payments strategy forum

A Payments Strategy for the 21st Century

Putting the needs of users first:

Supplementary documents –

User Detriments

November 2016

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Following is the final, refined long-list of detriments, grouped per similarities and overarching themes, together with consecutive weighted scores that were agreed by the Forum membership.

Detriment Group	#	Detriment	Score
Customer Control	1	Payers and payees need more flexible mechanisms for collecting and making recurrent and ad hoc payments.	88
	2	Payers and payees need more mechanisms for payments that give greater control to the payer and more certain outcomes for the payee.	81
Customer Assurance: Additional functionality for both payer and payee	3	Payers and Payees require additional functionality in order to be able to: • Confirm payee (validation of name or proxy regarding payment account details)	75
	4	• Confirm adequate funds are available to cover payment	81
	5	• Confirm the status of payment	75
	6	• Confirm receipt of payment	63
	7	• Include additional reference data in the payment (to ease reconciliation)	69
	8	• Include additional data for third parties (e.g. accounting; taxation and age verification)	69
Customer financial capability	9	Some financial products are overly complex and lack transparency, leading to avoidance by unconfident users.	75
	10	Access to cash remains important for many users (due to either low or unpredictable incomes or mistrust of electronic payments due to lack of transparency) - and will continue to do so while non-cash products do not meet their needs for control and transparency.	81
	11	Competition is not currently meeting user needs for simplicity.	63
	12	Competition is not currently meeting user needs for transparency.	69
	13	Competition is not currently meeting user needs for control.	81
	14	Competition is not currently meeting the needs of low income / low use users who need simple payment mechanisms and prefer cash.	81

Detriment Group	#	Detriment	Score
Corporate customers	15	There is lack of realistic alternative payment options other than cards available to merchants / retailers.	63
	16	Online payments – there is a lack of access for business users for alternative rails (i.e. need more availability of credit transfer payment online).	50
	17	Card scheme fines (for which there is no appeals process) are mandated onto merchants.	50
	18	There is a lack of user say in changes mandated from card scheme level - merchants bear costs with no representation at governance level.	50
	19	International payments for Retail and Corporate users are sometimes hard to execute as UK Payment Systems not perfectly connected to international equivalents.	56
	20	Corporate service users would like to know where payments are at all times if it is not real-time.	63
	21	There is a need for greater transparency of users for services in corporate space.	50
	22	Reconciliation costs and treasury management for businesses; also government reporting costs.	63
	23	The distance between physical and financial supply chain affects e-invoicing.	44
Customer identity, authentication and knowledge	24	A customer's identity is used successfully by a criminal (third party).	63
	25	Customers have day to day concerns about risk of identity theft and risk of fraudulent activity on an account.	63
	26	A payment is made to a wrong account.	56
	27	There is friction in the payment service. For example: • Online payment verification checks, e.g. a '3D Secure' retailer • Point-of-Sale card payment declined by PSPs fraud systems as a 'false positive' • Opening a bank account, application is declined due to ID checks	56
	28	Businesses pay into accounts not owned by their suppliers due to false invoices or false change of bank account notifications.	50
	29	The industry need to better understand who the payment initiator (payer) is and paying account.	50
	30	The industry need to better understand who the payment recipient (payee) is and the beneficiary account.	50
	31	Current ID solution may not be sufficient for proof of identity in criminal cases.	50
	32	The industry need to know who their vulnerable consumers are.	69
	33	At account opening, where customers are seeking access to payment instruments, the industry need to understand who the applying customer is.	50

Detriment Group	#	Detriment	Score
Data sharing, reference data, and analytics	34	Insufficient reference data and a lack of knowledge sharing amongst users results in gaps in preventing financial crime; fraud, money laundering, terrorist financing, bribery and corruption.	50
	35	Real-time payment risk is limited, reducing the ability of customers and PSPs to act against fraudulent payments. For example, business customers and government departments are constrained in identifying fraud by the lack of information available on the payee / beneficiary account, and the payer / remitter account.	63
	36	Switching to a new bank means re-doing checks for Know your customer (KYC), anti-money laundering (AML) and anti-terrorist financing.	44
	37	When a customer actually realises payment is a fraud, banks cannot work quickly together to target mule accounts and to prevent funds being paid away.	63
	38	Banks cannot make fully reliable risk decisions on third parties because they cannot be 100% sure of identity and information about them.	50
	39	A beneficiary bank has limited information about a remitter, the reason for payment and the network of accounts the beneficiary account transacts with - impacting its ability to identify accounts used to receive proceeds of fraud.	50
	40	Banks cannot comply easily with KYC, AML or anti-terrorist financing requirements on their own customers or on third parties.	56
	41	Unnecessary bank secrecy prevents effective control of money laundering.	50
International payments and account activity	42	There is a lack of clarity regarding the speed, costs and risks of international payments.	50
	43	Bank account access - opening or maintaining account facilities - regulatory burden is different, and variable, in different territories.	50
	44	The perceived risk of fraud is higher for international payments e.g. businesses pay into accounts not owned by their suppliers due to insufficient ability to confirm payee identity and beneficiary account.	50
	45	The customer identity and data sharing approach for international payments is less robust than that for UK-UK payments.	50
	46	There is a lack of understanding of the ultimate beneficiary owner (UBO) and robustness of KYC.	56
	47	There are issues around the emergence and growth of alternate PSPs and methods where regulation is less robust, and banks have limited control, e.g. blockchain, cross-border payments being made under the disguise of domestic payments (Hawala-type payments), giving rise to consumer safety issues and money laundering opportunities.	56
	48	Using the name of legal entities or individuals is not sufficient to uniquely identify them across jurisdictions.	50

Detriment Group	#	Detriment	Score
Payment scheme issues/ weaknesses	49	There is insufficient merchant education and understanding on fraud levels and best practice for engaging with Payment Schemes.	44
Customer education and awareness	50	There is a lack of customer awareness about mule accounts for avoiding 'non-complicit' involvement and criminal implications of complicit involvement.	56
	51	There is a lack of customer awareness of widespread methods used for fraud - such as duped customer payments (e.g. caller requesting remote access to PC, romance scams, pension liberation, invoice diversion, ghost payroll, etc.).	63
Choice and competition	52	There are only a small number of sponsor / commercial solutions for indirect PSPs.	56
	53	Consumers have little choice if they require a PSP with real-time Faster Payments (FPS). There are 10 members of FPS and only these banks offer real-time FPS to their customers. If customers want real-time payments, they need to bank with one of the 10 members.	69
	54	Existing sponsor banks can limit competition as there are only a few that offer indirect access; indirect PSPs are reliant on the Sponsor Bank solution and innovation.	69
	55	It's difficult for PSPs to switch indirect access providers as Sponsor Banks' solutions may make it difficult to switch to another provider.	56
	56	New types of PSPs may encounter difficulties in finding direct PSPs to sponsor them and get access to a payment system, due to having new models where current sponsor bank risk appetite will not support such entities.	69
	57	There is a lack of competition between schemes.	25
	58	There is a lack of interoperability and common standards in the payments infrastructure which reduces the ability for PSPs to innovate and businesses to benefit from new payment options.	63
	59	There is no level playing field for PSPs that are not a credit institution due to difficulty in obtaining a BoE settlement account as a new direct participant.	56
Common standards and rules	60	Too many standards and too much complexity reduce front end simplicity and stifle innovation, unlike the EU where the Single Euro Payments Area (SEPA) has aligned rules for DC / DD.	75
	61	Different rules and standards within EU to the UK; SEPA has largely aligned EU standards / rules for DC / DD and should do for instant (real-time) payments. Still in-country variances.	56
	62	The range of standards could limit infrastructure competition. If operators set the rules, there could be multiple infrastructure providers, provided they are all aligned to an ISO standard.	69
	63	There is no real substitutability between payment systems in the event of system failure.	69

Detriment Group	#	Detriment	Score
Schemes for rules and governance	64	Indirect PSPs don't own the schemes so change and governance of schemes is driven by big banks. There is no effective voice for indirect participants' views to be taken into consideration by the schemes.	56
	65	There is no clear / transparent on-boarding process or requirements for PSPs to join a scheme and the process can be lengthy and costly for participants to join. Scheme rules are too complex, therefore expensive to join and / or comply with.	88
	66	There are expense implications for card issuers / acquirers to be direct members of card schemes.	63
	67	Multiple payment schemes are expensive, complex and time consuming to join for PSPs and confusing for end-users. Cheque imaging is an added scheme, which risks this reinforcing the multiple operator model.	88
	68	Card scheme governance does not adequately represent merchants and can be inflexible when translating USA-based rules into rules for EU firms.	38
Third party	69	Third party users (end user PSPs) can't initiate real-time payments and access data as they have difficulty gaining access.	50
Switching	70	Consumer and corporate users are reluctant to switch bank accounts which increases costs of banking to end users.	69
	71	The need to change sort code and account numbers when switching bank accounts creates difficulties for customers making payments / companies receiving and causes loss of competitiveness in banking provision.	75
Innovation and Competition	72	Banks are not good at innovating – the external market should innovate.	75
	73	There is no long term strategy for blockchain.	50
	74	New technologies –there is a lack of products not running on old 'rails' (i.e. 4-party-scheme model). Need to make it easier for new entrants to get established in the market.	69
	75	There is a lack of competition between schemes.	75
	76	Mobile payments – lots of closed applications for payments that are not interoperable higher up the chain making life complex for consumers.	63
DD Guarantee	77	Unlimited Direct Debit (DD) guarantee makes it difficult to provision for risks or acts as a barrier for non-direct PSPs and end-users to offer the service.	69
Data theft	78	Consumer data is exposed to theft at multiple points along the value chain, leading to increased fraud.	69
Fraud	79	Merchants have little information on fraud levels and no appeals process for card scheme fines.	69
Execution Risk	80	Execution risk – the more change we add into the system, the greater execution risk in the climate of cybercrime.	38
Choice and competition	81	New third party providers can't initiate payments and access data to initiate payments.	69
Localisation	80	Card scheme rules need to be localised.	25
	83	The USA centric model doesn't translate to EU regulatory framework – e-money is missing, for example.	25