

# FinTech in EU: How Open Banking (PSD2) Regulation is Sparking Innovation

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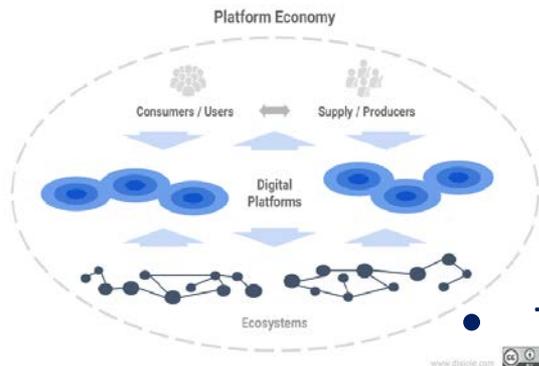
Bank of Italy

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# Bank as a Platform (BaaP) in the Platform Economy



- **Network effects** – two users groups generate mutual benefits driving demand-side economies of scale
- **Network Synergy** – mutual benefits from cross industry
- **Technology is changing the rules of the game in the financial sector:** new strategies integrating banks and FinTechs

## New Regulation Pressures

- Foster competition, innovation, transparency
- Reduce transaction costs
- Empower consumers

# Integrating banks and FinTechs: the EU Vision/Approach

- **Ex-ante approach** to facilitate connectivity in financial services
- Opening to innovation + **rules to protect security and users' personal data**



- Leaving to the **market initiative** the decision on **how to implement the technical standards** to share non sensitive information with consumers' consent

# 2018: the **Open Banking** year in the European Union

**PSD2** facilitates an **Open Banking** business environment in which:

- Third Parties Providers -**TPPs** - **may access to bank account data** in order to offer Payment Initiation Services (PIS) and Account Information Services (AIS)
- Banks are required to set up **dedicated interfaces** to communicate with TPPs

**Open Banking**



**Innovation and Competition**

**To respond to consumers demand of innovative financial services**

# PSD2 sets the rules of the game

## **TPPs** are required to:

- To **obtain a financial license** to operate as PIS and AIS
- To adopt **organizational and security requirements**

## **... to access user's bank account:**

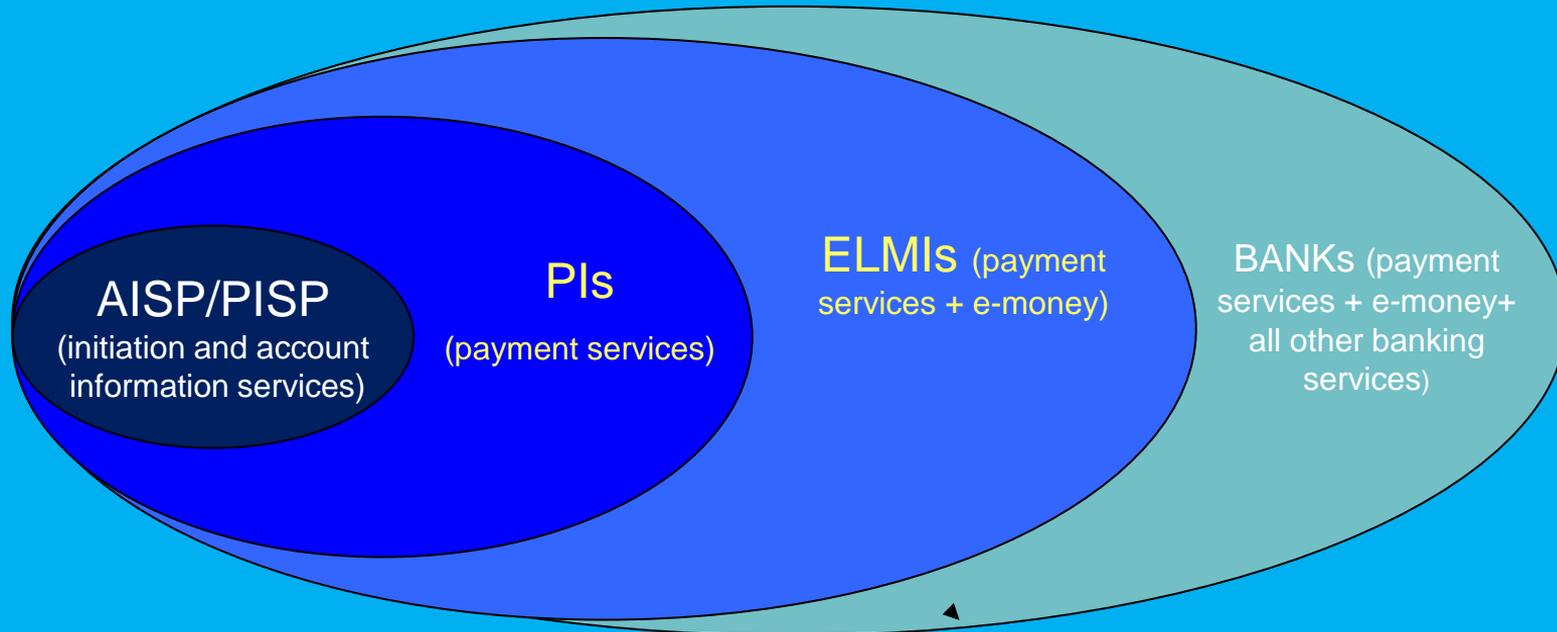
- With **user consent**
- Without contractual relationship with bank holding user funds
- **Identifying itself to the bank** (even in the “screen scraping” process)
- Allowing **strong user authentication**
- **Protecting sensitive data**

## **Banks** are:

- **prohibited from discriminating TPPs**
- **required to support TPPs in developing their application**



# European framework: PSD2 - licensed institutions



Italian framework: Bank of Italy, by law, identifies and oversees IT infrastructures relevant for the payment system

# Legal Obligations vs Market Standards

- PSD2 obliges **banks to set up dedicated interfaces** with TPPs allowing fast and secure interactions among software applications
- While leaving them **free to implement** its own interface with **market standards**
- Large consensus on adoption **Application Program Interface (API)** technology



**Some cooperative standardization initiatives have been started**

**To exploit possible scale and scope economies**

# PSD2 Open Banking Challenges

## Banks:

- Significant organizational impacts
- Compliance and competitiveness issues in shifting to Open Banking model

## FinTechs:

- New framework for the legal rollout of new payment and banking services
- In a context in which 'more often than not there is a banking organization somewhere in the FinTech stack'

## Financial Authorities:

- Regulation gives responsibilities in monitoring PSPs compliance with the new security and functional requirements (innovative role) and managing trade-off between different objectives (innovation, level playing field, consumer protection, trust on digital services) that require an harmonized supervisory approach

## non EU Banks:

- having footprint in EU, PSD2 require to comply with its requirements