Welcoming a new phase of Everyday Payments in Europe

How the revised Payment Services Directive (PSD2) and other regulatory changes enable Everyday Payments to move to the next level.
Meet Marco and Isabella

Marco and Isabella are a recently married couple currently expecting their first child. Having bought their own home shortly before their wedding, they are busy decorating it and preparing for their new arrival. Isabella’s mum is a frequent visitor to their house to help out.

Marco and Isabella have had bank accounts since they were children, but have previously never regarded their bank as being central to their daily lives. However, in the era of the Everyday Bank ecosystem, that is changing—fast.

The episodes throughout this paper illustrate how Everyday Payments enabled and regulated through PSD2 are key to making this happen.
Today’s banks and payment providers have an opportunity to become central to customers’ everyday transactions, in the same way that social media and online retailers have become central to consumers’ everyday purchasing decisions. To explore and demonstrate how banks and payment providers can realise this opportunity, Accenture has created a vision for Everyday Payments founded on the “Everyday Bank”—Accenture’s point of view on how digital is revolutionising banking and the customer ecosystem¹.

The catalyst for this change is digital payments, with accounts enabled to initiate payments over all digital channels, and becoming the focal points for customer interaction and engagement. In this way, the Everyday Payment Provider will become a trusted and indispensable partner central to customers’ daily lives and activities—helping to fulfil financial as well as non-financial needs, and forging deep and durable two-way relationships in the process.

Innovation in the European payments industry...

In Europe, the progression towards Everyday Payments has been evident in recent years through a number of shifts in the payments marketplace. These have included the advent of increased competition and innovation in payments, the emergence of third party providers (TPPs) in Europe’s payments ecosystem, and the growth in ‘push’ payments directly from bank accounts and payment accounts—and immediate payments transactions such as Faster Payments (UK) and Swish (Sweden).

...will be accelerated by PSD2 and other regulations

These trends are set to be taken further and faster by forthcoming EU regulations and advances in technology, which will combine to take Everyday Payments in Europe to the next stage of development—bringing major benefits around cost, convenience and speed for consumers across the region.

The regulatory wave is being led by the revised Payments Services Directive (PSD2), which will introduce regulation of TPPs and account access that will facilitate Everyday Payments services. A second regulatory initiative is the reduction of interchange fees for card based payment transactions—a move that encourages innovation in new payment methods, seeking new revenue sources to make up for the reduction in profitability of debit/credit card payments for card issuers.

These regulations accompany other recent regulation such as the Payments Account Directive and the European Commission initiative for a Digital Single Market (DSM). Finally, a notable trend is the increasingly prominent role the European Banking Authority is taking in developing guidelines and technical regulation to underpin these regulations—particularly in the area of security, account access and technical interoperability (e.g. the Guidelines for Security of Internet Payments).

In combination with these regulatory enablers for Everyday Payments in Europe, a technology enabler is also coming into play, as banks expose their payment systems through application programming interfaces (APIs) to TPPs to enable payment initiation and account access on behalf of customers.

¹ http://www.accenture.com/microsites/everydaybank
Pervasive impacts across the payments ecosystem

The combined impacts of these changes on participants across the payments ecosystem will be profound and pervasive. They will require banks and other payments providers to change their processes and payments operations, and will accelerate the move towards push payments. At the same time, they’ll also create major opportunities for bank-provided TPP services, and open up the payments infrastructure through APIs. For customers, they’ll help to energise the development of a new generation of convenient, flexible and personalised Everyday Payments services.

For Everyday Banks seeking to compete and win in the era of Everyday Payments, the opportunities opened up by PSD2 and other developments require them to answer many questions around their digital payments strategies and the transformation journey needed to turn those strategies into reality. They must also examine the potential for value-added services in both the retail and corporate markets, and assess their security settings to ensure they are not compromised when providing TPPs with access into their systems to obtain customer account information. Meanwhile, the wider banking industry needs to evaluate and scope out the role that immediate payments will play in enabling and enhancing the entire digital banking and payments ecosystem.

In Europe, Everyday Banking and Everyday Payments have arrived. With PSD2 they are set to progress to the next stage—and banks must be ready. To progress to this next phase of Everyday Payments banks should not treat PSD2 and other emerging European regulations simply as a compliance exercise, but recognise these changes as a catalyst for their own digital payment programmes.

TABLE 1. The case for change for Everyday Payment Providers

<table>
<thead>
<tr>
<th>Key change</th>
<th>Impact</th>
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| PSD2       | 1. Extension of scope beyond Europe  
  2. Regulation of new types of PSPs (see glossary in the panel for definitions) and their ability to access customers’ bank account details or initiate payments on behalf of customers  
  3. Prohibition of card surcharges (details TBC)  
  4. Transparency of Payment Institutions  
  5. Security of online payments and account access |
| Cap on interchange fees for card based payment transactions | Lower profitability for debit/credit card payments, thus encouraging innovation |
| Increased role of the European Banking Authority in developing guidelines and technical regulation, e.g. SecuRe Pay Guidelines | Enhanced security standards and obligations to customers for internet payments |
| Extension of the payments ecosystem | Opening up of bank APIs enabling payment initiation and account access by TPPs on behalf of customers |
# Glossary—PSD/PSD2 terms

**AS PSP**
Account Servicing Payment Service Provider, the traditional type of Payment Institution with which a PSU (payment service user) holds one or more accounts and from or to which the PSU issues payments. Every ASPSP must register under PSD2 as a Payment Institution with limited exemptions as mentioned on page 9. Examples of ASPSPs include HSBC, Santander, UniCredit and Allied Irish Banks.

**AISP**
Account Information Service Provider, one of two new categories of third-party payment provider (TPP) introduced by PSD2. An AISP acts as an aggregator of data relating to a PSU’s accounts held across one or many different ASPSPs. AIsPs must register under PSD2 as a Payment Institution. Examples include Mint and moneydashboard.

**PISP**
Payment Initiation Service Provider, the second new category of third-party payment provider (TPP) introduced by PSD2. PISPs are granted permission by a payment service user (PSU) to initiate payments on behalf of that PSU. They do this by establishing a software ‘bridge’ between the website of the merchant and the online banking platform of a payer’s bank in order to initiate payment. The PISP would typically be made available as a payment option on a merchant’s website. Examples include Sofort and Trustly.

**PSP**
Payment Service Provider, a general term for providers that offer online services for accepting electronic payments by a variety of methods including credit/debit cards and real-time transfer. Traditional PSPs such as banks and financial institutions have now been joined by an increasingly large and diverse set of third party service providers (TPPs).

**PSU**
Payment service user, which is essentially a customer—either an individual or corporate entity—who has one or more bank accounts.
Industry changes

In terms of industry changes supporting the journey to the Everyday Bank and Everyday Payments, two main trends have come to the fore.

**Industry Change 1—Increased competition and innovation**

In the years since the Payment Services Directive was first drafted in 2007, the payments landscape has changed dramatically. New market entrants and innovative technologies have captured rising market share and disrupted traditional payments operating models and customer propositions.

As a result, the payments ecosystem is no longer the sole domain of traditional Payment Service Providers such as banks and financial institutions, but now also involves an increasingly large and diverse set of third-party service providers (TPPs). These include companies such as moneydashboard, Trustly and Sofort.

The growth in transaction volumes being handled by such companies presents challenges from a regulatory perspective, as many new service providers and existing ones such as service bureaux are not covered under the original definitions of a ‘Payment Institution’ in the PSD. This raises issues in areas ranging from client data protection and security to competition, regulation and the legal domain.

Partly as a result, these new market entrants and existing technology service providers face a number of specific challenges. These include:

• Each country has different rules around third-party access to citizens’ accounts, so existing services are largely localised by country.

• The unregulated status of these services under the original PSD has created uncertainty that has probably acted as a brake on their growth.

• Banks are currently under no obligation under European legislation to grant these services access to their customers’ accounts.

**Industry Change 2—The rise of immediate and ‘push’ payments**

The other—equally important—industry change is the rapid growth in ‘push’ payments, involving new forms of contactless and immediate payments transactions such as Faster Payments, iDeal, Realtime24/7, Swish, and Pingit.

**Contactless Payments**

The adoption of contactless payments—an area in which the UK, Poland and Spain emerged as early leaders—is a profound trend in payments that is helping to accelerate consumers’ migration away from cash and towards electronic interactions with retailers. It is also changing consumer behaviours and will have a big positive influence in consumer adoption of contactless mobile payments (NFC) in due course.

**Immediate Payments**

The immediate availability of funds on payment is a very distinct capability from real-time authorisation and guarantee of funds. Immediate payments are analogous to cash transactions since they enable the beneficiary of the funds to make ‘payment-versus-payment’ interactions, meaning they can make immediate use of the funds in another payment interaction. In the few countries that currently have a real-time payments capability, such as the UK, this facility is enabling new business models, including immediate availability of funds after online loan approval.

**Push’ payments will create a different environment and better experience...**

In the future, account-driven ‘push’ payments will have three characteristics that significantly differentiate them from today’s card-based payments:

• No account, card or personal details need be shared with merchants or third-parties: The interaction flow is reversed, creating a more secure payments experience—with retailers providing their IDs to consumers for their apps to authenticate and retrieve details for sending the payment.

• Account-driven payments can be enabled through APIs: By exposing their APIs, banks will make banking services accessible to TPPs—not just for payment initiation or account information services, but also for other services such as account balance display before and after the transaction, payment account selection and instant refunds.

• The consumer is in control: The consumer “presses the button” to send the payment from their account, where they can see if they have sufficient funds to cover it. As a result, declined or queried cards at PoS due to insufficient funds or to over-zealous anti-fraud systems will be a thing of the past.

**Interactions shift from bank-centric to buyer-driven**

The advent of digital ecosystems is driving a fundamental shift away from the historical bank-centric or even customer-centric business model of payments, toward a buyer-driven interaction model. This means repositioning payments to work within ecosystems not as a discrete, stand-alone activity, as in the past, but as one of several integrated elements within a wider end-to-end consumer interaction. The result is that banks and payment processors need to think about payments in a new way—one that aligns with today’s far more complex context for payments.
In the regulatory space, three main initiatives are supporting and hastening progress towards Everyday Payments. These are the enactment of PSD2; the introduction of tighter controls on interchange fees on card payments; and the publication of the European Banking Authority’s Guidelines on the Security of Internet Payments. Here we’ll look at the impacts of all three changes—with a primary focus on PSD2.

The European Payment Service Directive (PSD) 2

The background and timeline for PSD2

The Payment Services Directive was first adopted by the EU in 2007, and then transposed into national law across the EU Member States in 2009. The Directive provided for a harmonious legal framework for all payments made within Europe, with the aim of increasing the speed, efficiency and ease-of-use of European payment services.

These aspirations of the PSD were shortly followed by the adoption by the European Council in September 2009 of the ‘E Money Directive’ which generally aimed to foster increased innovation and competition across the region within electronic payments.

The creation of a revised PSD was initially proposed in July 2013, as a way to respond to changes in the payments landscape since the introduction of the initial PSD and to drive further improvements in payment services across Europe. This ‘PSD2’ will include a number of changes and enhancements to the original PSD, with a view to providing legal clarity and a level playing field for competition between both traditional and new-style Payment Service Providers (PSPs).

The PSD2 is currently going through a consultation process with three parties; the EU Council, European Parliament and the European Commission. It is anticipated that the revised PSD2 may be adopted by the EU in the first half of 2015, and implemented into national laws by 2017.

Key changes to be introduced in PSD2

The PSD2 is a data and technology-driven Directive which aims to drive increased competition, innovation and transparency across the European payments market whilst also enhancing the security of internet payments and account access. While the PSD2 legislation is still in discussion, and the full details will only be clear once the final text is released, our view is that it will seek to achieve its aspirations by introducing five key changes on top of the original PSD.

FIGURE 1. The timeline for PSD and projected timeframes for PSD2
1. Extension of scope beyond Europe and in the definition of ‘Payment Institution’

Whereas the original PSD applied only to payments where both the payer and the payee PSP were located within the EU, the PSD2 will extend this scope to ‘one-leg-out’ transactions—payments where at least one of the Account Servicing PSPs on either end of the transaction is located within the EU. This change greatly extends the scope of the PSD2 and the end-to-end transparency for cross-border payments outside of the European Economic Area (EEA).

PSD2 will also extend the definition of ‘Payment Institution’ defined in the original PSD, and provide a regulatory framework for two new categories of third-party payment providers: the Payment Initiation Service Provider (PISP), and the Account Information Service Provider (AISP). These new categories of service provider—along with the traditional Account Servicing Payment Service Provider (ASPSP)—must all register under PSD2 as a Payment Institution. An exemption to registration as a Payment Institution is provided within the PSD2 framework for two new categories of service provider—along with the traditional Account Servicing Payment Service Provider (ASPSP)—must all register under PSD2 as a Payment Institution. An exemption to registration as a Payment Institution is provided within the PSD2 for ‘credit institutions’ as defined under Regulation (EU) No 575/2013 of the European Parliament and of the Council.

2. Third-party payment initiation

As highlighted above, PSD2 will now regulate Payment Initiation Service Providers (PISPs), which are granted permission by a payment service user (PSU) to initiate payments on behalf of that PSU.

Payment initiation services establish a software ‘bridge’ between the website, app or other front end of the merchant and the online banking platform of a payer’s bank in order to initiate payment. The PISP would typically be a provider made available as a payment option on a merchant’s website, to act as a medium between the customer and their online banking account. Although the PISP does not actually hold the buyer’s funds, it does provide comfort to the merchant that the money is available to be released from the payer’s account. In turn, the PISP also benefits the consumer in that they are provided with the ability to view their account balance at the point of payment initiation.

The growth of PISPs reflects a potential change in the traditional payment operating model from a ‘pull’ process flow, where the beneficiary requests payment via a card network, to a ‘push’ process flow where the PISP executes a credit transfer on behalf of the payer to the payee. This change—which is illustrated in Figure 2—could be detrimental to the interests of card issuers, but may result in reduced fees for both payee and beneficiary. In addition, a PISP allows a payer to conduct e-commerce transactions without requiring a debit or credit card. Examples of PISP services include Trustly and Sofort.

2.3.1. PISP enables same-day bed delivery

One Saturday morning, Isabella gets a call from her mother on her mobile. Her mother says she’s going to come and stay with them for a few days to help with preparations for the new baby. Isabella immediately realises that this means they need to buy a new bed for her mother to sleep in, as they don’t have a spare one. Isabella’s going to be tied up that day, so she calls Marco for him to arrange this.

Marco is out jogging, and while he has his mobile with him, he hasn’t brought any other means of payment. However this isn’t a problem. It happens that he’s jogging near a furniture store, so he drops in and finds a folding bed that’s ideal for their spare room. However, the store staff then say they can’t deliver that day, so Marco goes online on his mobile to find a similar bed from another supplier offering same-day delivery.

Having found a suitable bed on an online store’s website, Marco selects a third-party PISP (e.g. Trustly or Sofort) from the payment options available. Marco is then prompted to select his bank and after doing so then uses his standard internet banking logon and password to log on to his account via the PISP’s site. Marco then selects the relevant account he wants to pay from, and checks the balance on the account. Everything’s in order, so—with one final click—he actions the real-time transfer from his bank account to pay for the bed. He receives an immediate confirmation of payment, and an email from the retailer confirming the delivery time—which is in about ninety minutes. Marco jogs on and completes his usual circuit, arriving home in time to receive the delivery and set up the new bed for his mother-in-law’s arrival.
3. Third-party account access
The second new category of Payment Service Provider under PSD2 is the Account Information Service Provider (AISP). An AISP acts as an aggregator of data relating to a payee’s accounts held across one or many different Account Servicing Payment Service Providers (ASPSPs).

As Figure 3 shows, the AISP connects directly to the online platform of the ASPSP using authentication details provided by the payer. The AISP can typically provide the payee with details such as the payer’s combined balance across all accounts, as well as tailored analyses of payment trends and classifications, both per account and as a whole.

4. Prohibition on surcharges
Currently, different approaches to surcharging on card-based transactions are applied across different EU Member States. The PSD2 seeks to standardise the approach to surcharging, and will work hand-in-hand with the proposed regulation on capping of interbank fees for card-based transactions (see section below) in order to promote cost transparency for European card payments.

5. Security
It is our understanding that PSD2 will introduce enhanced security requirements for electronic payments or online account access but will also lead to new concerns for data protection and security with regard to AISPs and PISPs.

The most notable change is the requirement for all Payment Institutions to implement what is deemed as ‘strong customer authentication’ for electronic payments and online account access. This is defined as the use of at least two independent factors as part of the authentication process across the categories of ‘knowledge’ (such as a password or security question), ‘possession’ (such as a personal device, token or ‘digi-pass’) and ‘inherence’ (such as a fingerprint, electrocardiogram (ECG) or retina data). The authentication factors used must be from at least two different categories and independent, in that the breach of one does not compromise the reliability of the others.

The market has already experimented with various combinations of authentication factors with a notable increase in the use of tokenisation as a means to authenticate card based payment transactions such as in Apple Pay. These requirements for ‘strong customer authentication’ are also reflected in the European Banking Authority Guidelines for the Security of Internet Payments, with further regulatory technical standards also due to be developed by the European Banking Authority.
Under PSD2, strong customer authentication will be mandatory for all electronic or online payments unless exemptions are otherwise published by the European Banking Authority. These exemptions will be of particular interest to mobile payment service providers, which face the challenge of balancing robust security with the ease-of-use and speed that PSUs expect from mobile payments services. Given that technical standards and exemptions are yet to be clarified it remains to be seen whether the final protocols for strong customer authentication will positively or negatively impact the customer experience.

Should a PSP fail to apply strong customer authentication, the payer generally cannot be required to bear any financial consequences of fraud or defective payments resulting from this omission. An exception to this rule applies in cases where the payer has acted fraudulently.

In addition to strong customer authentication, the PSD2 requires that electronic payments executed through a Payment Institution must include security elements ‘dynamically linking the transaction to a specific amount and a payee’. Detail of the technical security requirements for communication between ASPSP, AISP and PISP have yet to be clarified, and will be drafted by the European Banking Authority in conjunction with the European Central Bank (ECB).

A further consideration is that additional security risks may be introduced by PSD2 due to the sharing of personal account details with third parties (AISP and PISP), in order for a PSU to grant the third party access to their accounts with an ASPSP.

Industry concerns over PSD2

In light of the scale and scope of the changes introduced by PSD2, its development has seen industry bodies raise a number of concerns over aspects or potential problems that they feel should be clarified ahead of its final implementation. These concerns include:

- How to ensure safety and security for consumers sharing their online banking credentials with TPPs.
- The current lack of provision for Payment Instrument Issuers (PIIs) to request a ‘funds check’ from the ASPSP, even though such a funds check is permitted for PISPs. A PI is a PSP offering payment cards or other payment instruments to customers of other banks or PSPs.
- Clarification on Article 65(2)—unauthorised payments involving a third party payment service provider (TPP).
- Confirmation of the approach that will be taken to the prohibition of surcharging of card-based transactions. This concern relates particularly to the approach taken for cards that will not be regulated by the Interchange Fees regulation, such as commercial and ‘three-party scheme’ cards which account for around 9% of the consumer card market.
- Confirmation of the responsibilities for enforcing compliance and consumer protection measures in each EU Member State. The relates particularly to whether a Member State can enforce consumer protections via court proceedings as an alternative to doing it through a competent authority.
- Confirmation of refund rights for SEPA Direct Debit (SDD) payments, and clarification on whether the final Directive will include an unconditional refund right or a more limited refund right, possibly with specified exceptions such as in the case of payment of taxes by direct debit.
In December 2014 the European Banking Authority published its final guidelines on the security of internet payments. Based on the recommendations of the European Forum on the Security of Retail Payments (SecuRe Pay), these Guidelines set the minimum security requirements that PSPs in the EU will be expected to implement by 1st August 2015.

The Guidelines address the security of internet payments in response to the rising levels of fraud. The latest pan-EU figures from the European Banking Authority show that fraud on card internet payments alone caused €794 million of losses in 2012, up by 21.2% from the previous year.

In addition to robust technical and functional requirements, specific obligations are outlined in relation to the responsibility of banks to educate and assist customers to avoid security incidents and to perform proactive transaction monitoring to minimise instances of fraud. Banks may also need to amend their channels to strengthen strong authentication capabilities. The main impact, however, will be implementing requirements regarding risk governance and incident monitoring and reporting, that formalise and elevate the importance of current practices.

With effect from six months after the regulation comes into force, the maximum permissible interchange fee will be no more than 0.2% on debit card transactions and no more than 0.3% on credit card transactions, for both domestic and cross-border transactions within the EU. The regulation will apply to card-based payment transactions carried out within the EU, where the payer's and the payee's payment services providers are both in the EU. It will not apply to commercial card transactions, or cash withdrawals at ATMs.
PSD2 will be applicable to payments made in any currency to/from a consumer account where the ASPSP is located within an EU Member State. In the case of transactions not involving consumers, some provisions can be agreed between the PSU and PSP, while others can be defined in national implementations.

Overall, the impacts of the PSD2 will be felt differently by various sectors of the payments ecosystem, as follows.

**Impacts on banks**
- Risk & compliance impacts on products and operational functions
- Increased security requirements for online payments and account access using strong customer authentication
- Increased security risks (due to engagement with TPPs)
- A reduction in card usage may prompt card issuers to change their business models and search for alternative revenue streams
- IT development will be required to provide TPPs with access to consumer accounts, and to differentiate between when an AISP accesses information and when the PSU accesses information
- Increased competition from alternative Payment Institutions
- Definition of technical interoperability requirements between PISPs and AISPs (it is yet to be confirmed how these relationships will work)
- The move to push payments and use of TPPs must be addressed in the bank’s digital payments strategy

**Impacts on Third Party Providers (TPPs)**
- Guaranteed access to technical infrastructure of shared payment systems on the same conditions as traditional PSPs (non-discriminatory treatment)
- Regulated liability for refunds in certain cases
- A requirement to seek authorisation from the relevant national competent authority in order to be enrolled onto the register of Payment Institutions
- Benefits springing from regulated competition standards—ASPSPs cannot charge different rates for payments depending on whether they are initiated via a PISP or directly by the user.

**Impacts on customers**
- Enhanced customer protection, due to clarification of the liabilities in cases where transactions are unauthorised or incorrectly executed
- Reduced costs due to increased competition in the payments market
- Reduction in the dependence on cards to complete e-Commerce transactions
- An increased range of services and greater ease of use of AISPs and PISPs
- A potential change to consumer rights regarding SEPA Direct Debit refunds for authorised transactions (pending clarification in final draft of PSD2)

**Impacts on merchants and corporates**
- Account Information and Payment Initiation services offered by TPPs will provide merchants and corporates with a bank-agnostic alternative to SWIFT, host-to-host connectivity and ebanking for services such as:
  - Balance checking
  - Bank statement reconciliation
  - Cash and liquidity management
  - Enquiries
- Merchants will have to react to the move to ‘push’ payments and new payment initiation services by forming relationships with specific PISPs for the mutual benefit of both parties
- Merchants will be presented with the opportunity to register as a Payment Institution under PSD2 and offer their own Payment Initiation or Account Information services directly—a fundamental change to their payments operating model
1. Opportunities relating to bank provision of Account Information Services

With the implementation of PSD2, traditional Financial Institutions gain the opportunity to operate their own Account Information services with a view to establish themselves as the ‘one-stop’ bank for multi-banked customers. By securing the online customer traffic associated with viewing account balances across all the banks their customers use, a bank will not only have greater opportunities for cross-selling, but will also starve its competitors of the same level of customer engagement.

A bank that takes this approach could also provide additional ‘opt-in’ services built on the application of analytical tools to the account information obtained from other ASPSPs. While these services would be strictly limited to those that the customer explicitly requests, they could include:

- Suggesting suitable banking products/services to the customer based on their wider payment habits. This is particularly relevant for business customers whose cash flow trends may suggest opportunities for credit products, multi-currency accounts or account consolidation.
- Calculating a personalised credit score for the customer, which could better inform a credit or mortgage decision or the rates to be offered. This type of service could rapidly increase the efficiency of credit applications (which typically require statements from other Financial Institutions), and would provide the lending institution with a comprehensive picture of the financial health of the customer, including trends over time. An advanced application of this approach could lead to development of credit assessment algorithms to provide instant credit quotes to the customer in real time.

2. Opportunities relating to bank provision of Payment Initiation Services

Existing PISPs typically focus their services around e-Commerce transactions, with the PISP providing a link between the merchant and the customer’s online banking account. Given PSD2’s definition of the PISP, an opportunity could also arise for a PISP to facilitate transfers from an ASPSP to any other non-merchant third party. It is therefore possible that an existing Financial Institution could operate a PISP service that could permit a customer to execute transfers from the customer’s accounts at other Financial Institutions.

It is highly likely that a Financial Institution that consolidates the opportunities presented by both the AISP and PISP roles may be able not only to consolidate a customer’s financial data in one place (the AISP role), but also to facilitate inter-account and inter-bank transfers (the PISP role). This combination would create an opportunity to control a significant share of the online banking interactions undertaken by the customer. A key aspect of this opportunity is that these services do not need to be linked directly to a current account (or any product for that matter) held by the customer with the Financial Institution offering the service.

3. Opportunities to grow revenue from ‘push’ payments

With the reduction in fees arising from the regulation on interchange fees for card-based payment transactions, banks must change their business models and evolve according the new digital world of Everyday Payments. To achieve this they will need fresh thinking to identify new sources of revenue and opportunities to retain and grow market share. In this context, increased use of inter-bank credit transfers would provide banks with greater flexibility in pricing and – more importantly – would also ensure that it is they who remain at the core of the payment flow, as opposed to the card processor.

Although the PSD2 mandates ASPSPs to treat payments initiated via a PISP “without any discrimination” it remains to be fully clarified as to whether banks will be permitted to charge TPPs per API call (e.g. each time an AISP completes a balance look-up or a PISP initiates a payment).

As we have mentioned, recent payment innovations such as immediate payments support this shift towards ‘push’ payments directly from a consumer’s bank account. The regulation of PISPs under PSD2 will certainly accelerate further innovation in this area and drive migration away from cards towards ‘push’ payments.
4. Opportunities to extend the payments ecosystem

For many banks, the fundamental step in positioning themselves as an Everyday Payments Provider will be to move beyond their traditional boundaries and develop an ecosystem of partners to begin creating a deeper everyday relationship with customers. Merchant funded reward schemes and location-based offers present immediate opportunity. Bold and elaborate partnerships are possible with telcos, retailers, outside financial institutions, utilities, technology firms, and other digital players.

Accenture believes that the smart approach for banks is to leverage this exposure of APIs to drive mass-adoption of digital payments among consumers and to enhance their own payments offerings for retailers and third party services. This opportunity is particularly relevant given the emergence of the new intermediated digital payments ecosystem.

For banks specifically, exposing their payments APIs will enable retailers and other players to integrate the payments function and other banking services such as selection of the payment account as they innovate around the customer purchasing experience.

For merchants, an opportunity also arises to form relationships with specific PISPs which may take the shape of commercial arrangements beneficial for both parties.

This opens up many opportunities. For example, when a consumer downloads a retailer app, instead of registering their debit or credit card with the retailer, they can log into their own online banking account via a PISP provider. Then, when the customer uses the retailer app to make a purchase, the bank’s API allows a payment to be made direct from the consumer’s account to the retailer.

With a registered card, the retailer app can only initiate a payment. In contrast, an embedded bank API means the retailer app can offer a much richer series of functions—such as instant refunds, credit, receipt storage for expense management, and bank-hosted loyalty programs. Figure 4 shows some possible APIs and their capabilities versus an embedded card.

In this way, banks can meet retailers’ demand for payment mechanisms relevant to their digital offering, and allow retailers to define the customer experience they require. Such a solution allows retailers and others to proliferate banks’ payment APIs across the digital ecosystems, and enables consumers to use their bank accounts directly and safely to pay in digital interactions. When payment APIs become widespread, banks can go further by providing merchants, through APIs, with the opportunity to fund their own loyalty, coupon and/or discount programs from behind the bank’s firewall.

At the same time, payments for different types of customer interaction will migrate to different digital channels, with—for example—store-specific items being paid for via retailer apps, merchant-funded offers or loyalty discounts via aggregator apps, impulse buys via social media, and low-value everyday purchases via contactless payments. By exposing their APIs, banks will be able to capture the transactions within these different interactions.

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**FIGURE 4. Capabilities available with exposed payment APIs versus embedded cards**

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<thead>
<tr>
<th>Embedded Cards</th>
<th>Exposed Payment APIs</th>
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<tbody>
<tr>
<td><strong>Consumer Control</strong></td>
<td>- Allow merchant to use card</td>
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<tr>
<td><strong>Card Function</strong></td>
<td>- Authorise payment</td>
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<td>- Decline card</td>
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<td>- Query card</td>
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<tr>
<td><strong>Merchant Settlement</strong></td>
<td>- Through merchant’s bank</td>
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<td>- Direct from consumer’s bank</td>
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<td><strong>API Function</strong></td>
<td>- Send payment</td>
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<td>- Refund payment</td>
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<td>- Store receipt</td>
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<td>- Redeem loyalty points</td>
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<td>- Set up multiple-payments</td>
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<td>- Set up billing agreement</td>
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<td>- Set up payment schedule</td>
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<td>- Search transactions</td>
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<td>- Retrieve address</td>
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<td>- Retrieve payment profile</td>
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...the emergence of the intermediation domain

European regulations, most notably PSD2, along with market forces will undoubtedly affect how banks provide payment services to their customers. Instead of interacting directly with end users for payments as they currently do for online banking, cheque and card payments, a new ‘intermediation domain’ will appear. This domain will grow within digital ecosystems, and will sit between end-users and banks.

The emergence of this intermediary domain will bring some major implications for banks. One is that it will put pressure on the interbank payment systems to become more real-time and information-rich in order to feed the demands of digital commerce. Another is that banks will face a stark binary choice between extending into this intermediation domain and embedding themselves in its ecosystems, or remaining on the periphery as providers of “dumb” accounts that feed the smart accounts of others active in this domain.

To respond to these changes and capitalise on growth in inter-bank credit transfer, payments banks must look to innovate in their payments offerings, and develop a digital payments strategy for a move to immediate, mobile ‘push’ payments. This approach has been on the agenda for some time, with examples including the Zapp payments initiative in the UK, supported by Vocalink. However, with the PSD2 set to provide regulatory support to TPPs and new payment methods, this transformational shift in the payments industry is set to accelerate.

All of this means that banks with a carefully defined digital payments strategy will not only have a competitive advantage over their peers, but will also have the opportunity to capture rising market share from card-based payment providers.
PSD2 Readiness

The first steps for banks and Financial Institutions to prepare for PSD2 is to ensure they have plans in place to support the regulatory changes introduced by PSD2. These include:

1. **Access**—opening bank APIs to TPPs
2. **Interoperability**—ensuring technical communication structures are in place for the secure exchange of information with TPPs
3. **Security**—developing capabilities for strong customer authentication

It is however imperative that banks do not treat PSD2 and other emerging European regulations simply as a compliance exercise but recognise these changes as a catalyst for their own digital payments programmes.

Once the basics are covered, Financial Institutions should look to the opportunities provided by PSD2, the growth of immediate ‘push’ payments and the extension of the payments ecosystem. This starts with investigating the opportunities for banks to provide Payment Initiation or Account Information services under PSD2, and assessing the revenue impacts of the prohibition on surcharges and capping of interchange fees on card-based payment transactions.

Accenture believes that to ensure sustainability and competitiveness in the new and more dynamic payments market, the next strategic move for banks and Financial Institutions is to establish themselves as an ‘Everyday Payments Provider’.

Six components vital to success as an Everyday Payment provider in the new regulatory environment

As the fine detail of all these regulations become clear, banks and Financial Institutions are formulating their strategies for winning out in a post-PSD2 world of Everyday Banks and Everyday Payments. A good way to navigate the journey is to focus on six fundamental components that are vital for securing your place in today's digital payments ecosystem.

**Polymorphic payments**
- Facilitates universal merchant acceptance of any consumer payment method, currency and channel
- Opens consumer access to all payment methods, currencies and channels
- Accommodates individuals, merchants, businesses and corporations
- Integrates payments into the merchant- and provider-designed customer experience

**Cards innovation**
- Migrates and dematerializes cards from plastic to smart devices, enhancing security through encryption, tokenization, biometrics and EMV
- Enables the polymorphic acquirer, providing merchants with a full range of card and non-card payment types with borderless reach and value-added services
- Addresses contactless transaction growth, changing customer behaviours and revenue pressures

**Digital commerce**
- Connects content and service providers via an integrated ecosystem
- Extends payment provider reach across borders and the purchasing value chain by leveraging merchant and consumer data
- Delivers dynamic and integrated propositions and experiences that are tailored to the consumer

**Digital corporate payments and transactions**
- Provides corporate users with digital payment, cash management and trade services through smart devices
- Frees up corporate users with “any time, any place” transaction viewing, authorization and cash management
- Provides for seamless links between physical and financial supply chains

**Immediate payments**
- Increases competitiveness and efficiencies of modern economies via reliable, efficient, immediate transfer and real-time data flow
- Creates compelling, end-to-end customer experience with 24/7, real-time balance updates and funds availability
- Enables new business models

**Payments transformation for digital**
- Prompts providers to enhance transaction engines to power digital channels and multiple business units
- Spurs growing transaction volumes across a range of digital channels and 24/7, real-time transactions
- Exposes payment capabilities through APIs, which merchants and service users can embed in their own apps and devices to tailor the customer experience to their own requirement
Key questions to ask

To help get started on the journey, it’s useful to ask some searching questions about your organisation’s readiness to undertake it. The first question is whether you have defined a clear digital payments strategy that includes the six key components pinpointed on the previous page.

If the answer is ‘yes’, then it’s time to ask further questions, such as:

- Do we have a clear view of how we will execute our payments strategy—including how to become an Everyday Payments PSP?
- Have we charted out the roadmap for our payments transformation journey?
- What value-added services could we provide to generate revenues and market share in both the retail and corporate markets?
- Have we evaluated the role of immediate payments in enabling a digital payments ecosystem?

Contact us

To hear more about how Accenture can help your bank or non-bank PSP prepare to win out in the transformed market for Everyday Payments under PSD2 and the new European regulatory environment, please contact:

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Accenture Payment Services, a business service within Accenture’s Financial Services operating group, helps banks improve business strategy, technology and operational efficiency in three key areas: core payments, card payments and digital payments. Accenture Payment Services and its more than 4,500 professionals dedicated to help banks simplify and integrate their payments systems and operations to reduce costs and improve productivity, meet new regulatory requirements, enable new mobile and digital offerings, and maintain payments as a revenue generator. More than 50 clients worldwide have engaged Accenture Payment Services to help them turn their payment operations into high-performing businesses. To learn more, visit www.accenture.com/paymentservices.