

## The Directive on Payment Services (“PSD”) will be effective on November 1, 2009!

September, 23 2009

After its formal adoption by the Council and the European Parliament and its publication on April, 24, 2007, the Directive 2007/64/EC on Payment Services (“PSD”) helps to establish the legal framework required to harmonise payment rules and processes across the European Union. The objective of this Directive is to ease cross-border payments and to improve competition by opening up payment markets to new entrants, while affording end consumers enough protection so as to gain their trust and support.

A first draft version of the Luxembourg bill relating to the transposition of the PSD (draft law n° 6015) was approved by the Council of Government in March 2009. The final vote with the “Chambre des Députés” is planned for the second fortnight of October, for an application by November 1, 2009.

The requirements laid down in the PSD will result in far-reaching changes to the rules, management practices and infrastructure of payment systems of all Luxembourg banks.

### Scope of the Directive

The Directive will be effective in the European Economic Area (E.E.A., i.e. the European Union extended to Iceland, Liechtenstein and Norway, but excluding Switzerland). The scope of the PSD covers payments in the 15 currencies of the E.E.A. Member States, while in contrast, the scope of SEPA only applies to payments in Euro in the Euro zone.

A major innovation of the PSD is that it opens the payment service market to new entrants, i.e. “payment institutions”. As a result, new players such as department stores, phone operators or Internet-based companies will have the opportunity to become direct competitors of banks. In Luxembourg, the CSSF will need to deliver new licenses and supervise the payment institutions.

### Challenges faced by banks

#### Informing and communicating to clients

One of the Directive’s main objectives is to ensure consumer protection in connection with payment services. The payment service providers, and more specifically banks, will have to ensure that the documentation they provide their clients with is in line with the requirements laid down in the Directive and the future Luxembourg law. This means banks will have to review:

- client terms and conditions, and contractual agreements;
- the information sent to clients before and after payments are executed (statements of account, confirmation slips, etc);
- procedures sent to clients;
- the information concerning the charging structure of the payment services.

All these attention points will have to be looked at closely in terms of procedures and communication to consumers linked to payment services.

## Payment processes and procedures

In addition to information transparency requirements and communication requirements, the draft law n° 6015 sets out the rights and obligations of payment service providers and users. The law also lays down requirements regarding the transactions themselves:

- faster turnaround times for transactions (maximum one day as from 2012) and definition of the value date and of the date on which the funds are made available;
- information quality before and after the execution of the payment transaction;
- charging structure principles (creditor and beneficiary);
- legal framework for cross-border direct debit systems;
- specific process and timeline for claims, complaints and refunds.

Moreover, service providers' practices will have to be brought into line with the future Luxembourg law's requirements, taking into account parameters such as payment products on offer and the various distribution channels in use.

## Strategic opportunities

The PSD can also be considered a long-term strategic opportunity for payment service providers. The PSD provides the opportunity to review and consolidate payment service infrastructures, while at the same time legal structures could be streamlined. These changes could improve quality while reducing production costs. Also, bringing payments in line with the future Luxembourg law's requirements could be the right time to launch new products or to enlarge the scope of activities to new markets.

For further information, please consult our internet website at the following address:

<http://www.pwc.com/lu/en/payment-services-directive/index.jhtml>

## Contacts

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