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# Foreword



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When we considered the array of materials and studies published on the revised Payment Services Directive (PSD2) over the last couple of months, we saw a gap in the market.

This was for a survey that would go beyond a general statement that either exaggerates or downplays the impacts of PSD2 on banks and the infrastructure of the banking market. Instead, it would be based on concrete data, not just analysts' forecasts.

This is why we have collected detailed information from 90 European banking institutions about their approach to PSD2 and how they plan to respond to the challenges it represents – from both a compliance and strategic perspective.

When preparing the survey, we paid special attention to covering the Central and Eastern European (CEE) markets. This enables us to provide our clients with insights into how aligned Western European and CEE banks are in their approach to open banking, and where specific regional differences need to be considered.

I am confident that you will find the results both interesting and useful in your further strategic considerations around how best to respond to open banking and PSD2.

# Executive summary

The revised Payment Services Directive (PSD2) is a key regulatory initiative of the European Union that aims to facilitate innovation and competition by creating a level playing field for banks, emerging FinTechs and other third parties. In this way, it is designed to improve and broaden the online financial services that are currently available to customers.

As such, [PSD2](#) is a response to the rapid technological developments that are already affecting banking, ranging from the mobile internet to the proliferation of smartphones, the Application Programming Interface (API) economy, data analytics and cloud computing. It also introduces an 'open banking' regulatory framework that enables the secure sharing of customer data between banks and third parties to the benefit of the customer.

The January 2018 implementation date is approaching fast. So, given the Directive's clear potential to disrupt the financial services market, we were keen to give our banking clients a tangible overview of how other market participants have been dealing with the challenges and opportunities it offers.

This knowledge would enable them to better assess their own readiness and strategic options. What strategies are other competitors pursuing? Are they planning to use PSD2 aggressively, as a means of gaining market share, or would they rather minimise their investment and do no more than comply? Which types of PSD2-enabled innovative services do banks see as most interesting? To what extent are banks seeking cooperative alliances with FinTechs? Who are the competitors they fear most?

In order to provide concrete answers to these and many more questions around PSD2, we carried out an in-depth survey among 90 European banks, with a special emphasis on Central and Eastern Europe (CEE). The main findings can be summarised as follows.

## Challengers and Minimalists

We have identified the emergence of two distinct categories of banks in Central Europe based on their approach to PSD2 – we call these 'Challengers' and 'Minimalists'.

Challengers, represented by large universal incumbent banks, are the players most open to the opportunities arising from PSD2. A significant majority are pursuing a cooperative strategy involving other parties.

The Minimalists are mainly represented by medium-sized and smaller players: these tend either to follow a compliance-only defensive approach or have not yet settled upon their strategy.

Western European (WE) players view PSD2 more as an opportunity than do CEE banks – a dominant majority is set to pursue a more aggressive approach aimed at gaining market share.

Our hypothesis is that Challengers have been motivated to act by the perceived threat posed by PSD2. On the other hand, only a small group of Minimalists recognise PSD2 as a growth opportunity, by either using an aggressive or a cooperative strategy.

**Western European players view PSD2 more as an opportunity than do CEE banks – a dominant majority is set to pursue a more aggressive approach aimed at gaining market share.**

## Regional differences

In general, large WE banks tend to be more advanced with their PSD2 programmes than their CEE peers. About a third of CEE respondents were in the process of implementation, whereas more than 50% of WE banks were at that stage at the time of interview. In addition, almost 40% of CEE respondents characterised their response as 'wait and see' or 'still evaluating'. This is in stark contrast with the mere 8% of WE banks that did so.

Banks have so far devoted most resources to responding to PSD2 from a compliance rather than a strategic perspective: only a quarter of institutions feel ready and confident about their strategic plans.

This imbalance may be caused by the fact that many banks see PSD2 as a mid to long-term trend that needs to be responded to, but not one in which they necessarily wish to be early movers or adopters. This could explain the relatively high share of respondents with a 'defensive plus' strategy – that is, one in which they comply but also create a platform on which to build. Such a choice reflects the fact that many players are currently focused on mandatory compliance but still want to keep their options open for the future.

In terms of time horizon, most CEE and WE banks expect the biggest impact of PSD2 to be felt between one and three years after its effective date. This is due to the time required for national regulators to complete the third-party licensing process and any key components of the ecosystem, such as API standards, that are still missing in many countries. That said, some WE banks expect effects to be felt already within the first year, due to the more developed FinTech sector in WE. The overall message, however, is that PSD2 is not expected to have a 'big bang' impact. Rather, its effects will be gradual and irreversible.

There are significant differences among the CEE countries, partially caused by the varying speed of the national legislative processes. The Czech Republic and Hungary reported the highest shares of players with aggressive strategies. Poland, meanwhile, the largest CEE market, reported a dominant share of banks pursuing a cooperative approach.

Banks have so far devoted most resources to responding to PSD2 from a compliance rather than a strategic perspective: only a quarter of institutions feel ready and confident about their strategic plans.

## Products and services

In terms of segments and products, CEE banks and their WE peers alike expect PSD2 to have the biggest impact on retail and SME banking, while a significant proportion of respondents identified the areas of payments and consumer lending as opportunities.

When it comes to aspirations, about half of the participating banks are planning to become a Payment Initiation Service Provider (PISP) or an Account Information Service Provider (AISP). In addition, around half intend to launch new products and services, with about a third planning to offer 'premium' APIs or additional non-payment services through APIs.

There is an unexpectedly high level of interest, expressed by more than 30% of respondents, in partnering with FinTechs or other players. This confirms a significant opportunity for non-bank providers to work with the banks to introduce innovative PSD2-enabled services. This trend towards partnering correlates with other recent trends amongst FinTechs to gravitate towards more B2B-oriented business models.

In terms of segments and products, CEE banks and their Western European peers alike expect PSD2 to have the biggest impact on retail and SME banking, while a significant proportion of respondents identified the areas of payments and consumer lending as opportunities.

## Threats and challenges

Another interesting finding is that almost half of the banks from CEE regard FinTechs and large incumbent banks as their biggest threats in the PSD2-enabled ecosystem. While CEE banks are slightly more worried by the FinTech players, there is a general sense in WE that large banking incumbents are the most attractive partners for FinTechs, positioning them well to respond and making them the group that is most likely to gain from PSD2. New digital challenger banks also came through quite strongly as perceived threats, even more so in CEE than in WE. Surprisingly, BigTech companies like Google and Amazon are not yet perceived as major threats, despite their proven ability to disrupt the payments market.

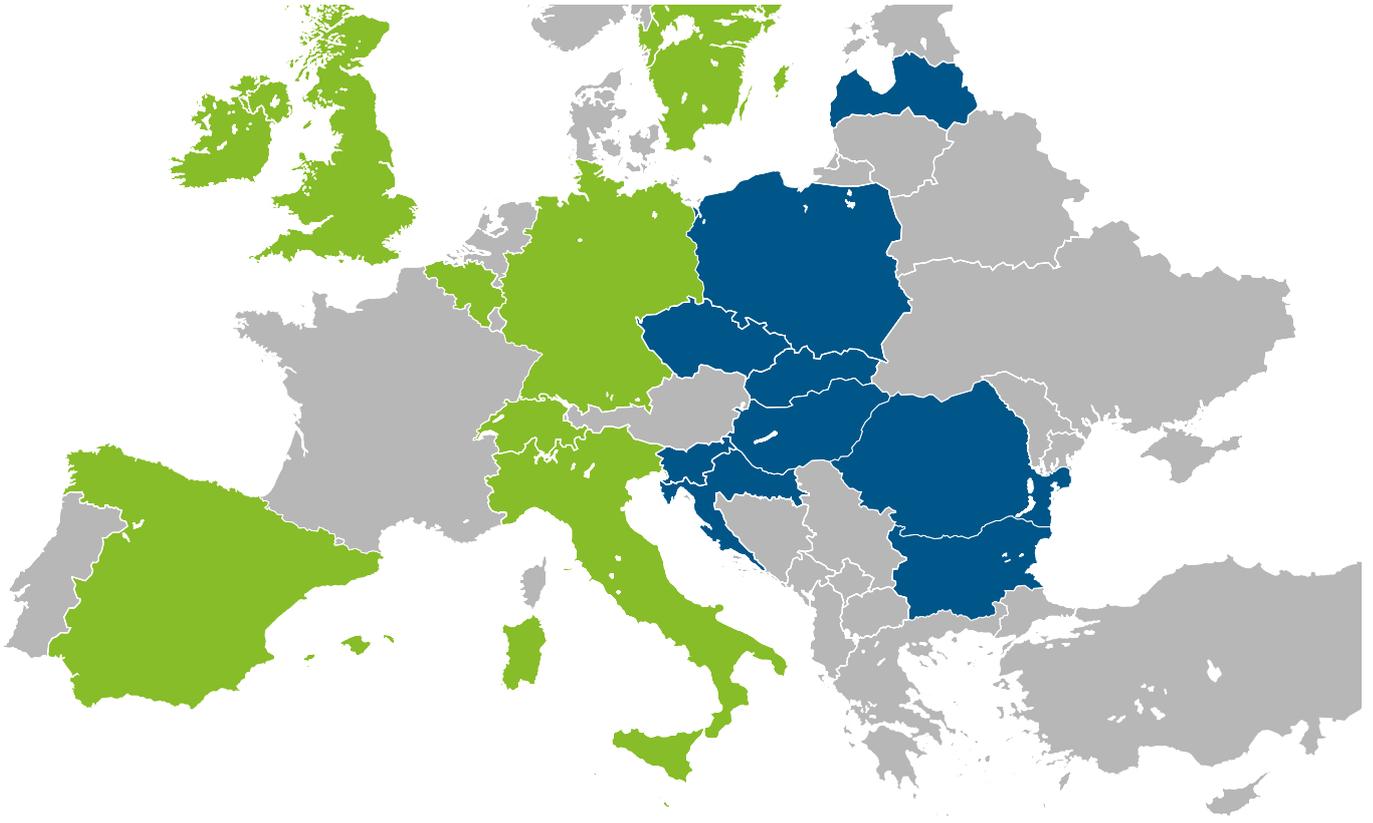
The survey respondents also identified a number of key challenges. Most of these are triggered by the sheer complexity and scope of PSD2, as well as by the fact that some parts of the regulatory framework and clear guidance for the transitional period are still missing. Other challenges relate to the as yet untested real-life relationships between banks and third parties, and the tricky balance between maintaining security requirements and a positive customer experience.

We are confident that you will find the detailed survey results available in this report both useful and insightful and we look forward to discussing the details with you.

While CEE banks are slightly more worried by the FinTech players, there is a general sense in Western Europe that large banking incumbents are the most attractive partners for FinTechs, positioning them well to respond and making them the group that is most likely to gain from PSD2.

# INTRODUCTION

## SURVEY OVERVIEW AND SCOPE



### 24 Western European banks

Belgium, Germany, Ireland, Italy, Spain, Sweden, Switzerland and the United Kingdom

### 66 CEE banks

Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia

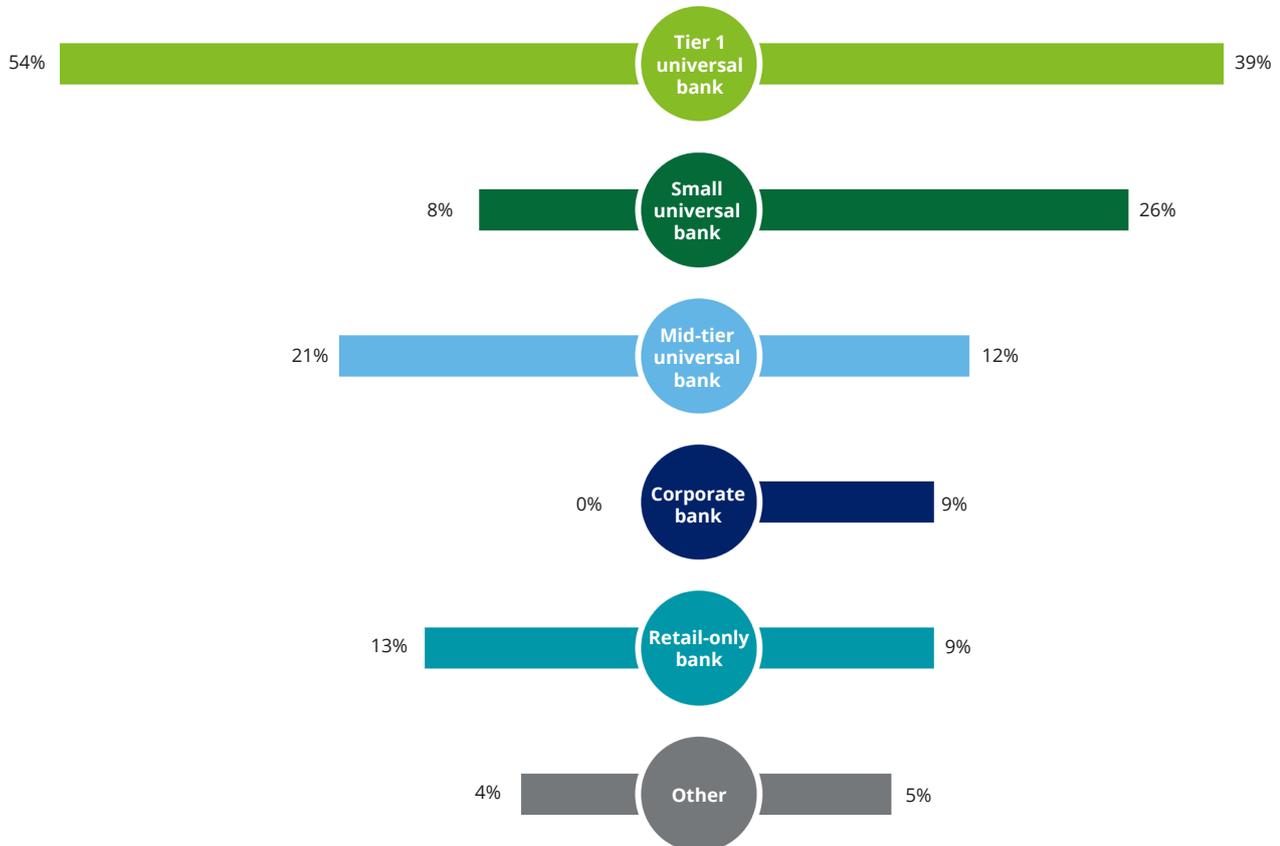


Figure 1: Deloitte European PSD2 survey sample composition – country and bank category perspectives

Deloitte has carried out a comprehensive survey benchmarking the approach and views of 90 EU banking institutions on the **revised Payment Services Directive (PSD2)** and assessing their response from both a strategic and compliance perspective. Of the sample, 24 banks are based in Western Europe (WE) and 66 in Central and Eastern Europe (CEE).

Data was collected via an online survey and face-to-face interviews with banking executives and specialist PSD2 project managers from 17 countries during August and September 2017.

The 24 WE banks were based in Belgium, Germany, Ireland, Italy, Spain, Sweden, Switzerland and the United Kingdom.

The 66 CEE banks were from Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia.

The institutions surveyed comprised banks, building societies and other credit institutions. While most were Tier-1 universal banks or predominantly retail-focused organisations, a limited number were focused on corporate and institutional banking.

The survey was structured in five sections:

1. General background
2. Third Party Access (TPA) to accounts
3. Strong Customer Authentication (SCA)
4. Strategic response to PSD2
5. Readiness to respond

As is common in surveys, not all respondents answered every question. To bring out the most useful insights, the results summarised here represent the proportion of actual responses. We have therefore excluded all 'no responses' from our analysis.

# Highlights of our findings from banks across Europe

- While most European banks regard PSD2 as an **opportunity**, they remain highly aware of the threats it poses to their business models
- From a **strategic** perspective, while most respondents have performed some level of strategic assessment of PSD2's likely impacts, the depth and extent of these assessments varies widely
- This is reflected in the fact that **only one firm in four** feels ready and confident about its **strategic plans** and has secured adequate budget and resources to develop them appropriately
- To date, most human and financial resources have been allocated to responding to PSD2 from a **compliance** rather than a strategic perspective
- Compliance wise, most participants feel confident they will be ready when PSD2 goes live in January 2018. That said, at the time of the survey a significant minority – mainly in CEE – still had substantial work to do
- More respondents shared a number of **key challenges** including:
  - The lack (at the time of the survey) of a finalised Regulatory Technical Standard ([RTS](#)) on SCA and Secure Communication
  - The lack of common Application Programming Interface (API) specifications
  - Liabilities under the TPA model
  - Difficulties in maintaining a positive user experience when applying SCA.

# **PART 1**

## HIGHLIGHTS FROM CEE BANKS

# Two distinct categories of CEE banks have emerged based on their approach to PSD2

We have segmented the CEE banks with similar responses into two main categories – Challengers and Minimalists – benchmarking them against their Western European (WE) peers.



## CEE PSD2 CHALLENGERS

Banks that are actively preparing for PSD2. They are doing more than simply taking a compliance perspective – they are considering its strategic implications for their business as well. Most of them already have a clear vision of PSD2's impact and know how they will respond.

### Key members:

- Tier-1 universal banks



## CEE PSD2 MINIMALISTS

Banking institutions which mostly aim to meet only the regulatory requirements. With lack of dedicated budgets for PSD2 strategy initiatives, they do not have a clear vision of the PSD2 impact or anticipate that the impact will be minimal.

### Key members:

- Mid-tier universal banks
- Small universal banks
- Retail-only banks



## WESTERN EUROPE

Many of these are the parent banks of subsidiaries operating across CEE. While many share the views of the CEE Challengers, they are significantly more advanced in their compliance preparations.

### Key members:

- HQ of international banking groups
- WE national banking institutions

There are clear differences between the two main categories of CEE banks in their approach to PSD2

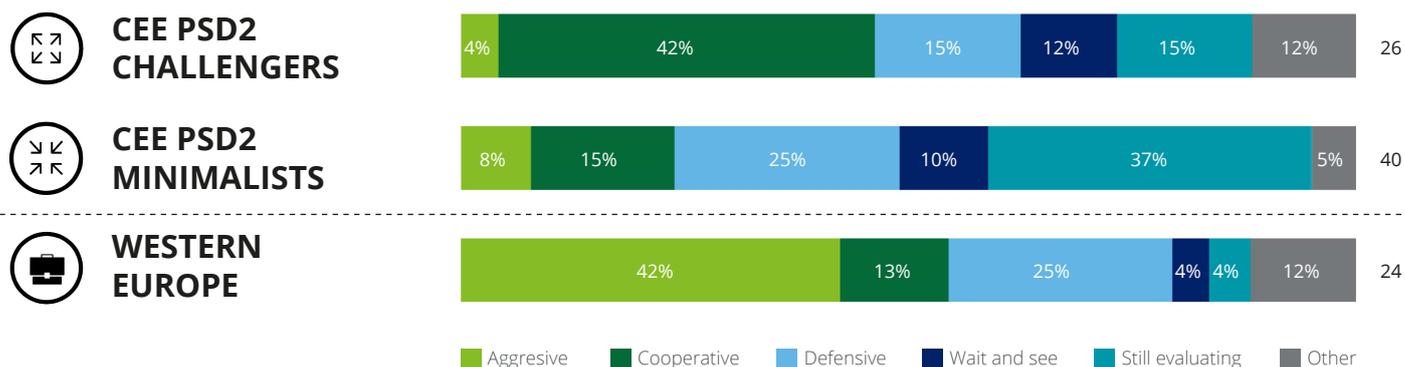


Figure 2: Approach to PSD2 by the two main categories of banks in CEE and those in WE

**Aggressive:** proactively embracing PSD2 as an opportunity and leveraging it to gain market share

**Cooperative:** using PSD2 to drive new business strategy and pivot to digital, leveraging the new cooperation opportunities it presents

**Defensive:** comply with PSD2, but also have a platform on which to build further

**Wait and see:** comply with PSD2, but not set to take any major action before the final text of their local PSD2 implementation act

**Still evaluating:** decision about a concrete PSD2 approach not taken

**Other:** not fitting any of the above categories

PSD2 ‘Challengers’ are represented by large universal incumbent banks. These are the players that are most open to PSD2 opportunities: 42% are pursuing a Cooperative strategy and 4% favour an Aggressive approach that actively embraces PSD2.

By way of contrast, a substantial 42% of WE banks are following an Aggressive strategy to grow market share and just 13% a Cooperative one.

PSD2 ‘Minimalists’ (represented by medium-sized and smaller players) are pursuing in 15% of cases a Cooperative strategy, while 8% are planning to use PSD2 in the Aggressive pursuit of future growth. A substantial proportion (25%) is nevertheless Defensive, with a focus on compliance alone.

## PSD2 Challengers are motivated by the threatening impact of the new regulation

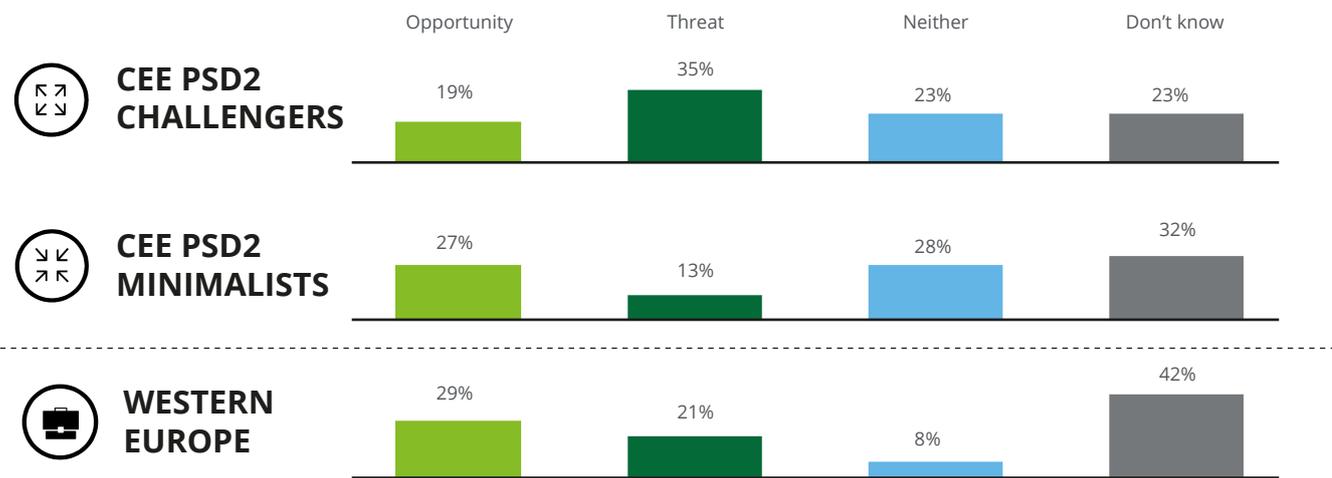


Figure 3: Perception of PSD2 as a threat or opportunity by main categories of banks in CEE and WE

PSD2 Challengers are clearly motivated to act by the perceived threat posed by PSD2, while some Minimalists are driven by the opportunity it offers.

WE banks are more inclined than those in CEE to perceive PSD2 as an opportunity.

“Banks should act in a fast and flexible manner in order to take maximum advantage of the new opportunities introduced by PSD2”, CEE bank

# The progress of PSD2 initiatives largely correlates with allocated budgets

PSD2 Challengers are willing to invest larger budgets in implementing their Cooperative and Aggressive strategies

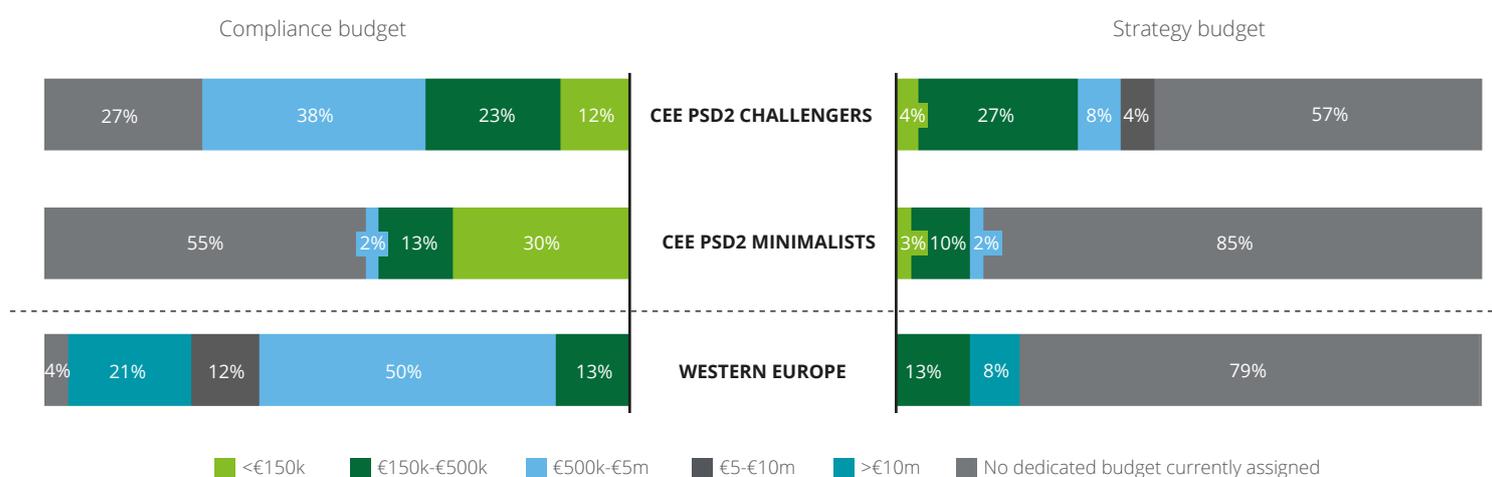


Figure 4: PSD2 compliance and strategy budgets of main categories of banks in CEE and WE

- 38% of CEE PSD2 Challengers had a **compliance budget** of between €500k and €5m. This contrasts with both 2% of Minimalists and 50% of WE banks. A significant 12% of WE banks had a compliance budget of between €5m and €10m. This is clearly linked to the size of the institutions
- The significant proportion of CEE banks that do not have a dedicated PSD2 compliance budget (27-55%) is worrying, particularly when compared to just 4% in WE
- Interestingly, 43% of CEE PSD2 Challengers and 15% of Minimalists had assigned a budget to responding to PSD2 from a **strategic perspective**
- A number of respondents were in the process of preparing financial plans, which would shortly be submitted to Boards or executive committees. However, the majority had not yet reached this stage.

The impact of the ambitions of CEE PSD2 Challengers and the budget they have invested is clearly visible in the progress of their PSD2 initiatives

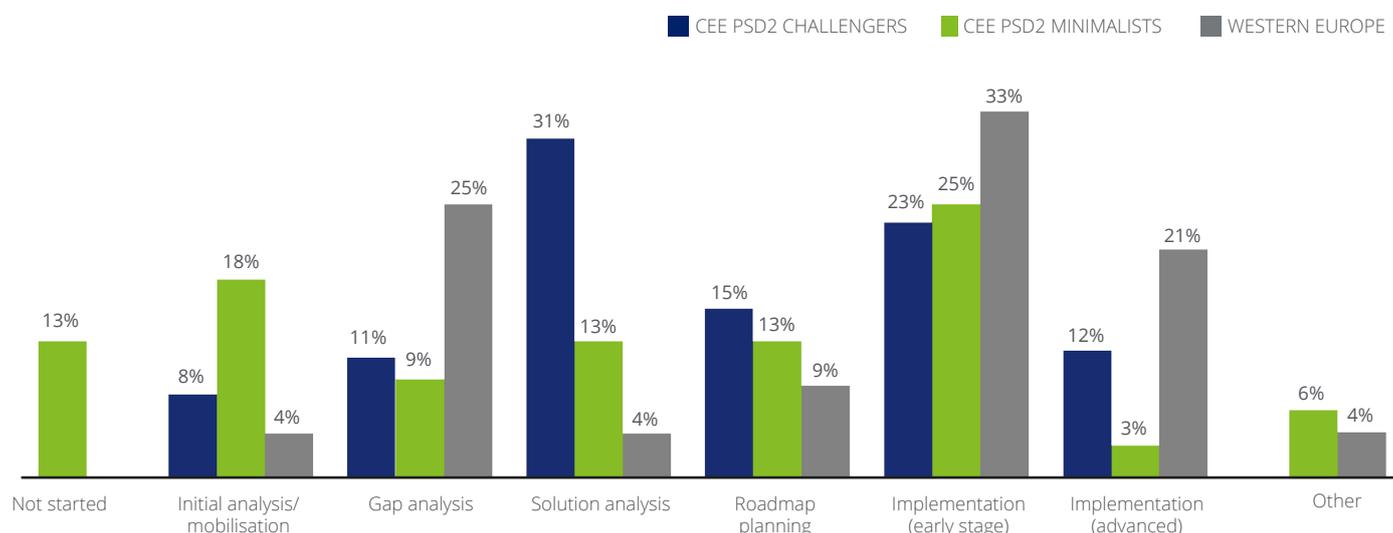


Figure 5: The progress of PSD2 initiatives among the main categories of banks in CEE and WE

- As expected, a large proportion of respondents – about a third – were in the process of **implementation**, including around 35% of CEE Challengers and 28% of Minimalists. By way of contrast, over 50% of WE banks were doing so at the time of interview, although this will have since increased
- Surprisingly, however, the **great majority of CEE respondents** (70% vs 46% in WE) were still in **pre-implementation** stages
- This reflects a mixture of factors at play: while some have struggled with the complexity of the analysis, others have fewer compliance requirements to fulfil
- However, it nonetheless suggests that many organisations face a busy year-end and start to 2018 – and potentially a struggle to meet regulatory deadlines.

“Not the biggest, but the first question is: What do we have to do on 13 January 2018? Are we expected to open API without RTS?”, CEE bank

# The differing market approaches and progress of PSD2 initiatives across CEE

Our analysis of responses by country reveals that most CEE banks are considering the Cooperative approach

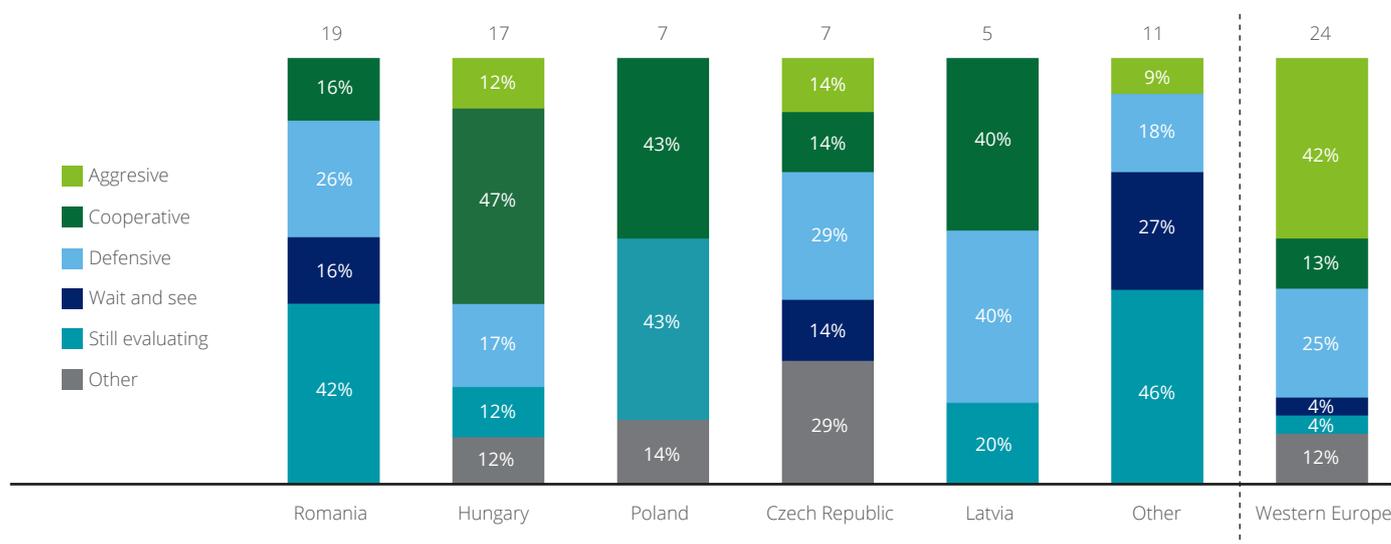


Figure 6: The majority of CEE banks with an already defined approach favour the Cooperative approach

- Most respondents have carried out some level of strategic assessment of PSD2's likely impacts and are aware of the threats and opportunities
- Many have identified some form of high-level positioning they would like to pursue; however, the **depth and extent of these assessments vary widely**
- Around a third of CEE respondents characterised their response as:
  - **'Proactively embrace (Aggressive)'** (9-14% from country to country), or
  - **'Use to drive new business strategy and pivot to digital (Cooperative)'** (between 14-47%).
- This suggests that a significant proportion of organisations intend to pursue some form of **positive strategic response**. While this is encouraging, it indicates they are less ambitious than their WE counterparts
- However, relatively **few respondents have either:**
  - **Undertaken a detailed assessment** of what they want to do and how they will do it, or
  - Gained senior management buy-in and support for their strategy
- Less than a fifth of respondents wish to pursue a 'Defensive-plus' strategy: that is, to comply but also to have a platform on which to build. This reflects the fact that many are currently focused on mandatory compliance but want to keep their options open for the future
- This confirms the view that, while **many see PSD2 as a long-term trend** that needs to be responded to, they do not necessarily wish to be early movers or adopters

- Around 40% of CEE respondents characterised their response as 'Wait and see' or 'Still evaluating'. This is in stark contrast with the 8% of WE banks making the same response
- Overall, there are significant differences among the CEE countries, at least partially caused by the varying speed of the national legislative processes (for example, Romania will not apply PSD2 until late 2018). The Czech Republic and Hungary reported the highest share of Aggressive players (12% and 14%). Poland and Hungary had the greatest proportion of banks pursuing a Cooperative approach (43% and 47%).

“PSD2 is about a business model change – a similar unbundling trend to utilities and telcos”, CEE bank

### Comparing the budgets assigned for PSD2 regulatory and strategy initiatives reveals the differences among the CEE countries even more clearly

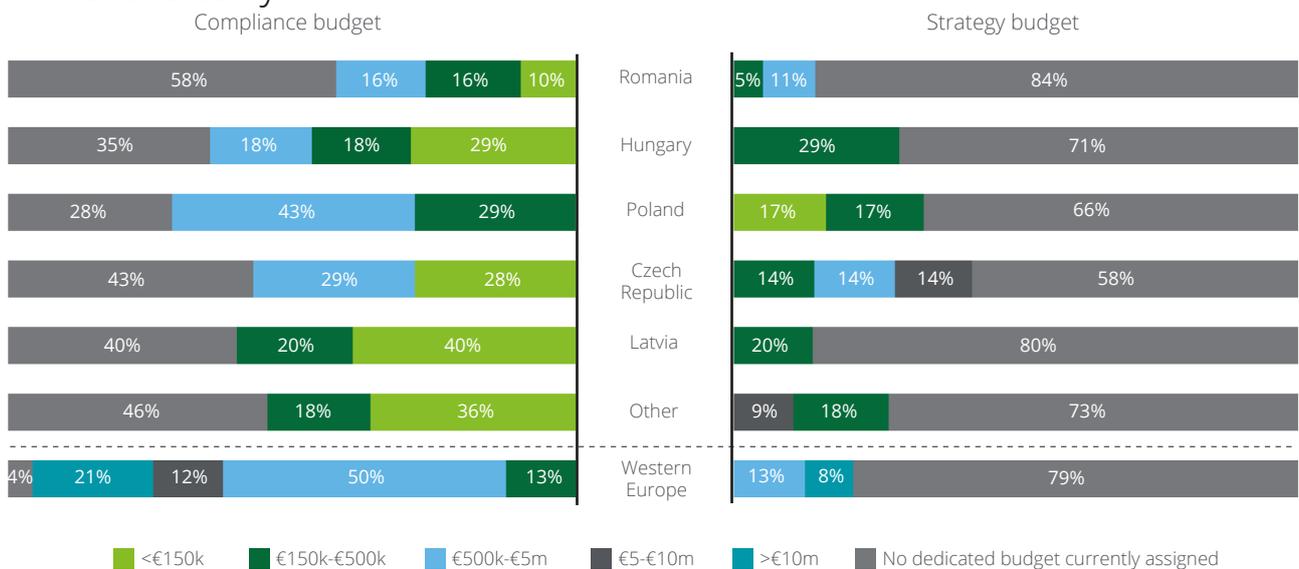


Figure 7: PSD2 compliance and strategy budgets in CEE countries and in WE

- The size of **compliance budgets** varies significantly among CEE markets. One reason is the different speed of legislative processes, another the different size of banks in individual markets
- Poland reported the smallest share of banks with no assigned compliance budget (28%)
- Interestingly, 58-84% of CEE respondents had no dedicated budget currently assigned to their **strategic response** to PSD2
- Although many CEE banks have commenced their strategic thinking, few have committed and confirmed funding for a strategic response
- While there is a significant discussion across the banking industry about the threats and opportunities presented by PSD2, few boards have as yet committed funds to their PSD2 strategy
- The Czech Republic (42%), followed by Poland (34%), reported the highest proportion of banks with a budget assigned to PSD2 strategy. Some of these had a strategy budget of more than €5m.

## Most CEE banks regard PSD2 as an opportunity – or neutral at worst

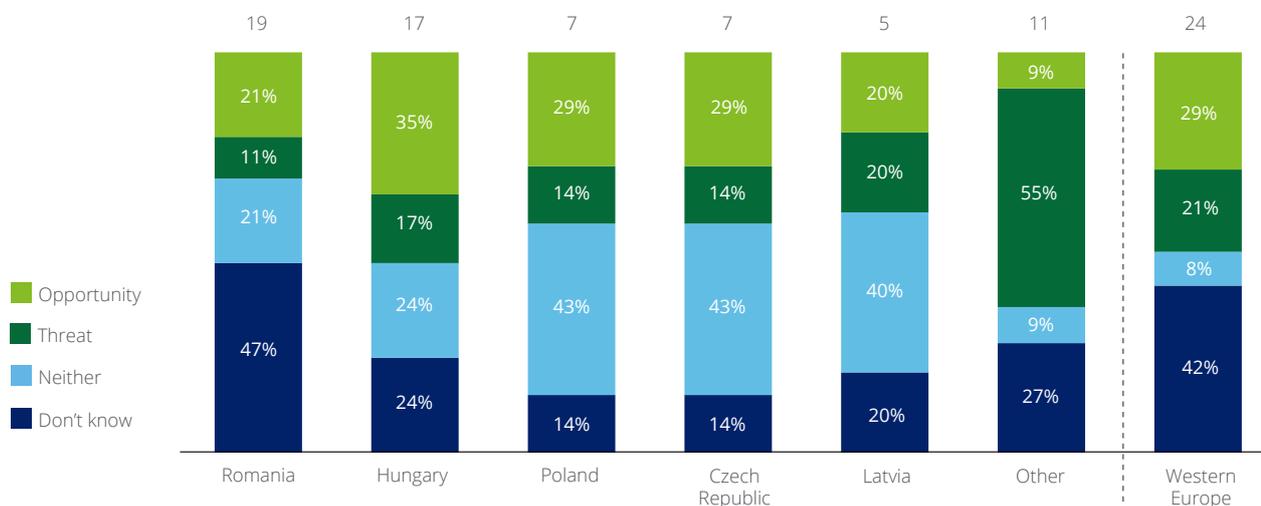


Figure 8: Perceptions of PSD2 as a threat or opportunity across CEE countries and in WE

Results are relatively consistent across the larger CEE markets: PSD2 is perceived as an opportunity by roughly 30% of banks, while those perceiving it as a threat range between 11% and 17% across different countries.

## CEE banks are lagging behind their WE counterparts in readiness for PSD2

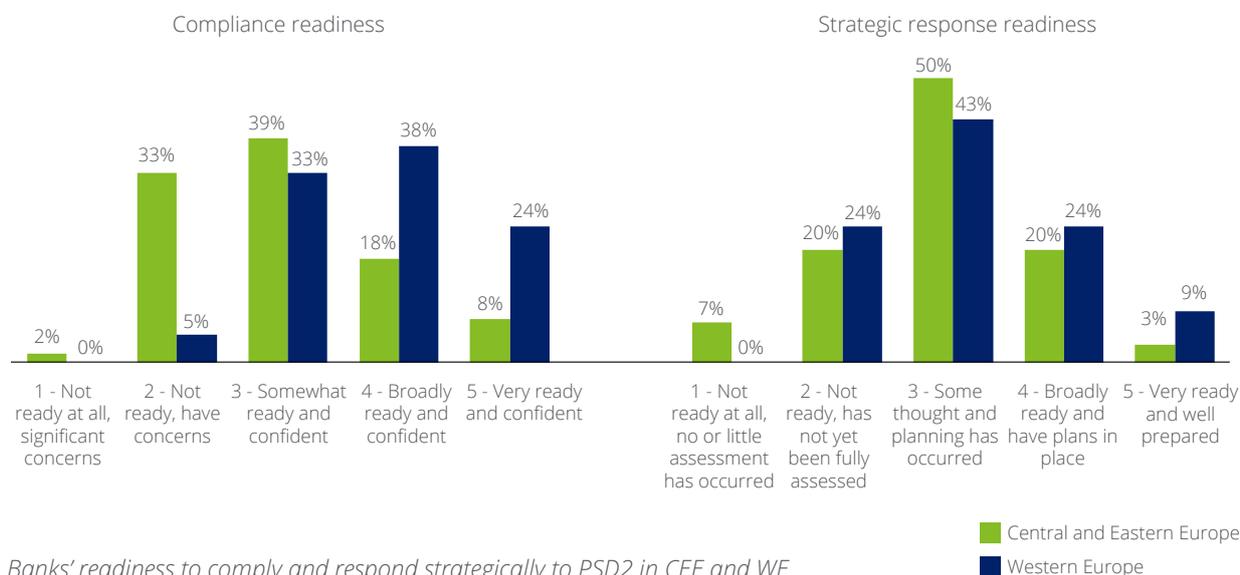


Figure 9: Banks' readiness to comply and respond strategically to PSD2 in CEE and WE

- When it comes to **compliance readiness**, the greatest number of CEE respondents classified themselves as 'Somewhat ready and confident'. These were followed closely by 'Broadly ready and confident'. This is encouraging as around 57% of CEE respondents fall within these two categories. However, CEE banks still lag behind WE's average of 71%
- Only 8% of CEE respondents classed themselves as 'Very ready and confident', compared to 24% in WE
- It is worrying that around 33% of CEE banks classified themselves as 'Not ready, have concerns'. This suggests that a substantial proportion of the industry still has a significant amount of work to do
- With regard to **strategic readiness**, almost half of CEE respondents reported that 'Some thought and planning has occurred'
- Around 20% said they were 'Broadly ready and have plans in place'
- While this is encouraging, it should be considered in the context of earlier responses; while many have begun the process to respond strategically to PSD2, the depth and extent to which this has occurred vary significantly
- In this category as in others, WE banks are more advanced with their PSD2 initiatives.

# The expected market impact of PSD2 on products and segments, and the strategic considerations of CEE banks

CEE banks expect the biggest impact of PSD2 to be on retail and SME banking and in the areas of payments and consumer lending

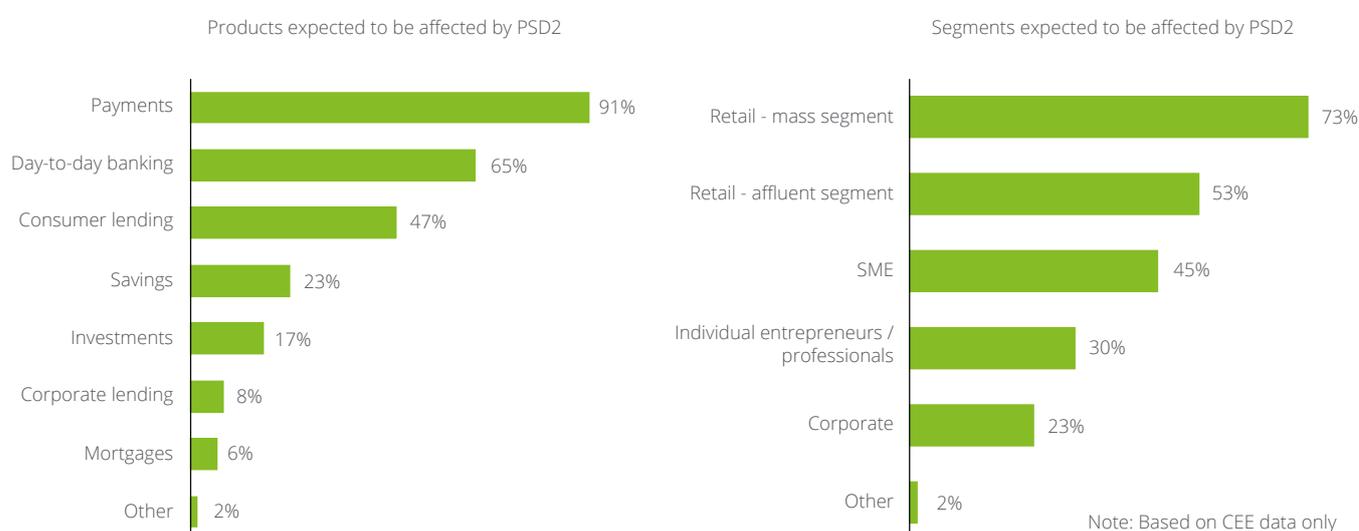


Figure 10: Opportunities enabled by PSD2 on which CEE banks plan to focus strategically – products and segments

- In the Products category, **payments** is the clear front-runner to be affected by PSD2, along with **day-to-day banking services**. This is in line with expectations, given the scope of PSD2 and the likely targets for Account Information Service Providers (AISPs) and Payment Initiation Service Providers (PISPs)
- A significant proportion of respondents identified **consumer lending as an opportunity**. One potential benefit is the use of AISP services and data analytics to enhance decision making around lending risk
- Having a greater level of understanding of customers and the ability to analyse their true financial position more accurately by using real-life data may allow **better calculation of credit risks**
- In addition to making better decisions, using data in this way may allow credit to be offered to groups and segments that would traditionally have struggled to access it (such as the self-employed, new/small businesses etc.)
- **It was noted that savings and investments face a threat** as:
  - Greater use of AISP and PISP services will increase transparency on rates and returns while also providing easy ways to transfer accounts
  - Some respondents are concerned that the use of 'personal finance management' **FinTechs** could reduce the 'stickiness' of funds and introduce **greater volatility in deposits**
  - Card networks (issuers, acquirers, merchants and schemes) are also perceived to be under threat, primarily due to the **potential for PISP services to displace card transactions**. The rollout of 'instant payment' schemes across much of Europe is expected to intensify this threat
- However, many banks noted that certain impacts might be mitigated through the provision of PISP and AISP services to create new revenue generation streams and/or attract new customers

- When it came to identifying the greatest opportunity in the Segments category, **Retail banking emerged as the clear winner**: 73% of respondents identified this sector
- Around 45% and 30% of respondents see the SME and Business Banking markets as an opportunity. Many commented that PSD2 offers the **potential for offering services to SMEs** that would otherwise be reserved for larger corporates
- There is a feeling that **PSD2 could 'democratise' access to services** hitherto reserved either for the very wealthy (through Private Banking) or for large corporates. (The analogy was drawn with how 'robo-advice' has allowed broader access to the investment management market)
- Corporate banking is generally seen as much less of an opportunity (23%). This is for two main reasons: firstly, PISP and AISP services are similar to those that large corporates can already access today; and secondly, there is a perceived lower likelihood of corporate organisations to use third-party services.

“PSD2 drives considerations about changing the bank business model and adapting traditional banking products to new revenue streams and revenue challenges”, CEE bank

The most common PSD2 use cases focus on new products and services for customers, not on developing the ecosystem

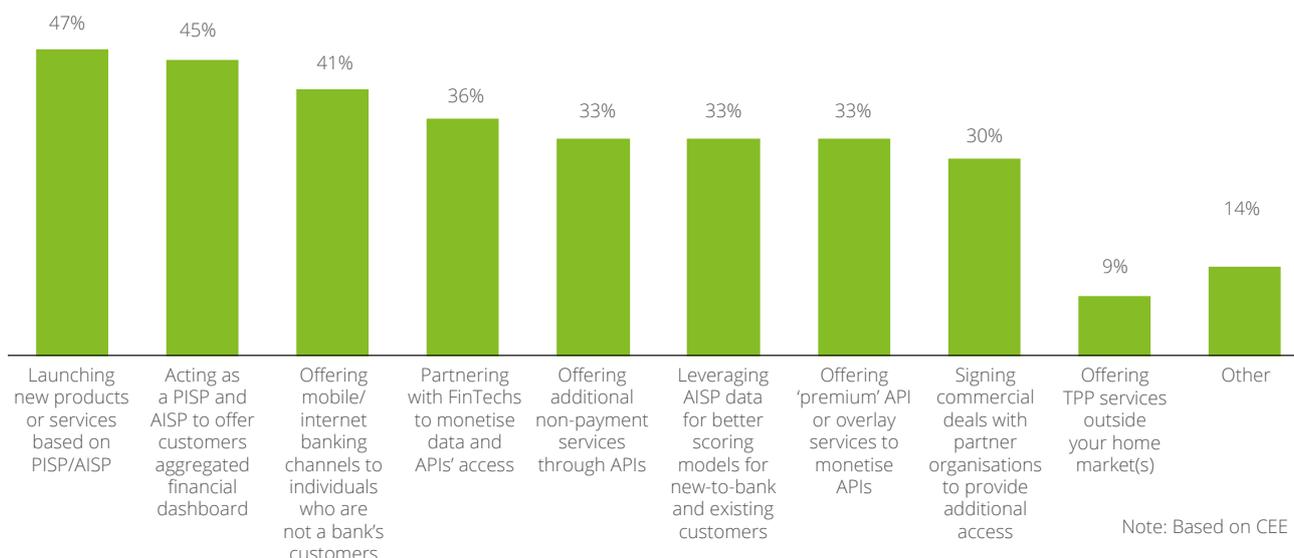


Figure 11: The PSD2-enabled use cases and strategic opportunities that CEE banks plan to utilise

- Overall, there is a **clear desire for many banks to go beyond minimum compliance**
- However, this does not correlate with responses to other questions regarding strategy setting and investment. This suggests that currently **many plans are aspirational rather than concrete**
- There were several common interests and desires:
  - 45% of respondents mentioned becoming a PISP or an AISP, suggesting that such offerings could become widespread
  - 33% of respondents mentioned offering 'premium' APIs; a further 47% intend to launch new products and services and 33% to use APIs to offer additional non-payment services
  - 36% of respondents expressed interest in partnering with FinTechs or other organisations. This may represent a significant opportunity for non-bank providers to work with banks on introducing these services
  - Several respondents are talking to the owners of other product lines (such as loans and savings) to determine what value API access and data services could bring to non-payment offerings
  - This trend towards partnering correlates with recent trends amongst **FinTechs to turn towards more B2B-oriented business models**. This includes partnering with banks to access their customer pools, due to the difficulties involved in commercialising and building scale on their own.

# Who do CEE banks fear most in the emerging open banking ecosystem?

CEE banks perceive FinTechs and large incumbent banks as their greatest threats in the PSD2-enabled ecosystem

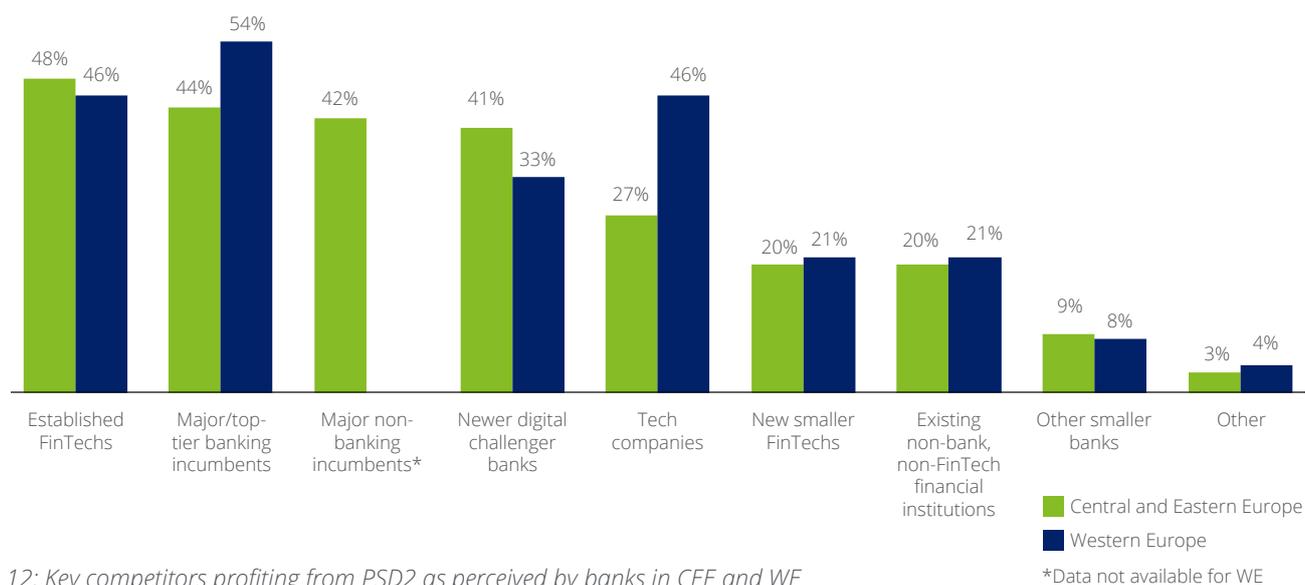


Figure 12: Key competitors profiting from PSD2 as perceived by banks in CEE and WE

- The largest proportion (48%) of CEE respondents believe the **greatest threat will come from established FinTechs** (WE: 46%) and **incumbent banks** (44%, WE: 54%). CEE and WE banks are therefore largely in agreement. That said, there is a general sense in WE that large incumbent banks are best positioned to respond effectively and therefore most likely to gain from PSD2
  - Reasons put forward for this belief included:
    - They have the **financial resources** to invest and build compelling propositions
    - They have the **internal capabilities** required to develop such services, including specialist design and product functionality
    - Importantly, they also have **brand recognition** and trust. This is generally believed to be very important – at least until such time as customers become more familiar with the new types of services that will result from open banking
    - They already have a **wide customer base** on which to build
      - Their scale, resources, brand and trust make them attractive partners for **FinTechs** and other smaller organisations
  - While PSD2 is designed to increase competition and facilitate new entrants, it is instead possible that existing major organisations may further capture and consolidate the market
  - However, **digital challenger banks came through quite strongly** as key threats in our survey (CEE: 41%, WE: 33%). This reflects the fact that such organisations do not have legacy IT systems to contend with; coupled with their more agile structures, this will allow them to adapt more quickly and efficiently to the new landscape post-PSD2
  - A significant minority of respondents saw the potential of **BigTech** companies entering and disrupting the payments market as somewhat unlikely but potentially ‘game changing’ nonetheless.
- “A well-considered decision is to be made on where to draw the line in ‘opening’ the bank and with whom to form alliances”, CEE bank

# When do CEE banks expect the biggest impact from PSD2?

Most CEE banks expect the greatest impact of PSD2 to be felt within one to three years from its go-live date

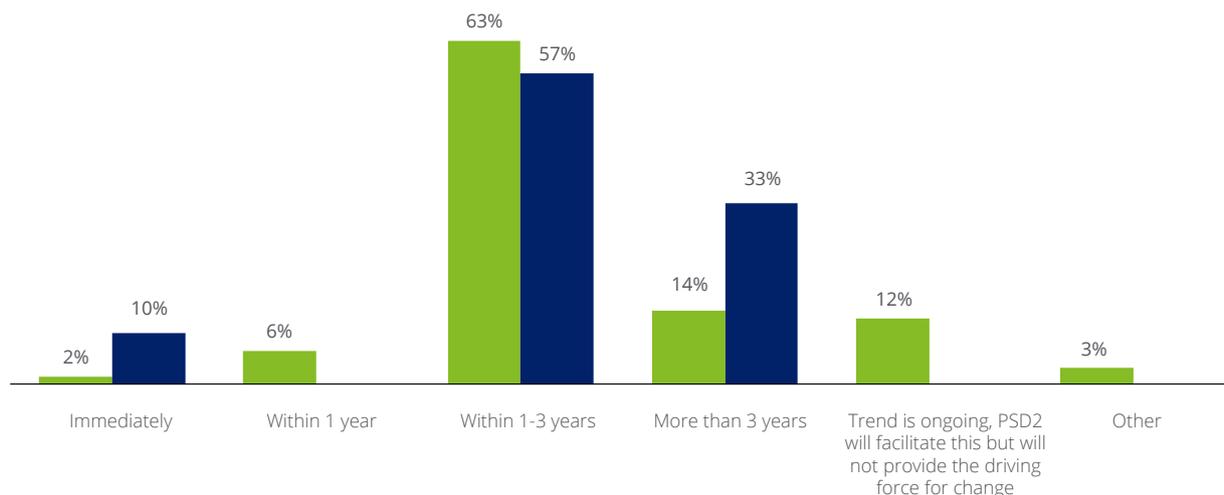


Figure 13: The anticipated time horizon for PSD2 to have the greatest impact according to banks in CEE and WE

■ Central and Eastern Europe  
 ■ Western Europe

- The majority of respondents believe **PSD2 will result in a significant competitive change over the next one to three years**
- CEE respondents appear to be more cautious, while those from WE have a more positive viewpoint
- A substantial minority (12%) of CEE respondents believe that PSD2 is not itself the driving force for change, which is already ongoing. Rather, they believe that wider consumer demand for open banking will be the key determinant.

“The challenge lies in a flexible business approach to opportunities and threats that emerge after PSD2 becomes effective”, CEE bank

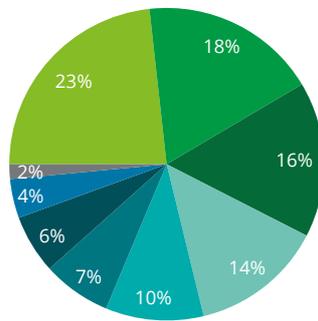
# **PART 2**

## DETAILED RESULTS FROM THE SURVEY OF CEE BANKS

# 1. General background

This section contains the aggregated results of our survey among 66 institutions from Central and Eastern Europe (CEE).

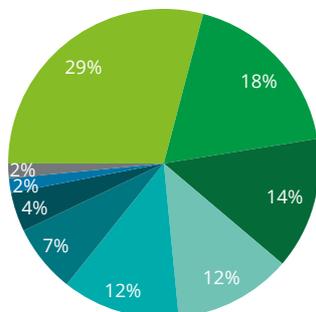
**Q: At what stage of progression is your organisation's PSD2 programme?**



- Implementation (early stage)
- Solution analysis
- Initial analysis / mobilization
- Roadmap planning
- Gap analysis
- Implementation (advanced)
- Not started
- Our organisation does not need to comply
- Other

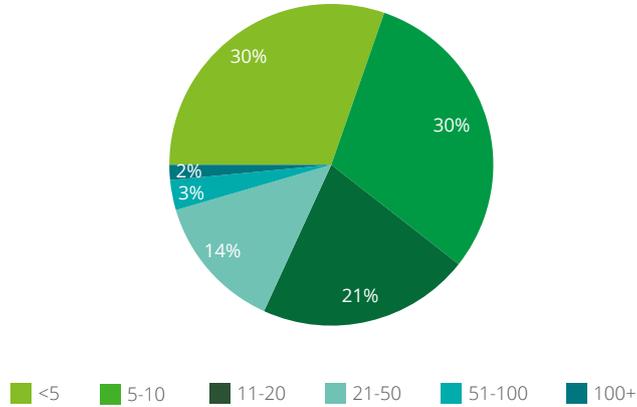
- As expected, a significant proportion of respondents – almost a third – were in the process of implementation. This totalled around 30% at the time of interview (WE: 54%), although this will have since increased
- However, it was surprising to find that the majority (70%, WE: 46%) was still in pre-implementation stages
- This reflects a mixture of factors: some organisations have struggled with the complexity of the analysis, while others have fewer compliance requirements to fulfil
- However, it suggests a busy year-end and start to 2018 for many organisations, and potentially a struggle to meet regulatory deadlines.

**Q: Which organisational unit in your business is primarily responsible for addressing PSD2?**



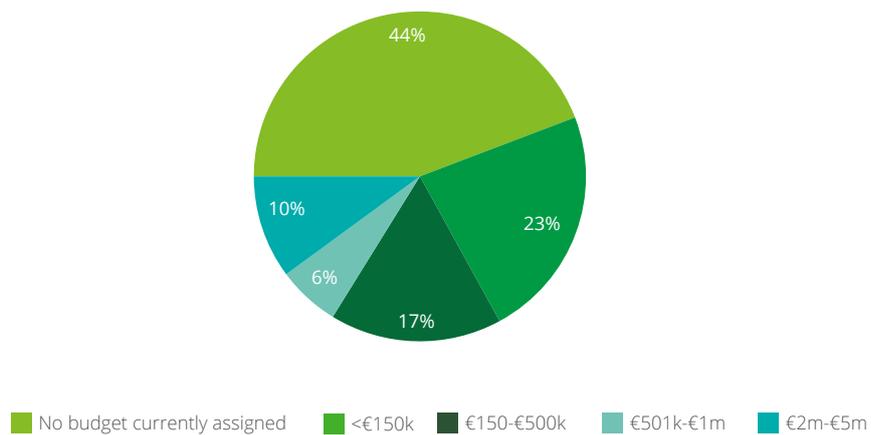
- The organisational impacts of PSD2 are broad, and this is reflected in an ownership approach that covers many different organisational functions
- Typically, responsibility for implementation is shared between different functions such as Payments and the Business/divisional functions
- For many respondents, Technology/IT, Product Management and other similar functions have a key role to play; their wide-ranging responsibilities and perspective across the organisation place them well to understand wider impacts and implications
- In some organisations, larger banks in particular, the Legal, Risk, Compliance and Regulatory Change functions were significant ownership minorities.

**Q: How many people are dedicated to supporting your PSD2 implementation programme?**



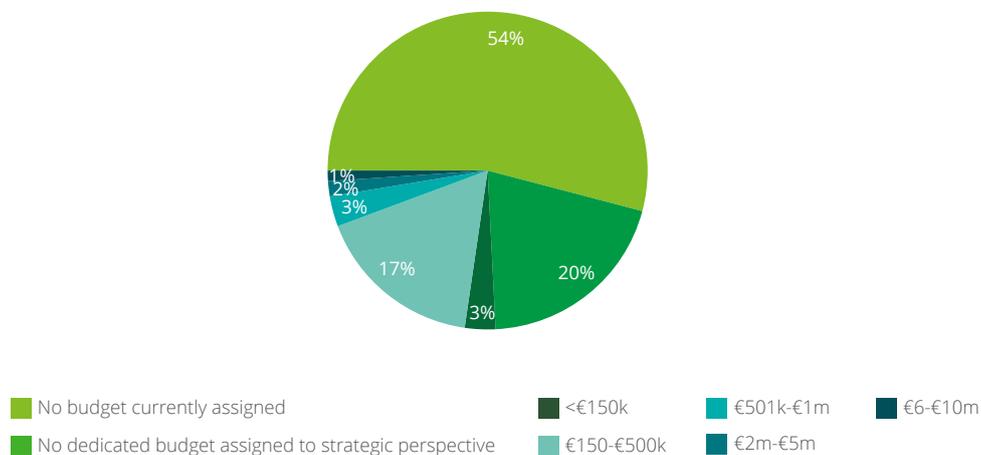
- The number of people supporting implementation programmes varied significantly depending on the size of the organisation and the size of the market
- Between 11 and 50 people support the PSD2 programme at most large and medium-sized banks.

**Q: What is your budget for implementing PSD2 from a compliance perspective?**



- 10% of CEE respondents had a compliance budget of more than €2m, 6% of between €500k-1m and 17% of €150-500k. (Note: In WE, approx. 40% of respondents had a budget of €1-10m, and about 13% a budget of €20-50m. This is in keeping with the larger size of WE banks)
- The largest proportion of respondents had a budget less than €150k
- A substantial number of banks (44%) had no budget dedicated to PSD2 compliance.

**Q: What is your budget for implementing PSD2 from a strategic perspective?**



- Interestingly, 54% of respondents had as yet assigned no budget to their strategic response to PSD2
- While many organisations have started their strategic thinking, at the time of the survey few had committed and confirmed funding for a strategic response
- Although there is a significant industry discussion about the threats and opportunities that PSD2 presents, few Boards have as yet committed funds
- Some respondents were in the process of preparing financial plans for submission to their Boards or executive committees, but the majority were not yet at this stage.

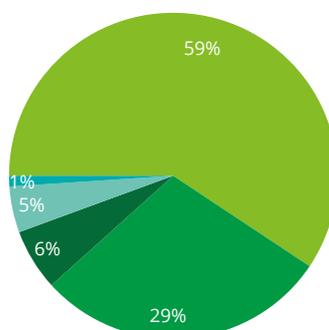
## 2. Third Party Access to accounts

### Q: What do you consider the biggest challenge for developing a Third Party Access solution?

- Banks gave us a wide range of responses, reflecting the fact that each organisation's individual circumstances mean they face unique challenges
- **The most commonly shared concerns** included:
  - Security and the authentication of customers and third parties
  - The lack of clarity and definition within the Regulatory Technical Standard (RTS) and/or API specifications
  - Building and integrating API connectivity into internal systems and infrastructure
  - Liability relating to third parties: there is a significant market concern that the Account Servicing Payment Service Providers (ASPSPs, i.e. banks) / Third Party Providers (TPPs) liability model is still unclear and untested
- Around two thirds of respondents did not cite API connectivity as a significant concern; this possibly debunks the idea that banks 'cannot do APIs'
- API-related challenges tend to be more specific security concerns that reflect the difficulty involved in applying API concepts and data access appropriately in a highly regulated environment where highly sensitive data is dealt with
- **Other important challenges** included:
  - How to appropriately design, implement and manage API and open banking governance processes for new strategic API platforms
  - How best to design and maintain the user experience when implementing third-party access
  - Technical challenges around the lack of clarity on the European Banking Authority (EBA) register and certificate management for third-party identity
  - Unclear regulatory requirements, especially (but not only) in the transitional period between January 2018 and when RTS on Strong Customer Authentication (SCA) and Secure Communication takes effect.

"The biggest challenge under PSD2 is how to build a viable business model. Technically, the challenge is the policy for the third party authentication and liability – who is and who is not allowed to extract bank data via APIs", CEE bank

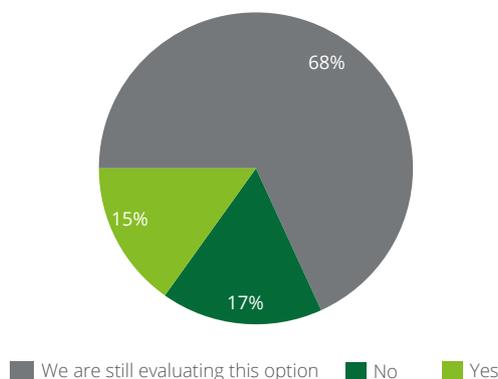
**Q: Are you currently participating in any collaborative initiatives or working with standard-setting bodies to define your/their collective approach to Third Party Access (TPA) standards?**



- Yes - initiative led by banks/financial sector association
- No - I am not aware of such an initiative in my market
- No - I am aware of such an initiative in my market, but my organisation is not part of it
- No - I am aware of such an initiative in my market, my organisation is still evaluating potential participation
- Yes - initiative led by government

- **59% of respondents are currently working in a collaborative initiative** or with a standard-setting body to address TPA standards. Country-level initiatives operated by banks or financial sector organisations (such as banking associations) are in place in Croatia, the Czech Republic, Hungary, Latvia, Poland, Romania and Slovakia
- In WE, known standard-setting initiatives in the UK, Belgium and Germany include:
  - [Banking Industry Architecture Network \(BIAN\)](#)
  - [Bundesverband Deutscher Banken](#)
  - [Convenient Access to PSD2/Payment-related Services \(CAPS\)](#)
  - [EBA Working Groups](#)
  - [ECB PIS Forum](#)
  - [PRETA](#)
  - SETT
  - [The Berlin Group](#)
  - [UK Open Banking Group](#)
- Of the 41% of respondents not currently participating in this sort of collaboration, the majority were not aware of an initiative in their local market. Roughly equal proportions of respondents were still evaluating the situation or had decided not to participate
- This suggests there is a **very strong industry demand for common standards and collaboration**. This is motivated by several factors, including:
  - The desire to reduce the burden on individual organisations to understand, develop and implement standards
  - A recognition that common standards will facilitate overall adoption and increase the success of industry-wide open banking initiatives
- Market players in several countries are beginning to explore the potential for **private-sector hubs providing shared 'central infrastructure'**, to allow interconnectivity between market participants and reduce development costs.

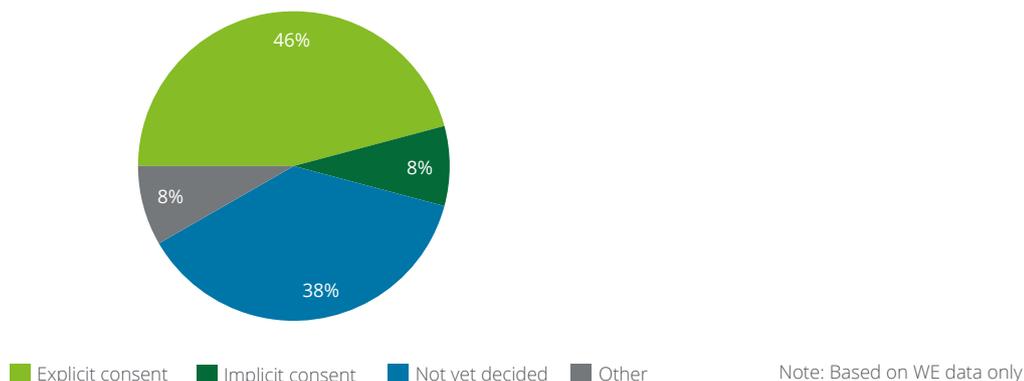
**Q: Do you intend to take a different approach to providing Third Party Access services for different customer segments or businesses?**



- 68% of respondents are still evaluating whether to differentiate their services between different customer segments
- Certain market segments may offer organisations the opportunity to develop compelling targeted solutions and gain market share
- Many respondents plan to begin with a basic, undifferentiated approach, potentially then developing it once the compliance requirements have been met and there is clarity around market response and demand
- A significant proportion of respondents intend to build a flexible API platform architecture to support this approach – i.e. building the platform foundations in a way that allows scalability and further development.

**Q: How do you plan to deal with requirements around customer consent under the Third Party Access to Accounts model? How do you see the interactions between PSD2 and the General Data Protection Regulation (GDPR) in this area?**

(Aggregated results of 24 WE banks, CEE data were not available)



- No single, clear majority view emerged, reflecting the ambiguity of the requirements around consent
- There is a significant industry debate over which of the following consent models is required under PSD2:
  - **‘Implicit consent’**: where explicit consent is provided only to or through the TPP; the ASPSP relies on this without obtaining direct consent from the customer
  - **‘Explicit consent’**: where the APSPS can or should gain direct consent from the customer in addition to, or as a pre-condition, to the implicit consent provided by the TPP
- **Almost half** of the WE banks intend to opt for the **explicit consent model**, as this provides them with the most clarity and protection
- Many intend to create a ‘consent management’ utility, allowing customers to turn TPP access on and off, and to view and manage consents granted
- Several WE as well as CEE respondents highlighted the interaction (and some the potential tensions) between PSD2 and the GDPR. Significant debate remains around the interactions between PSD2 and the GDPR, with many seeing no conflict or believing that PSD2 ‘trumps’ the GDPR.

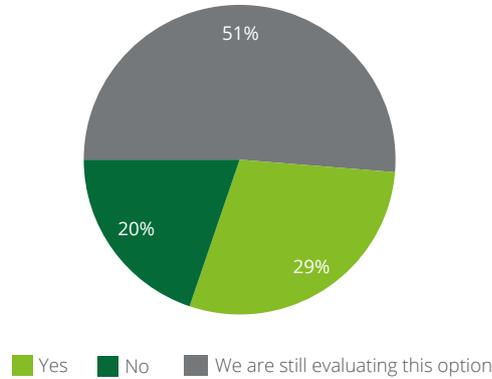
### 3. Strong Customer Authentication

#### Q: What do you see as the biggest challenge involved in implementing the Strong Customer Authentication (SCA) requirements?

- Bank respondents seem less concerned about the implementation of SCA requirements than TPA
- This is partly because many respondents have already implemented security improvements as a response to the EBA's 2015 'Guidelines for the Security of Internet Payments'
- However, as with TPA, the range of different responses reflected each organisation's unique challenges and individual circumstances. The top two concerns, expressed by about half of the respondents, included:
  1. How to maintain a **positive customer experience** when applying SCA, particularly in conjunction with the exemption rules
  2. The **difficulty of interpreting regulatory requirements and the lack of a finalised technical standard**. Many believe the principle-based approach creates ambiguity and uncertainty in implementation
- Maintaining a clear and understandable **customer journey and experience will be very important**. It will be particularly important to help clients understand why they are being asked for SCA in some cases and not in others
- Note: Several WE respondents noted that an element of **positive friction** in the user experience demonstrates that controls are in place to safeguard customers against fraud and cyber-crime. This could positively encourage customer trust and adoption
- The **complexity of the exemption rules** was another commonly cited concern, partly due to the elaborate logic required and certain ambiguities in the standards.

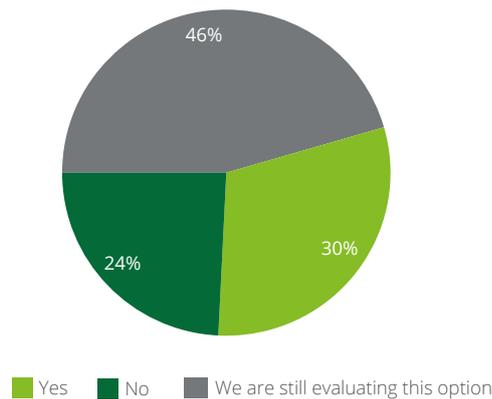
"Delivering the user experience expected by customers while applying SCA will be critical", CEE bank

**Q: Do you plan to offer different solutions or authentication options to different customer segments – Retail as opposed to Corporate customers for example?**



- 51% of respondents are still evaluating whether or not to differentiate their services between different customer segments
  - To offer 'premium' API services on top of basic compliance requirements in an attempt to monetise access or offer better and more compelling customer propositions
  - To partner with third parties to build premium services.
- The following plans were cited by those who intend to do so:
  - To differentiate customer offerings particularly between Retail and Corporate/Business segments, reflecting the different needs and potential use cases of these markets

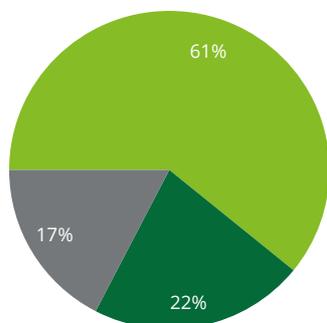
**Q: Do you plan to utilise the exemptions from Strong Customer Authentication, particularly around Transaction Risk Analysis (TRA)?**



- Around **46% of respondents are still evaluating** whether or not to utilise the TRA exemptions
  - Ongoing evaluation measures will focus on customer experience and fraud issues
- So far, 30% intend to utilise the exemptions, with only around 24% planning not to do so
  - Respondents noted that TRA implementation can be complex and challenging, although much depends on the sophistication of existing fraud-screening capabilities.
- However, many of those who plan to utilise the exemptions intend to take a **cautious approach to implementation, running pilots** before rolling out in full and targeting high-value payments

**Q: Do you intend to make any changes to your existing authentication techniques to respond to PSD2?**

(Aggregated results of 24 WE banks, CEE data were not available)



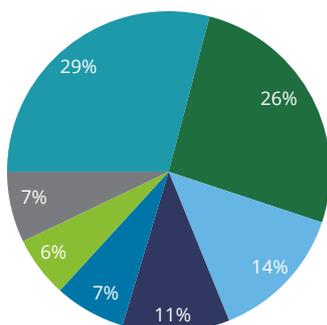
■ Yes ■ No ■ Still evaluating

Note: Based on WE data only

- 61% of WE respondents intend to make changes to authentication techniques, and 17% are still evaluating. Only 22% currently intend to retain their current processes
- The main trend appears to be towards **software/app-based approaches and away from existing hardware-based solutions**, which are perceived as less user friendly
- Most WE respondents appear to be opting for **'possession' as the second factor** over 'inherence' at this stage
- Most of those intending to use biometrics are planning to use relatively mainstream methods such as fingerprinting
- 'Device-as-a-factor' biometrics, which enable the identification of users through the information gathered by mobile-device sensors, are starting to gain interest.

## 4. Strategic response to PSD2

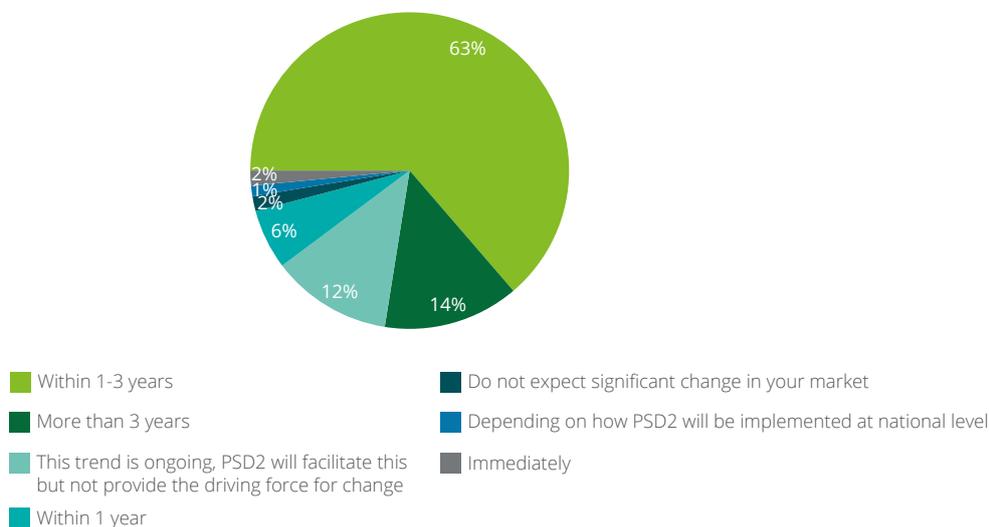
**Q: If your organisation has undertaken a strategic assessment of the impacts of PSD2, how would you characterise your response?**



- We are still evaluating this
- Cooperative - use PSD2 to drive new business strategy and pivot to digital, leveraging new cooperation opportunities
- Defensive 'plus' - comply, but also have a platform from which to build further
- Wait and see - don't take major actions before the final text of local PSD2 implementation act
- Defensive - ensure mandatory compliance only
- Aggressive - proactively embrace the PSD2 opportunity and leverage it to gain market share
- Other

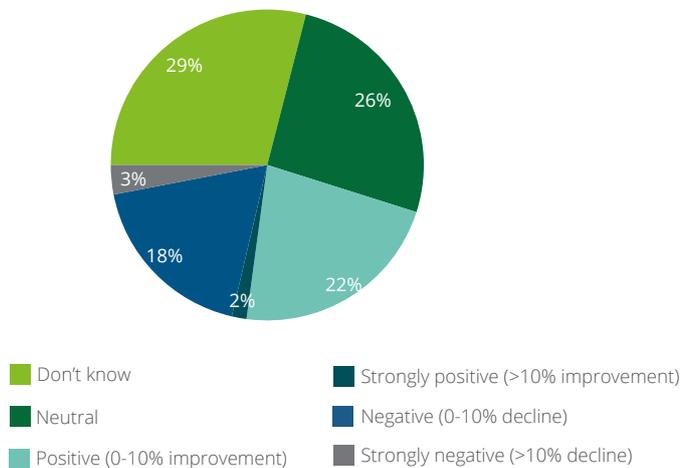
- Most respondents have undertaken some level of strategic assessment of the impacts of PSD2 and are aware of the arising threats and opportunities
- Many have identified some form of high-level positioning they would like to pursue. However, **the depth and extent of these assessments vary widely**
- Around a third of respondents selected one of the following responses: **'Aggressive - proactively embrace'**; or **'Co-operative - use to drive new business strategy and pivot to digital'**. This suggests that a significant proportion of organisations intend to pursue some form of **positive strategic response**
- However, relatively **few respondents have carried out a detailed assessment** of what they want to do and how they will do it, or have senior management buy-in and support for their strategy
- Around 14% wish to pursue a 'Defensive-plus' strategy – to comply, but also to have a platform on which to build. This reflects the fact that many organisations are currently focused on mandatory compliance but also want to keep their options open for the future
- This confirms the view that while **many see PSD2 as a long-term trend** they need to respond to, they do not necessarily wish to be early movers or adopters
- A significant proportion want to be able to 'react quickly' should a market opportunity arise; this reflects the organisational need to try and re-coup some of the significant investment made in API architecture
- Around 40% of respondents characterised their response as 'Wait and see' or 'Still evaluating'.

**Q: Over what period following implementation do you expect PSD2 and Third Party Access to result in significant competitive change?**



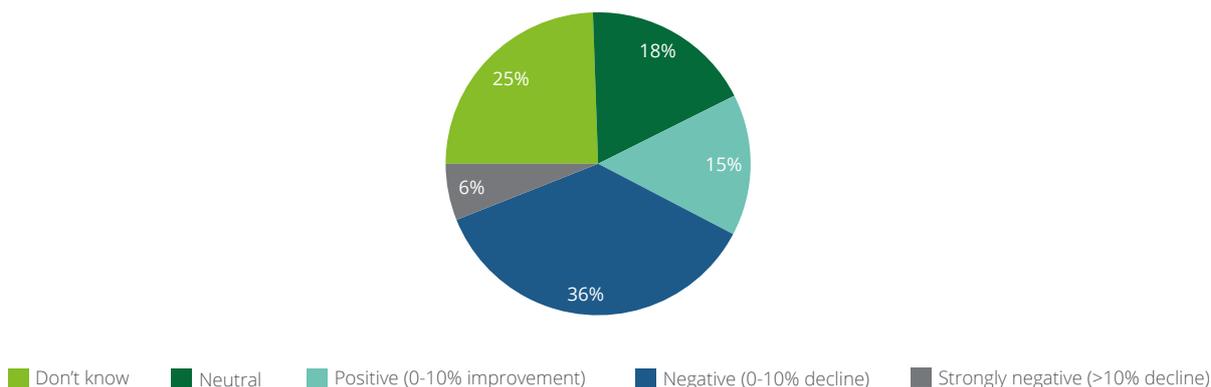
- The majority of respondents believe **PSD2 will result in a significant competitive change over the next one to three years**
- A substantial minority (12%) of CEE respondents believe that PSD2 is not itself the driving force for change, which is already ongoing. Rather, they believe that wider consumer demand for open banking will be the key determinant.

**Q: What impact do you expect PSD2 to have on your business revenues?**



- Expectations of impacts on revenue were fairly evenly split; roughly equal proportions expect PSD2 to have a negative impact, a positive impact or a neutral impact (in that order)
- Very few respondents expect either a strongly positive or a strongly negative impact
- From a regional perspective, CEE respondents appear to be more pessimistic than their WE counterparts.

**Q: What impact do you expect PSD2 to have on the costs of your business?**



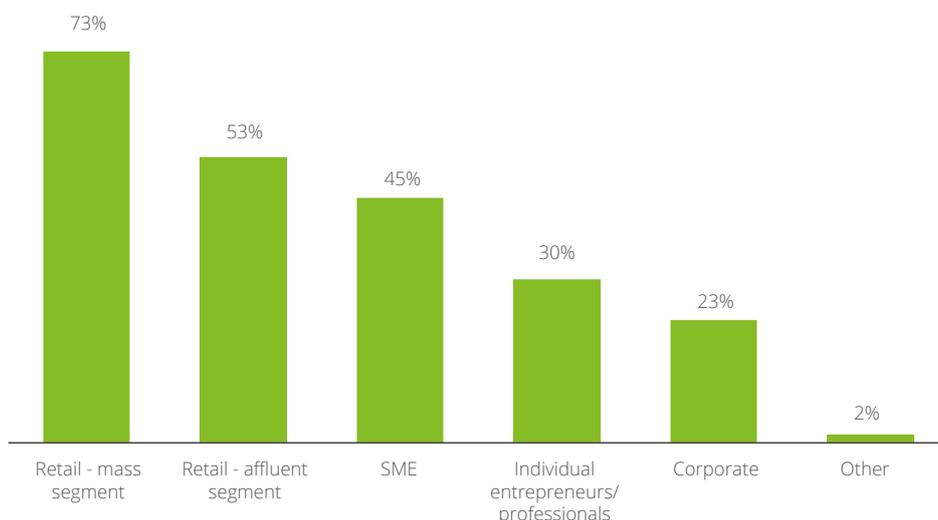
- 36% expect PSD2's impact on costs to be negative, 18% neutral and 15% positive
- Very few respondents expect a strongly negative impact.

### Q: Which strategic opportunities are you considering in your PSD2 strategy?



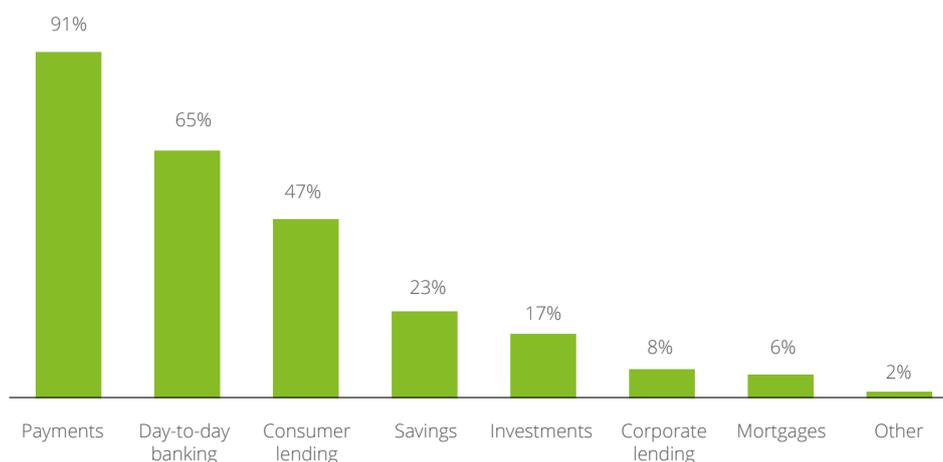
- Overall, there is a **clear desire among many banks to go beyond minimum compliance**
- However, this finding does not correlate with other questions on strategy development and investment, suggesting that **many plans are currently aspirational rather than concrete**
- Respondents expressed interests and desires including the following:
  - 45% are considering becoming a PISP or an AISP, suggesting that such offerings could be widespread
  - 33% are planning to offer 'premium' APIs, while a further 47% intend to launch new products and services, and 33% to offer additional non-payment services through APIs
  - 36% expressed interest in partnering with **FinTechs** or other organisations. This may represent a significant opportunity for non-bank providers to work with banks to introduce services
- Several respondents are talking to the owners of other product lines (such as lending, savings etc.) to determine what value API access and data services could bring to non-payment offerings
- The trend towards partnering correlates with the recent trend among **FinTechs to lean towards B2B business models**. This can involve partnering with banks to access their customer pools due to the difficulties involved in commercialising and building scale on their own.

**Q: On which customer or market segments do you think PSD2 will have the greatest impact?**



- **Retail banking emerged as the sector** where most respondents (73%) believe the greatest opportunity lies. The SME and Business Banking markets are also seen as an opportunity (by around 45% and 30% respectively)
- Many commented that PSD2 provides the **potential to offer services to SMEs** that have typically been reserved for larger corporates
- There is also a sense that **PSD2 could 'democratise' access to services** that have typically been reserved for the very wealthy (through Private Banking) or large corporates. This is similar to the way in which 'robo-advice' has provided broader access to the investment management market
- Corporate banking is generally seen as much less of an opportunity (23%). This is primarily because PISP and AISP services are similar to services that large corporates can already access today, and because corporates are perceived as less likely to use third-party services.

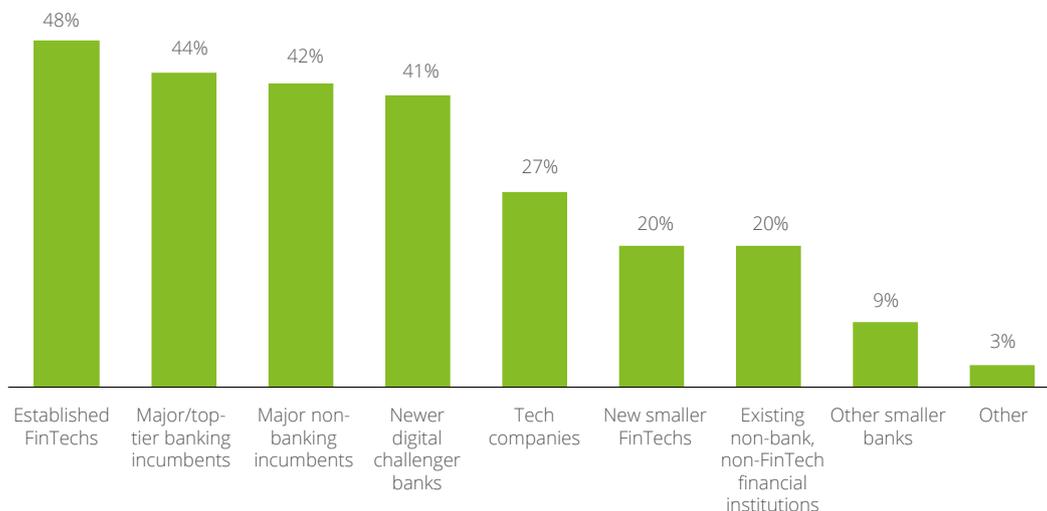
**Q: On which product or offering – existing or new – do you think PSD2 will have the greatest impact?**



- **Payments** is the clear front-runner, followed by **day-to-day banking services**. Given the scope of PSD2 and the likely targets for AISP and PISP services, this is in line with expectations
- A significant proportion of respondents **identified consumer lending as an opportunity**. The use of AISP services and data analytics to enhance decision making around lending risk is a potential benefit
- Having a greater level of customer understanding and the ability to analyse their true financial position more accurately by using real-life data may allow **better calculation of credit risks**
- In addition to facilitating better decisions, PSD2 may also allow credit to be offered to groups and segments that would traditionally have struggled to access it (such as the self-employed, new/small businesses etc.)
- **Respondents believe savings and investments face a threat** as:
  - Greater use of AISP and PISP services will increase transparency on rates and returns, while also providing easy ways to transfer accounts
  - Some are concerned that the use of ‘personal finance management’ **FinTechs** could reduce the ‘stickiness’ of funds and introduce **greater volatility in deposits**
  - Card networks (issuers, acquirers, merchants and schemes) are perceived to be under threat, primarily due to the **potential for PISP services to displace card transactions**. The rollout of ‘instant payment’ schemes across much of Europe is expected to intensify this threat
- However, many banks noted that some impacts may be mitigated through the provision of PISP and AISP services to create new revenue streams and attract new customers.

“Ensuring internal and external PSD2 awareness and support and proper communication towards clients will be key”, CEE bank

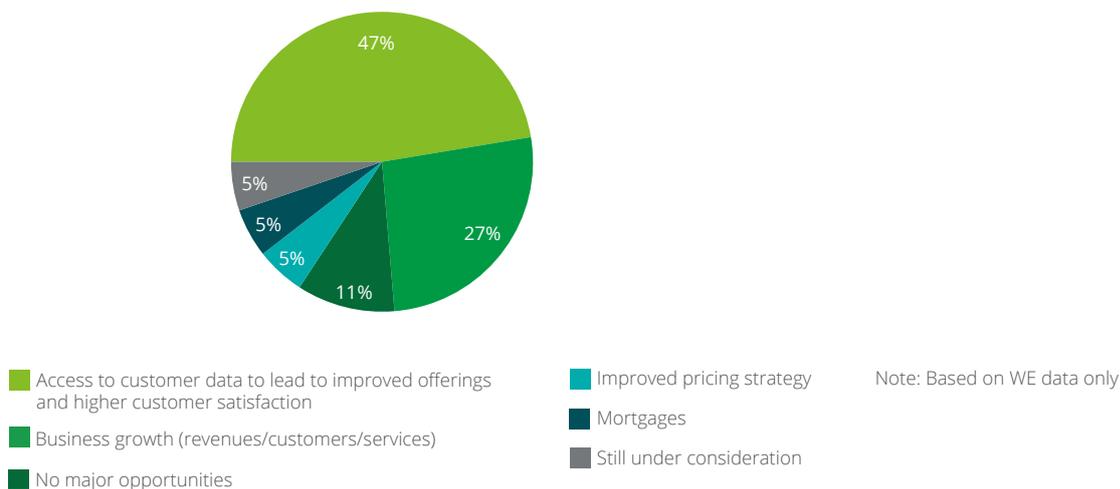
**Q: Which type of market participant do you see as the greatest threat to your organisation in relation to new services being introduced as a result of PSD2?**



- The largest proportion of respondents believes the **greatest threat will come from ‘established’ FinTechs (48%) and incumbent banks (44%)**
- There is a general sense that large existing incumbents are better positioned to respond and most likely to gain from PSD2 because:
  - They have the **financial resources** to invest and build compelling propositions
  - They have the **internal capabilities** to develop such services, including specialist design and product functions
  - Importantly, they have **brand recognition** and trust. This is generally seen as very important, at least until customers become more familiar with new types of services on offer
  - They already have a **wide customer base** to leverage and on which to build
  - Their scale, resources, brand and trust make them attractive partners to **FinTechs** and smaller organisations
- It may turn out that, instead of increasing competition and facilitating new entrants as PSD2 is designed to do, it might actually help existing major organisations capture and consolidate the market
- However, **digital challenger banks came through quite strongly (41%)**, reflecting the fact that such organisations do not have legacy IT systems to contend with. This, coupled with their more agile structures, allows them to adapt more quickly and efficiently to the new post-PSD2 landscape
- A significant minority of respondents saw the potential of **BigTech** companies entering and disrupting the payments market as somewhat unlikely but potentially ‘game changing’ nonetheless.

**Q: What do you see as the greatest opportunity for your business arising from PSD2?**

(Aggregated results of 24 WE banks, CEE data were not available)



- The major opportunity cited by WE respondents was the ability to understand and serve customers better through **increased access to customer data**
- Many believe PSD2 will allow a greater focus on customer needs. Some WE respondents are considering how best to deliver products to the customer, even if this is not through their own channels, **opening up marketplace and distribution models**
- 27% of WE respondents believe PSD2 provides an opportunity for growth and increased market share, as well as the opportunity to grow revenues and add new revenue streams
- However, 11% of WE respondents do not currently see any major opportunities arising for their business; another 5% are still considering this question.

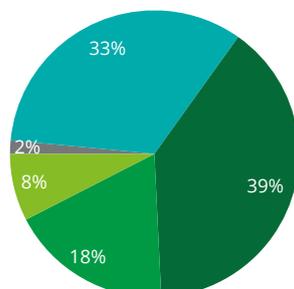
## 5. Readiness to respond

**Q: Other than Third Party Access (TPA) to Accounts and Strong Customer Authentication (SCA), what do you see as the greatest challenge in implementing PSD2?**

- As expected, the responses given by respondents differ substantially, reflecting individual circumstances and models
- The most commonly reported challenges were:
  - **Liabilities under the TPA model** requiring the development of new models and processes for dealing with the issues involved. These included how to investigate transactions made through TPP, how to pursue claims against TPPs and what to do in the event of disputes between ASPSP (banks) and TPPs
  - Implementing **new 'conduct of business' operational requirements**, such as refunds, unauthorised transactions investigations and back-dating processes
  - **Risk management**, regulatory reporting and major incident reporting
  - **Customer service**, communication and complaints
- About 10% of banks put the **lack of a finalised RTS** on SCA and Secure Communications at the top of their list of concerns
- Several respondents also cited the difficulty in reconciling the 'tensions' between PSD2 and the General Data Protection Regulation ([GDPR](#)).

“Although the selection of a proper standard is vital, no market-wide accepted rulebook is currently available. Furthermore, parts of the regulation (RTS on SCA) and set-up of the TPP registers have been delayed”, CEE bank

**Q: On a scale of 1-5, how do you estimate your organisation's readiness to comply with PSD2 by the implementation date?**



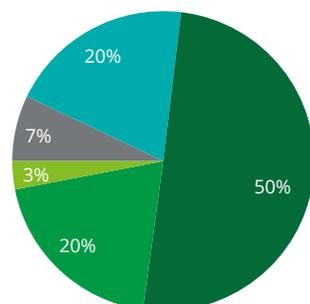
1 - Not ready at all, significant concerns
  3 - Somewhat ready and confident
  5 - Very ready and confident

2 - Not ready, have concerns
  4 - Broadly ready and confident

- The greatest number of respondents classed themselves as 'Somewhat ready and confident', followed closely by 'Broadly ready and confident'
- This is encouraging, as around 57% of CEE respondents fall within these two categories
- Only 8% of organisations classified themselves as 'Very ready and confident'
- Worryingly, around of 33% organisations classed themselves as 'Not ready, have concerns'. This suggests that a substantial proportion of the industry still has a significant amount of work to do.

“The unclear national regulatory environment and directions remain a challenge: Is the aim to challenge or protect the banking sector in the long term?”, CEE bank

**Q: On a scale of 1-5 how do you estimate your organisation's readiness to respond strategically to PSD2-enabled changes?**



■ 1 - Not ready at all, no or little assessment has occurred   ■ 3 - Some thought and planning has occurred   ■ 5 - Very ready and well prepared  
■ 2 - Not ready, has not yet been fully assessed   ■ 4 - Broadly ready and have plans in place

- Almost half of respondents told us 'Some thought and planning has occurred'
- Around 20% said they were 'Broadly ready and have plans in place'
- While this is encouraging, it should be considered in the context of earlier responses; while many have begun the process for strategically responding to PSD2, the depth and extent varies significantly
- This can be seen most clearly in the small proportion of organisations (around 3%) who classify themselves as 'very ready and well prepared'
- Almost 27% chose the 'Not ready, has not yet been fully assessed' or 'Not ready, no or little assessment has occurred' options.

"It is key to be ready for implementing a new business model after TPPs enter the market", CEE bank

# CONCLUSION

Our **European PSD2 Voice of the Banks** survey has shown that banks have been taking PSD2 seriously and have been investing in both ensuring regulatory compliance and assessing their potential strategic options. In this process, Western European (WE) banks tend to be more 'aggressive' than their Central and Eastern European (CEE) counterparts in their willingness to leverage PSD2 as an opportunity to gain market share. CEE banks have so far put a stronger focus on compliance, less on developing their strategic possibilities in the new emerging open banking ecosystem. WE banks are also on average more advanced in implementing their PSD2 programmes, which indicates a busy beginning of 2018 for many CEE banks.

Banks have been focusing on developing use cases mainly for retail and SME banking areas where they perceive the most opportunities to gain from PSD2 – primarily in the area of payments and consumer and SME lending. The ambitions of almost half of the banks are clearly visible in their considerations to take on either an active Account Information Service Provider and/or Payment Initiation Service Provider role, and in the interest in launching new PSD2-enabled services, partially 'premium' ones going beyond the mandatory PSD2 scope. Some of these plans are, nevertheless, rather aspirational than real as obvious from the frequently missing concrete PSD2-strategy plans supported by adequate budgets.

Have banks been underestimating the opportunities offered by PSD2 and the need to be prepared to react strategically? Not really – they have just been facing multiple challenges on their PSD2 journeys.

### PSD2 has a clear disruptive potential but market adoption will be a long-term process

PSD2 no doubt represents a bold move by the EU aimed at opening the financial services market to new players and at accelerating innovation and introducing new services to the benefit of consumers. Its undisputed disruptive potential will be, nevertheless, unfolding over a longer time period, both due to the sheer complexity of the regulation and a multitude of factors that will be influencing its market impact.

### Multiple challenges still lie on the road ahead, no big bang to be expected in early 2018

The Voice of the Banks survey outcomes only confirm this assumption. As of 13 January 2018, the EU-wide PSD2 'go-live' date, no big bang impact can be expected, the PSD2 market adoption will require between one to three years for several reasons:

- **Regulatory rules** are still being partially finalised, guidance for the transitional period until the Regulatory Technical Standard (RTS) on Strong Customer Authentication (SCA) will apply has been issued only recently and has left many questions open
- **Third Party Provider (TPP) licence applications** can be submitted to regulators only from January and it will take time until the first ones have been granted
- National **instant payment schemes** expected to support PSD2 as an alternative to card payments are not yet available in some countries
- National **Application Programming Interface (API) standards** are not yet available in several countries and it will take time until the market participants agree on a common or preferred standard to be applied. This poses an unwelcome challenge to all TPPs willing to roll out their services to a wider market.

- Many banks have focused on compliance but have not yet finalised their **strategic plans** for PSD2 including which use cases they will develop and with whom they will partner
- It is not yet clear what the future PSD2-enabled **open banking ecosystem** will look like – both on the country and EU level – which banks and TPPs will become active players in shaping the ecosystem and under which roles and with what service offerings
- An **EU-wide market opening** will be significantly slower than on the country level due to API fragmentation and regulatory inconsistencies, the expected pricing convergence in the EU will be thus a long-term process
- Finally yet importantly – the **customer adoption** of the new PSD2-enabled innovative services and their willingness to consent with sharing bank data with other parties will be critical. At this very moment, the **consumer awareness** about open banking and its benefits **remains low across all CEE countries**.

In other words, PSD2 will likely bring a rather gradual, irreversible change to how financial services are produced, distributed and consumed, the breadth and pace of the change is, nevertheless, difficult to predict. Banks will have to stay flexible and ready to adjust to the market dynamics and developments, and shall stay open to potential partnerships with other providers.

### Closing the customer experience gap – focus on digital transformation

For banks, PSD2 shall be also a clear message to become more proactive in their digital transformation efforts. Banking services have so far – due to the closed and heavily regulated nature of the banking system – stayed aside of the rapid innovative developments of the digital customer offerings provided by the fast growing eCommerce sector, FinTech and BigTech companies. The gap in consumer experience has been growing ever since. Many key banking processes have not yet been digitised or cannot be accessed and used by customers online.

With open banking and the ongoing commoditisation of retail banking services, it is likely that consumers will start switching to providers offering the most user-friendly online or mobile customer interface integrating also other added value services. Moreover, the eventual owner of the customer interface will enjoy a significant competitive advantage – he will be able to reap all the benefits of directly engaging with the customer.

In this way, the current market where each bank operates, produces and distributes directly to its customers may become disintermediated, where some banks would merely produce but the customer interaction would be facilitated by PSD2 elsewhere, with a third party competitor – representing a gradual shift to an open marketplace distribution model.

### Emergence of strategic market alliances and partnerships

The survey indicated a strong interest of about a third of the banks in forming alliances with FinTechs, which can bring clear benefits to both partners. FinTechs are typically very good at offering a compelling user experience; banks, on the other hand, excel in the regulatory and processes agenda and enjoy customer trust. To arrive at a win-win setup for both parties nevertheless means also overcoming significant cultural challenges. PSD2 will be thus a real-life test of the ability of banks and TPPs to coexist in mutually beneficial business models.

### Regulatory and market standards convergence is likely

The PSD2 regulatory framework remains challenging due to its scope, complexity as well as because it still represents ‘work in progress’ to a large extent. The European Banking Authority and several national regulators have sought to provide guidance for banks and TPPs for the transitional period between January 2018 and the RTS on SCA application date in late 2019; nevertheless, there remain areas that are not yet sufficiently aligned or supported by clear rules. It can be expected that only the developing market practice and regulatory rulings will start shaping the real-life interpretation of PSD2 rules to be followed. The same applies to the API standards. It will take some time for certain standards to be accepted as market standards across the wider EU. So despite the fact that the PSD2 implementation will initially launch using differing country API standards, a later convergence process can be expected as large banking groups will push for applying common group standards across all markets.

### Consumer adoption will be key, education will be needed

The success of PSD2 will be heavily dependent on how the new services will be accepted by consumers and on their willingness to provide consent with sharing their bank account data with other service providers. In this respect, traditional banks may enjoy a competitive advantage as institutions generally regarded as secure and trusted by most customers. On the other hand, younger generations growing up with smartphones and being used to communicate online 24/7 may have very different expectations about what modern financial services should look like as their customer experience has been shaped by online service providers rather than traditional banks. In any case, banks willing to leverage PSD2 will have to invest from the very beginning in customer education to facilitate the uptake of new services.

### CEE PSD2 Voice of the Customer survey

As the average consumer awareness about open banking and PSD2 and the benefits it will offer remains low across CEE, we have decided to complement our 'Voice of the Banks' survey with a CEE-wide PSD2 'Voice of the Customer' survey.

It provides insight into the digital banking preferences of CEE consumers, into which innovative PSD2-enabled services consumers will likely embrace, and with which providers they may be willing to share their bank account data in exchange for new services. The outcomes of the **CEE PSD2 'Voice of the Customer'** survey are available in a separate Deloitte report.

# Glossary

AISP – Account Information Service Provider

API – Application Programming Interface

ASPSP – Account Servicing Payment Service Provider

BIAN – Banking Industry Architecture Network

BigTech – Big technology firms

B2B – Business to business

CAPS – Convenient Access to PSD2/Payment-related Services

CEE – Central and Eastern Europe

EBA – European Banking Authority

ECB – European Central Bank

EU – European Union

FinTech – Financial technology

GDPR – General Data Protection Regulation

PIS – Payment Initiation Service

PISP – Payment Initiation Service Provider

PRETA – PRETA S.A.S.

PSD2 – revised Payment Services Directive

RTS – Regulatory Technical Standard

SCA – Strong Customer Authentication

SME – Small and Medium-Sized Enterprises

TPA – Third Party Access

TPP – Third Party Provider

TRA – Transaction Risk Analysis

WE – Western Europe

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