PSD2
Innovation and disruption

ICT Accountancy Jaarcongres
30th oktober 2019
The accountant today
1. Introduction of Enigma Consulting
2. Customer Portfolio PSD2
3. PSD2 introduction
4. Strong Customer Authentication
5. PSD2 and accountants
6. Some innovative examples
Enigma Expertise
Introduction Enigma

Payments & Core Banking
• Match maker between banks, corporates and solution providers
• Interim Product- and Process Management
• Connectivity
• Core Banking, branch implementation
• Virtual Accounts, cash management solution

Risk & Compliance
• Subscription compliancy WFT and AVG (MiFID), Audit and advice
• Licensing Payment Institution/ EGI
• Realization (Operational) Risk Framework
• Interim Compliance Function
• Operational Risk Model Payment Processing
• Basel III, Mifid, IFRS
• Data Analytics / Predictive modelling

Treasury & Trade Finance
• Trade advisory and training
• BELLIN, sales and implementation
• Treasury barometer
• Treasury consulting, Cash management, Financial Risk management, TAAS, Treasury onboard

Retail & Digitalization
• Digital transformation support in insurance and banking
• Customer Journey, E-identity, e-signing
• Robotization
• Support Start-ups/ participation

YOUR AMBITION, REALISED TOGETHER
With respect to licensing, Enigma has been managing and supporting licensing applications with DNB for electronic money institutions, payments institutions, escrow services and exemptions to these for about 5 years now. Enigma Consulting advises and supports organisations with various motives:

1. Fintechs
2. Start-ups
3. Payment Service Providers
4. Service providers (e.g. Payroll Services)
5. Lenders (Mortgage loan and credit facility)
6. Brexit-payment institutions
7. ERP/Accounting solutions
8. Crypto ccy companies
9. Wealth managers
10. (International) Online retailers
Trends & Innovation in Finance: Disrupt, Change, Shake Up

- eID & Biometrics
- E-signing
- Internet of Things
- Big Data
- Blockchain & Virtual currencies
- Smart Contracts
- PSD2
- Open Banking
- API
- Digitization & Instant
- Art. Intelligence & robotics
- Cyber Security
- Omni Channel
The Directive's purpose is to increase pan-European competition, innovation and participation in the payments industry also from non-banks, and to provide for a level playing field in a secure manner.

**PSD1 (2009)**

- Clear basis for EU legislation for harmonizing credit transfers and direct debits (SEPA)
- Ban on valuation
- Costs "Shared" for EUR payments within the EU
- Introduction of "Payment institution" (license) with related services subject to licensing (in WFT)

**PSD2 (2019)**

- PSD2 scope extension (currency, one-leg)
- Ban on surcharging and "Cap" on interchange fees (Debit / Credit Cards)
- Introduction of 2 new services subject to licensing (services 7 and 8) and role (TPP)
  - Account Information Service provider
  - Payment Initiation Service provider
- Improved payment security - Strict guidelines for "Strong Customer Authentication" (SCA)
Under the Financial Supervision Act (Wet op het financieel toezicht), a payment service provider wishing to operate in the Netherlands must obtain a license from DNB.

1. Services enabling cash to be placed on a payment account as well as all the operations required for operating a payment account
2. Services enabling cash withdrawals from a payment account as well as all the operations required for operating a payment account
3. Execution of payment transactions, including transfers of funds on a payment account with the user’s payment service provider or with another payment service provider:
   a. Execution direct debits, including one-off direct debits
   b. Execution payment trx through payment card/similar device
   c. Execution of credit transfers, including standing orders
4. Execution of payment transactions where the funds are covered by a credit line for a payment service user:
   a. Execution of direct debits, including one-off direct debits
   b. Execution payment trx through payment card/similar device
   c. Execution of credit transfers, including standing orders
5. Issuing of payment instruments and/or acquiring of payment transactions
6. Money remittance
7. **Account Information Services Provider**
8. **Payment Initiation Services Provider**
Introduction of TPPs (Third Party Payment Service Providers).

These have direct access to a bank account.

Starting points:
- Same service as via internet banking
- Customer consent - Valid for 90 days
- Historical data (for example, 1 year)
Belangrijkste actoren

- TPP Third Party Provider
- PSU Payment Service User
- ASPSP Account Servicing Payment Service Provider
- AISP Account Information Service Provider
- PISP Payment Initiation Service Provider
- PIISP Payment Instrument Issuing Service Provider
- PSU Payment Service User
- TPP Third Party Provider
- XS2A Access To The Account

• The services that an ASPSP offers must be available for all TPPs
• The services must be the same as the online services for ASPSP's own customers
• An ASPSP may not differentiate in pricing for the same services
PSD2: The change

- Open up European financial services market
- PSD2 has introduced that banks must provide secure access to their accounts through APIs.
- Purpose of directive is to enable external service providers, the so-called Third Party Providers (TPPs), to offer information and payment services directly to consumers.
- Secure Access (SCA)
- For banks, PSD2 will mean increased competition from non-banking institutions

Conditions

- Explicit permission PSU
- Strong PSU authentication (usually)
- Secure communication PSU - TPP – ASPSP

For TPPs (licensed) there are no costs associated with AIS and PIS!!
PSD2 – The value chain is going to change

Impact banks:
1. API orchestration
2. TPP onboarding
3. Customer Consent & SCA
4. Change of Internet banking
5. Account Management changes
6. Customer Support
7. Positioning

Customer Consent to TPP

Customer

Strong Customer Authentication

Internet/mobile banking

TPP List?

Other Channels (SWIFT/H2H)

Account/Product systems

Bank domain

Target customers:

TPP 1

ASSET MANAGER

ACCOUNT BALANCES, monthly

TPP 2

MORTGAGE/LENDING/INSURANCE

1 Year transactions, one-off

TPP 3

PLATFORM/MARKETPLACE

All transactions + balances (daily)

TPP n

PAYMENT SERVICE PROVIDER

Payment initiation request

TPP onboarding

Certific-ates

TPP register

Track-
ing

Data filter

Bank domain

Other?

- Fund administration
- Asset management
- Current accounts
- Savings accounts
- eMoney accounts
- Loans
- Credit Card accts
- Other?

TPP

TPP

TPP

TPP

TPP

Customer Consent to TPP

Internet Banking 2.0

Internet/TPP 1

TPP 2

TPP 3

TPP n

Customer Support

Positioning

TPP 1

TPP 2

TPP 3

TPP n

TPP onboarding

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Other?

- Fund administration
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- Other?
Strong Customer Authentication (SCA)

**SCA, two out of three**

- Something you know (such as a password)
- Something you have (such as a smart card)
- Something you are (such as a fingerprint or other biometric method)

**Which exceptions apply to SCA?**

- Payments lower than 30 euros (<6, < €100)
- For payments at parking or public transport
- For contactless payments below 50 euros
- Subscription/repeat payments: only first
- Payments initiated from the seller: SDD, collection Cr Card
- "trusted beneficiaries", tick by consumer at bank or payment service provider
- For business payments through adequately secured processes and protocols
- Payments with a low risk (risk-based analysis)

Interregional transactions not covered by PSD2. A credit card from America can therefore be an exception.
Implementation of SCA
Dutch banks chose redirect model

Three Models
- Redirect
- Decoupled
- Embedded
Implementation of SCA
Innovative parties ask for embedded

Three Models
- Redirect
- Decoupled
- Embedded
1. Current accounting links are being replaced by the (PSD2) APIs.
   a) Not clear yet if and which banks will support current links and non-PSD2 access in the future.
   b) Responsibility stays with the bank.
   c) Which content will be delivered?

2. New business services based on PISP services

3. No charges for both AIS and PIS

4. Independency from banks and other providers

5. From push to pull, timing
Rationale:
- Like a bank, the TPP has a gate keeper function
- Linked accounts
Transaction monitoring (Wwft) and KYC/CDD
- Risk-based
- Post-event, objective indicators (FIU), frequencies, divergent amounts
- Economic ratio (business – private)
Exception:
- If there is a direct customer relation via the accountant (TPP doesn’t know the customers)

Approach TPPs differs
- Some: all customer KYC
- Real Time monitoring

Others:
- Very low profile KYC and monitoring

Risk on a fine or criminal prosecution by the OM
Good Practise
Further guidelines (EBA) will follow
License Application

- Business Case
  - Business plan
  - Flow of funds
  - Services
  - Recovery and exit plan
- Sound business operation
  - Risk management framework
  - Risk analysis
  - Organisational structure: compliance, IA
  - Outsourcing
  - IT systems. Auth., Data collection
  - Incident follow up
  - BCM
  - Remuneration policy
  - Oath or affirmation
- Ethical business operation
  - Risk analysis
  - SIRA
  - Preventing conflicts of interest
  - CDD
  - Sanction screening
  - Transaction monitoring
- Fit & Proper policy makers
  - Propriety of (co-)policy makers
  - Two day to day policy makers
- Transparent governance structure
  - Legal
  - Governance
- Qualifying holdings (DNO, VVGB)
- Securing funds
- Minimum own funds solvency
- Indemnity insurance
Is PSD2 already developing in a dangerous direction?

1. License as a service
2. Licensed parties intermediaries between the company and consumer
3. Transparency for the customer
4. Chain and risk profile will increase
5. Responsibility for customer research organized?
6. Who is liable if the non-licensed company is careless with the account data obtained?
7. Is the consent consistent with the actually requested data?
Innovation Examples
Buddy solution
Focus on residents with financial stress

**Problem**
- 40% of all households experience financial stress
- They do not have a good overview of their income and future expenses
- They make irresponsible choices when entering into agreements
- They receive claims and fines on advance payments of allowances and benefits
- 20% of all households have debts

**Problem Owners**
1. Healthcare providers (extra healthcare costs)
   - 50% care consumption related to stress
2. B2C corporates (defaults/absenteeism)
   - Subscriptions, telephony, Other fixed costs
   - Energy & local taxes
   - Education, Insurances
   - Living & mortgages, Transport
3. Municipalities (assistance and refinancing)
   - Municipalities spend solving the debt problems (costs society around 100,000 euros per household in debt)
Buddy solution
Focus on residents with financial stress

Avg debt per family: € 45,000
Avg costs per family: € 100,000
Direct costs for stakeholders: € 12 MRD per year

Buddy

employer

municipality

Costs for assistance, refinancing and aftercare

tax authorities

Write off tax debt, costs internal & society

Processing attachment of wages, sickness absence & productivity loss

fixed expenses

Loss of income, debits, collection costs, closures and evictions
And how does it work?

**Buddy**

- **Financial insight & overview**
- **Reserve money automatically**
- **To contact**
  - Municipality / UWV
  - tax authorities -- allowances
  - Creditors
- **Advising (Artificial Intelligence)**
  - Advising on fixed costs
  - Advising surcharges
  - Advising on purchases
PSD2 offers opportunities - Data mining on account information

Private lease or Insurance

Motorrijtuigenbelasting

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I HAVE TO CHANGE TO STAY THE SAME