



# Annex 5

## Advice note from the Pay.UK End User Advisory Council to the Pay.UK Board

Annex to Pay.UK Application for an exemption for exceptional circumstances under Specific Directions 2 and 3

August 2020

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## **Pay.UK End-User Advisory Council Meeting**

Discussed on 2 and 21 July 2020

### **Advice note from the Pay.UK End User Advisory Council to the Pay.UK Board**

We have discussed the Pay.UK Board decision to pause the current competitive procurement process and instead explore, via an engagement with regulators, the opportunity to use its existing infrastructure supply relationship. We feel it important to write formally to the Pay.UK Board to make our views clear and, we hope that in doing so, we can strengthen Pay.UK's position as it seeks to make progress on what we recognise is a complex issue.

While we have not had access to the detailed information provided to the Board, we have been briefed on the rationale and we recognise that minimising transition risk and improving speed to market for some of the features of the NPA (such as the implementation of ISO20022) is of clear benefit to end users. However there are also potential risk for end users and we want to be confident that any potential risks to end user benefit are recognised and that there is a plan proactively to manage those consequences.

The foreshortening of the competitive process for the core clearing layer could introduce end-user risk of two types if mitigating actions aren't identified and taken: first around the value for money in the pricing and service that is agreed as part of the contract, which may have an impact on end-users. The second set of risks relate to the ecosystem development. There is no question that the value of competition in the ecosystem is immense for end users and EUAC wants to be confident that in arriving at a single provider for the core more quickly, we do not lose the opportunity to ensure the vendor and Pay.UK are really focused on proactive ecosystem development to meet end user needs.

To support this, we would like to see Pay.UK develop and put in place protections and actions, which bind the vendor and Pay.UK to commit to supporting the development of an ecosystem that continuously meets the needs of end-users in an ever changing environment. In thinking about these protections and actions we have considered two key challenges:

1. How Pay.UK can design, implement and operate the core clearing layer in such a way that, as well as being robust and resilient, it provides the foundation to support the on-going development of a competitive and innovative ecosystem that can meet the evolving needs of end user; and
2. How Pay.UK can build into the vendor contract the right incentives and requirements to ensure they support and don't restrict the on-going development of a vibrant and innovative ecosystem and ensure the cost of this is reasonable.

The Pay.UK Executive has explained to us its own thinking concerning how these challenges could be addressed and we take some comfort from their ideas. We think there are two key tools for managing the challenges: the nature of the contractual relationship and the extent to which innovation is plugged into that relationship for the long term. We propose that Pay.UK should develop a framework for innovation as part of their procurement process.

Some of the specific things that we think might mitigate the above risks and help to ensure the new arrangements meet current and future end-user needs are listed below:

- We understand that Pay.UK could capture some understanding about ecosystem development from the procurement process to date, but it will be important to ensure that the vendor provides a service which meets the needs of the UK market of the future in a seamless, affordable, inclusive, and responsive way. Over time there is a risk of reduced focus on innovation to meet the changing needs of users and of the UK falling behind other jurisdictions.
- This means that there will be a need for appropriate inbuilt and upfront incentives to be established in the contractual relationship between Pay.UK and the vendor to drive proactive innovation. These arrangements need to acknowledge that the future state of the market and future end-user needs which will need to be met by innovation, are currently unknown.
- We therefore suggest that Pay.UK and the vendor commit to regular identification and reporting of end user needs, by developing a deep understanding of the way different end user segments live their lives and use payments.
- We also suggest complementing this with a regular international market scan carried out by Pay.UK and its chosen vendor to demonstrate that the UK service remains cutting edge.
- When considering contractual matters, it will be important to set incentives correctly and avoid a “race to the bottom” through an emphasis on cost cutting. It will be essential that the ecosystem is attractive to innovators who want to create new solutions to meet the needs of end users, and create better, faster and different services. A high quality service and capacity for change to be delivered efficiently at the centre will be important to enable the development of new services in the ecosystem. As such, poor incentives at the core could stifle innovation in the wider market. There will be a particular need to ensure that continuous improvement capability is required within the contract to ensure the platform is kept up to date.
- There is a variety of important decisions that Pay.UK will take that influence the design and operational arrangements of the NPA. It will be important that these decisions are taken independently of the vendor and are informed by service user engagement, and potentially third party review. We note that in other sectors “*consumer/end-user and innovator challenge groups*” have been formed to help with such review and this is an approach that could be considered for the NPA – working alongside Pay.UK and the vendor; providing not just independent challenge but also independent monitoring of the way the system as a whole is meeting end-user needs.
- There is also a potential value in requiring the Vendor to work with a panel of innovator (e.g. FinTech) developers as they build and improve the core. This would create the opportunity for those who will want to use the new system for ecosystem purposes to sense check proposals and identify any consequences they may have for the wider ecosystem.
- The challenge of securing funding – and managing delivery - in the post Covid-19 world is a factor that Pay.UK should bear in mind (in short, funding for innovation is even more difficult to identify). Identifying ways in which the system as a whole can facilitate funding for innovation will be important.

Finally, recognising the challenge and complexity of the NPA we would encourage Pay.UK and policy makers to reflect on how long it could take to find the perfect answer to some questions of design, governance and commercial arrangement. At some point the cost of delay to unlocking the benefit to users caused by procrastinating, will outweigh the benefit of getting to a design and policy utopia.

We recommend that the Pay.UK Board and its Executive work with us to further develop the above into a set of guiding principles or a framework for innovation that EUAC can monitor progress against. Demonstrating progress will, we believe, support both the on-going design and implementation of the NPA, but also Pay.UK's on-going engagement with its participants, end users, vendors and regulators.