

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

Respondents basic details

Consultation title:	Being responsive to user needs
Name of respondent:	
Contact details/job title:	
Representing (self or organisation/s):	Sainsbury's Bank
Email:	
Address:	

Publication of Responses

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

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want parts of it to be published or referred to in this way you need to separate out those parts and mark them clearly 'Not for publication'.

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Declaration

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with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.

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If you do not want parts of or all of your response to be published you need to state clearly ('Not for Publication') over specific information included in your response, please be sure to clearly mark this by yellow highlighting it.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

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?

While we agree the needs captured (Greater control, Greater assurance and Enhanced data) are all relevant and the introduction of initiatives such as Confirmation of Payee are welcomed, we would also have expected to see the following additional needs included: -

- 1) Ease of use
- 2) Confidence in security

In addition, the focus of the strategy in relation to end users is mainly towards consumers. We would like to see this extended to consider other possible end users such as small businesses, charities, government etc. to draw out potential benefits for that wider range of end users.

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

Agree with the Payments UK response with access to payment systems and ease of use being the priorities.

Question 2b: How should these principles be implemented?

Agree with the Payments UK response that an industry wide collaborative approach is required with consideration also being given to extending the application of the principles to a wider range of industry activities.

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

We would expect this activity to be defined by the appropriate regulatory body such as the FCA or the PRA.

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

Potential benefits include increased consumer/end user confidence in payments resulting in increased use of electronic payments. Assuming the solutions implemented are done so with ease of access and use in mind, you could potentially expect to also see an increase in consumer sales impacting the wider economy.

We are uncertain at this stage on the potential benefits of certain solutions such as 'Request to Pay' that potentially feels more like a "overlay" service, competing with direct debit, rather than a fundamental payment service.

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

Agree with the risks identified and would add the following: -

1) Consideration required for 'Request to Pay' processes where customers are unable to respond (e.g. out of the country).

2) We have concerns around a number of the solutions in relation to the levels of enhanced data required to support those solutions, how and where this data would be secured, the impact on current infrastructure and potentially the need for additional investment as a result.

Identifying and starting with the solutions that benefit the widest set of payments participants would assist with addressing these concerns.

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?

Solutions that identify beneficiary up front would certainly provide benefits (e.g. fraud reduction, removal of crude fraud controls such as referral queues, reduced operational costs) that would support a business case.

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

Verifying beneficiary accounts (pay per click) would enable banks to verify beneficiaries but would be dependent upon accounts being consented up front.

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

With the potential costs involved in implementing these solutions will there be an option for any of the change to be discretionary rather than mandatory.

As previously mentioned, the recommendations are mostly focussed on consumer end users. While this may be the main driver for change we should look to implement in a way that does not foreclose usage by other end users groups.

Data privacy and Data protection need to be key considerations throughout all of the proposed changes.

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?

We believe that there may be, however, the implementation of new payment architecture will not be an “all or nothing” change. Understanding in detail the new layered model approach would help with recognising where evolution of existing services will have less “regret” investment made.

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?

Agree with the Payments UK response around the early implementation of a number of the proposed solutions so long as the implementation is planned and managed appropriately.

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 fully agree the proposal for a more co-ordinated approach will provide a number of benefits including clear/consistent messages being delivered and more targeted scheduled campaigns avoiding overlap and potential information overload for the consumer.

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?

We believe that with the work they have already undertaken in this area, Payments UK are best placed to deliver these activities although for Fraud specific activities the FFA would be better placed to lead.

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.

While we appreciate that the introduction of common guidelines could deliver some benefits we also agree with the FFA view that this is not a solution that is widely supported at this time. Until such time as the solution is fully costed and impact assessed and the related impacts of PSD2 and EBA RTS PSPs are understood, it will be difficult to see this position changing.

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?

We have reviewed the Payments UK response and could be supportive of their view in principle however the current landscape is extremely fragmented with a number of different organisations and activities (such as GDPR) already competing in this space. Again, understanding the costs versus potential benefits will be a key driver in determining our position.

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

We also feel that the risks in centralising repositories (data protection, security, “all eggs in one basket” etc.) and the perceived threat of “misuse” by organisations outweigh the benefits and believe the benefits can still be achieved by a distributed (not decentralised) data analytics mechanism. We are already seeing technologies such as blockchain that provide the necessary security required but are not subject to catastrophic loss of a single repository or misuse by a central entity. The issue should be about access and combination of data for identification of fraud threats rather than centralising that data. Past history suggests that it is central control that often leads to misuse.

We also agree with the response of the FFA around the importance of data integrity as well as data privacy and the additional considerations to be reviewed such as risk of liability from passing on inaccurate information.

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

With existing legislative changes around data such as GDPR already in the pipeline we would suggest that any solutions comply with GDPR rather than introduce any new levels of legislation to an already complex and sensitive area.

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

We agree with the FFA response but also feel that careful consideration is given to the implementation of this solution in order to get the balance right, minimising 'false positives' etc.

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

We agree with the FFA response. In theory, more and richer intelligence should allow better analytics to minimise TYPE 1 Errors (i.e. false positives) that ultimately exclude or provide barriers for genuine customers.

Question 8c: 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 FFA response. Controls around the use of the intelligence derived would have to be put in place to minimise likelihood of data privacy breaches. Continual validation of the algorithms used to identify suspicious activity would also need to be put in place as financial crime activity will change in future.

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

We agree with the FFA response. It is difficult to give a definitive answer at this time.

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?

We agree with the FFA response.

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

We agree with the FFA response.

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

We agree in principle provided the money laundering regulations and guidance notes supported it, i.e. it was accepted good practice by the regulator.

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There is also a view that this does not need to be a central repository. Central co-ordination will give the benefits envisaged, but we can keep information distributed but accessible by common standards/messages.

While KYC (and other legislative/regulatory) services would ideally be “centrally provided”, there is no differentiator in these for any individual FS provider and yet each FS provider spends large amounts of money ensuring compliance. This model would make it more straightforward for regulators to regulate the “central service” rather than each individual provider, saving money across the industry that would be better used for consumer benefit.

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

We fully agree as any solution that aids compliance while at the same time limits generation of false positives is to be welcomed.

We would also suggest that the checking of applicants on sanctions lists is a regulated and non-competitive task for financial service customers and could be more coherently and cost effectively delivered as a service by a central entity overseen by the FCA.

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.

We agree with the proposal on the understanding that the sort codes allocated from the new 'utility' bank will administered in the same way as those allocated through the 'traditional' method (subject to annual BRD reviews etc.) to ensure consistency across the field.

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

We agree with the proposal but would be keen to understand whether or not part of the BoE's proposed changes, designed to increase competition and innovation, will be to review the costs associated with holding an RTGS account rather than just the entry criteria.

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

We agree in principle with both the proposal and with the Payments UK response. We would like to see any fraud experience from the Faster Payment Service use of these models feed into any future developments in the PSF space.

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?

It is probably too early to say but the successful implementation and use of the FPS aggregator model could go some way towards encouraging others to step into the market space.

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.

We agree with the proposal which we would expect to be both beneficial and cost effective as well as lowering the barrier for entry for PSPs which should ultimately drive more cost effective payment solutions for consumers.

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

Agree with the Payments UK response.

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

N/A

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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 agree that moving to a common standard for payment messaging will foster interoperability and simplicity in the payments industry. Use of an international standard ISO20022 offers the benefit of wider interoperability.

Consideration will have to be given to how transition to new standards will work alongside existing service message standards.

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

In our experience we wouldn't say there is a lack of clarity around indirect access liability (certainly not for the specific example provided around applying AML requirements to end customers). However, any additional guidance in this area to help those who are not clear can only be encouraged.

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

With the four major sponsor banks having already signed up to the Indirect Access Provider Code of Conduct I would hope they would be willing to do the same here so can't see any reason for the guidance not to be produced.

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

Agree with the Payments UK response, the PSR should lead this activity.

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?

We very much see the need for a co-ordinated approach to developing the various types of API. Furthermore the APIs must be open and easily accessible to maximise the opportunities and innovation benefits. This is the area where there would be most risk of fragmentation, with particular payment providers seeking to get a commercial advantage by the use of non-standard APIs that will lead to complexity and additional cost for consumers.

The establishment of standard payment APIs (and other open banking APIs) enables other industries e.g. retailers the ability to have payment facilities as part of the overall customer journey or buying experience – consumers don't want to make a payment, they want to buy something, pay money to another person or pay a bill.

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?

We believe the benefits would be simplicity for customers; removal of barriers to non-incumbents to payment services, simplicity for future change. The development of the standards needs to be mindful of what services and data delivered should be common to all providers without limiting innovation in how those APIs are built on and combined.

Disadvantages would be felt by current PSOs but they should be counterbalanced by an increase in overall payment services.

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

Agree with the Payments UK response.

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

We agree that a Simplified Delivery Mechanism will lead, ultimately, to reduced cost to run, but also reduced cost to change. Keeping this as a lowest common denominator enables innovation and differentiation to be implemented at the "overlay" level.

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?

Agree with the Payments UK response.

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

Agree with the Payments UK response.

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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?

Because this is at a fundamental infrastructure level, which is a commoditised resource, and it is lowest common denominator, we would expect a centralised infrastructure would be appropriate. We would expect, as with existing services, that suitable resilience would be in place. This is in contrast to others services, e.g. KYC, which are based on data and not commoditised.

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

Agree with the Payments UK response.

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?

We agree that the separation of a commoditised, basic, payment service, accessible and widely coupled with differentiated and innovative “overlay” services, will promote consumer choice (through PSP created interfaces) that improves the ease of use, cost and value add that consumers would want from a modern payment infrastructure.

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

We need to be careful to limit the SPP to basic functionality and allow for differentiation and competition at “Overlay” level. Alternatives to the layered approach may be quicker implemented but more difficult to change in future.

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?

The proposed sequence seems logical. FFA UK already manage a forum looking at data & intelligence sharing and so this would be a good place to start when considering the FC intelligence sharing element.

We agree with the Payments UK comments around the dangers of fragmentation with these needing to be carefully considered.

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

N/A

QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

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

Agree with the Payments UK response.

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

The PSR.

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

Agree with the Payments UK response.

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?

Agree with the proposed approach to quantify the potential costs associated with each solution. Understanding these costs versus the potential benefits has been continually highlighted as a key component required to assist us shape our view on the various proposals.

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

Agree with the drivers as identified through the forum working groups.

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

None are available at this time.

GENERAL COMMENTARY

Overview

Simplification of payment solutions and allowing consumers more choice in how they go about making payments would be both beneficial to consumers and, by their nature beneficial to the digital economy in general. We would hope that it would also be beneficial to the payment industry as a whole as it should increase the number of payments transacted by digital means – with the corresponding reduction in operating costs throughout the payment industry as a whole. Furthermore, a simplified, well implemented, model will make the cost of future change less and the opportunity for innovation greater.

While being supportive of the strategy we think that further cost benefit analysis of each component will need to be made – in particular the adoption of all elements of this strategy, while satisfying the needs of consumers and newer PSPs in particular, could leave current incumbent PSPs and PSOs and providers of other services (such as KYC information) disadvantaged. We may need to better articulate the benefit to the payments industry as a whole.

It is also imperative that the implantation proposals remain coherent with other initiatives (e.g. PSD2, CMA recommendations, BoE RTGS Strategy review) both in their scope and timing. Not only is there a risk of fragmentation with these various initiatives running at the same time but the cost and resource implications for organisations also need to be fully understood and managed appropriately.

Simplified Payment Platform

We agree that the separation of solutions into a layered model allows common services to be delivered at low cost with defined and easier accessibility, while allowing differentiation and innovation at the higher (“overlay”) levels that promote competition and consumer choice.

The Simplified Payments Platform (SPP) would provide this and it is important that in future detailed work, we are able to establish exactly which services are common and not subject to differentiation (basic payment facility or simplified delivery mechanism) from those where differentiation is welcome (enhanced data availability) e.g. is certainty of settlement a basic need or differentiated service?

We also believe that the use of common messaging standards (ISO20022) will similarly promote simpler interoperability between existing and new payment providers (globally) while allowing individual organisations choice in how they implement their core payment systems.

The use of APIs in the SPP will allow further innovation and interoperability, but the benefits will only be realised fully if they are defined as a common set (which the Open Banking Initiative is promoting). It will be beneficial if this is centrally co-ordinated and the most urgent and common use cases for these are prioritised ahead of differentiating APIs (you would expect the differentiation and innovation to come from how the APIs are assembled and used, rather than within an API implementation itself)

Common Payment System Operator

We agree that a common set of models and rules will benefit both consumers and PSPs, with the need to interface and test with only one set of rules and system. This should simplify future change and lower the cost of access for new entrants to the payment marketplace.

However, with this come concerns around reliability and stability of a single platform that will need to be addressed by sufficient capacity and resilience in the design of that platform – issues that will already have been dealt with by existing PSOs

Centralised KYC Service

We agree that a centralised KYC service will provide quicker access to banking services for consumers and, as a regulatory requirement, provides no differential benefit for payment providers or Banks.

There may be consumer concerns regarding “central control and possible misuse” of personal data, but these could be allayed by an implementation approach that is not dependent on singular central control or indeed a central database – for example, we could make use of a distributed ledger technology. Considerations regarding data protection and data privacy in how the strategy is implemented need to be addressed.

A similar approach (centralised service) could be adopted for AML purposes as this is a regulated and non-competitive service

Implementation and Delivery

Given the number of imperatives in the payments area (PSD2, CMA Report, this Strategy) a co-ordinated approach to the delivery and implementation of change is needed, prioritising regulatory and consumer needs.

Each participant in the change will need a clear steer regarding their responsibilities in conducting the change for their organisations. The governing body overseeing the change will require legitimacy and resource and be backed by regulatory oversight. How these changes are co-ordinated with the implementation scope of the proposed Open Banking Implementation Entity need to be understood.

The capacity for change within the industry may need to be more fully considered given the amount of regulatory change underway; however there is never a better time to start to implement a simplified, strategy for providing consumer needs and innovation.

Overseas Customers

The proposals mainly look at accounts held by and payments processed for UK nationals. Holding data for overseas customers would need additional consideration. The advent of Safe Harbour in the US generated significant public debate and it's not clear if similar concerns of the UK government accessing data would be detrimental to UK businesses.