

# Are you ready to open the corporate treasury to the opportunities of PSD2?

**PSD2 and Open Banking bring opportunities for more visibility over accounts, to adopt innovative services to streamline banking, and access new payment methods.**

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**By the side of business**



**LLOYDS BANK**

# Are you ready to open the corporate treasury to the opportunities of PSD2?

**PSD2 and Open Banking signal a new era for treasurers. Together, new regulatory developments and innovative technology will bring opportunities to gain greater, more joined-up visibility over accounts, adopt innovative services to streamline and improve banking, and access new payment methods. Are you ready to embrace the benefits?**

The treasury function is entering a period of rapid change, as new technology and new regulations begin to revolutionise ways of working.

This follows the introduction of the second Payment Services Directive (PSD2) and the UK's Open Banking standard, brought in by regulators early in 2018 to improve competition, services and choice in the payments space.

Some of the solutions and opportunities these developments make possible are starting to emerge, and more practical applications will follow as PSD2 is fully implemented by September 2019.

For treasurers, these changes could bring considerable benefits, such as:

- 1. Real-time reporting and working capital efficiencies**
- 2. Wider availability of instant payments**
- 3. Improved credit decisions**

Traditionally, this type of solution was expensive and available only to larger organisations with dedicated Group Treasurers.

But under PSD2, these capabilities will be available to smaller business segments, so that SMEs will be able to manage their working capital more effectively too. So these applications will now also benefit businesses administered by a Treasury-qualified FD or a Finance Department, typically via online accountancy packages such as Sage and Xero.

### **1. Real-time reporting and working capital efficiencies**

In the pre-PSD2 world, it's not easy to get a joined-up view of all your account transactions together. Sourcing information from multiple online banking solutions is hard work, and newly acquired subsidiaries may have legacy bank accounts that are even harder to access.

Corporations can get around this currently via SWIFT messages – but even this information lags behind the real-time position, as it's based on previous-day (MT940) or intraday (MT942) balance updates.

Under PSD2, banks will need to provide immediate and open

access to account transactions, giving treasurers greater visibility over their cash positions. Instead of having to set up access to multiple banking providers, you can pull your data from bank APIs and feed this directly into a solution that aggregates into one dashboard.



Through these technologies, your bank could have quick access to your main account, or your accounts-payable/ accounts-receivable data



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This could be part of your existing enterprise resource planning (ERP) or Treasury Workstation system, providing a clear view of cash in all your currencies across multiple subsidiaries. These data feeds are likely to be available on a real-time basis, so treasurers can access fully up-to-date transaction information 24 hours a day.

### Real-time reporting offers other potential benefits too:

- **Freeing trapped cash:** Enhanced data analytics could create opportunities to maximise the efficiency of cash across different geographical locations, legal entities or financial institutions.
- **Sweeping and pooling:** PSD2 enables third parties to initiate payments through the account-holding bank. Combining this functionality with the ability to request real-time balances may give rise to interesting pooling and sweeping solutions, which might eventually replace existing SWIFT-dependent solutions.

The impact of all this on working capital will be huge. As a corporate treasurer, you will not only see all your banks in one place in real time – but you'll be able to move money seamlessly across borders and between them too.

“Open banking certainly presents an opportunity if you are heavily involved in supply chain finance and working capital management, and your organisation is a major user of those types of services,” says Pedro Madeira, former group treasurer of Ardonagh Group. “It will take a lot of complexity out of the process”.

### 2. Wider availability of instant payments

The UK introduced its Faster Payments scheme in 2008, to provide 24/7 instant payments and offer a real alternative to the 3-working-day cycle of BACS or the expensive CHAPS RTGS system.

This has been a great success and countries around the world including USA, Australia, Hong Kong, Malaysia and the euro area are introducing similar schemes.



The better the access, the easier it will be for the loan provider to make a credit decision on you – and perhaps even offer better terms



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E-commerce retailers, for example, can now provide an alternative to card transactions by offering a ‘pay from bank account’ alternative. Such payments would be received immediately via an instant payment, enabling businesses to reduce card-related fees, remove delays and improve working capital.

This model is already used successfully elsewhere in Europe. In the Netherlands, for example, the iDEAL payment system is offered by more than 100,000 merchants and represented 56% of online transactions as early as 2015.

“Faster payments are real-time transactions – but open-banking APIs represent a move towards real-time business,” says Open Banking specialist Yogesh Sholapurkar.

Faster Payments and any other post-PSD2 payment methods that emerge will raise the bar of

consumer expectations, and so drive innovation in the associated solutions on offer. Refunds and insurance payments, for example, may now be initiated via Faster Payments, so adding greater speed and visibility to the customer experience.

### 3. Improved credit decisions

Open Banking works in two ways. As well as giving you real-time information, customers can also allow access to their bank accounts via so-called AISPs (Account information service providers). This real-time view will deliver quicker and more competitive decisions on lending applications.

“Through these technologies, your bank could have quick access to your main account, or your accounts-payable/ accounts-receivable data,” says Yogesh Sholapurkar.

“The better the access, the easier it will be for the loan provider to make a credit decision on you – and perhaps even offer better terms.”

Take the example of car finance. Traditionally consumers would have faced a significant delay to prove who they are and demonstrate that they have sufficient disposable income to be able to take on a car loan.

But in future, a car dealership could, with a customer's permission, use an AISP to pull down account details, perform an automatic credit analysis and offer an instant credit decision. If the



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decision is positive, the dealerships get instant confirmation that a finance deal is in place, the customer can sign there and then, and drive away in their new car. Alternatively, the customer shares their account details via an AISP with a car loan provider, who can make a credit decision and, if positive, transfer money directly to the individual's account or to the dealer, again allowing the buyer to drive away the same day.

### **The challenges of PSD2 and other new regulations such as General Data Protection Regulation (GDPR)**

There will be challenges for corporate treasurers too as we enter this new world. You will need to look at the feasibility of handling real-time transactions, and providing real-time notifications to consumers and suppliers, for example. Data protection is another issue

to consider too, along with security standardisation.

Under the regulatory technical standards – which go live in September 2019 – retailers and their payment providers will need to comply with security standardisation rules for online payments, specifically two-factor customer authentication. Retailers will need to look hard at the potential impact of such changes, and engage with their payment providers about the implications.

### **The case for investment**

While these regulatory developments have much to offer businesses, investment may well be required to maximise the opportunities presented by the new technology.

At this early stage, when many businesses and competitors have yet to reveal their approach and

providers are still coming on to the market, corporate treasurers will want to take the time to understand new solutions and their potential benefits. They will want to build a robust business case for future investment, while ensuring that their ERP providers can meet their future needs and support them in leveraging the opportunities.



Open banking certainly presents an opportunity if you are heavily involved in supply chain finance and working capital management, and your organisation is a major user of those types of services



PEDRO MADEIRA,  
FORMER GROUP TREASURER  
OF ARDONAGH GROUP

## **Embracing PSD2: Key questions for your business**

The rise of post-PSD2-enabled products and services raises several key questions for corporate treasurers to ask of their organisations, such as:

- Do we operate in a sector or territory where we could be at risk of disruption from competitors who adopt innovative banking or payment solutions ahead of us?
- How strong is the demand for change from our consumer base?
- How do we balance the strategic and competitive advantages of early adoption with the costs and challenges of implementation?
- What's the potential cost to our organisation of not adopting early?
- How can we best monitor new technologies and assess the right solutions for our organisation?
- What are our current banking partners telling us about their plans to deploy API technology in these areas?
- Does our organisation have the infrastructure to handle real-time transactions and notifications to consumers and businesses?
- Would there be cultural and human resources issues to address as a result of adoption?
- Are we confident that our ERP and TMS provider(s) can both meet our future needs and support the business in leveraging the opportunities offered by new solutions?

Lloyds Bank has a suite of APIs available to help you access the benefits of Open Banking and PSD2. For more information, speak to your Relationship Manager.

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#### New customers

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