Assessing banks' readiness for the new EU payment regulations

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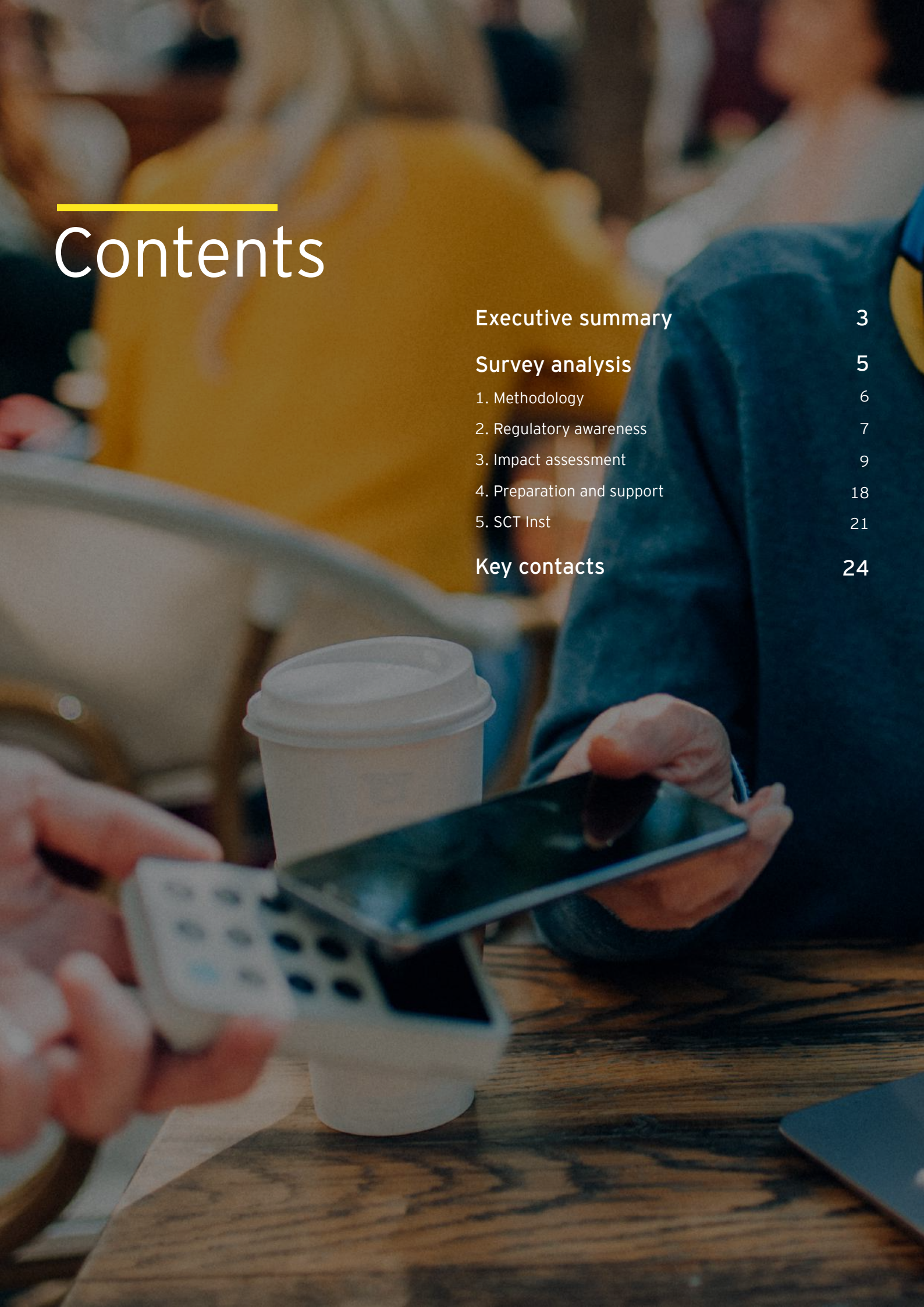

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Executive summary

PSR, FiDA and the digital euro will significantly affect banks' business models, but survey analysis shows a lack of readiness

The payment regulations are expected to significantly impact banks' business models due to higher competition, changes in customer behavior and the need for technology infrastructure upgrades. However, a significant portion of respondents are struggling to define the changes they will need to make. Furthermore, fewer than half of respondents have assessed the impact from Financial Data Access (FiDA) and the digital euro, which are likely to bring the most significant changes.

Awareness

Levels of awareness vary across the payment regulations. Respondents showed high levels of awareness for SEPA Instant Credit Transfer (SCT Inst), Payment Services Directive 3 (PSD3), and Payment Services Regulation (PSR) since these regulations have already been voted on. FiDA and the digital euro, with their lack of regulatory clarity, showed lower awareness. In comparison, C-suite awareness was notably lower across all regulations, highlighting a need for increased engagement. This is crucial as compliance and strategic changes are expected to be a top 10 investment item for many banks.

Impact assessment

Banks expect PSR, FiDA and the digital euro to significantly reshape business models due to higher competition, customers' demands for a better user experience and increased use of digital payments, and the need for banks to upgrade their infrastructure. These changes will impact payment revenues and raise operational costs. However, fewer than half of respondents have assessed the impact of FiDA and the digital euro, potentially underestimating the significant changes these initiatives will bring.

Preparation and support

Banks face challenges in understanding and preparing for upcoming regulations, with a significant lack of knowledge about required changes and implementation impacts. Only a minority allocate specific resources for compliance and strategic changes. While readiness is higher for SCT Inst, PSD3 and PSR, readiness challenges are faced on FiDA and the digital euro. Accessing skilled resources, particularly in impact assessment, cyber security and IT support, is identified as a key hurdle.

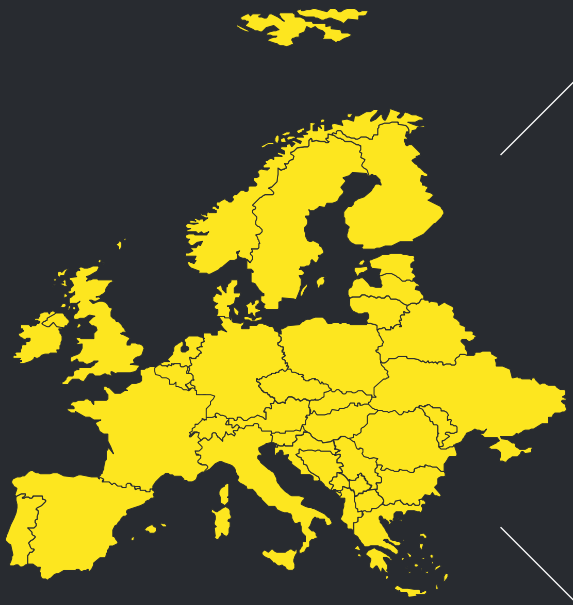
SCT Inst

Banks are making strides in providing SCT Inst capabilities, with the majority offering it in their banking/payment channels. Compliance challenges primarily revolve around Variable Recurring Payments (VRPs) service, sanction screening and Confirmation of Payee (CoP). Providing a choice to customers between SEPA Credit Transfer (SCT) and SCT Inst is a priority, with considerations for payee Payment Service Providers (PSPs) accessibility and bulk processing challenges influencing decision-making.

Survey analysis

1. Methodology

EY payment regulations survey received responses from a range of decision-makers at leading banks with a significant presence in the EU.



Significant coverage across the region

26 Banks and payment service providers that have a significant presence in the EU

Time frame of the survey

Survey ran between January and February 2024

Views from leaders spanning a variety of roles

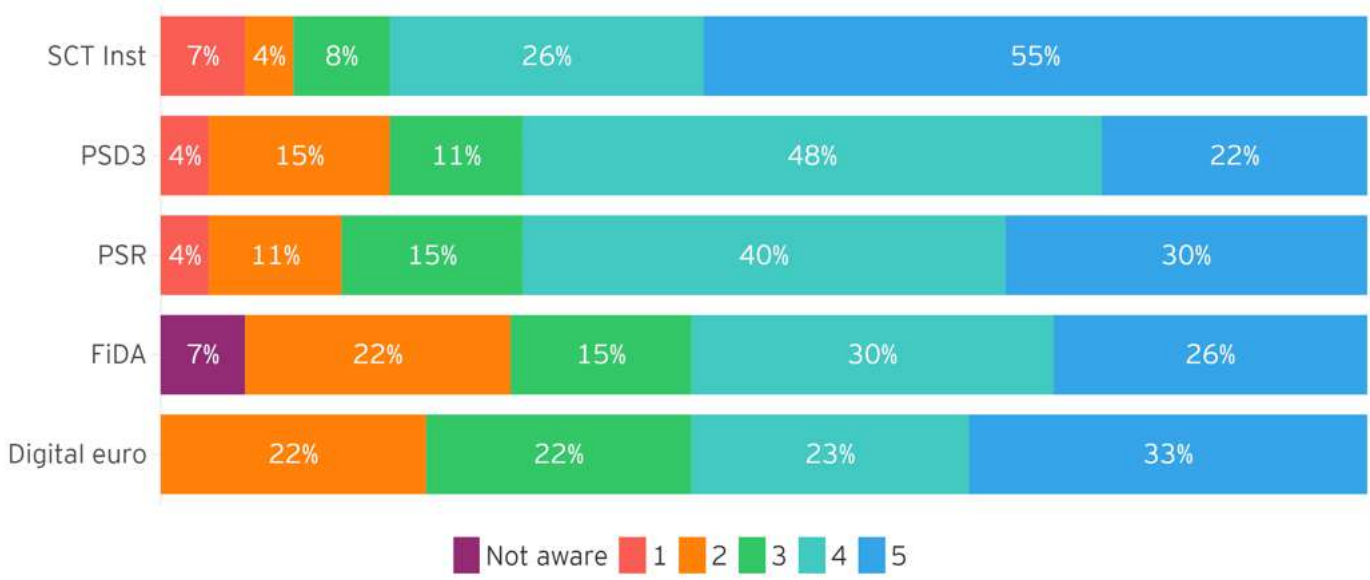
- **Management and leadership:** E.g., CXOs, Head of Payments, Executive Directors.
- **Payment strategy, policy and regulations:** E.g., Head of Payments Strategy, Policy Advisor Payments, Head of Public and Regulatory Affairs.
- **Business development and innovation:** E.g., Business Development Lead, Group Head Innovation LAB.
- **Functional and operational:** E.g., Head of Operations, Head of Payments and Cash Management.
- **Industry expertise and analysis:** E.g., Lead Expert Payments, Regulations and Regulatory Affairs.

2. Regulatory awareness

Respondents' understanding of payment regulations and their objectives in the marke

Q2.1: How would you rate your understanding of these regulations and their objectives?

Please use the scale of 1 to 5, where 1 represents "limited understanding" and 5 represents "advanced understanding." If you are not aware of the regulation, please choose the "Not aware" option.



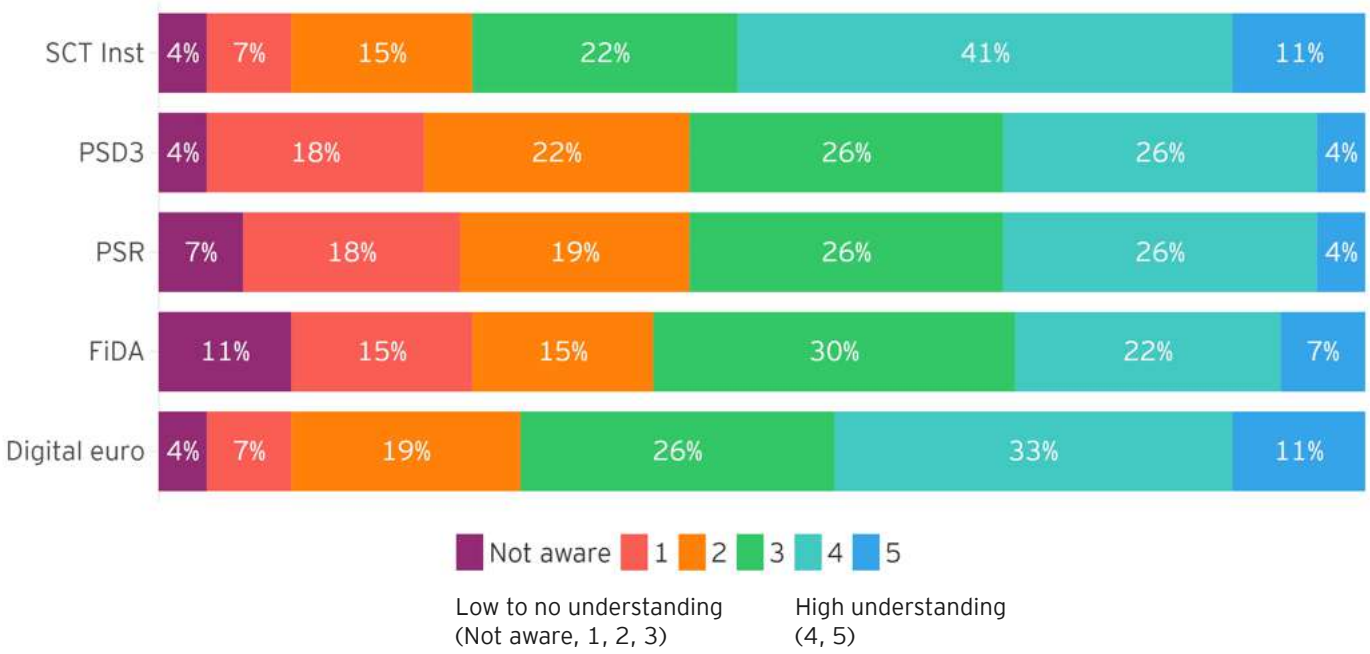
Low to no understanding
(Not aware, 1, 2, 3)

Respondents' awareness

- 81% of respondents exhibit a high level of awareness regarding SCT Inst.
- PSD3 and PSR follow closely at 70% each.
- Awareness of digital euro and FiDA regulations is notably low, with 44% indicating low to no awareness at all.

Q2.2: How would you rate your C-Suite's understanding of these regulations and their objectives?

Please use the scale of 1 to 5, where 1 represents "limited understanding" and 5 represents "advanced understanding." If you are not aware of the regulation, please choose the "Not aware" option.



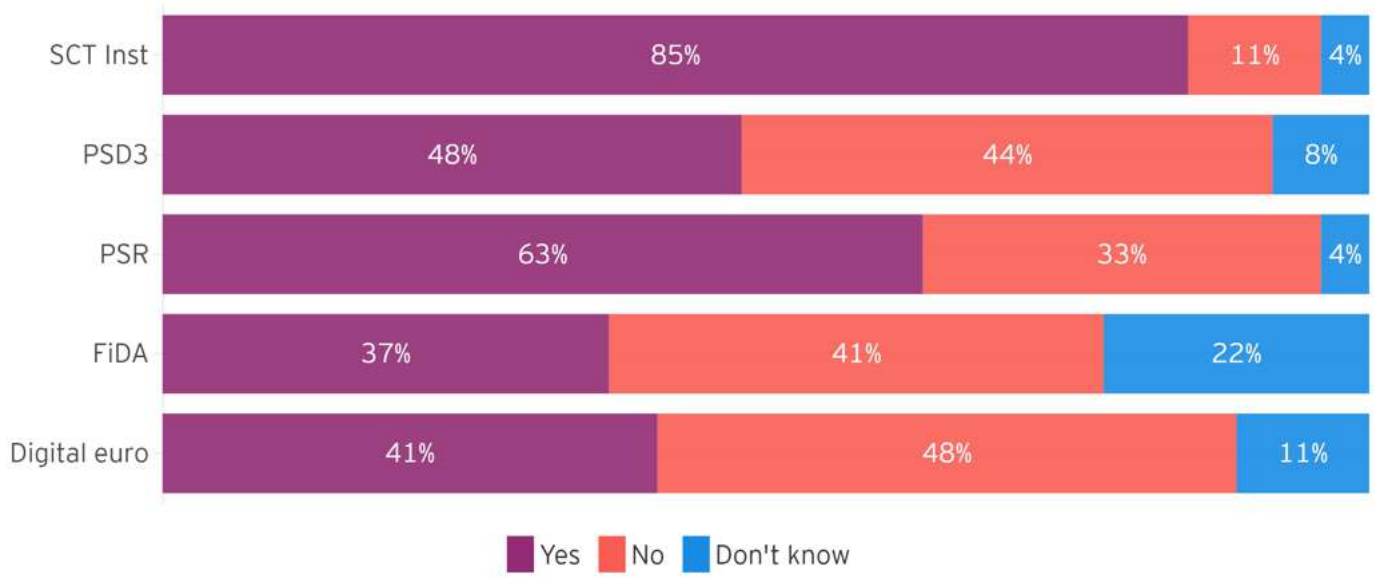
C-suite's awareness

- 52% indicate that their C-suite possesses good awareness of SCT Inst.
- Regarding digital euro, 44% report that their C-suite is well informed.

3. Impact assessment

Respondents' assessment of the impact on their business models

Q3.1: Have you completed an impact assessment for your organization?

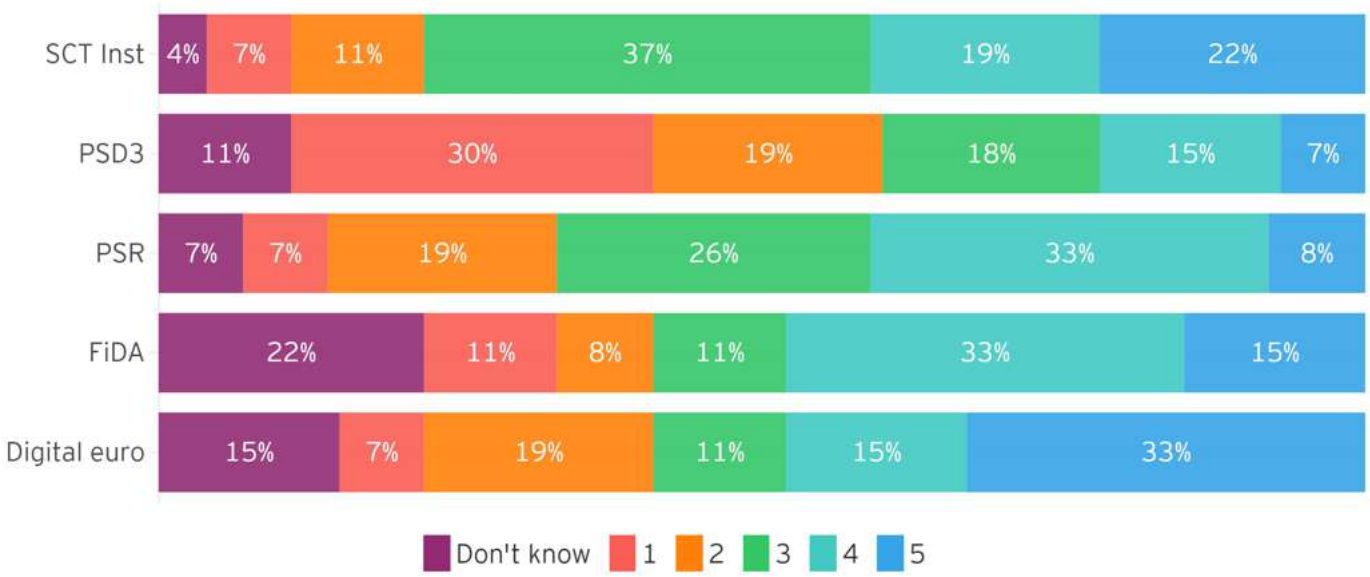


Impact assessment completion:

- Most organizations have conducted impact assessments only for SCT Inst (85% of respondents) and PSR (63% of respondents).

Q3.2: How would you rate the impact of these regulations on your business model?

Please use the scale of 1 to 5, where 1 represents "low impact" and 5 represents "high impact." Please explain your reasoning (text responses).



Impact of the regulations on business model

- Respondents believe that FiDA (48%), digital euro (48%) and PSR (41%) are expected to significantly alter their business models.

Q3.2: How would you rate the impact of these regulations on your business model?

Impact of each regulation on business models

PSR

- Fraud management enhancements
- Improving customer authentication and protection
- Increased transparency
- Increased innovation, especially in mobile banking and online payments

SCT Inst

- Increased transaction volumes
- Higher fraud risk
- Transition to 24/7 operations
- Compliance adjustments
- New product offerings

PSD3

- Impact on e-money institutions/payment institutions
- Emphasis on legal and supervision aspects
- Possibility for pricing adjustments
- Strengthening consumer rights
- Improving dispute mechanism

Digital euro

- Design choices and implementation costs for banks
- Necessitating new payment schemes, new payment architectures, etc.
- Potential cost reductions
- New, innovative payment services

FiDA

- Promotion of competition and innovation
- Enablement of comprehensive access to financial data
- Rights and obligations regarding customer data sharing
- Adaptations in business strategies
- Adaptations in data access guidelines

Q3.3: How will your organization's functions be affected by the upcoming regulations?

Impact of regulations on business functions

Operations

- Core process adjustments required
- Operational challenges highlighted by implementation of open API Gateways
- Priority placed on supporting new interfaces
- Requirements for 24/7 monitoring

Strategy and innovation

- Diversion of resources from innovation
- Limitation of capacity for strategic opportunities
- Necessity for new thinking in response to regulatory requirements
- Urgency for banks to step up as early innovators
- Balancing of investment between compliance and innovation

IT

- Cost implications and capacity considerations
- 24/7 reachability requirements
- Technology integration efforts
- Changes in systems and services
- API development needs

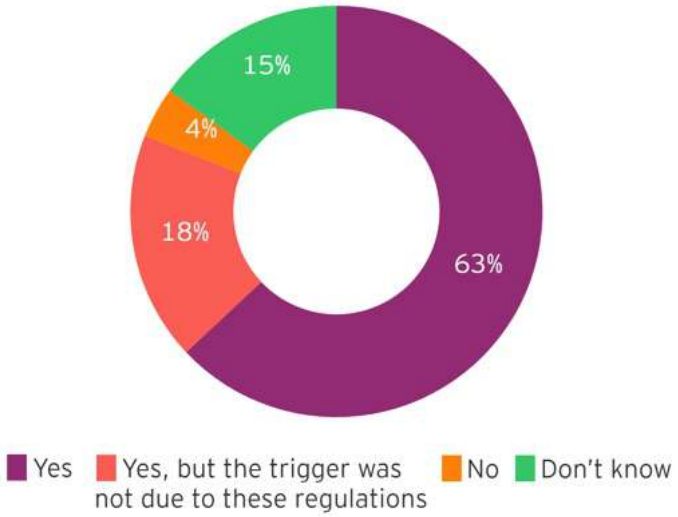
Cyber

- Increased threat levels and challenges in securing cyber systems
- High impact of regulatory-driven cybersecurity requirements
- New potential attack vectors
- Transaction shifts impacting cybersecurity
- Emphasis on regulatory compliance

Other functions

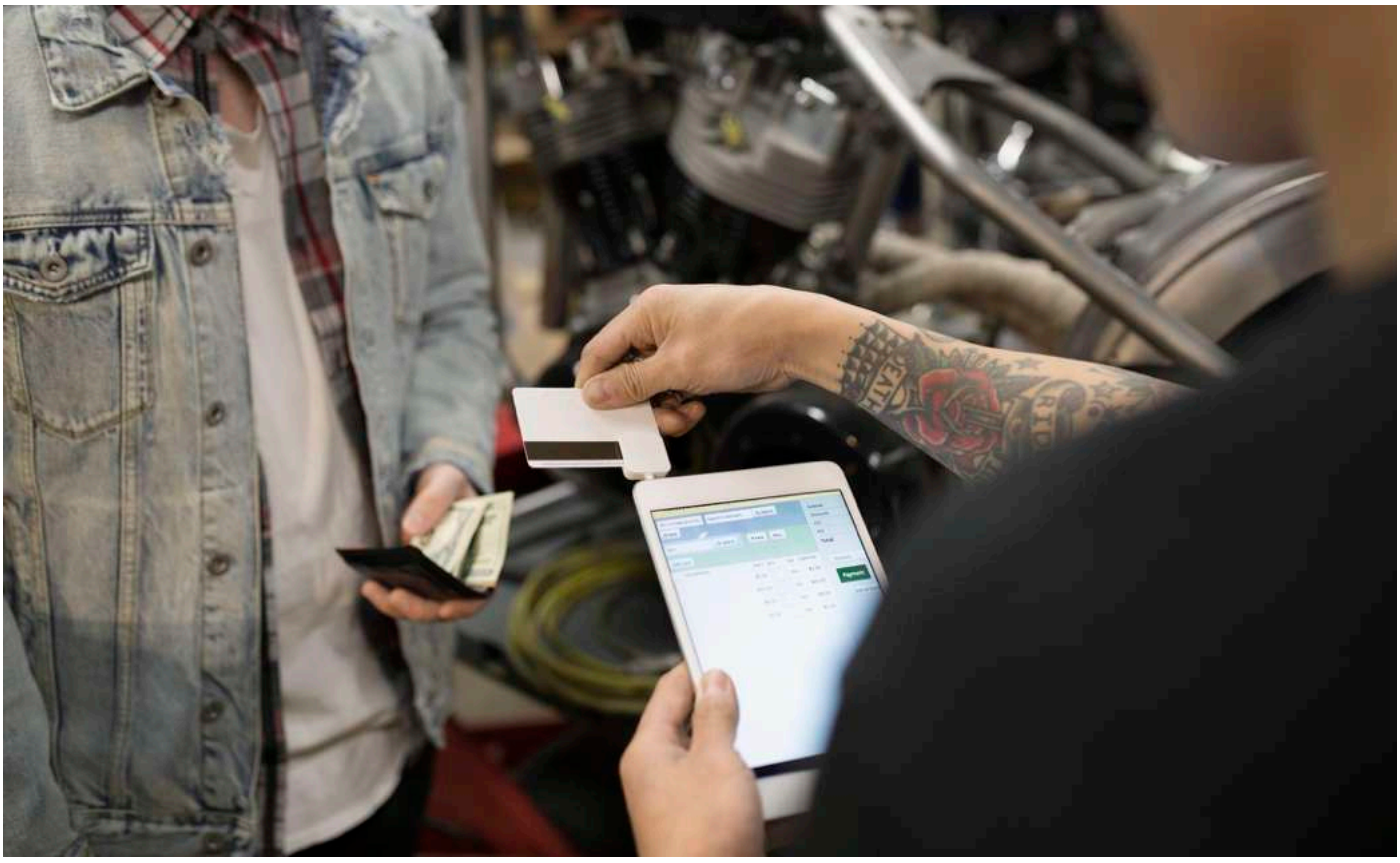
- Impact on Legal, Treasury and Anti-Money Laundering departments
- Pricing discussions and considerations for data protection
- Modified rules for fraud prevention due to new channels
- Interpretation of regulations
- Cross-functional cooperation for implementation

Q3.4: Will these regulations prompt you to modify or upgrade your existing infrastructure? Or were these changes already planned?

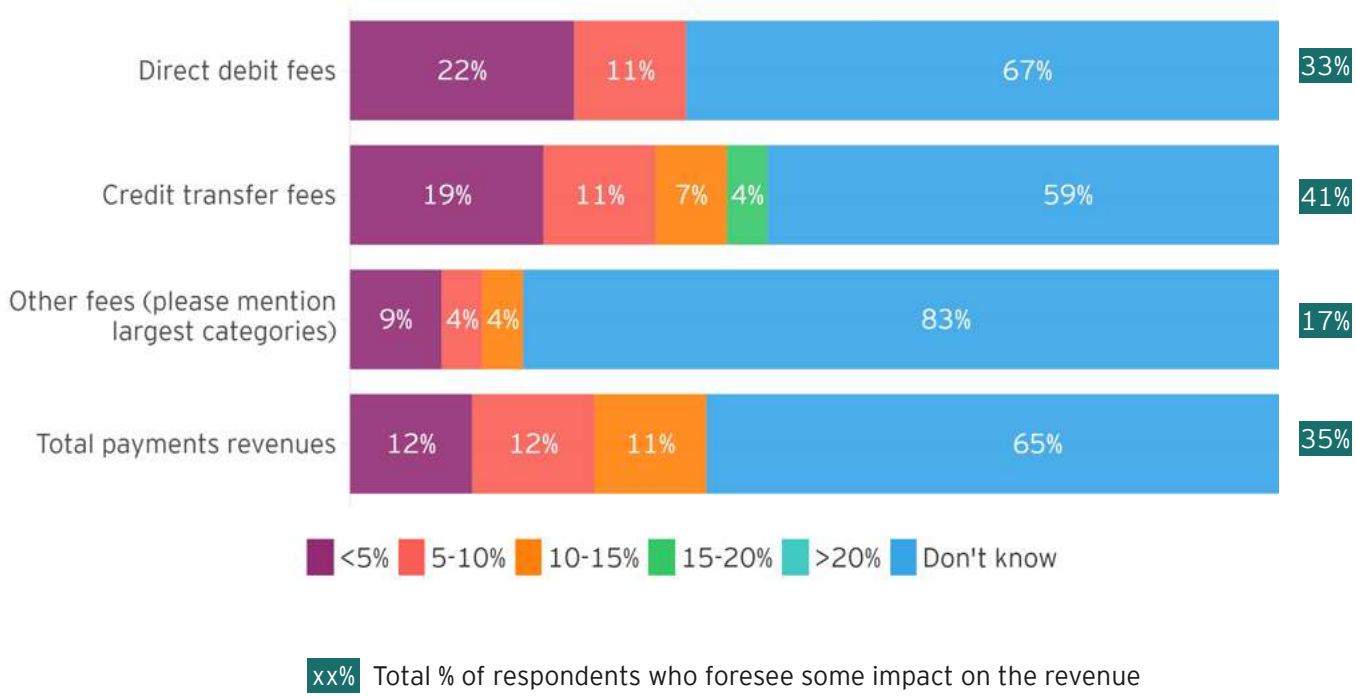


Modify or upgrade existing infrastructure

- 81% say they have to modify or upgrade their existing infrastructure
- 63% cite upcoming regulations as reasons
- 18% say regulations were not the trigger



Q3.5: For each of the following payment categories, what percentage of your revenue do you foresee being impacted by these regulations?



Revenue impact

- 35% of respondents expect these regulations will impact total payments revenues by up to 15%.
- Most respondents are unaware of the extent to which payments revenues will be impacted.
- Potential revenue changes include new fees from third-party providers (TPPs), impacts on card issuing and acquiring, and adjustments in the payments journey.

Q3.6: Which aspects of these regulations concern you most in terms of their impact on your business's profitability?

Below is a summary of the open text responses received.

SCT Inst

- Increased operational costs due to continuous processing and alignment of fees between instant and batch payments.
- Mandated instant payments across channels may strain profitability by limiting differentiation and increasing fraud risk.
- Upfront technology investments for compliance, ongoing fraud monitoring and potential revenue reductions pose profitability challenges.

PSD3

- Uncertainty in assessment and limited expected impact alleviate concerns, but liability shift and interface upgrades pose profitability challenges.
- Potential increase in market participants and contracts with TPPs could affect financial stability and profitability.
- Initial investment in technology for compliance and potential competition from FinTech players are profitability concerns.

PSR

- Potential fraud-related costs and liability in case of fraud are significant profitability concerns.
- Emerging Pay by Bank services pose medium risk but offer various possibilities.
- Compliance costs, technology maintenance, and potential competition from FinTech players are ongoing profitability worries.

FiDA

- Potential fraud-related costs and liability in case of fraud are significant profitability concerns.
- Emerging Pay by Bank services pose medium risk but offer various possibilities.
- Compliance costs, technology maintenance, and potential competition from FinTech players are ongoing profitability worries.

Digital euro

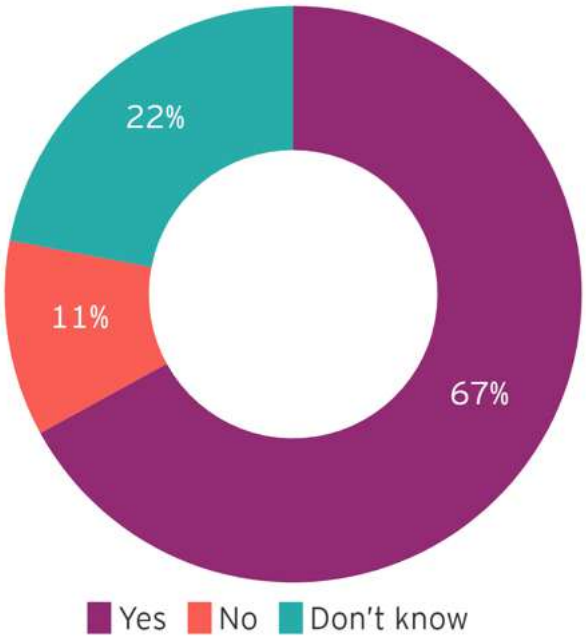
- Concerns over substantial investments required and potential loss of deposit base due to uncertain distribution model and competition with existing methods.
- High impact on technological maintenance, sales costs and bank balance sheet, with unclear customer acceptance and need.
- Uncertainty regarding revenue impacts, especially on payments and balance sheet, alongside concerns about IT infrastructure and customer persuasion.

Q3.7: What particular challenges or opportunities do you anticipate in the payments industry due to these regulations?

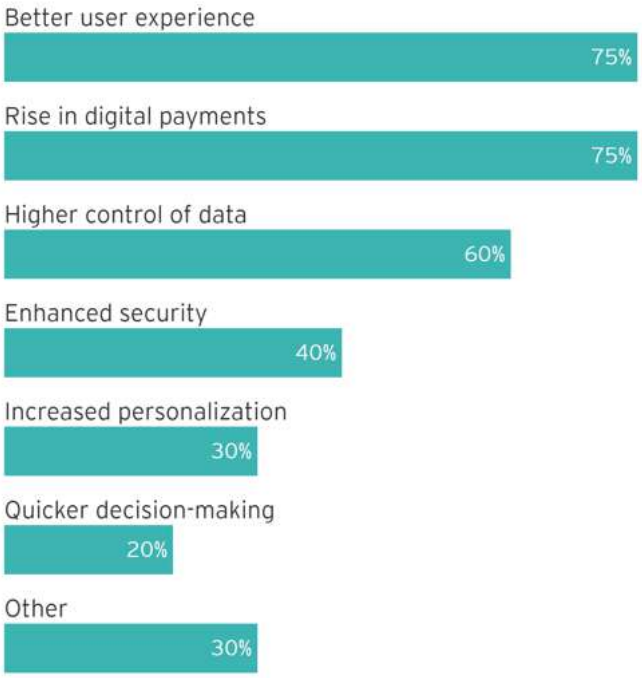
Below is a summary of the open text responses received.

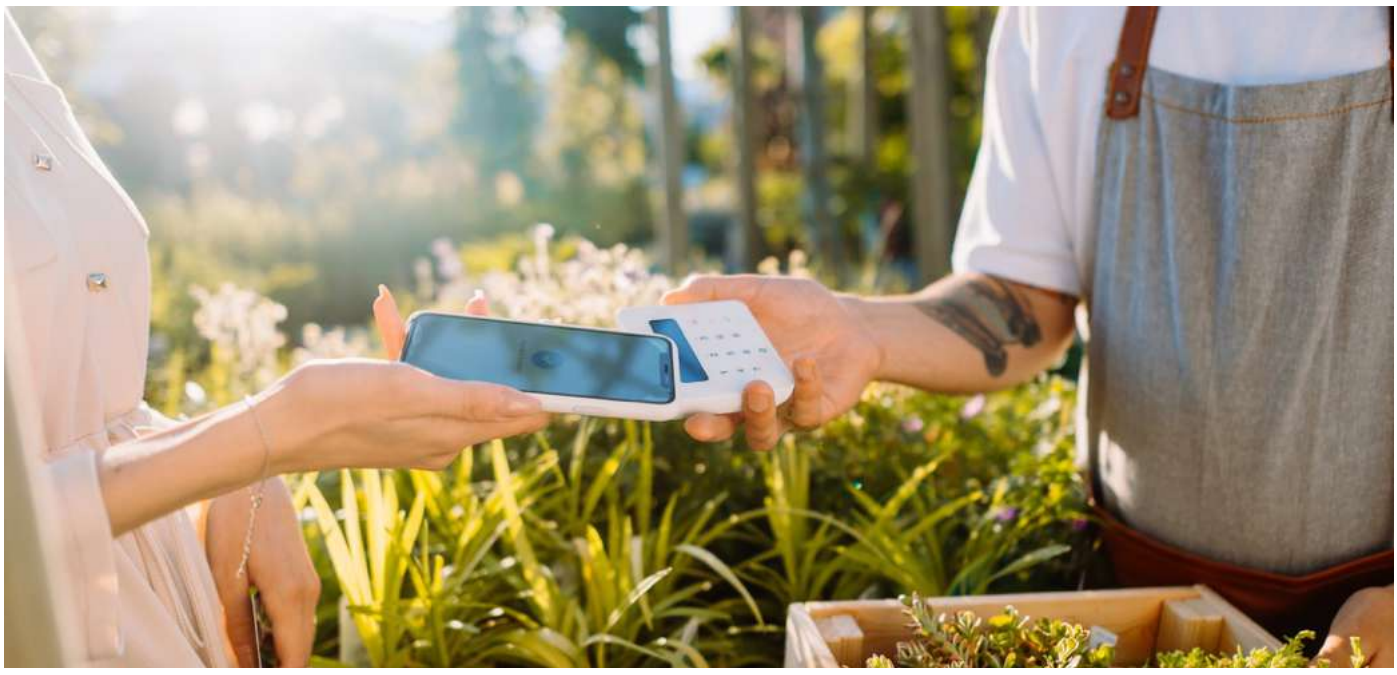
	Challenges	Opportunities
SCT Inst	▸ Compliance uncertainties lead to rising operational costs and faster fraud, impacting service resilience. ▸ Increased competition and migration to instant payments pose revenue reduction challenges. ▸ Technical infrastructure upgrades and pricing complexities add operational burdens to banks.	▸ Product innovation and improved service offerings enhance customer propositions and competitiveness. ▸ Expanded reach in Europe and settlement services provision unlock new revenue streams. ▸ Faster transactions and improved safety promote customer satisfaction and market penetration.
PSD3	▸ Unclear requirements and increased competition pose challenges for compliance and market positioning. ▸ Risks of additional competitors and regulatory requirements could strain operational efficiency and increase costs. ▸ Limited understanding and potential impacts necessitate careful navigation and adaptation to evolving regulatory landscapes.	▸ Access to FinTechs and industry harmonization create opportunities for collaboration and innovation. ▸ Broader open banking and technological improvements enhance competitiveness and customer offerings. ▸ Involvement of diverse companies in fraud prevention management expands capabilities and strengthens security measures.
PSR	▸ Uncertainty regarding implementation costs and liability shifts may strain resources and operational efficiency. ▸ Compliance demands and increased fraud management obligations could escalate operational complexities and costs. ▸ Competition and lower costs for customers pose challenges for payment service providers' profitability and market positioning.	▸ Access to FinTechs and data sharing for fraud prevention foster collaboration and innovation. ▸ Embedded payments and broader open banking present opportunities for expanded services and customer engagement. ▸ Open banking initiatives encourage innovation and offer platforms to enhance payment data systems for improved offerings.
FiDA	▸ Uncertainty about regulatory requirements and changes in product value chains may disrupt operational strategies. ▸ Operationalizing regulations could involve significant investments in IT infrastructure and expose sensitive data. ▸ Increased competition and data exposure pose challenges in maintaining competitive advantage and ensuring data protection.	▸ Access to more data and innovative use as a data user can lead to enhanced services and customer experiences. ▸ Potential partnerships or aggregation services can emerge, offering new and better ideas for customers. ▸ Leveraging data monetization and aggregation models can create new business opportunities and enrich customer offerings.
Digital euro	▸ Uncertainty about implementation costs and impact on financial stability due to numerous unknown factors. ▸ High investments required, potential pressure on fees, and competition with existing payment solutions. ▸ Lack of clear understanding and potential impact on banking deposits and balance sheet financing costs.	▸ Provision of digital euro and value-added services to customers, potentially enhancing euro services. ▸ Independence from non-European solutions, efficiency gains in payment systems, and consolidation of the retail payment market. ▸ Introduction of new payment services and technological improvements, offering alternative ways to pay.

Q3.8: Do you expect these regulations to increase market competition by attracting new entrants?



Q3.9: How do you see customer behavior or expectations changing as a result of these regulations?

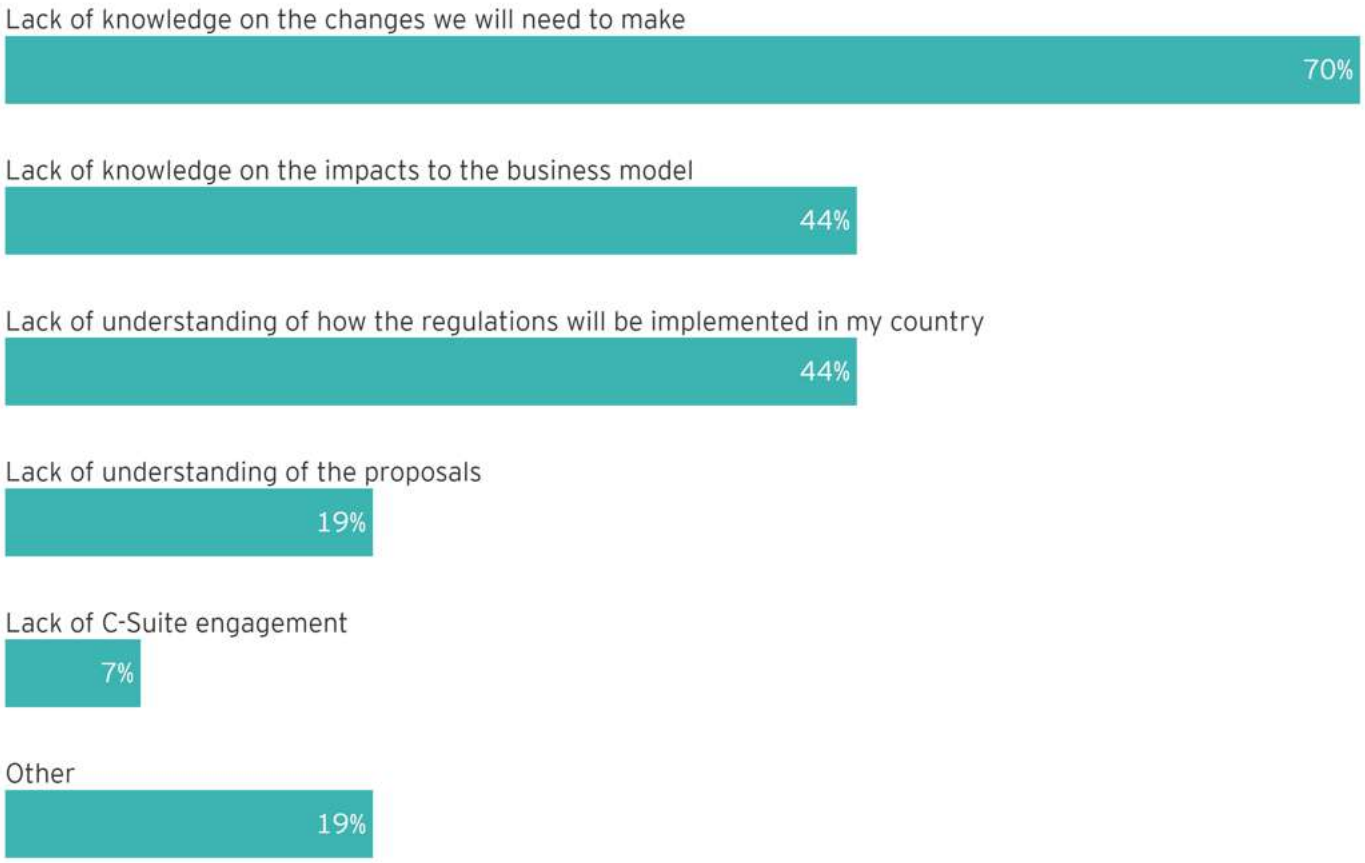




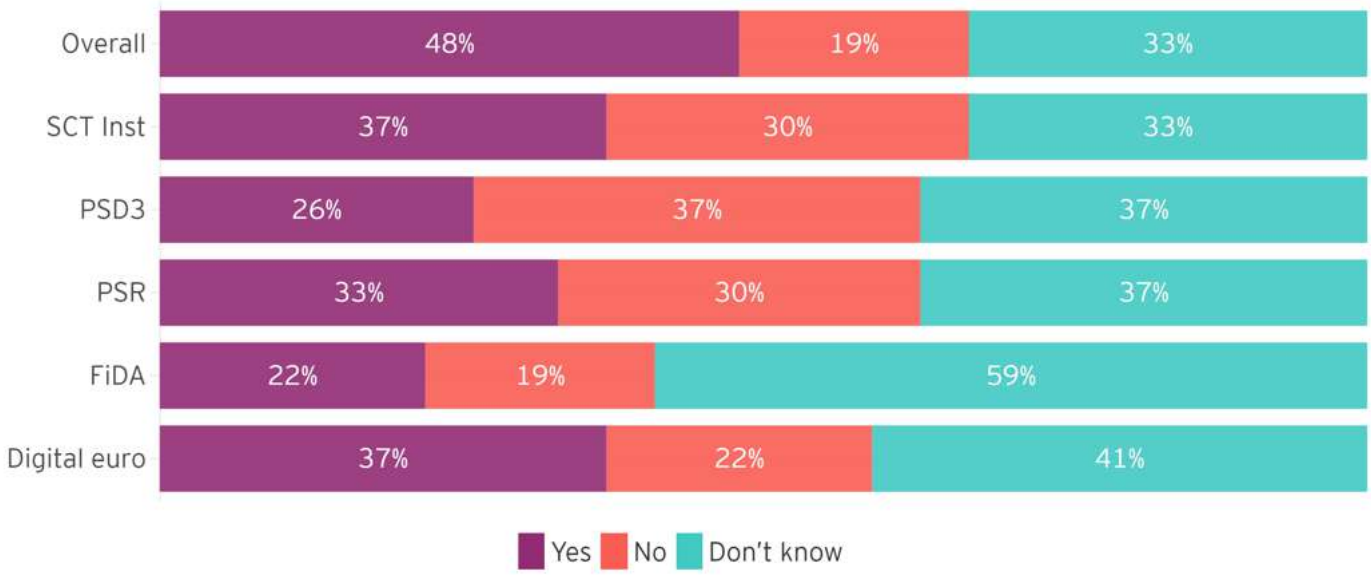
4. Preparation and support

Respondents' assessment of their readiness and support needs

Q4.1: What challenges do you currently face in relation to these regulations?

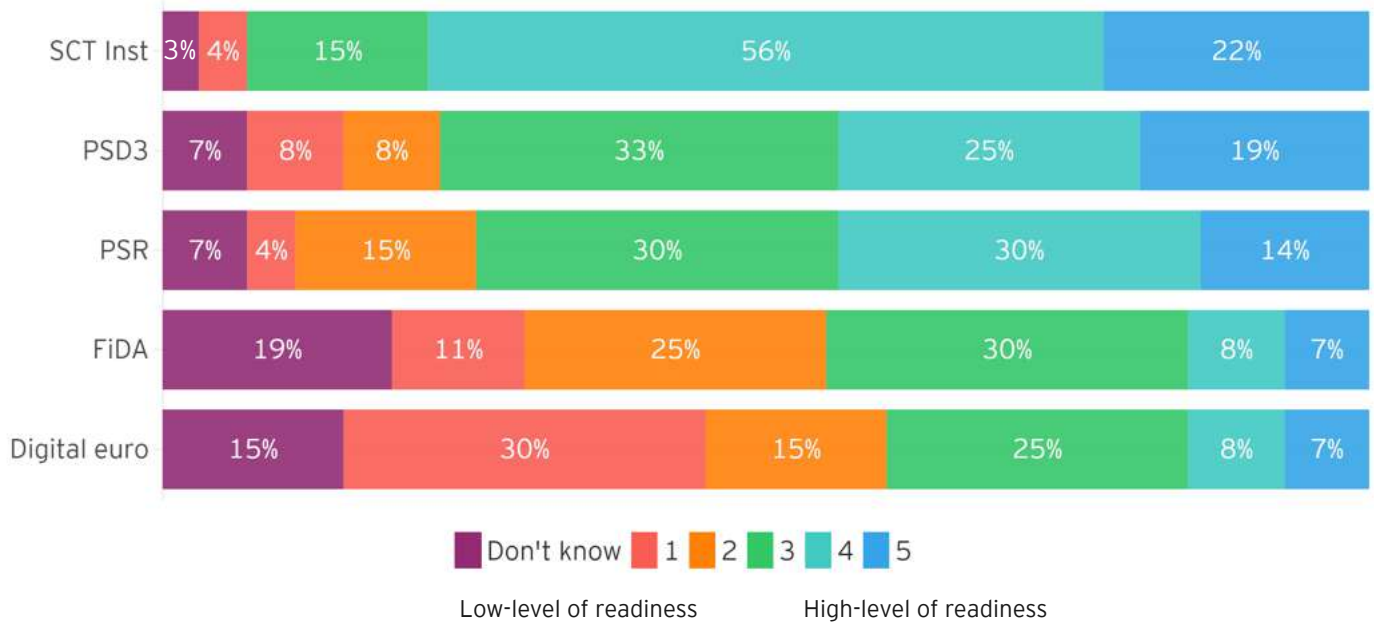


Q4.2: Will the specific resources or budget for compliance and strategic changes be a top 10 investment item?



Nearly half of banks believe resources or budgets for compliance and strategic changes will be a top 10 investment item.

Q4.3: How would you rate your organization's readiness for the upcoming regulations?



Banks' readiness

- 78% indicate that their bank is prepared for SCT Inst, followed by PSD3 and PSR at 44% each.
- Readiness for FiDA and the digital euro are notably limited, with only 15% of banks reporting high-levels of preparedness.

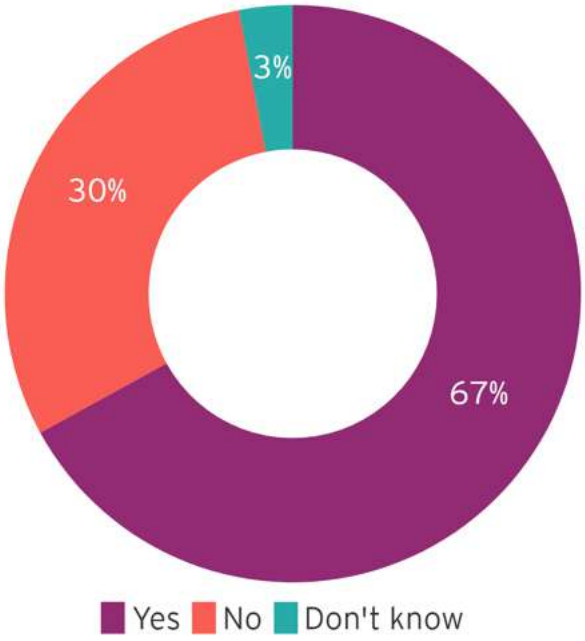
Q4.4: What skill sets will be most hard to access for implementation of these regulations?

- Technology-driven changes require capacity in DevOps and IT development.
- Demand for IT developers and ICT execution ability is high.
- Skills are needed in payment product expertise, legacy IT knowledge and security.
- Complexity in impact assessment and business understanding necessitates skilled resources.
- Challenges in IT support, cyber expertise, and resource allocation arise.

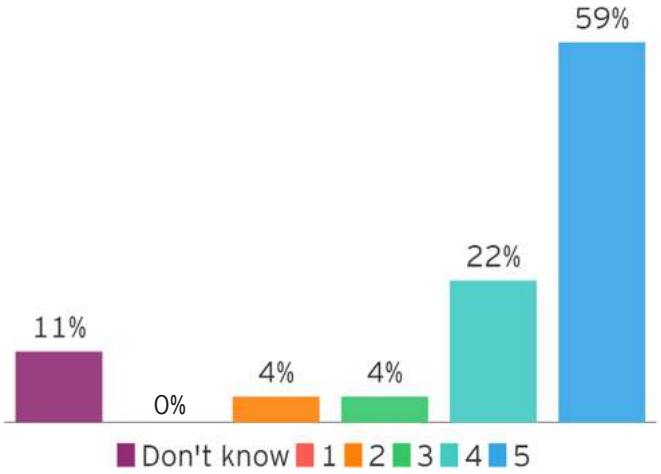
5. SCT Inst

Progress with SCT Inst

Q5.1: Do you currently offer SCT Inst capability on your online banking channel?



Q5.2: How would you rate your organization's likelihood of fully complying with the SCT Inst regulation within the currently assumed timeframe?

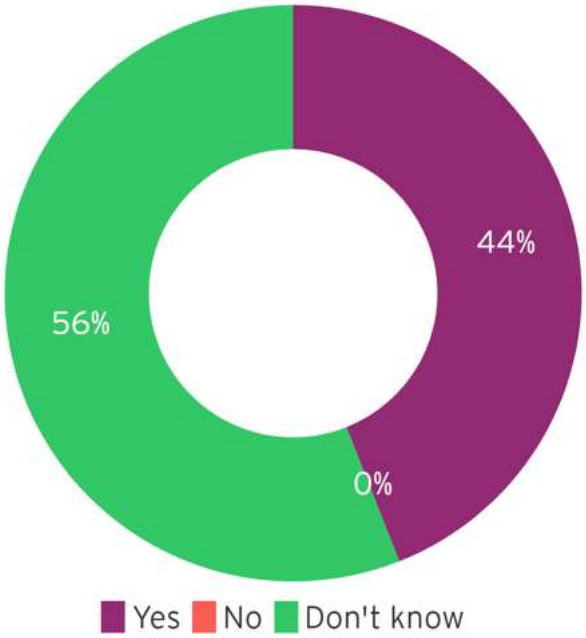


81% of respondents express confidence in their bank's likelihood of fully complying with the SCT Inst regulation within the currently assumed timeframe.

Q5.3: What areas of the SCT Inst regulation do you foresee compliance challenges with?

- Exclusion of UK, fraud prevention and IBAN name check
- VRP service, daily sanction screening and Confirmation of Payee
- Challenges in 24/7 availability, CoP on all transactions
- Compliance with AMLD4, sanction screening and batch processing

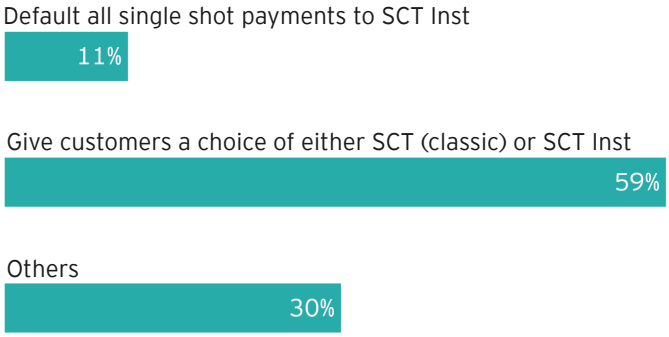
Q5.4: Are you planning on implementing both customer level sanctions screening (as per the SCT Inst draft legislation) in addition to individual transaction level sanctions screening (to satisfy other sanctions screening requirements)?



Sanctions screening

- 44% of banks are planning to implement both customer-level sanctions screening, and individual transaction-level sanctions screening.

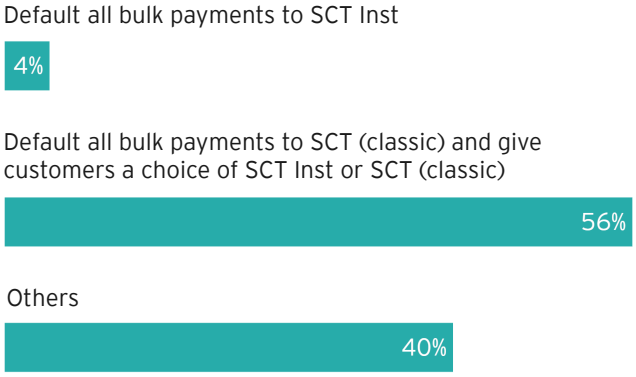
Q5.5: Which of the following options will you provide?



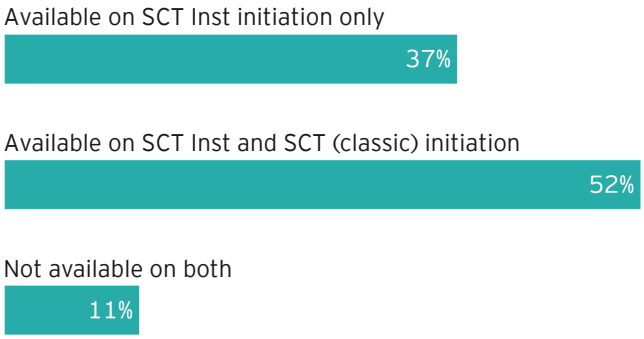
Others

- Respondents mentioned that Instant Payments (IP) adoption hinges on payee PSP accessibility via IP rails.
- Channel-specific decisions based on SCT Inst benefits and bulk processing challenges.

Q5.6: Which of the following options will you provide?



Q5.7: Do you currently offer optional Confirmation of Payee services?



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