

What the PSD2 (Payment Services Directive 2) is changing for merchants and their customers



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The introduction of PSD2 will probably encourage the deployment of new account-based payment solutions (Payment Initiation Service Provider) as an alternative to the traditional card-based payment solutions. In this context, merchants will be under pressure from their customers to accept account-based payment methods online and in stores.

Some technical aspects such as the strong customer authentication and the way to access the bank account have been detailed by the EBA RTS (European Banking Authority Regulatory Technical Standard) to define the scope and characteristics of the new account based payment services.

What are the outcomes of the EBA RTS regarding the interfaces banks will use?

In these RTS, the EBA is not foreseeing standardization of the functionality and the interfaces that will be used to access the bank account. This means that there will not be a standard technical interface for all banks, and that it is rather expected that groups of banks will decide together to adopt some technical interfaces to give access to the bank accounts of their customers. Therefore, the multiplicity of these interfaces specificities will require additional processing from the PISPs to adapt their transactional logic to the functional specificities of each bank or each group of banks to deliver its account-based payment services. This will naturally also lead to additional costs for a PISP to ensure a large reachability of banks.

Will the experience of account based payments be optimized in term of security?

The RTS also defined requirements related to strong customer authentication of the consumer by the bank. This will ensure a high level of security for customer's data, including their payments information. It will give them confidence and encourage them to use these new account-based payment services helping to reach a significant adoption rate.

To use these new account-based services, the owner of the bank account will have to be authenticated by the bank, as he is used to doing it when confirming an SCT (SEPA Credit Transfer) on his online banking application. This user experience is quite easy and seamless in an online context, but may be more complex in a proximity environment. Indeed, when the customer is at the till, he will have to be authenticated by his bank, which will add a step before the checkout. Therefore, the user experience is longer when a customer is expecting a quicker checkout and a frictionless payment process. The challenge here, is to find the most optimized solution to offer both a secured and convenient user experience, whether on the web shop (on tablet, mobile or PC) or in the proximity environment.

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How can merchants adapt to the changes brought by the PSD2?

At the moment, a payment initiation service can be considered as the execution of a simple SCT, meaning a transfer of an amount from the customer bank account to the merchant bank account. We can imagine that this service will be enriched with other value added services as it is the case with card-based payment solutions.

For example, when the amount of the payment is not known at the start of the transaction like at a petrol filling station, a deferred payment is processed when the right amount is eventually defined. Also, for subscriptions, there is a need to process recurring payments needing an initial authentication and authorization by the customer. Additional specific developments are also required to adapt the account-based payment solutions for reservations, when an amount is blocked by the customer at the authentication and will be partly used or released at the actual execution of the transaction. There are many use cases that could expand the value of account-based payment, and Worldline may actively support merchants in the development of such services.

At the acceptance level, whether online or at the shop, merchants will have to accept the account-based payment. Merchants have two ways to do that. Either they use account-based payment methods developed by third party providers or they can develop their own one. However, this second approach is only possible for large merchants with an extensive customer data base ensuring a quick return on investment. These large merchants have to choose the right service provider to accompany them in these developments in terms of user experience optimization, connection to an extended bank network, regulatory compliance or fraud risk management.

For both cases, their payment devices and online acceptance solution will need to be adapted to enable these account-based payment solutions supporting the possible adoption by customers.

In terms of processing, merchants need to rely on a platform ensuring the connection to the different bank interfaces regardless of their technical specifications and benefit from a larger reachability of customers' banks.

To improve the user experience in the proximity environment while complying with the security standards of the PSD2, a merchant mobile application for payment initiation service can be developed to interact with the payment device or the electronic cash register to ease the customer authentication towards his bank. We can imagine that this application include many other services proposed by the merchants as a loyalty program.

Relying on Worldline's strong expertise in payments, merchants can benefit from a better grasp of the complexity and opportunities introduced by the PSD2 at different levels, and adapt easily and with serenity to these new solutions.

About Worldline

Worldline [Euronext: WLN] is the European leader in the payments and transactional services industry. Worldline delivers new-generation services, enabling its customers to offer smooth and innovative solutions to the end consumer. Key actor for B2B2C industries, with over 40 years of experience, Worldline supports and contributes to the success of all businesses and administrative services in a perpetually evolving market. Worldline offers a unique and flexible business model built around a global and growing portfolio, thus enabling end-to-end support. Worldline activities are organized around three axes: Merchant Services & Terminals, Mobility & e-Transactional Services, Financial Processing & Software Licensing including equensWorldline. Worldline employs more than 8,600 people worldwide, with estimated revenue of circa 1.5 billion euros on a yearly basis. Worldline is an Atos company.

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