Accenture Payment Services

# Seizing the Opportunities Unlocked by the EU's Revised Payment Services Directive

## PSD2: A Catalyst for New Growth Strategies in Payments and Digital Banking

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European banks are at a critical juncture in their history—a defining moment at which changes in the payments industry are forcing them to make a key strategic decision: whether to become a banking 'utility' supporting other providers' customer-facing solutions, or an 'Everyday Bank' playing a central role in customers' daily lives.

The driving force behind this imperative is the revised Payment Services Directive (PSD2) which is set to accelerate the competition and digital disruption that are already reshaping the financial services industry across and beyond Europe.

At the time of this document, the enforcement of the draft PSD2 is still pending, subject to the formal adoption by the EU Council of Ministers. The Directive will then be then published in the Official Journal of the EU. From that date, Member States will have two years to introduce the necessary changes in their national laws in order to comply with the new rules. The draft PSD2 technical standards and guidelines are expected to be provided by the European Banking Authority not earlier than January 2017.

# A rapidly changing payments industry is threatening incumbent banks' payments revenues and customer ownership

In common with retail banking as a whole, the payments industry is experiencing rapid and widespread changes.

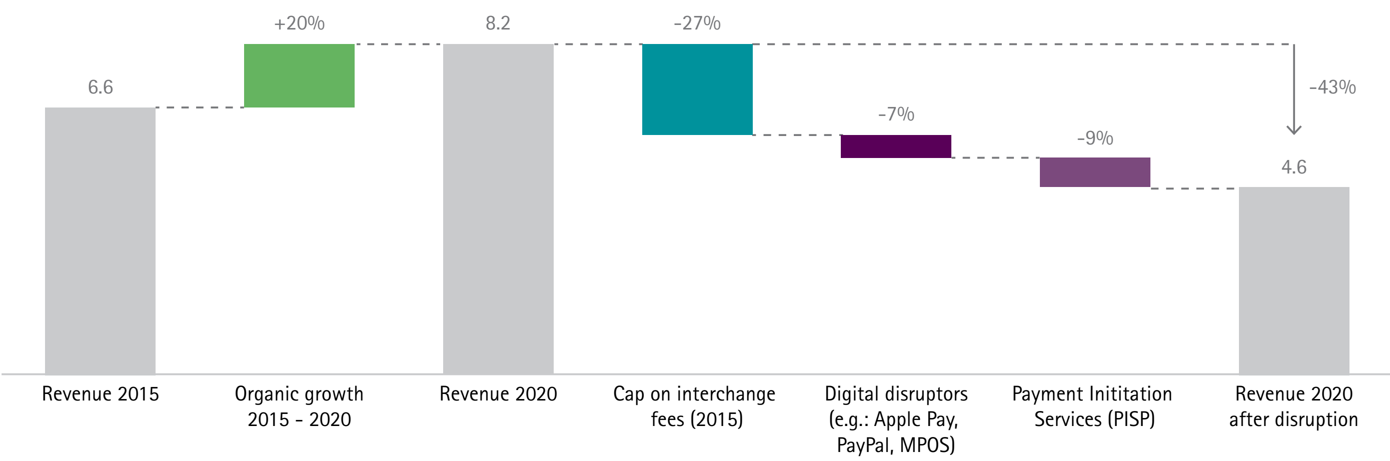
Specifically:

- Customer demands are evolving as more and more transactions take place on mobile devices, demanding real-time, personalised and seamless payment experiences.
- New competition is emerging, in the form of FinTech companies and traditional financial services providers supplying new digitally-enabled services or forming unconventional partnerships in an expanding payments ecosystem.
- Advances in technology—including immediate payment infrastructures, blockchain, mobile authentication and the 'Internet of Things' (IoT)—are creating new ways to pay and a digitised end-to-end value chain.
- Finally, regulatory initiatives such as the capping of interchange fees, the eMoney Directive and PSD2 are playing an increasing role in encouraging competition and innovation in the industry.

As an example of a mature European market, Accenture has analysed the payments industry in the United Kingdom. This analysis which is shown in Figure 1 indicates that these changes are poised to contribute to UK banks losing up to 43 percent of their current payments-based revenues by 2020.

FIGURE 1. Retail payments revenue evolution in the United Kingdom 2015-2020

(%, EUR Bn.)




Notes:

1. Issuing, acquiring and processing fees included
2. Only cards payments revenues considered
3. Interest income from credit cards and cross border retail payments excluded

Assumptions Digital Disruptors:

1. Apple Pay accounts for 15% of card transactions value by 2020
2. E-wallets (e.g. PayPal) account for 6% of retail transactions by 2020
3. MPOS account for 5% of card transactions value by 2020

Assumptions PISPs:

1. PISPs erode 33% of online debit cards and 10% of online credit cards
2. PISPs acquire 90% of their transactions online and 10% in-store by 2020
3. PISPs in-store volumes originate 80% from debit cards and 20% from credit cards
4. PISPs account for 16% of online retail payments by 2020
5. PISPs account for 0.5% of in-store retail payments by 2020
6. PISPs account for 4% of retail payments (e.g.: cash, cards, e-wallets, PISPs) by 2020

Source: Accenture Research Analysis of UK Payments Market

In addition to the dramatic erosion of their payments revenues, banks are also set to see their interest-based revenue streams impacted by a loss of 'customer ownership', resulting from the displacement of bank-customer interactions by FinTech or progressive traditional financial services companies.

As this industry disruption gathers pace, the Revised Payment Services Directive is set to accelerate it by regulating new forms of Payment Institutions, introducing new interaction models, and mandating the opening of banks' application programming interfaces (APIs) to third parties. However, alongside the threats, PSD2 will also create new opportunities that could enable banks to recapture some of the projected lost payments revenue. The potential upside for banks will vary depending on which of the four primary strategic options they choose to pursue.

These options are:

**1.** Compliance with PSD2

**2.** Facilitation and monetisation of API access

**3.** Provision of advice and new products/services

**4.** Expansion of the ecosystem and aggregation of value

As we'll explore in this paper, each of these options brings its own specific implications in terms of a bank's revenues, business model, customer relationships, market positioning and future growth.

# Methodology

The analysis of the evolution of retail payments revenues referred to in this paper has been developed by Accenture Research based on an analysis of the payments market in the United Kingdom. The analysis includes assessment of market characteristics including payments product features, pricing, competitive dynamics, and the presence of network effects as well as barriers to entry. Baseline figures were developed from multiple sources including The UK Cards Association, the UK Payments Council, Visa and PayPal.

For the adoption of new payments products, we defined expected scenarios of disruption analogous to those seen in other markets, and projected a period of continued strong growth in electronic transactions driven by rising contactless card payments and online payments.

For 2015-2020, we estimated annual growth in electronic retail transactions (e.g.: e-wallets, cards, payments initiation services) of 11 percent.

For digital disruptors we assumed the following scenario in 2020: card-based digital wallets will account for 15 percent of total card transaction value, stored value accounts will account for 6 percent of retail transactions, and mobile POS will acquire 5 percent of card transactions. Finally we validated the findings with experts from Accenture and the industry.

In respect of PISPs, we assumed that 90 percent of PISP transaction volume will originate online with the remaining 10 percent originating in-store by 2020. We estimate PISPs will erode 33 percent of online debit card transaction volume and 10 percent of online credit card transaction volume resulting in a total market share of 16 percent of online retail payment volume by 2020.

For in-store transactions, we assumed PISPs will acquire 80 percent of their volumes from debit cards and 20 percent from credit cards. As a result we estimate that PISPs will account for 0.5 percent of in-store payments and 4 percent of total retail payments (e.g.: cash, cards, e-wallets, PISPs) by 2020.

# The revised Payment Services Directive (PSD2)

PSD2 is a data and technology-driven Directive that aims to drive increased competition, innovation and transparency across the European payments market, while also enhancing the security of internet payments and account access.

At the core of PSD2 is the requirement for banks to grant Third Party Providers (TPPs) access to a customer's online account/payment services in a regulated and secure way. This 'Access to Account' (XS2A) rule mandates banks or other account-holding PSPs to facilitate secure access via APIs to their customer accounts and data if the account holder provides consent. In order to provide this access to accounts, banks must also allow for customer identity verification and authentication via APIs.

Access to customer accounts via APIs enables the provision of entirely new types of service that are regulated under PSD2—namely third party payment initiation (provided by Payment Initiation Service Providers or PISPs) and third party account access (provided by Account Information Service Providers or AISPs) as shown in Figures 2 and 3.

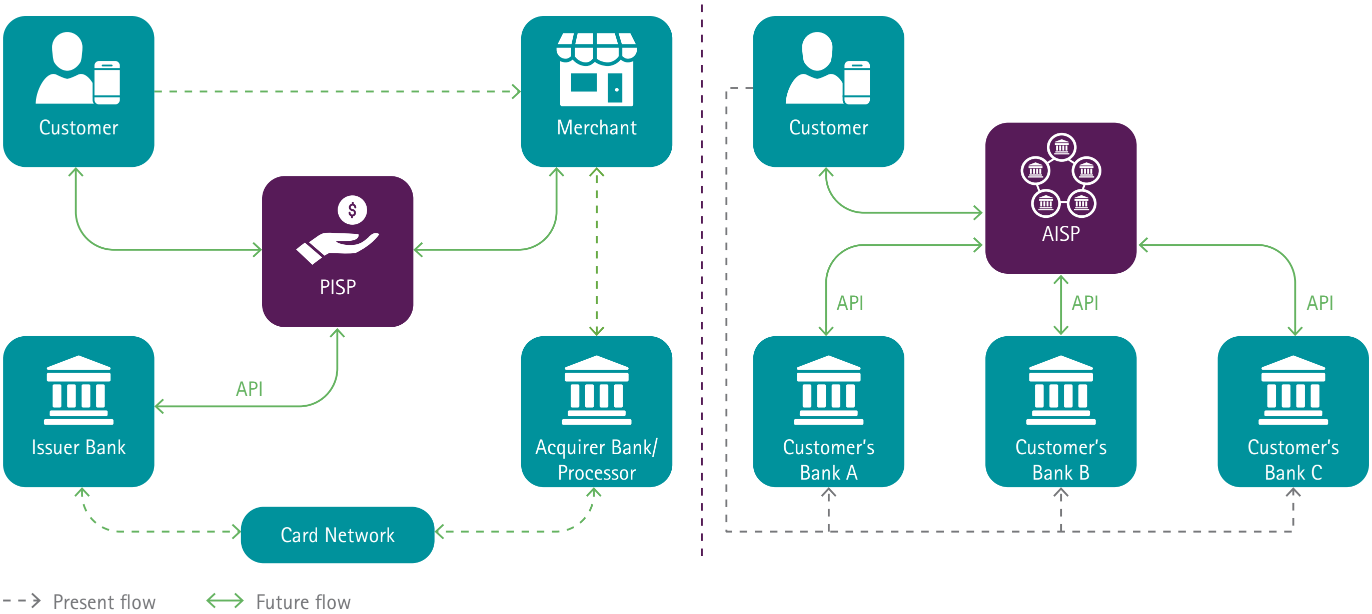
FIGURE 2. Summary of newly regulated service providers under PSD2

| | | EXAMPLES |
|---|---|---|
| Third-party payment initiation (PISP) | Third parties will be able to initiate online payments to an e-merchant or other beneficiary directly from the payer's bank account via an online portal—**enables new payment solutions**<br>Merchant acquires, banks, FinTech companies and large merchants would likely have capacity to provide such payment initiation services | SOFORT BANKING<br>TRUSTLY |
| Third-party account data aggregation (AISP) | Third parties, which PSD2 formally refers to as "account information service providers," will be able to extract a customer's account information data including transaction history and balances—**enables new services utilizing this data**<br>Banks, FinTech companies and non-traditional financial services companies would likely have capacity to provide such account information services | MOVEN<br>MINT |

FIGURE 3. Illustrations of how PISPs and AISPs will change existing interaction models between customers and banks

AN UPDATED PAYMENT MODEL INCLUDING A PAYMENT INITIATION SERVICE PROVIDER (PISP)

AN UPDATED INTERACTION MODEL INCLUDING AN ACCOUNT INFORMATION SERVICE PROVIDER (AISP)



Although the use of APIs is not new, growth in their usage has been exponential in the digital era, and APIs are now being adopted across various industries as key enablers for business services and digital products. The mandatory opening of account APIs is an important step towards 'Open Banking'—a development that will offer tremendous potential for banks and financial institutions to innovate at pace, create new revenue streams and 'disrupt the disruptors'.

However, the move to open APIs will also serve to increase the rate of disruption within the financial services industry. Many traditional business models across a variety of industries have already experienced dramatic change driven by APIs as shown in Figure 4. For banks, the keys to success will be to gain a full understanding of the disruptive threats they face, and to adapt to this changing landscape by evolving their business models to leverage APIs as an enabler of new products and services.

## Standards & Timelines for Open Banking via APIs

The draft Regulatory Technical Standards for Strong Customer Authentication and Secure Communication under PSD2 will be published by the European Banking Authority (EBA) in January 2017. The standards will then be adopted by the European Commission, after which there will be a transition period of 18 months before the standards come into force across the EU. This means that the technical standards will not yet be in force in January 2018, the date at which all EU countries and payment institutions must be compliant with PSD2.

This misalignment of timelines presents some uncertainly around how API communication between banks and third parties will be handled during the transitionary period between January 2018 and the date at which the Regulatory Technical Standards (RTS) come into force.

In the face of this uncertainty, it is likely that many market participants will look to the UK's Open Banking Working Group, which is currently developing standards for the sharing and use of banking data via APIs in the UK.

The UK Open Banking Standards seek to address technical design and infrastructure issues, as well as formalising an approach to sensitive customer issues such as consent, delegation of access rights, authorisation and authentication, vetting, accreditation and governance. The group is targeting a minimum viable product for an Open Banking API by the end of 2016, with personal customer transaction data included on a read-only basis from the beginning of 2017.

FIGURE 4. Traditional business models have been disrupted (or destroyed) due to the rising supremacy of APIs

| | | | | |
|---|---|---|---|---|
| Media | NETFLIX | DISRUPTS | BLOCKBUSTER | Netflix's API enables Netflix to rapidly churn out new apps to expand to new platforms like smartphones, X-box, smart TVs. |
| Technology infrastructure | AMAZON | DISRUPTS | DELL<br>HP<br>IBM | One of Amazon's largest business units is Amazon Web Services which has displaced some of the world's largest creators of hardware servers like Dell, HP and IBM.<br>Amazon today provides the same services as this hardware did, but via APIs. |
| Travel | EXPEDIA | DISRUPTS | THOMAS COOK | Travel websites are now a collection of APIs that access data from hotels, airlines, cruise liners, update in real time and provide an easy-to-use interface for booking and ticketing purposes<br>Partners can then access customer data to provide additional services, like creating a customized itinerary for customers. |
| CRM | SALESFORCE | DISRUPTS | SIEBEL | Salesforce.com used APIs to help customers tailor services to their businesses, integrated into their core systems and offerings.<br>Salesforce has consistently used platforms and APIs to fuel innovation and broaden its portfolio of service offerings to become the largest provider of CRM solutions in the world. |
| Telecoms | BT | EVOLVES | BT SPORT<br>BT<br>BT TV | Even in tightly regulated industries like UK telephony and broadband, regulatory pressure has opened up the market through use of open interfaces and forced long term incumbents to look for new sources of revenue. |

# Disruptive Impacts of PSD2 Access to Account (XS2A)

## Loss of Fees from Card-Based Transactions

The recent Interchange Fee regulation has already reduced the fees generated from card-based transactions in Europe, with the UK retail industry trade association—the British Retail Consortium—estimating that merchants in the UK alone stand to save £480 million per annum.[1]

However, despite the capping of interchange fees, card-based transactions continue to generate more revenue for retail banks than interbank credit transfers which, in many jurisdictions—including the UK—are currently free for retail customers. In contrast, an issuing bank will still receive up to 0.2 percent of transaction value as an interchange fee on debit cards, and up to 0.3 percent on credit cards, depending on the jurisdiction.

In regulating PISPs, PSD2 contemplates a simplified payments value chain in which the card network can be fully disintermediated. In such a transaction, payment is initiated by the PISP directly from the customer's bank account via an API call to the originating bank. In this scenario, all interchange fees and acquirer fees currently received by the issuing and acquiring bank could be fully displaced, as could all fees received by the processor and card network.

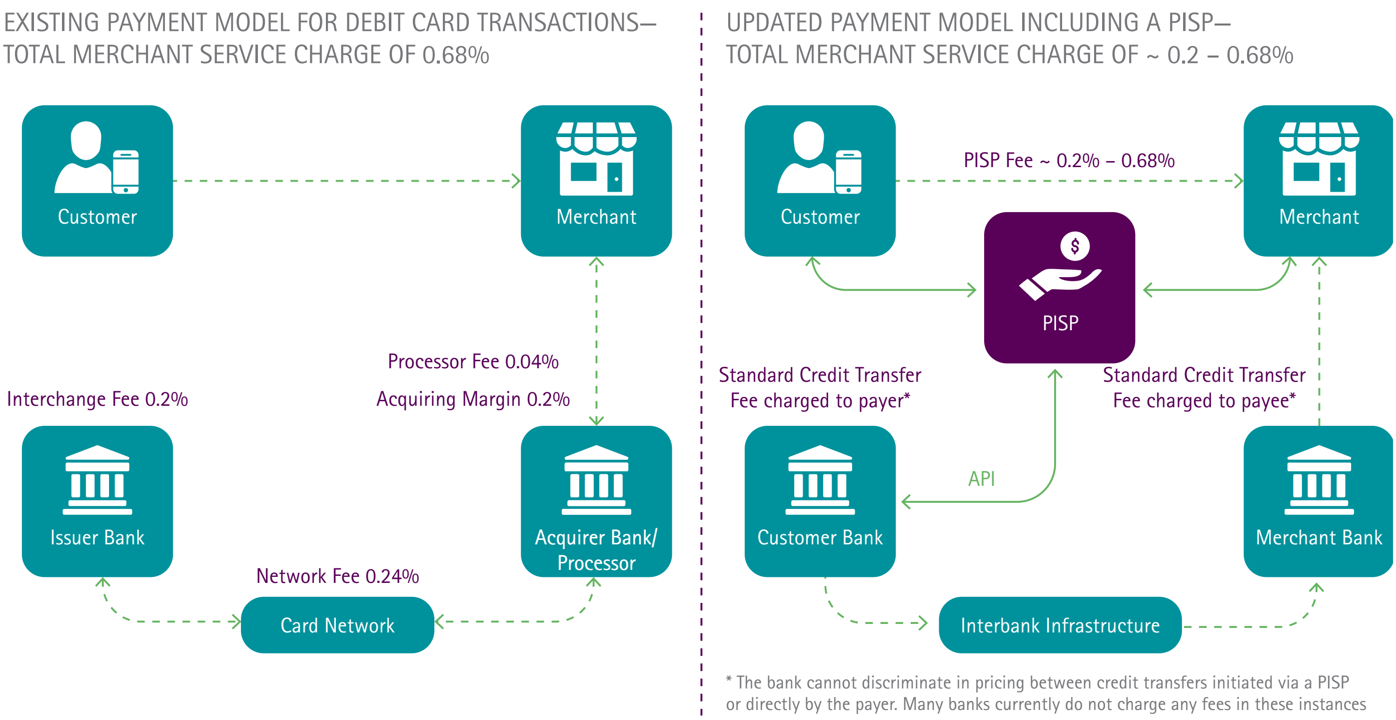
This model can also impact the current revenue streams from dynamic currency conversion and foreign exchange on card transactions, with the emergence of new opportunities for a redistribution of ownership of this activity within the value chain.

While these impacts present a notable threat for the banks and card networks, their severity will correlate directly with the level of adoption of PISP services.

It remains to be seen how much the customer experience for PISP transactions will differ from that for existing card-based payments—but, in estimating the potential uptake of PISP services, it's clear that the merchant will be key. Accenture is currently undertaking consumer research in the UK and Ireland on the likely level of demand for AISP and PISP services, and will publish the findings in the second quarter of 2016.

Currently, the average Merchant Service Charge in the UK is approximately 0.68 percent of the transaction value for debit cards.[2] In the PISP value chain, as shown in Figure 5, the PISP itself is the only intermediary to which this Merchant Service Charge is to be distributed. This makes it highly likely that PISP services will be offered at a significant discount to the existing rates of Merchant Service Charge, and that industry competition will drive these rates downwards.

FIGURE 5. Illustrative comparison of typical Merchant Service Charge components (based on UK market) for card transactions vs PISP transactions



These dynamics provide the merchant with an immediate incentive to advocate the use of a PISP service over a traditional card payment. The PISP model also presents other benefits to merchants, including the removal of the liquidity risk within the transaction and the potential for faster clearing of funds. For those merchants that have sufficient scale and are aiming to vertically integrate their business model, PSD2 offers a compelling opportunity to establish themselves as a PISP—thereby retaining the entirety of the Merchant Service Charge.

Based on these drivers, Accenture believes that PISP services could account for up to 16 percent of online retail payments by 2020, led by the displacement of up to 33 percent of online debit card transactions and up to 10 percent of online credit card transactions. Taking the UK market as an example, this would result in the loss of over £1.45bn of card transaction revenues between 2017 and 2020—money that was previously captured by the banks and card networks.

Interbank transfers and the PISP model are also applicable to physical point-of-sale (POS) transactions where the PISP is integrated to a contactless mobile wallet app. It is entirely possible that mobile wallet providers including the likes of Apple Pay may consider a transition to a PISP model in the future. These developments will further reduce the volume of card-based transactions within Europe and the related Interchange and Acquirer revenue streams for banks.

## Loss of Customer 'Ownership' and Insight

For any business to build loyalty, cross-sell successfully and deliver a rewarding customer experience, the minimum requirement is to have an opportunity to engage with the customer. While banks have traditionally played a central role in their customers' lives, this relationship has changed dramatically in recent times. Generally, the role of banks has moved through three phases—firstly from physical, person-to-person interactions, then to online banking services, and in the past few years to mobile and real-time payments and product applications. Until recently, this evolution has not threatened the relationship between bank and customers, or the sense of customer 'ownership' that banks obtained through regular interactions. The advent of PSD2 and XS2A and the path towards open APIs fundamentally changes this dynamic.

With the opening-up of access to payment initiation services via APIs, the bank is at risk of losing a direct relationship with the customer and becoming a utility-type service used by new TPPs. Likewise, access to customer account data enables a scenario whereby customers could fulfil their typical banking needs such as viewing transaction histories, account balances and initiating payments, all from a third party online portal with no meaningful engagement with, or even visibility of, the bank's brand.

A further evolution of this threat is the potential break-up or 'atomisation' of banking services, as customers exercise their ability to use multiple digital banking products provided by different financial and non-financial institutions.

New digital competition in the form of (i) FinTech entrants, (ii) technology giants such as Apple and Google and (iii) traditional financial services companies is beginning to see the emergence of enhanced products and user experiences tailored to niche customer needs. A TPP already acting as a PISP and AISP under PSD2 could theoretically aggregate and integrate these new services through extended API integration.

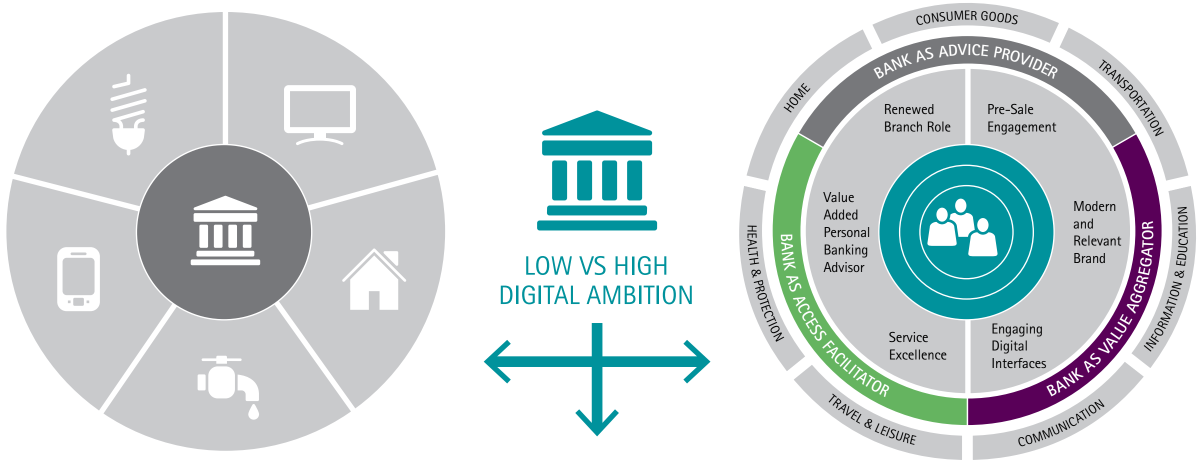
This scenario would present a significant threat to incumbent banks by acting as a virtual consolidation of the FinTech industry. Via a single platform, the customer could access multiple stand-alone financial services products, all integrated with their existing account and transactional data. In addition to removing the opportunity for banks to cross-sell and engage their customers, this would also represent a loss of customer insight and data for banks. With less customer data, the banks would enter a negative feedback loop in which their ability to compete would steadily decline, eroding a key competitive advantage that banks currently enjoy through their wealth of customer data and insight.

# A Decision Point has Arrived for European Banks

As we noted earlier, PSD2 presents significant opportunities to grow new revenue streams, capture customer ownership and progress towards an extended ecosystem centred on the 'Everyday Bank'. However the largest share of the spoils will likely go to those banks that move first to capitalise on these opportunities.

The imperative for banks is to leverage API integration and their existing customer relationships in order to develop a customer value ecosystem centred around their own banking portals. Accenture believes four primary strategic options are available to banks in order to respond effectively to the threats and opportunities of PSD2—while deciding whether to become a banking 'utility', or to continue to play a central role at the heart of their customer's daily lives. These strategic options are laid out in Figure 6 below.

FIGURE 6. Strategic options for banks to respond to the challenges and opportunities of PSD2




Become a 'utility' VS Become an 'Everyday Bank'

STRATEGIC OPTIONS

**1. Comply with PSD2**

- Comply with PSD2 requirements
- Give 3rd parties access to data required by law
- Provide a basic-level open API free for anyone

**2. Facilitate & Monetise Access**


- Comply with PSD2 requirements
- Develop more advanced API platform; allow granular data access beyond what is required by law
- Monetise access to raw data and banking services to create unconventional revenues

**3. Provide Advice & New Services**


- Comply with PSD2 requirements
- Extend from providing API access into providing insight and services to monetise data
- Establish as an AISP and / or PISP

**4. Expand Ecosystem & Aggregate Value**


- Comply with PSD2 requirements
- Open APIs to create an ecosystem between the bank, merchant and consumers
- Offer products & services to address financial & non-financial needs
- Become an 'Everyday Bank', central to a customer's daily transactions

## Strategic Option 1: Comply with PSD2

Accenture's view is that banks which seek to achieve compliance with PSD2 without implementing other options discussed in this document risk disintermediation and a loss in volume and quality of customer interactions. However, as competition intensifies in the financial services industry, banks must prioritise their investment and have a clear strategy for developing and maintaining their core business. For some banks, a valid decision may be to narrow the focus of their business model towards the provision of liquidity and infrastructure services. In such cases, the bank becomes a 'utility' managing underlying customer accounts, processing payment transactions, and providing liquidity and credit services which are offered to the customer through a TPP who owns the customer experience.

## Strategic Option 2: Facilitate & Monetise Access

Although PSD2 mandates the opening of certain bank APIs, these are restricted to payment account transaction and balance data, Credit Transfer initiation and account identity verification. Access via APIs to additional customer data in relation to non-payment accounts, customer demographics, identity documentation and direct debit mandates is entirely optional.

This means banks have a choice over whether to extend their API development beyond the minimum requirements and enable a customer to retrieve additional data sets as described above. Banks could also extend development to enable the creation of Standing Orders and Direct Debit Mandates or the completion of product applications via API. By taking this step, banks gain opportunities to monetise these additional APIs as well as to collaborate with third parties to create new products and services based on these data sets and niche customer needs. An example of such a service would be the sharing of a customer's mortgage data and identity documents with a home insurance provider (with the customer's consent).

## Strategic Option 3: Provide Advice & New Services—Monetise Insight

Leveraging customer insight empowers the bank to provide a highly customer-centric, digital banking portal, and create a customer value ecosystem consisting of symbiotic or mutually beneficial relationships between the bank and TPP that create value for the customer. Such services can enhance customer loyalty as well as open new revenue opportunities for both bank and TPP.

A bank could significantly improve its ability to sell customer insight by offering PISP and AISP services as well, due to the increased availability of customer data and touch points. However API integration is not strictly necessary with referral-based partners.

# Examples of using customer insight to cross-sell both bank and partner services

In the context of a customer mortgage application as displayed in Figure 7, the monetisation of insight could include brokered services such as a discount on a real estate agent, home insurance or electricity provider. In each case, the bank receives a fee from the partner, the customer receives a highly relevant and discounted offer, and the partner obtains new business at a lower cost of acquisition. The bank may also offer the customer new bank-provided services such as a tailored savings plan or tranche credit product for a home renovation.

A further monetisation opportunity is outlined in Figure 8. This involves aggregating customer transaction data to isolate and identify spending patterns correlated to age bracket, region, store and so on, and then selling this insight to business and corporate customers seeking to gain a better understanding of their market.

FIGURE 7. Illustrative customer journey showing monetisation of consumer insight

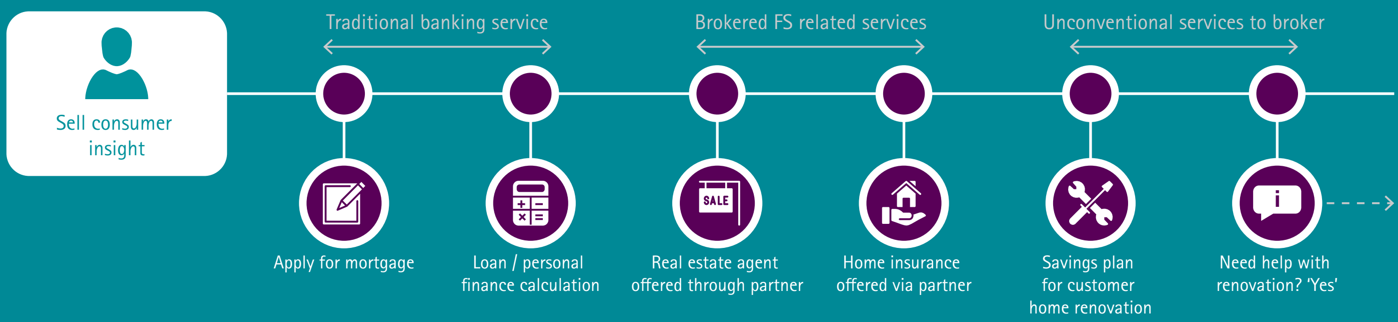
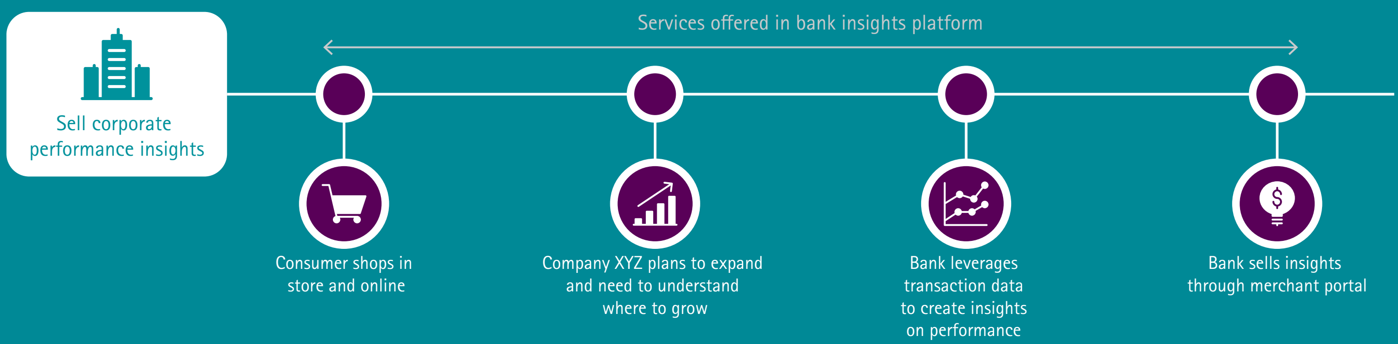



FIGURE 8. Illustrative customer journey showing monetisation of business and market insight



## Establish an AISP Service

Operating a regulated AISP service would allow a bank to create a 'one-stop' banking portal for multi-banked customers to view account and transaction details. This service, combined with a financial management tool to automatically categorise transactions and enable budgeting, goal-setting and data visualisation, would be a compelling customer proposition, particularly for multi-banked businesses and corporates.

In offering an AISP service, the bank benefits not only from increased customer interactions and an enhanced online banking proposition, but also from the opportunity to monetise additional features such as integration with accounting/ERP systems and cashflow management driven by predictive analytics.

The availability of additional customer data from third party financial institutions would also provide the bank with new customer insight (assuming the customer consents to the use of the data). This insight could fuel highly relevant and targeted cross-selling to the customer, potentially identifying a customer's need before the customer becomes aware of it themselves.

# Examples of using AISP insights to drive revenue growth through cross-selling

For retail customers, AISP insights could be monetised as shown in Figure 9 through the identification and prediction of customer needs for both financial and non-financial services. This might include the identification of a flight purchase prompting the bank to offer the customer a holiday loan or credit card product as well as services such as travel advice, savings plans or partner referrals. Alternative need indicators could involve the identification of excess funds in a customer's accounts at the end of each month, prompting the customer to open a new savings or investment product.

Corporate customers could benefit from basic analytical tools to predict future cash flow trends such as a potential shortfall at a future date, for which the bank could offer short-term financing or an automated cash management service.

Banks could also partner with technology companies to develop an accounting package for SMEs which is fully integrated with online banking services such as direct debit mandate management, payroll file origination and e-Invoicing. These opportunities to monetise business or corporate AISP services are shown in Figure 10.

FIGURE 9. Illustrative customer journey showing monetisation of consumer AISP services

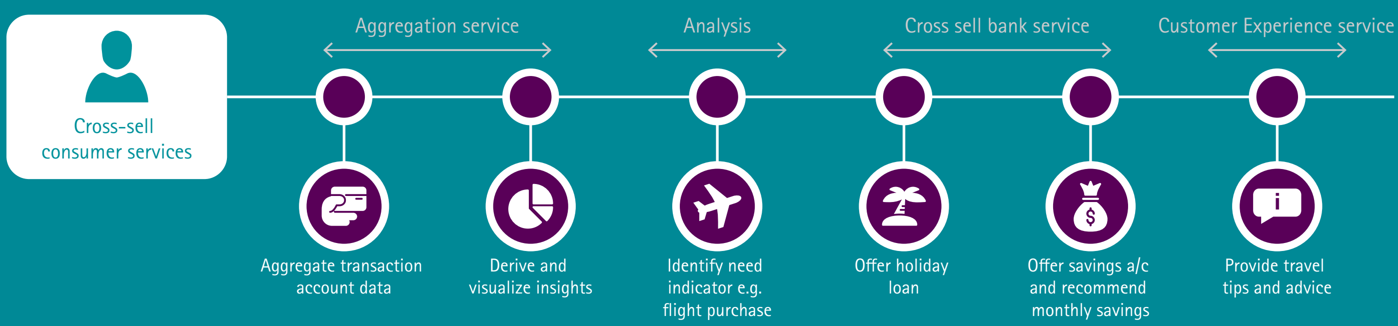
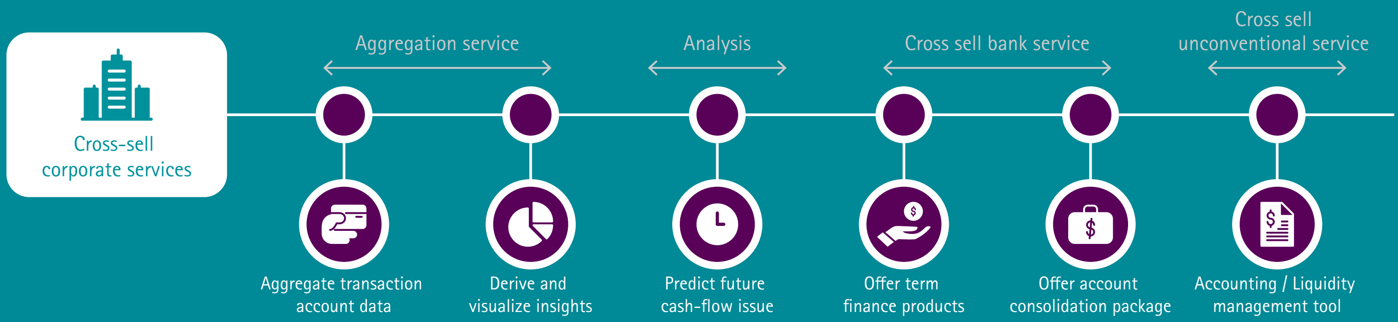



FIGURE 10. Illustrative customer journey showing monetisation of corporate AISP services



## Establish a PISP Service

In operating a PISP service, a bank would have the opportunity to capture an additional slice of transaction revenue while also providing opportunities for customer loyalty schemes and cross-selling. In addition, customers are likely to feel more secure in utilising the payment initiation services of a bank they know and trust than those of a new market entrant.

However, the availability of payment initiation services will be heavily dependent on the preferences of the merchant. In eCommerce, it is likely that merchants will form partnerships with selected PISPs based on beneficial fee structures or ancillary services. Large online merchants may also decide to establish PISP services themselves, thereby eliminating the 'middle man' and a Merchant Service Charge altogether.

Customer usage of these PISP services may be encouraged through the provision of discounts or other loyalty schemes at the point of sale.

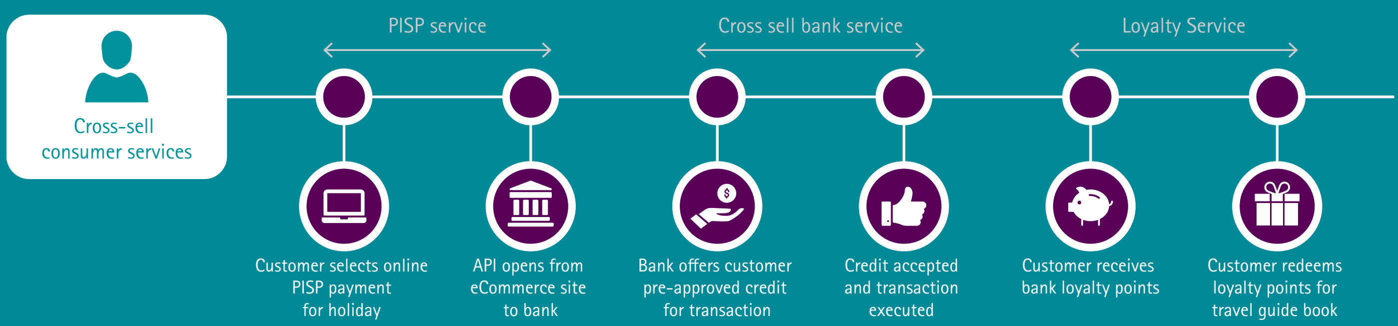
# Examples of using a bank-provided PISP service to drive revenue growth through cross-selling

A bank providing a PISP service has visibility of a customer's intended transaction at the point of sale. As shown in Figure 11 this could enable the bank to prompt the customer with an alternative action or an additional relevant product at the time at which the customer is executing the transaction.

In the context of a customer purchasing an expensive holiday or flights on a travel website, the bank PISP will have visibility of the transaction amount, payee International Bank Account Number (IBAN) and customer account balance. At the point of sale the bank could offer the customer pre-approved credit to cover the cost of the transaction or avoid a projected cash shortfall between the date of the transaction and the customer's next salary payment.

A customer could also be provided with loyalty points for each transaction, with rewards and incentives based on the customer's known preferences.

FIGURE 11. Illustrative customer journey showing cross-sell and loyalty opportunities resulting from a PISP service



## Strategic Option 4: Expand the Ecosystem & Aggregate Value

Beyond the monetisation of APIs and customer insight, investment in open APIs could present opportunities for more integrated partnerships between banks and third party companies within and outside of the financial services industry. Such partnerships could manifest themselves in two ways:

i. Consolidation of services—new products/services owned by third parties but offered via the bank's online portal

ii. Consolidation of data—customer data stored on third party systems but presented on the bank's online portal, subject to obtaining necessary consents and authoritizations

An open API infrastructure and the consolidation of customer data from multiple third party sources transforms the online banking portal into a platform reflecting the customer's everyday needs and transactions. By establishing itself at the centre of this ecosystem of both financial and non-financial services, the bank can become a pivotal part of a customer's daily life, acting as:

- Advice Provider: Providing specific buying suggestions, based on deep customer knowledge and purchasing algorithms
- Value Aggregator: Assembling components (financial and non-financial, own and third parties') to create an integrated solution for 'real world' customer needs
- Access Facilitator: Supporting the customer in 'everyday/everywhere' buying processes (shopping, access to daily services)

# Examples of using customer insight to cross-sell both bank and partner services

A fully interconnected ecosystem could allow for real-time and geo-located offers to be presented to the customer via the bank platform. For example, as shown in Figure 12 a retail customer who purchases a new suit using a mobile wallet in-store or a PISP service could be presented with offers for related products such as new shoes at a nearby location.

As the ecosystem expands and customer data from third party sources such as utility or telecom providers and retailers is surfaced on the online banking portal, the proposition becomes focused around customer experience and convenience, with relevant new services provided in partnership with third parties.

For business customers, the online banking portal could evolve into a single source for business advice and management tools provided collaboratively by the bank and the wider partner ecosystem. For example, as shown in figure 13 the bank portal could act as a basic cloud CRM system for SMEs offering web pages, payment options, digital marketing capabilities and customer communication channels.

FIGURE 12. Illustrative customer journey showing new interactions in a connected ecosystem

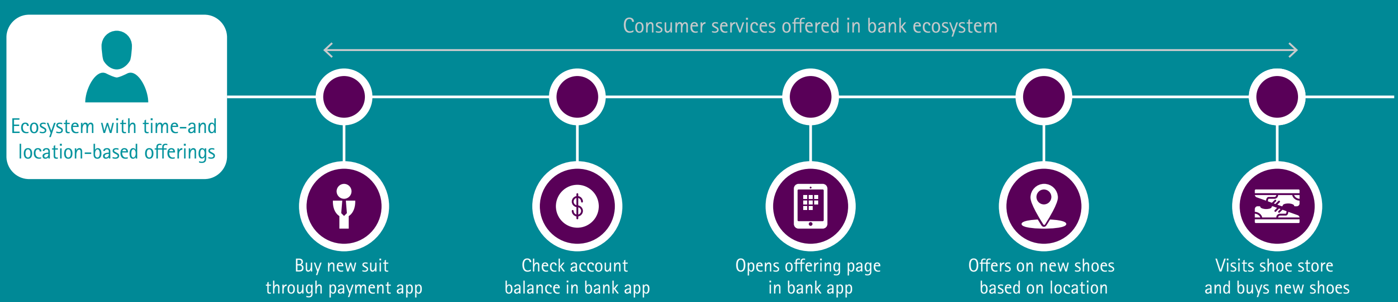



FIGURE 13. Illustrative customer journey showing new services for business and corporate customers

# Operating Model Implications of PSD2

The impacts of PSD2 will be felt across the operating models of European banks. These impacts will vary in scale depending on each individual bank's strategic response to the new opportunities enabled by PSD2. In some cases entirely new platforms, roles and capabilities will emerge within the bank, while in others existing capabilities will gain rising importance and complexity.

## Head of Ecosystem & Partnerships

In an expanded ecosystem, banks will have to negotiate new relationships and interactions with third party providers to drive mutual benefit for the bank, partner and customer alike. In order to support this new level of complexity, forward-looking banks will need to create an Ecosystem and Partnerships platform. This will provide ongoing and proactive oversight of the relationship between the bank and its network of external partners, covering aspects including partner assessment, contract and commercial management, governance, lifecycle management, performance management, and decommissioning.

Effective management of partners drives alignment to a common agreed ecosystem operating model, which enables consistent service delivery and rapid decision-making throughout the ecosystem. It also ensures that the management and governance of partners is fully integrated with the bank's internal operational & compliance structures, processes and technologies, encouraging ongoing collaboration and service improvement.

## Head of API Management/ Open APIs

As banks open up their APIs and allow TPPs to use their data, products and services, they will need to put in place infrastructure and roles to manage all their APIs in a reliable and secure fashion while negotiating the complexities of existing IT platforms.

## Head of Data Security & Identity

A bank centred on a Digital Ecosystem will rely heavily upon customer data and insight. This will include the existing data already held within the bank as well as new customer data owned by third parties working in partnership with the bank or connected to it via APIs. As significant quantities of customer data begin to concentrate around the bank ecosystem, the monitoring and protection of this data becomes an increasingly core aspect of a bank's operations and value proposition.

Safeguarding this data will require the bank to ensure adequate controls are in place to verify the identity of the customer or TPP seeking access to bank's APIs or customer data.

## Head of Loyalty

The stated ambition of PSD2 is to increase competition and innovation in the European payments market. The regulation of new payments institutions such as AISPs and PISPs, as well as the introduction of rules on access to customer accounts, threatens to further disrupt a banking industry already under attack from within and beyond the financial services industry. In this dynamic competitive environment, where banks risk losing customer touch points if not becoming disintermediated entirely, a customer loyalty strategy is key to retaining competitiveness.

# Conclusion

Regulations, emerging technologies, changing consumer behaviour and competitive dynamics are fundamentally altering the payments landscape. These changes are already posing major threats to the traditional competitive advantages, customer relationships and revenues enjoyed by banks. Now PSD2 is set to heighten and accelerate these disruptions.

Industry participants need to strike a fine balance between their desire to move forward quickly and the uncertainties that are still present with PSD2 and Open Banking. This requirement raises many questions. For example:

- Do banks and industry participants wait for the EBA standards or move forward now, making assumptions as to what these standards will cover?
- How does an institution manage its APIs for external access, and how many APIs are required?
- For UK banks in particular, does Open Banking compliance lead PSD2—or is it the other way round?
- How will the competent authorities, legislators and regulators in each jurisdiction interpret and apply PSD2? For example, will all payment and banking APIs need to be approved and regulated?

Despite the uncertainties and challenges, there are significant opportunities for banks and other financial institutions to redefine their business and operating models to unlock new value and provide innovative customer propositions. These opportunities will be realised primarily by forward-looking companies who gain a first mover advantage—but achieving this will require clear decision-making now over the different strategic options that Accenture have set out in this paper. Is basic compliance with PSD2 enough? Or does the institution want to become an 'Everyday Bank' to gain the maximum competitive advantage and protect its revenue streams and customer base?

Accenture has extensive experience in payments, Everyday Banking, open APIs and digital banking strategies—and can help your organisation to navigate the optimal route along this journey.

# Contact us

## AUTHORS

**Jeremy Light**
Managing Director, Accenture Payment Services, EALA
jeremy.light@accenture.com

**Andrew McFarlane**
Head of Payments, Accenture Ireland
andrew.g.mcfarlane@accenture.com

**Killian Barry**
Payments Strategy SME, Accenture Strategy, Ireland
killian.barry@accenture.com

**Ilkka Ruotsila**
Nordic Head of Banking & FS, Accenture Strategy
ilkka.ruotsila@accenture.com

## CO-AUTHORS

**Sulabh Agarwal**
Head of Payments, UK/I
sulabh.agarwal@accenture.com

**Michael Little**
Senior Manager, Accenture Strategy, Netherlands, Belgium and France
michael.little@accenture.com

**Luca Gagliardi**
Banking and Payments Research
luca.gagliardi@accenture.com

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## NOTES

[1] HM Treasury, Consultation Outcome, Interchange fee regulation: a consultation, 8th October 2015.

[2] Accenture Research Analysis of United Kingdom Merchant Service Charge March 2016.

## ABOUT ACCENTURE PAYMENT SERVICES

Accenture Payment Services, a business service within Accenture's Financial Services operating group, helps banks improve business strategy, technology and operational efficiency in three key areas: core payments, card payments and digital payments. Accenture Payment Services and its more than 4,500 professionals dedicated to help banks simplify and integrate their payments systems and operations to reduce costs and improve productivity, meet new regulatory requirements, enable new mobile and digital offerings, and maintain payments as a revenue generator. More than 50 clients worldwide have engaged Accenture Payment Services to help them turn their payment operations into high-performing businesses. To learn more, visit www.accenture.com/us-en/banking-payments-services

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