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PSD2

On 13 January 2018, the revised EU Payment Services Directive (PSD2) will come into effect in the European Union and is expected to transform retail payment services. The Directive will enhance competition and facilitate innovation in payment services by opening access to the payment accounts that consumers hold with banks. The resultant opportunities for firms and consumers are immense, but so are the challenges for regulatory authorities.

Only five weeks remain until the PSD2 goes live and two new types of payment services will be available to consumers: 'account information services' and 'payment initiation services'. These new services will allow firms (other than the customer's bank) to access payment accounts, provided the customer has given their consent.

In anticipation of these legislative changes, which in the UK have been transposed through the Payment Services Regulations 2017, new service offerings and business models are being developed by firms eager to capitalise on the opportunities. Consumers, in turn, should be able to choose from a greater variety of means to pay for goods and services and from the ability to obtain comprehensive and conveniently accessible information about the status of their accounts, even if held across different banks.

However, the implementation of PSD2 has also brought about formidable challenges for regulatory authorities across the EU, eager to contribute to the success of PSD2. The European Banking Authority (EBA), for example, has been tasked by the EU Commission, Parliament and Council to support the objectives of the Directive by developing a number of detailed and legally binding requirements, so-called 'Technical Standards' and 'Guidelines', covering areas as diverse as the security of payments, open account access, authorisation and passporting of payment institutions, cross-border supervision, complaints procedures, and an EBA register containing all payment institutions operating in the EU.

Dirk Haubrich

Head of Consumer Protection, Financial Innovation and Payments, European Banking Authority

"Consumers should be able to choose from a greater variety of means to pay for goods and services"

The authority, which is based in London and is generally tasked with bringing about regulatory and supervisory convergence across the 28 Member States of the EU, has spent the last two years developing these requirements. The EBA has done so jointly with the national regulatory authorities in the Member States, including the Financial Conduct Authority in the UK.

The challenges the EBA has faced have been formidable because the PSD2 is aimed not only at facilitating competition and innovation but also the strengthening of the security of payments, protecting consumers, promoting customer convenience, and creating a single EU market for payment services. Finally, the EBA also had to retain neutrality between different business models and technologies. Many of these objectives are mutually competing and have pulled the EBA in opposite directions during the development of the requirements, with regard to the level of detail that should be written into the Standards and Guidelines, and the degree of flexibility that firms should be given to comply with them.

The EBA has therefore had to make difficult trade-offs between competing demands, and consulted on them extensively with the industry and other external stakeholders, through discussion papers, consultation papers and public hearings. Having assessed the arguments across the thousands of pages of responses received, the EBA decided to recalibrate some of the trade-offs it had originally proposed and therefore made dozens of changes before it published the final requirements.

This includes some of the key requirements for market challengers to be able, from 13 January 2018, to obtain authorisation, enter the payments market, and passport their services across borders into other Member States. Such is the case for the EBA Guidelines on authorisation and registration; the Guidelines for the calculation of professional indemnity insurance, and the Technical Standards on passporting.

The EBA is confident to have established a regulatory framework that allows all market participants to interact with one another with confidence and is looking forward to payment services to evolve and innovate in the months and years ahead. ■


PHOTO: THINKSTOCK

PSD2 could drive down overall cost of payment services

The Financial Conduct Authority is ready for PSD2, which it says will improve customer service and create a level playing field for providers old and new.

By Steve Hemsley

Consumers should pay less for payment services and have more confidence that their personal and banking data is being kept safe when the payments industry becomes more competitive in the new year.

The implementation of the Payment Service Directive (PSD2) on January 13 is a bold attempt by the EU to open up the European banking market and ensure new entrants – including fintech firms – can compete equally with traditional players such as banks, building societies and other payment institutions.

FCA support

The UK's financial regulator, the Financial Conduct Authority (FCA), which watches over 56,000 firms and markets, is convinced that consumers, businesses and the industry will gain from the change which is a giant step towards creating a digital single market for payments across Europe.

People will still keep their cash securely in a bank but PSD2 ends the banks' monopoly on services and customer data. Consumers will be able to pay bills, transfer money, and keep track of their spending using their social media accounts and specialist apps.

New finance companies will be able to ask banks for customer account details through open Application Program Interfaces (APIs). These APIs could integrate software from different firms and may encourage more collaboration within the industry to save time and money.

"PSD2 should lead to increased innovation and choice for consumers who will be able to aggregate all their accounts in one place and make online payments without using a credit or debit card and compare products and services more easily," says the FCA's Executive Director of Strategy and Competition, Christopher Woolard. "The revised directive allows for the easier exchange of data and better security from new requirements for all providers. It should also drive down the overall costs for payment services."

The FCA expects PSD2 to be maintained in UK law when the country leaves the EU in March 2019 because there is considerable UK support for opening up the payments market.

Christopher Woolard
Executive Director of Strategy and Competition, FCA

"The change is a giant step towards creating a digital single market for payments across Europe"

Demand is there

In recent years, more consumers have wanted to have relationships with different account providers including banks, fintech firms and telecoms giants.

Woolard says, "About two million people in the UK are already using different payment services that rely on access to data and others will follow during 2018 as awareness of these services grows".

The different providers are already reacting to the rapid growth in ecommerce and mobile banking and, following the introduction of PSD2, they will be keen to woo new customers and encourage them to share their data.

"We don't expect things to change drastically overnight, but people who like the convenience of using one bank will also like the accessibility of being able to use different services from different companies through one webpage or app," says Woolard. "Some high street banks will also offer these new services and this will improve transparency and customer service and also build trust."

Industry is ready

The FCA says the finance industry is prepared for the January 13 deadline.

Since October the regulator has been taking applications from new firms entering the market and re-registering and re-authorising existing payment and e-money institutions.

"PSD2 is a significant evolution of existing regulation for the payments industry. Firms have had to make sure they know what's required of them and be ready for the new regime," says Woolard. "The industry can see the long-term benefits and firms are busy finalising how the architecture for open banking will work between them."

PSD2 also introduces a number of new requirements around how firms treat their customers and handle complaints as well as which data they must report to the FCA.

The FCA is working with the industry to help explain the changes to customers and to inform them that under the new rules they will have more choice but they should know their rights when using these services.

"We will continue to monitor closely whether competition in the market improves in the interests of consumers," says Woolard. ■

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A key regulatory change helping to evolve the payments landscape

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PSD2 – which takes effect in the UK on 13 January 2018, courtesy of the Payment Services Regulations 2017 - has been described as "game changing". Rather than restricting the behaviour of firms and individuals, it seeks to enable competition and support innovation. In a PSD2 world, customers should have more choice over how to pay for goods and services, move funds, and manage their payment accounts.

PSD2 brings a range of compliance challenges. Several hundred UK firms will become regulated for the first time, such as aggregated account management portals, payment initiators, and certain e-commerce platforms. Existing regulated payment and e-money firms must re-apply in order to continue business under PSD2. With a broader geographic scope, more transactions will be subject to the customer information and transparency requirements.

PSD2 has touch-points with data protection, market conduct, anti-money laundering, consumer credit and consumer rights regulations that need to be carefully managed to avoid internal inefficiencies, customer detriment and regulatory breaches.

Save for where there is evidence of unauthorised or fraudulent access, firms operating payment accounts for customers must provide regulated third party providers (which have the customer's consent) with secure access to payment account data, even if there is no contract between themselves and the third party.

Colin Darby
Managing Consultant

"PSD2 brings a range of compliance challenges. Several hundred firms will be regulated for the first time"

The regulations recognise the criticality of access to bank accounts and payment systems for non-bank Payment Service Providers (PSPs). Although the extent of service provided to PSPs remains a commercial decision, banks must treat applications from PSPs on a proportionate, objective and non-discriminatory basis (including the consistent application of internally set criteria), and report denials of access to the FCA. Some banks may need to re-visit their approach to the sector.

PSD2 also refers to various detailed Regulatory Technical Standards (RTS) and Guidelines. Although the RTS on secure customer authentication will not take effect until 18 months after they are formally adopted by the European Commission, HMT and the FCA expect firms to comply with the PSD2 security principles from 13 January 2018.

Regulatory changes are just part of a rapidly evolving payments landscape. SEPA Instant Credit Transfers and phase one of SWIFT global payment innovation are now live and the use of distributed ledger technology to expedite value transfer increases. In the UK, the Bank of England plans to grant direct Real Time Gross Settlement access to some non-bank PSPs and the Payment Strategy Forum will soon publish its blueprint for the future of UK payments. Innovative firms are disrupting traditional payments business and existing providers are responding – all PSPs face the challenge of marrying innovation with regulatory compliance. ■

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Open Banking is already here

And banks are squandering a rare opportunity

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Most commentary on Open Banking stems from our collective city-centric viewpoint - with all our built in biases. The conversation naturally, repeatedly, centres upon how models and established players will be disrupted by nimble challengers - the common story of David and Goliath. But the story doesn't have to end that way.

In our experience at TAB, a key problem with so much of the conversation on Open Banking is that it seldom focuses sufficiently on understanding what customers really want - especially in a world where mobile is an expectation, not a device. We see incumbents rarely develop this understanding robustly enough, particularly in comparison to the approach FinTech challengers take.

Customer engagement metrics with existing mobile banking products, for example, may be encouraging, but it's a mistake to assume that indicates preference, or loyalty. Recently, TAB completed research with 1,400 UK banking customers, exploring how they felt about the mobile banking experience with their current bank. What emerged was a high degree of ambivalence: for most customers, usage is driven by lack of alternative, and necessity.

The problem is, the proposition for most banks hasn't fundamentally changed for 50 years. Today's mobile offering is primarily built around a shrunken web version of the original paper statement. That's less problematic while banks retain a firm regulatory and structural control on supply.

Brett Thornton
Lead Strategist at The App Business (TAB)

"Can established incumbents succeed in retaining their most valuable customers?"

Across industries, however, wherever this grip on supply weakens, new entrants have not only emerged, they have focused first on winning the customer experience. They aggregate high value customers, and then grow their focused offerings into larger, more efficient platforms – think Netflix, or Just Eat.

For retail banks, this regulatory change is already here with Open Banking. That poses an urgent question: can established incumbents succeed in retaining their most valuable customers?

Our research highlighted that a bank's highest value customers today, and in the future, are also those most ambivalent to their bank's current offering - and the most interested in new potential solutions. High value and high switch-risk, these customers represented two distinct groups with dramatically different mindsets. And yet - we continue to see the majority of retail banks delivering one-size-fits-all digital products.

There is clear opportunity: in our research, customers valued a new set of mobile banking features substantially more if they came from their existing bank - not the challenger alternative. This is the incumbency advantage: epitomised by companies like Nike or GE and currently underutilised by most banks.

The future winners we see - like ING with their new proposition, Yolt - are acting now. They move fast to refine their understanding of what customers need, and responsively feed that back into their strategy.

We're at the very beginning of a new era: don't wait to take part. ■

To learn more about TAB, visit: **theappbusiness.com**

PANEL OF EXPERTS

Unravelling the PSD2 puzzle with our industry experts

Colin Darby
Managing Consultant, Bovill

Marten Nelson
Co-Founder and VP of Marketing, Token

Paul Rodgers
Chairman, Vendorcom

Eric Leenders
Head of Personal, UK Finance

What is the biggest impact that PSD2 will have on your industry?

The main industry impact is likely to be greater collaboration between credit institutions and payment service providers which should result in broader customer choice on how to make payments and manage payment accounts. In combination with other changes, such as Open Banking, the re-launch of RTGS and the re-design of the UK payments architecture, payment value chains may feature less actors, making payments cheaper, faster and more secure. From a regulatory consulting perspective, PSD2 has driven increased demand from payment service providers and will likely continue to do so in the short to medium term.

The biggest impact will be the new business models that will be created for banks that choose to take a strategic approach to open banking. The applications that will be enabled in a post-PSD2 world will change the way we do banking across Europe. The analogy that we like to use is similar to the mobile phone: When it first came out, the mobile phone was the best thing ever and perceived as the ultimate device. And then when we really could not imagine anything better, the smartphone came along, and in just seven short years the mobile phone disappeared. What was perfectly fine and wonderful disappeared because new technology came out that was, simply, better.

PSD2 has already provoked a welcome, fundamental mindset change in the payments sector raising the prospect of greater collaboration. If the industry can recognise the far-reaching benefits to be gained by radically rethinking financial supply chains in the same way that 20 years ago we saw a transformation in physical supply chains, we will see the power balance in the financial sector change dramatically. It's hard to predict exactly where the impact will be greatest as that will depend on how the main protagonists respond. The greatest short-term impact will be the confusion caused by opportunistic innovators trying to make a land-grab with conservative end users.

UK Finance anticipates that the changes under PSD2 and Open Banking will result in the development of products and services that allow customers to optimise the use of their account and transaction data, with value-added services that could easily go beyond payments, financial services and e-commerce and provide consumers with more choice. These include access to new financial - and non-financial - products and services tailored to the customer's financial profile such as apps that automatically move your spare cash to a savings account or help you manage your day-to-day budgeting.

The changes could help open up new markets and encourage new entrants, some of whom will offer services that support people who are currently financially excluded.

PSD2 – Opportunity or threat?

From an industry perspective, PSD2 is both an opportunity and a threat. Third Party Providers will have enshrined rights to access payment account data held by banks and other payment service providers. Established service providers are reinvigorating their service offering to stay relevant to their customers. Implementation brings change and development costs but ongoing operational costs and payment fraud losses should decrease. Some existing payment firms may find that they are denied re-authorisation given the heightened regulatory requirements. For customers, some may use online payment initiation in favour of card-based payments whilst some will be concerned that increased digitalisation will put their data at greater risk.

PSD2 is an opportunity - a common API and platform for banks and fintechs to share data will enable players to collaborate which, for banks, is one of the most convincing reasons to get on board with the open banking opportunity. Instead of a customer ditching a bank and going to a fintech, if that bank and fintech collaborate, that customer can leverage the services of both players.

Competition is good, and that's one of the reasons why PSD2 is coming into force. Regulators want to see more competition that will help banks deliver better services. Banks in Europe realise they now have to do more than they have before to satisfy their customers.

Any change of this magnitude brings both opportunity and threat. The greatest threat is to over-promise on the opportunities in the short to medium term. The ultimate opportunity is to finally bring about the networked effect of authenticated transactions in the same way as central power generation matched with effective power grids delivered the economic benefit of electricity and the cloud combined with the internet totally transformed the impact of computing. At the risk of sounding like Robert Solow in the 1980s, I can see the effect of digitised transactions everywhere but in the productivity figures!

PSD2 is an important step towards a Digital Single Market in Europe, which aims to make the current EU landscape fit for the digital age. The new measures will also ensure that all Payment Service Providers (PSPs) active in the EU are subject to supervision and appropriate rules. As such, there will be wide-reaching implications for a range of parties including banks, other PSPs, FinTechs with a whole host of opportunities that could benefit customers.

How to make the best of the API economy?

Uptake of API-based services will largely depend upon the appetite of payments customers and therefore trust in the system. Banks, payment service providers and third party providers will therefore need to demonstrate, on an ongoing basis, that customer and payment data is secure, payments are accurately executed on schedule and API-based services have consistently high degrees of reliability. Regulators have already acknowledged that achieving PSD2 compliance and Open Banking will be evolutionary rather than a 'big bang'. To extract best value from APIs within financial services, regulators will need to continue to foster innovation whilst protecting the integrity of the payments sector.

To make the most of an API economy in banking we can look to other sectors where this approach is familiar, for example, healthcare or telecommunications. PSD2 will enable a similar approach to be brought to the forefront in banking. Many banks have been using internal APIs for years, however, the opportunity to use them to externalise information safely and securely is now equally important. In an API-driven economy, it is about making sure that you as a customer receive the best user experience regardless of where you bank. A balance of great user experience and security will drive the API economy going forward.

To make the best of the API economy, don't talk about APIs! The deployment of new payment innovations by service users like retailers, hotels, government, insurance companies, utilities, etc. as well as adoption by the citizen/consumer will be driven by whether you can conceive, create and communicate what the real-world benefits to the end-consumer really are. The 'hygiene factors' such as security, low cost and in-channel user experience are givens. The real question is what are you doing to improve and extend 'why' a consumer/merchant relationship exists because that will be the only really marketable differentiator.

Our view is that the interaction between customers, payment initiation services, account information services and their account provider as described in PSD2 is most effectively achieved via an open API infrastructure that enables a customer-driven experience: the customer is in control of what can and cannot be shared with a third party, as the API is consent and permission-driven.

These changes will result in the development of products and services that allow customers to optimise the use of their account and transaction data. This could help to assist in the switching of accounts or provide a better reflection of customer affordability of financial products, helping customers save money or to make more informed decisions on their purchasing.

In your opinion, who is the biggest winner from PSD2?

Payments customers are likely to be the biggest winner as they should have more choice, receive greater transparency, better payments service and at lower cost. Third party providers (i.e. Account Information Services and Payment Imitation Services) will also be winners as although they will need to be regulated, they will have a legal basis for the data access that is fundamental to their service offering. The existing payment service providers which are quickest to adapt effectively may also be winners as they are most likely to collaborate with new entrants and maintain customer relevance.

The winners will be those that think beyond compliance. It is not just about complying with PSD2, it is about 'what is beyond PSD2'? How will open banking look and what will your banking experience look like in the future? You do have institutions that are looking just to comply, who are saying, "I have account information that I have to open up to third parties. I just need to tick that box". But the ones that think strategically and long-term about what the next ten years will look like, are the ones that will come out on top.

Those who get with the programme early and understand their place in the value chain. To be a winner it will be essential to reject the totally pointless debate about who owns the customer! The banks currently 'own' the trusted position as keepers of the source of funds; the merchants 'own' the only really valuable product in the value chain; the consumer device manufacturers 'own' consumers' preferences as to the interface they use to consume or engage with the merchants offering. The one bit that's unclear is who will take the lead in the communications layer: PSPs, social media giants, fixed line, satellite or mobile network operators? The debate starts here!

PSD2 aims to increase competition in an already highly competitive industry, improve innovation across the EU and bring into scope new types of payment services to enhance customer protection, building upon existing consumer protection rules. UK Finance sees the customer as the biggest winner from the changes PSD2 brings to the market.

Read the answers at businessandindustry.co.uk

PHOTO: THINKSTOCK

INSPIRATION

PHOTO: THINKSTOCK

PSD2 Opening up consumer choice.

The time is now

Fresh ideas making payment systems evolve, everyday payments easier and exciting times for the industry.

It's not long until the second EU Payment Services Directive (PSD2) will be effective in the UK and we know that organisations are gearing up for the new requirements and opportunities it will bring.

From 13 January 2018, the Payments Systems Regulator will be responsible for monitoring and enforcing rules covering the treatment of requests by payment service providers (PSPs - such as banks, building societies or electronic money issuers) to get access to payment systems (which enable payments to be made between people using their bank accounts and by using their debit and credit cards) and, jointly with the FCA, PSPs' requests for bank accounts. This could help, for example, a new challenger bank that wants to become a member of a card scheme, or a small money remittance business that needs an account with one of the large banks in order to make payments for its customers.

The access provisions in the new regulations will largely replace our existing powers to mandate access for a PSP. For schemes covered by the new regulations, we will enforce the requirements on the schemes and banks to treat PSPs' access requests in a proportionate, objective and non-discriminatory (POND) way and not to restrict access any more than necessary to safeguard against risks to the scheme/bank or the financial system. Payment system operators and banks can still choose which organisations they will provide access to, but they must consider each request on its own merits. If a bank which provides indirect access to payment systems (an indirect access provider) decides not to give a PSP access, or withdraws access, it must tell the PSP why.

Access to payment systems is essential to create effective competition and innovation in payment services, and retail banking services. These changes build on the work that PSR has done to create an environment in which small and new financial institutions (such as new banks, payment service providers or fintechs) have greater opportunities to obtain access.

Paul Smith
Head of Policy,
Payment Systems Regulator

"Encouragingly, the cost of getting direct access appears to be reducing"

The banking and payments industry has seen some groundbreaking milestones in recent months which will enhance choice for payment system users. For instance Raphaels Bank, Metro Bank, Starling Bank, ClearBank and Monzo became the first new joiners to Faster Payments since it launched in 2008. A number of banks have announced plans to become new indirect access providers.

We have also seen how the payment systems operators have improved their processes to reduce the time and complexity of joining. Encouragingly, the cost of getting direct access appears to be reducing. In 2015, payment service providers (PSPs) projected the upfront cost of access could be in the range of £2.5 to £4 million. Recent joiners have indicated that upfront costs for accessing the interbank payment systems are in the region of £1.2 to £2.5 million.

We have made great progress with improving access choice and quality in the UK. The relevant PSD2 provisions help to reinforce the approach we have taken to date, and emphasise the value of having clear provisions in place requiring a POND approach to access decisions going forward.

With fresh ideas to make payment systems evolve and which could make our everyday lives easier to make payments, the scale and pace of change makes this an exciting time for the payments industry. But to help ensure we can all benefit from opportunities, the new regulations will help to ensure there remains a level playing field. ■

Read more on **businessandindustry.co.uk**

As banks race to comply with new rules, data and performance challenges loom

It's crunch time in the banking industry as the countdown begins to the dawn of a new regulatory era. By the end of January, new rules governing payments, trades and transactions will be in effect. What few organisations are preparing for, however, is the unprecedented stress the new requirements will put on banking infrastructure.

By Firaas Rashid

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APPDYNAMICS

In order to meet next month's deadline for the implementation of the Markets in Financial Instruments Directive II (MiFID II) and the Payment Services Directive II (PSD2), banks are adding new layers of complexity to technology environments whose size, scope, and interdependencies already create significant challenges. Complexity breeds performance problems though. Rank and file developers are increasingly asking whether their teams will be able to detect and resolve issues before they impact business objectives.

Delivering good data faster

Most organisations are understandably focussed on the immediate deadlines. MiFID II takes effect on 3 January, followed, two weeks later, by PSD2 on 13 January. To achieve increased investor protection and transparency, MiFID II requires more detailed and immediate transaction reporting. In some cases, transactions that were once reported on a monthly basis must now be reported within minutes. In addition, banks must show that transactions have been made in the best interest of their clients. In practice, this means IT organisations must find ways to quickly extract data that currently exists in data stores across multiple system layers and bring it together while ensuring its integrity.

The challenge facing most organisations is that their existing infrastructure was not designed to cater to modern regulations. A detail as small as inconsistent data IDs can create a significant stumbling block. To get around the obstacles, developers are writing new code and even creating systems on top of systems. This will get their organisations to the go-live dates, but what will happen after that? Transaction volume can be expected to spike unexpectedly. Unforeseen glitches will lead to slowdowns or outages. During these times, banks may find themselves unable to meet their regulatory deliverables, or worse, find that their customer experience is negatively impacted.

APIs and their issues

Like MiFID II, PSD2 will depend on the flawless interaction of multiple, existing systems that were created for other purposes. For the first time, banks will be required to open up account information to third parties to encourage innovation. The mechanism for implementing PSD2 is more than half a dozen application programming interfaces (APIs). As the name implies, APIs make it easy for one application to interact with another application. At the surface, APIs appear refreshingly simple. However, that's only because IT teams are busy underneath doing the heavy lifting to create and maintain the new APIs and the systems they rely on.

Firaas Rashid
CTO, EMEA AppDynamics

The risk of performance problems is high. At this stage, the day-to-day usage of PSD2 APIs is very difficult to predict. At any given moment, dozens of internal systems could be receiving requests from multiple PSD2 APIs. The demand triggered by a successful third-party marketing campaign could easily create unexpected performance problems with a cascading effect on the user experience. The damage will be intensified by the ease with which customers can switch to a new bank while still being able to use the same technology. It is well documented that banks that are slow to address issues can expect to lose customers. For example, 80 per cent of respondents to a recent attention span survey said they deleted an app because of poor performance.

Reducing regulatory risk

The picture for unprepared organisations is grim, but it needn't be. In recent months, we've been working with financial services organisations to help them understand how a unified application performance monitoring (APM) solution can reduce some of the biggest risks associated with the new regulatory environment. Above all, it is important to recognise that disparate monitoring, alerting, and log aggregation tools are likely to fall short. Organisations need the end-to-end visibility provided by a unified solution to ensure speedy root-cause analysis and minimise downtime.

Faster, proactive issue identification and accelerated mean time to resolution (MTTR) are among the top reasons for adopting unified APM. But the benefits go deeper. Certain solutions can help organisations meet MiFID requirements without building huge data warehouses. Instead of rolling out a new system with new points of failure, applications can enable organisations to unlock the business data within transactions and correlate that data with technology performance. Parameters that ensure transactions are being made in a client's interest can be visually tracked on a dashboard. And, unlike alternative solutions, the value is usually seen within days rather than months.

Solutions such as AppDynamics Business iQ also remove the guesswork from understanding the performance of new PSD2 APIs. On the one hand, they can alert IT as soon as any problem – or potential problem – is detected in the systems that support the APIs. On the other, they can deliver real-time data on how the APIs are being used far quicker than any historical method using business analytics — and further correlate with technology performance.

IT departments are right to be concerned about the impact of real-world loads once the regulations take effect. By providing them with the tools they need to manage performance now, before the regulations take effect, organisations will minimise risk — and maximise resiliency. ■

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Embracing open banking with a mobile-first mentality

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The second Payment Services Directive (PSD2) will fundamentally change how consumers access their financial data as well as how, and with whom, they transact.

Currently, consumers holding accounts at multiple institutions need to log into each account via that institution's digital interface, whether this be via a mobile app or an online portal. But to promote competition in financial services and improve ease of use for consumers, PSD2 makes provision for data aggregators, which allow for a single view of accounts at multiple providers such as insurance companies, payments services, credit card issuers, mortgage lenders, etc. In this way, PSD2 will open banking, offering consumers more freedom not only when it comes to accessing and sharing their financial data, but also for engaging in financial transactions.

This freedom, however, does not equate to less security. In fact, PSD2 will require banks to put Strong Customer Authentication (SCA) methods in place. The industry standard for SCA is based on multi-factor authentication, where at least two authentication factors from different groups are used; for example, something a consumer has, something they know and something they are.

It would be easy for banks to have misgivings about the new regulations, but there is no need to fear. Although there is an industry perception that consumers tend to resist new technologies and extra "steps" in payments processes, recent research has indicated that consumers do want to take control of the security of their personal information.

Frans Labuschagne
UK and Ireland Country Manager, Entersekt

"PSD2 will open banking, offering consumers more freedom"

One way of providing an authentication measure that is simultaneously secure and less disruptive to the consumer, is by utilising the power and ubiquity of the mobile phone. Rather than requiring consumers to rely on one-time passwords or additional security tokens that are less secure and cumbersome, mobile phones can be used as one factor of authentication in a SCA implementation. Imagine a scenario where a consumer initiates a purchase online and, to verify that purchase, an authentication window pops up on their mobile phone. All the consumer need do is tap accept or reject on the device to verify the transaction. It is a quick and seamless interaction that leaves them feeling empowered and reassured.

Just as important as the consumer's perception of the authentication process is the fact that using a robust SCA solution does reduce financial fraud, which in the UK cost households £2.1m every day last year according to FFA UK.

Banks that embrace PSD2 with a smart, innovative and customer-centric approach will reap all the rewards, from better customer satisfaction to lower fraud levels: security and privacy can be a win on all fronts. ■

Read more on **entersekt.com/solutions/regulatory-compliance**