

PSD2 and open banking

The opportunities for banks
in the digital finance ecosystem

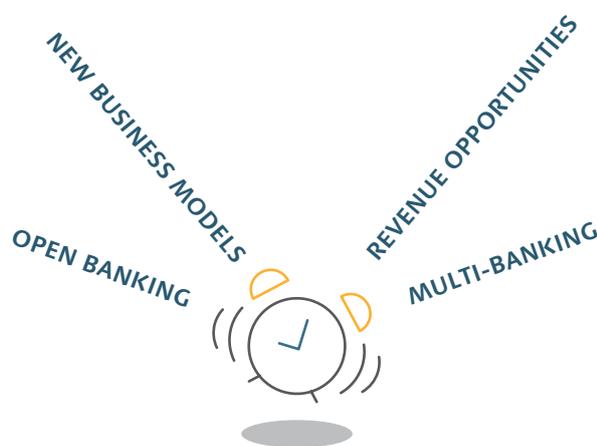


Executive summary

The requirements of the Second Payment Services Directive (PSD2) are due to be transposed into national law by January 2018. This is a binding obligation for all EU member states. Banks are required to make interfaces available to third-party providers that allow account details to be viewed and payments to be initiated. Many established financial service providers have adopted a critical stance towards this topic – yet it offers great potential at a time of limited interest margins. Institutions that build open banking platforms early can collect and exploit data of their own, as well as offering new services. In this way, they can provide an outstanding offering in the context of the sharing economy – thus securing competitive advantages for themselves and expanding their share in the market.

An institution's ability to position itself as a first mover may prove decisive for its future over the next few years. The key objective here is to attract and retain as many customers as possible via an open banking platform. Meanwhile, institutions that merely create interfaces that make data available to third parties to the minimum extent required by law, risk forgoing customers and revenue.

PSD2 is a wake-up call to the industry; institutions are being called upon to transform from traditional financial service providers into multi-banking players. An open finance ecosystem generates new lines of business and revenue opportunities. With CREALOGIX – the market leader in digital banking with around 20 years of experience – companies can position themselves for the long term and stay ahead for years to come.



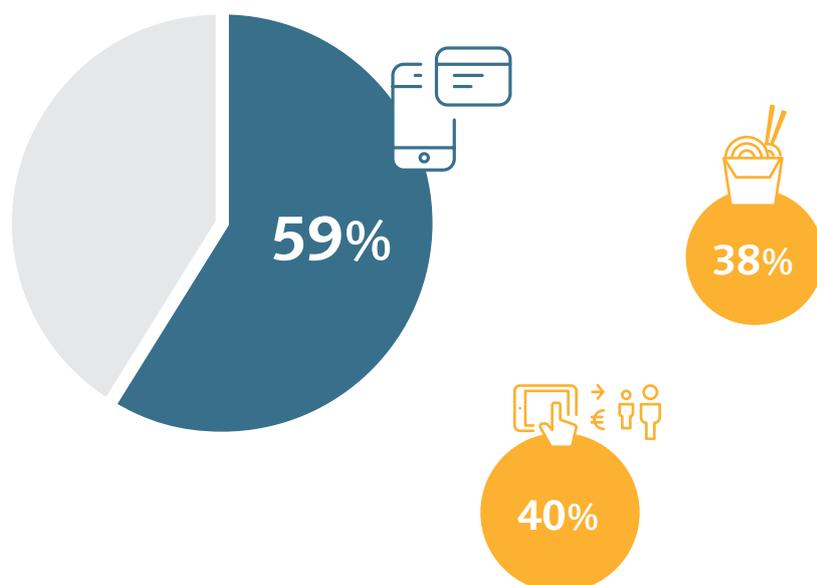
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Digital banking on the rise

Mobile payments are growing increasingly popular

According to a study by Visa*, the number of Europeans who regularly use a mobile device (i.e. a smartphone, tablet or wearable device) to make payments has tripled within a single year. The 2016 study surveyed over 36,000 consumers in 19 different European countries, with 54% of the respondents stating that they regularly used a mobile device to pay for products and services. When the same survey was carried out the previous year, that figure was only 18%. These results show that the acceptance of mobile payment increased substantially between 2015 and 2016. In 2015, 38% of respondents stated that they had never used a mobile device to make payments and that they did not plan to do so. By 2016, that figure had fallen to 12%.

In Germany, a total of 59% of the consumers surveyed use mobile payments, and among the 18-24 age group this rose to 78%. Of these respondents, 40% use their mobile devices to transfer money to family and friends, while 38% use them to pay for take-away meals ordered online.

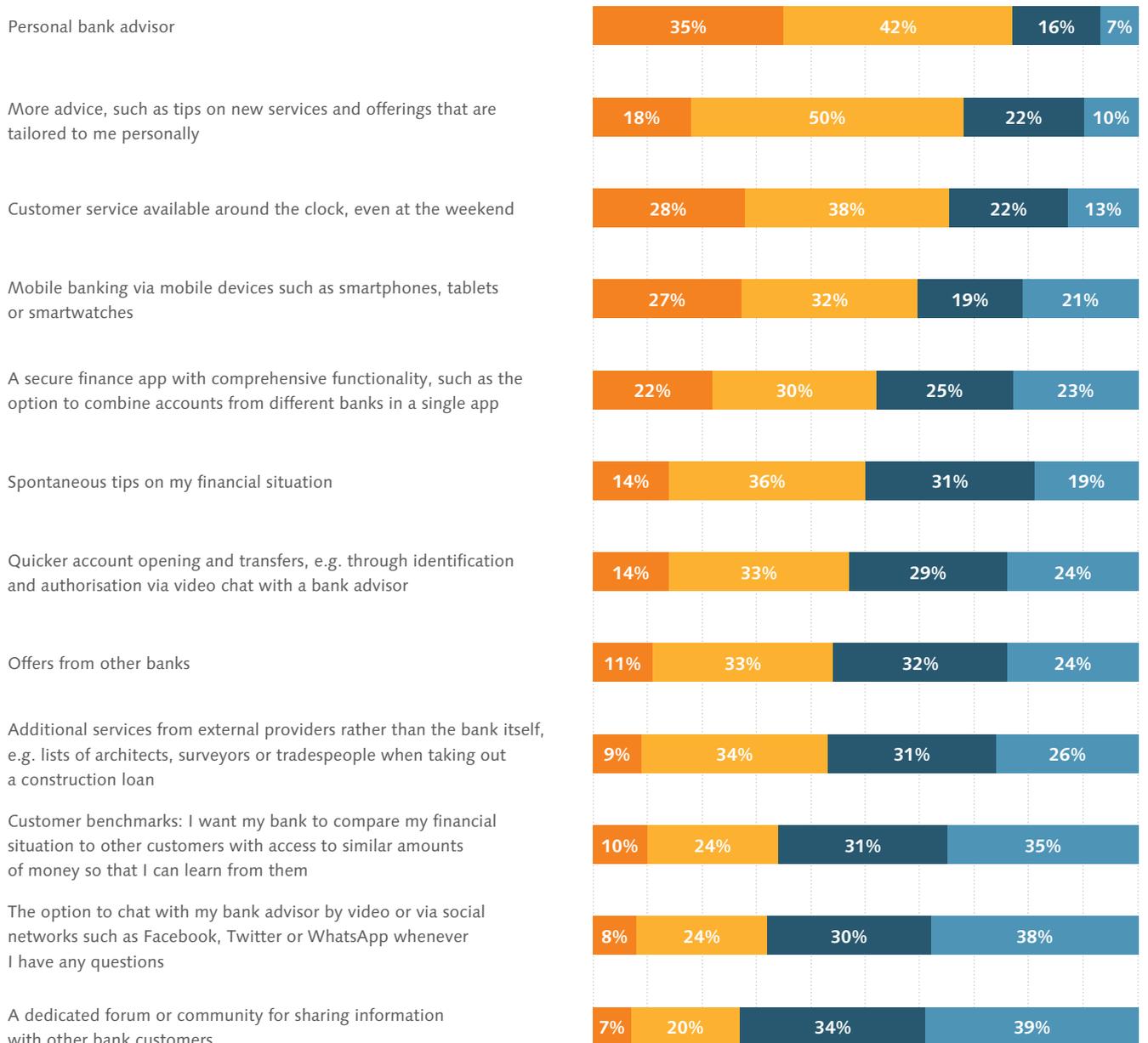


* Visa, Digital Payments Study „Mobile Payments soar as Europe embraces new ways to pay“, August/September 2016

Digital services enjoy high popularity

Another exciting finding relating to mobile banking comes from an online study carried out in 2016 by PwC in Germany, which shows not only that many banking customers want to see more customised services, but that 66% of customers also view mobile banking as an important service offered by their bank.

How important is it to you that your bank should offer the following services?



■ Very important
 ■ Important
 ■ Unimportant
 ■ Very unimportant

Source: PwC, Online Study „The future of retail banking“, June 2016

PSD2 – The start of open banking

The EU regulation PSD2 essentially requires financial service providers to provide legitimate third parties with access to their customers' account data, and to enable them to initiate payments. The principal bank – i.e. the credit institution where the account is held – is obliged to create the IT basis for this in the form of interfaces (APIs). As sensitive information is involved, all automated access to data is subject to extremely strict security requirements.



„In order to thrive, innovative financial services need a clear legal and regulatory framework. The revised Payment Services Directive (PSD2) and the Regulatory Technical Standards (RTS) lay the groundwork for this.“

Yves Mersch, Member of the Executive Board of the European Central Bank, 18 May 2017

Regulatory timeline



July 2013

PSD2 COM publishes proposal



January 2016

PSD2 comes into force



August 2016

RTS on security and authentication:
1st discussion paper published

This pan-European regulation has initiated a fundamental change to the entire banking industry. The principal bank is no longer positioned as a primary contact point for customers – instead, a paradigm shift towards open banking is taking place. This will increase the intensity of competition and generate a climate that is open to innovation. The regulation is fully capable of transforming the entire value-creation chain in the financial sector and in payment transfers. Traditional players who merely respond by doing the minimum necessary to become compliant will see their influence dwindle.

Institutions do not have much time left to prepare for this new world of banking, as the 28 member states of the EU must transpose the regulatory requirements into national law by 13 January 2018. The European Banking Authority will publish the final version of the Regulatory Technical Standards (RTS) some time between October 2018 and the start of 2019. At that moment, the digital transformation will drive the creation of new business and operating models and financial ecosystems – including outside the EU.

Banks should use this time window to proactively shape their transformation from account-managing credit institutions into holistic digital service partners.

By analysing internal bank data and external market information, institutions will have access to new business areas and value-creation potentials in partnership with other companies.



January 2018

PSD2 transposed into national law



October 2018

Earliest possible date



≈ H1 2019

Latest possible date



RTS on security and authentication

PSD2 – What's changing for banks

Looking back on 2016, the German Bankenfachverband banking association reported in spring 2017 that credit banks had been able to expand their online financing business by nearly a quarter. "Digitalisation offers strong growth opportunities for finance providers," according to Jan W. Wagner, Chairman of the Bankenfachverband. The overall total of loans made to private individuals may have consistently remained at around 231 billion euros for over ten years, but a clear trend can nonetheless be observed; approximately half of these financing services are now provided by credit banks, whereas ten years ago this was the case for only one quarter.*

The PSD2 regulation will continue to drive this development:



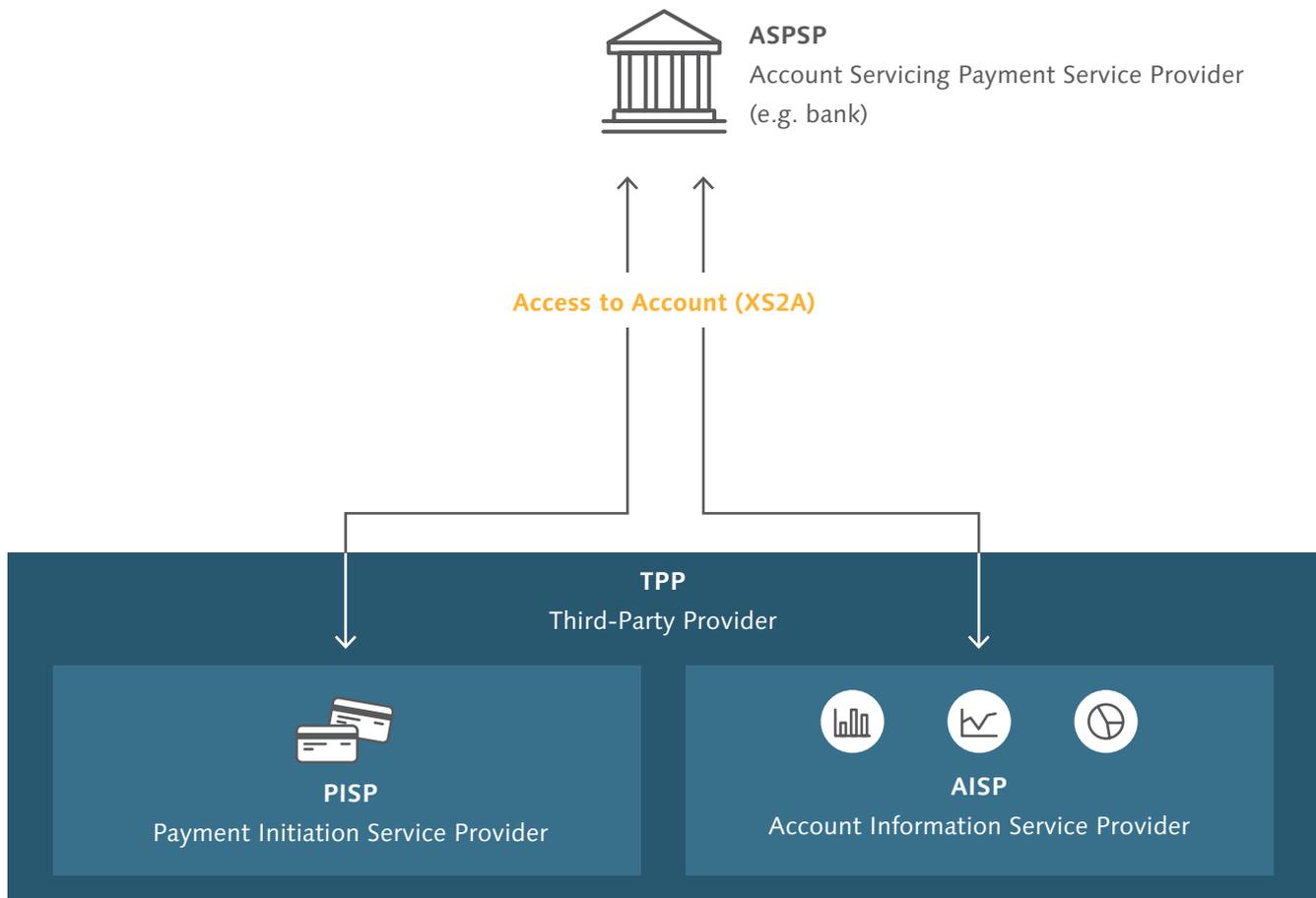
The online sales channel will continue to increase in importance



Specialised providers will expand their market share

* Press release by the Bankenfachverbands dated 20 April 2017: "Credit banks continue to expand their business in 2016: online financing grows by 23 percent"

Payment Services Directive 2 (PSD2)



PSD2 opens the way to two new kinds of third-party service providers and in the process introduces new incentives to open banking. Special payment services known as PISPs or Payment Initiation Service Providers – like PayPal or instant transfer services – will gain access to account information and transactions. Account Information Service Providers (AISPs) enable their customers to gain a clear overview of their finances completely automatically by bringing information about all their accounts together in one place. PISPs allow customers to initiate payments from their account without making direct contact with their bank – e.g. when shopping online. Whether online or in a traditional bricks-and-mortar shop, the services provided by PISPs will soon open up a whole range of new cashless payment methods.



Strict security requirements

Because PSD2 also aims to enhance consumer rights, strict security requirements are applied to the initiation and processing of electronic payments. These range from customer authentication to the monitoring and documentation of payments. The protection of consumer financial data is also a top priority, Institutions are responsible for ensuring that the information made available is used only for the authorised purpose, and that only the data required for the transaction is transferred.

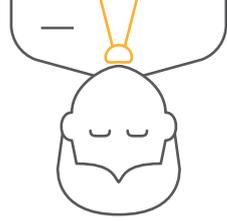
The biggest challenge for banks in this area is to bring the customer experience in line with these security requirements. Bank customers nowadays expect a seamless digital customer experience; however, opening up systems doesn't just result in greater customer convenience – it also increases security risks. Wherever convenience and security need to be balanced, security is the deciding factor, and two-factor authentication will become standard under PSD2. It will only be possible to make small payments without a second security requirement (such as a PIN), and even here there are plans to introduce strong authentication in future. This is also important for banks, as consumers will generally be held non-liable for unauthorised payments and will enjoy an unconditional right to compensation in the case of debits.



AISP and PISP

Access-to-Account interfaces

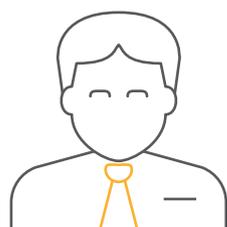
Under PSD2, banks in 28 different countries will be required to open up their IT infrastructure to third parties such as AISPs and PISPs. They are also required to establish open Access-to-Account interfaces (XS2A). Considered purely from a compliance point of view, banks will have to make new investments in IT infrastructure and security without being able to pass these costs on, since banks are forbidden to charge any supplementary fees for these new services.



PSD2 as an opportunity – the need for a new perspective

PSD2 aims to strengthen innovation and competition, and encourages banks to actively contribute to the change process. In his speech at the Payments Symposium held by the Deutsche Bundesbank on 18 May 2017 in Frankfurt am Main, Yves Mersch, member of the Executive Board of the ECB, said, "It is essential that we respond to the increased digitalisation of our society, delivering innovative and efficient services to our economy, which has an impact on the lives of all Europeans. In the context of these developments, there is a certain demand for instant payment solutions by end users. And the industry has to deliver solutions to support innovation, also in view of the global competition in this respect. Europe has the capacity to innovate and deliver integrated solutions to all actors – individuals, industry, merchants – and we should do our utmost not to fall behind the curve."

Anyone who views PSD2 merely as an expensive obligation risks falling into fatal difficulties. To do so would involve giving third-party providers access to account data – as required by law – while risking losing contact with customers, and ultimately losing the customers themselves. By contrast, in recognising the potential offered by the open banking world under PSD2, it is possible to spot new opportunities for institutions. IT is losing its reputation as a cost driver; instead, it is becoming an engine of strategic change that can capture new revenue potential.



Why it's worth becoming a first mover in open banking



Building new business areas as a digital financial service provider

Banks can secure a role for themselves as an "orchestrator" – analysing all customer data, and providing services that are now primary components in the FinTech portfolio. In this way, they can themselves become digital financial service providers.

Whether for private or business customers, an open banking portal can offer benefits only when it provides an overview of all of the customer's data. It is hugely important for institutions to occupy this position themselves. In this way, they can not only safeguard their close contact with the customer, but also open up entirely new sources of revenue. The business models coming into existence under open banking are based on sharing critical assets in the form of data in order to provide the customer with added value by offering new services.

By means of interfaces, financial service providers can integrate third-party services into their portfolios or develop their own competencies in these areas. A principal bank can therefore develop and expand new business areas alongside its core business. Cooperation with retail or insurance companies results in an open financial ecosystem in which the demanding modern customer can manage their day-to-day banking.



"FinTech has unleashed the potential for innovative financial services that can bring benefits to individuals and businesses. The Eurosystem is committed to keeping pace with innovation in financial services while, at the same time, safeguarding the safety and efficiency of our financial market infrastructure."

Yves Mersch, Member of the Executive Board of the European Central Bank, 18 May 2017



Meeting the expectations of the modern customer

Digital natives expect to be able to carry out financial transactions conveniently using their smartphones. With open banking, financial institutions are developing innovative ways to attract these new customers.

Banking 4.0: Financial service providers offer their customers a general overview of all their accounts and transactions through open banking platforms. Because all their data is collected in one place, customers can call up information via a **single** portal and initiate payments. This saves them time and allows them to carry out financial transactions quickly, securely and conveniently. Above all, this allows banks to target the younger generation of so-called Millennials, who are used to being able to manage everything conveniently using their smartphone, either on the go or from the comfort of their sofas.



Scoring points with customised services

Financial service providers can analyse external as well as internal data, thus gaining new customer insights. As a result, they can develop personalised offerings for their customers. This intensifies customer loyalty and allows new revenues to be generated.

The more data an institution can use, the more complete a picture of its customers it will have. Historic data can be analysed using artificial intelligence and machine learning in order to generate individual customer profiles. When coupled with current transactions and external data such as exchange and interest rates, these customer profiles then provide a superb basis for offering personalised services with pinpoint accuracy. An offer for a loan tailored to the customer's individual requirements can be sent via smartphone at exactly the right moment, or can be displayed on the banking portal while the customer is online.

Additional products can also be offered via dedicated open banking platforms, such as property financing that is tailored to the customer's needs. This makes the customer feel that they are being taken seriously and supported extensively. An excellent customer experience improves loyalty, while simultaneously offering a superb basis for up- and cross-selling. By placing their focus on customers rather than on products, banks can gain access to additional market segments and win new customers.

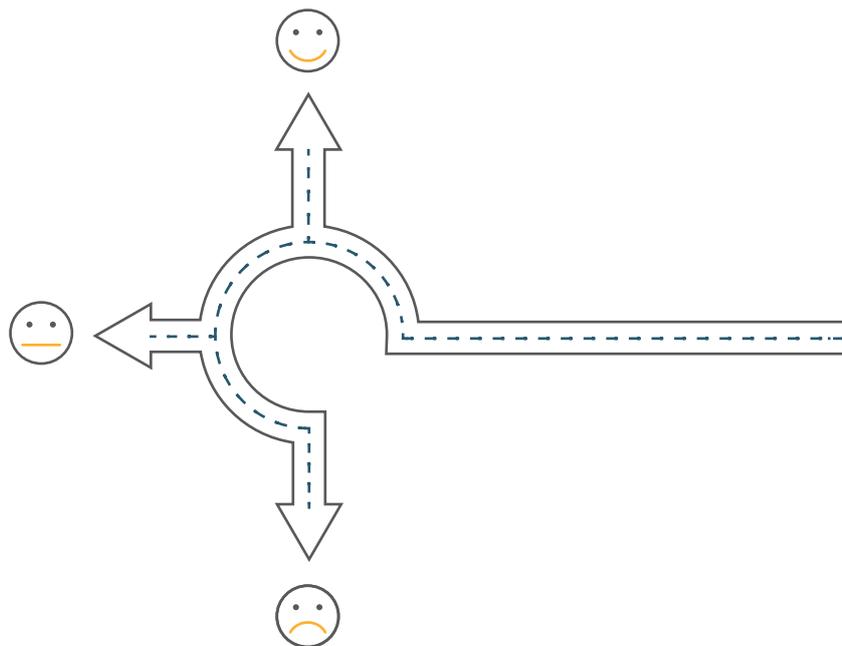




Efficiently managing sales based on customer value

Data analysis allows customer value to be identified on an individual basis. This provides important reference points for sales management.

Customer profiles derived from big data analytics can be evaluated by assigning them scores. By identifying customer value in this way, banks enable their advisors to tailor their activities to each customer's revenue potential. Personal consultations are reserved for customers with the greatest likelihood of concluding a transaction, ensuring the effective use of available capacity. Standard consultations will gradually be digitalised and automated. In this way, customers with a low expected value can also benefit from personalised advice without the bank having to allocate valuable human resources to the job.



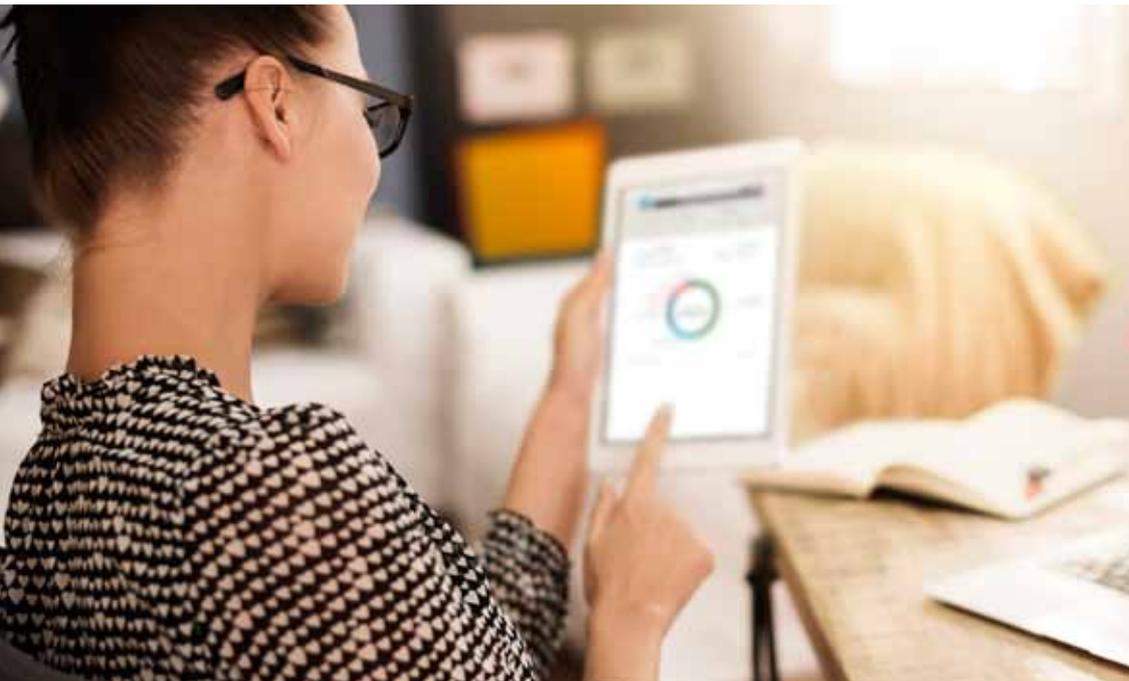
Open banking with CREALOGIX

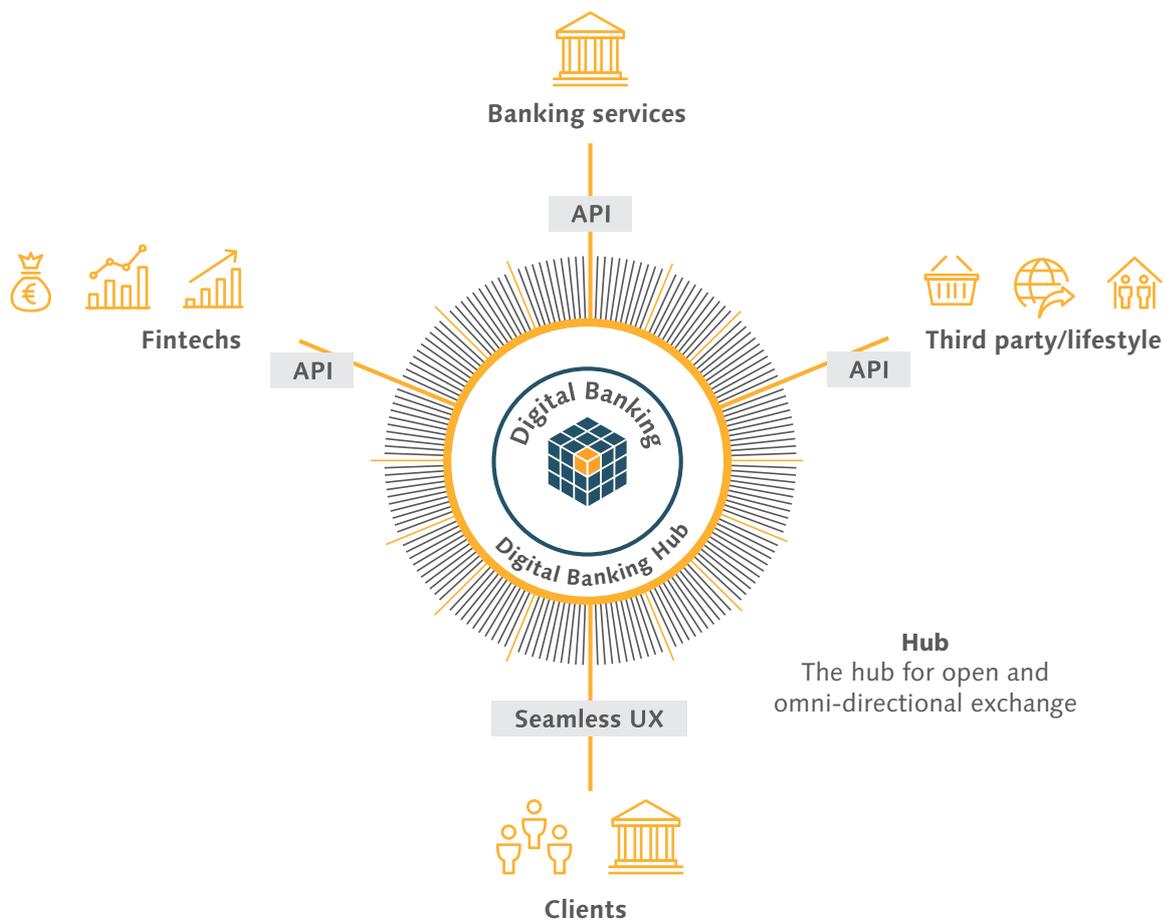
PSD2 only represents the beginning for open banking, and banks that recognise and exploit the opportunity it presents will be able to establish an optimal position on the market – but first, they need to make their IT infrastructure fit for PSD2.

As a market leader in digital banking, CREALOGIX has over 20 years of experience in this area and helps financial institutions to develop their digital banking strategy through innovative solutions.

CREALOGIX Digital Banking Hub

Our solutions are underpinned by an API-based architecture: the CREALOGIX Digital Banking Hub. All of PSD2's compliance requirements are integrated into it as core components, so CREALOGIX customers can focus entirely on innovation. This is where the biggest potential lies for first movers who plan to provide their own versions of the new account aggregation and/or multi-banking services enabled by PSD2. CREALOGIX provides its customers with the relevant technological building blocks in the form of its multi-banking modules.





The next step: innovative business models

In future, the success or failure of financial institutions will be determined by open marketplaces that allow for rapid integration. After all, Millennials in particular are used to a seamless customer experience provided on platforms run by tech giants such as Amazon, Apple and Google. The Digital Banking Hub allows services to be opened up through APIs, while simultaneously meeting the specific security requirements placed on the banking industry. In this way, CREALOGIX offers its customers the opportunity to achieve new and innovative business models quickly and with a minimum of risk.



Protection for the core banking system



Secure connection between bank and customer



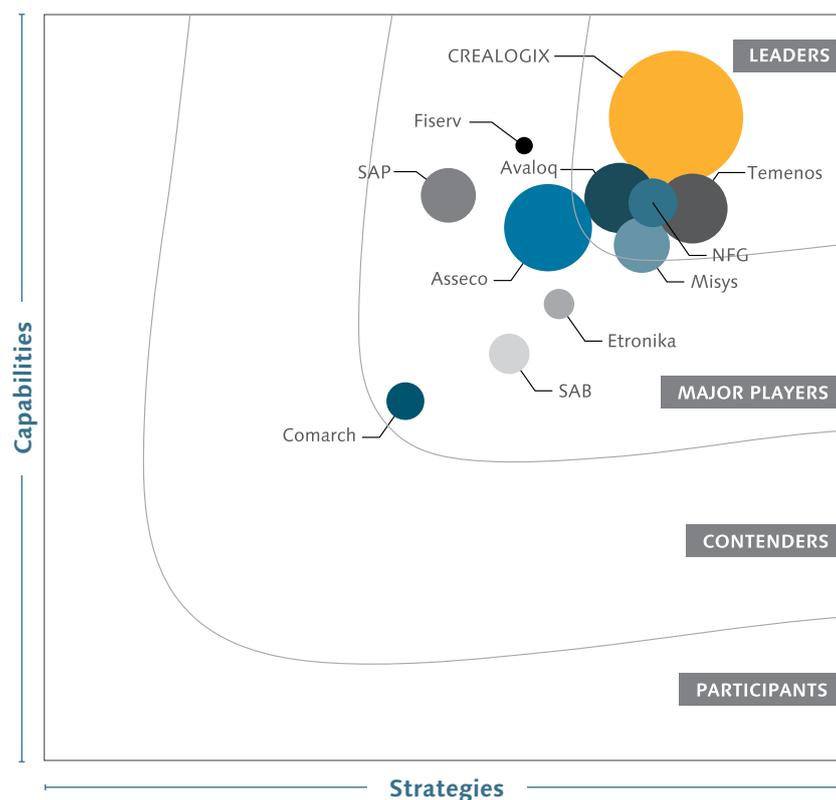
Protection of end devices against illegal access

CREALOGIX – the leading provider of mobile banking solutions

The CREALOGIX Group is a globally active, independent Swiss software firm and, as one of the FinTech Top 100 companies, a market leader in digital banking. CREALOGIX develops and implements innovative FinTech solutions for the electronic bank of tomorrow. Using CREALOGIX solutions, banks can react to evolving customer needs in the area of digitalisation, enabling them to hold their own in a very demanding and dynamic market and to remain one step ahead of their competitors.

IDC has named CREALOGIX as the leading provider in its 2017 comparison of vendors of mobile banking software solutions.

IDC MarketScape European Mobile Banking Software Solutions



Source: IDC MarketScape – European Mobile Banking Software Solutions 2017 Vendor Assessment



IDC particularly praised the company's comprehensive portfolio of solutions for retail and private banking, which customers can easily adapt to their own needs and requirements. The company's close cooperation with partners (e.g. in the area of authentication) and with providers of core banking systems also contributes to high satisfaction levels among CREALOGIX customers, as demonstrated in many references.

As a leading provider of mobile banking solutions, CREALOGIX is the number one partner for banks who view PSD2 as an opportunity to actively shape their future as a first mover in open banking.

Enter the future
of open banking
with us now!





Successfully implementing PSD2 with CREALOGIX

How can we support you on the way to open banking?
Get in touch!

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