

the evolution of authenticated payments

Using authenticated payments to reduce chargebacks and Internet fraud

Today, more and more people are shopping online for everything from clothing and books to food, travel and entertainment. Opinions vary about how fast the e-payments market will develop, but it is steadily growing. Visa reports the last three months of 2001 saw a 36 percent increase in e-commerce payments. With this surge in online transactions, the need for consumers, merchants, acquirers and issuers to feel secure about e-payments is greater than ever.

e-Commerce fraud escalates

According to GartnerG2, more than \$700 million in online sales were lost to fraud in 2001, representing 1.14 percent of total annual online sales of \$61.8 billion. The survey also found that adult consumers in the US are beginning to adopt credit card company solutions designed to protect against online fraud. "After years of missteps, the credit card companies have finally got it right with their consumer authentication technology. Consumers are willing to adopt the easy-to-use password-based applications," said Avivah Litan, vice president and research director at GartnerG2.

The challenge of the new authentication protocols

The card schemes Visa, MasterCard and Maestro are answering this security need by defining and adopting technologies for verifying the buyer using authentication



protocols. These protocols undoubtedly improve security and protect against chargebacks and online fraud. As multiple solutions have been available, some banks have delayed making investment decisions. However, whether protocol convergence does or does not happen, there are business pressures in place that require action.

The card scheme solutions include 3D Secure from Visa, Secure Payment Application/Universal Cardholder (SPA/UCAF) from MasterCard and Pseudo Card Number (PCN) from Maestro.

Although these authentication protocols achieve the same objective, their individual features – determined by the technical implementation – mean that choosing one solution may not satisfy all needs. 3D Secure does not require a consumer component (see readout), whereas SPA/UCAF and PCN do. SPA/UCAF and PCN do not require third-party intervention for consumer authentication, whereas 3D Secure requires the Visa Directory Server to link consumers to their card issuing bank.

As well as defining new authentication protocols, the card schemes are introducing ways of encouraging adoption. For example, in April 2002 Visa introduced two business rule changes that deliver immediate financial benefit to acquirers. These are the liability shift (issuers will be unable to chargeback Visa transactions to acquirers if the acquirers have implemented 3D Secure) and interchange changes (which decrease the fee that acquirers pay). In addition, an April 2003 mandate will add to the pressure to adopt authenticated payments – from this date, for Visa cards to be accepted on the Internet, Visa issuers will have to support 3D Secure.

Of course, nobody likes to be forced into a decision before they feel ready to make it. ACI believes however, that now is the right time to implement an e-payments strategy. With the growth in transaction volumes and the

new risk management capabilities through authentication protocols, a huge opportunity now exists for organisations to increase profit.

As multiple solutions have been available, some banks have delayed making investment decisions. However, whether protocol convergence does or does not happen, there are business pressures in place that require action.

However, issuers and acquirers still need to act urgently to protect against being dis-intermediated by traditional competitors and new payment service providers. The dynamic e-commerce environment is likely to continue with the possible introduction of chip cards, mobile telephones and convergence of authentication protocols. Any solution deployed must be future-proofed to accommodate such changes.

Suggested solution – the integrated platform

ACI's response is to offer an integrated payment solution that combines the leading protocols on a single platform. (And if you are still unsure of the business case, we would be happy to help you quantify the potential return on investment in terms of revenue growth and cost control.)

If you're an issuing bank, you have good reasons for adopting a stable, secure and future-proofed authentication solution today. More transactions on your cards mean an increase in overall revenue. And while e-payments have recently been measured as 15 times more likely to incur chargebacks compared to those carried out face-to-face, improved authentication will control costs.

Similarly, acquiring banks also profit from secure authentication. Consumer confidence in the security of their chosen payment method will encourage greater spending with merchants, resulting in increased merchant

services charges for the acquirer. As previously mentioned, acquirers using Visa 3D Secure will also benefit from reduced chargebacks (the liability shift) and lower fee percentages (the interchange changes).

The ACI e-payments early adopter programme

We offer ACI Commerce Gateway, available to acquirers, and ACI Virtual Wallet, available to issuers (see readouts). These provide integrated solutions that host SSL, 3D Secure, SPA/UCAF and PCN protocols concurrently on a single solution platform.

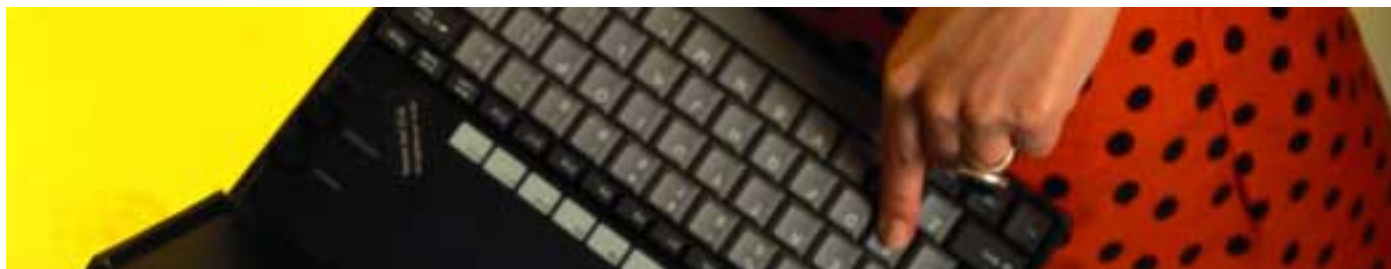
This strategy of providing a single integrated solution platform supporting multiple protocols is in the best interests of acquirers, issuers and Internet users. As with many emerging standards and protocols, ACI is ready to support its customers as they introduce consumers to the new processes and services they enable. Our authenticated payments "early adopter programme" is designed to further stimulate the adoption of new technologies and offers customers a range of pricing options and incentives to assist their investment decision.

What is the ACI Virtual Wallet?

Part of the ACI Secure Commerce Suite™, the ACI Virtual Wallet™ is a consumer digital assistant, supporting both consumer client and client-less options. It supports 3D Secure, SPA/UCAF and PCN concurrently. It offers consumers the confidence to complete e-payments, the convenience to make purchases quickly and securely, and the freedom to perform their business any time, anywhere.

Why the ACI solution?

ACI's solution platform provides all the required core functions, regardless of which protocol is used to secure the e-payment. Into this platform the various protocols can be 'plugged-in' and 'plugged-out' as business dictates.



No changes are required to the solution platform, and it provides a consistent user experience along with investment protection.

Will it benefit you?

If you're an issuer, yes. You can use it to:

- ▶ Increase market share through a solid consumer value proposition
- ▶ Increase transaction revenues with top-of-mind positioning
- ▶ Control and reduce costs associated with fraud and chargebacks
- ▶ Extend your brand to the Internet and consumer desktops
- ▶ Improve marketing efforts by storing consumer data on your database
- ▶ Provide quick, secure access to related products, services, co-brands and affiliates

What are some of the core components?

- ▶ User, address, card definition
- ▶ Transaction history enquiry, no matter which authentication protocol is used
- ▶ Single back-office administration interface

What is the ACI Commerce Gateway?

Part of the ACI Secure Commerce Suite™, the ACI Commerce Gateway™ provides a smooth link between the existing secure, trusted payments infrastructure and the Internet. It supports 3D Secure, SPA/UCAF and PCN concurrently. This solution protects infrastructure investments in existing payment solutions, isolates exposure to risky networks and accommodates rapidly evolving secure-payment environments.

Smooth solution platform integration

Whatever systems you have in place, you can rely on smooth integration with ACI's Commerce Gateway and Virtual Wallet solutions, as well as support for all the leading payment protocols.



ACI solutions can be integrated into any existing environment with the minimum of setup hassle, helping to improve the efficiency and overall profitability of your networks.

Users of ACI's BASE24®, WINPAY24™ and Enterprise Payment System™ solutions enjoy the additional benefit of guaranteed integration between two solutions from the same vendor.

Why ACI?

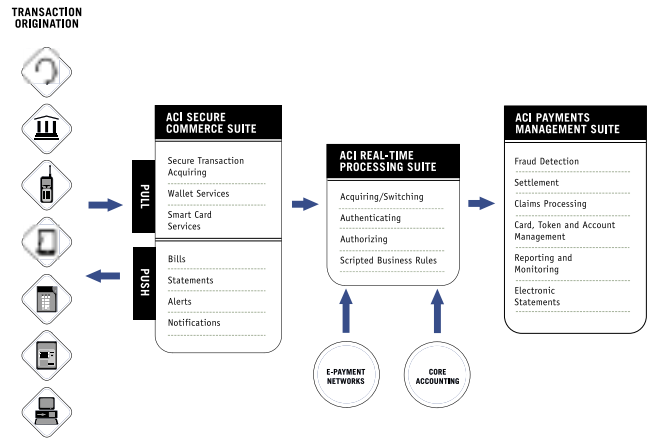
The rapid pace of change in the authenticated payments arena need not hold you back from entry or expansion. A good business case exists, along with a good exploitation strategy. Card scheme incentives will soon take effect, and mandates will be applied. ACI is always watchful of ongoing developments, and is eager to support your specific e-payments strategy.

We make it our business to help customers optimise their return on investments, transact in high volumes (ACI software processes more than 20 billion transactions in a year), and move forward with new technology. We lead in e-payment processing products and we have vast payment marketplace experience.

Among software providers, we are unique in our ability to address the breadth of services across the payments value chain – a single source for end-to-end solutions, helping you to simplify implementations and speed your time to market for new services.

All product names are trademarks or registered trademarks of their respective companies.

ACI Commerce Framework



The ACI Commerce Framework represents an integrated solution suite that supports transaction initiation, real-time processing and back office transaction management.