PSD2, open API and real-time breakthrough in payments: the retailers’ perspective

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Agenda

Overview of **PSD2 Payments Service Directive** and key changes:
- New types of Payment Service Providers (PSPs) allowed to operate
- Increased competition among Banks and with Card Schemas
- More choice and strategic options for retailers and merchants

Overview of EPC\(^1\) **Instant Payments initiative** leading to a pan-European SEPA Instant Credit Transfer (SCT Inst) service
- Availability of 24x7, real-time payments from Bank account to Bank account

Implications for **retailers and merchants**, both online and in-store

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1EPC = European Payments Council
### PSD2 Scope and the Expected Impact on Payments Ecosystem

<table>
<thead>
<tr>
<th>PSD2 Key Changes</th>
<th>Scope Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 3rd Party Payment Initiation</strong></td>
<td>PSD2 will allow users to initiate online payments to a beneficiary through 3rd party providers (PISP, Payment Initiation Service Providers). This provides an alternative to the use of payment cards in online transactions.</td>
</tr>
<tr>
<td><strong>2 3rd Party Account Access</strong></td>
<td>Account Information Service Providers (AISP) will be able to access Bank account information, including history and balances, of users which gave consent.</td>
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<tr>
<td><strong>3 Security &amp; Authentication</strong></td>
<td>PSD2 will introduce new security requirements for electronic payments and account access along with new security challenges relating to AISPs and PISPs.</td>
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<tr>
<td><strong>4 Prohibition of Surcharge</strong></td>
<td>PSD2 seeks to standardize the different approaches to surcharges on card-based transactions which are currently applied across EU.</td>
</tr>
<tr>
<td><strong>5 Telco Exemption Narrowed</strong></td>
<td>Telcos will be exempted from PSD2 regulation only for consumer txns using telecoms accounts for digital content not exceeding €50 per transaction or €300 monthly.</td>
</tr>
</tbody>
</table>
PSD2 will enter in force across Europe during 2018

PSD2 implementation roadmap

- **Jan 12th 2016**: PSD2 is published in the Official Journal of the European Union
- **13th Jan 2018**: Deadline for member states to transpose PSD2 as law across all 28 EU member states.
- **8th December 2015**: EBA released discussion paper on authentication and secure communication
- **June - Sept 2016 (est.)**: Consultation Period on draft RTS<sup>1</sup>
- **April 2017 (estimate)**: EBA RTS adopted by Commission
- **Jan 2017**: Deadline for EBA to submit RTS on authentication
- **October 2018 (estimate)**: Deadline for EBA RTS compliance for ASPSP, PSPs, TPPs and Authorities

<sup>1</sup>RTS = Regulatory Technical Standards, e.g. for strong Authentication and Secure Communication

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Under the PSD2 regulation, access to Accounts and Payment services through open APIs will result in new interaction models.

Third-Party Providers get access to banks accounts and payment initiation.
Merchant fees should be lowered as an effect of higher choice and competition on payments

PISP services will likely be discounted w.r.t. the existing rates, driving merchant fees downwards
Banks have to leverage on API technology in order to comply with PSD2 requirements

• At the core of PSD2 is the need for Banks (= Account Servicing Payment Service Providers or AS PSPs) to grant AISP and PISP (= Third Party Providers or TPPs) access to their online account/payment services
• This includes an ‘Access to Accounts’ (XS2A) rule, which will force Banks/ PSPs to facilitate secure access through API to their customer accounts and provide account information to third party apps, if the account holder wishes to do so

Why will Banks/PSPs adopt APIs?

- 3rd party pays per use
- 3rd party gets paid for use
- Indirect Monetisation
- Treasury Open Banking
- PSD2
- In-house innovation
- Hackathons
- FinTechs

Why will Banks/PSPs adopt APIs?

- Trusted Partner
- AISP, PISPs
- Fintechs
- Own App store
- Apple, Google and Microsoft stores
- Partner Portals

Ecosystem

Monetisation

Regulation

Innovation

Distribution

BANKS / PSP

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According to PSD2, enabling Banks to support PISP and AISP services will request an «open APIs» infrastructure

In countries like UK, Open Banking scope is extending beyond the PSD2 mandate

**PSD2**

- **(AISP) Account Information Service Provider**
  - Authentication & Authorisation
  - Account Balance
  - Transaction History

- **(PISP) Payment Initiation Service Provider**
  - Authentication & Authorisation
  - Sufficient Funds
  - Account Balance
  - Payment Initiation

**Open Banking**

**Open Data**

- ATM/Branch Locator
- Loan Information
- Mortgage Information
- Current a/c information

**Customer Transaction Data**

- Account Balance
- Transaction History
- Payment Information

**Customer Reference Data**

- KYC
- Anti Money Laundering
- Credit Scores

**Aggregated Data**

- Anonymised aggregated data
  - Loan approvals to business with a SIC code
  - Cash withdrawals in a location
How fast is «instant»?
Instant Payments is becoming reality across the world

Global availability of Instant Payments schemas
Instant Payments: introducing a pan-European real-time payments scheme to the SEPA area by the end of 2017

Key Use Cases supported

- Send money to a friend
- Pay a small merchant
- Split the bill

Instant Payments characteristics

- **24x7 availability**: consumers should be able to make a payment at any moment
- **Immediacy**: funds shall be available on the beneficiary’s account in real-time or near real-time
- **Irrevocability**: once a payment has been initiated, it cannot be revoked
- **Certainty**: both ordering & beneficiary shall be notified that payment has been accepted or rejected
- **Interoperability**: use of ISO20022 to standardize large data set to allow for interoperability, higher payment efficiency & carry richer data
- **Ease of use**: use of aliases (ie. mobile numbers, email address) instead of just IBANs

Source: Accenture Research
Instant Payments is not (yet) a mandatory regulation, but some European countries already implemented it or agreed on a deadline.

**Instant Payments roadmap**

- EU countries which already operate an Instant Payments infrastructure: **UK, Sweden, Denmark, Poland, Switzerland**
- EU countries which set a deadline for SCT Inst implementation: **Netherland**
Immediate Payments case study: UK faster payments exhibited steady strong growth after launch

UK Faster Payments growth, monthly volumes 2008 - 2015

UK’s mobile services leveraging on FP and fueling additional growth

Paym is a P2P mobile payments app allowing to send and receive payments directly to a current account just a mobile number

Zapp is a service (not yet available) and a merchant acceptance network, allowing in-store and online P2B (person to business) payments from Bank account
Immediate Payments case study: Sweden launched RT payments, mobile p2p and now e-commerce

Innovative/alternative payments are 20% of total payments in Sweden

Swish mobile p2p strong growth

Sweden is a leading country in terms of real-time and mobile p2p adoption

In Jan 2013, the Swedish banks launched Swish, a real-time system for peer-to-peer (p2p) transfers between bank accounts. Swish is experiencing almost exponential growth over the last months.

In Jan 2016 Swish announced the launch of an e-commerce schema, with mobile authorization of a real-time payment from Bank account to online retailers

Swish facts & numbers

3,7 Mil*
Number of subscribers, corresponding to > 40% of active population

2,5 txns/month
On average

Most downloaded app in Sweden**

1. Bank ID
2. Swish
3. Facebook Msng
4. Instagram
5. Facebook
6. Snapchat

* Source: Swish, Dec 2015  ** Source: Swish, Jan 2015
The availability of “Instant Payments” is triggering new customer behaviors, in turn sparkling new business opportunities.

Lessons learned from European real-time payments experiences

Paym (UK): shift from business to non-business hour transactions

Swish (Sweden): new services based on a real-time payments infrastructure

Online payments method with mobile authorization for e-commerce retailers

Mobile in-store payments integrated with innovative eCR and CRM apps for merchants

Paym (UK): new payment interactions triggered by spontaneous behaviors

Source: Faster Payments Scheme Limited & Paym, Feb 2015

Source: Paym, 2016
What does this mean for online and in-store retailers?
Payments evolution: check-out options for retailers today and tomorrow

TODAY

Physical (in-store) merchants

- Cash
- Debit
- Credit

Online merchants

- Prepaid & credit

Conversions vs. Costs

TOMORROW

Polymorphic payments (online + in-store)

- Traditional
- PISP-enabled payments, Instant Payments

Experience-driven

Conceptual
Payment Use Case:
1. Make guaranteed payment for online purchase

Ben is travelling to Asia and realises his wallet has gone missing... He needs to urgently book his return flight

Ben searches the suitable flight and selects it

Ben has the following options to make payment...

Cards

...Ben selects PISP

The PISP redirects the request to Ben’s bank

Bank Authentication credentials

Sufficient funds check and requests to transfer...

API restricted data

...from a/c to Merchant’s bank

Confirms OTP to release funds

Merchant’s bank receives payment

Retailer confirms purchase to Ben

Ben selects the Bank through which he wishes to pay

Ben logs on to travel website and successfully books his return flight

Ben has PISP Authentication credentials

PISP

...Ben’s Bank verifies PISP access and funds and sends OTP

Illustrative
Payment Use Case:
2. Compare a Lending Product and Purchase

Ben is planning to buy a new car and wishes to compare the loan rates offered by different Financial Institutes.

1. Ben logs a single Portal which provides aggregated information on cars.

2. Ben selects car models...

3. ...and the option to compare loan offers with AISP.

4. AISP sends the request to bank1,2.. Bank verifies AISP access right to provide the rate.

5. Ben selects the bank 1 and has 2 option to apply the offer...
   a) Online
   b) In branch

6. ...choose to apply online.

...Bank authenticates Ben & processes the loan request.

Ben receives instant loan access...

...and the option to compare loan offers with AISP.

Illustrative
Payment Use Case: 3. in-store Immediate Payments

1. Anna goes to a luxury shop to buy a new pair of shoes

2. Anna accepts to pay using IP...the SA inputs the value and the Anna’s phone #...

3. ...Anna receives on her mobile the authorization request and accepts it

4. ...SA suggests to use the Instant Payments (IP) to have a free lottery ticket and additional loyalty points

5. SA receives the payment confirmation on the mobile POS

Anna receives a message with pop up to download the shop’s App where she can get the Lottery ticket and Loyalty Points.
So what’s in for online & physical retailers?

<table>
<thead>
<tr>
<th>Services</th>
<th>Potential merchants benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fees / risks reduction</td>
</tr>
<tr>
<td><strong>PISP-initiated payments</strong></td>
<td>✅</td>
</tr>
<tr>
<td><strong>Instant Payments</strong></td>
<td>✅</td>
</tr>
</tbody>
</table>

1) e.g. customizable payment scheduling, accounts selection etc.
2) e.g. coupons, loyalty etc
What’s Next?
Conclusions

• PSD2 and Instant Payments are going to **disrupt payments landscape** before 2020, increasing competition and the level of innovation in payments segment

• **New check-out methods** could become available for merchants both **online** and **in-store**, potentially enabling:
  – An improved customer experience → higher conversion rate
  – A reduction in costs (merchant fees) and risks / liability
  – Improved cash collection

• In order to fully enable merchant payments e.g. for e-commerce and P2B, a rulebook is needed e.g. clarifying liability and disciplinating disputes, refunds, chargebacks...

• **Retailers should remain tuned** in order to understand implications and evaluate actions
Thanks!
Simplicity and convenience are the primary drivers for growth and adoption of real time payments in retail banking

Consumer expectations for instant access and mobile connectivity have driven the recent growth in demand for real time payments

Top Consumer Preferences for Immediate Payments via Mobile Phone¹

1. Easy/Simple (34%)
2. Convenient (25%)
3. Quicker, faster clearing (23%)
4. Secure /safe (18%)

Growth of mCommerce Sales²
Consumers are adopting a 24/7 mobile lifestyle, as mCommerce is expected to grow 21-39% annually in the coming years

$ (billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>$298</td>
<td>$415</td>
<td>$516</td>
<td>$626</td>
</tr>
</tbody>
</table>

Consumer Attitudes indicate…³

94% Would pay for faster international remittances
59% Would pay for faster domestic person-to-person transfers
34% Would pay for expedited bill pay

Source (1) Immediate Mobile Payments: VOC (2) Goldman Sachs mCommerce (3) Accenture Payments Insights Series: Real Time Payments

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