

A new payment services directive (PSD2)

A guide to the forthcoming changes



Summary

There's a lot of noise around payments at the moment: PSD2 and "Open Banking", – what does this mean for merchants? This short document seeks to make PSD2 understandable and help you decide what, if anything, you need to do.

Payments regulation changes on 13th January 2018 when a revised Payment Services Directive ("PSD2") comes into effect. Whilst in the long term PSD2 may lead to more competition, choice and innovation in payments, aside from surcharging restrictions, the short-term impact on merchants is unlikely to be significant. Measures to bring in Strong Customer Authentication (SCA) have still not been agreed, and won't take effect until the latter half of 2019.



What is PSD2?

There are three aspects to PSD2: firstly, it increases consumer protection by covering more transactions and restricting **surcharging**; secondly, it insists on **Strong (i.e. multi-factor) Customer Authentication**, albeit with many sensible exceptions; and thirdly, it **opens up the payments market** to new providers.



Increases consumer protection



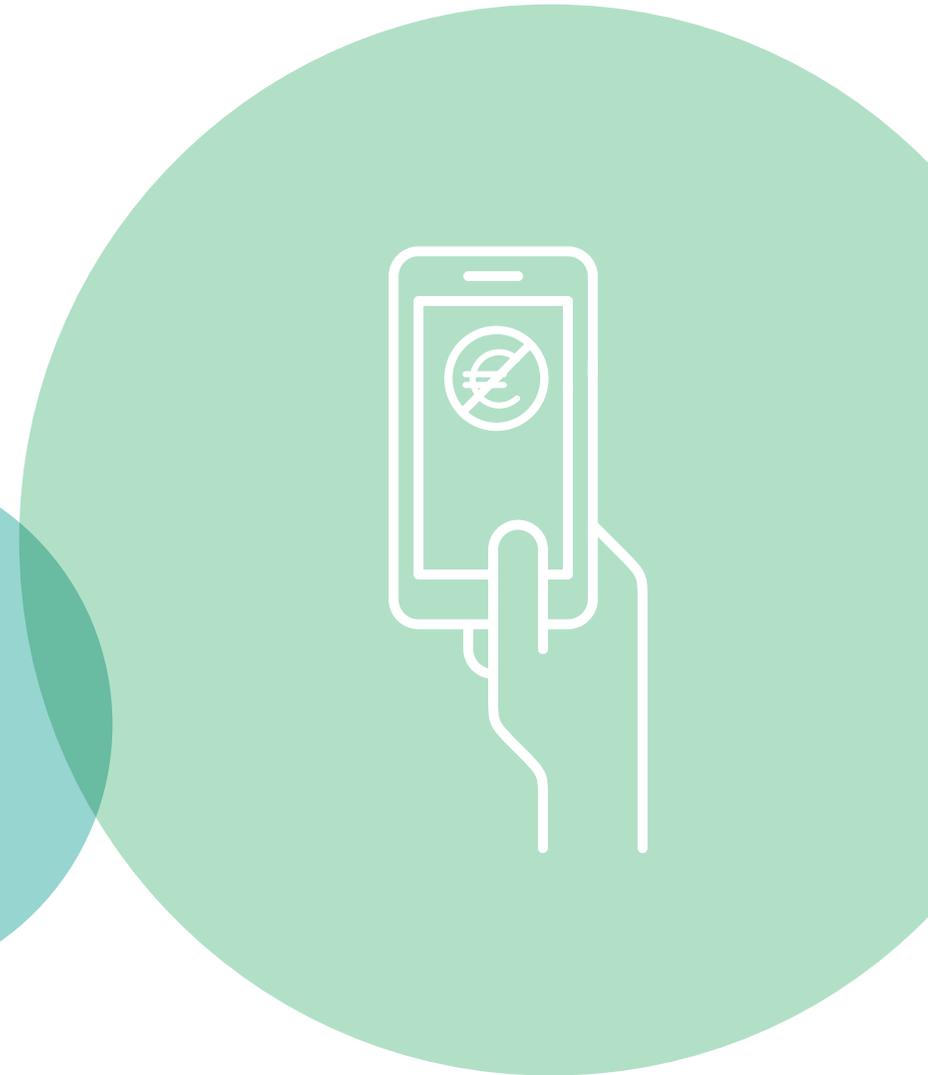
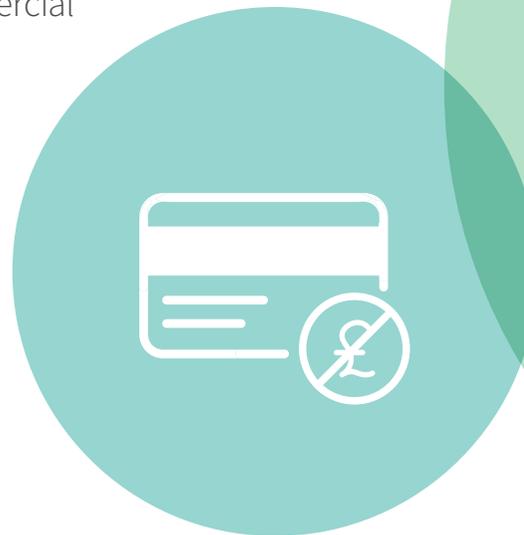
Insists on Strong (i.e. multi-factor) Customer Authentication



Opens up the payments market to new providers

Surcharging

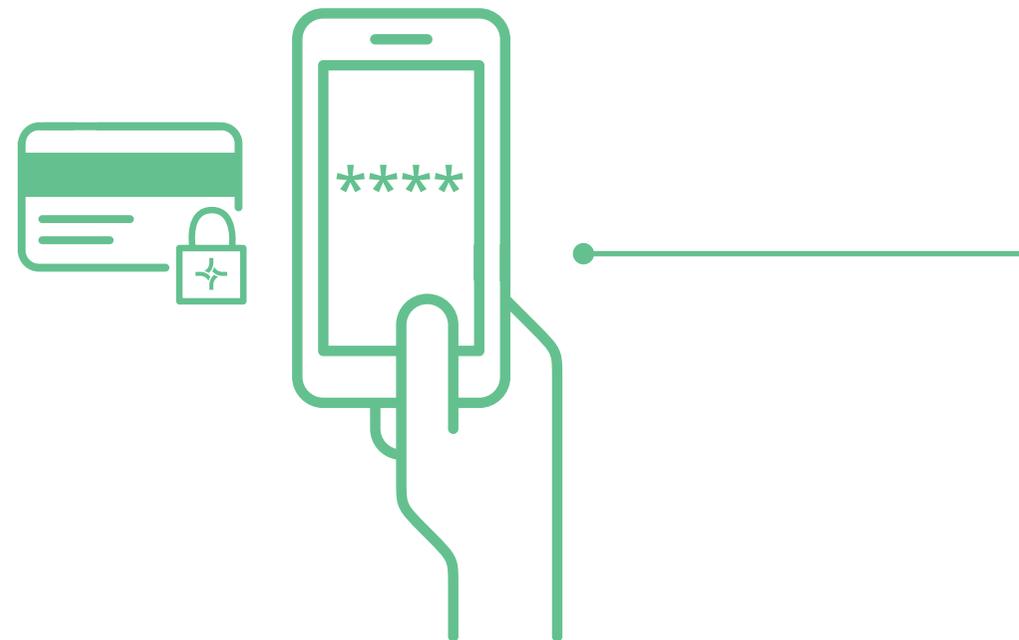
PSD2 prohibits surcharging on card-based payments regulated by the Interchange Fee Regulation, namely European (including UK) consumer debit and credit cards. Individual EU Member States were allowed to extend this surcharging ban to other payment products, and the UK has chosen to do so, meaning that surcharging is no longer allowed for all retail payment products, i.e. all cards and digital wallets, but excluding commercial payment products such as commercial cards.



Strong Customer Authentication (SCA)

Currently, there are very few mandatory authentication requirements, although the card schemes have rules around liability for unauthorised transactions.

Whilst most merchants are already signed up for Verified-by-Visa and MasterCard Secure Code, in most cases the card issuer decides to allow the payment to be made without further authentication. Under SCA, the issuer will have to seek additional customer authentication unless the transaction qualifies for one of the exemptions, such as contactless, low value transactions, recurring transactions and regular payees. Issuers and acquirers may also be able to make use of an exemption for low fraud risk transactions, which we will be looking at when the final rules are published.



Going forward, for transactions which do not qualify for an exemption, at least two of the following three factors need to be used to authenticate a customer:

Knowledge (something only the customer knows)



like a password or PIN.

Possession (something only the customer has)



like a mobile device ID or a chip card.

Inherence (something unique to the customer)



like a fingerprint or behavioural data.

The issuer will make the final decision as to whether to insist on multi-factor authentication, although we expect Visa and MasterCard to develop rules which will allow a merchant to accept liability for exempt low fraud risk transactions.

To confirm, the final SCA rules have not been finalised – something we expect to happen in early 2018. Once the rules are published, payment services providers will have a further 18 months to ensure they're adhering to the new rules, meaning the rules will likely not take effect until Autumn 2019.

Opening up the payments market

PSD2 creates two new types of regulated organisations that are allowed to initiate payments directly from the customer's payment account or to access account data, known as **"Payment Initiation Service Providers"** (or "PISPs") and **"Account Information Service Providers"** (or "AISPs"):

- Payment Initiation Service Providers (PISP) will be able to push a payment directly from a bank account to a merchant. Paysafe's own PISP, Rapid Transfer, will be available for those merchants seeking to offer a **"Pay-by-Bank Account"** solution to their customers.
- Account Information Service Providers (AISP) – these will give a comprehensive view of payment accounts in one place, even when the accounts are held with different providers.

Although the rights to access accounts for authorized third parties will come into effect from January 2018, the regulations that govern this access are linked to the SCA rules, so are unlikely to take effect until Autumn 2019.

What's "Open Banking?"

"Open Banking" refers to initiatives that allow third parties to access a customer's bank account, with consent, for example to initiate payments or to get hold of data that they can analyse on the customer's behalf. PSD2 enables "Open Banking" in the European Economic Area, and there are similar proposals in other countries such as Australia and Canada.

The good news is that this does not affect what Paysafe merchants have to do – the requirement to implement "Open Banking" in the UK is aimed solely at the UK's largest retail banks.



Conclusion

The immediate implications of PSD2 and “Open Banking” for merchants are small, limited at the outset to surcharging restrictions and only extending to dealing with Strong Customer Authentication in the second half of 2019. Merchants should ensure that surcharges are removed and no longer charged. Of course, PSD2 and “Open Banking” are aimed at creating the environment for new competitors to offer new services and more choice, and we will be watching developments with interest and will be keeping you informed of the latest developments and impacts as they happen.

If you have any questions or would like to find out more please get in touch

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