

VISA EUROPE

Response to the Payments Strategy Forum's Draft Strategy: "Being responsive to end user needs"

1 EXECUTIVE SUMMARY

- 1.1 Visa Europe ("Visa") welcomes the opportunity to provide comments in response to the Payment Strategy Forum's (the "Forum's") Draft Strategy for consultation, titled "Being responsive to user needs" (the "Draft Strategy").
- 1.2 Competition has been intensifying in payment systems around the world as technological innovation precipitates the emergence of new payment channels, new payment instruments, new market participants, and an increasingly global payment market. Rivals are competing more vigorously than ever before to offer the best proposition for consumers, merchants and other users.
- 1.3 At the same time, the regulatory landscape is rapidly shifting, with new regulations at a UK, European and international level. Structural changes in the UK payment system, including the recently announced sale of VocaLink, are also likely to have important implications for the future of the provision of interbank infrastructure and the UK payment system more broadly.
- 1.4 Against this backdrop, the PSR established the Forum with a specific mandate to identify areas where the UK payment system is not meeting consumer needs due to a lack of collaboration among industry stakeholders, and agree the long-term strategic priorities to address these issues.
- 1.5 If implemented, these proposals could have far-reaching implications for the future of the UK payments system. We appreciate the Forum's endeavours to engage in consultation with a selected range of entities, and to release extensive documentation on the work undertaken to date. We also welcome the Forum's commitment to undertake a full cost benefit analysis and further public engagement.
- 1.6 However we have concerns that the Draft Strategy goes well beyond the Forum's mandate. Competition is delivering innovation that customers' value and we are concerned that increased cooperation could distort these market forces, stifle innovation and, in so doing, ultimately harm consumers.
- 1.7 As we explain in our full response, we also have concerns that the Forum has not followed best practice in developing its Draft Strategy. We believe that the Forum has proposed a number of radical and potentially highly risky reforms to the architecture of the UK payments system without adequately evaluating the full range of options, without due consideration to the context of the shifting regulatory landscape and increasingly global market, and without adequately analysing the impact on end users.

1.8 Our overarching concerns are twofold:

- First, we are concerned that including card systems within the scope of the Draft Strategy could stifle competition and innovation. The Draft Strategy document clearly states that the overarching “vision” is confined to retail interbank payment systems, but a number of the supporting documents propose to include card systems within the scope of individual solutions. We believe that the problems identified by the Forum do not pertain to card systems, and the proposal to include card systems could ultimately be harmful to consumers.
- Second, and more broadly, we believe that careful consideration needs to be given to the potential implications of the Draft Strategy on the PSR’s statutory objectives to promote the competition, innovation and the interests of end users.

1.9 We strongly believe that the PSR, as the sector’s regulator, needs to undertake a full and independent analysis to ensure that consumer detriments are correctly identified, and that any proposed changes are fully aligned with the PSR’s statutory objectives.

1.10 In the remainder of this response, we provide our general views on the Forum’s Draft Strategy. We also include our response to the specific consultation questions set out in the Draft Strategy document in the **Appendix** of our response.

2 OUR VIEWS ON THE FORUM’S DRAFT STRATEGY

2.1 This section provides Visa’s high level view on two key issues related to the Forum’s Draft Strategy:

- First, we are concerned that including cards card systems within the scope of the Draft Strategy could stifle competition and innovation.
- Second, the proposals put forward in the Draft Strategy need to align with the PSR’s statutory objectives.

2.2 The remainder of this section sets out our views on these two key issues. We also provide a response to the 23 consultation questions in the **Appendix** of this response.

Card systems should not be included in the scope of the Forum’s Draft Strategy

2.3 Visa is strongly of the view that card systems should not be included within the scope of the Forum’s work.

2.4 The Draft Strategy document makes it clear that the overarching “vision” is confined to “*retail interbank payment systems in the UK*”.¹ However we are concerned that the details provided in a number of the supporting documents suggest that card systems are proposed to be included in the scope of individual solutions.

¹ PSF, [‘Being responsive to user needs: A Draft Strategy for consultation’](#) pg 8

- 2.5 The Forum was established by the PSR with a specific mandate to “*develop and agree strategic priorities for the long-term development of payment systems where the industry needs to work together.*”² The PSR was clear that the Forum should “*operate only where the industry needs to work together and is not intended to replace commercial innovation.*”³
- 2.6 In our view, market failures that prevent innovation in payment systems primarily occur when innovation requires a collective effort to succeed. This could potentially be the case for some interbank systems, where coordination problems might make it difficult for industry players to agree to invest and implement new innovations.
- 2.7 However these market failures are not present for card systems. Visa competes against other payment systems by investing in new global payment and security technologies to meet the constantly evolving needs of consumers. Innovation is fundamental to maintaining and building on our market leading position. Visa also has a track record of collaborating across the industry where appropriate. For example the development and deployment of contactless technology involved collaboration across the entire ecosystem: banks, other financial institutions, merchants, vendors and other payment schemes. The contactless infrastructure uses global open EMV standards which were developed by the industry and can be used and adopted by all providers.
- 2.8 While we have found the supporting documentation is unclear and difficult to follow in parts, it appears that the Forum is proposing to include card systems in the scope of the following three solutions:
- The development of a common PSO participation model and rules⁴;
 - The development of aggregator access models⁵; and
 - The development of standards for identity verification, authentication and risk assessment.⁶
- 2.9 Below we set out our specific concerns regarding the inclusion of cards in each of these proposed solutions. We also provide general comments in response to the consultation questions in the **Appendix**.

Common PSO participation model and rules

- 2.10 While there may be a case for considering whether harmonisation of rules across interbank schemes would ultimately deliver benefits to consumers, we agree with the PSR that no new

² PSR PS15/1, ‘[A new regulatory framework for payment systems in the UK](#)’, pg 3

³ PSR PS15/1, ‘[A new regulatory framework for payment systems in the UK](#)’, pg 3

⁴ Simplifying Access to Markets Working Group, ‘[Common PSO Participation Model and Rules](#)’, pg 3

⁵ Simplifying Access to Markets Working Group, ‘[Aggregator Solutions](#)’, pg 2

⁶ PSF, [Financial Crime, Data and Security Working Group Report](#), pg 8

access requirements are required for card systems.⁷ Visa's scheme rules are a point of competitive distinction. We are constantly developing and refining our rules and procedures to allow us to expand access to a broader range of PSPs, while also ensuring that we protect the financial stability of the system.

- 2.11 Further, this solution also focuses narrowly on UK payment systems and does not recognise that Visa is a global payments scheme. International acceptance provides wide-ranging benefits to consumers and merchants, for example by facilitating the proliferation of ecommerce and opening up new global markets for consumers and merchants. We are concerned that some of these measures could risk disrupting these features that consumers' value.

Aggregator access models

- 2.12 Again, we agree with the PSR that that no new access requirements are required for card systems. Visa competes with other payment systems by opening up its network and providing access to a wide range of participants, including banks, and other PSPs and third party processors. . We are concerned that including card schemes in this solution could undermine competition between systems which can reduce the incentive to develop new access arrangements.

- 2.13 This solution also focuses narrowly on UK payment systems and does not recognise that Visa is a global payments scheme. We are concerned that a UK-centric approach may not deliver innovations on a global scale that consumers' value.

Standards for identity verification, authentication and risk assessment

- 2.14 The Forum appears to be proposing a 'one-size-fits-all' approach to identity verification, authentication and risk assessment. While it is not explicit that this solution includes card payments, the Financial Crime, Data and Security Working Group report suggests that the intended scope is all payment types and all payment channels.⁸ We do not believe that there is a problem that needs to be addressed with respect to card payment. In our view, standardisation risks inhibiting innovation in new security solutions, and potentially locking in a solution that may not be optimal for all payment types and all payment channels.

- 2.15 Security and trust in Visa is fundamental to our business model, and Visa has developed rigorous standards for verification, authentication and risk assessment. Enhancing payment security is one of our core areas of innovation, and we have invested heavily in developing solutions that improve verification and authentication while providing increased convenience to consumers. For example, contactless solutions for low value payments, which employ cryptographic controls and Chip and PIN technology in some cases, are replacing cash transactions, where no authentication is required.

⁷ <https://www.psr.org.uk/psr-publications/news-announcements/statement-on-indirect-access-and-governance-requirements>

⁸ PSF, [Financial Crime, Data and Security Working Group Report](#), pg 8

- 2.16 Similarly, Visa works with its clients to develop new consumer verification methods. For example, for transactions originating from mobile devices Visa allows clients to implement a wide range of consumer verification methods while specifying the risk thresholds that must be met and carefully monitoring security breaches. This allows Visa's clients the flexibility to innovate and meet the needs of consumers, for example by employing retina scans and finger prints as forms of verification, while also ensuring that the risk of fraud is minimised.
- 2.17 Finally, this proposal also take a UK-centric approach may not deliver innovations on a global scale that consumers' value.

The Draft Strategy needs to align with the PSR's statutory objectives

- 2.18 A second key area of concern is that some of the Forum's Draft Strategy does not align with the PSR's statutory objectives. These objectives are:
- *“to ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them*
 - *to promote effective competition in the markets for payment systems and services - between operators, PSPs and infrastructure providers*
 - *to promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems”*.⁹

- 2.19 The Forum has proposed a number of radical and potentially risky reforms to the UK payment system. We are concerned that the Forum has not adequately focused on the interests of end users, has not given due consideration to for the consequences of the proposals for competition and innovation in the UK payments system.

Promoting the interests of end users in UK payment systems

- 2.20 At the inception of the Forum, the PSR set out its expectation that the Forum should be *“clearly focused on identifying the outcomes that ultimately benefit consumers and other end-users.”*¹⁰
- 2.21 As discussed further in our response to Question 1 in the **Appendix**, we have strong concerns that the process undertaken was not adequately focused on identifying outcomes that consumers' value, and as a result, the proposed solutions are not designed based on a thorough understanding of the needs of consumers.
- 2.22 In developing proposals of this nature, a typical critical step is to engage extensively with consumers to understand the outcomes that consumers' value. For example, this could include engaging with consumer panels and consumer bodies, as well as investing in research to understand consumer views and attitudes. It may also involve commissioning

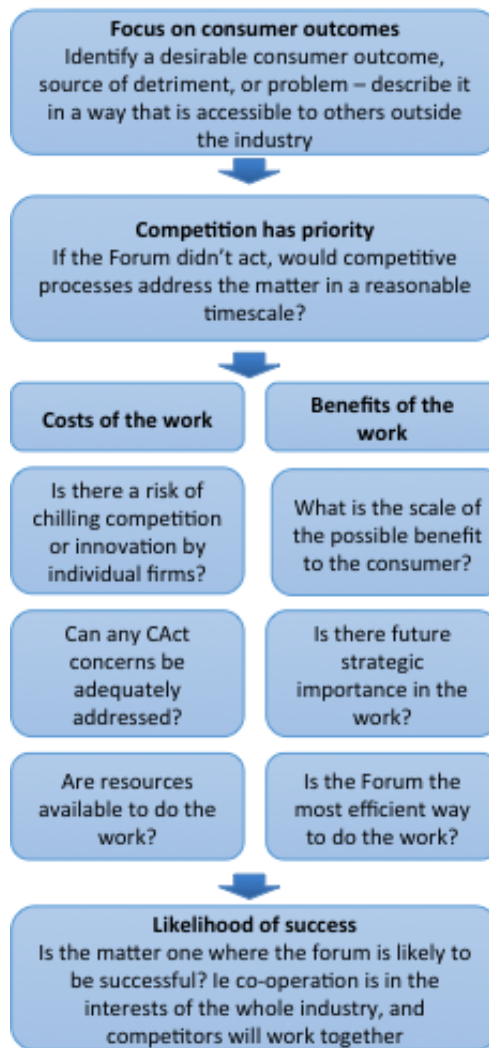
⁹ <https://www.psr.org.uk/about-psr/psr-purpose>

¹⁰ PSR PS15/1, '[A new regulatory framework for payment systems in the UK](#)', pg 16

independent expert resources that are dedicated to obtaining consumer insight. Regardless of the approach, it is imperative that the consumer voice is heard and counterbalanced against industry voices and interests.

2.23 Figure 1 provides an example framework that would ensure that the Forum’s work is focused on end-user needs throughout the process.

Figure 1: An alternative framework for the Forum’s work



2.24 Having observed the process to identifying the “detriments” that form the foundation of the Forum’s Draft Strategy, we are concerned that the presence of consumer ‘representatives’ on the Forum is necessary but not sufficient to ensure that consumers are at the heart of the Forum’s strategy. Indeed, it appears that many of the solutions are focused on reforms that will benefit some industry players without a firm link to any consumer detriment.

2.25 It is also difficult to see how many of the proposed solutions link back to consumer concerns that need to be addressed and it is not clear what process the Forum has used to prioritise the detriments and determine the focus of the strategy.

2.26 We believe that more comprehensive consumer engagement should be undertaken, including commissioned research, to ensure that detriments are adequately driven by consumer concerns. A full range of solutions must then be considered that achieve the aims of the Forum while maintaining the UK's leading payment system and driving innovation through competition to meet the evolving needs of consumers.

Promoting effective competition and innovation in UK payment systems

2.27 In addition to our concern that the Forum has not adequately focused on end user needs, we also believe that careful consideration needs to be given to the implications for competition and innovation if the proposed solutions were to be implemented.

2.28 We are concerned that the Strategy extends substantially beyond the Forum's mandate to focus only on areas where industry cooperation is required to drive innovation. In our view, the Forum has not adequately demonstrated that cooperation is required and that consumers' needs cannot be served through market competition.

2.29 Technological innovations are currently transforming the payments market. Card systems and interbank systems are becoming increasingly competitive and new forms of competition emerging, which is delivering a proliferation of new products and services to meet user needs. There are also substantial regulatory changes taking effect that are designed to further increase competition, including recent work by the PSR as part of its Infrastructure Market Review to encourage competition in the market for interbank infrastructure. In our view, this shifting payments landscape will drive increased competition and innovation in the future without the need for cooperation.

2.30 Further, the majority of the proposed solutions appear to be focused on enabling PSPs to compete and innovate more effectively. It is not clear that the Forum has given due consideration to the implications for competition and innovation elsewhere in the payments market. In particular, competition among schemes and among processors drives innovations that benefit end users. For example, Visa has developed a solution to provide enhanced data for business and government departments. Businesses that use Visa commercial cards are able to view addendum data for transactions, allowing businesses to better track transactions and manage their expenses. This was developed by Visa to compete with other payment schemes and attract business customers.

2.31 There are several proposals in the Draft Strategy that could have detrimental impact on competition and innovation. For example, a number of proposals focus on harmonising and standardising various aspects of the UK payment systems. By definition, standardisation of particular aspects of the payment system reduces competition, because it reduces the ways in which payment systems differentiate themselves and offer choice to customers. In the same way, standardisation locks in one solution and reduces the incentives for systems to innovate and develop new ways of doing things. Importantly, there is a risk that

standardisation can introduce a sub-optimal solution across the industry, and potentially increase the cost of transitioning to superior technologies and approaches in the future.

- 2.32 We are also concerned that a number of these solutions are not adequately targeted at a specific problem, and that a UK-centric approach may not deliver innovations on a global scale that consumers' value.
- 2.33 One of the major proposals put forward by the Forum is the consolidation of BACS, FPS and C&CCC into a single payment scheme.
- 2.34 This proposal aims to address the complexity and cost imposed on PSPs to join and participate in interbank schemes. However, we are concerned that this proposal effectively creates a monopoly interbank scheme, and this could have a number of significant consequences for competition, innovation and the regulatory landscape.
- 2.35 While BACS, FPS and C&CCC schemes may not compete in the same way that card schemes compete, the Working Group paper on Payment System Operator Governance does acknowledge that these schemes compete "*in some respects*" and that "*there are some products that could be deemed as substitutable for one another.*"¹¹ To the extent that these schemes do compete in some aspects, consolidating them together will erode competition and reduce the incentives to innovate.
- 2.36 There are several risks associated with this proposal that have not yet been adequately addressed. In particular, there is a lack of detail around how such a consolidated payment scheme would work in practice. For example, no consideration has been given to how (or if) such an entity would be regulated and how cross-subsidies would be prevented both between each element of the regulated scheme and between a regulated and unregulated entities.
- 2.37 We believe that some of the specific solutions under consideration, such as increasing access to settlement accounts and establishing clear indirect access models, could address the problem of access to schemes without the risk of removing competition and stifling innovation. The Forum needs to consider a full range of approaches that could be applied to simplify access to schemes, including those that limit the potential for unintended consequences.
- 2.38 A second major proposal put forward by the Forum is the development of a new payment architecture and simplified payment platform.
- 2.39 Similar to the proposal to consolidate a number of interbank schemes, there is also a lack of detail about how this proposal would work in practice, including how this would be regulated. However we are concerned that the proposal to create a new payment system with "*a single push rail*" which "*will be 'utility' in style*" would risk creating a monopoly in interbank payment

¹¹ Simplifying Access to Markets Working Group, '[Payment System Operator Governance](#)' pg 14

processing.¹² Consistent with the PSR's findings in its infrastructure market review, we do not believe that the market for interbank payment infrastructure is a natural monopoly. There are currently multiple providers that maintain an interbank infrastructure network in the UK (for example, VocaLink and card payment systems). We believe that careful consideration needs to be given to the potential for entrenching a monopoly in a market where competition should be encouraged.

- 2.40 Overall, we believe that these proposals by the Forum go substantially beyond its mandate to focus on areas where collaboration is necessary. As a result, there is the potential to hinder competition and innovation in the UK payment system. We also believe that it is highly risky to implement substantial changes to the industry structure and undertake costly investments in a specific architecture at a time when the payment industry undergoing transformational change in the UK and globally.

3 THE WAY FORWARD

- 3.1 We appreciate that the Forum has undertaken a significant amount of work to this point, and welcome the Forum's commitment to undertake further work to scope the proposed solutions and conduct a full cost-benefit analysis for each of the proposed solutions.
- 3.2 However we are concerned that the overarching vision and a number of the proposed solutions remain unclear. In particular, we are concerned that card systems appear to be within the scope of a number of the proposed solutions with little justification. We believe that the problems identified by the Forum do not pertain to card systems, and including card systems within the scope of the proposed solutions could potentially stifle innovation and would ultimately be harmful to consumers.
- 3.3 In addition to the cost-benefit analysis, we believe that the PSR needs to undertake a full and independent analysis to ensure that any proposed changes are within the Forum's mandate, and are focused on effectively and proportionately addressing consumer detriments in a rapidly shifting and increasingly global payments landscape. Further, the PSR must ensure that any proposed changes fully align with its statutory objectives, its conclusions on access arrangements in payment systems, and its work on competition in interbank infrastructure.
- 3.4 Visa looks forward to engaging further in this process to ensure that the UK's payment system continues to be regarded as among the best in the world.

¹² Horizon Scanning Working Group, '[A Simplified Core Payment Platform \(SPP\) – Concept Assessment](#)' pg 9

APPENDIX 1: SPECIFIC COMMENTS ON THE FORUM'S DRAFT STRATEGY

1. Do you agree we have properly captured and articulated the needs of End Users? If not, what needs are missing?

- A.1 We believe that the Forum has a valuable opportunity to identify areas where the industry is not adequately meeting consumer needs, and to consider how best to develop solutions that deliver a better payment system for consumers.
- A.2 To harness this opportunity, it is imperative that the Forum develops a robust approach that meaningfully places consumers at the heart of its work.
- A.3 However, we have strong concerns that the Forum has properly captured and articulated the needs of end users. In particular, we are concerned that the process undertaken was not adequately focused on identifying outcomes that consumers' value, and as a result, the proposed solutions are not designed in the best interests of consumers.

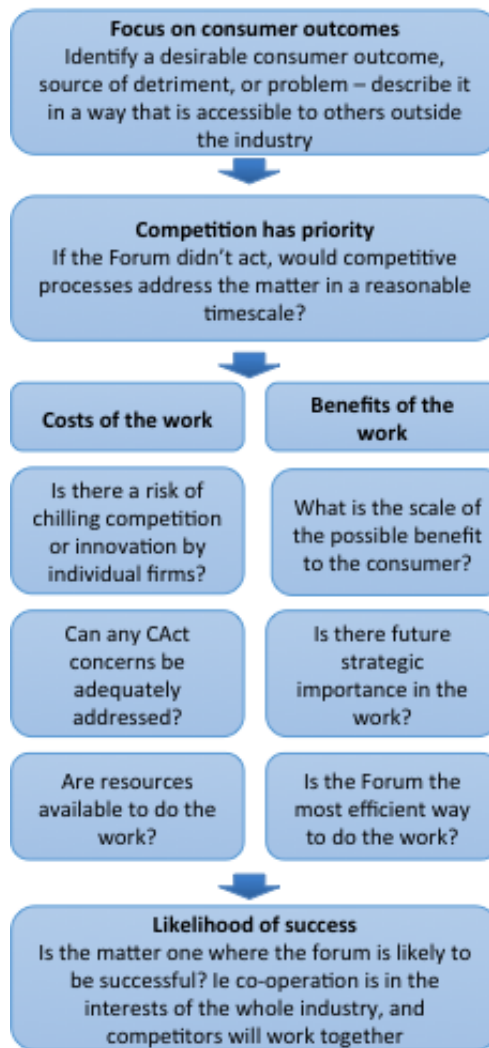
Developing a consumer-centric approach

- A.4 We believe that there are several steps missing from the Forum's approach which means that it does not properly capture and articulate the needs of end users.
- A.5 Firstly, there needs to be a strong consumer 'voice' throughout the process. In developing proposals of this nature, a typical critical step is to engage extensively with consumers to understand the outcomes that consumers' value. For example, this could include engaging with consumer panels and consumer bodies, as well as investing in research to understand consumer views and attitudes. It may also involve commissioning independent expert resources that are dedicated to obtaining consumer insight. Regardless of the approach, it is imperative that the consumer voice is heard and counterbalanced against industry voices and interests.
- A.6 A key component of this work is ensuring that the Forum's work is presented in language that is accessible both to consumer groups and others that are not involved in the payments industry. This is essential to ensure that input is received from a broad consumer base, and not just from industry specialists.
- A.7 Secondly, the Forum's work should be framed in terms of consumer outcomes and benefits to consumers. A clear line-of-sight between the work of the Forum and consumer outcomes would enable meaningful consumer engagement in developing the Forum's Strategy. This would also provide a transparent framework for prioritisation of the solutions. Costs and benefits could be weighed up because the expected benefits to consumers would be clearly identified, and the outcome of the prioritisation process would be expressed in a way that is broadly accessible to consumers.
- A.8 Finally, it is also vital that the role and remit of the Forum is clear and the Forum demonstrates how work taken on falls within its scope and aligns with the PSR's objectives.

This ensures that the competitive process is given clear priority, and the industry strategy is limited to areas where consumer benefits would not be delivered by normal competitive processes in an acceptable timescale.

A.9 Figure 1 provides an example framework that would ensure that the Forum’s work is focused on end-user needs throughout the process.

Figure 1: An alternative framework for the Forum’s work



Concern’s with the Forum’s approach

A.10 Despite the stated aim of the Forum to put the consumer at the heart of what it does, we believe that there is little evidence that the Forum has properly captured and articulated end user needs.

A.11 First, there does not appear to be adequate arrangements, in our opinion, to secure a strong consumer voice. Adequate consumer representation on the Forum and at “Payments Community Events” is necessary to ensure that consumer views are understood, but it is not sufficient. We believe that further research and engagement, including commissioning independent expert reports, is essential to properly understand consumer views.

- A.12 Having observed the process to identify the “detriments” that form the foundation of the Forum’s Draft Strategy, we do not believe that the Forum’s list of 83 detriments was driven by robust analysis of consumers concerns. Instead, it appears that many of the solutions are focused on reforms that will benefit some industry players without a firm link to any consumer detriment.
- A.13 Further, we do not believe that the material made available by the Forum is clearly articulated and adequately accessible to people outside the industry. It is difficult to determine how a number of these proposals will affect consumers, and we are concerned that this is likely to deter meaningful involvement from outside the industry.
- A.14 Second, it is difficult to see how many of the proposed solutions link back to consumer concerns that need to be addressed, or what process the Forum has used to prioritise the long list of detriments and determine where to focus its Strategy. Given the scale and scope of the solutions proposed, we believe that it is imperative that a range of options are considered and evaluated against their ability to efficiently meet user needs. For example, we are concerned that a UK-centric approach may not deliver innovations on a global scale that consumers’ value.
- A.15 Finally, as discussed elsewhere in this response, we are concerned that the proposals in the Strategy extend substantially beyond this mandate and that the cooperative solutions could be better driven by competition. We believe that increased collaboration could reduce the incentives for payment systems to compete to by offering innovative solutions for merchants and consumers.
- A.16 Overall, we believe that more comprehensive consumer engagement should be undertaken to ensure that detriments are adequately driven by consumer concerns. A full range of solutions must then be considered that achieve the aims of the Forum while maintaining the UK’s leading payment system and driving innovation through competition to meet the evolving needs of consumers.

2. Do stakeholders agree with the financial capability principles? How should these principles be implemented? How their implementation should be overseen and how should the industry be held to account?

- A.17 Visa’s vision of being the best way to pay and be paid is core to our business and consistent with the vision of achieving global financial inclusion. We are working in partnership with our clients to develop products that are better tailored to the needs of financially excluded consumers, and support new ways for payment cards and digital financial services to be used and accepted in hard-to-reach areas. For example, we supported Santander UK Bank to develop a solution that assists people on lower incomes to better manage their money.

The Basic Current Account and Top-up Visa Debit Card provides the flexibility to spend money in shops or online, while also allowing consumers to set aside money for bills.¹³

A.18 We would agree that consumers should be at the heart of the Forum's work, and it is important to ensure that the Forum's work is inclusive of all consumers. However, we would be interested in understanding the process for developing the financial capability principles, and the work that has been undertaken by the Forum to ensure that the financial capability principles adequately reflect the needs of vulnerable consumers.

A.19 We would also note that the principles are currently aspirational statements rather than objective metrics. We believe that further work is required to develop the principles into measures that could be used to assess whether a proposed solution aligns with the interests of consumers, and to track whether improvements are being achieved over time.

3. What benefits would you expect to accrue from these facilities (not necessarily just financial)? Do you agree with the risks we outline? How should we address these risks? Are there further risks we should consider? Is there a business case for investing in solutions to address these needs and if not, how such an investment can be justified? Are there any other alternative solutions to meet the identified needs? Is there anything else that the Forum should address that has not been considered?

A.20 Visa is constantly innovating in competition with other payment systems to respond to consumer and market needs. For example, Visa has designed the Visa Europe Payment Stop Service ("VEPSS") to provide consumers with greater control over recurring transactions. The service protects consumers by enabling them to request an end to recurring payments without needing to contact the specific merchant.

A.21 Similarly, Visa has developed solutions to provide assurance to merchants and customers that funds will be available at the intended time of a transaction completion. For example, we allow hotels to do a status check on guest cards and put a hold on funds should payment be required.

A.22 Finally, we provide an enhanced data solution for commercial cards. Businesses are able to view addendum data for transactions on commercial cards, allowing businesses to better track transactions and manage their expenses.

A.23 In our view, this demonstrates that end user solutions can be delivered in a competitive environment. If consumer needs are not being met by the market, there is an opportunity for payment systems to gain a competitive advantage by developing new solutions to attract customers.

A.24 Even if there is a demonstrated need to build these solutions on a coordinated basis, we believe that a full cost benefit analysis must be undertaken that follows best regulatory practice to better understand the needs of users as well as the costs that would be imposed

¹³ <http://www.santander.co.uk/uk/current-accounts/basic-current-account>

on consumers. This should include consideration of the full range of possible solutions, including those that involve fewer risks and less cost.

A.25 In our view, it is not clear that the benefits that would accrue to a small subset of consumers would sufficiently outweigh the cost of implementing the proposed solutions. We are concerned that the Forum has identified issues that might apply narrowly to one or a small number of payment systems, and extrapolated this to a solution that would apply broadly across the payment system. Request to Pay, for example, affects Bacs and does not require the development of a broad data framework.

A.26 More broadly, these proposals appear to be largely conceptual, and we believe that further consideration of the practical and commercial obstacles is required. For example, there are considerable data protection issues and overlaps with PSD2 and other regulations that will need to be considered in detail. Similarly, we believe that further assessment of the practical considerations for Request to Pay is required. For example, there are significant uncertainties around the implications for merchants if a consumer decides not to accept a Request for Payment. This could potentially impose significant additional cost, particularly on smaller merchants, and would ultimately feed through to consumers.

4. Is there a business case for investing in transitional solutions while the new payments architecture is being delivered and if not, can such an investment be justified? Are there any viable technical solutions to deliver some of the consumer benefits early without compromising the longer term solutions recommended by the Forum?

A.27 We believe that the Forum should give further careful consideration and analysis to its long-term vision before it considers transitional solutions. This includes work to establish outcomes that consumers care about; analysis of the full range of potential solutions that address the consumer detriments, including those that are less costly and less risky; and consideration of the rapidly shifting payments landscape. A full cost benefit analysis of the proposal for a new architecture also needs to be undertaken before transitional solutions are developed.

5. Do you agree with our proposal regarding customer awareness and education? If not, please provide evidence to support your response. Do you agree the delivery of these activities should be through an industry trade body? If so, which one would be most appropriate to take the lead role?

A.28 Visa is supportive of measures that increase consumer awareness and help to combat financial fraud. However, we believe that there is already a significant amount of work underway across the industry. In particular, Visa is involved in the Financial Fraud Action UK initiative, which provides a forum for the industry to work together on non-competitive issues related to financial fraud.

A.29 We would be interested to understand further detail about Forum's proposal, including the value that would be added by the proposal over and above the work that is already underway, the process for designing the content, and the funding arrangements for the campaign.

6. Do you agree with the establishment of guidelines for identity verification, authentication and risk assessment? If not, please provide evidence to support your response?

A.30 Security and trust in Visa is fundamental to our business model, and Visa has developed rigorous standards for verification, authentication and risk assessment. Enhancing payment security is one of our core areas of innovation, and we have invested heavily in developing solutions that improve verification and authentication while providing increased convenience to consumers. For example, contactless solutions for low value payments, which employ cryptographic controls and Chip and PIN technology where added security is required, are replacing cash transactions, where no authentication is required.

A.31 Similarly, Visa enables its clients to develop new consumer verification methods while also ensuring fraud risks are minimised. For example, Visa allows clients to implement a wide range of consumer verification methods for transactions originating from mobile devices, while tightly specifying the risk thresholds that must be met and carefully monitoring security breaches. This allows Visa's clients the flexibility to innovate and meet the needs of consumers, for example by employing retina scans and finger prints as forms of verification, while also minimising payment fraud.

A.32 Visa is concerned that the proposal to establish of guidelines for identify verification, authentication and risk assessment appears to include all payment systems and payment channels, including card schemes, within the scope of the proposal.

A.33 In particular, we believe that standardisation risks stifling innovation in new identification and verification solutions, and introducing additional costs and/or unnecessary risks into payments. Further, like other proposals that appear to include card schemes in scope, the solution focuses narrowly on UK payment systems and does not recognise that Visa is a global payments scheme. Any changes to the global rules could impact on our international acceptance, and would impose substantial cost on Visa and on consumers.

A.34 More broadly, we believe that further careful consideration is required to fully weigh up the costs and benefits of this proposal. While there may be some benefits to establishment of guidelines for identity verification, authentication and risk assessment, we believe that there are several risks that need to be carefully analysed.

A.35 First, as discussed above, we believe that there is a risk that the proposal to implement one standard to be used by all PSPs could reduce the incentive to develop new ways to identify and verify users when they open accounts and make payments.

- A.36 Second, a common approach to identity verification and authentication could increase the risk of a large scale security attack. In contrast, it is much more difficult to undertake a large scale attack if PSPs implement a range of different systems.
- A.37 Third, the solution does not recognise that identity verification, authentication and risk assessment is only part of the risk formula. A low impact approach to identity verification, authentication and risk assessment backed by a high quality detection system can provide a very similar fraud profile while offering a considerably more convenient service to payment users.
- A.38 Finally, we believe that further consideration should be given to the rationale for a local UK solution given other regulatory measures that are due to be introduced, such as the strong customer authentication measures included in PSD2.

7. Do you agree with our solution to develop a central data repository for shared data and a data analytics capability? If not, please provide evidence to support your response? Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider? If any legislative change is required to deliver this solution, would such change be proportionate to the expected benefits?

- A.39 Visa is committed to combatting financial fraud. We share all fraud data with acquirers daily, and provide merchants with access to fraud data on request. We also host a Fraud Working Group with Visa clients where we discuss initiatives to remediate against fraud, including fraud trends, new detection products, 3D secure and date compromise remediation. Visa also contributes to fraud forums hosted by UK Payments to ensure that we drive and contribute to any other action at the industry level.
- A.40 While the proposal to develop a central data repository could provide some benefits in theory, we believe that there are important data security issues and other practicalities that that would be very difficult to overcome in practice.
- A.41 As the Draft Strategy points out, this solution raises significant risks related to the secure storage of the data that would need to be carefully addressed. There are also multiple legislative issues (for example, data protection) that have would need to be considered. Finally, there is a risk that the data repository would be exploited for purposes other than financial crime which would need to be addressed to ensure participation. Overall, we believe that it is unlikely to be feasible to implement this proposal.

8. Do you agree with our solution for financial crime intelligence sharing? If not, please provide evidence to support your response? In what way does this solution improve financial inclusion? More generally, how should intelligence sharing be used for the “public good”. Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider? Do the benefits of financial crime intelligence sharing outweigh the new potential risks created? Can this

operate without changes to legislation? If not, what changes to legislation would be required to make this happen? If any legislative change is required, would such change be proportionate to the expected benefits? What governance structure should be created to ensure secure and proper intelligence sharing?

A.42 As above in question 7, the proposal to enhance financial crime intelligence sharing could provide some benefits in theory, but we believe that there are important data security issues and other practicalities that that would be very difficult to overcome in practice.

9. Do you agree with the proposal to develop a Central KYC Utility? If not, please provide evidence to support your response?

A.43 We are generally supportive of initiatives to reduce the compliance burden on payment industry participants, and we understand that KYC compliance is a significant issue for the payments industry.

A.44 However, we believe that the proposal to create a central KYC utility raises important data security issues and other practicalities that that would need to be carefully considered. In particular, inaccuracies in the central database could have substantial ramifications if all PSPs are accessing the same database.

10. Do you agree with our solution for enhancing the quality of sanctions data? If not, please provide evidence to support your response?

A.45 We are generally supportive of initiatives to reduce the compliance burden on payment industry participants.

A.46 Subject to the results of a full cost benefit, this appears to be a sensible solution that could reduce the costs imposed on organisations that use the sanctions database and increase the effectiveness of the database.

11. Do you agree with our proposal regarding access to sort codes? If not, please provide evidence to support your response.

A.47 We do not have a specific comment on this proposal.

12. Do you agree with our proposal regarding access to settlement account? If not, please provide evidence to support your response.

A.48 Unlike some interbank payment systems, Visa currently extends access to members that are not eligible to settle through the Bank of England's RTGS system.

A.49 We are generally supportive of the Bank of England's proposal to extend direct access to accounts in RTGS to non-bank PSPs, and believe that it could increase competition and innovation in the market for payment services.

A.50 We would be interested to learn more about the role that the Forum is proposing to play in supporting the Bank's work.

13. Do you agree with the proposal regarding aggregator access models? If not, please provide evidence to support your response. How can the development of more commercial and competitive access solutions like aggregators be encouraged to drive down costs and complexity for PSPs?

- A.51 Visa currently competes with other payment systems for customers by providing superior services and access for banks, and other PSPs and third party processors. Visa has invested in the development of rules and systems to allow PSPs to access Visa's network through third party providers. We place fewer limits on the number of entities that connect through our systems compared to interbank schemes, and connection through third party entities is much more prevalent for card schemes than for interbank schemes.
- A.52 As stated in the body of our response, we do not agree that card schemes should be included in this solution.
- A.53 While costly and complex access arrangements for PSPs may be an issue for some interbank schemes, the PSR has examined this issue for card schemes and determined that no further access requirements are necessary.
- A.54 We are concerned that including card schemes in this solution could undermine competition between systems and limit innovations to develop new access arrangements. This would ultimately be to the detriment of consumers. Further, the solution fails to recognise that Visa is a global payment system, and changes could impose substantial costs on the scheme, and ultimately, on consumers.

14. Do you agree with our proposal regarding Common Payment System Operator participation models and rules? If not, please provide evidence to support your response.

- A.55 One of the aspects by which Visa competes with other payment schemes is developing and refining our rules and procedures to allow us to expand access to a broader range of PSPs, while also ensuring that we protect the financial stability of the system.
- A.56 As outlined in the body of the response, we do not agree that card schemes should be included in this solution.
- A.57 There may be a case for considering whether harmonisation of rules across interbank schemes would ultimately deliver benefits to consumers. However, the PSR has carefully examined access and innovation in card schemes, and determined that no new access requirements are necessary for card schemes.
- A.58 Further, this solution also focuses narrowly on UK payment systems and does not recognise that Visa is a global payments scheme. Any requirement to amend participation models and rules would impose substantial costs across the global scheme, which would ultimately be detrimental for consumers.

15. Do you agree this proposal regarding establishing a single entity? If not, please provide evidence to support your response. If you do not agree, how else could the benefits be achieved without consolidating PSO governance in the way described?

- A.59 We believe that competition among schemes generates innovations that customers' value, and care is needed that any proposal put forward by the Forum does not stifle this competition and innovation to the detriment of end users.
- A.60 We are concerned that this proposal effectively creates a monopoly interbank scheme, and we believe that further consideration needs to be given to the potentially significant consequences for competition and innovation, or to how such an entity might be regulated.
- A.61 While BACS, FPS and C&CCC schemes may not compete in the same way that card schemes compete, the Working Group paper on Payment System Operator Governance does acknowledge that these schemes compete "in some respects" and that "there are some products that could be deemed as substitutable for one another." To the extent that these schemes do compete in some aspects, consolidating them into a single entity will erode competition and reduce the incentives to innovate.
- A.62 There are several risks associated with this proposal that have not yet been adequately addressed. In particular, there is a lack of detail around how such a consolidated payment scheme would work in practice. For example, no consideration has been given to how such an entity would be regulated and how cross-subsidies would be prevented both between each element of the regulated scheme and between a regulated and unregulated entities.
- A.63 We believe that there are other solutions available, such as expanding access to RTGS and addressing indirect liability models, which could address the problem of access to schemes without the risk of removing competition and innovation, and creating broader regulatory risks. The Forum needs to consider a full range of approaches that could be applied to simplify access to schemes, including those that limit the potential for unintended consequences.

16. Do you agree with the proposal to move the UK to a modern payments message standard? If not, please provide evidence to support your response.

- A.64 Visa recognises that there are potential benefits associated with the adoption of common international messaging standards that have been adopted by interbank payment systems elsewhere in Europe. However we would also stress that there are potential drawbacks, and these need to be carefully considered as part of a full cost benefit analysis before any decision is reached.
- A.65 The majority of the payment systems in the UK - FPS, LINK and the global card systems - operate on an implementation of the ISO8583 standard. The proposal to migrate interbank

card systems to a new base messaging standard will not result in interoperability among payment systems in the UK.

A.66 Interoperability among interbank systems has been pursued elsewhere in Europe in order to facilitate and lower the cost of cross border credit and direct debit transactions denominated in euros. In the UK, however, these cross border transactions represent a very small percentage of all transactions. Accordingly, there is unlikely to be significant direct benefit resulting from interoperability across interbank payment systems in the UK and in continental Europe.

A.67 Further, it is not clear from the evidence provided by the PSR in its Infrastructure Market Review that the current messaging standard is deterring potential providers from entering the market. According to the PSR, only one potential provider said that they would not be interested in competing for UK interbank payment systems unless the ISO 20022 standard was adopted.

A.68 Conversely, any migration would impose significant costs across the payment system, including for infrastructure providers, operators, and Payment Service Providers (PSPs). It is likely that these costs would be passed through, at least in part, to end customers. There is also a risk that standardisation could inhibit innovation by locking in a sub-optimal solution, and potentially increase the cost of transitioning to superior technologies in the future.

17. Do you agree with the proposal to develop indirect access liability guidance? If not, please provide evidence to support your response. What, in your view, would prevent this guidance being produced or having the desired impact? In your view, which entity or entities should lead on this?

A.69 Visa has clear rules around accountability in indirect access models, and this is not an issue for card systems.

A.70 We do not have a view on this proposal for interbank schemes.

18. Do you agree with the proposal for a co-ordinated approach to developing the various types of APIs? If not, please provide evidence to support your response? What are the benefits of taking a co-ordinated approach to developing the various types of APIs? What might be the disadvantages of taking this approach? How should the implementation approach be structured to optimise the outcomes?

A.71 APIs are enabling rapid innovation across the digital economy. By allowing consumers to share information safely and securely with third parties, APIs are paving the way for the development of new business models that are transforming the way consumers pay and consume financial services.

A.72 At Visa, we are committed to staying at the forefront of innovation that benefits consumers and merchants. To this end, we are opening up the power of our network and providing

access to Visa's APIs to support our clients, industry partners and innovators to create easier and more secure ways to pay.

- A.73 The Visa Developer Platform¹⁴ is designed to maximise innovation by providing a globally accessible development portal to anyone who wishes to access it, without a contract. The open platform provides access to over one hundred Visa APIs and several software development kits which will grow considerably over time, and a testing sandbox that offers application developers a plug and play experience, as well as access to Visa test data.
- A.74 Visa's vision for its global developer engagement program includes providing identity and verification tools for access control, tokenisation of credentials to de-risk data and payment via various methods, and value-added services and event management (such as notifications) that enhances the sophistication of digital solutions.
- A.75 We appreciate that there is a limited role for cooperation among the industry for APIs that are within the scope set out by the Competition Market Authority ("CMA") in the findings of the retail banking market investigation.
- A.76 However, we do not agree that there is a broader need for regulation and a coordinated industry approach beyond that set out by the CMA, and we do not agree that the role of the Implementation Entity should be expanded beyond the CMA remedies.
- A.77 In general, innovation that is driven by competition will lead to the best outcome for consumers. A coordinated approach should only be taken where it is clear that competition will not deliver the best outcome for consumers. However there is a risk that a lack of competition will not drive the same level of innovation, and a UK-centric approach will not deliver innovations on a global scale that consumers' value. We do not believe that the Forum has demonstrated a need for industry collaboration beyond the current scope of the Implementation Entity.

19. Do you agree with our proposal to create a Simplified Delivery Mechanism? If not, please provide evidence to support your response? Should the new consolidated entity be responsible for leading the development of the new rules/scheme or should a new body be given this responsibility? Could an existing scheme adapt to provide the Simplified Delivery Mechanism or should a new one be developed? Would it be better for the processing and clearing functions of the simplified framework to be built on distributed architecture or a centralised infrastructure? Could there be a transition from a centralised structure to a distributed structure over time? Do you think it is feasible to begin work to design a new payments infrastructure given existing demands on resources and funding?

¹⁴ <https://developer.visa.com/>

- A.78 We believe that competition among schemes and among processors generates innovations that customers' value, and care is needed that any proposal put forward by the Forum does not stifle this competition and innovation, to the detriment of end users.
- A.79 We are concerned that the problem that this solution is seeking to address is not clear, and there does not appear to be an adequate justification for such an extreme and risking solution.
- A.80 Our concerns regarding a consolidated scheme entity have been outlined in Question 15 above.
- A.81 Similar to the proposal to consolidate a number of interbank schemes, there is also a lack of detail about how this proposal would work in practice, including how this would be regulated. However we are concerned that the proposal to create a new payment system with "a single push rail" which "will be 'utility' in style" would risk creating a monopoly in interbank payment processing.¹⁵
- A.82 Consistent with the PSR's findings in its infrastructure market review, we do not believe that the market for interbank payment infrastructure is a natural monopoly. There are currently multiple providers that maintain an interbank infrastructure network in the UK (VocaLink, and card systems). We believe that careful consideration needs to be given to the potential for entrenching a monopoly in a market where competition should be encouraged.
- A.83 Overall, we believe that this proposal goes substantially beyond the Forum's mandate to focus on areas where collaboration is necessary. As a result, there is the potential for substantial unintended consequences that could hinder competition and innovation in the UK payment system. We also believe that it is highly risky to implement substantial changes to the industry structure and undertake costly investments in a specific architecture at a time when the payment industry undergoing transformational change in the UK and globally.

20. Do you agree that the existing arrangement of the payments system in the UK needs to change to support more competition and agility? Will the package of proposals we suggest, the Simplified Payments Platform, deliver the benefits we have outlined? What alternatives could there be?

- A.84 Visa is concerned that the Forum is proposing to implement a radical and risky change to existing arrangements. As outlined in Question 1, we believe that the Forum should undertake further work to understand the outcomes that consumers actually value, and to ensure that the proposed solutions are within its mandate and do not stifle competition or innovation.

A.85 We also believe that the Forum must consider the full range of possible solutions available to address problems that consumers care about. In particular, we are concerned that the Forum has focused on particular radical and costly solutions that may be in the interests of some parts of the industry but are not clearly in the best interests of consumers.

21. Do you agree with this proposed sequence of solutions and approach outlined to further clarify this? If not, what approach would you take to sequencing to bring forward the anticipated benefits, in particular for end users?

A.86 As discussed in Question 1, we believe that the sequencing of any implementation needs to be driven by outcomes that consumers value, and needs to be focused solely on areas where industry collaboration is required to deliver these outcomes. We believe that the Forum needs to undertake an assessment of the outcomes that consumers value to inform the Forum's analysis.

22. What approach should be taken to deliver the implementation of the Forum's Strategy? Who should oversee the implementation of the Forum's Strategy? What economic model(s) would ensure delivery of the Strategy recommendations?

A.87 As discussed in Question 1, we believe that much more work needs to be undertaken to understand the issues that consumers value, and the efficiency, proportionality and potential unintended consequences of the various options under consideration before considering the approach to implementation.

23. Do you agree with the proposed approach for quantifying the potential costs and benefits of the proposed solutions? Do you agree with the costs and benefits drivers outlined in this document? We would appreciate any information on the potential costs and benefits you may have to assist our analysis.

A.88 We welcome the Forum's proposal to undertake a cost-benefit analysis. As discussed in our response to Question 1, we believe that this is a critical step that needs to be undertaken by the Forum. However, we believe that the analysis must clearly link back to consumers.

A.89 We also believe that careful consideration should be given to the scope of the proposals, and in particular, the potential cost of including card systems within the Forum's mandate. This would include the direct costs imposed on Visa, but also the wider ramifications for consumers as a result of the potential detriments to innovation and global acceptance.

A.90 In addition, we strongly believe that the cost-benefit analysis should consider a full range of possible solutions that could address the consumer detriments. The Forum appears to have focused on extreme and costly proposals, without adequate consideration of potential alternatives.

A.91 Finally, we are concerned that any cost benefit analysis needs to incorporate a rigorous analysis of alignment with the PSR's statutory objectives and the potential for unintended consequences. For example, a number of the solutions could have important ramifications

for competition and innovation in the UK payment system. There are also important overlaps with regulations that are due to come in to force but have not yet been finalised, and there could be potentially costly consequences depending on the impact of the regulation on the UK payment system.