

## The revised Payment Services Directive (PSD2)

What you need to know

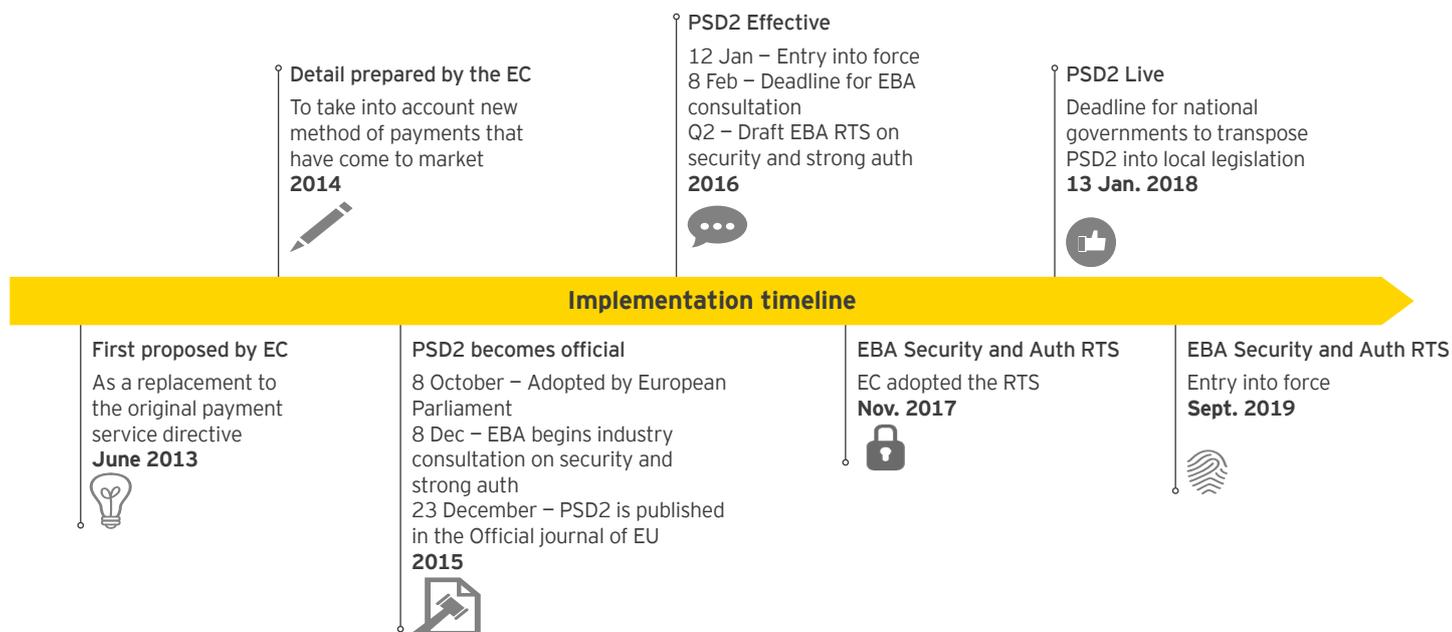
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Revised Payment Services  
Directive  
(PSD2) to increase scope,  
obligations, and to offer  
business opportunities

The revised Directive on Payment Services has been adopted by the European Parliament in October 2015 and by the European Council of Ministers in November 2015. The PSD2 aims at enhancing consumer protection, promoting innovation and improving the security of payment services within

the EU. It was published in the Official Journal on 23 December 2015 and entered into force on 13 January 2016. EU member states had until 13 January 2018 to implement it into national laws.

## Timeline



## Key aspects

- ▶ **Extension of regulated transactions:** Scope of regulated transaction has been extended to transactions in any currency and 'one leg out' transactions.
- ▶ **Stricter customer authentication:** Payment Service Provider (PSP) are obliged to ensure a stricter customer authentication every time the payer accesses his payment account online, initiates electronic remote payment transactions or performs any other action through remote channels.
- ▶ **Internal dispute resolution:** Execution and application of adequate and effective complaint resolution procedures setting out maximum processing time for the resolution of customers' complaints.
- ▶ **Payment initiation services:** PSD2 regulates payment initiation service providers (PISPs) and the initiation of payments. In this context, PSPs domiciled in the EU are obliged to provide secure communication facilities, inform PISPs about payment initiation, and treat all initiated payments equally.
- ▶ **Account information services:** The access to the payment service user's account has to be granted to third party providers for account information aggregation services. PSD2 regulates the duties of the account information service providers and those of the PSPs.

### Other aspects:

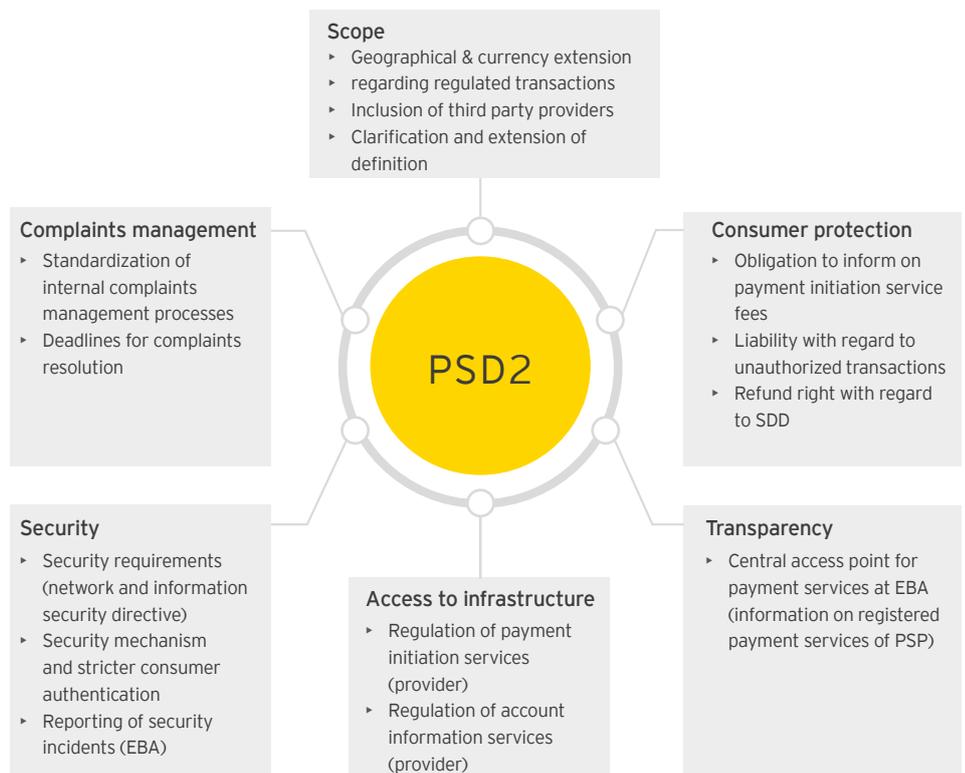
- ▶ Replacement of lost or stolen payment instruments only at attributable costs.
- ▶ Reduction of maximum liability for payer in case unauthorized transaction.
- ▶ Extension of registration requirements for PSPs (higher governance efforts).

The revised Payment Services Directive (PSD2) improves the level of customer protection and increase competition in the EU payments market

### Main PSD2 objectives:

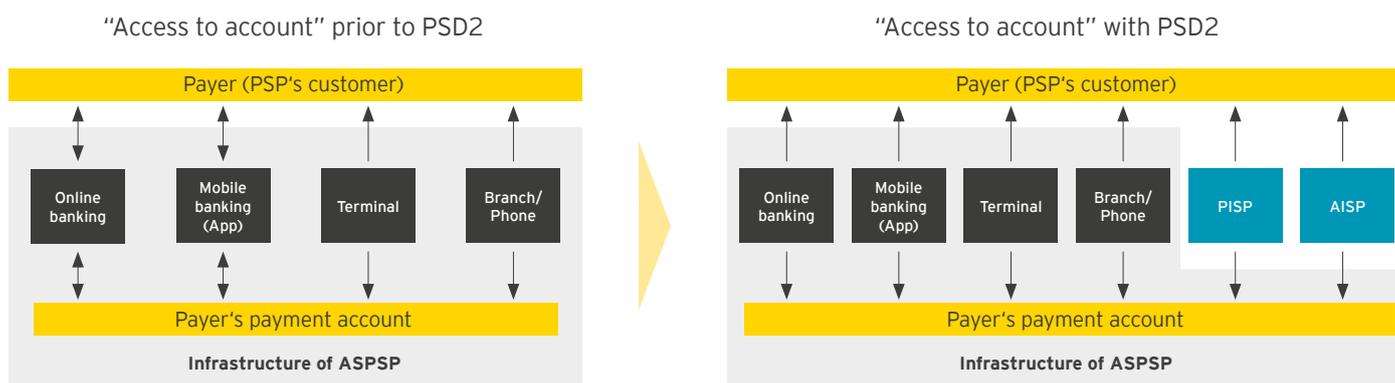
- ▶ Enhance the prerequisites for a single, efficient European payments market for retail payment transactions and contribute to a more integrated and efficient European payments market, reducing market deficiencies, exemptions and creating the prerequisites for the digitization of the payments industry.
- ▶ Improve the level playing field for all payment service providers (including new players) and, consequently, encourage competition as well as build the foundation for equal opportunities of all payment service providers.
- ▶ Increase scope of directive by including not yet regulated payment service providers, not yet regulated transactions and reducing exemptions.
- ▶ Increase customer protection as well as security and safety of payments by means of increasing transparency, efficiency and security of retail payments (e.g., stricter authentication mechanisms) as well as allocating obligations and liabilities to the involved stakeholders.
- ▶ Reduce the overall costs in the payments value chain, especially by increasing competition, encouraging lower prices for customers and setting baselines.

The major changes to the existing payment services directive (2007/64/EG) are visualized in the figure below. These changes are not exhaustive and have been categorized for a better understanding.



## Key aspect "Access to account" (XS2A)

Our research in the European financial sector suggests that most financial institutions consider the regulation of "access to account" to be the most critical aspect of the PSD2 in terms of expected implementation efforts, business as well as technical impacts and risk mitigation efforts that have to be borne by account servicing payment services providers (ASPSP). However, the provision of a regulated access to a payer's account for payment initiation services (PIS) as well as account information services (AIS) does offer business opportunities for established and new market participants to improve, enlarge, or even re-engineer current product and service offerings.



At the same time the regulation of XS2A represents threats to existing market participants in terms of:

- ▶ New market entrants (not being stuck to existing IT infrastructures and architectural or technical restrictions),
- ▶ Perceived increased security risks,
- ▶ Data protection regulation and requirements,
- ▶ Perceived increased fraud risks, and
- ▶ Liability in case of unauthorized transactions and data breaches.

As a consequence, the regulation of XS2A represents the aspect of the PSD2 with the biggest impact on business, IT, risk and compliance departments and on the future digitization, product and services strategy of payment service providers. Therefore, immediate action on the market participants' strategy with regard to XS2A is essential and indispensable and should be balanced with other regulatory (e.g., payments account directive, interchange fee directive, 4th AML directive) and market initiatives (e.g., instant payments, Blockchain).

**Payment initiation services**

- ▶ Initiation of payments (credit transfers) by means of the IT infrastructure/applications of a third party provider
- ▶ Applicable to payment accounts accessible online
- ▶ Explicit payer's consent to initiation of payment required
- ▶ No dependence on a contractual relationship between PISP and account servicing payment service provider

**Account information services**

- ▶ Initiation of retrieval of payment account information relevant to the payer by means of a third party provider application applicable to payment accounts accessible online
- ▶ Explicit account holder's consent required
- ▶ No dependence on a contractual relationship between AISP and account servicing payment service provider

**In order to mitigate potential risks and enable access to potential business opportunities and new revenue streams, payment service providers should consider the following actions:**

Actions	Considerations
Definition of XS2A strategy	<ul style="list-style-type: none"> <li>▶ XS2A going-to-market approach (third party provider for AIS or PIS)</li> <li>▶ XS2A approach regarding third party providers (incl. competitors)</li> <li>▶ Products to be offered (relevance from customer's and competitor's perspective)</li> <li>▶ Future revenue and business models</li> </ul>
Alignment of XS2A strategy with IT	<ul style="list-style-type: none"> <li>▶ Functionality, architecture, capabilities of existing IT application landscape</li> <li>▶ Existing application programming interfaces (API)</li> <li>▶ Security of communication channels, data, APIs, authentication mechanisms</li> <li>▶ Partner for collaboration or cooperation</li> </ul>
Definition of XS2A product strategy	<ul style="list-style-type: none"> <li>▶ Products to be offered/ replaced/ invented and their relevant channels (mobile, online, phone, branch)</li> <li>▶ Authentication and authorization</li> <li>▶ Strategy on instant payments</li> <li>▶ Strategy of FinTechs and competitors</li> <li>▶ XS2A strategy and expected revenues</li> </ul>
Definition of internal XS2A policy	<ul style="list-style-type: none"> <li>▶ Requirements to be met for external access to accounts of other PSP's</li> <li>▶ Security aspects, authentication and authorization mechanisms</li> <li>▶ Data protection</li> <li>▶ Guidelines regarding development, security and publication of API</li> </ul>
Definition of external XS2A policy	<ul style="list-style-type: none"> <li>▶ Requirements to be met by third party for external access to PSP's accounts</li> <li>▶ Security aspects, authentication and authorization mechanisms</li> <li>▶ Guidelines regarding development, security and publication of API</li> <li>▶ IT strategy and capabilities</li> </ul>
Pricing strategy	<ul style="list-style-type: none"> <li>▶ XS2A strategy</li> <li>▶ Competitive environment</li> <li>▶ Additional value added for customers</li> <li>▶ Account pricing model</li> <li>▶ Relationships: bank-to-bank, bank-to third party provider, bank-to-PSP</li> <li>▶ Who does what with account information</li> </ul>
Participation in review phase of Regulatory technical standards (RTS)	<ul style="list-style-type: none"> <li>▶ Security</li> <li>▶ Data protection</li> <li>▶ Own XS2A strategy</li> <li>▶ Own XS2A policy</li> <li>▶ Applicability of technical standards to own target operating model</li> </ul>
Definition of channels and APIs	<ul style="list-style-type: none"> <li>▶ Technology stack and regulatory technical standards of EBA</li> <li>▶ Existing IT application landscape, IT architecture and capabilities of IT staff</li> <li>▶ Functionalities to be offered</li> <li>▶ Externally available APIs</li> <li>▶ Accounts to be accessed (PSP's accounts or accounts of third party providers)</li> </ul>

## Challenges

### Challenges regarding the regulation:

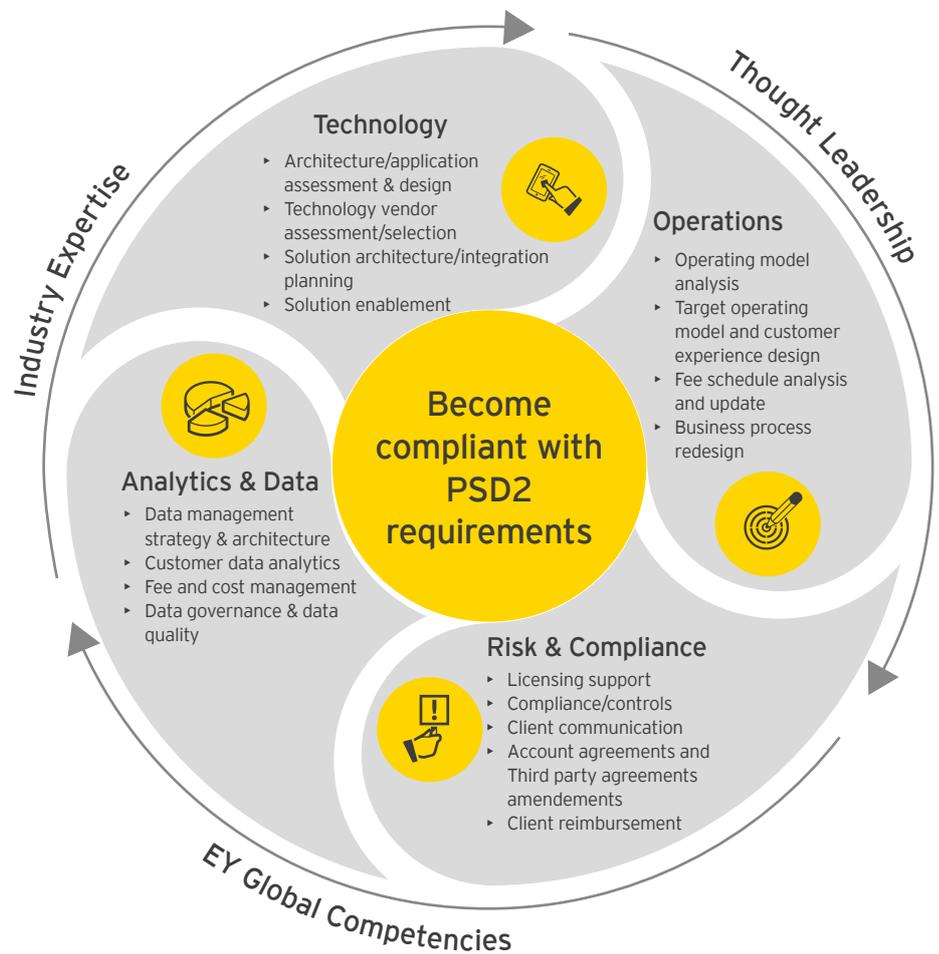
- ▶ Definition of required IT changes and interface adaptations to ensure compliance with new regulatory requirements (e.g., with regard to AISPs, PISPs).
- ▶ Ensuring systems are compliant with security requirements and technical standards defined by regulatory bodies.
- ▶ Start of internal implementation projects while the definition of the RTS (EBA) as well as the transition of PSD2 into local legislation is in an early stage.
- ▶ Ensure compliance with SEPA, interchange fee regulation (EU 2015/751), the fourth AML directive and the Payments Account Directive.
- ▶ Communication of changes to the customer base and amendments to existing terms and conditions.

### Challenges regarding the business model:

- ▶ The proposed changes of the PSD2 impact products, services, operations, collaborations and customer facing units of PSPs. Hence, the overall business strategy is affected and it will require a strong alignment of the business, risk, compliance and IT departments to adapt to the required changes in an effective, timely and coordinated way.
- ▶ Definition of a future-oriented business strategy that caters for the needs of customers, regulatory authorities, third party providers, competitors as well as internal requirements and enables the PSP to adapt to upcoming regulatory requirements (e.g., "instant payments") easily.
- ▶ Identification of reliable collaboration and cooperation partners for technical, business and invention purposes.
- ▶ Integration of (external) APIs into the existing IT applications landscape of the PSPs.
- ▶ Performing the shift from static, remote-oriented to fast, online-oriented processes.
- ▶ Identify business opportunities and key differentiators to profit from the proposed regulatory changes.

## Recommendations

- ▶ Perform an early analysis of affected business areas to determine impacts, prioritize change activities as well as evaluate strategic business chances and define the future business and IT strategy (mutually: business and IT).
- ▶ Allocate resources from different backgrounds to the related PSD2 compliance projects: business, retail banking, commercial banking, IT, compliance, risk as well as resources from non-bank related areas (online affine resources).
- ▶ Perform an IT due diligence to match the defined future business and IT strategy with the existing infrastructural capabilities and identify gaps as well as areas for collaborations and cooperation.
- ▶ Perform a market analysis on potential collaboration/ cooperation areas and collaborators/ cooperators and calculate business cases on critical business and technical services and products.
- ▶ Identify areas of improvement and processes that can be easily replaced by robotics.
- ▶ Ensure relevant departments such as risk, legal and compliance are involved early in the process.
- ▶ Review existing security mechanisms and supporting processes and assess their validity against the security standards to be published by EBA. Ensure that the two-factor authentication for card-not present transactions is implemented accordingly.
- ▶ Review and update relevant control frameworks to embed new controls that will address new regulatory requirements.
- ▶ Definition and development of supporting management information to evidence compliance with PSD2 to regulators.
- ▶ Implement a centralized governance process to ensure the consistency of responses across all business units that are affected by the regulation.



EY has a strong track record with leading global and local payment service providers and a deep understanding of the complex range of factors which will enable informed decisions on all aspects related to your future payments strategy. Through our extensive payment service industry expertise we are ideally positioned to support you with:

- ▶ The definition of a robust and future-oriented payments strategy that caters for both, regulatory compliance with PSD2 and exploration of new markets.
- ▶ The transition of the defined strategy into your target operating model.
- ▶ The implementation of the set out payments strategy.

Our significant knowledge around the payment services industry and its regulators will be a decisive factor in driving progress and minimizing delivery risk towards the deadline of PSD2 implementation. We offer you:

- ▶ A multi-disciplinary and multi-lingual team based in different European markets that can work collaboratively with your team wherever needed.
- ▶ Access to deep expertise on local, European and international payment markets, both digital and traditional.
- ▶ Perspectives on digitization in the payment service industry.
- ▶ A track record of delivering successful payment operating model change and crossborder implementations as an independent advisor.
- ▶ A proven, flexible approach to deliver on your expectations for your PSD2 project.

Our team includes payment experts who have ensured compliance of local, European and international PSPs with the Payment Services Directive as well as with SEPA regulations, We are keen to continue the journey towards a more sophisticated market practice with you and hope that our ideas demonstrate our commitment to continuing our partnership with the payment service industry.



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