



THE PAYMENT SERVICES DIRECTIVE II (PSD II)

Liberalisation of electronic payment transactions

Hurry up! Only a few more months until January 2018, when payment service providers are obliged to comply with the new requirements stated by the Payment Services Directive II (PSD II). This regulation aims to liberalise the market for payment services and create a unified legal framework for electronic (and mobile) payments. This new level of regulation obliges all market players to implement technical changes regarding authentication and transaction processes, which we will outline in this paper.

For some, the new regulation poses a hassle. However, we consider it an opportunity to renew and develop business models along with product and service innovations. At this point, traditional market players still benefit from their customer's trust compared to newcomers. This competitive edge provides them with an opportunity to tap their own know-how and digitalise existing systems and processes.

With a strong focus on product and service innovations, the implementation of PSD II can secure and proactively extend customer relationships.

Which requirements do financial service providers have to be prepared for?

To which extent are current business models placed in jeopardy?

What are the new revenue sources that come along with the legal changes to establish solid business models for the future?

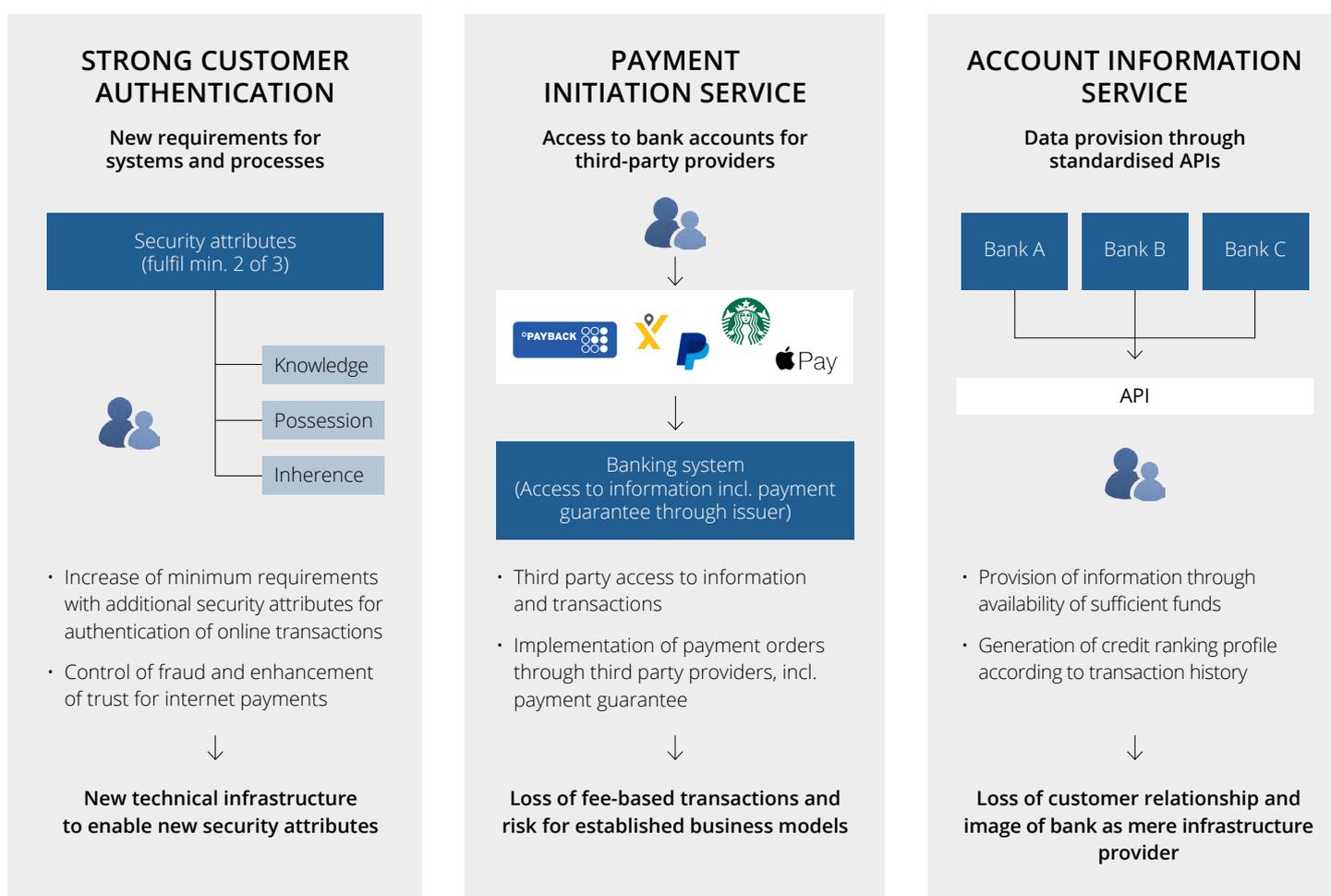


— Focus 3: Account information service

Some banks already offer multi-banking functions. Herein, customer approval provided, account information is retrieved from external institutes via a central interface and displayed in their own online banking environment. These APIs (Application Programming Interface) are now supposed to be standardised to allow the immediate exchange of account information between banking institutions and other TPPs. The TPP can automatically access all account data up to four times per day, even if the customer is inactive. The account servicing institutes are obliged to implement the technical infrastructure for these services.

Third party providers are enabled to aggregate various sources of information, create a comprehensive data profile of the customer's financial situation and behaviour and build their own market place models to be used by the customer. This way, banking institutes are facing the risk of merely being seen as a pure infrastructure provider, whilst the communication and interaction takes place through the new interfaces, similar to Apple and/or mobile service providers as network carriers.

OVERVIEW TOPICS PSD II (EXCERPT)



— New business models can sustainably increase depth of value creation

The implementation of PSD II confronts market players with organisational and legal challenges before January 2018. Many financial service providers have not even started to make the mandatory regulatory adjustments. But at the same time, new business models allow for a positive use of the regulations, if innovations are integrated along with the required adjustment of systems and processes. Based

on available resources, this can be implemented to varying level of expense and time and – subject to the respective business model – thus considerably increase the revenue by added value and additional products and services.

NEW REVENUE SOURCES THROUGH INNOVATION

Financial service providers are obliged to adjust their established systems and processes to the new PSD II requirements. To this day, far from all affected players have started, although – apart from the legal obligation – regulations open up a chance to check their current business model for its future viability and proactively implement

innovations in the payment market. For traditional institutions, the goal should be to remain the reliable partner for the customer and face new competitors with their own innovative products and services.

— Business model 1: Use of customer data

In future, the exchange of transaction data between market players in the payment environment will be simplified. Provided that the user gives his permission, data from different accounts can be merged into a comprehensive financial behaviour profile which provides a valuable asset, also e.g. for merchants and insurance companies. Financial service providers now have the opportunity to develop their own algorithms and analyse their own as well as third party data rather than „just“ providing their own data. The detailed financial profile of the customer can simplify the risk management and accelerate credit-ranking decisions for customers.

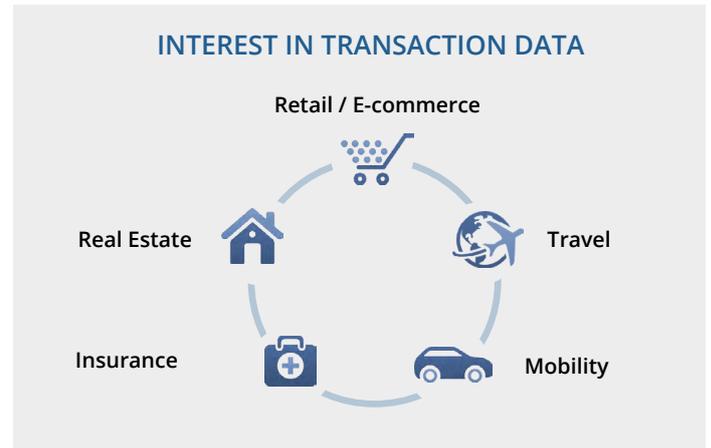


Fig.: Customer facing use cases

— Business model 2: Setup of product-related platforms

PSD II provides banks with the opportunity to utilise their large customer base and strong customer relationship to expand their own business model. Furthermore, opening up their banking systems allows data access of third party payment providers, so that their systems could be upgraded to platforms, providing the customer with an overview of all his financial products and additional personalised offers. Ownership of the primary frontend allows for a reinforcement of the customer relationship, when the own platform will be used to sell e.g. for investment products and retail offers. The payment service provider thus gets the opportunity to provide an interface for products and services supplied by third parties, which the customer would otherwise purchase at competitors, thereby gaining access to respective external data and information.



Fig.: Digital ecosystem with central use cases

— Business model 3: Banking ID

A platform connects a certain number of providers and thus enables the purchase of all kinds of products or services. Payment information as well as the user's identity usually represent the anchor point. Both are administered by the account servicing institution and have to be verified upon initiation of the business relationship. This customer identity, confirmed in real life, in conjunction with his transaction history can now be used as a token to create a digital identity of the customer, which in turn can be used at participating partners for shopping or contractual agreements. Thus, customers do not have to set up a new account for each transaction or provider, each time submitting their data. With the Banking ID, providers can access a standardised digital customer profile and offer individualised products, credit ratings and payment terms to the customer.

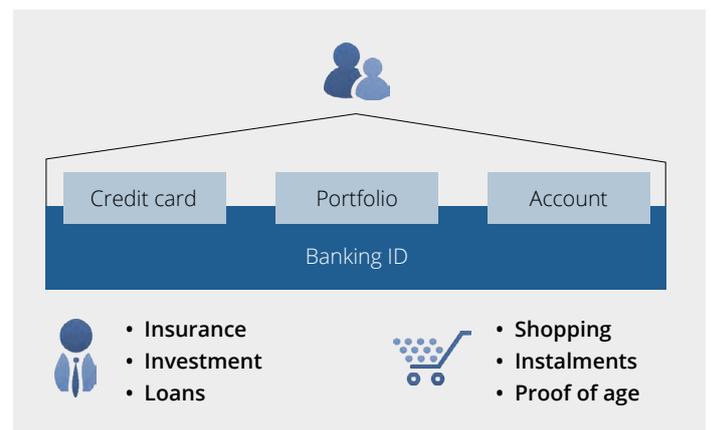


Fig.: Banking ID

— Best Practice: Digitalisation strategies of traditional banks

PSD II opens up payment systems and forces established payment service providers to keep up with digitalisation. There is no inevitable reason to be afraid of Fintechs as these only provide very specific payment products. At the end of the day, it is up to the customer to decide about his preferred gateway. However, banking institutions have to make themselves digitally accessible.

First market initiatives show, how market suppliers apply digitalisation in order to customise their processes, user interfaces or own products to the new customer requirements or cooperate with Fintechs in order to increase their own service portfolio for the customer.

Danske Bank

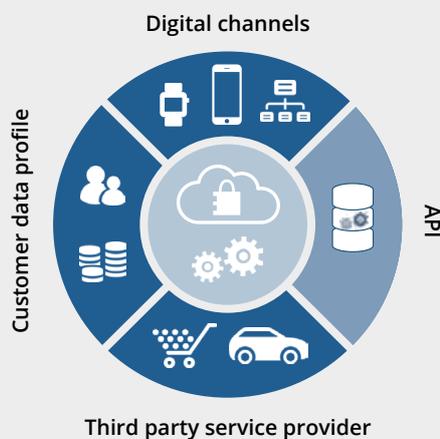
- Development of digital solutions for all products and services
- Digital ecosystem to integrate online, mobile and branches for retail, wealth and business customers
- Banking app for P2P transfer und contactless payment in omnichannel environment
- Setup of platform with selected partners from the retail and service sector



- Open gateway to all banks and financial institutions via a banking app, with an interface for mobile banking
- Multibanking functionalities with overview of all accounts and transactions, including online payment services
- Planned: Initiation of transfers, standing orders and investments, also from other financial institutions

— Success factors for a digital banking ecosystem

In the wake of PSD II, changes in the banking infrastructure are inevitable. A new interface for transactional data is compulsory. On top of the minimum implementation, however, financial service providers can simultaneously create new business models. The interface can be extended with further functionalities. Subsequently, this allows the operation of new digital channels and the generation of data-based customer profiles. Additionally, third-party services can be embedded. Thus, banks now have two options: The bank can fulfil its duty and implement the required PSD II changes with a minimum level of effort. Or alternatively, they can offer an attractive and sustainable ecosystem and build up new capabilities beyond their traditional competences.



SCENARIO I

Fulfil all regulations with minimum effort



Financial service providers legally comply with all requirements. No innovations are implemented, nor new business areas exploited. This scenario poses the considerable risk of losing the immediate customer relationship and degenerate to a mere infrastructure provider in the payment sector.

SCENARIO II

Expand own systems and advance to innovative platform provider



The payment service provider recognises the opportunity given by the requirements of PSD II. Innovative products and services are integrated by means of new interfaces into existing systems. Besides mobile access, institutions provide services by third-party providers on their own platform and thus are able to generate a consistent customer profile based on customer insights.

— Development of your custom-made next steps

LEGAL IMPLEMENTATION OF PSD II

- Support implementation -

- 1 Evaluation of required measures** – Systemic assessment of legal requirements
- 2 Roadmap** – Analysis of processes and systems to be adjusted
- 3 Scenario building** – Definition of various options for implementation
- 4 Support implementation** – Realisation and quality management

DEVELOPMENT OF NEW REVENUE SOURCES

- Screening of existing/planned
business models -

- 1 Mapping** – Examination of compliance with regulatory requirements
- 2 Gap analysis** – Identification of possible approaches and derivation of respective financial implications
- 3 Recommendation** – Development of tailor-made business models
- 4 Support implementation** – Business case and marketing strategy

Fig.: Sample project approach Dr. Thede Consulting

The necessity to implement PSD II seems to threaten established financial service providers considerably compared to the more agile Fintechs. However, banks can just as well expand their innovation capabilities and develop strategies and business models in order to participate in the digital transformation, based on their existing customer relationships.

Dr. Thede Consulting has longstanding experience and profound insight into all areas of the payment market. Thanks to continuous market monitoring and our comprehensive industry knowledge we help our clients to meet the current challenges with our expert team

and versatile know-how. We support you with the implementation of the legal and technical requirements stipulated by the PSD II, including an analysis of existing processes and matching those with new requirements. No matter where you are in the digital game, together with you we will verify your compatibility of your own innovation capability for a sustainable and future-proof business model. As part of a workshop, we will assess changes associated with the PSD II and identify the necessary adjustments and suitable innovations. We develop optimisation potential and define courses of action and implementation concepts with you, which suit your needs and not only secure but expand your market position.

— ABOUT DR. THEDE CONSULTING



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Dr. Thede Consulting is a leading management consulting firm for payment services and retail solutions.

Our clients include key players and decision makers in the payment industry – from retail, financial services, telecommunications and mobility services sector. We provide consulting services on future topics including digital commerce, payment, data concepts & loyalty programs, as well as mobility services at all stages of the value chain.

In this rapidly changing market environment, we focus on the key drivers of success for our clients.

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