

Memo

Sender(s):

Recipient(s):

Payments Strategy Forum

CC:

Subject:

Consultation Paper - ResponseFeedback

1. Introduction

This is Sopra Steria UK Financial Services Sector's feedback on the Payment Strategy Forum's Consultation Paper, released July 2016, on a draft strategy to unlock competition and innovation in payments.

In our response, we have attempted to answer each of the Consultation Questions in turn, rather than provide a narrative feedback. At the end of the document, there is a short section on our conclusions.

2. Responses to Questions

2.1. Consultation Question 1

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

We agree that the needs of end users in a new architecture for payment systems will revolve around greater control of automated payments, assurance that a payment has been processed correctly and applied to the proper recipient and a set of enhanced data which adds to the information about and the status of a payment. End users need to know that they can make payments anytime, anywhere and under their explicit control. However, that should not permit payers to avoid their contractual obligations to payees.

2.2. Consultation Question 2

- *Do stakeholders agree with the financial capability principles?*

The principles identified are sound and should ideally inform the design of any future payment system.

- *How should these principles be implemented?*

Implementation of the financial capability principles should be covered by a code of conduct to which industry actors should voluntarily adhere.

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

The implementation of these principles and of the associated code of conduct should be overseen by the PSR or by a subsidiary body appointed by and under the auspices of the PSR.



Taking account of the above, however, we appreciate that it is difficult to hold the industry to account when the code of conduct to which they are asked to adhere is entirely voluntary.

2.3. Consultation Question 3

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

We have identified the following potential benefits:

- more informed consumers (payers)
- less time spent chasing up mis-applied items
- greater confidence in our payment systems amongst users
- a greater degree of control of (automated) payments

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

We have identified a number of additional risks:

- that it might be expensive to implement all of the proposed changes to meet payees and payers needs without many identified tangible revenue offsets (part, perhaps, from the cost savings associated with a reduction in mis-applied items)
- that not all consumers will be able to enjoy the benefits of Request to Pay because of their financial status (poor credit rating prevents them from being offered a Request to Pay service)
- that with Enhanced Data there is the possibility of payment (and possibly personal) information being intercepted and subsequently misused

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

We do not see a business case for PSPs to invest in these solutions either individually or collectively; please see the section on "Conclusions" for further details.

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

No specific comments.

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

The existing Direct Debit scheme seems to work perfectly well and most payers will have a good idea of when specific debits are scheduled to hit their accounts. From the payee's perspective, invoices, bills and statements are payable when they fall due either for services already provided or by contractual arrangement. Allowing payers to determine when (or even if) they will pay upon receiving a Request to Pay is fraught with danger for the payees and could lead to significant cash flow problems in certain instances.



2.4. Consultation Question 4

- *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?*

Any transitional solutions should be left to the market to introduce while the PSR and the Strategy Forum concentrate on delivering the new payments architecture: it seems wasteful to consider a secondary investment in a transitional solution which by its very nature is almost certainly doomed to be superseded by the new payments architecture which is the cornerstone of the PSR's Strategy Forum. We need longer-term, stable solutions for the entire industry and all its users from the PSR and the regulator should not be distracted from that task by considering transitional approaches, although that should not prevent the regulator from encouraging industry players to identify any such solutions by themselves.

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

No specific comments.

2.5. Consultation Question 5

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

Customer awareness and education is a most important plank of the PSR's strategy of reform of payment systems in the UK; well-planned campaigns should help to ensure that customers are both trusting of the payment systems and services which they use and confident in using them.

- *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?*

Given that all payments will eventually find their way from one bank account to another – either directly or indirectly - we believe that the yet to be launched trade body which will encompass banks, mortgage lenders, card providers and others (or a division within that entity) will be best placed to take on the delivery of the customer awareness and education programme. Members of that body will also have a relationship with almost every party who needs access to the awareness and education programme and will therefore find it easier to reach out to customers to distribute the appropriate messages.

2.6. Consultation 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?*



It is vitally important to ensure that there is a consistency across the industry in terms of the terminology (nomenclature) used and in the approach which is taken to enable end user identification and verification. This will not only help foster a more consistent customer experience when dealing with payment systems but will also help engender trust and confidence in the services offered.

2.7. Consultation Question 7

- *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?*

The introduction of a central data repository combined with an analytics component appears to be a way to support the identification of suspect accounts and to help ensure that funds are returned to identified victims. We are therefore happy to support this approach in principle.

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

Where sensitive data such as this is collected in one place, there is always the risk of compromise and the potential that the supporting database could be attacked. The resulting damage to the payments industry would be catastrophic, so whatever solution is put in place must adhere to the highest possible levels of security and access control, which could make the realisation of the solution more expensive than the benefits which may or may not accrue from its introduction.

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

We are not in a position to estimate the level of legislative change which might be required to support the introduction of a central data repository and its associated analytic capability; it is therefore not possible to determine whether any expected legislative change would be proportionate to the benefits which might accrue, particularly when these benefits have not yet been fully identified and quantified.

2.8. Consultation Question 8

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

In principle, we agree with the concept of financial crime intelligence sharing; however, we do appreciate that there are significant risks associated with such intelligence sharing, as outlined below.

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

The Consultation Paper suggests that better-informed risk models would reduce the likelihood of customer exclusions and help identify the more vulnerable customer base, but we are not readily



convinced by this argument. However, we do see that intelligence sharing for financial crime is a very necessary part of a new payments architecture: it should not only help to identify trends and concentrations of criminal activity but also pinpoint potentially vulnerable customers or customer groups. These groups of customers could then be offered either additional protection or advice and guidance on how to become less vulnerable. In itself, we believe that this is using intelligence sharing for the public good.

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

We agree that there are significant potential risks associated with the sharing of such data, particularly associated with its misuse or mis-application. Similar to our feedback on the central data repository, we are of the opinion that any financial crime intelligence sharing service must be subject to the highest levels of security and access control. Additionally, strict controls must be in place to ensure that any data which is shared is provided only for the purposes for which it is intended and is not distributed to third parties who have no connection to the business of combatting financial crime.

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

We strongly believe that the benefits of such intelligence sharing far outweigh the potential risks, providing that the necessary mitigating actions and controls are implemented as part of the introduction of such a service.

- *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?*

While we believe that legislative changes will be required in order to establish an intelligence sharing service, we are not in a position to comment on the legislative requirements. We anticipate that there will be significant industry and individual benefits which will accrue from the introduction of a financial crime intelligence sharing operation but it is not possible to determine whether the required legislative change would be proportionate to these benefits.

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

The players suggested in the Consultation Paper are acceptable nominees to oversee the establishment of a suitable governance structure, even if they do not later play a role in the implementation or operation of that governance structure.

2.9. Consultation Question 9

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



The availability of a centralised KYC utility would certainly enhance the customer experience when applying for financial services and would also save considerable time and money for PSPs; as such, we agree that the development of such a utility would be very beneficial to the financial services industry in general and not simply to the payments industry.

2.10. Consultation Question 10

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

The proposed solution to encourage HMT to adopt the Advanced Sanctions Data Model as well as the additional measures which are being suggested should result in not only a more robust sanctions scheme but also a more accurate database of targets and a reduction in the number of false positives. A unified code of conduct for the industry to follow would also be a significant step forward in ensuring a streamlined and consistent approach to target screening. We are happy to endorse this proposed solution.

2.11. Consultation Question 11

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

We do agree with the proposal regarding access to sort codes as this will help to improve access to PSPs which hitherto have had to rely on direct participants for access where these direct participants could also be competitors. The introduction of 'utility' sort codes managed by Bacs is a beneficial move to the industry as a whole insofar as it enables more competition.

2.12. Consultation Question 12

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

We assume that Question 12 is a typo and that the question should really relate to the proposals around Accessible Settlement Accounts.

On the basis of that assumption, we agree that a strategy which supports the BoE plan to extend access to RTGS to PSPs who are non-banks is well-intentioned, on the understanding that the supervisory regime for these players is also extended and strengthened. Such an initiative will help to increase competition for payment services by allowing access to those providers who are currently prevented from directly accessing the most important payment systems such as Bacs, CHAPS and FPS.



2.13. Consultation Question 13

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

As the Consultation Paper points out, an aggregator model has already been established for FPS, encouraged by the Regulator; as such, it would appear to be a useful interim solution to encourage access to payment systems by indirect participants. Should the aggregator model be extended to other payment systems such as Bacs, then this can only help to increase competition and innovation for payment services. We agree with this proposal.

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

Such an aggregator model will only succeed where the costs and complexities of standing up and operating an aggregator solution – at least as imposed by the PSOs and the Regulator – are kept to a minimum, otherwise there would appear to be no business case for the aggregators. By minimising costs of participation to aggregators, the costs to PSPs should also be reduced through the medium of competition.

2.14. Consultation 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 this approach to a certain extent: while common participation models and rules would help to simplify access and reduce cost of entry, it is also important to understand that some of the payment systems under consideration were originated by different actors or groups of actors in the market to satisfy different requirements. As such, they inherently have individual differences in their participation models so combining these into a common, unified participation model will present quite a challenge, both technologically and operationally.

2.15. Consultation Question 15

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

As we understand the proposal, combining Bacs, C&CCC and FPS into a single entity should reduce the barriers to entry for PSPs; PSPs are disadvantaged because it is time consuming, complex and costly to join these (and the other) payment systems. As we suggested in our response to the previous question, the effort involved in combining these three entities into one might not achieve much in the way of streamlining and simplicity because they are each solving different types of problems. Appendix A3 (page 71) suggests that three target entities are utilities which facilitate competition which – to a certain extent – is true, but this does not necessarily mean that combining them into one entity would lead to a simpler interface model: they are facilitating different types of



competition and they are responsible for completely different types of payment instrument. We fear that combining these systems under one governing body would only achieve a figurehead governance model with each entity retaining its own rules and regulations.

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

We believe that the solution is more technical than governance: perhaps the introduction of the new payment systems architecture – rather than a combined operational and governance entity – would help achieve the identified benefit of interoperability.

2.16. Consultation 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.*

Moving the UK payment systems to the ISO 20022 standard is a forward-looking proposal which would align UK payments with much of the rest of the world and would help reduce costs and increase interoperability between the many UK payment systems.

2.17. Consultation Question 17

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

While it is important to tighten the rules and guidelines on Indirect Access Models to ensure that both PSPs and Providers understand their rights and obligations (particularly for AML), it is probably more important to encourage all PSPs to operate via a direct access model, given the importance already placed on access to sort codes and accessible settlement accounts in the payment strategy. While it is of course important to encourage competition and innovation, it is equally important for all players to abide by the same set of rules: why encourage indirect access when the strategy is already aimed at supporting more direct access anyway?

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

See answer above.

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

See answer above.



2.18. Consultation Question 18

- *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?*

As the strategy is designed to cover the entire UK payments system, it makes perfect sense for the development of the different types of APIs identified to be coordinated.

- *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?*

A coordinated approach should ensure complete compatibility and interoperability between the varied payment systems covered by the strategy; one disadvantage we can foresee with a fully-coordinated approach to the development of the necessary APIs is the possibility that the coordination overhead could lead to delays in development or, more seriously, stifle innovation through a reduction in freedom to act or "think outside the box".

- *How should the implementation approach be structured to optimise the outcomes?*

No comment

2.19. Consultation Question 19

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

If the proposal leads to a solution which provides easier access to PSPs and also facilitates competition and innovation, then we agree with the proposal.

- *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?*

If the "new consolidated entity" referred to is the combined industry trade association recommended by the Financial Services Trade Associations Review published on 20 November 2015, then we agree that this body should be made responsible for the development of the Simplified Delivery Mechanism.

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

If the Simplified Delivery Mechanism were to be established using a centralised model, then it is possible that the Faster Payments Service could be adapted to support the mechanism; however, should the decision be taken to adopt a distributed Simplified Delivery Mechanism model, then perhaps the establishment of a new scheme, setup specifically to manage the Mechanism, would be more appropriate.



- *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?*

In our opinion, the introduction of a distributed architecture would provide greater benefits to operators and end users in terms of resilience, in the ability of PSPs to procure their own infrastructure and in greater competition for the provision of infrastructure, which should lead to the development of better, more efficient and cheaper payment services for end users.

It is possible to consider a transitional solution which begins with a centralised structure before moving to a distributed architecture; however, the adoption of such a model could result in a requirement for greater investment as not one but two sets of infrastructure would eventually have to be realised to support first a centralised model followed by a distributed model. Additionally, if the end goal is the introduction of a distributed model, then the adoption of a transitional approach will only lead to delays in the eventual realisation of the desired distributed architecture for the Simplified Delivery Mechanism.

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

We believe that it is acceptable to begin the work on the design of a new payments infrastructure irrespective of the current demands on resources and funding. There will always be competing demands for funding, while delays in starting to design a new payments infrastructure will inevitably lead to the UK falling further behind its competitors in terms of realising a world-class payments infrastructure. If resources and funding are scarce when the design phase is complete, then the design can be put to one side until suitable funding becomes available. Since the design is not tied to a specific technology, it should remain current even if the implementation of the infrastructure is delayed.

2.20. Consultation Question 20

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

We completely agree that the current arrangement of the payments system in the UK needs a complete overhaul both to remain competitive in its own right and to foster competition in the provision of services; only through the introduction of a more open and efficient architecture can UK PSPs begin to experiment with new and innovative products.

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

We believe that the Simplified Payments Platform will deliver the benefits outlined which will result from the separation of the Simplified Delivery Mechanism from the overlay services which individual PSPs may decide to offer. The Simplified Delivery Model will provide the robust payments backbone

which every PSP needs in order to offer payment services; the Mechanism will also bring a level playing field to the industry, allowing individual PSPs to compete by offering their own innovative services which can be consumed by end users regardless of whether both PSPs involved in a payment exchange have access to the same overlay service.

2.21. Consultation Question 21

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

We agree in general with the timetable for the introduction of the proposed solutions and to the extent that some of the proposals concern the underlying payments infrastructure. We also appreciate that the introduction of overlay services can only be realised once the Simplified Payments Platform and the Simplified Delivery Mechanism have been established.

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

We realise that many of the supposed benefits described in the Consultation Paper - such as those provided by overlay services - can only be realised once the SPP and the Simplified Delivery Mechanism have been delivered. This sequencing must be respected to avoid a double investment in payment services and the potential for additional overall change to the payments infrastructure.

However, when it comes to the introduction of overlay services themselves, we firmly believe that these will be initiated by PSPs and not necessarily under the control or direction of the Regulator or the industry body tasked with realising the new payments architecture. The provision of overlay services is the arena in which PSPs will compete with each other to offer innovation in payments: we do not believe that it is the Regulator's place to determine which overlay services (for example, the suggestion that the Forum proposes the development of Request to Pay as an overlay service) must be developed and offered to the market.

2.22. Consultation Question 22

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

The implementation of the new payments architecture should be undertaken in the same way as any other major piece of infrastructure development; that is, the design and schedule for realisation needs to be clearly set out together with the associated costs so that a proper funding model can be established to support the implementation. Since several of the proposals contained within the Consultation Paper would require legislative change, it is our view that the implementation of the strategy must be guided and managed by an arm of the UK government, rather than by the payments industry.

Taking this approach would allow the solution to be realised for the good of the UK population as a whole and not only for the vested interests of the more dominant players. We believe that it is unlikely that sufficient investment would be made available from the industry to realise such an ambitious strategy.



- *Who should oversee the implementation of the Forum's Strategy?*

We believe that the implementation of the strategy should be overseen by a committee appointed by and reporting to the PSR; this committee should be given the mandate to deliver on the final, agreed strategy for a new payments architecture.

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

For all of the Forum's strategy to be delivered, a significant investment will be required. This investment will need to cover the translation of the design into a technology solution encompassing infrastructure, interfaces and processing capability; this will involve the creation of a set of standards, the development of hardware and software solutions compliant to those standards, a security infrastructure to host the solutions and the resources to operate and maintain the hardware and software, where this is related to the Simplified Payments Platform and the Simplified Delivery Mechanism.

None of this will come cheaply and funding can either be provided directly by government (with contributions from HMT, BoE and other parties) or by PSOs and PSPs who will operate and consume the services provided by the Payments Platform and the Delivery Mechanism.

Where government investment is required or desired to realise the new payments infrastructure, a "user pays" model could be put in place to cover the costs of building and operating the new payments infrastructure. While this may not be easy to manage and administer, it is an equitable way of eventually sharing the costs associated with realising a world-class payments infrastructure. The disadvantage of this approach is that PSOs and PSPs may be inclined to pass on the costs incurred in providing the payment services to the end users, which is perhaps not the intention of the Forum. The advantage of this approach is that there is a greater likelihood of the solution being realised over time in the form in which it was originally designed, as market and competitive pressures may not play such a role in the implementation's lifecycle.

Where it is preferred that funding comes from the users of the new payments architecture – the PSOs and the PSPs – it will be a challenge to determine how much each participant will be asked to contribute to support the realisation of the Forum's strategy recommendations. PSOs and PSPs range in size and financial capability from multi-national to niche and it will be difficult to define a contribution structure to which all participants would agree. One way could be to define contributions based on average payment transaction volumes over a given period but this would be subject to fluctuation and would undoubtedly change over time as PSPs develop and offer new, innovative overlay services. A "user pays" approach where the PSOs and PSPs fund the development would be a better and fairer arrangement but would only work if there was sufficient up-front investment to realise the Forum's strategy in the first place.



2.23. Consultation Question 23

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

Yes

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

These appear to be well considered and identified.

- *We would appreciate any information on the potential costs and benefits you may have to assist our analysis.*

No comment.

3. Conclusions

We would like to congratulate the Forum on a robust consultation paper; the proposals are well thought out and the intentions in providing the proposed solutions are clearly based on the analysis of end user needs and on a response to the detriments which have been identified by the Forum participants.

We believe that the time is right to introduce a new payments architecture for the UK to ensure that we have best in class payment services which will allow the UK financial services industry to compete in the global marketplace. We understand the intention to separate the provision of a Simplified Payments Platform and a Simplified Delivery Mechanism from the overlay services which is where the PSPs will compete with each other to offer innovative payment solutions to their customers.

However, we are concerned at the magnitude of the potential costs associated with designing and implementing this new payments architecture and doubt that the industry players will have the appetite to invest in the Payments Platform and in the Delivery Mechanism to the extent that will be required. The smaller players will not have the capacity to invest much if at all, while the more dominant actors may balk at having to invest significant sums in realising the architecture only for it to be opened up to other PSPs who have not paid the admission fee.

We therefore believe that the most attractive approach is for the new payments architecture to be realised as an infrastructure project sponsored by the UK government and tendered to the market for implementation. The current payments industry is often discussed in terms of having "rails" along which individual payments travel and we envisage a model for the new payments architecture which follows the UK rail transport model of separation of infrastructure from that of service provision. The Payments Platform and the Delivery Mechanism are the "rails" along which payments will travel from A to B, while the overlay services as provided by the PSPs are the "trains" which contain and transmit additional information (Enhanced Data, Payment Assurance Data etc.).



Using this rail transport model as an example, the UK government would be responsible for developing the infrastructure (the "rail network"), tendered out to one or more constructors for implementation and managed on the government's behalf either by the Payment Systems Regulator or by the "new consolidated entity"; the PSPs (the "train operating companies") will develop the overlay services which run on this infrastructure and will pay for access to the infrastructure using an agreed pricing model which could be on a "user pays" basis (which could be volume dependent).

We believe that this separation of infrastructure from services is a proven model and one which would work well for the UK payments industry.

