

How banks are gearing up for PSD2

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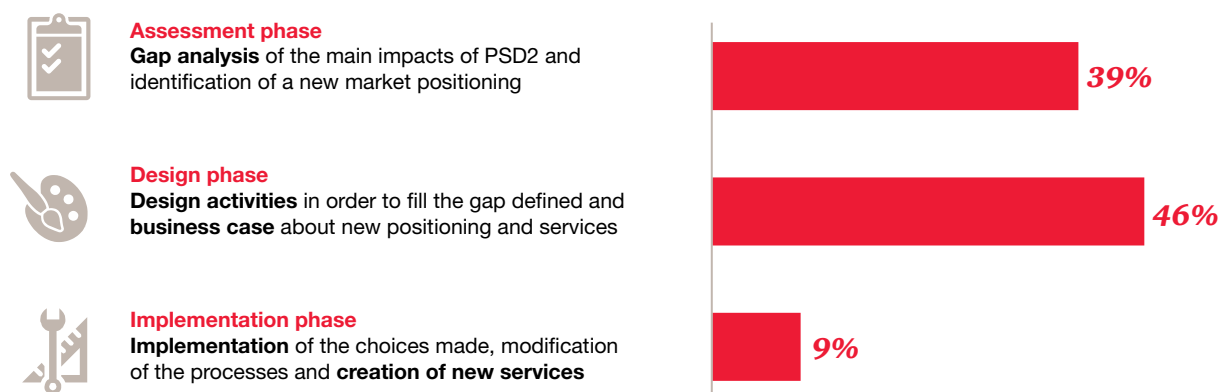
With around five months to go, banks don't have much time left to make sure they're compliant with the EU's revised Payment Services Directive (PSD2). However, for many financial institutions, PSD2 is more than just a compliance exercise. It will impact banks' strategic positioning and significantly change their risk profile as they interact with third parties.

Since Switzerland is not a member of the EEA, PSD2 isn't directly applicable in this country. But given that Switzerland is a member of SEPA (the Single Euro Payments Area), in the future it will be required to demonstrate that national rules similar to PSD2 are in place. There will also be heavy pressure on Swiss banks from the client side to open up their architecture vis-à-vis third parties.

PwC's PSD2 team recently conducted a study across the Swiss and European markets on banks' readiness to tackle the new rules. The survey ran from February to June this year, and 38 large banks responded. The objective was to understand how much progress regulators in each state had made in terms of transposing PSD2 into national regulation, the state of play for banks in relation to implementing PSD2, what opportunities banks felt PSD2 offered them, and the impact that open data might have on banks' systems and infrastructures.



In which phase of the project are you currently?



When the survey started, the common perception in the market was that banks would be taking a compliance-first approach to PSD2. The results, however, show that this is not the case: rather than adopting a ‘wait and see’ attitude, banks are in fact investing a great deal to make the most of the opportunities that PSD2 presents. This is exciting to see.

In particular, the survey showed that:

- The banks interviewed clearly consider PSD2 to be a strategic priority; 94% have started a PSD2 project, with 46% of these already being in the design phase of the project. This shows that banks are becoming more familiar with PSD2 and turning the threat into opportunity.
- 60% of medium-sized banks are in the assessment phase, planning to finalise by the end of the summer.
- PSD2 is very much seen as a strategic opportunity that can be harnessed by applying a bank’s core capabilities. However, banks acknowledge the need for investment and developing new innovative services, such as Account Information Service Providers (34%) and Payment Initiation Service Providers (23%).
- The new directive requires banks to open up their infrastructure and interact with third parties, and according to the survey results half of the institutions interviewed (47%) consider investment in an open banking infrastructure to be one of the key priorities.

For this reason, banks are embarking on implementing their strategy. To achieve this, banks seem to be relying on external innovation to stay competitive, with 71% of banks considering partnerships with fintech to develop new products and services (including API). The main aim of these partnerships is to leverage the third party’s strengths and knowledge in new technologies and customer experience, and in particular to develop AISP/PFM (36%) and PISP (25%).

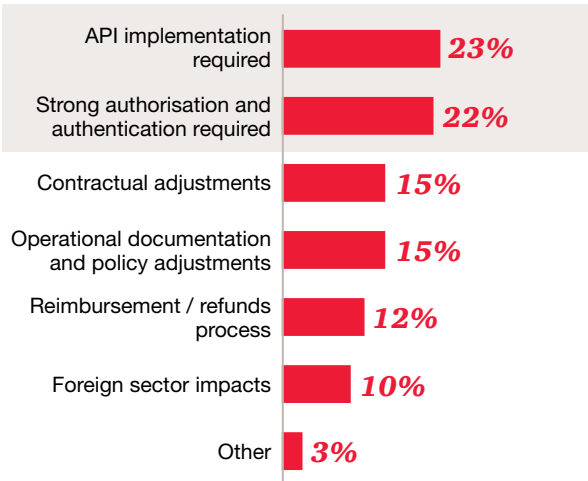
Many large banks are currently working on building marketplace models using closed ecosystems such as their own accelerators. PSD2 means that banks can’t choose who they want to open their data to, so to some extent current partnerships may not be as valuable in the long run. However, large banks are known for being good at risk management rather than being nimble and innovative, so partnerships with fintech companies today can go a long way in terms of helping banks create exciting service offerings that will enable them to survive and win in the post-PSD2 marketplace.

The survey also threw up some interesting differences between the UK and mainland Europe in terms of PSD2 readiness.

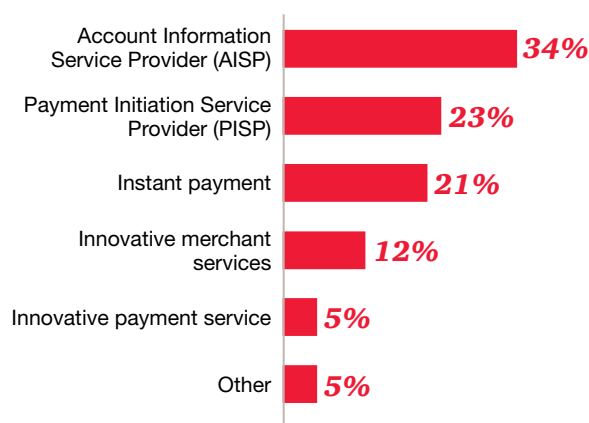
Compared with their Continental European counterparts, UK banks seem to have a positive perception of PSD2, seeing it as an opportunity to increase their revenues (16% in the UK vs 7% in the rest of the EU). UK and mainland European banks share the opinion that PSD2 is an opportunity to create new digital services. UK banks are focused more closely on the opportunities to offer merchant services (27%). In fact, merchant services have the same priority as AISP/PISP for institutions in the UK, but don't seem to figure high on the list of priorities for other European banks (9%). Moreover, all the UK banks (100%) state that they have already thought about creating partnerships with fintechs (compared with only 67% in the rest of Europe), indicating a very proactive approach and an openness to the opportunity of extending their current offerings and taking a step ahead.

The major risks for financial institutions take the form of increased competition in the market and the fact that banks must give third parties access to their customers' accounts and data, allowing these third parties to compete for the management of these people's finances. Banks have a strong card to play in terms of their existing customer base and knowledge of customers, but a proper strategic response is critical if these players want to avoid becoming disintermediated by more customer-oriented third-party offerings. If banks don't take action and leverage their accessibility to customer data, they risk lagging behind and losing important business to other contenders.

Which are the main impacts of the PSD2 on the banks' overall structure?



Which are the types of services banks want to implement?



PwC's dedicated team of professionals has the fully integrated, multidisciplinary skills to help you respond to the entire range of issues related to PSD2. As the new rules approach we have stepped up our capabilities: our PSD2 Centre of Excellence has joined forces with Strategy& to create a common approach to PSD2 that will enable players in the market to address the risks and opportunities of the new regulation, share relevant information, and benefit from insights from other countries. Besides enabling us to draw on the in-depth knowledge obtained from research, this collaboration allows the exchange of practical information and experience and creates opportunities to learn from the situation in other territories. Call us if you want to capitalise on the new rules.