

The Payments Strategy Forum – Being responsive to user needs Draft strategy for consultation

Respondents basic details

Consultation title:	
Name of respondent:	
Contact details/job title:	
Representing (self or organisation/s):	Transpact.com
Email:	
Address:	

Publication of Responses

In responding to this consultation, you are sharing your response with the members of the Payments Strategy Forum (Forum), evaluators appointed by the Forum and the Payment Systems Regulator Limited, ('the PSR' - which provides secretariat services to the Forum). The PSR accepts no liability or responsibility for the actions of the Forum members or evaluators in respect of the information supplied.

Unless you tell us otherwise the Forum will assume that you are happy for your response to be published and/or referred to in our Final Strategy Document. If you do not want parts of it to be published or referred to in this way you need to separate out those parts and mark them clearly 'Not for publication'.

Please check/tick this box if you do not want all or parts of your response to be published:

Declaration

"I confirm that our response supplied with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.

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This response template is intended to help stakeholders in responding to the questions set out in our Draft strategy for consultation and in its Supporting Papers.

If you do not want parts of or all of your response to be published you need to state clearly ('Not for Publication') over specific information included in your response, please be sure to clearly mark this by yellow highlighting it. We will assume that all other information is suitable for publication.

Responses should be emailed to us at Forum@psr.org.uk in Word and PDF formats by no later than **14 September 2016**. Any questions about our consultation can also be sent to Forum@psr.org.uk.

Thank you in advance for your feedback.

QUESTIONS IN RELATION TO SECTION | RESPONDING TO CONSUMER AND BUSINESS NEEDS

The Payments Strategy Forum – Being responsive to user needs

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

No, we do not agree.

The consultation captures many important points, but is very much positioned and prioritised with regards to what UK banks can deliver without expending major immediate cost, rather than what End-Users are in critical need of.

Most critically, urgent End User requirements that are required now have been de-prioritised and 'kicked into the long-grass', as these solutions would be expensive for banks to implement, even though PSR priorities mean that such improvement and spending should be mandated now.

Re-prioritisation of solutions needs to take place away from the current 'bank-centric' point of view, and taking much more account of 'End-User-centric' point of view.

Question 2a: Do stakeholders agree with the financial capability principles?

No.

1) Business users are as much a part of the payment landscape as consumers, and yet the principles only address consumers !

This is a serious omission.

2) Anti-Money Laundering (AML) and Counter Terrorist-Financing (CTF) need to be a core part of any new payment development, included from the very start of planning, and not considered as an add-on after the product development is already designed (when it is too late).

So AML and CTF must be a core part of the financial capability principles.

3) No mention of competition or innovation are mentioned in the principles, and yet these should be key considerations of the principles.

Question 2b: How should these principles be implemented?

Question 2c: How their implementation should be overseen and how should the industry be held to account?

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question 3a: What benefits would you expect to accrue from these solutions (not necessarily just financial)?

Request to Pay: Useful solution for the public and businesses, but many vulnerable consumers will fall prey to new fraud due to the introduction of this solution.

Assurance Data: Well over 150,000 consumers and businesses are being defrauded by cyber-criminal every month ! (Office of National Statistics). Well over 30,000 reports of fraud to ActionFraud are made each month ! (BBC) Of these, only around 1,000 are able to be investigated by the overwhelmed police, leaving 29,000 uninvestigated ! (BBC).

This is mostly occurring because current UK payment systems disregard the name that a payer enters for a payee, and uses only the entered bank account number and sortcode. And the payer has no way of discovering the payee's true bank name.

This allows a very large number of cyber-crimes (tens of thousands a month).

And yet, a proven solution to immediately cease the vast majority of such crimes exists, and is proven, but is not being utilised.

When a payer makes a PAYM payment, the payer is shown the bank account name of the payee prior to authenticating the payment.

So I can make a PAYM payment of £200, and receive confirmation of the payee's bank account name to prevent crime.

But I cannot make a normal bank payment of £2,000 or even £200,000 and receive the same confirmation.

This situation is terrible, and requires immediate remedy.

Average crime numbers will plummet as soon as this proven and available change is implemented.

Of course, the payees will require to give approval for their account name to be shown, but this already occurs with PAYM payments, and if the payee refuses and the payee name is not shown, it is a clear red-flag to a payer of possible fraud (indicating severe extra checks are required).

We should not be discussing if this assurance data should be put into effect.

It is a possible, proven (through PAYM) solution, that is crying out to save 30,000 ripped-off consumers and businesses or more every month !

It should be carried out yesterday (not today, and certainly not tomorrow).

Enhanced Data Capability: The financial capability principles do not effectively mitigate the problems of this solution, and there is no evidence that widespread data leakage would not occur.

Once the UK moves to proper payment system based on ISO 20022, there is space in the payment message to incorporate tiny urls, linking to any relevant documentation required.

So there is no need to actually place actual data in message data, only tiny urls.

And with tiny urls, the security aspect is left to the message sender, and can be fully contained, and does not need to be dependent on the payment infrastructure.

So implementation of ISO 20022, will automatically resolve this problem without requiring the Enhanced Data Capability together with its many security concerns.

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question 3b: Do you agree with the risks we outline? How should we address these risks? Are there further risks we should consider?

See 3a above

Question 3c: Is there a business case for investing in solutions to address these needs and if not, how such an investment can be justified?

See 3a) above.

Question 3d: Are there any alternative solutions to meet the identified needs?

See 3a) above

Question 3e: Is there anything else that the Forum should address that has not been considered?

Question 4a: 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?

Absolutely – see 3a) above for one particular change that must be implemented immediately, as benefit to UK far, far outweighs cost (this is an example of where the bank-centric Forum places cost before End-User need, even in a case where the cost is manageable, but the End-User need critical and enormous).

Question 4b: Are there any viable technical solutions to deliver some of the consumer benefits early without compromising the longer term solutions recommended by the Forum?

QUESTIONS IN RELATION TO SECTION 6 | IMPROVING TRUST IN PAYMENTS

Question 5a: Do you agree with our proposal regarding customer awareness and education? If not, please provide evidence to support your response.

See 5b) below

Question 5b: 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?

No, education should not be through an industry trade body.
I will illustrate with an example.

At present, UK banks are failing to educate their customers that ‘account-muling’ is illegal as it is money laundering (and quite possibly terrorist financing).

This is despite the fact that such ‘account-muling’ by a bank’s clients’ means that the bank itself is clearly money laundering and terrorist financing.

Despite their obligations to minimise money laundering and terrorist financing, banks have little incentive to educate their customers not to ‘account-mule’ (the FCA is not fulfilling its AML/CTF mandate in not regulating the banks in this respect), and so the banks choose not to incur expense in client education.

When ‘account-mules’ are taken to Court (as they always will be, since ‘account-mules’ are always present to catch [in the many cases where false ID was not used]), the Courts state that since the ‘account-mule’ was ignorant of ‘account-muling’ being wrong, they will impose no penalty. The Police as a consequence will not investigate account-muling, as the Courts will not prosecute. So lack of education by the banks, leads to ‘account-muling’ being penalty free, which leads to more ‘account-muling’ as it is easy income and profit for the mule (until they are caught).

The only way this cycle can cease is for the banks to educate their customers (which will enable Courts to impose proper criminal sanction, which will lead to Police starting to arrest account mules). But the banks have not incentive to incur expense to do so.

A trade body leading education will be bank led, and suffer exactly the same lack of desire to incur expense as at present, and therefore an independent body must be chosen to lead the education.

Question 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.

Yes

Question 7a: 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?

This is an over-hyped solution.

It is necessary, and will achieve good results, but not nearly as comprehensive as predicted (since the predicted results are optimistic and will only capture a small part of the illegal activity).

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question 7b: Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?

The data sharing and leakage risks are very large and significant, and have not been adequately dealt with in the solution.

Question 7c: If any legislative change is required to deliver this solution, would such change be proportionate to the expected benefits?

Question 8a: Do you agree with our solution for financial crime intelligence sharing? If not, please provide evidence to support your response?

No.
The evidence provided that this solution will be beneficial is flawed and not comprehensive. It is more like a persuasive argument missing out important detail that would invalidate or deprecate the solution, than a factual and evidence based assessment.

Question 8b: In what way does this solution improve financial inclusion? More generally, how should the intelligence sharing be used for the “public good”?

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question 8c: Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?

Question 8d: Do the benefits of financial crime intelligence sharing outweigh the new potential risks created?

No (unless under very special circumstances which are highly unlikely to come to pass).

Question 8e: 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?

Question 8f: What governance structure should be created to ensure secure and proper intelligence sharing?

Not effectively possible.

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

How would costs be allocated ?
This could easily turn into a solution which destroyed competition (favouring the established larger players) and prevented innovation (by making access to the Central KYC Utility unaffordable or unavailable for new potential innovators).

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

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

**QUESTIONS IN RELATION TO SECTION 7 | SIMPLIFYING ACCESS TO PROMOTE
COMPETITION**

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

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

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

Question 13a: Do you agree with the proposal regarding aggregator access models? If not, please provide evidence to support your response?

Question 13b: How can the development of more commercial and competitive access solutions like aggregators be encouraged to drive down costs and complexity for PSPs?

Question 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.

Question 15a: Do you agree this proposal regarding establishing a single entity? If not, please provide evidence to support your response.

Question 15b: If you do not agree, how else could the benefits be achieved without consolidating PSO governance in the way described?

Question 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.

Yes, ASAP.

It is a national disgrace that in 2016, we are operating with a UK payment system that only allows 18 characters for the payer's name.

This leads to significant large amounts of money laundering that cannot be prevented with an 18 character limit.

It is critical that ISO20022 is adopted as soon as possible.

Due to the cost of such a move, the Forum seems to be wishing to consult and debate for as long as possible, to put this move as far into the future as possible.

Whilst this delay is beneficial to UK banks (by pushing off cost as long as possible), it is highly detrimental to the UK.

Speed should be an imperative in implementing ISO20022.

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question 17a: Do you agree with the proposal to develop indirect access liability guidance? If not, please provide evidence to support your response?

Question 17b: What, in your view, would prevent this guidance being produced or having the desired impact?

Question 17c: In your view, which entity or entities should lead on this?

QUESTIONS IN RELATION TO SECTION 8 | A NEW ARCHITECTURE FOR PAYMENTS

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question 18a: 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?

This approach by the Forum appears to be a discuss-and-delay tactic.
See answer to Question 16 above, where ISO20022 is shown to be required as soon as possible.

The strategy adopted here of producing a report by 2018, which will itself lead to a study, which will lead to a consultation (maybe by 2023), before any real work can begin, is possibly an attempt by some players to push this topic into the distant future, and not implement anytime soon.

Question 18b: 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?

Question 18c: How should the implementation approach be structured to optimise the outcomes?

Question 19a: Do you agree with our proposal to create a Simplified Delivery Mechanism? If not, please provide evidence to support your response?

Everything will depend on the open and free nature of the mechanism.
If available without cost to innovators and smaller firms, then this will be beneficial.
If expensive, or if entry is restricted to only established or larger market participants, then this could be used by incumbents as a very useful barrier to innovation and competition.

Question 19b: 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?

See 19a) above

Question 19c: Could an existing scheme adapt to provide the Simplified Delivery Mechanism or should a new one be developed?

Question 19d: 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?

Our opinion is that there are few benefits, and many risks, to this function being performed by distributed architecture.
For clearing, centralised infrastructure is proven – and for such a critical function, a proven methodology is required (there are too many unknown unknowns with distributed architecture – not least, could an aggressive large and powerful malicious foreign State out-compute the market).

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question 19e: Do you think it is feasible to begin work to design a new payments infrastructure given existing demands on resources and funding?

Question 20a: Do you agree that the existing arrangement of the payments system in the UK needs to change to support more competition and agility?

Question 20b: Will the package of proposals we suggest, the Simplified Payments Platform, deliver the benefits we have outlined? What alternatives could there be?

See answer to 18a)

QUESTIONS IN RELATION TO SECTION 9 | OUR STRATEGY IN SEQUENCE

Question 21a: Do you agree with this proposed sequence of solutions and approach outlined to further clarify this?

No.

The consultation captures many important points, but is very much positioned with regards to what UK banks can deliver at minimal cost, or can push larger cost off as long as possible, rather than what End-Users are in need of.

Most critically, urgent End User requirements that are required now, have been de-prioritised and 'kicked into the long-grass', as these solutions would be expensive for banks to implement now, even though PSR priorities mean that such improvement and spending should be required now.

Re-prioritisation of solutions needs to take place, away from the current 'bank-centric' cost-minimising point of view, and onto a 'End-User-centric' point of view.

For example, well over 150,000 consumers and businesses are being defrauded by cyber-criminal every month ! (Office of National Statistics). Well over 30,000 reports of fraud to ActionFraud are made each month ! (BBC) Of these, only around 1,000 are able to be investigated by the overwhelmed police, leaving 29,000 uninvestigated ! (BBC).

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The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

consumers and businesses or more every month !

It should be carried out yesterday (not today, and certainly not tomorrow).

There are other short-term priorities as well, that are being pushed-off and facing delay, such as the introduction of ISO20022.

Question 21b: If not, what approach would you take to sequencing to bring forward the anticipated benefits, in particular for end users?

See 21a)

QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

Question 22a: What approach should be taken to deliver the implementation of the Forum’s Strategy?

Question 22b: Who should oversee the implementation of the Forum’s Strategy?

See 21a)

Question 22c: What economic model(s) would ensure delivery of the Strategy recommendations?

Because the Strategy is high level and vague, there is no economic model to ensure satisfactory delivery.

Only when the strategy is clarified against real-world needs, and provides more real-world detail, will it be possible to ask this question.

QUESTIONS IN RELATION TO SECTION 11 | COST BENEFIT ANALYSIS APPROACH

Question 23a: Do you agree with the proposed approach for quantifying the potential costs and benefits of the proposed solutions?

The banking industry is notorious for loading outside costs into front-end and running costs for various schemes.
It is very difficult (impossible) for outsiders (even auditors) to unpick such accounting.

Since the forum is banking dominated, the cost evaluation is an invitation for banks to offload other running costs into the calculations, to have these bank-costs shared with others.
This will stifle innovation and competition.

The benefits possible are very hard to quantify in monetary terms.
For example, what is the worth of preventing 30,000 consumers and businesses being defrauded every single month in the UK by cybercrime ?

Question 23b: Do you agree with the costs and benefits drivers outlined in this document?

See 23a)

Question 23c: We would appreciate any information on the potential costs and benefits you may have to assist our analysis.