A FINEXTRA WHITE PAPER PRODUCED
IN ASSOCIATION WITH AXWAY

SEPTEMBER 2016

PSD2 AND OPEN BANKING:
DEFINING YOUR ROLE IN THE DIGITAL ECOSYSTEM

CONTENTS

01

FOREWORD

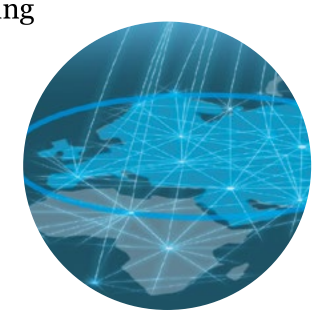
IT'S ALL ABOUT THE ECOSYSTEM

By Bruno Cambounet, Vice President
Banking & Financial Services Solutions, Axway

Digital business in any industry is about developing an extended ecosystem to better serve customers. Banking and financial services are no different and it is a no-brainer to assert that open banking is a hot topic for the (very near) future. Banks sharing information about customers' accounts in order to enable those customers to take advantage of innovative new services will become the norm, not the exception.

In Europe this is being mandated by the revised Payments Services Directive (PSD2), which requires banks to provide access to accounts to regulated third parties providing payment initiation and/or account information services. And some markets – notably the new mandates in the UK issued by the Competition and Market Authority (CMA) that followed the Open Banking Working Group initiative spearheaded by HM Treasury – are already going faster and further than PSD2 requires.

Even outside Europe, in the Americas and Asia, open banking thinking is becoming pervasive, with banks in these markets looking at the impact and implications of PSD2 and increasingly viewing openness as a prerequisite to drive innovation going forward. The payments and financial services businesses are international, and it's important to retain a global perspective when thinking about the progression of open banking.



It's true that openness creates competitive challenges for incumbent banks. Indeed, in the UK, open banking is a response to the clear and damning findings of the 2015 CMA report, which concluded that UK banks do not have to work hard enough to win and retain customers (see the August 2016 Remedies report).

However, open banking is also a necessary response to the changing requirements of banks' customers in this digital age. Retail – and increasingly corporate – customers require from their banks an omni-channel, tailored, contextual experience, which matches the digital experiences they have when dealing with other providers in their personal and professional lives.

Few if any financial services companies will relish the prospect of being relegated to providing commoditised back end processing; on the contrary, all will be motivated to maintain the relationships they have with their customers. But this requires them to provide the right services at the right time to the right customers – and realistically even the largest incumbent banks will struggle to provide the full range of services needed to cover the rich variety of all possible life situations for all customers.

Therefore, while customers certainly want the innovative services PSD2 and open banking are designed to enable, it's also true that the banks need those innovative services to ensure the complete set of their customers' demands can be comprehensively catered for.

This is why we believe that it is critical for banks to engage with their ecosystem if they are to guarantee their future success in digital – and open – banking. On the one side are the customers demanding omnichannel and relevant, personalised services. On the other are the banks' partners – other banks and payment services providers that can play a role in an open banking world in delivering the next generation products, services and interactions that customers are coming to expect.

In this context, there are some obvious questions banks must ask themselves – including how far they want to go with open banking (basic compliance with PSD2, or further?), what the strategic and technology implications of their chosen approach would be, and what hurdles they would need to overcome in order to move ahead.

Our aim in working with Finextra on this research is to explore how banks in Europe and beyond (the US and Asia) are approaching open banking today, to gauge how they are thinking about the challenges and opportunities being created by PSD2 and the move to openness, and to enable the sharing of insights in how best to tackle these issues in order to progress their open banking strategies.

I hope you find the findings set out in the pages that follow both interesting and useful, and I invite you to get in touch if you would like to discuss any aspect of PSD2 or open banking further.

02
EXECUTIVE SUMMARY

The purpose of the Finextra research on which this paper is based has been to establish where the industry now stands with PSD2 in the run-up to a critical period in its implementation, as well as to assess the progress being made with open APIs in banking and payments.

The key findings of the research include:

- During 2016, the banks' approaches to PSD2 have become more strategic. There are still areas where more information is needed about how PSD2 will be implemented in practice, but overall banks are more comfortable with how the landscape will look, and have progressed in their thinking about how to go beyond compliance, in order to leverage new business opportunities from the change.
- There has been an increase in focus on how PSD2 will impact not just the retail payments environment but also corporates – for payments, cash management and trade. Corporate banks are thinking strategically about how to leverage PSD2 to offer better and more comprehensive services to their customers.
- The focus on open APIs as a means to enable the openness that PSD2 demands is growing. PSD2 is a key driver of the take-up of APIs but it is not the only one – there is a global move to openness and many global banks are responding to this throughout their operations. Banks outside Europe (with or without operations directly impacted by PSD2) are looking at the forthcoming change as one of the benchmarks to aim for in an open banking context.
- While the need for open APIs is not disputed, and even imposed by the Competition & Markets Authority (CMA) in UK, there are some concerns about how to reach a standard API (and avoid the possible problem of every bank defining their APIs differently and making it very challenging for fintechs to connect to them all). Initiatives such as the UK's Open Banking Working Group are looked on very positively as drivers for standardisation, and there are calls for a similar approach to be taken at the European level as well.
- This year, banks have progressed in their thinking about open APIs as connected to and one part of their broader digitalisation programmes, and as essential components of their overall approaches to the digital ecosystem. They are thinking about the roles they can play in a world where customers of all kinds need orchestrated digital experiences with payments and other banking services as an integral component. They are thinking about how they can leverage the opportunity to be TPPs themselves, in order to secure that central role in the ecosystem going forward.

In the pages that follow, these findings are explored in more detail, with a view to offering insights into how banks can leverage developments around PSD2 and open banking in order to define and secure their future roles in the evolving digital ecosystem.

03

INTRODUCTION

The EU Revised Payment Services Directive (PSD2) comes into force in January 2018, so as we head towards the fourth quarter of 2016, it is reassuring to observe a clear shift in the thinking about, and approach towards, this signficant regulatory change on the part of many of Europe's banks.

During 2016 there have been events which have shed more light on the situation. One is the release of a much anticipated document, the European Banking Authority's (EBA's) consultation paper on the draft Regulatory Technical Standards (RTSs), specifying the requirements on strong customer authentication and common and secure communication under PSD2. Though questions remain about how the Directive will be implemented in practice, in general the EBA's document does seem to have quietened many of the banks' prior concerns (though it has also created discomfort among some of the new entrants).

There have also been events which have muddied the waters of course – such as the surprise UK Brexit vote in June. Given the leading role the UK Government and UK banks have been taking in the open banking movement, through the Open Banking Working Group, the prospect of the UK not transposing, implementing and complying with PSD2 was an unsettling one. In reality of course that leadership role continues, and the UK's banks are pressing ahead with their PSD2 compliance plans. Brexit cannot happen before 2018, and in any event the prevailing view is that, if anything, UK regulation going forward will continue to 'gold plate' that of Europe, rather than conforming to any lesser standard.

"APIs are useful in a typical client/server type environment where there is a need for frequent querying to be carried out. For bi-directional communication – where one bank would like to inform another directly that something has happened – messaging is better. You don't want to have to query first. So there are advantages and disadvantages to both. An API could actually reach a wide selection of banks, but there could be a need for some complementary capabilities provided by messaging technology."

FRANK VERSMESSEN, HEAD OF REGULATORY AFFAIRS, SWIFT

In line with the reality of PSD2 solidifying, the banks' attitude to it is also firming up, and becoming both more strategic and more positive. There has been a blurring of the hard lines that were still visible in some parts of the industry in the first part of 2016, less talk of competition between banks and new entrants, more talk of collaboration with fintechs to drive innovation for customers (retail but also increasingly corporate) and – crucially – stronger evidence of banks identifying not just challenges but (significant) opportunities in PSD2, and developing and executing solid strategies to capitalise on them.

The relentless march of time towards PSD2 day one is not the only driver in play of course. In parallel, the buzz around open APIs (and the open banking they facilitate) has also intensified through the year. Regulation is one reason for this – but not just EU regulation. To give just a few examples from outside Europe, China has had legislation in place since 2010 to underpin the safe provision of payment services by new entrants, and Singapore's regulator among others also currently has its sights on the competitive landscape in banking and payments.

In concert with regulators looking to drive competition (reflected clearly in the findings of the UK Competition and Markets Authority that incumbent providers simply do not have to work hard enough to serve their customers due to a lack of robust competition) and protect consumers, two other key trends are prompting greater openness – ever-more savvy customers demanding it, and evolving technology to enable it. Indeed, as Thomas Egner, Secretary General of the Euro Banking Association (EBA) says: "Much of the thinking about open banking is not in itself new, but until recently the technology was not available to further evolve this thinking and put it into practice, so the mindset of the industry just wasn't aligned."

Colm Lyon, CEO and Founder of Ireland-based new payments entrant Fire Financial Services, agrees that a number of factors are coming together now to enable earlier visions to be realised. "I can remember when I was working in a bank 15 years ago and we launched online banking. It was more or less the same as it is now. We had the same ideas back then as we have now – but we had no way to deliver them and the market didn't have the structure or the ecosystem to enable the alerting of and tagging of transactions for example. What we did was put paper statements online – because that's what our data allowed us to do."

Singling out the strongest driver among so many powerful levers for change is not easy nor probably necessary. Suffice it to say that banks worldwide are grappling with what open banking and open APIs mean for them. In part this is because they have global customers likely to want similar frameworks in place in all the markets in which they operate – so if openness is mandated in Europe (and elsewhere) it effectively impacts everywhere. But in part it's because open banking is happening anyway, regulation or otherwise, in order to meet customer needs.

Willems-Rosman: Corporates looking to banks for information about PSD2

> **"We want to be the digital service provider for our customers, covering not only banking but other services that are relevant for them. Our PSD2 activities are part of our efforts to create a digital relationship with our customers, and to provide relevance in that digital relationship – so you log on to Swedbank and see everything that is vital for you to run your everyday economy. That's the contextual part of it."**
>
> KIRSTINE NILSSON, HEAD OF STRATEGIC ENGAGEMENTS & RELATIONSHIPS
> GROUP PAYMENTS & CASH MANAGEMENT, SWEDBANK

As Frank Versmessen, Head of Regulatory Affairs at Swift, says: "We do see a number of banks raising the PSD2 discussion to a more strategic level. They are saying that while at the moment when they sell to their clients it is their own products through their own channels, what they think is going to happen is that they will distribute their products through other channels – that will become completely normal – and they might also bundle their products with other services through their own channels. They really see the market moving to an open architecture."

It is a short step for the banks from recognising this change, to assessing their role in the evolving digital ecosystem, and to re-orientating their digitalisation strategies from a focus on the omni-channel customer experience to a focus on orchestrating that experience in a contextual way. In light of this, strategies and investments for PSD2, open banking and open APIs all become part of wider digitalisation strategies and investments.

"Digital has been an ongoing journey for Swedbank, and we always co-ordinate on a group level the time, money and resource we allocate to this," says Kirstine Nilsson, its Head of Strategic Engagements & Relationships, Group Payments & Cash Management. "We have a valuable existing customer relationship, but we need to protect it and keep attracting new customers. Historically people have been hesitant to move banks, but in the new world they will not have to. They can change their digital channel quite easily by choosing to use another Third-party Payment Provider (TPP), and to remain relevant we have to ensure we are the trusted partner, provider of the digital channel. The digital environment can be a scary place for consumers, and our relevance is to ensure that it is as safe a place to be as possible."

04 THE HEART OF THE MATTER: A2A UNPICKED

In repealing what is now being called PSD1, PSD2 introduces change on a number of levels, but the feature that has attracted by far the most attention is the so called "access to accounts" (A2A) element. This is the provision which requires account holding institutions (typically existing banks) to allow access to their customers' account information to facilitate payment initiation and account information services provided by newly regulated so-called TPPs.

A2A is the reason PSD2 has been hailed as the development which will lead to the disintermediation of incumbent banks at the hands of upstart new entrants, all set to dominate customer engagement and leave the traditional players scrabbling for scraps of low-grade commoditised back end account servicing business.

Tom Blomfield, CEO and Founder of UK digital challenger bank Monzo, paints a bleak picture. "Forcing the banks to open up will upend the retail banking system in the UK to the benefit of consumers," he says. "For the big banks it's potentially a major problem because their business is based on customer inertia and lock-in. Banks give out footballs to persuade young people to open accounts with them, and then throughout the customer's life they cross-sell additional products. Since they have already acquired the customer, and because the customer can't be bothered to switch, the banks can cross-sell products that aren't necessarily competitively priced. The banks are not always giving the best deals to existing customers; they are giving them to new customers.

> "We are as much a technology company as we are a bank. Being able to provide data via APIs in different formats is pretty straightforward for us. The future of PSD2 in the UK is not clear – if it does come to pass, we will react. PSD2 opens up the opportunity to be a marketplace bank."
>
> TOM BLOMFIELD, CEO AND FOUNDER, MONZO

"PSD2 has the potential to up-end the retail banking market, forcing each product to stand on its own two feet. This will lead to increased competition and price compression. For the banks this is problematic. They will be caught between a rock and a hard place, trying to handle open banking while also spending GPB2-3 billion each on cost reduction and regulatory change programmes."

A2A is certainly one factor driving change, believes Lyon at Fire Financial Services. "The way things are isn't the way they are going to be in the future," he says. "It is difficult to predict exactly how it will play out, but the way we've been looking at it is to talk about the attributes of the products that are likely to be successful. Are things going to be more social, secure, connected? Yes. Are more participants going to be involved in the transaction process? Yes. It's hard for financial institutions to change, and that's the reality. Technology change, change in the marketplace, intense competition: all the indications are that this is going to become a scramble. The idea of taking multiple products from the same institution will go. The idea of account switching will probably go. But the idea of downloading another app to access all your financial information – that can really work."

The implications of opening up access to account information have caused banks concern at a competitive level. As Robert Langley, Enterprise Architect, Payments at National Australia Bank, observes: "The challenge is that banks face the threat of being disenfranchised by third parties and hence be trivialised as commodity service providers of accounts and value transfer services."

A2A has also caused other concerns. "The challenge of A2A is around access to data, from a privacy perspective," says Leigh Mahoney, Head of Payments Portfolio, Group Payments, ANZ. "A consumer giving a third party permission to look at a balance but not transactions for example – that will present challenges to banks. To segregate out information to a granular level – this party can see that balance but not this one – is challenging. If you don't put governance and control effectively on your front door it's like giving a five year old a tub of ice-cream and a spoon and saying you can only have one spoonful. You know they will eat it all. Accessibility has to be balanced with governance and control."

Box: Fintechs are looking to partner with banks on PSD2

This level of granular information sharing may not be a problem only for banks, warns John Box, Head of Strategic Partnerships, Payment Services Division, Raphaels Bank. "Whether the customers are going to be comfortable with that level of flexibility in how they manage their finances remains to be seen," he says. "It can be a full-time job managing the security settings around your Facebook page. Managing your bank account could be like that as well. To be successful, open API access will need hand-holding and education, something difficult to maintain and monitor over the long-term."

An improving picture for the banks?

The potential dangers from a data protection perspective of PSD2 for account holding banks have long been highlighted by banks. However, the consultation on the draft RTSs published by the EBA in August do seem to have alleviated some of those concerns. Ruth Wandhöfer Global Head of Regulatory & Market Strategy, Citi, highlights how challenging it would be for account holding banks to receive queries from third parties using their customers' credentials. However, this issue is clarified in the RTSs, she says, which state: "To limit the risks relating to phishing and other fraudulent activities, it is appropriate to ensure that the account servicing payment service provider is aware that he is being contacted by a payment initiation service provider or an account information service provider and not by the client itself."

Furthermore, the EBA document makes clear in line with PSD2 Article 97 (5), that although payment initiation providers (PISPs) can rely on the authentication procedures provided by the bank to its customer, these secure customer authentication procedures remain fully in the sphere of the bank.

Another challenge that has resulted from third-party activity in the past, Wandhöfer says, is the risk of constant querying by new payment players of the mainframes of established banks for account information. "These types of behaviours can put a real strain on banks' core systems – sometimes being likened to a denial of service attack," she says. "In the RTS it states that if a third-party is not responding specifically to a client demand for information, the third-party can only query the bank for data twice per day maximum. This should help to limit the types of behaviours that create costs for really no benefit.

Though some refinements are needed, the RTSs are a "positive outcome", agrees Fabrice Denèle, Head of Cards & Payments, BPCE. "The EBA has listened to the market and has achieved the right balance between the expectations of different players and the needs of different users, and that is quite a challenge," he says. "At the end of the day, what the EBA has produced is flexible enough to secure any innovation that any player – whoever they are – would like to implement and promote. The guidance is also in my view at the right level of detail – not too technical, not too far in the clouds. As a bank, we consider it is a text that grants innovation and also grants us the ability to be compliant with our liabilities."

Not all bank observers are fully reassured by the RTSs. Says Gunnar Berger, Head of Cash Management Solutions at Nordea: "The biggest concern we still have is around authentication and authorisation. The guidelines we have still leave some questions unanswered, and for payments industry professionals, the document uses some odd terminology and displays some illogical thinking. This concerns me, because creating a really good authorisation process – where we have end-to-end authorisation through third parties – is a challenge, and if that is unclear for a while it will give the industry little time to actually put this in place in a proper way."

Any enthusiasm among the banks for the draft RTSs as they stand is certainly not shared by some of the new entrants. Among these players there are some objecting strongly to the provision in the draft RTSs that account owning payment services providers (typically banks) should create and manage the interface via which TPPs access account data.

The document states: "Each account servicing payment service provider should offer at least one communication interface enabling secure communication with account information services providers, payment initiation services providers, and payment services providers issuing card-based payment instruments, which should be documented and freely available on the account servicing payment service provider's website. This communication interface should allow account information services providers and payment initiation services providers to rely on the authentication procedures provided by the account servicing payment service provider to the payment service user."

It also states: "The EBA discarded reference to generic internet communications standards (such as HTTP, HTTPS, TLS, and SSL) ... as the EBA judged them as already of general use and too unspecific for communication standards under the mandate conferred on EBA by PSD2."

These texts have been interpreted as implying the use of APIs as opposed to screen scraping which, suggest observers such as Erik Engellau-Nilsson, Head of Communication at Klarna, basically means putting the established banks in control and the new entrants at the mercy of the banks' IT. "This has supposedly been done on the grounds of security, although there have been no security issues with our solutions at all," says Engellau-Nilsson, "and basically means replacing the use of a proven solution with the use of a solution which is totally unproven and is almost certain not to fully and reliably work from the outset."

The disenchanted new entrants are making their objections plain through their responses to the consultation (including a public hearing scheduled for September) and hope to succeed in having HTTPS mechanisms named as viable options alongside API type solutions. It is worth remembering therefore that the situation as outlined in the draft RTSs could change.

Oddy: The challenge with APIs is creating them in a standardised way

That said, even though not all aspects are clear, the banks have little option put to push ahead if they are not to lose valuable time. Says Miguel Simões, Head of IT at Portugal's BNI Europa: "We believe that reduced time to market is a key business differentiator today. In this sense, though the regulatory technical standards are unclear, the most important thing is to react quickly to change requirements as soon as the standards are disclosed in early 2017. Being surrounded by an engaged IT service provider community is definitely a key aspect required to succeed."

The power of positive thinking

In any case, these uncertainties notwithstanding, with the RTSs having addressed some data and technology concerns, the banks' minds have been freed to think more positively about some of the other challenges presented by A2A, Wandhöfer suggests. "Account information service provision is interesting for banks themselves," she says. "We have been so concerned about issues like data protection, but the banks are waking up to the fact that if third parties can do this, then so can the banks. If you look at this for example in the context of the UK Payment Strategy Forum focus on financial literacy and education you can see that Account Information Services become very important. Banks will look to develop more services to support clients in this space. Another interesting area is helping customers to apply for mortgages, where automation of relevant data to be exchanged could significantly cut the time required to complete applications. Any data driven service potential is something that many banks are now thinking about."

Nilsson at Swedbank echoes the view that the banks are considering the opportunities as well as the challenges of A2A. "We have actually looked at the TPPs question from two angles," she says. "What do we need to do to become compliant, and also how can we take advantage of this as an opportunity? On the first, we are looking at what we need to have – standard APIs and the capability to share information on accounts. When it comes to the opportunity, here we see ourselves as established providers for our customers, and we are also considering the services we can provide to new entrants. They will need information from us."

The banks' thinking has certainly evolved, she continues. "TPPs are a threat and we will have to deal with them. However, while initially when you read PSD2 you might think, let's block them out, keep them from entering the value chain, when you think about it, you realise that what's expected of us by the Commission is to increase consumer protection."

This gives established providers certain strengths, she says. "The EBA RTSs give the account holding service provider the role of deciding the level of security and what credentials will be used. The banks will have to allow TPPs to use them, but having that right means the banks can make the decision about where they put consumer protection. TPPs are very active already, and PSD2 will clarify their roles and responsibilities where today they have none. We believe that not all of

> **"For large or multinational banks, it is a fact that they cannot transform legacy core systems into state-of-the-art architectures from one month to the next. Therefore, they need to build service layers to enable successful operation in the world of open APIs."**
>
> THOMAS EGNER, SECRETARY GENERAL, EURO BANKING ASSOCIATION

"If you look at this for example in the context of the UK Payment Strategy Forum focus on financial literacy and education you can see that Account Information Services become very important. Banks will look to develop more services to support clients in this space. Another interesting area is helping customers to apply for mortgages, where automation of relevant data to be exchanged could significantly cut the time required to complete applications. Any data driven service potential is something that many banks are now thinking about."

RUTH WANDHÖFER, GLOBAL HEAD OF REGULATORY & MARKET STRATEGY, CITI

those providing services today have the capacity to become TPPs, and that there will be several providers that will be approaching the banks to get access to the systems they need, and there could be opportunities for us to offer access to our infrastructure. So overall, we see a range of opportunities."

We should "forget about banks staying only as account servicing payment service providers (ASPSPs)" says Denèle at BPCE. "Banks will be innovative and creative enough, with enough expertise, to become also AISPs and PISPs," he says. "Banks will play in the TPP space. We have had a lot of discussions with banks within the French banking community and this is the case for my banking group as well. We are having strategic discussions and we will play new roles in the value chain in the digital space which will evolve from this legislative framework."

James McMorrow, Senior Manager, Payment Strategy and Business Development for Lloyds Bank Global Transactional Banking, also sees opportunities. "The 'open' philosophy behind PSD2 may appear to introduce a significant competitive threat to some traditional banks," he says. "The proposed barriers to entry are low for third parties, and the openings for challenger banks and technology vendors could be wide-ranging. But PSD2 actually offers a new world of opportunities for them through embracing technology and working with clients to understand how to meet their future needs and improve operational efficiency."

Banks must decide what their business response is to PSD2, he suggests. "Do they intend to simply achieve basic compliance with the regulation, or do they want to look for commercial opportunities in regulatory change? The answer will depend largely on which customers the bank serves and what their customer needs are. They can choose to seek 'compliance only', which will involve just meeting regulatory compliance requirements and sharing of data with the regulated parties that customers request. Whilst this is likely to be a cheaper implementation, this could come with considerable risks and threats to the bank; as customers may seek value-added services and operational benefits from providers that can offer additional value added services, capitalising on the new technology."

The alternative he refers to as "regulatory plus". "This will involve both meeting regulation and identifying opportunities that can add value to the bank and meet clients' needs. Consideration should also be given to working with third parties as this may produce more innovative solution that enables working quicker and in a more agile way than internal build."

This could open up opportunities for banks to redress the balance in the digital stakes, McMorrow suggests. "Where banking has largely been behind the curve compared to other Industries is the digital space, banks now have a chance to start designing more intuitive solutions that put the user experience first. Competition will encourage banks to turn traditional product design processes on their heads, starting first with the user experience and channel and working backwards to the underlying solution," he says.

Simões at BNI Europa says the bank "is conscious that PSD2 will cause severe market disruption and promote new banking paradigms". "January 2018 is right around the corner," he continues, "and as such, BNI Europa is not only working to ensure compliance with the regulation by that time, but also – and most importantly – to benefit from the significant business opportunities that will arise from the legislation."

Currently, BNI Europa is focused on actively engaging its IT service provider community around key aspects of PSD2 "such as strong customer authentication, secure communication and open APIs for payment initiation service providers and account information service providers, Simões says. "In the near future, we will increasingly move our focus towards the development of new business models and unconventional revenue streams that will leverage an open API infrastructure." Berger at Nordea too sees the opportunity to go beyond compliance. "Our PSD2 strategy is to make Nordea fully compliant – that's a given of course – but we are trying to do this in a proactive manner, seeing it as an opportunity to generate benefits not only for our customers but also for Nordea," he says. "We believe we can create a platform on which we can build for the future. Our strategy is also to consolidate activities in Nordea so we gather our strength into building one platform which serves all the product units in Nordea."

> **"The enforcement of PSD2 and open APIs will drive a shift from bank-centric interactions to customer-centric interactions. This change will promote increased competition and new market entrants in the payments industry, ultimately leading to shorter innovation cycles. The adoption of instant payment methods, enabling immediate availability of funds, will outpace traditional non-instant payments methods."**
>
> MIGUEL SIMÕES, HEAD OF IT, BNI EUROPA

The potential there is for the banks to make better use of their customer data by "making it more widely available to the owners of that data – the customers themselves", he continues. "We also see the opportunity to accumulate more data for customers and to consolidate that to give them a better view on their data. I am really thrilled about the opportunities of creating more modern and technically advanced services for our customers, and the possibility to enable much closer integration between different parties in the market is really fascinating."

There may be some changes – "we may have to realise and accept that for certain customer segments there will probably be someone else providing the interface or the device through which the customer will initiate the payment: that's the way of the future" – but the trick for banks will be to "find smart ways of dealing with this, and probably collaborating with these third party providers in a way that provides the best experience for the customer". "I think the third party providers will actually benefit a lot from having a good collaboration with the banks. Instead of them replacing us, I think we will be serving the customer together," Berger suggests.

Simões at BNI Europa takes a similar view. "PSD2 will definitely contribute to improving the competitive landscape in the payments industry. It is extremely likely that new market entrants will emerge from the fintech and from the internet and social media industries. We foresee that banks will promote the establishment of partnerships with those players," he says.

The emerging thinking around the inter-relationship between banks and fintechs is that banks should embrace some of the new propositions coming from the fintech space that will complement their existing offerings, bringing new functionality to customers (in a timely and efficient way) without completely disintermediating them; on the contrary enabling them to bring the best of what fintech has to offer under the umbrella of a trusted bank relationship.

> "Where banking has largely been behind the curve compared to other Industries is the digital space, banks now have a chance to start designing more intuitive solutions that put the user experience first. Competition will encourage banks to turn traditional product design processes on their heads, starting first with the user experience and channel and working backwards to the underlying solution."
>
> JAMES MCMORROW, SENIOR MANAGER, PAYMENT STRATEGY AND BUSINESS DEVELOPMENT FOR LLOYDS BANK GLOBAL TRANSACTIONAL BANKING

Mahoney: Given real-time corporates will need new liquidity management capabilities

> **“I am really thrilled about the opportunities of creating more modern and technically advanced services for our customers, and the possibility to enable much closer integration between different parties in the market is really fascinating.”**
>
> GUNNAR BERGER, HEAD OF CASH MANAGEMENT SOLUTIONS, NORDEA

Leveraging partnerships is a viable route to turn the challenge of A2A into an opportunity, agrees NAB’s Langley. “If banks can embrace third party capabilities from fintechs and others and formulate these into customer solutions, then this provides an opportunity to more deeply embed themselves in customer business processes and to make those processes more efficient and less costly to execute,” he says.

And Box points out that the fintechs are also looking to partner around PSD2 and A2A. “We are having many conversations with challengers who are looking to benefit from PSD2 and open access and they are not looking to take down the banks,” Box says. “They want to offer financial services in addition to a bank account. It is rare you see something that will completely replace a bank’s offering – the fintech will either do something different or in a different way.”

How challenging the A2A component of PSD2 proves to be for banks will somewhat depend on their existing businesses, says Simões at BNI Europa. “A2A will definitely be a challenge for most traditional banks, mainly those whose businesses highly depend on the fees from card-based transactions. Being a bank which currently does not have card-based acquiring merchant business, the disintermediation of the payments value chain will definitely present an opportunity to develop a non-card-based acquiring merchant business model, without having the risk of market cannibalisation,” he says.

Building on the retail story

Another evolution of the banks' thinking about PSD2 and A2A during 2016 is an increasing focus on the implications of open banking for corporate (as opposed to purely retail) customers. Not everyone sees this evolution. "The space of TPP services has thus far been associated primarily with the retail space," says Citi's Wandhöfer. "Regarding account information services provision, we do this already for our corporates. It's not so exciting to add a European solution, if you already have something global. When it comes to payments initiation, it is not yet clear whether corporates will follow the retail model and engage with additional parties to initiate payments. Security and authentication processes between corporates and banks are already very sophisticated and there appears less of a commercial need for additional intermediaries in this space. The overall increasing risk of cybercrime commands much more focus on security and protection by both corporates and their banking partners."

Versmessen at Swift agrees that "in the corporate banking world we already see quite sophisticated solutions". "Most of the banks have offered corporate online portals and corporates have been able to send instructions for payments at another bank."

Rainer Wolff, Innovation Lab, Product Management Cash Services, Commerzbank Transaction Services and Financial Institutions, adds: "In our corporate business it is already possible to receive account information from other banks for example via Swift, and it's also possible to send payment instructions. The implementation of payment initiation and account information services for corporates is totally normal."

> "In our view, open banking and Open APIs are important for us because they will help to fuel the integration of our multinational customers in Europe. What's going to happen is that multinationals doing business in Europe will want to do business in the same way globally and if we want those multinationals as customers – even if we are not specifically impacted by PSD2 – we are preparing ourselves to operate in a world that operates in a similar way."
>
> LEIGH MAHONEY, HEAD OF PAYMENTS PORTFOLIO, GROUP PAYMENTS, ANZ

Wandhöfer: Space of TPP services so far more associated with retail

> **"Corporates are looking for their banks to continue to innovate and provide market leading services. PSD2 provides a platform for these innovations to take place and to generate a level playing field. This will not only benefit clients, but will also allow banks to offer more creative payment and account services solutions. Ultimately, corporates are not necessarily looking for the market to fragment further – which is a risk with PSD2 encouraging new payments entrants. Our experiences with our corporate clients suggest they ultimately are looking for a wider relationship play, from providers which can help them in multiple spaces, to provide an overall connected experience and help them be successful."**
>
> **NATALIE WILLEMS-ROSMAN, HEAD OF PAYMENTS, GTS EMEA, BAML**

There is certainly a growing demand for information about PSD2 from corporates, says Natalie Willems-Rosman, Head of Payments, GTS EMEA, BAML. "They are still at the beginning of their journey, but there is more awareness and our clients are absolutely wanting to know and hear more – and they are looking to their banks to provide it," she says. The dynamics are different in the corporate space, she continues. "If you look at the consumer space there are quite a lot of new entrants already active. They're building businesses and waiting for PSD2 to take effect, but we are seeing that less in the corporate space. Also there are a number of features of PSD2 – such as access to accounts and consolidation of account information – that corporates have had for a while through Swift MT101s and 940s."

But that doesn't mean there isn't an opportunity here for the banks, Willems-Rosman continues. "Corporates are looking for their banks to continue to innovate and provide market leading services. PSD2 provides a platform for these innovations to take place and to generate a level playing field. This will not only benefit clients, but will also allow banks to offer more creative payment and account services solutions. Ultimately, corporates are not necessarily looking for the market to fragment further – which is a risk with PSD2 encouraging new payments entrants. Our experiences with our corporate clients suggest they ultimately are looking for a wider relationship play, from providers which can help them in multiple spaces, to provide an overall connected experience and help them be successful."

McMorrow at Lloyds agrees. "If, for example, a multi-banked corporate customer chooses to use the bank as a provider/aggregator of choice, there is an opportunity for the bank not only to deliver multi-banking payment and cash management but in addition to then deliver rich data and analytics to the corporate," he says. "This information can be plugged back into the business to help the corporate better understand their working capital, for instance. Leveraging standardised data in this way could significantly reduce the operational burden on clients, whilst also allowing banks to better understand their customers."

Swedbank is also examining the "impact PSD2 will have on our corporate cash management offering", confirms Nilsson. "There I can see the possibility of a single point of information and access to support you if you are a multi-account corporate bank – the possibility to have one digital bank, not based on receiving account statements from all account holding banks and sending payment initiation through multiple internet banks."

Other drivers of market change – such as the rise of instant payments – in conjunction with PSD2 could be important in creating new services for corporates, observers suggest. Christophe Chazot, Group Head of Innovation, HSBC, certainly sees that "PSD2, connected sources of information and instant payments will really make corporate treasurers' lives easier". Mahoney at ANZ also identifies the real-time payments trend as significant. "We see corporate customers in light of the move to real-time banking looking at the integration that has traditionally happened through Swift and file-based means and accepting that with the move to real-time there is a more dynamic need for that to happen," he says.

Corporates will need new liquidity management capabilities in this context, Mahoney continues, adding: "The other side of this for corporates is real-time receivables management, the online fulfilment of-goods and services. Being able to make real-time payments from the bank account implies the real-time enabling of the thing you have bought. That's where the additional desire will come from in the corporate world."

Jordane Rollin, Director, Product Management, Transaction Banking, Standard Chartered, also sees opportunities as a result of PSD2 and A2A to offer innovative services to corporates. "One could be faster, more sophisticated credit decisions," he says. "PSD2 allows for the exchange of more information than is exchanged today. Imagine if you could base a trade finance decision on corporate's the latest payment information. Today this is done in a more static fashion, based on balance sheet and records, just because we don't have enough information. This is the upside and why open APIs are so helpful."

Lyon: If everyone makes the same APIs they will be useless

05

OPEN APIS: HELP OR HINDRANCE FOR BANKS?

As Citi's Wandhöfer points out, neither PSD2 nor the EBA RTSs make any explicit mention of APIs as the means by which A2A be facilitated. However, the fact that the official documents omit to mention this key three-letter acronym has done nothing to temper the growing conviction among banks in Europe and beyond that APIs are the key to enabling the openness that PSD2 requires.

This is in part because they are coming anyway, PSD2 or no PSD2. As Roberto Ferrari, General Manager of Italian digital bank CheBanca!, says: "With our middleware – specifically our front end middleware – we are going in this direction because we are already looking into putting information into our API gateway. We already have 700 APIs, because we believe digital banking is very much about APIs and we are getting ready for that. We need a seamless integrated architecture to open up to marketplace banking. That's the idea and PSD2 fits very nicely with this idea."

For Blomfield at Monzo too, PSD2 is slightly incidental to the rise of open APIs. "We are as much a technology company as we are a bank," he says. "Being able to respond to queries from an API functional stack is pretty straightforward for us. PSD2 is this thing in the future that may come to pass and if it does we will react. Our plan to take advantage of it ties in with the opportunity to be a marketplace bank. Being able to provide data via APIs in different formats is pretty straightforward for us. The future of PSD2 in the UK is not clear – if it does come to pass, we will react. PSD2 opens up the opportunity to be a marketplace bank."

Blomfield: PSD2 ties in with the opportunity to become a marketplace bank

> "PSD2 allows for the exchange of more information than is exchanged today. Imagine if you could base a trade finance decision on corporate's the latest payment information. Today this is done in a more static fashion, based on balance sheet and records, just because we don't have enough information. This is the upside and why open APIs are so helpful."
>
> JORDANE ROLLIN, DIRECTOR, PRODUCT MANAGEMENT, TRANSACTION BANKING, STANDARD CHARTERED

> **"We are talking to people all the time that are looking to benefit from PSD2 and open access, and they are not looking to take down the banks. They want to offer financial services in addition to a bank account. It is rare you see something that will completely replace a bank's offering – the fintech will either do something different or in a different way."**
>
> **JOHN BOX, HEAD OF STRATEGIC PARTNERSHIPS, PAYMENT SERVICES DIVISION, RAPHAELS BANK**

BAML also views "PSD2 as just one of the reasons we are implementing APIs", confirms Willems-Rosman. "It's what the market is moving to and what clients are demanding," she says. "This is happening across the world, and it's a movement we feel that as an organisation we need to be a part of."

That the trend towards open banking driven by open APIs is happening regardless of PSD2 is confirmed by the fact that APIs are high on the agenda of banks outside Europe which are not impacted by PSD2 – or are impacted only in a limited way. "We are not required to comply with PSD2 in our core market but that doesn't mean we can ignore it," says Mahoney at ANZ. "In our view, open banking and Open APIs are important for us because they will help to fuel the integration of our multinational customers operating or based in Europe. What's going to happen is that these multinationals doing business in Europe will want to do business in the same way globally and if we want those multinationals as customers – even if we are not specifically impacted by PSD2 – we are preparing ourselves to operate in a world that operates in a similar way.

"We do have a strategy around opening up the front door and developing integration through APIs," he continues, "though we have to respect the fact that a lot of our integration is done through traditional mechanisms." That said, the bank is "working right now to create an API stack front to back across the organisation", he adds, a strategy which includes "leveraging our APIs to external clients and aggregators to enable more retail consumer propositions". Similarly, Langley confirms that NAB is engaged in "API enablement and restructuring internal architectures, technology and operations to better embrace third party capabilities". "NAB has a robust API enablement strategy, covering some 150 internal APIs, among them external facing APIs. We are using a small number of technology partners to assist this process," he continues.

So how challenging is it for established banks to keep up with the demand for open APIs? This will depend on the bank and the state of its existing technology architecture, suggests EBA's Egner. "For large or multinational banks, it is a fact that they cannot transform legacy core systems into state-of-the-art architectures from one month to the next. Therefore, they need to build service layers to enable successful operation in the world of open APIs."

It almost goes without saying that established banks with legacy systems will find it more challenging to open up via APIs than will new entrants with infrastructure built for an API-driven world. In this context, it's clear that many traditional players are in the market right now for tools, such as API management capabilities, to help them tackle this challenge – which will, as mentioned above, be bigger for some banks than for others.

In Blomfield's view, the challenges for banks is not in having APIs but in exposing them successfully. "The irony is that the banks all have APIs already," he says. "If you use a mobile application to access your bank account, it's fetching your account data from your bank's existing API. "A2A" is just about publicly documenting those APIs and enabling third-party access."

In the view of Denèle at BPCE, the banks are working on APIs already. "Several banks in France have already worked on APIs and are ready to make them publicly available in the PSD2 required time-frame – the way "true" APIs work: providing a URL and the code you need for access," he says. "If as a fintech you want to code in the next 10 minutes, you can, and if you can't it's probably because you don't have the right expertise. I am quite confident the banks will play their role. Of course it will take time but the banks are well used to complying by the due date, because we don't have the choice."

"Banks and fintechs need to be very clear about where they are going to play – or not. Will account providers open their APIs and be happy to integrate the services of others? What can they honestly give to their customers that will make them want to keep their accounts in place? How will they feel if they are disintermediated? There are other opportunities for customer engagement outside the access layer – for example around secure authorisation: there is nothing to stop the source account provider sending out a notification to customers when a transaction initiated by a third party app has occurred."

COLM LYON, CEO AND FOUNDER, FIRE FINANCIAL SERVICES

Versmessen: TPPs will want one or two solutions to connect to different banks

Fragmentation: the enemy of efficient open banking?

Robert Oddy, Global Head of Treasury Architecture, Global Wholesale Banking Technology, BAML, plays down the challenge of aligning with the API trend. "We have seen a lot of interest from clients in accessing client data through APIs," he says. "From a digital strategy perspective payments have been electronic for 30 years. It's not such a particular level of work internally. If you have existed in the capital market space, there have been several industry initiatives to bring standardisation – ISDA, TWIST, FIX – driven by the need to more easily exchange information. APIs are the extension of that into the corporate space. The industry has been good at doing this and what we are seeing now is more of an extension of these efforts of the past 30 years. It's been done through a series of messaging based interfaces – not pre-canned and not on-demand – so it's a significant shift to APIs, enabling the exchange of information as and when in snippets, with more interactivity. PSD2 is one trend driving demand for APIs, and our technology has the components to enable it, though they are not necessarily all connected yet."

The greater challenge than creating APIs will be doing it in a standardised way, Oddy reckons. "It would be very easy for each bank to do this in a subtly different way, thus meeting the letter but not the intention of PSD2, which is all about commonality and synchronisation," he says. "We have sufficient flexibility in our technology to deal with changing requirements, but there is the expense of doing so. We are trying to plot as short a line as possible to the future – we need a nice, clean, easy, straightforward path. In the context of the UK market there have been pretty good interactions so far, with HM Treasury at the forefront. In the wider European environment we are seeing less cohesion in the way this is being approached at this point in time, which may mean the result is more fragmented. If the EBA were to take the same focus that HM Treasury is pushing it would be a reassuring step and we would be keen to see that," Oddy adds. Willems-Rosman agrees that "standardisation would be very welcome, because ultimately our clients do generally deal with different banks".

Fragmentation is a threat – and would be a disappointing outcome, agrees Egner at the Euro Banking Association. "Our whole ethos at EBA is to encourage a pan-European approach when it comes to tackling industry challenges in the collaborative space," he says. That said, he points out that some of the apparently 'national' activities under way are in fact a more solid base for a wider solution than they may seem. "For example, the banks in the UK that are responding to the requirements of the Competition and Markets Authority to improve the competitive landscape by introducing open banking by 2018 are international players, and they will want to see a framework in place that successfully supports the development of solutions that also work across borders."

Denèle: Starting work on a standard for APIs now could limit innovation

Swedbank is also pushing to see a standard for APIs, created by the industry. “We are having a dialogue with other banks across Europe to see what we have to do to come to a good standard,” says Nilsson. “The RTSs provide a framework but not a standard, so somewhere that will have to be done. We are fully open to doing something with the bank and PSP community.”

Chazot at HSBC also expects to see “collaboration between European banks in order to define implement these new standards for PSD2”.

The fact that the RTSs are not prescriptive on APIs does open the potential for the creation of numerous solutions going forward, agrees Versmessen at Swift. “There has to be a question about whether that will help the European consumer as much,” he says. “If there is a plethora of solutions, the uptake will be less good and will take longer. As a TPP, you will want one or two solutions to connect to different banks. If there are too many it will be a bit of a pity from an access perspective.”

For Rollin at Standard Chartered “if there is no standard, the industry will have all the downside and no upside” from open banking. “It will be very clunky if every bank has its own API, and says the fintechs must come to me that way,” he says. “We won’t have the upside of interoperability.”

Lyon at Fire expresses a contrary view. “There won’t be a standardised API – at least I hope not,” he says. “We need to have competition in data services as we do in payments. APIs are brilliant but if everyone makes the same APIs, they will be useless. We need to nurture the creation of good, smart APIs and then rely on aggregators – gateway providers – for API authentication. Amazon won’t integrate 1000 banks; they will use a gateway. We have already seen what a good thing technical access gateways for networks like Faster Payments are. In this way, PSD2 and APIs are creating the opportunity for business models that haven’t been there before.”

> “If banks can embrace third party capabilities from fintechs and others and formulate these into customer solutions, then this provides an opportunity to more deeply embed themselves in customer business processes and to make those processes more efficient and less costly to execute.”
>
> ROBERT LANGLEY, ENTERPRISE ARCHITECT, PAYMENTS, NATIONAL AUSTRALIA BANK

Denèle at BPCE agrees that now is not the time for a standard. "APIs have not been done. They are still to be done. It's something relatively new, and starting on a standard now for something that is not yet in place would harm innovation and probably limit the initiatives that happen and will ultimately harm the ability of some players to operate in the way they want. A better journey is to leave the initiative to the market so everyone can do what they want provided it is compliant with the RTSs. If something is needed in terms of a standard it will emerge: there's a time for everything, and it's not the time for a standard. It would be quite incredible to see the regulators limiting innovation just at the time they are introducing regulation to foster innovation."

The future of integration?

If APIs can enable a next generation of services for corporates, moving on from what has been achieved via messaging services like Swift, and if APIs are positioned a new generation of integration technology, what does that mean for established communication methods used between banks and their customers going forward? One strand of continuity is suggested by the draft RTSs which push for the use of ISO 20022 in all exchanges between TPPs and account servicing PSPs. The text states: "To ensure the interoperability of different technological communication solutions, it is appropriate to require that account servicing payment service provider's communication interface uses common and open standards which are developed by international or European standardisation organisations as well as ISO 20022 elements, components or approved message definitions, if available, since these standards are already widely used in the payment sector, between and within Member States."

This is a positive development, suggests Versmessen, "because it means that all the payloads will be based on the same standard". The ISO 20022 data field dictionary can be extended to cover any missing fields, he says, but whether the messages concerned have the coverage required would need to be verified – although it is important to remember that many PSPs are part of SEPA and are therefore already sending ISO 20022 messages, and that many TPPs will be banks.

As to how APIs and messaging-based integration will co-exist, Versmessen points out that they are "different technologies". "APIs are useful in a typical client/server type environment where there is a need for frequent querying to be carried out. For bi-directional communication – where one bank would like to inform another directly that something has happened – messaging is better. You don't want to have to query first. So there are advantages and disadvantages to both. An API could actually reach a wide selection of banks, but there could be a need for some complementary capabilities provided by messaging technology," he contends.

On the question of how far the move to open APIs will herald change, Rollin at Standard Chartered says "APIs are not what is going to trigger a new marketplace for banks". "You will still need a central authority or a central system or a blockchain," he says. "APIs are not what will power the infrastructure for data to be exchanged. They will provide the 'USB plug' into that infrastructure."

Change is being driven by other key factors – the underlying digitalisation of key trade documents such as invoices, the banks' determination to better meet the needs of customers, and the trend to try to integrate the power of fintech innovation – and the main impact of and place for open APIs is in facilitating these, Rollin suggests. "If we really want these drivers to come into alignment, then that's where open APIs come into play – providing a standard layer into which everyone can integrate."

"Banks will be innovative and creative enough, with enough expertise, to become AISPs and PISPs. Banks will play in the TPP space. We have had a lot of discussions with banks within the French banking community and this is the case for my banking group as well. We are having strategic discussions and we will play new roles in the value chain in the digital space which will evolve from this legislative framework"

FABRICE DENÈLE, HEAD OF CARDS & PAYMENTS, BPCE

06

DEFINING YOUR ROLE IN THE DIGITAL ECOSYSTEM

For new entrants like Monzo, the question of how their businesses fit into the digital ecosystem does not seem to be a difficult one. Citing initiatives already under way to integrate its banking services with internet of things (IoT) and transport applications, Blomfield positions the proposition as being all around "pulling in much more contextual data". ""If you make your data available, developers will create prototypes – and a few will turn into businesses," he says. "APIs present the opportunity to build valuable products for customers who aren't well-served by banks. Family joint accounts, people struggling with debt, student house-shares. They let developers build really targeted propositions for underserved segments." There is of course no shortage of new entrants who could partner with each other to enable marketplace banking, if it turns out the incumbent providers are less keen to do so.

Lyon at Fire also sees an upside for banks as well as new entrants. "The music I listen to is the same as it has always been: I am just consuming it in a different way now. David Bowie is still brilliant, and the banks are still relevant," he says.

However, every player must think about and decide upon the role it does want to play in the new ecosystem. If at the top of the tree are the access providers – handling most of the customer engagement – Lyon says, there are also the access gateway for API authentication and the account provision roles to consider. "Banks and fintechs need to be very clear about where they are going to play – or not. Will account providers open their APIs and be happy to integrate the services of others? What can they honestly give to their customers that will make them want to keep their accounts in place? How will they feel if they are disintermediated? There are other opportunities for customer engagement outside the access layer – for example around secure authorisation: there is nothing to stop the source account provider sending out a notification to customers when a transaction initiated by a third party app has occurred."

Berger: PSD2 is a golden opportunity for innovation for banks

The “hidden gem”, he says, “is the data”. “The banks could create a new layer providing API connectivity, via which they could gather more data than they need for the transaction, creating a data set via which they could offer really interesting services around transaction fraud management, for example. If the banks don’t do this, others will.”

Versmessen at Swift also sees the need for a service layer to be developed to facilitate the successful implementation of an open API-driven ecosystem. “There is a technical challenge in setting up an API framework, and even more importantly there is a trust issue,” he says. “There is a role for a trust manager for the ecosystem, clarifying who as a TPP you are and whether you have been accepted.”

It is clear that European banks are working to establish their roles in the digital ecosystem and to align their digital strategies to achieve their goals. “We want to be the digital service provider for our customers,” says Nilsson at Swedbank, “covering not only banking but other services that are relevant for them. Our PSD2 activities are part of our efforts to create a digital relationship with our customers, and to provide relevance in that digital relationship – so you log on to Swedbank and see everything that is vital for you to run your everyday economy. That’s the contextual part of it.”

The plan is not for Swedbank’s IT department to develop everything required to underpin this vision, she adds. “We will have partners, join ventures, a variety of different relationships. This is something that has been a journey for the bank.”

Lloyds’ McMorrow also positions digital as a journey for the bank. “As PSD2 introduces new categories of client our expectation is that the industry will likely see the creation of new online payment models and user experiences,” he says. “The ability to provide a secure online shopping experience using payments direct from bank accounts potentially will provide alternative solutions to cards, improved working capital for retailers and potentially an enhanced user experience for customers. We expect that the market will develop over time as new and existing providers adopt new technology and payment journeys to meet changing customer demands. As a relationship bank we will work closely with our customers to understand their needs and to ensure that our digital solutions meet the changing customer demands of the future.”

A critical aspect of the journey for banks will be partnership with their former rivals, the fintechs, suggests Chazot at HSBC. “I would see some co-operation with fintechs – and this is new – rather than competing with them,” he says. “It might be better to partner in order to deliver the best services to our customers.”

Banks outside Europe take a similar view. “I would view our approach as being able to partner with disruptors, to partner to create an ecosystem, in order to help our customers achieve their goals,” says Mahoney at ANZ. “For example, in the retail market we would like to help our customers to have a better home ownership experience. They want a home loan not because they just need a loan but because they wish to buy a house. Within the ecosystem in financial services, the ecosystem of capabilities, we could actually enable additional sales and leverage other opportunities through the front door by integrating with disruptors, powered by our and other providers services to benefit customers. I love the innovation we are harnessing with banking and financial services APIs. It will enable opportunities that perhaps we haven’t even thought of today.”

A shift to true customer centricity

BNI Europa foresees that the enforcement of PSD2 and open APIs “will drive a shift from bank-centric interactions to customer-centric interactions”, Simões says. “This change will promote increased competition and new market entrants in the payments industry, ultimately leading to shorter innovation cycles. The adoption of instant payment methods, enabling immediate availability of funds, will outpace traditional non-instant payments methods.”

Reflecting these changes in the payments business, BNI Europa is currently working on specific solutions “that will seamlessly orchestrate a payment as part of an end to end customer experience”, he says. “We believe that payments are just a means to an end and as such payment services will become more and more commoditised. We live in an age of reliable and secure payments: the major constraint that we face today and that significantly impacts customer experience is the reduced speed in the provision of funds to customers and merchants.”

The drive for banks to establish a role for themselves in the digital ecosystem is enabled by open APIs and is driving successful collaboration between banks and fintechs, agrees Rollin at Standard Chartered. “The banks have been carrying out innovation in labs and sandboxes but there is a challenge in making that innovation scale and bringing it back into the mainstream business. The way to collaborate is with open APIs, and it’s all about interoperability of systems and of solutions. This enables the best of both worlds. You still have the banks acting as overall providers from a legal and compliance perspective and the scale they can bring is still there, and then the fintechs can plug into the banks’ ecosystems via open APIs.”

McMorrow: PSD2 will lead to the development of new online payment models

In this context, PSD2 is the framework that is needed "for players to be able to talk to one another to provide innovation to the entire space", he suggests. "This is one of the biggest elements required for true innovation to happen. Yes, it has implications for the business model of every player, but there's an upside for everybody. It's not a zero sum game. There is an element of the bank as providing the architecture and the fintech handling the relationship – but the landscape will be much richer than that."

Berger at Nordea agrees. "We have an RFP out now for buying and implementing an API management platform, and we expect to get a lot of good functionality out of the box. We believe that based on that technology we will then be able to create a number of new services for our customers that go beyond PSD2 – so the investment we are forced to make to be compliant will also create a lot of opportunities.

"This is a golden opportunity to become more innovative in our own channels by inviting in the developer community. There are guys out there that are extremely passionate about new technology and they know how to build solutions, but how many customers will they get if they try to grow their solution organically? Maybe a few thousand? We have 11 million customers and we can offer them the opportunity to launch their solutions in our digital channels towards those clients. That will be a great opportunity for the best developers out there – and it will be a great opportunity for us to become more innovative in our development within the bank."

07
CONCLUSION: KEY TAKEAWAYS

However the remaining uncertainties (and conflicts) around the implementation of PSD2 in practice are resolved, open banking, driven by open APIs, is becoming a reality. The banks will not be able to alter the reality of increased competition, and the good news is, for the most part they do not appear to want to (anymore).
In light of this evolution of the banks' thinking, Finextra's five key takeaways from this research into PSD2 and open banking are:

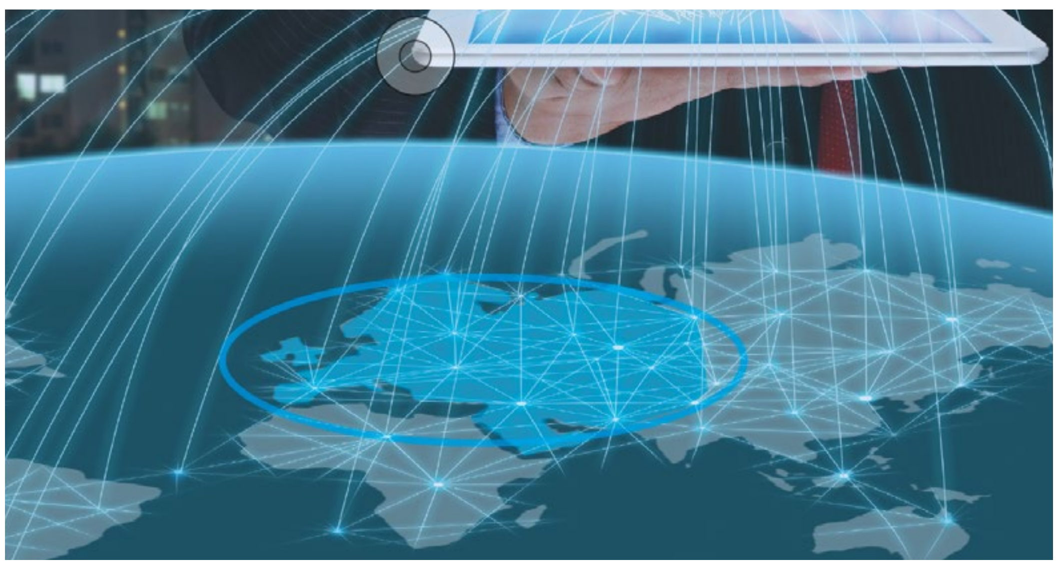
1) Open banking will be the environment in which financial institutions operate, not just in Europe, but globally. Therefore, all banks should emulate the approach of the leaders and many of those interviewed for this research and embrace open banking and open APIs, to comply with regulation, but also to go beyond it and deliver what customers need.

2) For established banks, legacy systems are an unavoidable reality. Digitalisation is a challenge for banks and the open banking and open API element of this is no exception. However, necessity is the mother of invention and there are tools aplenty on the market to assist banks in achieving a smooth transition to an open banking future. Banks need to leverage these tools to ensure a streamlined implementation of their open banking capabilities.

3) One standard lowest-common-denominator API won't deliver what the industry and its customers need but nor will as many APIs as there are account holding institutions, so some kind of mechanism is required to ensure that the situation becomes more not less coherent. This could be some kind of standard around the API or it could be some function of the marketplace (provided by aggregators) or both. In any event, all banks should play an active role in calling for and contributing to efforts to avoid fragmentation and achieve coherence.

4) It may already becoming a cliché to suggest that banks should collaborate and not compete with fintechs, but for anyone in any doubt PSD2 and open banking should be the deciding factors. Open APIs make collaboration practically easier and the changing competitive landscape of open banking make collaboration commercially necessary. Banks should partner with fintechs that can provide interesting new compelling customer propositions that complement their existing offerings and complete their customer relationship propositions and they should exploit the fintechs' greater agility and technological openness to do this in a timely manner.

5) PSD2 is not happening in a vacuum, but it has to be complied with and therefore has budget and resource attached to it. In this sense it is a gift, and banks have the opportunity to make the most of PSD2 to drive digitalisation and ecosystem thinking, and to justify investment in the provision of orchestration and contextual capabilities. This will help them to define – and secure – their roles in the digital ecosystem going forward.



08
ABOUT

Finextra

This report is published by Finextra Research.

Finextra Research is the world's leading specialist financial technology (fintech) news and information source. Finextra offers over 100,000 fintech news, features and TV content items to visitors to www.finextra.com.

Founded in 1999, Finextra Research covers all aspects of financial technology innovation and operation involving banks, institutions and vendor organisations within the wholesale and retail banking, payments and cards sectors worldwide.

Finextra's unique global community consists of over 30,000 fintech professionals working inside banks and financial institutions, specialist fintech application and service providers, consulting organisations and mainstream technology providers. The Finextra community actively participate in posting their opinions and comments on the evolution of fintech. In addition, they contribute information and data to Finextra surveys and reports.

For more information:
Visit www.finextra.com, follow @finextra, contact contact@finextra.com
or call +44 (0)20 3100 3670

Axway

Axway empowers more than 300 Global Financial Services organisations to collaborate smarter, innovate faster and engage better with their customers, partners and developers. From integration technology that securely connects people, processes and things to an engagement platform that enables API management, identity management, mobile app development, analytics for payments and critical end to end business interactions.

Visit www.axway.com

Finextra Research Ltd
1 Gresham Street
London
EC2V 7BX
United Kingdom

Telephone
+44 (0)20 3100 3670

Email
contact@finextra.com

Web
www.finextra.com