Payment Systems Regulator

Proposed approach to Specific Direction 3

Non-confidential stakeholder submissions to December 2024 consultation (CP24/13)

May 2025

Contents

Names of individuals and information that may indirectly identify individuals have been redacted.

Andy Morris

Special Directive 3b Consultation questions

Disclaimer: These are my personal reflections and views in respect of the release of the SD3b consultation not necessarily those of ACI Worldwide.

1. **What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?**

   It is needed, if only to release both Pay.UK and the PSR from the current obligations specified under SD3 and SD3a.

   However, there is need to keep in mind that the original commencement date for SD3 was 20th June 2017. Proposals to SD3b now position a "not before date of 1st July 2036" for the delivery of a new centra infrastructure. Meaning that it could be some <u>19 years</u> after the original ambitions set out under SD3 will first be realised. Under these same ambitions, a procurement process was to take place at least every 10 years, but given NPA procurement has never concluded, despite running for over 6 years, and under SD3a (section 1.8) scope was narrowed to just the delivery of single push payments together with a revised go live date of 1st July 2026. This is an unacceptable situation.

   The National Payment Vision (NPV) and the Term of Reference for the new Payment Vision Delivery Committee (BoE, FCA and PSR) specifies that recommendations are due to be submitted to HM Treasury in Q2 2025 (objectives section 2). Resignation of Tulip Siddiq could also add complexity here as a new minister needs to be found etc so a Q2 2025 delivery may now be a stretch goal.

   https://www.gov.uk/government/publications/national-payments-vision/92ac0a23-6012-47f8-844a-ef985fd3dbaf

   NPV talked about a congested regulator landscape, so in hindsight consideration should be given as to whether communication of the "not before date" will reside with the PSR or moves to the newly formed Payment Vision Delivery Committee as consensus decision amongst all three UK regulators.

   Recommendation: SD3b should be simplified and designed specifically to release both Pay.UK and the PSR from their current obligations under SD3. Essentially, drawing a line and closure to SD3 and SD3a. This will then provide a platform for new special directives (SD) to be created that holds stakeholders accountable for delivery that is designed to support both the short term (longevity and resilience to the existing payment schemes) and medium-longer term (access, innovation, competition, A2A and continued fraud reduction etc) needs that will undoubtedly form the objectives of the Payment Vision Delivery Committee.

2. **What are your views on our proposal to require Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?**

   SD3 (section 3.4 and 3.5) placed specific requirements on Pay.UK to report progress to the PSR. Safeguarding lessons need to be leant here given the elongated procurement process for NPA. Delivery risk (delay) due to congested regulatory oversight processes needs to be simplified. NPV Terms of Reference includes reform of Pay.UK. The expectation is moving forward, more efficient "ways of working "will be established between the regulators and Pay.UK's board and Executive Team. Including but not limited to regular cadence and reporting into the Payment Vision Delivery Committee or Vision Engagement Group to track progress against plan. The proposed SD3b amendment and non-objection obligation on Pay.UK may therefore become irrelevant under future NPV reform proposals.

3. **What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?**
   Criteria will have to wait and will be influenced by the Vision Engagement Group and agreed with the Payment Vision Delivery Committee under the Q2 2025 HM Treasury deliverable. Dates could also be influenced based the pace and ability to deliver industry change that is designed firstly to preserves the longevity of existing central infrastructure – capacity, resilience, and cyber and security hardening etc. As mentioned above SD3b should be simplified to release Pay.UK and the PSR from the current obligations under SD3 and SD3b. New SD's should be created designed to ensure the principles of NPV are fulfilled by all relevant industry stakeholders.

4. **What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?**
   As mentioned above the purpose of SD3b should be amended to release both Pay.UK and the PSR from the obligations specified under both SD3 and SD3a. SD3 and SD3a should be replaced with new SD's designed to ensure the UK's payment industry short and medium-longer term objectives are met. Monitoring and policing of the delivery of the future change pipeline should be through the Payment Vision Delivery Committee. Lessons need to be learnt to avoid a repeat of the earlier NPA protracted procurement process.

5. **What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?**
   It is anticipated that some adjustments will need to be made under the NPV Terms of Reference that are included in the Q2 2025 HM Treasury deliverable to reform Pay.UK. Meaning, that the 6 regulatory framework requirements placed on Pay.UK (section 4.5) are revisited. That said, the PSR consultation paper (section 1.5 and 1.6) also mentioned Pay.UK's proposed enhancements and upgrades to existing central infrastructure. Currently, there is no industry visibility to what these proposed changes are, the timeline for delivery and cost sustainability (who pays) for the delivery etc. More transparency to the wider payment ecosystem of these changes is required. It is important that we move beyond just words on page to the delivery and realisation of benefits.

Barclays

By email: psrnpa@psr.org.uk

24 January 2025

Dear PSR NPA project team

Barclays response to the Payment Systems Regulator (PSR) consultation paper CP24/13 on its proposed approach to specific direction three

Barclays is a universal consumer and wholesale bank with global reach, offering products and services across personal, corporate and investment banking, credit cards and wealth management. With over 330 years of history and expertise in banking, Barclays operates in over forty countries and employs approximately 85,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

We welcome the opportunity to comment on the consultation. We think the National Payments Vision (the Vision) offers a chance to look critically at the UK's retail payments infrastructure and plot a course for the future. Collectively we should not miss this opportunity. Over the next few months, we need to work together to develop a credible, inclusive, and commercially viable model for retail payments infrastructure in the UK that delivers the improvements we all want to see —in resilience, access, and innovation – at pace.

To deliver the Vision the Payments Vision Delivery Committee (PVDC), and specifically the PSR and the Bank of England, have been asked to do vital work providing greater clarity on the upgrades required to the Faster Payments System, assess future requirements for the UK's retail payment infrastructure and determine the best governance arrangements to deliver this. We look forward to supporting this work through our engagement with you, with the wider industry, Pay.UK and through the Vision Engagement Group.

Once we have an agreed plan on the upgrades required for Faster Payments, the PSR should then consider the most appropriate regulatory interventions to ensure that collectively we deliver the future of UK retail payments infrastructure in line with that plan. Therefore, we do not think there is any urgency in finalising revisions to specific direction three or the regulatory framework at this point.

In the meantime, we think it would be helpful to ask Pay.UK and industry to focus solely on delivering an immediate and narrow set of enhancements, and the necessary contractual agreements, to ensure the continuity of service of the UK's systemically important retail payment systems, the security of those systems and their utmost resiliency. This should include contingency options for payment systems like Bacs that are responsible for a significant volume of critical consumer payments. This restricted scope would help to drive clarity of purpose and generate much needed momentum.

Wider uplifts to the UK's real-time payment service, such as adopting new messaging standards (ISO20022) and enhanced features to better enable account-to-account payments for purchasing goods and services, and other innovation enabling technologies, should fall into a fast-track workstream within the new delivery mechanism outlined by the work of the PVDC.

Yours sincerely,
BARCLAYS

Consultation paper questions

Question 1: What are your views on our proposal to replace the current deadline in SD3 [specific direction three] with an express reference to our ability to notify Pay.UK of a new deadline?

We think that PSR and Bank of England should complete the work requested by the government on providing greater clarity on the upgrades to the Faster Payments System before finalising what to do with specific direction three.

We understand the logic behind the PSR's proposal to allow Pay.UK enter a new contract or extend the existing one with Vocalink. We also understand that by giving the existing supplier a guarantee that they can provide the service for at least ten years provides certainty and should encourage investment in new functionality. These are reasonable positions to take and may prove to be the right approach. However, we think the PSR should only finalise its changes to specific direction three in light of the final outcomes of the Payments Vision Delivery Committee (PVDC) work on the upgrades required to the Faster Payments System and the governance arrangements necessary to deliver those upgrades.

The PVDC is due to make its recommendations by June 2025, and we hope to see greater clarity sooner than that, so we do not consider that waiting for its conclusions will introduce a significant delay. We also think that at that point the PSR and the Bank of England will want to think through the wider regulatory framework and obligations to accommodate and address any regulatory risks in the plan for upgrading the Faster Payment System and any changes to the governance of the delivery organisation.

Similarly, we understand why PSR has included a *"not before 2036"* stipulation in its revised direction. However, it is not a given that a single central retail payments infrastructure procured by Pay.UK will be the right model in ten years' or so time. By then a monolithic central approach may not serve competition, innovation or users interests as effectively as a decentralised model, or an approach based a single rulebook and competing clearing and settlement mechanisms. We think there is merit in making sure we all keep our minds and options open to the possibilities of the future. In addition, PSR should be clear that should industry and the infrastructure delivery organisation, whether Pay.UK or some other arrangement as recommended by the PVDC, consider it appropriate they would be free to bring forward a competitive procurement exercise prior to 2036.

Question 2: What are your views on our proposal to require Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?

We understand why the PSR wants to impose this requirement. We would also expect the Bank of England to undertake a similar non-objection exercise.

We do have concerns the extent to which stakeholder views are sought during the process of granting non-objections, and what criteria are used to inform the non-objection decision. We think the PSR should consider if and how it could seek stakeholder views before granting non-objection to Pay.UK to enter a new central infrastructure contract with Vocalink or to extend the existing contract.

Question 3: What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?

We note that you do not have a criterion that explicitly references the needs of the customers of Pay.UK. We think the views of industry customers should be a relevant consideration before imposing a new deadline. The Vision acknowledged that regulatory congestion was holding back innovation. Before setting a procurement deadline the PSR should ensure that it reflects on any clashes with industry "*requirements for duplicate investment across competing infrastructure initiative and impacts on sector capacity.*" Separately, we also question whether it is beneficial to make contract extensions dependent on the setting of a new date. We believe that the non-object process should provide sufficient cover and achieve the same aim.

Question 4: What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?

We have no comments on these changes.

Question 5: What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?

As with our answer to question one, we think the entire regulatory framework requirements will need reconsideration once the PVDC has decided on the upgrades required to Faster Payments and the governance arrangements needed to deliver the change, including any changes to Pay.UK's governance.

We note that PSR has stated it intends to consult on a revised regulatory framework and we look forward to engaging with that process. It is important that when PSR considers revisions to the regulatory framework it reflects on what has worked well in the recent past and what has been less successful.

Form3

With regard to consultation CP23/13 and the proposed approach to Specific Direction 3 Form3 would like to share the following responses:

1. **What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?**

   We agree the current circumstances and constraints make it impossible to meet the existing deadline without compromising the quality and integrity of the FPS Service. We understand therefore the logic in moving the date to 2036. However, given the timescale and the pace of change in the industry, SD3b itself will likely require modification to take account of changing technology, consumer needs and market conditions. After careful consideration, we believe it would be more effective to cancel SD3, with the strengthened oversight, outlined in the consultation paper, providing an effective and flexible way of determining the industry strategy.

2. **What are your views on our proposal to require Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?**

   We acknowledge the importance of strengthening oversight. However, we are concerned that the proposed approach is inherently protracted, which may delay the implementation of necessary measures. Any renewal or update of the central infrastructure contract should take account of the possible innovations and substitutions that technology and competition may enable by avoiding the requirement of scheme participants to commit their full instant payment volume to the legacy FPS infrastructure. We are open to joining a discussion on alternative methods that could streamline this process while still achieving the desired level of oversight.

3. **What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?**

   Form3 agrees that understanding the technological, commercial and supplier landscape as well as end user needs are relevant criteria for setting out a new deadline. We feel that the complexity and number of unknowns around this area at present support the argument for our response to question 1.

4. **What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?**

   As outlined in response to question 1, Form3 does not feel that redrafting SD3 is necessary at this point. However, agree on the expanded definition of NPA and that the quarterly reporting requirements are not necessary.

5. **What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?**

   We welcome your plan to update the PSR 2021 Regulatory Framework to address risks to competition and innovation.

   We value the PSR's leadership in these areas and look forward to continuing our collaboration.

HSBC Bank PLC

HSBC BANK PLC

Proposed approach to Specific Direction 3

Pausing the requirement for a competitive procurement

RESPONSE TO CONSULTATION DECEMBER 2024

21 JANUARY 2025

COVER SUBMISSION

HSBC Bank plc (‘**HSBC**’) welcomes the opportunity to respond to the Payment Systems Regulator’s (**‘PSR’**) Consultation Paper on a Proposed approach to Specific Direction 3 (‘**SD3**’) - Pausing the requirement for a competitive procurement.

This consultation follows the announcement of a National Payments Vision (‘**NPV**’) for the UK by HM Treasury on 15 November 2024 which outlines the Government’s commitment to ensure the future success of the UK’s payment sector given its importance to the functioning and growth of the UK economy. The NPV also sets out the Government’s view that ‘a more agile and flexible approach to delivering the UK’s infrastructure needs is required’ than provided by the New Payments Architecture (‘**NPA**’).

HSBC welcomes the clarity provided on the NPA following the prolonged period of uncertainty. We support the NPV and the establishment of the Payments Vision Delivery Committee (**‘PVDC’**) to provide leadership, decision making and oversight on the Vision delivery; and we look forward to working with HM Treasury, the Bank of England, the FCA and the PSR on this important work.

Given that Pay.UK cannot meet the existing SD3 obligation to migrate all Faster Payments to a competitively procured infrastructure by 1 July 2026, it is necessary for the PSR to review the existing legal requirements placed on Pay.UK. HSBC had expected the PSR to rescind both Specific Direction 2 (‘**SD2**’) and Specific Direction 3 (‘**SD3’**), with the PSR setting out new legal requirements which should apply to Pay.UK for infrastructure renewal after such time that the strategy and next steps have been determined by the PVDC.

Whilst we consider the rescinding of SD2 and SD3 is the cleanest way forward, we recognise that the PSR has its own reasons for proposing changes to SD3 instead of its repeal. We presume that the proposed approach set out in the consultation document to “replace the current deadline in SD3 with an express reference [for the PSR] to have the ability to notify Pay.UK of a new deadline” provides space for the PVDC to deliberate on future renewal requirements, without the PSR stepping away from its decision to require the competitive procurement of the infrastructure that supports the major UK interbank payment systems. We recognise that this is important for the PSR given that it considers that the findings stand from its 2016 Market Review.

On this point, we ask whether the PSR has considered if the attempted competitive procurement of a new payments’ infrastructure for BACS and Faster Payments demonstrated that a competitive market exists for the provision of critical national infrastructure beyond the current provider. HSBC was not involved in the competitive procurement process and therefore we cannot assess whether the PSR should review and potentially change the findings and remedies of the 2016 Market Review given the experience of the competitive procurement process that operated across multiple years. If there are not sufficient credible suppliers in the market to support a competitive procurement process, then we consider that would provide a strong basis to repeal SD3.

HSBC considers the most urgent action needed is to safeguard the current Faster Payments central infrastructure, which includes securing an extension to the current infrastructure contract by June 2027, to preserve continuity of supply and resilience of this critical national infrastructure. Whether SD3 is repealed or amended, we agree that it is necessary to remove the current SD3 deadline so Pay.UK and the current infrastructure provider have clarity that the PSR recognises that the existing legal requirements cannot be met due to changing circumstances.

We also consider it crucial that there is a clear separation of activity required to protect the current Faster Payments infrastructure and any activity related to wider change or enhancements that go beyond safeguarding the infrastructure today. Therefore any 'non-objection' point before Pay.UK agrees to any new, or extended, contract for infrastructure services should be to ensure that the contract for infrastructure preserves continuity of supply and resilience, pending the outcomes from the PVDC. Given the focus on operational resilience, HSBC is clear that the non-objection required under SD3(b) must therefore also be sought from the Bank of England's Financial Markets Infrastructure Directive ('**FMID**').

The Faster Payments contract expires in July 2027 meaning continuity and resilience in the short term must be the immediate focus. We note with strong concern that the PSR proposes to include the ability to 'attach conditions' to its non-objection decision where necessary, stating that 'we still expect Pay.UK's proposals for enhancing and modernising infrastructure to advance our desired outcomes' (paragraph 2.17) with examples set out in paragraph 2.4.

HSBC accepts that conditions may be appropriate regarding the monopoly risks arising from any Faster Payments contract extension. However, conditions to "help [the PSR] ensure our regulatory interests are appropriately considered" suggest that the extension of the contract for critical national infrastructure will be used as a lever for achieving the PSR's strategy and regulatory outcomes. The scope of the non-objection is also wider than the original non-objection criteria of SD3 and could conflict with the outcomes of the PVDC's work.

It is in this regard that we consider the proposed amendment to SD3 goes beyond the original requirements for the competitive procurement process, as identified in the PSR's Market Review and risks frontrunning the outcomes of the NPV. The NPV makes it clear that the Government has determined it needs to have greater involvement in future decisions relating to payments infrastructure. The new PVDC will task the Bank of England and the PSR to 'examine and refresh' the requirements for the UK's retail infrastructure and is clear that this will include items listed in the PSR's outcomes. We therefore do not consider it appropriate for the regulatory interests of the PSR to be placed into this decision at this time, when it is now a matter for the PVDC.

Our concern is compounded given the substantial and significant investment made in the NPA, which is now largely considered throwaway. The potential for the PSR to attach conditions to the essential contract extension will risk loading further cost and complexity onto the contract renewal without clear oversight; and when the NPV is also expected to deliver the outcomes the PSR is seeking. It is our view that retail payment infrastructure changes and the renewal or replacement of contractual obligations must therefore be limited to critical resilience activities only. It is not appropriate for the PSR have a right to object to term changes based on an assessment of whether the contract provisions will achieve the benefits identified by the PSR outside the 2016 Market Review. **No additional or new commitments on retail infrastructure should be made until the PVDC recommendations are in place**.

HSBC had also expected SD2 to be addressed directly in the consultation. Whilst SD2 does not include a delivery date in the same way as SD3, we do believe it is important that the proposed interventions relevant to BACS are also addressed directly and a clear statement made on the regulatory status of this direction.

On the current Regulatory Framework, we do not consider that there is significant value in updating the Framework at this time. If the PSR is considering how to best meet its statutory objectives of innovation and competition, we consider that the oversight to which Pay.UK should be subject is more pertinent; and is again relevant to the work of the PVDC. During the NPA, substantial cost has been imposed on to industry without a clear business case, oversight, challenge or validation. We are hopeful that some of the Pay.UK NPA investment can be re-purposed for the benefit of the PVDC priorities, but as we stand today, the extended NPA programme operated by Pay.UK has delivered no benefits for end users or the UK economy.

1. What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?

1.1. Due to changing circumstances, Pay.UK cannot meet its SD3 obligation, it is therefore right and necessary for the PSR to review and revise its relevant regulatory instruments. Action is needed now to protect the current Faster Payments central infrastructure and therefore a contract extension is required urgently.

1.2. Following the publication of the NPV and the decision to cancel the NPA, HSBC had expected the PSR to repeal both SD2 and SD3 in entirety, with any subsequent regulatory interventions on infrastructure procurement prepared afresh in light of the next steps determined by the PVDC.

1.3. As set out above, whilst we consider that this is the cleanest way forward, we recognise that the PSR has its own reasons for wanting to retain SD3 linked to the findings of its 2016 Market Review. We ask that the PSR sets out how and why this approach will not create any 'downstream' challenges for the delivery of the Vision.

1.4. As a critical next step, action is required at pace to safeguard the current Faster Payments and BACS central infrastructures, which includes securing contract extensions on appropriate terms, to guarantee the continuity of supply for critical national infrastructure. Whether SD3 is repealed or amended, we agree that it is necessary to remove the current SD3 deadline so that Pay.UK and the current infrastructure provider have clarity on the status of this legal obligation and engagement can progress with the Vocalink.

1.5. We consider it crucial that there is a clear separation of activity required to protect the current Faster Payments infrastructure and any activity related to change or enhancements that go beyond safeguarding the infrastructure today. It seems premature to anticipate change priorities in advance of the PVDC's work.

1.6. Therefore any 'non-objection' point before Pay.UK agrees to any new, or extended, contract for infrastructure, must be focussed on preserving continuity of supply and resilience and not on wider deliverables that are for the PVDC to define, agree, plan and sequence. Given the focus on operational resilience of the Faster Payments contract, HSBC is clear that the non-objection must therefore also be sought from FMID and an amended SD3 should include this requirement explicitly.

1.7. However, we accept that the proposed approach to replace the current SD3 deadline with an express reference for the PSR to have the ability to notify Pay.UK of a new deadline provides space for the PVDC to deliberate and agree the way forward, without the PSR stepping away from its decision to require the competitive procurement of the infrastructure that supports the major UK interbank payment systems. We recognise that this is important for the PSR given that it considers that the findings from its 2016 Market Review stand.

1.8. On this point, we ask whether the PSR has considered if the attempted competitive procurement of a new payments' infrastructure for BACS and Faster Payments demonstrated that a competitive market exists for the provision of critical national infrastructure beyond the current provider. HSBC was not involved in the competitive procurement process and therefore we cannot assess whether the PSR should review and potentially change the findings and remedies of the 2016 Market Review given the experience of the competitive procurement process that operated across multiple years. If there are not sufficient credible suppliers in the market to support a competitive procurement process, then we consider that would provide a strong basis to repeal SD3.

1.9. HSBC had also expected SD2 to be addressed directly in the consultation. Whilst SD2 does not include a delivery date in the same way as SD3, we do believe it is important that the proposed BACS interventions are also addressed directly, and a clear statement made on the regulatory status of this direction.

2. What are your views on our proposal to require Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?

2.1. If SD3 is retained, HSBC supports a 'non-objection' point before Pay.UK agrees to any new, or extended, contract for infrastructure services. Defined well, this will ensure that a contract for infrastructure remains in place and under appropriate oversight from the PSR and the Bank of England. For this reason, HSBC considers it essential that a non-objection is also provided by FMID.

2.2. However, and as noted in the Summary above, this action must **focus on ensuring continuity and operational resilience of service.** The Faster Payments contract expires in June 2027 meaning continuity and resilience in the short term must be the immediate focus. We note with strong concern that the PSR proposes to include the ability to 'attach conditions' to its non-objection decision where necessary, stating that 'we still expect Pay.UK's proposals for enhancing and modernising infrastructure to advance our desired outcomes' (paragraph 2.17) with examples set out in paragraph 2.4.

2.3. HSBC accepts that conditions may be appropriate regarding the monopoly risks arising from any Faster Payments contract extension. However, conditions to "help [the PSR] ensure our regulatory interests are appropriately considered" suggest that the extension of the contract will be required to go much further than critical national infrastructure renewal to ensure continuity and resilience. In our view, extending the Faster Payments contract should be de-linked from the PSR's broader strategy and regulatory outcomes, which we believe are better considered within the work of the PVDC and can be expected to be achieved through the delivery of the Vision.

2.4. The proposed amendment to SD3 goes beyond the original requirements for the competitive procurement process, as identified in the PSR's Market Review. The NPV makes it clear that the Government has determined it needs to have greater involvement in future decisions relating to payments infrastructure. The new PVDC will

PUBLIC

task the Bank of England and the PSR to 'examine and refresh' the requirements for the UK's retail infrastructure and is clear that this will include items listed in the PSR's outcomes. We therefore do not consider it appropriate for the regulatory interests of the PSR to be placed into this decision when it is now a matter for the PVDC.

2.5. Our concern is compounded given the substantial and significant investment made in the NPA, which apart from insights on the potential for market competitive forces is now largely considered throwaway. The substantial investment by service users includes funding Pay.UK costs, as well as our own internal programme costs and our additional costs created from upgrades to our internal infrastructure that were planned to align to the industry infrastructure renewal. Instead, we are progressing with internal infrastructure change out of sync with the central infrastructure change layering. This will also generate additional cost and risk.

2.6. The potential for the PSR to attach conditions to a contract extension in the interests of its own regulatory outcomes, risks loading further cost and complexity onto the contract renewal without clear oversight or a clear cost-benefit case, repeating mistakes of the past. There is already a short timeframe until renewal of the Faster Payments Infrastructure contract and loading additional scope requirements onto that contract risks the feasibility of completion. It is our view that **no additional or new commitments on retail infrastructure should be made until the Payments Vision Delivery Committee ('PVDC') recommendations are in place**. It is critical that the work of the PVDC provides the clear and coordinated vision and roadmap of change.

3. What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?

3.1. HSBC agrees with the PSR's criteria to consider the needs of end users, and the economic, technological and commercial landscape. However, these are high level criteria with no further information on how they will be assessed or evaluated. More information is required to understand how these criteria will be assessed.

3.2. Specifically, we consider it crucial that any end user requirements that go beyond service functionality in place today are clearly defined and benefits for end users evidenced, accompanied by a clear costs / benefits case and commercial model for delivery.

3.3. We note that there is no proposal to consider operational resilience within the criteria for deciding to notify Pay.UK of a new deadline. We consider this the most important priority given the importance of the payments infrastructure to the UK Economy and recommend strongly it is added to the PSR's criteria.

3.4. HSBC also supports the PSR's consideration of the state of the supplier market to determine the possibility and suitability for competitive procurement. Current infrastructure provision for BACS, Faster Payments, the Image Clearing System and LINK is the product of a lengthy period of evolution, not the output of a single design or plan.

While resilience and high service levels have remained the priority (and been achieved) throughout, the evolutionary process has generated increasing operational and technical complexity. As noted above HSBC was not privy to that process and the bidders involved in the NPA procurement. However, we recognise that the operational and technical complexity of this market make the possibility and suitability for competitive procurement challenging.

4. What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?

4.1. The current reporting requirements in SD3 require Pay.UK to report quarterly on its progress with the competitive procurement. Removing the reporting requirement is therefore necessary to reflect that there will be no live deadline for competitive procurement.

4.2. We agree that monitoring Pay.UK's compliance is best achieved under the PSR's general monitoring of its work and aligned to General Direction 1. This is a more agile approach that will allow for issues to be identified, and considered, as a result of ongoing engagement rather than with quarterly reports with restrictive terms. We note that the PSR can issue notices requiring information or documents to be provided.

4.3. SD3 defines the NPA by reference to the Payment Strategy Forum's 2016 document - 'A Payments Strategy for the 21st Century.' We recognise that the Payment Strategy Forum's recommendations are now very out of date. HSBC would expect SD3 to be varied to remove references to the Payments Strategy Forum and New Payments Architecture with clarity on the scope of the amended SD3 defined in terms of any new, or extended, contract for infrastructure services.

4.4. However, the proposed approach to change the definition of the NPA to include any upgrades and new infrastructure that might not be covered by the 2016 definition continues to link the future work to the failures of the NPA and removes the focus from the core task of ensuring continuity and operational resilience of the UK's core interbank payment systems and services and the contractual arrangements on those. On this point we consider the planned SD3(b) too broad and consider that it should be narrowed to focus only on the essential extension of Faster Payments beyond June 2027 with critical resilience changes. Further enhancement should and will follow through the PVDC.

5. What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?

5.1. HSBC recognises the PSR's view that the absence of competitive tension generated by a tender process and long-term contracts for central infrastructure, increases the risks associated with monopoly supply. We note that the PSR considers that the horizontal and vertical risks that the PSR initially identified in its 2016 market review remain.

5.2. The current Regulatory Framework remains in place to address the PSR's concerns, and therefore we do not consider that there is significant value in updating the Framework at this time. A consultation from the PSR on an updated Regulatory Framework alongside PVDC work feels congested, premature and risks misalignment with the coordinated workplan of the Vision. We would propose that the PSR delays the review of the current Regulatory Framework until the PVDC work is more developed, to ensure that the Regulatory Framework supports the required end-user, business and regulatory outcomes.

5.3. More broadly, if the PSR is considering how to best meet its statutory objectives of innovation and competition, we consider that the oversight to which Pay.UK should be subject is more pertinent; and is again relevant to the work of the PVDC. During the NPA, substantial cost has been imposed on to industry without a clear business case, oversight, challenge or validation. We are hopeful that some of the Pay.UK NPA investment can be re-purposed for the benefit of the PVDC priorities, but as we stand today, the extended NPA programme operated by Pay.UK has delivered no benefits for end users or the UK economy. HSBC has made a very significant contribution to the Pay.UK investment, reducing our capacity for internal innovation in the interests of our customers. It is therefore critical that the PSR also considers the impacts on Pay.UK's direct and indirect participants of future SD3 and SD2 investment, to ensure that individual innovation is not stifled, as firms are forced to prioritise both funding and resources for Pay.UK developments given the risks of change and finite investment budgets.

HSBC UK Bank PLC

HSBC UK BANK PLC

Proposed approach to Specific Direction 3

Pausing the requirement for a competitive procurement

RESPONSE TO CONSULTATION DECEMBER 2024

21 JANUARY 2025

COVER SUBMISSION

HSBC UK Bank plc ('**HSBC UK**') welcomes the opportunity to respond to the Payment Systems Regulator's (**'PSR'**) Consultation Paper on a Proposed approach to Specific Direction 3 ('**SD3**') - Pausing the requirement for a competitive procurement.

This consultation follows the announcement of a National Payments Vision ('**NPV**') for the UK by HM Treasury on 15 November 2024 which outlines the Government's commitment to ensure the future success of the UK's payment sector given its importance to the functioning and growth of the UK economy. The NPV also sets out the Government's view that 'a more agile and flexible approach to delivering the UK's infrastructure needs is required' than provided by the New Payments Architecture ('**NPA**').

HSBC UK welcomes the clarity provided on the NPA following the prolonged period of uncertainty. We support the NPV and the establishment of the Payments Vision Delivery Committee (**'PVDC'**) to provide leadership, decision making and oversight on the Vision delivery; and we look forward to working with HM Treasury, the Bank of England, the FCA and the PSR on this important work.

Given that Pay.UK cannot meet the existing SD3 obligation to migrate all Faster Payments to a competitively procured infrastructure by 1 July 2026, it is necessary for the PSR to review the existing legal requirements placed on Pay.UK. HSBC UK had expected the PSR to rescind both Specific Direction 2 ('**SD2**') and Specific Direction 3 ('**SD3'**), with the PSR setting out new legal requirements which should apply to Pay.UK for infrastructure renewal after such time that the strategy and next steps have been determined by the PVDC.

Whilst we consider the rescinding of SD2 and SD3 is the cleanest way forward, we recognise that the PSR has its own reasons for proposing changes to SD3 instead of its repeal. We presume that the proposed approach set out in the consultation document to "replace the current deadline in SD3 with an express reference [for the PSR] to have the ability to notify Pay.UK of a new deadline" provides space for the PVDC to deliberate on future renewal requirements, without the PSR stepping away from its decision to require the competitive procurement of the infrastructure that supports the major UK interbank payment systems. We recognise that this is important for the PSR given that it considers that the findings stand from its 2016 Market Review.

On this point, we ask whether the PSR has considered if the attempted competitive procurement of a new payments' infrastructure for BACS and Faster Payments demonstrated that a competitive market exists for the provision of critical national infrastructure beyond the current provider. HSBC UK was not involved in the competitive procurement process and therefore we cannot assess whether the PSR should review and potentially change the findings and remedies of the 2016 Market Review given the experience of the competitive procurement process that operated across multiple years. If there are not sufficient credible suppliers in the market to support a competitive procurement process, then we consider that would provide a strong basis to repeal SD3.

HSBC UK considers the most urgent action needed is to safeguard the current Faster Payments central infrastructure, which includes securing an extension to the current infrastructure contract by June 2027, to preserve continuity of supply and resilience of this critical national infrastructure. Whether SD3 is repealed or amended, we agree that it is necessary to remove the current SD3 deadline so Pay.UK and the current infrastructure provider have clarity that the PSR recognises that the existing legal requirements cannot be met due to changing circumstances.

We also consider it crucial that there is a clear separation of activity required to protect the current Faster Payments infrastructure and any activity related to wider change or enhancements that go beyond safeguarding the infrastructure today. Therefore any 'non-objection' point before Pay.UK agrees to any new, or extended, contract for infrastructure services should be to ensure that the contract for infrastructure preserves continuity of supply and resilience, pending the outcomes from the PVDC. Given the focus on operational resilience, HSBC UK is clear that the non-objection required under SD3(b) must therefore also be sought from the Bank of England's Financial Markets Infrastructure Directive ('**FMID**').

The Faster Payments contract expires in July 2027 meaning continuity and resilience in the short term must be the immediate focus. We note with strong concern that the PSR proposes to include the ability to 'attach conditions' to its non-objection decision where necessary, stating that 'we still expect Pay.UK's proposals for enhancing and modernising infrastructure to advance our desired outcomes' (paragraph 2.17) with examples set out in paragraph 2.4.

HSBC UK accepts that conditions may be appropriate regarding the monopoly risks arising from any Faster Payments contract extension. However, conditions to "help [the PSR] ensure our regulatory interests are appropriately considered" suggest that the extension of the contract for critical national infrastructure will be used as a lever for achieving the PSR's strategy and regulatory outcomes. The scope of the non-objection is also wider than the original non-objection criteria of SD3 and could conflict with the outcomes of the PVDC's work.

It is in this regard that we consider the proposed amendment to SD3 goes beyond the original requirements for the competitive procurement process, as identified in the PSR's Market Review and risks frontrunning the outcomes of the NPV. The NPV makes it clear that the Government has determined it needs to have greater involvement in future decisions relating to payments infrastructure. The new PVDC will task the Bank of England and the PSR to 'examine and refresh' the requirements for the UK's retail infrastructure and is clear that this will include items listed in the PSR's outcomes. We therefore do not consider it appropriate for the regulatory interests of the PSR to be placed into this decision at this time, when it is now a matter for the PVDC.

Our concern is compounded given the substantial and significant investment made in the NPA, which is now largely considered throwaway. The potential for the PSR to attach conditions to the essential contract extension will risk loading further cost and complexity onto the contract renewal without clear oversight; and when the NPV is also expected to deliver the outcomes the PSR is seeking. It is our view that retail payment infrastructure changes and the renewal or replacement of contractual obligations must therefore be limited to critical resilience activities only. It is not appropriate for the PSR have a right to object to term changes based on an assessment of whether the contract provisions will achieve the benefits identified by the PSR outside the 2016 Market Review. **No additional or new commitments on retail infrastructure should be made until the PVDC recommendations are in place**.

HSBC UK had also expected SD2 to be addressed directly in the consultation. Whilst SD2 does not include a delivery date in the same way as SD3, we do believe it is important that the proposed interventions relevant to BACS are also addressed directly and a clear statement made on the regulatory status of this direction.

On the current Regulatory Framework, we do not consider that there is significant value in updating the Framework at this time. If the PSR is considering how to best meet its statutory objectives of innovation and competition, we consider that the oversight to which Pay.UK should be subject is more pertinent; and is again relevant to the work of the PVDC. During the NPA, substantial cost has been imposed on to industry without a clear business case, oversight, challenge or validation. We are hopeful that some of the Pay.UK NPA investment can be re-purposed for the benefit of the PVDC priorities, but as we stand today, the extended NPA programme operated by Pay.UK has delivered no benefits for end users or the UK economy.

1. What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?

1.1. Due to changing circumstances, Pay.UK cannot meet its SD3 obligation, it is therefore right and necessary for the PSR to review and revise its relevant regulatory instruments. Action is needed now to protect the current Faster Payments central infrastructure and therefore a contract extension is required urgently.

1.2. Following the publication of the NPV and the decision to cancel the NPA, HSBC UK had expected the PSR to repeal both SD2 and SD3 in entirety, with any subsequent regulatory interventions on infrastructure procurement prepared afresh in light of the next steps determined by the PVDC.

1.3. As set out above, whilst we consider that this is the cleanest way forward, we recognise that the PSR has its own reasons for wanting to retain SD3 linked to the findings of its 2016 Market Review. We ask that the PSR sets out how and why this approach will not create any 'downstream' challenges for the delivery of the Vision.

1.4. As a critical next step, action is required at pace to safeguard the current Faster Payments and BACS central infrastructures, which includes securing contract extensions on appropriate terms, to guarantee the continuity of supply for critical national infrastructure. Whether SD3 is repealed or amended, we agree that it is necessary to remove the current SD3 deadline so that Pay.UK and the current infrastructure provider have clarity on the status of this legal obligation and engagement can progress with the Vocalink.

1.5. We consider it crucial that there is a clear separation of activity required to protect the current Faster Payments infrastructure and any activity related to change or enhancements that go beyond safeguarding the infrastructure today. It seems premature to anticipate change priorities in advance of the PVDC's work.

1.6. Therefore any 'non-objection' point before Pay.UK agrees to any new, or extended, contract for infrastructure, must be focussed on preserving continuity of supply and resilience and not on wider deliverables that are for the PVDC to define, agree, plan and sequence. Given the focus on operational resilience of the Faster Payments contract, HSBC UK is clear that the non-objection must therefore also be sought from FMID and an amended SD3 should include this requirement explicitly.

1.7. However, we accept that the proposed approach to replace the current SD3 deadline with an express reference for the PSR to have the ability to notify Pay.UK of a new deadline provides space for the PVDC to deliberate and agree the way forward, without the PSR stepping away from its decision to require the competitive procurement of the infrastructure that supports the major UK interbank payment systems. We recognise that this is important for the PSR given that it considers that the findings from its 2016 Market Review stand.

1.8. On this point, we ask whether the PSR has considered if the attempted competitive procurement of a new payments' infrastructure for BACS and Faster Payments demonstrated that a competitive market exists for the provision of critical national infrastructure beyond the current provider. HSBC UK was not involved in the competitive procurement process and therefore we cannot assess whether the PSR should review and potentially change the findings and remedies of the 2016 Market Review given the experience of the competitive procurement process that operated across multiple years. If there are not sufficient credible suppliers in the market to support a competitive procurement process, then we consider that would provide a strong basis to repeal SD3.

1.9. HSBC UK had also expected SD2 to be addressed directly in the consultation. Whilst SD2 does not include a delivery date in the same way as SD3, we do believe it is important that the proposed BACS interventions are also addressed directly, and a clear statement made on the regulatory status of this direction.

2. What are your views on our proposal to require Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?

2.1. If SD3 is retained, HSBC UK supports a 'non-objection' point before Pay.UK agrees to any new, or extended, contract for infrastructure services. Defined well, this will ensure that a contract for infrastructure remains in place and under appropriate oversight from the PSR and the Bank of England. For this reason, HSBC UK considers it essential that a non-objection is also provided by FMID.

2.2. However, and as noted in the Summary above, this action must **focus on ensuring continuity and operational resilience of service.** The Faster Payments contract expires in June 2027 meaning continuity and resilience in the short term must be the immediate focus. We note with strong concern that the PSR proposes to include the ability to 'attach conditions' to its non-objection decision where necessary, stating that 'we still expect Pay.UK's proposals for enhancing and modernising infrastructure to advance our desired outcomes' (paragraph 2.17) with examples set out in paragraph 2.4.

2.3. HSBC UK accepts that conditions may be appropriate regarding the monopoly risks arising from any Faster Payments contract extension. However, conditions to "help [the PSR] ensure our regulatory interests are appropriately considered" suggest that the extension of the contract will be required to go much further than critical national infrastructure renewal to ensure continuity and resilience. In our view, extending the Faster Payments contract should be de-linked from the PSR's broader strategy and regulatory outcomes, which we believe are better considered within the work of the PVDC and can be expected to be achieved through the delivery of the Vision.

2.4. The proposed amendment to SD3 goes beyond the original requirements for the competitive procurement process, as identified in the PSR's Market Review. The NPV makes it clear that the Government has determined it needs to have greater involvement in future decisions relating to payments infrastructure. The new PVDC will task the Bank of England and the PSR to 'examine and refresh' the requirements for the UK's retail infrastructure and is clear that this will include items listed in the PSR's outcomes. We therefore do not consider it appropriate for the regulatory interests of the PSR to be placed into this decision when it is now a matter for the PVDC.

2.5. Our concern is compounded given the substantial and significant investment made in the NPA, which apart from insights on the potential for market competitive forces is now largely considered throwaway. The substantial investment by service users includes funding Pay.UK costs, as well as our own internal programme costs and our additional costs created from upgrades to our internal infrastructure that were planned to align to the industry infrastructure renewal. Instead, we are progressing with internal infrastructure change out of sync with the central infrastructure change layering. This will also generate additional cost and risk.

2.6. The potential for the PSR to attach conditions to a contract extension in the interests of its own regulatory outcomes, risks loading further cost and complexity onto the contract renewal without clear oversight or a clear cost-benefit case, repeating mistakes of the past. There is already a short timeframe until renewal of the Faster Payments Infrastructure contract and loading additional scope requirements onto that contract risks the feasibility of completion. It is our view that **no additional or new commitments on retail infrastructure should be made until the Payments Vision Delivery Committee ('PVDC') recommendations are in place**. It is critical that the work of the PVDC provides the clear and coordinated vision and roadmap of change.

3. What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?

3.1. HSBC UK agrees with the PSR's criteria to consider the needs of end users, and the economic, technological and commercial landscape. However, these are high level criteria with no further information on how they will be assessed or evaluated. More information is required to understand how these criteria will be assessed.

3.2. Specifically, we consider it crucial that any end user requirements that go beyond service functionality in place today are clearly defined and benefits for end users evidenced, accompanied by a clear costs / benefits case and commercial model for delivery.

3.3. We note that there is no proposal to consider operational resilience within the criteria for deciding to notify Pay.UK of a new deadline. We consider this the most important priority given the importance of the payments infrastructure to the UK Economy and recommend strongly it is added to the PSR's criteria.

3.4. HSBC UK also supports the PSR's consideration of the state of the supplier market to determine the possibility and suitability for competitive procurement. Current infrastructure provision for BACS, Faster Payments, the Image Clearing System and LINK is the product of a lengthy period of evolution, not the output of a single design or plan.

While resilience and high service levels have remained the priority (and been achieved) throughout, the evolutionary process has generated increasing operational and technical complexity. As noted above HSBC UK was not privy to that process and the bidders involved in the NPA procurement. However, we recognise that the operational and technical complexity of this market make the possibility and suitability for competitive procurement challenging.

4. What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?

4.1. The current reporting requirements in SD3 require Pay.UK to report quarterly on its progress with the competitive procurement. Removing the reporting requirement is therefore necessary to reflect that there will be no live deadline for competitive procurement.

4.2. We agree that monitoring Pay.UK's compliance is best achieved under the PSR's general monitoring of its work and aligned to General Direction 1. This is a more agile approach that will allow for issues to be identified, and considered, as a result of ongoing engagement rather than with quarterly reports with restrictive terms. We note that the PSR can issue notices requiring information or documents to be provided.

4.3. SD3 defines the NPA by reference to the Payment Strategy Forum's 2016 document - 'A Payments Strategy for the 21st Century.' We recognise that the Payment Strategy Forum's recommendations are now very out of date. HSBC UK would expect SD3 to be varied to remove references to the Payments Strategy Forum and New Payments Architecture with clarity on the scope of the amended SD3 defined in terms of any new, or extended, contract for infrastructure services.

4.4. However, the proposed approach to change the definition of the NPA to include any upgrades and new infrastructure that might not be covered by the 2016 definition continues to link the future work to the failures of the NPA and removes the focus from the core task of ensuring continuity and operational resilience of the UK's core interbank payment systems and services and the contractual arrangements on those. On this point we consider the planned SD3(b) too broad and consider that it should be narrowed to focus only on the essential extension of Faster Payments beyond June 2027 with critical resilience changes. Further enhancement should and will follow through the PVDC.

5. What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?

5.1. HSBC UK recognises the PSR's view that the absence of competitive tension generated by a tender process and long-term contracts for central infrastructure, increases the risks associated with monopoly supply. We note that the PSR considers that the horizontal and vertical risks that the PSR initially identified in its 2016 market review remain.

5.2. The current Regulatory Framework remains in place to address the PSR's concerns, and therefore we do not consider that there is significant value in updating the Framework at this time. A consultation from the PSR on an updated Regulatory Framework alongside PVDC work feels congested, premature and risks misalignment with the coordinated workplan of the Vision. We would propose that the PSR delays the review of the current Regulatory Framework until the PVDC work is more developed, to ensure that the Regulatory Framework supports the required end-user, business, and regulatory outcomes.

5.3. More broadly, if the PSR is considering how to best meet its statutory objectives of innovation and competition, we consider that the oversight to which Pay.UK should be subject is more pertinent; and is again relevant to the work of the PVDC. During the NPA, substantial cost has been imposed on to industry without a clear business case, oversight, challenge or validation. We are hopeful that some of the Pay.UK NPA investment can be re-purposed for the benefit of the PVDC priorities, but as we stand today, the extended NPA programme operated by Pay.UK has delivered no benefits for end users or the UK economy. HSBC UK has made a very significant contribution to the Pay.UK investment, reducing our capacity for internal innovation in the interests of our customers. It is therefore critical that the PSR also considers the impacts on Pay.UK's direct and indirect participants of future SD3 and SD2 investment, to ensure that individual innovation is not stifled, as firms are forced to prioritise both funding and resources for Pay.UK developments given the risks of change and finite investment budgets.

Lloyds Banking Group PLC

NON-CONFIDENTIAL RESPONSE

LLOYDS BANKING GROUP PLC

Response to the Payment System Regulator's CP24/13 consultation on amending Specific Direction 3

Submitted on 21/01/2025

EXECUTIVE SUMMARY

1. As a **leading UK financial services provider, Lloyds Banking Group (LBG) provides financial services to 27 million customers** in the UK. We help millions of customers – individuals, families and businesses – to spend, save, borrow and invest and help Britain prosper.
2. LBG believes that every strong economy relies on effective payments systems, and that renewal of infrastructure is critical to supporting economic activity. The recently published National Payments Vision (NPV) set out the government's ambitions for payments, supporting this vital sector to achieve a trusted, world-leading payments ecosystem, delivered on next generation technology, where consumers and businesses have a choice of payment methods to meet their needs; and where the provision of payment-related services should be underpinned by sustainable commercial arrangements, incentivising ongoing investment in these services and the sector more widely. As such, regulatory activities and supervision should focus and support economic growth for all parties involved, promote fair competition, ensure resilient safe and secure payment services and unlock investment by promoting sustainable commercial arrangements.
3. The PSR has a crucial role to play in setting the correct desired outcomes for the UK economy and holding Pay.UK to account on delivery. The procurement and design of services, meanwhile, should be managed by industry and providers; for core services, either new contracts or renewal of existing ones, this means a focus on safe, resilient, and efficient infrastructure. This should all be seamlessly integrated by the work of the Payments Vision Delivery Committee (PVDC) as it sets out the next steps for infrastructure upgrades, reducing regulatory congestion. We would encourage the PSR to take proportionate measures when considering how to ensure Pay.UK's contract renewal and/or delivery of new infrastructure is successful.

Removal of the SD3 deadline

4. We support the proposal to remove the current SD3 deadline of 1st July 2026.
5. However, we do not support the proposal to retain the ability for the PSR to set a new deadline in the future for Pay.UK to undertake a competitive procurement. The PSR's proposal to replace the current deadline with the ability to notify Pay.UK of a new deadline 'not before' 1 July 2036 does not provide industry with the PSR's intended certainty, with such clarity better achieved by a repeal.

The non-objection process

6. We do not agree that a non-objection process for entering into (or extending the current) a new central infrastructure contract for the Faster Payments Service (FPS), would support good outcomes for Pay.UK, industry or end-users. It is not proportionate or necessary as the extension or renewal is time-limited, in expectation of the long-term plan for next generation payments infrastructure. Pay.UK's immediate priority must be to ensure continuity of service within FPS, and to secure improved resilience via incremental upgrades.

Reforms to the regulatory framework

7. We will provide further comment on the PSR's reforms to the Regulatory Framework when these are consulted on. Without prejudice to our future views, at a principle level, any reconsideration or alteration of the 2021 Regulatory Framework should be aligned with the NPV and the decisions of the PVDC. In addition, the PSR should carefully consider whether placing further requirements on Pay.UK is necessary, or if it risks duplication of regulation (e.g. Pay.UK is already required to support innovation via initiatives such as Confirmation of Payee).
8. Procurement of core services should prioritise resilience, efficiency, and scalability. We do not agree with the PSR that the removal of competitive procurement for core services increases monopoly risks in payments infrastructure. Instead, procurement of overlay services should be competitive, thus

mitigating specific monopoly risks while not impacting the speed and efficiency of core service procurement.

9. The Regulatory Framework should confirm the requirement for sustainable commercial models to be embedded within payment systems, ensuring investment and innovation. Without commercial models covering reasonable return in addition to development, build and run costs, industry will be unable to drive innovation at the pace required to deliver the NPV. It should also support a level playing field across all payment ecosystem participants.

ANSWERS TO THE QUESTIONS

Question 1: What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?

1.1 We support the proposal to remove the current SD3 deadline of 1st July 2026.

1.2 The PSR's proposal to replace the current deadline with the ability to notify Pay.UK of a new deadline 'not before' 1 July 2036 does not provide industry with the PSR's intended certainty. As the consultation states Pay.UK may competitively procure before this date if it chooses to, Pay.UK and industry may continue to be unduly influenced by a potential deadline for competitive procurement. In addition, the statement that the PSR "remains committed to competitive procurement in the long-term" indicates, even if unintentionally, that the PSR's approach has not fundamentally changed, implying uncertainty on whether the PSR may choose to revert to a competitive procurement ahead of the 2036 deadline.

1.3 The inclusion of a reference for the PSR to be able to notify Pay.UK of a new deadline risks prejudicing, either by perception or otherwise, the work of the PVDC, and should not be included. The risk arises as competitive procurement was envisaged when the New Payments Architecture (NPA) was being progressed. By retaining the ability to set a new deadline, the PSR suggests competitive procurement remains its preferred approach. The PVDC should be permitted to develop the forward plan for payments infrastructure in line with the NPV and in partnership with industry without any regulatory prejudices, perceived or actual. If the work of the PVDC concludes that further specific direction is required, this should only be progressed at that time, in consultation with industry.

1.4 We support Pay.UK's revised central infrastructure plan, moving from a single implementation to an iterative delivery approach. A staged delivery plan will meet the requirements from the NPV that renewal processes be more "agile"[1]. Developing a robust plan for upgrades/renewal of infrastructure, set via the PDVC, with monitoring in place will negate the need for the PSR to retain the ability for a new competitive procurement deadline to be set via SD3.

Question 2: What are your views on our proposal to require Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?

2.1 We do not agree that a non-objection process for Pay.UK entering into or extending the Faster Payment central infrastructure contract would support good outcomes for Pay.UK, industry or end-users. Non-objection processes are intended to provide certainty that a decision will be implemented. However, as outlined below, requiring Pay.UK to undergo a non-objection process for this contract renewal is not required, proportionate, or necessary.

2.2 A non-objection process will increase regulatory congestion, creating additional barriers to securing any renewal or new contract, whilst increasing uncertainty for Pay.UK and the industry and potentially duplicating existing work. Instead of a non-objection process, Pay.UK's priority must be to ensure continuity of service within FPS, and to secure improved resilience via incremental upgrades.

2.3 We require further details on what additional conditions the PSR would have to attach to a non-objection decision as suggested in the consultation and how they are consistent with statutory standards, before we are able to opine on their suitability. If the PSR seeks to change current conditions, or add new ones, there should be formal consultation. The PSR should assess whether any future non-objection process clearly supports its statutory goals, or whether such process is too demanding, inhibiting the ability of smaller/less experienced providers to comply with requirements. Transparency of requirements and the process to be undertaken must be provided.

[1] "The government considers that a more agile and flexible approach to delivering the UK's infrastructure needs is required". National Payments Vision, 2024

2.4 The consultation implies a non-objection may or may not be issued depending on developments in account-to-account (A2A). We require further clarity on what the PSR intends by this, and whether it is a mechanism to mandate provision of expanded A2A via Pay.UK. We note the swiftly developing progress of industry-led A2A functionality, and progression towards an industry-wide multi-lateral agreement (MLA).

2.5 Should the PSR decide to implement a non-objection process it must be transparent, efficient, with clear assessment criteria agreed along with timescales for completion. It must be aligned across the regulatory family, via the PVDC or in line with the PVDC's decisions on infrastructure. This will include a clear timescale for completing any assessment, with co-ordinated announcements. We note previous non-objection processes have not had regulatory alignment, leading to delays, confusion and significant costs within industry and Pay.UK, which should not be repeated.

2.6 The PSR's existing powers and regulations provide the ability to intervene in cases of market failure, such as Pay.UK and industry delivering retail infrastructure that does not meet the strategic competitive outcome.

Question 3: What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?

3.1 The PSR's proposed criteria are high level and we required more detailed and explicit criteria to have clarity on how the PSR will assess Pay.UK. The PSR should provide such detail in aid of transparency and understanding for Pay.UK and industry on when future decisions are likely to be taken.

3.2 The document references the inclusion of "amongst other relevant information", suggesting the PSR could vary the criteria. The criteria must have clear measures agreed in advance, possibly through the PVDC, to ensure outcomes are aligned to wider regulatory priorities. Industry and Pay.UK must be given opportunity to comment through consultation on any significant changes to the criteria. As Pay.UK is reformed to enable better, faster decisions through the NPV, it should be empowered to work with industry[2] to improve its delivery and ensure it meets the needs of end-users (e.g. greater choice for end users and competition with cards), rather than be subjected by a directed approach from the regulator with specific details. Industry is best placed to support Pay.UK with consumer perspectives, drive competition and innovation in the market, and address legacy technology to maximise cost efficiencies. Enhanced industry involvement will support Pay.UK's ability to meet the PSR's desired outcomes (including end user needs, and promoting innovation and competition), minimising the need for the PSR to intervene, which would risk duplication. The PSR has the powers to intervene if the infrastructure delivered does not meet desired outcomes.

3.3 As we discuss in our response to Question 2, any requirements placed on Pay.UK, and by extension its potential providers, must be proportionate and not require considerable inputs or onerous compliance requirements. Additional or burdensome requirements risk undermining Pay.UK's ability to attract new infrastructure providers who may lack experience fulfilling non-objection requirements.

Question 4: What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?

4.1 We agree the quarterly competitive procurement reporting requirements should be removed in absence of a competitive tender, and that the outdated 2016 definition of the NPA be amended.

---

[2] "The government considers that the effective delivery of the UK's retail payments infrastructure now and through time requires a strong and effective payment systems operator, and the current set of organisational arrangements could be improved… [This] needs to be resolved with a more effective set of arrangements put in place to enable swifter and more strategic decision-making while still reflecting the needs of all stakeholders to ensure that payment systems operate for the benefit of end users as well as the wider economy". National Payments Vision, HM Government, 14th November 2024

4.2 We note SD3b as drafted does not remove references to the 2016 NPA definition, but retains it as the basis of the definition, permitting it to be supplemented by Pay.UK's development and upgrades to the infrastructure proposals. This broad language creates uncertainty, with no stated requirement for Pay.UK to validate its proposal with its stakeholders, including industry. The definition of the NPA should be updated to reach an established view on the way forward for infrastructure renewal.

4.3 The PSR should thoroughly review SD3b as part of the PVDC's work on infrastructure reform, to understand whether the 2016 market review outcomes are still relevant almost a decade on. A new definition must be agnostic of infrastructure and reflect the key outcomes of the renewal programme, for example, providing resilient and safe infrastructure.

Question 5: What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?

5.1 We note the PSR is not, at this time, formally consulting on proposed enhancements to its regulatory framework. Comments provided below are indicative only and are intended to support the PSR's thinking but should not prejudice our response to the final changes and any subsequent consultation response.

5.2 Any reconsideration of the Regulatory Framework must be made in alignment with the PVDC and support the implementation of the NPV. Reforms to Pay.UK, closer working with industry, and the PVDC's forward plan for infrastructure should all support infrastructure delivery aligned with the PSR's desired outcomes. The PSR should not 'front run' this process or seek to include additional requirements on Pay.UK before any need to do so is identified, i.e. by market failure.

5.3 Any additional requirements placed by the review of its Regulatory Framework on central infrastructure must balance the PSR's goals of increasing innovation and competition with the need to ensure the resilience of central infrastructure, and timely procurement and upgrades, including reflecting the Government's intentions for improving the renewal programme, as set out in the NPV. Any requirements must be proportionate to the harms they seek to address and the PSR must set out why it believes any requirements have met such a test.

5.4 Any amendments should also take note of the need for payment systems to support sustainable commercial models, allowing for reasonable return to incentivise long-term, continual investment, as outlined within the NPV. Without commercial models covering reasonable return in addition to development, build and run costs, industry will be unable to drive innovation at the pace required to deliver the NPV.

5.5 We disagree that the review of the Regulatory Framework is necessary to mitigate the "significantly enhanced" monopoly, horizontal and vertical risks for Pay.UK, following the removal of the requirement for the competitive procurement, and the need to engage with the incumbent provider. We disagree these risks are enhanced by the removal of the requirement for a competitive procurement of core services, as competition will still exist within the payments infrastructure ecosystem. The PSR retains its ability to manage any significant concerns with the behaviour of a core provider, which can be addressed if and when they arise, via the PSR's existing powers.

5.6 Rather than reintroducing competitive procurement at the core layer, or managing competition risks there, greater competition should be achieved via the development of overlay services and/or a 'platform for innovation' that sits above the core. Delivery of core payments infrastructure services should prioritise speed, efficiency, resilience, and be scalable, alongside utilising structured data standards through ISO20022. Timely and efficient delivery of enhanced central infrastructure will provide the ability for Pay.UK to support innovation via new overlay services, such as data fraud enhancements. Such overlay services would utilise the competitive tender process, to drive most beneficial outcomes for customers, create competition in the marketplace, and drive effective pricing, mitigating any monopoly risks.

5.7 The PSR acknowledges that Pay.UK is already subject to innovation requirements; noting this is via the requirements set out under the Regulatory Framework, but also via the PSR's other existing policies- such as Confirmation of Payee and Authorised Push Payment Reimbursement- which are mandating Pay.UK to implement new, innovative services. Whilst we recognise this additional requirement would be amended in line with the work of the PVDC, we believe including additional innovation requirements on Pay.UK may be unnecessary, and risks duplication and overlapping requirements (which, as noted in the NPV, has impacted on the pace of innovation). We suggest supporting Pay.UK to promote innovation is best achieved by existing regulatory powers, and ongoing BAU regulation of Pay.UK.

NatWest

CP24/13 – Consultation on amending Specific Direction 3 NatWest Response

NatWest Group

Executive Summary

NatWest supports the Payment Systems Regulator's (PSR's) objectives to promote innovation, competition and ensure end-user benefit from payment change.

NatWest supports the PSR's proposal to remove the Specific Direction 3 (SD3) requirement for Pay.UK to procure a replacement of Faster Payments Service (FPS) Central Infrastructure (CI) through competitive procurement by 2026. This is no longer practical.

NatWest also:

- Sees an opportunity to review the purpose of SD3. Ideally it would be revoked, but we believe such a move immediately would be rushed. This may risk the current short-term work on enhancements to FPS and a contract extension/renewal with the incumbent, VocaLink, having poor outcomes.
- Believes therefore that the proposal to retain SD3, with a possible date for competitive procurement after 2036, is a useful interim measure, given it provides an overall framework for managing a procurement.
- Suggests the PSR should review SD3 again in light of the National Payments Vision (NPV), the work of the National Payments Delivery Committee and in parallel with the modernisation of FPS and its associated contract (Next Gen). We believe this should allow the possibility of a forced competitive procurement to be dropped. We believe that the experience of the New Payments Architecture (NPA) shows that payments central infrastructure is not a field which lends itself to competitive procurement.
- Believes that the PSR should either seek to foster a market with multiple infrastructures similar to solutions in the Single European Payments Area (SEPA), or recognise a natural monopoly and manage it accordingly. The early implementation of ISO 20022 may allow a SEPA-style market of competing interoperable infrastructures to emerge.
- Supports the retention of non-objection rights for the PSR, and the Bank of England's Financial Markets Infrastructure Directorate (FMID), which are perhaps more important than ever as the incumbent CI supplier is guaranteed a market. We do, however, also urge the PSR to ensure this process is an efficient one, which does not delay the implementation of modernised infrastructure.
- Agrees that the PSR will need to review its regulatory framework in light of the demise of NPA. The framework should encourage collaboration between Pay.UK and participants, while also introducing a regime which regulates the monopoly supplier effectively.
  - The framework should encourage innovation and competition in the wider market for overlays and other services offered by PSPs to end-users. The overall approach outlined above should be an aid to economic growth.

Finally, NatWest recommends that in parallel with a further review of SD3, the PSR also reviews Specific Direction 2 (SD2) on Bacs. The abandonment of NPA will also affect the future of Bacs. A strategy for Bacs is essential and needs to be considered alongside FPS. The current SD2 may be unhelpful in this respect.

Consultation Questions

1. What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?

NatWest supports the removal of requirements for Pay.UK to complete a competitive procurement of new FPS CI by 1 July 2026. Following the cancellation of the NPA this deadline is unachievable.

We note, however, that the PSR retains the option to notify a new deadline for competitive procurement not earlier than 2036.

NatWest also supports the current Pay.UK plan for short-term enhancements to Faster Payments (Next Gen) through the existing supplier without a competitive tender. We assume that moving the deadline for competitive procurement to 2036 or later will allow this non-competitive process to complete well before any new deadline.

We recognise that the PSR also considered whether to revoke SD3 altogether. NatWest can see that there would be risks around such a move taken in a hurry, potentially removing any regulatory oversight of procurement in this field which could open up new risks e.g. exposure of Pay.UK to a monopoly supplier.

NatWest believes that the PSR has effectively created an interim regime.

NatWest recognises the reasons why the PSR would ideally like Pay.UK to undertake competitive procurement of infrastructure based on the conclusions of its 2016 Market Review. In general, competitive procurement is likely to contain cost and improve quality, but that particular study is now out of date

However, the experience of the NPA has demonstrated the difficulty of creating effective competition to purchase a single payment CI.

NatWest therefore believes that the PSR should use the time available under this interim regime to consider not only consider a new deadline for competitive procurement, but also whether one is required and whether SD3 should ideally be revoked. The PSR should consider whether there are more effective ways to ensure positive outcomes for end users and PSPs.

In considering these options the PSR will be informed by the NPV and the work of the new Payments Vision Delivery Committee. It will also be able to assess how the early stages of the Next Gen infrastructure upgrade are working.

Alternative Future Approaches to Infrastructure Competition

SEPA-Style Multiple CIs

Notwithstanding the above, NatWest agrees that relying on a single infrastructure provider for interbank payment services is less than optimal. The PSR should explore other models. For example, it might explore the viability of a multi-infrastructure model that relies upon common standards (namely ISO 20022 messages) for clearing services, akin to SEPA solutions, driving competition and resilience benefits.

The most likely way for this model to emerge is for an early transition of the current infrastructure to ISO 20022, which could then allow other infrastructure to offer interoperable clearing services alongside VocaLink. In considering the SEPA model, other changes may be necessary to support it, e.g. liquidity management. Pay.UK will have a critical role in managing standards with infrastructures to allow full interoperability.

We believe that Next Gen work should move on quickly to allow such a market to emerge.

Single Infrastructure and future of SD3

Whether such a market (SEPA-style) emerges is unclear. We do not, however, believe that a monopoly supplier in the long term is necessarily unmanageable. A monopoly CI could be the basis for competitive overlays.

Again, we hope the PSR will consider how it will deal with such a situation effectively. We therefore understand the PSR's cautious approach to SD3, retaining its power to set a date for competitive procurement.

The PSR will need some time to consider how the market will develop. We therefore recommend the PSR to make a thorough re-assessment of its approach to market infrastructure with a view to further changes to SD3 in the future, probably revoking it altogether. The revised SD3 therefore offers a stop gap and a safeguard while this work is done. This is to some extent a logical extension of the PSR's own proposal to review its NPA regulatory framework.

The work of the Payments Delivery Committee and Pay.UK's progress on Next Gen will be major influences on the PSR's destination on competitive procurement.

NatWest also understands and supports the desire of the PSR to retain powers around Pay.UK/VocaLink contract extension. The existence of SD3 with its non-objection process is therefore a ready-made solution in the short term as we discuss later in our response.

2. What are your views on our proposal to require Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?

NatWest supports a regulatory process that oversees the work of Pay.UK and VocaLink, ensuring that they act in good faith with the market. As VocaLink/Mastercard will be unchallenged as vendor of the retail infrastructure for the foreseeable future, we believe a non-object process is desirable.

Non-Objection Process

NatWest believes, however, that the non-objection process used for NPA was opaque to outside parties and too lengthy, resulting in delays to delivery. We believe that this level of regulatory monitoring went beyond what was required to ensure a sound procurement and was ultimately one of the factors which under-mined NPA at considerable cost to the industry and end users.

We would like a non-object process that enables Pay.UK to meet clear expectations quickly, demonstrate delivery and build stakeholder confidence.

It is important that the renewal process proceeds at pace to deliver innovation and benefits to payment end-users, supporting UK economic growth. Further delays will hamper the ability of the market to support innovation and growth.

We note that the PSR has introduced a second non-objection process into SD3 to deal with the circumstance of a non-competitive contract renewal with the incumbent infrastructure vendor. We would like the PSR to ensure that this second non-object process is constructed to expedite this process and is not unduly complex or slow

The current draft requirements of an amended SD3 indicate the PSR's expectation that Pay.UK will present to the PSR a single submission for decision by the PSR. NatWest's understanding is that the previous non-object process (the first non-object process) comprised a series of formal stages at which Pay.UK was required to submit materials for PSR consideration. This was probably one of the reasons for slow progress on NPA.

On the face it moving to a single submission (second non-objection process) might be intended to accelerate the overall process. The new process offers less interference but appears to run the risk of an unpleasant surprise at the end, which might derail delivery. We believe that the optimum process would be through regular, though informal and thus quick, contact with Pay.UK before the formal submission at the end - a "no surprises approach".

We would like to see the contract renewal and scoping exercise complete by Q3 2025 in order for participants to have time to secure budget for implementation costs in 2026.

Costs and their recovery

The New Payments Architecture programme delivered no benefit for NatWest customers. Pay.UK costs of c. £160m were charged to participants. We estimate that when the internal costs of Pay.UK's customers are added in, between £200-250m was spent by the industry.

Due to NatWest's high payment volumes, we paid a significant proportion of these costs. There has been no consideration of whether future users of FPS (and Bacs) should contribute to these costs.

In a renewed service agreement, NatWest believes that the PSR should require Pay.UK to amortise NPA funder costs through a charge on future users over a period of ten years.

Pay.UK and VocaLink should consider whether anything can be salvaged from NPA to use in FPS Next Gen to mitigate the abortive cost.

The PSR should be aware of the impact this sunk cost has and consider their continuing relevance in any non-objection process.

3. What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?

We note from the consultation document that your criteria are:

- the needs of end users, and the economic, technological and commercial landscape
- the state of the supplier market

These are in themselves reasonable, but we believe that the "state of the market" criterion has already been tested by the NPA process. This demonstrated that this is not a market that lends itself to competitive procurement of a single infrastructure.

We believe that competitive procurement is unlikely to be practical and hence see this revised SD3 as an interim step. We recommend that it is further reviewed as the NPV process develops with a view to further amendment or revocation as alternative methods to ensure value for money in retail infrastructure procurement emerge.

Furthermore, the next decade is likely to deliver significant change to payments that the market could look very different. Quite apart from our own aspiration for a SEPA-style market, the following could bring new and different competition and multi-infrastructure arrangements:

- A gateway vendor or existing card scheme launching an alternative service to those procured by Pay.UK,
- The Bank of England's potential development of a Central Bank Digital Currency,
- Launch of an alternative service by a firm using the Bank of England's proposed synchronisation service,
- Consideration of clearing sterling payments through international partnerships, e.g. with SEPA,
- Regulated Liability Network (RLN) proposal,
- Use of crypto-assets or stablecoins for payments in the UK.

The PSR should examine and embrace these initiatives. However, if a case for competitive procurement re-emerges the PSR must allow Pay.UK sufficient time to follow up. We also believe that the PSR should look at the outcomes from the current Next Gen process. If it delivers good outcomes for end users at a price which participants believe to be reasonable, there seems little point in pursuing competitive procurement. Since such an assessment will not be possible until several years after implementation, competitive procurement must be many years away, should it ever be required.

4. What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?

NatWest welcomes the removal of the reporting requirements. These appear redundant in the non-competitive tender environment. We also believe that a more strategic approach to regulation will be helpful to Pay.UK as it seeks to bring the FPS Next Gen to fruition. Regular and detailed reporting is likely to be a distraction that could slow delivery.

We do not think that the first non-objection process should be retained given that it may not be relevant by the time the PSR decides to bring it into force.

The PSR should recognise that the term 'New Payments Architecture' has lost credibility for many industry stakeholders. We recommend that references to the NPA be removed.

The PSR should consider whether the wording of section 2B supports minor or substantial changes to the function of central infrastructure that may be required to deliver future overlay services or support a break from contracting with a single infrastructure supplier. The PSR could institute a preliminary step for the operator to set out a proposed contract change or extension and for the PSR to work with the operator on a transparent timeline and requirements for any non-object deemed necessary.

As noted above, the non-objection process should be relatively simple and operated in such a way that it does not slow the overall implementation of a new contract/enhancements to Faster payments, other than for issues of truly major concern.

5. What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?

The Regulatory Framework currently rests on an assumption that there will be a competitive procurement process.

As such some amendment is required. The requirement now is to manage monopoly risks, ensuring that VocaLink does not abuse its market position

We therefore support the retention of provisions which require the central infrastructure provider to ensure that it maintains its CI function distinct from its other operations. As VocaLink / Mastercard will be the CI for some years to come, these provisions are more important than ever. While we do not doubt Mastercard's good faith, we would suggest the PSR looks at how these may be strengthened to ensure that the risks of this position being abused to strengthen Mastercard's position even further, are minimised.

In terms of the principles to which Pay.UK must adhere, NatWest believes these should be modified to encourage collaboration with participants. Phrases such as "[Pay.UK must] be the primary interface and decision-maker for CIS provision" have distanced Pay.UK from participants and made collaboration difficult. With the competitive tender requirement removed, there is less reason for this distant relationship. The procurement specialists of participants could, through their expertise, play a role in obtaining value for money from VocaLink.

NatWest seeks assurance that charges made by Pay.UK and VocaLink are commensurate to costs and the level of service provided. These need to be sufficiently well funded to ensure the resilience of payment services is not jeopardised, but reasonable for UK consumers and businesses who ultimately bear them.

We also recognise that the powers that the PSR have to intervene in any contract negotiation, may be limited.

NatWest considers that both Pay.UK and VocaLink pricing structures present monopoly price risks which could result in Pay.UK customers receiving poor value for money, and stifle competition and innovation by making pricing a persisting barrier to entry, particularly for alternatives to card payments.

While we fully expect that Pay.UK will act in good faith on behalf of its customers, there are examples (such as in relation to its Enhanced Fraud Data proposals) where its pricing appears to exceed both the benefit of its services and their cost to deliver.

In internal benchmarking, NatWest identified that the fees per transaction it paid for participation in comparable retail payment infrastructure outside the UK are less than half those paid for Pay.UK services both Faster Payments and Bacs.

NatWest encourages the PSR to undertake an international benchmarking exercise of retail payment infrastructure costs in order to establish whether the fees charged by Pay.UK and/or VocaLink are in line with international competitors.

NatWest believes that Pay.UK and VocaLink should be able to achieve a price point comparable to international peers and expects a renewed FPS CI to achieve a total cost per transaction less than today's FPS price, excluding the recent NPA surcharges.

Should Pay.UK, in collaboration with VocaLink, be unable to deliver this cost profile, we would like the PSR to help Pay.UK's customers understand why this cannot be met.

Specifically regarding VocaLink pricing, in the consultation the PSR does not set out the legal basis on which it intends to enhance the NPA Regulatory Framework further to address the monopoly regarding price. Section 54 confers powers on the PSR to issue directions on Pay.UK and any incumbent infrastructure provider. The PSR's suggested requirements include a requirement on Pay.UK to "attempt to mitigate the monopoly risks to… price" and on VocaLink to attest and evidence that it is providing "economically efficient pricing".

NatWest believes that the PSR should consider its powers and whether they are sufficient to ensure Pay.UK customers receive value for money. It may be that the PSR would incorporate these into a package of graduated measures which include powers arising from its concurrent competition function with the CMA, with an "ultimate back-stop" related to what we believe are the PSR's powers to require the divestment of VocaLink. This would be an extreme outcome should there be a problem with VocaLink / Mastercard. However, the PSR should consider how this might fit in a hierarchy of sanctions should there be serious concerns, from the PSR or other market participants, about abuse of a monopoly situation.

As you suggest, the framework should encourage innovation and growth on the part of both Pay.UK and the CI provider.

END

Pay.UK

Pay.UK's response to PSR CP24/13 – Consultation on amending Specific Direction 3

21 January 2025

Classification: Public

1 Executive Summary

In December 2024, the Payment Systems Regulator (PSR) launched a consultation on amending its Specific Direction 3 (SD3) and potential changes to their regulatory framework which was to apply to the New Payments Architecture (NPA). This is Pay.UK's response to that consultation. Given SD3 is a regulatory obligation placed on Pay.UK, as the operator of the Faster Payments payment system, and that a revised regulatory framework could apply to us, we have a direct interest in the changes proposed by the consultation.

We set out specific views on the PSR's proposals in this paper. At an overall level we **welcome the PSR's consultation which is needed to ensure Pay.UK can ensure continuity of supply of Central Infrastructure Services**. We are keen that the PSR moves promptly to confirm changes to SD3 and engages with Pay.UK and Vocalink on its more detailed proposals for its enhanced regulatory regime.

Changes to SD3

It is essential that the PSR changes the current deadline in SD3 to allow for the different approach to infrastructure renewal that has been supported by the PSR and FMID. This new approach follows the proposals made by Pay.UK (at the regulators' request) in June 2024 and publication of the National Payments Vision (NPV). Without change to the SD3 regulation, there is no compliant route to enable Pay.UK to extend its contracts with Vocalink which will ensure continuity of supply. While we think there is merit in revocation of SD3 (and SD2), we need clarity on this issue quickly to enable contracts to be executed. **We therefore support the PSR proposal to remove the current deadline and replacing it with an ability for the PSR to set a new deadline (not before 1 July 2036)**. We do, however, raise risks around the 10-year minimum period for the PSR to consider. We believe that the PSR should apply the same 10-year minimum period to SD2 (Bacs).

Pay.UK supports the requirement for us to seek the PSR's non-objection before entering into a new contract for the provision of FPS central infrastructure services or extending the existing contract. We consider that this formal non-objection process would be a proportionate response to the changed circumstances we are now facing, and we support this being included within a specific direction. However, the PSR should be more specific about the nature of the conditions that could be applied following this non-objection process and be mindful of the process to prevent unnecessary delay and aid progress in line with NPV.

Pay.UK believes that the criteria that the PSR needs to take account of before deciding on a new SD3 deadline should be broad. We support the inclusion of the two proposed criteria and recommend that the PSR broaden the first criterion to include all service users in addition to end users, to provide clarity that consideration will be given to all users' needs.

Pay.UK agrees that the current reporting requirements in SD3 should be removed. We already have flexible and timely engagement with the PSR which means that a compliance report is not necessary. We recommend that the corresponding reporting requirements in SD2 also be removed. **We support the PSR amending the SD3 definition of the NPA, but we believe the PSR needs to refine its proposal further as Pay.UK are no longer using this term**. The SD3 definition should instead refer to infrastructure renewal of the FPS system more broadly.

Changes to the regulatory framework

It is important that the PSR's requirements are proportionate and sufficient clarity is provided to both Pay.UK and Vocalink to support our negotiation timetable.

We do not support the PSR's proposed new requirement that Pay.UK must attempt to mitigate monopoly risks. We have already been seeking to mitigate monopoly risks in the absence of such a requirement so do not believe it is necessary. Additionally, imposing the requirement on us will create additional compliance costs.

We cautiously support the PSR's proposed requirement on Vocalink to support innovation. Pay.UK is the decision-maker about innovation related to CI provision and innovation therefore needs to be in line with decisions taken by us. A requirement on Vocalink could help to facilitate innovation more widely and to ensure that Vocalink is more closely aligned to our own regulatory requirements in this regard. **However, we would not want issues around this innovation requirement to add undue complexity at this point and thereby detract from some of the more significant concerns arising under the second requirement. We feel that providing clarity on expectations for that second requirement must be the PSR's priority.**

We do not support the PSR's proposed change in approach in respect to Operational Separation requirements. It will be important for there to be timely agreement on the precise manner in which Vocalink will be able to fulfil the Operational Separation requirement. Regulatory certainty of this will help to minimise Vocalink's compliance costs and give them greater confidence of their compliance. The Operational Separation requirements should also not create unnecessary barriers to achieving resilience or innovation. Access to Mastercard capabilities has the potential to bring benefits to Vocalink's offering and it is important that such benefit is not precluded by Operational Separation arrangements.

2 Consultation Questions

Question 1: What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?

Replacement of the current deadline

It is essential that the PSR changes the current deadline in SD3 to allow for the different approach to infrastructure renewal that has been supported by the PSR and FMID following the proposals made by Pay.UK (at the regulators' request) in June 2024 and publication of the NPV. Without change to the SD3 regulation, there is no compliant route to enable Pay.UK to extend its contracts with Vocalink to ensure continuity of supply. We strongly support PSR action to provide Pay.UK with legal certainty on this issue.

That certainty could be enabled in various ways such as revocation (including of SD2) or removing the current deadline within SD3 (the approach proposed by the PSR).

We think that there is merit in revocation, as it provides greatest certainty around regulation and removes an obligation which has caused significant complexity. This simplification of regulation would be aligned to the Garner review and recognise that the Infrastructure Market Review (which was launched in 2015) is now out of date. SD3 and SD2 were created to address issues which had arisen over a period when there was common ownership of the PSOs and Vocalink. Ownership arrangements have changed significantly since that period – with an independent governance model now in place at Pay.UK.

However, we also need clarity on this issue quickly to enable contracts to be executed and understand the PSR has a concern around the extent of the process required for revocation. As such, since revocation is not the PSR's proposed approach, removing the current migration deadline and replacing it with an ability for the PSR to set a new deadline (not be before 1 July 2036) is something that we support.

10-year time period

If the PSR chooses not to revoke SD3 altogether, then we agree with the PSR's proposal that a future deadline for a completed migration would not be before 1 July 2036. We believe that this 10-year minimum period can provide sufficient space and confidence to our stakeholders around the deal that will be negotiated with Vocalink this year. In particular, we are mindful that a shorter minimum period would give rise to risks that this would not enable efficient investment in central infrastructure to take place since some investments would not be worth making for short timescales. Similarly, we expect this period of comfort to enable Vocalink to be able to bring forward a compelling offer to our negotiation.

However, the minimum 10-year period and maintaining the regulation of a mandatory competitive procurement may cause constraints as our Future State work develops. The consultation document mentions that Pay.UK will be able to request an extension to any future deadline that is imposed and/or apply for an exceptional events exemption, however, we consider it would be more relevant for the PSR to keep under review the future need for this requirement (and the SD2) requirement based on developments in the industry ownership and governance following the extension of the current FPS contract.

SD2

To provide the same confidence in respect to Bacs, we believe the PSR should make clear that the same 10-year minimum period will apply for SD2 too. While SD2 does not currently have a deadline, there will be an inconsistency between SD2 and SD3 – as the minimum period will not apply for SD2. In the first instance, this can be mitigated through stating that a deadline on SD2 will not be imposed any earlier than July 2036 (although equivalent changes to the legal directions of SD2 would be most appropriate). Notwithstanding that Pay.UK's priority is enhancing FPS, having clarity about the SD2 deadline will support us in elaborating our future state plans with the industry.

Question 2: What are your views on our proposal to require Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?

Pay.UK supports the requirement for us to seek the PSR's non-objection before entering into a new contract for the provision of FPS central infrastructure services or extending the existing contract we have for these services. We have expected that both the PSR and FMID would review this contract. We consider that this formal non-objection process would be a proportionate response to the changed circumstances we are now facing, and we support this being included within a specific direction.

We also acknowledge that the PSR can place conditions on Pay.UK as part of the non-objection process and think this is appropriate to make the review process most effective. However, it will be essential to do this through open dialogue and discussion in order to ensure that any such requirements are proportionate, and time constraints are met. The PSR should also be more specific up front about the nature of the conditions that could be applied following this non-objection process – these would need to be appropriately constrained.

Pay.UK are familiar with non-objection processes and there were multiple previously required for the NPA programme. Most recently, Pay.UK made an assurance submission to the PSR for the chosen NPA vendor. This process saw Pay.UK and the PSR working cooperatively together through regular and early engagement to give a smooth and efficient decision-making process by the PSR. Pay.UK are looking forward to working with the PSR in a similar manner for future non-objections.
Overall, Pay.UK support the non-objection process and recognise the need for the PSR to obtain the relevant assurance but urge the PSR to be mindful of the significant time that has elapsed since the start of the NPA programme and the beginning of the renewal of the CI. The non-objection process should be as efficient as possible and co-ordinated with FMID to prevent unnecessary delays and aid progress in line with NPV.

Question 3: What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?

Pay.UK believes that the criteria that the PSR needs to take account of before deciding on a new SD3 deadline should be broad. This will help ensure that the PSR has flexibility to respond to the market situation at a given point in time. The two proposed criteria in the consultation are important and we support their inclusion. We recommend that the PSR broaden the first criterion to include **all service users** in addition to end users, to provide clarity that consideration will be given to all users' needs.

Question 4: What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?

Reporting requirements

Pay.UK agrees that the current reporting requirements in SD3 should be removed. We have been required to submit quarterly reports to the PSR while the NPA procurement process was paused meaning there were no substantive developments to include within those reports, prompting costs to be incurred for no discernible benefit. We agree that the flexible and timely engagement approach we have with you means that a compliance report in not necessary. We have and will continue to engage with the PSR to keep you updated on our work and where the PSR requires specific updates, this can be handled through the PSR's general monitoring of our work and/or issuing specific notices, rather than requiring set reports every quarter.

However, the same reasoning that PSR makes on SD3 reporting, applies to SD2 too. Pay.UK recommends that the corresponding reporting requirements in SD2 also be removed. SD2 requires Pay.UK to submit a progress report to the PSR every nine months concerning progress on our future Bacs strategy work. The PSR will continue to stay updated on our Bacs work through your general monitoring of our work (in the same way as for FPS). Further, the PSR confirmed in your 6 November letter to us, that our 'Day 1' focus for infrastructure renewal being on FPS is the PSR's priority too. We therefore do not expect to have a significant amount to report on when the next SD2 report is due (June 2025).

NPA Definition

The PSR is right to amend the SD3 definition of the NPA, but we believe the PSR needs to refine its proposal further. The PSR has proposed to revise the definition to say that the NPA includes any upgrades and new infrastructure that might not be covered by the 2016 definition of the NPA. Pay.UK is not using the term NPA. This is to reflect that we have cancelled the NPA procurement and that we are elaborating our longer-term plans for infrastructure renewal. Continuing to use the term NPA may risk causing confusion to the market and other stakeholders about our work which is a new programme of work. The SD3 definition should instead refer to infrastructure renewal of the FPS system more broadly, noting that the PSR can direct us only in relation to replacement infrastructure, not a replacement system.[1] There may also be merit in the PSR considering whether the Payment Strategy Forum's 2016 document remains the best artefact to reference within its definitions. Our view is that it would be preferable for the PSR to retire reference to this document.

Question 5: What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?

It is important that the PSR's requirements are proportionate and sufficient clarity is provided to both Pay.UK and Vocalink to support our negotiation timetable.

Requirement 1

The PSR has proposed that Pay.UK must, "recognise and attempt to mitigate the monopoly risks, to both price and quality, that are inherent in the incumbent central infrastructure provider's position". **We do not believe that this requirement is necessary**.

As the PSO, we have already been seeking to mitigate monopoly risks around Vocalink in the absence of this requirement, and we will continue to do so irrespective of the proposed requirement. It is in line with our own objectives to recognise and attempt to mitigate the competition risks, as well as other risks, around Vocalink's position. Hence, we do not believe that this requirement is necessary.

As noted in our response to the first consultation question, ownership arrangements and Pay.UK's governance arrangements have changed significantly meaning that Pay.UK is better suited now to mitigate monopoly risk than in previous years. We have already demonstrated this capability and credibility to seek to mitigate competition risks in recent years, as indicated by the PSR's confirmation of our approach following the PSR assurance process in 2023. Although circumstances have changed, we retain the same governance processes and capabilities (e.g. SME staff) to ensure that we will continue to seek to mitigate these risks. The PSR's non-objection process, along with open dialogue between Pay.UK and the PSR, will also already give the PSR the ability to confirm that you remain comfortable with our approach to these issues.

---

[1] *Financial Services (Banking Reform) Act 2013*, Section 54.

Although we will seek to mitigate monopoly risks irrespective of this requirement, if the requirement is imposed on Pay.UK this will nonetheless add additional compliance costs for us. We will have to provide an initial compliance statement and annual compliance statements to demonstrate how we are meeting the requirement. Although similar statements are already required under the previously proposed regulatory framework, this will inevitably impose a level of compliance costs associated to record-keeping, producing the compliance statements, and engaging with the PSR. It would also add an additional regulatory risk for us to track which adds to our overall regulatory burden.

We do not believe that these additional costs are worthwhile in the context of a requirement the aims of which we are already meeting. Further, this requirement is not aligned with HMT's agenda for proportionate regulation and the concerns expressed in the Garner review regarding the current regulatory burden in payments. We therefore favour this requirement being removed.

Requirement 2

The PSR has proposed the requirement that Vocalink must "seek to ensure and demonstrate that it does so at economically efficient price and quality levels, reflecting the outcomes that might be expected if it were subject to competitive constraints."

As noted in our response to the first requirement, we are already seeking to mitigate monopoly risks and we will continue to do so. As such, it is important that Pay.UK is able to lead the process of negotiations with Vocalink. In addition, in order to execute long-term contracts, the industry requires a sufficiently predictable and stable regulatory environment.

Since we run payment systems that are part of critical national infrastructure, quality characteristics are of particular importance to us. Contractual flexibility in respect of the length of the contract and transitional considerations are also important for the future. In respect of pricing, we agree that issues such as transparency and benchmarking will be important components of achieving a fair price overall.

However, it is **essential that the requirement is proportionate**. Given the time constraints that we face to ensure certainty of supply, we are disappointed that the PSR has not provided further detail on its expectations of the components and depth of the evidence base necessary for Vocalink to demonstrate compliance. We note that the PSR has suggested that annual compliance will be required and are confused by the implications of this in the context of a long-term contract.

It is vital that all parties engage in this exercise with a pragmatic approach to the overall situation that has been created following the NPV and recognise that it is critical to get the contract agreed in 2025. Our experience of working with the PSR during the 2023 Non-Object process was a positive one and we would hope for a similar approach to be followed this year. It will be important that Pay.UK, the PSR and Vocalink have an open dialogue throughout the year with tri-partite discussions held to ensure that there is clarity about regulatory expectations. Any regulatory 'red-lines' (from the PSR and FMID) will need to be understood early so that they can be addressed well in advance of the formal non-objection process.

Requirement 3

The PSR has proposed a requirement on Vocalink to support innovation. As the PSO, it is important that it is recognised that Pay.UK is the decision-maker about innovation related to the provision of central infrastructure. Indeed, the first requirement under the PSR's previously proposed regulatory framework is that we must be the primary interface and decision-maker for central infrastructure provision. It is important, therefore, that innovation is in line with the decisions taken by us, reflecting the views of our stakeholders. The PSR notes in its Consultation Paper that the previous regulatory framework already contained requirements to ensure that we facilitate innovation in respect of different issues, in fact three of the requirements include this.

We acknowledge that innovation in payment systems can be challenging given the need for coordination among a range of entities. We offer cautious support for this requirement, as it may be that a requirement for Vocalink to support innovation could help to facilitate innovation more widely and to ensure that Vocalink is more closely aligned to our own regulatory requirements in this regard. **However, we would not want issues around this innovation requirement to add undue complexity at this point and thereby detract from some of the more significant concerns arising under the second requirement. We feel that providing clarity on expectations for that second requirement must be the PSR's priority**.

We note that the PSR has stated that this principle would "be designed and specified in due course" reflecting the NPV, our mechanisms for working with our customers, and the wider sector. We are concerned that this may suggest that the PSR intends to bring greater specificity to this requirement in the future. However, we do not think that the PSR should specify particular technical solutions in respect of innovation. Rather, the PSR should be outcomes-focused leaving Pay.UK, in collaboration with the rest of the ecosystem, to determine the best innovation to take forward to address a particular need. Legally speaking, this is more consistent with the PSR's duty to *promote* innovation in FSBRA.

Operational Separation

The PSR has suggested that rather than referring to a list of generally expected elements of Operational Separation, you could instead "rely on explicitly listing the principles with which Vocalink must comply". **We do not believe that it is appropriate to change the regulatory framework in this way.**

There is a distinction between general requirements of the regulatory framework and the precise means by which these requirements are met by a particular firm. The PSR appears to be conflating these elements such that you may base the requirements of the framework itself around the specific ways that a particular firm will meet the aims of that framework.

Although we do not believe that the framework itself should be made more specific, it will be important for there to be timely agreement on the precise manner in which Vocalink will be able to fulfil the Operational Separation requirements. Regulatory certainty of this will help to minimise Vocalink's compliance costs and give them greater confidence of their compliance. This is especially important at the current time given the pressure that we are under to ensure certainty of supply.

We also note that we do not want Operational Separation requirements to cause unnecessary regulatory barriers to us being able to access the best technological approach to delivering FPS services both now and in the future. Since future plans are uncertain at this stage, this is an area where we would expect to engage closely with the PSR and Vocalink so as to prevent such an unintended consequence from arising.

Santander UK PLC

CP24/13 – Consultation on amending Specific Direction 3

Response from Santander UK plc

Overview

1. Santander UK (hereafter Santander) welcomes the opportunity to respond to the Payment Services Regulator's (hereafter the PSR's) consultation paper.

2. We are broadly aligned with the industry's view. Rather than the current proposal we feel that it is instead appropriate to remove Specific Direction 3. It is our view that the continued presence of Specific Direction 3 will distort and dilute the work of the Payments Vision Delivery Committee, Pay.UK and the industry to define and evolve the UK's payments landscape in line with the National Payments Vision (NPV).

3. Similarly, we believe that the market failure identified within the 2016 Market Review may not still be present. The payments landscape has transformed materially over the past 8 years and is a much richer and more diverse landscape today, noting the development of Open Banking and stablecoins as examples. This is also likely to accelerate in the future with the potential introduction of a retail central bank digital currency and a form of tokenised bank deposits. This will naturally drive an increased level of competition in the market, moving away from the historic lack of competition that Specific Direction 3 sought to rectify.

4. We believe that there is a key consideration to seek to understand how these or other innovations could also remove the need for central infrastructure in the future, and hence the target of Specific Direction 3. Central infrastructure naturally innovates at the pace of the lowest denominator and is generally backward looking rather than forward looking. Therefore, whilst it may help with simplicity from a resilience perspective, its use is may not preferable and we believe it does not make sense to mandate a procurement process for something that may not be required.

5. We note that for the 2016 Market Review the PSR chose not to use its concurrent competition powers to address issues, instead opting to use its sector regulation powers. By way of analogy, if the investigation had taken the market investigation route, the CMA would have had a duty to keep the remedies under review and to consider whether they remain appropriate after a change in circumstances. This is an important procedural safeguard for ensuring that remedies remain effective and proportionate over time, instead of assuming that the conditions that justified Specific Direction 3 in 2016 remain present in the market today.

6. Given the above it is more appropriate to remove Specific Direction 3 and reassess the need for a remedy once the work of the Payments Vision Delivery Committee has completed and there is certainty on the future landscape. The optimum approach would be for this to be grounded in a new evidence-based assessment and need for a remedy based upon the future state of the payments market.

7. As the industry bodies have highlighted, we believe the PSR's entire immediate focus should instead be on stabilising the PSO environment during its transition envisaged by the NPV to ensure it is fit for purpose in delivering innovation and operational efficiency.

The Payments Association

the payments association

connecting the future

Consultation paper CP24/13

Proposed approach to Specific Direction 3 Pausing the requirement for a competitive procurement

Payment Systems Regulator
December 2024

Response from
The Payments Association
January 2024

Introduction

The Payments Association welcomes the opportunity to contribute to the PSR's Consultation paper CP24/13 "Proposed approach to Specific Direction 3 Pausing the requirement for a competitive procurement".

The community's response contained in this paper reflects views expressed by our members and industry experts recommended by them who have been interviewed and who are referenced below. As The Payment Association's membership includes a wide range of companies from across the payments value chain, and diverse viewpoints across all job roles, this response cannot and does not claim to fully represent the views of all members.

We are grateful to the contributors to this response, which has been drafted by Riccardo Tordera, our Director of Policy & Government Relations and Robert Courtneidge, Advisor to the Board. We would also like to express our thanks to the PSR for their continuing openness in these discussions. We hope it advances our collective efforts to ensure that the UK's payments industry continues to be progressive, world-leading, and secure, and effective at serving the needs of everyone who pays and gets paid.

Tony Craddock
Director General
The Payments Association

Members' "responses to the questions" set out in the consultation:

Overview

The TPA members emphasised that the removal of the outdated Specific Direction 3 (SD3) is the preferred approach, as this would provide the necessary flexibility for the development of the New Payments Vision (NPV) that can accommodate future innovations and deliver a 'resilient payment infrastructure'. Rather than prolonging SD3 with an extended timeframe of 12 years, our members advocated for a forward-looking approach that allows the Payments Vision Delivery Committee (PVDC), set up under the NPV, to evolve without the constraints of legacy frameworks.

Additionally, the TPA members expressed concerns about the scope creep of the PSR, particularly its move beyond the New Payments Architecture (NPA) into broader considerations of a "new infrastructure." NPA was perceived as limited in scope and misaligned with emerging technologies such as blockchain, stablecoins, CBDCs, and tokenisation, which represent groundbreaking opportunities for the payments ecosystem.

Finally, the TPA members felt that the PSR's immediate priority should be focused on stabilising Pay.UK during its transition as envisioned by the NPV, ensuring it is fit for purpose in delivering innovation and operational efficiency. The TPA viewed the focus on SD3 adjustments as less productive compared to supporting a more strategic and innovative direction under the NPV.

The section numbering below corresponds to the numbering of the 'questions for respondents' in this paper.

1. What are your views on our proposal to replace the current deadline in SD3 (1 July 2026) with an express reference to PSR's ability to notify Pay.UK of a new deadline (which will not be before 1 July 2036)?

The TPA members strongly felt that extending the deadline for SD3 by 12 years (to no earlier than 2036) is unnecessary and counterproductive. Instead, the preferred approach would be to remove SD3 entirely, allowing the Payments Vision Delivery Committee to set a clear and ambitious direction for the future of payment infrastructure.

The current National Payments Architecture (NPA) framework and SD3 provisions were viewed as too narrow and outdated, failing to accommodate emerging innovations like blockchain, tokenisation, and CBDCs, the changing demands of consumers and the reality of today's global payments industry. Extending SD3 rather than cancelling it is likely to limit the pace at which the payment system would be modernised and would stifle the scope and pace of new solutions. Indeed, rather than preserving NPA at all, it was felt that the PSR should wait for direction from PVDC.

To be competitive in the fast-moving world of payments the UK needs to have speed and agility to adapt quickly and use all available technology and not be determined by the views pertaining when SD3 was originally conceived.

Notwithstanding the above, if a time extension on SD3 was seen as the only way forward, then it needs to be 'chunked down' into more tangible shorter milestones with strong oversight and clearer decision criteria. However, anything that is done along these lines should be discussed and agreed by the PVDC, rather than progressed by the PSR in isolation.

TPA Recommendation:

- Remove SD3 entirely to allow NPV to drive innovation without the constraints of legacy timelines.
- If retained, break down the timeline into shorter milestones to ensure flexibility and adaptability.

2. What are your views on our proposal to require Pay.UK to seek PSR's non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?

The TPA members acknowledged the value of PSR oversight but expressed concerns about the potential for this requirement to introduce delays and inefficiencies. More broadly, members questioned whether the PSR's non-objection rights represent unnecessary regulatory scope creep, especially in areas extending beyond NPA into "new infrastructure."

Furthermore, members are concerned about who has these 'non-objection rights' (i.e. PSR, BoE, FMID or other relevant stakeholders) and whether more of such rights will be brought in across other SDs in future. While oversight is important, our members felt that the focus should shift to stabilising Pay.UK during its transition as envisioned by the NPV, rather than introducing additional regulatory hurdles that could slow down innovation.

In addition, some of our members felt Pay.UK had the roadmap upside down by focusing on technology first. Other jurisdictions have seen significant successes in innovating payments when they focus on users' needs first before formulating the solution and then finally moving on to procuring the technology partner to deliver it.

Finally, it was stated that current contractual arrangements between banks and infrastructure providers are functioning effectively and hence the introduction of PSR oversight here may disrupt well-functioning systems.

TPA Recommendation:

- Limit PSR's oversight to areas directly relevant to the current scope of NPA.
- Clarify the scope of PSR's non-objection rights and ensure these do not duplicate or conflict with other regulatory stakeholders.
- Encourage a user-first approach to payment infrastructure development, aligning with international best practices.

3. What are your views on the criteria the PSR will take account of before deciding to notify Pay.UK of a new deadline?

The TPA members felt that discussing criteria for notifying a new deadline is irrelevant if SD3 is removed entirely, as recommended above. However, if a deadline mechanism remains in place, the criteria should reflect a commitment to aligning with the NPV and enabling innovation and should not focus solely on legacy systems.

In addition, we are unclear about how this will fit with the regulators' general new requirements to focus on 'growth and competitiveness' and, in the case of the PSR, encouraging innovation. Whilst regulators can be innovative in creating regulation and regulate to allow innovation, it is only the industry itself that can provide innovation.

Finally, it was emphasised by our members that, whilst it is important for the regulators to look at best practice examples around the world like Pagamento Instantâneo (Pix) in Brazil and the Unified Payments Interface (UPI) in India, the UK's existing payments infrastructure and user needs should be the foundation for everything else.

TPA Recommendation:

- The PSR's criteria must reflect its new statutory objectives around growth, innovation and competitiveness.
- While global benchmarks like Pix and UPI are valuable references, the UK must adapt these models to its unique payments' ecosystem and user needs.
- We must avoid tying the industry to outdated timelines that may hinder the adoption of future-ready solutions.
- Innovation must come from the industry itself, with regulation acting as a facilitator rather than a driver.

4. What are your views on the drafting of SD3b (varying SD3), including the removal of reporting requirements and expanding the 2016 definition of the NPA?

The TPA members supported the removal of redundant reporting requirements but expressed strong concerns about the expansion of the 2016 NPA definition to include "new infrastructure." This was seen as inappropriate scope creep by the PSR and misaligned with the industry's vision for NPV.

NPA was viewed as a limited and transitional step, whereas NPV is intended to offer a broader and more innovative framework that can incorporate emerging technologies. Expanding the NPA definition risks conflating the two and creating confusion.

TPA Recommendation:

- Remove SD3 altogether and avoid expanding the NPA definition. Instead, focus on defining NPV as the future framework for payment infrastructure.
- Ensure any new regulatory requirements are aligned with NPV's vision for innovation and do not constrain the adoption of groundbreaking technologies.

5. What are your views on the potential enhancements to PSR's Regulatory Framework in response to the changed circumstances?

The TPA members agreed that the regulatory framework needs to evolve but felt that the focus should be on stabilising Pay.UK during its transition as envisioned by the NPV rather than expanding regulatory scope. NPV provides an opportunity to address future challenges and embrace innovation, which should be the priority for regulatory enhancements.

Overregulation at this stage could risk slowing down progress and stifling industry growth. Instead, the focus should be on ensuring Pay.UK is well-positioned to deliver on its objectives as envisioned by the NPV.

One member pointed out that Pay.UK should concentrate on a 'no-regret' methodology (i.e. a strategic approach aimed at making decisions and taking actions that are beneficial regardless of future uncertainties or outcomes. This would avoid it making premature decisions (such as setting rigid deadlines or overly prescriptive frameworks) that might hinder innovation or adaptability later or curtail investments now. It would allow Pay.UK to address immediate needs without compromising its ability to adopt transformative technologies and methods in the future.

TPA Recommendation:

- Focus on stabilising Pay.UK and supporting its transition under NPV.
- Pay.UK to follow a ‘no-regrets’ methodology and avoid introducing regulatory enhancements that may add complexity or delay progress.

Conclusion

The TPA’s overarching message is clear:

- **Remove SD3 entirely** to provide the flexibility needed for NPV to define the future of payment infrastructure.
- **Avoid scope creep** into areas like "new infrastructure," which should fall under the remit of the NPV rather than the legacy NPA framework.
- **Prioritise the stabilisation of Pay.UK** during its transition as envisioned by the NPV, ensuring it can deliver operational efficiency and support innovation.

This approach will empower the UK payments industry to compete globally, embracing transformative technologies while delivering user-centric solutions that drive growth and innovation.

About The Payments Association

The Payments Association is for payments institutions, big & small. We help our members navigate a complex regulatory environment and facilitate profitable business partnerships.

Our purpose is to empower the most influential community in payments, where the connections, collaboration and learning shape an industry that works for all.

We operate as an independent representative for the industry and its interests, and drive collaboration within the payments sector in order to bring about meaningful change and innovation. We work closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

Through our comprehensive programme of activities for members and with guidance from an independent Advisory Board of leading payments CEOs, we facilitate the connections and build the bridges that join the ecosystem together and make it stronger.

These activities include a programme of monthly digital and face-to-face events including our annual conference PAY360 and PAY360 Awards dinner, CEO round tables and training activities.

We run seven stakeholder working Project groups: Inclusion, Regulator, Financial Crime, Cross-Border, Digital Currencies, ESG and Open Banking. The volunteers within these groups represent the collective view of The Payments Association members at industry-critical moments and work together to drive innovation in these areas.

We also conduct exclusive industry research which is made available to our members through our Insights knowledge base. These include monthly whitepapers, insightful interviews and tips from the industry's most successful CEOs. We also undertake policy development and government relations activities aiming at informing and influencing important stakeholders to enable a prosperous, impactful and secure payments ecosystem.

See www.thepaymentsassociation.org for more information.

Contact malik.smith@thepaymentsassociation.org for assistance.

UK Finance

PSR proposed approach to Specific Direction 3

UK Finance response

21 January 2025

Contents

Introduction

UK Finance fully supports the UK National Payments Vision (NPV), published in November 2024, and the strong direction it provides. We believe the NPV represents a significant opportunity to strengthen the UK's payment ecosystem, including its supporting infrastructure. UK Finance agrees with the aims of the NPV and welcomes the establishment of the Payments Vision Delivery Committee (PVDC) and the Vision Engagement Group to drive its implementation alongside industry. There are pressing questions regarding the specific directions related to the New Payments Architecture (NPA), and this consultation provides a timely opportunity to offer views on the way forward, alongside other submissions we have made to the PVDC.

National Payments Vision – Retail Infrastructure Requirements

We believe the NPV has been very clear on what it is seeking from a new retail infrastructure for the UK:[1]

- Timely and significant investment to ensure it is resilient and better enables innovation and competition
- A more agile and flexible approach to delivering infrastructure needs, that is better able to take account of future developments and innovation, particularly distributed ledger technology
- Consideration of interoperability between different payment systems, both domestically and internationally; to be balanced against domestic security of our systems.

The NPV has also been clear that **new** direction and delivery arrangements are required to meet these needs, noting that:[2]

- The UK's retail payment infrastructure needs a strong and effective payment systems operator (PSO) and that the current set of organisational arrangements in Pay.UK could be improved, to enable swifter and more strategic decision-making.
- While Pay.UK has delivered from an operational perspective, its design has made it very difficult to progress a strategic agenda.
- This is likely to require more effective governance arrangements and a more sustainable funding model that delivers value for money for market users.

---

[1] National Payments Vision, page 22
[2] National Payments Vision page 23

Next steps for Retail Infrastructure – Role of the PVDC

The government has asked the Bank of England and the PSR, through the Payments Vision Delivery Committee (PVDC), to examine and refresh the requirements for the UK's retail infrastructure including:[3]

- Delivering timely upgrades to the Faster Payments System (FPS) to enhance its performance and resilience.
- Defining future requirements to address broader needs and capitalise on emerging innovations.
- Strengthening governance arrangements, including proposed reforms to Pay.UK, informed by relevant international best practices.

It is important that the work of the PVDC should be permitted to run its course without potential complications owing to the continued application of the substantive obligations under SD3. This is particularly important because the PVDC's mandate includes clarifying upgrades required to the existing FPS, which overlaps with the areas currently addressed under SD3.

Next steps on Specific Direction 3 (SD3)

All UK Finance members agree that, given the significant innovation and increased competition in UK payments since 2016, it is important to assess whether the procurement obligations under SD3 remain proportionate to the harms they aim to address and the future requirements for retail payments infrastructure.

- Some members strongly argue that the best way to achieve this is through repealing SD3 in order to remove any confusion over the future development of retail payments infrastructure; and to prevent existing assumptions around the provision of central infrastructure from persisting.

- Other members would prefer to revisit SD3 at a later point and in light of the PVDC findings for the future of retail payments infrastructure. The conclusion of the PVDC may, for example, render SD3 redundant.

Either way, SD3 will have to fundamentally be reconsidered and rewritten to take into account the evolving landscape and circumstances. In this response we set out the considerations the PSR should take into account when determining its next steps.

[3] National Payments Vision page 24

Consultation questions

1. What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?

We recognise that the PSR will need to reconsider its approach as the PVDC sets out its future plan for retail payments infrastructure.

We support the immediate cancellation of the 2026 date and we welcome the fact that the PSR is not committing to introduce a new deadline for competitive procurement. We view this SD3 proposal as an interim step which allows the PSR time to consider a different approach. This approach provides the necessary flexibility to adapt to evolving circumstances while ensuring that key objectives are met in a timely and proportionate manner.

This would give Pay.UK and other market participants the breathing space to consider and adapt to the NPV, and for the PSR holistically to assess the position against its statutory objectives with the benefit of all relevant information. It also would help avoid unnecessary pressure on stakeholders and ensure that the focus remains on delivering effective and resilient outcomes for the UK payments infrastructure. It would also prevent any potentially conflicting and costly procurement exercises from being commenced that may prejudice the outcome of the NPV.

The PSR should make clear in its decision on SD3 that it is not expecting Pay.UK to prepare for or take into account any future procurement in negotiating existing contracts; nor should Pay.UK feel obliged to align decisions to mitigate the risk of future regulatory requirements for a procurement process beyond 2036 instead of aligning decisions to the current market conditions.

In assessing its options, the PSR should consider:

- **Changing market conditions.** SD3 itself arose from the 2016 market review into the ownership and competitiveness of central infrastructure provision and was a direct product of the market conditions and prevailing regulatory landscape at the time. The UK payments industry has evolved considerably since then and much of that market review is no longer relevant. There have been significant innovations in payments technology and infrastructure in the intervening period, including the Bank of England’s RTGS Renewal Programme, the launch of open banking, the introduction of an omnibus account, and the FMI Sandbox. These and other developments powerfully demonstrate the rapid and increasing pace of change in the payments landscape in the UK. Reassessing SD3 should focus on evaluating whether the same risks identified in 2016 still exist and on new approaches to managing these risks. For instance:

- Advances in standards (like ISO 20022) could enable a more competitive, European-style market with multiple interoperable central infrastructures, which could not only improve competitive dynamics but also resilience in the market.
- Advances in technology, such as digital currencies and the Regulated Liability Network (RLN), could introduce fundamentally different alternatives to traditional payment systems.

- **Changes in infrastructure ownership.** We recognise that concerns remain on the market power balance of the core infrastructure provider Vocalink; and the vertical and horizontal risks identified in the 2016 market review on infrastructure. However, the PSR and PVDC need to consider carefully where competition needs to reside in payments. Removing the obligations under SD3 could strengthen resilience by encouraging other suppliers to enter the market potentially fostering competition across different layers of the payment's ecosystem, addressing a longstanding challenge that has hindered progress in this area. Encouragingly, new competitive offerings are already beginning to emerge, demonstrating the potential for a more dynamic and inclusive market.
- **Balancing the procurement process with the need to encourage competition.** It should be assessed whether the onerous procurement processes mandated by SD3 are the appropriate means of fostering competition and innovation in the light of new and emerging players, platforms and technologies. An onerous procurement process may unfairly prejudice nascent platforms and technologies that may better serve the interests of competition, innovation and users over the medium to long term.
- **Existing experience of the procurement process.** In a concentrated market a competitive procurement process for central infrastructure providers is unproven means to encourage competition. Unlike in 2016, we now understand what is required to run a competitive procurement process under SD3 and can evaluate the costs versus the benefits of such a process more clearly. It is clear that SD3 as it currently stands is not workable in the current market environment and structure, given that no successful competitive procurement process has been concluded under SD3, while significant costs and efforts have been expended on running such a procurement process.

The PSR should leverage the PVDC process to reassess the type of regulation required in the evolving payments landscape, with a view toward substantially rewriting SD3—or repealing it entirely—as the environment becomes clearer. By considering these developments, the PSR can ensure that regulation is proportionate, forward-looking, and supportive of innovation and competition.

2. What are your views on our proposal to require Pay.UK to seek out non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?

UK Finance believes that the non-objection process used for the New Payments Architecture (NPA) was opaque to outside parties and too lengthy. In August 2023 the PSR judged Pay.UK to have provided sufficient assurance on the design, business case and funding of the NPA. The industry at large did not support that conclusion but there was no formal way for this view to be fed into the process and there was a lack of transparency on next steps through the remainder of 2023 and much of 2024.

UK Finance members support the current contract extension work (pending agreement on any enhancements[4]), given the need to safeguard the continued service provision while the PVDC agrees the long-term roadmap with industry.

In the contract negotiation process between Pay.UK and Vocalink, UK Finance wants to see a robust process that meets the necessary checks and balances provided by regulators, engages the industry to build confidence in Pay.UK's delivery and paves the way for benefits to be provided to participants' customers. Under these circumstances we believe that a non-objection process, by both the PSR and the Bank of England, could be appropriate.

We would in addition like to see Pay.UK make full use of the procurement expertise that lies in its major participants. Relieved of the competitive tender obligation, it should be possible for Pay.UK to be more open about the negotiation. We hope the PSR will encourage this, which will enhance the confidence of the participants that the contract is the best possible.

3. What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?

As above we believe the PSR should treat this SD3 as a holding document. In general though, the criteria which the PSR should consider when making material decisions should also include the needs and views of the industry – i.e. the payment service providers as users of payment systems and providers of these to their customers. A positive example of this can be found in the NPV which has highlighted regulatory congestion as leading to

[4] UK Finance has provided a separate submission to the PVDC on the short-term enhancements to FPS and Bacs, ranked according to the following criteria: alignment to NPV outcomes (resilient foundations, and innovation, competition, security pillars), the cost and effort to deliver; and whether the enhancement is foundational for long-term change or could be considered a 'throwaway' activity.

duplicate investment across competing infrastructure initiatives and impacting on sector capacity to innovate and respond to customer needs.

4. What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?

We welcome the removal of reporting requirements which are not necessary in the single supplier environment. Eliminating the existing reporting obligations also reduces unnecessary administrative burdens on Pay.UK, allowing it to focus resources on delivering meaningful outcomes that align with the NPV and broader industry objectives.

5. What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?

We acknowledge that any changes to SD3 must be accompanied by a reconsideration of the NPA Regulatory Framework, but this should not prejudice the outcome of the PVDC or, more generally, the implementation of the NPV. The conclusion of the PVDC may, for example, render SD3 redundant and therefore the Regulatory Framework would be moot.

The PSR should present proposals to the PVDC on the implementation of certain measures to address innovation and competition in retail payments in the UK. In particular, we feel that it is important that the PSR's planned 2025 consultation on an updated NPA Regulatory Framework, and any directions intended to be given by the PSR as part of that framework, are considered at the PVDC.

We have included below a list of the enhancements to the NPA Regulatory Framework that we consider to be necessary to support the conclusion of the NPV and the amendments to be made to SD3. These include:

- The regulatory oversight which Pay.UK should be subject to while the competitive procurement requirements under SD3 do not apply. In certain cases, it could, for instance, be appropriate (and best enable the PSR to meet its statutory objectives) for Pay.UK to refrain from delivering, or collaborate with other market participants on, certain parts of the central infrastructure platform – for example, in relation to any innovation that takes place at the orchestration layer. Through such oversight, the PSR could also establish a foundation to support the efficiency and effectiveness of future competitive procurement processes that

Pay.UK may be required to conduct under SD3. This could further include a requirement regarding the interoperability of the central infrastructure platform with other systems and its compliance with global standards to facilitate integrations that encourage broader market competition.

- More generally, the requirements which Pay.UK is subject to in respect of its governance, which will form part of the NPV.
- The requirements that should apply to central infrastructure service providers and the actions that the PSR may take if central infrastructure service providers fail to meet these requirements. We refer, for example, to the PSR's proposal to require Vocalink to demonstrate efficient pricing and quality and to support innovation. We similarly believe that Pay.UK themselves should demonstrate efficient pricing and quality of services. This requirement, together with other requirements which central infrastructure service providers and operators may be subject to by the PSR, must strike a balance between ensuring innovation and competition and the need to ensure the resilience and efficiency of central infrastructure provision in the UK's retail payments. These requirements must be proportionate to the harms that they seek to address and should ensure value being delivered.
- The PSR should set out how its powers under the Financial Services (Banking Reform) Act 2013 will work in respect of a supplier to Pay.UK. It should highlight any gaps which the PVDC may wish to address. The PSR could also consider powers arising from its concurrent competition function with the CMA.
- Providing support to other nascent platforms, technologies and initiatives who represent new market participants (and therefore necessarily introduce competition) that are developing innovative solutions in the UK retail payments landscape.
- Certain requirements preclude effective engagement with, and involvement from, industry in ensuring an effective delivery model for infrastructure renewal. For example, the requirement that Pay.UK must "be the primary interface and decision-maker for central infrastructure provision" seems to preclude any involvement of industry / the customers, impeding the confidence in the delivery model.

Conclusion

UK Finance supports the PSR's efforts to ensure that regulatory approaches remain fit for purpose in the evolving payments landscape. By leveraging the work of the PVDC and aligning regulation with the National Payments Vision, the PSR can help create a payments ecosystem that is resilient, inclusive, and capable of supporting the needs of businesses and consumers both now and in the future.

Virgin Money

Ref	Consultation Question	VM Response
1.	What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?	We agree with the PSR proposal to replace the current deadline stated within SD3 (26th July 2026) with a 'not before date' of 1 July 2036. With the proposed investment in the current system through the Next Generation work, incorporating aspects of the National Payments Vision (NPV), we feel it is important to have adequate time to realise benefits from this work for our end users and the UK industry as whole before embarking and a subsequent programme and the 10-year cycle should allow this.
2.	What are your views on our proposal to require Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?	We do not oppose the proposal to seek a non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one. The role of the PSR to maintain oversight in relation to items such as monopoly risk is essential, we however have the view that this process should be efficient and timely and avoid, where possible, significant delays while seeking the non-objection.
3.	What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline	We support the criteria detailed in the proposal with regards to the notification of a new deadline to Pay.UK, specifically the importance of understanding the needs of the end user which should be key at all stages of the process.
4.	What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?	We support the removal of additional reporting criteria for Pay.UK. Ongoing engagement between Pay.UK and the PSR should be robust and open and cover all key criteria around progress on the key goals set out and agreed, with this in place there should be no need for additional time-consuming reporting. We agree with expanding the definition of the NPA with reference to the 2016 Payment Strategy Forum documentation due to the risk that the definitions stated in that document will be out of date and should not have a direct bearing on future development.
5.	What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?	We welcome the proposed consultation on the Regulatory Framework in 2025. Enhancing principles to mitigate risks including monopoly, efficient pricing / quality and the support of innovation is essential.

VISA Europe

Visa Europe's response to the Payment Systems Regulator's consultation on amending Specific Direction 3

January 2025

Visa Europe is pleased to respond to the Payment Systems Regulator's (PSR's) consultation on proposed changes to Specific Direction (SD3).

Visa is one of the world's leaders in digital payments. We drive commerce and support economic growth by facilitating safe, secure and reliable money movement across card and non-card rails. In the UK, we are investing significantly to improve outcomes for users of account-to-account (A2A) payments and build trust. Therefore, we share the PSR's ambition – as set out in its recent strategy update – to ensure Faster Payments (FPS) infrastructure provides a sound foundation for future innovation and competition.

Currently, the UK has a centralised clearing and settlement model for FPS, whereby Pay.UK procures processing infrastructure from a single supplier. In this model, competitive procurement of the FPS contract – as mandated by SD3 – is most likely to deliver good customer outcomes and support economic growth. However, in the current circumstances, Pay.UK will not be able to meet the SD3 deadline[1], which necessitates an extension to the existing FPS contract without a competitive procurement.

It is within this context that our response sets out three conditions we believe the FPS contract extension should satisfy to help support delivery of the National Payments Vision (NPV) and the Government's ambitions to strengthen economic growth. We consider these to be very relevant to the PSR's proposed assessment of whether the FPS contract extension meets its regulatory interests.[2]

Our comments are responsive to consultation questions 1 and 2. We would be happy to discuss any aspect of this response with the PSR.

Condition 1: The extended FPS contract should be limited only to those services that cannot be provided competitively.

We are confident that customers' interests and the UK economy will be best served by encouraging competition and innovation in FPS overlay services and open banking. This will be essential to unlocking the potential of A2A payments in the UK, consistent with the NPV. To achieve this objective, we believe that the PSR should set a very high hurdle for inclusion of services in the FPS contract that could be provided competitively by the market.

[1] This requires Pay.UK to migrate all Faster Payments transactions to competitively procured infrastructure by 1 July 2026.

[2] The PSR proposes to introduce a new non-objection process for the FPS contract extension, in part to assess whether its regulatory interests have been appropriately considered.

At a high level, within the current centralised clearing and settlement model, the only services that we believe the FPS contract needs to procure are:

- routing and validation of payment instructions between FPS participants;
- counterparty risk management (i.e., managing participants' exposure against their net sender caps and rejecting any transactions that would breach them);
- monitoring participant availability and alerting the ecosystem of any disruption; and
- settlement initiation (i.e., calculating net settlement totals and posting these to the Bank of England).

Industry has limited visibility of the enhancements that the current provider of FPS clearing and settlement infrastructure proposes to deliver as part of the contract extension. This makes it difficult to offer useful input to the PSR on whether these potential enhancements could curtail competition in overlay services. We would welcome more clarity and the opportunity to comment.

For now, we take this opportunity to emphasise that the following services can be provided competitively:

- risk and fraud scoring;
- sanctions checking;
- disputes management, resolution and remediation; and
- provision of an alias directory for matching a telephone number or other proxy to a person's sort code and account number.

This list is not exhaustive. FPS has spawned a thriving ecosystem around the central clearing and settlement infrastructure in which third parties provide a variety of overlay services and other solutions. This ecosystem can deliver some of the proposed enhancements – such as cloud access for new participants – without the need to develop capability in the central infrastructure. Moreover, central clearing and settlement infrastructure should not carry operational risk that participants are best placed to manage, for example by providing fraud scoring services.

Condition 2: The extended FPS contract should support the resilient expansion of A2A payments.

We support the UK Government's ambition to unlock the potential of A2A payments in the UK, but this will only be achieved if the underlying clearing and settlement infrastructure is fit-for-purpose. Resilient infrastructure is essential for seamless and reliable A2A solutions and therefore, for trust and customer adoption.

Therefore, it is critical that there is sufficient capacity to process forecast transaction volumes to cater for expected demand in the short term. This forecast should be based on robust assumptions and verified by participants, to avoid overbuying capacity that limits options for longer-term development of the UK's interbank retail payments infrastructure (see condition 3).

Trust in A2A payments also depends on customers being able to pay safely and securely. To support the competitive offer of risk and fraud scoring services, we support Pay.UK providing a data feed that enables transaction data to be made available to trusted third parties for the purposes of developing risk and fraud solutions.

While there may be other enhancements that could support the wider uptake of A2A payments, like certainty of fate of payments submitted into FPS[3], consistent with conditions 1 and 3, these enhancements should be considered carefully. This includes assessing alternative options for achieving the desired objective in the short to medium term.

Condition 3: The extended FPS contract should keep open the options for longer-term development of the UK's interbank retail payments infrastructure.

In parallel to Pay.UK's work to extend the FPS contract, the PSR and the Bank of England are assessing future requirements for the UK's retail payments infrastructure. In addition, there are several in-flight initiatives that could affect the UK's future requirements (e.g., retail CBDC) and technology continues to evolve rapidly.

For these reasons, as set out in condition 2, we believe any FPS enhancements negotiated as part of the contract extension should be limited to measures to maintain or enhance FPS resilience. They should not constrain options for the UK's future interbank retail payments infrastructure.

For example, there are a variety of ways that clearing and settlement of real-time payment transactions can be delivered. Indeed, industry is already considering solutions to improve FPS resilience that could provide a route to clearing and settlement models that do not rely on a single provider. Such decentralised models may also avoid the need for regulation to combat the competition risks created by having a single infrastructure provider.

In this context, we make two observations on the PSR's proposals:

- First, while we can see merit in keeping SD3 for the time being[4] – in case the existing centralised clearing and settlement model is retained – it is important this does not close off consideration of other options.
- Second, we note that the PSR's proposal to provide certainty that the earliest date it would set a new deadline for SD3 would be 1 July 2036 appears to permit Pay.UK to negotiate an extension to the FPS contract of up to ten years. We believe any extension to the existing contract should be short term or even negotiated on an annual rolling basis, to avoid locking the UK into the existing centralised clearing and settlement model for the long term.

We also understand that the incumbent provider of FPS infrastructure is offering to upgrade FPS to ISO 20022 and provide related services (such as a testing simulator) as part of the contract extension. While there are benefits from adoption of ISO 20022, this will require significant investment from the incumbent provider and participants and would, therefore, lock the UK into the existing centralised clearing and settlement model for the long term.

---

[3] That is, certainty that the payment has been credited to the merchant's account.

[4] The PSR proposes to replace the current SD3 deadline with an express reference to its ability to notify Pay.UK of a new deadline.

Vocalink

CONSULTATION RESPONSE

Vocalink's response to the PSR's Consultation Paper: '*Proposed approach to Specific Direction 3: Pausing the requirement for a competitive procurement*'

21 JANUARY 2025

Introduction to Vocalink and General Comments

Introduction to Vocalink

1. Vocalink is the leading account-to-account payments solutions provider in the UK, providing managed services to support critical payments in the UK and designing, building, and operating industry-leading bank account-based payment systems. Vocalink provides the UK payment infrastructure which underpins the Bacs, Faster Payments (**FPS**), and the Cheque Clearing systems as well as the Link ATM network.

General Comments

2. We are pleased that the Payment System Regulator (**PSR**) has recognised that the circumstances surrounding the New Payments Architecture (**NPA**) procurement process have significantly changed and that the existing FPS infrastructure will likely be operational for significantly longer than previously anticipated.

3. We firmly consider that the continuation of SD3 is incompatible with the cancellation of the NPA procurement process and the recent publication of the National Payments Vision (**NPV**). The NPV has (among other things) established the Payments Vision Delivery Committee (**PVDC**), the scope of which includes examining and refreshing the requirements for the future UK retail payments infrastructure, with the first PVDC deliverable being due by the end of Q2 2025.

4. In light of these recent developments, we are concerned with certain aspects of the PSR's Consultation Paper (**Consultation**), in particular that it:

   - anticipates the outcome of the PVDC's work on potential reforms to the governance and ambit of the UK's retail payments infrastructure, including the role of Pay.UK, rather than waiting for the PVDC's work to complete;

   - seeks views on whether the PSR (and not any other regulator or the PVDC) should have non-objection rights in relation to the procurement of a future central infrastructure contract; and

   - proposes to apply the 2021 NPA Regulatory Framework (the **Framework**) to the *existing* FPS infrastructure, when in fact the Framework was developed specifically in the context of a *new* and *bespoke* central infrastructure to be procured under the NPA programme and was never designed to be applied to a *pre-existing* system which has operated for over 15 years.

5. The Consultation also does not, in our view, align with the approach set out in the NPV or its focus on creating an environment in which regulation promotes growth rather than imposing unnecessary costs on industry. Rather, it risks introducing regulatory congestion and

confusion and raises fundamental questions about how the NPV can be implemented successfully.

6. Whilst we fully support the desire to build on the momentum created by the NPV, we regard the proposal to amend SD3 as an inappropriate means of doing so.

Specific responses to the Consultation questions

Question 1: What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?

7. We assume that the premise for this Consultation is that the PSR needs to remove the current deadline in SD3 on the basis that it cannot realistically be met for the reasons the PSR has given (and with which we agree).

8. Given the publication of the NPV, the cancellation of the NPA procurement process and the creation of the PVDC, we are concerned that the PSR has not chosen to take the opportunity to repeal SD3, which would, in our view, better reflect the current environment in which the consultation is being undertaken.

9. Furthermore, we believe that repealing SD3 in its entirety would send an overwhelmingly positive message to the industry by drawing a line under the cancelled NPA procurement process and enabling the industry to start afresh, free of the historical restrictions associated with the NPA, with the future approach being driven through the activities of the PVDC as envisaged by the NPV.

Question 2: What are your views on our proposal to require Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?

Non-objection in relation to existing infrastructure

10. The Consultation does not set out why it is necessary to deviate from the non-objection process which is currently in place in relation to any extensions to FPS (such as those envisaged under Project Clifton). The current process requires both the PSR and the Bank of England (**Bank**) to non-object to the contract extension that supports Project Clifton and, in our view, this is appropriate.

11. We are concerned that, following completion of the contract extensions process, it is not clear whether the PSR is suggesting that it may require a further non-objection process for any future functional or non-functional enhancements to the existing infrastructure. An additional non-objection process should not be necessary and could lead to misalignment between the PSR and the Bank. The PSR proposal appears to reach into matters which should properly be determined in accordance with the contractual terms between the infrastructure

provider (Vocalink) and Pay.UK, material changes to which are already subject to non-objection by the Bank.

Non-objection in relation to a new central infrastructure contract

12. We have the following concerns about the premise that the PSR should have a non-objection right in relation to a new central infrastructure contract:

    - Any new central infrastructure contract should not, in our opinion, be placed within the remit of SD3, which was first issued in 2017 and so does not reflect the prevailing and future environment. Instead, any new central infrastructure arrangements should be the subject of a new direction (if required) to implement the outcome of the PVDC's work, and should reflect the recommendations of the PVDC as to the scope and purpose of that central infrastructure; and

    - As a corollary, a non-objection right in relation to that new central infrastructure contract should not be presumed to be held by the PSR. Enshrining this position in an amended SD3 at this stage risks causing regulatory confusion or complexity at a later stage, if the decision ought instead/also to be made by another regulator.

Question 3: What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?

13. Should the PSR proceed with its proposal to extend the SD3 deadline as outlined in Question 1, we believe that the following criteria should apply before the PSR takes a decision to notify Pay.UK of a new deadline:

    - The PSR should consult on the proposed new deadline, take representations and publish its response as under the normal consultation processes;

    - The process proposed or determined by the PVDC for the procurement of retail payments infrastructure should be followed; and

    - The new deadline should allow for an appropriate migration period from the existing central infrastructure.

Question 4: What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?

14. We have no views on the removal of the reporting requirements.

15. In relation to the expansion of the 2016 definition of the NPA, we strongly consider that references to the NPA (which now appear unnecessary and outdated) are no longer relevant and, consistent with our response to Question 1 above, we do not consider it is appropriate that the process for the procurement of a future central infrastructure contract is proposed:

- without the input of the PVDC; and
- by reference to a 2017 specific direction (including by amending the definition of the NPA which is defined in SD3 only by reference to the 2016 Payment Strategy Forum paper).

Question 5: What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?

16. For the reasons outlined below, we do not agree with the proposal to take the Framework, which was developed in relation to the NPA procurement in the context of a *new and bespoke* central infrastructure, and apply it to the *existing* FPS infrastructure.

Practical concerns

17. We note that, given the NPA procurement process was for a new central infrastructure, bidders could factor compliance with the Framework into their proposals. This included any decision to bid, the commercial basis for a bid, and the operational and technological solutions required to comply with the Framework. By contrast, the PSR is now proposing to apply the Framework to potentially modify the *existing* central infrastructure solution. This proposal is not proportionate to the perceived risks the PSR is seeking to address and will potentially result in imposing additional change activity, with the associated risks and costs, on the central infrastructure, the industry and, ultimately, the end-users. In addition, we believe that the proposals conflict with the Bank's priorities with respect to operational resilience given that any changes will be undertaken to a live service.

18. We do not support this proposal because its practical effects would likely be to:

- introduce significant uncertainty into the ongoing process of agreeing the Project Clifton contractual extensions (as the parties would expect further regulatory directions to impact either Project Clifton itself or to come into effect shortly after the Project Clifton enhancements are agreed, but will not know when these will be imposed or their exact content);
- introduce significant costs and risks for all parties that participate, either directly or indirectly, in FPS, as the technical/structural changes proposed (e.g. operational separation) would need to be applied to Vocalink's *existing* and longstanding operations in a manner which was not envisaged when the Framework was designed for use in a *new* infrastructure;

- require operational separation to be applied to the existing FPS systems thereby introducing a potentially significant cost burden (which will have to be borne by the industry and, ultimately, the end-users) and may jeopardise the ongoing operational resiliency of the existing FPS infrastructure, which currently leverages certain Mastercard group scale and expertise;

- risk delay, and conflict with, the implementation of the Project Clifton enhancements and, consequentially, potentially cut across the Bank's priorities with respect to operational resilience;

- risk delay, and create uncertainty, with respect to the commercial arrangements relating to the Project Clifton extensions; and

- set a regulatory policy direction, in relation to central infrastructure, for at least the next five years without factoring in the outcome of the work of the PVDC.

Substantive concerns

19. We fully support the need for competition *in* the market for payments infrastructure services and believe that enabling such competition should be the PSR's focus and ultimate policy objective.

20. While we also understand the basis for the PSR's concern, we do not believe that the 'solution' is to unilaterally impose operational constraints on Vocalink. More specifically, we believe that the requirements for operational separation undermine the broader advantages of Vocalink being able to make effective use of Mastercard group resources to the benefit of the payments ecosystem. We expect that any competitor or successor to Vocalink would wish to leverage similar group resources and expect that this would be a priority for the Bank and the PVDC.

Procedural concerns

21. We also do not consider it appropriate for the PSR to refer, in paragraph 4.26 of the Consultation, to the contents of bilateral discussions between the PSR and Vocalink in the context of the now cancelled NPA procurement process, in particular with respect to any discussions of the Framework in its capacity as an NPA bidder rather than as the provider of the existing FPS infrastructure. We also do not believe that it is appropriate for the PSR to, implicitly, invite comments on these discussions from other parties who were not directly involved in them or aware of their precise contents.

PUB REF: CP24/13 Submissions

12 Endeavour Square
London E20 1JN
Telephone: 0300 456 3677
Website: www.psr.org.uk