PSD2/Open Banking: What is it and Why Should We Care?

Brendan Doyle – CEO, CMSPI
Mark Horwedel - Facilitator

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4:15-5:00pm
Open Banking in short:
Open Banking is the opening of banks, and their customer's accounts, to third parties.

Payments Services Directive 2 (PSD2):
PSD2 is European regulation that makes open banking a legal requirement for banks, and sets out the necessary security requirements and deadlines.
How does it work?
Who Can Be a PISP?

- Large merchants – individually and collectively
  - Amazon
  - Walmart
- Fintechs
  - Google
  - Apple
- Start-ups and disruptors
  - TrueLayer
  - Token
- Banks
  - Chase
  - Citibank
PSD2/Open Banking in Europe

Europe & UK
Payment Service Directive 2 (PSD2)
Launched January 2018

Key Points:
1. UK - nine largest current account providers to implement open banking
2. But, banks have been slow to adopt
3. Lack of customer awareness – there needs to be clear steering mechanisms
4. GDPR data protection

Live Example (one of the first..)
## Open Banking: Approaches From Around the World

<table>
<thead>
<tr>
<th>Country</th>
<th>Date/Year</th>
<th>Description</th>
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<tbody>
<tr>
<td>Mexico</td>
<td>March, 2018</td>
<td>Mexico became the first country to regulate its FinTech sector. This law laid the groundwork for an open banking standard (OBS)</td>
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<td>Australia</td>
<td>May, 2018</td>
<td>Major banks will make data available on credit and debit cards, deposits and transactions accounts, via open APIs. Has limited functionality i.e. does not allow for payments initiation</td>
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<td>Canada</td>
<td>January 2019</td>
<td>Department of Finance Canada launched an open banking consultation</td>
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<tr>
<td>India</td>
<td>Pending</td>
<td>India's Federal Bank has opened its own API up to fintech companies, with the most notable current user being Google Pay. No Open Banking standards currently set. India’s ‘informal market’ already use a lot of alternative payment methods</td>
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A $1 billion merchant with average card costs of 1.5% moves $500 million to direct debit ACH. This would save between $2.5-5 million depending on their processor.

**Opportunities & Challenges**

- **Data insights & rewards**
- **Cost**
  - Relies on banking infrastructure
  - Bypasses network and interchange fees
- **Potential for lower fraud**
- **Customer experience (Fintech versus Bank innovation)**

**Trust**

**Consumer & Merchant Uptake**
- Lack of consumer awareness
- Steering mechanisms

**Timing**

**Barriers to market entry**

**Example**

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Regulatory initiatives and guidance
- Consumer Financial Protection Bureau (CFPB) looking for an alternative to “screen scraping”
- It’s been discussed, and the UK/Europe was referenced by the Treasury Department as a prime example
- Part of Dodd-Frank (Act Section 1033) leaves the door ajar

Industry groups
- NACHA created the API Standardization Industry Group

The Banks
- Opportunity for smaller US banks to level the playing field
- Most larger banks are already investing in the relevant tech