

PSD2 – Are you ready to embrace the change?

Key areas of focus

February 2017



Aside from technology and regulatory compliance, PSD2 has a direct impact on your strategy, customers and business model. Your competitors are thinking about these now. Are you?

Define your strategic ambition and positioning

Not having a clear strategy on PSD2 could result in valuable investment being misdirected.

Changes to how customers consume financial services could erode your margins and impact profitability negatively. Your PSD2 strategy might also require collaboration with external companies who will push you to work in a more agile way.

Getting ownership of PSD2 right within your organisation is critical. The lead should have an understanding of the detailed technical and regulatory issues, but will also be expected to have the vision, credibility and seniority to work across the business, building support for changes that could prove to be truly disruptive.

Things to consider:

- What is your level of ambition and likely strategic response to Open Banking?
- Will you boldly pursue new opportunities based on APIs, PSD2 and Open Banking or will you limit your efforts to compliance and watch competitive developments?

Things to consider:

- Do you have a clear plan of which products and services you will introduce as a result of PSD2?
- Do you understand how your profitability is likely to be impacted positively or negatively across your product lines and businesses as a result of PSD2?

Things to consider:

- Is it clear who within your organisation is (and should be) accountable for shaping and driving a strategic portfolio of change for PSD2 and Open Banking?

Address your technology and data capabilities

In building new relationships with third-party providers (TPPs) and FinTechs, banks will need to align their focus to their operational and technology requirements. At the same time, they should not lose sight of other payments and banking related changes, such as the new payments architecture, scheme consolidation and structural reform.

Technology simplification and modernisation is critical to ensuring organisations are able to integrate with strategic partners using industry standard (ISO 20022) messaging.

The battle for PSD2 will be won or lost by your ability to enable and ensure superior customer experience through value added services, automation, streamlined customer service, security and privacy.

Things to consider:

- Are you ready to open your infrastructure and data to TPPs, while at the same time having the skills and capability to develop and use APIs effectively to open up new opportunities?

Things to consider:

- Strong customer authentication is mandated under PSD2. In practice, there is always a tension between ensuring a good customer experience and delivering security.
- All data captured to be shared with third-parties (user consent, purpose, duration, etc.) must be auditable. This is an essential step to guard against potential liabilities under GDPR and can be a nontrivial exercise.
- The following are likely to have a significant impact on PSD2 operating models: designing controls, capturing the right metrics for monitoring and customer insight, detecting cyber threats using predictive analytics, and managing workload of customer support functions.

Things to consider:

- How will you meet gradually changing customer demands like:
 - On-demand access to their data combined with other behavioural data;
 - Insight and advice based on their behaviour and transaction history;
 - Efficient and automated customer service;
 - Proactive redress and remediation of incidents?

Assess, measure and manage cybersecurity and privacy risks

Much of the responsibility for PSD2 security risks lies with payment service providers. The proposed Regulatory Technical Standards aim to mitigate this, and require payment service providers (PSPs) to prove annually that they have robust security measures in place to ensure safe and secure payments.

A paradigm shift in the payments system: The ability for an ecommerce provider to take funds directly from consumers' bank accounts via APIs.

Things to consider:

- Does your existing risk and control framework enable an understanding of appetite and exposure in an Open Banking environment?

Things to consider:

- Increasing the number of partners you interact with via APIs will increase your cyber attack surface, and make you more vulnerable to data security breaches.
- PSD2 will require all PSPs to use strong customer authentication. Against a backdrop of high profile hacks across industries, PSPs must ensure that security measures are in place to protect the confidentiality and integrity of customers' personalised security credentials.

Determine legal and regulatory compliance

PSD2 requires existing PSPs to 're-authorise' or demonstrate compliance with current payment services regulations and update as necessary to bring their operations in line with the enhanced requirements under PSD2. PSPs can expect increased scrutiny from the Regulator and should consider the timeframes under which reauthorisation need to be sought.

Firms will need to obtain customers' explicit consent to retain, store, share, release and use their data in compliance with data privacy laws. And from May 2018 onwards, when the General Data Protection Regulation (GDPR) will get embedded within local laws, firms are expected to comply with both PSD2 and GDPR.

The nature and scope of PSD2 will require firms to make changes to key policy areas, including: security, technology, customer communications, complaint handling, outsourcing and any partnership or joint venture arrangements. Failure to update and successfully implement and embed policies can leave firms open to costly reputational and operational breaches.

Things to consider:

- Already registered as a PSP?
- How will you prove compliance with PSD2 and undertake the journey to re-authorization under PSD2?

Things to consider:

- How will you prevent, evidence third party accountability, and report incidents?
- How will you gain consent for the use of customer and transaction data?
- How will you ensure that customer contracts are revised and amendments are communicated within the correct timeframe?

Things to consider:

- Have you updated your policies to account for the operational changes PSD2 introduces?

Optimise your finance/tax

It is likely that your business will consider changes to the current product and service offerings as a result of PSD2. This will require the Tax Department to work closely with business colleagues to ensure the tax implications of business change are effectively managed. Undertaking a Tax Value Chain Analysis provides an opportunity to review current operations from a tax perspective and evaluate whether the impacts of the PSD2 requirements on the business will lead to tax costs or tax savings.

Things to consider:

- Have you thought about how the regulatory changes imposed by PSD2 may impact the current business model and tax structure of your organisation?



Get in touch for more information

Our team would love to hear from you:

Regulation



Guy Rendle
Director

07809 755 916
guy.t.rendle@pwc.com



Megan Charles
Manager

07703 563 675
megan.p.charles@
pwc.com

Technology and Architecture



Jonathan Turner
Partner

07739 591 553
jonathan.v.turner@
pwc.com



Mike Kennelly
Director

07764 958 107
mike.v.kennelly@pwc.com



Liam Henfrey
Senior Manager

07710 396 629
liam.a.henfrey@
pwc.com

Strategy



Martin Roets
Director

07900 163 394
martin.roets@
strategyand.uk.pwc.com



Julian Wakeham
Partner

07771 818 776
julian.m.wakeham@
pwc.com



Joerg Ruetschi
Director

07900 163 597
Joerg.ruetschi@
strategyand.uk.pwc.com

Risk



George Stylianides
Partner

07739 874 054
george.e.stylianides@
pwc.com

Cyber Security



Michael Woods
Senior Manager

07843 332 138
michael.woods@
pwc.com

Tax & Finance



Nick Chouksey
Senior Manager

07841 803 594
nikhil.chouksey@
pwc.com



Nathan Miller
Senior Manager

07738 845 198
nathan.miller@
pwc.com

Customer Experience, Data and Privacy



Rav Hayer
Partner

07841 468 296
rav.hayer@pwc.com



Ajit Tripathi
Director

07525 926 456
ajit.tripathi@pwc.com

This document has been prepared only for [xxxx] and solely for the purpose and on the terms agreed with [xxxx]. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

© 2016 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

170217-165832-IP-OS