

FINDINGS OF RESEARCH CARRIED OUT BY FINEXTRA
IN ASSOCIATION WITH CA TECHNOLOGIES
JANUARY 2018



PSD2: A STRATEGIC GAME-CHANGER WITH A LONG-TERM IMPACT

The Finextra logo, consisting of the word 'Finextra' in a white, sans-serif font. The 'i' in 'Finextra' has a dot that is a small circle. The logo is positioned in the bottom right corner of the page, overlaid on a dark background with colorful, glowing lines and circles.

Finextra

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FOREWORD



Ian Clark,
Director API Management EMEA, CA Technologies

The PSD2 regulatory technical standards were hotly debated by the EBA. However, it's very clear from discussions with CA customers that they are already embracing the change and looking at how they may take advantage of innovative opportunities brought about by the proposed regulation – but what does the wider market think?

To gain an understanding of exactly where the market was in terms of PSD2 adoption 6 months out from the proposed RTS deadline, CA Technologies worked with Finextra to explore the current attitudes and expose some of the unforeseen challenges that even some of our most innovative organisations are facing with their open banking and PSD2 transformations.

There has been a degree of uncertainty among banks as to the technical way forward within the new PSD2 framework. At this point, as the standards become set in stone, they can begin to seriously progress and tailor their solutions. The change is unprecedented, and by taking an agile approach, they can at least get started and adapt as they go along, building customer-facing services and fine-tuning their data strategy to become a repeatable 'software factory'.

As a provider of software solutions, CA and its partners continue to focus on helping organisations to break down the barriers to innovation by turning regulatory requirements into opportunities. It's clear from the research findings that many of you regard PSD2 in the same way – embracing the opportunity to create new business models and positioning PSD2 as the driver for transformation programs with an astounding 88% of responders stating that they would need to build partnerships to deliver what their customers demand from open banking.



I trust that you'll enjoy reading through the research, exploring the attitudes of your peers and reviewing your own organisations approach to PSD2 considering the findings.

“The change is unprecedented, and by taking an agile approach, they can at least get started and adapt as they go along, building customer-facing services and fine-tuning their data strategy to become a repeatable ‘software factory’.”

IAN CLARK, DIRECTOR API MANAGEMENT EMEA, CA TECHNOLOGIES



TOP LEVEL FINDINGS

- Resounding endorsement of PSD2 as a disintermediation threat AND of strategic commitment to leverage PSD2 as an opportunity
- Leadership coming from payments and digital transformation closely followed by innovation, and involvement of all teams, especially legal and compliance
- Fewer than half expect an ROI in their investment within 2 years
- More than half agree that their PSD2 budgets have enabled them to progress more quickly with other related projects and to speed up their digital transformation programmes
- The strongest support for new business models went to AISP and PISP; least popular was provider of banking as a platform/service followed by payments processing utility followed by digital identity provider – but more than 85% gave this a maybe or a yes
- 88% will partner to deliver what customers need and almost 60% express preference for a ‘one-stop-shop’ provider
- Nearly 40% think customers are not ready for open banking
- 36% respondents pitted GAFAs as the biggest threat
- Established banks considered very slightly more of a threat than new digital challengers and in turn new digital challengers considered slightly more of a threat than fintechs
- Strong endorsement for the fact that PSD2 and GDPR are forcing more focus on security and data privacy



PSD2: A STRATEGIC GAME-CHANGER WITH A LONG-TERM IMPACT

As banks look for future business value, the speed of PSD2 compliance is tempered by complexity, technology, budgetary and skill challenges, plus uncertain customer demand

EXECUTIVE SUMMARY

PSD2 is a catalyst for digital transformation, there can be no doubt. The conversation has moved on from competition to collaboration and as everyone jostles for a position in what is the beginning of institutional change, do banks have a clear picture of where they stand, where they want to be and how to get there? There are a few with their heads in the sand but is the overall picture one of positivity and proactivity, or a case of banks waiting to see how it pans out?

It marks a new era in not only serving customers and creating new and innovative services and products, but the beginning of a different way of thinking, a different approach to decision making, to collaboration and partnerships. It affects the inherent culture within the banking industry and generally creates a more agile way of being in business. Are banks up to it?

The results also show a clear understanding that PSD2 can be an enabler for innovation and responsiveness to customers. A majority - 84% - somewhat or strongly agree that their starting point for change is the customer, and 86% agree, strongly or somewhat, that their bank “has a strategic objective to leverage PSD2 as an opportunity to innovate, differentiate and create new products and services”.

This paper, produced by Finextra in association with CA Technologies, addresses key questions in the run-up to implementation, such as:

- Where do banks stand and will they meet the first deadline?
- What are perceived as the biggest challenges and threats to banks?
- Are banks exploiting the potential of PSD2 to create new products and services?
- What is required in terms of strategy and approach to be able to innovate and implement change?
- Which business models, products and services are banks prioritising in the new landscape?
- Can banks build a clear business case out of PSD2?



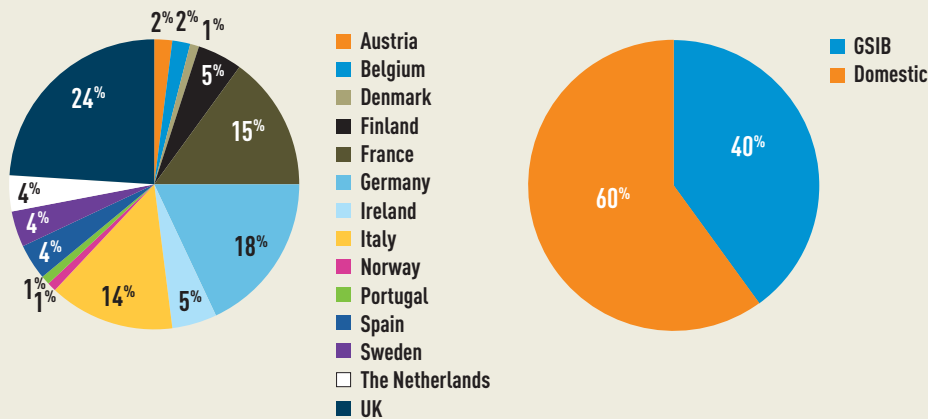
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INTRODUCTION: CHARTING THE CURRENT PSD2 LANDSCAPE

At the time of the survey only 5% of banks were already in full compliance with the requirements of the directive - and a surprisingly modest 58% anticipated being compliant by January 2018.

These are two key findings from new research carried out by Finextra in association with CA Technologies into the state of the industry's readiness for PSD2. The research is based on a survey completed by 200 respondents from 89 banks across 14 European countries.

200 RESPONDENTS FROM 89 BANKS ACROSS 14 EUROPEAN COUNTRIES. 40% OF RESPONDENTS WERE FROM GLOBAL SYSTEMICALLY IMPORTANT BANKS (GSIBS), 60% FROM DOMESTIC OR REGIONAL FOCUSED ENTITIES



The survey findings reveal some regional variations worthy of note. The UK bank respondents are most confident of being live on time (72%), compared to only half of respondents (50%) from Italy and France, and 49% from Germany. Overall though, it is clear from the data that the industry still has its work cut out when it comes to PSD2 compliance.

While more than half (55%) of respondents say they are currently implementing the changes they need to make, a significant 31% put themselves in the phase of still assessing what they need to do.

What are the reasons for this slower than expected move to comply by Europe's banks? One could be that banks expect a gradual build up in customer demand for the new services PSD2 is designed to enable.

While 17% of respondents strongly agree that they see a clear demand for services such as product applications via APIs, account aggregation and payment initiation, 27% do not agree. Meanwhile, only 9% strongly agree that their customers are ready for open banking.. In other words, banks see demand, but do not anticipate it being at full strength from the outset of PSD2.

Another reason is that doing what needs to be done for PSD2 is not easy for banks. According to over 80% of respondents, their organisation is facing challenges in achieving PSD2 results, including budget constraints, technology challenges, integrating legacy and new systems and security concerns. Though 47% of respondents agree or strongly agree that they will see an ROI on their spend on PSD2 within two years, 28% say building the business case for investment in PSD2 has not been straightforward – despite the regulatory mandate. Interestingly, drilling down further into the data reveals that building a business case is slightly simpler for domestic banks than for global (24% versus 14%).

Another complexity of PSD2 adoption revealed by the research is the challenge of managing it alongside other regulatory change. A massive 93% of respondents strongly or somewhat agree that “there is a contradiction between PSD2, which requires banks to share more data, and GDPR, which requires banks to be even more careful about data sharing, and this is increasing the complexity of the compliance landscape for banks”.



“UK bank respondents are most confident of being live on time (72%), compared to only half of respondents (50%) from Italy and France, and 49% from Germany Overall though, it is clear from the data that the industry still has its work cut out when it comes to PSD2 compliance.”

CA TECHNOLOGIES AND FINEXTRA PSD2 SURVEY FINDINGS

It is in the multitudinous potential of different individual customer scenarios where banks feel they may fall foul of compliance with both regulations. A consumer may ask their bank to share their PII (Personally Identifiable Information) with a third party (under PSD2), and thereafter request that it is deleted (under GDPR), banks don't have control of deleting that data and are uneasy about their responsibility in ensuring it is done in accordance with GDPR.

According to Kieran Hines, Head of Industries at Ovum, “In effect, a bank that is not 100% certain about the provenance of a third party provider requesting customer data will need to decide between declining the request and being non-compliant with PSD2 or accepting it and, if there is a data breach, becoming liable for a sanction of up to 4% of global turnover under GDPR.”

The survey findings also suggest that another reason why banks are not rushing their PSD2 compliance programmes is that they realise how significant it is – more significant in fact than any regulatory compliance issue alone could be. Supporting this interpretation is the finding that 64% of respondents strongly agree with the statement that “the move to open banking is bigger than any one piece of regulation and the banking landscape will change regardless”.

In a similar vein, while 13% of respondents strongly agree that “changes in the European political landscape... will limit the amount of change PSD2 introduces”, a much bigger proportion, 43%, say they won't. In other words, PSD2 has momentum regardless of the political landscape and its long-term impact will be major. French bank respondents are least likely to strongly agree politics will be an influence (3%), compared to Italian bank respondents (18%).

Overall, there's a clear school of thought that open banking is bigger than regulation – and politics.



“French bank respondents are considerably more concerned about the disintermediation threat than others, with 80% strongly agreeing they face a risk if they do not respond proactively to the changes being introduced. Italian banks agreed strongly with this to the tune of 68%, and German banks 69%.”

CA TECHNOLOGIES AND FINEXTRA PSD2 SURVEY FINDINGS

Meanwhile, when it comes to the impact of this change on banks, an overwhelming 95% agree (65% strongly) that there is a risk of disintermediation if they fail to respond to the change, and 83% say PSD2 is a board-level discussion within their institutions. There are some interesting regional variations here: UK bank respondents are the least likely to describe PSD2 as a board-level discussion, with 36% strongly agreeing, and 11% disagreeing.

Forty-three per cent of German banks and 64% of Italian banks strongly agree it is a board level discussion. French bank respondents are considerably more concerned about the disintermediation threat than others, with 80% strongly agreeing they face a risk if they do not respond proactively to the changes being introduced. Italian banks agreed strongly with this to the tune of 68%, and German banks 69%.

Despite the delays in action by many institutions, these findings indicate banks are taking PSD2 seriously.

The banks’ measured approach to compliance so far could be explained by the fact that post-PSD2, they expect to face the most significant challenge, not from new digital banks or fintechs, but from the consumer tech giants – such as Google, Amazon, Facebook and Apple (aka the GAFAs).

While common sense suggests that this threat will not likely kick in from January 2018 in a major way, it will escalate as the new environment establishes itself. This makes PSD2 compliance a long game, with high stakes. As a consequence, preparing for the change is a job worth doing very well.

Overall, the survey findings could indicate that the banks are taking a measured approach to PSD2 preparations, for good reasons. They’re committed to doing it properly, thinking and acting strategically, and putting the right foundations in place for future success.



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HOW ARE BANKS HANDLING PSD2?

Good news, then, in the survey results, which suggest that banks are starting to grasp that PSD2 won't be a one-off change but rather will herald a new way of responding and delivering to customer needs. While 30% say they have already implemented one or more new services inspired by what PSD2 makes possible, 10% confirm they have already abandoned one or more such projects which have failed to meet their criteria for ongoing development.

This could be evidence that banks are embracing the experiment and 'fail fast' approach so essential to innovation – and in fact 19% say they have opted for an agile methodology for their PSD2 preparations which could further support the view that banks have understood that more of the same will not work in a PSD2 world.

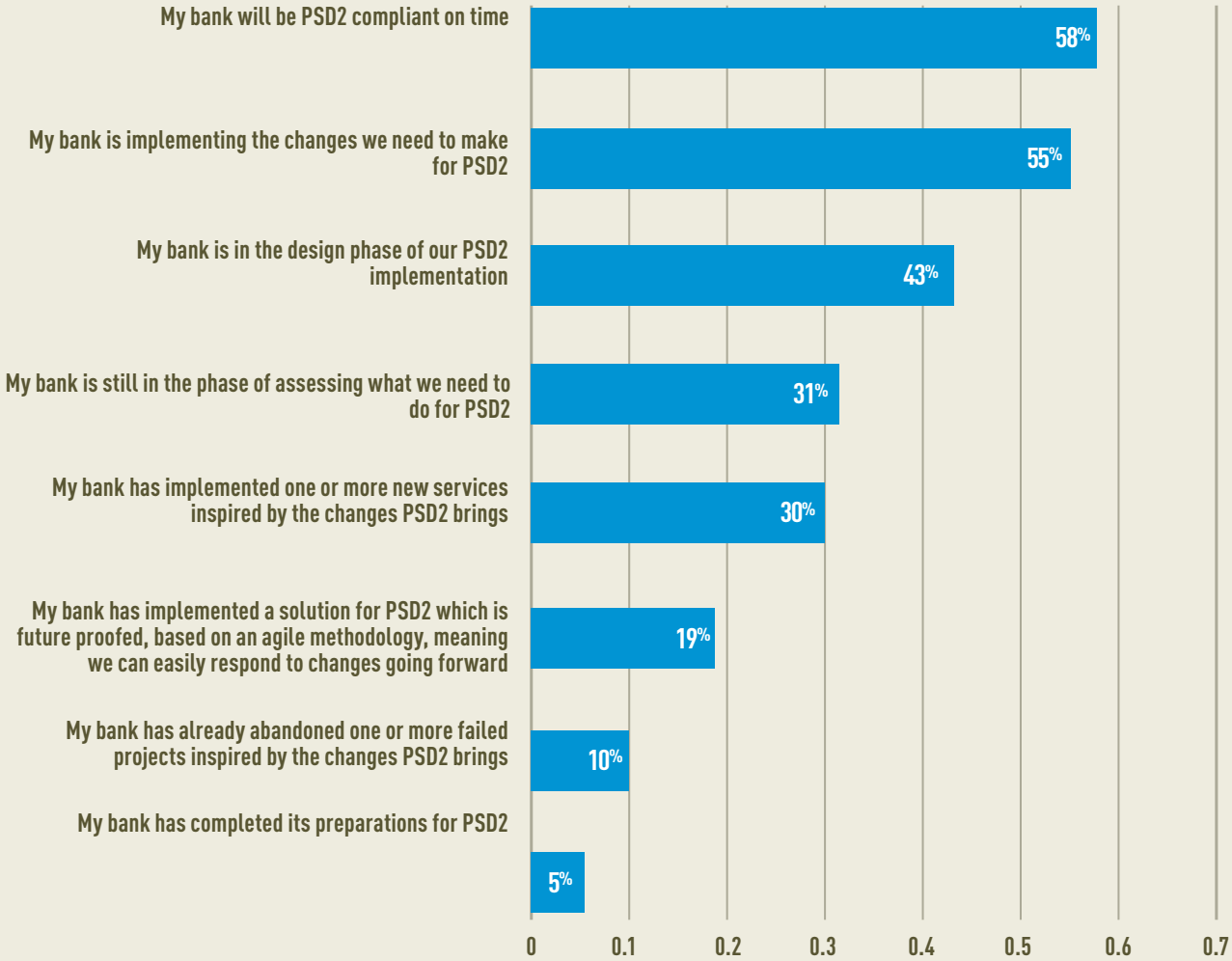
The survey confirms that banks definitely have some work in front of them to get ready for PSD2. As Chart 4 illustrates, there are phases of preparation, with 43% for example saying their bank is in the 'design' phase of implementation.

“The strong showing from digital and innovation teams as both leading and being involved in PSD2 projects is a good indication of the transformative nature of the change as viewed by the surveyed banks – and of the fact that they view payments innovation as intrinsic to their digital strategies.”

CA TECHNOLOGIES AND FINEXTRA PSD2 SURVEY FINDINGS



PSD2 READINESS



Survey question: Please indicate which statements below most closely describe your organisation's current situation in relation to PSD2 (please tick all that apply).

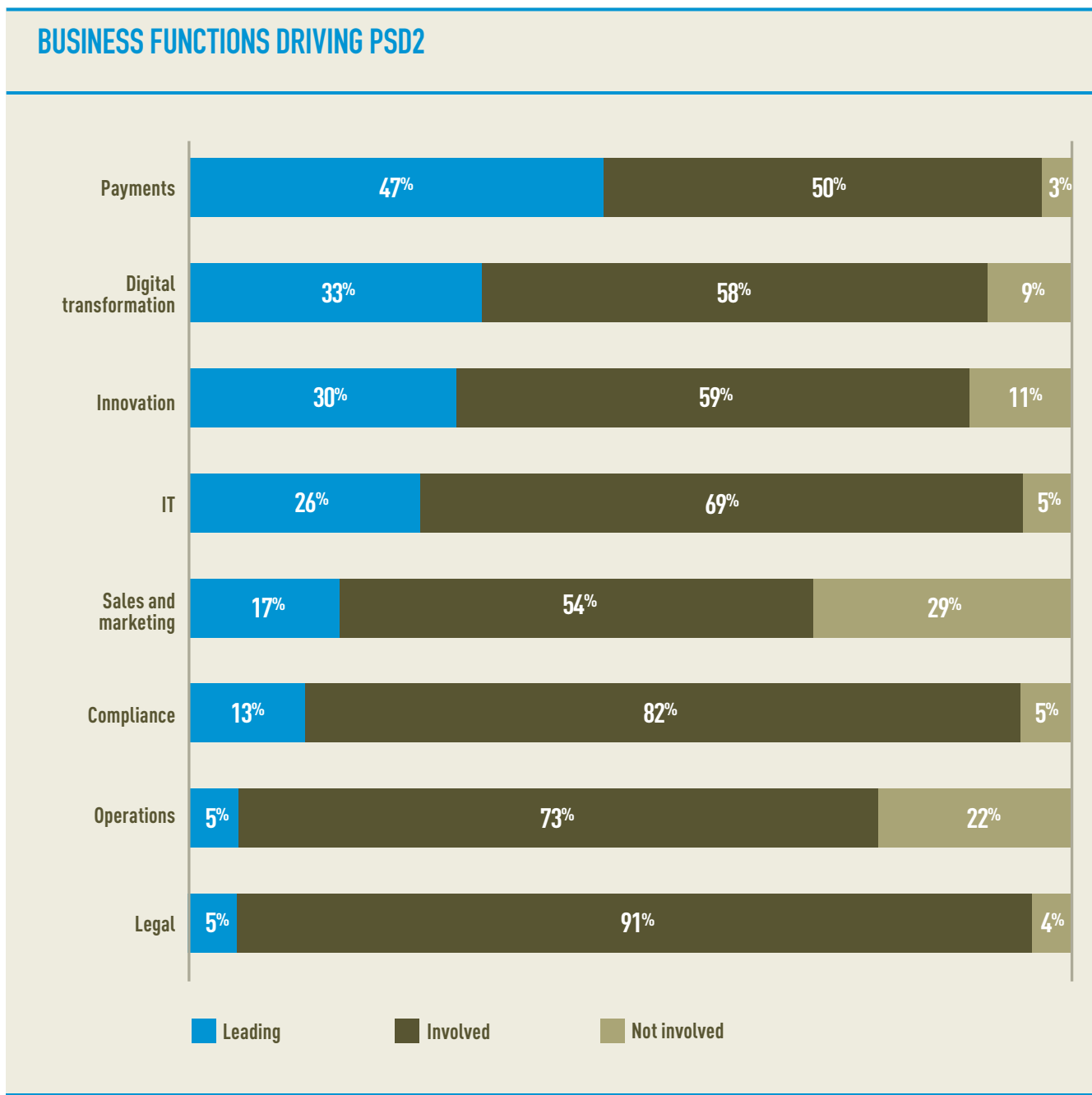


05

FUNCTIONS INVOLVED

Whether or not all the surveyed banks are going to be PSD2 compliant on time, there can be little doubt from the survey findings that preparing for PSD2 is a major undertaking, involving – as Chart 1 shows – a broad range of functions within the institution.

CHART 1



Survey question: Please indicate which functions in your organisation are involved with and leading the implementation of PSD2.

PSD2 is the revised Payment Services Directive, so it is no surprise to see the payments function as most often leading implementations . What is worthy of note is that, according to the survey findings, payments function is only slightly less likely to NOT be involved than the obviously critical functions of legal, compliance and IT.

Meanwhile, the strong showing from digital and innovation teams as both leading and being involved in PSD2 projects is a good indication of the transformative nature of the change as viewed by the surveyed banks – and of the fact that they view payments innovation as intrinsic to their digital strategies.

The survey findings around the role of sales and marketing in PSD2 projects are interesting. This is the function most often identified as not involved at all in PSD2.

These findings could indicate that some banks, likely those more advanced in their PSD2 implementations, with products and services closer to production, are leveraging sales and marketing more fully to promote the new products and services. Or they could be indicative that some banks are taking a more proactive approach to the marketplace banking option under PSD2, to attract partners to develop and enhance their product portfolio.

Drilling down into the data reveals that sales and marketing are more likely to be involved in PSD2 projects in domestic banks than in global systemically important banks. In addition, digital teams are more likely to be leading PSD2 projects at domestic banks than at global banks. This could indicate that some smaller banks see an opportunity to gain ground by pushing the digital agenda more strongly and by being more outwardly proactive about their PSD2 plans.

That compliance and legal functions are not typically leading (in just 13% and 5% of cases respectively) but are in large part involved and rarely left out is clearly a positive indicator that banks are thinking ‘beyond compliance’ to leverage the strategic opportunities of PSD2.

A note of caution should be added here, in light of another finding of the survey – that a rather high 24% strongly agree with the statement, “my bank views PSD2 primarily as a compliance activity (see Chart 2).

The fact that operations is the function second most likely to not be involved raises a slight concern that there could be a disconnect between some banks’ PSD2 strategies and their operational implementations – and that some banks could be behind the DevOps curve (predicated on closer communication between product, software and operations teams to streamline, speed up and improve delivery of new solutions).



STRATEGY AND APPROACH

CHART 2

PSD2 STRATEGY AND APPROACH

My bank has assessed the implications of PSD2 and concluded that there is a risk of disintermediation if we do not respond proactively to the changes being introduced



My bank believes that we will need new technology to deal successfully with PSD2 and open banking



My bank has a strategic objective to leverage PSD2 as an opportunity to innovate, differentiate and create new products and services



PSD2 is a board level discussion in my bank



My bank is engaging via a consultancy provider to access the technology needed for PSD2



My bank would prefer to engage with a provider of a one-stop shop technology solution for PSD2



My bank views PSD2 primarily as a compliance activity



Do not agree Somewhat agree Strongly agree

Survey question: PSD2 strategy and approach. Please indicate your level of agreement with the following statements.

Even remembering that a resounding 86% say they have a strategy to leverage PSD2 for differentiation and innovation, the fact that a quarter still describe the change as predominantly compliance suggests some banks have yet to fully absorb the opportunities of PSD2.

That said, this could also simply be reflective of the complexity of the compliance landscape for impacted banks, as previously observed. Chart 3 shows how banks anticipate PSD2 will make their lives harder in this regard. Overall, 85% of respondents agree (40% strongly) that “When PSD2 is in force its impact will increase our Know Your Customer (KYC) and fraud challenges”. Meanwhile 72% strongly agree with the statement, “The contradictory demands of PSD2 and GDPR make it even more important for banks to address security and data privacy obligations and as such we are increasing our emphasis in these areas”.

“Sixty-eight percent of respondents agree or strongly agree that their ability to invest in PSD2 has enabled them to speed up their digital transformation programme. Agreement varies by country, with UK bank respondents least likely to strongly agree that PSD2 investment has enabled them to speed up digital transformation (13% compared to 30% of French bank respondents).”

CA TECHNOLOGIES AND FINEXTRA PSD2 SURVEY FINDINGS



REGULATORY LANDSCAPE

The contradictory demands of PSD2 and GDPR make it even more important for banks to address security and data privacy obligations and as such we are increasing our emphasis in these areas.

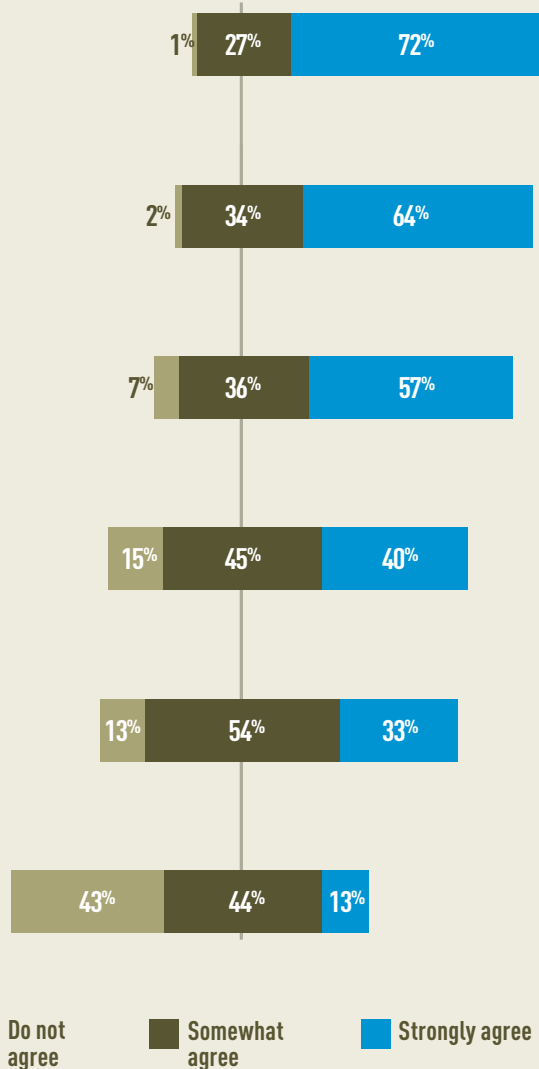
The move to open banking is bigger than any one piece of regulation and the banking landscape will change regardless.

There is a contradiction between PSD2, which requires banks to share more data, and GDPR which requires banks to be even more careful about data sharing, and this is increasing the complexity of the compliance landscape for banks.

When PSD2 is in force its impact will increase our KYC and fraud challenges.

My bank faces challenges in achieving PSD2 readiness – including a lack of the right skills, budget challenges, technology challenges, legacy systems and security concerns.

Changes in the European political landscape (such as Brexit and new governments in other countries in the EU) will impact the way PSD2 is implemented and limit the amount of change PSD2 introduces.



Survey question: Regulatory landscape. Please indicate your level of agreement with the following statements.

Increased data privacy, security, KYC and fraud challenges are perfectly legitimate drivers for banks to ensure their compliance teams remain closely involved with their PSD2 implementations.

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PSD2 IMPLEMENTATION – IMPACT ON TECHNOLOGY

The vast majority of respondents indicate that their banks “will need new technology to deal successfully with PSD2 and open banking” (55% strongly and 39% somewhat agree, Chart 2).

Perhaps not surprisingly, given relative size and complexity, domestic banks are far more likely than global systemically important banks to say they require new technology to deal successfully with PSD2 and open banking (63% versus 50%).

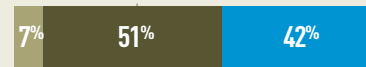
PARTNERSHIPS

When it comes to sourcing technology solutions to support their PSD2 implementations, almost 60% express a preference for working with a ‘one-stop-shop’ provider (14% strongly agree with this option), and the same proportion say they are “engaging via a consultancy provider to access the technology needed for PSD2” (20% strongly agree here).

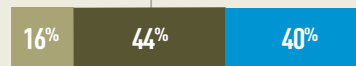
CHART 5

CONSUMER READINESS

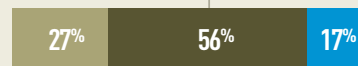
To ensure our customers get the new services they need, we will partner with other providers.



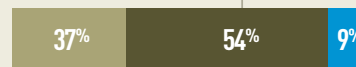
Our starting point for the changes we are making in relation to PSD2 is the customer.



We see a clear demand from our customers for the types of services that PSD2 will encourage us to provide.



Our customers are ready for open banking.



Do not agree Somewhat agree Strongly agree

Survey question: Customer demand. Please indicate your level of agreement with the following statements.

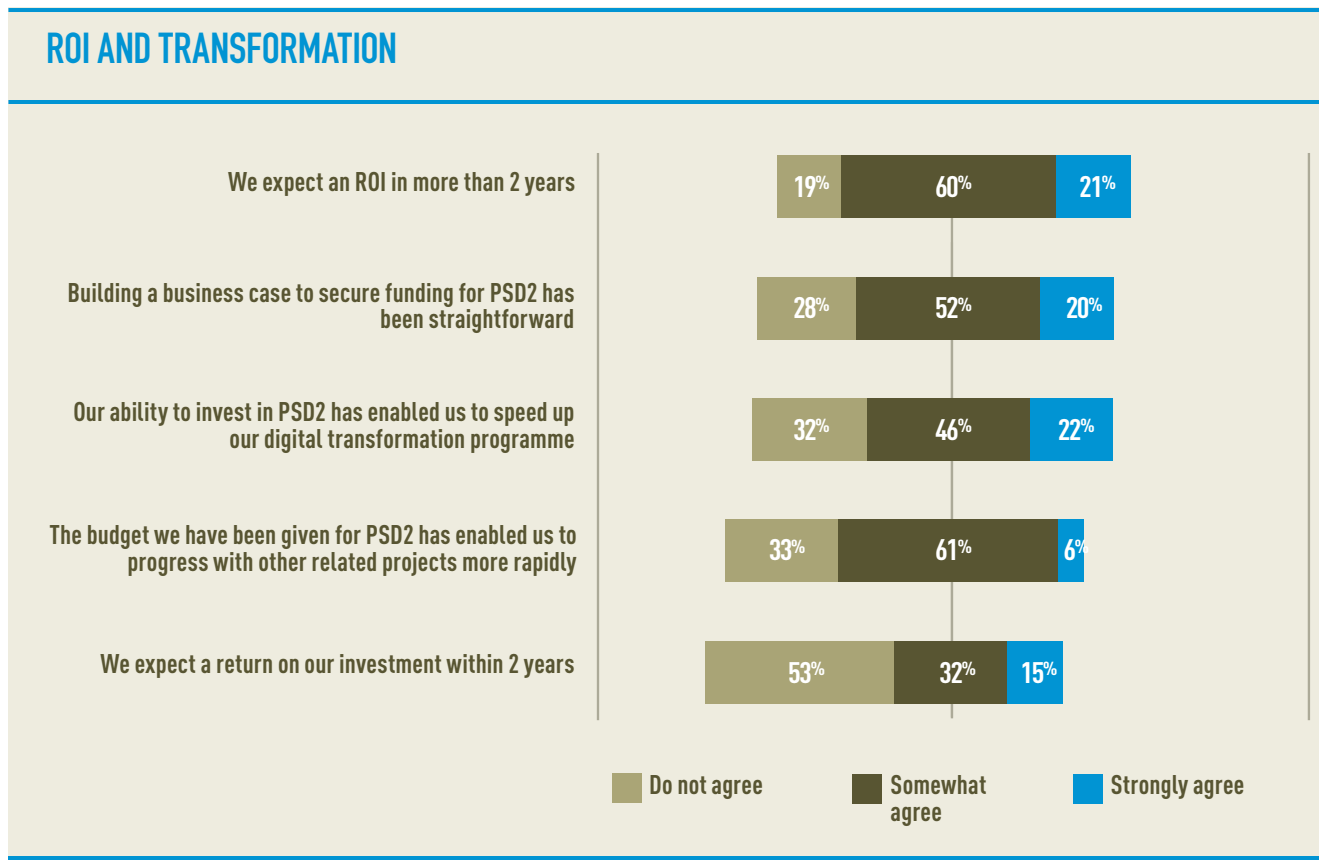
The survey results also indicate an understanding among banks that they may need partners on an ongoing basis in order to be successful in a PSD2 world. As Chart 5 shows, there is strong agreement with the statement, “to ensure our customers get the new services they need, we will partner with other providers”.

The size – and cost – of the projects banks are undertaking to comply with and leverage PSD2 should not be underestimated (Chart 6). Respondents expect a minimum two-year ROI on their investment in PSD2: 81% agree strongly or somewhat with this timeline.

On the more positive side, 68% of respondents agree or strongly agree that their ability to invest in PSD2 has enabled them to speed up their digital transformation programme.

Agreement varies country by country though, with UK bank respondents least likely to strongly agree that PSD2 investment has enabled them to speed up digital transformation (13% compared to 30% of French bank respondents). 67% of the surveyed professionals endorse the view that PSD2 projects have enabled banks to expedite other related projects.

CHART 6



Survey question: ROI and transformation. Please indicate your level of agreement with the following statements.

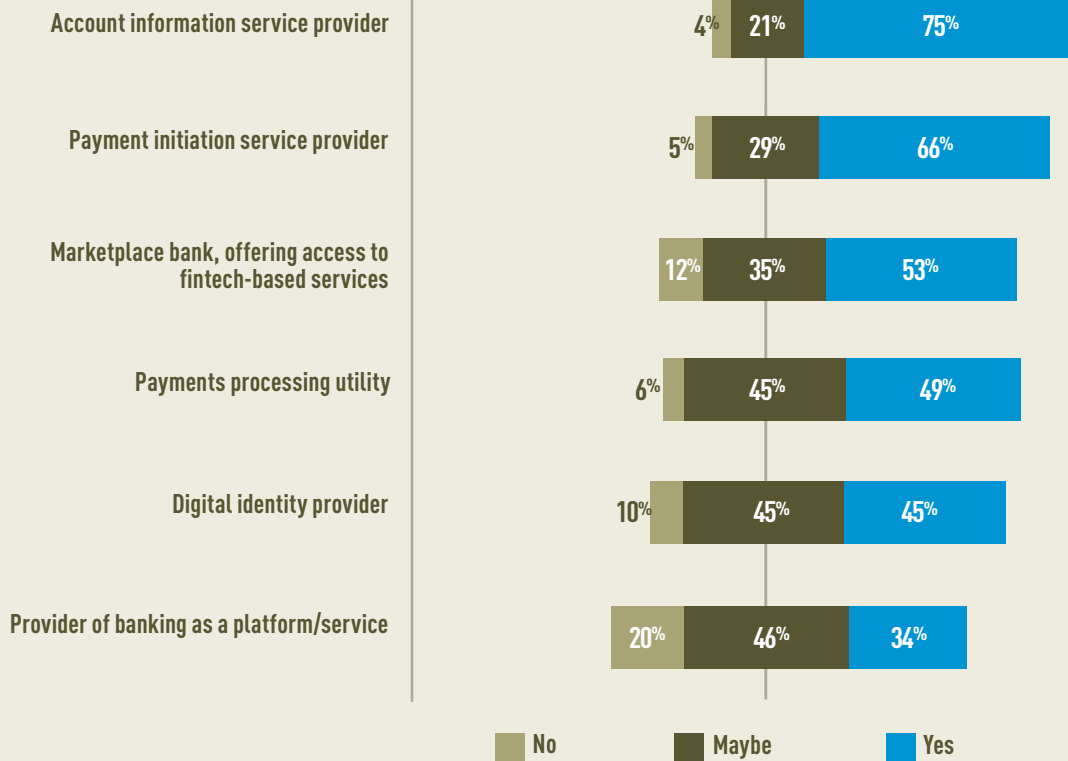
08

WHAT BUSINESS MODELS ARE BANKS TARGETING UNDER PSD2?

The survey results indicate that when thinking about the opportunities for new business models created by PSD2, the respondent banks clearly feel the closest affinity with those models that have been the most widely publicised and are adjacent to their traditional core territory – namely account information service provider (AISP) and payment initiation service provider (PISP).

CHART 7

KEY BUSINESS MODELS TO ADOPT IN PSD2 ENVIRONMENT



Survey question: Please indicate which of the below business models you believe your bank could adopt in the PSD2 environment.

These two varieties of third-party provider (TPP) have been much touted as new competitors to banks made possible by PSD2, but of course aggregation and payment initiation services are also perfectly feasible opportunities for established banks to exploit – and as chart 7 shows, they top the list of business models respondents believe are possible contenders for their banks to pursue in a PSD2 world.

The similarity in the survey's findings about attitudes to the marketplace bank model and the payments processing utility model is worthy of note. These two business models are often placed at opposite ends of a spectrum – with the fintech-driven marketplace bank pitched as the innovative option for forward-thinking banks, and the utility processor the future role to be feared by banks that miss the boat and end up stuck as background plumbers while others reap the rewards of direct customer relationships.

The survey results show, however, that while slightly more respondents give a firm 'yes' to the possibility of the marketplace model (53% versus 49% for the processor model), the number mulling over the processor model is higher (45% versus 35%). In addition, more definitively rule out the marketplace option (12% versus 6% for the processor).

Further analysis of the data shows that UK bank respondents are least likely to say the marketplace bank model is interesting (37%) compared to 63% of Italian bank respondents, and domestic banks are more likely than globals to be considering this model (57% compared to 46%). Meanwhile German bank respondents are the least interested in the payments processing utility model (34% compared to 54% of Italian bank respondents).

Overall though, respondents indicate that the payments processing utility model is essentially as interesting to banks as the marketplace model, slightly more so than the digital identity provider, and noticeably more so than the banking-as-a-service provider model.

Once again, these findings indicate that the respondent banks identify business models closer to existing models as the most obviously viable for them to pursue as part of their strategies to leverage PSD2.



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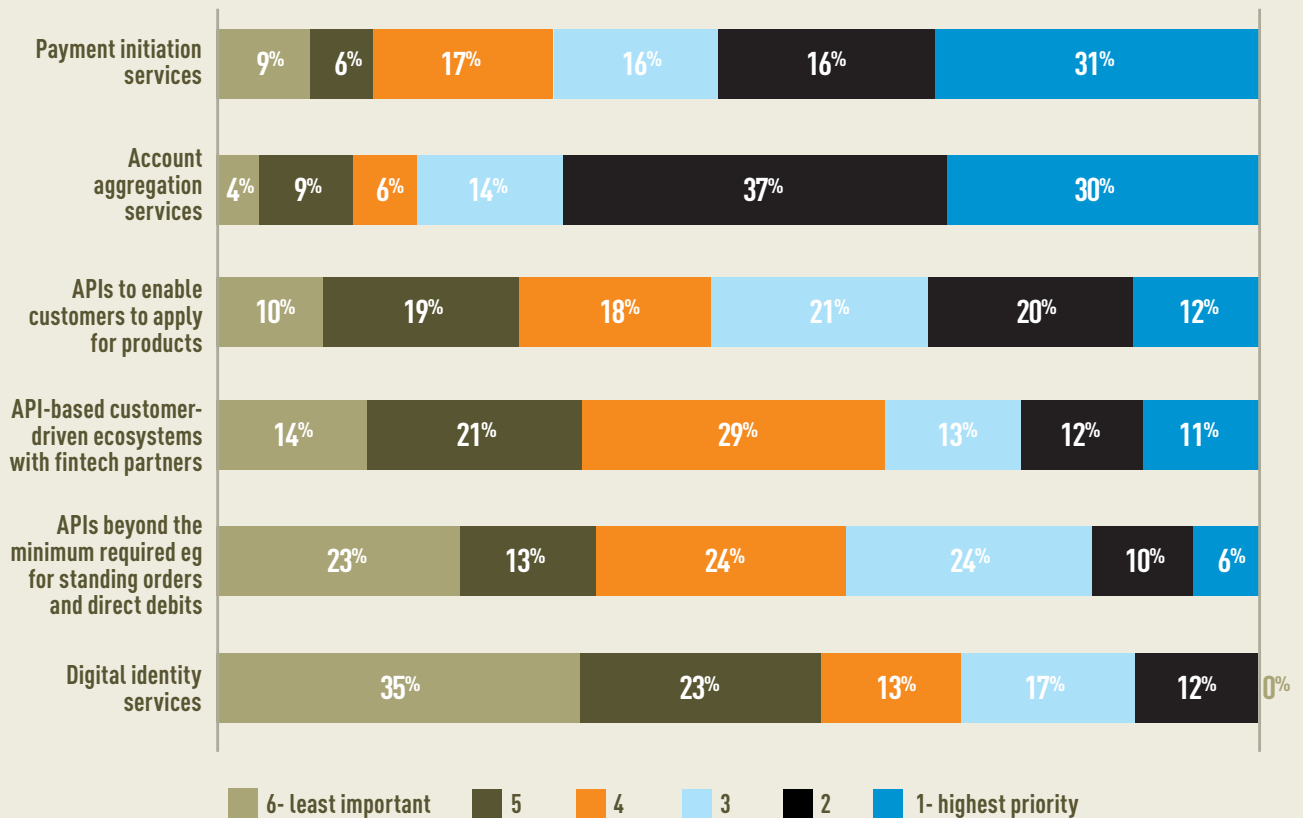
WHICH NEW PRODUCTS AND SERVICES ARE BANKS PRIORITISING?

In line with the findings outlined above, Chart 8 shows that the services banks are prioritising now are aggregation and payment initiation.

Global banks are more likely to be prioritising account aggregation than domestic banks (78% of globals ranked it one or two compared to 61% of domestic).

CHART 8

FUNCTIONS DRIVING PSD2 IMPLEMENTATION



Survey question: Please indicate which functions in your organisation are involved with and leading the implementation of PSD2.

“The services banks are prioritising are aggregation and payment initiation. Global banks are more likely to be prioritising account aggregation than domestic banks– 78% of globals ranked it one or two compared to 61% of domestics. ”

CA TECHNOLOGIES AND FINEXTRA PSD2 SURVEY FINDINGS

Behind payment initiation and account aggregation, respondents also cited other API-centric functions as (overall lesser) priorities, with 32% ranking APIs to enable customer applications as their #1 or #2 priority, and 23% saying that building an API ecosystem with fintech partners is their first or second priority.

Digital identity services do not come out strongly among the priority focus areas according to survey respondents – ranked by no respondents as number one and by only 12% as priority two. As the findings around business models show, respondents do consider digital identity as a viable business model (with 90% tagging it a ‘yes’ or a ‘maybe’). Digital identity is much more popular among Italian (57%) and French respondents (60%) than UK (29%) and German respondents (35%). In Italy, this is in large part explained by the fact that the Italian government launched SPID (Sistema Pubblico Identita Digitale), a national digital identity system allowing public services to be accessed by a single digital identity, bringing it firmly into the public consciousness.

Lower prioritisation of digital identity could simply indicate that digital identity is viewed as an opportunity to be exploited further down the line – rather than as early as the start of PSD2 in January 2018.

This interpretation would also be consistent with the finding that fewer than 60% of respondents believe they will be completely compliant by that start date, and that the full impact and implications of PSD2 will take time to be realised.



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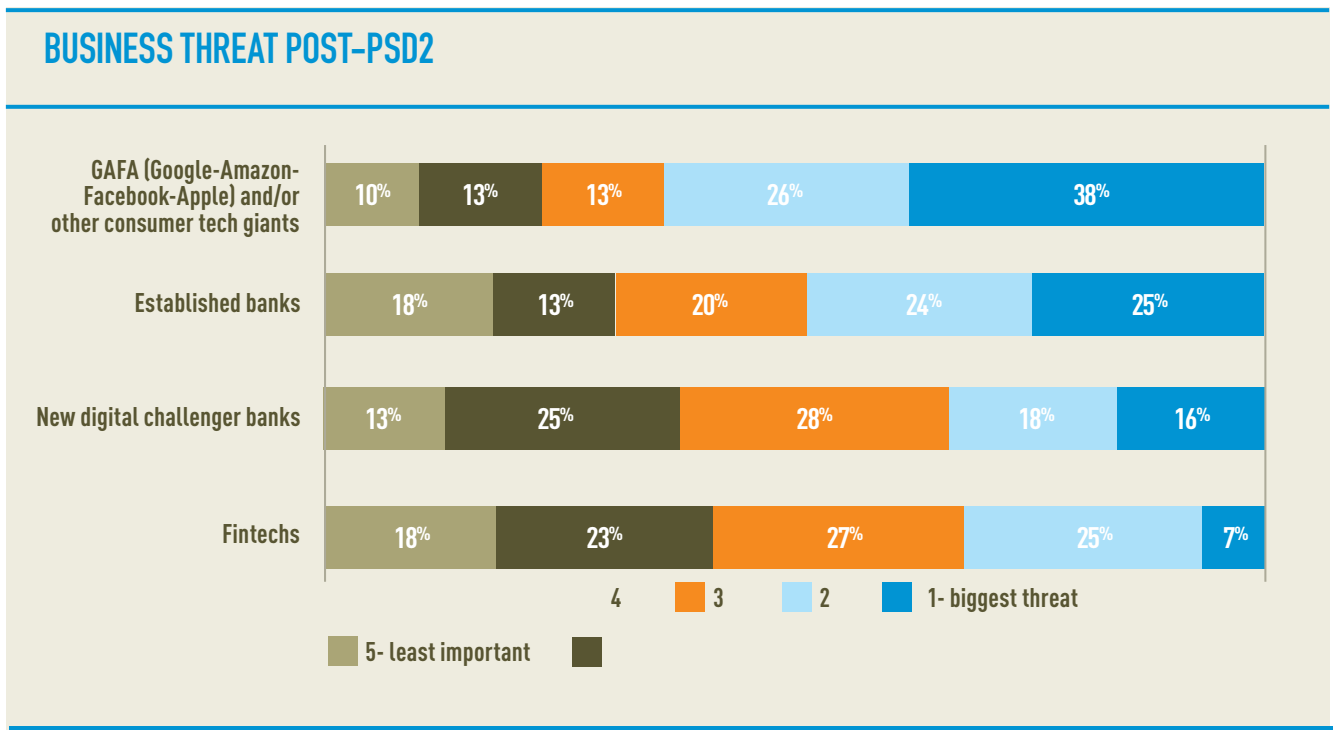
FROM WHERE DO BANKS THINK THEIR COMPETITION WILL COME IN THE PSD2 WORLD?

As previously noted, and as shown in Chart 9, the respondent banks identify the biggest threat to their businesses in the future as coming from the GAFAs.

UK banks respondents are the least worried by GAFAs (26% ranked this option number one), with French banks the most worried (50%), possibly reflecting antitrust sentiment in Europe.

The second biggest threat identified is established banks. (Global banks are more likely to see established banks as the biggest threat: 56% ranked this option one or two, compared to 44% for domestic banks.)

CHART 9



Survey question: From where do you believe the biggest threat to your business will come in a post-PSD2 environment? (please rank from 1-5 with 1 being the biggest threat).

This reflects the evolving view of banks that their core strengths – their customer relationships and their data among other attributes – fit them well for the future. The belief that their businesses are under threat from their traditional competitors could also explain the respondents’ desire to show strength in areas close to their core (payment initiation and aggregation) where they anticipate assaults not just from new entrants but from established players.

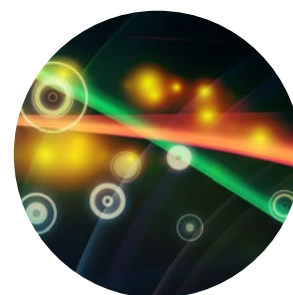
Reinforcing their core strengths could also be viewed as a wise response to the GAFA threat.

The survey’s findings around the extent to which respondents view fintechs as a threat – fintechs are ranked as number one threat by the fewest and a number five threat by the most – are consistent with the narrative of the past 12-18 months during which the common view of the relationship between banks and fintechs has evolved, from one of competition to one of collaboration.

Perhaps explained by the strength of the UK fintech sector, the UK bank respondents are most worried by fintechs: 49% ranked this option one or two, compared to 22% of German bank respondents.

Between fintechs and established banks come new digital challenger banks – clocking up a number one threat rating less than half the strength of that allotted to GAFAs.

Once again, this is consistent with the view that banks recognise that while there are threats out there, they do have native strengths versus new entrants which – especially if reinforced – can be powerful assets in the PSD2 world of the future.



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CONCLUSION

With the initial implementation of PSD2 upon us, banks are responding to the regulation not as an overnight sensation of instant transformation but as the beginning of a long process of change.

Banks are becoming attuned to a fail fast methodology, realising the only way forward is to play a long game, charted meticulously and sculpted continuously, as the new landscape around them takes shape.

While it can't be ignored that almost a quarter (24%) view their stance as merely meeting compliance deadlines, there is an overall positive outlook, with banks in the main seeing PSD2 as a strategic opportunity to innovate, differentiate and create new products. And crucially, a large majority (84%) agree the starting point for change is the customer.

Building the business case is a major challenge, and most banks are resigned to a minimum two-year ROI. This slow burn is down to a number of reasons- the sheer technological overhaul required, the challenge of designing new products and interestingly, the fact banks are not convinced there is sufficient consumer demand for new services yet.

There is a perceived contradiction among almost all banks (94%) between the objectives behind PSD2 and GDPR, the former requiring more data to be shared, the latter requiring banks to be even more careful about sharing data, and this complexity is slowing their progress but move they must, with the trial and error mindset.

New technology is absolutely required to deal with PSD2 implementation, and 60% express a preference for a one-stop shop provider, and consultant advice. AISPs and PISPs are the top two business models banks are developing within the PSD2 framework and a third rank APIs as their #1 or #2 priority to enable customer applications.

Post-PSD2, the biggest threat, as seen by the respondents, is that posed by the so-called GAFAs (Google, Amazon, Facebook, Apple), and not the new digital challenger banks or fintechs. However, banks must recognise their native strengths vs other players and have the confidence to capitalise on them.



PLAN FOR THE FUTURE

- 1 For banks, payment processors and service providers alike, the challenge will be to anticipate changes and to plan for the various scenarios.
- 2 The consumer-focused implications of PSD2 will only become apparent after Jan 2018 – the innovative new products, greater competition and the changing relationships/partnerships. Consequently, the real work (strategic planning, technical build and implementation) will only happen post-Jan 2018.
- 3 One complication for banks is the fact that they are managing multiple, complex initiatives and regulations, many of which overlap. In the case of PSD2, there is also the European Union's General Data Protection Regulation (GDPR). The two regulations are increasingly considered together around their respective needs to capture and control customer data. However, the two acts of legislation are at different stages and have opposing objectives. The obligation for banks to share clients' data still needs to be more clearly understood, particularly around client credentials. The regulator is expected to continue to opine on the missing details but in the meantime, banks cannot afford to misalign the effect that these issues will have on their business models.
- 4 Current customer authentication rules will most likely continue in the short-term to meet the basics of SCA and then develop post January 2018. Banks are concerned about what SCA rules will mean in terms of system changes. The majority would prefer to continue with their current customer authentication applications and build any new solutions required under PSD2 on their existing infrastructure as opposed to investing in entirely new solutions. However, this objective is complicated by a lack of consensus around 'identity' and what it means in the context of regulation and customer expectations. In an increasingly digital age where cyber security is paramount and current onboarding processes are considered costly, there is growing pressure to move away from using passwords for authentication towards greater use of biometrics and new identity schemes.
- 5 Both PSD2 and Open Banking raise the issues of identity assurance, consent to third party providers and how data moves between customers, their host bank and third-party payment providers but there are still different interpretations around exactly what is meant by 'identity'. For example, 'identity' should cover the use of biometrics, selfies and physical devices in real-time, say some banks but this is not explicitly referenced in the Directive. Consequently, the market will have to wait and see how this area develops.

- 6 Not all banks will maintain a watching brief as regards PSD2. Some take the view that a more proactive strategy is needed that identifies the challenges and tackles them directly. However, in the current environment where the cost of compliance is greater than ever before, banks do not want to make too many assumptions about the future direction of regulations.

The cost of compliance is considerable. The recently published World Payments Report 2017 shows 34 key regulatory and industry initiatives currently facing banks so they are looking for new ways to manage this burden. For example, many banks will look to build a single agile framework to deliver reporting requirements across multiple business functions and disparate infrastructures.

- 7 Choose your partners wisely. It is clear that partnerships (between banks, between fintechs and banks, between fintechs, banks and service providers) will be important in the payments sector of the future. Market participants should consider their own objectives and ambitions in the payments market against these likely scenarios, start to plan and also consider what partnerships will be most beneficial to reaching these objectives.

Partnerships will be crucial to making PSD2 work for the banks, something that is becoming increasingly clear to them. Payment-based partnerships are not entirely new. It was back in 2012, for example, that ABN Amro teamed up with core banking provider Temenos to develop a new payments platform but there are likely to be many more in the next 18 months.

- 8 The recent Finextra/CA Technologies survey on PSD2 also supports the prospect of partnerships, given that 93% of the UK payments professionals said that they will partner with third parties to meet their customers' needs. As one banker recently said: "Established banks have a multitude of challenges and must realise that to compete and comply, they should form partnerships with third-parties who can supply cost-effective solutions." Banks have to understand how they can take advantage of third party technology, particularly for some of the more technical challenges posed by PSD2 – such as the problem of secure identity. Banks are also struggling with their own internal challenges – skills shortages, budget constraints and technology limitations.



Finextra

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The PSD2 Solution by CA allows organisations to add layers of functionality for new, innovative use cases, such as enrolling TPPs; consumers consenting access to accounts; strong customer authentication and context-based risk evaluation, which underpins the real-time validation of users.

It also provides the building blocks to dynamically link transaction execution with authorization tokens and is fully enabled for monitoring and analytics.

Moreover, PSD2 solution by CA breaks down the barriers to innovation by giving organisations a head start with specific PSD2 guidance on policies and rules, plus ready to use APIs and documented use cases.

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Finextra

Finextra Research Ltd

1 Gresham Street
London
EC2V 7BX
United Kingdom

Telephone

+44 (0)20 3100 3670

Email

contact@finextra.com

Web

www.finextra.com

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