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PREPARING FOR PSD2: EXPLORING THE BUSINESS AND TECHNOLOGY IMPLICATIONS OF THE NEW PAYMENT SERVICES DIRECTIVE



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FOREWORD

STRATEGIES TO MAKE PSD2 PAY



by Ian Clark
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The aims of the European Commission's revised Directive on Payment Services (PSD2) are clear. It is designed to enhance consumer protection and convenience, improve the security of payment services and promote innovation and competition. While these aims are simple to express, the implications of PSD2 for payments industry participants, both established and new, are wide-ranging and complex. Many of these have been extensively discussed and debated for at least the past year, but now that the PSD2 has finally arrived the pressure is on for impacted institutions to formulate and execute their strategic responses to the changes PSD2 will bring.

PSD2 heralds a number of challenges for banks and other impacted institutions, and there are some areas in which clarity is still needed. For example, there are concerns about how to handle the gap of some six months between PSD2 being implemented and the technical standards to underpin the 'access to accounts' element of the Directive being finally available. And many of the provisions of PSD2 will require considerable planning and work to comply with – such as the change in handling of 'one leg out' transactions (where one party to the transaction is outside the EEA or the currency is non-EEA, exempted under the original PSD, but included under PSD2). The requirement for enhanced security around payments is also likely to create considerable work for market participants – and the banks and others are waiting to find out more details of what they will need to do from the technical standards.

But by far the most talked about challenge created by PSD2 for the banking industry, for which payments is such a critical business, is the strategic impact for banks of the fact that they will be required to open up access to account data to third parties at the request of customers, to support both account information and payment initiation

services provided by those third parties, the so-called TPPs (Third Party Payment Service Providers). This represents a paradigm shift for banks in the payments business comparable to that experienced by telecoms providers when they were forced to open up their infrastructure and allow in new entrants. The banks must expose their data to other players, and these competitors can then build business propositions for the banks' customers, to gain their trust, and to generate revenues from them.

This is clearly a boost for new entrants into the payment services space, giving them access to the customers they lack, as well as to other new entrants in the payment initiation and account information businesses, which will be able to rely on guaranteed and robust access to customer account information at the banks to underpin their services. But open access is not necessarily such a grim prospect for traditional banks either. All players have an opportunity here – especially organisations with large customer bases, like banks. The key will be to work out how to monetise the investment that must be made in open access, potentially by creating premium services on top of the services mandated by PSD2. In the post-PSD2 world – where there is an ever-growing number of electronic transactions – solutions to establish online trust will also be vital. Banks have a good pedigree when it comes to trust and another strategic option for them could be carving out a role in managing digital identity.

PSD2 will obviously impact business models and require a rethink of business strategies – probably leading to a new wave of collaboration and partnerships in the new competitive landscape – but the implications of PSD2 from a technology standpoint are also significant. Indeed, it is not going too far to suggest that with PSD2, IT moves from being a supporting function for the business to being a driver of the business. Banks will obviously have to get to grips with open APIs (which could be a challenge given the reliance of many banks on legacy systems), and all impacted entities will have to grapple with the security and authentication demands of PSD2. But there is also a question of performance to be considered here: the need for an infrastructure capable of scaling to cope with millions of transactions. Not only established players but also new entrants will need to be able to provide API access backed by high-grade security and scalability. In short, PSD2 is a business challenge as well as an IT challenge and the technical dimension needs to be factored into the strategic thinking currently under way across the market in response to this Directive.

CA has worked with Finextra to produce this paper in order to explore and raise awareness of the views of market participants on the opportunities and challenges of PSD2. I hope you find it informative, and that the insights shared by many peers will help you to plan your own company's approach to PSD2.

INTRODUCTION

PREPARING FOR PSD2: EXPLORING THE BUSINESS AND TECHNOLOGY IMPLICATIONS OF THE NEW PAYMENT SERVICES DIRECTIVE

The clock is ticking on the implementation of the new Payment Services Directive (PSD2). It appeared in the Official Journal of the European Union in January 2016, giving the industry until early 2018 to implement. Transposition into the national laws of member states is under way and the European Banking Authority is working on the Regulatory Technical Standards (RTSs) required to underpin the implementation of many of the provisions of the Directive. All is by no means clear – there are concerns about variations in national adoption, the timing of the availability of the RTSs and the potential impact of certain aspects of PSD2 in practice. But PSD2 is definitely coming and will have to be complied with.

There is no doubt that for incumbent banks PSD2 presents a number of challenges both strategic and operational. It is also true that many emerging banks and fintechs are excited by the potential of PSD2 – especially the way in which it will open up the European payments landscape to new competition. But in reality PSD2 isn't going to be 'easy' for any player and will present challenges for all impacted organisations. This is especially true given that PSD2 is not the only driver of change in the industry today. Other regulation, cyber-threats, digitalisation, changing customer behaviour, burgeoning competition and rapid technology evolution are just a few of the pressures facing banks and other players in the payments space. PSD2 both reflects many of these trends, and intensifies them.

That said, PSD2 also presents opportunities not just for new entrants but for traditional banks as well, and since it is now an inevitability, the only option is to seek to capitalise on them. As one senior banker says, "If you don't take this as an opportunity, you are lost" – or, as another puts it, resisting the change "is like holding back the tide... in the end it will engulf you, so you have to go with it".

Based on interviews with representatives of a broad range of impacted organisations, this white paper seeks to explore both the opportunities and the challenges of PSD2. It examines the state of play with the Directive at this point, which players are impacted and how, the implications of PSD2 for business models and technology and operational infrastructures, the extent of the change it will bring and in what timeframe, and recommended next steps towards PSD2 readiness for banks and Payment Service Providers.

"PSD2 is a major milestone on the way to an open financial services market. It will be a great test for a range of companies who need to rethink and redefine their business models – including us. This is really the game changer of the decade – the inevitable, unstoppable opening up of the payments infrastructure for competition and new entrants."

JURGEN VROEGH, GLOBAL HEAD OF PAYMENTS, ING

WHAT IS PSD2 SEEKING TO ACHIEVE, AND IS IT ON TRACK?

PSD2 – which must be implemented by early 2018 – is designed to improve consumer protection and increase competition and innovation in payments. The Directive seeks to do this by introducing stricter security requirements for the initiation and processing of electronic payments and the protection of customers' financial data. It also opens the EU payment market up to companies offering consumer or business-oriented payment services, based on access to information about the payment account. These so-called “payment initiation services providers” and “account information services providers” are together known as “third party providers” (TPPs).

As the name suggests, a payment initiation service is “a service to initiate a payment order at the request of the payment service user with respect to a payment account held at another payment service provider”. Account information services “provide consolidation information on one or more payment accounts held by the payment service user with one or more other payment services providers”.

The European Commission highlights the value of PSD2 in creating safer and more innovative European payments. Announcing the vote by the European Parliament to adopt the Directive in October last year, Commissioner Margrethe Vestager, responsible for competition policy, said: “The new Directive will greatly benefit European consumers by making it easier to shop online and enabling new services to enter the market to manage their bank accounts, for example to keep track of their spending on different accounts.”

Indeed, the benefits of PSD2 in theory are clear and many agree the changes will bring benefits for consumers. As Anne Boden, CEO of UK challenger bank Starling, says: “I passionately believe in PSD2 and if it happens and fulfils its potential it could revolutionise the way retail banking is done.” But she adds: “I am concerned that it is not in everybody's interests to make it happen quickly and it might not be delivered in its purest form for many years. Historically it is very difficult to deliver these big projects. PSD1 was supposed to deliver EUR38 billion in savings across Europe. Has it really delivered those to consumers and corporates? PSD2 is the right thing. It's for the good of consumers. But it requires a lot of effort and work from lots of incumbents. There are so many things to be done before it becomes a reality.”



John Lyons, Head of Strategy and Business Development, Payments, at UK bank RBS, agrees there is a lot of ground to cover before PSD2 realises its full potential, but believes this is an inevitable process. “There is a world of discussion and debate

Boden: Many things need to be done before PSD2 becomes a reality

“There is a gap built into the structure of PSD2. The Directive has to be implemented by early in 2018 but, for example, the regulatory technical standards relating to open communications and security might not be finalised until early-to mid-2017, with a further 18 months before relevant provisions have to be implemented. Will that be problematic? Maybe, maybe not. There are some related activities such as Open Banking in the UK that will help – but that is just for the UK.”

ROGER TYM, PARTNER, HOGAN LOVELLS

required around the API economy: understanding the new dynamics, how it will be governed and managed and regulated, to be sure we are not putting at risk the assets of customers and shareholders,” he says. “There is certainly a huge amount of work to be done. But PSD2 is about giving customers choice. If organisations are viewed as barriers, this won’t add up to long-term sustainable commercial success. I think success will come to banks that are technically able and culturally willing to collaborate to build exciting new customer experiences.”

The ultimate outcome of PSD2 aside, there are certainly some significant milestones still to be achieved if the project is to remain on target for delivery in early 2018. While the banks have typically kicked off compliance projects and have made progress to greater or lesser degrees, they are waiting for some critical further information from the European Banking Authority, to which the Commission has delegated responsibility for the creation of the Regulatory Technical Standards needed for PSD2 implementation. These technical standards will go some way to defining how banks will be required to provide access to account information to third parties, for example via an API. They will also cover how the strong (two factor) authentication PSD2 introduces, to increase the security of electronic payments, will need to be implemented. The technical standards will not be available in draft form for consultation until the end of 2016 – and they will not be finalised for 18 months after that, which means that organisations need to plan their frameworks based on the information currently available, and solutions based on established technical standards should provide flexibility if any adjustment is required when the technical guidelines are finalised.

As Roger Tym, Partner, Hogan Lovells, points out, “There is a gap built into the structure of PSD2. The Directive has to be implemented by early in 2018 but, for example, the regulatory technical standards relating to open communications and security might not be finalised until early-to mid-2017, with a further 18 months before relevant provisions have to be implemented. Will that be problematic? Maybe, maybe not. There are some related activities such as Open Banking in the UK that will help – but that is just for the UK.”

For Jurgen Vroegh, Global Head of Payments at Netherlands-based bank ING, the fact that there is “light between the legislation and the technical standards” is a “big challenge and risk”. “There is a gap of 18 months between the legislation being implemented in national member states and the implementation of the technical standards,” he says. “What is supposed to happen in the meantime? This is a big risk in the competitive space as well, because first movers won’t be able to work with the technical standards. In addition, the EBA will issue high level standards, and the business requires detailed standards. There is a risk we will end up with hundreds of different API structures.”

Indeed, it is not yet known whether the EBA will specify whether there should be a single API standard for all member states or whether individual countries should develop their own. “APIs are the new key element in communication between banks and TPPs, but we don’t know if there will be a Europe-wide one or a national one,” confirms Rainer Wolff, Vice President, Innovation Lab, Product Management Cash Services, Transaction Services and Financial Institutions at Germany-based Commerzbank. “As a globally operating bank we would always prefer a European-wide interface.”

Erkki Poutiainen, Public Affairs, Wholesale banking at Nordics bank Nordea, agrees the coming regulatory technical standards may be a challenge. “We expect they will be out by the end of the year, but we are uncertain what they will look like – how descriptive they will be, how much room for interpretation there will be, how much we will be able to build on them.” However, it is possible to start work gradually, he adds. “Our experts already assume how this will work and can start preparing for this in relation to our internal architecture. And by the end of the year the defining work can be completed and implementation can begin thereafter.”

There is a consensus that work should get under way by individual banks even in advance of the technical standards being available. “We get the gist of what is coming,” says Lyons at RBS. “It is clear that the world is going to be a very different place and how we interact will be different. In anticipation, we have had running for several months a PSD2 programme. We know the technical standards and the local regulatory interpretations will not become totally clear until we have moved through 2016 and 2017, but we need to mobilise now. Our customers talking about open APIs and exploring the potential for improved experience.”



**Poutiainen: Banks can
already start preparing
for APIs**

Spanish bank BBVA is also working in advance of the timeline of PSD2, says Álvaro Martín Enríquez, its Head Economist, Digital Regulation. “Since we are one of the leading banks in digital transformation in Europe we are going beyond PSD2. We are required to open our infrastructure in line with a general trend which goes beyond payments for unbundling banking. We see it as an opportunity to build a service not just as a payment service provider or account holder but eventually as a TPP as defined under PSD2. We are a little concerned about the fact that there will be a period of time when there are no standards available from the EBA but national transpositions of the Directive will be in force, but we are not concerned about the overall implementation timeline. We are already building APIs which are probably close to what PSD2 requires.”

Unsurprisingly the new banks – legacy-free and typically already API-enabled – are very bullish about starting now, in advance of the technical standards. “PSD2 is very positive for new entrant banks and we are embracing it fully,” says Boden of Starling. “We will have open APIs. As soon as the technical standards are available we will make sure we comply – and for now we are doing what we can with what we know.”

Sophie Guibaud, Vice President European Expansion at Germany-based challenger bank Fidor, echoes this view. “Despite the 2018 deadline, European authorities are still working on how PSD2 will work from an operational point of view. They will provide more details in the coming months, but banks should not see this as an issue that they will eventually take care of in two years’ time – they should look at it now and assess the opportunities that can come out of it.”

Overall, while there remain some significant ‘unknowns’ relating to PSD2, the consensus is that any player wanting to be ready in a timely way and to take full advantage of the Directive should start work now.

Ian Clark, Senior Director, EMEA API Management Business Unit at CA Technologies, agrees with this thinking. “2018 will come quickly. It’s key that PSD2 stakeholders consider technology capabilities now that provide enterprise class flexibility for a wide range of standards for integration, security, scalability and performance. This will contribute to a less uncertain future, protecting the first movers.”



Martín Enríquez: BBVA already developing APIs close to what PSD2 will require

WHICH PLAYERS ARE IMPACTED BY PSD2, AND HOW?

BANKS

The bulk of the discussion around the impact of PSD2 is about how it will impact banks – and the lion's share of that has been around the impact of access to accounts (the obligation for account holding banks to open up access to account data to third parties at the request of customers).

Less glamorous but also challenging is the impact of scope changes between PSD1 and PSD2, notably the issue of 'one leg out' (OLO) transactions. Under PSD1 transactions where one party was outside the EEA or the currency was non-EEA were exempt from most conduct requirements. Under PSD2 they are not. "These are now in," says Tym at Hogan Lovells, "and as a bank you have to make sure your leg of the transaction is compliant. It's reasonably complicated which parts of the regulation do and don't apply and banks need to do a gap analysis to determine how to get from what they do now to a compliant process for PSD2."

Though the workload associated with OLO transactions should not be under-estimated, the focus on access to accounts is inevitably stronger. Once again the new banks are unequivocal in their positive outlook. "We welcome the move to PSD2. We have been working on open banking and open APIs for a few years, in line with our open banking philosophy," says Guibaud at Fidor.

For Boden at Starling "there could be opportunities for everyone." "In that world, the customer gains and gets better service and therefore trusts the bank more and has a better relationship with their bank", she says. "We are going to fulfil all of the roles: we will own accounts, we will initiate payments on other banks' accounts and we will be aggregating."

Italian digital bank CheBanca! also sees PSD2 as an opportunity to win new customers, says its General Manager Roberto Ferrari. "We believe in open access and open banking and we see a good opportunity here to play as an account information service provider or even a payment initiation service provider. In fact, we are already operating a bit like this," he says. "A little over a year ago we launched a new payment wallet – the WoW (Wallet of Wallets) – which is moving exactly in this direction. It is open to any credit and prepaid card – not just our own. We are starting to play like that, and it is interesting to investigate if for us there is a bigger opportunity." CheBanca! is also already transforming its digital architecture and has already developed more than 700 APIs which will also enable it to take advantage of PSD2, Ferrari says.



**Ferrari: CheBanca!
believes in open access
and sees an opportunity
to be a TPP**

However, incumbents are also increasingly embracing the change. “PSD2 is a big priority for us,” says Lyons at RBS. “Top three. We have other programmes focusing on transformation and innovation but PSD2 is in the middle of all of them – it’s a significant piece of work and we are taking it very seriously. Whether you see it as an opportunity or a threat depends on the attitude you take to it: you can put your head in the sand, or you can embrace it. We understand that it is about giving customers choice, and see it as a great opportunity. Like other banks, we have a fantastic customer base – a fabulous and loyal customer base – and they want us to deliver new and exciting things: they want this from their banks, not just from new entrants.”

Netherlands-based bank ABN AMRO also recognises the impact and potential of PSD2. While declining to offer details, the bank says in a statement: “At present, we are looking into the specific opportunities PSD2 can offer us as a bank. There are multiple opportunities like offering a secure open bank platform, being a marketplace to fintechs and developing new financial services.” Italian bank Iccrea Holding also confirms in a statement that PSD2 is a top three priority for the bank – and that it sees PSD2 as both an opportunity and a challenge, adding: “At the moment, due to the new role of third parties, it seems to be more a ‘challenge’ than an opportunity.”

Vroegh at ING acknowledges the significance of PSD2 for banks. “PSD2 is a major milestone on the way to an open financial services market,” he says. “It will be a great test for a range of companies who need to rethink and redefine their business models – including us. This is really the game changer of the decade – the inevitable, unstoppable opening up of the payments infrastructure for competition and new entrants.”

However, he also sees opportunities for the banks. “It is now mainly banks competing with each other in a commoditised space. New entrants take care of the party in the penthouse where the money is while we do all the hard work in the basement. This is an opportunity to rethink and redesign our own business models – and make it a better service for our clients – working together with new entrants, embracing new technology, learning from agile competitors.” ING is already experimenting with some new approaches in advance of PSD2, he says, including a pilot retail payments service in Belgium which is designed to make payments invisible and easy to handle “like the Uber experience”.

There is no doubt that PSD2 will significantly impact banks, bringing some positives and some negatives. One of the most promising opportunities could be to leverage their strong customer bases to offer more services, particularly in the area of validating customers’ digital identities.



Lyons: PSD2 is about giving customers choice

PAYMENT SERVICE PROVIDERS (PSPs)

Georg Schardt, Managing Director at Germany-based PSP Sofort, has no hesitation in describing PSD2 as “the basis of Sofort’s business”: after years of resistance by banks to its business model – secure payment based on the use of trusted bank accounts – the Directive will officially confirm its activities. “PSD2 will help us grow even more,” he says. “It will support our international expansion, it will give legal certainty. PSD2 will give us the possibility to grow even more strongly all over Europe.” This will not necessarily be at the expense of the banks, however.

“PSD2 will lead to innovation and the banks will benefit more than they see yet,” Schardt continues. “There will be more competition for credit cards, debit cards and alternative payment methods, but this is a chance for individual banks to come back to the internet – leveraging the account as the centre of e-commerce.”

There will be more competition for PSPs too, he acknowledges, “but that’s a good thing”. “Competition always pushes you into innovation, price competition, new services...”

Not all PSPs are so positive about the potential of PSD2. Mark Henkel, Co-Founder at Germany-based PSP Paymill, is sceptical about its value. “It is just an attempt by the regulators to try to get security into the system,” he says. “We are experts in payment provision and our merchants are experts in e-commerce and we all care about security because it’s what our customers want. Any PSP that didn’t care about security would be kicked out of the market. These rules are hampering innovation and competition.”

The problem, Henkel says, is that two-factor authentication will damage the frictionless nature of e-commerce. “If you put the security of PSD2 into the real world, it would mean you would have to come to the supermarket with your wallet to pay and also have to produce your ID and a fingerprint in order to make a payment,” he says. “I see this as an attempt to help consumers when they have not asked for help – and that will actually make the experience worse for them.”



Paymill accepts that PSD2 should streamline its interactions with banks, but emphasises that its growth comes through its merchants – merchants which are, Henkel says, typically confused about the implications of PSD2 and which will only benefit from cross-border growth in the ‘level playing field’ of Europe if national variations in implementation of PSD2 are kept to a minimum.

Henkel: Merchants are confused about the implications of PSD2

Cross-border expansion for online payment mechanisms is not straightforward either, agrees Gijs Boudewijn, Deputy General Manager, Dutch Payments Association, which is the scheme owner of the bank-owned online payments mechanism iDEAL in the Netherlands. iDEAL is based on the ‘redirect’ model – that is, a consumer making an online purchase is able to use their online banking credentials to pay but is redirected to their bank’s secure website to do so – and therefore does not follow the preferred model of the EBA for PSD2. However, it is the biggest financial services brand in the Netherlands and is the focus of continued innovation (such as QR code-based payment). “We would love to extend iDEAL to other countries and we are interested in the co-operative model with other online banking based schemes – but cross-border co-operation is always a complex issue. We are firm believers in European solutions, and we could look at whether the underlying technology for iDEAL could be made to work in a direct access model preferred for PSD2.”

PSPs – like banks – acknowledge the impact of PSD2 and see both opportunities and threats from its introduction. Overall they welcome the fact it opens up more competition and choice for consumers. Innovators are looking at how they can add strong authentication without it creating extra steps for end customers, and using risk-based credentials rather than relying on traditional factors for authentication as one of the ways to do this.

“Why do we like fintech and PSD2 and payment providers? They are a source of inspiration and they drive innovation. They also offer skills that we don’t have.”

TOMAS PEETERS, HEAD OF STRATEGY, ING-DIBA

FINTECHS

Another community likely to be able to capitalise on access to customer accounts is the fintechs. Guibaud at Fidor emphasises the importance to her bank of being able to integrate these players. “APIs enable us to integrate fintechs on to our platform which means we can offer services we don’t have. We also have our own set of APIs which third party firms can use to launch their own digital banking offering based on our infrastructure,” she says. “PSD2 is all about competition, comparison services and data. We will see much better comparison services and much better personal financial management (PFM) tools come on to the market. We will see new services and business models we haven’t even thought of yet.”

German online bank ING-DiBa also has a strategy of integrating fintechs, says Tomas Peeters, its Head of Strategy. “Why do we like fintech and PSD2 and payment providers? They are a source of inspiration and they drive innovation,” he says. “They also offer skills that we don’t have.”

There is an opportunity for fintechs under PSD2 to help traditional banks innovate and create new revenue streams while improving customer propositions.

TELCOS AND RETAILERS

PSD2 also impacts other non-bank players. Telcos for example have had to fight hard to preserve an exemption they achieved under PSD1 to be able to continue under PSD2 to provide limited payment services for digital content without becoming regulated as PSPs. Rory Maguire, Managing Director of the UK Association for Interactive Media & Entertainment (AIME) – which lobbied for the exemption to be retained – says it was reviewed because the Commission was concerned it was too open and vulnerable to abuse through the setting up of a telecoms company to provide payments without protection.

In the end, the exemption was reworded and made more restrictive, Maguire explains. “It now says that transactions by consumers using telecoms accounts (fixed and mobile) will be exempted as long as they are paying for digital content services and as long as the transaction value is no more than EUR50 and the aggregated spend by consumers is not more than EUR300 per month. We are fairly comfortable with this although there are some discomfort factors – for example, will there have to be a hard stop at EUR300 or could it just be a notification to the customer? A hard stop would cost EUR100m to implement across all network operators.”

There has been some debate about whether telcos might see an opportunity through PSD2 to expand their payments services. Diane Mullenex, Partner, Head of the Global Telecoms Practice at legal firm Pinsent Masons, based in Paris, says: “Strictly speaking when you look at PSD2 it doesn’t open up opportunities per se for telcos in payments processing. But if you think outside the box and look at the scope of operations telcos can do without being fully licensed – up to 50EUR per transaction and 300EUR per billing month per account – that is quite interesting. There is no requirement to actually seek a full PSD2 licence; they just need to declare themselves to the relevant regulatory authority. Telcos have the easiest way to collect payments on behalf of digital content providers, and I think they do want to play a role in that and will use the exemption in every way they can.”



Mullenex: Believes telcos will use the exemption in every way they can

“We are fairly comfortable with the exemption although there are some discomfort factors – for example, will there have to be a hard stop at EUR300 or could it just be a notification to the customer? A hard stop would cost EUR100m to implement across all network operators.”

RORY MAGUIRE, MANAGING DIRECTOR, AIME

However, Mullenex suggests not all telcos will be interested in seeking regulation under PSD2 in order to build more extensive payments businesses. “Telcos are under tremendous pressure now in Europe,” she says. “A whole new business would bring a lot of compliance. They would have to invest a lot of money into a financial product offering, a lot of AML in light of AMLD4, and also there is high pressure to invest in their networks, to digitally upgrade – and roaming charges are over. All that makes quite a big issue.

The more you add financial products, the more you get regulated. It is true that the regulatory requirements they face related to monitoring traffic for security are close to what is needed for PSPs. For telcos it’s not so much the technical processes as the burden of new business processes. We will, however, see telcos continuing to form strategic alliances.”

Maguire agrees there are challenges for telcos in becoming regulated entities under PSD2. “There are conflicts between telecoms regulation and payments regulation,” he says. “For example under the payments services regulation you have to make a payment within 48 hours. Under telecoms regulation you must not make it for 30 days. Under financial regulation you can’t sign a consumer into a contract of more than a year, and smartphone packages run for a minimum of 18 months. Therefore, as a telco, if you needed to be regulated as a PSP you would have to set up a separate division.”

The cost justification is not always clear, he believes. “We see about GBP650m being generated a year in telecoms based payments – it is minuscule. A mobile operator would either have to say we are going big time into financial services – or we will continue to provide an easy to use payment mechanism for a limited set of products. I do not see any real hard public desire at this moment in time for operators to be financial entities. It is more about collaboration between operators and financial entities.”

However, one player in the telecoms industry does consider it likely that telcos will seek to grow their payments franchises under PSD2. Richard Van Anholt, Market Manager Financial Services at CM Telecom (provider of a mobile platform for messaging, payments and apps) in the Netherlands, says: “PSD2 is of interest to us as a provider to the telecoms industry, and I do see notifications from other telecoms providers and their service providers that they are also looking at it.”

PSD2 is of interest to CM Telecom in two ways, he says. “One relates to our activities in online identity and authentication (transporting passwords via text messages) for banks and governments. PSD2 is very clear on two-factor authentication, so there is a direct impact on our existing business model. We are also looking at opportunities around access to accounts, to enter further into payments. We see an opportunity to grab more of the payments initiation and account information businesses. I understand the approach of operating within the exemption for some players, but we are a provider to corporates



Van Anholt: Telcos see opportunities around access to accounts, to enter further into payments

“Mobile is a secure way of exchanging passwords. Of course anything can be hacked in theory, but this is a secure pipeline end-to-end for exchanging passwords. It is not an open environment anyone can hook into. And if mobile is a central point for exchanging information such as passwords and marketing information, then it can be for account information as well.”

RICHARD VAN ANHOLT, MARKET MANAGER FINANCIAL SERVICES, CM TELECOM

and financial institutions and we are an innovative company – so we have to be in the front line.”

Van Anholt acknowledges that this strategy requires technology development, which he says has been under way for around a year. “The advantage from a telecoms provider perspective is that we are used to working in a regulated environment and with protocols and standards,” he says. “It is not as strict as the financial sector. Dutch National Bank regulation is much stricter than regulation driven by the telecoms industry. Our organisation would need to get used to applying the regulation according to local national banks. We are adapting to that – we have a licence with the Dutch bank and are getting more familiar with the payments space. It is time for us to get on the learning curve.”

CM Telecom has two major strengths it can leverage, Van Anholt believes. “One is our existing business on the security and two-factor authentication side. Mobile is a secure way of exchanging passwords. Of course anything can be hacked in theory, but this is a secure pipeline end-to-end for exchanging passwords. It is not an open environment anyone can hook into. The second pillar is access to account. If mobile is a central point for exchanging information such as passwords and marketing information, then it can be for account information as well.”

He acknowledges that account ownership is very significant and that the trust customers have in their banks is important here. “But when it comes to who customers allow to initiate payments or provide the portal where they can see all their payments, the risk is significantly less – and will be covered by PSD2. It’s a different landscape, and that’s the way telcos are looking at it,” he says.

There have also been discussions about whether online retailers will take advantage of PSD2 in order to expand their payment services and even move beyond payments deeper into banking. “I don’t see that at this stage when we are only talking about read-only data,” says Guibaud at Fidor. “There is not enough there at the moment for big players to offer digital banking but there could be with the scope enlargement of PSD2 in the next few years.”



Guibaud: PSD2 scope enlargement could lead to big players offering digital banking

The crucial issue of funding (settlement of money) payments also needs to be considered, adds Poutiainen from Nordea. “Where do you store the value as an alternative to traditional money and bank accounts? Unless solutions like digital currencies enable total replacement of bank accounts, banks will remain in the picture. Players like ERP providers for large corporates have an opportunity because they are already part of the value chain, but as long as there is this connection to the bank account as the source of funding the bank is relevant. Success depends on how user-friendly and efficient the solutions one offers. In an instant payments world, even wallets become a pain in the middle of the process.”

And, as Boudewijn at the Dutch Payments Association, points out: “It is not that this space is becoming unregulated: on the contrary. The EU is extending the regulated domain. In itself it’s not a landslide even if some see it as that. If we look at this from a common sense perspective we have had long discussions about new business models that have to be accepted but on the flip side need to be regulated. There may be new business opportunities, but a licence is also needed. There may be businesses that would like to do it – it all looks very good at first glance, access to bank accounts where the money is – but are less likely to want to have to hire 30 compliance people. In addition, many non-bank players already have banking or payment or e-money licences anyway, even before PSD2. Whether non-bank players enter more into this space will depend entirely on whether they see a business case for it.”

On that point, Peeters at ING-DiBa observes that “before these big players go into ‘full’ banking, there are more margins to be made in other businesses”.

For Ferrari at CheBanca! though, the potential for the ‘GAFA’ players to enter more strongly into the financial industry off the back of PSD2 is one of the major threats the Directive poses to existing players. “I am pretty sure that by 2018 they will have decided if they are interested or not in becoming TPPs – as account information service providers or payment initiation service providers,” he says. “This could open the door to a much stronger and bigger type of competitor than the banks have ever had to face before. It is one thing to play against payments institutions. It’s quite another to play against Google or Amazon.”

These global companies will move if and when they see a major market is accessible at minimum cost, Ferrari believes. “They already have projects in the financial arena. Whether they do take the opportunity or not is another question – but this is certainly a major potential threat. I believe they will do this if the Directive makes it really easy for them to implement – if there are really pan-European API standards, so they can speedily get up and running across all countries. The more standardised the implementation of PSD2 turns out to be, the more likely it is they will do it.”



Boudewijn: Payments are not becoming unregulated – this is not a landslide

This threat turning into reality would not be all bad, he adds. “Competition can always be good. If banking is in a difficult state right now, it is because it has been too protected from competition for the past 50 years.”

For, as one observer says, PSD2 represents “a huge threat as well as an opportunity for retailers” such as Amazon. “According to PSD2 as it stands, Amazon one-click would be outlawed,” he says. Tym at Hogan Lovells confirms that on the face of it, given the requirement for two-factor authentication of payments under PSD2, one-click services as they exist today would not be acceptable if they rely on just one factor, like something you know (for example a password and/or PIN), although there could be ways to simplify the customer experience and still adhere to the security requirements of the Directive.

Opinion is divided then as to whether PSD2 will usher in new competition in banking from entities such as telcos and online retailers. Much depends on the strength of the business case, which in turn could depend on how well PSD2 creates a level playing field across Europe. On the other hand, it could be that as awareness of the implications of PSD2 grows among the telco and retailer communities their appetite to do more will emerge. Retailers already operating banks or partnering to provide credit cards could find it quite straightforward to scale to provide payment initiation services for example.

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ROBERTO FERRARI, GENERAL MANAGER, CHEBANCA!



Tym: One-click services would not be acceptable if they rely on just one factor

WHAT IMPACT IS PSD2 HAVING ON BANKS' STRATEGIC THINKING?

The banks are at various stages of assessing the strategic impact of PSD2. Commerzbank has just kicked off its preliminary three-month study into the requirements, says Wolff, after which the bank's management board will decide on its strategy. "At the moment it is a hard challenge to think about driving a return from our investment in PSD2," he says. "There will be increased costs from implementing the interfaces from third party providers. There may be falling incomes related to change of scope, foreign payments, OLO proposals. It may be there is increased risk – for example more fraud because of using the credentials of third party providers. That said, the PSD2 also creates the possibility to modify products and implement new products, for example premium services and data analytics."

Fidor's Guibaud emphasises the importance of offering more in order to generate new revenues. "At this stage, PSD2 could only look like a cost as banks need to invest in their infrastructure to allow access to third party providers," she accepts. "We see it as an investment. Create a front end for a third party to integrate to your back end. We see it as strategic. There is also an opportunity to go beyond PSD2 – which is at the moment quite restricted – and offer more APIs, for example for real-time payments and authentication services to these third party providers."

Successfully monetising the investment in PSD2 depends on going beyond pure compliance, believes Lyons at RBS. "If you just consider it to be a regulation and do the minimum to get by, you will commit yourself to single digit ROE," he says. "If you embrace it and work in collaboration and build great customer experiences and work for your customers, then you have a much better chance of turning that into a double digit ROE. If we get it right and do the right things – serving customers we have already got and retaining them, but also using great customer experiences to entice new customers to join us – if we can make the PSD2 world a much easier place to open accounts, then that will be a success. There is also an opportunity for the development of new business lines, operating models and propositions to customers. We are in the early stages of trying to understand these new business opportunities."

"At the moment it is a hard challenge to think about driving a return from our investment in PSD2. There will be increased costs from implementing the interfaces from third party providers. There may be falling incomes related to change of scope, foreign payments, OLO proposals. It may be there is increased risk – for example more fraud because of using the credentials of third party providers. That said, the PSD2 also creates the possibility to modify products and implement new products, for example premium services and data analytics."

RAINER WOLFF, VICE PRESIDENT, INNOVATION LAB, COMMERZBANK

Vroegh cites the ING CEO's statement, "let's disintermediate ourselves before we are disintermediated". "We are aiming to be ready in 2018: other players waiting for the technical standards will be ready in 2019," he says. "We see several business opportunities to become a leading party and providing extra services to our customers and also to customers of other banks. People now have relationships with their own banks and there tends to be one preferred; that will change as services are added, and we will continue to take on part of the share of these – value added aggregation and analytics on top for example. It is up to the customer whether he allows new entrants to access his account or goes for services from his trusted party. There is no reason why only big or small fintech companies entering the market should take all this new business, as long as we do our best to service our clients and to help them in their daily business as best as we can."

Retaining relevance to the customer is essential, believes Ugo Bechis, e-Payment and SEPA Advisor, UB Adv. "The key is to be the point of entry to the customer – which then opens up to the rest of the bank and the payment system and payments instruments," he says. He makes an analogy with Paypal's transition towards an open, payment instrument agnostic model. "This requires a change in strategy for the banks and also a move to a business model which is not yet mature. Basically banks still want their own payment instrument to be used, so they think about both the selling and the factory. They have not yet come round to the perspective of being agents allowing access to some other banks' instruments."

In insurance terms, banks still want to be underwriters, Bechis believes, rather than agents or better still brokers. "In my view, very few banks have realised they need to adopt this new strategy," he says. "I believe they will start to realise it once they feel threatened, in 2018, when they see competing propositions emerging as a result of PSD2."

Peeters at ING-DiBa agrees that – like corporate customers – retail customers increasingly expect "multi-banking" – "this is what they want, and for that they need access to other accounts", he says.



Bechis: Banks still want to be underwriters instead of agents or brokers

Nick Middleton, Head of Strategy, Payments at the Nationwide Building Society in the UK, is sceptical about the 'appstore' vision of banking. "If you go and buy a car, you don't buy all the best individual parts from different providers and make your own car," he says. "You buy the car that best meets your needs and is ready-assembled and ready to drive that comes with a guarantee and a dealer network that you trust to support the successful use of the car. I don't think we know that the average bank user wants to spend time assembling best of breed components into a financial services package they can use."

In his view, PSD2 will initially be more of a "hygiene" issue than a real business opportunity. "Despite what the press and the hype say, most of the retail public don't really adopt rapid innovation all that well," he says. "There will be a small take-up by a small group of consumers that adapt to change rapidly, but even in the corporate space

it will be difficult. There is a great deal of cool stuff we could do, but the question is, do customers want it and do they trust it? Look at First Direct in the UK. It consistently gets some of the best customer service scores in the industry – and yet it still has a tiny share of the market. The question is, can PSD2 enable enough differentiation to make consumers move their accounts more readily? What is it that customers are gasping for that they are not getting? Once we define some interesting uses that truly benefit customers, this technology could be potentially market changing, but that will take longer than the hype currently suggests. Traditional bank customers prefer evolution to revolution.”

PSD2 will enable some “very useful” innovations, Middleton concedes – for example, mortgage providers will be able to access applicants’ bank statements directly, rather than requiring people to scan and send them themselves. “We can certainly improve the customer experience, but whether we can turn that into new sources of revenue, I am not sure. Fintechs want to charge banks for services they offer to our customers. I am not sure about that either – though I do see that fintechs can monetise their innovations through banks. A bank might well buy the services of a biometrics company that could help it cut fraud – but that wouldn’t necessarily be seen as a differentiator by customers.”

However they approach the opportunity, there is no reason to believe that banks cannot be successful in a PSD2 environment, contends Poutiainen from Nordea – although a change in outlook is needed. “Traditional banking is concerned with how customers bank with us and how we provide banking services,” he says. “In the new world it will be about how we invisibly offer integrated services to enable what our customers want to do – the axis is not customer to bank but our customer to their customer. The initial digital banking approach was too much customer to bank.”

PSD2 has “clarified issues and opinions about how the landscape will look”, he says – “and given a boost to looking outside the bank for synergies around future services, where there are so many non-bank and new bank players looking to carve out pieces of the banking business, but also offering partnership opportunities.”

Success in the new banking environment “is not easy for anybody”, Poutiainen emphasises. “It’s easy to create an isolated small circle solution which looks very fancy – but payments is a network industry. You have to be connected: for payments you have to have reach. It’s about building on top of what is available. Many current solutions use the card infrastructure. Instant account-to-account payments solutions are becoming more available and that supports keeping the banks in the infrastructure picture. The banks have large resources and the knowhow – we just have to channel them into the new world.” Nordea is currently updating its end picture, he says, adding that “it will be wider than bread and butter payments”: “Being a TPP alone is not sufficiently motivating for such a big effort.”



Middleton: Can PSD2 enable enough differentiation to make customers move their accounts?

Alessandro Bocca, Head of Acquiring (Online & Retail) at Gruppo Banca Sella in Italy, sees PSD2 as an opportunity for the bank to grow its already strong payments franchise. “The banking system most of the time has not been able to keep up with the payments needs of merchants,” he says. “In Italy we were the first payments gateway to integrate Sofort payments. We are not just focused on cards. If a customer wants to use Sofort rather than paying directly using its bank’s portal, we allow that. You have to recognise the market is changing. We try to serve our customers, and if that means enabling service providers like Sofort, then that is what we do. The payments landscape is changing and we know that we have to change as a bank if we want to compete on payments.”

Though there is some debate about how quickly PSD2 will effect change, banks – new and established – acknowledge that it will likely have a profound impact on the way they need to provide services to customers, and they are working to understand customers better, and to shape strategies to respond.

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ERKKI POUTIAINEN, PUBLIC AFFAIRS, NORDEA WHOLESALE BANKING



Bocca: Payments landscape is changing and we have to change as a bank to compete

WHAT DOES PSD2 MEAN FOR TECHNOLOGY AND OPERATIONS?

It is a charge often levelled against incumbent banks that – unlike new banks, fintechs and PSPs – they will struggle to succeed in an open banking environment due to legacy technology and a lack of familiarity with APIs. PSD2 will make significant demands on banks' IT infrastructures, Bechis says. "It requires two features in terms of IT approach. First the IT infrastructure has to be able to be plugged into by apps developed by other parties. And second banks have to have systems so flexible that they don't have to do this from scratch every time a TPP knocks on the door. This requires a very flexible IT architecture. The bank has to have a middleware that both its internal systems work with – and other parties' apps can be plugged into. Banks also have to be able to develop their own apps in case they want to offer a wallet as the point of entry."

It is easy to say "open' and "pluggable", Bechis cautions – but it is complex to design such an architecture and requires "a very enlightened CIO" he says.

Henkel at Paymill also advocates the API model. "The landscape of open APIs opens more opportunities – not just around security, but other products. Look at Stripe in the US: it is building an infrastructure all around APIs." Paymill has been using an open API for four years, and Henkel reports that "more and more banks are working like this". "We do see banks at the moment moving to a more modern way of IT thinking. They are talking to our IT specialists about how to do it. Historically IT departments did not talk to product and this is a major shift in the market," he says.

Indeed, Lyons says RBS does have experience with APIs on which it can draw. "We publish open APIs for other products. We have platforms where customers can take and integrate APIs for FX for example, and we will extend the reach of that to cover aspects of account data and payments initiation. We have got some very good dedicated engineers in the bank looking at this." RBS does have legacy systems but they are being transformed – "had we not started on an investment programme at RBS on our technology I might feel differently but we are already 18 months into that programme," he says.

Vroegh at ING identifies variations in implementation in different markets as a challenge for banks operating in multiple countries. "We will end up with different legislation and implementation in different countries as every country takes its own steps to implement PSD2, and there will be deviation. We will try to present business models and create new value added services to all countries and customers on the same platform using standardised APIs because it is more economical, and the business case is easier to achieve – which is why we are pushing the Banking Authority to be very firm with the technical standards," he says.



Vroegh: We will end up with different implementation in different countries and there will be deviation

Bocca at Banca Sella agrees the biggest risk is that there will not be a level playing field. “The issues can start when the authorities define the guidelines,” he says. “For example under PSD1 the customer can terminate the contract when he wants. In Italy you can define this in a contract. In the Netherlands, you can’t. It is something that seems not important but when you operate in multiple markets, it is.”

Nationwide too already has its implementation plan for open banking under way, says Middleton, but he also identifies a challenge related to co-ordination. “We have been thinking about this a lot at Nationwide,” he says. “We have briefed the board and the executive committee and we have a programme up and running to deliver the underlying technology. But now we need an industry programme regarding the technical standards. We also need more co-ordination in the UK around the Open Banking initiative. We lack a delivery vehicle to drive implementation and there are also questions about how the work needed – setting up data, security, liability and governance models et cetera – will be delivered and by who.”

If publicly at least most banks and PSPs say they are on top of the open API challenge, they also all say they will comply with the strong authentication requirements of PSD2 (once they are known). “We are very technology enabled: we are just as much a technology company as a bank, and we believe that customers now require a high level of security,” says Boden of Starling Bank. “We are embracing everything we can to make things more secure for our customers.” ING-DiBa’s Peeters echoes this. “There can be no compromise on data security. We must ensure the safety of people’s money.” Sofort supports the idea of auditing security for PSPs, says Schardt. “We have always protected our customers against fraud. There has not been one single case of fraud to the detriment of consumers using Sofort Banking. We have our environment assessed by independent auditors to show that we are reliable and secure.”

However, some observers have concerns about security aspects related to PSD2. Says Martín Enríquez of BBVA: “We are concerned about secure authentication, how it will be achieved and monitored, how TPPs will interact with banks, since there is no need for a contract to be signed. We are also concerned about liability. If something doesn’t work properly with a third party service we are concerned that our customers will blame us.

PSD2 says we have to reimburse customers quickly enough that they are not bearing undue risk but we will have to determine which TPP had the problem and work with them to resolve it. This is all part of the ongoing work by the regulators and we are looking forward to having clarification on these issues which are critical for us.”

There are also some differences of opinion when it comes to the potential move to biometric authentication under PSD2. Bechis advocates the “death of passwords” – notorious for slowing down payment online and resulting in aborted sales that could amount to \$130 billion per year in the US alone – in favour of biometrics “because you have the best password with you, the fingerprint”. According to Nationwide’s Middleton however, “customers are sceptical about the drive



Peeters: There can be no compromise on data security

to biometric authentication”. Certainly, as Tym from Hogan Lovells points out, for fingerprint recognition to work a digital representation needs to be held somewhere, and if that repository is hacked, the victim has a problem, because he can’t change his fingerprint. Indeed, hackers stole some 5.6m fingerprint records from US government employees last year, so this is a very real threat. Yes, biometric methods are improving – vein recognition that requires blood to be pumping through them for example – but the vulnerability of this personal identity data is an issue.

Mullenex at Pinsent Masons also highlights the challenge around digital identification. “Innovation also creates additional risk, and we need to have a proper identification system for the customers,” she says.

For the banks – still, as Poutiainen points out, “secure and trusted parties” – there could be an opportunity here as guardians of digital identity. Indeed late last year it was announced that Dutch banks were collaborating – through the Dutch Payments Association – on a digital identification service to let online customers use their log-in details to access other commercial and government sites.

According to the Dutch Payment Association, the service will mean consumers will only need to use one identification method, which is both easier to remember and more secure than the current raft of usernames and passwords required by different online providers. Meanwhile, for merchants, the system means that users do not need to sign up when they first visit a site, boosting conversion rates. In addition, the cost of customer due diligence and credit risk assessment is slashed because of the high level of confidence in using online identities verified by banks.

PSD2 inevitably means some level of technology work for impacted institutions. New banks may have an edge on APIs but they may need to invest in the ability to scale their operations in light of PSD2. Established banks are probably further along with APIs than some might suggest, but have further to go, in a short timeframe, so need to explore strategies get up to speed in the most efficient and effective way, in addition to connecting legacy systems and data with the services. A strong authentication capability is essential and many banks are experimenting with new ways in which to identify customers. A trusted digital identity provider role is a strategic option for banks looking to reinforce their relevance in the post-PSD2 landscape.

“For the banks there could be an opportunity as guardians of digital identity. Indeed late last year it was announced that Dutch banks were collaborating – through the Dutch Payments Association - on a digital identification service to let online customers use their log-in details to access other commercial and government sites. A strong authentication capability is essential and many banks are experimenting with new ways in which to identify customers. A trusted digital identity provider role is a strategic option for banks looking to reinforce their relevance in the post-PSD2 landscape.”

HOW MUCH CHANGE WILL PSD2 BRING – AND OVER WHAT TIMEFRAME?

Opinions vary as to the extent of the change PSD2 will bring, and the speed at which this will happen. For Iccrea Holding, PSD2 will “definitely” significantly alter the payments landscape in Europe, “soon”. “The non-banking newcomers will completely change the landscape,” the bank says in its statement. Mullenex at Pinsent Masons agrees: “There are 16 billion banking transactions in France and payments is a very important sector of the economy. The way PSD2 will be transposed in France at the end of 2017 will really change competition, innovation and security.”

BBVA is an example of a player determined to leverage the potential of PSD2 as early as possible. “We are following the most common security standards and protocols and keeping on top of the implementation opportunities, and as soon as the rules are clear to us, we will be developing solutions to capitalise on PSD2,” says Alvaro Moron Alonso, New Digital Business, BBVA.

There will be change, says Lyons at RBS – “there will be different entrants, occupying niche verticals in the value chain, embedded into broader customer experience” – but he adds a note of caution on speed. “Generally in the world of finance fast adoption of new things is not the norm. And outside the big corporates, I don’t think we will see SMEs and businesses getting ready for PSD2 in the short term. It will evolve over time.”

Ferrari at CheBanca! agrees. “It is very likely that there will be very little activity until the end of 2018 because everybody will be waiting for the regulatory standards from the EBA. Our expectation for the Italian markets is that we will not start seeing real activity before 2019/2020. Remember that the PSD1 was approved in 2009 and in 2016 it is still not 100% fully completed. I think it is very likely that this Directive will take time to get to full implementation and have its full impact in the marketplace.”

The view of Bocca at Banca Sella is that “the biggest changes came with PSD1 – the creation of the first payment institutions and payment services providers”. And observers also question the long-term viability of some of the new entrants’ business models. “Not all TPPs will survive,” says one observer. “One already suspended its services in 2015. We are wondering what will happen when they write their figures.” Vroegh at ING agrees. “Access to accounts will attract many new elements and initiatives, mainly technology driven, and many new AIS and PIS providers will come up, but there will be a shakeout when it comes to real business.”



Moron Alonso: As soon as rules are clear, BBVA will develop solutions to capitalise on PSD2

How much impact PSD2 has will also depend on how successfully it is implemented – and as Mullenex says, there remain challenges on the implementation side. “The biggest challenge for localised implementation is the discrepancies between payments behaviour in different markets: 71% of payments in France are by card, but in Germany it is very different. They use a lot of cash and have EUR500 notes in easy circulation. The UK is the largest Paypal market by far and has contactless payments. The picture is not even.”

Boden at Starling warns that in readiness terms “we are a long way away from where we were with SEPA”. “PSD1 was implemented through SEPA. We had the EPC leading it and the SEPA standards were worked on by hundreds of people over many years,” she says. “By contrast, we are trying to do PSD2 very quickly with unclear organisational structures and also a far more challenging business model. People need to get their heads around it.”

PSD2 may take longer to make its presence felt than the schedule for its implementation implies, and there may still be several threats to its successful implementation, but the fact remains the Directive has been agreed and a schedule is in place. New entrants are already working with APIs and embracing open banking. Established banks should avoid an approach that relies on the implementation of PSD2 slipping, and instead should embrace the change as well.

“The biggest challenge for localised implementation is the discrepancies between payments behaviour in different markets: 71% of payments in France are by card, but in Germany it is very different. They use a lot of cash and have EUR500 notes in easy circulation. The UK is the largest Paypal market by far and has contactless payments. The picture is not even.”

**DIANE MULLENEX, PARTNER, HEAD OF THE GLOBAL TELECOMS PRACTICE,
PINSENT MASONS**

WHAT SHOULD YOU BE DOING ABOUT PSD2 RIGHT NOW?

With only around two years to go until implementation, there is no time to lose in kicking off your approach to PSD2.

Finextra's five key recommendations around PSD2 are:

1) Get involved, give feedback, share concerns and contribute to solutions.

Uncertainty around technical standards and concerns about local variations negatively impacting the level playing field are just two aspects of the continued lack of clarity around PSD2 which the industry does have an opportunity to help resolve. There will be consultation phases at a European level and efforts at a national level to develop guidance and tackle areas of concern – and taking part is the only sure way to have the views of your institution heard and to secure a role in achieving acceptable resolution of outstanding issues.

“We've got people contributing to all the relevant industry forums and working groups. Our approach is to deliver safe, resilient and exciting propositions. It is our responsibility to help shape the thinking that goes into opening up banking.”

John Lyons, RBS

2) Think now about your strategy to leverage – and monetise your investment in – PSD2.

The implementation timeframe for PSD2 might be too ambitious, but it will not be pushed back very far if at all. There is nothing to be gained by putting off assessment of your strategic options and there is an opportunity for all players at this point to take advantage of PSD2 to build new business and generate new revenues. Organisations with large customer bases – not just banks, but retailers and telcos – need to get up to speed and assess the possibilities.

“The key point is that PSD2 opens up the market to agents – the TPPs. Those agents do not necessarily have to be non-banks – they could be the banks themselves. If you think from a factory point of view – where the payment is processed – you will limit your potential. If you go higher up the value chain than the factory, there is a whole range of opportunities and roles to play. You should not take it for granted: it requires a lot of new expertise. It represents state of the art in the banking world.”

Ugo Bechis, UB Adv

3) Start experimenting to test your thinking early – and prepare to fail safely

One criticism persistently made of the banks is that they lack the nimble, iterative mindset of the fintechs. There is time for banks – new and established – to take a leaf out of the fintechs' book and pilot new products and services that could flourish in a PSD2 environment, and reduce the risk by leveraging test environments and data.

“We are already carrying out experiments on a large-scale basis. It is possible to get customers acquainted with what you plan to do and to get acquainted yourself with customer needs and how to meet them in an open access environment. Despite the fact that there are no technical standards yet, you should still try to find out the route to go forward.”

Jurgen Vroegh, ING

4) Work out what challenges you will face in providing open APIs, and plan to address them

While PSD2 itself does not use the term API, and it is unlikely the technical standards will specify how access to accounts is to be achieved, there is already industry consensus that APIs are the way forward. We still don't know if there will be one or many – but it's not too early to take stock of what open APIs will mean for your IT infrastructure and governance. Most players are already working with APIs in some capacity, and the next step is to establish where the gaps are and options to fill them, and determine the potential to go even further than PSD2 to help drive new revenues.

“Early adopters like ourselves when we go to market will have an open API, and as soon as it can be PSD2 compliant we will make it so. The incumbent banks will come on board later – and there is a danger will be left behind as just processors.”

Anne Boden, Starling Bank

“Opening up data for independent use to third party providers is new for banks, but APIs are not new. The banks have been working for years with fintechs. APIs exist and banks are using them. In fact, financial APIs are the second largest in number after social APIs.”

Sophie Guibaud, Fidor Bank

5) Take a collaborative approach: PSD2 supports digital transformation opportunities from which new ecosystems will emerge

PSD2 will unleash considerable new competition into the market, but while being realistic about this, players also need to partner and collaborate with new and existing providers. Even if you don't subscribe to the 'appstore'/portal app view of the world, your business – and your customer – can benefit from access to innovative products and services from fintechs to complement the services you already provide, and this can be a quicker and possibly cheaper way to access new capabilities than building them all inhouse.

“There are currently a lot of fintechs out there with excellent ideas about how to slice small pieces off the value chain of banks' businesses. But one of the opportunities for banks created by PSD2 is the ability to act as a partner to these fintechs – and to play a role to co-ordinate them, benefiting the banks, the fintechs and the customers.”

Rainer Wolff, Commerzbank

“It doesn't help if one single bank develops something new. Innovation is more successful if it is leveraged by all banks.”

Georg Schardt, Sofort

Finextra

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