PSD2 - International Perspective
- by Philippe Préval

lusis Payments

It is in this year, 2018, that the PSD2 (Revised Payment Service Directive) will be implemented. Instructions from the European Union (EU), banks' monopolies on their customers' account information and payment services will no longer be permitted.

PSD2 will enable bank clients to use third-party vendors to provide financial services on their behalf. In the near future, clients will have the option of using any provider to pay their bills via person-to-person (P2P) transfers, while still having their money assets secured in their current bank account. Banks will be obliged to ensure that these third-party providers are given access to “their” customers' accounts through open Application Programming Interfaces (APIs). This will enable third-parties to build financial services on top of banks' data and infrastructure.

All of this will significantly change a bank's competition model. It will not be about changing account location; rather, it will be about the services that customers use. No longer will banks be competing against their peers. Instead, they will be competing against one another. PSD2 will change customer expectations; payments' value chains; and determine what business models are profitable.

The Payment Initiation Service Provider (PISP) and the Account Information Service Provider (AISP), are two entries into the EU's changing financial system. Because of PSD2, they are service providers which will have access to the account information of bank customers. The fact is that such services could look at a user's spending behavior and provide analysis, or even aggregate a user's account information from several banks, looking at that as well. A PISP provider initiates a payment on behalf of the user, with P2P transfer and bill payment as component parts sure to be seen when PSD2 is enacted.

A More International Perspective

It is well understood that the EU evidences great ambition and in so doing it issues laws or directives to realize its goals. The EU 's involvement in the deregulation of telcos has produced spectacular outcomes. Huge operators have transformed old national monopolies in national amphi-polies, tri-polies or tetra-polies. In the meantime, the telco industry itself has been badly damaged and is now dying. Today, Europeans buy phones via the United States (US) or Korea and network switches in China or the US.

As to bank services, and with no directives, it is very possible that Citibank, Bank of America Corporation (BAC), and Chase Bank will do better more quickly if they may take advantage of the frantic activity Europeans are going to create in their homelands.

No matter what, it is clear that the mandate is for creation of a more competitive bank environment, thereby creating a global marketplace for European bank services.

A European Market?

It is not obvious how to create a global European market. Regarding financial services, less than 5% of European consumers have bought banking products from another EU countries. Some Italians, for example, are going through their Banca Nazionale del Lavoro (BNL) account, BNP Paribas (BNPP) services, but for this, BNPP had to buy BNL. It is very unlikely that a French customer would open his Demand Deposit Account (DDA) in Unicredit; an Italian in Deutsche Bank Italy (DB); and a German with PKO Bank Polski (PKOBP); and so on.

So just what does this all mean? First of all, typical pricing of consumer products will vary among countries with cross-border business becoming insignificant. Yet, in spite of this, customers do not appear to cross borders when it comes to their banks.

According to a survey conducted by the EU, 80 % of European citizens reported that they have no intention of purchasing a financial offering from another EU member location because, the study said, “they can purchase all the financial products they need in their own country, or they prefer to do so.”

This not only shows how far from a cooperating market the EU really is, but also no one is discussing the fact that the financial capital of Europe will no longer be located in the EU in a few months.

EU Summary

The EU shows this lack of international unity as being the result of the European market not being effective when it comes to touting the benefits of banking across borders. Not only are the countries' regulations not synchronized; but banking benefits and ease of implementation are not being advertised.

The different legal considerations are the main barriers for customers and providers which might desire entrance into a foreign market. A bank's investment in a new country may not be considered attractive because compliance costs could be viewed by the banks as daunting when weighed against possible revenues. It could be time consuming and costly to understand regulations applied to another market, too.

The effort this takes on the part of the European Commission's to attempt unification of the European financial services market is never ending. It is interesting to note that under the auspices of PSD2, although third-party providers need only one license, as long as they are licensed by their home state's financial authority. Yet, banks still need bank licenses in each country in which they operate.

But if costs of compliance can be cut, will that help enough to encourage more retail banking on a multinational basis?

Regardless, some do believe that it will all be shored up by four other issues to consider, thereby speeding up the transformation from single domestic markets ultimately into one solidified European market:

1. **Well-informed consumers:** Theoretically, as unified market competition grows, transparency in pricing and services which can be provided by European banks will grow as well. Customers and potential customers will have improved information with the hopeful result of motivating partakers to take advantage of offers from other countries.

2. **Scale:** As previously discussed, it is less expensive for banks to function in multiple countries when their compliance costs are less and legal platforms are similar. Known as "scale effect," the EU has claimed all along that this is its reality no matter what situations have presented to the contrary.

3. **International e-commerce:** Online purchasing from international sites must be embraced by potential customers, whose shopping habits could have bearing on their banking tendencies.

4. **Bigger return:** As the European market grows from several autonomous markets into one huge market, the opportunities get a lot bigger. This would attract new entrants and new services as the reward goes up.

If this fails, PSD3 will be the result.

There Could Be Real Consequences

Nobody knows whether or not the EU plan will work. No matter what, three consequences can be expected with a high probability.

In consideration of bank revenues and costs, there are the significant economical hurdles, with PSD2 causing problems with Information Technology (IT) costs being expected to go up because of security regulations and realities, along with the opening of Application Programming Interfaces (APIs). Furthermore, by the year 2020, nine percent of retail payments revenues are predicted to be lost.

Also, as non-banks take over the customer interaction, banks may find it increasingly difficult to differentiate themselves in the market for offering loans.

In addition, PSD2 mandates that banks open their systems, starting with DDA and then other accounts. While this is not surprising given the current trend of digitalization, truly no bank IT Department has thought this through. More banks than ever are setting up testing applications for their APIs; in-house innovation labs; and collaboration with Fintechs. Fintechs are comprised of one or more financial product or application executed via the internet with the central focus being on the client. This is a big undertaking that could involve thousands of technical minds.

IT focus has to be greatly intensified in the areas of confidentiality, access, security, and more and making it all compatible in the world of Fintechs.

Take Security on its own merit, for example. While all banks are today facing higher, more demanding security levels, the banks themselves were not in danger. Even as such things as implementation of the Payment Card Industry Data Security Standard (PCI DSS) and the Payment Application Data Security Standard (PA DSS), were occurring, the true risks came from internet hacking; retailers; and lack of security on PSP. It is no different when considering Fintechs.

Going forward, banks will have to partner with dozens, perhaps hundreds of APIs on a continuous basis, while still having to conserve and deal with confidentiality, security, and continuously higher availability.

To date, banks have been the main purveyors in the industry because they have been able to stem the tide of new players in the market due to bank licensing requirements. No doubt, customer faith in third parties has been a factor as well. It could follow, however, that with PSD2 changes may come as it will be easier for non-banks to enter the market with financial service solutions. Many believe the FinTech landscape to be bright when it comes to investment markets, for example, with growth being more than tenfold during the last five years. Revenue estimates for the next 3-5 years are in the $150 billion vicinity.

Lusis' Offer

The Tango Payment hub provides a way to integrate the APIs while respecting the fundamentals of a payment system and of a bank's IT; namely, security and availability.

Tango Payment hub also proposes wrap around functions (wrappers) for API into a universal data bus.

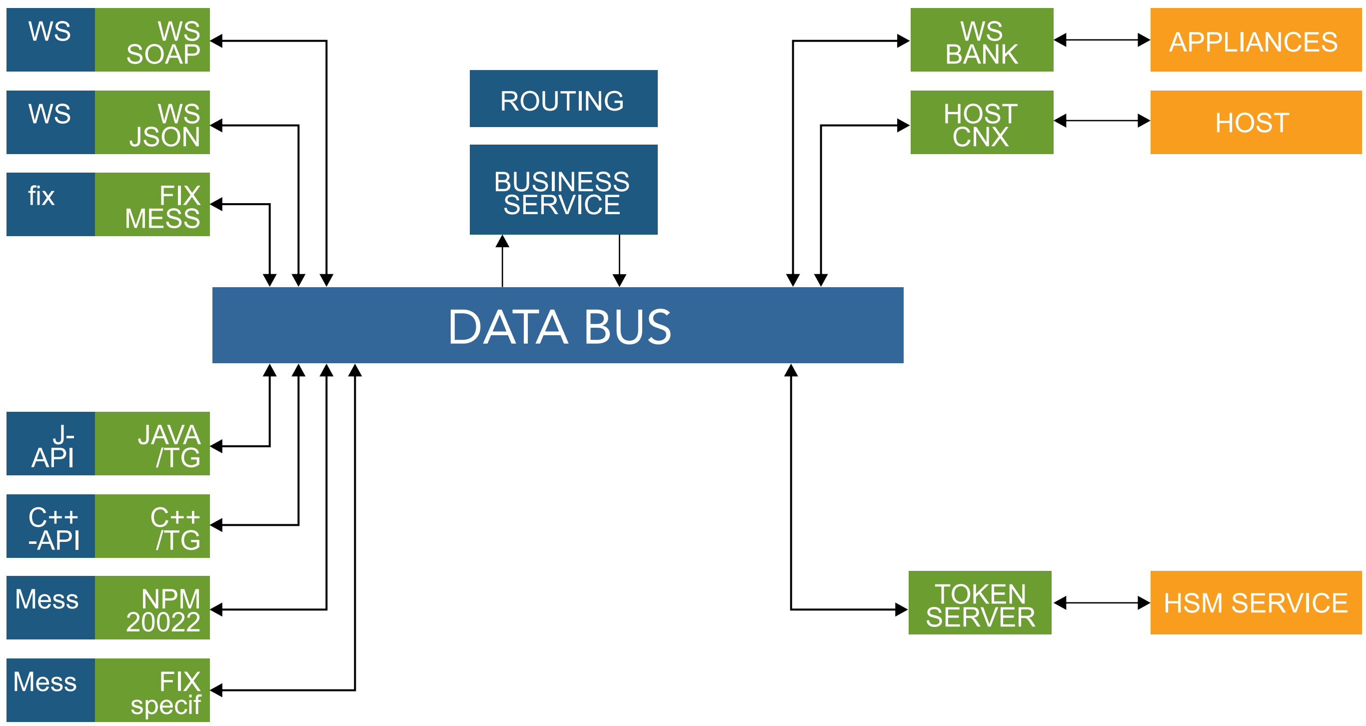
The hub warranties:

- Scalability
- High Availability (24/7, dual site)
- Security Access (PA-DSS, OWASP, strong authentication, 2FA, cryptography)
- Critical data Tokenization (PA-DSS)
- Advanced applicative controls (Access controls)
- Data unification
- Services unification
- Proper connection to bank legacy systems using their own technologies (fixed messages, IMS….)

It manages various technologies:

- WS (SOAP, JSON),
- True API (Java, C++),
- ISO 22022 messages, FIX messages, other messages (ISO 8583…)

All of the above make the Tango Payment Hub an ideal integration tool, ready for PSD2 and API growth in the new world as evidenced in the chart below:



lusis Payments

About Lusis Payments

Lusis Payments is an innovative global software and services provider to the payments industry. The company's proven, cutting edge technology operates in numerous hardware and operating environments. The TANGO platform, combined with the know-how to mitigate risk and deliver high levels of assured customer service, constitutes a unique proposition for organizations faced with the challenge of adapting to traditional and future needs in the payments ecosystem.

France:

5 Cite Rougemont
75009 Paris
France
(+33) 1 55 33 09 00

United States:

315 Montgomery St
#900
San Francisco CA 94104
(+1) 415 829 4577

UK:

1 Northumberland Ave
Trafalgar Square
London, WC2N 5BW
(+44) 207 868 5288

Luxembourg:

321 Route d'Arlon
L-8011 Strassen
Luxembourg
(+352) 31 35 02-1

www.lusispayments.com

sales@lusispayments.com

OUR CLIENTS ARE OUR BEST ASSETS

"Our relationship with Lusis has been a tremendous asset to us. We've worked at all levels together...Philippe Preval the President has been a tremendous part of that success...he has a clear grasp of the business and shares our passion for customers."

- Randy Meyer
VP Mission Critical Systems, HP

"TANGO helps us to provide better value, improved transactional performance and reliability. Our partnership with Lusis also benefits us with added financial efficiencies that allow us to continue enhancing our processing platforms and technologies."

- Philip Fayer
CEO, Pivotal Payments

"...TANGO was the best match for our needs and requirements. Lusis Payments has ensured a successful migration, and the solution is now running excellent."

- Jan Erik Secker
VP, NETS

"...not only did TANGO deliver the full capability to replace our existing solution but furthermore it delivered on the promises of flexibility, agility, capability and quality."

- Pieter Cilliers
CEO, BankservAfrica