

# Payments industry strategy and areas for collaboration



November 2014

This Supporting Paper supports the PSR's Consultation Paper '*A new regulatory framework for payment systems in the UK*'. It specifically outlines our approach to payments industry strategy that forms part of our broader overall framework for the regulation of UK payment systems.

As with all of our proposals in this consultation, they have been designed to further our objectives of promoting competition, innovation and the interests of service-users. This is designed for those stakeholders who want a more detailed understanding of our proposed approach.

We are asking for comments on this Consultation Paper by 5pm, Monday, 12 January 2015.

You can send your comments and responses to our consultation questions by email to [PSRconsultations@psr.org.uk](mailto:PSRconsultations@psr.org.uk).

You can also respond in writing to the address below (although we ask all respondents to also provide electronic Word and PDF versions of their response).

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We will publish all non-confidential responses to our Consultation Paper along with our final Policy Statement.

We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. Stakeholders who wish to claim commercial confidentiality over specific items in their response should make sure to fill in the cover sheet accordingly, and to identify those specific items which they claim to be commercially confidential by **highlighting them in yellow**.

We may nonetheless be required to disclose all responses which include information marked as confidential, in order to meet legal obligations, in particular if we are asked to disclose a confidential response under the Freedom of Information Act 2000. We will endeavour to consult you in handling such a request. Any decision we make not to disclose a response is reviewable by the Information Commissioner and the Information Rights Tribunal.

You can download this Consultation Paper from our website: [www.psr.org.uk](http://www.psr.org.uk)

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# A.

## Introduction

- 2.1 Realising our vision of world class payment systems will require effective industry-wide strategy development, setting, co-ordination and planning. Our view is that while industry has collaborated effectively in some respects, it has had difficulty in agreeing strategy and driving forward change. This has slowed the pace of innovation in payment systems.
- 2.2 To address this, we will drive the process for the development of industry strategy. We plan to launch a new Forum open to a wide range of industry and service-user stakeholders. This Forum will discuss, develop, determine and agree strategic priorities for the long-term development of payment systems. We intend the Forum to drive innovation, enable new and improved services, and help realise our vision of world class payment systems.
- 2.3 Alongside industry collaboration, we believe it is important for UK payments infrastructure to be able to support new developments and innovations. We will review the ownership structures of, and competition in, the provision of payment systems infrastructure to ensure it can support our vision of world class payment systems. We have begun Pre-Launch scoping work, in preparation for the full launch of our market review into this, which will formally commence by April 2015.
- 2.4 In this Supporting Paper, we consider the collaborative activity between participants in payment systems and the role of developing strategy to coordinate this activity and deliver on operational matters.
- 2.5 This Supporting Paper is divided into four parts:
  - **Part A:** this introduction.
  - **Part B:** provides a short background on collaboration in the payments industry.
  - **Part C:** considers collaborative activity between participants in payment systems and the role of developing strategy to coordinate this activity. We set out a summary of relevant evidence; our assessment of concerns raised; how those issues impact on our objectives; our proposals; and costs and benefits of the proposals. We also set out a number of areas for collaboration on infrastructure-related themes that the Forum can consider.
  - **Part D:** considers ownership and competition in the provision of infrastructure.
- 2.6 Expressions and acronyms we use are defined as appropriate in this Supporting Paper and in our *Glossary*. Where expressions are capitalised in the text (e.g. Operator), a more detailed definition is included in our *Glossary*, which is included as *Annex 1* to our Consultation Paper.

## B. Background

- 2.7 Payment service providers (PSPs) develop services individually – to meet end-user demand and regulatory requirements, to innovate, and to compete with other PSPs. However, where PSPs provide payment services, there may be benefits from them being part of a payment system, in which multiple other PSPs participate. Payment systems are characterised by:
- Network effects, which means that the more users a payment system has the more valuable it becomes to those users.
  - Two-sided markets, in which there are two distinct users of payment systems. Both sides of the market – the payers and payees – need to participate in order to effect a payment transaction. Equally important is the way that costs are split between these different users.
  - A number of PSPs participating in payment systems, which means that for some payment transactions, the payer and payee are served by different PSPs. Therefore PSPs may need to communicate with each other in the provision of services to end-users.<sup>1</sup>
- 2.8 This means that a level of collaboration is required to set up payment systems and introduce new services or develop existing services provided by payment systems.<sup>2</sup> This collaboration enables the flow of payments between different PSPs and enables PSPs to compete in the provision of payment services. PSPs may collaborate to:
- set common rules by which PSPs communicate with each other
  - work together to strengthen the resilience of the payment system, e.g. against fraud and cyber-attack
  - develop payment systems resulting in new or improved functionality of payment services (allowing PSPs to compete in the provision of these services)
- 2.9 To facilitate payments industry collaboration in the UK, a number of organisations exist ‘at the centre’. This includes the Operators (e.g. BPSL, C&CCCL, FPSL) who coordinate with their Direct PSPs (and other stakeholders) to develop their respective payment systems. The Operators themselves may also collaborate to innovate or provide certain common services to service-users.<sup>3</sup> It also includes industry bodies, such as the Payments Council, who often take responsibility for coordinating activities between PSPs and/or between Operators when change is required that extends beyond an individual payment system or that affects the payment systems of a range of PSPs or other stakeholders. In order to coordinate these activities, it may

1 Except for some transactions or payment systems (e.g. three-party card payment systems) where both the payee and the payer are served by one PSP.

2 We expect all industry participants to understand that any collaboration must comply with competition law (specifically Articles 101 and 102 TFEU and Chapters I and II CA98).

3 For example, in the migration of Standing Orders from Bacs to FPS, as well as more generally in areas like fraud and cross-system resilience, to the benefit of service-users. For card payment systems, Operators may also collaborate to set technical standards (such as PCI-DSS) or roll out new developments such as Chip and Pin in 2004.

be necessary for the payments industry to develop an overarching strategy (we discuss this further below in **Part C**).

- 2.10 Recent examples of this kind of collaborative activity include the development of the Current Account Switch Service (CASS – a service that makes it easier for customers to switch their current account) and Paym (a service that allows person-to-person payments to be made using mobile phone numbers as a proxy for sort code and account number). The development of both was coordinated by the Payments Council but involved multiple payment systems as well as participating PSPs.<sup>4</sup> Through previous industry reviews and consultations, and our recent engagement,<sup>5</sup> a number of infrastructure-related themes emerged as important to the functioning and development of payment systems (we discuss this further in **Part D** below).
- 2.11 The Direct PSPs in most payment systems are also the owners of the Operators of those systems. Payment systems are hence characterised by a significant number of vertical relationships. This may give rise to concerns about Direct PSPs' control and influence over payment systems (we discuss this in *Supporting Paper 3: Ownership, governance and control of payment systems*). As many Operators are not-for-profit<sup>6</sup> it appears that these concerns arise more from the ability to control the rules of the systems rather than the ownership of the Operators. In the sections below, we explore a number of concerns that have been raised about the ability of Direct PSPs to influence the development of, and innovation in, the payment systems through the Operators and Payments Council. In particular, the concern that their control and influence may slow the pace of innovation, meaning payment systems may not always operate in the interests of service-users (also see *Supporting Paper 3: Ownership, governance and control of payment systems*).
- 2.12 While most concerns arise at the Operator level, they may also occur at the infrastructure level, given that Infrastructure Providers such as Vocalink are also jointly owned by a similar set of banks (see figure SP1-3 in *Supporting Paper 1: The PSR and UK payments industry*).
- 2.13 Although collaboration may be necessary, there also appears to be some competition between individual card payment systems, and between card and interbank payment systems, but less so between interbank payment systems. Each interbank payment system provides distinct services that do not appear to overlap significantly (see *Supporting Paper 1: The PSR and UK payments industry* for a description of the services provided by payment systems).
- 2.14 The PSPs that own the Operators of the payment systems tend also to be the largest users of those payment systems. They compete with each other, and with other PSPs, in the provision of payment services to end-users. At the PSP level, competition can produce real benefits to service-users and end-users, not only in the provision of services using payment systems, but also wider retail banking markets.
- 2.15 The ability of these collaborative arrangements to address the needs of service-users and challengers is exacerbated by the speed of technological change broadening the demands of end-users. This pace of change has given rise to a considerable degree of innovation at the payment service level. A study jointly published by Ofcom and the PSR identifies many examples of innovation in payments by both communications and financial firms (included as an Annex to *Supporting Paper 2: Payments industry strategy and areas for collaboration*). These include the development of digital wallets by mobile operators, handset manufacturers and online platform providers often in agreements with card networks. Mobile players are also seeking to enter payments markets through contactless-enabled point-of-sale devices.
- 2.16 These innovations in payments are found at the consumer-facing end. However, innovation within payment systems, at the Operator and infrastructure levels, appears to have been at a

<sup>4</sup> BPSL response to *Payment Systems Regulator: Call for Inputs* (15 April 2014) – p 6.

<sup>5</sup> During our Call For Inputs and stakeholder engagement programme to date, we have consulted extensively with a wide range of interested parties including consumer representatives, payment system users (service-users), payment system operators (Operators), providers of payment services (PSPs) and other organisations (including the Treasury, Payments Council, PRA and FCA).

<sup>6</sup> Interbank Operators set charges to only recover cost. Under different ownership, the Operators may not have this incentive to keep prices low.

slower pace with change often driven by external pressure, sometimes political. This slower pace of change within payment systems may impede the further development of new innovative products for consumers.

- 2.17 At the same time, however, collaboration by PSPs may cause problems, in particular because:
- large Direct PSPs may have the ability and incentive to operate payment systems in their own individual interest, rather than to the benefit of all PSPs (or even all Direct PSPs) in the payment system (see *Supporting Paper 3: Ownership, governance and control of payment systems*)
  - Direct PSPs may influence Operators to set rules that limit access to payment systems to a small number of PSPs (see *Supporting Paper 4: Access to payment systems*)
- 2.18 The incentive for an individual PSP to support collective innovation via an Operator is weak, since their competitors are likely to also benefit from any such innovation. Some argue that the slow pace of innovation flows from the ownership structure of interbank payment systems and Infrastructure Providers (this is discussed in more detail in **Part D**).

## C.

# Collaboration and payments strategy

- 2.19 Collaboration in the payments industry focuses on two key areas:
- the setting of industry strategy, and
  - industry collaboration on operational matters
- 2.20 The development of industry strategy can help stakeholders to allocate resource and investment, and to set out timetables for implementation of change. This is particularly important for payment systems where development can involve multiple parties, significant associated costs and long lead times.
- 2.21 The development of payments industry strategy is seen as increasingly important in a number of different countries across the world. Different approaches to setting strategy have been undertaken in Australia, Canada and the USA, each of which has introduced or is considering changes to the process of industry strategy development. Specifically:
- The Payment Systems Board (PSB) of the Reserve Bank of Australia has taken on the role of setting out the strategic objectives for the Australian payments system, and recently the Australian Payments Council was established to facilitate industry consensus on key initiatives.
  - The USA's Federal Reserve System has been engaged in a series of 'Town Hall' meetings throughout 2014 in relation to the development of payment systems, and will use the research, conclusions and stakeholder feedback from those meetings to develop a roadmap for payment system improvements in the USA.
  - In June 2014, the Bank of Canada set out its vision for the Canadian payments system. The Canadian government has also announced that it is intending to develop a comprehensive risk-based approach to the oversight of the Canadian payments system and will consult on appropriate oversight for retail payment systems in Canada.
- 2.22 Further details and analysis of these specific international examples are set out in the RPI Paper on International Approaches, an Annex to this Supporting Paper.
- 2.23 In addition to collaborative activity which develops strategy for the payments industry, industry participants sometimes need to collaborate on various operational matters, including, for example:
- the implementation or delivery of initiatives and changes, including coordination on European payments regulation
  - matters related to ensuring system integrity and security including initiatives to increase resilience against fraud

- coordination on consumer research and increasing customer awareness around payments<sup>7</sup>
  - coordination on the development and adoption of common payment standards
  - developing codes of best practice for the industry (e.g. the misdirected payments code)<sup>8</sup>
- 2.24 In relation to Interbank Operators, we understand that the Payments Council currently facilitates much of this activity. The feedback we have received from stakeholders suggests that there is a continuing need for collaboration on these types of operational matters within the payments industry.<sup>9</sup> The implementations of CASS and Paym have both been used as examples to illustrate this point.
- 2.25 We are aware that the banking and payments industry is working on proposals for the future of the Payments Council. A number of banks have told us they see the need for the continuing existence of an industry body but are open to change to increase its effectiveness in the new regulatory environment.
- 2.26 Our intention at this time is to engage with industry and the other relevant authorities to ensure that any industry proposals on a future industry body are consistent with our objectives and approach.
- 2.27 For the remainder of this **Part C**, we focus on collaboration that enables the industry to set strategy.

### What are the issues?

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- 2.28 We recognise the role of collaboration in coordinating the development of industry strategy. We want to ensure that strategy can be developed, agreed and delivered by industry in a way which drives innovation forward and ensures that we have payment systems that take account of and promote the interests of service-users.
- 2.29 Our analysis and stakeholder feedback suggest that the current process for developing industry strategy encounters difficulties. These concerns centre on:
- the capacity of industry to plan ahead while meeting multiple external demands, such as change emanating from UK or European legislation
  - the level of stakeholder involvement or influence on how payments strategy is developed<sup>10</sup>
  - the effectiveness of the processes for developing strategy and driving forward collaborative change<sup>11</sup>
- 2.30 These concerns extend across a number of areas of collaboration including certain ongoing and future infrastructure-related themes (see further below).

<sup>7</sup> See, for example: <http://www.payyourway.org.uk/>

<sup>8</sup> See Payments Council website: [http://www.paymentscouncil.org.uk/current\\_projects/misdirected\\_payments/](http://www.paymentscouncil.org.uk/current_projects/misdirected_payments/)

<sup>9</sup> See for example: Co-operative Bank response to *Payment Systems Regulator: Call for Inputs* (15 April 2014) – p3, FPSL response to *Payment Systems Regulator: Call for Inputs* (14 April 2014) – p5, Nationwide response to *Payment Systems Regulator: Call for Inputs* (15 April 2014) – p9, and Tesco Bank response to *Payment Systems Regulator: Call for Inputs* (15 April 2014) – p6.

<sup>10</sup> Also see the Treasury's consultation '*Opening Up UK Payments*' (March 2013) – section 3.9, p8, available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/221903/consult\\_opening\\_up\\_uk\\_payments.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221903/consult_opening_up_uk_payments.pdf)

<sup>11</sup> Also see '*Independent Review of Governance and Performance of the Payments Council 2009-11*' (31 January 2012), available at: [http://www.paymentscouncil.org.uk/files/payments\\_council/governancereview/governance\\_review-martin\\_cave\\_report-february2012.pdf](http://www.paymentscouncil.org.uk/files/payments_council/governancereview/governance_review-martin_cave_report-february2012.pdf), the Treasury's '*Setting the strategy for UK payments*' (July 2012) – p16, available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/81567/setting\\_strategy\\_uk\\_payments190712.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/81567/setting_strategy_uk_payments190712.pdf); and the Treasury's '*Opening up UK payments*' (March 2013) – p8, available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/221903/consult\\_opening\\_up\\_uk\\_payments.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221903/consult_opening_up_uk_payments.pdf)

### Concerns regarding the capacity of industry to plan ahead while meeting multiple external demands

- 2.31 A number of stakeholders have told us that the industry's ability to plan ahead and implement industry developments in a timely manner has been impacted by the need to comply with multiple external demands. For example, in discussions around strategy, stakeholders have noted that there needs to be a finite list of regulatory requirements and that the new PSR could help to create a more considered approach to changes required from the industry.<sup>12</sup>
- 2.32 The concerns expressed to us in this area were of a general nature but also relate to the Payments Council in its role as the strategy setting body for UK payments and as a delivery body when regulatory requirements reach across payment systems.

#### **Our assessment of these concerns**

- 2.33 We understand the concern that multiple external demands may impact on the industry's ability to commit to further change and make long term plans. However, in some cases, this external pressure may be reflective of a failure by the industry to anticipate the needs of various stakeholders. Examples of this include the Independent Commission on Banking (ICB) prompting the industry to introduce CASS and the FCA's agreement with industry to enable a 'retry' system to stop unnecessary penalty charges for consumers.<sup>13</sup>
- 2.34 Furthermore, the industry has and will always need to plan for regulatory requirements that come from outside the UK. Recent examples include the Single Euro Payments Area Regulations (SEPA),<sup>14</sup> the proposed revised European Payments Services Directive (PSD2)<sup>15</sup> and the Payment Accounts Directive.<sup>16</sup>
- 2.35 The ability of the industry to respond to, or in some cases pre-empt, external requirements could be strengthened by effective strategic planning. Effective strategic planning is likely to require a more holistic approach by industry, with the input of all interested stakeholders, including the Government, the Bank and other regulatory bodies.

### Concerns regarding the level of stakeholder involvement or influence on how payments strategy is developed

- 2.36 We have heard concerns from a range of stakeholders about their ability to input into or influence decisions relating to the development of payments industry strategy. These concerns related to: *overall* strategy developed by the Payments Council; *individual* strategies developed by the Interbank Operators; and there were some relevant concerns raised about the voice of particular stakeholder groups in relation to card payment systems.
- 2.37 It was noted that while the current process for developing overall industry strategy has been led by the Payments Council and its members, other stakeholders, such as merchants, also need to be represented in discussions. Some stakeholders went further in noting that the Payments Council is dominated by the banking industry and lacks public accountability.
- 2.38 The board of the Payments Council – which has an objective of having “*a strategic vision for payments and leading future development of cooperative payment services in the UK*”<sup>17</sup> – does not include any form of formal representation for the Operators of interbank or card payment systems.<sup>18</sup> In practice, Interbank Operators are invited to attend for relevant agenda items only.

<sup>12</sup> The issue was also discussed at the PSR's Governance event (11 July 2014).

<sup>13</sup> See the FCA website: <http://www.fca.org.uk/news/commitment-high-street-banks-retry-system>

<sup>14</sup> See [http://ec.europa.eu/internal\\_market/payments/sepa/index\\_en.htm](http://ec.europa.eu/internal_market/payments/sepa/index_en.htm)

<sup>15</sup> See [http://ec.europa.eu/internal\\_market/payments/framework/index\\_en.htm](http://ec.europa.eu/internal_market/payments/framework/index_en.htm)

<sup>16</sup> See <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0092&from=EN>

<sup>17</sup> See [http://www.paymentscouncil.org.uk/who\\_are\\_we/our\\_remit/](http://www.paymentscouncil.org.uk/who_are_we/our_remit/)

<sup>18</sup> The board is composed of directors appointed or elected by full members of the Payments Council (who are PSPs, not Operators), as well as an independent chair and independent directors. These independent directors chair, and represent the views of, the Payments Council's customer and industry forums (see [http://www.paymentscouncil.org.uk/who\\_do\\_we\\_work\\_with/user\\_forums/](http://www.paymentscouncil.org.uk/who_do_we_work_with/user_forums/)). None of these arrangements provide for the formal representation of the views of Operators.

- 2.39 The primary cooperative forum for card issuers and acquirers is the UK Cards Association. Cards are not a primary focus for the Payments Council but neither are they excluded. For example, the membership of the Payments Council includes WorldPay (an acquirer) and Amex (a card issuer/acquirer),<sup>19</sup> and the 2011 National Payments Plan included work on cards.<sup>20</sup>
- 2.40 One PSP noted that they had never been given an opportunity to be engaged in discussions about payments strategy in their capacity as a major issuer of pre-paid cards.
- 2.41 We have been told that the lack of effective stakeholder engagement can lead to strategy being developed and set without considering the full implications. This concern applies to both the Payments Council and the Interbank Operators.
- 2.42 For example, a UK charity noted that the Payments Council's cheque withdrawal<sup>21</sup> programme pushed for change before the implications for consumers had been fully understood.
- 2.43 In the interbank space, a processor noted that they had been engaged to deliver solutions only once they had been defined rather than at their inception, which has resulted in processes that do not always meet the best interests of service-users.
- 2.44 However, we have also heard that it can be challenging to find effective ways to represent the interests of disparate service-users or other stakeholders in the development of strategy.
- 2.45 In relation to the strategies developed by Card Operators, we understand that strategy for UK operations forms part of a wider international strategy. However, it is still important to understand the extent to which service-users in the UK are able to feed into the development of the card payment systems.
- 2.46 In discussion with some card service-users, we heard that Card Operators were 'issuer-centric' which meant that certain stakeholders, such as acquirers, struggled to have a voice in discussions. Some merchants also said they had no direct relationship with Card Operators, despite being subject to the rules and requirements set by the Card Operators, and called for greater representation (we discuss this further in *Supporting Paper 3: Ownership, governance and control of payment systems*).

#### ***Our assessment of these concerns***

- 2.47 Concerns relating to stakeholders' ability to influence strategy developed by the Payments Council and Interbank Operators stem from the fact that strategic decisions are made at board level. For the interbank payment systems, the boards of the Operators set strategy for individual systems, while the Payments Council board has made decisions on overall industry strategy.
- 2.48 Without effective mechanisms to feed the views of wider stakeholders into these board discussions, there is a risk that stakeholders who do not have a right to appoint a board director will be excluded from influencing the future development of systems, even though any developments will have an impact on them. This could also enable the largest banks – which play a prominent role on the boards of Operators (also see *Supporting Paper 1: The PSR and UK payments industry*) – to be in a strong position to influence strategy in their favour.
- 2.49 In the case of the Payments Council, the five largest PSP members by payments volume appoint a director to the Payments Council's board, and six directors from other PSP members are

<sup>19</sup> [http://www.paymentscouncil.org.uk/our\\_members/full\\_members/full\\_member\\_list/](http://www.paymentscouncil.org.uk/our_members/full_members/full_member_list/)

<sup>20</sup> The National Payments Plan work included "to examine the relationship with the UK Cards Association and the international card schemes...and...pre-paid card issuers" as well as work on raising awareness of chip and signature cards. See '2011 National Payments Plan' (October 2011), available at [http://www.paymentscouncil.org.uk/files/payments\\_council/what\\_we\\_do/npp\\_2011.pdf](http://www.paymentscouncil.org.uk/files/payments_council/what_we_do/npp_2011.pdf)

<sup>21</sup> In December 2009 the board of the Payments Council published its decision to set a target end date of 31 October 2018 for the cheque clearings in Great Britain and Northern Ireland. See the Payments Council's 'The Future of Cheques in the UK' (December 2009) – p2, available at: [http://www.paymentscouncil.org.uk/files/payments\\_council/the\\_future\\_of\\_cheques\\_final\\_version.pdf](http://www.paymentscouncil.org.uk/files/payments_council/the_future_of_cheques_final_version.pdf).

elected by a constituency of PSP members with smaller volumes.<sup>22</sup> This arrangement goes some way to accommodating a wider range of views within Payments Council board discussions, but it still limits decision-making primarily to PSPs, excluding other potentially interested parties from board discussions. No such constituency arrangements currently exist for the Interbank Operators (see *Supporting Paper 3: Ownership, governance and control of payment systems*).

- 2.50 We understand that the boards of the Payments Council and of the Interbank Operators have a number of other mechanisms to bring the views of stakeholders into their discussions, where such stakeholders are not otherwise represented at board level. This includes the Payments Council's user forums, each of which is chaired by an independent board director;<sup>23</sup> the affiliate groups maintained by BPSL, CHAPS Co and FPSL;<sup>24</sup> LINK Scheme's Consumer Council;<sup>25</sup> and C&CCCL's annual user forum,<sup>26</sup> all of which enable service-users to provide their views on a range of matters.
- 2.51 However, views on the effectiveness of these mechanisms are mixed. A number of Payments Council user forum attendees, for example, thought that they were engaged on proposals at a late stage, rather than proactively or at a stage where stakeholders could influence the development of strategy. However, LINK Scheme's Consumer Council received positive feedback from a number of consumer representatives. For further analysis of service-user representation within the governance of the payment systems, see *Supporting Paper 3: Ownership, governance and control of payment systems*.
- 2.52 With regard to the Interbank Operators' engagement with the Payments Council on strategy, we think all of the Operators (including Card Operators) should be engaged in strategic discussions for the industry, not least to ensure that their individual strategic priorities can inform industry strategy and vice versa.
- 2.53 In relation to Card Operators' input into overall payments strategy (as developed by the Payments Council), we note that the Payments Council's original remit excluded card payment systems<sup>27</sup> and that the UK Cards Association exists to represent PSPs that are card issuers and/or acquirers. Nevertheless, we consider that the development of UK payments strategy also needs engagement from stakeholders that participate in card payment systems, given the significant and growing share of payments that are made using cards in the UK.
- 2.54 Some card stakeholders (namely merchants and acquirers) have raised concerns about their relationships with the card payment systems, and this suggests that their ability to participate in, and influence, the strategy setting process for card payment systems, may be limited.

### **Concerns regarding the current processes for developing strategy and driving forward collaborative change**

- 2.55 The concerns expressed to us in this area were focused on the development of *overall* industry strategy by the Payments Council, rather than strategies developed individually by the Operators. They highlight two interrelated issues: the current process for developing a 'Payments Roadmap' strategy and the industry's ability to agree and drive forward change.

22 See the Payments Council's 'Articles of Association' – pp 14-15, available at [http://www.paymentscouncil.org.uk/files/payments\\_council/articles\\_of\\_association\\_\(2012\)\\_-\\_final.pdf](http://www.paymentscouncil.org.uk/files/payments_council/articles_of_association_(2012)_-_final.pdf) and Payments Council's 'Rules of Payments Council Limited' (Jan 2014) – p21, available at [http://www.paymentscouncil.org.uk/files/payments\\_council/member\\_team\\_docs/07\\_pc\\_rules\\_jan\\_2014\\_jan\\_clean\\_copy.pdf](http://www.paymentscouncil.org.uk/files/payments_council/member_team_docs/07_pc_rules_jan_2014_jan_clean_copy.pdf)

23 See Payments Council website for details of its user forums, available at: [http://www.paymentscouncil.org.uk/who\\_do\\_we\\_work\\_with/user\\_forums/](http://www.paymentscouncil.org.uk/who_do_we_work_with/user_forums/)

24 See BPSL website for details of the Electronic Payment Affiliate Group, available at: <http://www.bacs.co.uk/Bacs/Affiliates/Pages/WhatsAnAffiliate.aspx>

25 See <http://www.link.co.uk/Cardholders/Pages/ConsumerCommittee.aspx>

26 See <http://www.chequandcredit.co.uk/resources/events/-/page/2908/>

27 In October 2006, the Chairman of the OFT wrote to the Chancellor of the Exchequer recommending the creation of a new body responsible for ensuring the overall integrity and operational efficiency of the UK's non-card payment systems. See OFT's '*Review of the Operations of the Payments Council*' (March 2009) – p7, available at [http://webarchive.nationalarchives.gov.uk/20140402142426/http://oft.gov.uk/shared\\_oft/reports/financial\\_products/oft1071.pdf](http://webarchive.nationalarchives.gov.uk/20140402142426/http://oft.gov.uk/shared_oft/reports/financial_products/oft1071.pdf)

- 2.56 In June 2013, the Payments Council published the approach it would take to develop a 'Roadmap' strategy for the development of shared payments infrastructure in the UK. The report examined some initial options, including a number of 'end-states' for the payments infrastructure. The stated intention in the report was that following initial publication, version 1 of the Roadmap would be delivered during the first quarter of 2014, to be followed by version 2 later in 2014.<sup>28</sup> Neither version 1 or 2 has yet been published.
- 2.57 Stakeholders involved in developing the Roadmap have told us that agreeing the basis of the long term strategy had been "*a difficult process*", and that it had involved a lot of time and effort but that the benefit had not been realised.
- 2.58 The Payments Council's board generally reaches decisions by consensus.<sup>29</sup> Some stakeholders<sup>30</sup> have said that this approach can create difficulties for progressing strategic industry initiatives, for example, because individual parties can block motions they disagree with.<sup>31</sup> It was noted by some stakeholders that the development of UK payment systems under current governance arrangements has been slow. A large bank noted that "*Collective innovation takes time to engage stakeholders and requires investment from all entities often leading to a slower pace of progression*". The Payments Council itself acknowledged that "*collaborative innovation at the centre does run the risk of going at the speed of the slowest*".<sup>32</sup>
- 2.59 A number of reasons were suggested for the slow pace of change, for example that:
- reaching consensus is particularly difficult when multiple parties need to agree on cost sharing and technical specifications
  - there is a perception amongst industry participants that payments are a 'cost-centre' (due to the free-if-in-credit model for personal customer banking), which reduces participants' willingness to pay for innovation<sup>33</sup>
  - collaborative innovation requires extensive preparation and negotiation about objectives

#### ***Our assessment of these concerns***

- 2.60 We appreciate that the current regulatory environment (including the creation of the PSR) may have impacted recent efforts to develop strategy led by the Payments Council.
- 2.61 However, the concerns raised above in relation to consensus and the slow pace of change appear valid when seen in the context of a trend for collaborative change being delivered only after long periods of discussion or following external pressure.
- 2.62 An example of an initiative led by the Payments Council which progressed slowly from inception to implementation is mobile account-to-account payments. This was discussed in the consultation on the Payments Council's National Payments Plan in 2007<sup>34</sup> but only delivered in 2014 with the launch of Paym. An example of external pressure resulting in progress being made is CASS, which was introduced two years after a recommendation by the ICB in 2011.<sup>35</sup>

28 See Payments Council's '*The Payments Roadmap – An Initial Report*' (June 2013), available at <http://www.paymentscouncil.org.uk/roadmap/>

29 Payments Council response to *Payment Systems Regulator: Call for Inputs* (15 April 2014) – p11, C&CCCL response to *Payment Systems Regulator: Call for Inputs* (14 April 2014) – p4.

30 Bank of England response to *Payment Systems Regulator: Call for Inputs* (8 May 2014) – p2, Association of Independent Risk & Fraud Advisors response to *Payment Systems Regulator: Call for Inputs* (15 April 2014) – p11, and C&CCCL response to *Payment Systems Regulator: Call for Inputs* (14 April 2014) – p4.

31 See for example, '*Independent Review of Governance and Performance of the Payments Council 2009-11*' (31 January 2012) – pp 19-20, [http://www.paymentscouncil.org.uk/files/payments\\_council/governancereview/governance\\_review-martin\\_cave\\_report-february2012.pdf](http://www.paymentscouncil.org.uk/files/payments_council/governancereview/governance_review-martin_cave_report-february2012.pdf). See also the Treasury's '*Opening up UK payments*' (March 2013) – p8, available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/221903/consult\\_opening\\_up\\_uk\\_payments.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221903/consult_opening_up_uk_payments.pdf)

32 Payments Council response to *Payment Systems Regulator: Call for Inputs* (15 April 2014) – p16.

33 Bank of England response to *Payment Systems Regulator: Call for Inputs* (8 May 2014) – section 3, p2.

34 See '*National Payments Plan – Consulting on change in UK payments*' (2007) – p22, available at [http://www.paymentscouncil.org.uk/files/payments\\_council/what\\_we\\_do/npp\\_2007\\_consultation.pdf](http://www.paymentscouncil.org.uk/files/payments_council/what_we_do/npp_2007_consultation.pdf)

35 See Payments Council website, available at [http://www.paymentscouncil.org.uk/how\\_was\\_the\\_decision\\_to\\_deliver\\_a\\_new\\_account\\_switching\\_service\\_reached/](http://www.paymentscouncil.org.uk/how_was_the_decision_to_deliver_a_new_account_switching_service_reached/)

- 2.63 Given the concerns raised by stakeholders and our assessment of the issues, we believe that the following factors impact on the industry's ability to agree collaborative change:
- within the network of payment systems, major innovations need widespread adoption and collective investment, which requires broad agreement by all participants
  - existing industry players may not have a commercial incentive to undertake collective investments where this could benefit competitors who also participate in the system
  - participants' interests will not always align, and within current governance arrangements the consensus model creates the risk that collaborative initiatives can be blocked, or slowed (notwithstanding recent changes in governance)
  - several infrastructure-related developments are usually being considered by the industry at the same time. These may be interrelated and may require a more collaborative approach to ensure efficient and effective implementation (we discuss these in more detail below)
- 2.64 While divergent priorities are inevitable, a balance must be sought between accommodating the needs of individual participants and the ability to agree shared strategy effectively to drive forward collaborative change.
- 2.65 Given the potential impact on our objectives of promoting competition, innovation and the interests of service-users in payment systems, we view effectiveness of strategic development and driving forward collaborative change as an important priority area for us.

### **What are the impacts of these concerns?**

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- 2.66 The first set of concerns relates to the capacity of industry to plan ahead while meeting multiple external demands, such as change emanating from UK or European legislation.
- 2.67 The second set of concerns is focused on the level of stakeholder involvement or influence on how payments strategy is developed.
- 2.68 The third set of concerns is focused on the effectiveness of the processes for developing overall industry strategy and driving forward collaborative change. We did not receive significant feedback on processes for developing strategy adopted individually by the Operators.
- 2.69 These concerns indicate to us that the continued development of strategy for collaborative industry development under current arrangements will not help us to advance our objectives.

### **Impact on competition**

- 2.70 Our concerns regarding strategy primarily centre on the lack of effective service-user representation and the associated negative impact on innovation in payment systems. However, we are also concerned about its impact on competition. Collaboration at the centre can also drive competition in downstream markets for services provided by payment systems, including retail banking. The slow pace of collaborative strategic development by the industry limits any potential beneficial impact on competition both in the market for payment systems, and in the markets for services provided by payment systems.

### **Impact on service-users**

- 2.71 We note that some stakeholders feel they are excluded from discussions relating to industry strategy, either because the arrangements which exist for consultation are not effective, or because they cannot gain access to strategic discussions.

- 2.72 Arrangements which act to exclude interested parties from effective engagement in strategic discussions may result in strategy being developed which does not take into account the full range of stakeholders and service-users who are impacted by the outcome of the strategy.
- 2.73 For example, the Payments Council was heavily criticised for its lack of effective stakeholder consultation when it decided to set a target date for the closure of cheque clearing. The Treasury Select Committee (TSC) received more than 1,200 letters and emails from members of the public.<sup>36</sup>
- 2.74 This example highlights the critical importance of robust stakeholder engagement and wide-reaching consultation when strategic decisions relating to the payment systems are being made. The cheque clearing decision had the potential to impact a diverse range of stakeholders and service-users on a nationwide scale and it was crucial that all steps were taken to engage with those service-users potentially impacted by the decision.
- 2.75 While the Payments Council clearly made efforts to consult on their strategic plan for cheques both before and after<sup>37</sup> the 2009 board decision, the perception and concerns highlighted by the TSC suggest that these efforts did not extend far enough.<sup>38</sup>

### Impact on innovation

- 2.76 A lack of diversity in the views and opinions considered when strategy is being developed can potentially impact on the scope for innovation in the development of payment systems (which can have a consequential effect on the services provided by payment systems).
- 2.77 This could mean that the UK falters in the development of world-leading innovations in payment systems. A failure to listen to potentially innovative stakeholders, for example, because they do not qualify for representation on a decision-making body, could represent a missed opportunity.
- 2.78 The current consensus model arrangement (for Interbank Operators and the Payments Council) for the development of strategy and agreement on collaborative activity can result in initiatives being easily delayed or blocked. This has the potential to slow down the speed at which innovations can be brought to fruition, compared to a situation where more effective stakeholder representation is in place.

## Our proposed approach to payments industry strategy

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- 2.79 We consider that an effective strategy for the UK payments industry will bring benefits to service-users and, more widely, to the UK economy. Having an effective strategy can help to coordinate and drive forward collaboration between industry participants enabling the development of, and innovation in, payment systems which will have a beneficial impact on services provided by payment systems.
- 2.80 We recognise the need for a mechanism to facilitate the development of strategy through which industry and other stakeholders can together identify, assess and agree strategic priorities and how to best implement these. This mechanism needs to ensure greater representation from all stakeholders in the industry, and deliver innovations and infrastructure-related developments in a timely manner.

<sup>36</sup> See House of Commons Treasury Committee *'The Future of Cheques'* (July 2011) – p2, available at <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1147/1147.pdf>

<sup>37</sup> See Frontier Economics' report prepared for the Payments Council *'A framework for assessing the social costs and benefits of cheque replacement in the UK'* (September 2010), available at [http://www.paymentscouncil.org.uk/files/payments\\_council/new\\_website/cheque\\_replacement\\_\\_a\\_framework\\_for\\_assessing\\_the\\_social\\_costs\\_and\\_benefits\\_of\\_cheque\\_replacement\\_in\\_the\\_uk.pdf](http://www.paymentscouncil.org.uk/files/payments_council/new_website/cheque_replacement__a_framework_for_assessing_the_social_costs_and_benefits_of_cheque_replacement_in_the_uk.pdf)

<sup>38</sup> See House of Commons Treasury Committee *'The Future of Cheques'* (July 2011) – p8, available at <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1147/1147.pdf>

- 2.81 Drawing on the past experience of industry strategy development in the UK, as well as international experience, we have identified three possible approaches for the future development of payments industry strategy, which we consider below:
- Option 1: We lead on the strategy setting process through a Payments Strategy Forum
  - Option 2: The Payments Council (or a successor) continues to set industry strategy
  - Option 3: We set industry strategy
- 2.82 We are proposing Option 1.
- Option 1 – We lead on the strategy setting process through a Payments Strategy Forum**
- 2.83 Option 1 proposes for us to lead on the strategy setting process by launching a new Forum for industry participants and a broad range of service-users.
- 2.84 We are proposing to take control of industry strategy development and setting process, so that the pace of change is increased. We also want to make sure that service-users are given a voice when decisions are made concerning the future of payment systems upon which they rely.
- 2.85 We propose to provide the secretariat for the Forum initially and will appoint an independent chair for the Forum. The Forum would develop and agree strategic priorities for the long-term future of payment systems and facilitate the development of new or improved services provided by payment systems.
- 2.86 We also expect the Forum to meet regularly to maintain momentum (i.e. every 6-12 weeks).
- 2.87 While we expect Operators and other industry participants to continue developing their own systems and services independently, the Forum would focus particularly on areas where strategic development requires the collective action of stakeholders. It would maintain a high-level strategy to coordinate and drive this collective action to set priorities for the industry to deliver world class infrastructure for payment systems.
- 2.88 Areas we think could benefit from such strategic coordination include, for example, the development of, or innovations in, payment systems and the underlying infrastructure (which may facilitate the development of new or improved services provided by payment systems); or the adoption of common standards, for example, to increase interoperability.
- 2.89 A mechanism should exist to develop proposals at a more detailed level, through, for example, working groups.
- 2.90 We would work actively with the Forum, ensuring that payments innovation and developments can be driven forward and that service-users are taken into account in the process. We will consider whether to take further action to advance our objectives where sufficient progress is not being made on a timely basis.
- 2.91 We recognise that it is industry that has the experience, expertise and resource to develop new solutions and ways of working, and meet end-user needs. However we will also stand ready to hold industry to account for delivery. If industry fails to respond, we will take action.
- 2.92 The Forum would not have a role in the delivery or implementation of system change – this would be the responsibility of Operators, other participants and industry bodies.
- 2.93 Further details on this approach can be found in paragraph 2.109 below.

## **Option 2 – The Payments Council (or a successor) continues to set industry strategy**

- 2.94 Under Option 2, the payments industry could continue to develop strategy through an industry body such as the Payments Council.
- 2.95 However, stakeholders indicated a lack of confidence in the Payments Council's ability to develop strategy for the industry effectively. To re-establish confidence, we consider that significant changes to its governance would be required, including measures being put in place to give a wider variety of stakeholders greater representation in strategic decisions. Mechanisms would also need to be put in place, under this alternative, for us to input our own views.
- 2.96 Given the potentially significant changes that would be required, we consider that a fresh start provided by Option 1 (or Option 3) is preferable.
- 2.97 As a more general observation we note that the vesting of sole responsibility for payments strategy in an industry-body is unusual by international standards. As discussed in an Annex to this Supporting Paper, the RPI Paper on International Approaches, in countries such as Australia, Canada and the USA, public bodies (including central banks or relevant Government ministries) play an active role in the development of strategy for the industry. Furthermore, in many countries it is the central bank that operates the payment systems (including the provision of infrastructure).

## **Option 3 – The PSR sets strategy**

- 2.98 Under this approach, we would determine high-level priorities for the industry by consultation, and impose directions on participants to achieve these priorities (Option 3).
- 2.99 As described in an Annex to this Supporting Paper, the RPI Paper on International Approaches, the approach of having a public body (such as a central bank) set out a strategy or vision for the payments industry is one that is being adopted in other countries. For example, in Australia the PSB of the Reserve Bank of Australia is responsible for setting the strategic objectives for the industry in order to create a shared goal and vision. In the USA, the Federal Reserve System has published a series of papers outlining what they consider to be 'gaps and opportunities' in payment systems, and is currently developing a roadmap for payment system development using the research, conclusions and stakeholder feedback from its recent consultation process.
- 2.100 The role played by the public bodies in these countries appears to reflect the specific industry structures and characteristics of the payment industries in these countries, some of which do not apply in the UK context. For example, there is an acknowledged need in both Australia and the USA for strategic collaboration to aid the development of a real-time or immediate faster payments system, which has already been introduced in the UK. Moreover, in the USA a need to coordinate payments innovations is seen as important given the breadth and complexity of the payment systems landscape, and the challenges this poses in terms of achieving sufficient coverage (ubiquity) to fully realise potential network effects.
- 2.101 We do not consider that the same sorts of considerations arise in the present UK context, and we therefore consider that it is not necessary at this time for us to take the lead in the setting of payments industry strategy. We believe that our involvement in an industry forum which takes into account the interests of service-users (i.e. Option 1) would provide the most effective approach to strategic industry development.

## **Assessment of these options**

- 2.102 Option 1 – the creation of a Payments Strategy Forum to set industry strategy – is our preferred approach for a number of reasons:
- The creation of a Forum will allow for wide participation in the identification, assessment and development of strategic priorities for the industry (including payment systems and therefore services provided by payment systems). Wide participation will open up strategic industry discussion to a broad range of stakeholders who may have previously been

excluded. Allowing for a diversity of views and opinions in strategic development is seen as particularly important given that much of the innovation in payment systems and services provided by payment systems is believed to come from smaller companies, PSPs, and non-financial institutions such as retailers.<sup>39</sup> The development of, and innovations in, payment systems will benefit from having early input from all interested stakeholders at the Forum, including where appropriate from regulators and Government.

- We also expect our active involvement in the Forum to bring a number of benefits. Firstly, it will ensure that broader considerations regarding the interests of service-users are given sufficient prominence in deliberations regarding the future strategy for the payments industry. Secondly, we have the option of taking further regulatory action where we consider it necessary, appropriate and proportionate. We expect industry to ensure that strategic development proceeds in a timely manner but if it does not, we will consider adopting a more prescriptive approach.
- Our involvement may lead to wider stakeholder acceptance of strategic decisions and actions agreed by the Forum, thereby helping to address the current perception that payment systems are developed in ways which only suit the interests of the large banks.

2.103 In addressing some of the concerns associated with the current arrangements, the creation of a Forum could potentially bring wider benefits in terms of:

- a greater appreciation by industry and other participants of the impact on end-users of specific strategic decisions
- ensuring that innovations and improvements in the efficiency and operation of payment systems that will have important knock-on impacts on wider economic growth and development are given appropriate consideration, and where agreed, taken forward
- playing an important role in ensuring that industry is more adaptive to changes in demand and end-user preferences

2.104 The costs associated with the establishment, and on-going operation, of the Forum will depend very much on how it is designed and what its functions are. In particular, any incremental costs incurred by industry will depend on the extent to which the Forum replaces the strategy setting function of the Payments Council. Among the categories of costs that might be involved with Option 1 are:

- Implementation costs: including costs associated with the development of the Forum. Although under our preferred Option 1 the Forum secretariat will be provided by the PSR initially, there will likely be some additional costs for the industry in interacting with the Forum (although these may replace existing costs involved in interacting with the Payments Council on strategy setting).
- On-going costs: including the time and resource costs associated with participating in the Forum and any working groups that are established (although, again, these may replace existing costs involved in interacting with the Payments Council on strategy setting). These costs are likely to be incurred by industry participants as well as by service-users.

2.105 The magnitude of the implementation costs will depend on how the Forum is developed (i.e. size, composition and scope of activity), while the magnitude of the on-going costs will depend on issues such as the frequency with which it meets (our suggestion is every 6-12 weeks) and how any working groups operate in practice. However, as noted, costs should be measured on an incremental basis, by comparing the costs incurred with the Payments Strategy Forum which are over and above those associated with the engagement in the current strategy setting activities being performed by the Payments Council.

<sup>39</sup> See the Accenture Innovation Report, an Annex to this Supporting Paper.

- 2.106 We consider our preferred Option 1 to be the most proportionate and appropriate approach, and the one which is most consistent with our objectives and our regulatory principles.
- 2.107 As discussed above, we do not consider that Option 2 – maintaining the Payments Council's or a successor body's role in setting industry strategy – will address the concerns set out in this paper without significant changes to current arrangements to increase service-user representation within strategic discussions. Additional measures would also need to be taken to allow us to input into discussions.
- 2.108 Option 3 – to develop high-level priorities for the industry ourselves – is also not our preferred option. We want to begin our involvement by working with industry to develop the payment systems and therefore their services. We will consider over time whether we need to become more prescriptive in our approach.

### **Further details on our preferred Option 1**

#### ***Design of the Payments Strategy Forum***

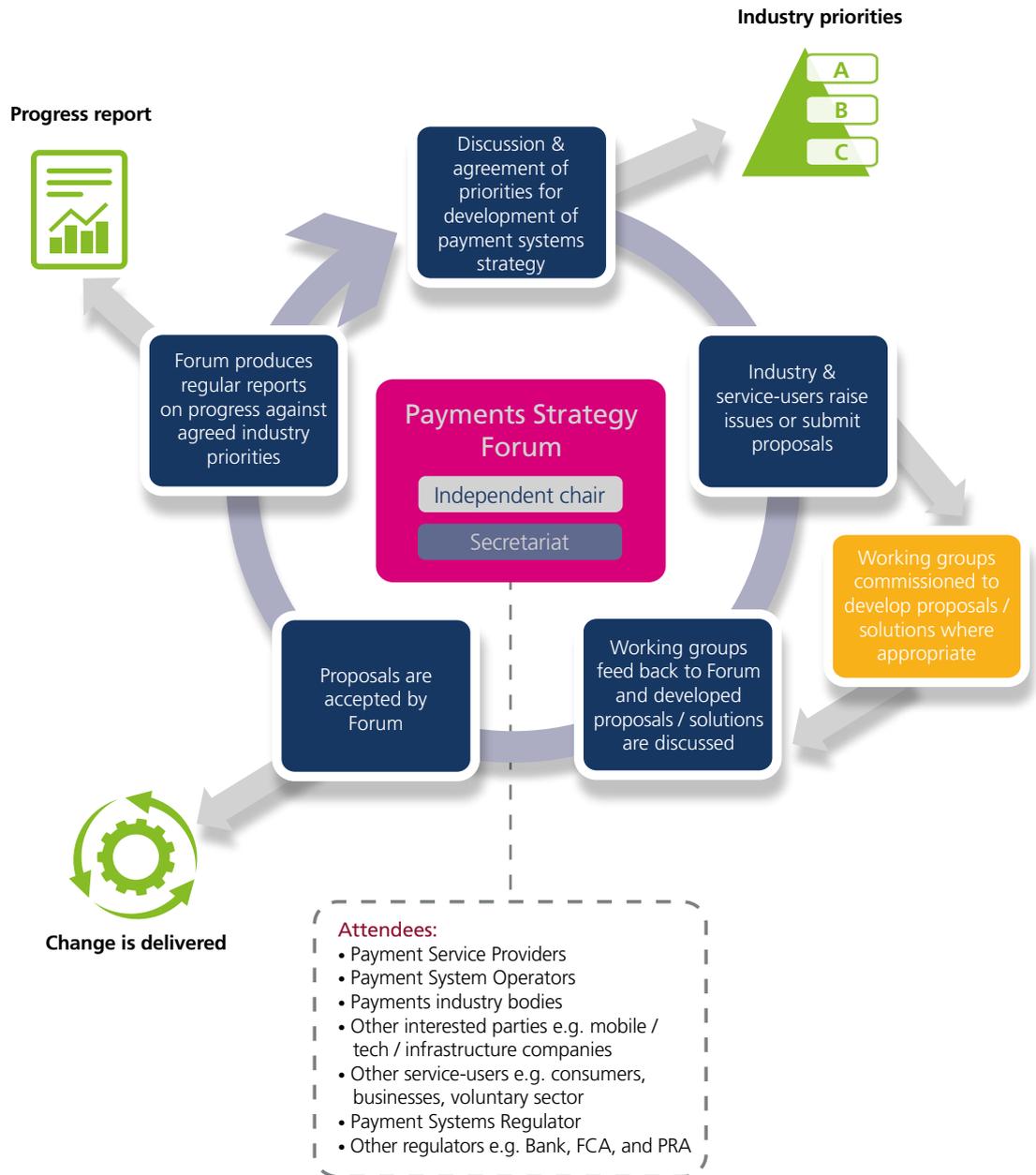
- 2.109 We will work with industry to design and launch our preferred option of the new Payments Strategy Forum. To ensure progress is made we will:
- Convene a working group, with representatives from across the payments industry and service-user groups, to develop terms of reference for the Forum, and to identify and agree a selection process for an independent chair for the Forum.
  - Appoint an independent chair for the Forum.
  - Provide a secretariat for the Forum which will work under the direction of the independent chair. We will keep the need for the PSR to provide the secretariat under review as the Forum develops.
- 2.110 We welcome stakeholder feedback on how the Forum could be designed. To facilitate discussion, we have set out a number of guiding principles under which we consider the Forum should operate:
- The Forum should provide an effective mechanism to enable industry participants and representatives of service-users to discuss, determine and agree strategic priorities for the development of payment systems.
  - Broad representation of industry and service-users should include, for example, Interbank and Card Operators, a range of PSPs, emerging payments players, consumer groups, advocates for relevant businesses or merchants, charities and voluntary sector organisations, corporates, Infrastructure Providers, technology providers and innovators, and representatives of the Government (as a major user of payment systems).
  - The Forum should be effective in progressing proposals, identifying and overcoming barriers to take collective action. To this end:
    - attendees should be of sufficient seniority to make executive decisions on behalf of the organisations represented
    - it should meet on a regular basis – our view is that meetings every 6-12 weeks are necessary to maintain momentum and drive progress
    - the Forum must be open to views from a wide range of stakeholders, but will need to be limited in size to be effective.
  - Strategic priorities of the Operators should inform the Forum's strategic objectives and vice versa.

- A mechanism should exist to develop proposals at a more detailed level, for example, through working groups.
- The Bank and other relevant regulators should be able to participate in the Forum as they see fit to ensure that the development of payments strategy is consistent with their objectives. We believe that the creation of the Forum can also benefit initiatives led by other regulators, such as the FCA's Project Innovate, which is looking to help technology firms and other companies innovative in financial services markets. Many of these innovators are focussed on payments markets.
- We will continue to have regard to how our proposals could impact the Bank's functions<sup>40</sup> and objectives and the stability of, or confidence in, the UK financial system. We will continue to work closely with the Bank to assess these impacts and ensure there are no adverse impacts.

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<sup>40</sup> In the Bank's capacity as a monetary authority, including the Bank's other relevant functions such as settlement service provider, provider of infrastructure, security trustee, Direct PSP in some payment systems, and resolution authority.

2.111 We welcome stakeholder feedback on how the Forum could operate in practice. To facilitate discussion, we set out an indicative model for how the Payments Strategy Forum could operate in practice below.



2.112 Below we discuss a number of infrastructure-related themes (for example cheque imaging, richer data, and messaging standards) that we believe should be subject to discussions under the Forum or its working groups.

**SP2-Q1: Do you agree with our proposed approach to set up a Payments Strategy Forum, as opposed to our Option 2 or Option 3 set out above? If you disagree with our proposed approach, please give your reasons.**

**SP2-Q2: Do you have any comments on the design of the Payments Strategy Forum? In particular, please comment on how the Forum could meet the need for broad stakeholder representation while still being effective.**

**SP2-Q3: Do you have any comments on our indicative model for how the Payments Strategy Forum could operate in practice?**

***Areas for collaboration on infrastructure-related matters***

- 2.113 The payments industry is undergoing significant change, driven and enabled by developments in technology and payment systems infrastructure. Through previous industry reviews and consultations (see *Supporting Paper 1: The PSR and UK payments industry* for more information), and our recent industry engagement,<sup>41</sup> a number of infrastructure-related themes emerged as important to the functioning and development of payment systems. These include (but are not limited to):
- CASS and Account Number Portability (ANP)
  - Cheque imaging
  - Messaging standards
  - Ring-fencing
  - Richer data
  - Technical Access to payment systems
- 2.114 In particular, the FCA has recently begun a review of CASS alongside which it is also gathering evidence on ANP.<sup>42</sup> It will consider whether the potential benefits of ANP are in fact likely to deliver additional improvements to switching current accounts. To do this the FCA will survey retail and small and medium-sized enterprise customers to understand what inhibits switching. We will take account of the outcomes from the FCA's review, and the evidence it has gathered from stakeholders, when considering infrastructure-related developments going forward. This may require the Forum to consider enhancements and/or changes to payment systems infrastructure, including those that could potentially facilitate the development of enhanced features such as ANP or other world class infrastructure-related features.
- 2.115 These infrastructure-related developments are important for competition and innovation in payment systems and the services being provided by payment systems.
- 2.116 The industry may be best placed to design and develop infrastructure solutions that meet the needs of service-users. We believe that an effective process involving a wide range of stakeholders will be important to drive forward far-reaching and widespread changes to payment systems and the services they support. As such, we believe that our proposed Payments Strategy Forum (see paragraph 2.109 above) may provide the best forum to discuss the outcomes, development and implementation of the various infrastructure-related themes.
- 2.117 We will also initiate a programme of infrastructure-related work in 2015 to keep technology and infrastructure developments under review to ensure that the expected outcomes are

<sup>41</sup> During our Call For Inputs and stakeholder engagement programme to date, we have consulted extensively with a wide range of interested parties including consumer representatives, service-users, Operators, PSPs and other organisations (such as the Treasury, Payments Council, PRA and FCA).

<sup>42</sup> See <http://www.fca.org.uk/about/what/promoting-competition/current-account-switch> for more information.

aligned with our objectives and determine whether it may be necessary for us to take any further steps.<sup>43</sup>

**SP2-Q4: Are there any additional infrastructure-related themes you believe we, or the Payments Strategy Forum, should consider? If yes, please provide a description of why the additional themes are important to you.**

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<sup>43</sup> See also the KPMG Infrastructure Report, an Annex to this Supporting Paper.

## D.

# Ownership and competition in the provision of infrastructure

- 2.118 One of our objectives is to promote innovation in payment systems. This includes in particular, the development of, and innovation in the infrastructure used – with a view to improving the quality, efficiency and economy of payment systems.
- 2.119 Some stakeholders argue that the complexity of payment systems and slow pace of innovation (as set out above) stem from the ownership structures of interbank payment systems<sup>44</sup> and Infrastructure Providers.
- 2.120 We are aware of a number of infrastructure-related developments being considered by the industry, including Project Simplification<sup>45</sup> and the themes identified in paragraph 2.113 above.
- 2.121 We are concerned about the impact these developments could have on our ability to realise our vision for the UK to have world class payment systems, given the centrality of infrastructure to both payment systems and our innovation and competition objectives. We also believe that to support industry collaboration, it is important for payments infrastructure to be able to support new developments and innovations.
- 2.122 We have therefore begun Pre-Launch scoping work in preparation for the full launch of our market review into the ownership and competitiveness of the provision of infrastructure, which will formally commence by April 2015.

<sup>44</sup> We set out our views on the ownership of Operators in *Supporting Paper 3: Ownership, governance and control of payment systems*.

<sup>45</sup> In September 2014, the Payments Council commenced a piece of work called 'Project Simplification' to work with its members, other PSPs and Vocalink (as a current Infrastructure Provider) to consider the question on what world class payment systems for the UK look like. We have had observer status on this project. We understand that the Payments Council will deliver an interim progress update to the Treasury in November 2014.

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