Barclays response

Payments Strategy Forum: Being responsive to user needs – a draft strategy for consultation

September 2016

Table of Contents

1. Executive summary

1.1.   Barclays supports the Payments Strategy Forum (the Forum), and we have seen real value in the coming together of such a diverse group of stakeholders. The Forum itself is, by its very nature, a large group but the discussions have been very constructive and positive with an emphasis on the setting of a long-term vision for the payments industry. We welcome that approach.

1.2.   In our view, the objectives of the Forum have been achieved in that the draft strategy sets out a series of short to medium term solutions within the context of a longer-term vision. We are broadly supportive of the solutions identified and have participated in all of the working groups leading up to this phase. However, the key to delivering a successful outcome will be to choose a limited number of priorities and to sequence delivery of those by the industry with an eye to other regulatory requirements.

1.3.   The resilience and stability of the payments system are paramount. The UK payment systems have proven themselves to be resilient, efficient, capable and reliable in managing £75 trillion a year. That has to remain our priority.

1.4.   We see value in working towards a longer term vision, described in the consultation as a Simplified Payments Platform or single delivery mechanism. More analysis will be required to better understand this vision and other models should not be ruled out at this stage. In principle, consolidation of infrastructure onto a single push rail with additional optional layers should realise some of the objectives set by the Forum, such as greater competition, innovation and ease of access for a variety of providers. However, other aspects of the vision are much less certain; for example the merits and practicality of a distributed model and a viable clearing and settlement model. This next phase of work will need regulatory support and leadership, particularly from the Bank of England as well as industry expertise. We would be keen to participate in future activity in this area.

1.5.   We are supportive of the more tactical initiatives already underway and identified in the draft Strategy. This includes access to sort codes, aggregator access models, access to Bank of England settlement accounts and a more common approach to payment system operator (PSO) participation and rules. These should continue.

1.6.   In our view, the basis of competition in payments should be in the product, price and customer experience (data, insights, speed and service). We expect aspects of the Strategy most favourable to end users to be prioritised. The industry should consider how to better utilise the existing payment system to deliver additional features that customers value on a "no regrets" basis. In particular, by exploring further collaboration around confidence in payee, "Request to Pay" (and periodic confirmation of payments) and greater use of proxies. Reducing misdirected payments should be a key focus of the

strategy. We firmly support the conclusion that account number portability is not a customer priority and should not be pursued further.

1.7. In relation to the improving trust in payments activity we are already participating in a proof of concept to see if it is possible to identify money mule cases by sharing transaction data. We also see the value in trusted Know-Your-Customer (KYC) data sharing for corporates. There are commercial models already emerging in this space, and hence the role of the Forum needs to be carefully evaluated. But we are very supportive of the concept because it has the potential to reduce friction in the end-to-end payment experience for our clients. It also may be an area where new technologies, such as the application of a distributed ledger (as opposed to a centralised database) could be explored.

1.8. We note the recommendation to simplify the governance of Bacs, Faster Payments, and Cheque and Credit Clearing Company and to create a single retail payments system operator to set the Rules and procure infrastructure. We are supportive provided this change in governance is an enabler for delivering benefits for end users and does not delay the implementation of services that will benefit end users in the near term. We think there is the potential for a large governance project of this kind to undermine financial stability if not well managed and it may distract the management of payment system operators. The views and support of the Bank of England will be paramount and nothing must get in the way of us delivering on our Structural Reform Programme and the new Image Clearing System for cheques. The Payment Systems Regulator's (PSR) market review of infrastructure is considering if it remains appropriate for the payment system operators to manage the procurement process or if they should be conducted independently. The PSR's conclusions will have an impact on this aspect of the draft Strategy.

1.9. We see value in a common regulatory approach to regulating the payment systems. For example, we propose creating standards that will require payment systems to upgrade continuously over time. We believe that the standards mechanism will create a more fit-for-purpose set of payment systems, with greater efficiency and synergies. Such synergies will inevitably take us towards a vision of a more converged and synthesised set of payment systems over the medium to long-term. This may an alternative approach to the convergence of existing retail payment system operators that will avoid risks identified above. We also support providers competing to create a layer on the front of the schemes to increase flexibility and make payment systems invisible to customers.

1.10. For all of these developments, it will be essential for the industry to go through a valid and credible assessment of the business case for and risks of any change.

1.11. The Forum should continue to meet to monitor progress in its second year of operation. Many of the solutions proposed will require further consideration and the Forum's thinking is likely to evolve. How each solution is implemented is likely to depend on which stakeholders need to collaborate on delivery this suggests that a one size fits all

approach is unlikely to work. Our preference is for existing payment industry capability and expertise to be utilised rather than creating multiple new delivery entities.

2. Responding to consumer and business needs

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

2.1.   The end user needs identified by the Forum are broadly in line with those identified by Payments UK's World Class Payment Project[1] and by research commissioned by Barclays which looked, amongst other things, the top four payments innovations individual consumers sought. The quantitative research found that the top four developments demanded by individual customers were:

1. Having all payments clear immediately and shown in my balance straight away (51% of respondents)
2. Knowing I'll get the money back if I accidentally send it to the wrong account (38%)
3. Being able to shop securely without having to enter my card details (27%)
4. Having more control and visibility over when direct debts are taken out of my account (24%)[2]

2.2.   As part of the research a number of focus groups were also held with a mix of participants from across the country and socio economic groupings. The same set of payment innovations were tested with them. The clear top two innovations were *"Having all payments clear immediately and shown in my balance straightaway"* and *"Having more control and visibility over when direct debts are taken out of my account."*[3]

2.3.   The Payments UK world class payments project conducted research into the preference of small and medium sized enterprises (SMEs – defined as a business with fewer than 250 employees). Their research found that for SMEs the top three most popular future payment changes were:

1. Having all payments to and from other accounts completed immediately' (57%)
2. Being able to check that the bank details are correct for the person I want to pay before I send an electronic payment so that it does not go to the wrong account' (57%)
3. 'Being able to know who has sent a payment and what it is for' (54%)[4]

2.4.   So when considering the findings from the research we commissioned and the work by Payments UK the priorities identified by the Forum (greater control, greater assurance and enhanced data), are in line with the evidence available.

---

[1] Payments UK (August 2015), *World Class Payments in the UK, enhancing the payment experience: An initial report,* <http://www.paymentsuk.org.uk/sites/default/files/World%20Class%20Payments%20in%20the%20UK.pdf>. [accessed 14 September 2016]

[2] Page 13, Tooley Street Research (June 2015), *Towards world class: The consumer view of current accounts and payments,* <http://www.tooleystreetresearch.co.uk/wp-content/uploads/2015/06/Towards-world-class-report-by-Tooley-Street-Research-for-Barclays-FINAL-web-version.pdf> [accessed 14 September 2016]

[3] Page 19, Tooley Street Research (June 2015)

[4] Page 16, Payments UK (August 2015)

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?

2.5. The draft principles for the collaborative development of payment services (as shown in Appendix 5 of the draft strategy) are likely to be helpful when payment system operators are considering changes to the payment services that impact individual consumers. However, given the nature of the principles, it is unlikely that, as currently framed, they can have wider application. Therefore, we do not consider that their implementation should be a mandatory requirement.

2.6. We think that there is an opportunity to simplify the principles further so they are more user-friendly and have a wider application. We would favour a simpler set of principles with examples of how those principles can be applied in different circumstances and in relation to different user groups.

2.7. We think that the simpler set of principles could be:

– The development of collaborative payment services is evidence-based and recognises the diversity of all possible users of the payment service under development.

– Potential users of the services under development take part in the decision-making processes.

– The particular needs of any relevant vulnerable or less sophisticated users are considered when designing new payment services.

– New payment services should be as simple as possible for the potential user base.

– The design of new payment services is transparent, and all evidence relied upon made available.

– Post-implementation review should be undertaken to ensure that the development is not having any unintended consequences for specific user groups

2.8. We think that the current general direction from the PSR (general direction 4) which requires the main payment system operators to ensure that there is appropriate representation of service-users' interest in their decision-making processes (and report annually on how they do this) is sufficient. Where we see the simpler principles outlined above, accompanied by examples of how to apply them, adding utility is in helping the operators to comply with this general direction.

Barclays response to PSF | September 2016

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?

Request to pay

2.9.   When consumers, in the focus groups we commissioned, were asked about getting more control over their regular payments it was one of their top two priorities. So there is clearly merit in exploring more into the business case of such a service.

2.10.   Barclays Pingit offers a "request to pay" type function already. As do a few other payment applications. The Pingit request service notifies individuals of a payment request and gives them the freedom to determine when they fulfil the request, how much they pay (all or in part) and to contact the individual making the request. The individual making the request can also send additional information alongside the request. This service is currently limited to individual users of Pingit (Pingit is open to non-Barclays customers as well as all Barclays customers), and so currently the service is not ubiquitous to all users of the payment systems.

2.11.   However, it seems to us that it is evident that there are many benefits of this service to individual consumers. This includes:

   –   The ability to determine when to fulfil a payment request;

   –   to contact the requestor if unable to pay or in need of further information;

   –   to pay the request in part or instalments; and,

   –   greater awareness of and greater ability to manage their payments.

2.12.   The benefits that would accrue to the requestor of a bill payment are also potentially substantial. They include:

   –   Ensuring that the payments they are due to receive are sent to the right account (and with the correct reference);

   –   offering greater flexibility in their regular payments to their customers; and,

- converting those individuals who remain resistant to or are unable to use existing regular payment methods to a more flexible regular payment service.

2.13. We note that in addition to the potential benefits of a new "request to pay" service there are also perceived flaws to the existing regular payments. This includes problems encountered by individual consumers having problems with continuous payment authorities and to corporates reconciling single bill payments from those resistant or unable, due to irregular income flows, to sign-up for existing regular payment services.

2.14. It is our view that the greatest risk to such services is likely to be from financial crime. We think that such a service would need design features that reduce the risk of "phishing" and "spoofing" type attacks occurring. Pingit has many unique security features to reduce the risks of financial crime. In designing any industry-wide "request to pay" type service serious consideration needs to be given to the need to reduce the potential opportunities for financial crime.

2.15. Given the observed demand and possible benefits we support further work to build a business case for an industry-wide "request to pay" service.

Greater assurance

2.16. The problem of payments going to the wrong recipient (or for the wrong amount) is a significant one for the industry. The industry has introduced a recovery process to make it as easy as possible to recover a payment made in error. However, we are solving the problem once it has occurred. Regardless of how effective the process is it is still a nuisance for all involved (intended payee, payer, the unwitting recipient of the error and all the financial institutions involved). Additionally, as we know from the research we commissioned, consumers are very keen to understand where their payments "are" and what their balance is immediately.[5]

2.17. Solutions to these problems are not easy. Research commissioned by Payments UK demonstrates the cognitive load faced by consumers when making an online payment. This cognitive load can give rise to an elevated risk of consumers making payments in error.[6]

2.18. We consider that the features offered by Paym and Pingit help to reduce the number of payments made in error and improve assurance. Pingit has recently introduced a feature that tells users when the payment they made has reached the intended recipient. We hope that this service provides a level of assurance for our consumers.

2.19. We consider that widespread use of Paym could help reduce payments made in error and give consumers greater assurance about their payments. Users are given reassurance because they are using something they know that relates to the recipient to

---

[5] Page 13, Tooley Street Research (June 2015)

[6] Page 8, Adaptive Labs (2016), *Preventing payments in error: What causes mistakes in the user experience of banking apps and websites?* < http://www.paymentsuk.org.uk/sites/default/files/AdaptiveLab-PreventingPaymentsInError-June2016.pdf> [accessed 14 September 2016]

make a payment. Currently this is the use of a phone number you regularly call to make the payment, before payment is made the full name of individual associated to that number is displayed. Proposed changes within Paym, which include the wider use of different proxies (for instance email) and the possibility of bulk enrolment may increase the level of use of the service. Alternatively it may be possible to use the features of Paym to provide reassurance to consumers paying via other payment channels (not simply through mobile banking applications).

2.20. Like any development in payments there could be a risk of financial crime. For instance, someone could maliciously alter someone's proxy details so that a payment sent to an individual's mobile number is instead of going to the owner of that mobile phone number is redirected to an imposter's bank account. However, clearly, this is a risk that exists with Paym already and it is mitigated by the additional security features it has. We are not aware of any particular financial crime issues about the use of Paym. Finally, depending on how the provision of greater assurance data is delivered to users there could be data protection issues that require resolution.

2.21. The business case for greater assurance may be easier to construct than some of the other end user proposals. This is because it is possible to measure the current cost to the industry of payments being made in error. It is also possible to look at the scale of it and examine the impact on the wider economy of such payments being made in error. Greater assurance will not eradicate this problem. However, it can be expected to reduce their number. We also think that the delivery of greater assurance may be a necessary precursor for an industrywide "request to pay" service. This is because of the need to provide assurance that a payment request received by an individual is genuine.

Enhanced data
2.22. The research commissioned Payments UK found that SMEs supported the ability to know who a payment is from and what it is for.[7] To be able to do this more information needs to flow alongside or with the payment.

2.23. Overall, the benefits case for this feature is reasonable. Users of payment services may take advantage of the ability to associate additional data with payments. The capacity to do so is likely to assist the reconciliation of invoices. It also can make payments more personal.

2.24. We are not convinced is that this feature is necessarily a collaborative innovation. There already exist some software applications, most notably in the accounting software space, that allow companies to manage all their payments and reconciliation activity. Similarly, in the individual space, Barclays' customers can associate pictures and extended text to their payments made through Pingit. Our expectation is that new entrants and existing players will continue to develop the ways that information can be

---

[7] Page 16, Payments UK (August 2015)

associated with specific payments and the additional services that can be offered by marrying payments data with more information.

2.25. We do accept that an agreed standard approach and framework to the association of data with a payment may be beneficial. A standard approach could help with directing payment recipients to data warehouses where the additional payment data is stored by the provider of the data service. However, any activity in this area should be limited due to the competitive landscape that is developing this area.

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?

2.26. As described in answers to the other questions, we at Barclays have constantly innovated to provide our customers with greater control, greater assurance and to associate data with a customer's payments. We have done so within the existing payments architecture.

2.27. We recognise that the services we have developed lack ubiquity and so are not used to the extent they could be. These services are part of the competitive offering we seek to provide to our customers. However, the landscape and technology is changing rapidly. Additionally the implementation of the second payment services directive (PSD2) and the creation of a regulatory framework for payment initiation services and account information services are likely to drive further competitive developments to provide services that consumers want.

2.28. Despite such developments it is likely to remain the case that the majority of payments made in the UK will not have access to these additional services until, and if, a new architecture is delivered. We agree with the Forum that to ensure ubiquity the best approach to the delivery of these services is the development of agreed Application Programming Interface (API) standards and governance. We see little merit in investing in new transitional systems that are based on central build with a limited life span. Overall it is unlikely that a business case will be justified for such a short period.

2.29. We do consider that the industry could consider how to better utilise the existing payment systems and associated services to deliver additional features that meet the end user needs identified. All such developments should be done on a "no regrets" basis. This means that nothing should be developed that does not have the capacity to be retooled, at reasonable expense, to work with likely developments coming out of the Forum's longer terms proposals and the Open Banking Work under the auspices of the API implementation entity group and the trustee.

2.30. We think the Forum should challenge the existing the payment systems operators and ancillary services to consider what incremental developments they can do to develop their services in a manner that supports the end user needs identified. It may be that small changes could give consumers greater control over their payments, more information or greater assurance. The development committees of the payment system operators should be encouraged to think creatively about how such needs can be met within the current architecture.

2.31. As a first activity, we would encourage operators to work together to consider how they can use the data they see about payment flows and the existing Paym database to reduce the amount of payments made in error. We also understand that Bacs is considering proposals for how the direct debit service can be made more flexible. A more flexible direct debit service may provide greater control to end-users.

3. Improving trust in payments

Do you agree with our proposal regarding customer awareness and education? If not, please provide evidence to support your response.

3.1.   While our organisation has already endeavoured to provide education and awareness regarding financial crime and scams to our customers, we are supportive of a more industry-wide approach, covering the end to end payments ecosystem, and targeting all consumers rather than just our customers. The overall aim must be to empower consumers to protect themselves, identify fraudulent activity indicators and know how to report it; this will support making the payment ecosystem a more hostile environment for financial crime.

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?

3.2.   We are supportive of the delivery of education and awareness programmes through a central body which is familiar to consumers and crosses over all segments of the payments environment. The delivery should be consistent and enable the customer to recognise the brand and build trust with the messages conveyed.

3.3.   The proposed merged trade body (The British Bankers' Association, Council of Mortgage Lenders, Payments UK and the UK Cards Association) may be best placed to create a single banner to deliver a customer awareness programme. It should do so in coordination with existing and known consumer awareness/education organisations.

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

3.4.   We are supportive of the creation of standards for identification and verification (ID&V) for customers. We think that having a single set of standards across the industry will better enable customers to understand how to move between PSPs and also the development of solutions between PSPs to passport identity. This solution looks towards a long-term delivery of digital identity services under 4th EU Money Laundering Directive and eIDAS Regulations.

3.5.   The standardisation of ID&V will also support the other initiatives mentioned in the paper as there will be standard data fields to interrogate and sufficient information available to risk assess customers and payments in a more agile way.

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?

3.6.   We are supportive of and are participating in the proof of concept underway in this space with VocaLink looking at using payments data to identify money mule cases.

3.7. We are supportive of taking learnings from this proof of concept to determine how the industry could best progress with data sharing.

3.8. Equally, we support a review of alternative service providers in this space, and would encourage a review of data sharing solutions operating in other industries targeted at reducing financial crime. For instance, we should consider the example of data sharing in the insurance sector to consider what elements of best practice could be adopted.

Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?

3.9. We would suggest the consideration of similar solutions that are operating in other sectors, such as insurance. Further, the risk around having personal data held in the central repository would need to be managed through a variety of preventative controls. These controls would include ensuring that the only data that gets sent to the centre is information that is material to the reduction of financial crime and subject to technology-based access controls.

3.10. The risk to consumers is noted, and we should only progress this solution if we can guarantee appropriate customer protection while enabling useful data mining.

3.11. The solution will need to comply with Data Protection requirements which will be a key concern in the design of the solution.

If any legislative change is required to deliver this solution, would such change be proportionate to the expected benefits?

3.12. Legislative changes should be carefully considered in their impact upon timeframes for delivery and also customer support for the proposed changes. To have a more agile solution, it would be better to deliver it, as far as possible, within the confines of existing legislation.

Do you agree with our solution for financial crime intelligence sharing? If not, please provide evidence to support your response?

3.13. There are some fraud data and intelligence sharing solutions in place. However these are often specific to parts of the PSP ecosystem, and so do not provide coverage for the whole system.

3.14. Many of the tools in place have barriers to access such as membership fees which may be prohibitive for new entrants to the market.

3.15. New entrants are also at risk of having no back book fraud data in place against which they can review their new customers.

3.16. Any gap in the controls around the access to PSPs and their products has a knock-on impact on the overall security of the payments ecosystem; hence a more collaborative approach is supported.

3.17. We suggest that learnings are taken from established information sharing groups to develop a solution that avoids duplications of efforts and also aligns to the legislation that will impact on this activity.

3.18. It should be considered whether the new industry body can provide a solution to support intelligence sharing across PSPs and reduce duplication of costs and memberships.

In what way does this solution improve financial inclusion? More generally, how should the intelligence sharing be used for the "public good"?

3.19. Data collected through financial crime trends should be reviewed and drawn upon as part of the education and awareness work to ensure that the activities remain aligned to the risks that consumers face.

3.20. The 'public good' will be delivered through public and private sector information and intelligence sharing, leading to a more rapid understanding of threats and enabling better reactions to them.

3.21. We do not think that the proposed solution will specifically enhance financial inclusion. However, we do think it will reduce the risk of the financial vulnerable falling victim to scams and financial crime.

Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?

3.22. The identified risks are noted, but they are not insurmountable. The intention of intelligence sharing is not to blacklist people, but to invite any other PSP they engage with to complete relevant due diligence to mitigate the risk of repeated fraud / financial crime, or increase monitoring of their accounts. There are existing rules in place around the use of fraud data sets which can be drawn upon to ensure that consumers do not become blacklisted.

3.23. The solution will only succeed if it is built upon robust governance around what data is included, the balance of evidence required, and the data retention solutions.

3.24. There is also a risk around access to the data. There will need to be controls in place to ensure that there is only legitimate access; that the data held is not corrupted; and, that there is a route to correct data errors.

Do the benefits of financial crime intelligence sharing outweigh the new potential risks created?

3.25. The benefits should be measured against the residual risks once the model has been defined. However assuming a robust governance and control environment, then the benefits should outweigh the risks.

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?

3.26. Similar models exist in the insurance industry, for example, IFIG and there is established fraud data sharing within the Financial Services sector. With these models in mind, we expect that the industry can deliver this solution within the existing regulatory environment.

What governance structure should be created to ensure secure and proper intelligence sharing?

3.27. Any governance structure should have the following features:

– In order to provide both consumers and PSPs with protection there will need to be a robust governance structure in place to manage the intelligence being shared. The outcome must be that genuine customers are able to quickly access PSPs services and PSPs are able to quickly identify and manage cases that match on the intelligence.

– In order to ensure consumers are protected there should be rules in place to avoid "automatic declines" and instead investigation should take place to determine if it is likely that fraud or money laundering are taking place before a decline decision is made.

– Customers' data must be protected in accordance the Data Protection Act. This will ensure that data is held and processed only for the intended purpose. Customers must have a route to complain and address data held about them where there is evidence that the data is incorrect. Standards around the balance of evidence required to report and also intelligence assessments may help support a reduction in customer complaints.

– The length of time that data is held will need to be assessed and the industry will need to agree an approach to data purging, both to enable customers to reform, but also reduce the number of low value matches as the data builds.

– There are established fraud data sharing tools across the PSP ecosystem and examples of good and bad practice should be drawn from these wherever possible to enable the launch of a successful tool which has as limited detriment to genuine customers as possible.

3.28. A central body may be best placed to have oversight and governance responsibility for the tool to ensure the quality remains consistent leading to a reduction in financial crime without impacting genuine customers.

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

3.29. We are supportive of a centralised KYC utility for non-personal customers. Accepting that this will need to be supported by standardised KYC practices.

3.30. There are commercial models already emerging in this space, and hence the role of the Forum needs to be carefully considered. If the commercial models further develop then, competition in this market may be a more potent tool to deliver the benefits rather than being driven by collaborative activity. It also may be an area where new technologies, such as the application of a distributed ledger (as opposed to a centralised database) could be explored.

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

3.31. The number of sanctions alerts which are false positives is disproportionately high, we are supportive of enhancing data to reduce false positives, and best enable us to identify genuine sanctions matches and act upon them quickly.

4. Simplifying access to promote competition

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

4.1.   Yes, we support the work that Bacs has already commenced on the creation of a "04" sort code range as part of a utility bank. It will provide an additional option for those indirect participants looking to become direct clearers or for new entrants to the market. As such it supports the PSR's agenda to increase competition in the indirect access market.

4.2.   We note the continuing constraints in Cheque and Credit Clearing Company which sorts against the lead pair of a sort code. The creation of the new image clearing service (ICS) will remove this limitation and its delivery by October 2017 is a priority

4.3.   In the longer term, we support an independent governance review of all the managed industry services including the Bank Reference Database, currently run by Bacs. This review could also include the current account switching service (CASS), Cash ISA transfers and the industry framework for managing payments made in error. These services have a cross-industry application but are currently administered by a single payment system operator (typically Bacs or Faster Payments). It may be more efficient for the new consolidated Retail Payment Scheme (once created) or UK Payments Administration Limited to administer such services. Putting a single body in charge of the managed service should allow for a more joined up cross-scheme strategic approach and avoid the risk of "silo thinking".

4.4.   We note Bacs' intention to create a new public website with information about the availability and access to sort codes and the Bank Reference Database rules. We support increased transparency of information about sort codes but our preference is for all access related information to be available in one place e.g. the Payments UK Information hub (http://www.accesstopaymentsystems.co.uk/) with links to payment system websites as appropriate. Industry efforts to promote such information can then be more targeted.

Do you agree with our proposal regarding accessible settlement accounts? If not, please provide evidence to support your response

4.5.   We support the announcement made by the Bank of England on 17 June 2016 that it intends, over time, to extend direct access to the Real Time Gross Settlement System (RTGS) to non-bank Payment Service Providers; this will include firms granted the status of E-Money Institutions or Payment Institutions in the UK. By extending RTGS access the Bank's objective is to increase competition and innovation in the market for payment services.

4.6.   We also support the stated intention of the Bank as it extends access to safeguard resilience via a strengthened supervisory regime for those who apply for an RTGS

settlement account. The strengthened supervisory regime will provide assurance that non-bank PSPs can safely take their place at the heart of the payment system.   The change to allow non-Bank PSPs access to RTGS is by no means straightforward and legislative changes will be needed as well supervision to ensure that these new entrants can access RTGS safely and efficiently.

4.7.   Recent developments in Bacs and Faster Payments require all direct participants to maintain cash deposits in a Reserves Collateralisation Account (RCA) to support a fully prefunded cash settlement model. Accordingly, the ability of non-bank PSPs to become direct participants will need to be fully explored both regarding having a Settlement Account and a Reserves Collateralisation Account with the ability to deposit cash

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?

4.8.   We support the proposal regarding the development of commercial aggregator services in the competitive market. We have supported and funded the development of an aggregator solution for Faster Payments which is now live. We believe we should now give the market time to develop.

4.9.   We understand the need for aggregator solutions to be developed by each of the retail payment schemes. But in the longer term, we support a single aggregator solution to access Bacs, Faster Payments and the Cheque and Credit Clearing Company in parallel with the creation of a single Retail Payment Scheme. Beyond this, and if there is sufficient demand, aggregator services to other sterling payments systems (such as CHAPS) and non-sterling payment systems could develop. Such solutions should be allowed to develop in the commercial market in collaboration with the payment system operators, and we do not see the need for the creation of a single central utility style aggregator model.

4.10.   As per our response to Question 11, our preference is for all access related information to be available in one place e.g. via the Payments UK Information hub (http://www.accesstopaymentsystems.co.uk/).

4.11.   We see technical aggregation as another option for indirect participants or new entrants over and above the commercial sponsorship arrangements that we already offer. As such, we stand ready to provide our existing agency clients with technical support should they decide to move to a commercial access solution.

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

4.12. We see merit in streamlining processes to support ease of access and in taking a more common approach to rules and requirements wherever possible to aid simplification.

4.13. We would probably go further in advocating the development of common regulatory standards. In essence, the regulator will set the terms on which payment systems can do business in the UK and promote a common regulatory approach to the way in which the payment systems develop. For example, we propose creating expectations that will require schemes to upgrade continuously over time. We believe that setting regulatory expectations will create a more fit-for-purpose set of payment systems, with greater efficiency and synergies. These synergies will inevitably take us towards a vision of a more converged and synthesised set of payment systems, recognising that the cost and complexity of transition mean this is a long-term goal.

4.14. We see the need for a more common approach to all the payment system operating rules and processes. For example, the annual security code of conduct attestations could be managed collaboratively to a common approach/standard. There are many other areas where three or four different processes exist when there could easily be one.

4.15. We note that discussions are already underway in the Interbank System Operators Coordination Committee (ISOCC). We are content for that to continue but would like ISOCC to be more open and transparent.

4.16. We favour access to information via a single interface. As per our answer to question 11, our preference is for all access related information to be available in one place e.g. via the Payments UK Information hub (http://www.accesstopaymentsystems.co.uk/).

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?

4.17. Barclays is a member of the PSO governance sub-group and as such is supportive of its aims of promoting ease of access.

4.18. As an existing member of Bacs, Faster Payments and the Cheque and Credit Clearing Company we are acutely aware of the benefits of a more joined up approach concerning efficiency and removing duplication. We agree that LINK, CHAPS and the card schemes should be out of scope.

4.19. The resilience and stability of the payments system are paramount. Furthermore, our Structural Reform Programme (SRP) will require us to assess and review our memberships of the sterling payment systems. We are working to challenging deadlines in 2016/17, and we cannot support a governance project to the same timelines if it would in any way jeopardise our SRP deliverables. The Bank of England is playing a pivotal role

in co-ordinating industry SRP activity relating to payment system participation, and its views will be decisive.

4.20. In advance of a decision, on the future of payment system operators, it is essential for the Forum to commission credible cost-benefit analysis on the business case for, and risks of moving to, a consolidated governance structure over the short to medium term.

4.21. Consolidating the payment system operators must have the support of the regulators, notably the Bank of England. The Bank of England is also conducting a review of payment system operator governance in the second half of 2016. Any governance project will require significant input from the affected payment system operators, and this cannot jeopardise their business as usual operations activity.

4.22. We do not agree there would be a conflict of interest for the new consolidated entity to manage both the rule-making capability and infrastructure procurement. Our preference is therefore for both those activities to continue to be managed centrally by a single entity.

4.23. There will need to be careful consideration of the governance structure for any new consolidated entity. Cheque and Credit Clearing Company, Faster Payments and Bacs have all been engaged in separate corporate governance work and some of that thinking can be fed into this next stage.

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

4.24. Broadly speaking we see merit in moving the UK payment system onto a common international messaging standard as part of a longer-term vision, and during upgrades of legacy systems. We agree that it will enhance the end user experience and link more data items to payments. It will also improve interoperability between the retail payment schemes.

4.25. We await the PSR's final remedies for their Market Review of Infrastructure, however, in our view, the question of whether and if so when to migrate to a different payment messaging standard goes much wider than the narrowly defined issue of procurement of central infrastructure. For that reason, we believe that the proposal should be a matter for the Forum rather than a PSR remedy mandated as a result of their Market Review.

4.26. Before any decision on this proposal by the Forum, it is essential to conduct credible cost-benefit analysis. Each payment system needs to be considered individually and on its own merits. In our view, the initial scope should be Faster Payments and Bacs.

4.27. It should not be assumed that ISO 20022 must be the preferred international messaging standard. We support an approach which is forward looking and takes into account the development of APIs using lighter weight standards, particularly in the customer interface. Being too specific could restrict scope for innovation.

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?

4.28. Barclays has been a member of the sub-group considering this proposal and as such is close to the issue. As recognised in the sub-group's paper, the crux of the matter is that a small number of PSPs find it difficult to obtain a bank account. In our view, this is primarily an anti-money laundering (AML) or financial crime issue not directly related to the payments network, nor directly within the PSR's scope.

4.29. As a sponsor bank with a global business and US nexus, we operate within a complex regulatory framework. It is a business imperative that we fully understand our legal and regulatory requirements and liabilities. Additional guidance on or mapping of those liabilities will not change the complexity of that liability framework. We, therefore, question whether this should be a priority for the Forum given the other on-going industry initiatives to improve access to the payment system (including other proposals set out in the Simplifying Access section of the Consultation document).

4.30. We see this issue as much broader than just payments. In its final report on its market review of indirect access, the PSR recognises the complexity of the regulatory framework and notes that there are already at least six different regulatory reviews underway. As such we see this as a regulatory, not industry lead, probably by the Financial Conduct Authority (FCA) as suggested. However, our preference would be for the reviews already underway to be completed before the Forum commissions further work From an industry perspective, we regard this topic as a British Banking Association (BBA) lead.

5. A new architecture for payments

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?

5.1. We are very supportive of the development of APIs to deliver a wider range of payment and banking services. Barclays was heavily involved in the Open Banking Working Group and supports its conclusions.[8] We consider that the open banking work could be transformational for UK banking and payment services.

5.2. We do believe that the implementation entity currently being devised to deliver the Competition and Markets Authority's (CMA) proposed remedy is likely to be the most appropriate entity to coordinate industry activity on APIs for payments and other banking services.[9] We do not think there would be merit in creating a separate parallel entity looking at cross-industry APIs for payment services. We believe creation of new entity would be duplicative because of the close overlaps between those APIs required by the CMA and those being recommended by the draft strategy.

5.3. However, we must not underestimate the challenge of delivering the open banking standard. The timelines envisaged by the CMA are particularly challenging. The challenge is not just technical. It is legal; there are significant governance aspects, privacy and security aspects too. The issue of security and privacy also potentially clash with the need to ensure that it is open to as many developers and new service providers as possible. In many respects getting the governance right for the open banking standard is more challenging than the technical aspects of designing the APIs.

5.4. We would be concerned if the Forum made any recommendations that had the effect of distracting the implementation entity from delivering the CMA's requirements in the timelines set by the CMA and those related to the implementation of PSD2. We consider that the use of APIs is the safest and most consumer friendly way of making the payment initiation services and account information services envisaged by PSD2 a success.

5.5. The benefits of taking a coordinated approach are manifold. It will help to ensure the engagement of the full extent of relevant stakeholders with the development. It will also

---

[8] Open Banking Working Group (2016), *The open banking standard: Unlocking the potential of open banking to improve competition, efficiency and stimulate innovation,* <https://www.scribd.com/doc/298569302/The-Open-Banking-Standard> [accessed 14 September 2016]
[9] *Page 440, Competition and Markets Authority (9 August 2016), Retail banking market investigation: Final report,< https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>* [accessed 14 September 2016]

Barclays response to PSF | September 2016

minimise the amount of duplication. Getting the governance right and creating the "sandbox" to allow technology firms and existing players to test their APIs will stimulate greater innovation. Such innovation is likely to lead to additional payment services above and beyond those considered by the Forum.

5.6. The disadvantage of relying on the API implementation group is that it will not be possible to introduce the distinct payment APIs identified by the draft strategy before the implementation of the PSD2 compliant APIs (by January 2018). However, when such payments APIs are introduced they are likely to be more stable, more secure and with wide acceptance as they will have gone through the development and governance process envisaged by the open banking standard framework. We also do not see any reason why technology companies would not be interested in developing such APIs alongside the development of those that are mandated by the CMA.

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?

5.7. We applaud the ambition of the Forum in developing radical proposals to change the landscape of UK payments in such a dramatic manner. The simplified delivery mechanism and the simplified payments platforms paint a bold picture of the future. Clearly, this is only early thinking. The work has not been done to understand how the platform would work in practice. As the draft strategy acknowledges greater consideration is needed in the area of clearing and settlement. Based on this we support the idea of doing further work, and we caution against getting too wedded to a particular new architecture before this work is complete.

5.8. We do agree with the setting out of a conscious design of the UK payments system that can be delivered over a medium term time horizon. We agree that further design and definition is necessary. We also consider that this design process will need to work alongside the Bank of England's RTGS review. We think that the Forum in its final strategy should focus on agreeing on the design principles of any new architecture. It would be then incumbent on the industry, in its widest sense, to deliberate on the best

Barclays response to PSF | September 2016

payments structure to deliver those principles. We consider that some of these design principles should include:

– Less complexity and reduced cost and impact of change;

– easy to develop and add additional services;

– freedom for existing PSPs to build additional payment functionality;

– no loss of existing payment functionality for end users;

– stable, resilient and secure;

– easy to access;

– efficient services;

– able to deal with expected growth in payment volumes; and.

– enables efficient management of liquidity.

5.9. The Forum is well placed to opine on what payment systems of the future should deliver to meet the needs of innovation and the interests of end users. But it need not opine on the exact details.

5.10. Our initial view is that the existing payment system operators or the new consolidated payment system operator are unlikely to be the most appropriate body to take agreed design principles and turn it into a detailed architectural design for a new simplified payments platform. We think that the example of Australia or the US may be helpful to consider. In Australia, they are in the process of implementing a new payment platform that will consist of a relatively lightweight central infrastructure, simple access and additional layer services.[10] The initial deliberations for the creation of the new payments platform were undertaken under the auspices of a committee with an independent chair and relevant technical experts from across the financial services industry. They had a clear mandate and as their work evolved eventually creating a full programme of phases to be undertaken by different organisations under different scrutiny. [11]

5.11. Regarding how this could work in the UK context we consider that it would be beneficial to assemble a suitable taskforce led by the Bank of England and composed of experts (both from financial services and beyond) and interested parties (including

---

[10] SWIFT (November 2014), *SWIFT and the New Payments Platform,* <http://www.swift.com/assets/swift_com/documents/news/AUNPP_Brochure.pdf> {accessed 14 September 2016]

[11] Fagg et al (February 2013), *Strategic review of innovation in the Payments System: Real-Time Payments Committee proposed way forward*, Australian Payments Clearing Association, <http://www.apca.com.au/docs/real-time-payments/real-time-payments-proposal.pdf> [accessed 14 September 16]

5.12. PSR and user representatives). This taskforce would undertake the job of turning the series of design principles developed by the Forum into a detailed architectural design. The taskforce would require support and relevant expertise and it may be that a payment system operator, regulator or trade body could provide that support.

5.13. It would be one of the roles of the taskforce to identify what would be the most appropriate entity to build and run the platform they design. This may ultimately be one of the existing payment system operators, the new consolidated payment system or something else.

5.14. It would also be up to the taskforce to reach a decision regarding the use of a distributed architecture or a more centralised model. We currently consider that the technology is not sufficiently robust to support a distributed model at this stage for UK retail payments. We strongly advise that the Forum does not reach a conclusion on that issue at this time. Currently, the distributed model has not been proven to be able to deliver the volumes and speeds of the current UK payment traffic. For instance, Bitcoin has between 125,000 and 300,000 transactions a day,[12] Faster Payments had an average daily volume of nearly 3.5 million transactions per day in 2015 and Bacs had an average daily volume of 24 million.[13] This is in addition to the technology being largely unproven for systemically important payments systems.

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?

5.15. We consider that UK payment systems are highly innovative and world leading. Recent research commissioned by the PSR suggested that the UK was one of the top three most innovative countries for payment systems.[14] That research concluded that not only have we innovated by introducing new systems and services, but, legacy systems have also been improved.[15] We are one of the few countries in the world to have an immediate payments system for consumers.[16] We also give users the ability to make payments using proxies. But, we do not wish to be complacent.

5.16. Barclays prides itself on its commitment to innovation. We can see merit in developing more technologically advanced payment systems that are flexible, simple to upgrade and efficient. However, when considering significant change, we must recognise the vital role that the existing payment systems play in the UK economy. Many UK companies plug

---

[12] See: <https://blockchain.info/charts/n-transactions>

[13] Figures from Table 1.2 Payments UK (June 2016), *2016 UK payment statistics: key statistics on the UK payment clearings, cash, card payments and payment markets,* published by Payments UK.

[14] Page 36, Lipis Advisors (December 2015), *Payment system ownership and access models: comparative analysis of 13 countries*, Research report for PSR, <https://www.psr.org.uk/psr-publications/market-reviews/MR1522-lipis-report> [accessed 14 September 2016]

[15] Page 34, Lipis Advisors (December 2015),

[16] Page 38, Cap Gemini & Royal Bank of Scotland (2015), *World Payments Report 2015,* <https://www.worldpaymentsreport.com> [accessed 14 September 2016]

directly into Bacs for their payment services as do some users of Faster Payments. These systems are the backbone of the UK economy and changes need to be considered carefully. Overall we favour, where possible, retaining existing functionality for end users at all times (albeit they need not be provided in the same manner and by the same organisation).

5.17. Overall we consider the benefits the Forum has identified are broadly accurate. We do think that some could be delivered by the existing payment systems too. However, as part of the design work a detailed cost-benefit analysis and impact analysis will have to be undertaken.

6. The strategy in sequence

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?

6.1. We support the prioritisation of a small number of short-term tactical solutions for delivery over an initial period of 12 months. In essence, these should be the industry developments that are already underway.

6.2. We agree there will then be further potential solutions that require more careful analysis concerning the business case for and risks of any change. That cost benefit analysis, design and planning can be undertaken in the mid-term.

6.3. It will not be possible to deliver all of the proposed solutions during this mid-term timeframe. Assuming that only one, or potentially two, solutions can be done within the suggested timescales, our preferred priorities are those that deliver maximum end user benefit and are sustainable e.g. Request to Pay and confidence in payee. We see little merit in investing in new transitional systems that are based on central build with a limited lifespan. All such developments should therefore be done on a "no regrets" basis i.e. has the capacity to be retooled, at reasonable expense, to work with longer term strategic developments on APIs.

6.4. In the longer term (3+ years), we see real value in having a UK payments industry vision and within that vision, the opportunity to subject some long-term strategic aims to rigorous research and analysis, design and consideration. This part of the Forum's thinking is bound to evolve over time.

6.5. We agree that account number portability should be disregarded. We also do not regard the proposal to develop indirect access liability guidance as a priority.

6.6. Customer awareness and education is a continuing theme which runs through each of the phases.

7. Implementation approach

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's recommendations?

7.1. We agree that different groups of solutions are likely to require different implementation approaches so that a one size fits all approach will not be appropriate. It will be important for the Forum to identify a lead organisation. It will then be for that lead body to ensure that they engage with all interested stakeholders.

7.2. The implementation entity, proposed by the CMA, must lead the coordination of all API activity in payments.

7.3. We agree that the PSR and Bank of England will need to lead any work on consolidation of Bacs, Faster Payments and the Cheque and Credit Clearing Company. The role of the Bank of England will be pivotal.

7.4. Our preference is to use existing bodies to implement the Strategy rather than create a new delivery vehicle for each initiative. It should also be possible to put together cross-industry working groups or task forces to deliver a proposed solution, along the lines of the Open Banking Data Working Group.

7.5. Ultimately we see the PSR and FCA as being responsible for overseeing implementation of the Strategy and agreeing on a realistic implementation timetable with industry.

7.6. Our capacity for change in the near term will be limited and influenced by essential regulatory deliverables and mandatory priorities in the payments area including -

   − (i) successful completion of our structural reform programme

   − (ii) implementation of the second payment services directive

   − (ii) creation of an API implementation entity and API standard to meet the Competition and Markets Authority's (CMA) requirements

   − (iv) Payment System Regulator's market reviews on infrastructure and Indirect access to payment systems

   − (v) Delivery of a new Cheque Image System

   − (vi) CMA's Retail banking switching remedies

- (vi) Bank of England's Real Time Gross System review findings

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.

7.7.   Further detailed analysis will be needed to assess the business case for and risks of each of the proposed solutions with the exception of the short-term tactical solutions already underway. It is only once this work has been completed that the Forum will be able to take an informed view on the sequencing and prioritisation of the various proposals.