Open access as an element in the collaborative spectrum for innovation

d- what could be the pricing mechanism for value added services?

It is still unknown what the exact capabilities and pricing mechanisms for the value added services will be. The open access regime of the PSD2 occurs in an industry which is fundamentally reshaping its value chain. We are witnessing a modularisation and standardisation trend in payments, which is quite similar to the one that is already established in the auto industry. Different brands will make different cars, but they may make use of the same engine and core components.

The open banking trend can thus lead to a range of 'plug-and-play' components that can be used by market players to construct the best financial solution for specific groups or use cases. In this new context, we could envisage all kinds of pricing mechanisms, ranging from revenue-sharing to cost-based pricing. It will be interesting to see which models will emerge.

Finally: the landscape will re-shape based on innovation rather than institutional status

While it is tempting to view the above developments in the frame of a battle between newcomers and incumbent banks, we should recognise that some incumbent banks will also become active as PISPs and AISPs. This means that the new dividing lines in the payments market of the future will be based on the degree of innovation rather than the institutional status of an organisation.

Yet, many questions still remain on the table with respect to the access of the account. To shed light on this matter, The Paypers has asked different stakeholders their opinions on this type of issues which are still under discussion, topics such as the business models under the new open access regime, which are the likely and/or successful business models or the service layers in access. We were keen on discovering their expert view on whether they see this model emerging in practice, and their opinion on the need for legal contracts and rules for open access. Last but not least, we could not end without asking them about the crucial functionality of the basic access and the EBA RTS, if they consider that there is a workable compromise now in development or if, on the other hand, there are issues still overlooked.

Ralf Ohlhausen, PPRO's Business Development Director, speaking on behalf of "The Future of European Fintech" Alliance, which they co-founded

The PSD2 RTS and Open Banking in the EU

Until recently, banks were closed ecosystems. Even when the customer wanted to share information with third-party providers, the process was often slow and cumbersome. This limited both the choice available to consumers and the scope for innovation in financial markets.

Open Banking is aimed to change this. In theory, the consumer has complete autonomy and control over their own financial data. With access to this data, third-party providers can offer a range of innovative services that give consumers more choice and better value.

In its original form, the draft PSD2 Regulatory Technical Standards (RTS) threatened to undermine Open Banking in the EU. Fortunately, the European Commission made some essential changes. However, these do not go far enough and the EBA is now pushing back, even behind their previous position. →

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The crucial functionality of basic access and the RTS

For the past 15 years, PISPs (Payment Initiation Service Provider) were able to initiate payments and mitigate the risk of non-execution by non-real-time banks, which are still the majority, by verifying relevant customer data such as excess balance, overdraft and 30-day transaction history, before providing a sufficiently reliable "success message" to the merchant within seconds, i.e. well before the payment is being executed – or not. The RTS is not specifying this and the banks are refusing to provide such data via basic access. Instead they want to sell an execution guarantee as a value-added service. However, from the customer's perspective, it is crucial that the merchant gets a realtime confirmation to ship the purchase right away.

Similarly, AISPs (Account Information Service Providers) currently offer consolidated views of all accounts a customer has, whereby PSD2 covers payment accounts only. In the absence of clarity within the RTS, banks want to deny future access to non-payment accounts, which would make AIS non-attractive to consumers.

Therefore, to continue real-time PIS and valuable AIS, it is crucial that customer-permitted direct access via the bank's customer-facing online banking interface by properly identified PSD2-licensed TPPs (Third Party Providers) can continue. Banks are not willing to ensure this via the dedicated interfaces the RTS entitles them to provide instead of giving direct access.

Is there a workable compromise now?

The good news is that the European Commission listened to all market participants to find an acceptable compromise. The new proposal still specifies that third parties should access customer accounts through an API provided by the banks for that purpose. But, if that API stops working or does not provide the same level of service as the customer interface, fintechs may now — as a fallback — use that customer interface once again.

This removes the over-reliance on the banks' good will. Even if the API for third parties is not well maintained, the customer interface will be, because banks have an obvious self interest in providing a good customer experience. But, while this revision is a step in the right direction, it does not solve all the problems with the RTS and, driven by the bank's resistance, the EBA has since rejected this fallback proposal by the EC altogether.

What issues are still overlooked?

The biggest issue is that the RTS must provide sufficient clarity that a fallback is allowed not only for downtime of the API, but also if the provided data is insufficient or not accurate enough for real-time PIS and valuable AIS.

To avoid endless arguments and disputes, the banks' free choice of providing dedicated interfaces or not, should be complemented by the TPPs' free choice of using them. This would incentivise both the creation and the use of good APIs and avoid inefficient regulation and policing in the middle.

In this case, banks would still be free to offer execution guarantees as a value-add, but the pricing of such an interchange-like charge would then be in competition with the TPP's alternative of providing their own risk mitigation instead, like they do today. →

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This is why direct access is so essential for innovation, commercial efficiency and a good customer experience.

For a full explanation of what still needs to change in the RTS, read the statements by the **Future of European Fintech Alliance.**

Gijs Boudewijn is Deputy General Manager at the Dutch Payments Association

Keep the consumer in control!

One of the main objectives of PSD2 is to better protect consumers. Yet consumer protection has not received the attention it deserves in the recent discussions around the final draft RTS of the European Banking Authority on Strong Customer Authentication and Secure Communication that were published on 22 February 2017. Indeed, the changes the European Commission has proposed to the EBA final draft on May 24 do not contribute to better consumer protection. The Commission wants to introduce a so-called "fallback" option to ensure a smooth transition to allow (commercial) business continuity for existing players, whereas in their view the EBA opts for a radical change by outlawing the current practice of screen scraping.

The fallback option as proposed allows existing third parties to fall back to the practice of screen scraping if the dedicated interface of an ASPSP is not available or not working properly. In the opinion on the Commission proposal EBA published on June 29, it states that a fall back is a bad idea because of:

- cost increases for the ASPSPs;
- increased fragmentation compromising the development of APIs;
- competitive disadvantages for new entrants;
- a lack of improved reliability, incompatibility with PSD2 security requirements, supervisory constraints;
- unclear consumer understanding and consent.

This is much in line with what the European Consumer Organisation (BEUC) wrote to Vice-president Dombrovskis on May 22: "Screen scraping or proliferation of dedicated APIs are not the way forward".

Let us provide some historical context on consumer control. Consideration 13 of EU Regulation 260/2012, better known as the SEPA regulation states: *"It is important to take measures to strengthen the confidence of PSUs in the use of such services, especially for direct debits. Such measures should allow payers to instruct their PSPs to limit direct debit collection to a certain amount or a certain periodicity and to establish specific positive or negative lists of payees. Within the framework of the establishment of Union-wide direct debit schemes, it is appropriate that consumers are able to benefit from such checks."* →