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BACS RESPONSE TO 'BEING RESPONSIVE TO USER NEEDS' PAYMENT STRATEGY FORUM DRAFT STRATEGY, JULY 2016

As an integral part of the UK payment system Bacs' services are recognised across the globe as world class. Since our launch in 1968, Bacs has added great value to the UK economy by empowering millions of UK citizens and underpinning economic activity through our payments products and services. We are a key part of everyday life for consumers and businesses; in 2015 around 90% of the UK workforce was paid via Bacs direct credit and over 80% of British adults have at least one Direct Debit payment set up. Last year, in total we processed over six billion individual payments safely and securely and our comprehensive suite of supporting products and services continue to deliver highly cost effective end to end payment solutions to businesses.

Bacs supports the Payments Strategy Forum and the strategy setting process. We believe that for the strategy to be successful the UK payments industry needs to collaborate so that the needs of current and future consumers are met. We support the need to review the structure, role, funding model and governance of the Payment System Operators (PSOs) and for this to be considered in the context of the wider changes in the industry. Consequently, we support the conclusions of the PSO Governance Sub-Group report which stated that the PSR, Bank of England and PSOs should work together to agree the best way forward. Our analysis suggests that great value could be released through further product development building on components available across the schemes, given the right governance and funding model. Work is already in hand within Bacs to consider these issues, and we would be happy to work with the industry and its stakeholders to develop an effective long term solution. It is essential that the industry is open to change and works together collaboratively to reach consensus quickly so minimising uncertainty for stakeholders, including scheme staff.

Payments systems are recognised as systemically important structures for the UK economy and it is their impeccable integrity credentials that form the keystone of trust and security. Payments systems must be secure and fully guarded against criminality in all its forms; fraud, cyber-attack, and other threats.

Without these assurances the UK payments systems could cease to be world class, as the recent Lipis report confirmed, and the UK economy may be adversely affected.

Bacs is happy to discuss our consultation responses and share our research data, economic analysis and end to end value tool more fully with the Regulator, Strategy Forum and others who might be interested.

General Comments on the draft strategy

Changes to PSO Governance

We agree with the forum that the pragmatic next step is to examine the future governance models for retail PSOs and the conclusions of the PSO Governance Sub-Group report should be progressed. The final industry strategy should ensure that the funding and ownership of PSOs is considered as well as its governance. Failure to do so could import sub-optimal model features that could lead to a reduced focus on the end-users of payments.

To avoid any uncertainty we agree that next steps should be started as quickly as possible and there should be a rigorous understanding of the benefits and risks. PSOs should work alongside the Bank of England, HM Treasury and PSR. Care should be taken however to limit any disruption to the PSOs current work programmes aimed at enhancing current payment products, better services and improved access for end users. Bacs is an active supporter of new entrants to the payments market, seeking to ensure that they have effective access to our products and services so that they can innovate and compete effectively, thereby maximising value across the supply chain. These developments are reflected in our work on the CASS and Cash ISA services, which have much broader participation than our core schemes. Bacs looks forward to being fully involved in this work.

End User Needs

The draft strategy presents a number of familiar consumer detriments – for example ‘request to pay’, confirmation of payee’ and ‘enhanced data’. Today’s demand for increased pace in innovative change within payments is transformative, fuelled by the development of open data standards in banking, the introduction of Application Programming Interface (API) initiatives and the transposition of PSD2 in to UK legislation. It is critical that these new drivers enable the delivery of new payment solutions for consumers.

There is work required to ensure the collective approach towards messaging standards are aligned and coherent to ensure new services can easily access and utilise payment systems. Bacs is already involved in cross-standard mapping with other payment schemes and continue this work as appropriate with the other retail schemes.

Bacs is using its community of around 120,000 corporate direct debit users and our community of aggregators (Bacs Bureaux) to understand how the new legislative innovations like PSD2 and open

banking data can enhance the payments product mix. Our membership of the Emerging Payments Association helps us to engage directly with cutting-edge payment innovators and learn from the wide array of innovators from across the entire UK payments industry. Our economic end-to-end value tool helps us to evaluate our new market products to ensure best fit with consumers.

Trust and Security

The challenges of fraud, security, AML and KYC, while intrinsic to safe and secure payments, extend further than the scope of the payments industry and it is important that this is recognised. Bacs takes its responsibilities for trust, security and integrity in payments very seriously and will continue to fully support industry initiatives to mitigate current and emerging risks.

A new central payments platform

The strategy proposes technological change at the centre of the industry. While the introduction of APIs and regulatory change in PSD2 may help to deliver the end user needs identified we agree the payments industry should explore the potential new technology offers. Bacs will support the industry efforts to evaluate this potential.

Next steps

Bacs recognises its responsibility to the end-users and consumers of payment systems and, the undertakings in the recent CMA report into Retail Banking. We deliver these responsibly, underpinning our work with the Bank of England priorities and the PSR's policy statement. As a consequence we are already modifying our governance and access to Bacs accordingly.

The retail payment schemes are already working together via ISOCC and are embracing opportunities to collaborate and cooperate on customer solutions where it is in consumers' interest to do so. This activity provides a good starting-point. We believe that there is a clear requirement for Bacs, other PSOs and the wider stakeholder community, including end users and corporates etc., to collaborate with the Forum in the next stage of the strategy so genuine progressive and pragmatic progress to transform UK payments can be delivered.

Yours sincerely



Michael Chambers
Chief Executive Officer

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

1 Respondents basic details

Consultation title:	The Payments Strategy Forum – Being responsive to user needs Draft strategy for consultation
Name of respondent:	Michael Chambers
Contact details/job title:	CEO
Representing (self or organisation/s):	Bacs
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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'.

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

Response template

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.

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

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

The draft strategy focusses on the themes that the PSR Policy Statement (March 2015) identified for the Strategy Forum to examine and the findings from the Forum's first Community Event in September 2015. This approach has helped to focus the draft strategy primarily on interbank payments, and led to the strategy not considering any detriments or specific end user needs on users of UK card based payments.

The UK cards industry is an important and increasingly dominant sector in UK payments in 2015 UK card payment volumes accounted for 30% of all payments made in the UK and by 2020 cards are predicted to be 48% of all payment volumes. Cards are significantly playing a large part in fintech innovation and, as our discussions with stakeholders have verified, cards experience several challenges which impact on end user needs, for example; the challenge Continuous Payment Authorities give some users and the fraudulent use of contactless payments and their associated proxies, for example ApplePay. There are also the well-known difficulties relating to cloning and theft in the cards sector.

While the draft strategy focusses on identified detriments, it does not contrast these with the strength of the current payments systems in the UK nor recognise that, for the majority of current users, the UK interbank payments systems deliver effectively and have development strategies in place and being delivers that meet the needs of their end users.

We agree that some consumers who struggle with some of the payments products that are available. For example, our research confirms that a small minority of people say that they would like to have more control over payments made by Direct Debit. Some others cite a lack of flexibility in some payment methods as a disincentive to use them. However, for the vast majority of consumers Direct Debit is the payment channel of choice and is experiencing increased use. 2015 saw huge growth in the use of Direct

Debits. Our data confirms that the number of payments made by Direct Debit rose by 239 million, surpassing the last record of 161 million set in 2004 by some way, and achieving a year on year increase of 6.6% in total Direct Debit usage. This increase in direct debit use also outstrips the 2014-2015 volume increase in Faster Payments of 146 million. Our research data also suggests that 62% of the population that prefer to use DD for regular bills and only 7% of the population are reluctant to use DD.

There are examples where large corporate are using Direct Debit flexibly and benefitting their customers by doing so. For example, British Gas customers who choose to deal online with British Gas and pay by DD are given flexibility through their Direct Debit Dashboard 'putting them in control of their energy payments'. This allows customers to adjust amounts, take payment holidays, spread the new outstanding amount or pay more in some months than others – see

<https://www.britishgas.co.uk/youraccount/discover/you-are-in-control-with-direct-debit.html>

There is also evidence from the Rent and Income Excellence Network on flexibility and choice of payment dates. Their 2015 report discussed the impact of flexible Direct Debits in housing rent market and concluded that offering a full choice of payment dates to tenants ensured a low Direct Debit 'drop off' rate and alignment with 'any day' monthly Universal Credit payments. In the report, just over a third of respondents had moved to an 'any day' Direct Debit offer and 72% reported an increase in Direct Debit sign ups as a result, with increases between 7% and 20% and an average increase of 15%. The report states that: "Housing Associations need to demonstrate to their regulator (HCA – Homes & Communities Agency) that they have a plan in place regarding the welfare reforms and 'any day' Direct Debits will form a key part of this plan".

The Forum has highlighted changing working patterns as justification that some payment channels like Direct Debit are no longer meeting the needs of consumers. Recent ONS statistics confirm that the numbers of self-employed people has increased from 3.8 million in 2008 to 4.6 million in 2015, and part-time self-employment grew by 88% between 2001 and 2015. In 2015 2.4% of people are employed on 'zero hour' contracts, around three quarters of a million people. This is a small number of the nearly 32 million UK workers and increase of 0.4% since 2014.

Only 4% of all consumers are using DD less that they were 3 years ago, and only 13% of those new non-users of Direct Debit say that control as the reason. Our research describes these people as, amongst other indicators, predominately falling into two age brackets 16-24 and 55-64, from lower income families, social groups D and E and mainly living in rented accommodation. We are unsure how successful we could be in solving broader social challenges by changing a payment system that the majority of UK consumers use without problems will be.

Bacs has developed a comprehensive end-to-end value chain analysis that helps us to develop our strategies for enhancements to our payment products – for example Bacs Direct Credit, Direct Debit and CASS and its subsidiary products and we would be delighted to share this work with the Forum to help with evaluating end user needs.

Bacs is planning to formally consult on a package of enhancements to Direct Debit to ensure that it continues to be a successful and popular payment channel.

Question Do stakeholders agree with the financial capability principles?

2a:

Bacs agrees that there should be clearly set design principles for the development of payment systems. We believe that their application needs to be coordinated across the end to end payments chain and owned by the PSOs. The principles should recognise that the UK payment systems consist of a number of different and complementary payments channels that will provide choice for the end user. It is particularly important for the principles to recognise that collectively UK payments channels provide inclusivity for all end users needs – in particular the least capable in society (whether that is due to ability or means) to access and utilise payments channels that enable access to all services without prejudice or disadvantage.

Question How should these principles be implemented?

2b:

So that the principles promote fair and equal access to payments channels for all payments and all consumers, implementation should be preceded by an effective consultative and promotional programme which is inclusive to all users of payments, including businesses using payments channels. This should be a collective activity and vigorously supported by Regulators and government agencies to encourage corporate take up.

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

The principles should be voluntary and encompass successful inter relationship trust between the industry and their users. There is a role for Regulators to support and sponsor the principles.

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

We would expect the critical value of any change and development in payments systems to include public policy and social benefits and enable payments systems to provide platforms for economic development and growth for the UK and its businesses.

Bacs has developed a comprehensive end-to-end value chain analysis that helps us to develop our strategies for enhancements to our payment products – for example Bacs Direct Credit, Direct Debit and CASS and its subsidiary products. Our value chain analysis and economic modelling has enabled us to develop our proposals to enhance Direct Debit and we are planning to engage with the market on our plans to develop Direct Debit later this year.

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

The fundamental risk in the strategy implementation is its sequencing and for it to adversely impact the current activities that PSOs are progressing to deliver better services to end users. The consumer detriments can be met by developing new products and processes utilising the existing payments infrastructure and if the future model identifies these new innovations as overlay services they ought to be designed to fit with any new technical developments.

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?

Bacs view is that the strategy should reflect the end user needs solutions that evidence can be delivered and straightaway. For example, following our close working with the CMA, we are already at work enhancing CASS, and working with banks, consumers, businesses Regulators and the government to ensure switching is recognised as simple and stress free for consumers and business. We are also already implementing enhancements to Direct Debit and have planned an autumn consultation on more wide-reaching reforms. Our work with other PSOs to address commonality on corporate approach and standards mapping is a project that will continue.

Current Governance arrangements enable Bacs to take these enhancements to consumer products now, however, we have also announced, in line with recent CMA remedies, changes to CASS governance to improve consumer representation and engagement and response to consumer needs.

To compliment these changes, we have reviewed, enhanced and delivered an extensive engagement programme with consumers and their representatives to enable Bacs to ensure its commitment to consumer needs.

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

There are a number of good examples where the existing infrastructure and operational set-up can deliver really effective solutions to meet the identified consumer detriments.

For example, one of the cross-scheme initiatives we are examining with PayM is the potential for collaboration on early improvements to the method of validating payer bank accounts. We anticipate that allowing Bacs Service Users to utilise the PayM database via an API, we will improve the customer journey for signing up to Bacs products, such as Direct Debit, and can reduce the risk and impact of fraud and error for all parties.

For example; a customer can sign up to Direct Debit by use of a proxy (in this case a PayM linked phone number). This means that the customer need only recall their phone number when signing up to a Direct Debit. This will make signing up a lot easier, especially for those using touch screen devices. This approach to PayM data can also be used as a validation process to return data to confirm matches. The implementation of these changes does not represent large technical challenge for Bacs, (albeit that development will be required by other service providers). Simply by updating our Bacs DD scheme rules accordingly we can enable innovation at the front end using the existing payments rails.

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

As mentioned in our answer to question 1 the Forum strategy may be more inclusive if it identified and addressed detriments from across the whole payments environment including innovations related to the UK cards based payments.

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?

Bacs and other PSOs are already taking forward solutions that meet the consumer detriments identified by the Forum and its working groups. This activity should not stop as that would risk not delivering development in payment services that consumers want to use today. This could restrict the UK's chances to ensure it remains as a preferred place to conduct business nationally and internationally and unintentionally hand an innovation advantage to the UK's international competitors. There is doubtful merit in deciding to curtail 'transitional' solutions until a new payments architecture is delivered as the challenges in developing such a major infrastructure project to replace a system that is already recognised as systemically critical to the UK are significant.

Bacs is already delivering enhancements to Direct Debit and will publish a consultation of more far reaching proposals for Direct Debit products in the autumn.

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?

Yes. We believe that there are a number of viable technical solutions that could be delivered without compromising any long term solutions. For example, Bacs is progressing its aggregator solution for Access which will enable easier access and use of Bacs services by a wider number of PSOs. This will help develop competition and the range of services available to consumers and has the potential to enhance innovation.

3 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.

We agree with the Forum draft strategy that consumer awareness and education is critical. We believe that it is crucial that the payments industry needs recognise and own the responsibilities to lead on customer awareness and education. However, our view is that this awareness and education role needs to be integrated with the wider challenge of broader financial awareness.

There are several institutions that take some responsibility for engaging with consumers on financial matters, whether that is by providing information in the form of comparison websites, like Compare the Market, or consumer information via website presences, like, Money Saving Expert, or, in the case of Citizens Advice, high street access to advice and guidance. There are also regulatory institutions that represent and protect consumers; the CMA for example, the Financial Ombudsman Service and the financial regulators like FCA and PSR. The recent Government decision to review the Money Advice Service creates a gap, which is a concern.

Bacs engages with the majority of these institutions to help us to understand consumer needs and they have all been helpful in forming our decisions on product enhancements. In addition, we use our own Centre of Excellence and Affiliates network to seek and understand consumer needs. We believe that there is a need for a representative body to coordinate consumer research on behalf of the industry and this may be a role that the new combined industry body, encompassing Payments UK and BBA amongst others, to consider taking on, ably supported by the separate PSOs providing engagement channels and support. The recent introduction of the Financial Fraud Action (FFA) awareness campaign “take 5” is a good example of the impact of consumer awareness that could be achieved.

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?

There may be a role for the enhanced industry trade body (the amalgamation of BBA and Payments UK and others) to take on the consumer information and education role. However, this body is unlikely to be able to cover the education role for all users of payments; for example, Tech UK, the EPA, Vendorcom and others like CBI, FPB to take on roles to educate corporate and business users of payments.

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.

A common, unified approach to identification and verification is the logical solution and Bacs supports the principle of establishing this approach. We question whether guidelines are appropriate and, therefore, due to the complex legal, technical and application challenges suggests work is taken forward to review and consider whether a voluntary approach to standardisation for identification and verification would be effective and if other more formal approaches could be suitable .

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?

Bacs supports the principles behind a central data repository for data and analytical capability. There are clear specialisms and responsibilities linked with the creation and delivery of such an entity. While we support the principles, there are a number of issues to establish around the creation of such a repository. Central to this is the reason for creation and use of data. We support the proposal that a detailed assessment of this capability is undertaken to determine the most appropriate solution.

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

There are likely to be specific liability risks on the restriction to collect, analyse and use different sources and kinds of data and these would need to be properly understood as part for the work to develop this proposal. We agree that there will be specific legal questions on the collection, handling and use of data in relation to data privacy and data protection to understand and a related risk of liability should data be misused. We suggest that this is a specialist area which will require a clearly articulated objective and aim before specialist advice was sought to clarify the particular risks involved.

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

It may be challenging to deliver this solution if legislative change is required and it might be more effective to assess how a central data repository could be implemented under existing rules and regulations.

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

Financial Crime and collaboration between institutions is a critical and important issue which needs to be addressed appropriately. The challenge extends more widely than payments and is a question for PSP's although payment systems are intrinsically linked.

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

There are potential benefits for financial inclusion but care should be taken in ensuring that whatever data can be shared is only used for the reasons it was collected.

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

The consultation document identifies some risks to consumers, however there are likely to be corporate, liability, governance and legislative risks which would need to be mapped and assessed. There are also likely to be challenges in terms of timing and funding work.

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

A coordinated approach to financial crime intelligence is clearly a benefit to the UK and for consumer security. There should be a clear, principled approach to capture the benefits and outcomes so an assessment could be made.

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?

The legislative question is very complex and would need to be considered by specifically commissioned legal experts.

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

No comments

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

No comments

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

No comments

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

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

Yes. In April 2016, Bacs implemented an improved solution to provide access to sort codes to challenger banks. We now have the ability to issue a sort code directly to an organisation that meets the eligibility requirements, without them being a member of one of the schemes. In September we are launching a new website to publicise this facility and promote awareness of access to sort codes.

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

Yes. We agree with the approach to access outlined in the strategy.

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

Bacs already delivers aggregated access to services through a number of Bacs bureaux and we are already progressing a broader approach to enhance these services by developing a more sophisticated aggregator model.

We recognise that there are multiple solutions in place to connect to the different PSOs and any PSP seeking to become a direct or indirect participant in more than one service will need to develop multiple technical access solutions.

This is a feature that has evolved over time, and migration to a new single access solution adopting common standards to the payment services and products operated by the PSOs is a prime goal. In the meantime, the immediate business requirement to deliver Bacs and FPS access to prospective aggregators is actively being progressed with commonality around security (PKI – Public Key Infrastructure) and the existing APIs.

It's important to note that PSPs are just one of a number of service users and Bacs already provides a variety of access channels, including a number of lower cost options like the Payment Services Website, Bacstel-IP Service, and Bacs Accredited Bureaux Services. These access channels provide flexibility and are widely used by a variety of service users, including PSPs, and can provide support for the delivery of input to and receipt of output from a number of Bacs services.

For PSPs specifically, a key area for Bacs around technical access is the limited support for the delivery of direct output from the Bacs transaction processing service (that supports Direct Debit and Direct Credit products). Currently, any PSP that has a need to receive direct output from this service must develop or procure an appropriate technical access solution based on the Enhanced Transmission Service (ETS) or SwiftNet Transmission Service (STS).

They must also have physical connectivity to the Bacs infrastructure service provider (either directly for ETS or via a SwiftNet Closed User Group for STS), and a compliant public key infrastructure (PKI) solution to digitally sign and authenticate all transmissions. Each of these components carries a cost, but it is important to note that, once deployed, either of these channels can also be used to exchange messages with the Cash ISA Transfer Service, Account Switching Service, and Bulk Payment Redirection Service as well as the Bacs transaction processing service.

The Bacs PKI standard can also be used for the accessing the Faster Payments Website and for signing Direct Corporate Access and FIM submissions so at least some of these costs are spread across multiple services.

In February 2016 we issued a consultation on that sought to offer more choice to PSPs to enable them to participate and gain access to Bacs products. Our aim is to provide a fair, competitive environment in which PSPs can effectively offer services to their customers independently and if appropriate in co-operation with other PSOs like for example FPS .

Widening access to emerging PSPs is obviously central to this achieving this aim. We believe that the most powerful role Bacs can play is that of empowerment – helping end users to achieve their objectives, without dictating the way in which they do so. As a result of the consultation we have announced plans to progress changes to our access model, including changes to technical access, service access, security, standards and cross scheme activity.

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?

We agree that the development of a technical access solution is a cost consideration for any PSP that wants to become a participant in one or more of the Bacs services, but given that we have received an increased number of enquiries over the last 12 months this cost might not be the barrier to access that it is perceived to be. To support this statement, we would ask the PSF to note that we are currently working under NDA with 4 new potential direct Bacs participants, 9 potential Account Switching participants, and 6 potential Bulk Payment Redirection participants. 18 of these participants are intending to use one of the existing options to access the respective service and we are progressing a change to provide a further low cost output option for the one remaining participant.

Aggregators could potentially help bring the initial costs (and lead times) of technical access down for PSPs, but how these costs will be passed on to PSPs and end users is not clear at present (and may be something that lies outside PSO control). The cost model for aggregators needs to be better understood before we can be certain that they will provide PSPs, PSOs, and end users with a more cost effective technical access option.

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.

Yes. Bacs is already working in conjunction with the other schemes via the Interbank System Operators Coordination Committee (ISOCC) and Link to address these areas. We have established a project together to progress working together on the 10 areas identified. To support our work and ensure we achieve quality outcomes for users we have established a stakeholder panel to validate the requirements of the 10 areas and our proposed approach for addressing them. This panel also includes representatives from the PSF Simplifying Access WG to ensure continued alignment with the intended scope of this proposal. The 10 areas split into two groups of activities. Three of these areas can be addressed directly and we plan to deliver the outcomes during 2016. For the remaining seven more complex and longer term areas we are forming cross scheme expert groups to deliver during 2016 the scope of what can be achieved develop the approach and implementation plans.

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

We support the need to review the structure, role, funding model and governance of the Payment System Operators (PSOs) and for this to be considered in the context of the wider changes in the industry. Consequently, we support the conclusions of the PSO Governance Sub-Group report which stated that the PSR, Bank of England and PSOs should work together to agree the best way forward. We agree with the forum that the pragmatic next step is to examine the future governance models for retail PSOs and the conclusions of the PSO Governance Sub-Group report should be progressed. The final industry strategy should ensure that the funding and ownership of PSOs is considered as well as its governance. Failure to do so could import sub-optimal model features that could lead to a reduced focus on the end-users of payments. To avoid any uncertainty we agree that next steps should be started as quickly as possible and there should be a rigorous understanding of the benefits and risks. PSOs should work alongside the Bank of England, HM Treasury and PSR. Care should be taken however to limit any disruption to the PSOs current work programmes aimed at enhancing current payment products, better services and improved access for end users.

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

No comments

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.

We recognise the merits of a single message standard. Bacs strategy is to use ISO20022 in all 'green field' developments and this approach has been used to successfully deliver innovation in CASS and others. Bacs utilise a number of message standards across the various services we offer. This is a feature of the way our services have developed over time, in response to differing requirements, for different service users. Our core service, that supports Direct Debit and Direct Credit products is well established and uses the Bacs STD18 message format. Other service uses a mixture of XML and CSV formats.

Our commitment to both innovation and the adoption of the ISO20022 message standard is evidenced by the successful development and implementation of the Account Switching Service. This is comprised of the flagship Current Account Switch Service (CASS) and complimentary partial switch proposition, now has over 40 participants and implements the ISO20022 format for all messages that are exchanged with the service. This would not be possible without a clear document set, the provision of message validation tools, and a strong participant take-on process.

As well as using the ISO20022 standard for new developments we are also undertaking a mapping exercise as part of our strategy, which will deliver an ISO20022 / STD18 format map.

Currently, around 120,000 corporate users of Direct Debit use Standard 18. There may be an extremely complex transition should we try to move from Standard 18 to ISO20022 at this corporate user level and this would require clear evaluation before progression.

We suggest that the scoping and transition to common messaging, including the appropriate use of translation layers, perhaps utilising API approaches are taken forward by the PSOs.

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

Bacs has identified this issue through its consultation on PSP access in February 2016. This highlights the need for the participation models in to schemes to evolve to enable a wider range of PSPs to participate within the scheme model. Current membership models bundle together a range of services and result in potential liability resting with direct members. Such an outcome may inhibit the market.

Our approach is therefore to examine the participation models to develop a framework where liability sits with the party that introduces that liability. We believe that in this way service providers can more freely enter the market taking on a quantifiable amount of liability and therefore drive a more competitive market. We believe our approach might be a useful model for the industry to consider in developing an industry standard.

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

No comments

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

The PSOs will need to lead on the creation of these new participation models and regulators will need to provide oversight and confirmation that the proposed models do result in liability resting with the party that introduces that liability.

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

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?

There is a clear commercial imperative for the development of APIs and an attempt to coordinate the approach to develop the various types of API may well be important in a networked industry like payments where both ends of a payment transaction are required to follow the same rules and processes. There is therefore a challenge for anyone who is looking to coordinate any potentially commercial utility.

There may be a useful role for an independent body – to develop agreed principles and standards for API development. This body should be clearly independent from any accusations of undue influence from any organisation who may derive commercial advantage from influencing the development of any standards.

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?

There are likely to be benefits in coordinating approached to APIs however a full analysis is needed to be completed to identify the opportunities and disadvantages.

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

Implementation should be seen as being independent from any organisation who may achieve any commercial advantage from involvement.

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

Although the principle of a simplified delivery mechanism is desirable, there much more development id needed on any new mechanism. For example, would the mechanism be a commercial product or a utility. This is an important distinction as options include different procurement issues.

In addition, implementing a simplified delivery mechanism may require major changes for PSPs and corporate users which would expose further risks that would require evaluation.

The objectives for development should be to deliver consumer needs however its development should not stop or prevent any current initiative developments.

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?

A new consolidated entity would be the natural choice to lead the development of new rules, however any decisions on this should await the completion of the single delivery mechanism design phase.

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

With reference to our response to question 19a we are not in a position to provide a response.

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?

The question of distributed versus centralised processing and clearing is an important one. Our experience in Bacs has of course been very much of the centralised system. We fully understand the desire to consider more distributed systems for reasons of agility and flexibility. However, we would urge, based on our experience, that a move to a more distributed system for these critical functions needs to be the product of very careful and detailed analysis. The current centralised processing and settlement has proved highly resilient and reliable over the years. A move away from it would need to be based on a clear articulation of the net benefits and demonstration of a new architecture's resilience.

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

Proposals for a new payments infrastructure should be considered alongside the other priorities within the banking and finance sector, for example the open banking initiatives. In addition, the consideration on whether the infrastructure for payment types like Bacs need to be reviewed and the timing for those, so that the optimum prioritisation is agreed across the industry, government and regulators.

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?

The UK payments system needs to ensure that it is focussed on delivering a full range of safe and secure services to existing consumers. This includes ensuring that payment products are able to meet current needs and requirements. What change is required and is appropriate needs to be determined and effectively integrated into the overall strategic approach of the PSPs and all users of payments systems to ensure that developments for the longer term are positive and beneficial. This work needs to be supported with a research and analysis function that can develop initiatives that embrace the opportunities for change within payments and also connect with the commercial and consumer needs that help identify the products needed in the future. In parallel to long term strategy setting the payments institutions should support a process that can deliver short term goals as agreed across the industry, and as the technological landscape evolves. Payments systems are recognised as systemically important structures for the UK economy and it is their impeccable integrity credentials that form the keystone of trust and security. Payments systems must be secure and fully guarded against criminality in all its forms; fraud, cyber-attack, and other threats. Without these assurances the UK payments systems could cease to be world class, as the recent Lipis report confirmed, and the UK economy may be adversely affected.

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

No comments

6 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?

Next steps and sequencing should include an assessment of what work can be delivered once the final strategy is published. Sequencing should be considered by an implementation body with a focus on delivering to end user needs and in the context of other industry change for example structural reform.

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

Bacs view is that there are solutions that can be developed and delivered separately from the longer term proposed structural changes and as these will meet identified consumer needs they should be prioritised where possible. For example, the work to develop Direct Debit will bring consumer benefits in the short term and are not dependent on structural change. There are, however other solutions that may not be implementable until other broader changes are completed. These require reassessment following strategy ratification.

7 QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

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

Following strategy ratification, there is likely to be a need to consider how implementation will be delivered. A body, to coordinate this activity would be a valuable asset. This body would have a different role and objective to the present Forum, which would lead to a review of the Forum's role, purpose and membership. Bacs view is for a fully representative committee to lead on reviewing the implementation of the strategy. This body would not be responsible or liable for implementation but would coordinate the collaborative aspects and ensure that the strategy remained on track to deliver in its agreed timescale. It would also be responsible for regular audit and reviews of progress, including deciding what variations or changes to the strategy and subsequent implementation would be required.

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

The implementation of the new industry strategy should be appropriately overseen by the regulators whose responsibilities the Strategy impacts upon. This may mean that some aspects of the strategy may be overseen by the PSR whilst others could be within the remit of the Bank of England.

These separate regulatory responsibilities and leadership need to be clarified following strategy publication and agreement made between FCA, PSR, Bank of England and HM Treasury.

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

No comments

8 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?

Bacs is very happy to cooperate with the Forum and offer analysis on our product developments, as we believe that this would help to show what consumer solutions can be delivered within existing structures and what impacts longer term strategic proposals might have. Major changes supported by the industry would require to be subjected to appropriate business case approaches.

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

No comments

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

No comments