PaymentsCompliance

PSD2 Forcing Banks To Put Customers Over Profits, Experts Say

11TH APR 2016 | WRITTEN BY: JIMMY NICHOLLS

European payments regulations passed during the financial recovery are forcing major banks to focus on their customers rather than their own interests, according to industry experts.

A series of laws passed by the European Commission is said to be pushing payments companies and older banks towards a customer-centric model, in defiance of history.

This promotion of innovation is exemplified by the revised Payment Services Directive (PSD2), which passed in January and is focused on helping upcoming players.

Max Speur, chief operating officer at the software firm SunTec, contrasted this shift with the responses of the authorities to the 2008 financial crash, when they guarded against the systemic failure they had just seen.

"What I saw a couple of years ago was all the regulatory policies were put in place in order to never let [the financial crash] happen again," he told PaymentsCompliance.

"Over the last year or year-and-a-half the agencies have said: 'We have put these regulations in place so that there cannot be a systemic failure.'"

Since then, he argued, regulations have been enacted that will enable banks to "provide a low-cost service", secure digital communications and do more work with data.

The software executives' view was backed up by Lucy Frew and Sophie van Wingerden, financial regulation lawyers at Kemp Little, who corroborated the shifts since the financial crash.

"However, this regulatory change in emphasis is driven by political, social and economic factors rather being dictated by either customers or industry, although both groups have had input," they said.

Regarding PSD2, they claimed that "many of the objectives driving the changes to the regulation of payments are customer-focused, such as the changes designed to improve the safety and security of payments to protect consumers".

As part of the directive the European Banking Authority (EBA) is drafting regulatory technical standards on internet security, which have recently been rebuffed by the payments industry.

According to the Kemp Little lawyers, the changes will force "all" payment services providers (PSPs) to apply strong authentication to their services involving several factors.

These include: something the user knows such as a password; something they possess such as a physical card; and something they are such as a biometric factor like voice or fingerprint.

PSD2 will also force PSPs to allow customers to use third-party initiation and account information services, opening up the market.

"This rule will not only increase the ways in which consumers can make payments and obtain information about their accounts, but also ensure consumer protection by bringing these third-party providers within [regulatory] scope," Frew and van Wingerden said.

Speur claimed that regulators are asking whether they can incentivise companies to inspire customer trust.

He added that in the past if banks "could make money a simple way" by just selling products they would do so without considering the customer.

However, regulators have been "changing the market and allowing different competitors to be customer-centric, [and] the major banks have been forced to change", he said.

Silicon rising

Not all the change in the payments industry has been attributed to regulation.

Clive Longbottom, service director at research firm Quocirca, flagged the rise of different payments types as another important factor in the shift towards a more customer-centric payments industry.

Among the newer players in finance are the likes of online provider PayPal, and broader technology companies such as Google, Apple and Samsung which have recently entered the mobile payments market.

"When the original PSD was devised, the world was a different place," Longbottom told PaymentsCompliance.

"The big banks were still king — e-payments via NFC [near-field communication] cards or smartphones were pretty much unheard of.

"Even PayPal was a pretty small blob on the extreme outside of the radar in those days."

Longbottom claimed that a flaw in the original PSD was its focus on EU providers, with the rules not working for foreign firms operating within the union.

"The consumer is far more front and centre [now], but the whole market is forcing financial institutions to be more innovative," he said.

"Those institutions that stay with current accounts and debit cards will struggle — those that embrace the new e-payments world will generally be better positioned to survive."

However, Speur disputed that Apple Pay, the mobile payments service, was really customer centric, saying he had "yet to be convinced".

Although he claimed to be "a huge Apple fan", he cited the music service iTunes as a better example of a customer-centric service from the firm.

Despite the fact fintech firms have claimed a lot of the chain within payments, Longbottom warned there were still some limits to their expansion, at least for now.

"The one current area that is stopping full innovation is that most e-payments systems are still dependent on an old-style financial institution at the back end: The money has to come from a current account or credit card at some stage," he said.

"Once the new players find a way around this, all hell will break loose."

Topics: CONSUMER PROTECTION | EU DEVELOPMENTS | EMERGING PAYMENTS

Geography: EUROPE

Sectors: DIGITAL PAYMENTS | FINTECH | PAYMENT PROCESSING

Content: NEWS & ANALYSIS