

PSD2

Transforming banking, Payments... and Treasury?

Presented by John Lynch FCMA

London, 19 November 2019



Who are FEXCO Corporate Payments?



Part of the
FEXCO Group



2,300 Staff
Worldwide

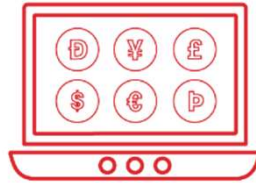


Serving
100,000's
of customers
worldwide

Who are FEXCO Corporate Payments?



**Regulated
Payment
Institution**



**FX Payments
Specialist**

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Background to PSD2



Payment Services – Some Context

EU Single Market



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Payment Services – Some Context

Serious
Lack of
Competition
in EU
banking

Table 2: Herfindahl index ³⁾ for credit institutions and share of total assets of five largest credit institutions
(index ranging from 0 to 10,000 and share of the five largest credit institutions in percent)

	Herfindahl index for credit institutions (based on total assets)					Share of total assets of five largest credit institutions				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Belgium	979	981	998	1,017	1,102	64.0	65.8	65.5	66.2	68.8
Bulgaria	730	836	919	939	906	49.9	55.0	57.6	58.0	56.5
Czech Republic	999	949	987	1,009	1,028	62.8	61.3	63.3	64.7	64.1
Denmark	1,160	1,190	1,180	1,224	1,123	68.4	68.1	67.8	68.3	65.7
Germany	266	300	273	277	250	30.6	32.1	30.6	31.4	29.7
Estonia	2,483	2,445	2,409	2,406	2,419	89.7	89.9	88.6	88.0	90.3
Ireland	671	673	672	636	658	47.8	47.6	45.9	44.3	45.5
Greece	2,136	2,195	2,254	2,332	2,307	94.0	94.1	95.2	97.3	97.0
Croatia	1,384	1,364	1,396	1,405	1,387	72.9	72.3	72.7	73.0	72.8
Spain	719	839	896	937	965	54.4	58.3	60.2	61.8	63.7
France	568	584	589	572	574	46.7	47.6	47.2	46.0	45.4
Italy	406	424	435	452	519	39.6	41.0	41.0	43.0	43.4
Cyprus	1,645	1,445	1,443	1,366	1,964	64.1	63.4	67.5	65.8	84.1
Latvia	1,037	1,001	1,033	1,080	1,235	64.1	63.6	64.5	66.5	73.5
Lithuania	1,892	1,818	1,939	1,938	2,189	87.1	85.7	86.8	87.1	90.1
Luxembourg	357	330	321	260	256	33.7	32.0	31.3	27.6	26.2
Hungary	862	792	763	787	802	51.9	49.3	49.4	49.8	49.6
Malta	1,458	1,648	1,620	1,602	1,599	76.5	81.5	81.3	80.3	80.9
Netherlands	2,105	2,131	2,104	2,097	2,087	83.8	85.0	84.6	84.7	83.8
Austria	405	412	397	358	375	36.7	36.8	35.8	34.5	36.4
Poland	586	656	670	659	645	45.2	48.3	48.6	47.7	47.5
Portugal	1,197	1,164	1,215	1,181	1,220	70.3	69.2	72.3	71.2	73.1
Romania	821	797	860	894	909	54.4	54.2	57.4	59.1	59.4
Slovenia	1,045	1,026	1,077	1,147	1,133	57.1	55.6	59.2	61.0	61.5
Slovakia	1,215	1,221	1,250	1,264	1,332	70.3	70.7	72.3	72.7	74.5
Finland	3,410	3,630	3,160	2,300	1,700	87.1	89.7	88.0	80.5	73.5
Sweden	876	880	866	845	914	58.3	58.5	57.8	56.3	58.2
United Kingdom	525	462	438	422	453	43.7	38.9	37.0	35.5	36.9

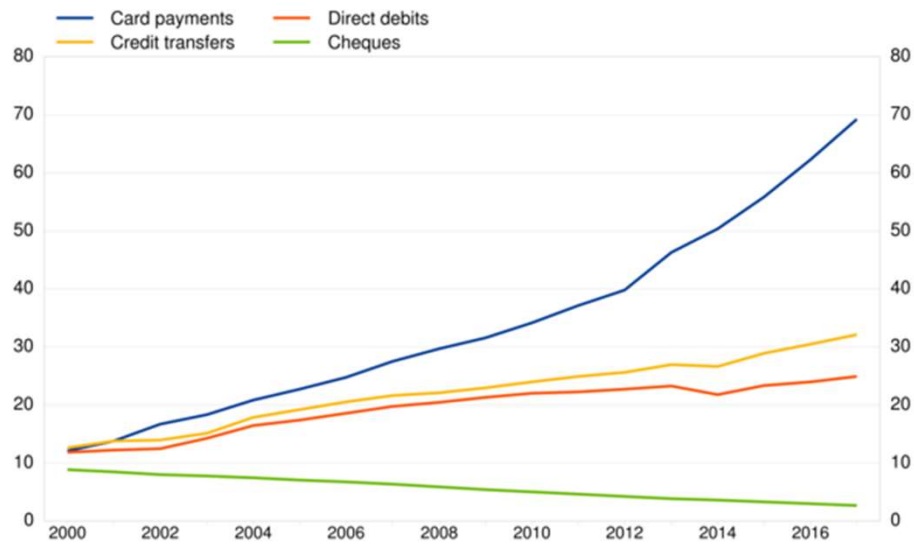
Source: ECB Statistical Data Warehouse

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Payment Services – Some Context

Payment
Services
growth in
the EU



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number of transactions per year in billions, estimated
Source: ECB Statistical Data Warehouse



Payment Services – Some Context

Decline of national
card schemes



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In Ireland Laser scheme or in the UK Solo or switch schemes to pay using a debit card,
these schemes were cleared between the domestic banks in the home countries

Payment Services – Some Context

Dominance
of VISA
Master
card

MasterCard faces EU antitrust charges over fees

European Commission accuses group of 'artificially raising' the cost of card payments



© Financial Times 2015

Some History: PSD



PSD - The First Revolution

- The Payment Services Directive (2007/64/EC)
- The E-Money Directive (2009/110/EC)



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So the EU has been trying to regulate the market for payments as payments form a significant part of the financial services market and it has a very important impact on other markets, so came out with the payment services

The Revolution Failed

- No new competition
- No single market
- Resistance to innovation

SOFORT

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Banks resisted any innovative payment solutions that might threaten their customer base (and their security arrangements) such as the Sofort payment method.

PSD2 Explained



PSD2 needed to address the problems that had persisted and the problems that had emerged after PSD

The Second Revolution: PSD2

The Second Payment Services Directive (EU 2015/2366)

- Open Banking
- AISP
- PISP



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Banks not happy with Sofort so PSD2 needed to address the problems that had persisted and the problems that had emerged

PSD2 needed to address the problems that had persisted after PSD1

Create the concept of AISP/PISP to help organisations like Sofort who wanted to access banks

The Second Revolution... in practice

- Bank data for accounting
- Bank data for personal finance



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PSD2 is liberating data from the bank with AISP services – this can be used for accounting, for personal finance apps

Yodlee – screen scrapers

The Second Revolution... in practice

- New payment schemes
- Payment initiation for e-commerce



SOFORT

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New card schemes *without the card* such as iDEAL in the Netherlands, an example at what might happen next and will not necessarily follow the card schemes
Next generation card scheme and is all around bank to bank payments

People can now use non-card payment methods when shopping online with solutions such as Sofort (now part of the Klarna group Klarna – buy now pay later – give your bank account details, don't have to pay until so receive goods, buy from catalogue company in Ireland and UK may not trust the customer to pay).

Supporting Factors

- Faster Payments (UK)
- SEPA Instant Credit Transfers



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Supporting factors that are ushering in the next generation of payment service include instant bank transfer solutions like Faster Payments (where settlement happens same-day rather than a couple of days later).

Get paid on the day – message gets to bank before 4pm, bank batches up payments and settlement following day

Faster – funds lands in supplier bank account in 10 minutes

SEPA instant credit transfer is the SEPA equivalent of faster payments, where the SEPA transfer will land within minutes of leaving the senders account.

It's not just about the EU single market...

- EU needs to remain competitive
- EU needs to address security concerns



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AliPay and Wechat pay in China are now ubiquitous: everyone in China is shopping using a mobile wallet.

WE want people to embrace innovative payment methods such as ApplePay but we want customers to be safe using them.

Don't have the option to ignore it as these are coming into other markets

Implementing Open Banking



Timelines



- July 2018 – AISP's and PISP's authorisations began
- March 2019 – Open Banking testing began
- 14 September 2019 – Open Banking access for PISP's & AISP's

Some Surprises

The Stripe logo, consisting of the word "stripe" in a bold, blue, sans-serif font.The Amazon logo, featuring the word "amazon" in a bold, black, sans-serif font with a curved orange arrow underneath it.

- Tech companies unable to deliver the necessary added security for card payments

UK regulator offers 18-month delay for Strong Customer Authentication rules

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The Fexco logo, featuring the word "Fexco" in a bold, red, sans-serif font with a red stylized 'X' symbol to its right.

There was a bit of a fudge on the 2FA security rules for card payments in e-commerce following industry lobbying. Apparently it was impossible to plug in two factor authentication at the checkout in e-commerce.

18 month delay will take you to 2021

Why

The ecommerce payment business got an extension, any acquirers such as Reliance did not have to turn 2FA online to ok the purchases – too complex to plug into a the checkout – supposed to be technical

Did not want to lose the one click purchase - the existence of an extra step might give the customer a chance to rethink



How is PSD2 transforming business?



PSD2 impacts normal business processes

- Accounts payable
- Accounts receivable
- Cash management
- Treasury*



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The impact of PSD2 on business is going to be obvious in the finance function:

- The accounts payable team will now have the option of settling bills using payment initiation services to pay from the invoice, rather than inputting IBANs and doing a payment run at the end of the week. This opens up the possibility of getting early payment discounts.
- The accounts receivable function has a new payment method that they can accept. It will be cheaper than card acceptance, easier to reconcile than direct credit transfers and faster than direct debit.
- Businesses can use open banking data to improve their cash management because they will get AISP services that offer them account information at close to real-time.
- PSD2 will make PISP and AISP services available for bank accounts in the EU, so treasury teams should be in a position to manage their sterling and euro exposures more efficiently using real time balance information..... But a USD account based in New York will be out of scope.

How PSD2 Makes Life Better

Open Banking: Account Information Services

- Account data available from all EU banks
- (Relatively) standard format
- Intraday data feeds
- Competitive market for account information services
- Banks cannot charge AISPs for access

How PSD2 Makes Life Better

Open Banking: Payment Initiation Services

- Payments freed from online banking
- Streamlined user control
- One standard for security
- Banks cannot charge PISPs for access

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PSD2 has benefits and risks for business

Benefits

- More efficiency
- More flexibility
- More choice

Risks

- Security
- Obsolete systems

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Open banking opens up bank information and payment generation to providers outside the bank. Businesses no longer have to deal with the interface offered by their banks. This creates opportunities for businesses to buy cheap bank information solutions from a range of providers. The information systems will be cheaper because banks no longer dictate the terms. The systems will be more flexible because customers can switch from one provider to another with ease. There will be more choice because information providers don't have to work with the bank as gatekeeper.

There are security risks associated with getting things better, cheaper and faster. Most businesses currently have formalised processes for generating and approving outgoing payments and they are reliant on their bank to ensure that this happens safely. Security risks were front of mind when PSD2 was being negotiated and all AISP and PISP are obliged to have security measures such as two factor authentication in place. Still, there is some discussion about the liability regime in the event that something goes wrong. There is a less obvious risk for businesses that may arise as newer post-PSD2 solutions outstrip older ones. A business that currently runs SAP and has created integrations from that accounts package to their banks may find themselves being leapfrogged by leaner businesses that are running simple cloud-based accounting software that has cheap AISP and PISP integrations.

Benefits and risks for treasury

Benefits

- More efficiency
- More flexibility
- More choice

Risks

- Security
- Obsolete systems

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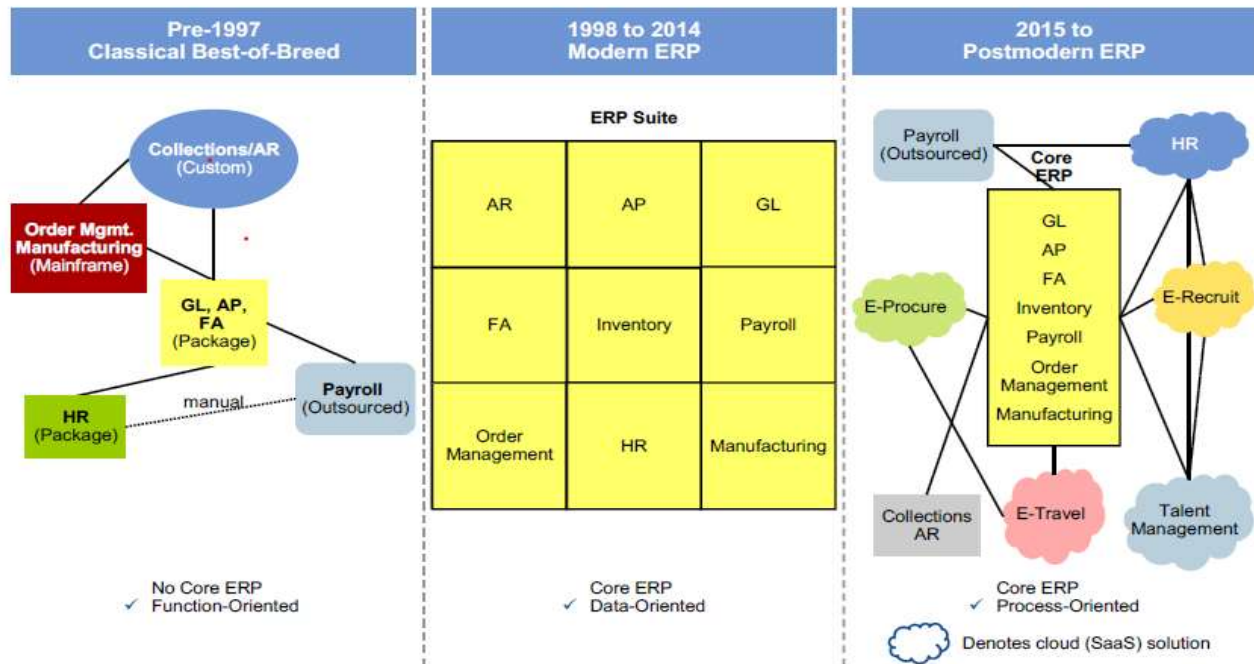


The risk of obsolescence is scary. Clayton Christensen identified a number of factors that cause disruptive innovation, which in turn push the prevailing technologies to the margins of the industry. We are seeing disruptive innovation in financial systems today and the creators of industry leading financial technologies are deploying various strategies to tackle it.

Bureau software today is committed to SWIFT and it has the pricing and service limitations to match. Bureaus will now need to adapt so that they can take in information provided by open banking API's, and they need to adopt their pricing and services to reflect the quality and efficiency of these new data flows. Whether they make a success of this or not remains to be seen.

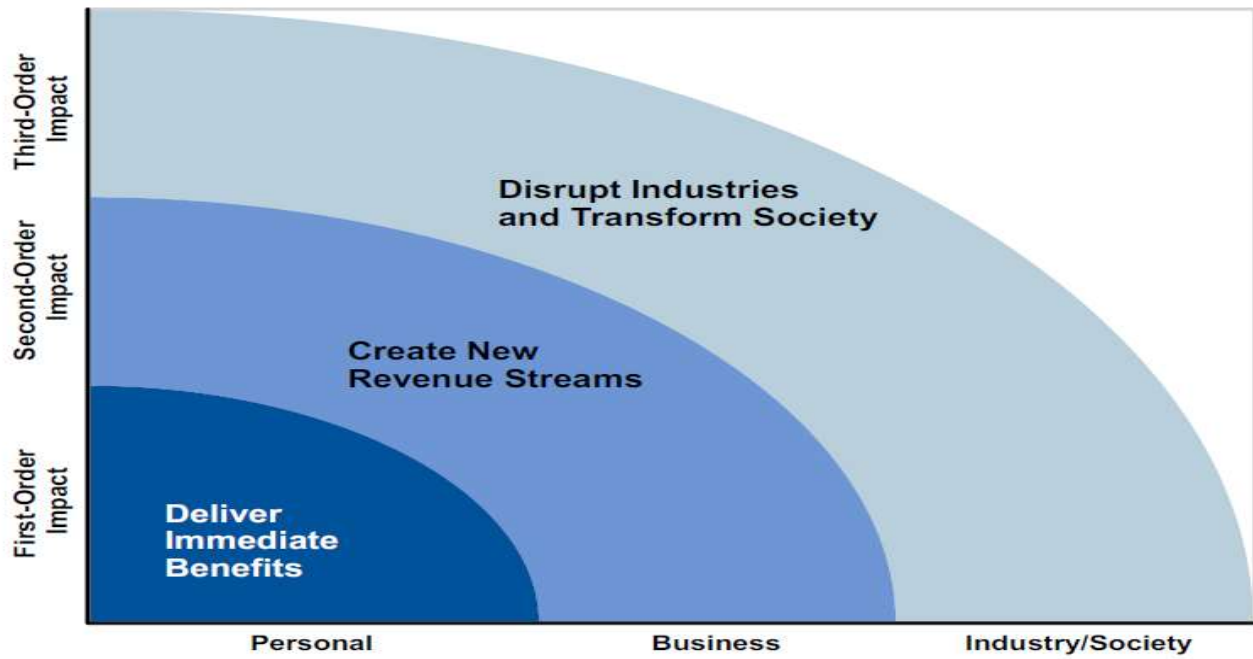
Unfortunately a lot of the PSD2 functionality seems to be 'available in the cloud version of the software only' which means that large businesses are precluded from using it until they go for a big upgrade.

Figure 1. Evolution From Best-of-Breed to Postmodern ERP



Source: Gartner (June 2014)

Figure 1. First-, Second- and Third-Order Impacts of New Technology



Source: Gartner (April 2014)

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Responding to PSD2



Can we just ignore PSD2?



ECB chief says instant payments could break Visa/Mastercard duopoly



Visa fends off Mastercard with new offer for Earthport



Lloyds app now lets customers see accounts from other banks

Source: Finextra, 8 Feb 2019

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Can we ignore PSD2? Probably not.

On one day last week, we saw announcements about three major developments that are driven to a large extent by PSD2

- a potential rival for the Visa/Mastercard network in Europe was proposed
- Visa and Mastercard continued their bidding war for Earthport, a middle-of-the-road payments business that is now attracting lots of attention from card network operators
- Banks have started unveiling their one-stop-shop AISP solutions with the hope of becoming the AISP interface of choice for their customers.

Bureaus certainly haven't been ignoring PSD2: Bottomline is an AISP and a PISP and

Our response to PSD2

FCP has obtained AISP/PISP authorisation

Conducting market research with Salmon re.:

- supply of open banking data in parallel to bureau feed
- supply of data to customers with no SWIFT access

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FCP is an authorised payment institution so we can satisfy the requirements to operate as an AISP.

Salmon approached us with the idea of FCP giving a very basic AISP feed that businesses can use, either in parallel to their existing SWIFT bureau service or as a lone-standing data feed for businesses that do not have SWIFT access.

Audience Participation: our questions

- Customer need
- Use cases
- Are you using open banking?
- Do you want AISP services in Salmon?

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Thank You
John Lynch
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Bonus Brexit Slide

PSD2 is a reality in the UK

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EU provider may need to set-up a subsidiary