

MasterCard SecureCode – Temporary Reinstatement of Commercial Card Exclusion

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1 Background

1.1 Summary

MasterCard is temporarily reinstating the exclusion of commercial cards from the global Inter-regional merchant-only MasterCard SecureCode liability shift program.

Effective for commercial card transactions authorised during the one-year period from 1st June 2009 through 30th May 2010.

1.2 Background

MasterCard SecureCode is MasterCard's version of 3-D Secure and has been developed to reduce the number of fraudulent transactions processed via E-commerce and to provide greater financial protection to E-commerce merchants. MasterCard SecureCode enables E-commerce merchants to verify if the legitimate cardholder is purchasing the product or service, credit card payment is processed.

1.3 The MasterCard SecureCode process

When purchasing online at a MasterCard SecureCode enabled merchant, the cardholder will be challenged to provide their password or PIN in a real-time, online dialogue between the cardholder and the credit card bank (card issuer). After positive verification by the card issuer, the credit card payment will be approved and confirmation will be sent to the merchant.

For a positive identification of the legitimate cardholder, 3 conditions should be met:

1. The merchant has implemented MasterCard SecureCode (often provided by the Payment Service Provider of the merchant)
2. The bank of the cardholder has implemented MasterCard SecureCode technology
3. The cardholder has assigned a personal password or PIN to the card only known to the cardholder.

1.4 The Liability Shift

Before the introduction of MasterCard SecureCode, an E-commerce merchant was always financially liable for a fraudulent transaction. Via the worldwide mechanism of chargebacks (reclamation by cardholder), the cardholder/issuing bank was able to claim back the fraud amount from the merchant.

To promote the implementation of MasterCard SecureCode on both the cardholder and merchant side, MasterCard introduced the **liability shift** in November 2006: the responsibility and financial liability for fraud rests with the **non**-MasterCard SecureCode enabled party (in almost every case).

In a situation whereby only the merchant is MasterCard SecureCode enabled, the issuer would be accountable for the fraud and thus the liability shifts from the merchant towards the issuer. MasterCard has embedded this liability shift in a global, intra and inter-regional program.

2 Current Situation

2.1 The current MasterCard SecureCode programs:

MasterCard has established 3 programs to anchor the liability shift by prescribing under what conditions the issuer would lose their fraud related chargeback rights:

1. Global MasterCard SecureCode Liability Shift

All MasterCard SecureCode enabled issuing banks are liable for fraud on consumer and commercial (corporate) credit cards accepted by MasterCard SecureCode enabled merchants. Note that the likelihood of fraudulent transactions is almost nil due to the fact that the legitimate cardholder could be verified by PIN or password.

2. Intra-regional merchant-only MasterCard SecureCode liability shift program

A *non*-MasterCard SecureCode enabled European issuing bank is liable for fraudulent transactions on consumer and commercial credit cards accepted by MasterCard SecureCode enabled merchants residing within the Europe Region. The merchant is unable to verify the legitimate cardholder due to fact that the issuer has not implemented MasterCard SecureCode.

3. Inter-regional merchant-only MasterCard SecureCode liability shift program

A *non*-MasterCard SecureCode enabled issuing bank outside Europe is liable for fraudulent transactions on consumer credit cards accepted by MasterCard SecureCode enabled merchants residing within the Europe Region. The merchant is unable to verify the legitimate cardholder due to fact that the issuer has not implemented MasterCard SecureCode. Commercial cards are currently excluded from this program: the merchant is still liable for fraudulent transaction processed on these types of cards.

2.2 Situation per 17th April 2009:

MasterCard removed the exclusion of commercial cards from the global inter-regional merchant-only MasterCard SecureCode liability shift program. All authorisations on commercial card transactions that have occurred on or after 17th April 2009 are subject to the global inter-regional merchant-only liability shift program.

2.3 Situation per 1st June 2009: One-Year Reinstatement of Commercial Card Exclusion:

To provide commercial card issuers with additional time to implement MasterCard SecureCode, MasterCard is temporarily reinstating the commercial card exclusion from the global inter-regional merchant-only liability shift program.

Commercial card transactions authorized on or after 1st June 2010 will be subject to the global interregional merchant-only liability shift covering all inter-regional transactions.

Please find a schematic overview of the Liability Shift for MasterCard and Visa e-commerce transactions as per 1st June 2009 on the next page and per 1st June 2010 in chapter 3.

The temporary reinstatement of this exclusion has taken effect with authorisations on commercial card transactions that occur on or after 1st June 2009, and continue for the one-year period ending 30th May 2010.

2.4 Situation 1st June 2009:

MasterCard & Visa **consumer** cards

Who is financially liable for fraud?

		European issuer		Non-European issuer	
		Issuing bank has implemented MCSC or VbV			
		Yes	No	Yes	No
Merchant has implemented MCSC & VbV	Yes	issuing bank	issuing bank	issuing bank	issuing bank
	No	merchant	merchant	merchant	merchant

MasterCard & Visa **commercial** cards

Who is financially liable for fraud?

		European issuer		Non-European issuer	
		Issuing bank has implemented MCSC or VbV			
		Yes	No	Yes	No
Merchant has implemented MCSC & VbV	Yes	issuing bank	issuing bank	merchant	merchant
	No	merchant	merchant	merchant	merchant

3 Future Situation

3.1 Situation 1 June 2010 – MasterCard Only:

MasterCard Consumer & Commercial cards

Who is financially liable for fraud?



		Issuing bank has implemented MasterCard	
		Yes	No
Merchant has implemented MasterCard SecureCode	Yes	issuing bank	issuing bank
	No	merchant	merchant

3.2 Fraud prevention remains important:

The financial protection provided by MasterCard SecureCode does not entail that the merchant is no longer responsible for detecting and preventing fraud. MasterCard has established a Global Merchant Fraud Program that monitors the fraud performance per merchant. If the merchant exceeds certain thresholds, the protection of MasterCard SecureCode could be withdrawn. The current threshold is defined as 5 or more fraudulent transactions for at least \$5,000.00 - in fraud and a fraud-to-sales ratio that equals or exceeds 8% (calculated per month).

4 Verified by Visa & The Liability Shift

Similar to MasterCard SecureCode, Visa has developed Verified by Visa, which provides fraud related chargeback protection for E-commerce merchants as well. Also Visa has adopted a liability shift to ensure implementation on both cardholder/issuing banks and merchant side. Below you can see to what extent the Verified by Visa enabled merchant is protected:

- Both a European and non-European issuing bank are liable for fraudulent transactions on **consumer** credit cards accepted by merchants residing within the Europe Region.
- A European issuing bank is liable for fraudulent transactions on **commercial** credit cards accepted by merchants residing within the Europe Region.

Visa consumer cards

Who is financially liable for fraud?

		European issuer		Non-European issuer	
		Issuing bank has implemented Verified by Visa			
		Yes	No	Yes	No
Merchant has implemented Verified by Visa	Yes	issuing bank	issuing bank	issuing bank	issuing bank
	No	merchant	merchant	merchant	merchant

Visa commercial cards

Who is financially liable for fraud?



		European issuer		Non-European issuer	
		Issuing bank has implemented Verified by Visa			
		Yes	No	Yes	No
Merchant has implemented Verified by Visa	Yes	issuing bank	issuing bank	merchant	merchant
	No	merchant	merchant	merchant	merchant

5 Contact

If you need any further information about the issues raised in this document, SecureTrading recommend that you speak to your acquiring bank in the first instance.

If you have any other queries, please contact Support on support@securetrading.com or on 01248 672 050. You can also contact your Account Manager on their usual details or via sales@securetrading.com or 0800 028 9151.