

A time of change and challenge

The payments industry is undergoing a period of seismic change in regulations, with new market players and customer expectations. All those involved face challenges in finding their place in this new landscape.

What these changes mean for the different industry stakeholders and how they can prosper from the transformation were central themes at the PayExpo Europe event in London this month.

Much of the discussion centred around the effects of the EU Second Payment Services Directive (PSD2), in particular how it will stimulate new business models and banking ser-



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vices, the uncertainties around strong authentication, and bank account access for fintechs (see story on page 16).

Instant payments, the EU General Data Protection Regulation (GDPR) and retaining customer trust were also front of mind among the more than 2,200 attendees.

One representative from a major bank said that PSD2, which comes into force on January 13, is going to be particularly difficult for large financial institutions.

More than two thirds (68%) of bankers fear that the directive will cause them to lose control of the client interface, and many remain unsure how to respond, according to a PwC survey. As a

PSD2 will cause massive payments changes, but banks must embrace the possibilities, not fear the consequences.

result they are adopting a defensive, wait-and-see stance that is risk averse.

They need to embrace the opportunities and look at their customers differently according to Anne Boden, CEO of UK challenger Starling Bank, who said: "If PSD2 succeeds it will make the industry more competitive than ever before."

"Everybody has to compete and the fittest will survive."

"In the past you [the bank] captured the customer then upsold and cross-sold. I have been in this industry a long time and things haven't really changed, and customers deserve better. We have to think about what people who make payments demand from us in terms of availability."

She adds that the way people make payments has changed with social media and mobile becoming increasingly central to the process.

The established banks are responding to the challenge, according to Damian Richardson, head of innovation and strategic initiatives at RBS.

He cites a number of initiatives the bank has brought in to address customer 'pain-points'. If they lose their card



"SCA will make changes but life will still go on. New people will come out with new ideas to solve this." – David Parker, Polymath Consulting

they can request a six-digit code via their mobile to withdraw cash from RBS ATMs. Richardson says customers are even using the service for things that were not originally intended such as sending funds to their children, or paying a friend for dinner the previous night.



"We need to remember there is a customer at the end of this, and what we can do for them." – Damian Richardson, RBS

Strong authentication

Strong customer authentication (SCA) – a central part of PSD2 – remains an unresolved issue. The European Banking Authority announced in February that most remote transactions over €30 would require an extra layer of authentication such as a code or biometric.

The final draft of the SCA Regulatory Technical Standards (RTS) will be released by the end of the year, and banks and payment service providers may have to implement them by mid-2019.

There are concerns that SCA requirements may threaten the panacea of a streamlined customer experience at the POS, but the market will find ways to resolve the issue says David Parker, CEO of Polymath Consulting.

"SCA will make changes, but life will still go on," he adds. "New people will come out with



"Does [GDPR] mean that for all online commerce you have to go back to the customer and ask for consent to use their data?" – Steve Cook, Daon

new ideas to solve this."

There is some conflict and uncertainty over the use of customer biometrics between PSD2 and the GDPR, which becomes enforceable from May 25 2018.

"GDPR takes precedence over PSD2," says Steve Cook, director of sales EMEA at mobile biometric authentication company Daon. "It says the customer must give consent for the use of their biometric data. So does this mean that for all online commerce you have to go back to the customer and ask them for express consent to use their data? This is something that has to be overcome because it will interfere with a streamlined process."

Merchant concerns

Banks are not the only ones worried about losing control of their business model to newer payments market entrants. Karen Pepper, UK CEO of Amazon Pay, says this is one of the major issues raised by its large merchant eCommerce partners.

The merchants are concerned about retaining the trust of their customers in how their data is used. The Amazon Pay online processing system gives its customers the option to pay at

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