially lower when transactions involve ACH — the payment rail that typically carries direct debit transactions — than for those involving credit cards.[10] In France, fraud rates for CNP transactions are around 0.2 percent, the equivalent of $396 million USD, compared to a rate of just 0.0006 percent, or $9.8 million, for direct debit.[11] This is a big part of why direct debit is largely out of SCA's scope.[12]

Some businesses face the prospect of new regulations by lobbying against them or simply deferring to outside counsel from accountants and lawyers — if they have this luxury. SCA presents a unique opportunity for subscription companies, though. Those that ensure their payment flows are optimized could gain an advantage over the entities caught flat-footed when full enforcement takes effect in 2022.

[9] Author unknown. Payment preferences for recurring purchases: The consumer payer 2019. GoCardless.com. 2019. https://gocardless.com/guides/posts/payment-preferences-for-recurring-purchases-2019-uk. Accessed October 2019.

[10] Author unknown. Changes in U.S. payments fraud from 2012 to 2016: Evidence from the Federal Reserve Payments Study. Board of Governors of the Federal Reserve System. 2018. https://www.federalreserve.gov/publications/files/changes-in-us-payments-fraud-from-2012-to-2016-20181016.pdf. Accessed October 2019.

[11] Author unknown. 2017 Annual report of the Observatory for the Security of Payment Means. Banque de France. 2018. https://www.banque-france.fr/en/financial-stability/observatory-security-payment-means. Accessed October 2019.

[12] Author unknown. Single Rulebook Q&A. European Banking Authority. 2018. https://eba.europa.eu/-/eba-adds-psd2-to-its-online-interactive-single-rulebook-and-q-a-tools. Accessed October 2019.

TACKLING the three C's

How subscription-based merchants can prepare for SCA and manage conversion, churn and card-based risk:

LEARN YOUR PAYMENT FLOWS.

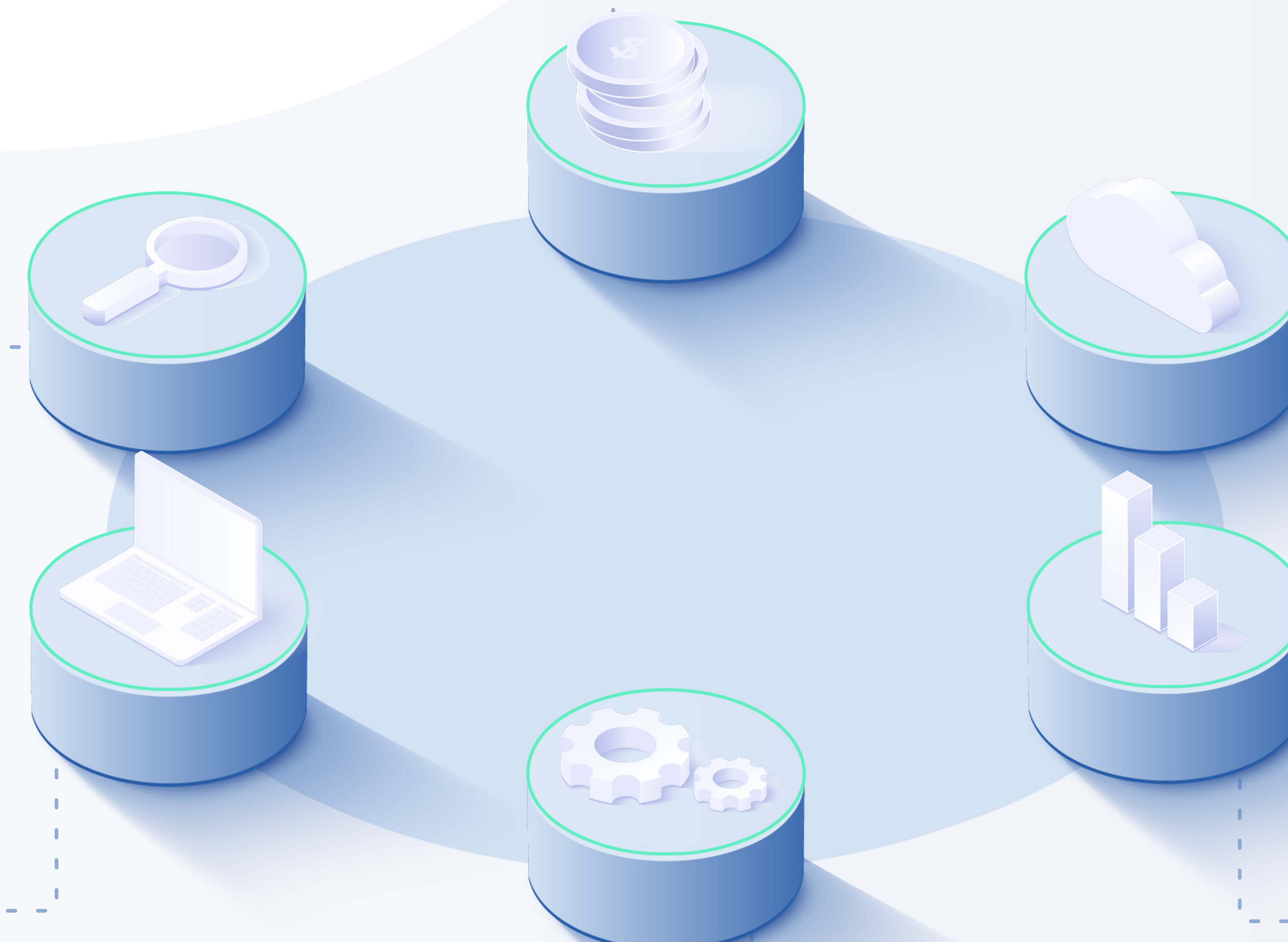
Familiarize yourself with which online payment methods — such as cards, direct debit and digital wallets — are accepted, which recurring payment options are available and the payment pathways through PSPs, acquirers, financial institutions and settlement.

KNOW YOUR REAL AND POTENTIAL EXPOSURE.

Determine the shares of current and prospective European customers and how and where relevant payments are processed.

CONSIDER OFFERING SUBSCRIPTIONS AS A STRATEGIC CHOICE.

The recurring payments exemption means subscriptions can help not only avoid SCA frictions, but also offer a compelling revenue model in their own right.



KNOW THE EXEMPTIONS.

These include recurring payments and payment methods — such as direct debit — that are outside SCA's scope.

USE THE OPPORTUNITY TO OPTIMIZE YOUR PAYMENTS FLOW.

Ensuring SCA compliance should be part of a larger effort to determine that your payments strategy is secure, cost-effective and satisfies users' expectations for convenience and trust.

ENGAGE WITH YOUR PSP.

The technical requirements of complying with SCA will fall to PSPs. Merchants that do not provide their PSPs with necessary information regarding subscription accounts, or those whose PSPs are unprepared for the regulations, may still see payments ensnared in the SCA net.

SCA101

SCA REQUIRES ONLINE MERCHANTS TO ENSURE TRANSACTIONS UNDERGO TWO OF THREE METHODS TO VERIFY PAYERS' IDENTITIES. THESE THREE METHODS INCLUDE:

INHERENCE

Verification through a biometric element, such as a fingerprint

POSSESSION

Verification through a confirmation sent to a device, like a mobile phone

KNOWLEDGE

Verification through a password or other information unique to a user

MERCHANTS THAT MEET TWO KEY CRITERIA ARE SUBJECT TO SCA REGULATIONS:

- Their PSPs are located within the EEA, which includes almost every country on the European continent as well as the U.K.
- Their customers' banks or card issuers are located within the EEA.

Merchants must make their "best efforts" to comply with SCA's guidelines if only one circumstance applies, as in the case of a multinational company based outside the EEA that has customers in Europe.

WHAT IS EXEMPT FROM SCA?

- Recurring MITs, with the exception of the initial payment
- Charges under €30, with authentication triggered after five payments below €100
- "Whitelisted" merchants: Entities that payers have designated as trustworthy that are exempt from payment authentication
- All direct debit payments, including initial payments for subscriptions

FEATURE STORY

Adobe On Taking A 'Holistic' Approach To SCA Preparation

Companies operate across national borders today more than ever before. They are fueled by digital technology, the internet and ingenuity, all of which have given rise to services like on-demand rides, meal kits and a seemingly endless stream of digital content that scarcely existed a decade ago.

Creative app suite provider Adobe has been a key player in the shift toward a platform economy. The company has transformed itself into a cloud powerhouse, offering its Adobe Creative Cloud suite with features like Photoshop and other design-oriented applications. It has been expanding into other areas of the internet economy, too, notably with its 2018 acquisition of eCommerce platform Magento, which provides back-end services like payments integration for more than 350,000 merchants worldwide.

At the center of the Magento payments operation is Adobe's head of payments and partner products, Andy Barker, who is keenly aware of conversions' importance to online commerce — and the potential impacts of PSD2 and SCA.

"When you're on eCommerce, you're not face to face with a merchant," Barker said. "You're dealing basically with ghosts. If you're at a Target, and your credit card is declined, you're sitting there looking at the cashier and the cashier is looking at you — they're there to assist you. In an eCommerce experience, it's all in the hands of the consumer how to interpret an error that might exist. It's very important for merchants to do enough to help consumers, otherwise the consumer is just going to go somewhere else."

This is the scenario any business with online commerce channels and/or a customer base in Europe must work to avoid. In Barker's view, many such enterprises have been complacent ahead of SCA.

"Like everything associated with payments, the regulatory bodies give ample time and then everyone runs around with their heads cut off days before everything lays into actual law," he said. "In the case of PSD2, we've been looking at this actively — because we had to make development

changes internally — for the last 18 months."

Magento is an "on-premise" rather than cloud-based application and enables a range of payment options and models, including recurring billing. It used the regulation's onset to ensure its payment integrations were SCA-compliant through 3D Secure 2.0, but Barker pointed out that initial payments in a recurring billing model still require authentication under SCA.

This underscores the reality: Successful online enterprises and platforms must adopt a range of payment strategies and adapt them over time in response to market conditions and demand. This is largely why the European Banking Authority (EBA) faced pushback ahead of the Sept. 14 deadline it had originally set for SCA compliance, Barker said.

"That is some of the reason for the EBA delay," he explained. "They didn't necessarily think through all these scenarios, which are not one-off cases. They are the norm."

Adobe opted to take a "holistic" approach to the regulations because companies' payments strategies and the geographies in which they operate shift.

"We did it holistically across the board, rather than identifying implementations that would only be used by European merchants," he noted. "We looked at any core integration we had in our product, irrespective of whether a merchant is using it or not."

This holistic approach is important because unexpected consequences and gray areas are inherent in new regulations' rollouts, Barker said. He pointed to a scenario in which a European cardholder shops on a website based in the U.S.

"Are the SCA requirements still in force?" he asked. "Most people's read is no, but this is one of those things that is still murky. That's why across the board we made that integration."

Merchants should not simply trust that SCA compliance will be handled on the back end by PSPs or banks, Barker added. They have to take responsibility for educating themselves and devising strategies to ensure compliance without jeopardizing conversions.

"In most of the regions where SCA impacts, 80 percent of transactions are via credit cards," he said. "If you have the potential to have 80 percent of your transactions blocked, you shouldn't just trust. You should be 100 percent certain there's nothing you need to do."

Nor should merchants pin their hopes on further exemptions or delays.

"Become compliant sooner than later," Barker said. "PSD2 is the law, and they're not going to get rid of it."

DEEP DIVE

Tapping An Old-School Solution To Mitigate SCA Risk

A couple of years ago, U.K. consumers began receiving messages from familiar and seemingly trustworthy sources that insisted on immediately receiving funds. Thousands of them made the requested push payments, but that money was sent straight into fraudsters' pockets. The costs of this authorized push payment (APP) fraud totaled £354 million ($449 million USD) in 2018 alone.[13]

Such scams help explain why European regulators have made security a key pillar of PSD2. The first Payment Services Directive, enacted in 2007, represented a giant leap toward open banking and is partly credited with kickstarting a dynamic European FinTech sector. Experience has shown that bad actors are often not far behind in seeking fresh loopholes and vulnerabilities when regulators open new digital finance frontiers, however.

SCA looks to address these elevated fraud risks by ensuring that bank and credit account holders are who they say they are through two-factor authentication (2FA). Unfortunately, merchants' conversion rates could be collateral damage if they are not prepared for the regulation. One way to minimize these risks is to turn to direct debit, a payment rail that stands out for its durability and trustworthiness.

Multifactor authentication (MFA) is not a new invention. 3D-Secure is a prevalent protocol for authenticating online debit and card payments around the world, but its use demonstrates the risk authentication carries with conversion. Its introduction in the U.S. and Brazil caused conversion rates to fall between 45 percent and 55 percent, respectively, according to one study, but tick up in other countries like Russia and India.[14]

[13] Barrett, C. UK banks plan transaction levy to compensate fraud victims. Financial Times. 2019. https://www.ft.com/content/5d63715e-c906-11e9-af46-b09e8bfe60c0. Accessed October 2019.

[14] Author unknown. Adyen analysis reveals worldwide impact of 3D Secure on transaction conversion rates. Ayden.com. 2014. https://www.adyen.com/press-and-media/2014/adyen-analysis-reveals-worldwide-impact-of-3d-secure-on-transaction-conversion-rates. Accessed October 2019.

Direct debit could potentially allow merchants to do an end run around these pitfalls, partly because safety rails are built into the system. Payment authorization is separated from the payment itself, and funds typically take two to three days to settle.

More importantly, direct debit is simply not an attractive target for fraudsters compared to credit cards. CNP is the most common form of fraud in the Single Euro Payments Area (SEPA) by far, representing more than 66 percent of total cases.[15] It is also more than 100 times more common in France than direct debit fraud.[16] Similar patterns are found in the U.S., where credit card fraud accounts for 10.8 percent of cases versus 0.08 percent for ACH, the payment rail that carries direct debit. Moreover, direct debit fraud has declined in recent years while credit card fraud has been on the rise.[17]

Consumers have high opinions of direct debit, too, particularly in the realm of recurring payments. Direct debit is a tried-and-true method European consumers use to pay utility bills, with one study finding it to be the preferred method for such recurring bills in seven out seven markets — including Germany, France, Spain and the U.K.[18]

Even more notable is that consumers in many of these markets would prefer to use direct debit to pay for online subscriptions, and do so to a greater extent than credit cards, debit cards or mobile wallets. Approximately one-third of those surveyed in nine out of 10 markets say they prefer direct debit to pay for online subscriptions, for example.[19]

These findings make it surprising that direct debit is scarcely represented within current online payment options, and suggest a vast opportunity for subscription businesses to distinguish themselves and gain users' trust and loyalty — all while steering clear of the possibility of going over the conversion cliff.

[15] Author unknown. Card-not-present fraud around the world. U.S. Payments Forum. 2017. https://www.uspaymentsforum.org/wp-content/uploads/2017/03/CNP-Fraud-Around-the-World-WP-FINAL-Mar-2017.pdf. Accessed October 2019.

[16] Author unknown. 2017 annual report of the Observatory for the Security of Payment Means. Banque de France. 2018. https://www.banque-france.fr/sites/default/files/medias/documents/osmp_rapport_2017_-_communique_de_presse_en.pdf. Accessed October 2019.

[17] Author unknown. Changes in U.S. payments fraud from 2012 to 2016: Evidence from the Federal Reserve Payments Study. Board of Governors of the Federal Reserve System. 2018. https://www.federalreserve.gov/publications/files/changes-in-us-payments-fraud-from-2012-to-2016-20181016.pdf. Accessed October 2019.

[18] Author unknown. Payment preferences for recurring purchases: The Consumer Payer 2019. Gocardless.com. 2019. https://gocardless.com/guides/posts/payment-preferences-for-recurring-purchases-2019-uk. Accessed October 2019.

[19] Author unknown. Payment preferences for recurring purchases: The Consumer Payer 2019. Gocardless.com. 2019. https://gocardless.com/guides/posts/payment-preferences-for-recurring-purchases-2019-uk. Accessed October 2019.

EXECUTIVE INSIGHT

An interview with Duncan Barrigan, vice president of product at GoCardless

A fair number of chief financial officers at European companies may be well-acquainted with PSD2 and SCA, but the same cannot be said for the public and many smaller merchants. One survey found 75 percent of Europe-based online merchants were largely in the dark on the regulations as of last year.[20] Others have indicated growing awareness, but just 15 percent of online businesses felt extremely prepared for SCA's rollout.[21]

This lack of knowledge and preparation exposes merchants to substantial risk, according to Duncan Barrigan, vice president of product at direct debit-based PSP GoCardless.

"Most people are at least somewhat sensitive to conversion," Barrigan noted. "You combine that with the fact that a lot of people have come to this quite late, and that's where the challenges begin."

European businesses are not the only ones that might be exposed to SCA. This could be the case for any platform doing business on the continent or within the U.K., even those based elsewhere. The regulatory changes might be less likely to register on the radar of cross-border enterprises, however.

"I think, due to the complexity of the businesses and their cross-border nature, that [this] can sometimes mean they are not far along on the awareness spectrum," Barrigan said. "But, obviously, that depends on the business."

Subscription businesses are particularly sensitive to conversion-related frictions. Recurring payments are exempt from SCA, but this does not mean subscription companies can sidestep the regulations.

"I think this may give a false sense of security to subscription businesses," he said. "For new customers, they still face the same issues as anyone else."

SCA could be triggered when customers have to update their payment credentials due to expired cards, for example.

"You ask to update payment details, and you have this problem of conversion again," Barrigan explained.

This may conjure up user churn, the great nemesis of subscription services, he added. One of the central advantages of using direct debit is that it experiences "significantly lower churn rates" than card-based payments, as direct debit details do not expire or become lost or stolen like those of credit cards. Barrigan also noted that direct debit has shown itself to be resistant to the types of fraud that triggered the need for SCA in the first place.

"There clearly is more of a fraud problem with payer-initiated transactions than merchant-initiated transactions," he said. "From the perspective of regulators, SCA was brought in to address what causes the most pain and suffering for consumers."

Barrigan noted that a subscription-based service's exposure to SCA risk depends on the nature of its operations — whether it is a customer-facing streaming service or a business-to-business (B2B) software-as-a-service (SaaS) firm with a limited roster of clients. Every subscription-based company needs to take steps to assess its unique exposure and determine how to best navigate the regulatory changes, however. In this sense, he feels SCA's rollout should be an opportunity.

"If you respond to this by rethinking your payment strategy and making sure you have the right mechanism for the right country, and you've optimized your checkout flow and found the right [way] to do it, you will emerge from this with a competitive advantage over the competition," Barrigan said. "It's kind of like a race. If you come in first, this is a great thing for you. If you come in last, then obviously it doesn't look so pretty."

[20] Author unknown. Majority of European retailers unaware of new payment standards coming into force in September 2019. Mastercard. 2019. https://newsroom.mastercard.com/eu/press-releases/majority-of-european-retailers-unaware-of-new-payment-standards-coming-into-force-in-september-2019/. Accessed October 2019.

[21] McKee, J. The Impact of SCA: Shaking up Europe's online economy. 451 Research. 2019. https://d37ugbyn3rpeym.cloudfront.net/content-store/upload-media/f9c7073dccf370b2da7541e292e4efa8f36ceac4.pdf. Accessed October 2019.

SIDEBAR

An On-The-Ground Perspective On SCA

AN INTERVIEW WITH MARLENE TEN HAM, SECRETARY GENERAL OF ECOMMERCE EUROPE

Ecommerce Europe, an umbrella business association representing roughly 100,000 online commerce enterprises across the EU, has been closely involved in discussions around PSD2's regulations and held SCA as one of its topmost priorities. In a recent interview with PYMNTS, Ecommerce Europe General Secretary Marlene ten Ham shared her perspective following the conclusion of a roundtable discussion involving business leaders and regulators.

Subscription-based businesses have been among the constituencies for which Ecommerce Europe has advocated, she explained, pointing specifically to SCA's carve out for MITs.

"We advocated for MITs to be out of scope already in October 2018, to ensure that those business models can continue to operate," ten Ham said.

Online merchants across the spectrum remain concerned about the regulations, however. She noted several broad challenges expressed by businesses, including balancing security and convenience, the effective application of exemptions and the impact the requirements could have on conversion rates.

Communication with the business community has also been a concern, ten Ham said. She noted a wide lack of readiness across the wider payments ecosystem ahead of the September deadline — particularly in terms of communication to merchants and consumers — as well as access to and testing of critical technologies.

These concerns have led merchants to push the EBA for an 18-month delay in enforcing SCA, a step already taken by the U.K.'s FCA and being considered by other national authorities. Ecommerce Europe has backed the exemption period, as awareness of the regulations had grown among online businesses but does not mean they feel prepared.

"The level of awareness among eCommerce businesses varies greatly depending on size and the markets they are operating in," ten Ham said. "Feedback from national eCommerce associations indicates that most eMerchants are aware of the rules, but few are well-informed of the impact that the requirements might have on their businesses."

Smaller merchants tend to be more in the dark, she added.

"Larger merchants — as measured by turnover volume and presence in more than one country — are more aware of the requirements," ten Ham said. "Small and medium-sized ones have a lower level of awareness of SCA requirements. They essentially rely on payments and technology providers for compliance."

CONCLUSION

Taking on the three C's

SCA will come into full force in a matter of months. The ways online payments are made in Europe will undergo a fundamental shift when this happens, with 2FA required for millions of transactions daily. The regulation will create a layer of security for online commerce in Europe, but simultaneously expose merchants to new challenges. Cross-border subscription-based businesses must therefore be mindful of three specific issues — conversion, churn and card-based risk — to ensure their operations are not disrupted or derailed by SCA.

Conversion is the lifeblood of any online retailer or digital platform, but subscription businesses face heightened risk when authenticating initial sign-up payments. Wrongly rejected payments could alienate would-be subscribers, undermining these businesses' abilities to gain and maintain market share.

Subscription merchants can also become vulnerable to churn, with customers coming and going without becoming loyal members. SCA heightens this risk by potentially exposing subscription merchants' customers to repeated payment authentication. PYMNTS' research has shown a strong correlation between the frequency with which customers must input payment credentials for subscription services and users' plans to terminate them.

The risks of conversion and churn are heightened by the use of credit cards, which are the primary focus of SCA. Subscription services can circumvent these risks by accepting direct debit as a recurring payment option, as such payments are out of SCA's scope and do not face the same fraud risks.

The push for greater security in online commerce will not go away any time soon, and other jurisdictions may follow Europe's lead in requiring payment authentication. Subscription businesses that use this opportunity to ensure their payment strategies are secure, compliant and efficient will be well-positioned to compete in both Europe and around the world.

ABOUT

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GOCARDLESS

GoCardless offers a global payments network and technology platform that alleviates recurring revenue pain points for businesses. More than 40,000 companies worldwide, from multinational corporations to SMBs, transact through GoCardless each month, and the firm processes $10 billion in payments each year. GoCardless has five offices, located in Australia, France, Germany, the U.K. and the U.S.

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