THE UKCARDS ASSOCIATION

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Payment Strategy Forum: Being responsive to user needs A draft strategy

Response from The UK Cards Association

14 September 2016

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The UK Cards Association [UK Cards] is the trade body for the card payments industry in the UK, representing financial institutions which act as card issuers and acquirers. Members of the Association account for the vast majority of debit and credit cards issued in the UK - issuing in excess of 59 million credit cards and 98 million debit cards - and cover the whole of the payment card acquiring market.

The Association promotes co-operation between industry participants in order to progress non-competitive matters of mutual interest; informs and engages with stakeholders to shape legal and regulatory developments; develops industry best practice; safeguards the integrity of the card payments industry by tackling card fraud; develops industry standards; and co-ordinates other industry-wide initiatives such as those aiming to deliver innovation. As an Association we are committed to delivering a card payments industry that is constantly focused on improved outcomes for the customer. www.theukcardsassociation.org.uk

Executive Summary

- The payment ecosystem in the UK is highly innovative, with a large and diverse number of providers. Nevertheless UK Cards supported the creation of the Payment Strategy Forum when it was first proposed by the PSR in 2015. We believe it has great potential to provide an independent arena for different payment service providers and users to come together to agree priority areas for payment innovation. UK Cards representatives have been involved in two of the four supporting working groups: End Users and Horizon Scanning.

- We are pleased that the draft Strategy recognises the key part card payments play in the shift from consumers paying in cash to electronic payments. Given the rate of innovation in the UK card payments industry it is understandable that card payments are not explicitly in scope for the Strategy, which largely focuses on changes to the UK interbank schemes. As such, we have limited our comments to the general methodology and approach taken to building the Strategy. We have also outlined some concerns that the draft Strategy does not sufficiently take into account the full range of end user needs.

- More generally it is difficult to comment on the individual proposals as they have not yet been robustly impact assessed; we understand this will happen before the final Strategy is published in November. Any proposals should be subject to proper impact assessment where the benefits for certain customers are clearly evidenced and balanced against the costs of delivery; especially as these costs will ultimately be borne by end users.

General comments

- **It would be helpful for the PSR to outline how it will take responsibility for the Strategy,** especially given that one of its three core objectives is to promote the development of innovation in payment systems. As the starting point for the PSR was that strategy development by the payments industry was insufficient in the past, it seems likely that the PSR will want to carefully evaluate the draft Strategy that has largely been developed by the industry. A lack of clarity over strategy could slow down or prevent investment in the industry. By comparison, Ofcom, which arguably oversees the industry most similar to payments with various different networks and players, sets out its strategic priorities based on consultation with stakeholders, but nonetheless takes ownership of these and sets them out clearly in its annual plan. We believe the PSR should be clear that it will be the ultimate arbiter of decisions.

- **The PSR should take accountability for ensuring that that there is a clear rationale and cost benefit analysis for a proposed development.** Without robust underpinning analysis, the proposals might not result in outcomes that automatically benefit consumers. By analogy Ofgem, which operated a number of service-user groups through its 'Consumer First' programme, nonetheless failed to prevent industry dynamics that were found not to be in the interest of service-users.[1] Ofcom meanwhile conducts an in-depth market review on latest developments to inform its annual strategic priorities. We therefore believe that the PSR should have responsibility and accountability for ensuring that strategic direction is underpinned by clear, empirically based rationale.

- We suggest the PSR should use the following tools to evaluate the Strategy:
    - Wide-scale and in-depth consumer research. Consumers should continue to decide what works well for them and demonstrate this with their purchasing decisions.
    - Market and technological research. While the Strategy prioritises different customer needs, options for solutions should not only be limited to those that are presented by representatives on the Forum/ working groups.
    - Mapping against regulatory and standard developments internationally, and particularly in Europe. If the PSR's aim is to grow competition it will presumably want the industry to be open to European providers, which will require a level of European interoperability.

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[1] See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48134/2151-ofgem-review-final-report.pdf for more information.

Responses to specific questions
Responding to consumer and business needs

Q1. Do you agree we have properly captured and articulated the needs of End Users? If not, what needs are missing?

- We understand that the Forum has not undertaken any new customer research to test the needs of end users of payment systems, but that the customer detriments and end user needs were taken from a combination of the Payments Community event in 2015 and customer research from Payments UK.

- Ideally, new and thorough quantitative and qualitative customer research would have been conducted to capture the full range of end user needs – both from individual customers and from businesses. In the absence of this, we would recommend that the proposals are widely tested with customer groups and businesses where relevant to ensure that they meet current needs. This will provide the certainty for firms that the proposals merit the significant investment – both financially and in terms of commitment from their internal resources – that they will entail.

Q2. Do stakeholders agree with the financial capability principles? How should these principles be implemented? How should their implementation be overseen and how should the industry be held to account?

- We agree that it is helpful to have in mind design principles when developing or amending payment systems. However, the needs of a wide range of consumers and businesses should be considered when developing new systems. While we agree there is no 'perfect customer', prioritising financial capability principles for the industry above other design principles is not necessarily equitable or commercially viable. In addition, we know that consumers are willing to sacrifice some aspects of payments to achieve others. For example, consumers sacrifice the transparency of knowing the exact amount they will be charged in order to benefit from the convenience of contactless bankcard payments on the Transport for London system; and they sacrifice the immediacy of transactions settling to their account for the convenience of paying by card on a plane journey.

- In particular, it is difficult to apply the following principle to all services: '*Services are designed to be inclusive of the least capable wherever possible. They should be easy to use, accessible and minimise the need for user education. As a result they better serve all customers.*' Many payment products are tailored towards specific demographics. For example, credit card products range in price and complexity depending on whether the customer is looking for specific types of reward. Newer technology is often built for an intuitive customer experience, for example, the iPhone no longer comes with

an instruction manual. It would be difficult to meet the needs of all customers through all products.

- Nevertheless, we broadly agree with the financial capability principles as set out, and many of the principles are adhered to in the card payment industry already. For example, we have a key set of principles to guide product development on credit lending, the [Standards of Lending Practice](#).

- UK Cards also oversees a range of best practice in credit lending, introducing ways to help customers manage their finances and make sure they repay any balance more quickly. These fit with a number of the proposed principles:
  - o '*Consumers' interests are appropriately represented in the development and decision-making process.'* UK Cards hosts a regular debt charity forum to discuss credit lending practices. We also work with credit rating agencies and other credit lending organisations to securely share customer credit ratings and help to ensure individuals do not fall into excessive debt.

  - o *'Services are responsive to end users' financial capability and how users actually manage their money day to day. They facilitate all consumers to manage money day to day and transact in a way that suits them.'* UK Cards best practice includes providing a range of options to repay credit balance, including direct debit, through an online banking service, by phone, in the branch or by cheque in the post.

  - o *'The impact of payment services on consumers' ability to manage their money day to day is evaluated. When new or enhanced payment services are trialled their actual impact on a diverse range of consumers' ability to manage their money day to day is evaluated'.* UK Cards best practice includes setting a minimum payment that reduces the overall debt; and writing to customers who repeatedly make only the minimum payment, explaining that this may be the most expensive way to repay their debt. UK Cards conducted behavioural research before introducing these changes to assess what would have most impact on customers' repayment behaviour.

Q3. What benefits would you expect to accrue from these facilities (not necessarily financial)? Do you agree with the risks? Is there a business case for investing in the solutions? Are there any other solutions to meet these needs?

- There are commendable parts to all of these proposals and particular use cases for them that already have a proven business case; for example, the use of Enhanced Data alongside payments to government services to help create efficiencies. However we do not agree that the three suggested

solutions – Request to Pay, Enhanced Data and Assurance Data – are the main changes that should be made by the industry to meet payment end user needs.

- First, some of them have limited scope and it should not be assumed that they should be rolled out across all payment types. For example, Request to Pay could work very well for a small percentage of customers whose income flow is not constant; and there appears to be some appetite from a handful of large utility companies to endorse a new system that would allow them to receive partial payments rather than no payment at all. However, it seems likely that the vast majority of payers and payees will prefer fixed, consistent payments to help ensure their own financial flows. Card payments currently facilitate Continuous Payment Authorities (CPAs) through which customers allow payees to take regular payments from their account. It seems unlikely that either the payer or the payee would want to flex these mainly low value payments; for example, for a digital streaming service like Amazon. Part of the appeal of CPAs is that they can be set up easily and then run automatically without the need for further customer intervention.

- Secondly, there are already existing solutions to some of the issues the proposals are aimed at solving. For example, the card data chip can already carry significant amounts of data alongside the payment, similar to the Enhanced Data solution, and commercial entities are already benefitting from e-invoicing and electronic VAT services through card payments.

- There is a history of payment developments that have been considered to meet a customer need, but have failed to gain widespread traction because of their lack of commerciality. For example, Mondex was a joint banking and BT product launched as a smart card electronic cash system in the mid 1990s but which did not have widespread appeal; and various digital wallets this decade have been launched and subsequently disappeared due to lack of public demand. We would highly recommend customer testing of all suggested end user proposals and a robust business case, before asking firms to invest in making the necessary changes.

Improving trust in payments
- We endorse the detailed response from Financial Fraud Action UK (FFA UK) on questions 5-8, the body entrusted with leading the fight against financial fraud for the payments industry.

- The proposals in this section highlight some of the difficult tensions the Forum and working groups have had to balance in creating an industry Strategy. The

first tension is between collaboration and innovation. Arguably how banks choose to interact with their customers, including on security, can be a competitive differential which would be undermined by a standardised approach. For example, the proposal to create industry standards for identity, verification, authentication and risk assessment could prevent firms from implementing cutting edge security devices such as biometrics and face recognition to give them competitive advantage.

- The second tension is between UK standards and global standards. Security in card payments is already determined by global standards including PCI DSS. More widely, the EBA is currently consulting on Regulatory Technical Standards for all payment types in Europe. The creation of a UK-specific approach could duplicate or conflict with these more global standards.

Simplifying access to promote competition

- In our view, access is key to structuring an environment that will allow innovation to flourish. In particular, we support the publication of access requirements and steps to increase the ease of access to payment systems.

- Card payments were ruled out of the PSR market review on access. The membership rules and prudential requirements that the international four-party card schemes impose are sufficiently structured to allow for open, fair and direct access for any eligible payment service provider (PSP) to join. The card schemes take a graduated approach to membership to encourage as many members as possible – with differing styles, separate tiers and class-of-membership being offered to any PSP. Visa and MasterCard, for example, indicate that their payment networks are comprised of over 3000 European PSPs and approximately 15,000 global financial institutions.

- We understand that the PSR and the payments industry have made good progress in improving access to the interbank schemes over the past year. We do not have specific comments on the proposals made in the Strategy.

A new architecture for payments

- The proposals in this section follow on from the European approach of opening up payment systems to third parties. We do not have specific comments on the proposals made in the Strategy other than to note that some of them, such as the Single Payments Platform, are ambitious and will need robust cost benefit analysis before proceeding.

- We are supportive of an API governance framework and we are involved in the current work undertaken by HMT on this. However, there needs to be a

distinction drawn between what the strategy purports (i.e. the open sourcing of banks to become less vertically integrated structures and more modular and open in design) contrasted to the way that APIs are being configured and used in commerce more generally.

- This marks a different starting point to how the underlying card 'rails' are being configured and deployed, driven primarily by a new breed of PSPs and online acquirers, to meet the needs of the retailing community (both physical, online and omni-channel). As the draft Strategy recognises, firms are already using credit/debit card data to interface with a range of other services. Uber's integration with Facebook Messenger (FM) in December 2015 provides a neat example of how APIs are already being deployed as 'building blocks' to create the next generation of seamless products and services for the benefit of its consumers; fusing together the various components of messaging, payments, telephony and GPS technology to maximise the convenience to the consumer.

Questions on implementation
- It is difficult to answer questions on the sequencing of proposals without the cost benefit analysis determining whether all of the proposals should proceed or not.