



PSD2

Opening Doors for Innovation



akeo

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Introduction

2019 is seeing the implementation of the most innovative and transformative way of banking with Revised Payment System Directive (EU) 2016/2366. Though the regulation came into force in the year 2016, it took time to fully transform the bureaucratic way of banking in the European Region.

The new directive perceived by the European Commission, and then made effective by the European Parliament and the Council of European Union has been developed over time. Before PSD2, PSD1 was developed and adopted by the EU in the year 2007.

With PSD2, several new articles revolving around strong customer authentication like article 97, article 98, article 74 paragraph 2 along with liability and a ban on fees and surcharge with article 74 and article 62 paragraph 4 respectively have come into force.

The regulation ensures that fresh and innovative players compete in the digital payment service arena apart from banks and traditional financial service providers. This will benefit the ultimate end consumer by making it easier for them to buy products online but also avail new services which will manage their bank accounts and offer them personalized services.

“

European Union with PSD2 is paving way for the Fintech to create a huge business on top of Banking. A golden age for technology and startups where the concept of Open Banking and PSD2 will make it more fun than ever to work with them.

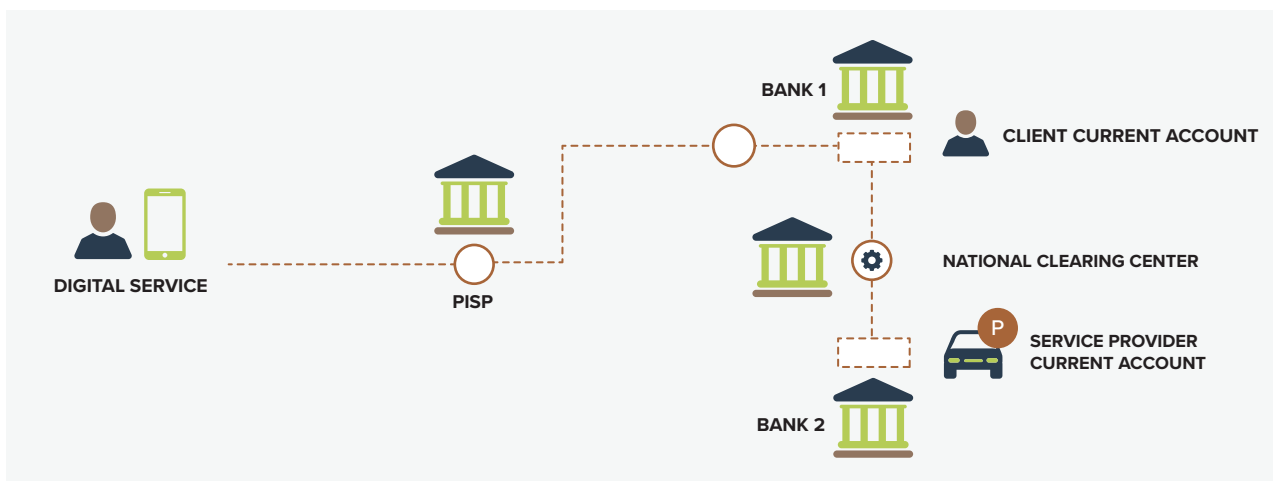
Espen Moen Kvelland



Understanding PSD2

The Payment Service Directive, known as PSD2 is an EU directive governing payment services in the internal market. It aims to facilitate increased competition in the payment service market, promoting innovation, enhancing the security of online payments and access to accounts. Furthermore, it improves the interaction between different types of actors and further harmonizing EU regulatory frameworks. PSD2 empowers businesses as well as individuals availing banking services to make use of third-party services to manage their finances.

In simple words, as long as a user consents, third party companies will be able to provide them services which previously only banks were able to.



Banks are obligated to provide access to their customers account through open APIs to these third-party providers. The result will be the competition in the financial sector will not just be limited to bank sector rather open to all financial service providers.

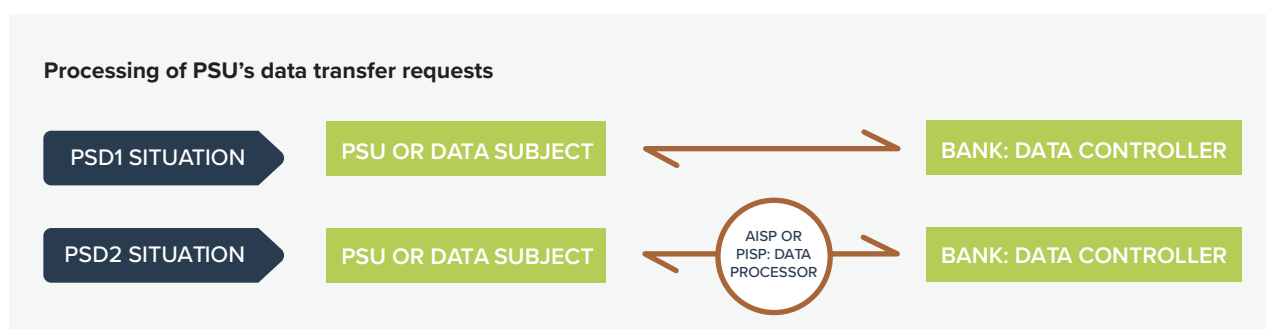
PSD2 is bound to fundamentally change the payments value chain, the use of account information, introduce a variety of business models and enhance customer expectations. With this new directive, the European Commission looks forward to taking innovation, strengthening customer protection and enhancing security in account access and online payments.

With PSD2, European Commission introduces two new types of players in the financial landscape: AISP and PISP.

Who's who in the new PSD2 world?

AISP: An Account Information Service Provider is a firm which uses customer's account information to study patterns of spending and investments to develop new services for them. AISP firms in general have no correlation with the banks. However, as a customer one can grant access to account information to these third-party developers. The information AISP firms collect can be used to offer advice on other ways of using funds to generate income.

The benefits of AISP comes into play when a customer applies for a loan. In general banks takes 3–4 weeks to check your creditworthiness, but with AISP in play, the bank can access a customer's entire transaction history and analyze the creditworthiness far more quickly. As a result, loan applications process becomes more simplified and can be speed-up easily.



PISP: A PISP (Payment Initiation Service Provider) can initiate payments directly from banks on behalf of customers. There will no longer be the need of payment gateways as online payments to e-merchant or other beneficiary's account will be made directly from the payer's bank account. In case of more than one bank account, the customer can opt from which account the money needs to be deducted.

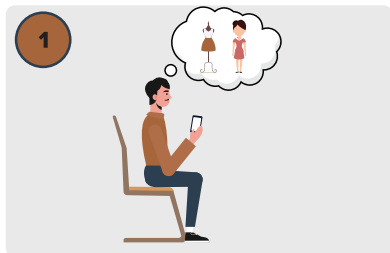
PISP will make online transaction safer as the sensitive information would no longer be logged into payment gateways. A customer can also use PISP to pay for products and services available at brick and mortar stores that has an agreement with their preferred PISP.

As PISP are not regulated by banks or other financial services, PISP's are free to make agreements with businesses that will benefit their customers.

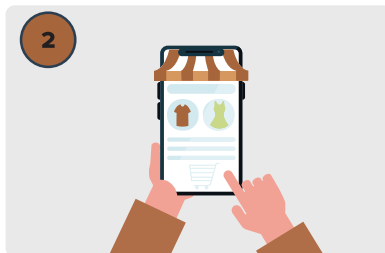
Known PISP's in the European Region are:

- In Norway: Vipps
- In Sweden: Swish
- In Denmark: MobilPay

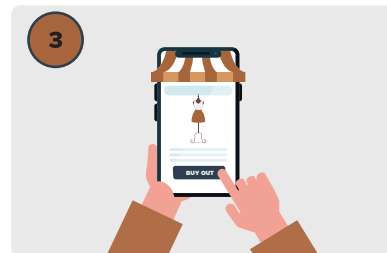
An example depicting how PISP will secure online payments



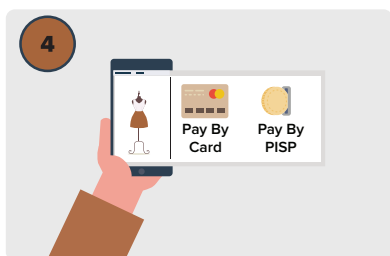
Luis wishes to buy a new dress for his wife



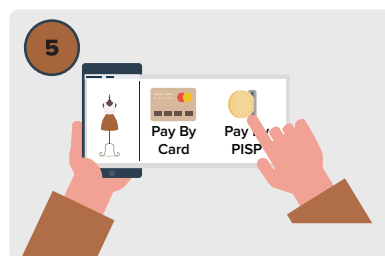
He goes online and searches for the dress



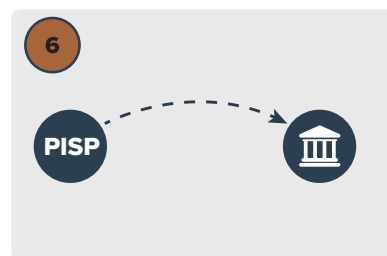
He likes a dress and adds it to the cart



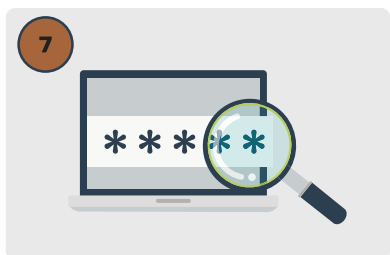
For payment, Luis can select either options



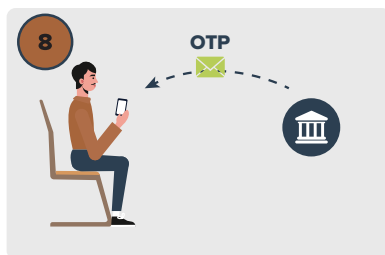
Luis selects PISP and the bank for payment



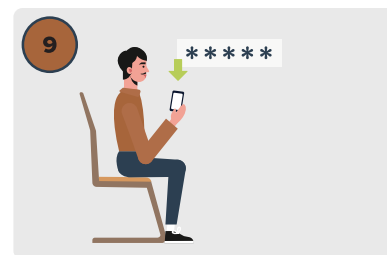
PISP sends the request to the selected bank



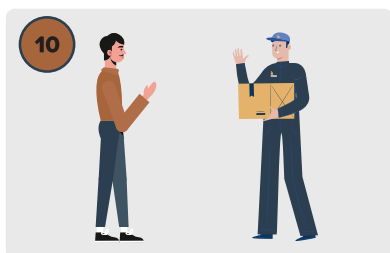
Bank authenticates credentials



Bank verifies PISP access and funds & then sends OTP



Post OTP confirmation fund is released



Luis happily buys a dress for his wife.

PSD2 Timeline

PSD2 TIMELINES



Detail prepared by the EC

To take into account new method of payments that have come to market



PSD2 Effective

12 Jan - Entry into force
8 Feb - Deadline for EBA consultation
Q2 - Draft EBA RTS on security & strong auth



PSD2 Live

3 Jan - Deadline for national governments to transpose PSD2 into local legalization
Sept - Earliest possible date for EBA security and auth RTS to come into force



In Future

14 March - Merchant and issuers should be ready to test 3-D Secure V2.2
14 Sept - Merchants should be ready to optimize solutions ahead of enforcement

2013



First proposed by EC in June

As a replacement to the original payment service directive

2014



PSD2 becomes official

8 Oct - Adopted by European parliament
8 Dec - EBA begins industry consultation on security & strong auth
23 Dec - PSD2 enters official journal of EU

2015

2016



EBA Security and Auth RTS

Jan - Earliest proposed date for EC to adopt the RTS
Min 18 months for it to come in to force
EBA completes work on other RTSs

2017

2018



EBA Security and Auth RTS

14 March - Deadline to offer testing environment to TPPs
21 June - EBA provided clarification on SCA
14 Sept - SCA Effective Date

2019

2020

Opportunities with Open Banking

“Open banking is a financial service technology that uses Open APIs to enable third-party developers to build applications and services around the financial institution for better financial transparency.”

The prime objective of open banking is to transfer the control of account data from the banks to the consumers. It asks users to give consent to sharing their transactional information with other banks and third parties for improved choices and enhanced transparency in the banking system. The open banking regulation forces established banks to be more competitive with newer and smaller banks. The concept is meant to offer better banking and improve the overall user experience by offering numerous benefits. It requires large banks to accurately publish all the transactional data, both online and offline across other banks, to let the customers get a clear picture of the scenario and make a healthy comparison with other banks' services.

All what is open banking referred to:

- The use of APIs to enable developers to build applications and services around banks and financial institutions.
- Bring financial transparency amongst the customers and banking institutions.
- The use of machine learning to build digital platforms & empower business, employees, and customers.

Strong Customer Authentication (SCA)

SCA or Strong Customer Authentication is a European regulation under RTS (Regulatory Technical Standards) in PSD2 to reduce frauds and make online payments more secure. The regulation will go into effect on 14th September 2019 to make customer-initiated online payments more secure in the European Economic Area (EEA). After RTS came into force, every transaction will be authenticated by at least two of the three possible factors:



- **Inherence:** something the user is, such as a fingerprint or an iris scan.
- **Possession:** something only the user has, such as a token or a card.
- **Knowledge:** something only the user knows, such as a PIN or a password.

After SCA comes into effect, all banks and payment service providers (PSPs) in EEA will have to comply with its safety regulations. Every customer-initiated payment will have to pass additional information about the customer to their payments provider. Payments without this additional authentication will be declined by the cardholder's bank.

Exceptions to SCA

SCA will come into force to regulate every online payment happening in EEA. However, there are some cases where payment service providers can operate without SCA. Here are some examples of low-risk payments that are exempted:

- Transactions below €30 will be considered “low value” and may be exempted from SCA until the sum of exempted payments exceed €100.
- A series of recurring payments of the same amount to the same business such as a loan EMI. In this case, only the first transaction will come under SCA.

- Payment with saved cards where the customer is not present while checking out. The transaction, in this case, will be considered as merchant-initiated transaction hence exempted.
- When a payment is done to “trusted beneficiaries.” The customer can whitelist a business they trust and avoid SCA for future purchases.
- Corporate payments are exempted.
- Although exemptions are present there, banks reserve the rights of whether to accept an exemption. In such a case, the payments need to be submitted again with two authentication factors to be compliant with SCA.

Challenges with PSD2: GDPR

The issue of personal data, and more specifically data protection, has become a burning one of late — not least in the wake of the Facebook data scandal.

General Data Protection Regulations (GDPR) are a set of regulations developed to protect the privacy of the citizens of European Union. The clauses in the regulations define what comes under “personal data” so the businesses across EU know which data needs to be protected. Also, how the information will be collected, stored and distributed in and outside the European region is defined.

The significance of GDPR for any organization handling personal data is significant. The regulation impacts across a business, from strategic decision making and governance through to marketing and customer communications.

One of the major issues for TPPs is the fact that GDPR at places simply talks about general guidelines without specific detail implementation. For example, GDPR asks companies to provide a “reasonable” level of protection to the consumers however, the term “reasonable” is not defined.

In general, complying with the Data Protection Act 2018, which implemented GDPR is an ongoing responsibility and one which many third-party service providers are finding challenging.

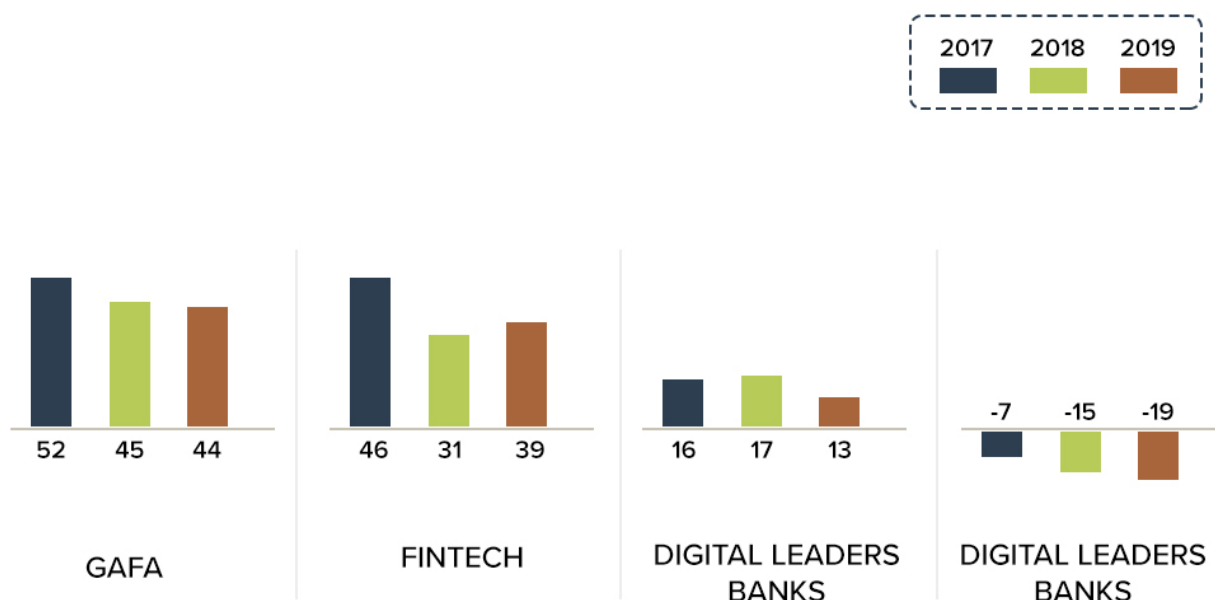
The Opportunity for GAFA



GAFA (Google, Apple, Facebook, Amazon), these tech giants have been intertwined with our lives so much that it seems only logical for them to make a play into banking. Facebook is offering P2P payments with Facebook Messenger, GooglePay is being used for payments, Apple is allowing money transfers with iMessage whereas Amazon has gone a step-up, and explored SME lending space. These innovative payment methods have raised the expectations bar of the customer. Moreover, these tech giants have joined the FinTech game with an inherent advantage- they're closer to the consumer with application/services they offer.

With services like shopping, entertainment, and marketing, GAFA has not only been able to generate data about a customer, they have gained insights about his life in real time. These insights are helping these tech giants to create not only opportunities for cross-selling and up-selling complementary products.

According to a report by Accenture, 80% of the banking revenues might extinct by 2020 because of different business models that are about to be introduced in the sphere. Services like consumer finance, cash management, current accounts, and even SME (small and medium enterprise) payments are ones that are going to come under the impact.



What next? ●

The brick and mortar way of bank operations do need to change now with the advent of the fintech revolution. From delivering single or grouped products, the banks need to offer not only personalized but innovative services.

In the next couple of years, it is likely that we are going to see more and more banks across the globe collaborating with the Fintechs; the banks have the customer and the capital whereas the fintechs have the technology as well as innovative processes.

That's how most of us must be thinking will happen in the time to come. But did we think that there is another 'Game of Thrones' in play here? Currently, we think that the customer data so far just remained with the banks, and fintech is in need of that data to build services.



However, with Artificial Intelligence and Machine Learning, the big tech companies have already been able to infer the customer's data, as well as financial position without ever needing to see the bank transactions. As we all are aware, companies like Google, Facebook, Amazon have been analyzing not only a customer's online searches but also their online/offline purchases.

In the times to come, we'll get to know if PSD2 proves to benefit the customer-bank equation or fintechs take away the bread and butter of the banking industry.

Akeo on PSD2



At Akeo AS we are closely monitoring the progress of PSD2, and have tried to educate our audience through in-depth articles about the regulation as well as Open Banking. This e-book is a compilation of few of our finest pieces of writing (link below) explaining PSD2, Open Banking, and their benefits.

<https://medium.com/akeo-tech/psd2-and-its-effect-across-eu-and-far-beyond-aa8508d196a1>

<https://medium.com/akeo-tech/psd2-safer-and-more-secure-payments-808a6c5f4ad0>

<https://medium.com/akeo-tech/open-banking-changing-customer-bank-dynamics-5402f71e4b0a>

<https://akeo.tech/blog/fintech/seizing-the-potential-benefits-of-open-banking/>

<https://akeo.tech/blog/fintech/strong-customer-authentication-sca-under-psd2/>

<https://akeo.tech/blog/fintech/what-is-open-banking/>

The logo for 'akeo' features the word in a white, lowercase, sans-serif font. A green dot is positioned above the letter 'o', with a thin green line extending from it to the right and then down to the right, ending in a small green circle.

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