

Payments Community Briefing – January 2016

Overview of the Payments Strategy Forum

The Payments Strategy Forum has been established to develop a strategy for payment systems in the United Kingdom. It will lead a process to identify, prioritise and help to deliver initiatives where it is necessary for the payments industry to work together to promote collaborative innovation. The aim is to drive better outcomes for the people and organisations that use payment systems such as new products, greater choice and higher quality. The Forum consists of an independent chair and 22 members, including payment service providers and user-representatives. So far it has established the key fundamentals of its strategy setting process – including its objectives and principles:

Strategic objectives

The Forum has agreed that any strategic initiatives must be:

1. Secure and resilient
2. Versatile and responsive to User Needs
3. Efficient

Strategy setting principles

1. The Forum must ensure that **user interests** are at the heart of its strategy setting and **achieve general support from the Payments Community**
2. The work of the Forum should be **open and transparent**, and its strategy should be influenced by the views of the Community and taking into account relevant work undertaken by industry or others
3. Agreed strategic initiatives should be underpinned by a **positive business case**, including the impact on users; maintaining or enhancing **security and resilience**
4. The strategy should aim to be **ambitious in its outlook** but the **emphasis should be on concrete deliverables** to be delivered in a short (2 year) and medium (2-5 year) timeframe, rather than a softer aspirational long term 10 year vision and / or goals
5. It should be **more important to address a small group of fundamental root causes** of detriments, rather than lots of individual detriments in isolation
6. The Forum **should anticipate that further work may be required beyond Year 1** but it will be important that the strategy identifies the work required; a timeframe for completion and an owner (s) as part of its implementation plan
7. Full account should be taken of **regulatory, technological and market developments** in and outside of the UK

Progress to date

Since its first meeting in October, and building on the output from the September Payments Community Event, the Forum has focussed on identifying detriments that affect users of payment systems in the UK. The long list of detriments has been agreed by the Forum and is included as **Annex 2**. New detriments identified post the Community Event has been highlighted in yellow.

The below Working Groups have now taken ownership of the detriments allocated to them. These are now being grouped, prioritised and assessed as part of their work plans, with progress reported back to the Forum. Any new detriments raised from this point forward will need to be considered by the Forum before any work is undertaken.

- 1. End-User needs working group**
Chaired by Sian Williams, Toynbee Hall and deputy chair, Nick Davies, DWP
To ensure that the UK's Payments Strategy will fully meet the needs of individual and organisational users

- 2. Simplifying access to markets working group**
Chaired by Marion King, RBS and deputy chair, Becky Clements, Metro Bank
To examine whether and how payment systems can be developed in order to simplify access and participation in the markets for PSPs

- 3. Financial crime, Data and Security working group**
Chaired by Russell Saunders, Lloyds Banking Group
To engender user trust in safe and certain payments through collaboratively preventing financial crime

- 4. Horizon scanning working group**
Chaired by Carlos Sanchez, Orwell Group
To inform the Forum of relevant market, regulatory, and technological developments in the UK and international market

At its December meeting the Forum agreed each Working Group's Terms of Reference and Work Plan. It was also agreed, as per the PSR March Policy Statement, that while the Chairs may seek support from industry bodies, and invite participants to contribute resource (e.g. via secondments), significant input is expected from the members of the Working Groups.

What's next for the Forum?

In its March 2015 policy statement the PSR outlined its expectations that the Forum produces an initial set of agreed strategic initiatives for the industry within a year of its first meeting.

12 Month Work Programme

The Forum has agreed the following success criteria to meet these expectations:

- the Forum achieves general agreement on a draft strategy within **9 months**, i.e. July 2016
- strategy delivered in **12 months**, i.e. October 2016
- any consultation indicates general support to the strategy by the Payments Community

To meet these criteria the Forum has agreed the high level work programme included at **Annex 1** of this note.

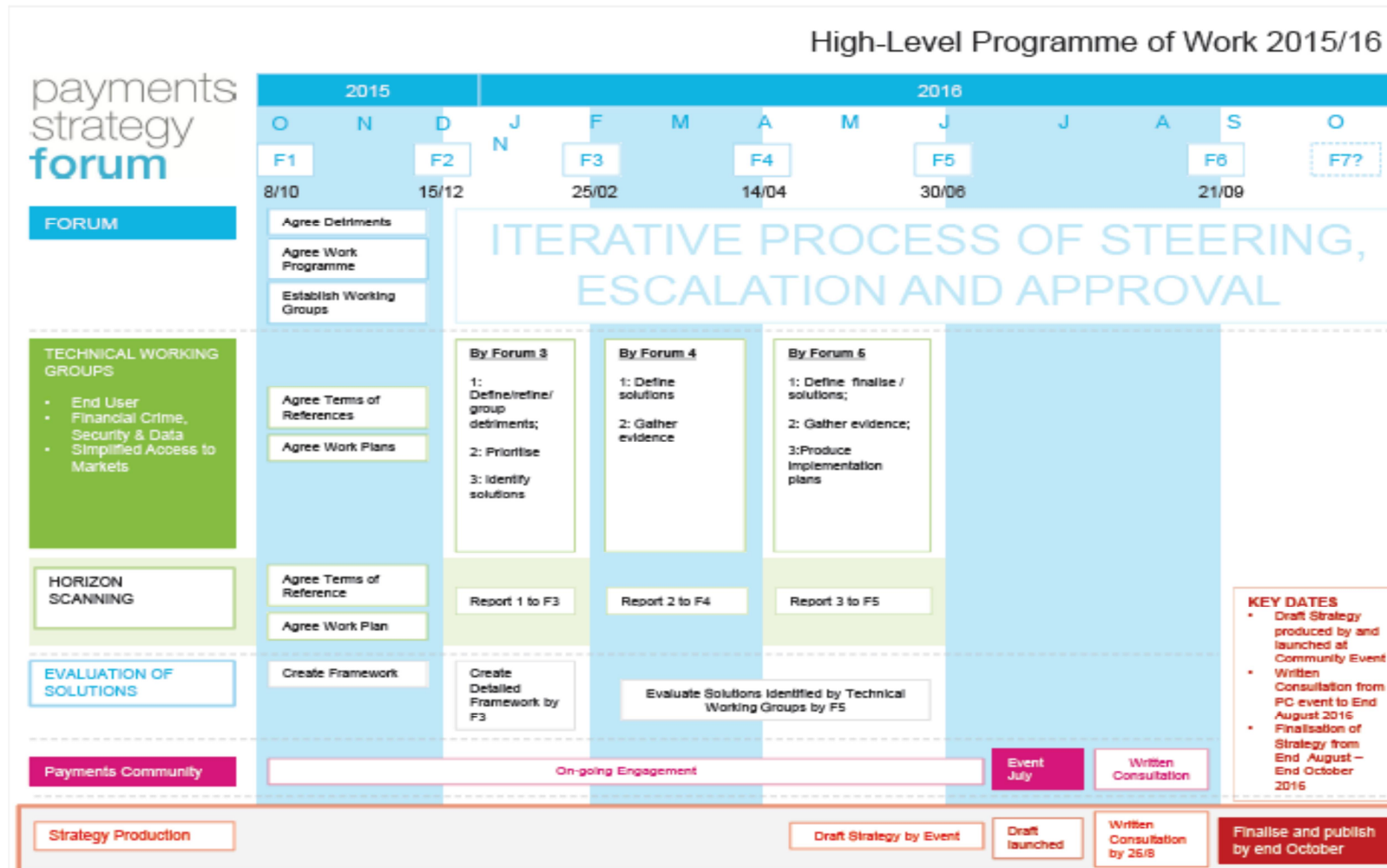
Payments Community Engagement

The Payments Community has been established by the PSR to provide a flexible way for interested individuals or organisations to shape the Forum's work. It will help ensure that the Forum has a comprehensive picture of the payments industry and emerging payments issues. The PSR has developed an engagement model that is included in **Annex 3**.

To date the PSR has:

- Arranged roundtables for each individual affinity group have now been established, occurring between every two Forum meetings
- Met with various umbrella organisations to discuss ways to engage with their membership. These organisations have agreed to work with the PSR to grow the Payments Community in the following ways:
 - Draft communications to send to their membership
 - Presentations to key internal groups with an interest in the work of the Forum
 - Presentations at conferences and events
- Held various bilateral meetings with interested organisations

Annex 1 – High-Level Work Programme



Annex 2 – Final and base-lined list of detriments

Ends User Needs Working Group

Specific, individual detriments	Suggested categorisation
Poor flexibility or ease of use to control your push and pull payments	GREATER CONTROL
Difficulty in handling exceptions and failures caused by inability of end users to control payments	GREATER CONTROL
No real-time pull functionality	GREATER CONTROL
Existing payments mechanisms not keeping up with pace of change with work and living habits – for example Direct Debits	GREATER CONTROL
Account charges for bounced Direct Debits and unauthorised Direct Debits etc. affects the disadvantaged	GREATER CONTROL
Unlimited Direct Debit guarantee makes it difficult to provision for risk or acts as a barrier for non-Direct PSP's and end users to offer the service	GREATER CONTROL
Direct Debits are too rigid/lack transparency for customers with unpredictable incomes ; no control over exact dates or amounts; no part payments or flexibility causing exclusion from discounts and returned payment fees	GREATER CONTROL
Security measures have technical problems and are too complicated for consumers – this is leading to high rates of sale-abandonment	GREATER CONTROL
Lack of confirmation of receipt on Faster Payments	CUSTOMER ASSURANCE
Corporate service users would like to know where payments are at all times (if they are not real time) or if not have the ability to track payments at any time in the process	CUSTOMER ASSURANCE
No real-time balances causing financial detriment (overspending causing returned payments, fees)	CUSTOMER ASSURANCE
Investigation to solve issues around misdirected payments too complex	CUSTOMER ASSURANCE
Difficult to know who you are paying leads to misdirected payments and fraud	CUSTOMER ASSURANCE
Missing reference data causing misdirected payments/expensive in management of exceptions	CUSTOMER ASSURANCE
Data – limits on the extent of input and output data and no third party reporting	CUSTOMER ASSURANCE
Cost differentials between Chaps, Bacs and FPS (esp. for wholesale)	FINANCIAL CAPABILITY
Customer education – needed on channels	FINANCIAL CAPABILITY
Lack of transparency / clear information on types of payments (and products) for consumer to be able to select best choice with confidence	FINANCIAL CAPABILITY
Lack of confidence in shift to online and shift to digital – lack of trust increases costs, reduces engagement, slows move to non-cash ; excludes certain users	FINANCIAL CAPABILITY
Data acts as a barrier to getting products and services – lack of transparency	FINANCIAL CAPABILITY
Transparency of users for services in corporate space	FINANCIAL CAPABILITY
Limited access to Free-To Use ATMs in some areas (Rural, out of town estates) – challenge is often lack of commercial space	FINANCIAL CAPABILITY
Difficult to make electronic payments for the unbanked causing increased cost due to use of cash	FINANCIAL CAPABILITY
Risk appetite around fraud / AML excludes many vulnerable / 'non-standard' customers from access	FINANCIAL CAPABILITY
Access to products and services difficult for people who don't have 'standard' ID / Address or credit history causes exclusion and additional costs	FINANCIAL CAPABILITY
Lack of realistic alternative payments options other than cards available to merchants / retailers	RETAIL
Card scheme fines with no appeal process mandated onto merchants	RETAIL
International Payments for Retail and Corporate users sometimes hard to execute as UK Payment Systems not perfectly connected to international equivalents	RETAIL
Reconciliation costs and treasury management for businesses; also government reporting costs	OTHER
Inflexible collection accounts cause input errors and additional costs for customers and agency banks	OTHER

Simplifying Access to Markets Working Group

Specific, individual detriments	Suggested categorisation
Not enough direct PSPs	CHOICE / COMPETITION
Lack of commercially viable offers for indirect PSP's	CHOICE / COMPETITION
Consumers have little choice if they require a PSP with real-time FPS	CHOICE / COMPETITION
Existing sponsor banks can limit competition	CHOICE / COMPETITION
Lack of competition between Schemes	CHOICE / COMPETITION
No clear / transparent on-boarding process or requirements	CHOICE / COMPETITION
Difficult for PSP's to switch indirect access provider	CHOICE / COMPETITION
PSP's find it difficult to get access to direct PSP's in the UK and therefore access to payment systems	CHOICE / COMPETITION
Too many standards and too much complexity reducing front end simplicity and stifles innovation	COMMON STANDARDS AND RULES
Different rules and standards within EU to the UK	COMMON STANDARDS AND RULES
Range of standards could limit infrastructure competition	COMMON STANDARDS AND RULES
Difficulty in entering market because of complex rules	COMMON STANDARDS AND RULES
No real substitutability between payment systems in the event of system failure	COMMON STANDARDS AND RULES
Expensive for card issuer/acquirers to be direct members of card schemes	SCHEME GOVERNANCE
Scheme rules are too complex, therefore expensive to join or comply with	SCHEME GOVERNANCE
Indirect PSP's don't own the schemes so change and governance of schemes is driven by the big banks	SCHEME GOVERNANCE
Multiple schemes cause overheads for users /PSP's / Retailers	SCHEME GOVERNANCE
Cheque Imaging is an added scheme, risk this is reinforcing multiple operator model	SCHEME GOVERNANCE
Inability of non-Direct members of Schemes to influence rules	SCHEME GOVERNANCE
Difficulty in obtaining a BoE settlement account as a new direct participant	SCHEME GOVERNANCE
Third party providers (end users PSP's) can't initiate real time payments and access data as they have difficulty gaining access	THIRD PARTIES
Banks not good at innovating – external market should innovate	OTHER

Financial Crime, Data and Security Working Group

Specific, individual detriments	Suggested categorisation
Difficult for users to make international payments with respect to identity assurance as remitters and beneficiary details need to be checked for sanctions (payments filtering)	INTERNATIONAL
Card scheme rules need to be localised	INTERNATIONAL
The current decentralised KYC / Fraud / AML / sanctions model incurs high costs and makes compliance expensive for small indirect PSP's and end users	FRAUD / KYC / SMALL PSPs
Merchants have little information on fraud levels and no appeals process for card scheme fines	RETAIL
On-line security measures have technical problems and are too complicated for consumers – this is leading to high rates of sale-abandonment.	RETAIL
Unlimited Direct Debit Guarantee is open to fraud	SYSTEM VULNERABILITY
Consumer data is exposed to theft at multiple points along the value chain, leading to increased fraud costs.	SYSTEM VULNERABILITY

Horizon Scanning Working Group *[NB: it is anticipated in addition to the below that the other three working groups will identify detriments from their list that they require the Horizon Scanning group to assess]*

Specific, individual detriments	Suggested categorisation
Lack of communication and engagement between financial and non-financial firms makes e-invoicing less effective	E-INVOICING
Lack of a long term UK strategy for Blockchain could result in the UK missing an opportunity or the delivery of substandard Forum strategy	DIGITAL CURRENCIES
New models still rely on old central infrastructure as there is little competition or new entry at the scheme level	BACK END COMPETITION
Improving systems with incremental changes increases system complexity and risks of cyber-crime	RISK OF CHANGE
Lack of interoperability and common standards in the payments infrastructure reduces the ability for PSP's to innovate and of businesses to benefit from new payment options	ACCESS
Card scheme governance does not adequately represent merchants and can be inflexible when translating USA-based rules into rules for E.U. firms	GOVERNANCE

Account Number Portability and Switching *[NB: Being progressed by the Horizon Scanning Working Group]*

Specific, individual detriments	Suggested categorisation
End users can be reluctant to switch bank accounts due to costs / complexity of switching and / or changing their account number. This relates to individuals; SME's; corporates and government.	COSTS / COMPLEXITY

Annex 3 – Payments Community Engagement

