PSD2: The Hidden Revenues for Banks

Open banking on your terms
Between now and January 2018, when the EU’s new payment services directive PSD2 comes into force, Europe’s banks must grant customer-permitted Payment Initiation Service Providers (PISPs) and Account Information Service Providers (AISPs) access to their bank accounts and financial data.

Understandably, most banks see this as a job with no upside.

Not only are they forced to surrender confidential customer information to companies seeking to disintermediate them, but a tight compliance deadline is also forcing them to make huge technical, legal and organisational investments. Many banks are sinking large sums into their preparation for PSD2 and writing it off as unrecoverable. They are wrong.

When done right, generating revenue from PSD2 is not just possible; it is effortless.

What’s more, when exposed to the right combination of technologies, PSD2 stops being a compliance headache and transforms into the biggest retail banking revenue opportunity of the last fifty years.

This e-book explains how.
Article 66 and the issue of payment charges.

We know. PSD2 is big and complicated. To generate revenues, however, banks need only focus on one part of the regulation: Article 66.

Article 66.4(c) requires banks (referred to as ‘account servicing payment service providers’, or AS PSPs) not to discriminate against payment orders initiated by a business acting (with permission) on behalf of the bank’s customer. These businesses are known as ‘payment initiating payment service providers’ or PISPs.

Article 66.5 requires that banks provide PISPs with access to payment initiation services without requiring a contractual relationship.

There is a belief in the banking industry that PSD2 access has to be provided for free. **This is not true.** Crucially, PSD2 says nothing about whether the bank may charge the PISP for these services – it only mandates that PISPs are entitled to the same pricing as the bank’s retail customers.

If the bank usually charges its retail customer for initiating payment orders, it can also charge the PISP.

PSD2 sets a small number of pricing policies (for example, that banks may not charge for fulfilment of their information obligations) but there are no specifications regarding charges that can be levied for different payment types. This means that banks charging PISPs is consistent with current practice, where banks charge customers significant sums for, say, CHAPS payments, but do not
charge them for Faster Payments or Bacs payments. Using conventional payment systems, charges are already levied by clearing houses and payment schemes, making the introduction of yet more charges cost-prohibitive for the customer.

**A new payment network to capitalise on PSD2.**

*What if the bank introduced a new kind of payment network?* One that provided instant access to a secure, PSD2-compliant open banking infrastructure that enabled the merchant to interface directly with the bank?

This would challenge the traditional payment schemes, clearing houses and other ‘payment enabling’ third parties from the value chain, wiping the slate clean of their charges and enable the bank to introduce its own fees for payment initiation services instead.
Charge ahead with an open banking network.

By putting banks in exclusive control of their own digital transaction network, Token empowers banks to establish immediate PSD2 compliance, maximise security and, most importantly, generate revenues from PISPs and merchants. By combining proprietary and patent-pending programmable tokenization technology with public-key cryptography, Token’s software generates a digital payment network designed to establish the bank as the dominant and controlling force in the transaction chain.

The bank uses Token to issue and redeem payment authorizations in the form of pre-programmed ‘smart tokens’. These can encapsulate any number of arbitrarily complex terms and conditions in accordance with the instructions of the account holder, including their exclusive assignment to individual transaction amounts, between specific parties, at precisely specified times. As a result, sensitive account data never leaves the bank’s systems, masked or otherwise, vastly reducing the bank’s security vulnerabilities. This new system enables the bank to call the shots on PSD2.

PISPs not only use the bank’s Token network to securely access the payment initiation services the customer has requested, they also use it to pay the bank’s associated transaction fees.

The Token platform leverages each bank’s policies and procedures and integrates with their core system APIs to provide an instant springboard into the execution of cryptographically secure, PSD2-compliant digital transactions.
01. Request token
When a user makes a purchase at a merchant, the merchant requests a smart token from the user. The request goes through the Token layer at the user’s bank, which confirms the credentials of the merchant and forwards the smart token for user approval.

02. Approve token
The user receives the smart token request and, in their chosen device they can approve or deny the request. When approved, the private key in the user’s device is used to digitally sign the request. Once the user approves it, the request is returned back to the user’s bank, which verifies the user’s digital signature, and also digitally signs it to confirm everything is correct.

03. Return token
The digitally signed and approved smart token is then returned to the merchant, which can now redeem against it, as long as the redemption is within the rules of the smart token.

04. Request payment
When the merchant redeems the smart token, a payment request is made. The bank receives the smart token and payment request, checks all signatures and whether the request is within the smart token rules constraints.

05. Transfer funds
If the smart token rules are complied with and the signatures are valid, money is moved through legacy rails to the merchant’s bank. If both banks are Token-enabled, the clearing can be done through Token instead of legacy rails, making it instant.
Bank revenues go up, merchant costs go down.

This new payment network offers banks and merchants the best of both worlds.

Example: Let’s assume the bank charges the merchant 60 basis points for an ecommerce transaction performed using its Token network. On a €100 transaction, the bank would gross €0.60. This is twice the revenue the bank would earn on interchange (30 basis points) from an equivalent credit card transaction at 100 basis points + €0.25. With Token, banks provide merchants a more cost effective solution than credit cards while still earning more revenue per transaction. Bank revenues go up, merchant costs go down.

The bank can also benefit from the additional value generated by the higher conversion rates associated with a better customer experience and also reductions in fraud thanks to enhanced digital security.
Today, PSD2. Tomorrow the world.

Generating revenue from PSD2 is just the beginning.

Token’s technology not only clears the visible obstacles in today’s ‘path to market leadership’, it also lets banks set the terms for the future of transaction-based digital services.

Token’s technology can be variously applied within the bank, empowering it to enhance the security, speed, cost and efficiency of a wide range of transaction-based services and functions.

Everything from bill pay, to e-commerce checkouts, international money transfers, B2B payments, intra-bank transfers and more.

In the long term, Token’s technology empowers banks to think big. Theoretically, a bank could apply Token’s technology to transform (and realise the associated benefits of) any kind of value-based transaction, from stock-trading to contract validation.

Ultimately, Token empowers banks to create new methods of transacting, the use-cases for which are only limited by the bank’s ambitions.
Generate revenue

Token gives banks almost limitless potential to generate revenue, by charging PISPs and Merchants for access to a new and innovative digital transaction services delivered via the Token network.

Most secure

Token uniquely combines smart tokenisation and public-key cryptography to provide the industry’s simplest and most secure open banking API.

Raise efficiency and reduce costs

Token’s ready-to-go open banking environment enables operational efficiency to be dramatically increased almost immediately. Investments in R&D, digital payments partners, compliance and integration are reduced or eliminated entirely.

Snap to integrate

The Token software is flexible, fast and simple to integrate with legacy systems, enabling banks to launch new digital transaction services faster than ever before.

Retain control

Token eliminates the bank’s need to rely on partners to execute digital transactions and launch new services, making them immune to competitive encroachment and disintermediation. The bank’s brand remains front and centre at all times.
It’s time to transform.

Token helps banks grow stronger, faster, firstly by transforming PSD2, then by unleashing the full potential of open banking. Early movers in the open banking ecosystem will dominate.

Contact us today to learn more about how Token can help your bank capitalise on PSD2.
About Token.

Token provides software that enables banks to re-establish market dominance in the age of digital transactions. By putting banks in exclusive control of their own open banking network, Token enables banks to generate revenues from PSD2, raise security, eliminate fintech disintermediation and harness the vast potential of programmable money today.

Token is located in San Francisco and London and is quickly expanding internationally, in line with customer demand.

Token’s team combines years of highly successful execution and innovation in both the technology and banking sectors.

Token’s CEO, Steve Kirsch, has invented several groundbreaking Internet technologies and has had multiple billion dollar exits.

Token’s CTO, Yobie Benjamin, was formerly the Global CTO at Citigroup where he was responsible for the processing of quadrillions of dollars a year in payments.

Token has been recognised in the 2016 GTS Global Innovator Competition as the ‘Most disruptive company across all categories, globally’, and is the winner of PlugAndPlay’s 2016 Fintech EXPO, which was contested by more than 1000 applicants from around the world.
London
Level 39
One Canada Square,
Canary Wharf,
London,
United Kingdom E14 5AB
+44 (0)20 3725 7568

United States
845 Market St.
Suite 450
San Francisco,
CA 94103
+1 (650) 713-3388

www.token.io/contact
info@token.io