# LOQR

Empowering Financial Institutions
Beyond Digital Business

# Preparing for PSD3
## with LOQR as a partner

# Navigating PSD3 Compliance: Partnering for Progress

The European Commission recently proposed a new set of regulations to modernise payment services and facilitate the sharing of financial data.

The Payment Services Directive 3 (PSD3) is still under development but aims to make online payments safer and more convenient for consumers. In addition, PSD3 will accelerate the modernisation of Open Banking, creating new opportunities for companies in the financial sector.

Throughout this whitepaper, we will clarify all the new changes and requirements needed and how financial institutions can take advantage of the new opportunities that PSD3 will create for their systems and processes.

## What is PSD3?

Payment Services Directive 3 (PSD3) and Payment Services Regulation (PSR) are new regulations that the European Commission has recently proposed for the payment services sector to build upon its previous directives. The proposal aims to amend and modernise the current Payment Services Directive (PSD2) into PSD3 and establish a new Payment Services Regulation (PSR), as PSD3 was conceived to modernise the regulation of payment services in the EU and ensure responsiveness to technological innovation and market developments.

Establishing and sustaining a single payment services market for the EU is the fundamental objective of the European Commission's payment services directives: whereas PSD1 aimed to create this single market, PSD2 and the upcoming legislation, PSD3, seeks to improve it with protections for consumers and payment service providers.

The finalised versions with the new regulatory proposals could be accessible by the end of 2024. As such, Member States are normally given a transition period of 18 months, which suggests that PSD3 and PSR could come into force around 2026.

# What are the new requirements under PSD3 for Payment Service Providers (PSPs)?

✓ **Strong Customer Authentication (SCA)**
All online payments must be authenticated using two or more independent factors, such as a password and a one-time code. This is designed to reduce fraud and protect consumers. Clarifying when specific transactions may be exempt from SCA, requiring SCA for mobile wallet enrollments, and requiring payment service providers to offer SCA methods are ways that PSD3 will increase its SCA obligations in relation to PSD2.

✓ **Open Banking & Data Sharing**
Regarding open banking, PSD3 aims to improve data sharing capabilities between banks and other parties without interfering with current operations or increasing expenses. Taking this into consideration, it will be possible to remove the need for banks to maintain two data access interfaces and also require banks and payment account providers to have a consumer dashboard tool that, if needed, enables users to easily revoke access from any company that has access to their data. PSPs must also allow Third-Party Providers (TPPs) to access consenting customer account data and initiate payments on their behalf.

This will give consumers more control over their data and take advantage of new and innovative payment services, such as account aggregation and payment initiation services.

✓ **Increased Supervisory Powers**
Supervisory authorities will have extended powers to supervise PSPs and to enforce the new requirements. PSD3 will require banks to provide considerably stronger justifications for refusing services to payment service providers. By allowing them to compete on a more equal footing with traditional banks, these changes will make it possible to give PSPs who are not associated with banks equal opportunities.

# Why is PSD3 extremely important for online payments?

PSD3 is crucial, as it will help make online payments safer and more convenient for consumers. It will also help promote innovation in the payments sector and give consumers more control over their data.

## Some of the specific benefits of PSD3

● **Reduced fraud**

PSD3's SCA requirements will make it more difficult for fraudsters to commit money theft. With PSD3, the European Commission plans to enhance requirements for fraud prevention and detection:
- Using the IBAN/name check method for all credit transfers.
- Strengthening transaction monitoring measures to identify potentially fraudulent payment activities.
- Establishing a legislative framework for payment service providers to share fraud data, including information on potential ongoing scams.
- Requiring payment service to train their employees and customers on payment fraud prevention and detection.

● **More control for consumers**

PSD3's data sharing requirements will give consumers more control over their data and allow them to take advantage of new and innovative financial services. To further strengthen the rights of EU consumers, PSD3 will expand on previous directives in a variety of areas, such as:
- **Improved communication and clarity regarding currency conversion charges** - PSD3 will require payment service providers to notify customers of estimated currency conversion fees for credit transfers and the approximate time it will take for the payee to receive the funds from countries outside the EU.
- **More transparency with ATM charges** - Payment service providers are required by PSD3 to notify users of the fees that all ATM operators in their member states charge. Customers will be able to choose an ATM knowing in advance which expenses they will have to pay.
- **Greater protection for temporarily held or "blocked" funds** - PSD3 will establish guidelines to guarantee that unused "blocked" funds are paid out more quickly and that the held funds are in line with the total amount of the transaction.

## How can PSD3 strengthen business growth?

PSD3 can improve business growth in several ways, including by raising customer satisfaction levels. PSD3's SCA requirements will help protect consumers from fraud, which will lead to increased customer satisfaction. Additionally, PSD3's open banking requirements will enable businesses to offer new and innovative payment services to their customers, making it easier for them to do business with the company.

Another way that PSD3 can improve business growth is by reducing fraud losses. PSD3's SCA requirements will make it more difficult to commit fraudulent acts, which will save businesses money. Additionally, PSD3's data sharing requirements can help businesses identify and mitigate fraud risks.

For financial institutions, PSD3 is also a positive development because it has the potential to reduce fraud losses, create new product and service opportunities, improve operational efficiency, and reduce costs. That is why these institutions must start preparing for PSD3 by assessing the impact it will have on their business and developing plans to comply with the new requirements.

# How can LOQR provide expertise to comply with PSD3?

LOQR has strong experience in the banking sector, in identity verification and compliance. 90% of our clients are established banks, so we understand the challenges and specific needs of this heavily regulated sector like no one else on the market. This experience allows us to provide efficient solutions that comply with PSD3 requirements.

One of our most significant differentials is that we deliver complete and fully compliant digital journeys accelerating the optimisation process of our clients. Our customer-centric Platform ensures that every interaction and transaction is conducted with the highest verification and security level. Financial institutions can choose the most suitable journey for their business, increase authentication levels and user verification methods, and implement SCA methods to comply with PSD3.

Our team of experts has experience assisting businesses in complying with regulations and is prepared to help financial institutions with this new challenge. If you're looking for a partner with innovative solutions who can overcome the challenges of digital transformation, LOQR is the perfect choice.

Our company goes beyond and above to meet market expectations, fully grasping the ever-changing digital landscape and creating solutions one step ahead of market demands. More than an end-to-end solution, LOQR delivers value and brings new insights to our client's businesses.

**LOQR will work together with financial institutions to the new PSD3 requirements, implement the necessary changes, and identify the new opportunities that PSD3 will create.**

To know more about why LOQR is the right partner to prepare financial institutions for PSD3, contact us today.
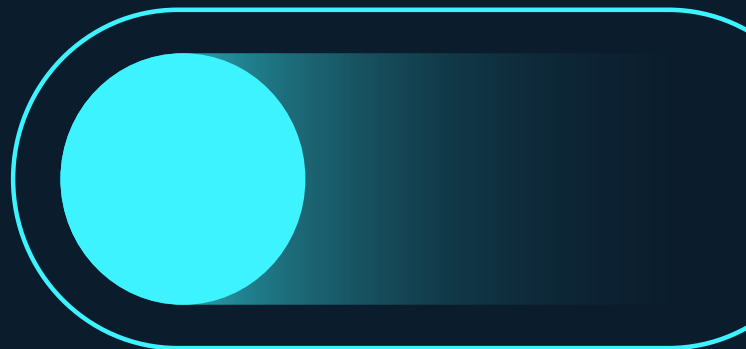
# Useful information

- [European Commission press release](#)

- [A Brief Summary of PSD3](#)

- [FIDA proposal](#)

# LOQR

## Talk to Us

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