



SEPTEMBER 2016

BEING RESPONSIVE TO USER NEEDS

VOCALINK'S RESPONSE TO THE
PAYMENT STRATEGY FORUM'S
CONSULTATION

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Overall position

Introduction

VocaLink welcomes this opportunity to respond to the PSF's consultation document. We want to contribute towards the success of the final PSF strategy, and would welcome the opportunity to work with the PSF to ensure that the final set of recommendations and proposed initiatives are appropriate for the industry, contain the appropriate balance between market and collaborative solutions, fit in with other changes in the market, and are responsive to all user needs.

VocaLink's response

Our detailed response to the PSF consultation follows in the Annex. As there are a number of common themes, linked to the future success of the PSF's strategy, we have summarised them here:

- 1) The end user requirements can be met faster than the Consultation paper suggests: the current approach places too many dependencies on the Simplified Payments Platform (SPP) concept and risks stifling shorter term market solutions.**

Generally, there are too many dependencies throughout the entire set of proposals on a potential new architectural model - the SPP - which has yet to be fully defined or assessed. Wherever possible, it would be better to take an evolutionary approach based on the existing structures in the industry, which would facilitate the delivery of benefits in the shorter term while still being mindful of the important need to upgrade the UK's central payments infrastructure over time.

We believe that the suggested implementation approach in the Consultation Paper would unnecessarily delay meeting the identified end user needs by making their realisation entirely dependent on the introduction of new infrastructure in the UK, ignoring the potential for shorter-term and potentially more cost effective solutions coming from the market.

There are already examples of solutions coming from the competitive market that have the capability to meet these end user requirements much sooner and it is essential that such innovative market developments are encouraged by the PSF and the PSR, not inadvertently stifled or delayed by too strong a focus on the SPP concept.

A good example of this is VocaLink's Zapp *Pay By Bank App* solution, which would be able to deliver the functionality required for Request to Pay in a much shorter timescale than that envisaged in the Consultation, and within the context of a complete ecosystem that includes comprehensive dispute management and fraud profiling processes. It would be entirely inappropriate for the activities of the PSF to crowd out such market solutions by focusing too heavily on specifying collaborative solutions.

- 2) We share the conclusion that the UK's central processing infrastructure needs to be enhanced over time - but we do not support the Simplified Payments Platform proposal as currently defined**

We fully support the Consultation Paper's underlying proposal of specifying and introducing enhanced central processing infrastructure into the UK market, operating to international standards

and containing a rich set of functionality that includes being able to support all of the end-user requirements articulated in the document. This is similar to the approach and functionality being adopted in other markets outside the UK and is an area where VocaLink has significant expertise and experience to offer.

However, we do not believe that the current Simplified Delivery Mechanism / Simplified Payments Platform design and sequencing approach is the best way of achieving that goal in terms of cost, complexity or the extent of collaborative activity envisaged. Rather, a more evolutionary approach focused on defining the requirements for the next generation of the UK's central infrastructure and encouraging solutions from the market to meet these would be more efficient and appropriate.

From a timing/sequencing perspective, it is important to recognise that the existing PSO contracts for infrastructure provision could be tendered during 2017 and 2018. This fact is not mentioned in the Consultation document but will need to be taken into consideration otherwise there is a high potential for conflicting processes and missed opportunities.

3) **The cost benefit analysis and prioritisation work need to demonstrate positive industry business cases if the PSF's strategy is to succeed**

We believe there needs to be a positive industry business case behind each of the individual projects within the final strategy if the industry is to be sufficiently motivated to deliver.

The PSF does not have power to mandate change on the industry; nor is the industry bound to accept the PSF's strategy. The strength of the PSF lies in bringing together industry participants to agree on measures that require co-operation, in order to advance the provision of services that better meet user needs. However, this does not mean that the industry would proceed with projects that do not have a positive business case, and as such would be unprofitable.

Therefore, in order for the strategy to succeed, it needs to identify projects with positive business cases. Specifically, this means that the individual changes proposed need to fulfil consumer, corporate and/or government demand. Thereafter, the individual projects need to result in cost savings or new user charges that cover the development, implementation and running costs, as well as a risk premium.

Calculation of positive business cases needs careful analysis. We note that there is a difference between the assessment of business cases and cost benefit analysis. Further, we note that the choice of analysis methodology needs careful consideration. For this reason, we call on the PSF not to:

- **Outweigh a negative financial business case with positive non-financial economic welfare calculations, to create a positive benefits case:** Without a positive financial business case, then the project will be loss making for the industry and the correct commercial incentives will not exist;
- **Inappropriately group individual projects together to generate a positive business case:** Each individual and separable project should be assessed separately, in order to calculate the business case. The grouping of positive and negative business cases for separable projects would merely create inefficiencies, and a perverse incentive on the industry to avoid the negative business case project; and

- **Inappropriately group roadmap stages within a single business case assessment:** Where the PSF sets out a progression of developmental stages for the industry, the business case assessment should consider each stage separately, rather than to group stages together. This is important if the benefits can be achieved in the early stages, while the majority of the costs are incurred in the later stages. In this scenario, there may be a negative business case for the later stages and therefore, such stages should not be undertaken.

This places an onus on the PSF and its consultants to correctly specify the cost benefit analysis to deliver the right results for the industry. Without a positive industry business case for individual projects, then the industry will not be sufficiently motivated to fulfil the projects and the PSF's strategy will fail.

In terms of context for the cost benefit work, it would also make sense for this activity to be informed by looking at experiences in other geographies, such as The Clearing House in the USA.

Further, when prioritising which initiatives should be taken forward, the PSF will need to recognise that the draft strategy cannot be viewed in isolation with wider market developments. By definition, it will not be an all-encompassing payment strategy for the UK given that certain major payment instruments, particularly cards, have not been considered (due to the PSF's focus on interbank scheme payments), and given that the scope is further limited to domestic payments in Sterling.

4) A strong focus on consumers is important, but more focus is needed on other end users' needs

The analysis in the consultation paper has a welcome focus on the interests of consumers, such as the 'design principles' in Appendix 5 and the 'potential risks to consumers' commentary against each solution area. However, additional weight also needs to be given to considering the needs and interests of other end-user types, particularly all types of corporates plus government - who are ultimately the originators and/or beneficiaries of the bulk of the UK's payments.

5) We are concerned about the potential for a restriction of competition arising from a collaborative approach to innovation

The PSF is discussing practical measures to meet the identified detriments. We are concerned that the collaborative nature of the exercise may result in collective outcomes that dampen the incentive for individual companies to innovate. Such collective outcomes could restrict innovation and competition, both between payments companies and also between banks and/or FIs, as they find innovative ways of differentiating themselves.

Therefore, we encourage the PSF to continue to identify strategic solutions in which individual innovation and competition can happen, rather than seeking collective outcomes, except in the specific instances where this is objectively necessary. We also ask the PSF to consider carefully impact of the PSF's strategy on competition and innovation.

An example, we fully support the conclusion in the Consultation that a data repository coupled with sophisticated data analytics could play a critical role in helping to reduce financial crime, but we regard it as critical that it should be left to the market to respond to this set of requirements with innovative solutions rather than commissioning a "public utility" service, not least to ensure that the right commercial incentives are present to continue to improve the industry's capability to counter ever-more sophisticated financial crime.

6) Scheme consolidation is important, but a review of scheme functions is also key to future industry success

The proposal to consolidate the Bacs, Cheque & Credit and Faster Payment schemes has an important role to play in realising a number of the proposals in the Consultation.

As a precursor to the consolidation process, it would also be essential to undertake an assessment of the roles that it would be most appropriate and beneficial for a combined PSO entity to undertake. We have assessed the current scheme functions and believe that the new PSO should undertake:

- **Standards setting:** Standards provide a platform for greater competition. The PSR has tasked the PSF with identifying the common international message standard which should be adopted for Bacs, FPS and LINK schemes. Once this has been established, we believe that there is an ongoing role for the new PSO in ensuring that standards are reviewed and updated, to ensure the interoperability within the industry, as well as between the UK and the rest of the European market.

While standards provide a platform for competition, excessive standardisation can extinguish innovation and variation between infrastructure providers. Therefore, we believe that the new PSO should also be tasked with determining the maximum level of standardisation in the industry, to allow innovation to develop between competing infrastructure providers;

- **Rule setting:** Similarly, the rules governing the interactions between the participants in a scheme and infrastructure providers need to be set and updated. Given the opportunity for direct contracting between banks or FIs and infrastructure providers, such rules need to be appropriate, to allow for competition between infrastructure providers. We believe that the new PSO should undertake this function;
- **Accreditation:** Ongoing resilience of the system is important for the industry. We see a role for the new PSO in maintaining a system of accreditation for participants in payments in the UK;
- **Systemic risk:** Given the opportunities for the development of the industry to include easier access to systems and simultaneously competing infrastructure providers, we believe that it is important for the new PSO to retain the schemes' focus on systemic risk. This would allow the Bank of England to continue to monitor the stability of systems, for the benefit of the whole industry; and
- **Coordination of PSF Strategy collaborative activity:** We would see that the new body would be a strong candidate to be given the task of overall coordination of the collaborative implementation activities for the agreed set of initiatives contained in the final version of the PSF's strategy.

As an example of an existing activity which we do not believe should be retained in the new entity, we believe the new PSO should not undertake the scheme companies' current contracting role, to allow for direct contracting between banks or FIs and infrastructure providers. We believe this would have the potential to help unlock a number of additional competition benefits, as evidenced by the SEPA area where direct contracting is already an established market feature. For example, removing the requirement for individual innovations developed for one bank to be provided to all

banks could enhance the incentive on individual banks to innovate and stimulate the development of non-core products.

The merger of the PSOs would need to be designed and implemented in a way that minimised the risk of losing examples of best practise, valuable management and payments expertise, and particularly, knowledge of systemic risk.

7) The governance model will be key to a successful delivery

We note that the PSF does not have power to mandate change on the industry; nor is the industry bound to accept the PSF's strategy. This further emphasises the need to ensure that each individual initiative proposed for implementation has a clear positive business case, ensuring a clear motivation for proceeding with the PSF's strategy and that only those initiatives which cannot be solved in the market are proposed as candidates to be taken forward on a collaborative basis.

As we noted in our response to the PSF's 2014 Consultation paper¹, the PSF cannot be regarded as being a representative body that properly reflects the complete UK payments systems industry – as illustrated by the lack of infrastructure provider representation in the PSF's membership. This emphasises the need for the PSF's strategy to be consulted over a reasonable timeframe, to allow all members of the industry to comment – and for those comments to be considered fully by the PSF.

Moving forward, we believe that industry governance over the implementation of the strategy needs careful consideration and we urge the PSF to clarify the proposed governance model as soon as possible, in order to ensure a successful implementation of the strategy. At this stage, there are no proposals for how to ensure that appropriate decisions are taken and that in collective areas of co-operation within the industry there is fair industry representation. The collaborative aspects of the subsequent implementation process will also need careful and disciplined management. As mentioned above, we would see that the new combined PSO would be a strong candidate to be given the task of overall coordination of the implementation of final set of collaborative implementation activities, once agreed.

We note that the PSF would need to act in accordance with its objectives if it chose to involve itself in the future of the PSF's strategy. We expect that the PSF would consult on its proposed actions before these are implemented.

Conclusion

VocaLink supports the efforts of the Payments Strategy Forum to identify proposals to further unlock competition and innovation in payments. Clearly, there are challenges ahead in refining and prioritising the specific initiatives contained in the strategy and ensuring that each represents positive business cases, with an appropriate governance model for implementation. We want to work towards the success of the final PSF strategy, and would welcome the opportunity to work with the PSF to ensure that the projects contained in the strategy are appropriate for the industry and are responsive to all user needs.

¹ PSF, 'PSF CP14/1: A new regulatory framework for payment systems in the UK', November 2014.

Annex: Response to Consultation questions

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

Respondent's basic details

Consultation title:	PSF Consultation: Being Responsive to User Needs
Name of respondent:	
Contact details/job title:	
Representing (self or organisation/s):	VocaLink

Publication of Responses

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

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

Please check/tick this box if you do not want all or parts of your response to be published:

Declaration

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

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

Response template

This response template is intended to help stakeholders in responding to the questions set out in our Draft strategy for consultation and in its Supporting Papers.

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

Responses should be emailed to us at Forum@psr.org.uk in Word and PDF formats by no later than **14 September 2016**. Any questions about our consultation can also be sent to Forum@psr.org.uk.

Thank you in advance for your feedback.

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?

We agree that the consultation document has helpfully captured and articulated a number of important end user needs.

However, it is important to recognise the document does not articulate a complete set of end user needs due to the following limitations to the scope of the PSF's work:

- 1) The scope of the discussions has largely been limited to the inter-bank payment schemes and also to the boundaries set by the initial list of detriments.
- 2) Much of the analysis has had a particular focus on the interests and needs of consumers, including the 'design principles' in Appendix 5 and the 'potential risks to consumers' commentary against each solution area.

As such, when moving into the next phase of the strategy work (business case analysis and prioritisation), it will be important to balance the needs of consumers against the additional needs of other end-user types, particularly corporates and government - and also to recognise that there may be additional solutions lying outside of the inter-bank payment schemes.

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

We support the consumer-focused principles set out in Appendix 5. However, it is important that these are not seen as the sole guiding principles for the future development of payment systems. For example, other important principles that should also be applied include that:

- 1) *Projects should fulfil consumer, corporate and/or government demand for services;* and
- 2) *Projects should represent a positive business case for the industry:* This means that the individual projects need to result in cost savings or new user charges that cover the development, implementation and running costs, as well as a risk premium. Positive business cases are needed to incentivise the industry to seek to fulfil the PSF's strategy.

Question 2b: How should these principles be implemented?

These principles – augmented by our suggested additional principles in our answer to Question 2a - would best be implemented on a voluntary basis by the industry.

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

We would recommend that this work should be aligned to the Multi Agency Campaigns Group, and be measured as part of that.

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

The most significant benefit we would expect to accrue would be increased confidence in using electronic payment systems. This confidence stems from the user knowing with much greater certainty that their payments will be sent to the right place and also from the greater degree of flexibility and control of when payments leave their account that Request to Pay provides, removing the risk of an unexpected debit amount. This increased confidence will also contribute to greater levels of financial inclusion as users move away from cash.

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

We broadly agree with the specific risks outlined, albeit the risk articulated in para 5.20 is unclear.

However, we would highlight a number of limitations in the current risk analysis within the consultation document:

- 1) The main body of the document focuses solely on the “potential risks to consumers” that could arise if the proposed solutions were progressed. Whilst it is very important to focus on this key end user constituency, this should not be to the exclusion of the interests of other stakeholders. Request to Pay is a good example where the risks to corporates as well as to consumers need to be considered;
- 2) Whilst the analysis in Appendix 3 takes a slightly broader view of potential risk areas, it is limited to a consideration of the risks that would apply in one possible implementation scenario – i.e. if these end user needs solutions were all to be delivered as API overlays on the possible Simplified Payments Platform. This touches on our general concern there are too many dependencies throughout the entire set of proposals in the document on a potential new architectural model – the Simplified Payments Platform – which has yet to be fully defined or assessed; and
- 3) As regards the specific end user solutions outlined in the document, one additional risk to highlight is the need to achieve the widest possible availability of solutions which meets these end user needs: for example, if firms/billers were not to participate in Request to Pay solutions then the appeal to users and the financial inclusion benefits would be significantly reduced.

Accordingly, it will be important that a broad approach to risk analysis is employed as the next stage of the CBA and prioritisation work is taken forward.

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?

Yes. We would expect that there is likely to be a mix of business cases that should work at an industry level and also at an individual level – as illustrated by the existing presence of potential competitive solutions in the market for Request to Pay and Payments Assurance.

Overall, we would expect there to be a mix of shorter term business cases for solutions coming from the market, coupled with longer term business cases for more fundamental enhancements to the core payment rails.

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

Yes. For example, VocaLink is already developing - or in some cases has already deployed - a set of technical solutions that have the potential to comprehensively meet the end user requirements set out in the consultation document.

For example, in terms of existing services, VocaLink's *Zapp Pay By Bank App* would be able to deliver the functionality required for Request to Pay, within the context of a complete ecosystem that includes comprehensive dispute management and fraud profiling processes to the benefit of all participants.

Additionally, VocaLink is already deploying central processing infrastructure solutions in other markets which have the capabilities built in to support almost all the end user needs solutions identified set out in the Consultation.

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

Yes. Given that the scope of the PSF's discussions has largely been limited to a consideration of end user needs relating to the Inter-Bank payment schemes and to the scope of the list of Detriments, the wider market context will need to be factored in when undertaking the next phase of further analysis and prioritisation.

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?

Yes. We believe there will be positive business cases in the competitive market place for the development of solutions for many of the end user needs identified in the consultation in a significantly shorter timeframe than that envisaged in the document - and without the added complications around governance and funding that come with progressing collaborative market-wide solutions.

There are already examples of solutions coming from the competitive market that have the capability to meet these high level requirements much sooner (e.g. VocaLink's *Zapp Pay by Bank App* solution for Request to Pay) and it is essential that such innovative market developments are encouraged by the PSF and the PSR, not inadvertently stifled or delayed by too strong a focus on the SPP concept.

We support fully the consultation document's underlying idea of specifying and introducing an enhanced "credit payments rail" in the UK market, operating to international standards and containing a rich set of functionality that fully supports and enables all the end-user requirements highlighted in the PSF consultation. Indeed as mentioned in our answer to Question 3d, we are already implementing very similar capabilities in other markets.

However, we do not support the proposed sequencing in the consultation document as we believe that this approach delays benefits to end users unnecessarily by making them dependent on the introduction of new payment rails, thereby ignoring the potential of solutions that could be deployed in the shorter term. Indeed, if new services are built as well defined overlays they could be largely independent of the underlying payment delivery mechanism.

Question 4b: Are there any viable technical solutions to deliver some of the consumer benefits early without compromising the longer term solutions recommended by the Forum?

Yes. We believe that technical solutions coming from the market will be capable of delivering consumer benefits much earlier than the timescales envisaged in the consultation document and without compromising longer term actions to specify and migrate to an enhanced underlying credit payments rail operating to international standards. Indeed, if new services are built as well defined overlays they could be largely independent of the underlying payment delivery mechanism(s) and thus future proofed for when these evolve.

To illustrate this point, as per our answer to Question 3d VocaLink is already developing - or in some cases has already deployed - a set of technical solutions that have the potential to comprehensively meet the end user requirements set out in the consultation document. In terms of existing services, VocaLink's *Zapp Pay By Bank App* would be able to deliver the functionality required for Request to Pay within the context of a complete ecosystem and we are already deploying central processing infrastructure solutions in other markets which already include capabilities that support almost all the end user needs solutions set out in the consultation.

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.

Yes, we agree with the proposal that customer awareness and education will benefit and help improve trust in payments. Recently, we have experienced examples, including the Bacs campaign for consumer awareness about the Current Account Switching Service, which exceeded targets set by the FCA.

We believe that our Accura data analytics and fraud detection solution could help with this awareness campaign among PSPs. It would raise awareness of fraudulent crime and criminal activity that relies on payment systems. Already one bank is using our fraud service and soon we will start another trial for a real time fraud detection service, in cooperation with a large number of UK banks. This will provide a more efficient way for PSPs to share intelligence on criminal activity. It will also enhance intelligence by making use of information currently not visible or utilised. This approach could also be extended to the wider payments industry for other fraud use cases.

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?

An activity such as this would need collaboration by the industry, as well as co-ordination via an organisation that could represent the whole payments industry. We believe that this collaborative approach could be overseen via an existing trade body, although it will be important to recognise the work currently underway to create a new consolidated trade association in deciding exactly which trade body would be best placed to coordinate this work.

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.

The establishment of such guidelines would potentially be helpful in a payments industry context. It would be important to take note of other existing/forthcoming market initiatives in this area. For example, Cabinet Office/ CESG Good Practice Guidelines already exist and other relevant initiatives are likely to emerge in the context of responding to wider external regulatory developments. In the interests of effectiveness, we would recommend that:

1. Any payment system identity is valid across financial and non-financial transactions, and so has genuine day to day value for consumers, and is interoperable with other services (such as GOV.UK Verify), as well as with other European identity services (e.g. NEM ID in Norway);
2. Any proposed solution needs to be recognised in UK law, in particular guidelines for the Anti-Money Laundering Act (the Joint Money Laundering Steering Group, under the British Bankers' Association), as a valid way for regulated and non-regulated financial organisations to identify a person for account opening or other financial transactions. This would mean that digital identity verification could be a legally acceptable way for PSPs to identify customers;
3. The service must support business owners and those with delegated authority to operate on behalf of a business, because this would allow many B2G transactions to be done; and
4. Provisions should be agreed for people who don't have common identity credentials (such as passports or credit reference files), to prevent them from being further excluded from financial markets (e.g. the under-banked, non-banked, and people with limited credit file information).

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 fully support the conclusion that such a data repository coupled with sophisticated data analytics could play a critical role in helping to reduce financial crime.

In terms of delivery approach, we believe it is essential that it is left to the market to respond to this set of requirements with innovative solutions rather than commissioning a "public utility" service, not least to ensure that the right commercial incentives are present to continue to improve the industry's capability to counter ever-more sophisticated financial crime. As an example, through our Accura business, VocaLink is already demonstrating strong capabilities in this space.

It is important to recognise that financial crime is a complex environment which changes quickly as criminal behaviours change. Any data warehouse and analytic capability would need to be a sophisticated and high speed infrastructure that can track and monitor Faster Payments in real time. Fragmentation of the core payments data set would make this more difficult.

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. However, we note that there are examples of secure, high resilience centralised databases in the UK that operate successfully, like those operated by VocaLink or the Credit Reference Agencies.

Our experience is that these risks can be addressed through a combination of:

- 1) A governance structure, with agreed rules and controls, that includes the involvement of organisations that are not necessarily PSPs, but are victims of financial crime (for example, the insurance industry).
- 2) The use of proof of concept exercises. We believe that such exercises can mitigate risks because they can prove the value of analytics to detect crime, before data is used on a wide scale; as well as allowing the value of the intelligence to be balanced with personal data privacy; and
- 3) Agreed operational rules, controls and procedures, technical standards, and data security rules that are common to all parties, to avoid complexity.

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

Our experience of establishing governance for payments data would suggest that legislative change is not a prerequisite.

A strong governance framework should allow PSPs to defend their users, and ensure that data is not used inappropriately, while allowing payments data to be used for detection of crime. Key elements of such frameworks include: (i) a clear definition of the data used by the analytics and the purpose, to prevent uncertainty over data use; (ii) the exclusion of data that is not critical, to prevent concerns about the over-use of data; (iii) data policy of removing or masking data which is not critical to the purpose; and (iv) the use of proof of concepts to test analytics before commissioning services, as discussed in answer to question 7b.

We believe that the biggest challenge is the sharing of financial crime detection intelligence between PSPs and Government. We note that the new draft Digital Economy Bill may create a new framework through which this sharing could take place.

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

Yes, we believe that the detection of financial crime would be enhanced by introducing more efficient ways for PSPs to detect financial crime and share intelligence in a secure and compliant environment. The majority of payments involve more than one PSP, so a centralised service is needed that allows for rapid sharing of intelligence and intervention before funds are extracted from payment systems or sent offshore.

As more payment processing is done in real time, the industry needs to ensure that any such approach/solution has the ability to evolve quickly, as the types of crime and criminal methods develop. The fraud account detection proof of concept which we refer to in our answer to Question 5a is an example of how shared detection of financial crime, using centralised technology and data science, can be more effective than individual PSPs.

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 believe that financial crime intelligence sharing in a payment systems context will lead to increased business and consumer confidence. In particular, addressing direct financial loss to consumers and businesses caused by ‘scams’, such as invoice (or mandate) fraud, will immediately increase confidence. We believe that a reduction in fraud losses to PSPs or Government can provide economic welfare benefits for the UK.

Payment data also has a role to play for the under-banked and the non-banked, by helping them to access identity and credit services. Transactional payment data can provide detailed evidence of good financial conduct that can support credit applications, both with evidence of income and of the prudent management of money. With digital identity services, payment data can provide a clear record of financial activity that can be linked to an individual, either through simple account numbers, or through knowledge-based authentication questions.

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 risks outlined. As the operator of a real time payment system and of real time fraud detection services, VocaLink has direct experience of the business models, governance, internal controls, and compliance requirements needed to operate such systems as a central detection service, and we are keen to apply our experience to other fraud use cases.

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

The potential financial and societal benefits on offer from using intelligence sharing as a way of reducing financial crime are very significant. It will be essential though to ensure that the new potential risks created by such sharing are minimised, by ensuring that the risks are clearly identified from the outset and very carefully managed by all relevant parties.

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?

Financial crime detection and intelligence sharing can operate without changes in legislation, with appropriate governance and controls. For example, VocaLink / Accura hosts governance forums that debate the use of payments data for fraud detection and ensure that analytic products are delivered within existing legal frameworks and within the different compliance requirements of the participating PSPs. This is done without changes in legislation.

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

Based on our experience with governance forums in this context via our Accura activities, we believe the following points are key to a successful governance approach in this area:

- 1) PSPs need to have sufficient influence and engagement, so that they are able to represent the interests of their customers and ensure data protection guidelines are met;

- 2) PSPs should be able to opt in or out of specific initiatives, depending on their uses of data defined in their Fair Processing Notices, other customer data consent documents, or their specific compliance demands;
- 3) Expert data science and analytic resource needs to be available to help design, monitor and review proof of concept exercises, to make sure that deliverables and key success criteria are unambiguous; and
- 4) Major users of the payment systems (e.g. central government) needs to be able to participate and share lessons learnt.

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

Yes, providing that the following set of principles is taken on board:

- Any proposed solution must be recognised in UK law, in particular the Anti-Money Laundering Act, as a valid way for regulated and non-regulated financial organisations to identify a person for account opening or other financial transactions.
- Rules, principles, standards and processes should be established and monitoring and data quality audit processes put in place. To include standards that determine what identity information is acceptable for KYC, including its age and the source of information, and that identity holding organisations like banks are able to ensure their identity information meets this standard.
- Organisations that need to access the KYC database would need to include a relevant notification clause in their application or on boarding processes.
- A model should be agreed which limits financial liability for incorrect identity information. Current penalties under the Anti-Money Laundering Act make these liability negotiations highly problematical.
- Such a service needs to be able to hold identity evidence for businesses owners or people with delegated authority, as well as consumers, and that processes to update the identity information are put in place (for example, when identity documents like passports are renewed).
- Such a service allows organisations that are not PSPs, but have AML obligations, to access the KYC database.
- Provisions should be agreed for people who don't have common identity documents (like Passports, or Credit Reference files) so they are not excluded (e.g. the under-banked, non-banked).

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

NO RESPONSE

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

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

Yes, we agree with the proposal to make sort codes more widely available and easily accessible to PSPs. As the service provider of Bank Reference Data we are actively working with Bacs to ensure changes are made to support the industry and open up sort code access. We recommend that sort code information is published on a more regular basis, especially as new PSPs join the payment services more frequently due to easier open access. We also recommend that the current sort code access model is changed to a single tier access model allowing Participants to own and manage sort codes, and choose which services are insourced and which are outsourced to other banks or other third party providers, as well as allowing sort codes to be centrally allocated. This we believe will improve and support the open model for PSPs and support competition in the industry.

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

Yes, we support the need for wider availability of BoE accounts. We think that any approach needs to be flexible enough to support a range of different types of FI and to facilitate PSP indirect access to the payment systems.

We also think that the BoE review should take the opportunity to consider making improvements to the current settlement mechanisms for PSPs who settle directly, for example:

- Removing the need for PSPs to “double fund”, as they do today in the current prefunding models. Mechanisms such as those used in Sweden enable all PSPs to use the same liquidity to act as the pre-fund and effect settlement.
- With payments become increasingly real time, longer BoE opening hours for settlement should be considered. This would not necessarily need to be 24x7. A night settlement window as well as weekend / bank holiday settlement windows may suffice.
- As schemes merge and in the context of a single SDM, looking at consolidating the different scheme specific RCAs and managing credit risk holistically across all (retail) payment systems.

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

Yes. We support aggregator access models and are developing products to provide such access. For many PSPs, aggregator solutions provide a cost effective alternative to developing and testing their own access capability.

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?

BASS as a model for certifying aggregators, single scheme rule set / body simplifies this. Standard front end API and ISO messaging makes switching very easy. Bundling of payments access with other business functions leads to competitive advantage over pure play payments aggregators.

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 support Common Payment System Operator participation models and rules because this should lead to a simpler, quicker, lower cost on-boarding and compliance. As well as simplifying the on boarding process for each payment type, the proposed changes should also result in a cross scheme view of the process.

In our recent experience working with large and small PSPs, the most important thing for a bank wishing to access the payment systems is to define its overall strategy for transitioning. Currently each scheme naturally advises on its scheme. However in practise there are cross scheme issues which PSPs are left to identify for themselves. An overarching entity that defines rules etc. across schemes would be able to support PSPs better.

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

Yes. The proposal to consolidate the Bacs, Cheque & Credit and Faster Payment schemes has an important role to play in realising a number of the proposals in the Consultation.

As a precursor to the consolidation process, it would also be essential to undertake an assessment of the roles that it would be most appropriate and beneficial for a combined PSO entity to undertake.

In response to the PSR's infrastructure market review interim report, we argued that as competition and innovation develops further, the role of the existing retail non-card scheme companies needs to be reviewed, leading to the establishment of a new Payment System Organisation ('PSO'). Each of the scheme companies undertakes many of the same functions, from contracting of the infrastructure provider to setting the rules and standards. Given the focus on this topic in the PSF's draft strategy, we want to define in more detail our opinion about the need for change:

- **Multiple scheme companies:** There are multiple companies that conduct similar functions across the retail schemes. This may have arisen at the time for good reasons, but now there are genuine questions about the efficiency of having multiple scheme companies, as we explained in our response to the PSR. We note that there are also questions about a limitation on innovation, if the schemes are siloed and are not allowed to develop together;
- **Retention of valuable expertise and best practice:** However, we feel that the strength of focus in the industry may be weighing too heavily towards a reduction in number of scheme companies, compared with a reassessment of the schemes' functions. The risk of merging schemes together is that the industry loses valuable management and payments expertise, and particularly, knowledge of systemic risk. Further, the individual examples of best practice from across the scheme companies could also be lost if scheme companies are merged together without a careful assessment and retention of such examples of best practice; and

- **Re-evaluation of the scheme functions:** In our view, the impetus for scheme reform starts with a re-evaluation of the functions conducted by the scheme companies in the context of the current and future market for payments. In our response to the PSR, we set out why the contracting function and collective working practices of the scheme companies constrain the development of innovation and competition. This is particularly noticeable where collective one-size-fits-all contracts crowd out the innovation of direct contracting between bank or FI and the infrastructure, with its potential for unbundling the core and developing non-core products. Also, we would point to the working practices that require individual innovations developed for one bank, to be provided to all banks and FIs, thereby reducing the incentive on banks and FIs to pay for innovation. Both of these restrictions constrain competition between infrastructure providers, as well as reducing the potential for competition between retail banks. We believe that these scheme company functions need to be re-evaluated.

We have assessed the current scheme functions and believe that the new PSO should undertake:

- **Standards setting:** Standards provide a platform for greater competition. The PSR has tasked the PSF with identifying the common international message standard which should be adopted for Bacs, FPS and LINK schemes. Once this has been established, we believe that there is an ongoing role for the new PSO in ensuring that standards are reviewed and updated, to ensure the interoperability within the industry, as well as between the UK and the rest of the European market. While standards provide a platform for competition, excessive standardisation can extinguish innovation and variation between infrastructure providers. Therefore, we believe that the new PSO should also be tasked with determining the maximum level of standardisation in the industry, to allow innovation to develop between competing infrastructure providers;
- **Rule setting:** Similarly, the rules governing the interactions between the participants in a scheme and infrastructure providers need to be set and updated. Given the opportunity for direct contracting between banks or FIs and infrastructure providers, such rules need to be appropriate, to allow for competition between infrastructure providers. We believe that the new PSO should undertake this function;
- **Accreditation:** Ongoing resilience of the system is important for the industry. We see a role for the new PSO in maintaining a system of accreditation for participants in payments in the UK;
- **Systemic risk:** Given the opportunities for the development of the industry to include easier access to systems and simultaneously competing infrastructure providers, we believe that it is important for the new PSO to retain the schemes' focus on systemic risk. This would allow the Bank of England to continue to monitor the stability of systems, for the benefit of the whole industry; and
- **Co-ordination of PSF strategy collaborative activity:** We would see that the new body would be a strong candidate to be given the task of overall coordination of the collaborative implementation activities for the agreed set of initiatives contained in the final version of the strategy.

As an example of an existing activity which we do not believe should be retained in the new entity, we believe the new PSO should not undertake the scheme companies' current contracting role, to allow for direct contracting between banks or FIs and infrastructure providers. We believe this would have the potential to help unlock a number of additional competition benefits, as evidenced by the SEPA area where direct contracting is already an established market feature.

For example, removing the requirement for individual innovations developed for one bank to be provided to all banks could enhance the incentive on individual banks to innovate and stimulate the development of non-core products.

The merger of the PSOs would need to be designed and implemented in a way that minimised the risk of losing examples of best practise, valuable management and payments expertise, and particularly, knowledge of systemic risk.

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

See answer to Question 15a.

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.

Yes - we do in principle support the migration to modern payment message standards in the UK, subject this to being done in an evolutionary way designed to avoid unnecessary costs.

Work has already begun on this in a number of payment systems (e.g. FPS, Bacs) where ISO20022 to legacy standards mapping has been / is being done. It is worth noting that we expect a family of new messages to be developed supporting the differences in the underlying business processes e.g. differing needs of cheques versus credit transfers.

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

NO RESPONSE

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

NO RESPONSE

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

NO RESPONSE

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?

In principle we support the idea of taking a coordinated approach to developing the various types of APIs described in the Consultation Paper in the interests of efficiency and to avoid unnecessary fragmentation. However, we believe that it is too early to conclude whether the Open API Implementation Entity that is in the process of being set up to respond to the CMA's remedies would also be the logical governance body to steer the development of the set of "Open Access APIs" and "End-User APIs" described in the PSF consultation document.

Additionally, given the varying different drivers and timescales for the underlying initiatives (PSD2, Open API and the PSF's proposed Open Access/End-User APIs) it will be important to ensure that the promotion of a coordinated governance approach does not create unintended delivery interdependencies.

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?

See answer to Question 18a.

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

Any Governance approach for the development of the types of APIs described in the PSF Consultation needs to be an open process which allows all types of stakeholders the opportunity to participate.

Specifically regarding the potential for "end user APIs" to be developed as a potential way of delivering against the end user requirements for Request to Pay, Assurance Data and Enhanced Data, it is essential that any implementation approach is not structured in a prescriptive way that could inadvertently stifle alternative solutions coming from the market to meet these requirements in a much shorter timescale.

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

We do not believe that the Simplified Delivery Mechanism / Simplified Payments Platform design and sequencing approach articulated in the consultation document is the best way of proceeding.

We fully support the Consultation Paper's underlying proposal of specifying and introducing an enhanced "credit payments rail" in the UK market, operating to international standards and containing a rich set of functionality that includes being able to support all of the end-user requirements articulated in the document. This is similar to the approach and functionality being adopted in other markets outside the UK and is an area where VocaLink has significant expertise and experience to offer.

However, we do not believe that the proposed SDM/SPP design and sequencing approach is the best way of achieving that goal in terms of cost, complexity or the extent of collaborative activity envisaged. Rather, a more evolutionary approach focused on defining the requirements for the next generation of the UK's central infrastructure and encouraging solutions from the market to meet these would be more efficient and appropriate.

From a timing/sequencing perspective, it is important to recognise that the existing PSO contracts for infrastructure provision could be tendered during 2017 and 2018. This fact is not mentioned in the Consultation document but will need to be taken into consideration otherwise there is a high potential for conflicting processes and missed opportunities.

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?

The new consolidated PSO entity would seem to be the most logical body to lead this process. In part, however, this would depend on the pace at which the consolidated entity was to be created and the set of agreed functions and responsibilities that would sit within it.

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

First, from a terminology perspective we do not believe it would be the role of a scheme to provide the Simplified Delivery Mechanism, rather the role of the Scheme/Scheme Company would be to create a set of requirements, leaving it to the market to propose technical solutions which satisfy these.

Of the existing UK interbank schemes, the FPS 'rulebook' is the most obvious start point which could be refined and evolved to build in the various sets of requirements articulated in the consultation document, including the need to support the various end user needs overlays and to operate based on modern message standards.

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?

Whilst achieving a different balance of distributed and centralised procedures is possible over time, we believe that the critical importance of ensuring that the UK's payment infrastructure remains resilient, reliable, fast, cost effective, secure and scalable means that a predominantly centralised structure will continue to offer the biggest advantages for the time being.

The centralised versus distributed architecture question is a complex one which needs to be considered from a number of perspectives, such as business process architecture, flexibility, cost, available technologies.

Centralised and distributed architectures can have a variety of forms and different systems around the world today have different degrees of centralisation / decentralisation. In payment system architecture terms, distributed versus central usually equates to bilateral exchange versus a central infrastructure. In such a distributed bilateral exchange process, all functionality resides in the distributed entities, whereas in a model using a central system, some functionality is in the centre and some is in the connected entities.

A significant disadvantage of the distributed/bilateral approach is that beyond a certain number of nodes, it is inflexible and expensive to change. Whenever any change happens, each connected party has to test bilaterally with every other party. Whereas in a star network, each entity only has to test with the centre. As well as being expensive, this becomes a barrier to adding additional entities to the network and the more nodes that are added the more inflexible and costly the distributed system becomes; the very antithesis of open access.

Ireland is an interesting case study. Until 1979 when the punt floated, the Irish clearing was performed centrally by Bacs. Thereafter the banks exchanged payments bilaterally until the Irish clearing moved to the EBA as part of SEPA. The consequence of the move to bilateral exchange was that the functions of the central system had to be replicated in each bank and it was hard and expensive for new banks to join the clearing system. It is also interesting to note that all of the countries in Europe that used distributed bilateral exchange have switched to a centralised architecture i.e. Ireland, Finland and Austria.

Aside from these logical architectural considerations, a distributed architecture is often described as being synonymous with distributed ledger technology. We would question whether this technology is mature enough to provide the speed, security, cost, and reliability needed in a payment infrastructure of the scale needed to handle the UK's payment volumes. The importance of resilience cannot be overstated and has to be an overriding design imperative – as it is in today's FPS central system which has not failed since it was launched in 2008.

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

Yes. Whilst, as articulated in our answers to other questions, we do not believe that the absence of such a new infrastructure is preventing the market from delivering propositions to meet the articulated end user needs, initial requirements gathering for an upgraded central infrastructure could be undertaken in parallel.

Such activity might logically tie in with the fact that the existing PSO contracts for infrastructure provision could be tendered during 2017 and 2018. This needs to be taken into consideration otherwise there is a high potential for conflicting processes and missed opportunities.

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?

Current arrangements have delivered good outcomes for scheme companies, PSPs and ultimate consumers (as recognised by the PSR in their work on service quality/price/innovation).

We would in principle support changes aimed at delivering even greater levels of competition and agility, but it is important that any "collective innovation" proposals arising out of the work of the PSF should be limited to the smallest set necessary, so that it avoids crowding out competitive innovation. A one size fits all approach and a collaborative-only approach to innovation can stifle competition and innovation.

It is also important to consider the effect of changes on competition and agility at all parts of the supply chain – and not unduly focus on one level of that chain.

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

While we support many of the requirements articulated in the consultation document, we do not support the core scenario of making many of these dependent on the delivery of the Simplified Payments Platform proposal – which has yet to be defined or assessed. We believe that benefits delivery, particularly to end users, would be unnecessarily delayed under this approach.

Rather, we believe that the way to optimise the benefits will be to take an evolutionary approach under which tangible end user improvements will be delivered by the market in a much shorter timeframe, while work can continue in parallel on specifying the requirements for a future upgraded infrastructure.

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 do not agree with the proposed sequence of solutions. As we have articulated in our answers to various other questions, we believe that the current sequencing proposals run a number of significant risks, including that: benefits to end users may be unnecessarily delayed; innovative market solutions may be inadvertently stifled; and generally there are far too many dependencies on a Simplified Payments Platform concept which has yet to be fully defined or assessed.

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

We believe it would be better to take an evolutionary approach which delivers benefits in the shorter term via market solutions, while still being mindful of the need to take positive steps towards specifying the requirements of an enhanced credit payments rail.

There is a clear need to deliver solutions to end users promptly, and where possible we believe that the PSF should maximise the use of competitive solutions to deliver meaningful benefits to end users as quickly as possible.

The strategy needs to take account of the fact that some of the proposed change is freestanding and not related to other activities; some change can sensibly be accommodated within the current environment / infrastructures and some change can only realistically be made as a result of implementing an upgraded payments infrastructure.

It will also be important to sequence relevant parts of this activity with the fact that the existing PSO contracts for infrastructure provision could be tendered during 2017 and 2018. This needs to be taken into consideration otherwise there is a high potential for conflicting processes and missed opportunities.

Additionally, as the PSF's work moves into the next phase of its CBA and prioritisation activity there will be a need to critically examine which elements would truly require collaborative requirement setting and/or delivery and which should be left to the competitive market.

QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

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

We don't believe that a single approach would be appropriate for delivering all of the different Strategy components, given the diversity of these, the variety of impacted stakeholders and the mix of collaborative and competitive initiatives that will be involved.

It is important to recognise that some components will require significant collaborative, multi-stakeholder activity, whereas others should be left to the competitive market to deliver and therefore would require no or very limited collaborative management. For example, we would see delivery of initial Request to Pay capabilities as having a significant competitive dimension and we would not see it as appropriate to constrain market innovation in this space by an overly prescriptive or centralised collaborative implementation approach. Other parts of the solution e.g. defining and overseeing a migration to new message standards would need a more collaborative approach.

Moving forward, we believe that industry governance over the implementation of the strategy needs careful consideration and we urge the PSF to clarify the proposed governance model as soon as possible, in order to ensure a successful implementation of the strategy. At this stage, there are no proposals for how to ensure that appropriate decisions are taken and that in collective areas of co-operation within the industry there is fair industry representation. The collaborative aspects of the subsequent implementation process will also need careful and disciplined management, to ensure, that it is consistent with competition law, amongst other things.

As mentioned in our answers to other questions, we would see that the new combined PSO would be a strong candidate to be given the task of overall coordination of the implementation of final set of collaborative implementation activities, once agreed.

We note that the PSR would need to act in accordance with its objectives if it chose to involve itself in the future of the PSF's strategy. We expect that the PSR would consult on its proposed actions before these are implemented.

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

See our answer to Question 22a.

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

Where strategy recommendations can be taken forward by competitive / market based solutions, market forces will provide the appropriate incentives and underlying economic model.

On those elements where a collaborative approach will be necessary, the next phase of activity including CBA / business case consideration and the transition into implementation planning will require careful consideration of where the costs, risks and rewards will sit, in order to appropriately incentivise commercial organisations to invest and implement the strategy.

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?

Further detailed analysis is required to better understand the true scale, timing and likelihood of the benefits and costs of the various requirements / potential solutions outlined in the consultation document and where/to whom these would accrue.

We believe there needs to be a positive industry business case behind each of the individual projects within the final strategy if the industry is to be sufficiently motivated to deliver.

The PSF does not have power to mandate change on the industry; nor is the industry bound to accept the PSF's strategy. The strength of the PSF lies in bringing together industry participants to agree on measures that require co-operation, in order to advance the provision of services that better meet user needs. However, this does not mean that the industry would proceed with projects that do not have a positive business case, and as such would be unprofitable.

Therefore, in order for the strategy to succeed, it needs to identify projects with positive business cases. Specifically, this means that the individual changes proposed need to fulfil consumer, corporate and/or government demand. Thereafter, the individual projects need to result in cost savings or new user charges that cover the development, implementation and running costs, as well as a risk premium.

Calculation of positive business cases needs careful analysis. We note that there is a difference between the assessment of business cases and cost benefit analysis. Further, we note that the choice of analysis methodology needs careful consideration. For this reason, we call on the PSF not to:

- **Outweigh a negative financial business case with positive non-financial economic welfare calculations, to create a positive benefits case:** Without a positive financial business case, then the project will be loss making for the industry and the correct commercial incentives will not exist;
- **Inappropriately group individual projects together to generate a positive business case:** Each individual and separable project should be assessed separately, in order to calculate the business case. The grouping of positive and negative business cases for separable projects will merely create inefficiencies, and a perverse incentive on the industry to avoid the negative business case project; and
- **Inappropriately group roadmap stages within a single business case assessment:** Where the PSF sets out a progression of developmental stages for the industry, the business case assessment should consider each stage separately, rather than to group stages together. This is important if the benefits can be achieved in the early stages, while the majority of the costs are incurred in the later stages. In this scenario, there may be a negative business case for the later stages and therefore, such stages should not be undertaken.

This places an onus on the PSF and its consultants to correctly specify the cost benefit analysis to deliver the right results for the industry. Without a positive industry business case for individual projects, then the industry will not be sufficiently motivated to fulfil the projects and the PSF's strategy will fail.

There are many options to address the issues that the PSF has identified. After assessing the cost and benefits of each option individually, the PSF and its consultants will require a framework to assess the options holistically. By the nature of the issues, some options are mutually exclusive, some options overlap and some options are dependent on other options being delivered first. Any framework should be transparent, so that industry participants can clearly see how the PSF and its consultants reach their conclusions on the appropriate way forward.

In terms of context for the cost benefit work, it would also make sense for this activity to be informed by looking at experiences in other geographies, such as The Clearing House in the USA.

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

See answer to Question 23a.

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

Due to the open nature of this consultation it would not be appropriate for us to provide VocaLink-specific information. At a high level, we would reiterate our belief that an evolutionary approach involving a series of progressive enhancements delivered through a mix of competitive market innovation and targeted collaborative action would deliver end-user benefits much earlier, at significantly lower cost, and with significantly less disturbance than the SPP-dependent delivery approach described in the consultation document.



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