The Digital Payments Landscape in 2019
... Changing at the Speed of Light

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Tuesday, February 26
1:50-2:30 p.m.
• Why Authentication Matters

• EMV 3DS Helps Reduce Fraud and Enables a Better Consumer Experience

• Everybody Wins
How Did We Get Here?

The Early Days of Digital Payments
Today’s Digital Payments Ecosystem

US eCommerce sales are projected to **reach $700B by 2023** (vs. 2017 sales of $406B)

Smart home devices are expected to **exceed 800 million** in the US by 2020

55 billion **IoT devices** are projected to be installed through 2025, with spending at nearly **$15 trillion on devices, services and maintenance.**

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1. Source: USA eCommerce Market Report, Planet Retail RNG, April, 2018
2. Business Insider, BI Intelligence, The Internet of Things 2018, January, 2018
3. Business Insider, BI Intelligence, The Internet of Things 2018, January, 2018
What do you really need to know?

EMV® 3-D Secure, commonly known as 3-D Secure 2.0, is the recommended solution.

An enhanced EMV 3DS protocol enables robust risk-based decisioning and reduces friction using dynamic risk-based authentication solutions.

- Reduced Cardholder Friction
- Streamlined Authentication Process
- Collaborative Exchange of Data Elements
- Seamless Consumer Experience
- Maximized Approvals and Increased Sales
- Support for Mobile in-app and Connected Devices

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Why Authentication Matters

- Fraud and declines are increasing
- False declines are a growing problem
- Regulations are impacting regions all over the world
  - Specifically, PSD2-SCA coming this year in Europe
Why Authentication Matters

Fraud detection in the Card-Not-Present space is as much about declined sales as it is avoiding fraud

20% Growth in CNP approved sales
21% Growth in CNP declined sales
15% Growth in CNP fraud

1Excludes insufficient funds and issuer/switch inoperative declines

Source: eCommerce purchases for the FY18. Data for North America. YoY growth based on FY18 vs. FY17. Sales based on VisaNet authorization data. Fraud based on issuer reported TC40 (including transactions which were not processed on VisaNet.)
The Acceptance Gap: What it means

Lower Authorizations in CNP Environment Significantly Lower Potential Sales

Why is there an Acceptance Gap?

- CNP transactions can be considered more risky than in-person transactions
- Data breaches can enable more fraud
- Merchants may not accept transactions from certain regions

Large disparity in purchase authorization between Card Present transactions (98%+) and Card Not Present transactions (84%)

Percent of Transaction Authorized

<table>
<thead>
<tr>
<th></th>
<th>Authorization Rate</th>
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<tbody>
<tr>
<td>CARD PRESENT</td>
<td>98%</td>
</tr>
<tr>
<td>CARD NOT PRESENT</td>
<td>84%</td>
</tr>
</tbody>
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This “Acceptance Gap” can represent billions of dollars in potential revenue to merchants

Source: Visa Data, 2017, in the U.S.
Increased barriers hurt both merchants and issuers.

Cardholders who are declined usually take the two paths of least resistance:

- Select another card in the wallet
- Purchase elsewhere
Mandates & Regulations
PSD2-SCA will drive changes in digital payments

**What is SCA?** (Strong Customer Authentication)

The use of **two or more** of the following elements:

- **SOMETHING ONLY THE CUSTOMER HAS**
- **SOMETHING ONLY THE CUSTOMER KNOWS**
- **SOMETHING ONLY THE CUSTOMER IS**

• Issuers will have to support an SCA solution

• Acquirers will have to support payment systems that allow SCA
Who is impacted?

• Issuers in the European Economic Area (EEA)

AND

• Acquirers in the EEA

Which transactions are out of scope?

• Non-EEA issuers
• Non-EEA acquirers and merchants
• MOTO
• One-leg out (if either the issuer or the acquirer are not in the EEA)
• Merchant-Initiated Transactions
• Anonymous prepaid cards
SCA exemptions

With the requirement for issuers to perform Strong Customer Authentication for all remote transactions, the European Banking Authority has allowed for acquirers to request exemptions to performing SCA.

- Recurring Transactions
- Trusted Beneficiaries
- Low-Value Transactions
- Transaction Risk Analysis
The Players behind EMV® 3-D Secure

With EMV 3DS, Everybody Wins (except the bad guys)
All About Authentication

DATA

CONSUMER
EXPERIENCE

DEVICES
How more data helps

A huge increase – tenfold – in data exchange between stakeholders can empower speedy, secure authentication.
Benefits of EMV 3DS:
More Data, Better Consumer Experience, Device Agnostic

MORE DATA SHARED WITH ISSUERS MEANS MORE GOOD ORDERS
• More data helps issuers make better risk decisions, resulting in less fraud and false declines, less checkout friction and more good orders

A BETTER CONSUMER EXPERIENCE IS AT THE HEART OF EMV 3DS
• Limited checkout friction
• Maximized approvals and increased sales

EMV 3DS ENABLES AUTHENTICATION FROM ANY DEVICE
• Not limited to just browsers
• APIs allow authentication from any connected device
Authentication in Action
Results in some Verticals

Authorization Lift with 3-D Secure

5% 1
LUXURY GOODS

Authentication leads to higher authorization rates

88% Average Authorization Rate 1

4.5% 2
CLOTHING & FOOTWEAR

Authorization Lift with 3-D Secure

90% Average Authorization Rate 2

1 Source: Cardinal and Visa data. Statistics are drawn from the latest available data covering the period Jul 2017 to Jun 2018.
2 Source: Cardinal and Visa data. Statistics are drawn from the latest available data covering the period Oct 2017 to Sep 2018.
Conclusion

Authentication Matters

EMV 3DS Helps Reduce Fraud and Enables a Better Consumer Experience
Thank You

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