

PSD II & the Access to the Bank Account

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Forum Obrotu Bezgotówkowego

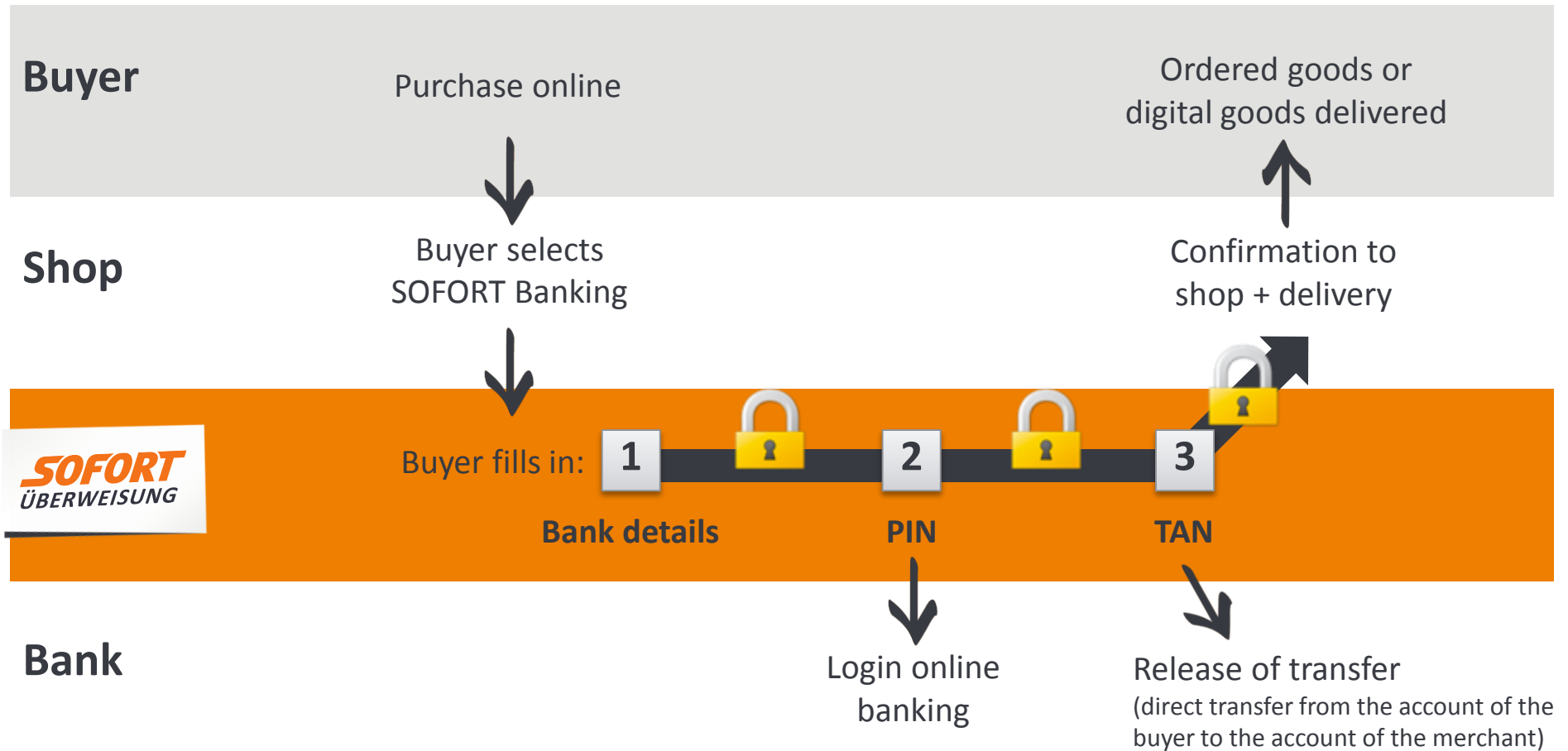
Warszawa, 17 June 2014

Background on SOFORT AG.



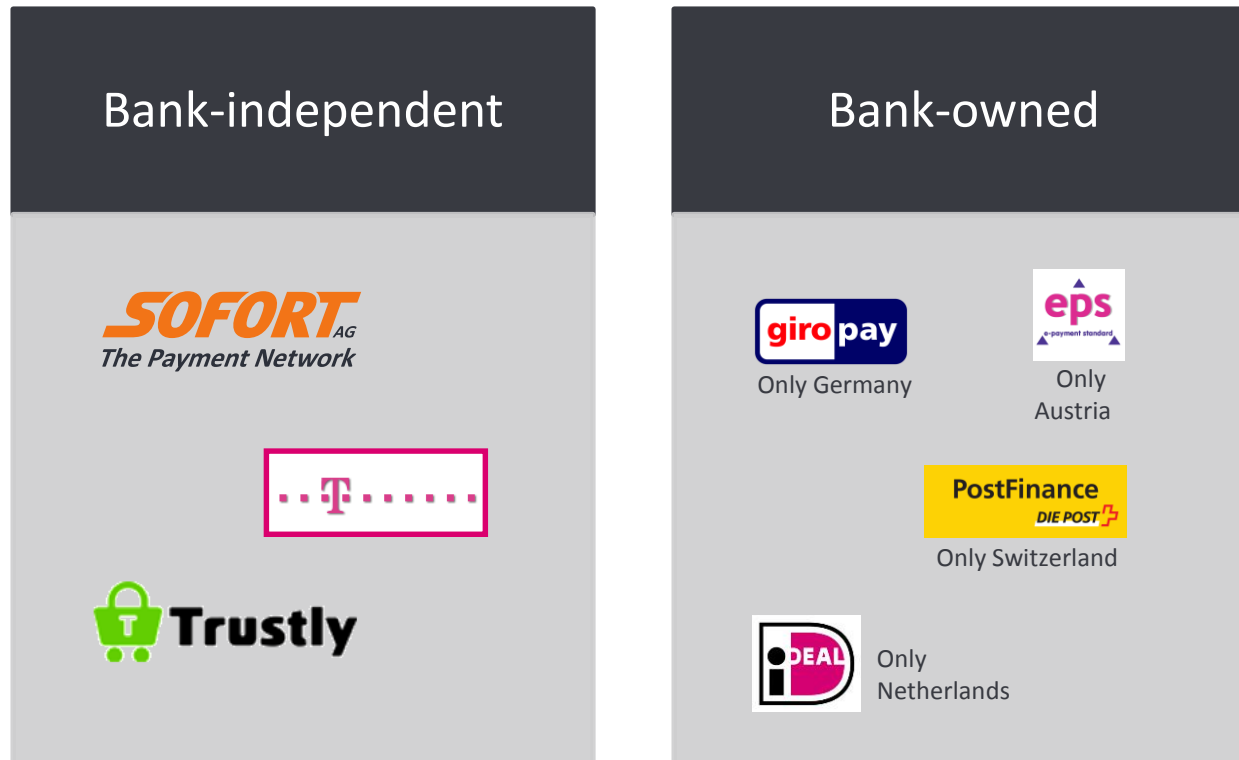
- Founded in 2005
- HQ near Munich, Germany
- Over 150 full time employees
- Revenue 2013: about 20 million Euro
- Growth forecast 2013: round about 35% Europe-wide
- Over 25,000 e-commerce merchants use SOFORT Banking
- Every day, over 100,000 consumers pay through SOFORT Banking
- Payments of nearly 2.4 billion Euro in 2013

What is a Third Party Payment Service Provider (TPP)?



Other TPPs on the European market.

Bank-owned systems are often limited to one country. They fragment the payment market.



Merchants trust TPPs' proven security features.

Selected merchants working with SOFORT:

Merchants



Payments



Shop-solutions



Associations



Banks



TPPs' proven security features.

SOFORT uses highly tested and secure technology.

- TÜV certificates “Approved Data Protection” and “Approved Payment System” and certified “Information Security Management System” (ISMS) by TÜV Süd according to ISO 27001.
- Servers work in a bank data processing centre, that has to comply with the requirements of the German oversight authority for banks.
- SOFORT AG grants every end-user using SOFORT Banking unlimited liability for any damages that result from a misuse of his data; no single fraud case to the detriment of a user in 8 years of operation.
- One of the most secure payment system in the internet with a very low loss rate for merchants.
- SOFORT uses the same SSL encryption as banks; login data (PIN/TAN) is routed to the bank in an encrypted way; they are not stored by SOFORT and cannot be seen or accessed by its employees.
- Consumers can check the only two reliable safety criteria (URL and SSL certificate) also when using SOFORT Banking.



Discussion about TPPs



Threats for banks in the future

Payments & Cards

Google, Apple, PayPal Pose Mobile Wallet Threat to Banks

What Amazon Will Be Like In 2030

Amazon will be the biggest payments company

The only company that has the scale and expertise in payments to take on PayPal's network effects is Amazon. And PayPal isn't very well run, often angers customers, and has an ugly product. Amazon's payments solution already exists and is already better than PayPal's and is growing, albeit slowly as far as we can tell.

Amazon should be able to own that market by 2030.

Companies who could take the cake instead: Facebook or Square.



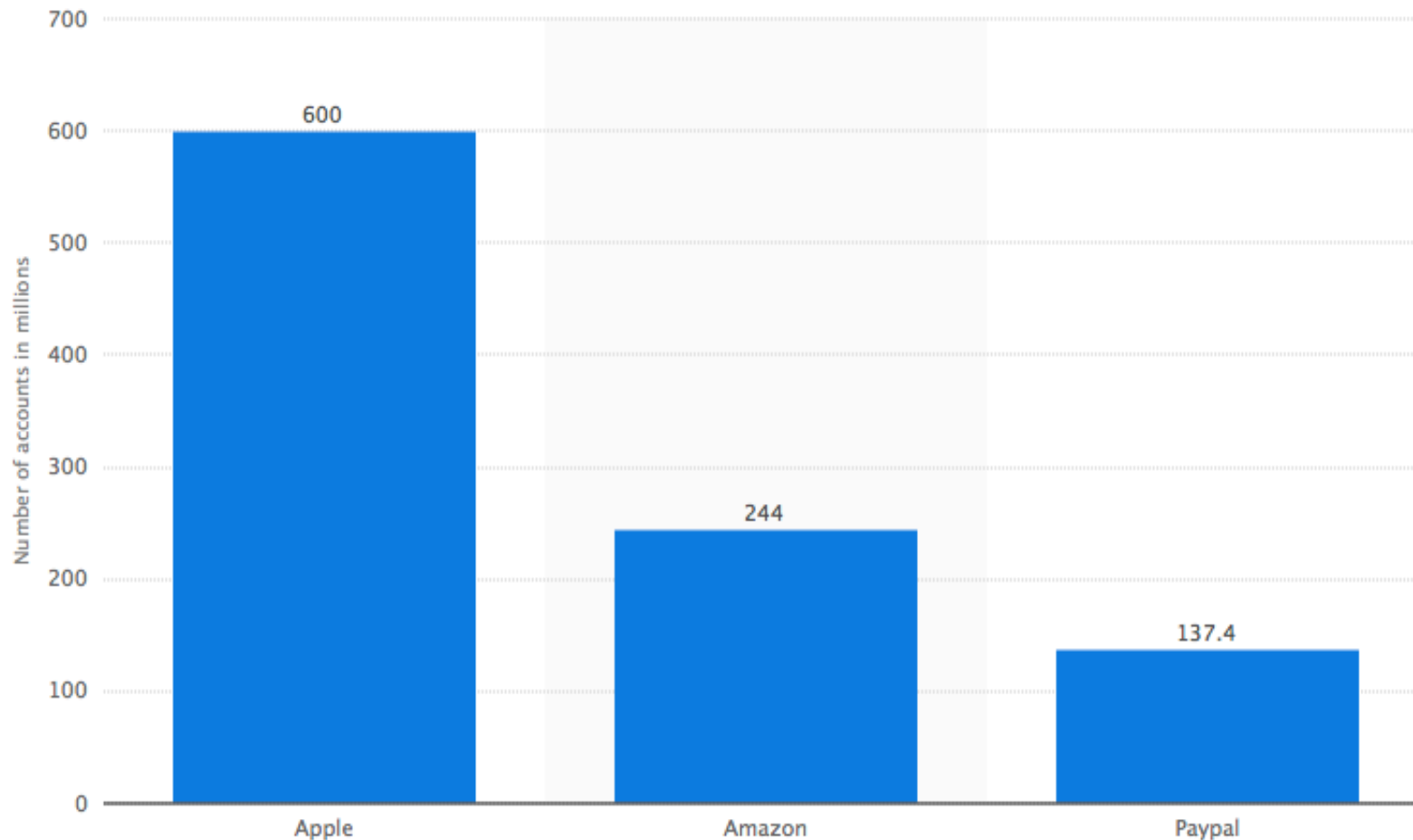
Image: Illustration by Business Insider



THE \$15 TRILLION GOLD RUSH
PAYPAL WANTS TO CONTROL EVERY TRANSACTION ON THE PLANET.
SO DO APPLE, GOOGLE, AMAZON

Threats for banks in the future

User base of Apple, Amazon and Paypal as of 3rd quarter 2013, ranked by user accounts (in millions)



Situation on the payments market

- All U.S. competitors of the European banking industry are operating internationally and are driven by technology
- The payment market has many aspects and is changing fast

PayPalTM



➔ It requires flexible and quick reactions

- TPP solutions provide a big potential for the European e-commerce
- But it is a market with a lot of nitty-gritty details (e.g. we serve more than 25.000 merchants)

➔ Many online merchants are looking for special solutions

How can banks compete with the U.S. players?



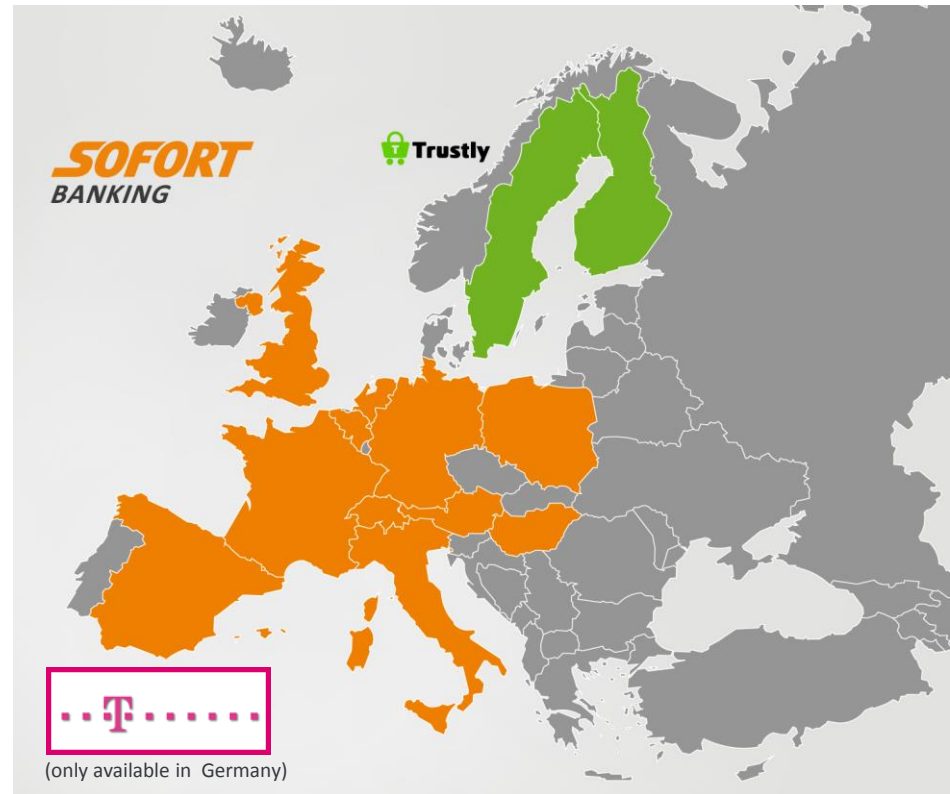
- Banks are often not flexible and fast enough
 - They are not international on the consumer side
 - Bank cooperation is too slow
 - BUT they have the trust of the consumer and the consumer relationship
- TPPs are close to the market
 - They are technology-driven, flexible and quick
 - TPPs often have an international reach
 - BUT they usually have no strong consumer relationship

TPPs are able to bring banks back into the internet

TPPs work EU-wide and benefit the Single Market.

TPPs are part of the payment landscape since 2002

- Bank-independent TPPs such as SOFORT are **compatible** with thousands of different banks across the EU.
- They are **available** to millions of consumers in **many EU countries**, and have a higher reach than credit cards.
- Thanks to TPPs, online shopping is **easier, more secure and less expensive** than when paid with credit cards.



A few figures on SOFORT.

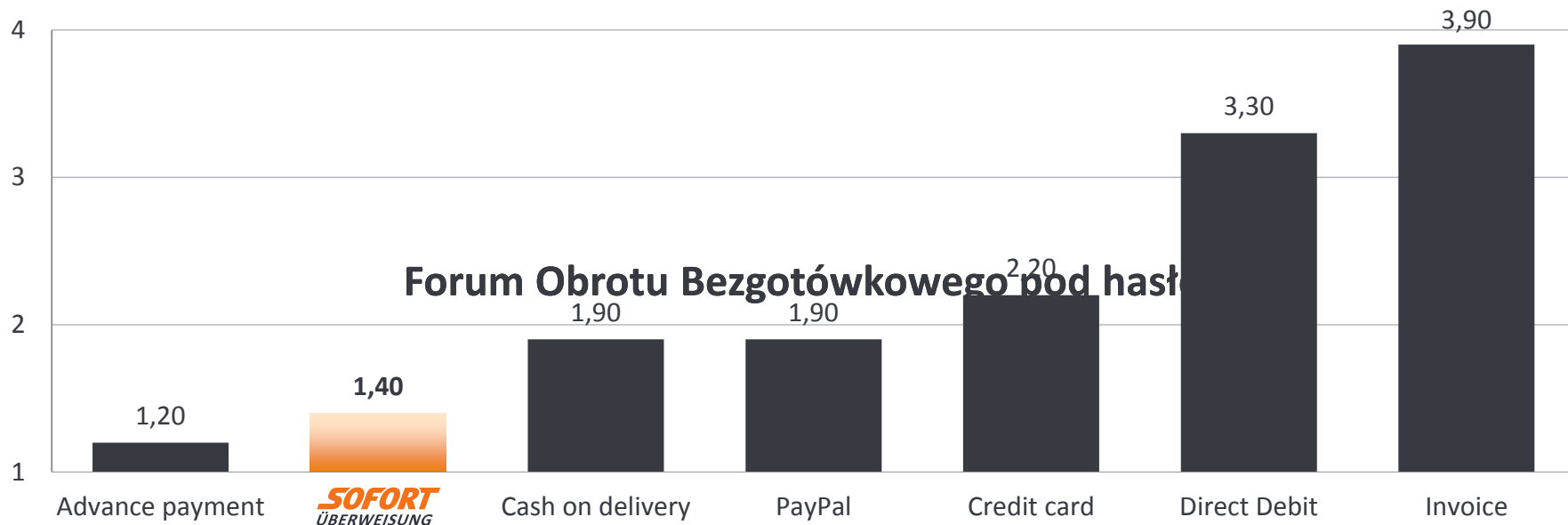
- 3 Mio EUR of transactions per month in 11 countries...
.... But only 20 Mio EUR revenue per year (2013)
- Strong profitable growth (35 %),
.... But more than 5,000 new merchants are required for this growth
- SOFORT is live in 11 countries
.... But merchants want to cover the complete European landscape
.... That means: “speed is key”
- Innovation and maintenance
.... Enforce continuous new software developments (IOS; Android, PS2)



Security: Merchants trust TPPs' proven security

SOFORT is rated one of the most secure payment methods.

Question: How do you evaluate the following payment methods with regards to "protection against fraud" (Merchants perspective)



(Grades: 1=very good, 6=very poor)

Source: Ibi research 2011, www.ecommerce-leitfaden.de

The cheapest payment-methods are usually the safest, because they cannot afford the costs of high fraud rates.

Security: TPPs do not store security credentials

- TPP business model does **not include the storage** of user data. No need and interest to store security credentials.
- PSD-2 proposal by EU Commission **prohibits the storage** of security credentials or other sensitive data.

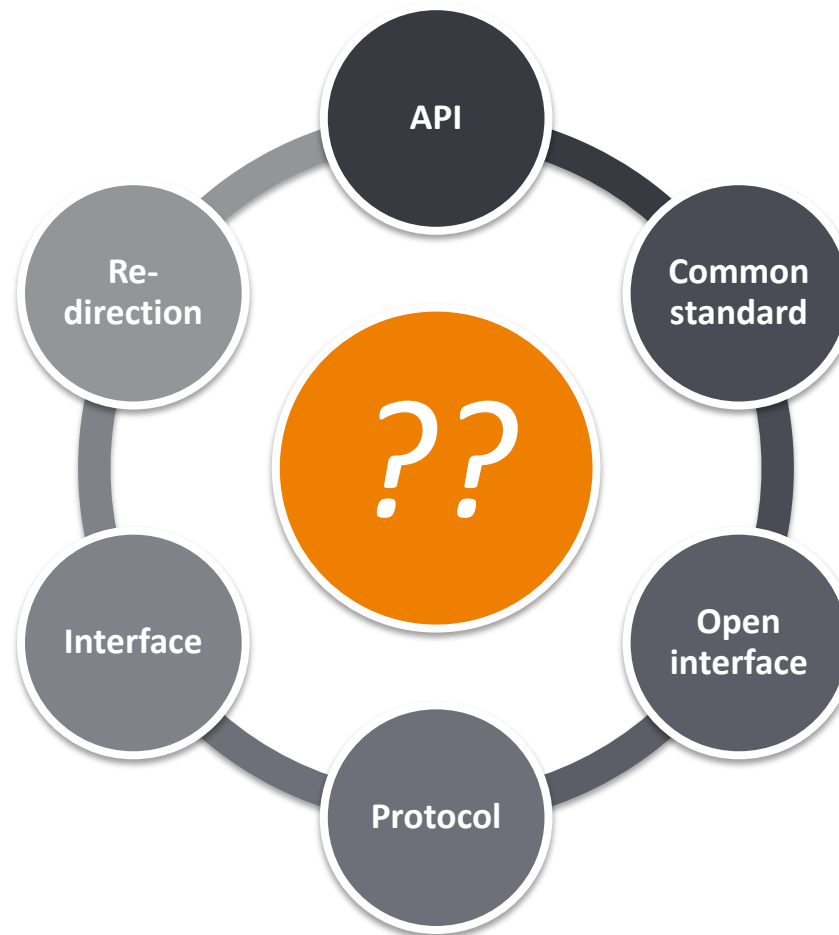
HOWEVER:

- Some argue that the PSD-2 should make it physically/ technically impossible for TPPs to ever access such data (saying that TPPs cannot be trusted).
- **This is like saying:** “Computers should only be allowed on the market if it is technically impossible to use them for illegal activity; prohibiting the illegal activity is not enough.”



What kind of standardization for TPP/bank relation?

According to PSD-2, the EBA shall develop “Common and Secure Open Standards of Communication”



What can work.

TPPs are open to discuss the development of “**Common and Secure Open Standards of Communication**”:

- They should be highly secure, open and non-discriminatory.
- The workflow of TPPs must fully remain with TPPs (unique user experience; no back and forth to different websites hosted by different organisations).
- Otherwise, innovation would stall and a credible competition with U.S. tech companies such as PayPal, Google Checkout or Amazon Payments becomes impossible.
- While banks should be urged to implement the new protocol, TPPs should still be allowed to support banks which do not offer it. Reason: It will take some time before all 6,000 European banks make the necessary changes to their systems.
- Banks should regard TPPs as strategic allies rather than as enemies.

What will not work.

- Any re-direction to bank sites: this would require 6,000 banks to maintain and manage these sites. The work to maintain these sites is underestimated.
- Any changes (i.e. innovation) would require all banks to agree on and change their “redirection site”.

EU5	3 m/e Nov 2012	3 m/e Nov 2013	% pt. Change
Android	61.5	69.1	7.6
BlackBerry	4.3	1.6	-2.7
iOS	24.6	18.1	-6.5
Windows	4.7	10.0	5.3
Other	4.9	1.3	-3.6

Version	Codename	API	Distribution
2.2	Froyo	8	1.3%
2.3.3 - 2.3.7	Gingerbread	10	21.2%
3.2	Honeycomb	13	0.1%
4.0.3 - 4.0.4	Ice Cream Sandwich	15	16.9%
4.1.x	Jelly Bean	16	35.9%
4.2.x		17	15.4%
4.3		18	7.8%
4.4	KitKat	19	1.4%

Interoperability through open systems.

- **Trusted communication** between banks and TPPs can best be realised through an open and transparent communications protocol.
- **HBCI/FinTS** is successfully developed and used for connecting third party software to online banking accounts.
- **Supported features include:** Verification of funds, payment initiation, balance query, information requests, etc.
- **HBCI/FinTS** is already today used by TPPs.



Banks use HBCI/FinTS since many years for multi-banking solutions in Germany.

Star Money Web - your central banking portal on the Internet

- ✓ Online banking and personal financial management
- ✓ Central access to your accounts at different banks and savings banks
- ✓ Anytime, anywhere certainly achievable - even without your own computer
- ✓ Immediately "SEPA ready"
- ✓ Use all basic functions immediately - free and without obligation



Practical and Independent

- ✓ Once log-in to your accounts at different banks and savings banks
- ✓ Income and expenditure account- and analyze across institutions
- ✓ "SEPA ready" with all common Banking functions



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SOFORT^{AG}
The Payment Network

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