

Payments International

Speaker Interview



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Q: What technologies do you see impacting payments most significantly in the near future?

A: Technology change is a constant. The journey of Open Banking and PSD2 is still in its early days and banks are moving slowly from simple minimum requirement APIs to facilitate communicating with third party providers to a broader perspective of leveraging APIs both in internal bank infrastructures as well as developing value-added services with Premium APIs. Even though APIs have been with us since the 1960s and gained a prominent role in Europe with the role out of PSD2, APIs are bound to be impacting payments in the near future.

The other technology area that is gaining significant importance is everything to do with the data universe, ranging from internal data architecture, data scrubbing and structuring to data analytics and AI. In particular the increased data that can now flow with payments allows institutions to gain more intelligence on their customers and their habits, thus permitting targeted service offerings and more product innovation. On the flipside if institutions do not take the necessary steps to get their data house in order, they will not be able to benefit from the payments innovation that is unfolding before their eyes.

Equally technology will play an important role in security digital channels and protecting users and providers from cyber risks. Tokenisation is a key technology here, securing the transmission of financial data and reducing risks on the side of the merchants as personal sensitive data no longer needs to be stored in their databases. In addition, biometrics will play more and more of a role in user authentication and transaction authorisation. Multi-factor authentication with new and more complex authentication factors will increasingly become the norm, those solutions that improve UX and improve security inside the regulations will thrive.

Q: How do you see Open Banking reshaping the payments ecosystem in the next 3 years?

A: Apart from the gradual shift from card based to account-based transactions, which is bound to significantly accelerate once seamless POS processes for account-based payments are rolled out across merchants, we will see an overall expansion of Open Banking. This expansion will not only cover more financial services silos, e.g. pensions, savings, investments, mortgages, but also address the currently missing piece – at least in the UK – of Digital Identity.

Ecommerce continues to be plagued by fraud as well as low conversion rates – think about the ardour of filling in comprehensive forms online, giving all your personal details. The risk of data hacks is significant in our day an age of cyber-crime and the more customers connect to a plethora of providers, sharing their data, the more the risk of data compromise and identity theft increases.

A federated bank digital identity solution would be able to contain risks by allowing third parties, both providers of TPP solutions under PSD2 and merchants, to rely on bank-grade assured data that customers share themselves from their bank vault, giving their full consent in line with GPDR.

Markets such as the Nordics have perfected this approach where digital identity provided by assured bank data has become the standard. The degree of government involvement, which has played a key part and sometimes not without controversy in the Nordics, is a valid question for the UK where government involvement may not necessarily that welcomed by the user base. But what is clear is that prolonged non-action by the banking industry will result in a regulatory mandate, with all the constraints that come with it, limiting the ability of banks to take a commercial approach. Open Banking provides the natural bank bone to develop digital identity for the digital economy, allowing banks to reuse the rails they already built and create true momentum on the Open Banking journey.

Q: After PSD2, what's the next regulatory challenge?

A: An intuitive answer to this question is of course PSD3 – the saga continues. And whilst PSD3 is surely on the horizon, there are also regulatory challenges in the pipeline.

For example, a regulatory challenge that hasn't yet come to the fore is the General Data Privacy Regulation (GDPR) and in particular its interaction practice with PSD2. GDPR has not yet been stress tested and as soon as any glitches may arise between these two laws we could easily end up in another industry issue à la PPI.

When it comes to PSD3 we just need to remind ourselves that the European Commission is required to provide a comprehensive report on the application and effectiveness of PSD2 by the 13 January 2021, which may be accompanied by a legislative proposal. So PSD3 is a given. The delays on implementing a number of key requirements under PSD2 should feature in this as does an effective post mortem on this with the goal of ensuring that target dates for new initiatives are hit first time in all jurisdictions. The question is what findings will feature in the Commission's study and what types of perceived market failure or room for improvement will become the basis for PSD3? Certainly, the extent to which PSD2 has brought competition in the payments space as well as the effectiveness of Secure Customer Authentication (SCA) in practice will feature in this review. We may even see a regulatory approach to digital identity linked to the payments space.