Response to Payments Strategy Consultation

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This document has 23 pages

Complexity simplified

1 END USER NEEDS

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

We agree with what has been captured.

We would strongly suggest refining the need for greater assurance to cover the initiation of a payment as well as the tracking of a payment.

2 STAKEHOLDERS

2.1 Do stakeholders agree with the financial capability principles?

Appendix 5 lists many intents of the PSF, and Icon generally agrees with the spirit of those intents. However, a principle is defined as a "fundamental truth or proposition that serves as the foundation for a chain of reasoning". There are far too many loosely worded and verbose "Principles" defined, to the point of being unwieldy as an overarching "spirit of the law" to which all PSF projects should abide in future.

We recommend that these Principles should therefore be condensed and made terser so as to be more easily recalled as an aide-memoire. This will make them more easily applied as the overarching guidance and criteria for the future solutions; or to be used as the ultimate basis for arbitration should a dispute arise.

Our suggestions for the simplified PSF Principles are as follows:

1. **Principle of User First:**
   - **a.** Developments must demonstrate an improvement for the benefit of customers and businesses to send, receive or manage the way in which they make payments on a daily basis.
   - **b.** Wherever possible, consumers and organisations that represent them must be involved in the consultation or development of new payment systems and services.
   - **c.** Where existing services or new innovations are being suppressed or restricted by existing incumbents, the PSF will take measures to ensure that these are supported to the point of trial, and consider consumer or business recommendations as to whether further action to support wider adoption is appropriate.
2. **Principle of Inclusion:**
   - **a.** Developments must recognise the diversity in consumers' and businesses' situations and experience.
   - **b.** Services are to designed to be inclusive of the least capable wherever possible.

c. Where possible, removal of barriers to market entry or service operation by the PSF should enable new payment service providers, to give end users the widest range of choice and value.

3. **Principle of Impact:**
    a. Any proposed change to existing or new payments services must have a clear justification based on an assessment of expected positive and negative impacts.

    b. Any proposed change to existing or new payments services must undergo sufficient trials and testing with representative end users to ensure that sufficient confirmation of intended impact and exposure of unintended consequences has been gathered prior to public launch.

    c. The balance of negative versus positive impacts for various interested parties to any new system or service must be clearly stated based on the evidence collected.

4. **Principle of Innovation:**
    a. Undertakings will not restrict existing payments actors or new payment service providers in the UK from innovation, or add to the burden of current procedures (such registration, licenses or other such legal barriers) for the delivery of new payments services to end users wherever possible.

5. **Principle of Protection:**
    a. Any interventions (business, legal or technological) in the continued operation of an existing payment product, service or company in the UK payments ecosystem should only be authorised for the protection of customers or businesses, where there is sufficient evidence of fraud or risk of financial loss to end users.

    b. Immediate action safeguards may be enforced across the UK payments system rapidly where systemic breach and/or financial loss is identified and can be remedied immediately, either with the application of an existing solution or by removing the factors which are causing delay or prevention from adoption for undue reasons.

    NOTE: Forced adoption or dealing with monopoly or market entrenchment should be mandated via CMA on recommendations from PSF, but are distinctly not a PSF principle. In any case, this can usually be covered by Principle 1: User First.

6. **Principle of Design:**
    a. For all proposals for development, the core user gap(s) or problem(s) must be identified and central to the resolutions considered to address the impact on the issue identified.

    b. Where possible, solutions to existing problems that require the minimum cost and technical complexity or technical requirement on the user (after comparison of Impact), should be considered as best solution at that time for the easiest delivery to users.

7. **Principle of Neutrality:**
    a. Open tender for improvements, existing solutions or innovations should be considered and an evidence or trial based analysis of the best option offering the best utility and

benefit to all actors in the UK payments ecosystem, with the minimum of disruption and costs.

   b. Where possible new solutions should be made available via multiple suppliers or providers of technology to offer end users and customers choice and value.

8. **Principle of Knowledge:**
   a. Consumer education about usage of payments services and products as well as their own protection rights must be continually supported and funded centrally to ensure that consumers are aware and can raise concerns or voice issues to which the PSF can address.

   b. Consumer research on their awareness must be conducted each year with the findings made public. Targets to improve the levels of awareness will be set each year, dependent on research factors.

   c. For any new payment product or service, the PSF will stipulate the absolute minimum legal terms and conditions or other legal information that payment providers must show to customers and businesses and under which conditions or situations these terms must be shown and read and/or agreed to by Users.

   d. All new knowledge accumulated during research, trials or in public consultations shall be made public to provide a baseline which existing and new payment service providers may use to innovate and offer solutions to problems they have identified.

2.2 How should these principles be implemented?

Whenever high-level requirements for any cross-industry payments programme are being considered, they must be assessed by a responsible organisation to ensure that they comply with the spirit of the principles.

2.3 How their implementation should be overseen and how should the industry be held to account?

Currently there are a variety of different inputs to the payment industry that have similar goals (e.g. PSD2 and CMA) but different timelines, standards and sources. We believe there should be one responsible organisation that acts as a single pipe for these requirements for the UK payments industry and ensures the requirements conform with the principles.

3 BENEFITS

3.1 What benefits would you expect to accrue from these facilities (not necessarily just financial)?

Greater transparency and choice for consumers and businesses in retail payments.

Greater control and easier redress for consumers and businesses in the case of poor services or where serious incidents, resulting in suspended, withheld or unauthorised payments have not properly been addressed.

Customers will be in more control of sending their own money, with whom they have arrangements, and for any data generated – with businesses the same, for receiving funds with minimal need for current business processes to contact the customer in the case of failed payments.

Greater facilitation of correspondence between customers and businesses, via banks for the arrangement of payments.

Transparent liability for customers and businesses, protecting both whilst ensuring that service agreements are upheld by not generating loopholes for poor financial behaviours, such as cancelling all direct debits and claiming back funds when the original billing was valid (leaving the business to chase) or billing a customer without cause and then having to refund (after a customer chases).

PSR/PSF enforced standards to improve interoperability between customers and businesses to improve the UK payments system and economy.

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

We agree with the risks presented. We would also note the risk that giving the customer complete control could lead to accidental or deliberate failure to make a payment even when there is sufficient balance. Compared to DD there is a risk of introducing a manual failure point into the process which may lead to merchants offering a discount for remaining on DD. Additionally, there is a risk that an RTP could be used as an opportunity to sell predatory loans.

In addition to upfront risk analysis and mitigation we believe the following steps can be used from the start of implementation:

(a) Strong identity verification, e.g. ensure that a company called "Brittish Gass" can't trick customers into paying the value of their gas bill to a fraudster.

(b) Collecting and acting on feedback from customers and businesses.

(c) Gathering statistical evidence of usage and problems

(d) Consumer impacts analysis that can be resolved by PSF-designed solutions.

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

This question does not make clear who would be making the investment – UK banks? If so, the business case would depend on the incremental fees generated over the lifetime of the investment exceeding the NPV of the investment. This calculation cannot be made without understanding the size of the required investment, and the sustainable level of fees that could be charged for the service.

In the absence of a business case it is difficult to justify the investment – for example, carrying additional data to help businesses with reconciliation would reduce costs for those businesses. There is no rationale for transferring costs from non-banks to banks.

3.3.1 Request to Pay

We believe that more thought should be given to the exact problem(s) that RtP is seeking to solve and thereby identify if there is a business case, or if other solutions could partially address the problem. We see that the most compelling business case comes from B2B payments – this community ought to be addressed first.

RtP is envisaged to cover P2P, B2C and B2B requests. In order to identify return on investment from the implementation costs, one or all of these user groups must pay to use the service. Users will only pay if there is a tangible advantage to using RtP over another method (e.g. direct debit for B2C requests).

P2P:

We considered a number of bulk P2P scenarios (e.g. collecting money for an event, for charity donations or splitting a bill) as well as individual payments. We felt it was unlikely that individuals would be prepared to pay a convenience premium for this service: there are other free-to-use payment channels available to individuals. Moreover, most P2P scenarios involve reimbursement (e.g. partial payment of a shared bill) where fees cannot be hidden as the total value of the prior transaction is fixed – either the payee is out of pocket or the payer pays for the convenience of being asked to pay.

B2C:

For B2C the business case must stack up against direct debits. Would consumers be prepared to pay more (or to accept a smaller discount versus using direct debit) in order to be allowed to partially pay / postpone payment. By choosing RtP over DD as a way to pay, customers are self-identifying as a credit risk.

We believe that some of the advantages that RtP offers to consumers could be delivered by mandating that DD originators make better use of the flexibility within the DD system to allow customers to move the date on which their payment is made.

We considered that whenever a customer is making use of the flexibility offered by RtP they will be seen as increasing the risk of non-payment. Where the customer is delaying due to permanent lack of funds then RtP has done nothing but delay the inevitable. Where this is due to temporary lack of funds (e.g. it's a week to pay day) then greater flexibility in DD scheduling could have solved the problem – without introducing another payment mechanism.

B2B:

B2B represents the most compelling business case – particularly if RtP can be combined with enhanced data which would allow businesses to indicate clearly which parts of which invoices the payment was due for and to allow negotiation after the issuance of an RtP. Businesses may be more willing to accept a fee to use RtP where it provides the flexibility that business payers are used to (e.g. 30 day payment terms etc.).

3.3.2 Assurance

We believe there is a business case. Initiation of payments through internet and telephone banking has changed, due to the rapid innovation and introduction of new payment systems. Customers find it difficult and complex to make use of e-channels. As such payments are often sent to the wrong account. In addition, with the introduction of Faster Payments, there is less opportunity for payments to be stopped and as such recovery of instant payments is more difficult. Although the voluntary code of best practice on misdirected payments offers reassurance and customer protection on recovery of funds, the number of PSPs subscribed to the code proves not to be enough, most probably due to the complex operational process. The Financial Ombudsman Service has seen an increase in customer complaints for cases where PSPs have not applied much effort to recover the funds and have not effectively communicated the outcome to their customers.

The process to reclaim funds is time consuming and businesses struggle to respond quickly to customer queries. The fact that businesses are constantly trying to reduce operating costs often results in bad customer experience. Cases take time to be investigated and communication between PSPs is not effective. As such, businesses are required to utilise additional resource to resolve queries and chase Beneficiary PSPs for a response. The process requires manual intervention which increases operational costs and ultimately profitability. The need to streamline processes will increase operational efficiency and improve customer experience.

Although FIs are keen to design online and system payment processing methods to reduce the risk of mistakes, smaller PSPs may struggle to do so. A long term technology plan and a regulatory mandated recovery framework will provide operational efficiency, improve resource utilisation, whilst offering better customer experience.

3.3.3 Reconciliation

We believe that carrying of additional remittance data would be beneficial to businesses, allowing them to reconcile payments more effectively against invoices. The problem is that it is the payer who must provide the remittance information, and there is no benefit to them for doing so. This could be alleviated if payees were willing to incentivise payers who provide accurate and complete remittance information. Further research would be required to determine whether payees would be willing to pay a fee to banks on top of the incentive to payers.

3.4 Are there any other alternative solutions to meet the identified needs?

We would recommend the approach by PSF to any solution with the taxonomy of the following:

1. Sending Payments
2. Requesting Payments
3. Mandates for Payments
4. Data in Payments

5. Reconciling Payments
6. Protection of Payments
7. Correction of Payment Errors

For Sending Payments, PSD2 with the EBA RTS consultation paper has largely covered.

We recommend the extension of Request to Pay to include the ability for a business to allow customers request a direct debit be setup on their websites, initiating an e-mandate for the business's bank to the customer bank.

Broad outline as follows:

1. Customer goes to business website;
2. Customer reads and agrees a contract of service and clicks on a button that enables them to setup a direct debit;
3. The Customer enters their bank sort-code and account number into the business website, confirming the type of instructions, estimated amounts, dates of payment and recurrence rules, as agreed or required by the business. Assurance is given at this stage by the business of the receiving payee account details, that the customer may check as a reference later.
4. The Business would automatically add their payment reference required (such as account number) so that they would more easily be able to automate reconciliation later and also removes the possible manual error and effort required by the customer.
5. The Business then sends the above details securely (along with e-mandate for the direct debit) to their own business bank, which then uses the customer's sort-code to route the e-mandate to the correct customer bank.
6. The customer bank will confirm to the business bank that the account is valid for that type of mandate and will send a confirmation of instruction acknowledgement, pending the customer's validation.
7. The business bank will then instruct their business client that the customer account is valid and that validation is pending.
8. The business will then inform the customer that the order/contract is confirmed, but pending activation until the customer validates the mandate.
9. The customer will then login to their bank as normal and will see the e-mandate to be agreed and validated. (Alternatively the business could redirect the customer directly to their bank to perform secure customer authentication and immediately approve the mandate).
10. Upon checking that their assurance information matches the mandate, the customer can then accept (or reject) the mandate.
11. The customer bank will inform the business bank of the acceptance and the business bank will inform the business.

12. Via e-mail or other communications, the business will confirm the contract, service or order with the customer is now complete and service/delivery will commence BAU.

In the case of disputes or issues with existing mandates, the customer may login into their bank and do the following:

1. Request a change of date (to be accepted or rejected by business)
2. Raise or lower limits set for the mandate
3. Suspend the mandate, with specified reasons, which would be relayed to the business immediately via their business bank:
    a. dispute of service
    b. dispute of amount
    c. fraud suspected
    d. other (with comments)
4. Cancel the mandate, with specified reasons, which would be relayed to the business immediately via their business bank:
    a. end of service
    b. fraud suspected
    c. other (with comments)
5. Renew an existing mandate if expired.

We believe that a system as above would significantly improve both consumers and business experience and the likelihood of successful payments setup, collection, reconciliation and enhanced data for disputes resolution for electronic payments.

3.5 Is there anything else that the Forum should address that has not been considered?

The implications of introducing a new payment type should not be underestimated. Customers can only absorb a limited rate of change and are still not comfortable with the introduction of contactless cards, the decline of cheques etc.

4 BUSINESS CASE FOR TRANSITIONAL SOLUTIONS

4.1 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?

There is a case to take an agile/incremental approach rather than a waterfall approach. It will be preferable to create a robust PSF sandbox for these proposals and test with the various payment end users that have been identified in the paper already, rather than attempt a "big bang" delivery. This would support the "principle of neutrality" mentioned above by encouraging multiple providers to propose different solutions, rather than enabling a monopoly supplier.

The PSF should encourage a culture of continually testing, developing and supporting launches of new payments, rather than a "build once, leave it for years" approach. Given an open innovation environment, much of the work can be done on partial pro-bono basis, or like the Department of Business, Innovation and Skills via open competitions to identify and solve problems for customers and businesses.

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

One possibility is to build an interbank mechanism that supports the various "request to pay" flows detailed earlier. When a request to pay results in a payment instruction, then the faster payment will contain a reference to the "request to pay" message to which it corresponds. Over time many other payment instruments can be migrated to the "request to pay" overlay on top of Faster Payments.

5 CUSTOMER AWARENESS

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

A huge endeavour is required to support national awareness to enable widespread adoption of new payments (much like the rollout for EMV Chip and PIN).

This should also have a core focus on customers and businesses understanding their rights and liabilities, and where they can get support in the case of issues, errors or disputes.

5.2 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?

Financial Fraud Action UK already covers most of the issues specified in section 6.6. More generally, we think the PSR should drive the customer awareness of changes to UK payments.

6 IDENTITY

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

Such guidelines are desirable in principle, however all such schemes are not equal. Lessons must be learned from the schemes that did well (e.g. BankID in Sweden) vs. less successful schemes such as gov.verify.

7 CENTRALISED DATA

7.1 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?

It will depend on which data is shared, who owns and controls the data (and data protection implications), who will access it, how it will be accessed, what it will be used for. It is easy to envisage "mission creep" beyond financial crime towards marketing – indeed, the suggested use to "determine trends" is potentially a step in that direction.

The business case for this central repository would need to be demonstrated (in line with the "Principle of Impact"). What incremental increase in financial crime detection would result from using this central repository compared with the current measures implemented by individual banks, and would it be cost justified?

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

In this case it is not possible to agree or disagree as there is no list of concrete risks. More granularity on the types of data that will be captured, who will manage, store and who can access and use later have to be defined. Data breach scenarios are not defined in this proposal and carry significant risk – notably in that having a central repository creates a single point of failure, where if breached, means that a larger than normal dataset can be stolen than would a breach of a data originator.

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

More information is needed on exactly what the shared service will be doing and therefore what legislative change is required before this question can be answered.

8 INTELLIGENCE SHARING

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

We agree with the principles outlined but would need to see a more concrete solution definition.

We also raise the following points for general consideration:

1. Further specification and qualification of the problem statement(s) is required from PSF, such as which specific scenarios and situations against which customers are being safeguarded, before assenting to investigatory powers or intelligence activity.

2. As previously demonstrated by legislation in UK such as RIPA 2000 or the draft Communications Data Bill, customers are now more aware of personal data and the perceived use of it by central authorities. PSF should be careful of negative public opinion in this space with their initiatives, and must clearly articulate what customer benefits will be delivered, and how abuses of intelligence sharing will be avoided and remedied.

3. The distinction between data and intelligence sharing is important; raw data is just captured by the bank, whereas Intelligence usually involves specific processing and a decision based on available data to determine a situation. Does the PSF mean data sharing by banks and FIs, or their specific Intelligence and decisions - these will have different implications.

4. If the PSF is recommending Intelligence sharing, we would also strongly caveat that there may often be occasions where intelligence is incorrect – e.g. customers being suspended for AML incorrectly or where similar name matching to sanctioned persons is incorrectly performed. In these circumstances, incorrect decisions made by one FI or bank may be cascaded across a network to all, potentially further excluding a customer incorrectly. We would recommend if the PSF is requesting intelligence sharing, then guidance be put forward as to the common standard by which Intelligence should be processed and handled by each FI, to ensure a level of consistency.

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

We do not believe that there should be a separate initiative for the gathering and dissemination of financial crime intelligence. The National Crime Agency (NCA) already has an established unit – the Economic Crime Command (ECC) which is tasked with the reduction in impact of economic crime including fraud and money laundering. Part of its remit is to work with partners including the SFO, CMA, FCA and banks to develop intelligence-led prevention activity to support the private sector. In particular the UK Financial Intelligence Unit (UKFIU) has a process to gather suspicious activity reports and is responsible for analysing and disseminating financial intelligence. Therefore, we would submit that the creation of another solution would be duplicative and may not have access to the resources that a national agency would have in tackling a multi-jurisdictional and global issue. It would seem sensible to engage and evaluate the existing infrastructure and processes already in place for financial crime intelligence with the UKFIU, to potentially create a more inclusive approach with PSP's, to the benefit of consumers. This would need to be under the auspices of the NCA.

If existing agencies undertook intelligence sharing as described, we believe financial inclusion would at best only be moderately improved. However, there are other benefits:

- Shared sanctions or suspended accounts notification and AML pattern detection help to identify and block future fraudulent transactions.
- For fraud prevention existing systems exist, but independently inside multiple FIs – pattern detection across the industry, such as when ID theft and a transfer has been committed, may help to protect customers in future from this activity collectively.
- This would also support possible cost reduction across many FIs in sharing intelligence and fraud detection systems.

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

We agree with the risks identified and are particularly concerned about the possibility of incorrect labelling and stigmatization of customers. Applying sanctions to individuals on the basis of "profiling", and in the absence of any proven criminal activity, smacks of "Minority Report" and will inevitably lead to adverse media coverage.

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

This question cannot be answered meaningfully without quantification of anticipated benefits and harms. This quantification should be evidence-based.

8.5 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?

This should not operate in way that requires changes to legislation, because that would effectively redefine what crime is. The PSF should be concerned with supporting existing legislation, not creating new legislation.

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

We don't have the necessary expertise in this area to comment, consulting with the bodies mentioned in 8.2 would be the best approach to answering this question.

9 CENTRAL KYC

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

We do not agree with this proposal as it stands. We see four significant problems with this proposal.

1. Data versus interpretation. To perform KYC a holistic review of the client relationship is needed, across all business lines, ensuring personal and business financial situation is fully explored and ultimate beneficial owner's profile has also been considered. While this will involve collection of legal documents, it will also involve interpretation. Sharing of the former should not be problematic, but sharing of the latter is fraught with risk – a customer may claim that they have suffered reputational damage as a result of shared interpretation and opinion.

2. Incentives for sharing. The proposal does not mention any incentive for banks to share the results of their KYC investigations. If the proposal is to do this for free "for the greater good", large banks could justifiably object that they are contributing disproportionately, and smaller banks are "free riders".

   Furthermore, the information collected by each Bank could sit in the competitive space. Banks will continue to compete with each other when acquiring wealthy customers and placing financial products and services. The due diligence information collected can help them identify business development opportunities and as such the bank that has identified this opportunity it is unlikely to be willing to share this information through a central utility.

3. Liveness of data. Even if a bank correctly collects all of the relevant information and submits it to the repository, it could be out of date by the time another bank comes to use it a year, a month or even a day later. The effort needed to validate that all information is still up to date would be comparable to the effort to collect the data in the first instance.

4. Liability. If Bank A submits data to the repository which Bank B uses that data in good faith to take an incorrect decision because the data is inaccurate, which bank would be liable? If Bank B, then there is a significant risk associated with relying on the repository. If Bank A, then there is a significant risk associated with submitting data to the repository. Either the supplier or the consumer of the data has a disincentive for using the repository.

10 SANCTIONS

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

We agree that improving the quality of data on the sanctions list is desirable to avoid false positives.

11 SORT CODES

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

Providing a utility sort code range is addressing the symptom but not the underlying problem. We would suggest moving to BIC/IBAN as part of the migration to ISO20022, this would also eliminate the use of roll numbers.

12 AGGREGATORS

12.1 Do you agree with the proposal regarding aggregator access models? If not, please provide evidence to support your response.

We agree with this proposal as an interim measure. Consideration should be given to whether an applicant is requesting a reserve & settlement account (send and receive) or just a settlement account (receive only). Provision of direct access to RTGS accounts to non-bank PSPs should be implemented as a priority.

A longer term solution is the introduction of central bank digital currency which any PSP can simply purchase, and use for settlement on the interbank clearing systems.

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

The paper already notes that "Aggregator operators will assess whether there is market demand". If so, the development will be driven by the market. The role of the PSF should be identifying and removing distortions to the market rather than promoting the development of services that the market does not find commercially attractive.

13 COMMON OPERATOR

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

If modernisation and complexity reduction is made via ISO 20022 and defaulting all payments to Faster Payments, then this becomes largely redundant.

It would be of more value to support the development of bank APIs to allow controlled access to customer accounts, than to focus on aggregator access to existing legacy architecture.

14 COMMON OPERATOR

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

Harmonization of terms is unobjectionable. Unfortunately, the other areas may be more marked by their irreconcilable differences than by their similarities. The eligibility criteria to participate in a high value RTGS system will inevitably be different from those to participate in a low value net settlement system. On-boarding processes will focus on different areas of operation, and common connectivity ignores the fact that RTGS works on a guaranteed delivery service model while FPS works directly on a low level network protocol. Attempting to harmonize such fundamentally different systems may require a Procrustean approach. Harmonization of PSO participation is likely to be superficial until the underlying systems are combined.

15 SINGLE ENTITY

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

There is not a lot of detail on what the single entity would be responsible for – assuming that it provides governance, simplification and reduction of costs to participants by eliminating duplicative overhead and infrastructure, it will be a worthwhile initiative.

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

N/A

16 MODERN MESSAGE STANDARD

16.1 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 agree, we would suggest taking an approach similar to SEPA, producing implementation guidelines (which despite the name, are mandatory) on how ISO20022 is used. This goes some way to addressing the complexity inherent in ISO20022's "one payment format to rule them all" approach.

17 INDIRECT ACCESS LIABILITY

17.1 Do you agree with the proposal to develop indirect access liability guidance? If not, please provide evidence to support your response.

Yes, the guidelines should aim to eliminate unnecessary duplication of work but provide sufficient guidance on liability.

17.2 What, in your view, would prevent this guidance being produced or having the desired impact?

Responsibility for complying with sanctions checking is a potential issue here, as both the direct and indirect PSPs can operate in different jurisdictions with different sanctions requirements. Care must be taken that the guidance caters for this scenario.

17.3 In your view, which entity or entities should lead on this?

The PRA should lead on this.

18 APIS

18.1 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?

We agree with the concept of using APIs as an approach to open up access based on the CMA approach of mandating the requirements, users and the date by which APIs are delivered but the development/implementation of the APIs should be left to individual banks.

18.2 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?

It depends on the level of coordination – if the coordination is at a technical level then we see the following benefits and disadvantages.

The perceived benefits of coordination are:

- Single standard – of benefit to all users of the API, a single standard allows the emergence of a support structure around it – "How to use Banking APIs" etc. and focuses improvement efforts in furthering a common standard. A single standard reduces integration effort needed to use the API.
- Other emergent advantages include a common user experience: apps using a common API will tend to behave in a similar way – for instance if payees are held at the account level then apps will tend to show the payees as being an account level concept.

The disadvantages include:

- Interpretation – Will all banks provide the same level of information in each field, will the meaning of the field be interpreted in the same way – to wit – even with complete agreement, can standardisation emerge in a reasonable time
- Delay of delivery – While a standard is being agreed many participants will wait on the outcome – further delaying innovation
- Lowest common denominator – If participants are expected to agree on the set of fields / services to expose they may be inclined to agree on the set of fields / services that can be provided most easily by all participants. Conversely a market-place for APIs allows competition of services above and beyond a minimum agreed legal-standard and allows innovators and innovative service providers to explore

18.3 How should the implementation approach be structured to optimise the outcomes?

For alignment and clarity, as there are many regulators and national bodies currently requesting delivery of mandated services from UK Banks, independent of each other, this is causing confusion and technical complexity, which in turn delays delivery.

Working in conjunction with CMA, EBA, FCA, PRA, BoE or any other body that is requesting payments services be developed from any UK bank, we would suggest that alignment and planning, under the PSF, should be conducted frequently and be consolidated for a single version of the truth for the UK Payments roadmap and to ensure a focused delivery timetable is stuck to by UK banks and FIs.

For ISO 20022, there are also currently other national reviews of the use of ISO 20022 and PAIN files, including SEPA Request to Pay and the USA Real-time Payments group –

alignment and consideration of these other initiatives and direction being given to banks should be conducted by PSF to set the UK ISO20022 standard and associated PAIN file formats.

Whilst the PSF is looking to define use of ISO 20022 for UK Payments/SPP we suggest mandating that businesses, PSPs and banks should include better transaction data, which must not be altered, obfuscated or redacted along the payments chain and which must be made available to the payee and payer as part of normal operations or APIs, rather than by specific requests to the bank or PSP. We believe that this enhanced transaction data within the UK ISO 20022 standard would also enable better financial crime and/or fraud analysis.

This new UK ISO 20022 format would then be used to define API messaging data - in our view then, the definition and publication of the UK ISO 20022 standard is the critical activity that must be completed first to enable later API development.

For delivery, looking at the speed of progress after the CMA mandate for APIs versus the delay of PSD2 RTS or the OBWG output highlights how a Regulator can give clear and actionable direction that can be implemented rapidly:

(a) clearly defining the end state,

(b) setting objective target delivery timeline,

(c) not being prescriptive on the technical standards but detailing the intended data and services needed.

This shorter and more focused direction for API services provide a model that the PSF could adopt.

We would also suggest on only having an annual goals/delivery plan, rather than horizon planning; similar such plans by regulatory bodies have by and large previously failed to get to market.

19 SIMPLIFIED DELIVERY MECHANISM

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

We agree with the proposal for a distributed mechanism, and recently submitted a proposal for a PoC of such a mechanism to BoE.

19.2 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?

We believe a new body should be created, but the BoE and HMT should be consulted and have representation at all times.

19.3 Could an existing scheme adapt to provide the Simplified Delivery Mechanism or should a new one be developed?

Logically it would make sense to develop Faster Payments into the Simplified Delivery Mechanism but technically we believe this would be unfeasible and so would suggest a new scheme should be developed.

19.4 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?

Both should be operated dependent on the operation required – again see BoE proposal for clearing, settlement and treasury split as example. Processing should be distributed but some non-competitive utility functions (such as look ups for redirection following the switching of accounts) would be best operated on a central basis.

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

The document does not make clear who the PSF envisage working on the design, but perhaps the reference to demands on resources and funding indicate an intention for the PSF to carry out the design work itself. We believe this would far exceed the remit of the PSF. A competitive tender to the free market is the obvious approach, and strong justification would be needed to take any other approach.

20 EXISTING ARRANGEMENT OF THE PAYMENTS SYSTEM

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

Yes.

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

Generally, we agree that the SDM and SPP, with associated overlay services will provide a better and more simple way for banks to correspond and for new 3rd parties to build services for customers in a more open market.

As part of the SDM/SPP model we would suggest a three-tiered model of Clearing, Settlement and Treasury operations:

i. **Clearing** operations may be performed via customers, business, TPPs and banks via APIs (or bank to bank, via APIs) with set correspondence/response formats. Note that these do not necessarily have to be associated with ISO message formats (e.g. asking for a full PAIN file format, with empty fields, when only five fields of information may be needed). All APIs should be built on with the lowest information required for an API message to occur, so that it can still be converted to an ISO20022 settlement instruction later.

ii. **Settlement** within a new SDM/SPP system would be performed by FIs and banks using ISO20022, interacting with a pre-funded real-time gross settlement network overseen by the Bank of England, such as with UK Faster Payments.

iii. **Treasury** operations inside banks or at Bank of England level may be supported by use of distributed ledger technologies, however existing database and internal operations within banks would be sufficient.

For the avoidance of complication and to make this system cost effective, we would propose that the PSF avoids any restrictions for contractual exclusions for the services above (as PSD2 has imposed), but instead support a maximum tariff pricing model (in line with PSD1) which would enable a recovery of costs to ensure customer protection and security in case of fraud or disputes and also ensure that liability can be communicated to all parties.

Icon Solutions has also proposed this three-tier architecture to the Bank of England Accelerator 2016, and we recommend an alignment between PSF and BOE to guide and review the proof of concept, if the proposal is accepted.

21 SEQUENCE

21.1 Do you agree with this proposed sequence of solutions and approach outlined to further clarify this?

We agree with the proposed sequence. We suggest that “Technical standards for Identity Verification” be brought forward as much as possible – much of the innovation in open access to banking services and to delegated access will rely on (to borrow the term from the EBA) “Secure Customer Authentication”.

In the absence of standards, the ways in which this is implemented will be multiple, confusing and cumbersome. FinTech entrants, customers and competition in general would be best served by putting in place a framework for ID&V. We suggest that BankID (Sweden) is a good model to look at.

Outside of the broad timelines (un-named figure between 9.8 and 9.9 in appendix 9) we agree with the sequence that follows (un-named figure after 9.10 in appendix 9)

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

See response to 21.1.

22 DELIVERY APPROACH

22.1 What approach should be taken to deliver the implementation of the Forum's Strategy?

A very careful approach needs to be taken, as it is likely that at the time of contract re-negotiation, the level of implementation a new entrant would be required to do in order to be in a position to realistically take over from the incumbent would act as a major barrier to entry.

It is not an easy problem to solve when building one payments system to rule them all; care must be taken to avoid creating a new monopoly. This is a strong reason for taking a distributed approach.

22.2 Who should oversee the implementation of the Forum's Strategy?

The PSR.

22.3 What economic model(s) would ensure delivery of the Strategy recommendations?

Sanctions including fines and exclusion for non-compliance.

23 COSTS AND BENEFITS

23.1 Do you agree with the proposed approach for quantifying the potential costs and benefits of the proposed solutions?

Broadly no.

As presented the costs and benefits are not measured in the same way and do not impact the same groups. An unquantified financial cost to implement is set against unquantified perceived benefits. Therefore the analysis does not allow a comparison of costs and benefits of an individual option, nor can it be used to compare different options.

The cost to deliver any solution will eventually be borne by customers. An attempt must be made to quantify the benefit to customers (business and retail) of the new solutions for which they will be paying (in increased charges, hidden or otherwise).

In understanding the cost we must consider not only the implementation cost/delivery, but also what opportunities exist to pass on this cost so that it is borne transparently by business or retail users of the service. If there is no business case to pass on these costs directly (e.g. pay for access, pay per use etc.) then it must be acknowledged that the cost will borne indirectly and non-transparently by customers.

If no quantified case can be created based on benefits to end users then the case must rely on a "public good" argument, and an attempt to quantify the value "to society" (to all customers / providers) of the solution.

In the absence of any concrete benefits case, implementing a proposal will simply raise the cost of providing banking services.

23.2 Do you agree with the costs and benefits drivers outlined in this document?

We agree the broad set of drivers outlined but would prefer to see this accompanied by an objective application of these drivers to provide quantified, comparative analysis.