

## How Businesses can Profit from the Revolution in Global Payments

With instant payments and the new Directive on Payment Services (PSD2) on Europe's doorstep, the payments market is undergoing a seismic shift. Cédric Derras, Global Head of Cash Management at UniCredit, explains what these developments will mean for corporates and the wider payments community.

PSD2 is now right around the corner, looking to address the considerable changes that have occurred in the global payments industry since the introduction of PSD1 back in 2007. Most pressing, we stand at the threshold of the era of instant payments, with Europe set to go live with SEPA Instant Credit Transfers (SCT Inst) in November 2017. Together, PSD2 and instant payments represent a paradigm shift in how consumers and businesses exchange money. However, in order to grasp the opportunities, and avoid any pitfalls, all parties involved will need to be proactive and brace for the transition.

PSD2 seeks to address a number of developments that have occurred in the payments industry following the implementation of PSD1 ten years ago. The rise of third-party providers (TPPs) is one of the most significant. For instance, Payment Initiation Service Providers are now used within ecommerce, enabling payments to be initiated at the immediate request of the payer and incentivising the recipient to deliver goods immediately.

Licensing and regulating new TPPs is therefore a critical development, although the extent to which they can collect consent for acquiring customer data remains unclear. Other key developments in PSD2 include tightened regulation on customer authentication and payment security, and ensuring improved legal protection and reduced risk for payment service users in the EU.

### PSD2 – catalysing change

Yet, PSD2 is not simply a reaction to changes in the payments market. The knock-on effects will be long-term, disruptive, and wide-reaching. Crucially, PSD2 will require banks in the EU to provide newly-licensed TPPs with increased access to payment infrastructure and previously private customer account information,

allowing for a step change in fintech competition (or collaboration) with established banks. And with open Application Programming Interfaces (APIs) enabling banks to seamlessly exchange data with TPPs, PSD2 is also paving the way for “open banking”, where corporates can plug TPP services seamlessly into their banking portals.

More than allowing mere data sharing between banks and TPPs, APIs can be leveraged strategically to innovate rapidly, creating entirely new products and revenue streams. Ultimately, the client is set to benefit from new, highly relevant and precise, value-added solutions that are centred on their needs, yet there remains the question of who obtains consent for the sharing of client data, and how this is done. Treasurers will no doubt look forward to these developments, but complex strategic decisions will need to be made, with banks well placed and willing to offer advice. Certainly, at UniCredit we are implementing a specific API strategy to ensure our clients are best served in the upcoming open banking environment.

### Preparation – the key to unlocking instant payments' promise

Almost concurrent with the arrival of PSD2, SCT Inst is also set to transform the European payments landscape. Currently, cross-border European payments are processed in batches and guaranteed to reach their destination only on the following day. SCT Inst is truly instant – transactions are processed, cleared and settled in real-time. The benefits are far reaching. In ecommerce, for example, merchants receiving funds as soon as goods are purchased means orders can be prepared and dispatched immediately, hastening delivery times.

SCT Inst also promises a slew of benefits for corporate treasurers. Intra-day liquidity optimisation will give them greater flexibility, allowing them to take advantage of last-minute opportunities not previously supported by slow-moving processes. Better visibility of global cash positions will also enable more efficient, real-time cash pooling. →



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About UniCredit: UniCredit is a simple, successful pan-European commercial bank, with a fully plugged-in CIB, delivering a unique Western, Central and Eastern European network to its extensive client franchise of 25 million clients. UniCredit offers local expertise and international reach, supporting its clients globally and providing them with unparalleled access to leading banks in its 14 core markets as well as 18 other countries worldwide. UniCredit's European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey.

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Furthermore, faster and more accurate payment reporting and reconciliation, and greater predictability of payables and receivables mean that day-to-day tasks will become significantly easier and more streamlined, though some businesses may need to adapt and upgrade their internal IT systems and processes to reap the full benefits.

Cyber security is one area where banks and corporates alike must be wary, and not least because spotting fraudulent transactions becomes harder when payments are irrevocable and cleared in just seconds. Indeed, as an example, fraud losses from online banking in the UK nearly tripled in the 18 months after instant payments were launched in 2008 (ACI Universal Payments, “**Immediate need for fraud prevention**”). Nevertheless, these challenges can be overcome – UK banks collaborated successfully to identify and manage the new risks inherent in instant payments.

### A dual track to payments progress

PSD2 and instant payments are, in many ways, complementary, each enhancing the value proposition of the other. For example, new API-enabled banking, in conjunction with SCT Inst, can hugely increase straight-through-processing rates for online retailers, moving receipt of payment to liquidity optimisation in seconds.

Therefore, care must be taken to develop common standards for APIs and promote constructive collaboration between TTPs and banks to ensure PSD2 and instant payments are implemented smoothly. We view both as landmark developments, contributing towards a more vibrant, client-focused, and efficient payments market. We are moving towards a brighter future, but the right preparation is essential.