

Governance of the Strategy Implementation

Seventh meeting of the Forum
21st September 2016
Paul Smith

Objectives and structure of this presentation

- To set out our preliminary view on governance of the Strategy implementation, including:
 - on the role of Forum 'phase 2'* until December 2017
 - a high level view of what happens after 2017
 - this is a 'straw man', and should not be taken as indication of what will actually happen after 2017. EY is working on the implementation sequencing for the final strategy, and one of the outputs from Forum phase 2 should be a detailed implementation plan for after 2017
 - the FCA's view on liability in indirect access models
- This is to help move things forward and can be finalised only once the Final Strategy is agreed by the Forum

* In this slide pack, any references to 'Forum' should be taken to mean the current Payments Strategy Forum up until publication of the Final Strategy, while 'Forum phase 2' refers to the body after publication of the Final Strategy

Context

- The Forum has developed some strong ideas that have the potential to make a real difference in the payments industry. The PSR continues to support the work of the Forum. It is important that momentum is maintained as the Strategy progresses into its implementation phase.
- The Forum and stakeholders more generally have asked the PSR to provide some indication about the framework within which the final strategy of the Forum would be implemented. These slides set out the PSR's initial views about the framework for implementing the Forum's strategy based on the initiatives identified in the draft strategy. The PSR recognises that the final strategy may differ from the draft strategy once the Forum has considered the responses to its consultation. The framework focuses on the initiatives identified by the Forum, which are intended to achieve the overall objectives of the Forum, including improving outcomes for service users.
- The PSR has considered the continued role of the Forum in implementing the Strategy. Forum Phase 2 will lead the next stage of work to develop key solutions, including the New Payments Architecture (NPA). This interim view is subject to change on the basis of the Final Strategy and/or the PSR IMR remedies.
- EY is tasked with producing a sequencing plan. We expect our thinking in this area to be informed by EY's work as it considers the consultation responses and helps develop the Final Strategy.

The PSR's interim view on the role of Forum 'phase 2'

Note: Subject to change on the basis of the Final Strategy

Forum phase 2 has delivery role

Responding to consumer and business needs

- Request to Pay
- Assurance Data
- Enhanced Data

New Payments Architecture (NPA) (slide 5):

- Simplified Delivery Mechanism
- ISO 20022 messaging standards
- Open access APIs for NPA

Financial crime (slide 6):

- Transaction data sharing and data analytics
- Centralised KYC utility
- Enhancement of sanctions data quality

Forum phase 2 has role in monitoring progress

Simplifying access (slide 7):

- Aggregator access models
- Common participation model and rules

Financial crime (slide 7):

- Financial crime intelligence sharing
- Guidelines for identity verification, authentication, and risk assessment

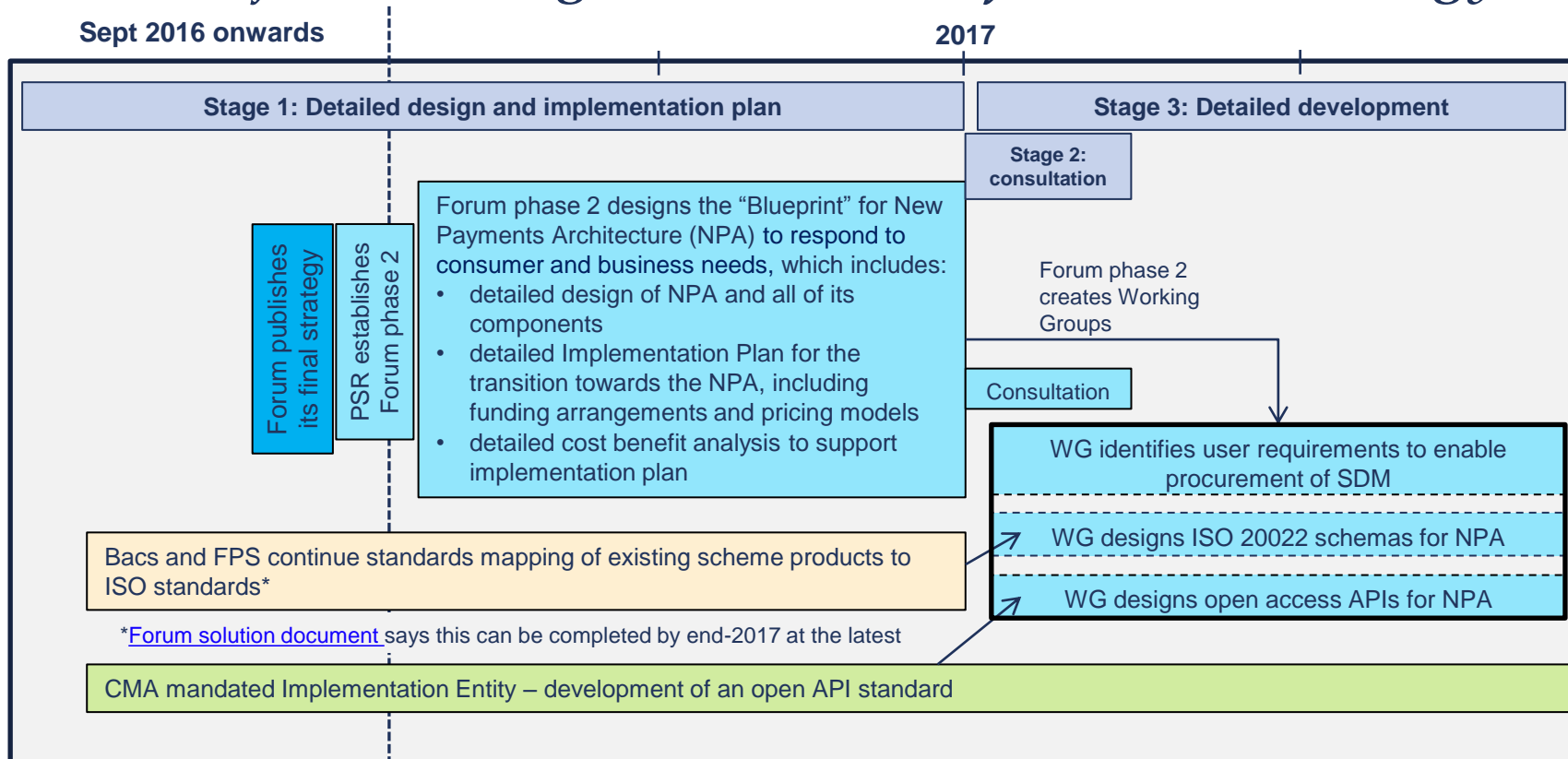
Forum phase 2 has limited role

Simplifying access:

- Access to sort codes (slide 8)
- Accessible settlement accounts (slide 8)
- PSO consolidation (slide 9)

The PSR's interim view on the role of Forum 'phase 2' - NPA

Note: Subject to change on the basis of the Final Strategy



The PSR's interim view on the role of Forum 'phase 2' - *financial crime solutions*

- Transaction data sharing and data analytics
 - Forum, before Final Strategy publication, should consider how this interacts with NPA, and conduct a high-level business case assessment for it. Forum should also engage a government-sponsored body (e.g. Joint Fraud Taskforce) to undertake the detailed design of this solution.
 - Assuming the above is realised, Forum phase 2 should coordinate with the government-sponsored group to support detailed cost benefit analysis, given the likely link to the NPA.
- Centralised KYC utility
 - Forum, before Final Strategy publication, should carry out high level business case assessment.
 - Assuming the above supports the solution being taken forward, Forum phase 2 will further engage potential users to assess demand, and come to a final decision by end 2017 whether this solution should be taken forward.
- Enhancement of sanctions data quality
 - Forum should carry out business case assessment and liaise with HM Treasury to determine scope for data changes.
 - Assuming HM Treasury has some 'appetite' for change, Forum phase 2 should work with industry to develop more detailed proposals, including the method of funding, to take to HM Treasury.

Note: We continue to discuss the implementation of financial crime solutions with the FCA. The role of the Forum in phase 2 is to analyse the demand and/or business case for the solutions (as indicated above). If analysis demonstrates that the solution should be taken forward, the implementation may be undertaken by another body.

The PSR's interim view on the role of Forum 'phase 2' – *role in monitoring progress*

- Aggregator access models
 - Monitor progress of PSOs.
 - Common participation model and rules
 - Monitor progress of ISOCC.
 - Financial crime intelligence sharing
 - Forum to find industry body to take this forward
 - Forum phase 2 to monitor progress.
 - Guidelines for identity verification, authentication, and risk assessment
 - Industry working group to take this forward
 - Forum phase 2 to monitor progress.
- Also monitored by the PSR as part of its Access and Governance work

The PSR's interim view on the role of Forum 'phase 2' - *limited role*

- Access to sort codes
 - Bacs is progressing this work, monitored by the PSR.
- More accessible settlement accounts
 - The PSR is working closely with the Bank of England to progress this solution.

PSO Consolidation

Note: Subject to change on the basis of the Final Strategy

- The PSR and Bank of England propose a PSO Delivery Group (DG) led by an Independent Chair to develop recommendation of an implementation option.
- The Forum should nominate three members for the DG – one to represent ‘large’ PSPs, one for ‘small’ PSPs, and one consumer representative. They will join the three existing PSO Chairs that will sit on the DG.
- The proposed implementation plan should include both the detailed design of the consolidated PSO (for example, its nature, role, purpose and objectives, governance) and the process to transition to it. The purpose of the consolidated PSO should include a focus on meeting the needs of service users.
- The Chair of the DG will report progress to the PSR and the Bank of England.
- Implementation recommendations should be developed by end-March 2017, and the consolidation process should be completed so that the scheme operators are operating as one entity by the end of 2017.

High level view of the NPA development after 2017

Note: Subject to change on the basis of the Final Strategy



- By the end of 2017 there should be a consolidated PSO in operation.



- The consolidated PSO should pick up the work of Forum phase 2, and lead the transition to a NPA.



- The PSR will consider the need for a multi-stakeholder body (similar to the Forum) to oversee implementation after 2017.



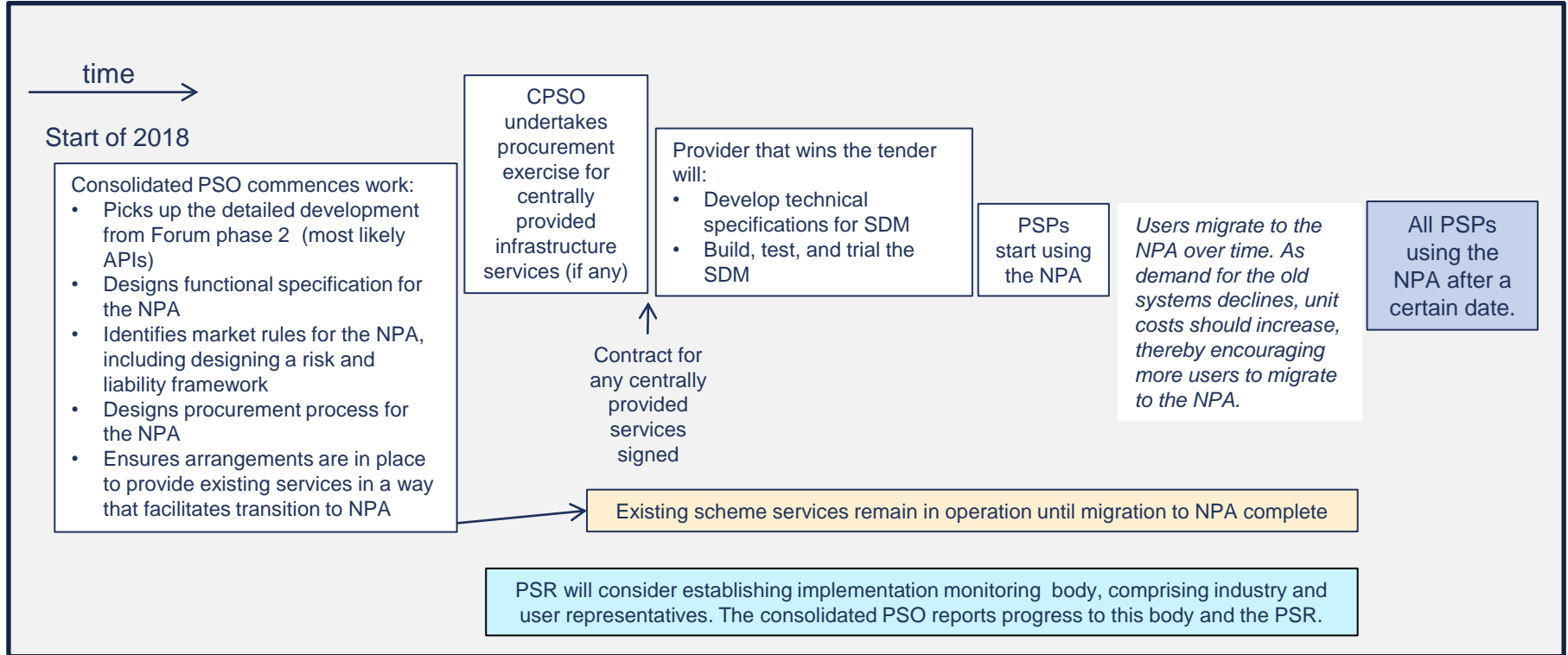
- Our preliminary expectation is that some PSPs will start using the NPA earlier than others.



- There will be a transitional period during which both the NPA and 'legacy' systems will be in operation.

High level view of the NPA development after 2017

Note: Subject to change on the basis of the Final Strategy and the PSR IMR remedies



The FCA's view on liability in indirect access models

- Draft strategy recommends that enhanced guidance is provided for both Providers and Indirect PSPs, so that accountability is clearly established and understood in Indirect Access Models.
- International work on de-risking touching upon liability creates the risk of duplication.
- The FCA has done research in to de-risking which suggests liability is only one amongst many factors driving the issue.
- Guidance would need to involve many stakeholders both in the UK and elsewhere to be effective but still not clear if this would help banks risk based decisions. How would this guidance fit with the existing guidance already issued by global regulators and bodies?