



PSD2 & Open Banking - What are the Implications in Europe and the U.S?

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Payment Services Directive 2 (PSD2)

Directive from the European Commission

To extend the framework established by the first Payment Services Directive (PSD).

What is its scope?

Designed to increase competition and innovation in the payments landscape.
Create a level playing field for bank and non-bank actors.

Key Pillars

- Access to the Account (XS2A)
- Definition of roles for the actors (PSU/ASPSP/TPP/AISP/PISP/CA)
- Clarity and Enhanced Regulatory Powers for domestic Competent Authorities (CA)

Key Pillar 1

Access to the Account XS2A

Applies to all payment accounts issued to EU account holders which have digital access (e.g. web or mobile interfaces)

- Services to be provided:
 - Confirmation of account status and funds
 - Payment Initiation
 - Account Information

Account issuers (called ASPSP) must provide secure communication channels to transmit data and initiate payments.

The default technology being adopted to provide access is the API.

Key Pillar 2

A new language:

CA = Competent Authority
(Regulator)

ASPSP = Issuer of the account
(Bank or Wallet)

PSU = Owner of the account
(Consumer / Business)

- XS2A:
 - PISP = Payment Initiation Service Provider
 - AISP = Account Information Service Provider
 - TPP = Third Party Processor

A company can perform one, two or all of the three roles, depending on it's product and appetite for regulation.

Key Pillar 3

Competent Authority CA

CA's are domestic regulators delegated the responsibility for overseeing the operation of PSD2. The FCA in the UK, for example.

- Key Roles:
 - Ensuring ASPSP's (mainly Banks) comply
 - Certifying companies who want to use XS2A
 - Operating the Trust Centre infrastructure
 - Granting and managing exceptions

PSD2 clarifies the role and enhances the regulatory authority of CA's. Within this framework, the EBA will be charged with ensuring interoperability and consistency across the EU.

PSD2 and General Data Protection Regulation (GDPR)

General Data Protection Regulation

- New regulation changing the way data can be stored and used.
- Already in law
- Comes into force May 2018

Impact

- Data belongs to subject
- Definition of personal data extended
- Applies to all EU citizens
- Trumps PSD2
- Consent to use data required
- New rights

Implications

- Opt-in will be default
- Strong consent procedures needed
- Non-resident companies with EU clients impacted
- Regulator has a big stick (*4% of global turnover or €20m*)

PSD2 and Open Banking

Open Banking as a Concept

General phrase used to describe banking assets and services which are exposed to 3rd parties and typically accessible via API.

New Potential

- Direct Access to Account
- Visibility of status
- Payment Initiation
- Good Funds
- Low Cost
- New User Experiences
- Can do both B2C & B2B

Challenges

- User Acceptance and Onboarding
- Connecting to Multiple Banks
- Authentication User Experience
- It's New - Performance Uncertainty / Dispute Management / Security / Reputation

XS2A Status

Where are we now?

The big unknown:

Consumer acceptance and adoption

PSD2 is anticipated to be the first step on a journey towards wider Open Banking, with PSD3 likely to follow.

- Rolling implementation
 - Multiple countries missing the intended Jan 2018 deadline, including - NL / ES / PL / SE / AT
 - In the UK, only three big banks ready now, extensions granted to March for others
- Standards
 - No pan-EU standards for interface design and performance
- Regulatory Technical Standard (RTS)
 - September 2019
 - Strong Customer Authentication (SCA)
 - User experience
- Exceptions
 - It is possible for a CA to grant exceptions to both account issuers and 3rd parties using XS2A

PSD2 for Corporates

Commercial Benefits

What are the commercial implications?

Are there obvious or potential benefits?

Operational Efficiency

Is there potential to create more centralised payment factory?

Will visibility of cash and cash flow improve?

Technical

- What does a corporate need to do to realise the potential?
- Does this accelerate the shift towards IT driven treasury?

Commercial

Potentially:

Increased competition

Changed relationships with consumers

Changed relationships with Banks

Over time, payments and Banking services could become quite different as a result of PSD2.

- New consumer and corporate relationships
 - Account information access
 - Consumer buying pattern analysis
 - Better payment experience and loyalty schemes
- New entrants to payment
 - e.g. Amazon, Google, others
 - Increased competition
 - Segmentation of specialized services
- Corporates as Fintechs (TPPs)
- Reduced dependence on payment gateways and SWIFT
- eCommerce for Merchants
 - New payment methods, gradually moving from dependence on card schemes to bank to bank
 - Lower acceptance fees for merchants

Operational

Improved Payments

Factory

Reduced Bank Tokens

As the concept spreads around the world, Treasury teams could look very different to how they do today.

- Enhanced multi-banking experience
 - Centralized payment factory concept
 - Dashboard
 - Real-time visibility
 - Removing the need for multiple Bank tokens
- Greater access to data and analytics
- Deeper integration can spill over to financial services and other product areas

Technical

Shift towards IT driven Treasury

Many large companies are repositioning themselves as technology companies first.

- TMS & ERP
 - Corporates should be able to leverage existing systems and add middleware to connect directly to Banks
- Speed and responsiveness to the business
 - Should lead to faster implementation of new Banks and functionality
 - Quicker and more flexible access to new payment systems
 - More responsive to compliance and risk related issues

PSD2 Challenges

Timing

- Concerns around security, dispute management, the lack of standards and potential for negative consumer reaction suggest watch and wait.
- Against this, competitors may create a first mover advantage

EU / Global Adoption

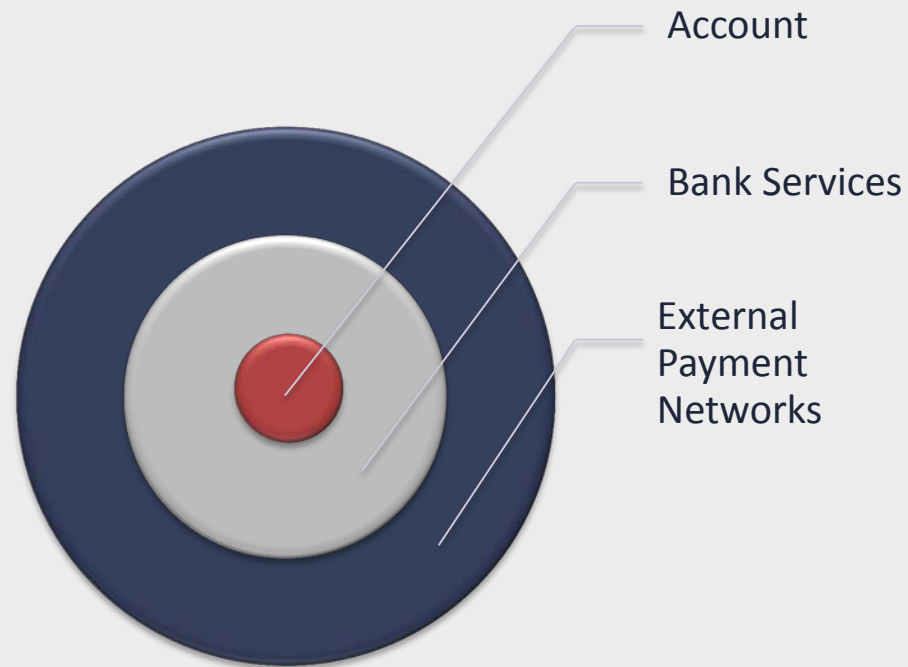
- PSD2 is new to the EU and still rolling out, not widely implemented yet.
- Will it succeed?
- Will it spread around the globe?

Practical Questions

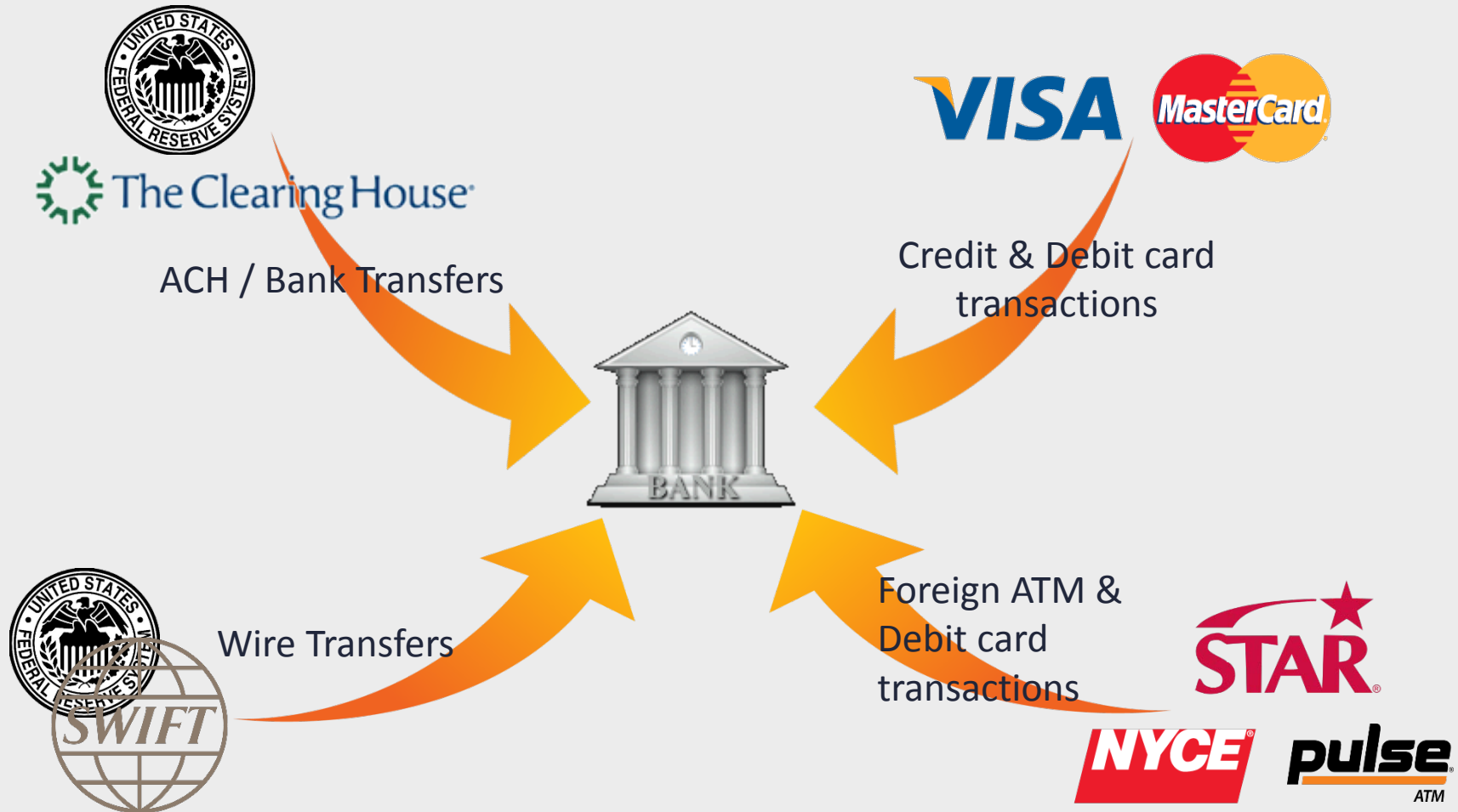
- Where to get the right advice?
- How to develop expertise?
- Who to partner with, inhouse, fintech, Banks?
- Impact on existing Bank relationships?

Open Banking In The USA

- Access to bank accounts controlled by external payment networks
- Little motivation for introduction of innovative services

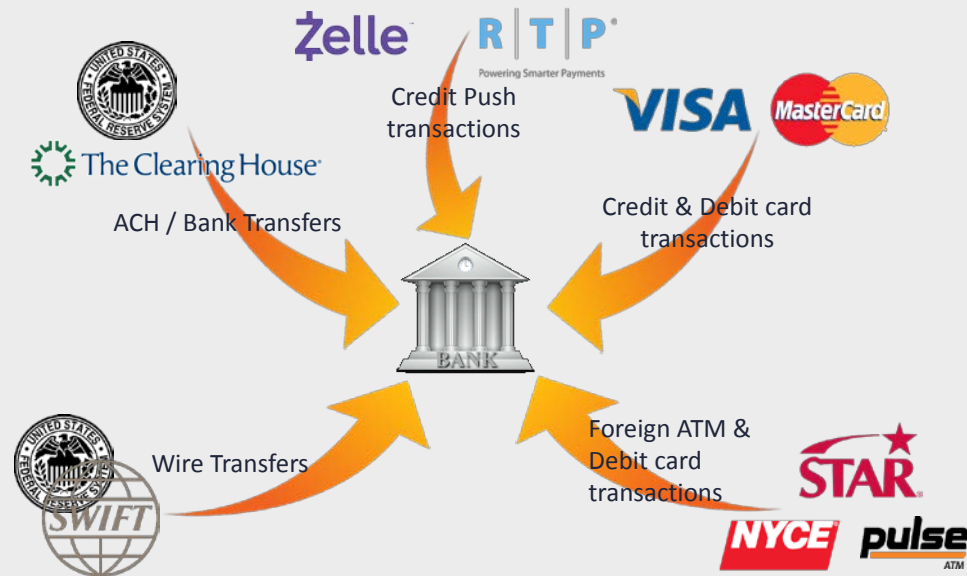


Traditional State



RTP and Zelle

- The Clearing House's Real Time Payments (RTP) and Early Warning's Zelle Network preserves this network centric model
 - Rules defined by the network
 - Pricing defined by the network
 - Access defined by the network



US Open Banking Current State

Adoption

- Majority of US Banks (53%) seem to consider Open Banking as critical to their digital transformation
- One-off deals
 - Wells Fargo & Xero
 - Chase & Intuit
 - Capital One
 - Bank of America
 - Screen scraping (e.g. Mint, Personal Capital, Yodlee, PaywithMyBank)

Challenges

- Lack of demand, standards, business case and urgency
- Concerns about security
- Conflicting requirements
- No appetite for top-down regulatory approach
- Effort cannot be ad-hoc or a non-scalable patchwork of one-off agreements

Way Forward

- CFPB data sharing guidance
- Conversation shifting from “who owns the financial data” to “how to enable” secure financial data sharing with third parties
- Standards are being set worldwide
 - PSD2
 - India
 - Australia



Questions?