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Banking & payment certification bodies

What, why & how?

Mapping the benefits of certification for open banking and regional payment initiatives.

December 2020

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interactive

1. What?

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What are the basics of certification bodies?

With the emergence of various new payments methods, initiatives and technologies – from open banking and real-time payments through to Strong Customer Authentication (SCA) and 3DS – it is essential that new products and services are interoperable and secure. Establishing a certification process is one way to do this and, if approached correctly, it's possible to not only safeguard security interoperability and functionality, but also foster innovation.

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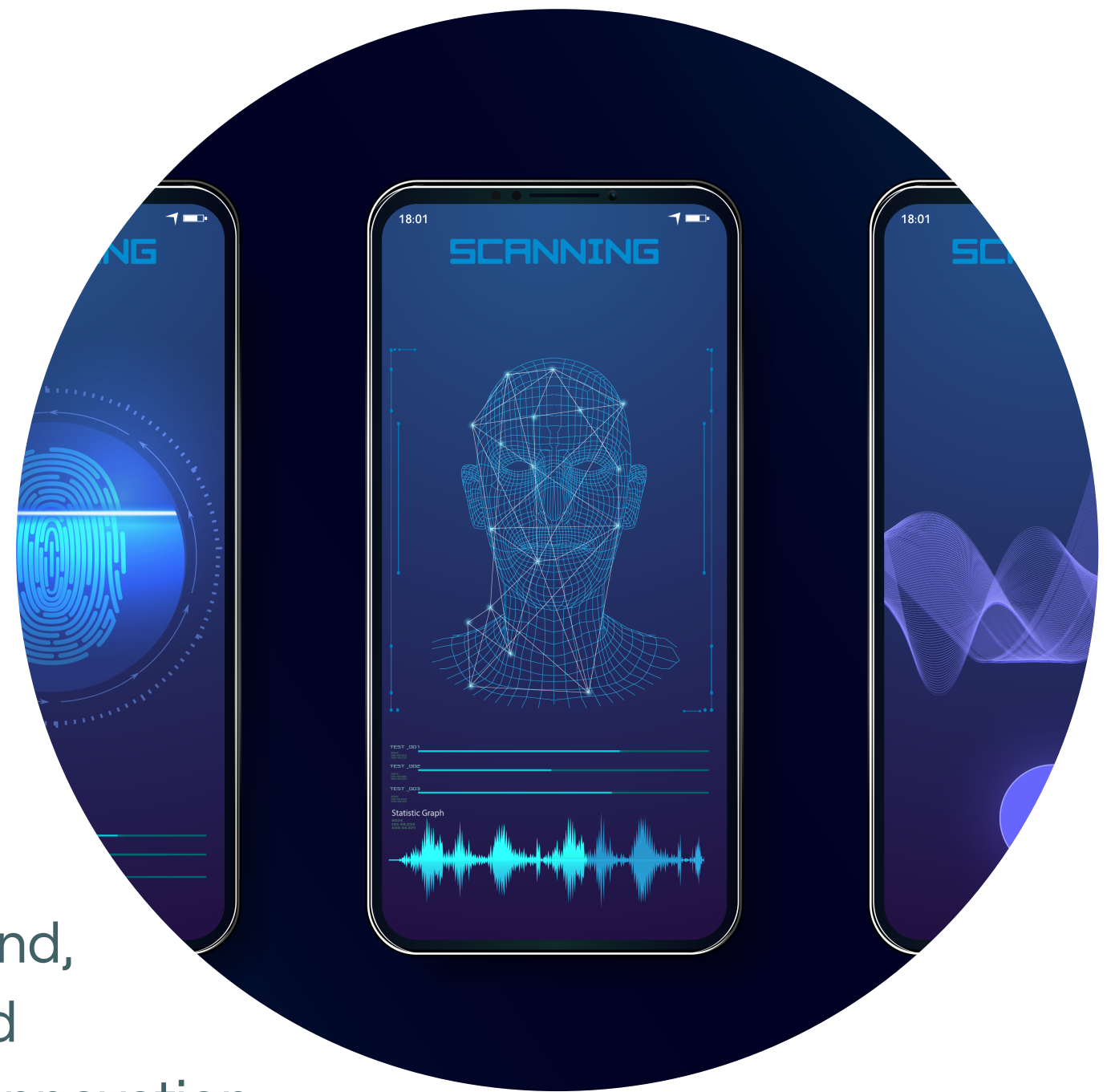
What is a certification body?

A certification body is an independent organization designed by all actors in the payment ecosystem, including vendors, payment networks, regulators, payment service providers and banks. The main goal of a certification body is to ensure the delivery of trusted payment products and solutions, which are standardized, interoperable and secure. They ensure both functional and security conformity for a variety of payment instruments and form factors.

Certification is important in payments and banking to ensure the safety and quality of products and solutions.

Certification bodies themselves define, design and deploy the certification processes. Once set up, they enable trusted third-party testing laboratories to issue industry-recognized certificates which state that a product or service complies with the necessary requirements.

This eBook will provide insight into some of the challenges facing the payments market and how setting up and managing a certification body can help address these challenges and drive innovation.

What are the payments pain points?

Certification is critical to ensuring that trustworthy payment solutions are deployed. What are the challenges that certification bodies can help address in the payments market?

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Market commoditization.

In a fiercely competitive market, time to market and keeping costs low while delivering payment solutions is a challenge. Commoditization occurs because the evolving market doesn't leave much room for differentiation. Standardization is a key vector to decrease the cost per unit sold to ensure that solution providers are offering products that meet consumer needs at an affordable price. This way, best in class financial services can be provided without compromising on security.

Market evolution.

The digital payments market is evolving quickly and adapting to new challenges and customer requirements. The global digital payments market is expected to reach **$8,059.3 billion by 2023**, at a CAGR of 20%.

This quick evolution means that the race is on to bring products to market and keep up with increasing customer demands. But this shouldn't result in poor implementations. It is necessary to have control and confidence over what is deployed.

Market exclusivity.

Proprietary implementations can be incompatible with other systems and require high infrastructure upgrade costs. This means that deployments can be market-specific and lock out vendors and other stakeholders wanting to enhance their offering and compete on a level playing field. Managing the ecosystem centrally establishes a baseline on top of which everyone can innovate.

Market fragmentation.

The international payments ecosystem is fragmented and complex. Requirements vary due to multiple factors, such as payment method and country, among many more. These complexities are difficult to manage and impose limits on the customer experience.

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These challenges are putting payments stakeholders under pressure, and ultimately taking up time and resource that could be used to innovate and improve the customer experience. Certification bodies can be fundamental to combat these issues and are even becoming mandatory in some use cases, delivering a wide range of benefits.

Reza Rahmani Fard

Head of product management at Fime

2. Why?

Setting up a certification body provides benefits for multiple stakeholders across different areas of the value chain. In this paper, we address two main areas: open banking and regional payment initiatives.

Why do open banking initiatives need certification bodies?

Open banking is all about sharing financial data with trusted parties to facilitate better consumer experiences. But in an ecosystem where we're seeing mandates without standardized approaches, many are struggling to keep to schedules. This is why we're seeing initiatives like STET and The Berlin Group working to establish standardized open access APIs in Europe.

Building trust in this ecosystem is vital, and API standards and certification are key steppingstones on the path to success. Setting up a certification body can help ensure consistency among implementations and provide stability in a complex environment.

Open banking certification bodies can support banks and Fintechs to meet regulatory and legal requirements, ensure smooth integration between apps and expedite time to market for new solutions.

Governance.

The governance structure of a bank or Fintech is fundamental to its success. Setting up a certification body can support banks in addressing many governance challenges, for example:

• Defining consistent roles and responsibilities for all of the different actors in the open banking ecosystem, such as incumbent banks and Fintechs.

• Maintaining fair value sharing amongst participants, mitigating the risk of disintermediation. This ensures that consumer needs are covered by large players, Fintechs and merchants.

• Creating a framework for allocating liability related to data sharing among financial institutions, data aggregators and financial technology companies that can be shared and replicated in contracts between the different parties.

Harmonization.

Creating a certification program can ensure consistency of secure data exchange between banks, Fintechs and schemes. This provides open and equal access for all players, enabling them to capitalize on the benefits of open banking and ensures that no new players are penalized for being new to the game.

Ways to realize this include:

- Defining a set of API and SCA compliance best practices and implementation best practices.

- Creating a product compliance program against functional and security API standards, via a certification process which is always the same, whatever the product or system.

- Providing qualified and automated compliance API test platforms that easily integrate into the development pipeline.

- Monitoring API security, functionality and performance by conducting periodical functional and security evaluation.

Consumer trust.

Consumer trust is fundamental in open banking, as these services won't be fully realized if consumers can't trust them. Ensuring the quality of how open banking data is shared safeguards the credibility of every player in the chain.

Certification bodies can help to enable end-to-end security by:

- Developing security and functionality guidelines to be widely adopted by developers.

- Providing transparent KPIs and specifications on data quality exchange to reassure API consumers and customer experience guidelines.

Innovation.

Rising acceptance of new payment channels, particularly mobile transfers (like real–time P2P and Account to Account transfer), and authentication methods such as tokenization and biometrics are making new payment channels more secure. Creating a certification body can help with the development of common and shared API standards and specifications that encompass all open banking innovative features and use cases.

This standardization is driving the development cost of new financial services down by allowing players to focus on differentiating and marketing their services, rather than deploying APIs.

Why do regional payment initiatives need certification bodies?

There are increasing numbers of regional payment initiatives and domestic schemes, working to meet the specific needs of their local banks, merchants and consumers. These initiatives aim to provide one unified payment solution which:

- Enables multiple different use cases.

- Improves security through centralized fraud scoring and prevention.

- Aligns with the necessary payment regulations.

To help these initiatives meet their objectives of harmonization and interoperability, setting up a dedicated certification framework is a key part of implementations.

Ensuring consistency.

Setting up a certification body can help to define standards and specifications for all payment environments, including contact, contactless, e-commerce and instant payments, among many others. This solves interoperability issues that can arise between domestic and proprietary payment applications. This will ensure all products deployed under the brand align to the requirements of the initiative's specifications. It will also ensure necessary infrastructural alignment of acquirers and issuers with the payment system.

Reducing costs.

Establishing a certification body can also help regional payment initiatives to reduce costs. The aim is to keep control of current transaction fees and share implementation costs of card and terminal payment applications. This provides cost effective payment solutions to end users.

Accelerate deployment.

Introducing a certification body can accelerate the roll-out of independent card and terminal payment applications by providing qualified tests plan and tests tools to solution vendors, giving them the steps to make deployment as simple and fast as possible.

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Both open banking players and regional payment initiatives can overcome the unique challenges facing the ecosystem by setting up and managing their own certification bodies. Each project has different business and technical challenges and staying up to speed with the new technologies entering the market can be demanding.

Angaj Bhandari

Managing director India & South Asia at Fime

3. How?

How can a certification body be set up and managed successfully?

There are certainly multiple benefits to setting up and managing a certification body, but with so many different factors to consider, it's hard to know where to start. But open banking standards and regional payment initiatives do not have to go it alone and repeat the mistakes of the past.

To simplify the process, you can collaborate with an experienced partner which is engrained and well-established in the financial services market. A partner can:

- Help map project requirements, business models and complexities and challenges on the road to success.

- Provide invaluable industry insight and expertise.

- Help create the necessary materials. These include a standard implementation user guide on what needs to be done and how, test cases to check implementations and tools to validate implementations.

- Enable you to focus on the value of the entity and the needs of your stakeholders, rather than the mechanics of certification.

How can Fime help?

Fime offers end-to-end consultancy services to help build a certification body, which defines the seamless digital certification journey.

Fime can provide support with defining the certification specification, laboratory setup, test plan specification, test tools and operation of the certification board. It can also help with setting up the certification processes. This includes support with the associated administrative and business operations on our cloud-based certification platform, which is accessible 24/7.

Throughout the process, Fime offers services in four different stages.

Our strategy: 3DT

Define

Go ahead.

We help our clients answer critical business questions formulate their technical strategy to grasp new business opportunities.

Design

Improve efficiency.

We help our customers choose the best technical and cost effective options, and design an efficient test strategy.

Deliver

Make it happen.

We help our clients roll out the chosen solutions, and develop the ad-hoc test plan and testing tools.

Test

Ensure trust.

We help our clients test their solutions for compliance and quality assurance purposes.

Define

Define **Design** **Deliver** **Test**

Strategic studies which provide a wealth of knowledge on the project requirements. This includes market and opportunity analysis, competition and technology benchmarking, cost analysis and financial modelling, and customer and user experience studies.

Impact and risk analysis services, including regulatory impact analysis and operational impact analysis (technical, organizational, processes, financial).

Define

Define **Design** **Deliver** **Test**

The definition of business and technical requirements, this includes carrying out a feasibility study, Request for Proposal writing and management, and assistance with bidder selection.

Business training, which provides an overview of both the relevant technologies and the security risks.

Design

Define **Design** **Deliver** **Test**

Solution design, including targeted solution and rules specifications, architecture design, technical and security specifications, security assessment and advice (PCI DSS) and operational plan specifications (legal, structure and BCP).

Designing the test strategy, test plans, test methodology, test tools and quality assurance plan.

Technical training.

Deliver

Define   Design   **Deliver**   Test

The development of specific test solutions, including test tools, libraries and test studios.

Knowledge transfer and handover to enable the installation and integration of solutions.

Onboarding technical consultancy and certification support.

Project management, including project milestones follow-up, stakeholder coordination, steering committee management, pilot project management, change request management and acceptance reports.

Test

Define **Design** **Deliver** **Test**

Testing services, including functional acceptance testing, functional compliance testing for Level 1, Level 2 and Level 3, interoperability testing and performance testing.

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Making innovation possible.

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