



# PSD2

Implications of the new payment services  
directive on non-banking entities

The European Union has spoken. The payments industry has until early 2018 to comply with the new Payment Services Directive (PSD2). This regulation is designed to enhance consumer protection and convenience, improve the security of payment services and promote innovation and competition. The high level requirements are clearly defined, but much is being left up to the financial services industry, or the individual organisations within it to define how best to go about meeting them.

PSD2 will herald a number of challenges to financial institutions; however, many non-banking entities are also impacted and will need to make changes to their current systems and processes in order to comply with the updated regulation. In order to address these requirements and assist companies in planning their response to the new regulation, CA Technologies and Finextra have written a white paper entitled 'Preparing for PSD2: Exploring the Business and Technology Implications of the New Payment Services Directive'.

This eBook highlights some of the key themes from this report, and in particular, the associated considerations, challenges and opportunities that PSD2 can bring to industries beyond banking, such as retail, telecom, hospitality and other consumer-facing enterprises.



*“Opinion is divided then as to whether PSD2 will usher in new competition in banking from entities such as telcos and online retailers. Much depends on the strength of the business case, which in turn could depend on how well PSD2 creates a level playing field across Europe.*”

*On the other hand, it could be that as awareness of the implications of PSD2 grows among the telco and retailer communities their appetite to do more will emerge. Retailers already operating banks or partnering to provide credit cards could find it quite straightforward to scale to provide payment initiation services, for example.”*



## Service Innovation in Consumer-Facing Businesses

- **Payment Service Initiation Enablement.** PSD2 provides the opportunity for businesses to become Payment Service Initiation Providers (PSIPs), which would allow them to transact directly with consumers without going through a credit card company. Consumers can grant access to their bank accounts for approved vendors, and these vendors could then access the customer's bank account directly. This approach, also known as 'disintermediation' reduces the transaction chain to just the customer and vendor and eliminates the transaction fee that credit card companies charge to act as the middlemen.
- **Payment Service Expansion.** Many retailers offer limited credit card payment services; however, under PSD2, these businesses could expand these payment services towards more traditional bank-like offerings. This would enable them to increase customer loyalty and 'stickiness' while opening up new revenue streams and opportunities outside the traditional retail space.
- **Payment Account Consolidation.** Consumers are tired of having multiple accounts for each online application and site they visit. With the requirement to open access to user accounts, telco providers, utilities and retailers could provide account consolidation services to their customers, allowing them to aggregate banking and financial information into a single application where it can be centrally managed and reviewed. These Third-Party Payment Providers (TPPs) would provide a unique single-pane view into the finances of their customers.



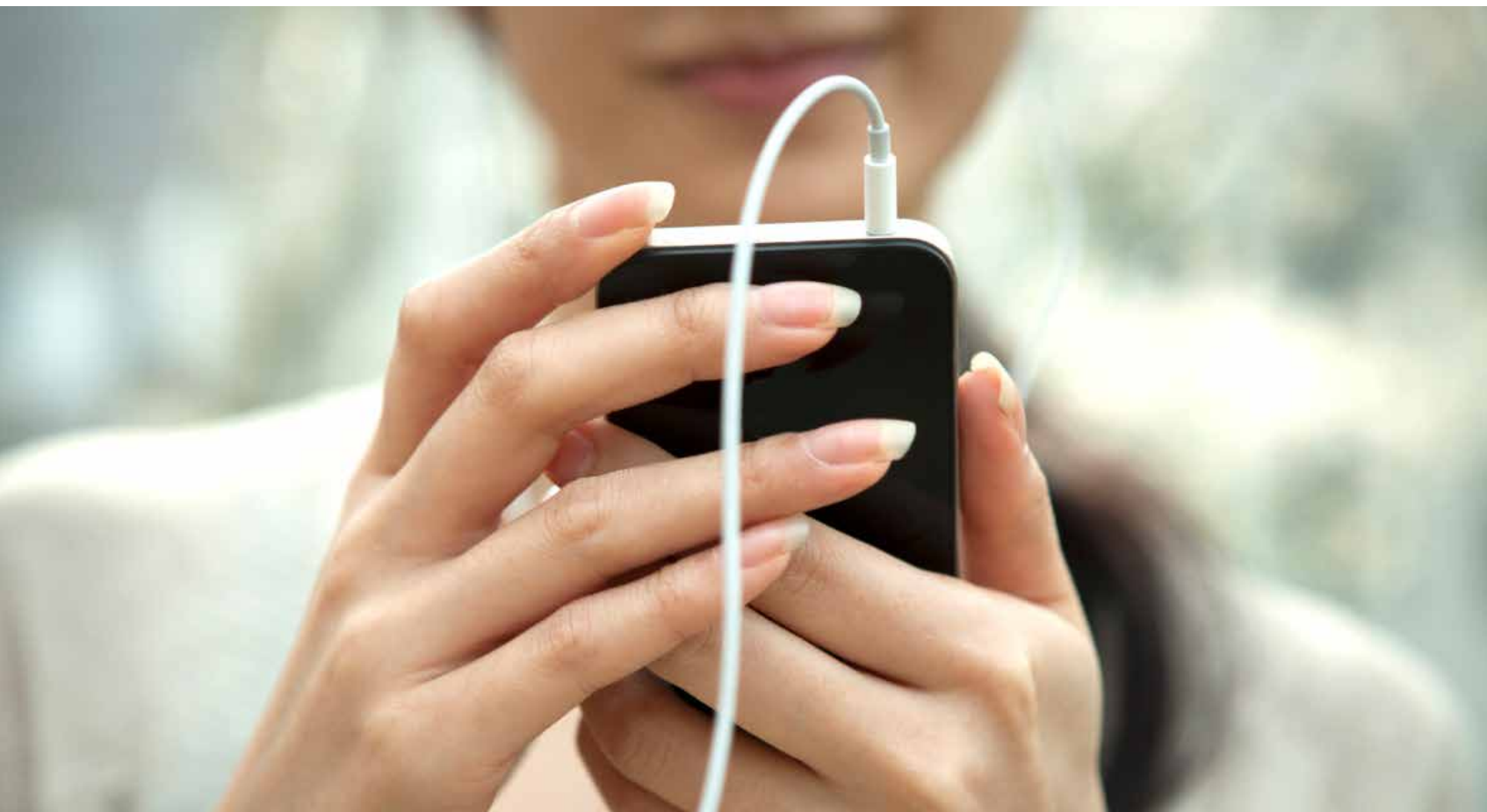
## Customer Loyalty Equals Customer Insight

Many businesses that are providing online goods or services to consumers require an intermediary (e.g., a credit card vendor) to handle the financial payment portion of the transaction. This not only disrupts the user experience but adds unnecessary costs. Having direct access to a customer's bank account and acting as a PSIP would enable the vendor to significantly enhance the customer experience and reduce costs for payment transactions. These savings could be passed back to the customer, thereby further deepening their loyalty and retention. In addition, becoming a TPP would further build brand loyalty as your customers would now have a single-pane view of their payments across all their accounts.

Improved customer loyalty could lead to increased revenue, and the expansion of services offered to customers could lead to new revenue streams. However, this would not be the only benefit of considering the opportunities offered by PSD2. Retailers would also gain insight by managing their customer's payment data. How valuable would this data be to you for future marketing and sales promotions?

*“Your customers want rewards. Technology can make it easy to give them what they want, and to build robust loyalty programs. But the benefits of such a program don't stop at getting customers in the door:*

*If you use technology to your advantage, a rewards program can benefit your business by providing the detailed customer data that businesses otherwise have to pay market-research firms thousands of dollars for.”*



## Digital Currencies

Digital currencies are not new to many businesses. With the creation of loyalty programs, businesses have rewarded customers for continued business through the issuance of miles or points, which could be later used as “digital currencies” to purchase goods and services. By consolidating financial payment account data, organisations could provide a way for customers to manage these types of digital currencies. Miles and points could be converted by your organisation into credits that could be used virtually anywhere. You could even allow customers to purchase digital currency for use within your organisation at a nominal discount (e.g., paying €95 for €100-worth of the retailer’s currency). Or completely unlinked payment forms could be created much like the Mobile Operator Airtime minutes in Africa or bitcoin examples across the world.

In another possible use case, a telco or retailer could use digital currency to offer a standard cash-back rate on any goods or services purchased through their portal. PSD2 will allow the retailer to get the money directly from the customer’s bank payment account, allowing it to avoid credit or debit card commissions and instead deliver direct customer discounts. By becoming a PSIP, you would be taking out the credit card transaction fees and redirecting a larger sum through the company’s financial system, this creates tremendous value, some of which could flow back to the consumer in the form of incentives for future purchases.

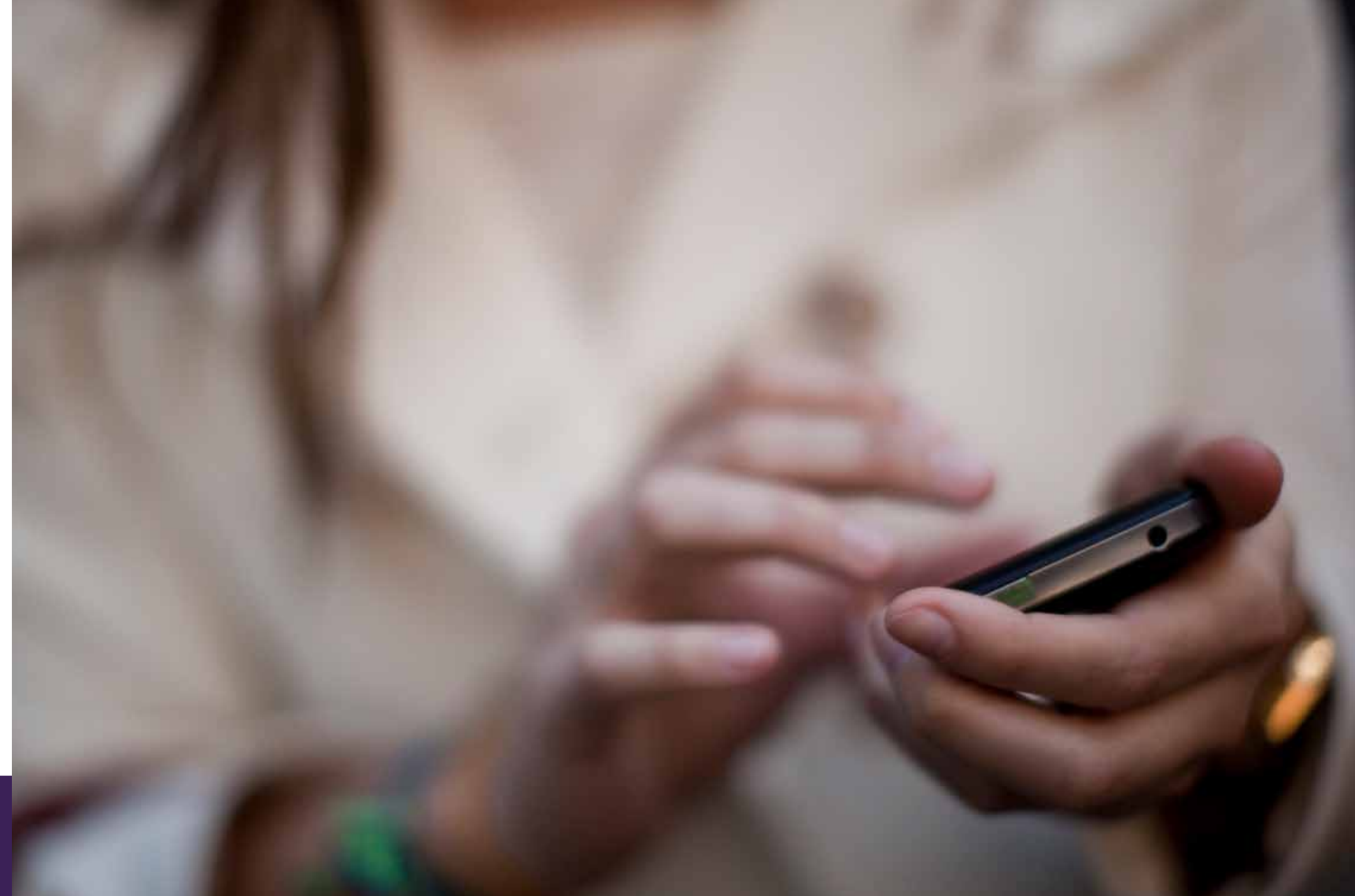
*“PSD2 is very clear on two-factor authentication, so there is a direct impact on our existing business model. We are also looking at opportunities around access to accounts, to enter further into payments. We see an opportunity to grab more of the payments initiation and account information businesses.*”

*I understand the approach of operating within the exemption for some players, but we are a provider to corporate and financial institutions, and we are an innovative company—so we have to be in the front line.”*



## Mobility and User Convenience

Digital transformation is everywhere—big data, cloud, mobile, social media and the Internet of Things are changing the way we all work and play. This new digital world is also redefining the relationship with your customers, who are far more likely to experience your brand and interact with your enterprise through software than with a live person. The driving factor for all of these changes is user convenience and experience. In today's application economy, a convenient, frictionless and interactive experience is what drives user loyalty. This is especially true with mobility. Consumers are increasingly turning to mobile devices and mobile applications as the primary interface to interact with businesses.



*“6.1 billion people will have a “smartphone subscription” by 2020. Eighty-seven percent of people always have their smartphone at their side. Mobile commerce sales grew by 38.7 percent in 2015. Sixty-nine percent of users performed at least one mobile banking activity in 2015.”*

## Enhanced Security

By celebrating each customer's individuality and allowing them to transact securely and seamlessly, providers enabled by PSD2 are able to provide a tailored, customised and frictionless experience. However, non-banking organisations may need to review the protection measures they have in place.

Cybercriminals have expanded their reach beyond traditional targets of consumer banking and credit cards; they are now focused on other forms of online fraud such as harvesting sensitive data that is being exposed online. For example, there have been numerous successful attacks on loyalty membership programs that have reduced consumer confidence.

To address this risk, PSD2 requires the replacement of simple username/password combinations with stronger authentication when users access their accounts, initiate a payment or carry out a transaction susceptible to fraud through a remote channel. But before organisations implement more effective authentication mechanisms for their consumer-based websites and mobile applications, they need to understand the impact to user experience.

*“The security of electronic payments is fundamental for ensuring the protection of users and the development of a sound environment for e-commerce. All payment services offered electronically should be carried out in a secure manner, adopting technologies able to guarantee the safe authentication of the user and to reduce, to the maximum extent possible, the risk of fraud.”*

Directive (EU) 2015/2366 of the European Parliament and of the Council, 25 November 2015, Recital 95



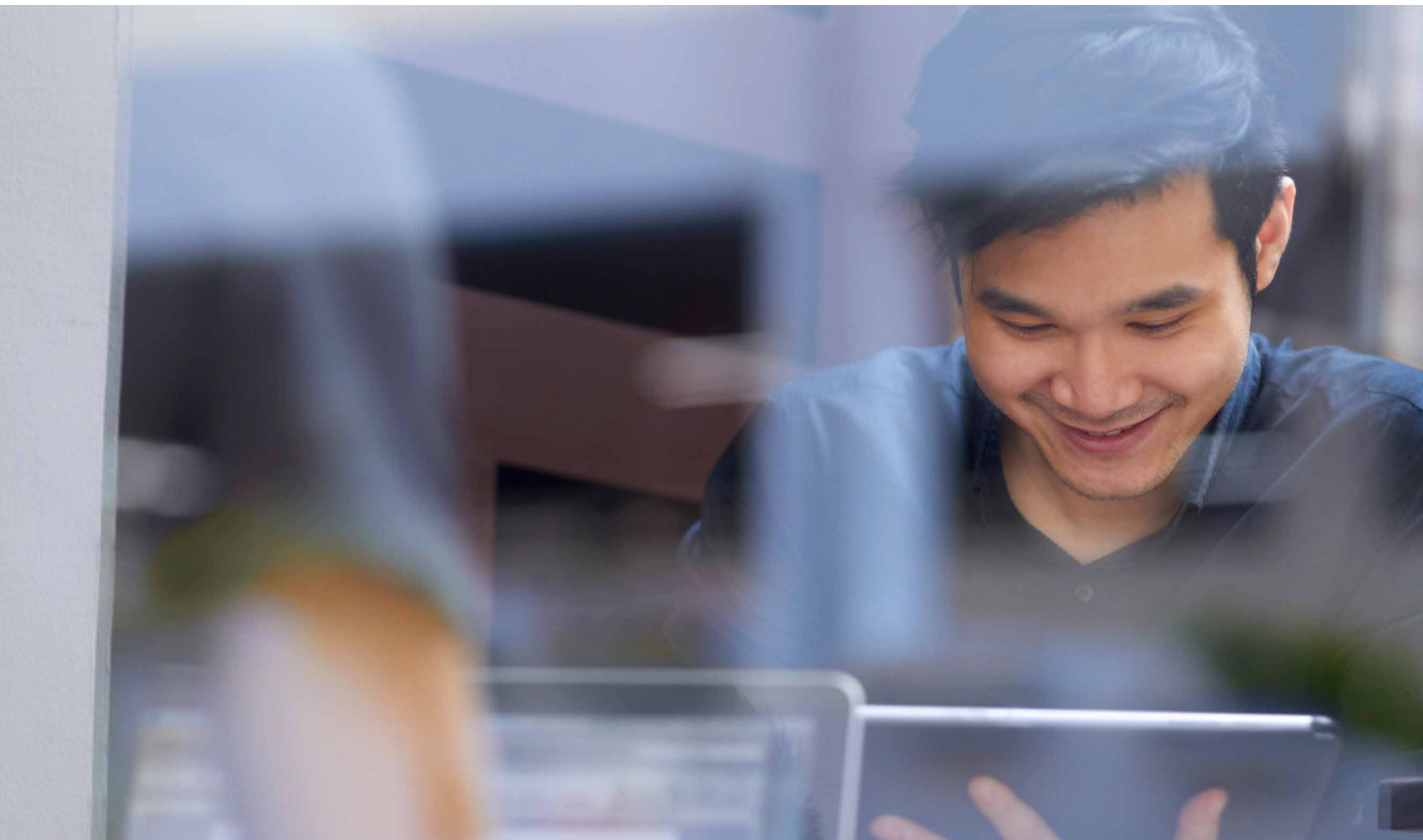
## A Lesson Learned About Customer Experience

Even though more effective authentication mechanisms are rapidly becoming a necessity for consumer-based websites and mobile applications, organisations must consider the impact to user experience before adopting specific technologies. The three primary business drivers for stronger authentication mechanisms are:

- Appropriate Security
- User Convenience
- Total Cost of Ownership

The right combination of the above will help organisations lock down sensitive data but also offer users a frictionless experience regardless whether they interact with the enterprise online or from a mobile device.

*“A Gartner survey of U.S. bank customers, conducted in the wake of banks introducing new authentication methods for retail banking in response to Federal Financial Institutions Examination Council (FFIEC) guidance, revealed that 12 percent of customers had considered changing banks because they found what their banks had done to be onerous, and three percent actually had changed banks. Poor UX led to lost business.”*





## Intelligent Authentication

By combining both strong and risk-based authentication, you have an authentication solution that can:

- Give users the appropriate credential for a specific time and place.
- Reduce the potential for data breaches.
- Help comply with PSD2 and other industry regulations.
- Maintain a positive user experience.
- Decrease administrative and support costs.
- Reduce Total Cost of Ownership.



*“Amazon one-click would be outlawed,” Roger Tym, Partner at Hogan Lovells confirms that on the face of it, given the requirement for two-factor authentication of payments under PSD2, one-click services as they exist today would not be acceptable if they rely on just one factor, like something you know (for example a password and/or PIN), although there could be ways to simplify the customer experience and still adhere to the security requirements of the Directive.”*



## Tear Down the Walls

PSD2 not only requires that financial payment providers ensure that the right person or digital entity is accessing the payment account and authorising payments, but also mandates open and secure communications between account-holding institutions, payment initiators, account information providers, payers and payees. Therefore, PSD2 will force traditional banking and financial institutions to allow third-party access to both customer accounts and payment processes. It is this aspect of PSD2 that creates tremendous opportunities for consumer-facing enterprises, especially in retail, telecom and hospitality, to create new products and services that overlap the traditional banking paradigm.

APIs provide the connectivity to meet these requirements for open and secure communications. As a result, effective API Management that enables the integration, security and control of these interfaces will increasingly become an essential digital business platform component for companies seeking to take advantage of this new opportunity.

*“PSD2 will obviously impact business models and require a rethink of business strategies—probably leading to a new wave of collaboration and partnerships in the new competitive landscape—but the implications of PSD2 from a technology standpoint are also significant.*

...

*With PSD2 IT moves from being a supporting function for the business to being a driver of the business. Banks will obviously have to get to grips with open APIs (which could be a challenge given the reliance of many banks on legacy systems), and all impacted entities will have to grapple with the security and authentication demands of PSD2.”*





## Solutions to Address PSD2 Compliance From CA Technologies

CA has solutions that can enable your organisation to capitalise on the business opportunities offered by PSD2 while also addressing the enhanced security requirements defined within the regulation. They include:

- **CA Advanced Authentication** is a flexible and scalable solution that incorporates both risk-based authentication methods, like device identification, geolocation and user activity, as well as a wide variety of multi-factor, strong authentication credentials. This solution allows you to create a layered, strong authentication process to ensure that only legitimate users gain access to their accounts and payment services.
- **CA API Management** provides the capabilities you need to address the digital transformation challenges introduced in the revised directive. Since APIs provide the connectivity needed to meet its requirements, this solution allows you to create and deploy them effectively, leverage CA Advanced Authentication to secure them across all apps and devices, and accelerate their use by developers.
- **CA Transaction Manager and CA Risk Analytics** help banks to minimize card-not-present fraud while providing a frictionless checkout experience for their customers. Sophisticated risk analytics and dynamic, granular bank-defined rules help to identify emerging fraud patterns and take action on potentially fraudulent transactions in real time. This solution can analyse available data to accurately identify legitimate transactions, reducing the number of genuine transactions that are declined.



**Learn more about PSD2** and the impact it will have on the banking and commercial landscape by reading the full Finextra whitepaper, produced in association with CA Technologies, *Preparing for PSD2*:

**Exploring the Business and Technology Implications of the New Payment Services Directive.**

Read the full report: <http://cainc.to/f0y1Kb>

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