

Why banks should embrace an open future

There is a history of success of open versus closed systems in industries such as IT and telecoms. It is now the banks' turn to open up. Open access to bank accounts has the potential to lead to an explosion of potentially disruptive innovation, competition and new services. New revenue streams will evolve and the banks themselves could even be the main beneficiaries from this dynamic development. Yet banks need to position themselves proactively in this new environment.

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From the latest regulation it is a legal requirement that the banks open payment accounts to third parties. One can now wait and pray - or actively embrace and shape this change. Since it is better to disrupt yourself rather than letting others disrupt you, we propose new "Controlled Access to Payment Services" (CAPS) to ensure that the new third parties enter our space in a safe, secure, regulated and fair way using a standard interface. The recent PSD2 regulation proposal provides some of the necessary prerequisites of such an approach.

The fight is not lost to anybody
Looking into the current e- and m-commerce space, we already see strong alternative payment solutions such as PayPal or Amazon Payments. Indeed, with view of the success of PayPal some already think the fight in online is lost. However, despite 15 years of active market development, good growth rates and huge media attention, PayPal's processed volume still only represents under 0.05% of global non-cash transactions and is thus really putting no dent at all into banks' business. The fight in online payments is thus not lost to anybody, but all players - especially banks - face significant opportunities that should now be addressed.

New actors in the payment space
The PSD2 defines new actors in the payment space, the third party providers ("TPPs"), that are to offer payment information and initiation services to consumers and merchants and includes these TPPs in its regulatory scope. These TPPs will thus need to become licensed and registered and underlie security and consumer protection requirements similar to banks. This is an important step towards a safe and level playing field in payments and will thus put an end to unregulated and potentially insecure third party models in the market. In general, the PSD is now extended to cover all transactions made through IT devices (mobile, internet etc.) which were previously exempted. All this is good for everybody.

Controlled Access
If bank accounts and online payment services are to be opened up to third parties, this must happen in a controlled, secure, trusted, safe and fair way. Especially in payments one particularly critical issue is security: no consumer or bank would endorse a situation where unregulated third parties would be granted uncontrolled access to users' accounts. This is why CAPS is needed, in contrast to current practices where the users' full

online banking credentials are passed on to third parties allowing them potentially full access to everything on the account. Third parties need to be certified and regulated. There needs to be a common legal framework which TPPs, banks and merchants adhere to, in order to clarify the liability partitions and ensure a seamlessly joined up system with user communication, dispute resolution etcetera. The system needs to be secure, handling access to accounts in a controlled way with authentication being given only for very specific accesses. Transactions need to be entirely controlled by consumers to avoid a situation where consumer account data is exploited without permission. And last but not least, there needs to be a fee attractive enough for all parties to provide the infrastructure, develop innovative services and provide customer support.

The future is already happening
Although controlled access to payment accounts by third parties may sound very disruptive and futuristic, there are already some examples from the payments industry that today demonstrate this potential of open innovation. PayPal already has opened its system via APIs to several hundred partners and is known to be in talks with Google, Facebook and large internet and mobile players to allow their services to be linked to PayPal. Even some banks are already actively opening up to third parties. A regulated and open system across all banks such as CAPS will then allow for secure and convenient use across Europe. Consumers could simply

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get a screen like "Approve €24 for 2 tickets to Hamlet at Court Theatre on 24 Jan 2014 at 8 pm?", click "Pay", and that's it (subject to bank authentication) - regardless where they are buying and where their bank is. And there are many more services one can think of (identity check, age verification, automated form filling etc.) that provide valuable services to merchants and solve many problems in current e- and m-commerce.

A wealth of opportunities
Contrast this direct communication between the user and his bank with the current situation: overlay services building on bank infrastructure has led to a very layered online payments landscape. Several overlay service layers have driven a wedge between the consumer and the bank, sometimes easing the way consumers pay, but often confusing them with multiple virtual accounts, wallets, passwords etcetera. They use banks' infrastructures, KYC and security mechanisms etcetera mostly without contracting a bank and without paying for these assets. Banks are thus clearly being disintermediated in online payments and need to act. Providing a standardised controlled access to the bank account can help reduce the multiple layers and provide new value to both banks and alternative providers. The value creation potential is seen across the board. Merchants have been looking forward to this and demanding it unequivocally. Consumers need not

pass their banking credentials or card details on to merchants any more, the amazing resilience of cash even in modern economies can be reduced and many advantages more. Given that we already witness over 300 e-payment mechanisms in Europe today, innovation and competition will likely explode thanks to CAPS in the years to come. New revenue streams will evolve and, given the past history of open systems, it can be expected that banks may be the main beneficiaries from this dynamic environment - if they position themselves in a timely and proactive manner.

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