

Unlocking the True Value of Bank Payments

WHAT MERCHANTS NEED TO KNOW ABOUT PSD2 BANK PAYMENTS



Executive summary



What is PSD2?

Payment Service Directive 2 (along with its supplementary technical standards) is a new EU payment directive that came into full effect September 2019.

PSD2 is bringing changes to many payment areas. Most importantly, it creates a strong legal framework for bank payment initiation services.

This area has shown strong growth for many years, but historically, service providers have struggled to provide their services. With the new regulation, all banks are required to allow and support payment initiation.

What will you find in this document?

This document aims to explain the PSD2, its effects, and current implementation status in an easy to understand manner. The paper is divided into three sections:

1. Summary of how PSD2 bank payments work
2. Summary of PSD2 API standardization
3. Glossary of PSD2 terminology

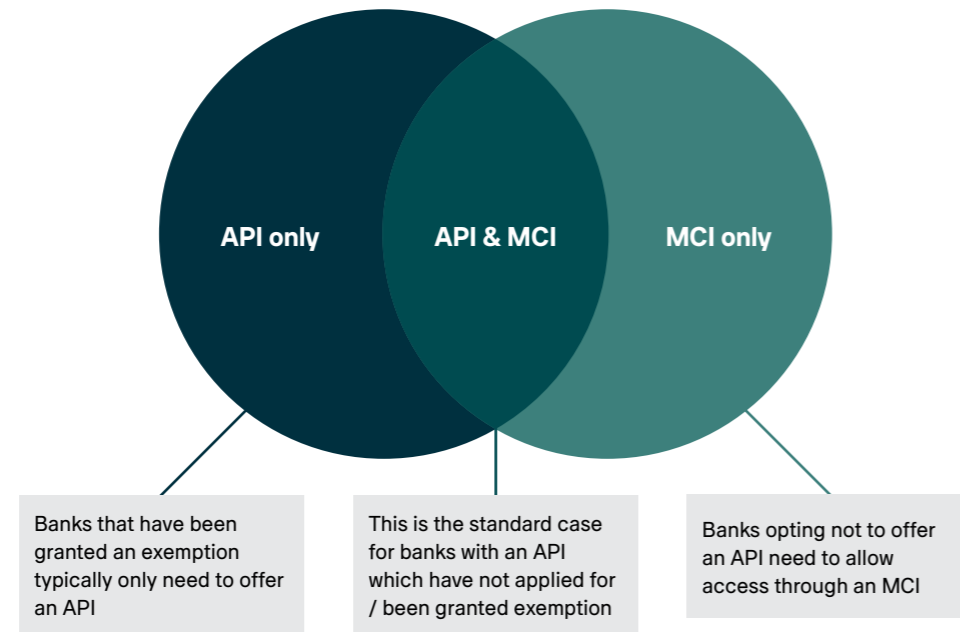
Key takeaways

What merchants need to know about PSD2 and online bank payments:

- ▶ In PSD2 terminology, online bank payment companies are called Payment Initiation Service Providers (PISPs)
- ▶ It is important to know that not all PISPs are the same – they differ in two main ways:
 1. How they can connect with banks
 2. If they collect funds
- ▶ These key differences impact PISPs' merchant offering:
 - PISPs that can connect with banks in multiple ways have higher bank coverage
 - PISPs that collect funds can offer refunds and many other value adding services

3 options for PISPs to connect with banks

Most banks today offer connections through API & MCI or MCI only



Exemption is a key concept, as it means PISPs will typically be required to use the bank's API. The local FSA can grant an exemption if the bank's API is proven stable and well-functioning. However, many APIs have not been fully evaluated or might not yet work well enough to allow for exemption.

Given the different combinations offered by banks, there will be great diversity of connections in the market that PISPs need to be able to handle.

2. New requirements for bank payment companies (PISPs)

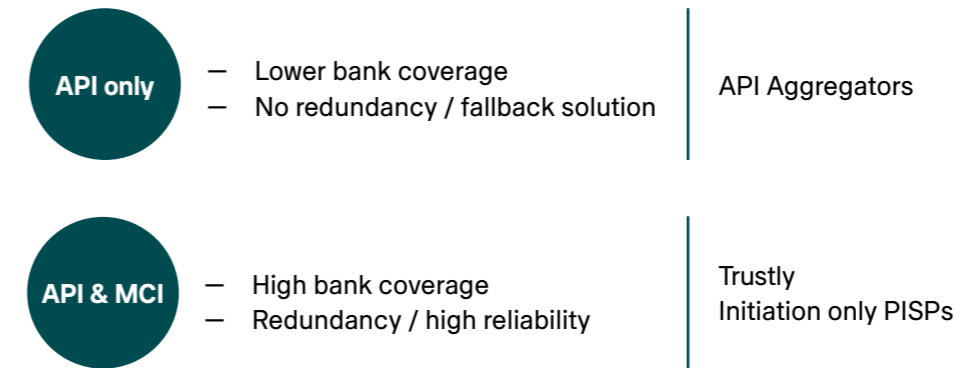
To provide payment initiation services, PISPs are required to utilize the connections provided by banks, API and/or MCI – there are no other methods. PISPs differ in how they are able to integrate with banks (A). In addition, PISPs differ in whether they collect funds or not (B). Based on this, PISPs can be divided into three main types.

3 main types of PISPs based on functionalities

	A Bank integration		B Collect funds
	API	MCI	
Trustly	✓	✓	✓
Initiation only PISPs	✓	✓	✗
API aggregators	✓	✗	✗

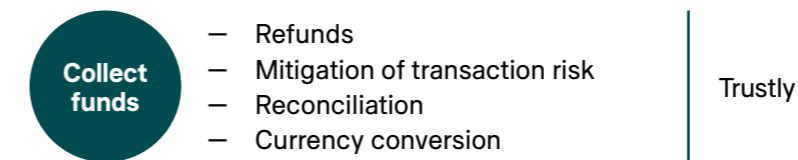
The PISP's functionality impacts what services they can provide merchants. Bank integration (A) has important implications for the bank coverage/redundancy.

Implications of bank integrations on bank coverage/redundancy



Collecting funds (B) impacts what services can be provided to merchants.

Implications of fund collection on merchant services



Bank transactions are not guaranteed, meaning there is risk that money won't settle if the consumer cancels a transaction after initiation.

Summary


With PSD2, bank payment initiation companies (PISPs) are regulated and licensed. PISPs differ in how they integrate with banks (A), affecting bank coverage, and in whether or not they collect funds (B), enabling refunds and other value adding services.

Overview – Services offered by different types of PISPs

		Trustly	Initiation only PISPs	API aggregators
A Bank integration	API	●	●	●
	MCI	●	●	●
B Collect funds	Refunds	●	●	●
	Mitigate transaction risk	●	●	●
	Reconciliation	●	●	●
	Currency conversion	●	●	●
	Fraud & AML	● ¹	●	●

● Offered by PISP
● Not offered by PISP

¹ Since Trustly collects funds, our AML requirements are more stringent than other market actors, offering an extra layer of security for merchants

A blue-tinted photograph showing the silhouettes of four people in a meeting room. One person on the left is gesturing towards the others. The room has large windows and a modern interior.

PSD2 online bank payments

PSD2 API standardization summary

UK – Government standardized APIs

In the UK, an API template has been developed for use by the banks to ensure standardization. The background is that the country's Competition and Market Authority (CMA) found insufficient competition in British retail and SME Banking, and thus proposed Open Banking as a solution. As a result, the banks were forced to fund a new organization - Open Banking Implementation Entity (OBIE).

The nine largest banks must comply with OBIE's requirements, with the following conditions:

- OBIE assures APIs are fully compliant with PSD2
- They cannot resort to offering MCI instead of API
- OBIE can prompt the Financial Conduct Authority (FCA) to levy fines against non-compliant banks

As a result, PISPs must use OBIE standard APIs for these nine banks - MCI is not an option. However, other banks than the nine can offer an MCI.

EU – Localized standardization

The European Union does not have universal government-standardised APIs as in the UK. PSD2 regulation leaves the details of the APIs open, only the technical framework conditions are specified. In some markets, industry standards have evolved and are commonly used, other markets lack real standardization.

Industry initiative API standards (no government involvement)

As a response to a lack of legislated standardization, standards have been defined by industry organizations including:

- Berlin Group (Europe)
- PolishAPI (Poland)
- STET (France)

The most widely adopted standard is the Berlin Group, consisting of almost 40 banks/PSPs across the EU.

PSD2 glossary

The glossary below describes abbreviations/terms used that readers might come across in relation to PSD2 bank payments.

AIS

Account Information Services

A service that is allowed access to consumer bank account information, including transaction history and balances, often for credit scoring or to offer tailored finance products/budgeting solutions

AISP

Account Information Service Provider

Third Party Provider offering Account Information Services (AIS) to merchants

API

Application Programming Interface

A method for a Third Party Provider (PISP/AISP) to access bank accounts. APIs specify how software components interact, allowing systems of different companies to work together

AISP

Account Servicing Payment Service Provider

This term refers to a bank

Exemption

Banks providing an API can apply to be exempted from providing the so-called fallback to the API (i.e. the MCI). If approved by local Financial Supervisory Authority (FSA), the bank doesn't have to provide Modified Customer Interface

FSA

Financial Supervisory Authority

A national financial market regulatory body empowered to protect consumers and provide a level playing field for the industry. An FSA promotes competition and ensures the market remains fair and effective.

MCI

Modified Customer Interface

Method for a Third Party Provider (PISP/AISP) to access bank accounts through online bank/customer portal as an alternative to using an API

Open Banking

A general term for system enabling Third Party Providers to build services around banks/financial institutions, connecting to them through APIs or MCIs

PIS

Payment Initiation Services

A service that initiates a payment directly from a consumer bank account. For example, initiating a payment to a merchant from an online shopper.

PISP

Payment Initiation Service Provider

A Third Party Provider licensed to offer Payment Initiation Services to merchants

RTS

Regulatory Technical Standards

Standards for strong customer authentication as well as common and secure open standards of communication

PDS2

Revised Directive on Payment Services

EU Directive created to better protect consumers when paying online and promoting the development of innovative online payments (for example, through Open Banking)

SCA

Strong Customer Authentication

Ensures payments are authenticated and performed in a secure manner

TPP

Third Party Provider

An authorized online service provider that can connect to banks via an API or MCI, offering Account Information Services and/or Payment Initiation Services. There are two kinds of TPPs – Account Servicing Payment Service Providers and Payment Initiation Service Provider.



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About Trustly

Founded in 2008, Trustly is the global leader in Online Banking Payments. Our account-to-account network bypasses the card networks, letting consumers make fast, simple and secure payments to merchants directly from their online banking accounts. With support for more than 6,000 banks, roughly 600 million consumers across Europe and North America can pay with Trustly. We serve many of the world's most prominent merchants within e-commerce, financial services, gaming, media, telecom and travel, which all benefit from increased consumer conversion and reduced operations, fraud and chargeback costs.

Trustly has 400 employees across Europe, the US and Latin America. We are a licensed Payment Institution under the second payment services directive (PSD2) and operate under the supervision of the Swedish Financial Supervisory Authority in Europe. In the US, we are state regulated as required to serve our target markets. [Read more at trustly.com](#)

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