



Payments Strategy Forum Response to consultation

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1 Introduction

1.1 Executive Summary

CGI thanks the Payments Strategy Forum and welcomes this opportunity to respond to the draft strategy document, *Being Responsive to User Needs*.

CGI considers that modernisation and rationalisation of the UK payments industry, payments schemes and infrastructure is a critically important component vital to the health of the UK's economy, the users and the continuing leading role of the UK financial industry in global financial services.

In general, we consider that the draft Strategy represents a serious and well-thought-through roadmap to achieve standardisation and simplification of the existing UK domestic payments architecture and through this simplification to improve competition through the widening and democratisation of access to payments schemes and infrastructure. We broadly support the Strategy's conclusions and recommendations. The draft strategy takes into account the needs of the users of the systems and is not written from the perspective of the service providers or those who will most directly benefit from implementation of the Strategy's recommendations.

We have attempted to evaluate and respond to every question where appropriate, without prejudice or from any position that takes into account how CGI might benefit from being involved in any of the programmes which will make up the design, development and implementation of the Strategy's recommendations.

Where we have concerns, we have described these in our responses to the consultation questions. Broadly speaking, we are concerned that the scope of the Strategy excludes established payments systems such as cards, LINK, and cash; confines its attention mainly to retail payments to the exclusion of business, wholesale and bulk payments services; and is perhaps too narrowly focused on UK domestic payments rather than considering cross-border and non-sterling payments.

A further concern is that the Strategy seems to assume the continuance of the sort-code plus the account number to uniquely identify a UK bank account. We feel this deserves further analysis in the light of a putative complete ground-up redesign of the national payments architecture. It is clear that developing account number portability in isolation would incur high costs for little perceived benefit. However, the success of the internationally-accepted BIC/IBAN system (and, certainly in the EU, only the IBAN) would indicate that maintaining a fifty-year-old standard for account identification may not be the ideal solution.

A number of the questions on the relative benefits of the proposed transitional and strategic priorities are dependent on the creation of detailed business case and implementation plans. The current Strategy has not addressed that need sufficiently at this stage.

We note that the development of such detailed plans will require further industry level engagement and broad stakeholder engagement under a clear governance model that will ensure a balance between protecting the operational stability and functionality of existing schemes and ensuring competition through the further standardisation and of the functionality and processing of existing UK payments.

Nonetheless, CGI is encouraged by the level of support and dedication that the PSF has exhibited in the production of this draft Strategy and we look forward to the successful implementation of key recommendations.

We are happy for our response to be published and/or referred to in your Final Strategy Document.

Declaration

Payments Strategy Forum Response to consultation



"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'."

1.2 Acknowledgements

This response document was drafted and written by:

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1.3 About CGI

Founded in 1976, CGI is one of the largest IT and business process services providers in the world. We combine innovative services and solutions with a disciplined delivery approach that has resulted in an industry-leading track record of delivering 95% of projects on time and within budget. Our global reach, combined with our proximity model of serving clients from 400 locations worldwide, provides the scale and immediacy required to rapidly respond to client needs. Our business consulting, systems integration and managed services help clients leverage current investments while adopting technology and business strategies that achieve top and bottom line results. As a demonstration of our commitment, our client satisfaction score consistently measures 9 out of 10. Visit cgi.com for more information.

Globally, CGI provides clients with end-to-end payment services, including legacy migration, consolidation, application management, new system deployment and consulting. Our deep expertise and experience in payments technology is helping clients meet the demand of customers to “buy anything, pay anyone, bank anywhere at any time.”

2 Section 5: Responding to consumer and business needs

2.1 Question 1

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

Not completely. We do not think all End Users needs have been captured:

- Cards, cash and international payments are essential payments services for the UK economy and have all been excluded from the scope
- The focus is on retail payments; wholesale and bulk payments service user needs have not been properly considered
- The risk of providing payers with choice of Date to Pay and the potential impact on business cash flows has not been considered
- The functionality and user needs that underlie the stated requirement for enhanced/assurance data are not made clear. For instance, it makes no reference to certainty of payee or of confirmation of execution
- The solution description reference to "fuzzy matching" may be too prescriptive given a range of technology and data science options available to address the needs.

2.2 Question 2a

Do stakeholders agree with the financial capability principles?

Yes.

- Ideally the principles should be read in conjunction with the UK Financial Capability Strategy at <http://www.fincap.org.uk/>

2.3 Question 2b

How should these principles be implemented?

We recommend the following:

- PSOs to demonstrate inclusion of financial capability principles as part of the PSP accreditation process covering end-users and to publish the outcome of accreditations on PSO website.
- An open invitation for end user representation is issued on PSO website.
- An external review, at minimum annually, to be reported on PSO website confirming how financial capability principles have been applied to electronic payment services.
- Conduct periodic workshops with a variety of consumer groups validating financial capability principles applied to product range confirming ease of use. The findings from these workshops should be made available through the PSO website.
- Evidence of financial crime deterrents and techniques for minimising the opportunity for user error to be included in new and existing product checklist before launch.
- Regular liaison with a varied selection of PSPs and non-FS stakeholders to determine how capabilities are improving the lives of end consumers.

2.4 Question 2c

How should their implementation be overseen, and how should the industry be held to account?

We recommend the following:

- Principles need to be measurable by PSPs and external organisations such as consumer groups, so that implementation by a given PSP can be effectively rated
- Regular reviews by the PSR to ensure PSPs maintain adherence to principles via the creation of a financial services monitoring framework
- Regular reporting against KPIs
- Effective proportionate sanction regime for breaches of principles up to and including loss of PSP accreditation

2.5 Question 3a

What benefits would you expect to accrue from these solutions [the provision of additional information with the payment instruction] (not necessarily just financial)?

We expect the following benefits:

- The ability to review additional information linked to payments through multiple channels
- Reduction in ambiguity of the purpose of a payment instruction enabling improved financial planning and its reconciliation processing.
- Consumers will be able to more precisely identify specific payments transactions when raising queries
- Trust between consumers and payers will increase

2.6 Question 3b

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

Yes. We also think that the following risks should be considered:

- The introduction of the EU General Data Protection Regulation (GDPR), effective May 2018 and the mechanism that the UK chooses for its implementation post the Brexit referendum outcome.
- PSD2 and Open Banking dependencies on the implementation of enhanced data
- It is unclear how the Financial Capability Principles mitigate data protection issues
- Customer awareness and control of the data that is collected and held and the purpose for which it is allowed to be used
- The extended size of payment instructions, with large data items included, may cause processing overheads

2.7 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 business case differs by user type:

- Large corporate users will be able to immediately quantify benefits as the level of manual reconciliation effort and error is reduced. This investment can be justified.
- Smaller businesses may be less able to directly quantify benefits and the investment may be justifiable only across the market for enhanced services.
- Government departments will be able to identify time savings in the consumer journey e.g. telephony queries, payment issuance, payment receipt and write-offs. This investment can be justified.
- There is no business case for consumers as it is assumed this service will be free of charge so no impact.
- PSPs and TTPs will have to manage larger data files containing various data content. This will initially incur development costs and therefore likely to be reviewed and justified on a case by case basis.

2.8 Question 3d

Are there any other alternative solutions to meet the identified needs?

Yes.

- A central proxy service may have been feasible if an agreed unique identifier, such as social security number or government gateway id, was in place in the UK. If the solution is designed to incorporate such identifiers as they become more widely available there will be the opportunity to synchronise payment information with government data sources such as driving licence, car tax and TV licence data that could further verify the consumer's identity, supporting KYC portability. This could have considerable potential benefit across the UK economy.

2.9 Question 3e

Is there anything else that the Forum should address that has not been considered?

Yes, we believe the following should be addressed:

- A collaborative approach may take too long to implement. A mandatory approach may be more suitable assuming a clear business case is agreed.
- Implementation stage 1, fuzzy matching, may be challenging to interpret consistently if extra data is unstructured and entities use differing fuzzy logic solutions.
- Implementation stage 2, the incorporation of extra assurance data, is currently dependent on the underlying capability of the payment scheme message format. For example, the Bacs Standard 18 format cannot currently incorporate additional information in the message.
- Ideally specific additional information in payment instructions should be standardised as far as possible to assist data portability and assist API construction and use by TTPs and across the market.
- The use of inconsistent and unstructured reference data, if they proliferate, would dilute reconciliation and financial planning process improvements.

2.10 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?

Not yet.

- Until the implementation timeframe of the new payments architecture has been determined, it is not possible to determine the requirements and longevity of any transitional solution. Should the case for a new payments architecture prove difficult to agree, the need for transitional solutions will become stronger.

2.11 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?

There may be.

- If an urgent consumer need is identified for which there is clear benefit and that must be satisfied earlier than the agreed delivery date of the NPA, the market will provide a solution.

3 Section 6: Improving trust in payments

3.1 Question 5a

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

Yes, this is fundamentally important.

- We believe this is a neglected area of payment and wider financial planning activities
- A central financial crime data repository can only be as good as the quality of information supplied by PSPs. Data content and reporting standards should be mandated to aid consistency and completeness across PSPs.
- We recommend that information and reporting of incidents is given higher priority than now, not least to support the reporting requires of the EU's General Data Protection Directive (GDPR)
- Currently PSPs are not highly exposed following a criminal breach as customers are usually held liable for their reckless behaviour in falling victim to a scam. In accordance with the GDPR, this needs to change to drive improved behaviours.
- A tool was developed in April 2015, partly funded from the Home Office Police Innovation Fund, to enable web based Fraud Prevention. It is recommended that this tool is assessed as a potential offering by PSPs to customers.

3.2 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?

Yes.

- A mandate from the PSR will be required to enable such a trade body to compel PSPs to contribute to a central data repository. It will be responsible for :
 - Creating and managing a joined-up approach to education and awareness raising
 - Creating guidelines for managing identity verification and authentication.
 - Establishing a capability for Big Data to better identify fraudulent and criminal payments activity.
 - The rules and procedures to support sharing of more financial crime intelligence data between payments providers.
 - Establishing the operating principles and rules for a shared utility to improve efficiency of Know-Your-Customer (KYC) background checks initially for business customers.
 - Enhancing the quality of data on the industry's sanctions lists

We recommend:

- the Joint Fraud Taskforce, (established by the Home Secretary in February 2016), actively supported by the newly announced National Cyber Security Centre (NCSC), takes the leading role.
- FFA UK to report to BBA, who have overall responsibility for this area, and FFA UK's scope is increased to compel PSPs to supply data.
- The Economic and Cyber Crime Prevention Centre (ECPC)'s specialist resources to be convened by BBA as required.

3.3 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.

Yes, we strongly agree. We suggest the following key considerations:

- The design and implementation of industry wide guidelines of the UK payments architecture must be undertaken very carefully, to allow the maximum possible re-use of past investments and existing applicable solutions. This will minimise delivery times and retain much of the present access management capability that is already in place across financial services.
- Close alignment with compliance frameworks such as GDPR and SMR will be vital.
- For cyber security, formal certification to ISO27001/27015, for all parties, should be the expectation.
- 'Tight' definition of Open APIs is vital. Many of the standards required to facilitate User Managed Access Control are in their infancy. Additional effort is required to fast-track these standards to maturity and to ensure that emerging new technologies can be accommodated.
- Reduction in the complexity and inefficiency of identity verification processes, and a standardised way to keep up-to-date, are going to be key to the success of such an open platform.
- There is a need to establish an authority with a strong auditing, assurance and compliance function.
- There is a critical need to build a cross-industry consensus of the risks and of the controls that are risk-justified. The establishment of a Security Technical Expert Group ('STEG') is therefore warranted, which provides a natural vehicle to evaluate and 'approve' new solutions and services that are made available to the market as well as to collaborate, as an industry, with Security Authorities to share cyber security intelligence.

3.4 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?

We agree in principle. However:

- The term 'central data repository' should not be taken to mean a rejection of the concept of a distributed solution
- Experience shows that in the past where a large amount of central data was collated/collected (such as for mortgages CPS 197/198) it resulted in significant overhead and proved to be unmanageable. The lessons learned from this implementation should be applied.

- There is a need for more specific description of the types of data to be shared and its sources across the community of service providers

3.5 Question 7b

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

Yes. Further risks to be considered might include:

- The maintenance and enhancement of the public's trust in the financial system and its role as trusted steward of their data should be regarded as being at risk.
- If legislative change is required, as seems likely, then the timeframe over which it can be introduced may represent an additional risk to implementation of the data sharing repository. Legislation will inform regulatory change which in turn determines aspects of technical and process design. Therefore legislative changes should be drafted as early in the process as possible.

3.6 Question 7c

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

Yes. We would expect legislative change of any nature to be proportionate and based on clear impact analysis.

3.7 Question 8a

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

Yes, in principle.

- Provided it can be demonstrated that a greater degree of intelligence sharing will have a positive effect on the rate of detection and prevention of financial crime, without compromising the public's right to data privacy.

3.8 Question 8b

In what way does this solution improve financial inclusion? More generally, how should the intelligence sharing is used for the “public good”?

Our view is as follows:

- It is not clear why it is automatically assumed that “better intelligence should reduce the number of customer exclusions”. Better intelligence would certainly reduce the number of unjustified customer exclusions, but might just as easily increase the number of actual exclusions as reduce them.
- The public good would certainly be served if the public perception of the fairness and even-handedness of the application of intelligence data were to be demonstrably increased.
- A balance must be struck between the quest for ‘better intelligence’ and the requirements of privacy legislation.

3.9 Question 8c

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

Yes, in general.

- Protection of the interests of the customer should be paramount, to avoid reputational risk to the industry.
- Use of shared data should carry with it some liability for ensuring its accuracy.

3.10 Question 8d

Do the benefits of financial crime intelligence sharing outweigh the new potential risks created?

Yes, provided that:

- the data is shared based on actual, demonstrable improvements in the detection and prevention of financial crime;
- it results in
 - a significant and measurable decrease in unjustly applied sanction, and
 - a related measurable increase in the industry’s reputation as perceived by the public

3.11 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 believe that legislative change may indeed be required.

- Since much financial crime is international and the result of illegal activities such as drug money laundering and terrorist financing, the State intelligence services and law enforcement agencies would have an interest in, and indeed, a claim on such data. This is especially true if it were concentrated in a single place and easily analysed.
- A change to legislation may be required to protect data belonging to private and corporate citizens from undue State influence.

3.12 Question 8f

What governance structure should be created to ensure secure and proper intelligence sharing?

We believe that:

- the oversight of the data sharing operation should be properly independent of the FS industry and
- robust enough to be able to avoid having arms of the State having a primary claim or final oversight
- This may need to be backed by appropriate legislation.

3.13 Question 9

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

Yes. We believe that the following considerations should be taken into account:

- Standards, liability and governance rules should be mandated to ensure that PSPs apply robust KYC due diligence processes. This would mitigate the risk of one PSP passing low quality data into the central utility on which another PSP relies.
- The solution must manage cases where a consumer refuses permission for their data to be shared, which will be possible under the EU's General Data Protection Directive (GDPR).
- From a governance perspective a strong central body will be required to maintain KYC momentum as fraudulent account opening techniques change. A collaborative body may not be suitable for this task as funding challenges may lead to the quality of data in the central utility becoming variable making comparisons challenging.

3.14 Question 10

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

Yes. We would expect successful PSP sanctions practices to include:

- For each PSP, a risk profile, vulnerabilities assessment and KRIs
- A well-defined PSP Sanctions policy including ethical behaviour of PSP
- Clear sanctions operational processes and architecture
- Clear accountabilities for sanctions governance, oversight, list acquisition and deployment, with attestation process for list loading.
- Clearly defined management of hits and false positives with escalation plans
- Well-defined management of sanctions lists, to ensure they do not become too large and unmanageable from a processing perspective.

4 Section 7: Simplifying access to promote competition

4.1 Question 11

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

Yes, we agree as a general principle that bank and (where appropriate) account identifiers should be made available for use by new entrants to the payments market.

- However, we would question whether the six-digit sort code system (and the attendant non-unique eight-digit account numbers associated with them) should not be examined with a view to a complete redesign, probably along the principles of the widely adopted BIC/IBAN system. Sort codes are a purely UK domestic system for identifying bank account details and it seems illogical to hogtie a 21st-century national globally integrated payments architecture with a domestic banking IT standard that is more than fifty years old.
- What is certain is that there is a need for a PSP identity that is not inbuilt to the customer account ID. Accounts would be more portable if each account ID were genuinely unique without including the sort code.
- Currently the sort code plus account number enables PSPs/Banks/FIs to derive much information around the payment types that an account will or will not accept, including paper clearing. It also helps identify standardised and effective routes and procedures for exception processing. This needs to be well understood as the alternative is designed.

4.2 Question 12

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

Yes, we agree with this principle.

- We envisage access to settlement accounts being extended to new types of PSP including money transfer services, P2P lenders, custodians, as well as correspondent banks.
- Access will of course be based on a PSP's ability to raise and manage liquidity, and being capable of following the rules that keep the system stable and safe. Large value PSPs might be considered a lower systemic risk within the rules and controls of the RTGS than as credit risks to existing RTGS banks.

4.3 Question 13a

Do you agree with our proposal regarding aggregator access models? If not, please provide evidence to support your response.

Yes, we agree with this proposal as a short-to-medium term solution.

- However, it seems short-sighted to develop a new payments architecture allowing for the existence of payment channel aggregators, without considering card-based payments alongside all the other payment channels.
- Care should be taken to ensure that the costs borne by aggregators developing multiple channels to multiple payment systems can be amortised without placing too much of a fee burden on the PSP using their services. Aggregators will depend on low cost high volume business models rather than high fee revenue per transaction.

4.4 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?

We suggest that both the development costs and the fees charged to and by aggregators should be looked at.

- In the technology sphere, payment gateways could be encouraged to make their APIs or connection models available to aggregators at reduced or no cost, reducing the technology spend required of aggregators. Standardisation of specific API design and implementation assurance would assist in reducing the costs across the industry.
- A more ambitious solution might be for the industry to provide a single gateway for the use of aggregators; this gateway then performs the transformation and routing of transactions to individual payment systems, rather than this function being in the domain of the aggregator. This approach on the payment initiation leg would form part of the first step towards a standardised payments model.
- In the fees sphere, chargeback and returned payment fees processed by aggregators typically represent a higher risk of sanction from payment systems. This is because aggregators are servicing smaller or niche sections of the payments market. This risk is mitigated by the higher fees charged by the aggregator to its PSP customers, these costs flowing down to the PSP's customer base. Different pricing models for aggregators (for example, deposit of collateral or the payment of monthly fixed fees that result in reduced transaction fees) which hedge the risk of higher payment return rates, may result in increased demand for competitive aggregation services, leading to higher volumes of transactions and a reduction in costs for all parties.

4.5 Question 14

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

Yes.

- The definition of a PSO participant has been variable between schemes and a common definition is welcomed.
- This may also benefit additional areas of cost and effort such as legal services, liability and risk modelling, prerequisite security and data protection standards, and therefore result in increased participation.
- A simplified CPSO model and rules would also reduce the number of governance committees and hence the cost of membership. This would apply even when membership is expanded and made more representative of the users of payment systems.
- An area not mentioned but ideally part of this change is a review of the rules around settlement. Historically settlement rules have differed between PSOs due to practices at the time and the technologies available. Alternative settlement models such as deferred net settlement were developed to reduce the cost of settlement. The potential for simplifying and improving the visibility and management of PSO settlement processes will reduce the overall cost of settlement and make participation simpler.

4.6 Question 15a

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

Broadly, yes.

- It is timely to consider merging the boards of FPSL, BPSL and C&CCC adopting a one person one vote approach.
- There is also an opportunity to streamline the structures of PAYM and CASS within FPSL and BPSL respectively.
- The PSR Strategy Response states that a combined CPSO 'should improve systemic risk'. This assertion cannot be corroborated without additional evidence and both FPSL and BPSL have introduced new settlement models which improve an already robust systemic risk management framework.
- The new single entity must also carry responsibility for the continued availability and stability of the existing schemes until they are withdrawn.

4.7 Question 15b

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

Response not applicable.

4.8 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?

Yes, in principle.

- We consider that the UK should not adopt a standard that is significantly different from the ISO20022 model that has been and is being adopted in much of the rest of the world.
- Any new standard adopted by the UK Payments market must be developed in close cooperation with initiatives such as SWIFT's ISO20022 Harmonisation Programme.
- The Payments Strategy Forum should make every effort to ensure that the UK adopts a standard that is aligned with the efforts to ensure global harmonisation.
- The critical role of international payments for the effective functioning of the UK economy would benefit from enhanced global standard compliance. This aspect of payments user needs has not been covered in the current process.

4.9 Question 17a

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

Yes - as part of a package of changes to enhance competition and improve the understanding and transparency of risk and liability issues and responsibilities for both PSPs and AIPs.

- New and emerging participants with low volume needs for payments access cannot justify direct membership of UK Payments schemes and may have limited experience in payments risk management disciplines. Guidance and frameworks would help both buyers and sellers to understand the risk and mitigations available.
- Of itself, such a framework and guidance model may not enhance availability and access; however consistent assessment and classification of key risks would enhance transparency and consistency across the market and may indirectly improve availability and competition.
- There is a question of materiality to PSPs and AIPs: their business model may not be limited to UK electronic payments scheme access given the UK's desire to maintain a leading position in innovative Fintech, such an approach for UK payments schemes would address only part of the challenge faced by these emerging players.
- Similarly, the business case for IAPs and therefore the availability of account and payments services to PSPs choosing not to join payments schemes directly would be clarified if there were an objective framework for liability and risk management. This would assist IAPs in developing risk mitigation models based on insurance and shared liability models that distribute the cost of mitigation.

4.10 Question 17b

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

Lack of clear definitions of the service roles of the service providers

- Without a framework for the definition of payment related services, indirect access liability guidance will remain confused.

4.11 Question 17c

In your view, which entity or entities should lead on this?

The merged PSO organisation should take the responsibility for developing indirect access liability guidance.

- Part of the responsibility of the merged PSO must be to widen knowledge and understanding of the existing schemes and services. This responsibility fits well with clarification of indirect access liability guidance.

5 Section 8: A new architecture for payments

5.1 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.*

Yes; we think this is essential.

- Without a level of industry co-operation on key aspects of the API management, security and testing process there is a high risk of inconsistent implementation, duplication of costs across the industry and a risk that the outcome fails to achieve the stated objectives.
- Existing banking APIs show how diversely even basic services can be constructed. Without coordination, the market could become complex and unstable.
- Open competition will also benefit from standardised and registered API naming conventions.
- There is an opportunity to demonstrate that the proposed approach is not only about effectively implementing an infrastructure for API's but can also demonstrate the benefits of implementing coordinated processes and technology.

5.2 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?*

We identify the following benefits:

- It would reduce the development and implementation effort to integrate the suppliers of bank data with its consumers.
- It will help to keep API interactions consistent and add value for consumers

We see no tangible disadvantages. However:

- It is important that the scale of the approach is properly appreciated. The co-ordination effort would have to take into account a large number of different interested parties. Agreed standards are likely to be more complex to produce and take longer to implement than might initially be apparent.
- A clear statement of the "various types" of APIs that are needed and a taxonomy of terms would support consistent and effective implementation across the industry and mitigate the risk of inconsistent and ineffective approaches.
- At this point there is no mention of how this approach will be managed and operated. There is a need for leadership to carry out the implementation according to the challenging PSF timelines.
- The scope of this proposal only covers personal current accounts and business current accounts, and leaves out other PSD2-compliant payment accounts.
- It is not clear how the costs of this co-ordinated approach would be financed. This needs to be agreed as soon as possible to mitigate any risks associated with conflict of interests and the potential for collusion to control the approach.

5.3 Question 18c

How should the implementation approach be structured to optimise the outcomes?

Our view is as follows:

- It is vitally important that a governance entity with well-defined scope and clear authority is established at the outset. Governance must be strictly applied, especially if APIs are available as open, networked solutions from and for many parties rather than as a set of centralised service offerings under the control of a single entity.
- Lower-risk, simpler (perhaps read-only) APIs should be implemented first to establish a framework and working operating model as early as possible. This is necessary before more complex and higher-risk APIs including access to customer data and read-write functionality are developed. to establish a framework and working operating model as early as possible. Clear rules are required on the right to write or amend customer data. For instance, balances should only be changed by the account holding service provider
- The approach must ensure that PSO bureaucracy and risk management processes such as security do not result in slow and costly rates of implementation.
- We recommend that a robust industry sandbox environment is established for PSPs and innovators to test APIs. The PSF could consider holding competitions for innovative solutions to be tested within the sandbox.

5.4 Question 19a

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

Yes, we believe that this is a practical method.

- In the paper it is not clear how the simplified distributed architecture will work. In the proposal, it is mentioned that it will cover the rules for transfer, risk control, payment scheme, safety and security. An important goal is ensuring data integrity along the payments value chain but it is not clear how the simplified distribution mechanism will ensure this.
- Existing system variety across schemes is partly caused by historical assumptions that have been embedded about the domain and membership of systems that are targeted at different communities and service levels. Any embedded assumptions about membership, rights, or access should be eliminated from the new approach, and be replaced by explicit rules and reuse of assets with the core requirements of a highly simplified system better suited to a modern technology architecture and with fewer constraints than those derived from the original process design parameters.
- A common delivery mechanism must still allow for support of a range of payment types and services and specification of such services must all be supported.
- There is a risk that all existing exception and scheme specific capabilities would need replication. It is therefore important to separate the payments service aims for users and participants from the specific functions of existing schemes as far as is possible to mitigate the risk of duplication and complexity.

5.5 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?

Yes, the 'new consolidated entity' could be in overall charge of governance. However:

- The design should be the responsibility of an independent market-led group with representation seconded from the banks, consultancy firms, infrastructure providers, Fintech entities and potentially government and other user communities, rather than a group that represents only the banks.
- The initial requirement must be to perform a robust impact analysis to ensure the benefits of a major change program affecting all UK payments justify the costs across all industry participants and users.
- Intuitively it is likely that a simplified architecture would be more effective in delivering an innovative and cost effective service. However, the security, standardisation and change management challenges are substantial. The 'new consolidated entity' would have to assume these responsibilities within its remit.

5.6 Question 19c

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

Our view is as follows:

- Assuming that a new scheme would be based on ISO20022 and since there is no existing UK domestic payments scheme that is currently based on ISO20022 it would suggest that the ideal solution would be to develop a new scheme that takes into account the requirements of all the existing schemes as well as providing sufficient adaptability for future schemes. However:
- We acknowledge that this is a point of view that will be robustly debated. It may not be practical to develop a single new scheme. Additionally, given that the scope of the PSF does not include cards, LINK etc. the benefits are unlikely to be as comprehensive as expected.
- The Faster Payments scheme rules might be used as a model; since the provision of near-real-time feedback to end-users of a payments system will be fundamental to the design of the new delivery mechanism, regardless of the length of the clearing cycles of payments schemes that sit on top of it in a layered architecture.
- More generally, the ISO20022 standard specifies data and message formats, but many of the operational and security challenges in delivering seamless and effective customer experience are to do with timeliness, transaction and data service levels that are not addressed in the current ISO20022 standard. "Protocols" for effective cross industry service delivery exist in both Faster Payments and LINK. This experience may be required to develop or enhance a scheme. Work needs to be done to analyse potential options, costs and benefits and to create ISO20022 compliant protocols that address the service qualities required end to end in a modern payments eco-system.

5.7 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?

We feel that this is a question that needs extensive further analysis.

- Distributed architectures are a rapidly growing area of technology with massive potential across a range of uses but these are currently at a very early stage of maturity. Our view is that it is too early to define the role of distributed architectures within any future model for UK payments and that any such decision must be based on clear evidence of capability based on structured assessment of the maturity of technologies to be deployed.
- It is critical to understand that the aims and services that are to be delivered are well understood regardless of the architecture employed. Decisions of technology models and maturity follow clarity of the need in terms of functional and non-functional requirements. An agreed set of industry wide requirements that addresses user needs and encompasses a simplified processing model for electronic payments in sterling would be a prerequisite to any technology selection process.
- It is however likely that the ongoing process of adoption across technology and finance industry over the next years will prove, or disprove, the capability of distributed architectures within existing processes in specific areas of demonstrable business need. This proof of the value and cost of new approaches would be a prerequisite to any informed decision on the technology base for implementation.

5.8 Question 19e

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

Yes.

- We feel that delaying the work on design will only result in increased pressure from government, the market and international competition. If being a leader in the payments market is important to the UK, then the new infrastructure should be tackled without delay.
- There clearly are substantial pressures on the resources and business models of PSPs. However, the outline design and business case work would not require substantial additional resourcing; instead, the industry should refocus on reuse of existing skills and experience. It is more likely that this would progress under centralised management and clear senior sponsorship.

5.9 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?

Yes, for the following reasons:

- There is much duplication of effort in the administration and processing of existing payments schemes.
- Changes in the industry and in customer expectation are driving change that is increasingly hard to support within the existing schemes.
- Simplification of service definitions and elimination or consolidation of outdated operational practices will bring significant reductions in complexity and cost across the industry, and through this improvements in service quality.
- The current disparate set of payments messaging standards makes the IT and processing infrastructure difficult and unnecessarily expensive to maintain and enhance.
- Constraints on membership of schemes and settlement mechanisms make it prohibitively expensive for new and emerging entrants to the payments market.
- The maintenance of separate databases of customer data and a concern about current legal and liability models for data sharing makes it challenging to share KYC and fraud data across payments platforms.
- There are new payments innovations constantly being developed and introduced by a large number of non-traditional actors whose ability to access payments infrastructure may be enhanced by the proposed changes and improved standardisation proposed in the Strategy.
- The lack of clarity in funding approach and sources of funds inhibits change and continuous improvement investment.
- The blurring of boundaries between the members, operators, governing bodies and owners across the payments processing infrastructure results in less than optimal outcomes for the industry.

5.10 Question 20b

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

Yes, over time the Simplified Payments Platform can deliver the benefits that have been outlined.

- However, within the existing market model, the organisations responsible for investment in the UK payment systems may not be able to establish a commercial business case.
- A new model is required for investment into the UK payments systems, and for its guidance and implementation. The PSR will need to establish an effective competent authority with the right people, process and governance to ensure success.

6 Section 9: Strategy Sequence

6.1 Question 21a

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

Yes.

- We agree that the proposed sequence is a good basis for a workable phased implementation plan but reiterate that limiting the scope to domestic sterling UK retail payments is solving only part of the overall industry challenge.

6.2 Question 21b

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

At this stage there is insufficient detail on the anticipated benefits of the proposed transitional and strategic changes and the timeframes for their implementation to enable comment.

7 Section 10: Implementation approach

7.1 Question 22a

What approach should be taken to deliver the implementation of the Forum's Strategy?

We recommend the following approach:

- The establishment of a 'competent authority' which will perform the ultimate oversight of all the activities which form part of the implementation of the Strategy. Such an authority must not be dominated by any single industry segment or interest group and as such must be representative of all interested parties, a list of which will include:
 - The Bank of England
 - Payments scheme administrators
 - Payments infrastructures such as CLS
 - Payment infrastructure providers (e.g. Vocalink)
 - Formal financial sector PSPs, including banks, building societies, LINK and card service providers
 - Ancillary PSPs, including such organisations as PayPal, money transfer services and the like
 - New entrants and payments innovator organisations
 - Payments and financial services consultancy service providers, such as CGI and its competitors
 - Payments systems and financial services regulatory bodies
 - HM Government in its legislative capacity, represented by HMT, but also including security and law enforcement agencies
 - HM Government in its capacity as the largest single user of UK payment services
 - Charities, trade bodies and associations of businesses who use payments systems
 - The general public, represented by consumer organisations
- The requirements production, design, development, testing and implementation of the new payments architecture should be put out, as separate functions, to proper competitive tender
- A design authority, reporting to the competent authority, should be given responsibility for ensuring that design and development meet the agreed requirements, and have oversight of testing and implementation plans. This function should also be put out to competitive tender. The design authority should be independent of any of the suppliers of deliverables, to ensure genuine impartiality.

7.2 Question 22b

Who should oversee the implementation of the Forum's Strategy?

We recommend the following:

- The 'competent authority', representative of a broad cross-section of interested parties as recommended in the response to Question 22a, and including the PSR and representatives of the funding bodies, should have ultimate oversight of the implementation
- An independent Design Authority should be appointed from the commercial sector to perform the day-to-day oversight.

7.3 Question 22c

What economic model(s) would ensure delivery of the Strategy recommendations?

We suggest a mix of private and public investment to support the delivery of the Strategy recommendations.

- The beneficiaries of the Strategy include not only banks and new PSPs, but all the users of the payments system including businesses, Government users and private citizens)
- In addition, the Strategy will enhance the reputation of the UK as the leading provider of financial services in the world, which will be critical to the industry in a post-Brexit context.
- These wider benefits to the UK that result from enhanced payments services would indicate that the large investment required could justifiably be funded from a combination of private enterprise and public funding.
- Naturally the highly-publicised pitfalls associated with other large-scale public/private finance initiatives (PFIs) must at all costs be avoided.
- The repayment of the private sector capital investment should be from transaction fees with agreed service level penalties and rewards
- It may be appropriate to consider the repayment of any public sector investment via a ring-fenced FS-specific tax mechanism, which may also represent a public relations win for the Government and the financial sector.

8 Section 11: Cost benefit analysis approach

8.1 Question 23a

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

Yes. Our thoughts on this are as follows:

- The Strategy does not at this stage examine who gains the benefits and who pays the costs of implementation, and does not touch on how the investment is to be recovered through charges.
- From a cost perspective, the bulk of the costs will derive from the design, development and related technology spend, including hardware and networks. Management of spend is therefore paramount, especially if funding is derived in part from the public purse.
- Direct benefits in terms of reduced administration, processing and maintenance costs, and revenue derived from the expansion of the market to include new entrants, will be able to be estimated based on current payment transaction volumes and projected variances.
- Indirect benefits are less easily quantifiable but the value of the benefits of increased reputation for the banking system in particular and the UK as a centre of financial service excellence in general should not be underestimated.
- It is likely that improved payments services will have a positive impact on domestic trade costs and volumes and hence on the wider economy and GDP growth. Estimating such benefits is complex but may reinforce the more direct cost and benefit case for proposed changes proposed in the Strategy.
- We would encourage the PSF to consider whether access to the UK payments infrastructure be designated as a universal service obligation (USO). This would determine the overall approach for quantifying the potential costs and benefits and whether those proposed are suitable.

8.2 Question 23b

Do you agree with the costs and benefits drivers outlined in this document?

Broadly, yes.

- Anticipated costs can be more easily predicted and with sound commercial and delivery management properly controlled.
- Benefits are less easy to predict, especially indirect benefits, but it is important that investment is not based purely on monetary return. Both tangible and intangible value will accrue to the UK economy from a simplified, standardised, integrated payments architecture, will set standards for the rest of the world for many years to come and will enable enhanced competition and innovation in the UK market.
- The PSR, as an economic regulator, should establish with HMT & the Bank of England an appropriate model showing the benefit to UK plc from the proposals and in particular the quantifiable benefit of faster, cheaper payments to the wider economy.

8.3 Question 23c

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

We note the following:

- The UK Faster Payments system has been the catalyst for the development and implementation of similar near-real-time payments systems across the globe.
- PSOs worldwide look to the UK as the leading innovator of financial services.
- The PSF strategy will naturally benefit the UK economy directly by enabling the export of knowledge and expertise in this area, but also by cementing the UK's reputation as the financial services centre of the world.
- Since a significant proportion of domestic GDP is derived from the FS sector it is critically important that the UK maintains its world-leading role.
- There will be opportunities for re-use of the SPP outside the UK with potential cost recovery and for the purchase of SPP similar components from outside the UK which would reduce risk and increase cost certainty.