BANCA NAȚIONALĂ A ROMÂNIEI

PSD2 and the era of digital payments

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Technology may have always helped to drive change in the financial sector, from the telegraph to the ATM, but with fintech "this time is different" says Hauser in a speech to startup firms.

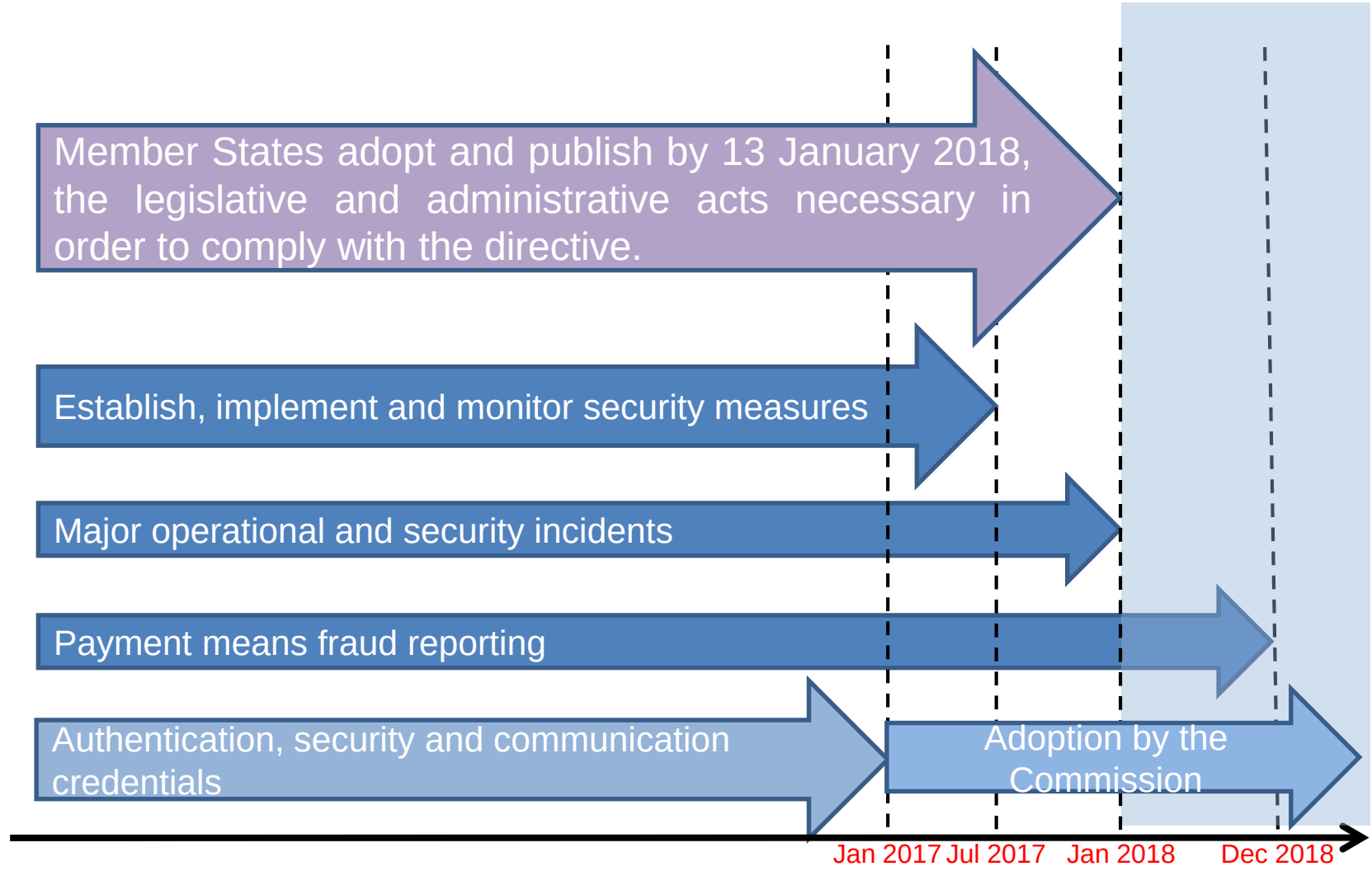
Bank of England executive Andrew Hauser.

Agenda

- ✓ Overall presentation
  - ➢ Context & objectives
  - ➢ Deadlines
  - ➢ Scope
  - ➢ New payment ecosystem
  - ➢ Impact on the counterparties involved in payment operations
- ✓ Provisions committed to by the central bank
- ✓ Conclusions

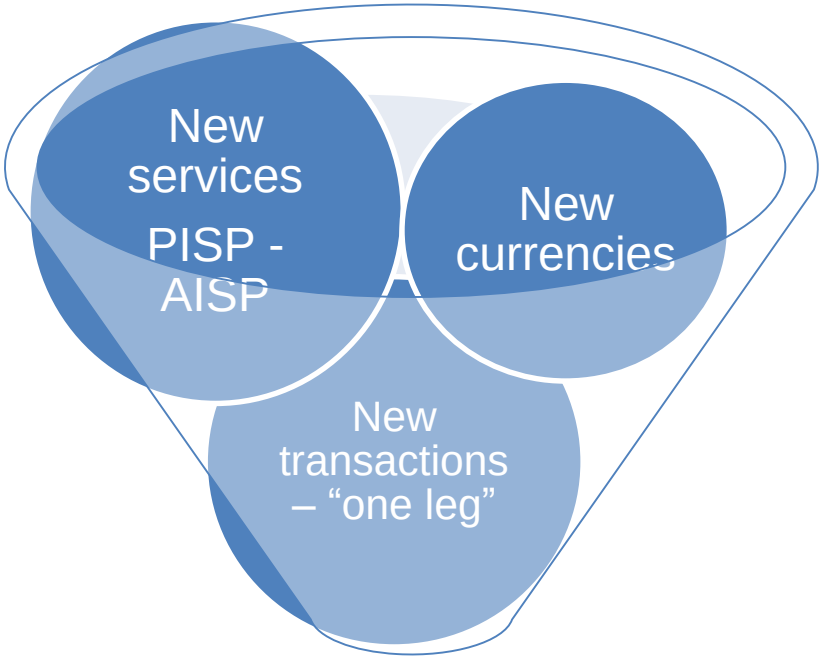
PSD2 OVERALL PRESENTATION
CONTEXT & OBJECTIVES

PSD2 Overall Presentation
DEADLINES



PSD2 General Presentation
SCOPE

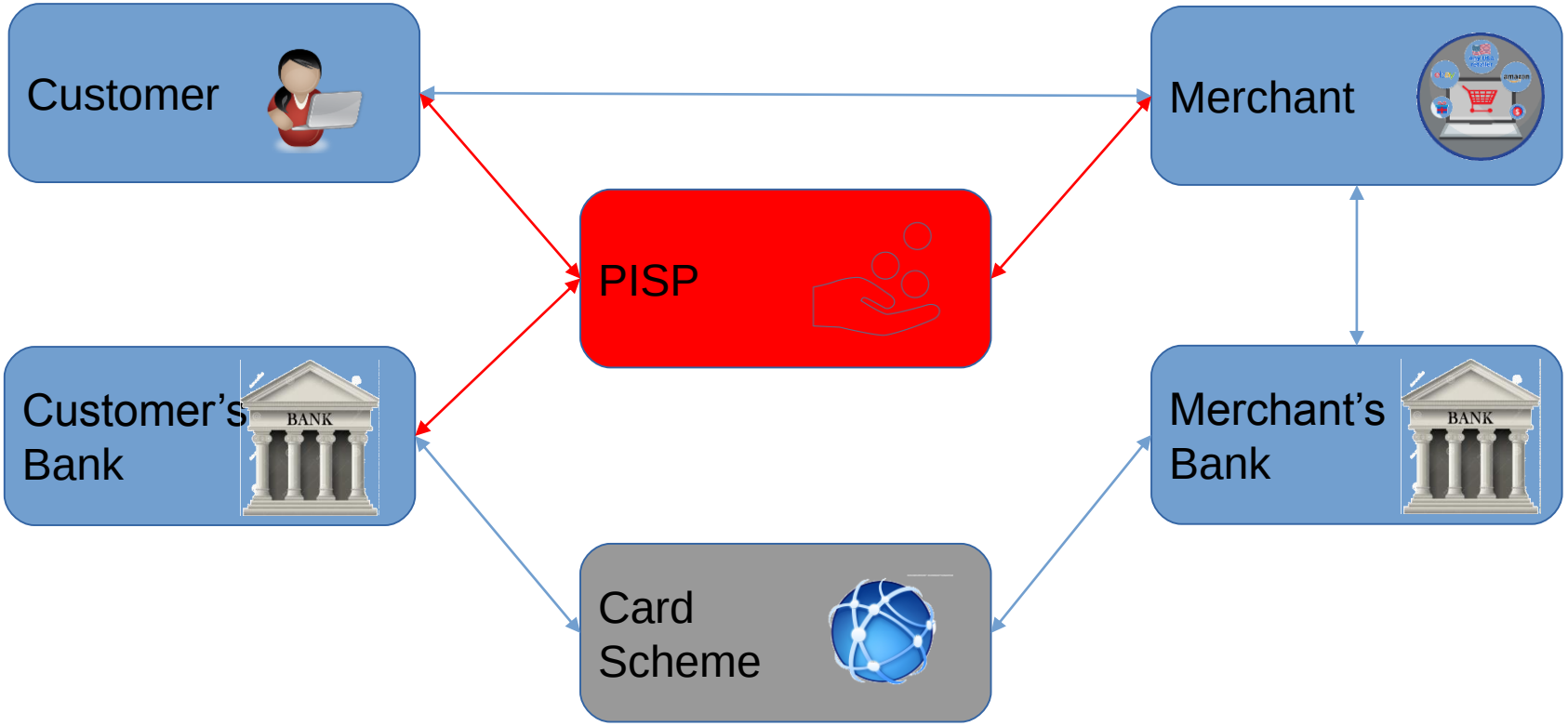
Expansion of scope



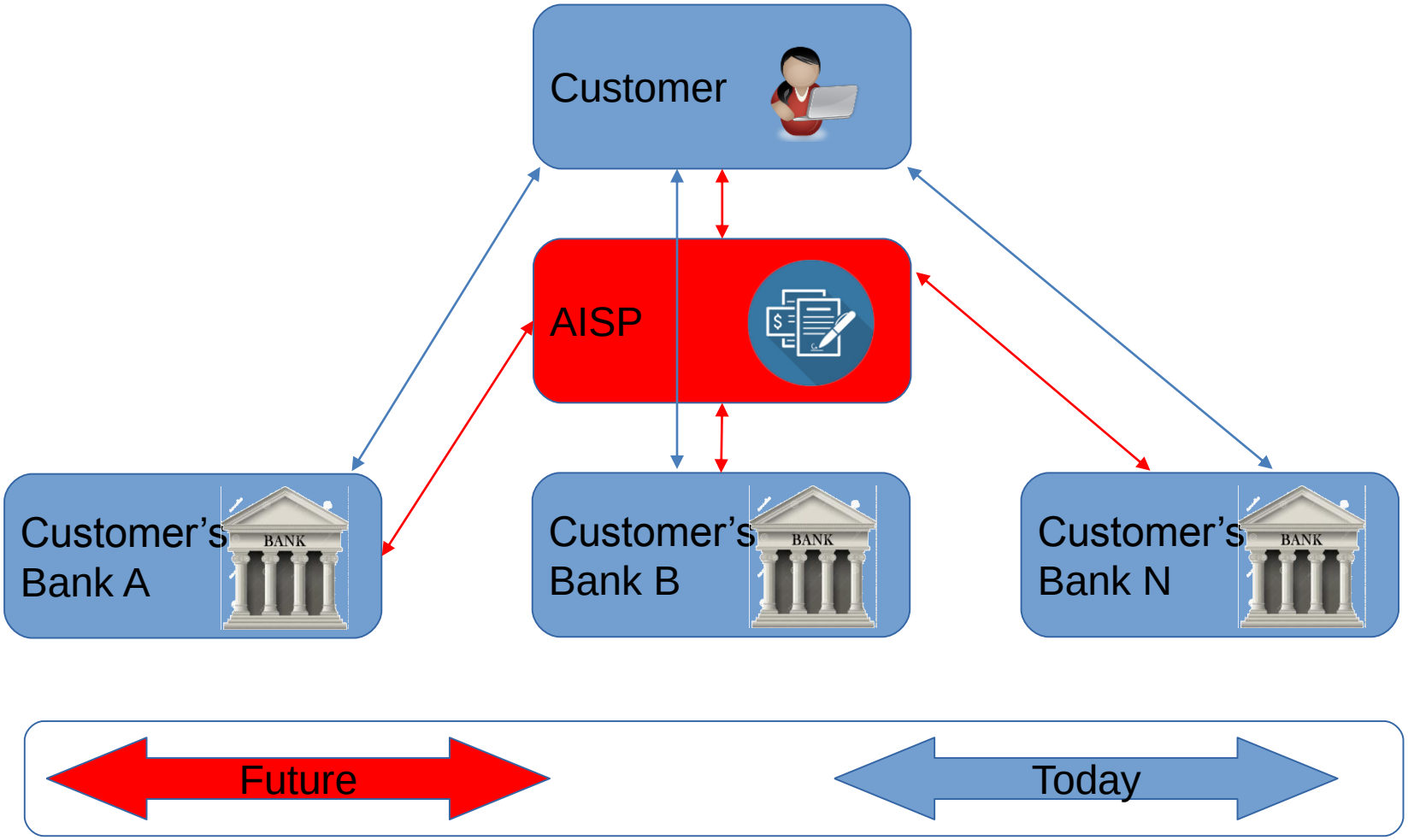
Exemptions – amend PSD

- Services provided in a limited manner – clarified concept
- Services provided via networks or via electronic communication services – limit: 50 EUR/individual/300 EUR cumulated/customer/month

PSD2 General Presentation
NEW PAYMENT ECOSYSTEM



PSD2 General Presentation
NEW PAYMENT ECOSYSTEM (cont.)



PSD2 General Presentation
IMPACT

System adapting

PSP

Procedure amending (procedures on incidents, fraud etc. management and reporting)

Process adapting
(registering, monitoring, tracing and restricting access to sensitive data related to payments, transaction tracing)

PSD2 General Presentation
IMPACT (cont.)

Licensing – capital and collateral requirements

System adapting in order to implement security requirements

Designing reporting procedures

Implementing processes in order to demonstrate to the competent authority that they have the capacity to manage risks

Provisions committed to by NBR - oversight

➢Access to payment systems (Art. 35 in PSD2):

- Objective, non-discriminatory and proportional conditions;
- Not to prevent access more than it is necessary;
- Not to apply to the systems designated under Directive 98/26/EC;

➢Access to the accounts maintained with a credit institution (Art. 36 in PSD2):

- Objective, non-discriminatory and proportional conditions;
- Sufficiently expanded in order to allow for a payment institution to deliver its services without restrictions and in an efficient manner;

➢Confirmation on the availability of funds (Art. 65);

- AS PSP confirms promptly, upon the request of an issuer and with the payer's prior consent, the existence of the funds in the payment account;
- The PSP's request and the confirmation on the availability of funds are sent via safe communication channels;

Provisions committed to by NBR – oversight (cont.)

➢ Rules on access to users' payment accounts in case of the initiation of payment services (Art. 66 in PSD2):

- Not to hold the PSU's funds in connection with the service delivery;
- Ensure the use of PSU's personalised security credentials in a safe manner;
- Identify itself before AS PSP and communicate in a safe manner – each operation;
- Request from PSU only data on the execution of the payment initiation operation and not to store sensitive data;
- Not to amend any attribute of the payment operation;

➢ Rules on access to and use of the information about payment accounts in the case of account information services (Art. 67 in PSD2)

- PSU's security credentials transmitted to AISP via safe and efficient communication channels not accessible to any other counterparty;
- AS PSP provides/transmits the information to AISP only for the accounts and the data requested and does not grant full access to the payment account.

Provisions committed to by NBR – oversight (cont.)

➢ Limits of the use of the payment instrument and of the access to payment accounts by payment service providers (Art. 68 in PSD2):

- Spending limits – on the payment operations executed with the instrument used to giving consent – the right to block the PI, while informing the payer;
- Blocking the instrument – suspicions of a PI used in order to initiate an unauthorised or fraudulent payment, while informing the payer;

➢ Operational and security risk management (Art. 95 in PSD2)

- PSP manages the operational and security risks related to payment services and sets up a framework with appropriate measures to mitigate risks and control mechanisms;
- Provides CA (at least yearly) an assessment on the operational and security risks related to the payment services provided and on the adequacy of the measures to mitigate risks and of the control measures
- 13 July 2017 – EBA & ECB issue guidelines on establishing, implementing and monitoring security measures.

Provisions committed to by NBR – oversight (cont.)

- Reporting major operational and security incidents (Art. 96 in PSD2), including implementing in the national legislation the requirements set forth in the *Final Guidelines on major incident reporting under PSD2 drawn up by the European Banking Authority based on Art. 96 of Directive (EU) 2015/2366:*
- Complying with the EBA requirements set via the Reporting Guidelines;

- Authentication and communication (Art. 97 and 98 in PSD2). The European Commission is to adopt the necessary regulatory technical standards, standards that shall be applied starting with 18 months before their coming into force:
- EBA & ECB – guidelines on technical standards for PSPs regarding the requirements related to using common, safe and open communication standards in order to identify, authenticate, notify, inform and implement security measures, between AISP, PIS, AS PSP, payer, beneficiary and other counterparties involved in delivering payment services;
- Implementation - 18 months since their coming into force. Estimation November 2018.

Conclusions

- In the context of the recent materialisation of the financial information security risk, both in the case of private entities and of authorities including central banks, we support the option of transmitting each semester the payment services providers' self-assessment. The Capgemini Consulting report on "The Currency of Trust: Why Banks and Insurers Must Make Customer Data Safer and More Secure" shows that:

  - the information security management or the confidentiality policy are inadequate (50% of banks);
  - 79% of the interviewed financial institutions do not identify an information security breach).

- NBR contemplates the EBA Guidelines regarding establishing, implementing and monitoring security measures, including the certification processes as the case may be, guidelines that will be implemented into the domestic legislation and applicable starting with 13 January 2018.

Conclusions

- NBR collaborates and will continue to collaborate as regards combating the operational and security risks associated to payment services with other national authorities, central banks, competent authorities and EU institutions.

- NBR supports the periodical verification as regards the adequacy of the set of mitigation measures and of the control mechanisms, with a view to manage the operational and security risks specific to the payment services delivered by each PSP operating on the national territory.

- NBR will monitor the compliance of the payment services providers operating on the national territory with the legal framework applicable to payment services, including the future guidelines and the future regulatory technical standards issued for the enforcement of PSD2.

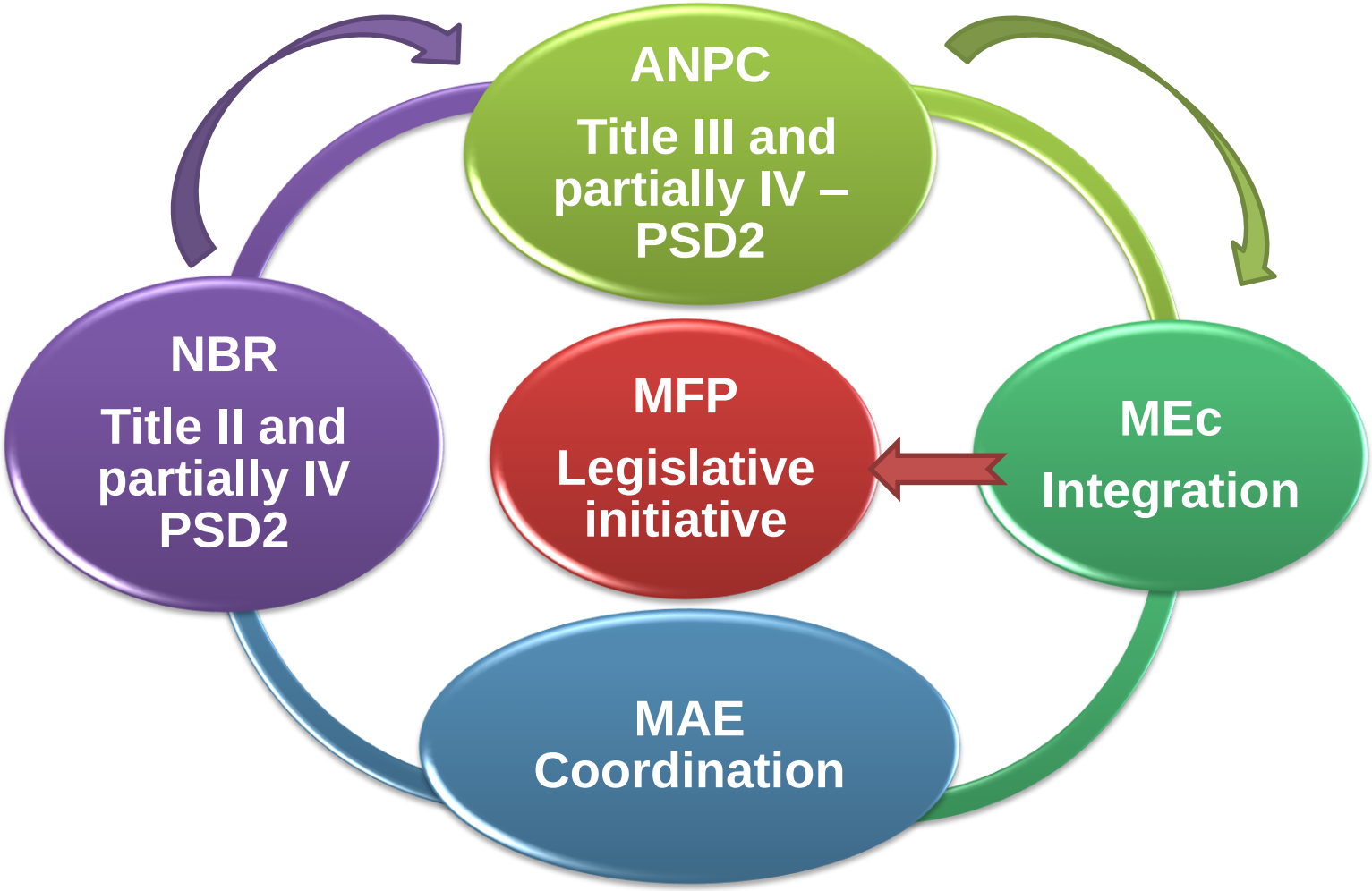
Conclusions

- PSD2 will affect the payment services market due to the new security requirements imposed on PSPs for online payments. An immediate consequence of this directive could come from fintech companies related to authentication services.

- Moreover, a clear regulation of the relationship between banks and other payment services providers is set forth by PSD2, this being the basis for API services. Here too, fintech companies can provide payment initiation services and account information services.

- From a technical perspective, API will be able to revolutionise the manner in which financial institutions – including fintech companies – interact among themselves, making possible the technical cooperation among different players. This could bring about more competitiveness and cut costs for merchants.

Transposition of PSD2



- **Deadline for the transposition of PSD2 – 13 January 2018**

Thank you for your attention!