PSD2: DRIVING DIGITAL TRANSFORMATION IN BANKING

A joint Microsoft and Efma survey
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EXECUTIVE SUMMARY

The Second Payment Services Directive (PSD2) is one of the largest regulatory challenges that banks have faced in recent years. Compliance with the new legislation means that financial institutions, at the very least, need to make some significant changes to their processes. However, the new Directive also presents a range of exciting opportunities for those banks that are sufficiently forward-thinking and agile to take advantage of them.

Microsoft therefore approached Efma about conducting a joint study of the current situation in the financial services industry. The aim of this study was to identify the key issues facing banks; to understand the opportunities that PSD2 presents; and to explore how prepared banks are for PSD2 compliance.

This white paper presents details from three online discussions of a Think Tank involving senior banking executives. It also includes the results of a survey of selected Efma members, designed to pinpoint the current fears, hopes, expectations and preparedness of banks in relation to the new Directive.

We hope you enjoy reading the report, which highlights the need for banks to be prepared not only to comply with PSD2 but, wherever possible, to take advantage of the new possibilities that are opening up as a result.

Vincent Bastid
Chief Executive Officer, Efma

Richard Peers
Director, Financial Services Industry, Microsoft
This study of the implications of PSD2 is a joint project between Microsoft and Efma, and involved three online sessions hosted by Richard Peers, who leads Microsoft’s worldwide industry team for retail/private and wealth banking. Richard is also the leader of Microsoft’s PSD2 and Open Banking initiative and works with regulators, clients and partners to learn, share and facilitate the move to this new paradigm.

Banks have been informed they will need to comply with the PSD2 regulations by January 2018. The new directive requires European banks to grant third party providers access to a customer’s accounts to initiate payment services or to provide account information in a regulated and secure way. This will enable seamless and safe payments across EU borders.

Along with Open Banking regulations, PSD2 aims to promote competition (as customers will have more choices); encourage innovation; and increase consumer protection whilst providing more choices for services.

However, there are still some complexities that need to be sorted out, particularly around the issue of the Regulatory Technical Standard (RTS), which defines how access to accounts will be implemented. This is still under debate and won’t come into force until November 2018 at the earliest.

Microsoft, in conjunction with Efma, therefore set up a series of online discussions with industry thought leaders to explore how banks are reacting to the need to comply with PSD2, its potential impact, and the challenges and opportunities it presents to financial institutions. A questionnaire was also sent out to Efma members.

This report seeks to draw together the presentations by Microsoft; the results of the survey; and the online discussions of the Steering Committee.
Based on preferences provided by Microsoft, Efma established an advisory Steering Committee of ten senior executives from the financial services sector, representing eight European financial institutions. They are all industry experts who have their own insights into PSD2. They also have specific interests in topics such as digital transformation, new business models and payments.

The key expectations of the Steering Committee members included:

• **Delving beyond the superficial** and exploring aspects such as expected customer behaviour; the likely effect of PSD2 on the market in three to five years’ time; and open banking.

• **Sharing a vision of the future** and understanding the hopes and fears of other banks and of the overall market. This includes exchanging ideas with people in other countries, especially in relation to the strategic side of PSD2 and the role that banks can play.

• **Discussing the opportunities** that PSD2 could create for banks, rather than just the risks and threats. PSD2 could act as a potential revolution in the banking sector – will it bring a transformation to digital channels? At the very least, it seems likely to provide opportunities for change. Some of the key opportunities include the potential monetisation of data, APIs and insight.

• **Understanding the possible consumer reaction** to PSD2. Some of the strategic responses to opportunities for both established players in the financial services sector and new entrants are becoming clearer. There are a lot of theoretical discussions taking place and numerous models, whether from consultants or think tanks or conferences. However, an exploration of how customers will engage with these new propositions seems to be lacking at present.

• **Complying with the new regulation** and benchmarking any progress so far with other members of the Steering Committee.

• **Examining the role of fintechs** within the legal environment of PSD2 and the potential threats and opportunities they present.
Various market authorities want to introduce greater consumer choice, better consumer protection and more competition in the marketplace. The result is PSD2, which has an explicit timeline and set of requirements. It has a key role to play in digital transformation, along with open banking and regulatory-driven application programming interfaces (APIs), which will evolve into a broader API economy. This also provides an opportunity for the transformation of banking products and services.

Digital transformation can be seen in terms of four stages: engaging customers; empowering employees; optimising operations; and transforming products. It involves thinking about aspects such as opportunities, choices and customer engagement. Engagement is important in the context of PSD2: even making aggregation platforms for customers is really about making things easier and more convenient for them. The question is whether banks will take up the challenge or whether they will leave it to others to occupy this space – including fintechs and new entrants.

The other key issue with engagement revolves around the ability of the bank to gain the customer’s permission to access their data. This isn’t always easy. However, banks can offer incentives by creating interesting added-value services derived from this customer information.

In terms of how banks respond to PSD2, there are four main scenarios. One of the questions that the joint Microsoft and Efma survey attempts to answer is where banks are on this spectrum and how ready they are to deliver any of these capabilities. All banks know that they will need to be involved in the first of these stages – basic compliance. Those banks that stop at this stage and refuse to go any further risk losing potential revenues as payment services opportunities for disintermediation appear.
Regulatory revolution fuels innovation, competition and customer choice, in an open and secure environment

European Second Payment Service Directive (PSD2) and UK Open Banking Standard

- Enable 3rd party account access
- Enable 3rd party payment initiation
- Secure online payments and account access
- Include foreign (one-leg out) transactions

Jan 2016: PSD2 comes into force
H1 2017: Finish draft spec
H2 2017: Finish security spec
Jan 2018: PSD2 national law

PSD2: catalyst for transformation

Digital transformation

- Systems of intelligence
- Engage your customers
- Empower your employees
- Optimise your operations
- Transform your products

PSD2: Open banking and API economy
Become a lifestyle empowerment rather than a transactional friction

- Be the best at enabling customers to pay, access accounts, services, manage their money and get help and support.
- Maintain trust and be the first for service, be it digital or physical.
- Create new and more open approaches to innovation and partnering.
- Banking-as-a-platform by connecting and exploiting a broader range of digital solutions.
- Going further in helping the customer to get more value from their money and their relationship with you.
- Look for new value opportunities for customers and for the business.
However, banks can also opt to take things further, by monetising their assets, adding new services – for example, by becoming an Account Information Service Provider (AISP) or a Payment Initiation Service Provider (PISP) – or by becoming an ecosystem player between banks, merchants and consumers and being at the heart of daily customer transactions.

One option for a bank is to become an aggregator, drawing together a customer’s multiple bank accounts into a single portal or mobile app and providing the customer with a consolidated view of their financial services, along with advanced analytics. Another option is for a bank to open up its systems to new third parties and fintech relationships, and to build banking API initiatives. Banks can also create an API system that can be used as a platform in the role of a utility.

In terms of creating an ecosystem, if a bank sees PSD2 as an opportunity for its business, it can look at the ecosystem from the viewpoint that it needs to be at the heart of the customer’s daily transactions. To achieve this, it will have to expand the services that it provides. This is where the open economy and the open API can bring added value to the consumer.

Fintechs are also looking at opportunities in this area. The main advantage over banks is their ability to act more rapidly and in a very innovative way, because they can provide a lot of new features that incumbent banks are unable to deliver at the moment.

Ultimately, banks can become a lifestyle empowerment company. This is all about trying to put the customer at the centre of activities – including payments, managing, accessing and seeking financial advice. This is all within the context of those things that a customer really cares about. These could include (for example) elements such as travel and transport, the purchase of consumer goods, leisure activities etc.

Some banks are already executing this type of model through social applications where activities such as micropayments happen seamlessly. This enables a bank to see a very wide range of data, build up credit files, make loans and grow their business. But how do banks reach this point from where they are today? This is one of the areas that the joint study seeks to address.
To inform and stimulate the online discussion sessions, a questionnaire was developed by Microsoft and distributed to a wide range of Efma members. The survey has a total of 18 questions and was targeted mainly at purely European banks and particularly senior executives whose profiles involve work with topics related to the new directive. For simplicity, the results are expressed as a percentage of the number of banks answering each specific question.

The responses received came from organisations that range from those involved in mobile applications and relatively new financial institutions through to well-established, large European retail banks. Here are the questions that were posed to the participants in the survey:

- Would you say that your organisation is technically ready for the PSD2 deadline?
- If no, do you have clear plans in place to be ready?

The survey target selection:
- Tier II and III banks across Europe
- Targeted job profiles such as payments/digital transformation/strategy
- Target response rate: 50 validated responses
- Already received responses from the banks such as Raiffeisen Bank, UniCredit, ABN Amro, ING Bank or BNP Paribas

- If yes, are you planning to build on your readiness to build new products and target new commercial opportunities?
- What is the potential impact of PSD2 at your bank?
- Do you plan to become an AISP or PISP yourself?
- What does your organisation consider to be the greatest risk of implementing PSD2?
- Do you believe that the regulator will enforce the deadline and if so how?
- Have you conducted any risk assessments/gap analysis?
- Have you considered the asset liability management, fraud and regulatory reporting impact?
- Have you engaged any payment or business consultant or consultancy company to guide you through the regulation and provide governance?
- Are you worried that your competitors will use your own API to poach your customers?
- Have you thought of using APIs beyond PSD2?
- Do you have monetisation models for APIs?
- What are the most significant challenges with API management?
- What is the purpose of API management adoption?
- What type of API management platform do you have today?
- How many APIs do you have today (internal and external)?
Preparing for PSD2

The first questions in the survey explored the relative readiness of banks for the forthcoming full introduction of PSD2. It asked whether banks felt that they were prepared for the compliance deadline. Roughly half of the respondents (49%) said that they aren’t yet technically ready to incorporate the new directive into their regulations. This is perhaps slightly alarming as banks within the EU have been told that they will need to implement the new directive by January 2018.

However, of all those banks that said that they aren’t yet ready for compliance with PSD2, 68% said that they have clear implementation plans in place. This is probably representative of what is happening in a moving landscape. APIs are changing and the Regulatory Technical Standard (RTS) won’t be implemented until at least late 2018 – so these results probably aren’t as bleak as they might seem at first. Despite this, the results suggest that a third of the banks that aren’t technically ready to incorporate this new directive don’t even have a plan in place.

Of those financial institutions that feel they are ready (or that preparations are well under way) for full PSD2 compliance (49%), nearly all (95%) said that they are planning to build new products and target new commercial opportunities. This mirrors the feedback from Microsoft’s customers on what appears to be happening in the marketplace.

A later question in the survey asked the respondents if and how the regulator is likely to enforce the deadline for PSD2. Half of the participants (50%) believe that this deadline will be enforced as planned, with one respondent commenting that it’s a legal obligation – and others saying that there will be penalties or sanctions against banks that don’t comply. However, some think that the regulators themselves might be struggling to meet the date and another person thought that they might be sympathetic to the disruption being caused to banks and the complexities of changing their processes.

This whole scenario can be very frustrating for banks, because they want to be able to follow a clear deadline and road map. One confusing factor is the delay in the finalisation of the technical specifications for the APIs that will be defined in the RTS. This means that there will be a gap between the APIs being implemented and the RTS being delivered (which, according to the latest information, is likely to be in November 2018 or later).

So, a bank’s APIs must be available in January 2018 – although some European banks are saying that their applications will need to conform with the Directive by January 2018 but that APIs will be made available along with the RTS implementation. Even if a bank has its APIs ready by January 2018, the way in which it carries out its authentication (for example) might not be fully implemented until 12 months after the PSD2 deadline. There will also be a need to adapt the RTS to local regulations. Banks are unsure about how they can be expected to meet the PSD2 deadline when the RTS details are still unclear.

In summary, the approach to the implementation of PSD2 is likely to vary from country to country. But there’s considerable tension around the PSD2 deadline, with banks equally divided in terms of believing whether or not it will be rigidly applied.
The implications of PSD2
The survey then explored the potential impact of PSD2 upon a bank. The vast majority of participants (67%) felt that the biggest effect will be seen upon the customer journey and revenues. This ties in with a previous question about new commercial opportunities. Some 24% felt that their distribution model will be affected. This figure seems surprisingly low. Some 9% thought that the main impact will be upon their product set. It therefore seems that most financial institutions regard PSD2 as a revenue, customer satisfaction and service opportunity.

“67% of survey participants felt that the biggest effect of PSD2 will be on the customer journey and revenues”

Some 73% of those surveyed plan to become either an Account Information Service Provider (AISP) or a Payment Initiation Service Provider (PISP) in due course. This makes sense, as it corroborates the result that the vast majority are looking for new commercial opportunities.

The survey then asked the banks what they consider to be the greatest risks involved in PSD2 implementation. Some 53% are concerned about the potential prospect of commercial disintermediation – even though a previous question suggested that only 24% were concerned about their distribution model. This may be a reflection of the size of the sample surveyed. Others feel that the greatest threat is to security (30%), the ability to execute (9%) and their identity (7%) – although it’s unclear whether they mean their brand identity or technical identity. Perhaps this should be understood in the context of facing disintermediation, where banks risk losing the client interface. They may think that they could lose their identity by becoming the back office for other partners, who will take over the client interface.

Most banks (83%) have already conducted a risk assessment or gap analysis relating to PSD2. Similarly, the vast majority (86%) have considered its likely impact on asset liability management, fraud and regulatory reporting. Meanwhile, just over half (54%) have sought help with compliance and have engaged a payment or business consultancy to guide them through the intricacies of the new regulation.
API management

A high number of financial institutions (77%) are concerned that their competitors will use their APIs to poach their customers. However, 89% are still considering using APIs once PSD2 has been implemented. Despite this, only just over half (54%) have developed monetisation models for APIs. This topic of the monetisation of data is perhaps one of the most significant issues that needs to be addressed by banks in relation to the opportunities arising from PSD2.

So, what are the most significant challenges for banks in terms of API management? Most are concerned about being able to assess the likely scale of API adoption and the associated IT infrastructure that will be needed (41%) and about aspects such as security (35%). The remainder (24%) believe that one of the key challenges will involve exposing internal systems via APIs. However, that's slightly contradictory when compared with other statistics from the survey.

Banks were also asked what they thought was the main purpose of adopting API management. The main opportunities identified were PSD2 compliance (35%), partner connectivity (26%), and the ability to sell new products and services (26%). However, only 6% thought that data monetisation was a key objective – and only a single respondent in each case cited the developer community or cloud integration as new opportunities. These results reinforce the fact that many banks still don’t have monetisation models.

In relation to the type of API management platform that the responding financial institutions use, two thirds (67%) have developed this in-house, whereas a third have opted to buy a commercial platform. From Microsoft’s own experience, the company has been seeing customers who embarked on the journey about a year ago and who have either developed their own system or have bought in a package – but aren’t getting results as quickly as they’d hoped. This is inevitably a worry to these customers.

Finally, the respondents were asked how many internal and external APIs they currently have. A third (32%) didn’t know but 38% were in the 1 to 15 bracket. Some 15% have between 16 and 30 APIs. Two banks have between 101 and 500, and one has over 500 APIs. Two said that they currently have no APIs.

PSD2 and monetisation

The low percentage (6%) of banks that thought that data monetisation was a key objective is perhaps reflected in partner connectivity. By forming connections with other partners, banks are thinking about how to commercialise these kinds of partnerships. Monetisation isn’t always easy because it means that a new model is needed and banks have to create value with information that’s provided by another actor.

There are three key approaches to monetisation:

- **Private.** To a certain extent, this is for internal charging. It represents most of the investment and development effort across industry and focuses on the company system or service integration. The data is of benefit to the bank’s normal business and provides a modern approach to interconnecting systems and services on a scalable, reusable pattern. Private API revenue generation isn’t common but could be justified through a cross-department chargeback scheme.
  
  However, the best practice is that any API product should be developed with a view to being a possible Public API in the future.

- **Public.** This is where most monetisation business cases or sales pitches are focused. These APIs are broadly available and can be easy to use. Examples include APIs from Microsoft, Facebook, Skype, Twilio, Paypal etc. There are also many lesser-known APIs available from smaller entities, such as weather services, travel information, government etc.

- **Partner.** This type of API usually involves charging (or being charged) royalty fees and involves co-operation between entities to provide a cohesive service. For example, a bank could work with an insurance provider through partner APIs that bring in customers by providing a great app experience with minimum effort or interaction. The goal is not to pay for the API but to get customers to purchase services from the bank or the insurance company, although a cost model for developing the API can be shared between the like-minded entities.
There are also different models for charging for an API. These include:

- **The ‘freemium’ model.** This is an entry point model that encourages developers or consumers to try the bank’s API free of charge. After a set time or usage level, charges will be levied.
- **The tiered or volumetric model.** With this model, there is a minimum commitment, but charging is based on the more you use, the less you pay for each transaction. This model can also be aligned with a simple ‘pay as you go’ scheme or can be based on monthly subscriptions.

One way to proceed is firstly to identify any business cases and then start thinking about which fee model to apply. This could involve using customer behaviour data to identify customers and partners who might be interested in the information. Aggregated information might be of particular interest to corporate clients. For instance, a bank might know the behaviour of many customers who pay for their holidays: it could know the amount of money they use for travel; the time; and also the venue.

This type of information when aggregated could be of interest, say, to companies that are wanting to create a new office or branch and are looking for the best possible site. They would be interested in information related to different locations where more customers are buying specific types of services. The API could possibly be integrated with a web portal or a tourist agency’s marketplace to provide aggregated information related to the behaviour of the bank’s customers.

In a similar approach, a travel agency might want to build a good mobile app for its customers but might not want to build in the ecommerce and payments and complex back-end services. Instead, it could ask for the API from different providers such as Stripe or PayPal.

Perhaps the best starting point is to provide free services, find an excellent way to add value for the customer, and then look at the best way to monetise it all. This will involve a technical solution into which there has been built the capability of monitoring the data and linking it to the customer and the subsequent bill. This might
involve an API management solution that controls the flow to the APIs.

For some banks, the opportunity is focused more on the APIs and increasing the offer to their customer base rather than just monetisation itself. This might involve, for instance, partnering with an insurer and combing both the bank’s and the insurance company’s offers on the same platform. The bank could also use the insurance company as a distribution agency through which a new bank account can be opened.

As highlighted earlier, although people talk about API monetisation, not many are talking about data monetisation. One potential of a well-executed PSD2 strategy is that a bank will have more data from more customers more often. This should allow better detection of profitable and unprofitable opportunities, as well as the potential to improve service. With GDPR, banks must be on top of their game as stewards of that data, so that consumer privacy, the right to be forgotten etc. can all be executed without fear of failure and the associated penalties.

This will paralyse some banks but agile and high-performing banks will master this aspect of their data stewardship and will benefit from the opportunities that this data insight brings.

You can find more information on this topic in a Microsoft blog: https://blogs.microsoft.com/blog/2017/05/24/accelerate-gdpr-compliance-microsoft-cloud/.

“One potential of a well-executed PSD2 strategy is that a bank will have more data from more customers more often”

Another different approach to monetisation is to look beyond monetising data through APIs and to start to think more widely about sharing whole processes or an infrastructure, and not just data. PSD2 offers a way to develop a utility role. Yet another route is to add a larger concept such as open banking to the mix.

**Working with fintechs to enhance the customer experience**

APIs can be used in creative ways, by combining services from different vendors and markets. The goal is a single customer experience through one interface that combines the best of third party prediction, recommendation, analytics, payment, product choice, delivery and support services. This all provides a seamless end-to-end journey leading to the desired customer outcome – and payment is a fundamental component of this.

However, whilst APIs enable this, new partnerships could lead to the movement of money from one account to another becoming a behind-the-scenes transaction, in which the bank could be relegated to being a bit-part player. Although customer experience has always been a distinguishing feature for many banks, they have previously just been competing against other banks.

PSD2 and open banking are accelerating the introduction of an API economy, expanding the playing field to include new entrants and fintechs. The UK’s Competition and Markets Authority (CMA) is driving open banking initiatives that will increase competition, and will encourage new entrants and the creation of new business models.

So, in this new competitive situation, how will banks create and maintain customer loyalty? Greater access to banking data and services and new market entrants means that banks must consider new ways of remaining competitive. One solution is to form partnerships and offer third party financial services products that complement the bank’s own core products. In this instance, well-defined APIs will facilitate the integration with the third parties.

Fintechs are one type of third party that could form an alliance with banks. Although fintechs are sometimes seen as threats by banks, they also provide opportunities for new partnerships. Some banks feel that the real threat doesn’t actually come from fintechs but from the big technology players, such as Amazon, Google and Facebook.

For some financial institutions, the main focus on the opportunities presented by PSD2 is about achieving excellence in customer services and
the related customer experience rather than on monetisation. These banks feel that they can become aggregators of the best customer experience – and this can primarily be achieved through giving a different service by aggregation with partners, including fintechs.

“Banks or fintechs might curate best-of-breed products from their own offerings and those of third parties”

The other solution is to develop banking as a platform: providing a framework in which the bank can create an open set of APIs (perhaps monetised) that allow a third party, such as a fintech, to build products and services over which the bank has relatively little control. The bank becomes an AISP, providing open access to transaction data and third party aggregator portals. The success of this approach will be driven by the scope and access of the APIs provided, and by the level of uptake by third parties and fintechs.

In the short term, the most likely solution is a combination of both of these approaches. Banks will strengthen their best products and offer these as white-labelled services to partners who can provide value through scale. In parallel, banks or fintechs might also curate best-of-breed products from their own offerings and those of third parties. In either scenario, the bank that is most flexible about consuming or offering products or services through APIs will have an advantage.

This suggests that as well as monetisation, there can be a complementary approach that involves issues such as the customer experience, and services that can be integrated within third parties. Or, as mentioned previously, the two approaches can be combined – for instance, API monetisation could be one tool that is used to achieve integration with fintechs and to find a new way of creating new products using partners. Banks probably don’t have the speed and agility of a fintech, and the fintechs lack the resources that banks have – so a partnership between the two could be both complementary and very productive.
The opportunity for new markets and market design

An example of how monetisation can be achieved in a different industry comes from the success of Uber. This represents two distinct innovations in the taxi industry. Firstly, Uber made the process of booking transportation easier. This was achieved by using an app to call for transport; by having a credit card on file; and by dispensing with tips, so that when the customer arrives at their destination, they can leave without worrying about change or tips. Serving your customers well is an important business principle, but is neither new nor revolutionary – John Wannamaker and Marshall Field were famous for their emphasis on customer service more than a century ago.

Secondly, the real innovation introduced by Uber is the re-envisioning of the business as a market. Instead of being in the business of supplying taxis, Uber is a market-maker: it is in the business of connecting suppliers (drivers) and buyers (passengers). Uber re-imagined the business, transforming it from a centralised business model to a decentralised, though still organised, market. This is important, because although businesses can be disrupted by someone offering a better product or service at a better price, markets are much harder to disrupt. An entrant offering a competing marketplace has to attract buyers in order to bring in sellers, and has to attract sellers in order to bring in buyers. It’s very difficult for an entrant to challenge an incumbent. Indeed, Craigslist, which is arguably a highly flawed market, has survived all challengers, and demonstrates how dysfunctional a market can be without being disrupted by entry. A well-designed market is very robust and often immune to challenges.

The digital transformation will enable many new markets beyond just transportation (Uber, Convoy) and hospitality (AirBnB, HomeAway). Whilst not all businesses can move to a market-based operation, those that can will create a much more substantial barrier to disruption, and can moreover profit from the activities of others in the market. A powerful example is the Apple App store; by creating a market for apps, Apple was able to take 30% of the revenue at a very modest cost, while still creating value for the buyers through policing the App store to prevent malware. Some banks are exploring these models today by creating aggregation brands, connected via Open Banking APIs to their own and other banks’ curated marketplaces of attested offerings.

The proliferation of new markets, especially those that need machine intelligence to operate, requires that the markets themselves are created in an efficient and effective way. This illustrates the importance of market design – the study of markets.

The basic idea of market design is that tweaks to the rules of the game affect outcomes, so the specific rules matter. Companies in the business of operating markets should view themselves as the government of their markets. They should take on all the traditional responsibilities of government: infrastructure, policing, court adjudication, taxes and subsidies, contract enforcement, provision of a medium of exchange, and education. Market design also requires ensuring that participants have the information needed to make good decisions, and managing incentives so that participants take the desired actions.

Market design is an established discipline, with courses offered at top universities, such as Stanford. At least four Nobel Prizes (Roth, Maskin, Myerson and Tirole) have gone to people engaged in market design and at least US$200 billion in economic activity has gone through markets designed by economists. Like mechanical engineering, market designers use various tools to practice their craft: economic theory, experiments, psychology, statistics, and, lately, machine learning. Part of the growth of economics within technology firms has been a consequence of the relevance of market design to corporations.

This concept is discussed in more detail in ‘The Digital Transformation and Market Design’ by Preston McAfee and Simon Wilkie: Microsoft, Office of the Chief Economist.
The initial aim of the joint Microsoft and Efma survey was to achieve some 50 validated responses from the various survey participants. Ultimately, Efma came close to this target with responses from 45 banks. However, only 34 banks answered all of the final nine questions.

The results in this white paper are therefore based on a fairly small sample and aren’t totally representative. However, they provide a tantalising glimpse into the current thinking of financial institutions and of their readiness to respond to PSD2 – and even to use it as a springboard to open up new opportunities. Although the sample is relatively small, many of the attitudes, challenges and opportunities that the results have highlighted are in line with those mentioned in the three online discussion sessions by members of the joint Microsoft and Efma Steering Committee.

It seems clear, even from comments made by the vastly experienced members of the Steering Committee, that there is still considerable confusion around the implementation of PSD2. Although the deadline of January 2018 appears to be fairly rigid, many banks are still unsure of exactly what they will need to do by this date. This confusion has been caused mainly by the delays in specifying the Regulatory Technical Standards.

Consequently, although the general consensus is that APIs must be implemented by this date, a significant number of banks still don’t have any firm plans for carrying this out. Indeed, some probably still feel that they can’t do so until they know what the new standards will say.

Turning to the changes that will need to be made, one key aspect is that maintaining access to data will become critical if banks want to take advantage of the huge store of customer information that they hold and into which they can tap. This could include, for instance, details of a customer’s spending history, financial health and financial products. This data could provide a deep insight into customer behaviour that could become a new source of income for those controlling access to it.

Some banks feel that monetisation of data, APIs and even processes is a key priority whereas others want to focus more on enhancing the customer experience. Possibly the worst option is to do nothing apart from just ensuring that the bank meets the basic compliance requirements of PSD2.

Overall, despite the challenges ahead, there are also many new opportunities waiting to be grasped. The banks most likely to succeed in doing this will be the ones that are well prepared and have carefully thought-out strategies for taking advantages of the various changes introduced by PSD2.

These opportunities are discussed with Credito Agricola in a webinar that will help many banks that are interested in this topic: http://videos.avanade.com/2103045685001/SJXTqvOM_default/index.html?videoid=5485579945001.
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