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WHAT'S NEW IN PSD2:
A GUIDE FOR FINANCIAL INSTITUTIONS, MERCHANTS, AND PAYMENT PROVIDERS

December 30, 2020 ushered in a new era of consumer banking privacy with the EU's implementation of the Second Payment Services Derivative (PSD2). The move seeks to eliminate a perceived monopoly across European banking and payment sectors. Smaller players were struggling to clear regulatory hurdles. Larger players were using their size and breadth in the industry to charge merchants (and their customers) higher fees.

The solution is the two-part PSD2, which blends the concept of Open Banking and Strong Customer Authentication (SCA).

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PSD2: The Gateway to Customer-Centric Banking

One of the goals of PSD2 was to level the playing field between larger banks and fintechs and smaller financial service providers. The Open Banking component of PSD2 seeks to achieve this goal by making customer data more accessible to third-party payment services via APIs.

Open Banking also increases the need to protect consumers' data and privacy, which is addressed by the SCA component. SCA aims to prevent fraud early, thereby making transactions more trustworthy. Providers are achieving SCA goals by setting minimum authentication measures, such as passwords, biometric data, and two-factor authentication, for example.

Increased fraud and changes in consumer behavior are also forcing the hand of payment service providers to boost security and reduce friction. These shifts create more competition in the financial services industry, leading companies to become more customer-centric. Banks must provide frictionless services while also managing risk — a feat that traditionally only had an either/or solution.

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PSD2: Where Do We Stand Today?

Now that financial services and their customers have been exposed to PSD2, a few noteworthy factors have emerged.

Favoritism for Traditional Banks

Open Banking payments rose to over 4 million in 2020, a notable increase from 320,000 in 2018. This indicates that PSD2's goal of lowering the bar to entry for fintechs is progressing. Still, consumers remain attached to traditional banks and see fintechs as secondary services, not primary providers.

Acceleration of Digital Banking

The pandemic accelerated the financial services market move to digital. While PSD2 can't take all the credit, Open Banking and SCA will support consumers' ongoing desires to maintain and augment their digital banking preferences.

Reduced SCA Friction with Machine Learning

SCA requires providers to capture two out of three identifying items: something a customer knows (e.g., a password), something they have (e.g., their smartphone), and something they are (e.g., facial recognition).

Low-risk transactions, such as checking an account balance, are not always subject to SCA validation. AI machine learning is being used to identify low-risk scenarios and prevent fraud. Providers who employ these solutions enjoy a competitive advantage by reducing unnecessary friction for their customers.

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Setting Realistic Expectations for Banks, Fintechs, and Merchants

PSD2 is still in its infancy. Outside of regulatory scrutiny, the primary goal for banks will be to build and maintain a high level of trust by protecting customer data and reducing friction when possible. A convergence of online fraud detection, identity proofing, and authentication that builds confidence for financial service providers and their customers alike is enabling banks and fintechs to do just that.

DataVisor supports PSD2 initiatives with a 360-degree platform of fraud prevention technology to minimize customer friction and increase fraud detection success rates. Real-time transaction scoring and complete account monitoring through the entire customer lifecycle identify fraudulent behaviors with greater accuracy and fewer false positives.

DataVisor also collects accurate intelligence from mobile devices, including those that use emulators or spoofing to avoid detection. Holistic data analysis across internal and external channels — a concept upon which successful Open Banking is dependent — finds hidden connections among transactions and activities. As a result, banks and payment processors may find more instances of fraud that would otherwise appear valid on the surface but are actually connected to larger organized crime rings.

Discover how DataVisor is helping to shape the future of digital banking with a machine learning approach to fraud prevention.

Experience proactive AI-powered fraud prevention today.
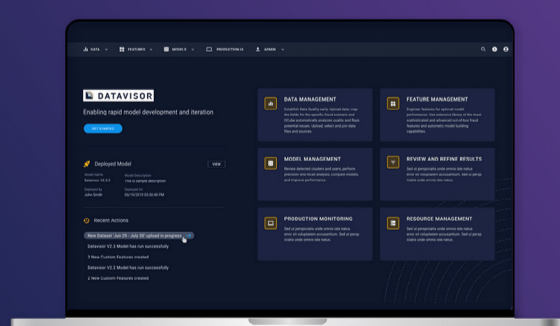
About DataVisor

DataVisor is the world's leading AI-powered Fraud and Risk Platform that delivers the best overall detection coverage in industry. With an open SaaS platform that supports easy consolidation and enrichment of any data, DataVisor's solution scales infinitely, enabling organizations to act on fast-evolving fraud and money laundering activities as they happen in real time. Its patented unsupervised machine learning technology, combined with its advanced device intelligence, powerful decision engine and investigation tools, provides guaranteed performance lift from day one.

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