

PSD2 EXPLAINED

Includes a jargon buster!



Why was the revised Payment Services Directive (PSD2) created?

First, let's introduce the Payment Services Directive (PSD)

The PSD was adopted in 2007. It created a single market for payments (essentially credit transfers, direct debits, cards) in the European Union. It provided the legal foundation for a Single Euro Payments Area (SEPA).

New players and services needed to be regulated

Since the PSD, the digitalisation of the European economy has steadily progressed. New services, provided by new players, have appeared for online payments. Problem: they were outside the scope of PSD, and therefore not regulated at EU level. An update of PSD was needed.

Towards an increasingly integrated EU single market

The objectives of PSD2 are to make payments safer, increase the consumers' protection, foster innovation and competition while ensuring a level playing field for all players, including new ones.

Main changes brought by PSD2

PSD2 contains 117 articles... Only the most important changes are explained here!

1

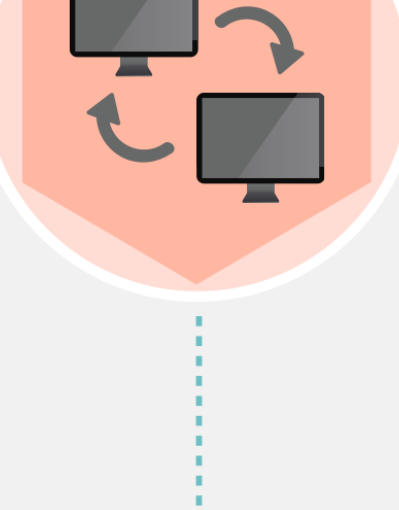
Acknowledgement of new players accessing the consumers' payment accounts

New players will now be registered, licensed, and regulated at EU level. Barriers will be removed for these companies, therefore increasing competition, which should translate into lower costs for consumers. These new players will access the consumers' payment account (that's the 'XS2A' - access to account) to make payments on their behalf (via credit transfers) and to provide them an overview of their various payment accounts. Obviously only with the prior consent of the consumers!



How would this technically work?

The institution holding the payment account of the consumer provides to these new players access to the account, for example via an Application Programming Interface (API). It can be viewed as a messenger enabling information exchanges, taking a request from the new player, and returning an answer.



2

An increased security of Internet payments using Strong Customer Authentication (SCA)

PSD2 aims at reducing the risk of fraud for electronic transactions, and enhancing the protection of the consumers' data. For all electronic transactions, the SCA will mean that two or more of the following independent elements will be used:

Knowledge

Something only the user knows (password, PIN...).

Possession

Something only the user possesses (key material...).

Inherence

Something the user is (fingerprint, voice recognition...).

+ extra element for remote transactions (Internet, mobile)

A unique authentication code which dynamically links the transaction to a specific amount and a specific payee.

When will SCA have to be applied?

- Each time the user makes a payment, except in certain situations (exemptions), such as:
 - Below a certain amount.
 - If the beneficiary is already identified.
- When users consult their payment account, or an aggregated view of their payment accounts, using an additional service.
 - The 1st time the account (or aggregated view) is consulted.
 - At least every 90 days.

3

A broader geographical reach

All transactions including those with 'one leg out' (at least one party is located within the EU, and no longer both) are in the scope of PSD2, and all official currencies (cryptocurrencies are excluded). It will offer a better information to consumers and a better protection of the European part of the transaction.

And also...

4

The EPC SDD Core scheme rule of the unconditional right of refund for direct debits becomes a formal legal requirement (until up to 8 weeks after the payment).

5

Ban of surcharging for most card payments (those subject to interchange fee caps under the Interchange Fee Regulation).

6

In case of unauthorised payments the consumer will not pay more than €50 (vs. €150 before), except in certain situations such as fraud or gross negligence.

Who's who in the new PSD2 world?

1) DIFFERENT STATUTES

Credit Institutions

Defined in the Banking Directive (1977). Another term to say bank. Their activities are broader than payments (loans...).

Payment Institutions

Defined in PSD. They can propose several services, directly linked to payments.

**Payment Service Users
PSU**

They make and/or receive payments. Can be either natural or legal persons. They interact as customers with all these organisations.

**Account Servicing
Payment Service Providers
ASPSP**

They provide and maintain payment accounts for consumers.

**Account Information
Service Providers
AISP**

They aggregate for multiple payment accounts and offer consumers a global view of their daily finances, in a single place, in order to help them better manage them.

**Payment Initiation
Service Providers
PISP**

They facilitate the use of online banking to make a payment (which offers an alternative to the use of cards).

2) SEVERAL POSSIBLE ROLES

Calendar & next steps

24 JULY 2013

The European Commission publishes its PSD2 proposal.

OCTOBER AND NOVEMBER 2015

On 8 October, the European Parliament approves PSD2, so does the EU Council on 16 November.

23 DECEMBER 2015

PSD2 is published in the Official Journal of the EU.

12 JANUARY 2016

PSD2 enters into force.

THROUGHOUT 2017

The EBA finalises other guidelines and RTS required to implement PSD2.

BEFORE THE SUMMER 2017

The European Commission is expected to publish the final RTS on Strong Customer Authentication and secure and common communications.

23 FEBRUARY 2017

The EBA publishes the final draft RTS on Strong Customer Authentication and secure and common communications.

12 AUGUST TO 12 OCTOBER 2016

The European Banking Authority (EBA) consults on the draft Regulatory Technical Standards (RTS) on Strong Customer Authentication and secure and common communications.

13 JANUARY 2018

Deadline to transpose PSD2 in Member States.

AROUND NOVEMBER - DECEMBER 2018

18 months after their publication by the European Commission, the RTS on Strong Customer Authentication and secure and common communications enter into force.