

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):	Mastercard
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want parts of it to be published or referred to in this way you need to separate out those parts and mark them clearly 'Not for publication'.

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with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.

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If you do not want parts of or all of your response to be published you need to state clearly ('Not for Publication') over specific information included in your response, please be sure to clearly mark this by yellow highlighting it.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

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SUMMARY POSITION

Mastercard welcomes the opportunity to respond and provide feedback to the PSF's Draft Strategy. We support the aims to unlock competition, drive innovation and enable easier access. We also appreciate the challenges in delivering the Draft Strategy and that more work needs to be completed to help define the solutions further and understand the cost benefits, to gain industry support.

We acknowledge the Draft Strategy is addressing problems or detriments related to the interbank payment system operators and that the international card payment networks are not included within the scope of recommendations. The Draft Strategy has evolved from a number of detriments that a wide and divergent payments community identified, at a point in time. Considering this, Mastercard is commenting on the Draft Strategy approach, recommendations and conclusions and the impact to the payments ecosystem.

Mastercard believes it is also important to comment on areas where card payments are already delivering consumer⁽¹⁾ solutions that address some of the problems identified and to evidence where Mastercard is at the forefront of leading innovation in UK payments.

Mastercard, as a global payments technology company, develops and provides the underlying technology which connects billions of people, millions of retailers and thousands of competing institutions. Our open, competitive payments infrastructure has driven and enabled demands for better products and solutions for all end users whilst also recognising the distinct requirements of financial institutions, retailers, governments, SMEs and corporates.

Our robust and rigorous evidence-driven product development process, from concept to R&D, from consumer research to test and learn, has resulted in the development of differentiating consumer propositions delivered in conjunction with numerous business partners such as financial institutions, PSPs, government, retailers and digital giants.

Our continuous research and analysis identifies the attributes that consumers require from their payment products. These are ease of acceptance, whether face to face or online, and the assurance that their payment details and transactions are safe and secure. Furthermore, that they are in control over when and how payments are made and that they are rewarded for their loyalty.

Building on a 50-year legacy of operating a reliable and secure ubiquitous acceptance network, and where technology is evolving and changing payment behaviour, Mastercard is ensuring that consumers continue to feel safe and secure wherever they use a Mastercard payment solution. Delivering card alerts, card controls, flexible point of sale payment options and enhanced data, we are enabling consumers to determine how, when and where they make payments..

Mastercard believes the Draft Strategy, which is focused on articulating and being responsive to user needs, does not cover all of the UK payments ecosystem and therefore does not sufficiently capture the needs of all users of payment systems. For example, there is little evidence that retailers, small businesses and corporates have been represented.

The Draft Strategy should be creating a framework where all players feel highly motivated to innovate and compete and collaboration occurs, when market conditions suggest this is the best way forward. Mastercard believes it is imperative that we build on the reputation and the attractiveness of the UK as a modern, progressive and competitive payments market.

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(1) The Draft Strategy defines end user as a 'person who is a payer or payee'. Mastercard's use of 'consumer' refers to a person who makes a payment. We also use the term 'customer' to refer more widely to financial institutions, retailers, PSPs, small businesses, corporates, government and other entities.

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?

Mastercard acknowledges that the collaborative process of producing a strategy based on industry detriments and providing qualitative and quantitative evidence is challenging. We agree that mapping the divergent needs of end users is the foundation of any successful strategy. Consumers, not the providers of services, are ultimately the barometer of what the market wants and can sustain. It is imperative that the definition of those needs can sustain robust justification and scrutiny, especially where the outcomes can fundamentally impact on an entire ecosystem.

Mastercard does not believe that the Draft Strategy has gone far enough in classifying and prioritising the needs of end users across their widest definition. We therefore propose it should ensure that they are truly and widely captured from across the many stakeholders who use payments every day – retailers, small businesses, large corporates and multiple consumer segments. Garnering deep insights across many stakeholder groups, from the financially excluded (unbanked), to the financially vulnerable (banked) and the more financially capable and mature, is required to enable the industry to design truly meaningful solutions.

We note the focus in the Draft Strategy of the needs of consumers from a more vulnerable demographic, but we would also advocate that access for those excluded is equally important. Mastercard is wholly committed to driving financial inclusion globally, with a specific programme operating in the UK. Greater access to financial services promotes competition, empowerment and economic growth.

Question Do stakeholders agree with the financial capability principles?

2a:

The Forum has proposed a set of draft principles for the collaborative development of payment services in the UK, which attempts to recognise the diversity in consumers' financial capability and how they manage their money subsequently.

The financial capability principles, outlined at Appendix 5, will undoubtedly help guide the design of new products and services with the vulnerable consumer in mind, but they are not appropriate or sufficiently broad enough to cover the needs of other segments. We would propose that the financial capability principles should be validated with the target consumers for whom they are intended.

Whilst it is useful to be guided by principles, we fundamentally believe that the development of payment services should be informed and driven by insights and evidence in order to remain differentiated and competitive. They must ultimately culminate in a compelling consumer proposition and a robust and commercial business case.

Question How should these principles be implemented?

2b:

The set of financial capability principles outlined should be regarded as guidance and not as rules, to be enforced on the industry. They should be voluntarily considered and applied within the context of a competitive market. Consumer bodies and key stakeholders can certainly collaborate to influence guidelines on social policy in respect of payments for this segment.

It is also suggested within the principles that financial education is an activity that should be 'designed out'. We are not in agreement and feel strongly that consumer awareness and education are fundamental and should be continuous for the vulnerable groups, for whom some of these proposals are intended.

Consumer associations, trade bodies, consumer rights groups, schools, government and media all have a collective responsibility to educate and raise awareness of financial products.

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

2c:

The Forum must establish the appropriate governance for implementing the Draft Strategy, across all the components. If specific outcomes are desired, then the rationale for each outcome must be clear, as must the measures and performance metrics to determine whether they have been successfully achieved and how they should be monitored thereafter.

Without further work to identify the cost/benefits of this proposal, we do not believe it is possible to determine whether the right principles have been identified and whether the proposals will indeed deliver the benefits as outlined.

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

Mastercard is of the view that further work is required to broaden the scope of user needs beyond the current focus, to determine that the right principles have been highlighted and to also undertake detailed cost/benefits assessments. Ultimately, it will be difficult to engage the industry if there is no strong commercial rationale and evidence of end user benefit.

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

In principle, we agree with the risks outlined.

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?

We concur with the Forum's acknowledgment throughout the Draft Strategy that further work is required in many areas relating to cost/benefits assessment, prioritisation and timeframes.

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

Card payments already provide end users, both payers and payees, with control, assurance, enhanced data and reconciliation capabilities. Delivering card alerts, card controls and flexible point of sale payment options, Mastercard is enabling consumers to determine how, when and where they make payments, safely and securely.

Our solutions also support vulnerable consumer groups, those on low incomes and people with disabilities and mental health issues. Mastercard is working with more than 100 local authorities to deliver welfare disbursements through prepaid transaction accounts.

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

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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?

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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?

We would refer to our response in Q3d.

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.

Mastercard agrees with the proposal. It is imperative that consumers have a good understanding of payment system capabilities and evolving technologies.

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?

Mastercard agrees that delivery of these activities should be through an industry trade body and we would propose FFA UK, in partnership with the NFIB (National Fraud Intelligence Bureau).

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.

Mastercard agrees in principle and believes that the PSD2/EBA Regulatory Technical Standards will influence any guidelines for ID&V, authentication and risk assessment.

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?

In principle, moving to a central data repository to combat financial crime is a positive step as Mastercard acknowledges the challenges in addressing fraud prevention and money laundering. However, challenges do exist in setting up and maintaining a central repository, such as updating scoring models, understanding who has responsibility for the data and also for safety and security.

There is also a balance between competition and collaboration to consider as there are commercial capabilities available today.

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 agree with the risks outlined but would also highlight further areas that need to be taken into consideration. These would be cost, privacy and confidentiality, data protection, physical security and access controls and fair and appropriate usage.

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

The Forum must undertake full due diligence on all impacts, incorporating legislative and cost/benefit implications, as part of the further work required on evaluating solutions.

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

In principle, Mastercard agrees with a solution for financial crime intelligence sharing. Secure access control and correct legal dissemination would be paramount to maintaining the integrity of any proposed financial crime intelligence sharing process.

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

A greater level of financial inclusion (for the unbanked and underbanked) and consumer confidence could be attained provided the data is accessed in a safe, secure and trustworthy manner and applied and disseminated accordingly.

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

Mastercard agrees, in principle, with the risks outlined and the steps that would be required to address them.

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

We believe that the savings benefits could be sizeable but further in depth evaluation of the associated risks and cost/benefits is required.

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?

Full legal and regulatory due diligence is required to appropriately evaluate any legislative challenges in relation to data sharing, privacy and data protection rules. The proposals would need to consider, for example, purpose limitation, profiling restrictions, data accuracy and correction. The following should also be considered:

- Any model would need to be developed with statistical rigour and reviewed for biases
- Implementation of strong security measures, including encryption, strict access controls, etc.
- Introduction of new law specifying what type of data may be disclosed and stored
- Requirement for robust governance, with the public body hosting the data repository to act as ‘data controller’ and subject to accountability obligations

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

Mastercard concurs with the Forum’s view that strict governance is required. We would suggest a council be formed, comprising law enforcement agents and representing key constituents, who would review and approve the intelligence data sharing approaches, whilst ensuring that additional risks are not introduced.

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

Mastercard agrees with the approach and the benefits of a centralised KYC utility.

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

All Mastercard entities within or outside the U.S. region must comply with U.S. sanction regulations. In turn, Mastercard policies require all customers in every country to comply with all applicable laws and not to engage in illegal behaviour or in behaviour that would cause Mastercard to violate any laws, including those relating to sanctions. Mastercard supports the adoption of a new Advanced Sanctions Data Model if it enhances the quality of the Sanctions List entries, improves the population of accurate data within the List and improves detection capabilities.

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.

Mastercard agrees that PSPs wishing to connect directly to an interbank scheme must have easier access to sort codes. We also agree with the management of sort codes by a centralised entity.

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

Mastercard agrees with the need for wider access to settlement accounts and that stringent procedures and qualifying criteria should be maintained to safeguard the integrity of the settlement system.

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

We support the establishment of aggregator access models which should deliver greater efficiencies, be more cost effective and enable easier access.

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?

With the appropriate level of certification, each PSP would only have one uniform interface and point of connectivity to the aggregators, offering competitive advantage and cost efficiency.

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.

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

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

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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.

In principle, Mastercard is supportive of a global common messaging standard.

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

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

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

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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?

Mastercard recognises that the implementation of an open API banking standard presents the greatest potential to transform competition in retail banking. It will empower and inform consumers and enable new business models and services. There are multiple initiatives to be delivered to varying timelines (PSD2, CMA Open Banking API standards) and we therefore agree with a cohesive and co-ordinated approach.

Mastercard has multiple years' experience of developing and managing an API platform, enabling our customers and partners to connect to our proprietary technology, products and services. We have recently relaunched our API platform with new tools and functionalities that make it easier for financial institutions, retailers and technology companies to use our payment, data and security APIs.

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 would refer to our response in Q18a.

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

We believe that the implementation will need to follow the approach taken for PSD2/EBA Regulatory Technical Standards (RTS), the CMA Open Banking API standards and the Open Banking Working Group.

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

Further work and analysis on the cost/benefits, security requirements, privacy and infrastructure needs to be completed.

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?

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

We would refer to our response in question 19a.

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?

This requires a deeper evaluation of both distributed and centralised architecture, considering the requirements, cost/benefits and providing a scalable, fast, safe and reliable system.

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

We believe further analysis is required, together with the cost/benefit justification, an understanding of the benefits to end users, the impact to the payments industry and the resource and funding investment required.

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 market is competitive and responsive, particularly in card payments. There has been a high level of innovation in card payments delivered through new technology capabilities. Mastercard is supportive of change that enables broader market innovation, within a competitive environment, to ensure the UK remains a global leader in payment services.

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

There is not sufficient evidence to conclude that the SPP can deliver the benefits outlined. We acknowledge that the Forum has presented this component of the Draft Strategy as conceptual and requiring, at minimum, 24 months of further analysis, consideration and cost evaluation to draw on further thinking and conclusions.

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?

We agree the Forum needs to undertake further analysis to inform the justification and prioritisation of proposed solutions and, therefore, the sequencing. The proposed solutions must be considered within the context of the substantial changes already occurring in the UK payments industry.

We also believe that there are existing solutions and services provided competitively, for card based payments, which can already deliver some of the proposals outlined.

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

We would refer to our response in Q21a.

QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

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

As previously stated, the solutions might be competitive or they may be collaborative, and stakeholders may be impacted differently, which would then require alternative implementation approaches.

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

The Forum was established to deliver the Draft Strategy and will undoubtedly be committed to a successful implementation. Therefore, it would seem logical that the Forum should also take responsibility for overseeing the implementation. We also believe that the Forum, operating in this capacity, should be truly representative of the UK payments industry.

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

The optimal economic model will need to balance end user needs and the competitive capabilities and commercial drivers of all key stakeholders.

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?

Mastercard is in agreement that a comprehensive cost and benefits analysis is required to support the Draft Strategy proposals and assumptions. Furthermore, the quantification, validation and prioritisation of proposals must also be clear on resource requirements and not interfere with the UK market retaining its leading global position in payments innovation.

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

We agree, in principle, with the cost and benefits drivers.

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

We are unable to provide proprietary information.