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KPMG Perspectives

PSD2: Don't miss the opportunity

NEW regulation aimed at opening up payments in Europe and the UK is creating a massive opportunity for banks around the world to improve their relevance, their business models and their revenues. So why are so few banks taking the opportunity to create real competitive advantage on the back of open payments regulation?

As a sector, we spend a lot of time talking about the relevance of banks. We fret about customer loyalty. And we worry constantly about our competitors' ability to take away our hard-won customers. We spend hours talking about the need for transformation; the drive for customer-centricity; the imperative for innovation. And we talk about priorities, such as improving customer focus and implementing disruptive technologies. So it is somewhat surprising that few (if any) traditional banks have yet recognized the massive change—and opportunity—that is being created by new open payments and open banking regulation in Europe and the United Kingdom. In fact, we believe that open payments regulation may offer banks around the world an unprecedented opportunity to create a significant competitive advantage in their markets and to reestablish relevance with their customers.

Underneath the regulation

At face value, the recent regulatory changes seem fairly benign. In Europe the rules are basically a follow-on to the existing European Union directive on payments services (PSD) that helped create a single payments market across Europe in 2007. The updated PSD rules essentially respond to technical changes and aim to create a more level playing field.

But to achieve this, the directive calls for banks to open up access to their accounts to third parties for the purpose of consolidating account information and making payments. The EU would like to encourage emerging payment methods and so-called account information service providers (or AISPs) as a way of improving access to payments across the region. And in doing so, banks will be forced to allow other organizations—retailers, other banks and even Fintech start-ups—access to their customer data.

In the UK the government has gone one step further, requiring some banks to also share data about products, services and customer transactions. The UK's timeline is also more aggressive. Whereas EU banks have until January 1, 2018, to comply, UK banks will need to have set up open APIs (application

programming interfaces) and start sharing data by the start of 2017.

Disruption and disintermediation

FULLY implemented, the changes will usher in a new era of customer control and the benefits of this "open approach" for customers is fairly clear. With the appropriate permissions, customers will be able to centralize their account information and payment options into one unified mobile application. This means that customers will be able to conduct day-to-day banking on the platform of their choice—whether it is provided by their bank or an innovative fintech start-up.

The obvious threat for banks is one of disintermediation. Once the regulation has passed and open APIs have been negotiated, there is nothing to stop customers from shifting their entire daily banking relationship to a third party. Played out to its full extent, one could well imagine a world where fintechs hold the customer relationship and traditional banks simply maintain the infrastructure "plumbing" of the system; a sobering prospect for any banking executive (or shareholder) to consider.

Banks can approach the changing regulation in one of two ways. They can either do exactly what is required in order to demonstrate compliance and remain broadly competitive, or they can seize the opportunity to turn the regulation into a competitive advantage by becoming the customer's trusted integrator and service provider. We would argue that the former is a losing proposition. Taking a "compliance-led" position on the regulation will not win you new customers; at best it will stave off the erosion of existing customers. A compliance-led approach will likely tick all of the risk and Information-technology boxes, but it won't mitigate the risk of market disruption. And a compliance-led approach certainly won't open up new business models, improve customer loyalty and enhance relevance.

The article was taken from KPMG's publication, entitled PSD2: Don't miss the opportunity by Jurgen Wagner of KPMG in the UK and Sven Korschinowski of KPMG in Germany.

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