

PSD2 in the Netherlands

*Impact in competition, innovation, security,
consumer - and data protection*

Marc van der Maarel, DNB/ Payments & Market Infrastructures/ Payments Policy

14th Conference on Payments and Market Infrastructures

Flourishing Digital Payments Future, 5 October 2022, Skopje (online)

DeNederlandscheBank

EUROSYSTEME

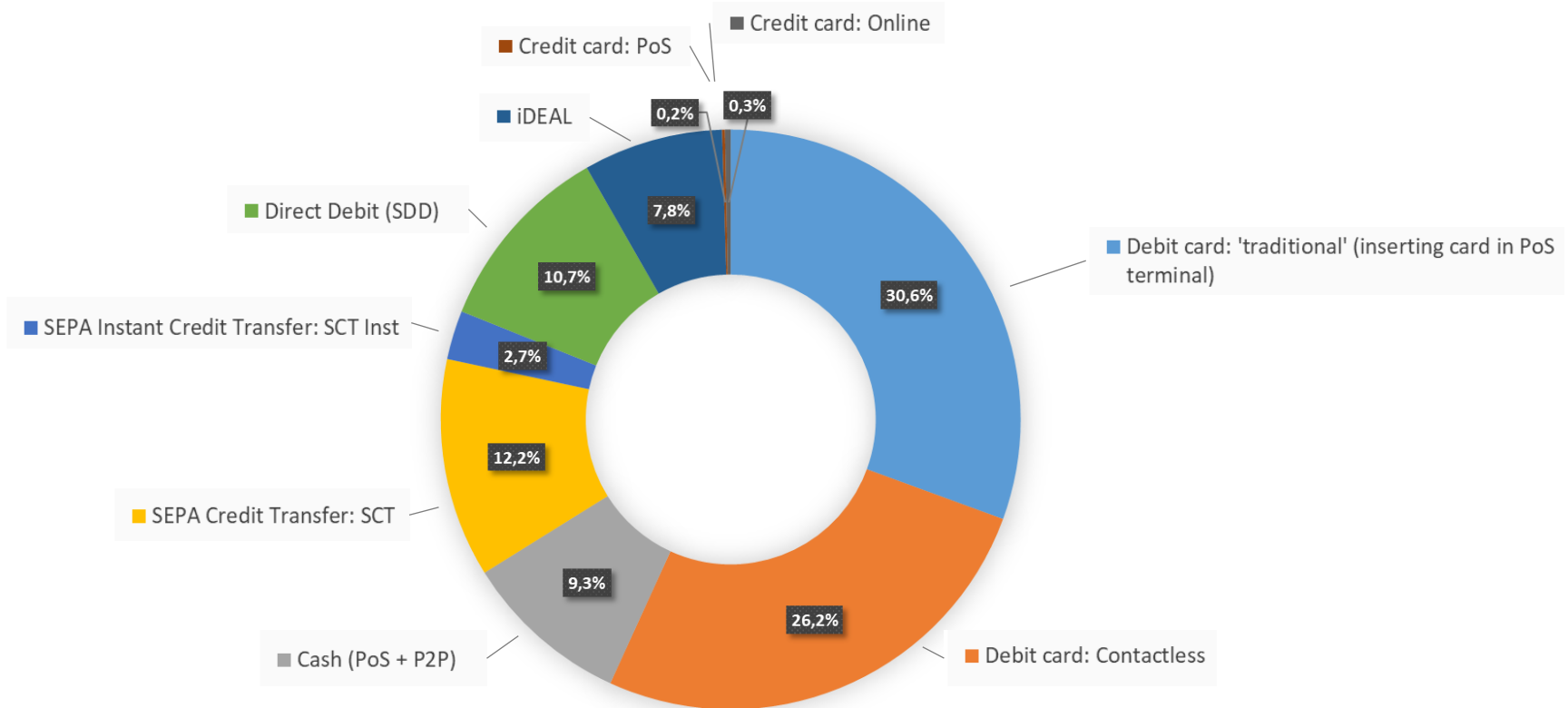


The way the Dutch pay (2021)

- Small, flat & densely populated country, $\approx 17,6$ M inhabitants, $> 99\%$ banked, 24M payment accounts, 32M debit cards, 6M credit cards
- High internet penetration: 97% of Dutch citizens > 12 Y
- Wide usage of online banking; 85% of Dutch citizens > 12 Y)
- Concentrated combined market share (payment accounts) 4 major banks ($>95\%$)
- $< 1\%$ of credit transfers paper-based
- Sharp decline in # of bank branches: 0.7k (2021), in 2010: 2.9k
- ATMs: 4.9k (2021), in 2010: 8.4k. 99.54% (2021) of the Dutch have access to an ATM < 5 -km radius
- PoS payments: Since 2015 # debit card payments $> \#$ cash payments
- Paying online (# payments): iDEAL: 70%, credit cards: 8%, PayPal: 4%, other (incl. BNPL): 18%

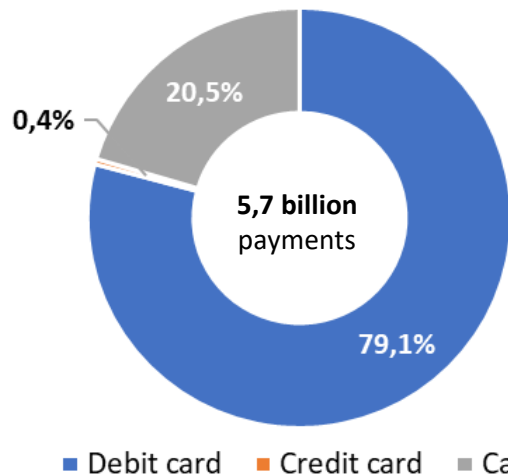
Dutch retail payment mix (2021)

Total # of payments: 14,7 billion (excl. cross-border payments)

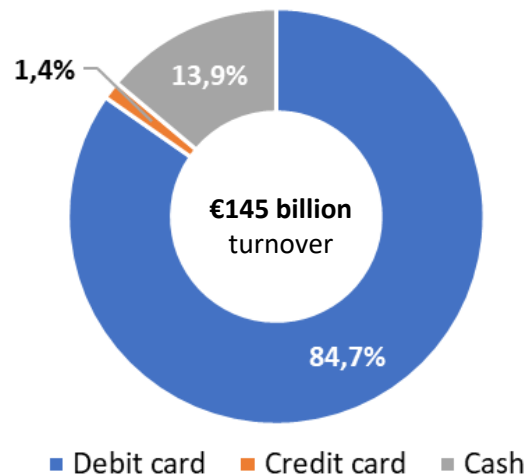


PoS payments in NL (2021)

Number of transactions



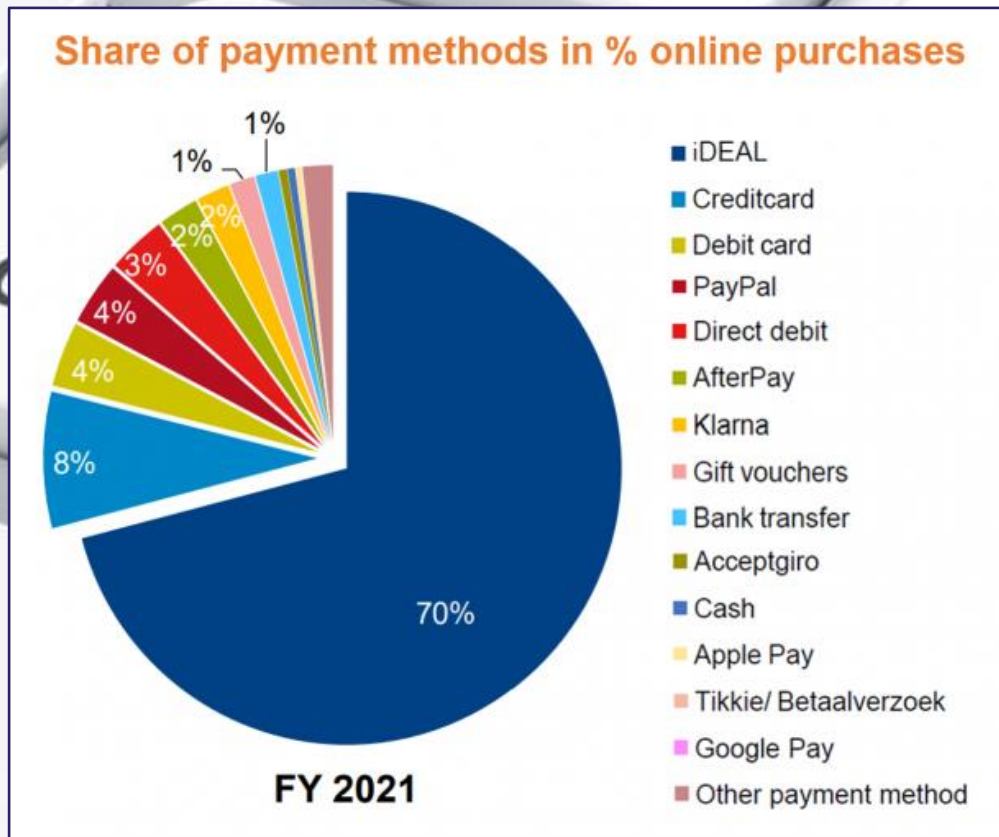
Value of transactions



Average value debit card payment (2021): **€ 27,36**

Source: De Nederlandsche Bank and Dutch Payments Association

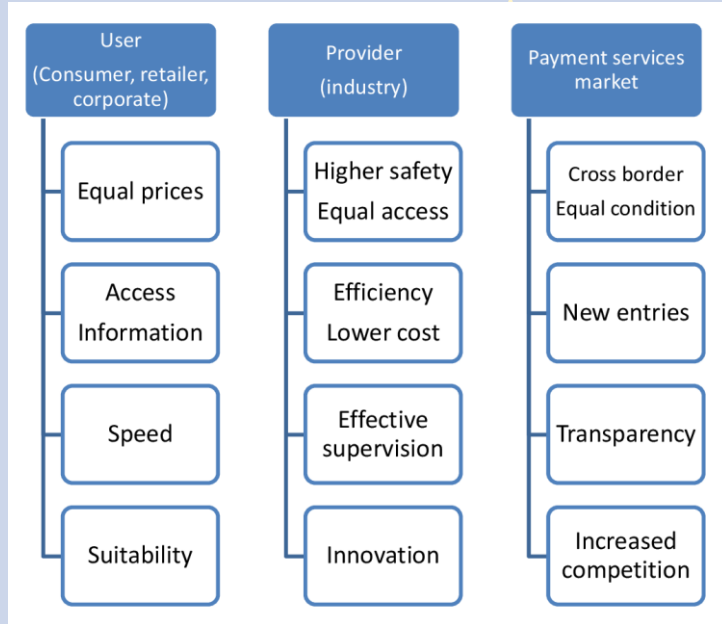
Online payments in NL (2021)



Source: Dutch Payments Association, Currence, Thuiswinkel.org, Retail Insiders, PostNL

Payment Services Directive

Legal foundation for an EU single market for payments



From PSD (1) (2007) → PSD2 (2015) → PSD3 (2023?)

Impact PSD2 in the Netherlands

... on competition



... on consumer protection

... on innovation

... on security

... on data protection

Impact PSD2 in NL – On competition

Increased competition, but quite limited

- 32 payment institutions (PIs) and electronic money institutions (EMIs) licensed by the Dutch Central Bank for provision of payment initiation services (PIS) – and/or account information services (AIS). Note: Credit institutions provide AIS too
- More foreign (intra-EU) competition: 121 PIs - and EMIs licensed by other Member States' NCAs authorised to passport (offer) their PIS - and/or AIS to NL
- Developments differ by market segment:
 - AIS seems more successful than PIS
 - More successful in B2B market (accounting software) than in B2C market
 - Increased competition not (yet) reflected in market shares, but there is potential competition
 - *Note that market for new PSD2 services is still in relative early stage of development; things may change in coming years*

Source: Central EBA register,
19 September 2022

Impact PSD2 in NL – On innovation

Increased innovation

- New parties have developed some new services and combined already existing services in a different way
 - based on the possibility of 3rd party access to banks' (ASPSPs') payment account infrastructure and offering AIS and/or PIS)
- Incumbent parties also started using other technical solutions (offering/ or using APIs) and are also offering AIS (for providing their account holders an overview of their payment account(s) held at other banks)
- New forms of services (API aggregators) emerged in the market
 - to reduce frictions due to different implementation of PSD2 APIs (lack of sufficient specified pan-EU PSD2 API standard(s))
- Again, market is still in early stage of development, so things can still change

Impact PSD2 in NL – On security

Increased security, although limited impact in NL

- PISPs and AISPs that were already active in Dutch market before Feb 2019 – when PSD2 entered into force into Dutch law – realised payment account access using screen-scraping
 - Now done by using more secure dedicated (API) interfaces as offered by banks
- PSD2 sets quite strict requirements for business operations and risk management of licensed PISPs and AISPs
- PSPs must use SCA where a payer (a) accesses its payment account online, (b) initiates an electronic payment transaction, and/or (c) carries out any action through a remote channel which may imply a risk of payment fraud or other abuses
- Virtually all electronic payments in NL were already SCA-proof before PSD2 required it, so PSD2's SCA requirement had limited effect on security
 - however it did for online (CNP) credit card payments

Impact PSD2 in NL – On consumer protection

Increased consumer protection

- PSPs are subject to a thorough EU-licensing regime that (also) increased consumer protection
- Consumers face little risk as PSD2 rules for unintentional and unauthorised payments place the responsibility for refunding on the PSP
- Technical and supervisory safeguards such as SCA and operational requirements also mitigate consumer risks
- PSD2 (particularly 3rd party access to payment accounts by TPPs) did not cause problems among vulnerable groups, partly because the use of AIS and PIS is limited
- But PSD2's SCA-requirement do *not* prevent social engineering leading to authorised push payment (APP) fraud

Impact PSD2 in NL – On security

SCA does not prevent APP fraud

Loss suffered by payment service users due to payments fraud in NL (2021)

- € 47.6M (2020: € 26.7M) due to bank fraud help-desks scams (tech support scams); impersonation of bank employee, often combined with telephonic spoofing – Compensated by banks: 92% (96% in 2020), after urgent request to be less strict (more accommodating) of Dutch minister of Finance (triggered by the Dutch Parliament)
 - Intensified public campaigns by both individual and joint banks to make PSUs more resilient towards APP
 - € 10.9M (2020: € 12.8M) due to phishing – Compensated by banks: 98%
 - € 1.9M (€ 5.8M in 2020) from stolen/lost payment cards
 - € 2,3M (2020: € 3.8M) due to online credit card (CNP) fraud –
Due to PSD2's SCA requirement further decline expected
- Compensated by banks: all, unless PSU is deemed grossly negligent

Impact PSD2 in NL – On data privacy

Complex relation with data privacy ...

PSD2 and GDPR together offer robust data protection

- PSD2 is about making payment account-related data available to regulated TPPs, while the EU General Data Protection regulation (GDPR) pursues lawful and careful handling of personal data
- If parties comply with combined requirements of PSD2 and GDPR, data protection is guaranteed
 - But ... the interplay of the two laws is complex and market participants need practical guidance on how they can meet both PSD2's and GDPR's requirements
- “Data minimization” (a core GDPR-principle) is mostly not (yet) implemented in PSD2 APIs of ASPSPs, while the handling of special personal data (as available in payment data from payment accounts) may also not (yet) be in line with the GDPR

Impact PSD2 in NL – To sum it up

Increased competition, innovation, security, consumer – and data protection

1. Entry of new players (with still limited market share) providing mostly AIS
2. Large number of PISPs and AISPs from other Member States authorised to offer services in NL via passporting regime (one harmonised EU regime)
3. AIS and PIS not (yet) a large success in B2C market. Slightly more in B2B market
4. Increased (potential) competitive pressure on incumbent banks
5. Helped banks to embrace API-technology
6. Emergence of API aggregators due to fragmented PSD2 API landscape
7. Stronger safeguards for payment security
8. Interaction between PSD2 and GDPR is complicated

Impact PSD2 in the Netherlands

Although 'the cure' came with some side effects ...

To be dealt with in PSD3(?)

- Lack of PSD2 API standardisation increases costs for providers of AIS and PIS by requiring more investment in technical interfaces
- Market parties try to reduce PSD2 compliance costs and development costs by using API aggregators' services
 - Emergence of API aggregators leads to parties being able to offer AIS and PIS without authorisation under PSD2
- Requiring ASPSPs to offer TPPs free access to payment account infrastructure inhibits investment incentive (e.g. for offering improved services/ better functioning PSD2 APIs)
- Ban on surcharging for card-based payments regulated under the EU Interchange Fee Regulation (consumer 4-party card schemes) makes it more difficult to "nudge" consumers to use more socially efficient payment instruments



Thank you for your attention

Marc van der Maarel
Payments & Market Infrastructures/ Payments Policy department
Betalingsverkeer Beleid
De Nederlandsche Bank

T +31 20 524 29 01
M +31 6 839 788 50
E M.A.van.der.Maarel@dnb.nl