

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

### Respondents basic details

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| <b>Consultation title:</b>                    | Payments Strategy Forum: Being Responsive to User Needs - Draft Strategy for Consultation |
| <b>Name of respondent:</b>                    |   |
| <b>Contact details/job title:</b>             |   |
| <b>Representing (self or organisation/s):</b> | Cheque and Credit Clearing Company (the C&CCC)  |
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### 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want parts of it to be published or referred to in this way you need to separate out those parts and mark them clearly 'Not for publication'.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with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.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If you do not want parts of or all of your response to be published you need to state clearly ('Not for Publication') over specific information included in your response, please be sure to clearly mark this by yellow highlighting it.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](mailto: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](mailto:Forum@psr.org.uk).

Thank you in advance for your feedback.

## QUESTIONS IN RELATION TO SECTION | RESPONDING TO CONSUMER AND BUSINESS NEEDS

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**Question 1:** Do you agree we have properly captured and articulated the needs of End Users? If not, what needs are missing?

Broadly yes, but it is essential that the needs of all end users, consumers and businesses, are properly understood as financial needs vary depending on financial situation. The solutions appear to be largely based upon the members of the forum rather than the first person opinions of end users. The Forum must therefore be confident that it has consulted all the available research in this area and fully understands the needs of end users.

The Cheque & Credit Clearing Company (C&CCC) has first-hand experience of decisions made without full consideration of consumer needs. In 2011 the Payments Council abandoned its plans to close the cheque clearing systems by 2018 after a Treasury Select Committee inquiry. The decision was welcomed by the Financial Services Consumer Panel.

Further, there are errors in the understanding of the payments infrastructure that might have inadvertently influenced the outcome – for example HPES and IPSL are identified as infrastructure suppliers, whereas they are outsourced suppliers to PSPs, which create data files and payment messages prior to submission to the payments infrastructure in exactly the same manner as BancTec (which is not identified).

The strategy also uses the phrase ‘previous research’ a number of times; it would be useful if the research upon which this document had been based were referenced to provide validity to the conclusions drawn.

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

Yes, these are pragmatic principles. It is important that consumers don’t feel left behind and excluded by new innovations and that any change better meets their financial needs

In designing the Image Clearing System (ICS), C&CCC has sought to ensure that consumers do not have to change their behaviour if they don’t want to. Some banks and building societies may offer additional ways to pay-in a cheque, rather than having to go to the bank (e.g. by using a secure mobile banking app on their smart phone or tablet) but as our communications campaign will stress, consumers will continue to write cheques and be able to post to their bank or deposit over a branch counter as they do today.

**Question 2b:** How should these principles be implemented?

They should be implemented by the imposition of PSR Directions.

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

They should be implemented via directions issued by the PSR to the responsible parties and monitored at regular intervals.

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

Depending on what data is included, the data based solutions could provide certainty, improve accuracy and increase the speed of payment, as well as supporting anti-money laundering strategies.

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

Yes. Assurance Data could result in an increase in trust in payments but Enhanced Data could result in the opposite due to privacy concerns and fear over loss and misuse. Further risks also include money laundering and that Direct Debit and Debit Request to Pay being seen as one and the same.

An extensive communications and educational campaign will be necessary to outline the benefits and to reassure the end user of the changes.

**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. Assurance Data could go some way to bring back confidence in electronic payments amid negative press around the banking sector in relation to misdirected payments. However, without knowing the data and research upon which these initiatives are based it is not possible to comment accurately.

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

None identified.

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

The new General Data Protection Regulations and the effect of Brexit upon data transfer across Europe should be considered. The Forum should also think about the ownership of the data in the proposed solutions.

The Forum could also focus on the need to differentiate between products to meet specific user needs.

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It is worth mentioning that the notion behind debit request to pay is not new. A cheque is a debit request to pay and in the current cheque clearing cycle the payee can withdraw payment after four weekdays. Further, the Image Clearing System that C&CCC is currently implementing is based upon Request to Pay and once implemented will allow customers to withdraw funds by the end of the next weekday after paying in a cheque to their bank account. A future enhancement of ICS could shorten this timescale across the industry for the benefit of all cheque depositing customers.

**Question 4a:** Is there a business case for investing in transitional solutions while the new payments architecture is being delivered and if not, can such an investment be justified?

We do not believe that there will be a business case in investing in transitional solutions for cheques as the C&CCC is already investing in a new cheque clearing system to ensure cheques remain an option for consumers in the future payments landscape.

The Image Clearing System will enable images of cheques to be exchanged between the banks and building societies concerned instead of moving the paper around the country. Bringing the cheque clearing system into the 21<sup>st</sup> century, ICS will not only reduce clearing time, promote competition and choice (by making it easier for new participants to enter the market with cheque products) but also ensure that the consumers and businesses which use cheques have the ability to do so for as long as they want to.

The ICS is being built using ISO 20022 formats, is a debit request to pay, and is predicated on a participation model which gives many of the advantages of the new payments architecture and possible transitional solutions.

**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?

The Image Clearing System (ICS) will be ISO20022 compliant. It will be capable of delivering more than the cheque clearing by use of image; the ICS will have the capability of delivering Assurance Data and transferring Enhanced Data and more (with further development) such as business invoicing and image exchange between participants and end users.

The ICS also deploys a Request to Pay facility so once the system is implemented for cheques a future enhancement could deliver a new payment method giving greater control to customers.

All this could be delivered without compromising the longer term solutions recommended by the Forum.

## QUESTIONS IN RELATION TO SECTION 6 | IMPROVING TRUST IN PAYMENTS

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**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 as it has the potential to save money and duplication. Much more could be done to publicise financial crime, there is a tendency for only the 'big losses' to be mentioned.

Consideration also needs to be given to how financial crime awareness is portrayed. Usually when crime is committed, the *modus operandi* has changed the following week. It is hard to keep consumers constantly updated of the latest intelligence.

**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?

Yes. Existing trade bodies have no direct remit over the Payment System Operators (PSOs) and could be seen as partial in their advice by only representing one part of the payments industry. If this work is taken on by a trade body, then that trade body should comprise only of all PSOs and their participants. It would be wrong for other interest groups to have control of this activity, and it would be equally wrong if some PSOs or participants were excluded by not being members of that trade body.

**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 our view that in some cases guidelines alone are not strong enough to deliver what is required. There are already statutory guidelines through the Joint Money Laundering Steering Group (JMLSG): adherence to these could be independently assessed or a stricter form of mandated requirements could be introduced.

There will also be a need to ensure that PSPs will implement in a manner consistent with requirements. Technical standards would be another alternative to mandated guidelines. These standards would make it fair for everyone to adhere to and produce a minimum quality level. Whatever the solution is, the following should be considered:

- it could be seen as giving fraudsters a blueprint on 'how to commit fraud'
- there will need to be ongoing enhancements/maintenance
- risk appetites vary across the industry and it could be seen as a back door approach to creating a national digital identity which might not be welcomed without a full public consultation
- thought also needs to be given to the General Data Protection Regulations (right to be forgotten) and the Payment Accounts Directive.

**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 are in favour of a solution that supports collaboration and data sharing between the PSOs and PSPs.

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However, there is a danger that a central data repository for shared data will become a 'single point of compromise'. If the system is hacked then there is access to an abundance of information. With a central data repository, it is likely not to be clear who would be liable in the event of a compromise or who the data owner is (as prescribed under the new General Data Protection Regulations). Under the new rules, companies could get fined up to 4% of global turnover, so there would need to be a clear legal framework to set out who owns which pieces of data.

It is for these reasons, combined with our feeling that such a solution would be very hard to sell to the public, lead us to recommended that this solution be subject to separate consultation.

**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 identified. The PSF working group should be consulted to assess further risks.

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

Until we know what the legal risks are we cannot assess the legislative change required to deliver this solution

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

Yes, it would be useful to consult with the financial industry in the US, Australia and France, all of which share intelligence and where fraud has been reduced. However, historically, the financial industry has had difficulty in sharing information particularly in relation to crime. There needs be consistency and avoidance of the weakest link.

The following should be considered:

- all PSOs should have the same obligations placed on them;
- the system that facilitates sharing should have all PSOs as its members;
- as far as possible, sharing should be automated to ensure that all PSOs share all applicable information;
- sharing should be monitored to ensure that all PSOs report their information; and
- PSOs should not be able to benefit from receipt of information, whilst withholding their own.

We agree that fraud typology sharing should be extended beyond the existing exclusive membership arrangements.

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

This is something for the PSF to consider before it decides to recommend such a strategy.

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

The PSF will require further work to be carried out in this area in order to satisfy themselves.

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

The PSF will require further work to be carried out in this area in order to satisfy themselves.

**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?

There already changes being implemented through the General Data Protection Regulations which are coming into for in May 2018. It would also be beneficial to consider the data impacts stemming from the introduction of the Payment Accounts Directive and the Payment Services Directive.

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

Independent body with clear independent ownership, clearly defined purpose and clearly defined data sharing protocols, including international data transfer. We think a new body would need to be created with all PSOs as participants, but we recognise there would be cost implications attached to this.

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

We agree in principle with the idea but it would be unrealistic to protect such a utility against all vulnerabilities such as hackers. A more practical solution based on minimum standards of KYC checking should also be considered. Such minimum standards should be mandated rather than voluntary, but they should remain as minimum only and PSOs should be able (and encouraged) to exceed the minimum.

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

We believe there would be great benefit in the introduction of an international sanctions data model.

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

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

Yes but this need to be enhanced. Providing access to sort codes is essential to encouraging more and varied PSPs to have direct access to the payment systems. Currently cheques can only be sorted to banks identified by the first two digits of the sort code. In future the Image Clearing System (ICS) will allow full portability for cheque sort codes by sorting to banks based upon the full six digits.

Sort code release should be mandated between banks – if one of their agencies wishes to move to another sponsor, the agency must be allowed to keep their existing sort code. However, some sponsor banks (that gain agency banks) will still need to change their own internal systems to enable them to identify their new agency bank sort codes as one of their own.

The work that Bacs has commenced should be encouraged but it is also worth mentioning that independent allocation of sort codes from the 04 range is only part of a wider solution.

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

Yes. Greater access to settlement accounts at the Bank of England is essential if a wider variety of PSPs are to have direct access to the payment systems but this should not be at the expense of integrity. C&CCC have suggested methods of enabling other non-banks to become settlement participants such as the flawed asset approach, but it has not been possible to reach an agreement with the Bank of England ahead of the implementation of ICS. The proposals are now under consideration as part of the Bank of England's RTGS Strategic Review. We believe that whatever is put in place to enable non-banks to become settlement participants, it should be common to non-banks and banks alike in order to ensure that there is no perceived (or actual) advantage to one party or another.

There needs also to be a change in legislation for settlement finality. The Settlement Finality Directive protects the payment messages of only certain categories of PSPs – it does not extend to many of the PSPs that have ambitions to participate in payment systems. Until the SFD is changed there is no incentive for a PSO to broaden its eligibility criteria to categories of PSP whose payment messages will not be protected in the event of insolvency.

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

Yes. The Image Clearing System will support this, as aggregators will be able to connect directly and become full direct participants in the system.

If an aggregator does become a full direct participant in the system, they will still require access to a settlement participant that is willing to settle for them.

**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?

In theory, the more access solutions available, the lower the cost. However, accreditation schemes are complicated by different interface models developed by different participants. C&CCC has mandated that all sponsor banks make available to their PSP customers a common message format which is the same as that between the PSO and direct PSP participants, in addition to any bespoke functionality offered. This should help aggregators in their connectivity with a number of different PSPs and give them the ability to move to different types of participation in due course.

**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.

Yes. C&CCC supports and is directly involved in the work being undertaken by the Interbank System Operators Co-ordination Committee (ISOCC) to identify areas of commonality in participation models and rules.

However, there needs to be recognition that the PSOs offer different products and are subject to different regulatory regimes (e.g. C&CCC is not currently formally recognised for supervision by the Bank of England whereas Bacs and FPS are). Cheques are subject to specific legislation (Bills of Exchange Act 1882) and again, unlike Bacs and FPS, not subject the Payments Services Directive.

Delayed settlement in retail payment systems creates financial risk to participants which vary depending on the payment type. The risk to a PSP of participating in a direct debit scheme, which is a pull payment and thus relies on a funds transfer from the debiting PSP to the crediting PSP before the latter credits its customer's account is very different to participating in an FPS scheme, which is a push payment where the PSP transfers the funds to the crediting PSP for crediting to their customer's account.

It is considerations such as these that will result in different requirements for participation in PSOs. That said, there is already much similarity between existing schemes. Until 2002, eligibility and the principles for participation in the clearings were owned by APACS – the schemes were separated out as a result of a recommendation of the Cruickshank Report in 2000.

We believe that the proposed model for participation and rules can be achieved without the need to move to a single payment system entity.

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

If there is a move to a single entity, this must not interfere with the move to the Image Clearing System, which is vital for the cheque clearing industry and its users.

As the strategy recognises (4.3), there have been several attempts to address the lack of competition and collaborative innovation in the payments system and a number of reviews have made recommendations to meet such ends. During its 30 years of existence C&CCC has operated under several different governance regimes and in a number of different regulatory environments. It will continue to be able to do so if there are further changes but creating a single entity may not bring with it the innovation and benefits to the end user – the consumers and the business customers – that the PSR has so clearly defined. Furthermore, if the strategy is to achieve its aim of simplifying access to payment systems then it should expand its remit to all payment schemes not just those referred to in this consultation

C&CCC was established in 1985 under the auspices of APACS as its membership-based industry body to manage the operation of cheque clearing and the credit clearing. The governance structure established as a result of Child's Report remained in place largely unchanged for 15 years until the Cruickshank Report 'Competition in UK Banking', was published in March 2000.

The Cruickshank Report included a number of criticisms about the UK money transmission industry, many of which were re-iterated in HM Treasury's subsequent consultation document in the following year. Cruickshank concluded from his review of the markets and network features that UK payment systems were failing in terms of delivering price transparency, good governance, non-discriminatory access and efficient wholesale pricing. The Cruickshank Report and the public consultation by HM Treasury both recommended the establishment of a payment systems' regulator.

In response to the report and the public consultation, in September 2002, the C&CCC, along with other schemes, became fully independent of APACS, taking control of its admissions process and publishing its eligibility criteria. The PSR was established a full 15 years after publication of the Cruickshank Report. If there are still flaws in money transmission services, returning to a single entity model may not necessarily deliver the changes that the PSR wants to achieve, particularly as regards meeting the needs of the end user – consumers and businesses.

It is worth stating that in the development of the Image Clearing System and discussions with agency banks looking to participate in C&CCC, it has been suggested that C&CCC requirements are no more onerous than the card schemes.

It is essential that the Forum engages with PSOs that have been impacted by changes over the past 15 years, in order to understand past successes and shortcomings.

In order for such a proposal to gain wider support outside the PSF, it is suggested that an independent cost benefit analysis is carried out.

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

Under the current PSO structure (and/or if the single entity did not go ahead) the PSPs could continue to and enhance their collaborative work on such aspects as common scheme participation models and rules, the Current Account Switching Service and the Bank Reference Data.

**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. The Image Clearing System will use ISO20022.

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

Yes, but guidance may not be strong enough. This should be mandated by a regulator.

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

There needs to be a level of compulsion to ensure that such an initiative is implemented.

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

The PSR.

## QUESTIONS IN RELATION TO SECTION 8 | A NEW ARCHITECTURE FOR PAYMENTS

**Question 18a:** Do you agree with the proposal for a co-ordinated approach to developing the various types of APIs? If not, please provide evidence to support your response?

We support any efforts that encourage co-operation across the payments industry to develop and deliver improved solutions for end users. Provided there is good governance, leadership, vision and good ideas then open access APIs and common messaging can be achieved.

However, we feel it is important to note that taking a co-ordinated approach carries the risk of working at the pace of the slowest. The C&CCC will be developing common open access APIs for the Image Clearing System so this solution can be taken forward without co-ordination.

**Question 18b:** What are the benefits of taking a co-ordinated approach to developing the various types of APIs? What might be the disadvantages of taking this approach?

We think there are few benefits and some disadvantages – see answer to Q18a.

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

We think there are few benefits and some disadvantages – see answer to Q18a.

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

The ICS is being built and can be used as a simplified delivery mechanism. The ICS will deliver a functionality similar to a Bacs Direct Debit (cheques are a debit request to pay) as well as a functionality similar to a direct credit/FPS (bank giro credits accompanied by cash). The system is being built using ISO 20022 formats will aide interoperability between payment systems and payment methods. There is, therefore, a case that there is no need to create another new system; another simplified delivery mechanism could be seen as creating too many layers.

**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?

We should wait for the outcome of the ISOCC work before making a decision, this is expected to be completed by the start of 2017.

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

Yes, C&CCC is creating the Image Clearing System. There is an opportunity to use this system as the Single Delivery Mechanism.

**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?

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We have no preference provided the delivery structure meets best standards in terms of availability, security, robustness and efficiency and meets the needs of end users.

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

The industry should explore the opportunity provided by implementation of the Image Clearing System to deliver the new infrastructure in preference to designing a new infrastructure.

The amount of work should not be underestimated. A payment system is not just a messaging network but has numerous other functions and requirements. These include integrity (risk management, compliance and on-boarding of new participants), settlement validation, AML and fraud detection amongst others. All this requires good governance. This needs to be fully understood before any decision in this respect is made.

**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?

There is no doubt that improvements in competition and agility could be made. It needs to be clear where this should best sit – between the PSOs or between the PSPs, and this will drive different requirements. These requirements need to take account of the integrity that is required within recognised systems.

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

Only creating APIs which glue the multiple systems together would be more beneficial and cost-effective.

**QUESTIONS IN RELATION TO SECTION 9 | OUR STRATEGY IN SEQUENCE**

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**Question 21a:** Do you agree with this proposed sequence of solutions and approach outlined to further clarify this?

Yes. This is one of many possibilities but it needs to take into account other projects, such as the Image Clearing System, that PSOs may be implementing.

More detailed timings and the rationale behind the timetable would be appreciated.

It is worth stressing again that if there is a move to a single entity, it must not interfere with the move to the Image Clearing System. Nor should it interfere with structural reform obligations.

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

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**QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH**

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

A thorough analysis and a full identification of costs are needed before implementing the strategy.

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

The PSR and the Bank of England.

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

Cost effective models and societal costs basis.

**QUESTIONS IN RELATION TO SECTION 11 | COST BENEFIT ANALYSIS APPROACH**

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**Question 23a:** Do you agree with the proposed approach for quantifying the potential costs and benefits of the proposed solutions?

The strategy needs to be clear as to who is to contribute to the development costs, how these costs are to be recovered (and from whom). An independent analysis is required and this should be shared with the Payments Community.

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

They are too high level to be useful.

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

The collation of costs and benefits needs to be undertaken as part of a robust business case. It would have been useful to have seen this work as part of the consultation.