

## The New £100 Retail Transaction Limit– a Spoonful of Sugar?

The coming £100 limit (raised from £45) is very popular with customers and retailers, but if it's the spoonful of sugar, what is the medicine it is helping go down? There are two major doses of medicine that are coming, both aimed at reducing fraud losses in retail transactions.

### Strong Customer Authentication (SCA)

In parallel with the introduction of the new limit comes the implementation of Strong Customer Authentication (SCA), part of the EU's PSD2 requirements. SCA is being widely adopted across the world with the purpose of increasing security and reducing fraud. For this, two forms of authentication are required for many transactions. These forms of authentication can be something the customer possesses (a chip card or smartphone), something known by the customer (a one-time password (OTP) or a PIN), or something inherent/biometric (a fingerprint or facial image). This will certainly increase security and reduce fraud, but it will also introduce complications or "friction" into transactions - friction that may cause some customers to abandon their purchases.

This friction can be reduced with biometric fingerprint validation, but at the cost of more expensive payment cards. Many smartphones have the advantage of being able to support a variety of biometric validation methods. In both of these cases the validation is carried out in the customer's "device" (match-in-device) – where the biometric data is securely held in the customer's own device.

Most transactions these days are online, and the card issuer can respond to an authorisation request saying "additional authentication required". This is called a "soft decline". Some retailer systems, not updated for SCA, take this as a straight (hard) decline. Where a contactless card is declined at POS, the solution normally requires a separate chip-and-PIN transaction.

The retailer's acceptance software needs to be updated to support these validation methods, and also to understand the card issuer's "reason code" in its authorisation response.

It's not only the retailer who needs a software upgrade, acquirer processors and issuer host processors also need upgrades. In the transition to full SCA implementation there will be many cases of increased transaction friction and declined valid transactions. The software also needs to handle "exempt transactions" (defined in PSD2) that do **not** require SCA.

## **Transaction Risk Analysis (TRA)**

Whereas SCA can result in additional friction in the transaction, TRA is carried out behind the scenes. It can be carried out by the retailer, the acquirer processor and/or the card issuer.

To reduce transaction friction and false declines, TRA differentiates between higher and lower risk transactions. This means processing more data about the transaction – transaction location, distance from the customer's address, frequency of similar transactions in the past, type of retailer, transaction history of the retailer/store and the customer. Artificial intelligent techniques are used to assess the risk for a particular transaction - in real time.

The big advantage of TRA is that it is “invisible” to the customer. However it does involve capturing additional data about the customer and the retailer, which may not be welcomed. It also makes it very difficult/impossible to determine the reason/s why a transaction has been declined.

When trying to access any information and services over the internet, we are often required to provide personal information. Personal privacy is under attack on a wide front.

So, what is the conclusion? As in many areas, convenience comes at a price – financial and non-financial.

Richard Johnstone

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PS One potential benefit of SCA is that the transaction receipt could provide the customer with an alibi!