

# PSD2 and European Banking - Shifting Sands in Channel Growth



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# PSD2 and European Banking-Shifting Sands in Channel Growth

## Introduction

The European Union has been struggling with the different accounting standards and following specific regulations under the European System of Central Banks (ESCB) and the Eurosystem. To bring about a unified payment system in the European market (SEPA), the European Commission has revised and enforced PSD2, which broadens the scope of its predecessor, PSD (Payment Services Directive).

PSD2 will be implemented on January 13, 2018 until which the banks have time to decide on their strategies to welcome this massive, game changing directive. Apparently, banks are left with no option but to adopt the RTS as early as possible and establish the legal platform for PSD2 because of its impact on the European banking system.

The whitepaper will discuss on:

- ➡ The impact of PSD2 on the European banks and financial institutions
- ➡ Why it's important for them to take immediate steps to comply with the regulation, particularly the various channel exploitation strategies
- ➡ The need to focus on millennials as they are the biggest generation that embraces technology.

## Impediments to the Growth of European Economy

Even with the rising globalization, the European market strongly lacks the presence of cross-border purchasing because only 15% of European customers prefer to shop from other member states and more than 80% of European consumers would not buy products from another EU member state.

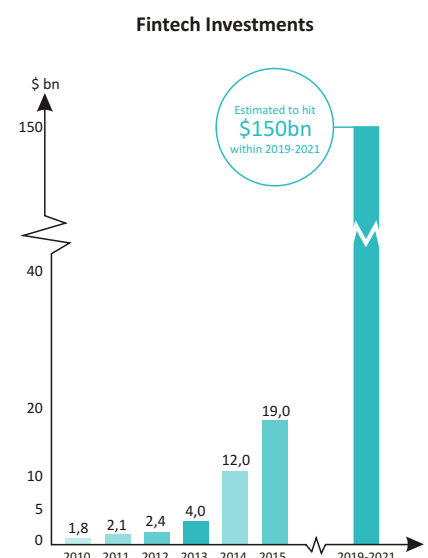
Several challenges like different payment system, taxation rules, legal barriers, security concerns etc. weaken the European economy and become huge barriers for third party solution providers in entering the market and bringing about the necessary changes that unify the European financial system.

For this reason, **the European Union wanted a payment regulatory system that seamlessly provides access and initiates payments through open banking platforms and extends its regulations on tighter security and lower transaction costs for customers.**

## PSD2 - Enabling Next Generation Banking

With PSD2, the European banks will no longer hold the ultimate responsibility of customer's account information and payment details. Banks will have to provide customer information access to third parties through APIs. Such easy access to bank's infrastructure will rip off bank's monopoly on their customer information because they will be obliged to open up to third party providers that offer any kind of financial services.

In short, third party companies like Fintechs will build their service upon the bank's infrastructure so that customers will now be able to smoothly handle their payments thereby building an innovative, faster, cheaper and easily accessible payment environment. **Banks should be aware of the alarming growth of Fintech investments that are estimated to hit \$150 billion by 2021.**

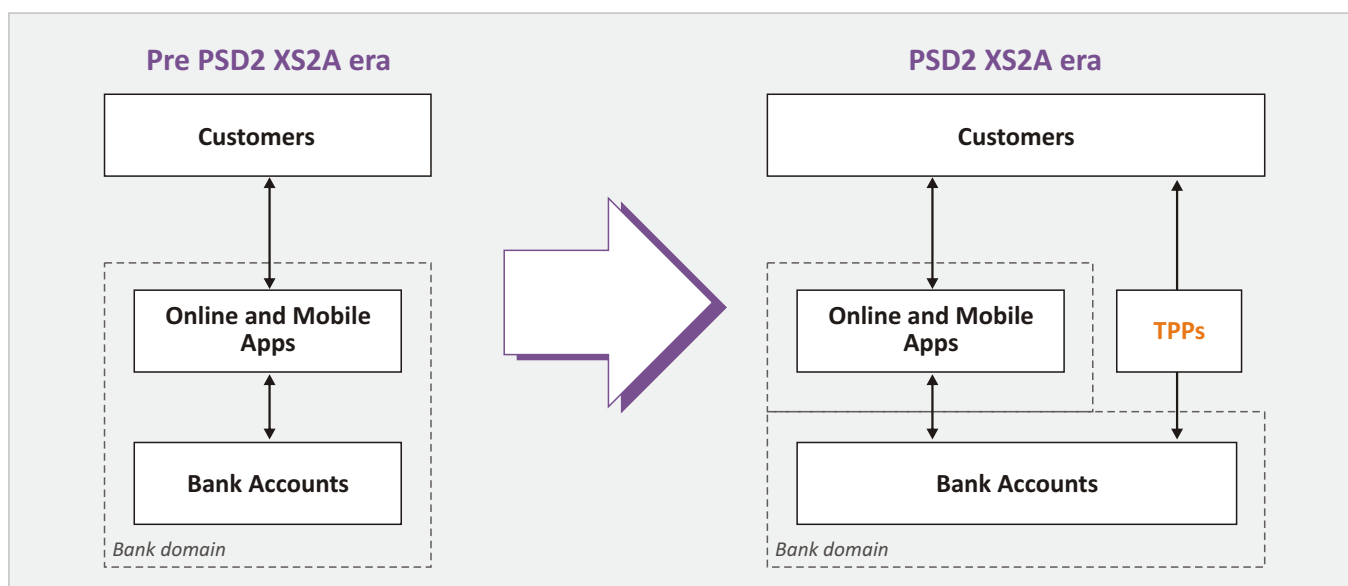


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## PSD2 in a Nutshell

The core aspect of PSD2 is XS2A (Access to payment accounts). This explains the PSD2 architecture which enables Third Party Providers (TPP) that consists of two types, AISP (Account Information Service Providers) and PISP (Payment Initiation Service Providers). AISP lets customers view their account details and offers customer information to the service providers upon their authorization.

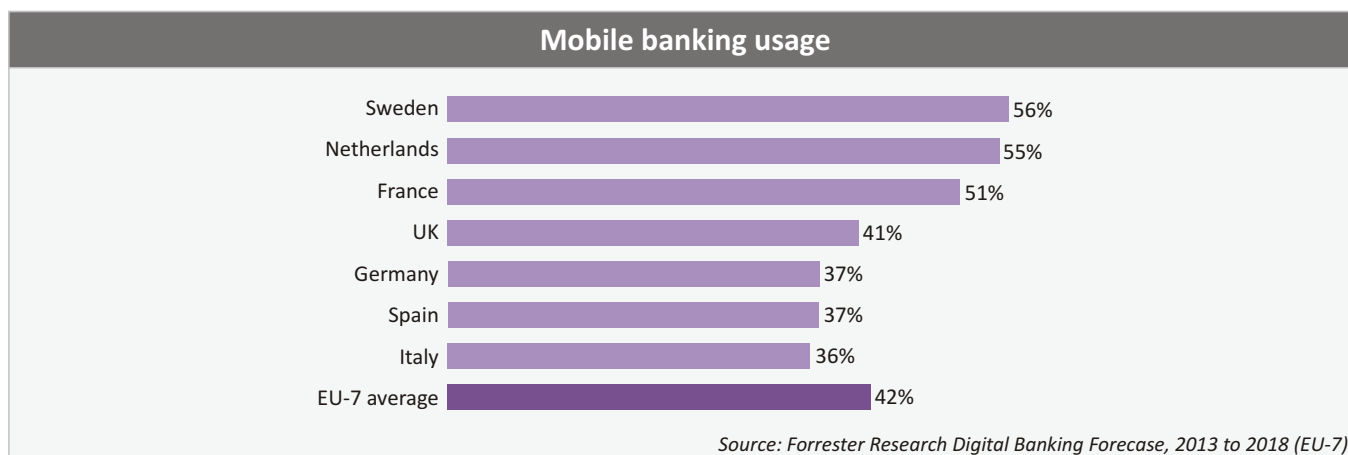
Similarly, once the customer authorizes a payment, PISP initiates that payment on behalf of the customer. Through this mechanism, customers can seamlessly perform any P2P transfer because the scope of PSD2 extends to new competitors like Apple, Samsung and even social media giants like Facebook.



## The Rise of Digital Banking

Digital banking is accelerating at an exponential rate. With digitization, Banks have realized the importance of adopting a customer-centric approach by providing end to end digital access across various channels.

According to a Forrester report that says by 2018, there will 99 million consumers who will use their smartphone for their banking needs. Considering this, banks have to take immediate steps by embracing open banking, treating PSD2 as an opportunity and enabling all possible channels for increased customer experience across borders. Otherwise, banks will remain only as torchbearers for Fintechs and other disruptive technology providers who will make the most of their infrastructure.





# PSD2 and European Banking-Shifting Sands in Channel Growth

## Channel Exploitation

Over the next five years, digital banking will continue to grow in Europe. Online, mobile banking and tablet banking will become the mainstream because customers find it easy and convenient to perform their routine banking activities. Banks should also consider customer's growing fond with wearables and other digital devices because according to Gartner, there will be 20.4 billion connected things.

## Serving Customers across Channels

The growing number of digital devices requires banks to offer customers an omni channel banking experience. This is possible only through an open banking system. But apparently, only 44% of banks are willing to open up their infrastructure in the next 5 years despite the awareness of the huge impact of PSD2.

## Channel Testing for Enhanced Customer Experience

Even if banks are willing to open up their infrastructure for third party providers for omni channel services, the challenge lies in ensuring that the channels are reliable, secure, fast and convenient. With a broad range of devices and possibility of hidden vulnerabilities in the design and configuration of various internet browsers and connections, banks have to examine the reliability and accuracy of data.



**Out of 275 iOS and Android banking apps, 8 out of 10 apps were found to be improperly configured and violating the best practices.**

## Aspire's Test Automation Framework (AFTA)

The need for a reliable, efficient testing strategy pushed Aspire to build its own framework called Aspire Framework for Test Automation (AFTA). The framework offers extensive testing solutions to support cross-channel testing that includes cross-browser, cross-platform, and the overall performance and security testing across channels.

AFTA's multi-faceted testing capabilities enable banks and financial services to serve customers irrespective of the platform. This is because Aspire clearly understands that no matter how broadly banks can focus and increase their omni channel presence, the key is to increase customer experience through those channels with continuous testing.

## Being the 'first movers'

With PSD2, banks will compete not only amongst each other but with any institution that provides financial assistance. Hence, it's up to them to improve the competition by being 'first-movers' before the market is open to all players.

While some of them are waiting to obtain more clarity on PSD2 before setting up their strategies, there are banks (mentioned below) that have taken a step ahead by understanding each touchpoint of customer's banking channels, and enhancing their banking experience through various add-ons and other functionalities.

These banks have realized that the key to emerge as future-banks is to synchronize the banking facilities across various devices thus providing a seamless, omni channel customer experience.

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## Making Smart Moves

Garanti, a Turkish bank is an ideal example of speeding up its digital transformation by leveraging its banking ecosystem to launch iGaranti, its mobile application. The app facilitates several integrations like easy payments, money management, voice control in to the app, and other innovative services. Their willingness to build an agile and dynamic banking system helped them to reach out to an increased customer base and serve them better.

## Banking on Wearables

Caixa Bank has gone a step ahead in delivering real time stock market services to their customers by synchronization of two devices. They designed the first smartwatch that synchronizes with the customer's mobile phone. The customer can stay updated about the latest stock price information, market fluctuation, and also view them on their mobile by simply selecting the stock market application on their smartwatch.

## The Right Usage of API

**Germany-based Treefin's** API powered Personal Financial Management (PFM) app is a game changing innovation where their customers are offered a 360 degree view and access of their account information, insurance and investment details across devices. With PSD2, they are hopeful to extend their services across Europe by leveraging various channel potentials to make the payment process less painful.

**The success mantra of any technological solution is based on the degree of their customer experience.** Banks must look out to implement API powered and data-enabled businesses along with other simple yet effective personalized integrations like:

- ➔ Geo enabled services for tracking the nearby ATM or branch
- ➔ Multi lingual features
- ➔ Social media
- ➔ Managing multiple accounts
- ➔ User-friendly navigations
- ➔ Single click payment solutions
- ➔ Automatic alert messages and notification across all channels
- ➔ Chatbots
- ➔ Two-step verification across any channel
- ➔ Videos that best describe the services and
- ➔ Instant connectivity with experts through live chats

This will help you gain competitive advantages, enhance customer experience and strengthen customer relationship for the future.

## Targeting Millennials

Millenials are the greatest and the most fortunate generation to have experienced some of the biggest technological advancements, globalization and economical disruptions. Having had the opportunity to be raised in the internet era, millennials tremendously rely on digital banking for their convenience. Studies show that 4 in 5 millennials are interested in welcoming new innovations in digital payments when compared to the 67% of the remaining population.

# PSD2 and European Banking-Shifting Sands in Channel Growth

Aspire believes that the easiest way to reshape and build Europe's digital banking landscape is by targeting millennials because it is easier to digitally connect with them especially after PSD2. According to a research conducted by Ipsos shows that more than half of the millennials in all four European countries that were surveyed want to make instant payments.

This is an indication of how banks can successfully utilize PSD2 in empowering millennial's digital banking journey and bringing about a futuristic change in the payment landscape.

## Conclusion

With all said and done, the fact is that when PSD2 is finally implemented, the European banking system will never be the same. Although an assessment report by PWC shows 68% of bankers feel weakened with PSD2, 84% of them foresee some kind of strategy changes in order to survive in the industry. This is because they understand that the only viable approach to PSD2 is by treating it as a catalyst and grabbing the opportunity to expand their digital payment solutions across borders.

# PSD2 and European Banking-Shifting Sands in Channel Growth

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Aspire Systems is a global technology service firm serving as a trusted technology partner for its customers. The company works with some of the world's most innovative enterprises and independent software vendors, helping them leverage technology and outsourcing in Aspire's specific areas of expertise. Aspire System's services include Product Engineering, Enterprise Solutions, Independent Testing Services, Oracle Application Services and IT infrastructure & Application Support Services. The company currently has over 1,600 employees and over 100 customers globally. The company has a growing presence in the US, UK, Middle East, Europe and Singapore. For the seventh time in a row, Aspire has been selected as one of India's "Best Companies to Work For" by the the Great Place to Work® Institute, in partnership with The Economic Times.

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