

The Payments Strategy Forum – Being responsive to user needs Draft strategy for consultation

Respondents basic details

Consultation title:	The Payments Strategy Forum – Being responsive to user needs Draft strategy for consultation
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Publication of Responses

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Unless you tell us otherwise the Forum will assume that you are happy for your response to be published and/or referred to in our Final Strategy Document. If you do not want parts of it to be published or referred to in this way you need to separate out those parts and mark them clearly 'Not for publication'.

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Declaration

"I confirm that our response supplied with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.

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This response template is intended to help stakeholders in responding to the questions set out in our Draft strategy for consultation and in its Supporting Papers.

If you do not want parts of or all of your response to be published you need to state clearly ('Not for Publication') over specific information included in your response, please be sure to clearly mark this by yellow highlighting it. We will assume that all other information is suitable for publication.

Responses should be emailed to us at Forum@psr.org.uk in Word and PDF formats by no later than **14 September 2016**. Any questions about our consultation can also be sent to Forum@psr.org.uk.

Thank you in advance for your feedback.

QUESTIONS IN RELATION TO SECTION | RESPONDING TO CONSUMER AND BUSINESS NEEDS

Question 1: Do you agree we have properly captured and articulated the needs of End Users? If not, what needs are missing?

HSBC recognises that many of the principal end user needs have been identified and addressed in the strategy. The issues identified are reflected in the research that HSBC has done with our own personal customers. In particular we have a range of examples where our customers have pointed to the need for greater control over payments, improved assurance to track payments and enhanced data to enable payments to be managed. This stems from initiatives where we monitor the voice of our customers, as we seek their feedback on our service. Here are some relevant real world examples of their views:

- Greater Control - *“I wanted to use the self service machine to pay money into my sister’s account. BUT you can’t set up a new payee on the app or at the self serve, you have to go to the counter.”*
- Greater Assurance – *“The funds were sent to the wrong account and had to be returned but this will be sorted out over the next few days.”*
- Enhanced Data – *“I rang because my credit card could not be used to pay a fee to the Passport Office as the verification page required the post code for address in UK to which statements are sent.....”*

In the business sector there are also examples which emphasise that in general the needs of end users are being accurately identified in the strategy, through separate initiatives that have similar goals. One such example is the SWIFT scheme’s Global Payments Innovation Initiative, which seeks to enhance cross border transactions. New technical standards and business rules have been agreed by a growing number of participating banks with the aim of allowing same day use of funds, transparency of fees, end to end payment tracking and richer data. We believe these goals match closely with those of the PSF Payment strategy.

There are however some areas where end user needs would benefit from further investigation and analysis to broaden this work to reach all parts of the payments community. These can be summarised as follows:

1. Needs of business and corporate customers can be explored further (e.g. the difference in cut off times for corporate and SME customers making payments and the implications arising from this, the need for enhanced data and reconciliation services, etc.)
2. We recognise that cross-border payments are out of scope but given the international nature of HSBC, various needs of cross-border customers do need to be evaluated (for example - certainty of payment, transparency of fee/charges and the ability to track the message through its journey).
3. The PSF and industry has a real opportunity to educate consumers about the opportunities of using their data proactively to access better products, services and commercial offerings. While much does need to be done about educating consumers and businesses about FCC and data risks, it would be a missed opportunity if the potential benefits were not addressed. Otherwise, we run the risk of creating several new data services that are not well-used by end-users.

It is also worth keeping in mind that the enhanced data needs of consumers are likely to be significantly less than those of larger businesses. It would be logical in the design of solutions that proportionate capabilities are built to meet the needs of users rather than moving large quantities of potentially sensitive data around unnecessarily.

Question 2a: Do stakeholders agree with the financial capability principles?

We agree that the financial capability principles have been captured effectively by this work. HSBC is strongly supportive of the application of these principles to meet the needs of vulnerable customers.

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HSBC recognises these principles in our own business and looks to make our products and services as inclusive as possible. It is therefore entirely appropriate that these are pursued in the design and delivery of payment system enhancements recommended through the draft strategy. We believe that simple yet positive examples help to reinforce these principles. One such positive action is the use of mobile phone numbers in the Paym service to give greater assurance and add a more understandable touch to payments.

This is further developed by using appropriate language e.g. salary payment rather than BACS payment. There is a need to communicate clearly to end users the purpose, expected outcomes and benefits of projects, along with appropriate support to encourage end-users to adopt new solutions.

Overall we consider that much of the delivery of enhancements will fall in the competitive space but with appropriate protection for the most vulnerable customers. If we continue to make it easier for customers to move banks then those providers that offer the best response to these principles should benefit.

Question How should these principles be implemented?

2b:

It is important that these principles are reflected in the solutions proposed by the Forum. This will be particularly important in the detailed evaluation and business case required to assess the merits of the proposed Simplified Payments Platform. As noted above the principal focus in delivery of the financial capability principles will be in the competitive space and we would hope to see banks competing to offer inclusive, innovative and compelling services to all customers.

Please also see our comments in our response to Question 2c.

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Question 2c: How their implementation should be overseen and how should the industry be held to account?

HSBC expects that the existing competent regulatory authorities (principally the FCA and the PSR) will oversee progress and use existing remedies to ensure that the industry meets its obligations. We do not believe there is any need for new bodies to be created to fulfil these functions.

Question 3a: What benefits would you expect to accrue from these solutions (not necessarily just financial)?

The combined initiatives of Request to Pay, greater assurance in payments and enhanced data will provide benefits for many payments users.

Request to Pay is a relevant and very important solution for some individuals and businesses. The proposed solution will support the needs of the changing UK economy where individuals and small businesses are working in a more flexible employment market. This will in turn generate significant benefits for some users, providing them with greater control. The benefits for Corporate users are less well understood and require further consideration.

We support the analysis of the costs and benefits outlined in the draft strategy document for greater assurance and enhanced data. We should however note that the levels of enhanced data needed for consumers is likely to be significantly less than for some business users.

Question 3b: Do you agree with the risks we outline? How should we address these risks? Are there further risks we should consider?

The risks identified represent a fair summary of those that may be experienced from these initiatives. There are some additional points which it would be useful to consider.

The creation of Request to Pay functionality should not be at the expense of tried, tested and trusted payment products such as direct debit. Careful consideration would be needed if there was any transition away from these products and this would have to be evaluated to mitigate impacts on consumers and businesses. Consumer protections in place with direct debit would need to be considered in any alternative approach. Equally corporates would want to be sure that funds could be collected, credit control managed and payments reconciled effectively.

There is significant risk that end-users would have minimal understanding of the potential consequences of using Request to Pay and making, for example, partial payments. This in turn would bring greater scrutiny on PSPs, even if they had done everything feasible to ensure end-users were fully informed before making use of such a service.

Care will also be needed with the introduction of Request to Pay solutions as there may be an impact on large corporates' current credit control practices. Request to Pay is aimed to provide more control for the person or business initiating the payment but these benefits needs to be balanced against the impact for large corporates who provided they are prepared to adopt a Request to Pay solution, will need to adapt their payment collection methods and practices in order that a customer electing a Request to Pay method does not then find themselves disadvantaged in other respects, for example through penalty or late payment fees. Further issues that will require further investigation are:

Any changes to agreed credit arrangements requested by the customer should be reviewed and assessed with an affordability assessment carried out to understand the customers' circumstances.

Affordability assessments being carried out means extra resource/work for this to occur – an advisor would need to carry this out – where would this extra work take place? An online solution would not work in this scenario.

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If a customer requested a change to the payment, what processes would be in place to follow-up this change? How would we ensure that the agreed payments have been received? What would be the consequence should the new arrangement be broken? Would that that customer fall into the corporate's collections strategy? If so, then this would have an impact on the collections operations, strategies and subsequent bad debt numbers and provisioning

If a customer did fall behind with their new agreed payment, would this be recorded/reported as a failed arrangement and subsequently reported to the credit reference agencies? If so, is this fair, considering the Request to Pay concept?

If there were changes made to a customer's payments, then there would need to be clear and transparent information provided about how this change will impact the long-term affordability and cost of their product following this change

Question 3c: Is there a business case for investing in solutions to address these needs and if not, how such an investment can be justified?

The three principal initiatives identified of Request To Pay, enhanced data and customer assurance represent sensible areas to focus on and we expect that the planned cost benefit work to be done will confirm the case for moving forward with these. We believe that it is not necessary to link these directly to delivery of a Simplified Payments Platform, where the case or need for this has not yet been proven.

Question 3d: Are there any alternative solutions to meet the identified needs?

We believe that the delivery of Request To Pay, enhanced data and customer assurance can be achieved through existing payment structures with appropriate development. This alternative approach to the SPP should be properly and fully evaluated.

Question 3e: Is there anything else that the Forum should address that has not been considered?

HSBC considers that the work done by the Forum has identified effectively the key areas that should be addressed. We would like to see more work done to ensure that the needs of corporate users of payment systems are fully considered as the analysis to date appears to have focused on the personal and SME sectors.

By way of example, our corporate customers advise us of the need for two payments' developments;

1. Payments On Behalf Of (POBO) - Today, in an age of globalisation and technological advancement, it is common to see multinationals establishing centralised treasury functions in an effort to strengthen internal controls, mobilise internal sources of liquidity and improve cash management efficiency. POBO implies a centralised entity, such as the company's corporate treasury, conducting payments on behalf of various subsidiaries within the corporate group. The account of the central entity is used instead of the subsidiary's account.

The SEPA market infrastructure was designed to support Ultimate Debtor and Ultimate Creditor party elements on an end to end basis and has legislation in place to ensure that banks can accept from an origination (debtor) perspective as well as report on the creditor side. However, the UK schemes, BACS, Faster Payments and CHAPS do not support POBO.

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2. Fraud Prevention - Many of today's frauds are as a result of the perpetrator convincing the payor to change the account number of a regular payee. The UK Payment Systems could support fraud avoidance and detection by comparing the name and account number combination (from historical data), and when there is a different account number for a payee, alert the payor's bank.

The case for consumers and small business that need to make payments is clear but a more detailed review of the use cases and benefits of the Request to Pay solution for payment recipients is also recommended. Without broad adoption amongst large corporates, government and small businesses that receive payments, there is a risk that the Request to Pay solution would not achieve the proposed benefits.

The timing of the proposed Simplified Payments Platform has the potential to delay the end user benefits proposed in the draft strategy and HSBC believes strongly that the Forum should be concentrating on delivering real change for customers, rather than delaying the realisation of benefits whilst the Simplified Payments Platform is developed, assuming that the costs and benefits case for the Simplified Payments Platform are proven.

Question 4a: Is there a business case for investing in transitional solutions while the new payments architecture is being delivered and if not, can such an investment be justified?

We note that this question assumes that a new payments architecture (SPP) will be built. The draft strategy is very clear that this is not yet determined with much further work to be done on viable alternatives, risk and transition analysis and assessment of a full business case.

We believe that delaying the delivery of benefits for in excess of three years if an SPP is to be built is not an optimum model. Rather than excessive focus on a new payments infrastructure we would like to see real analysis of how Request to Pay, customer assurance and enhanced data could be delivered using existing infrastructure for the benefit of end users. Once this analysis on alternative approaches to deliver the bulk of the benefits of the SPP has been done, a balanced decision on the right approach to be taken can be made.

The business case for investing in transitional solutions would have to be assessed on a case by case basis, however it is possible to foresee a scenario where transitional solutions would pass the cost / benefit assessment. As an industry we can't stand still pending full implementation of the PSF recommendations and potential longer term solutions.

Any decisions taken need to be balanced against the regulatory demands on the industry in the coming years, which have already been recognised by the Forum.

Question 4b: Are there any viable technical solutions to deliver some of the consumer benefits early without compromising the longer term solutions recommended by the Forum?

See comments in 4a above.

QUESTIONS IN RELATION TO SECTION 6 | IMPROVING TRUST IN PAYMENTS

Question 5a: Do you agree with our proposal regarding customer awareness and education? If not, please provide evidence to support your response.

The proposals outlined are entirely appropriate and HSBC fully supports these goals.

Question 5b: Do you agree the delivery of these activities should be through an industry trade body? If so, which one would be most appropriate to take the lead role?

We believe there are opportunities to coordinate delivery through existing industry organisations. Financial Fraud Action UK, which coordinates action against financial fraud on behalf of the payments industry including delivery of UK wide awareness campaigns. Their experience and broad remit would be well suited to support delivery of these messages alongside PSPs, whose education role for their own customers will be equally important.

There is also a big role to play for consumer and business groups, particularly the most recognisable ones from a consumer perspective.

Question 6: Do you agree with the establishment of guidelines for identity verification, authentication and risk assessment? If not, please provide evidence to support your response.

HSBC agrees that a common language makes sense and that minimum standards should be set, including confirmation that certain forms of commonly held ID are always acceptable. However, individual PSPs should be free to set their own higher standards should they wish to do so.

HSBC already adheres to the Joint Money Laundering Steering Group (JMLSG) guidelines so work would need to be done to understand if there was any incremental benefit from an additional set of guidelines purely from a payments perspective.

We have a number of concerns around the suggestion that “The guidelines will also cover the acceptability, validation and verification of identity evidence that may be presented by an individual.”

1. The JMLSG represents the industry standard and covers the minimum requirements for identification and verification. If it is felt that there are gaps in the current guidance, these should be identified and guidance could be provided on these areas instead of creating more and potentially contradictory guidance.

2. A common approach by all banks is not always possible due to the size of the institution, customer base, products offered and geographies operated in which must be recognised by any guidance issued.

3. The PSF needs to be careful to avoid potential duplication. The e-ID verification service that is being developed in the UK is intended to provide a single ID&V method for numerous products and services and will join up with EIDAS coming out of Brussels.

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Question 7a: Do you agree with our solution to develop a central data repository for shared data and a data analytics capability? If not, please provide evidence to support your response?

HSBC believes that there would be benefits and potentially useful applications of a central data repository. Care would need to be taken to ensure that any approach did not conflict or duplicate other global initiatives, and efforts should be made to work alongside or as part of these developments. The controls around access to and usage of the data would need to be clearly defined and established up front. Another important area to resolve is that there must be clear guidelines in place on validating data before sharing information.

Concerns around use of personal data are obvious. Segregation of the data would also be important to ensure that it was being collected and used for appropriate purposes. For example segregating ID & V data and that likely to be used for data analytics. With regard to use for data analytics, ownership of this and other data would need to be addressed through contractual arrangements. It is also not clear whether the use of these analytics would be effective using anonymised data.

The potential use cases associated with the central data repository require further elaboration and consideration. For example, would the public body issue 'cease and desist' instructions on identification of financial crime patterns? This is where the power of the data could help to instil customer confidence in the sector. Legal and regulatory backing of this approach would be essential to ensure that the data utilised from there can be construed as compliant to various regulations.

Overall HSBC is supportive of industry efforts to improve productivity in tackling financial crime. Better information-sharing across the industry, reduction of duplication in common processes and stronger public-private partnerships are essential to achieving this goal.

Proper guidance would need to be provided to PSPs to ensure the provision of the service would be covered by their respective customer Terms and Conditions as it is essential that the appropriate consents are in place.

More generally there are a number of new initiatives emerging around data sharing at the moment which need to be considered in relation to this proposal. One is the new European Directive on Data Privacy coming into legislation by May 2018. There is a lack of clarity as to how this will be managed now since Brexit but it appears that the UK will still implement the Directive.

Another area of ongoing debate is financial crime risk management where some problem areas exist around the lawful basis to process data for financial crime purposes. The possibility of the introduction of a UK Financial Services Industry Code of practice to resolve these issues has also been raised through the BBA with regulators to address key operational and practical data protection issues. Regulators have accepted this issue and have been receptive to this. As a result there may be some leverage to incorporate any requirements as a result of this initiative. This is a key area to keep under review as this may impact this proposal.

We look forward to working with the Forum and its members to develop detailed proposals.

Question 7b: Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?

The identified risks are high-level but broadly accurate. Please see additional comments in 7a above.

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Question 7c: If any legislative change is required to deliver this solution, would such change be proportionate to the expected benefits?

It is impossible to say whether legislative change would be proportionate without knowing the nature and complexity of that change and the resource implications for the industry, versus the benefits for end users. This would require detailed legal assessment best done on behalf of the industry as part of the cost benefit analysis before an opinion could be reached. As with any potential significant change in this arena, we would strongly recommend engagement with the Information Commissioner's Office at industry level.

Question 8a: Do you agree with our solution for financial crime intelligence sharing? If not, please provide evidence to support your response?

Centralised and shared financial crime intelligence sharing is, in theory possible but presents greater challenges. HSBC has a number of areas of concern regarding the current proposal.

Issues of ownership of the data would need to be addressed through contractual arrangements with clear definition of processing requirements and controls. Governance would have to address areas such as accuracy, keeping information up to date, security controls, sharing permissions and use of data.

We do generally state that we share information with parties for fraud prevention purposes (e.g. CIFAS) but the critical consent issue will need addressing and understanding how this reciprocity arrangement will be defined.

Question 8b: In what way does this solution improve financial inclusion? More generally, how should the intelligence sharing be used for the "public good"?

We should understand whether the concerns and risks can be mitigated before drawing firm conclusions on impact on financial inclusion. However our initial view would be that the likely impacts would be negligible given the aim of the initiative is to tackle financial crime.

Question 8c: Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?

HSBC agrees with the risks identified, particularly the risk that customers may wrongly be flagged as attempted fraudsters, especially by algorithms developed to detect potential fraud without human intervention. Robust legal controls on the access to and use of this data would be required, which would be contractual and consultation at industry level with the Information Commissioner's Office is recommended. Please also see comments included under 8a above.

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Question 8d: Do the benefits of financial crime intelligence sharing outweigh the new potential risks created?

This is an extremely difficult question to answer. Clearly there are significant potential benefits to be had in financial crime intelligence being shared across the industry. However the potential benefits need to be weighed against the risks that will need to be identified as part of industry engagement in developing the proposal, including those highlighted in our response to Question 8a.

Question 8e: Can this operate without changes to legislation? If not, what changes to legislation would be required to make this happen? If any legislative change is required, would such change be proportionate to the expected benefits?

We do not see immediately why legislative change would be required but it is difficult to be very specific without fully understanding exactly what is proposed. We would be happy to engage further as part of ongoing industry engagement as the proposals develop.

Question 8f: What governance structure should be created to ensure secure and proper intelligence sharing?

We require greater clarity on proposals to provide input to governance proposals.

Question 9: Do you agree with the proposal to develop a Central KYC Utility? If not, please provide evidence to support your response?

HSBC is not convinced that a central KYC utility will be desirable or effective. This is a particularly difficult area of information sharing given the need for every organisation to have absolute assurance that they have the right information for a particular customer. Any such utility would need to operate to the highest standards not the most common. We have a range of policy concerns to highlight:

1. Will banks be required to justify why they require further KYC on a customer due to the bank's risk appetite and risk controls for that customer/ business type, in effect, will this prevent a risk based approach?

2. Data protection, data retention, integrity and security needs to be seriously considered.

3. When banks processes require a refresh, will the shared utility be able to refresh documents, will SLA's be in place for this?

4. Who will be liable when there are errors in the data?

5. Accuracy and timely updates of data would be essential to make this work so greater clarity would be needed on how this would be managed.

6. Who will set and regulate the KYC standards?

7. Introducing a central KYC may potentially require payment instructions to be checked against the KYC database each time a payment is made, to accommodate changes in business or consumer circumstances). Pay / no pay decisions could get complicated and / or delayed by the introduction of a centralised KYC utility.

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Question 10: Do you agree with our solution for enhancing the quality of sanctions data? If not, please provide evidence to support your response?

HSBC supports the measures included under Question 10.

We have been engaged through the British Bankers' Association (BBA) and have advised on the development of these capabilities with HM Treasury.

QUESTIONS IN RELATION TO SECTION 7 | SIMPLIFYING ACCESS TO PROMOTE COMPETITION

Question 11: Do you agree with our proposal regarding access to sort codes? If not, please provide evidence to support your response.

HSBC supports these proposals and believes that it is important to have flexibility over allocation of sort codes. Not only is it a necessary and useful requirement but it will remove a technical barrier to entry.

We note that this proposal is very much underway through the BACS scheme as part of their oversight of Bank Reference Data. The solution for 04 sort codes to improve access without reliance on a relationship with a clearing bank will be beneficial for new entrants to the market and we will continue to support this development and other enhancements.

HSBC also notes that the governance of Bank Reference Data in general through the BACS scheme is to be reviewed, to assess whether it remains an optimum approach for one of the PSOs to manage this service for the whole industry. HSBC will support this review, the timing and outcome of which may be influenced by the separate proposals to consolidate the governance structure for BACS, Faster Payments and C&CCC.

Question 12: Do you agree with our proposal regarding access to settlement accounts? If not, please provide evidence to support your response.

HSBC supports the principle of opening up settlement accounts, especially if supported by the pre-funding of settlement obligations in the payment systems. We await further proposals and consultation from the Bank of England on this topic.

However, we would wish to see the Bank of England maintain its primary focus of safety and resilience of the financial system and to retain the strongest due diligence measures when considering applications. We have no doubt that this will be at the forefront of the Bank's considerations.

Question 13a: Do you agree with the proposal regarding aggregator access models? If not, please provide evidence to support your response?

HSBC is supportive of the development of the Aggregator Access Models and improving and simplifying how they can access different payment schemes.

This kind of technology outsourcing serves a very useful purpose in facilitating PSP access to payments. We also believe that the possible development of the Simplified Payment Platform, while reducing the technical barriers to entry, would not negate the value that can be provided by Aggregators, who will augment their technical access solutions with other value-adding applications. However, in opening up technical access to Aggregators, the liabilities of the respective parties must be clearly delineated and understood.

In delivering value to the PSP, we are not sure that reduction in cost should necessarily be the key measure by which the success of an Aggregator model is judged. Many Aggregators will offer a package of solutions which add value to systems connectivity and offer a range of benefits to their PSP clients.

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It is also worth remembering that the intention of this proposal is to create the environment to allow commercial aggregator solutions to emerge. It is about simplifying rules, requirements and process to allow aggregators to connect to one or multiple schemes. It does not propose any overarching central service. It is hoped that the associated work on common participation models and rules will support individual schemes initiatives to create the environment to allow aggregators to consider services to connect to multiple schemes.

Question 13b: How can the development of more commercial and competitive access solutions like aggregators be encouraged to drive down costs and complexity for PSPs?

Regarding the encouragement of the development of these commercial solutions, this will be very much down to individual schemes embracing the opportunity and really making the environments attractive for commercial aggregators to connect. The work done by Faster Payments is a working example of what can be achieved if connection to individual schemes is made easy and positively encouraged. Aggregators will then be more likely to promote services to multiple schemes assuming that they can identify demand.

As noted above a key factor in development of these solutions will be sufficient commercial demand from PSPs for aggregator services. Alongside this another key driver will be the simplification of requirements for aggregators to meet and streamlining of rules across schemes to drive down aggregators set up costs and make offering services across multiple schemes more attractive.

Question 14: Do you agree with our proposal regarding Common Payment System Operator participation models and rules? If not, please provide evidence to support your response.

HSBC supports the work to deliver common participation models and rules and will directly support the work through participation in the stakeholder group established by ISOCC.

This is a far reaching proposal with multiple strands and a variety of work streams under a dedicated project co-ordinated through ISOCC. We note that it will require much work from the PSOs and other stakeholders to deliver effectively. It will be a cornerstone of supporting structural governance change and simplifying how PSP's and other entities interface with the PSOs.

We consider that it is appropriate that LINK are part of this process even though they are not members of ISOCC. Overall this is work that is important and HSBC will support the various strands of activity which will help to deliver more commonality, reduce unnecessary differences between the PSOs and be complementary to the consolidation of governance structures.

We consider that this work will help to deliver the separate aggregator solution by standardising the technical accreditation and assurance models across the schemes. Therefore the two solutions should be seen as complementary to one another.

Question 15a: Do you agree this proposal regarding establishing a single entity? If not, please provide evidence to support your response.

HSBC strongly agrees Faster Payments (including Paym), BACS (including all managed services) and C&CCC should be consolidated into a single entity with an inclusive governance model. Indeed, as outlined in our cover submission, it is very important that this opportunity is taken to create one single entity, with the scope and mandate to oversee all change in the collaborative environment.

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This would present a great opportunity for consistency, efficiency and the removal of overlapping activities, thereby simplifying the ways in which existing and future PSPs engage with the consolidated scheme. It is important that competitive tendering and the possibility of direct PSP contracting for future platform provision is included within the identified model. Consolidation of governance for other PSOs (LINK and CHAPS) into this new structure should not be ruled out in the future but we recognise that it is not appropriate for various reasons to pursue at this initial stage.

We note the work that the Bank of England is undertaking with the PSR to examine appropriate structures to support this objective. Given the considerable work that has already been undertaken by Payments UK and the PSR we believe this work should be progressed as a priority, as it will speed up other initiatives such as common participation model and rules work, which requires co-ordination through ISOCC at the present time. The extent of expert consultative work already commissioned makes it clear that this is an appropriate course of action and should be progressed. We are therefore concerned that further extensive cost benefit work at this stage appears unnecessary, risking further delay.

HSBC believes that it is important that there is independent oversight of the governance change and that this body oversees transition to the new arrangements. We do not believe it is appropriate to leave this to the three PSOs involved. We believe that there is the potential for conflict in the important decisions that need to be taken. In this way employees will be properly protected and change will be managed in the right way, with strong leadership in place.

We recognise that transition arrangements will need to be managed carefully to reduce risk and we would expect to see a properly resourced and industry managed change programme to deliver this.

Question 15b: If you do not agree, how else could the benefits be achieved without consolidating PSO governance in the way described?

HSBC does not consider that there is an alternative approach that would deliver the same benefits and consolidation of PSO governance should be progressed as a priority.

Question 16: Do you agree with the proposal to move the UK to a modern payments message standard? If not, please provide evidence to support your response.

HSBC supports proposals for the UK to move to the ISO20022 messaging standard. This would align with international standards for retail payments and support greater interoperability. It is also important to consider whether the benefits of ISO20022 should just be realised by BACS, Faster Payments and C&CCC and whether the other PSR-designated schemes should also consider ISO20022 adoption. The benefits for each payment scheme need to be considered and prioritised against the potential customer disruption, for example any BACS migration could potentially create very significant issues for end users. ISO20022 should be the mandated messaging standard for any future initiatives.

We have seen many markets move to adopt this standard which gives greater flexibility and improved capability to carry enhanced data and offer more innovative products. We note examples from around the world where this standard has been used to support new real time payments solutions. These include Brazil, Poland, Sweden, Singapore, Denmark, Australia and Japan, with South Africa, Switzerland and China announcing plans for adoption in coming years.

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A properly managed and industry co-ordinated transition and delivery plan will be needed as this will be substantive change for PSOs, PSPs and corporate users. We believe this important transition needs to be kept separate from any considerations of a Simplified Payments Platform as adoption of new messaging standards is a complex and important project and transition in its own right. Consideration of the SPP would need to recognise the stage in migration to the new standard that the programme had reached as it considers the design and viability of a new infrastructure.

It is also important to consider the prioritisation of the migration(s) to ISO20022, with the industry very clearly highlighting the problems that we are seeking to fix.

Question 17a: Do you agree with the proposal to develop indirect access liability guidance? If not, please provide evidence to support your response?

HSBC would welcome having clear indirect access liability guidance, endorsed and approved by domestic and international regulators. We remain to be convinced that it will be possible to deliver effective indirect access liability guidance for PSPs with involvement with other jurisdictions, particularly the US market. This issue will be likely to affect any PSP undertaking cross border transactions. The only likely way that this could be resolved is through the development of an international framework.

With regard to specific proposals in the paper for the creation of a safe harbour option, we believe that this would present a huge challenge in an international context as banks increasingly seek to apply the highest global standards in the fight against terrorist financing and money laundering.

We note that a multi-stakeholder group is proposed to progress this issue and HSBC would of course, as a supplier of indirect access services, support its work to improve understanding as far as possible in this environment.

Question 17b: What, in your view, would prevent this guidance being produced or having the desired impact?

See comments in 17a above

Question 17c: In your view, which entity or entities should lead on this?

We recognise that the multi-stakeholder group is a positive first step but engagement and leadership from the UK regulatory authorities will be essential. The UK regulators would play a key role in discussing these issues with regulators in other markets, particularly the US.

QUESTIONS IN RELATION TO SECTION 8 | A NEW ARCHITECTURE FOR PAYMENTS

Question 18a: Do you agree with the proposal for a co-ordinated approach to developing the various types of APIs? If not, please provide evidence to support your response?

HSBC supports the need for a common approach to management of API standards.

We also recognise that the proposed method to deliver a co-ordinated approach to managing the various types of APIs needed to enhance competition in the market and be driven by the remedies outlined in the Competition and Markets Authority’s retail banking market investigation. The remedy proposed by the CMA in relation to the approach required for APIs is:

- Require the nine banks in the UK with the largest market share to adopt and maintain common API standards through which they will share data with other providers and third parties.
- The CMA has also reiterated that the open API standard should be developed so that it is compatible with other interrelated regulatory requirements, such as those under the revised second Payment Services Directive.
- The nine institutions to create and fund an Implementation Entity with an Implementation Trustee, accountable to the CMA. The CMA will approve the composition, governance arrangements, funding and budget of the Entity, along with the appointment of the Trustee.

With this in mind we anticipate that the industry in liaison with the CMA will agree the approach to deliver these remedies. We understand the implementation trustee is to be appointed which we expect to plan and coordinate direction and resolve issues.

The anticipated discussions will need to agree the scope of the API management that the new body would undertake. For example the Open Banking Working Group proposed a wider range of API’s outside of payments (ISA, mortgages, pensions, etc.), which is the focus of the CMA proposals. Equally the ongoing funding of the new body would need to be part of these discussions.

Other issues to consider are that a co-ordinated, industry wide approach is essential to minimise the impact on the corporate clients, and also to encourage various non-banking PSPs. In addition we may want to consider alignment with the standards to be published by the European Payments Council for providing access to Third Party Providers to avoid any conflict or duplication.

Question 18b: What are the benefits of taking a co-ordinated approach to developing the various types of APIs? What might be the disadvantages of taking this approach?

HSBC considers that it is essential that there is a co-ordinated approach to developing the different types of APIs. A common approach is as important here as it is in payment messaging standards. Without it there will be duplication and inconsistent delivery of products and services. It is also likely to be a barrier to competition as new providers have to adopt different APIs to access information from different PSP’s adding cost, resource and complexity.

The benefits of such a co-ordinated approach are:

- Standard messaging
- Common security standards
- Delivery of more cost efficient solution(s)
- Facilitate new players

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- reduce variations and interpretations

- Makes fulfilment of requests easier

- help agile development and testing

HSBC does not see significant disadvantages with this approach.

Question 18c: How should the implementation approach be structured to optimise the outcomes?

See comments in 18a above

Once the common approach (messaging, connectivity and security) is agreed then the implementation could be managed by each participant. If testing (could be automated) and certification (for some control) can be managed without impacting other participants then the implementation can be completely independent.

Participants can develop and implement functionality as long as they have a partner, and not all participants need to be involved. Essentially allowing first set of participants to agree the standards to implement and then for others to use or enhance.

Question 19a: Do you agree with our proposal to create a Simplified Delivery Mechanism? If not, please provide evidence to support your response?

Having standard messaging and governance for all types of payments would allow innovation and provide flexibility. Whether this requires the introduction of a new SPP / SDM is not yet proven. As they stand, HSBC does not support the proposals to create an additional payments platform at this time, given the range of payment mechanisms that are available in the UK market, the very positive moves underway to improve access conditions and the absence of a clear and compelling business case. We believe that alternative approaches using existing payment structures to deliver benefits such as Request to Pay, customer assurance and enhanced data should be fully explored and evaluated. A thorough cost benefit analysis is needed before we could comment or commit further.

The strategy that HSBC would recommend is to define what the objectives of the industry should be moving forward, and then we can work out the optimal delivery vehicle. Simply recommending a new SPP does not resolve the perceived problems of today's infrastructure.

It is only after looking fully at the costs and benefits of enhancing existing structures that a true comparison can be made with suggestions of an additional payments platform. For example we are the world leader in real time payments with one of the first schemes of its kind in the Faster Payments scheme. There are opportunities to use this investment to deliver many of the benefits suggested under the SPP. Equally we may be able to exploit the databases created to support schemes such as Paym or create new databases to give customers greater assurances that they are making their payment to the correct payee. The costs of delivering this are likely to be significantly lower than building a further new platform when in reality consolidation of payment mechanisms would be a preferable approach.

Once proper analysis has been completed to consider alternatives to the SPP through evaluation of the use of existing payment structures to deliver the bulk of the projected benefits, we anticipate the case for the SPP to be weak.

We also believe that the range of important initiatives identified elsewhere in the Payment Strategy will have a material impact and we consider it unlikely that the incremental benefit in addition to these initiatives will justify the development of the SPP. We also believe that there is a significant risk that focus on the SPP will divert resource away from the successful delivery of these other important changes, significantly reducing the potential benefits for end users.

Equally we should not assume that all consumers and businesses would want to use a request to pay model. We should not force the demise of tried and tested products such as Direct Debits which are critical to the UK economy as are the BACS structures to deliver salary, pension and benefits payments. Customer choice should remain.

Our other principal concerns relating to the proposals for an additional payments platform are:

- The cumulative demands for resource required to evaluate and deliver the scale of change needed. This reflects the major industry change programmes being progressed in conjunction with the regulators such as Ring Fencing, PSD2, cheque imaging, initiatives from the Retail Banking Market Investigation and essential initiatives identified in the PSF strategy document.
- The upheaval to customers and business of wholesale adoption of a new structure
- The risk to the resilience of payment systems
- The impact on other key change programmes such as the consolidation of the governance of PSOs and the complex move to modern messaging payment standards
- The cost to PSPs and the UK economy in general will be substantial
- The suggestion of a distributed model would be high risk given that these are untested theoretical models at the present time.
- Rigorous expert IT analysis is needed from multiple sources to ascertain whether the principles and approach are appropriate.

In short, what is required is the best technological approach to implement identified end-user needs. What is not needed is the implementation of a new technology platform for the sake of it, without clear end-user benefits that cannot be better delivered.

Question 19b: Should the new consolidated entity be responsible for leading the development of the new rules/scheme or should a new body be given this responsibility?

We believe that the new consolidated entity is best placed to lead the required collaborative industry change programme, provided it is properly and independently constituted and is established as we have set out in our cover submission.

Question 19c: Could an existing scheme adapt to provide the Simplified Delivery Mechanism or should a new one be developed?

As noted in comments in 19a above we believe that further work is required to evaluate the alternatives to adoption of new payment platform, and in particular how existing structures could be used to deliver the bulk of the benefits and services proposed. The costs and benefits of the respective options should then be evaluated carefully.

We would particularly like to see a proper evaluation of how the Faster Payments, real time platform could be used to deliver many of the objectives outlined and what compromises would be required. It is only following a detailed evaluation of alternative approaches that the real costs of a new platform can be understood and whether the benefits delivered outweigh those that can be achieved by enhancement to existing structures.

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Question 19d: Would it be better for the processing and clearing functions of the simplified framework to be built on distributed architecture or a centralised infrastructure? Could there be a transition from a centralised structure to a distributed structure over time?

Comment is required from specialists with knowledge of the pros and cons of either model. From a purely practical perspective the fact that the mechanics of a distributed model have not been used or tested to date make this a high risk choice for a mechanism that would in time manage all UK payments. There is no current evidence that current distributed models can scale sufficiently to accommodate today's payment requirements.

The views and guidance of the Bank of England and other regulatory bodies should be sought and shared through the consultation process.

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Question 19e: Do you think it is feasible to begin work to design a new payments infrastructure given existing demands on resources and funding?

This is an important question and needs to be considered carefully prior to committing to progress the proposed new structure. The scale of the undertaking to deliver a new payment platform cannot be under estimated and the design phase and agreement to it from all stakeholders will be a significant part of this programme.

It would seem appropriate at this stage that sufficient design work is undertaken in order to progress a cost benefit analysis of the new platform and to allow this to be compared to the alternatives.

Detailed design work in addition to this should be deferred until a definitive decision to proceed has been taken.

If the design work is limited in this way it would appear practical to deliver this analysis to allow an objective decision on whether to proceed with the new platform to be taken.

Please also see the concerns raised in our responses to questions 19a, 21a and 23a.

Question 20a: Do you agree that the existing arrangement of the payments system in the UK needs to change to support more competition and agility?

There are always opportunities to encourage more competition and to make the payments systems more agile. We believe many of the well thought out proposals in the draft strategy document will help to deliver this. The important proposals to create a single governance entity for three of the principal inter-bank schemes and to create common participation models and rules will deliver major improvements for a wide range of stakeholders and users. In this area we would agree that change is needed.

With regard to the proposed new payment platform, the required detailed cost benefit analysis and evaluation of alternatives will determine whether this will deliver objectives to improve competition and agility or whether this can be achieved effectively using existing payments platforms. The case for change of this scale has not yet been proven, particularly in the context of the very low risk appetite that must be a feature of this critical national infrastructure.

Question 20b: Will the package of proposals we suggest, the Simplified Payments Platform, deliver the benefits we have outlined? What alternatives could there be?

As noted in earlier responses we believe that a much more detailed evaluation of the alternative options is needed. In particular how existing structures could be used to deliver the bulk of the benefits and services proposed. This should include an assessment of how overlay services proposed for the new platform could be delivered on existing infrastructure (Request to Pay, Enhanced Data, Customer Assurance, etc.) and how much more quickly this could be achieved. The costs and benefits of the respective options should then be evaluated carefully. For example if 80% of the benefits could be delivered on the existing payments platforms for half the cost of a building an entirely new payment platform then this option would become a realistic alternative.

With the consolidation and simplification of payment scheme governance, processes and rules, open API standards and migration to modern payment messaging standards, significant enhancements to payment services will be delivered. More work is needed to determine whether a new payments platform would add significant incremental benefits. What matters is improving customer experience and delivering real customer benefits, not the technology.

QUESTIONS IN RELATION TO SECTION 9 | OUR STRATEGY IN SEQUENCE

Question 21a: Do you agree with this proposed sequence of solutions and approach outlined to further clarify this?

In general HSBC would support the sequencing of the proposed elements of the draft strategy but the timescales need to be validated against other mandatory regulatory initiatives. It is important that the scale of regulatory change over the next three years continues to be acknowledged in the final strategy. The proposed sequence of solutions presumes the creation and adoption of a SPP and the case for the SPP has been far from proven at this stage. Flexibility to adapt to market and regulatory demands will be needed and the sequencing should not be regarded as fixed but as indicative guidance.

Given focus on the Simplified Payments Platform we believe there is a very significant risk that customer needs and benefits are placed behind delivery of the technical solution. With the case not yet proven for an additional payments platform, we should focus on a full evaluation of how identified customer needs can be delivered using the best of the existing infrastructure with targeted development. In this way priorities can be driven by the most pressing customer needs rather than chasing a utopian platform.

What the industry needs is the single body we have proposed in our cover submission to own a single plan for sequencing all the extensive change proposed for the collaboration payments domain.

Specific observations are as follows:

- i. The migration to modern messaging standards (ISO20022) is currently shown only as part of the move to a Simplified Payments Platform. We believe this to be a complex migration in its own right and will require an industry project to oversee the migration. The migration itself is likely to be lengthy and consideration would be needed to whether it is appropriate to set end dates for participants to comply. Consideration could be given to the prioritisation of the migration, say of Faster Payments first, where the benefits are greater and the potential for end user disruption are reduced. It would seem sensible that this migration is either de-linked from the Simplified Payments platform or at least considered carefully as a separate and important component of this work.
- ii. Following evaluation of whether Request to Pay, Assurance Data and Enhanced data could be delivered on existing platforms rather than on any new payments platform, this may change the sequencing of when these services are developed.

Question 21b: If not, what approach would you take to sequencing to bring forward the anticipated benefits, in particular for end users?

Please see comments in 21a above.

There is an urgent need for comprehensive analysis of the potential alternatives, especially weighing up the selective enhancement of existing platforms, with a focus on Faster Payments, to realise end user benefits sooner and at reduced cost to the industry.

QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

Question 22a: What approach should be taken to deliver the implementation of the Forum's Strategy?

It is important that there is a specific body responsible for delivering the key elements identified in the strategy (please see question 22b). In addition we would expect the PSR to retain oversight of progress and achievements. We would expect the body identified to have direct ownership to delegate progress on specific solutions and monitor delivery e.g. ISOCC for PSO Common Participation Models and Rules progress.

If delivery of identified solutions was simply distributed piecemeal to the market for delivery with no directly responsible body we believe progress would be limited and vary markedly between identified solutions.

Question 22b: Who should oversee the implementation of the Forum's Strategy?

Many of the solutions identified will have a clear way forward. To ensure progress against the draft strategy we believe that the optimum approach outlined above can best be delivered by the single entity we have proposed in our cover submission. Oversight from the PSR or successor body to the PSF would be required.

Question 22c: What economic model(s) would ensure delivery of the Strategy recommendations?

The use of the approach outlined above offers the potential for costs to be shared across all the main users in the payments industry. It is important that everyone pays a share of the costs, based on their usage of the systems, ensure there is a recognition of the significant resource and effort that is needed to deliver change and support the payments industry.

This cost sharing mechanism could be administered by the independent structure and overseen by the PSR.

QUESTIONS IN RELATION TO SECTION 11 | COST BENEFIT ANALYSIS APPROACH

Question 23a: Do you agree with the proposed approach for quantifying the potential costs and benefits of the proposed solutions?

Whilst we support the principles of the approach outlined we believe it will be difficult to deliver realistic or meaningful figures across the payments industry, as estimates of cost and resource will vary widely between organisations and there is limited tangible information or benchmarks to base estimates on. We also believe this to be a substantive task which will need a strong lead from the independent evaluators. There is a risk that this cannot be delivered effectively during the few weeks available during the consultation period. These comments apply in particular to the Simplified Payments Platform solution but are relevant to other solutions as well.

The pro-active lead needed from the independent evaluator should agree a process to gather information in a consistent manner, established a review process, critically appraise and revise any estimates provided. The independent evaluator should propose costs/benefits based on their experience, desk research and supporting input to supplement requests to payment users which may not result in consistent or usable responses.

Question 23b: Do you agree with the costs and benefits drivers outlined in this document?

We support the principles outlined.

Question 23c: We would appreciate any information on the potential costs and benefits you may have to assist our analysis.

No specific comments at this stage but we will support the CBA process as it gets underway and a framework is defined by the independent evaluators.