

# The real cost of 3DS authentication

Examining the impacts of 3DS on Amazon & Microsoft

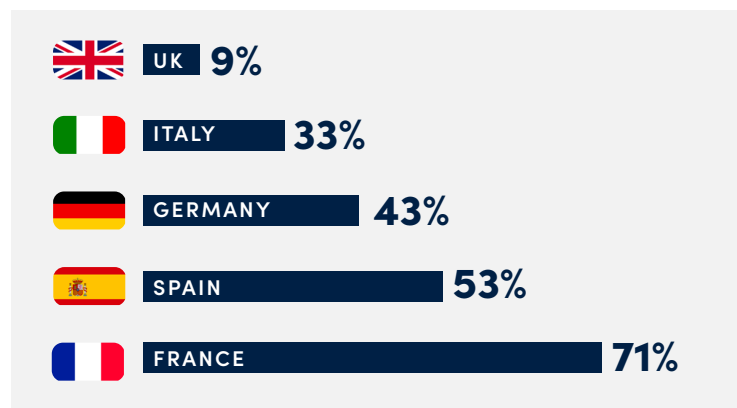
As the enforcement deadlines for the Revised Payment Services Directive (PSD2) across Europe continue to creep closer, eCommerce leaders are still trying to assess the impact that Strong Customer Authentication (SCA) will have on their businesses. However, there has been little hard data to help businesses support their decision making in how to tackle SCA and PSD2 enforcement.

With continually shifting dates and uncertainty about the potential impact of 3-D Secure authentication (3DS) on conversion rates, it has been tempting for many businesses to take a “wait and see” approach before taking action.

## The real world impacts of 3DS for Amazon & Microsoft

In a recent Merchant Risk Council webinar, payments leaders at Amazon and Microsoft shared data and insights about the impacts of 3DS on their businesses based on an analysis of their transactions, and what they found was that 3DS has had a significant impact on conversion and abandonment rates across every European country analysed.

- **3DS has a significant impact on conversion.** The overall impact of 3DS authentication on conversions (e.g. fail, abandon, authorisation) is roughly 25% in Europe with abandonments and failures responsible for about 80% of those cases. However, there is a wide variance and this number varies significantly based on the issuing country.



- **Abandonment rates are high for 3DS authentication.** The friction from 3DS authentication results in high abandonment rates. In the United Kingdom, Amazon and Microsoft reported abandonment rates of 3.7% and 15% respectively, and this is the country with the lowest abandonment rates. In France and Spain, abandonment rates from 3DS friction were over 40%.
- **Frictionless 3DS significantly reduces authorisation rates.** While frictionless 3DS removes the friction of authentication, Amazon and Microsoft found that applying frictionless 3DS reduces authorisation rates by approximately 10%. This also varies widely across countries – for example, reducing authorisations by up to 10.4% in France and up to 20.6% in Spain.

## Why it's necessary to take action on PSD2 now

Based on this new 3DS data from Amazon and Microsoft, two of the world's largest eCommerce businesses, it's become clear that a "wait and see" approach is no longer an option for European businesses. With conversion rates falling 25% on average due to 3DS, merchants need to start taking action now to mitigate these impacts of 3DS and protect their revenues. Even in the UK, which was impacted least, merchants can expect to take a hit of 9% – which could result in millions of pounds of lost revenue. With PSD2 enforcement now just around the corner, any businesses with significant transaction volumes can not afford to do nothing.

Additionally, the research also found a high stand-in processing (STIP) rate of 70% – where payment card networks were standing in on behalf of the issuing bank in the frictionless 3DS process. This high STIP rate shows that many issuing banks are still not ready for PSD2, so it's important that merchants don't simply rely on their payment provider to provide an optimised solution. In many cases, issuers simply aren't prepared to perform authentication themselves at this point in time.

## What can merchants do to prepare

There are still many uncertainties when it comes to PSD2, but one thing that is clear from this new data from Amazon and Microsoft is that 3DS will have a negative impact on conversion rates. Combined with the lack of issuer readiness, concerns about issuer appetite for risk, changing criteria for exempting transactions through Transaction Risk Analysis (TRA) mechanisms, and more – no eCommerce leader can be fully certain what the full impact of PSD2 will be on their business.

However, what eCommerce businesses can do is take steps to minimize the negative impact of SCA and 3DS after PSD2 enforcement. Merchants can do this by leveraging a dynamic solution that is able to gauge the tolerance thresholds for each of the different payment layers for each individual transaction – and adapt accordingly in real-time – without the need for any manual intervention.

## How Forter can help

Forter has developed a comprehensive suite of PSD2 solutions that enable businesses to go beyond PSD2 compliance, helping ensure that businesses can actually increase their authorisation rates while minimising friction for their customers.



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