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# *Market environment and implementation timeline*

## PSD2 in a nutshell

# 1

# Why do we need a new Payment Services Directive (PSD)?

By 13<sup>th</sup> January 2018, Member States will have to implement the Directive 2015/2366/EU into their national regulations known as PSD2<sup>1</sup>.

On the one hand the need stems from the necessity to regulate a **market** characterised by an **increased complexity** in terms of player and digital evolution, on the other hand from the need to **harmonise a fragmented European regulatory framework** resulting from the implementation differences among Member States.

PSD2 is just the latest of a series of interventions made by the European legislator in the area of payment services: the aim is to continue the development of an integrated single market by standardising the rules of Payment Services Providers (PSP) and the new market players (today unregulated), helping to strengthen the security of the system and ensuring a high level of competition and transparency towards consumers.

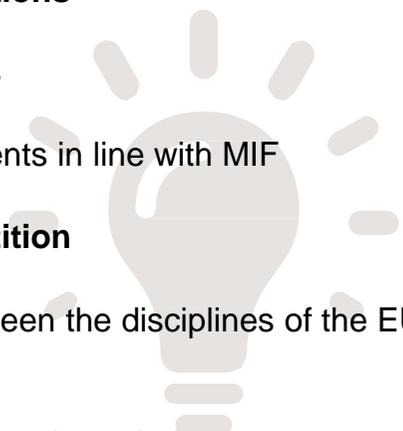
## PSD: 2010 – 2015 open points

- **Inconsistent application** of PSD and of other European regulations in the various Member States
- Several **generic exemptions** in the Directive
- Many **operators and unregulated intermediaries**
- **Lack of standardisation** and interoperability of payment solutions and security systems
- Application of **different fees** across EU Members



## PSD2: 2016 – 2018 the answers

- Strengthen **consumer's protection**
- Develop **new payment solutions**
- Regulate new market players
- **Uniform fees** on card payments in line with MIF
- **Increase** the level of **competition**
- **Overcome differences** between the disciplines of the EU Members
- General **increase in efficiency** through the standardisation of infrastructures



<sup>1</sup> Published in the official journal of the European Union on December 23<sup>rd</sup>, 2015 on payment services in the internal market, Directive 2007/64/repealing previous EC (PSD)

## The context in which PSD2 enters into force:

### How the payments market is moving? Which are the trends forecasted?

The continuous transformation of the **payments market** can be traced back to the progressive **technological and IT evolution**, the opening towards international markets as well as to the diffusion of new services and market players.

The number of **non-cash transactions** worldwide in 2014 saw an **increase of 9%** compared to 2013 (338,8 bn worth 883,4 bn USD)<sup>2</sup>.

The growth of **digitisation** does not seem to stop and for **2018** it is forecasted that the number of digital transactions will **reach +19%** compared to 2014.

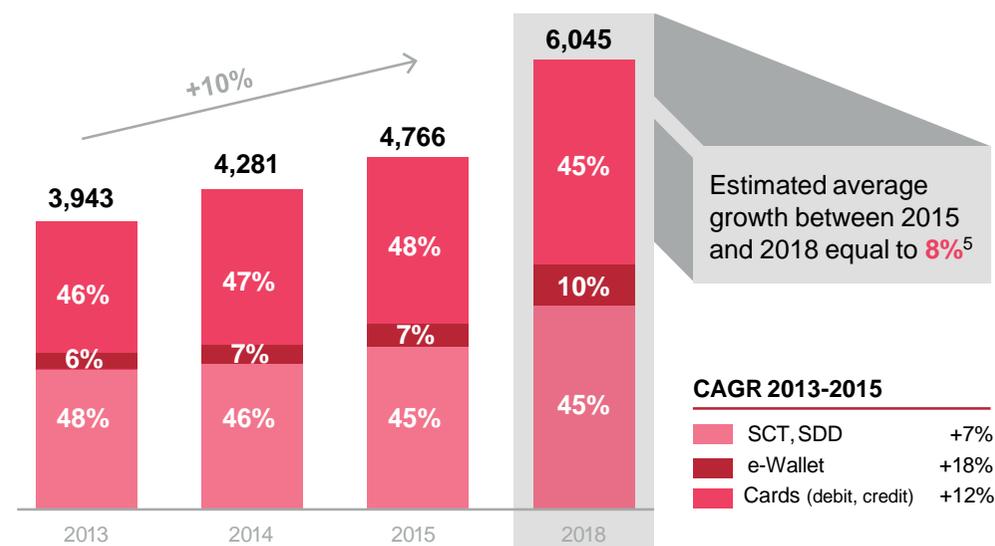
In Italy, cash is still very much used (89% in 2010 and 86% in 2014), but the number of non-cash transactions has had a positive trend from 2013 onwards (+10% in the biennium 2013-2015), characterised by the increase of cards transactions (for online shopping +91% over the past 5 years)<sup>3</sup>.

The increasing digitisation was favoured mainly by three areas:

1. a **greater propensity of users**, from all population groups, in the **use of technological devices** (tablet, smartphone e wearable);

2. a **change in consumer habits**, who find these paying methods to be more efficient providing an improved customer experience;
3. an evolution of the market offer by players that adopt **marketing strategies** aimed at increasing the use of electronic tools and collecting information on customers' behaviour.

Payments market, number of transactions per payment instrument (in millions)<sup>4</sup>



<sup>2</sup> PwC elaboration of data "Committee on Payments and Market Infrastructures", Bank for International Settlements, 2014

<sup>3</sup> PwC elaboration of data from the Italian Central Bank (Banca d'Italia) e NetComm, 2015

<sup>4</sup> PwC elaboration of data e PwC dati "Committee on Payments and Market Infrastructures", Bank for International Settlements, 2014

<sup>5</sup> Estimate based on PwC market analysis for each individual product

Furthermore, the entry of new players is increasing the level of competition, the over-the-top players (Google, Amazon, Apple, ...) and new TTP - third party providers (Sofort, Trustly, ...) are modifying the traditional context of the banking services, creating new business models for banks to deal with.

In Europe, and mainly in Germany and UK, new competitors are gaining market share (in Germany, for example, Sofort has become leader in e-commerce payments with over 2 million transactions per month and 35,000 merchant in less than 10 years) and the **risk**, for **banks** and other **traditional operators**, of **disintermediation** in the relation with **clients** is increasingly present.

The challenge for the Italian regulator will be to **guarantee** the fundamental values for the consumer such as **safety** and **transparency** of the conditions along with **growth and innovation**.

In this context, the new Directive PSD2 takes care of **encouraging the use of innovative digital tools** and, at the same time, of **regulating services and payment practices** already in force (such as apps which aggregate the balances of several bank accounts or send money via social networks).

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### PSDs takes part in supporting the change



Positive scope



Third Party



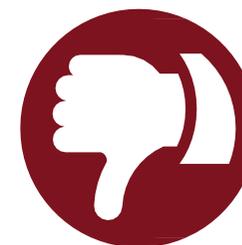
Responsabilities



Safety



Costs e Surcharge



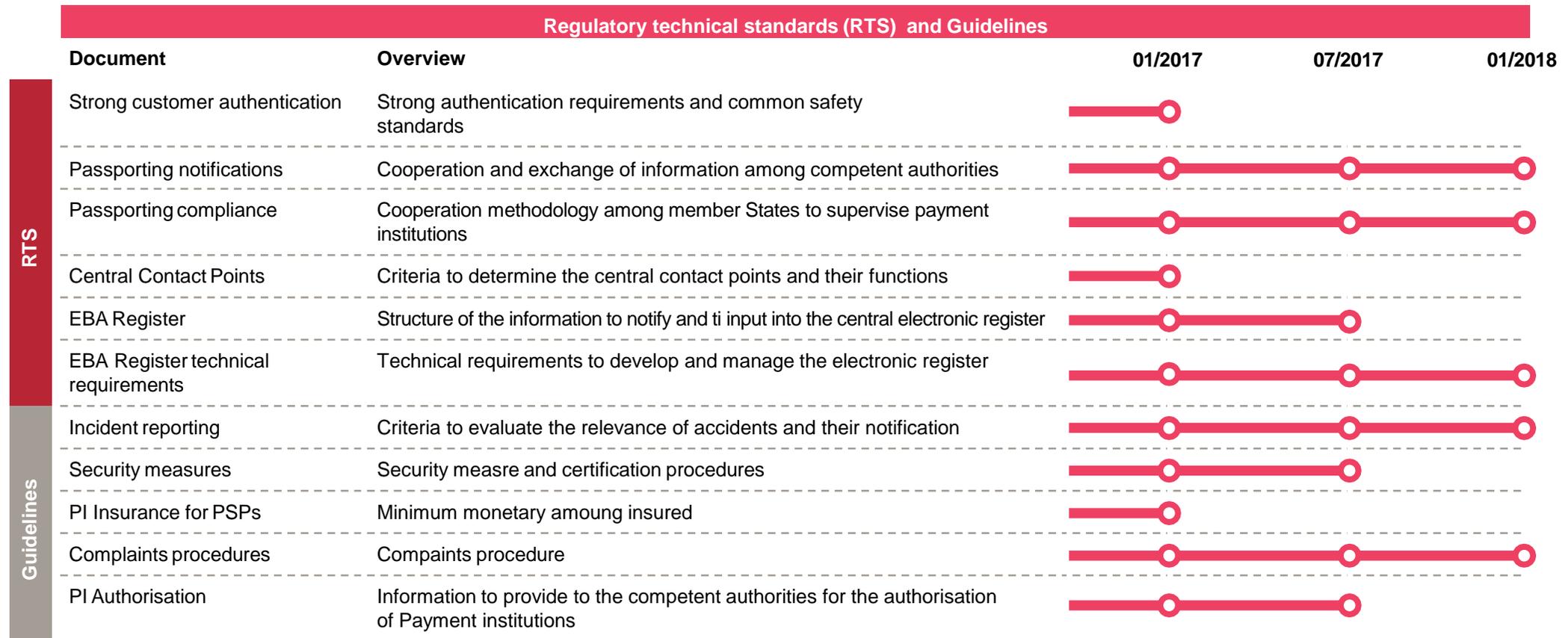
Negative scope

## PSD2 roadmap:

### Which are the main deadlines to be monitored? Where are operators now?

The implementation of PSD2 is scheduled for January 13<sup>th</sup>, 2018, before that deadline, there are many others deadlines to be monitored and documents to be delivered to the European Authorities. To clarify the technical and regulatory aspects of the new Directive, EBA in cooperation with the ECB will issue a comprehensive documentary set of 6 Regulatory Technical Standards and 5 Guidelines by 2018.

The greatest impact document will be the one on "Strong Customer Authentication and Secure Communication (SCA)" which will direct the customer authentication requirements and common communication standards. The final version will be released in January 2017 and the first draft has been released on August 12<sup>th</sup>, 2016.



During next year, other relevant standards containing technical details are expected to be published, including the “Passporting rules” and the “EBA Register” whose objective is to define the rules for cooperation and **for information exchange among** the authorities of the Member States and the technical requirements for the development and management of the **central electronic register**.

Some aspects are still to be clarified in the course of the adjustment to the new Directive, however, it is already possible to detect significant impacts in the field of legal & compliance, technology and business processes for all PSP categories.

However, together with the impacts it is possible to take advantage of the opportunities of the new context,

related to the potential of the development of new operators in the payments market as AISP (Accounts Information Services Provider) and PISP (Payments Setting Services Provider) and additional services for customers. The Apps for monitoring bank accounts or debit cards decoupled from the payment accounts are an example. The first forecasts about the potential incremental revenues from new comfort products and services reassure for the need for payments market operators to rapidly proceed in the development of innovative solutions to differentiate themselves from competitors.

In the coming months, Banks, Payment Institutes and other operators will have to understand the impacts of the new PSD, the opportunities to exploit and how to address, in a prompt and effective manner, the actions to **develop a comprehensive strategy on the payments business**.

## PwC View: Main Impact



### Legal & Compliance

- Review of the contract conditions
- Changes to the reimbursement process for the payer
- Update of internal rules due to new standards



### Technology

- Implementation of interfaces to access the registered and authorised TPPs
- New implementations for SCA, dynamic link and E-Identity systems



### Processes

- Process review for the TPPs to access accounts
- Adjustment to the minimum requirements released (eg. Transparency, SCA)
- Mitigation and operating risk



### Economics

- Limits to surcharges according to the MIF
- Potential impacts on value date
- Fees arising from the offer of new payment services

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