ACI Worldwide: response to the PSF Draft Strategy and Consultation

13th September, 2016

Summary

ACI Worldwide broadly supports the proposals from the Payments Strategy Forum for modernising the UK payments market, opening it up to greater competition and tackling financial crime at a national level. The payments market is rapidly changing as factors such as financial regulation, new technical advances and customer demand for faster payments combine to create significant push and pull factors. The proposals from the PSF will undoubtedly encourage new entrants to the market, increase consumer choice and make payment systems more flexible, resilient and cheaper to run in the future.

In addition to its work on KYC and data sharing, ACI Worldwide remains committed to helping the PSF with all aspects of the consultation document and especially on the topic of Open API standards and their implementation/use through Overlay Services. It is ACI's opinion that standards shall remain flexible so as to allow established practices to be rolled up and amalgamated into any new proposals. Existing API and messaging systems need to be accommodated in order to make the transition to new standards simple and less of financial burden to PSPs.

ACIs response to particular aspects of the draft strategy are outlined below.

ACI backing for the PSF vision for Payments

The Forum is committed to opening up payment systems to much greater competition. At the same time, it wants to put in place the foundations for a new framework for payments, making use of new technologies to deliver a system that is responsive to consumers and businesses, improves trust in payments and is simpler to access for new participants. And, over the longer term, the goal is to create a framework that will be agile in addressing the needs of users through competition.

In the medium term, the goal is to unlock the ability of new and existing technology providers to meet user needs for greater control, greater assurance and enhanced data. The Strategy proposes the universal adoption of internationally recognised messaging standards ISO20022 and the development of common governance for the APIs that act as the glue holding together the payments architecture and would at the same time provide the ability to send more data along with payments.

To give these initiatives greater traction, the strategy proposes the consolidation of the interbank system governance of Bacs, Cheque & Credit Clearing Company and Faster Payments (FPS) into one new entity. This would act as the springboard for the new payments architecture emerging in the future, and would enhance and accelerate the benefits from other initiatives.

Improving trust

There is also a need to increase trust in payment systems. The payments industry needs to work together to improve security and reduce financial crime. Industry guidelines on identity, verification, authentication and risk assessment are needed to standardise the industry's approach and reduce some of the weaknesses in the system that can be exploited by criminals. The new architecture outlined in the consultation document will provide simple and open access to all Payment Service Providers (PSPs) that want it, connecting them easily and at a low cost while using standards that are aligned with those used in other countries. It should also allow for the number of participants and payment products operating over the architecture to grow and scale up, making it future-proof and allowing the UK to keep up with global developments. It is also important to point out that the user experience at the point of engagement must be just as sophisticated as the architecture which underpins it.

ACI welcomes the fact that the Forum has agreed a set of financial capability principles that should guide the testing and design of new payment products. These products should reflect and respond to real people's needs and not to those of an idealised, 'perfect' consumer that does not exist. They should be inclusive of the least financially capable wherever possible and be intuitive so that all consumers can use them easily and safely.

Market dynamics and the growth of electronic payments

As part of the global trend towards digitalisation, the volume of electronic payments (e-payments) has grown substantially in recent years. There were 7.4 billion transactions across Bacs, CHAPS and FPS in 2015 worth approximately £74 trillion and volumes for FPS grew by 13% compared with just 4% for Bacs and 3% for CHAPs (Payments UK, 2016). E-payments can be seen as a substitute for cash, and by 2024 it is expected that only one third of payments will be made by cash in the UK (Cap Gemini, 2015).

Emerging technology is expected to further drive the growth of payments, which could increase volumes beyond these estimates. Technological changes, such as the development of the Internet of Things (IoT), have the potential to significantly affect how consumers will pay for products, services and utilities but would require fast and scalable payment systems.

Evolving consumer behaviour is also driving the increase in forms and volume of electronic payments. As consumers and businesses develop diverse models and patterns, the range and complexity of their needs increases. Consumers and businesses increasingly expect convenience, consistency, choice, and control over how they use payments. Paym, contactless, Apple, and Android Pay are all examples of products which provide new and innovative ways of making payments easier.

In the global context, the UK needs a retail interbank payments system that will give institutions new ways to innovate and keep pace with the speed of digitalisation, and at the same time continues to deliver the resilience and stability that we enjoy now. Right now, there are a number of critical initiatives which will affect the payments industry. Some of these are driven by regulation to reduce risk, protect consumers, and/or create more innovation and competition. Others are led by the industry, looking for better ways to serve customers.
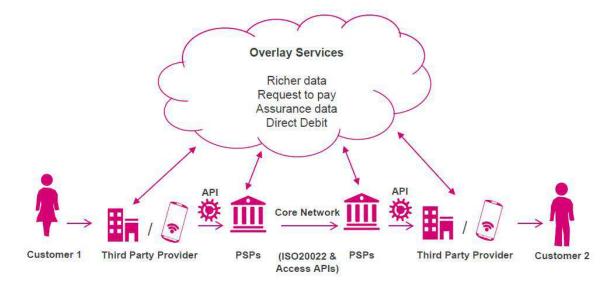
Regulation and the UK payments landscape

Domestic initiatives, such as the Bank of England's review of its Real Time Gross Settlement (RTGS) System, HM Treasury's work on Open Banking and the Competition and Markets Authority desire to improve the user experience, all look for new functionalities and technology to improve clearing, processing and settlement in payments.

The Payment Services Directive (PSD), and subsequently PSD2, are substantial pieces of payments related European legislation that introduce new services and players to the industry and enhance security and authentication measures. ACI Worldwide is committed to delivering these requirements despite the UK's vote to leave the European Union. The impact of 'Brexit' on the UK payments system is as yet unclear but ACI Worldwide will take into account any developments during the course of its work with the PSF.

Technology Innovation

The Forum has put forward a vision for a new architecture for retail interbank payments which is called the 'Simplified Payments Platform' (SPP). It is the culmination of a number of initiatives and will deliver greater competition and more innovation at lower costs. It will be agile and respond quickly to the needs of consumers, businesses and government. The proposal is based on a layered model for payments processing with common messaging standards, Open Access APIs and API governance, a simplified delivery mechanism and overlay services.

The SPP requires further detailed work and the Forum has committed itself to delivering a study by 2018 which will specify the new architecture in detail, assess the costs and benefits, and outline an implementation plan.

APIs

Visa opened its API set to the developers' community as far back as 2007. By contrast WeChat which has only been in existence since 2011, exposed it's APIs in 2014. Google recently announced that it is acquiring Apigee, an API management company. Apigee will likely become one of the fundamental

pillars of Google's Cloud strategy and a crucial bridge between the Google developers' community and its Cloud platform. The acquisition underscores the importance for ACI Worldwide to work with the PSF to set out and act upon a long term API implementation strategy. While fragmentation exists (because of the plethora of differing approaches being marketed by industry) there is a strong sense that Open API's standard, if left to evolve naturally, could follow a similar development path as seen by 'Cloud' standards over the last decade.

The Forum has recommended that all work on APIs across payment accounts is co-ordinated. It will enable APIs to work seamlessly end-to-end across the whole payments journey. It will reduce the possibility of fragmentation or the inconsistent use of standards. The Forum is thus proposing that the Implementation Entity recommended by the CMA should, following the successful delivery of the Open Banking API, be able to expand its role to provide governance for other end-user APIs across the payments ecosystem.

Tackling financial crime at a national level

The UK is a leader in payments with an excellent record on security and resilience, but technology and the methods criminals use to exploit any weaknesses in the payment system are becoming more sophisticated. The driving factors are well known: obtain money, goods, and/or services illegally, and transfer funds that in turn enable criminal activity. These activities harm all end-users of payments: individuals, businesses, charities as well as government and public sector organisations. They also cause direct loss to PSPs.

In order to address these concerns, the Forum proposes six strategic initiatives which would require the industry, users of payment systems and relevant authorities to collaborate. These are:

- Supporting the delivery of a more common approach to education and awareness raising
- Creating guidelines for managing identity verification and authentication.
- Establishing a capability for Big Data analysis of payments transactions moving between PSPs, to better identify fraudulent and criminal payments activity.
- Sharing more financial crime intelligence data between payments providers.
- Establishing a shared utility for Know-Your-Customer (KYC) background checks for business customers.
- Enhancing the quality of data on the industry's sanctions lists.

Experts at ACI Worldwide have reviewed the solution description and operating models outlined by the draft strategy and believe it would be worth developing the use cases in more detail to give the operational models more weight. To do this it is recommended that the Forum engages with banks and/or PSPs in order to analyse their SME KYC processes, documentation collection etc.