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

Respondents basic details

Consultation title:	Being responsive to user needs Draft strategy
Name of respondent:	Lloyds Banking Group

Publication of Responses

In responding to this consultation, you are sharing your response with the members of the Payments Strategy Forum (Forum), evaluators appointed by the Forum and the Payment Systems Regulator Limited, ('the PSR' - which provides secretariat services to the Forum). The PSR accepts no liability or responsibility for the actions of the Forum members or evaluators in respect of the information supplied.

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parts of it to be published or referred to in this way you need to separate out those parts and mark them clearly ''Not for publication'.

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with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.

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

Response template

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If you do not want parts of or all of your response to be published you need to state clearly ('Not for Publication') over specific information included in your response, please be sure to clearly mark this by yellow highlighting it.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

Lloyds Banking Group are supportive in principle of the themes outlined in point 5.1 under the Consumer and Business needs section of the consultation as they benefit customers and align to our strategy of being Best Bank for Customers and to Help Britain Prosper.

We acknowledge the work that has been undertaken by the PSF to engage many service users and groups representing service users via the Payments Community. As such the information captured is a good representation of the 500 members of the Payments Community and certainly sufficient to progress the PSF strategy to study and design phases as well as informing future business case development. We also note that many of the initiatives are proposals that the industry has been working for and are obviously right for customers and the UK.

The nature of payments is such that use cases are very diverse and can sometimes be unique to the individual transaction and the two parties involved. It is therefore important that the PSF continues to involve and broaden service-user input, using customer research where appropriate, during the study and design phases of the strategy to ensure there is take up of the service, that the expected outcomes are achieved for service users, and that any unintended consequences are avoided.

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

In general, we agree with the financial capability principles outlined for the collaborative development of payment services so that services are designed to be inclusive of the least capable wherever possible, including differing levels of digital capability and accessibility.

LBG seeks to adopt a collaborative approach with third sector engagement in the development of payment services so they are designed to be inclusive of all customers. Our Customer Journey Transformation Programme is seeking to redesign our customers' experiences and we proactively seek to identify potential risks for customers in order to ensure that we are able to meet their needs.

Furthermore, we feel that developments should be technology agnostic wherever possible (e.g. not tied to a particular type of device); this supports broader inclusion as well as mitigating against reliance on eventual obsolete technologies.

The strategy should ensure that customers have a level of control over how their data is being used, i.e. be able to opt in (or out) of data being monetised (and/ or being carried at all). This aligns to section 5.21, page 16, which we believe could be given greater prominence in the principles.

Building and enhancing existing payment journeys may be an option to enhance end user 'buy in' to new services and make them easier to understand. For example, Request to Pay could be seen as an enhanced Direct Debit, which would help end users because they already understand the concept.

Question 2b: How should these principles be implemented?

Based on our experience of supporting vulnerable customers, we believe that these principles can be implemented most effectively by embedding them within organisations' culture, process designs and product policies. For example:

a. Develop new or existing Customers in Vulnerable Circumstances Programmes within PSPs and align with the BBA Working Group which was established to embed culture and practices to manage the challenges presented by the FCA. The Programme currently works in partnership with charities and organisations to help design the principles that should be adopted in members' organisations.

b. Embed financial capability principles within PSPs' Product Provision policies to encourage continual assessment of products from an end to end perspective and with all owners across the product life cycle.

c. Incorporate the proposed principles into the PSPs' product and process design approval to ensure consistent challenge and adoption at the outset.

d. Leverage PSPs' change programmes to ensure redesign of products and how they are serviced are aligned to the principles.

e. Make specific reference within PSPs' Customer Treatment Policy and associated standards – to support group-wide compliance to the suggested new principles.

f. Review conduct risk assessment metrics to identify appropriate measures against the proposed principles that track and help to mitigate potential detriment to customers if the principles are not applied.

g. Understand how customer insight from complaints and learning from rectification activity can evidence and resolve non-compliance to the potential principles.

h. Culturally, PSPs could tap into their colleagues' perception of the principles and how they are demonstrated in practice through internal initiatives which seek colleague views and ideas to improve the financial capability of payment design and delivery.

LBG believes that such work to embed the principles within an organisation is likely to be more effective than external regulation. However, we would support a self-certification process in line with industry current practice which works well today (for example Current Account Switch Service Guarantee where the principles are embedded within the rules of the industry service) by including something within scheme accreditation to ensure PSPs can meet requirements with technical and operational consistency and reliability.

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

LBG agrees that this is an important piece of work and with this in mind the implementation of them should be a priority for the Implementation Entity to resolve during the Study and Design phases of the strategy.

Current Account Switch Service Guarantee and Direct Debit Guarantee principles are embedded within the rules of these Industry Services so that they are considered as part of everything that we do for these products. We recommend further research is undertaken during the study and design phases of the strategy to understand how best to implement and embed the financial capability principles to ensure their benefits are realised for service users.

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

Request to Pay

The requirement for more control and transactional information for customers is understood and supported by LBG. The Request to Pay (RTP) proposal is one way to achieve this outcome, however further consideration should be given to explore existing and alternative options to support vulnerable customers and customers who want greater control over payments from their account. Furthermore, PSD2 may allow RTP to be developed by third parties if they chose. This would allow a utility or subscription based service to provide this type of service directly if a customer has indicated a willingness to pay in the application for services.

We support financial inclusion, and see that RTP could provide the following benefits:

a. positive payment option to an increasing sector of the population such as those on zero hours contracts or multiple and/or varied incomes such as the self-employed or with caring/multiple responsibilities. This provides increased flexibility and the ability to align payments with receipt of funds, and may help our customers manage their finances and cash flow more effectively.

b. being able to defer payments, which could be attractive for commercial businesses or smaller self-employed individuals who wish to have greater flexibility over their cash flow.

c. the additional control provided to payers in this model should also act as an enabler to allow customers that currently cannot, or do not wish to, use Direct Debit to move away from paper based and point of sale based options for utility bill payments etc.

d. the ability for ‘person to person’ transactions to be ‘collected’ via a ‘You Owe Me’ model is attractive for a number of person to person use cases, especially when combined with push notifications to mobile devices. We would also expect these types of transactions to appeal to users that have so far retained a reliance on cheques and cash, for example to make payments to schools, as well as business to business invoices (e.g. small business attaches a cheque to an invoice and sends it back by post).

A number of points regarding the RTP proposal need to be considered further in the study and design phase. These include: when will a RTP become a missed payment; what is the optimum length of deferment; how to mitigate and manage abuse; on which channels should RTP be made available; how long RTPs will be held for funds availability; This latter point may also require a change to the law that determines the order in which a banker must attempt to pay transactions presented for payment against a customer account on any banking day.

The cost of managing and reconciling deferred payments, impacts on Terms and Conditions, and fraud risks all need to be understood during the study and design phase of the strategy and factored into the cost benefit analysis.

Assurance Data

LBG welcomes any initiative that gives customers greater certainty, assurance and confidence that a payment is being made to the intended beneficiary and that it has been received in the intended account. PayM has already addressed part of this outcome (in terms of name validation before a payment is sent) and we welcome that the PSF intends to take this to the next stage. Execution is therefore key to ensure that a simple and clear user experience is assured; a component that will be critical to the success of this initiative.

We see the benefits of the concept of track and trace of payments (Confirmation of Payee, COP) rather like tracking of a parcel, and feel that these could appeal to a wide range of customers. The idea of being able to pinpoint exactly where a payment has gone with the certainty that it has arrived in the correct account would provide additional security for many customers and could improve their payment experience. It also to some extent removes the anonymity of a payment in that the sender is sending a payment to a named person rather than a sort code and account number. This increases consumer confidence in the payment transaction journey and supports the belief that consumers require more enriched data.

Embedding a beneficiary name confirmation into typical mainstream payment journeys (internet/ mobile banking initiated Faster Payments) could significantly reduce the numbers of payments being sent to the incorrect beneficiary in error, delivering a customer experience enhancement which would improve confidence in the system and reduce disputes and payment in error issues significantly. However, we should keep in view that beneficiary names may be formatted and structured differently between PSPs, this would require further consideration.

Depending on the solution, this should also provide real benefit for large biller customers in the commercial space (utility companies / credit card companies) as it would enable them to effectively minimise the number of unapplied payments that they have to investigate. It is likely that achieving this would require several levels of data validation (e.g. credit card number matching beneficiary name matching sort code and account number) rather than just the beneficiary name plus sort code / account number accordingly.

As a participant in the Credit Recovery Process, we have a good understanding of the difficulties of recalling a payment which may have been misdirected, and the inconvenience and stress that this may cause customers. We have worked with other banks to streamline and expedite the process of recalling funds and recovery rates have improved since its inception. Confirmation of Payee (COP) fields would further add to these improvements.

LBG would encourage the PSF to engage with PayM to understand how it could be used or enhanced to deliver the outcomes identified from the introduction of confirmation of payee. Faster implementation may be possible by encouraging greater use of the PayM database that today connects ten PSPs representing 97% of the personal current account market.

Enhanced Data

LBG recognises the opportunity to use enhanced data related to the payment transaction to deliver better outcomes for service users. LBG agrees that benefits will accrue to different stakeholders in a variety of different ways:

a. we understand the benefits for large Government departments such as HMRC and DWP to ensure the correct amount of tax is collected and/or the correct amount of benefits are paid as they will be able to view more detail on regular income and expenditure, etc. which can be used as part of their analysis.

b. large and medium sized businesses would be able to use the additional information to help manage cash flow and to aid reconciliation.

c. PSPs would be able to develop new products and services using the new data available. For example, it could serve as an enabler for payment integration with other data driven network based activities (e.g. social media, telecoms, etc.) leading to new product and service development.

d. Enhanced Data may also be an enabler for international payment scheme interoperability (e.g. IBANS carried in the additional data field) if aligned with ISO200022.

e. additional benefits include enhanced fraud prevention, AML and terrorist funding prevention opportunities (e.g. as an enabler for the central financial crime utility).

LBG has identified three broad ways of making this data available:

1. by carrying the additional data with the payment message;
2. by linking the data to the transaction, similar to the existing Bacs RTI solution for HMRC; or
3. by service users giving permission to access the data via Open Banking APIs.

These options can be investigated further during the study and design phase of the strategy.

If it is concluded that the best approach to achieve the desired outcomes of service users is to carry the data with the payment message, we acknowledge that there will be a hard dependency on the PSF initiative relating to common messaging standards, which is relevant to the sequencing analysis.

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

Request to Pay

The PSF strategy has correctly identified the potential risk to service users, arising from data privacy and data protection, in 5.20 of the strategy document, and LBG agrees that these need to be mitigated during the study and design phase of the strategy.

The risks raised in the consultation document highlight the need for consistency and common rules as part of the Terms and Conditions of RTP.

Furthermore, there is a risk that RTP does not provide as much certainty as a regular payment paid on an agreed date. Customer education will be key and the service rules will need to be unambiguous, to ensure they are clearly drawn to articulate how the service will work at each stage of the process. For instance, if a consumer is unable to respond to a request, it is important that this does not automatically escalate into a default that may incur fees or charges. This may be overcome by a series of pre-selected options that act as a default action if a response is not forthcoming within a defined timeframe.

Whilst we acknowledge that further work needs to be done, we recognise that PSPs will need time to undertake IT system changes and amend customers' terms and conditions to accommodate a new service and timescales to successfully achieve this should not be underestimated.

The risk of 'junk requests' should be considered, especially if the service is data rich and open to a large number of participant 'requestors'. We can envisage a situation where individuals are bombarded with requests to purchase goods and services that they may not want or need (e.g. a different version of junk mail / nuisance calls).

Risks of data phishing (retrieving beneficiary names using sort code and account number or other payment information) could also potentially increase.

With this in mind, LBG considers that further analysis should be progressed during the study and design phase to confirm if Request to Pay fulfils the needs of all service users.

Assurance Data

We believe that Confirmation of Payee will help to reduce misdirected payments, although it will not necessarily eliminate them. Further consideration should be given to liability in that scenario. The proposal would tend to suggest the onus of proof of error is shifted towards the payment remitter / originator, which will need careful management and articulation to customers to maintain confidence.

Enhanced Data

The consultation correctly identified the risks relating to data protection and data privacy, which require detailed consideration.

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?

At this stage there is insufficient information to determine whether or not there a business case for Request to Pay, Assurance Data and Enhanced Data. As the PSF has acknowledged more work needs to be done to draw out both the benefits and costs of each of the proposals. We have however, shared some initial thinking to help shape potential options.

The cost to build is likely to be significantly different if these are built on existing infrastructure or as an overlay service on the Simplified Payments Platform and therefore this is a fundamental dependency for the business case. The largest benefit is likely to come from the use of Enhanced Data.

It will be equally important to understand the demand for and likely take up of each of these services as part of the business case process and further customer research may be required to firm up this information.

Ultimately, it will be important for the PSF to ensure that the cost of investment and the recipient of the benefit are aligned as part of the business case process.

Request to Pay

The business case could be built on commercial customer einvoicing, which could be a chargeable service from PSPs to commercial clients. This could also be combined with an ‘enhanced direct debit’ use case, whereby the RTP origination service could be offered for a fee to business customers. A combined ‘UK PLC’ business case appears likely to be achievable based on fee based participation in any new ‘scheme’.

Assurance Data

A business case could be based on the reduced resource required for individual institutions to support post event payment investigation and payment in error activity, together with a reduction in fraud losses. However, the likelihood is that this would need to be combined with RTP and enhanced data to create an overall positive business case (depending on the cost of implementation).

Enhanced Data

We believe the business case should be carefully considered to establish the benefits that could be achieved by reducing benefit fraud, tax avoidance etc.

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

Alternative solutions for further consideration may include:

Request to Pay: Enhancing direct debits with features such positive pay type arrangements to allow the customer the option to make funds available in the account or unpay the item.

Assurance Data: A central look up database could provide further assurance; there is a potential opportunity to reuse the existing Paym database (which covers approximately 97% of the current PCA market). Today payees individually register their details but if this approach was changed to an opt out rather than opt in treatment of customer phone number and bank account data it would be possible to repoint internet banking traffic to that database.

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

It is important for the PSF to be fully aligned with Open Banking (initially via the CMA remedies), PSD2 and API activities to ensure that consideration is given to how the use cases can be most effectively addressed, avoiding duplication etc.

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?

As noted in our introductory remarks, there are some initiatives that the industry should seek to deliver as a priority. However, where solutions may be affected by decisions on the future payments architecture, more work needs to be undertaken during the study and design phases of the strategy to determine if these solutions should be delivered on the existing UK payments infrastructure.

We are unable to comment on whether there is a business case for investing in transitional solutions while the new payments architecture is being delivered until a full impact assessment and cost/benefits analysis is done on the creation of a new Simplified Payments Platform (SPP), compared to enhancement and development of existing payment systems.

If the decision is to proceed with SPP it will be important to keep the development and level of change on the existing infrastructure to a minimum to reduce the risk of redundant expenditure. Given the scale, costs and impact of SPP, we are concerned that the industry will have the bandwidth to develop major changes on both without risking delays to the deployment of SPP.

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?

If SPP progresses we would recommend that the PSF work with the PSR and other regulators to agree a framework against which to evaluate all future industry change. This will help to determine if the change should be deployed to the existing infrastructure, built into the delivery scope of SPP or held over to implement once SPP is live. This framework should also be used to assess Request to Pay, Confirmation of Payee and Enhanced Data use cases.

As stated in the consultation document, some functionality exists for Request to Pay and Confirmation of Payee via existing Payment Schemes (ZAPP & FCM) as well as via APIs. It would seem reasonable to investigate the potential of expanding this functionality but this work should not detract from the main requirements set out by the PSF. There may be potential to leverage existing schemes through rule changes (e.g. ‘positive pay’ Direct Debits and PayM as noted in our response to question 3d).

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.

LBG supports the centralised co-ordination of education and awareness (E&A) through a central agency in order to pool resources and ensure better quality, more targeted and consistent messages across the industry to multiple consumer groups. More E&A can only be positive, especially as criminals develop and evolve their activities. One of the most significant challenges we face in this area is social engineering and defrauded customers an area which individual PSPs struggle to produce truly effective E&A to tackle. The scale of an industry approach could ensure more effective and broader targeting of messages.

We believe that in order for the proposal to be successful, the medium of communication is a crucial part of the success of this initiative and as such needs to be a key part of the PSF's analysis. Whilst the digital communication channel will be the most agile option and will reach the mass audience, LBG recommends a multi-channelled approach as this will ensure the campaign reaches as many parts of the consumer population as possible. Consumers need to see and hear messages more than once before considering changing their behaviour and so approaching the same people with the same message at different times of the day via a range of channels and tools will be most effective. LBG recognises that this is not a new idea; the industry has come together to deliver previous campaigns and therefore we recommend that we understand how this initiative can further build on from these.

Co-ordinating E&A through an external body reduces costs for individual organisations and enables a significantly larger amount of combined funding so a more substantial campaign can be delivered. For example, LBG worked with industry partners and the Government on The Devil's in Their Details and The Devil's in Your Details campaigns which were delivered in printed media and via radio adverts and are still hosted by Action Fraud. Delivering a joint industry campaign through an external brand also reduces the risk of consumer concerns for an individual organisation and potentially reduces any reputational risk issues. As such, the messages can be presented positively as a neutral public service.

LBG recognises that ensuring information is delivered in a timely manner is key to limiting the success of new scams. Collaborative delivery involving several organisations can be more complex and time consuming (LBG's experience suggests that this can increase the time required for planning a major campaign by more than six months). Accordingly, the A&E proposals will need to factor in speed of delivery and/or recognise that there may be a continued place for unilateral initiatives where urgency requires.

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?

LBG supports the centralised co-ordination of E&A through a central agency in order to pool resources and ensure better quality, more targeted and consistent messages across the industry to multiple consumer groups.

The most critical challenge is ensuring the campaign is delivered within the necessary time frame to be of value. This initiative needs strong and clear leadership with proven project management skills of a similar task with complex stakeholders in a timely manner. LBG recommends that the PSF also considers others aside from trade bodies. The Government has had success in this kind of complex initiative, and so should be considered alongside trade and industry bodies such as the Financial Fraud Action UK (FFA UK) or the British Bankers Association. We particularly note the role played by Digital UK – a not-for-profit organisation established and funded by the broadcasting industry in coordinating and communicating digital switch over to the UK public. LBG can provide details of Government stakeholders with proven expertise in this area should the PSF find this helpful.

Furthermore the insight of fraud authorities, public sector organisations and other government departments such as the Home Office which have established track records delivering these types of campaign and thus their insight and knowledge should be leveraged.

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.

LBG supports the proposal to establish guidelines for identity verification (ID&V), authentication and risk assessment as it will streamline processes for customers and make it easier for them to do business with PSPs. For the reasons set out below, LBG would recommend a principles-based approach to the guidance.

In order for appropriate guidelines to be established, we suggest that clear distinction is made between ID&V and authentication and that reference should be made to the Customer Due Diligence requirements set out in the Money Laundering Regulations which provide the framework on how we assess money laundering (including identity verification).

It is essential that these guidelines should be implemented in a way that not only increases security, but reduces friction; guidelines should not unduly complicate the customer experience.

LBG recommends that the guidelines are aligned with ‘strong customer authentication’ under PSD2. The industry needs one direction and one focus, and so alignment with mandated change is crucial to the success of this proposed solution.

LBG notes that a blanket approach could make customers more vulnerable to identity theft and increase the probability of contagion across different PSPs in the event of a successful identity theft. If all ID&V is aligned, when compromised, it can be replicated easily.

It is potentially more onerous for criminals to circumvent from firm to firm across the industry if a slightly different approach is adopted. Criminals learn the keys to open doors and any industry alignment would need to be considered carefully. It is important to recognise that PSPs have different risk appetites and different channels available to them to authenticate customers, for example our risk appetite may require particular customers to go into branch to authenticate themselves, and the guidelines need to permit these differences.

As such, LBG recommends that principles-based guidelines rather than specific guidelines are adopted. For example, the guidelines could recommend Two-Factor Authentication (TFA) is used when accessing accounts or making payments, but not specify which TFA solution is to be implemented. This sort of approach has been successful with card readers whereby industry-wide standards have been established, but dependent on risk appetites, customer bases, channels and controls, not all PSPs use card readers.

As part of the detailed design of this initiative, the PSF should consider how guidelines will be enforced and whether regulatory or legislative change is required to ensure the success of the initiative. Furthermore LBG recommends consideration of the procedures to deal with and recover from circumstances in which security is compromised. It is essential that privacy and security of customer details are central to this initiative and as such a robust risk and recovery management plan is required.

Finally, we welcome that the PSF plans to assess existing initiatives that are focused on developing a National Digital Identity as this may further support the development of the guidelines. The use of unique ID processes such as biometrics that are obtained at AML ID (and achieve a high confidence level of authentication) could aid payments verification and may therefore be worthy of further investigation and consideration.

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?

LBG agrees with the PSF that transaction data sharing between Payment System Operators (PSOs) and PSPs alongside an analytical capability could improve the industry's ability to identify and respond to criminal activity.

Tackling financial crime aligns with our strategy to be the best bank for customers and to Help Britain Prosper, and therefore we support initiatives to achieve this.

The proposal to recommend access to a data repository with a fraud analytics engine requires considerable investment, and there are significant obstacles to overcome in terms of Data Privacy, Security and access controls in order to ensure that the end-result produces benefits for consumers and the industry.

LBG recognises that there are a number of activities underway with similar objectives to this proposed initiative. It is important that the PSF ensures its initiatives are aligned with and complement related activity across the industry to ensure consistency in approach and focus of resource. LBG suggests that the PSF considers work that is already being done on Future Data Sharing Models, on shared analytics in AML, and by FFA UK.

LBG already shares fraud information through a system called FISS, however this is only where there are losses involved as opposed to ‘near misses’ and therefore we encourage the PSF to consider the level of data to be shared alongside the ability to rectify errors. LBG is currently undertaking a proof of concept with VocaLink examining the 18 months’ worth of fraud data to track down 3rd, 4th and 5th generation Money Mules. We expect the results towards the close of Q3 2016 and hope that this will demonstrate the benefit of sharing information across the industry.

We note that the PSF acknowledges further analysis is required to determine the most appropriate solution, and would encourage the PSF to consider a model in which access is available to the national Fraud Intelligence Units, where they could interrogate the data following the receipt of Suspicious Activity Reports (SARs) from PSPs for example.

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

We welcome that the PSF acknowledges that more work needs to be done on establishing the most appropriate solution. We will support the PSF in this work, and have drawn out some areas of focus below. It is important to highlight from the outset that the central data repository may become a target for criminal activity, including cybercrime, in itself. The compromise and exploitation of data is a significant risk and must be the highest priority in the design of this initiative. Security and controls will be of central importance in this, and a key determinate in whether it addresses the identified detriments. We welcome the acknowledgement that cost benefit analysis is required to assess whether the proposed benefits are sufficient for customers and the industry for the level of investment and risk. This will help to determine the most appropriate solution to the identified detriments. As part of this analysis we urge the PSF to work with the PSR to lay down principles on how to allocate costs.

LBG recommends that the PSF carefully consider the entity that will design, build and maintain these facilities. Governance, ownership, access to and control of centrally-housed data and analytic capabilities are vital considerations to ensure that security and privacy are core components of the initiative. Without appropriate governance and controls, centralised stores and capabilities may be insufficiently robust to withstand targeted acts of crime on these facilities. This could undermine the integrity of the payments industry and the broader banking sector

This initiative, along with others in this section of the strategy, involves sending enhanced data such as data files, pictures and remittance information. This creates the potential for malicious data to be transferred. A common mechanism of infecting devices with malware is through the transfer of a file that, when opened, infects the device. This could become a mechanism and a new vector of attack for fraudsters in the future unless there is a way to protect the facilities from malicious files.

It is also important that clear responsibilities and liabilities are established so that in the case of challenge or legal action such as a Court Production Order, it is clear whose responsibility it is to manage the process and fulfil the request. The strategy does not detail how customers or transactions would be profiled (and who would undertake the profiling) or what the outcome would be of such intelligence being shared. To ensure the initiative appropriately addresses the detriments without unintended consequences, careful consideration of the intended outcomes and who will take action following identification of criminal activity is required.

Clear guidelines need to be established from the outset regarding what level of data is to be shared and stored e.g. are 'near misses' shared as well as losses? How is a 'near miss' defined? LBG recognises that the value of this initiative is dependent on the quality of the data that is shared and stored. We acknowledge that there are potential issues when allowing Third Party Provider (TPP) access (as mandated through PSD2, CMA etc.) as this will prevent rich customer data such as IP address, device details, malware details, etc. coming through to our detection systems to make decisions. As such, sharing of this data would be preferable.

Strong controls are required to validate the accuracy, reliability and consistency of the data that is stored, analysed and used. Furthermore security, data privacy, customer consent and controls on access need to be central in the design of this initiative and as such LBG recommends that the PSF and the wider industry consider PCI-DSS standards in the card schemes as a model for protecting data as part of its detailed analysis and design.

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

We believe that this initiative needs full participation from all PSPs to be effective and thus potential regulatory or legislative change may be required for this solution to be universally adopted by all PSPs.

LBG is not clear at this stage whether this initiative is possible under EU Data Privacy regulations (although we note that the EC is proposing to amend the 4th Money laundering directive to create a central registry of bank and payment accounts) and UK legal requirements such as the Data Protection Act (DPA), the Equality Act, the Money Laundering Regulations and other banking regulation and contractual requirements. There are also potential liability issues to consider such as liability of the data repository to PSPs and customers for accuracy and completeness of data. Further, investigation will be required to understand whether PSPs are entitled to rely on the data within the repository without taking further steps.

LBG encourages the PSF to engage with the Government and other regulators (including consideration of any potential non UK regulatory impacts) in order to establish a robust legal framework that would support this initiative whilst ensuring data privacy, security and customer consent is of paramount importance. A clear framework of liability should also be developed, as well as clear guidelines established to ensure all parties are aware of their responsibilities and are able to effectively manage risk, disputes and challenge in a timely manner.

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

LBG supports the PSF's proposals for financial crime intelligence sharing. We note that a number of similar initiatives are either already underway or being proposed (Criminal Finances Bill, Joint Fraud Taskforce and FFA UK activities); any PSF activity will need to be carefully aligned with these.

LBG recognises that there are already tools in place to screen/review adverse media and financial crime related intelligence through closed user groups such as the Credit Industry Fraud Avoidance System (CIFAS) and the Joint Money Laundering Intelligence Taskforce (JMLIT). Whilst the draft strategy recognises that numerous sharing groups already exist, the strategy should align with and complement other data sharing initiatives and ensure there is no unnecessary duplication.

The industry should strive for a less complicated, more aligned data sharing landscape rather than one of increasing complexity whilst ensuring controls and security are heightened.

LBG encourages the PSF to consider alternatives to a centralised repository and a shared analytical capability. The draft strategy does not consider distributed or federated databases; the latter could help to overcome data privacy sensitivities and could potentially have advantages in terms of security.

We encourage the PSF to consider short-term or interim measures that could be instigated more quickly to demonstrate the value of sharing more data without the expense and inevitable time involved in creating a centralised database. For example. It may be beneficial to explore what non-sensitive information could be shared straight away which PSPs and law enforcement agencies could draw on to enrich their internally held sensitive data. Furthermore, the PSF should consider whether a narrow concept with robust controls should be initially employed and built out in stages rather than a 'big bang' approach. We recommend that the PSF consider if other sectors or countries have developed similar initiatives to take learnings from.

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

The solution potentially improves financial inclusion as PSPs would have better intelligence and could therefore say with greater certainty that 'clean individuals' are indeed 'clean'.

Whilst increasing sharing of data will improve the ability of the industry and authorities to fight crime through better intelligence, how the data is leveraged will be pivotal to the success of the initiatives. We encourage the PSF to ensure detailed analysis of the proposed initiative focuses on outcomes and the expected usage of that data by PSPs and authorities.

This initiative will only serve the 'public good' if a clear framework of liability, accountability and customer consent is developed. The framework should incorporate procedures to deal with challenge and dispute particularly around the labelling of customers, and the PSF should consider whether a 'right to reply' is appropriate to ensure customers are not unfairly excluded or labelled.

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

We welcome the acknowledgement of several barriers to making this initiative happen including regulatory change, data privacy, data protection, the Proceeds of Crime Act, the Criminal Finances Bill 2016 and issues such as banker's duty of confidentiality.

We note in addition that there may be further legal challenge associated with such an initiative, including from excluded or included customers. Security is a key risk to address, and cyber threat is a prominent part of this. There are also risks around privacy, cost, and the dependency on funding for the initiative alongside legal risks.

LBG recognises that stakeholders and the wider public will need to support the initiative. A governing body (addressed in more detail below) will be key to communicating the initiative and gaining support. We welcome that the PSF acknowledges that further cost-benefit analysis is required and encourage as part of this that the PSF considers if it is possible to quantify the benefits and track the outcomes to assess its relative success.

The risk that individuals can be wrongly labelled is significant. Robust controls need to be in place to validate data being received to be stored and upon extracting data to be acted upon. Furthermore, the issue of customer consent needs to be addressed in tandem with the risk of 'tipping off' and will also need to comply with the requirements of the Data Protection Act in relation to processing of sensitive customer data. Furthermore, robust guidelines need to be established to ensure consistency in the use of data across the industry to ensure a consistent customer experience is achieved regardless of PSP. Caution is required in relation to the use of SARs. Whilst including SARs data could be seen to encourage a proactive and pre-emptive approach to managing financial crime, it is a concern that customers could be excluded and wrongly labelled on the basis of suspicions rather than evidence. SARs may be raised for suspicious behaviour, but this does not necessarily mean individuals are guilty of an illegal act.

In addition, protections would be required for colleagues/ reporters who are reporting suspicious activities to ensure their safety is not compromised; for instance, how will data be de-sensitised to ensure the reporter has suitable anonymity?

It could be expected that labelling individuals may result in legal challenge; robust guidelines should be established, outlining how this would be addressed to ensure resolution of consumer disputes and complaints is achieved in a timely manner. Furthermore it is important to consider whether individuals should have a 'right to reply' or contest the data held about them. If customers have a right to access this data, there is a significant risk of 'tipping off' if suspicions as well as evidence, charges and convictions are shared and stored. As such, if the PSF considers a right to reply is appropriate, there needs to be a robust mechanism through which to do this, but with careful consideration of the associated risks of 'tipping off.'

It should be considered that perpetrators could also be victims e.g. romance scams, and therefore be penalised further. The strategy needs to carefully consider the specific actions that would be taken against perpetrators and consider the scenarios under which decisions may not always be straight-forward.

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

At this stage of the analysis, we are unable to determine if the benefits of financial crime intelligence sharing outweigh the potential risks created. We will be in a better position to assess this once the detailed design of the initiative and thorough cost and benefit analysis has been completed.

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 would expect that legal and regulatory issues will arise as the strategy matures and will be considered under a separate legal workstream.

Until the finer details of the solution are developed, we cannot be sure what legislative changes are required, if any. We suggest that any review examines the strategy collectively to capture any synergies and overlap. For example, issues regarding liability occur in more than solution within the strategy and will require a consistent legal response.

Potential legal issues include, but are not limited to, data protection and privacy; transferring data; cyber security; liability frameworks between PSPs, and between a PSP and the customer; liability of a central data repository to a customer and a PSP if data is damaged, stolen, or lost; requirements for PSPs to provide up-to-date information; requirements for dealing with cases of fraud such as reimbursing the customer; sharing data and the risk of 'tipping off'; and overall, whether these solutions are going to be mandatory and therefore need legislation in support of them.

There is a series of current regulations that should be considered, such as:

- The Data Protection Act 1998
- Payment Service Directive 2009
- EU Wire Transfer Directive
- Third EU Money Laundering Directive
- Money Laundering Regulations 2007
- FCA guidance on Financial Crime.

Future regulation to be considered includes, but is not limited to, PSD2 and the corresponding Regulatory Technical Standards on Strong Customer Authentication and Secure Communication from the EBA, Fourth Money Laundering Directive, General Data Protection Regulation and the EU eiDAS Regulation.

We are pleased that the PSF recognises the complex legal position and issues that can arise in combatting financial crime. This list is indicative of areas where careful consideration will be required to ensure that all participants receive full legal protection against any unforeseen circumstances.

In order to understand the cost of delivering this legislative change, we suggest that the PSF account for this within the cost and benefit analysis. The PSF should consider what, if any, impacts legislation may have upon implementation and sequencing during the initial design phase. An additional element the PSF should consider is the UK's decision to leave the EU, and the impact that will have upon EU regulation that currently, or in the future will, affect the solutions.

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

Strong governance is essential for the security and integrity of this initiative. Point 6.19 in the draft strategy outlines that the solution will generate common products for the industry on trends, typologies and files about criminal activity. We encourage the PSF to provide clarity as to who or what entity would generate these products and align to other initiatives (e.g. Joint Money Laundering Intelligence Taskforce); and would question whether the PSF envisage a standing team to deliver such services?

Governance structures should cover the arrangements for funding, developing, implementing and running the solution. In addition, clarity is required as to who will ultimately own the data and be responsible and liable for managing access, controlling, monitoring and securing data. Sufficient controls also need to be in place to manage the accuracy and retention of data. This governing body will be crucial to ensuring the anticipated outcomes are delivered whilst ensuring the protection, privacy and security of customer data. LBG agrees that expert groups need to be involved in the establishment of this governance, and suggests that the PSF should consider the role of Government departments in this process. We recognise that strong commercial, competition and exploitation controls should be established to prevent improper use of the data.

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

LBG supports the proposal for the creation of a Central KYC Utility as we believe this will benefit the payments industry and our customers. Customers are frequently asked to provide the same data to numerous providers, so a Central KYC Utility has the potential to enhance the ability (providing of course that the integrity of the data is robust) to share data for both AML and improve on boarding / switching of accounts between banks.

Further, there may be wider application of a central utility outside of the payments industry that could be considered; for instance in insurance or to support the Government digital identity initiative.

We believe that it is important when designing and building this initiative that the customer proposition is kept at the heart of decision-making. We would welcome further analysis on what the initiative is intended to achieve for customers as well as the business case; this would help shape the design, ensuring it is outcomes-focused.

However as part of the detailed design of the initiative the PSF needs to consider whether contributing to and using this facility will be mandatory or optional. Full adoption is required across the industry for the Utility to be effective and thus regulatory or legislative change may be required. As highlighted in our response to previous questions, engagement with the Government and other regulators is required to ensure an appropriate legal and regulatory framework is in place to ensure security and protection for consumers. Legislative or regulatory change may be required (such as in data privacy, data protection, human rights and equality laws) to enable the Utility to be developed and used as proposed.

With the General Data Protection Regulation coming into force in May 2018, the Utility should reflect the concept of data privacy by design, promoting privacy and data protection compliance from the start.

Considerable attention should be given to establishing appropriate governance and controls on security, privacy and access as with the proposals in questions 7 and 8. This should include who will build and maintain the Utility, control and validate access, own and secure the data, and respond to legal challenge. Effective controls need to be established to ensure the quality of data sustains the integrity of the Utility and ensures the intended benefits for PSPs and consumers are realised. PSPs need to be able to use the data in a way that is acceptable within their own risk appetite, so controls, guidelines and procedures should not restrict this. Robust procedures need to be established to deal with the eventuality that data should be leaked. In such a scenario, the risk of an individual being the victim of identity theft is increased, and as such, clear definition of responsibility and liability is required. Procedures should include the scenario in which a firm is denied access, considering how this will be managed and controlled, and the repercussions for PSPs, the industry and ultimately consumers.

LBG agrees that there is a significant risk of inaccuracies being captured and passed on to the next financial services provider. The draft strategy suggests a form of 'corporate identity' is developed; LBG questions whether the Legal Entity Identifier (LEI) initiative fulfils or could fulfil this function. As is a common theme throughout our response to the draft strategy, it is essential that this initiative is aligned and interacts with existing initiatives rather than increasing the complexity of the landscape for PSPs and consumers.

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

LBG recognises that the world has moved on significantly since the creation of the HMT sanctions lists and believes that a full review ought to take place. There are a number of Specially Designated Nationals (SDNs) specified on the list for whom inadequate data is held to enable a positive and meaningful identification. The risks associated with not excluding a sanctioned individual or entities are significant, and as such we welcome the proposal to adopt the new Advanced Sanctions Data Model. Similarly, ensuring the inclusion of 'clean individuals' is crucial for customers, and improving the ability to identify sanctioned bodies with greater certainty can only support this.

As part of any review, consideration needs to be given to how a co-ordinated approach can be achieved between the UN, EU and the UK; we understand that the EU is also working on enhancing its sanctions database. Consistency in format is also important and will lead to more efficient screening and investigation.

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.

LBG welcomes the ongoing industry initiative to provide access to sort codes to promote improved access for PSPs to the domestic retail clearings. As sort codes affect all participants in the payments industry, we support the collaborative industry approach, which has the expertise to implement changes to bank reference data.

We note that this initiative is already being implemented by the industry and support the work that the Interbank System Operators Coordination Committee is undertaking. We believe that this initiative will be particularly beneficial to Agency and other banks as well as PSPs, and will therefore help to improve competition and support innovation.

We recommend that the development should be subject to a full technical evaluation to ensure there are no unintended impacts, including but not limited to modulus checking. Furthermore, the Future Clearing Model (FCM) will make reliance on the lead sort code pair for sorting and routing paper cheques redundant, and this will provide further flexibility and choice for PSPs.

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

LBG welcomes the BoE’s commitment to extend RTGS to support increased competition and innovation, supported by measures to safeguard resilience by holding settlement account holders to the appropriate standards, by removing legislative barriers, and by designing the right account arrangements for new entrants. We support the BoE’s strong defence of its oversight role to ensure systems are robust, resilient and reliable, and in particular, the Governor’s announcement that settlement account holders will be held to the appropriate standards by designing the right account arrangements for new entrants. We welcome competition and agree that there should be a level playing field between these new account holders and existing account holders.

We note that Access to Settlement Accounts is the responsibility of the BoE and is being progressed through the Bank’s Real Time Gross Settlement (RTGS) Strategy Review. It has been publically stated that the BoE intends to extend direct access to RTGS to all categories of PSPs and we note that the BoE intends to consult between September and November 2016. It will therefore be important for the PSF to work with the BoE to ensure alignment between the RTGS Strategy review and the final PSF strategy.

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

LBG agrees that the ongoing industry initiatives to allow Aggregator Access to Faster Payments Scheme (FPS) and Bacs will promote improved access for PSPs to the domestic retail clearings. As we have highlighted above, we support the PSF efforts to provide simpler access and to promote competition and innovation. It is also vital that aggregators and their customers are subject to appropriate resilience and compliance standards in order to maintain the integrity of the systems. FPS has made good progress on the introduction of an aggregator access model and we suggest that the PSF build on the lessons learned by FPS in the study and design phase for this element of the strategy.

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 believe the development of the SPP will provide the opportunity for more competitive and commercial access solutions.

Whilst we support the overarching principle of providing easy and cost effective access to the domestic clearings, consideration is required to the potential impact on aggregators if the decision is taken to proceed with the SPP. We do not support any unnecessary investment in the existing schemes, if these are to become obsolete, whilst a new platform is being developed, and therefore believe that this may be a similar disincentive to aggregators to invest in solutions aimed towards the existing UK infrastructure.

It will also be important that consideration is given to aggregators and other competitive access solutions during the study and design phases of the SPP.

We acknowledge that work is continuing in parallel to define the cost benefit analysis and suggest that the Aggregator Access service should be reassessed once a decision has been taken on whether or not to implement SPP to review the impact on its customers.

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.

LBG supports this proposal as Common Payment System Operator (PSO) Participation models have the potential to support new entrants and address the perceived criticism that membership criteria of the payment schemes are opaque. Additionally, common PSO participation models will provide the standards, transparency and governance that allow for a shared level of understanding that would benefit both existing and new entrants. Delivering a common participation model and rules will be potentially easier to achieve under a single entity, and the PSF should consider if a single PSO and a single standard are dependencies for a harmonised rulebook.

To ensure a seamless transition, we recommend that the PSF consider whether a new Operator should be established to set the rules and manage the new SPP. The PSF should also consider how a common PSO participation model and rulebook should be taken forward, independent to establishing a single entity and SPP. The PSF should also consider the impact of the BoE requiring the PSOs to change their oversight approach from 'trust' to 'verify', and the additional complexity this will provide for new entrants seeking to join the payment schemes.

Whilst nominally a stand-alone initiative, this may be easier to deliver once the PSOs are consolidated, as outlined in 7.15 and 7.16 of the PSF strategy document.

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

In principle, LBG supports the proposals to simplify PSO governance by consolidating the three interbank PSOs: Bacs, Faster Payments and C&CCC. LBG considers that delivery of this simplified model may be a key enabler to the successful delivery of the mid-term and strategic change elements of the PSF strategy and also to avoid duplication and inefficiency. However, we would suggest that the approach be kept under review once the decision on the future operation of the schemes has been made, in particular in relation to the expected end-date of the schemes and any impact on transitional costs and benefits of consolidation.

As a priority we recommend consultation with the PSOs, the PSR and BoE to determine the most effective approach to achieve any potential consolidation. To assist with this deliberation, we have captured three broad options;

1. Establish a new entity to govern the SPP (and close existing entities when migration to SPP completes).
2. Establish a 'TopCo' above the existing entities.
3. Merge the existing entities.

We believe that work needs to be undertaken in parallel to ensure that any legal or regulatory issues are clearly understood and a path to resolving such issues established.

In parallel to the foundation activities outlined in 5(a) to 5(h) included within our introductory remarks, the PSF and the industry must agree the delivery body and supporting governance that will work with the PSF to deliver the final PSF strategy. This delivery body must be identified early in the design and study phase of the strategy to ensure it understands fully the key drivers and analysis that underpins the components taken forward to the execution phase of the strategy.

It will be essential that the delivery body has the expertise, capability, governance structure and authority to act, to drive forward the implementation of the strategy. The Delivery body must have the support of the PSR, other regulators and HM Treasury.

We believe that there are two options to provide this delivery capability:

1. To design and incorporate a world-class delivery capability into the consolidated Retail Payment System Operator entity proposed in the PSF strategy; or

2. To expand the scope of the Implementation Entity currently being created by the industry to deliver the Open banking remedies mandated by the CMA's Retail Banking market investigation.

It will be important that the PSF working with the PSR, other regulators and HM Treasury weighs up the pros and cons of these two options before making a final decision.

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

Not applicable.

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.

LBG agrees that a move to common standards could potentially deliver benefits to service-users and the UK as a whole. The adoption of ISO20022 standard by the UK payment schemes has long being suggested as a key step to develop innovation and competition. However, the cost and timescales of UK migration would be substantial.

There is a clear dependency on SPP. If SPP is determined to be the most effective solution to implement the PSF strategy – and a number of benefits and future used cases are predicated on the new platform - then we do not believe that standards should be changed on existing payment systems; costs would be prohibitive with limited benefits. In addition, any adoption should be aligned to other regulatory initiatives; the ongoing BoE RTGS strategy will provide direct access to RTGS to non-Bank PSPs; the potential for new entrants to incur substantial costs and effort to ensure direct connections only having to throw away and commit to migration to a new standard should be avoided.

Cost benefit analysis is critical in determining whether the industry should migrate to a new standard. LBG has supported the Payments Council's (now Payments UK) strategy to use the ISO20022 standard as the de facto standard for any new developments, and this was successfully utilised for Cash ISA Transfers, CASS, and will be the standard for FCM.

However, the benefits for adoption by existing payments schemes on existing infrastructure is less clear, even assuming that these are not replaced by SPP. It will be an enabler of some of the benefits of other PSF initiatives, but the costs will be significant. LBG's initial, high level estimate is estimated that industry costs would be in the region of £500m - £700m to migrate the existing UK payments infrastructure to a new standard.

The adoption of international standards for existing infrastructure would need to be carefully planned and executed as a cross-industry programme, requiring significant testing and a change freeze for a period before and after implementation. International comparators (e.g. Canada) suggest this could be at least a 7-year programme if not more. These are also important factors for inclusion in the business case.

LBG notes that these issues are under consideration by the PSR in its Infrastructure Market Review. LBG recommends that the PSF engages with the PSR to ensure that its proposals are consistent with regulatory requirements.

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

LBG strongly supports UK and international efforts to fight financial crime/money laundering and we understand the intention of the PSF is to clarify and reduce the risk of unintended consequences of regulation rather than reducing protection from financial crime.

We agree that clarifying responsibilities in relation to indirect access could help indirect access clients and providers to meet their obligations and support a healthy indirect access market and we therefore welcome any proposals that will help clarify liabilities.

While welcoming the development of industry guidance, we believe the PSF should go further in working with regulators and Government to provide clarity in the underlying regulations where necessary.

In addition, given that much of UK regulation is driven by international cooperation and agreements, and that the services provided by UK financial institutions are also directly or indirectly affected by the application of US and other regulation, LBG suggests that the PSF should recommend that UK regulators and Government work to bring this issue further up the international agenda.

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

Any guidance can only operate within the boundaries of legislation and regulatory requirements. Where there is any lack of clarity or inconsistency in UK or international requirements, there is a risk that the guidance may not be able adequately to resolve these concerns and that further engagement could be required at the UK Government or international level.

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

LBG is broadly supportive of proposals to establish a multi-stakeholder group to review issues relating to access and financial crime. The working group established to address the Improving Trust in Payments workstream would appear to be well placed to act in concert with the PSR to review the issues and consider potential solutions.

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?

LBG strongly supports the proposal for a coordinated approach to the various types of APIs that will be necessary to support the use cases proposed by the CMA, PSD2, HMT Open Banking and now likely to be required to support elements of the PSF strategy.

As noted in our introductory remarks we also believe that the PSF strategy presents an opportunity for the UK to lead the way on the driving Open Banking and PSD2 by ensuring that these deliver good outcomes for service-users underpinned by authentication and liability models that both protect customers and provide a frictionless experience.

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?

When considering the simplicity of delivery and the customer experience, we believe that on balance, it is better to have a coordinated approach to APIs that will support the changes under the CMA, PSD2, Open Banking, and potentially to support elements of the PSF Strategy. Without a coordinated approach, we believe that the variation in standards may result in a variation of functionality that could add confusion for a customer's interaction with API technology.

There are a number of benefits we have identified from taking a coordinated approach, such as reduced costs for delivery, better maintenance of the core API gateway, to facilitate the management of the new PSP registry which will be developed under PSD2, and to allow for interoperability between the API standards being proposed at different levels of the payments process.

The coordinated approach also lends itself to the adoption of standards, such as the use of ISO 20022, and common internet standards for product and payment information. Such API standards would benefit from uniform governance, with one set of rules and attestations for PSPs or TPPs that will have access to these APIs. The benefit of reusing common security standards, we suspect, will enable the PSF to focus on the added value of consumer services. We would also encourage the PSF to consider liability, fraud and data privacy.

When considering the potential disadvantages of this approach, we have identified the following, although we believe that these can be managed;

1. There is risk of stifling innovation if the standards are too prescriptive and not commercial. As such, the standards will need to be created with room to innovate.
2. The approach may not be effective unless it obtains full engagement with all PSPs, the Fintech community and with vendors of products and services.

We also believe that iteration of 'test and learn' with the FinTech community to provide feedback on what is working and what does not work will be important in coordinating an approach.

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

Implementation should be considered in depth during the design phase, and from experience with other schemes and industry initiatives, 18 to 24 months is a reasonable period of time to allow for development. We believe that there are opportunities for early 'Test and Learn' to minimise risk and increase adoption.

It is clear the API design phase has dependencies on the SPP design, and that both API and SPP have a dependency on the co-ordinated and complementary delivery of the PSD2 and CMA Open Banking APIs. This should be taken into account when outlining the implementation approach. We believe that the optimal sequencing is as follows:

1. CMA Phase 1 (Open Data)
2. Confirmation of Payee
3. PSD2 AISP, Open Banking Closed Data
4. PSD2 PISP
5. SPP – this assumes parallel operation to the existing schemes
6. Request To Pay on SPP
7. Enhanced Data on SPP
8. Payment Assurance on SPP
9. Decommissioning of existing schemes

Furthermore, as the APIs are proposed to be an architectural framework requiring end to end changes resulting in a change in the customer experience with PSPs, we believe that there will be a requirement to plan the introduction of new features to the market place. This plan will have to allow for customer education. This plan must also consider that continued changes to existing schemes in the interim may create market confusion.

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

There are three questions than need to be considered during the study and design phase before LBG can agree or otherwise with the proposal to create a Simplified Delivery Mechanism.

1. Should the PSF initiatives be delivered on the existing UK payments infrastructure? This will require detailed analysis of the pros and cons of delivering the initiatives on existing infrastructure in comparison to delivering the initiatives at the same time as SPP or as an overlay service on SPP and should form the core of the business case for SPP. This is an important consideration as we strongly believe that the PSF strategy needs to be delivered on SPP or existing infrastructure but not both.

2. If it is concluded to proceed with SPP, detailed analysis is required to determine whether SPP should be delivered on a centralised or decentralised model?

3. If SPP progresses, which of the PSF initiatives would be affected, and what are the costs and benefits of implementing them on a transitional basis on the existing infrastructure rather than on the SPP?

If SPP progresses there are two key pieces of work that the PSF needs to undertake in conjunction with the PSR and other regulators; 1) to agree a framework against which to evaluate all future industry change to determine if the change should be deployed to the existing infrastructure, built into the delivery scope of SPP or held over to implement once SPP is live and; 2) to set an end date for the decommissioning of the existing infrastructure. The latter will be a key factor in the costs benefit analysis of SPP as we do not believe it will be economically viable to maintain both (existing infrastructure and SPP).

The SPP will require some form of operability across PSPs. There needs to be, as standard, an interface between parties and the option to have a request message with a payment fulfilment or just a payment fulfilment alone. In effect, we must be able to transact and process ‘push’ and ‘pull’ payments.

The PSF strategy document recommends that the SPP design is developed further over a two-year time period from the publication of the final PSF strategy later this year. Given the magnitude, importance and far reaching impact of SPP, we support this as a sensible and reasonable time period to undertake this work and believe that an open-minded approach is essential given the range of alternatives and opportunities to improve outcomes for users.

We agree with the PSF that more work needs to be done to understand the costs and benefits of SPP. Costs are likely to be significant for the industry and potentially similar to the range across the implementation of Faster Payments, the Current Account Switch Service and the Future Clearing Model. It will therefore be important to compare the business case for SPP to the costs and benefits of upgrading existing legacy systems to incorporate ISO2002, RTP and Enhanced Data. We recognise that it would be too costly for some payment schemes such as BACS to upgrade to ISO20022 and the long term viability of this scheme would have to be investigated.

It will be important for the PSF to engage with the BoE as it complete its RTGS strategic review to ensure alignment and avoid duplication if SPP remains the centrepiece of the PSF strategy. Furthermore, the industry should work towards the new SPP having one settlement method to be agreed with the BoE. It should also incorporate the requirements set out in PSD2, CMA’s Open Banking Policy and other regulation.

It will also be important if it is agreed to proceed with SPP that the PSF works with the PSR, other regulators and the Government to agree the terms of a ‘change freeze’ on the current industry infrastructure to avoid ‘throw away’ development and adding complexity and risk to the delivery of the PSF strategy.

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?

Strong governance arrangements for the SPP should be constructed (whether this is new or using existing mechanisms). We believe the SPP should be a single entity model combining all of the payment schemes with one set of rules, attestation and risks etc. The new governance model should also manage the strategy and timing of the decommissioning of the legacy systems.

We believe that there are two options open to the PSF to provide this delivery capability:

1. To design and incorporate a world-class delivery capability into the consolidated Payment System Operator entity proposed in the PSF strategy; or

2. To expand the scope of the Implementation Entity currently being put in place by the industry to deliver the Open Banking remedies mandated by the CMA's Retail banking market investigation.

It will be important that the PSF working with the PSR, other regulators (particularly the CMA if option 2 is preferred) and HM Treasury weighs up the pros and cons of these two options before making a final decision.

LBG would encourage the PSF to decide which option to adopt as a matter of priority.

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

At the same time as the PSF will be completing the study and design activities for SPP, the UK will be implementing cheque imaging based on a new central infrastructure that utilises modern international standards, is scalable and appears to have the capability to support all current UK payment services and the overlay services proposed in the PSF strategy. We would therefore encourage the PSF to investigate whether or not the significant investment in this infrastructure could be leveraged to provide the core of SPP.

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?

Further detailed analysis is required to determine whether SPP should be delivered on a centralised or decentralised model and until this is completed it is not possible for LBG to state a preference one way or another.

Careful consideration needs to be given to two factors as part of this further analysis:

1. We are not aware of any other country that has successfully deployed a distributed architecture model to support its core payment infrastructure requirements; and

2. The significant advancement in distributed technology and associated capability in recent years.

The SPP distributed architecture could be similar to the Ripple private cloud; the nature of the connectivity between peers has not been defined other than all parties are registered. This also the model for current internet and corporate payment initiation.

For larger users distributed models may provide better control of capital costs, rather than a fee based model. Distributed models may also allow more flexibility for innovation, without the need for central management and cooperation from all members.

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

LBG supports that work should continue to the study and design phase in relation to the new payments infrastructure as this will be essential to identify costs, benefits, risks, dependencies and timescales and ultimately to determine whether or not there is a business case to proceed. This will also determine the key impacts of progressing to the next phase and highlight any overlap with existing developments or resource contention.

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?

LBG agrees that changes need to be made to elements of payment systems in the UK to support more competition and agility. As noted previously, SPP as the centrepiece of the PSF strategy is a major change and needs further consideration during the study and design phases of the strategy to ensure it will deliver the expected outcomes and is underpinned by a robust business case and delivery plan. This will need to be balanced against the fact that the existing infrastructure is secure, resilient and delivering millions of payments successfully every day for UK consumers and businesses, while supporting the development of innovative services.

To support the drive towards open access and competition, the needs of all users should be considered at the requirement stages, and these should also reference the work undertaken by the CMA incorporating their full remedies into the SPP implementation.

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

The initial work undertaken on SPP as part of the draft PSF strategy suggests that it will deliver the benefits outlined; however it is important that this is validated and confirmed during the study and design phase of SPP.

We support the PSF's view that the time line to implementation is significant, which we believe will be approximately seven to ten years, and to expedite this the PSF should, as part of the study phase, review the change portfolio of the schemes and potentially any corresponding impact on individual PSPs' system upgrades to recommend what initiatives should stop or continue.

LBG would also wish to review each element of the proposed architecture, considering what we have 'in house' and could develop today before committing to incorporating them into the initial design of the SPP. Our expectations are that this would be assessed as part of the two year study period.

At the same time as the PSF will be completing the study and design activities for SPP, the UK will be implementing cheque imaging based on a new central infrastructure that utilises modern international standards, is scalable and appears to have the capability to support all current UK payment services and the overlay services proposed in the PSF strategy. We would therefore encourage the PSF to investigate whether or not the significant investment in this infrastructure can be leveraged to provide the core of SPP. The ability to do 'push' and 'pull' payments via RTP in FPS may also be relevant.

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?

As noted in our introductory remarks, in responding to the PSF consultation, we have grouped the initiatives into the following three broad categories:

- Proposals that the industry has been working for that are so obviously right for customers and the UK. LBG strongly supports that the PSF should use the platform and momentum it has created to get on with these as quickly as possible. This includes customer awareness and education on fraud and financial crime threats; the adoption of the Advanced Sanctions Data model in the UK; the development of a standard focused on how PSPs verify the identities of their customers; enhancing the availability of sort codes for PSPs; better access to settlement account options proposed by BoE; enabling and developing aggregator models to broaden the range of connectivity options available to PSPs; and the creation of a multi-stakeholder group with the objective of clarifying liability in indirect access models.

- LBG also strongly supports the proposals to simplify Payment System Operator Governance and as part of this to deliver a common participation model and rules making it easier for PSPs to join and participate in UK payments. LBG considers that delivery of this simplified model will be a key enabler to the successful delivery of the mid-term and strategic change elements of the PSF strategy.

- Proposals that logically form a core part of or will be developed as an overlay service on the centrepiece of the strategy to design and develop SPP. This includes moving the UK to modern payment messaging standards; payment transaction data sharing and data analytics; Know Your Customer data sharing; financial crime intelligence sharing; and the overlay services of Request to Pay and Assurance Data (Confirmation of Payee). The SPP proposal is rightly ambitious and we welcome that the PSF has acknowledged that more work needs to done to complete study and design activity on these elements of the strategy.

These categories broadly align with the PSF short-term, medium-term and strategic change categories described in the consultation document.

We also believe that the PSF strategy presents an opportunity for the UK to lead the way on driving Open Banking and PSD2 by ensuring that these deliver good outcomes for service-users underpinned by authentication and liability models that both protect customers and provide a frictionless experience.

When determining the overall plan and sequencing for the final strategy, it will be essential for the PSF to take account of the full spectrum of Legal, Regulatory and Mandatory (LRM) changes affecting the UK payments industry over the period of the PSF strategy. The majority of these LRM changes are described in section 9.13 of the consultation document and we would ask the PSF to work with the industry to ensure this list is updated as part of the prioritisation and sequencing phase of the strategy (including the outcomes from the PSR Infrastructure Market Review).

Finally, at the same time as the PSF strategy was being finalised the UK voted to leave the European Union. The uncertainty and inevitable change required to maintain continuity will use up resources and change capacity across the industry when the current regulatory change programme is already significant, and accordingly, we welcome that the PSF has acknowledged in 3.8 that it will look again at timelines and priorities in light of the UK decision to leave the EU.

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

Not applicable, LBG agrees in principle with the proposed approach.

QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

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

LBG is broadly supportive of the implementation approach described in section 10 to the consultation document.

As next steps, we would support the following activities being progressed in parallel before publication of the final PSF strategy later this year.

- To complete the cost benefit analysis described in section 10 of the consultation document.
- To complete the detailed analysis necessary to finalise the prioritisation and sequencing of the individual initiatives in the PSF strategy. This will include identifying dependencies across the initiatives and with the wider industry change agenda.
- To establish a delivery body and approach with appropriate governance and accountability to deliver the PSF strategy.
- To complete work on the other foundation activities we have described in point 9 of our introductory remarks.

We support that initiatives underway should continue to be progressed under existing governance until such time as the Implementation Entity for the wider strategy is agreed and set up.

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

It will be essential the PSF obtains the support of the PSR and the Payments Community for the final PSF strategy.

As noted in our introductory remarks, we believe that there are two options open to the PSF to oversee and provide this delivery capability:

1. To design and incorporate a world-class delivery capability into the consolidated Payment System Operator entity proposed in the PSF strategy; or
2. To expand the scope of the Implementation Entity currently being put in place by the industry to deliver the Open banking remedies mandated by the CMA's Retail banking market investigation. It will be important that the PSF working with the PSR, other regulators (particularly the CMA if option 2 is preferred) and HM Treasury weighs up the pros and cons of these two options before making a final decision.

LBG would urge the PSF to decide which option to adopt as a matter of priority.

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

LBG notes that the draft strategy does not specify how the proposals will be funded. This is a critically important element of the strategy, because the funding model can have significant implications for the efficiency of the system and its users' incentives, and for competition and equity between users. Funding will be a prerequisite for delivering (and, in some cases, designing) the strategy, and therefore should be given appropriate priority. In order to develop an economically sound model, and reduce the scope for delay in reaching agreement on funding among industry stakeholders, we would urge the PSF to engage with the PSR to determine economically sound principles on how to allocate costs (build costs and running costs) of the system. We believe that one of these principles should be that the stakeholders that benefit from the changes should share in these costs.

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?

We broadly agree with the PSF's approach to quantifying the cost and benefit of the proposed solutions and offer our support to the PSF to complete its analysis. We also recognise that the analysis at this stage is high level, given that the detail of the strategy is under development. That means that the strategy may need to adapt once it moves to design phase and the cost benefit analysis should be kept under review.

We also agree with the PSF's approach in considering the counter-factual. The payments industry is not static, and therefore the PSF is assessing a choice between various, alternative approaches in delivering improvements to end users. It is important that this counter-factual considers and captures industry developments as they arise.

Given that the implementation of the strategy will impact PSPs' existing investment plans, we recommend that the PSF also request information from PSPs about their internal developments and the effects the strategy will have upon them, so that any potential opportunity costs can be factored into the analysis.

As well as analysing the costs and benefits of each solution, it would also be worth considering where the benefits of one solution may be magnified if implemented together with other solutions; where the whole may be greater than the sum of its parts.

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

As mentioned in 23(a), we are supportive of the PSF's approach, and we recognise that the analysis at this stage is high level given that the detail of the strategy is under development. That means that the cost benefit drivers may need to adapt once the strategy moves to design phase, and therefore, the cost benefit analysis should be kept under review. Particularly, we would urge the PSF to articulate in the analysis;

- the central drivers of costs, distinguished from the costs for individual participants
- recognise the ongoing running and maintenance costs
- In considering the drivers, we also recommend that the PSF consider, in addition to likely costs and benefits, any potential effects on risk and whether proposals may introduce new risks or mitigate risks in the current payment systems.

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

In the absence of more details regarding the solutions we have considered at a high level some of the costs to Lloyds Banking Group of the PSF's Strategy. We would be happy to share these with the PSF (or those conducting the Cost Benefit Analysis) separately subject to the usual assurances around aggregation and anonymity.

We encourage the PSF to consider the end date of existing schemes within the cost benefit analysis. It is expected that changes to existing schemes will be kept to mandatory operational activities as introducing multiple operational models will increase risk and cost of delivery. As mentioned in 23 (a), we would encourage analysis to consider the future costs of scheme developments that are no longer required, depending on the end date decided.

Finally, it is important that the PSF facilitate industry 'buy in' with the cost and benefit analysis. Throughout the development of the solutions and in deciding the purchase choices of implementation, we recommend that the industry is well engaged in providing specification, testing and operational monitoring.