

Co-operation optimises the outcome for everyone

By Damian Richardson, Head of Innovation, Payments



“Historically regulatory changes have been seen as a compliance or technical issue; PSD2, however, represents a sea change in how customers will be able to

manage their financial data. Only by embracing the intent behind this legislation will providers be able to offer the innovation, choice and insight customers increasingly expect and remain relevant to their customer’s wider needs.” Damian Richardson, Head of Innovation, Payments, RBS

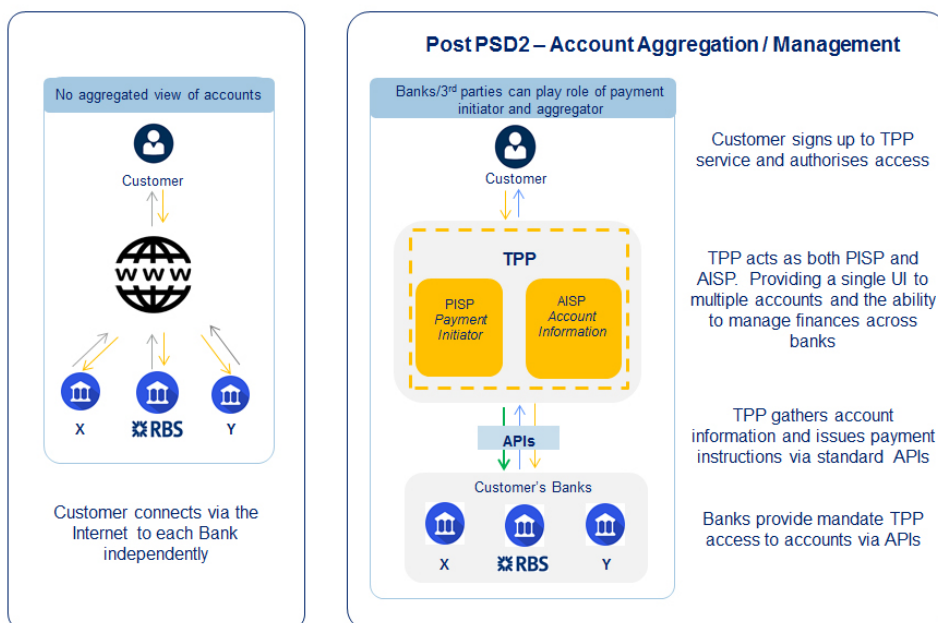


Figure 1

The game-changing concept

The Payments Services Directive 2 (PSD2) is EU-wide legislation¹, it is wide ranging and covers many aspects of the payments business. A key part of the Directive regulates Third Party Providers (TPPs) and clarifies their right to access payment accounts to initiate payments and/or collect account information on behalf of bank customers. The law comes into force in each member state by January 13, 2018 and is designed to promote innovation, competition and choice. Four key parts of the law are:

1. Payment Service Providers (including banks) must share on line payment account balances and transaction histories with TPPs, if the customer consents.
2. TPPs are permitted to initiate payments for payment accounts accessible online on behalf of customers, if the customer consents—i.e. become a Payment Initiation Service Provider (PISP)

3. Transaction requests from a PISP can not be treated differently from transactions instructed by the customer, unless there are “objective reasons”.

4. These new rights must be exercised in accordance with further requirements set out in PSD2 so that security rights and funds are protected.

The Directive does not mandate a technical solution, but one which is being investigated by many market participants is the use of APIs. In the UK this would link to the Open Banking Standard which is one of the Competition and Markets Authority (CMA) retail banking remedies. Here is a potential scenario (figure 1).

As well as being able to make payments TPPs may, with consent, also access a customer’s payment

accounts and aggregate the information, from multiple accounts and providers, as an Account Information Service Provider (AISP).

Winners in a post-PSD2 world

This represents a revolutionary change for the financial services market as non-traditional financial services companies³ - including FinTechs⁴ - will have a much clearer right to access customer data, potentially via APIs, without having to be a bank.

Retailers could potentially establish links with banks via APIs⁵ allowing them to receive payments directly from their customers’ account reducing the number of intermediaries and with potential cost savings.

Customers, both personal and non personal, will have a choice of payment service providers offering frictionless payments. New service providers could obtain data from accounts customers hold with different banks and show all of the information on a single App or screen to provide an instant, multi-bank account summary. Added to this could be services such as product information from different banks so that customers can make comparisons. In the UK the Open API Banking Standard and some of the CMA remedies could drive services such as loan applications – supported by full transaction data which would streamline processing, improving the customer experience; all at the touch of a button.

Strategic options for Financial Institutions

In common with many transformation programmes PSD2 will require investment to comply with the directive and ensure that TPP access is protected against unauthorised access and fraud.

“There is, however, a risk of becoming embroiled in the many technical and legislative aspects of PSD2 and as a consequence missing the bigger picture. These are important issues but they should be thought of as hygiene factors. What no one must lose sight of is the customer, their needs, the security of their data and improving their busy 24/7 connected financial lives - this must be central to any planned outcomes” Damian Richardson, RBS

All market participants, including traditional banks, have options and must make strategic commercial choices within the new payments

ecosystem. The two main strategies are must make strategic commercial choices within the new payments ecosystem. The two main strategies are:

1. For financial institutions to become PISPs and /or AISPs
2. For financial institutions to limit themselves to providing services to TPPs.

Claiming a role as PISP or AISP

New firms (FinTechs) and large retailers are considering PISP and AISP roles. Banks too have commercial opportunities within the PSD2 environment to deliver new services. Making and receiving payments is a core business and banks deliver these services across multiple channels for a wide range of business, personal, corporate and national government clients. Using the data from accounts held by our customers with other providers will enable Banks to design better and simpler propositions that could save time and money for customers.

The “core strength” strategy: offering banking services to TPPs

Financial institutions that do not have a large scale in house innovation programme might choose a reactive stance and simply make its infrastructure open to TPPs as required by the Directive to facilitate transactions. This needs to be considered carefully as it runs the risk of becoming a utility and being disintermediated from the customer relationship.

With Co-operation everyone wins

Co-operation allows new innovative services to be built in a way that draws on the knowledge and experience of traditional and new players to make customers lives easier and simpler. At RBS we have embraced innovation using innovation labs and hackathons to bring together start-ups and other partners to collaborate and develop smart ideas.

And of course never stop listening to your customers. Listening to “all voices” is vital to develop relevant services. Banks will have a view on what APIs might do and what they might look like, but it is essential that the vision is explored with customers. For these discussions trigger new thinking and propositions to make our customers lives easier.

For some financial institutions these changes may appear daunting

“RBS has well developed software engineering capabilities, we are working with a range of FinTechs in the UK and further afield. We are working with key industry stakeholders including regulators; we are trusted to look after the needs of over 16 million customers. Our clients are not alone in this. We are here to help by sharing knowledge our PSD2 with a determination to be the market leader in customer trust and advocacy in all their financial ambitions.” Damian Richardson, RBS

¹Strictly European Economic Area (EEA) i.e. EU plus Norway, Iceland and Lichtenstein.

²Strictly Account Service Payment Service Providers in this context.

³Although they will need to be regulated (in the UK by the FCA)

⁴Financial technology firms

⁵API (application program interface) a set of routines and tools that detail how software should interact with programming user interfaces