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

Respondents basic details

Consultation title:	Being Responsive to End User Needs
Name of respondent:	
Contact details/job title:	
Representing (self or organisation/s):	Nationwide Building Society
Email:	
Address:	

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parts of it to be published or referred to in this way you need to separate out those parts and mark them clearly ''Not for publication'.

Please check/tick this box if you do not want all or parts of your response to be published:

Declaration

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with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.

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

Nationwide Building Society Responses

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?

As a member focused organisation, Nationwide welcomes the inclusive nature of the PSF's approach to strategy development. To offer customers financial control, assurance and capability in their payments is important and the control and assurance needs, described in Section 5 of the consultation, are consistent with those uncovered in the 2015 Payments Council (now Payments UK) research conducted for its World Class Payments Project.

However, a theme which occurs throughout the consultation is the end-user's need for simplicity. This features in terms of the Design Principles (discussed below); moving to all services providing real-time, or near real time transfer of value in the 'new architecture for payments' and the simplifying access to payments systems solutions. The customer's need for simple payment options that require minimum effort to perform and that offer convenience, value, consistency and security should be stated.

Nationwide has the following comments on the articulation of the end user needs:

- It would be worth highlighting in the sections relating to 'Greater Assurance' that customers wish to have a mechanism by which to be assured that a payment will reach the intended payee in advance of initiating and sending the payment.
- Detriments 1 – 8, in Appendix 2, are listed as needs or requirements. The Financial Capability detriments should be reassessed and stated similarly to clearly show the underlying need.

The detriments as stated focus on government, corporate and consumer use of interbank payments including Direct Debits, Faster Payments and cheques, Nationwide would encourage future studies to consider the needs of charities and the use of cards.

Card related potential detriments include difficulties with recurring payments which, although safeguarded by regulatory directives on refunds, can also be unexpected. There is also potential confusion caused by the delay between the authorisation of a card transaction and its withdrawal from a customer's account and increasing fraud levels. In a recent Payments UK report, cards accounted for 62% of electronic payments (excluding cash, cheques and CHAPS) in the UK in 2015 (UK Payments Markets 2016). This is a theme we have raised in dialogue with the PSR and it reflects the strength of use of cards among payments, as well as the value of investment and expenditure on card services in the commercial profile of PSPs.

As well as perceived detriments, strategic development of certain payment services may be informed by the advantages associated with their alternatives. For example, some card payments are attractive to consumers because of their associated purchase protection. The right to protection under the UK's Consumer Credit Act is an example. The draft Strategy's focus on electronic interbank payments has not as yet taken into account these consumer elements.

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

The concept of Principles which ensure future collaborative payments schemes are simple to use and avoid end user detriments is to be supported. To build on these, Nationwide has the following comments:

- While demonstrably being supportive of initiatives to help vulnerable customers, Nationwide believes that the needs of all end users should be put at the heart of collaborative efforts to develop UK payment services. Therefore, the Principles should also encourage the consideration of basic payments needs (e.g. clarity on who you are paying, who is paying you or asking you to pay them) in any future collaborative development.
- To ensure that services gain the critical market penetration necessary to enable a consistent customer experience at point of interaction, the Principles should encourage engagement with those who accept payments (merchants, billers, government etc) during the development of collaborative payment services.
- The Principles should reflect 'proportionality' in terms of the necessity to understand the cost/benefit ratio of conducting research prior to, during and after the launch of any financial capability intervention. For small interventions, this may not be practical and could become overly onerous. The Principles should require an analysis of the implications of collaborative innovations on collaborating parties, prior to their approval to ensure that any implementation challenges are fully understood.
- In terms of the Principle 'system alternatives are considered before seeking to educate consumers' - some system alternatives could take some time to implement. If a consumer detriment is detected which consumer education could help with e.g. in financial crime, a campaign should not wait until systems alterations are made.

More generally, the Principles are built on the industry engaging, being informed by and informing, the Money Advice Service's UK Financial Capability Strategy. While it is important to recognise and benefit from such work, Nationwide would encourage the definition and implementation of the process through which these Principles are to be taken forward, to specifically include close working with the payments industry's representative body, such as Payments UK, to ensure that payments expertise is captured. For this and many other areas within the draft Strategy including 'scheme reform', the ongoing dynamics of change among relevant trade associations is a factor the Payment Strategy Forum needs to bear in mind over the coming months.

This is especially important as the Principles are written for today's world whereas in the future there may be a proliferation of payment services comprising completely different players, potentially as part of the overlay services for the Simplified Payments Platform. Consideration needs to be given as to how the Principles would be implemented in this scenario and what the term 'industry' would really mean.

Question 2b: How should these principles be implemented?

These Principles should be implemented in instances where collaborative development of payment services is needed rather than when an organisation is developing their own payment services. Any attempt to mandate use for individual PSPs could form a barrier to entry for new / international market players – particularly those around market research which is expensive and the forced sharing of which could destroy competitive advantage and potentially even discourage use. In addition, it could be difficult for end user need representative bodies to meaningfully engage with each entity on an individual basis.

We agree the Principles should be implemented on a voluntary basis. The necessity to produce collaborative payment systems which meet the needs of all could stifle targeted innovation or the development of a scheme which would be particularly useful to a segment of the population such as the financially excluded. For example, Request to Pay and Enhanced Data are likely to be digital services and could conflict with the Principles to 'recognise that there is diversity in consumers situations and experiences' and that services are 'designed to be inclusive of the least capable wherever possible'.

However, a minimum product proposition to which all parties adhere can enable customers to understand the proposition and be clear about its usage and acceptance reducing the need for later consumer education.

A pilot of how these principles work in practice should be conducted in the development of the End User Needs APIs. This gives the opportunity to improve, if necessary, the Principles in light of that experience. Development of examples of where these Principles have and have not been met may help in their implementation.

Over time, the Principles should also be implemented to tackle initiatives in a prioritised manner. Nationwide would support cross sector collaboration on vulnerability and financial capability and would suggest that these are close to the top of the list.

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

The success of the implementation of these Principles as written is heavily dependent on the UK Financial Capability Strategy and the ‘guidance and tools to evaluate impact’. They will also need an effective ongoing development mechanism (‘for updating the principles and industry knowledge around user needs and emerging best practices to be developed in collaboration with the Financial Capability Strategy for the UK’). This means the successor body to the Money Advice Service should be involved in the development of these Principles.

However, their implementation should be overseen by a central independent body which has, as part of its objectives, the delivery of good customer outcomes for the end users of payments, the setting of objective standards and payments expertise.

We have already referred to the changes occurring in this space. The relationship of a central independent body, representative to the PSR, should be established together with a definition as to what the ‘industry’ is in this sense, especially as this continues to develop. Its scope would likely encompass established and new players, businesses, government, charities and others in the diverse payments community.

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

Nationwide would expect the following to be among the benefits:

Request to Pay:

- Flexibility on making payments for those on low or variable incomes to assist management of budgets.
- Increased electronic payments options for all consumers, including those with a preference for ‘pushing’ their payments.
- Although safeguarded by regulatory directives on erroneous transactions, consumers may benefit from clear and effective process to protect their position on Request to Pay transactions, akin to the well-known equivalent for Direct Debits paid in error.
- Potentially, affording customers more control via Request to Pay may lower the overall exception rate for all types of bill payments, including Direct Debits. This could mutually benefit customers and their PSPs.
- Potential innovations at point of sale, in physical and online environments using mobiles, beacon technology, social media etc to offer merchants and payers a Faster Payments alternative to cards.
- Improved ability for corporates to reconcile payments – with an accompanying reduction of corporate resource involved in the reconciliation of payments.
- Increasing convenience and confidence by removing a step from the transaction process

where a card payment is not possible and reducing transaction abandonment.
- The ability to offer supportive services, including affordable alternatives where appropriate such as short-term arrangements to accompany deferred payments.

Assurance Data:
- A reduction in the amount of misdirected payments experienced by end users assuming 'Confirmation of Payee' offers reliable information ahead of despatch of the payment.
- Greater confidence from end users to engage in online payments.
- Potential further migration and deeper usage of convenient channels such as mobile.
- Customers having the ability to check their balances to understand if they have funds available to make purchases and comfort in knowing the fate of their payment.

Enhanced Data Capability:
- The ability for major billers to reconcile payments.
- The opportunity for government to provide or receive additional data to accompany or accept payments, notably for benefits and tax.
- There are many additional applications, such as in the charity and corporate space where there may be potential to improve Gift Aid lodgement, as well as e-invoicing for companies of all sizes.
- For consumers it could enable retail receipts, warranties, user guides, retailer locations etc to be easily accessed through the relevant payment.

Therefore, each of these facilities could offer new product enhancements and efficiencies for payers and payees giving customers greater choice of electronic payments. These innovations also potentially offer opportunities to tackle financial crime by providing a more 'joined up' payment journey. Benefit may include:

- Payers having greater clarity about the destination of a payment and reduced risk of being defrauded into making payments to the wrong beneficiary (although the Request to Pay proposition must be developed to guard against fraudsters sending bogus requests for payment).
- PSPs having an increased ability to risk assess a payment when the beneficiary is unclear.
- PSPs being able to mitigate against account takeover fraud risk and financial loss by having greater certainty of who is being paid.

Key to realisation of these benefits will be a significant market penetration so that the customer experience is consistent no matter where they transact and confidence is high. For example, contactless technology has taken a number of years for a large enough number of merchants to adopt, to provide a consistent and beneficial consumer experience.

It will be important to communicate clearly and void confusion as new methods of payment are introduced within an environment of many consumer payment propositions. Nationwide's own online 'Ways to Pay' information is an example of how we support customers with this and such education will be key for these new propositions.

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

Nationwide would agree a key risk relates to data privacy and protection. Protection of customer data is paramount and a Simplified Payments Platform, in which there is more data flowing, could lead to increased risk. It will also be important to protect data to encourage retailers and others to provide information without fear of losing the value of it to competitors (e.g. knowledge of customers' purchasing patterns).

Mechanisms which may address the risks outlined include:
- Appendix A3 describes a proposal to 'implement a standard framework for transferring payment related data between PSPs facilitating the creation of Request to Pay, Assurance

Data and Enhanced Data. A body through which this standard framework is formed would appear to be a sensible vehicle to standardise the core interoperable functionality of the facilities to the extent necessary to avoid 'delivery of functionality in unexpected ways'. It is important that the core standards help avoid end user detriment but do not stifle competition by making the services so standardised it prevents innovation for different customer needs.

- A Request to Pay service can offer customers greater control through the ability to flex payments. However, it does not alter the underlying contractual nature of the relationship between the payer and payee, the customer and its biller. The industry should continue to work with billers, corporates and subscription services to help them facilitate improvements for low / variable income consumers and we must recognise our limits in influencing the service, cost and risk decisions of payees. For example, billers will determine any credit periods enabled via a Request to Pay service and consumers may need to be protected from unwittingly downgrading their credit rating. Therefore, engagement with large corporates and major billers during the development of the core proposition will be key to mitigating a number of risks.
- Data Protection and controls on financial promotions should be used to protect data and control the use the richer payment data and data analytics. It will be important to prevent inappropriate marketing or cross-selling.
- More detailed Design Principles could be considered to enable cross sector agreement, building on our existing ones as technology develops.

Further risks to be considered in the development of these propositions include:

Request to Pay:

- A consumer may be allowed to postpone payment for too long a period, which could replace one form of potential indebtedness with another.
- A customer may receive several Requests to Pay if their regular payments are concentrated on a certain period within the month, causing them to turn this service 'off'. This example and that of systems outages through which a customer relies on a message and does not receive it, have implications on the responsibility to send the data, on certainty of message receipt and liabilities in the case of non-payment of a bill etc.
- As noted above, there is potential for fraudsters sending bogus requests for payment.
- Also, there is a risk that Request to Pay may not work for those customers who are not engaged with digital and mobile channels.

Assurance Data:

- Data privacy, protection and quality risks of Assurance Data should be considered and stated in the final development of the solution (these are not identified in the draft Strategy and solution documents).
- Should an Assurance Data solution be selected which gives a payer a probability score of how likely the payee is to be the correct payee? This will need to be very carefully tested with consumers as it may have the effect of deterring use of online payments rather than encouraging them.
- The associated liability and consumer protection elements need to be considered.

All End User Proposed Solutions:

- The proposed timeline and stages for implementation could present the risk that pursuing these solutions as part of the Simplified Payments Platform means that consumers will not have these needs met for 3 or more years (and in the presentation given at the Consultation Launch Event, 5 or more years).
- Nationwide would encourage prioritisation and early sequencing of end user propositions. However, as highlighted in the next question, it is important that any investment is carefully considered.
- Additionally, the scale, nature and pace of change should be considered. Whilst the market has evolved significantly over recent years, there is a risk of non-adoption of initiatives due to the challenge of change, the dependency on effectively communicating new consumer offerings and the volume of options open to end users.
- To achieve compelling outcomes for End Users, there has to be a balance between

collaboration and competition. If the implementation approach is too biased to collective outcomes delivered via collaborative working, it may curb the innovative instincts of many players in the market. There are, already, some solutions that have developed independently that could address the detriments identified by the Forum. These include emerging offerings in the realms of data sharing and 'Request to Pay' and we need to sustain creative and commercial incentives.

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?

Nationwide would support Business Case Evaluation and an implementation plan, to answer this question. This should consider:

- The case for developing these solutions as part of the Simplified Payments Platform over that for other options such as those covered by the World Class Payments Project.
- What lessons can be learnt from consumer and business adoption of existing propositions that could deliver some of this functionality (such as PayPal's equivalent request to pay service or Paym's confirmation of payee facility)?
- Consumer, business and government demand and need, recognising the demand can build at an accelerating rate as operability and confidence grows (as in contactless technology).
- The capacity of different parties to build, deliver, operate and accept these services.
- The costs (including to bank channels to capture, process and hold additional data references), risks (including conduct risks), liabilities and benefits (including operational efficiencies) of these new facilities to industry, businesses, merchants, corporates and government.
- And to commercially underpin the strategy's objectives, the business cases we make need a fair and effective funding model for their development.

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

Please see our answer to 3c above.

In essence, we feel the draft Strategy could extend to offer a more holistic approach to reaching the outcomes we are seeking. As it stands, the document rightly suggests that development could be relatively organic, perhaps an accelerated continuation of developments that are already emerging within the current architecture, or more assertively driven by bigger changes to the infrastructure. However, as we have called out earlier, the relative absence of card based services in the draft Strategy may, to some extent, forego our exploration of alternative routes to the desired outcomes.

Notwithstanding these points about the scope of the draft Strategy, Nationwide feels the UK has world leading payment mechanisms and the vast majority of payments work well for customers. However, there is the opportunity to help customers to effectively choose and safely use appropriate existing and new payment methods by making these mechanisms more intuitive and growing customer awareness and knowledge. Card payments should be included in this analysis given their significance to end users as outlined earlier.

We elaborate on these points in our responses on the Design Principles discussed in Question 2 and in our commentary on the proposed solutions for Financial Crime Customer Awareness and Education.

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

The Forum should consider:

- The capacity of the industry to deliver these changes at a time of regulatory compliance with PSD2 and other mandatory remedies as well as implementation of the Image Clearing System and ring-fencing.
- Giving a very clear, consistent and succinct description of proposed collaborative solutions, especially in relation to the Simplified Payments Platform in order that the market-wide perspective and potential benefits are understood at the level of the industry's decision makers.
- The need to specify the correct body(ies) through which the technical standards and core propositions are developed and governed and that through which compliance with the legal framework for liability will be enforced / monitored. API standards and their governance is an obvious and contemporary example which we comment on later in our response.
- From a data privacy perspective, the Forum should consider the conditions under which (within the Data Protection Act 1998 and emerging legislation) this data will be allowed to be shared between organisations. Additionally, the willingness of customers to share what may have traditionally been considered private data should be considered,

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?

See Nationwide's answer to question 3c above.

Yes, we feel there may be a business case for transitional solutions. There is evidence in the market of innovative services developing already which may be extensible to achieve some of the desired outcomes of the strategy, for example data sharing and Request to Pay. Indeed, we need to be careful not to set a strategic approach that actually deters the development of such innovations which have cost, service and risk dimensions for the providers and adopters.

If it is determined that the Simplified Payments Platform is the correct way forward then a business case for transitional projects would need to consider the extent to which they are stepping stones to the end solution. It will be more difficult to justify large investments on 'interim solutions' which could be complex and have their own long time scales, especially at a time of industry change and economic uncertainty.

However, current regulatory and operational environments encourage innovation and if there are parties who already want to provide transitional solutions, or act as aggregators or intermediaries, we should accommodate this. Additionally, transitional solutions need to be designed with awareness of their relationship to the layers of the Simplified Payments Platform and their possible compromises – for example, there may be scenarios such where we may want to avoid long term 'service differentials' such as those that occur today for some indirect participants.

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

See Nationwide's answer to question 3c, 3d and 4a above.

Yes, there are examples which include developments in the 'Request to Pay' and 'Assurance Data' / 'Confirmation of Payee' space. Work is needed to further develop these emerging solutions and bring the appropriate reciprocity and ubiquity but it is important to note their potential to meet end user needs in the short and medium term.

This question should be revisited once a long term strategy and outline delivery plan is in place and the final state known. This would enable our balancing of the development challenge versus delivery to end users.

It should be acknowledged that the benefits sought should include those for all end users – including corporates, charities and government. There is a need to be very clear on the consumer needs versus those of the wider payments community and user base to understand the detriment to be resolved by taking early action.

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.

Nationwide welcomes initiatives to protect end users and grow their confidence to use payments. Centralised Financial Crime customer awareness and education may enable this.

In developing this customer awareness and education there is a need to ensure these messages effectively balance fraud prevention / end user safety with the Forum's wider ambition of helping customers to engage with services such as Request to Pay etc. Concerns about online security are one of the primary reasons why people with the opportunity and interest in using online banking do not do so, although many would welcome more information about how to say safe online (more can be found here).

It is important therefore that any such central communication is skilfully developed, has an effective delivery mechanism and really reaches end users to encourage the correct behaviours. We would encourage that all relevant agencies are involved in the development of any campaign to ensure that their experience and expertise is capitalised upon. This would include Financial Fraud Action UK (FFA UK), Action Fraud and the National Crime Agency (NCA).

Additionally, the proposed solutions mention current fraud risks but it is important that any initiative can identify and evolve as new fraud risks emerge.

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?

There is a need to understand what the longer-term governance and funding arrangements would be for such a customer awareness and education programme. Under the current arrangements, the natural body would be FFA UK. As referenced elsewhere in our responses, the ongoing consolidation of relevant trade associations with specialist knowledge and experience in collaborative development is an important factor for the PSF to consider.

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.

Nationwide proposes that rather than developing new material, the Forum leverage the established guidance provided on this topic through the Joint Money Laundering Steering Group (JMLSG). These guidelines balance the need for a reasonable level of prescription with that to provide scope for firms to apply a risk based approach built upon their operating environment and internal risk appetite. These guidelines themselves will need to be updated in due course to reflect the 4th Anti Money Laundering Directive and the new Wire Transfer Regulations. These are more prescriptive pieces of legislation than what exists today.

The related annex to this solution discusses standards rather than guidelines. Nationwide would not want to see any new standard mandated specifying what is acceptable identification, which would weaken Nationwide's risk position.

Any common standard for authentication should be developed in compliance with the standards that will result from the forthcoming Regulatory Technical Standards to be produced by the EBA as part of PSD2 and the 4th Anti Money Laundering Directive.

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?

Nationwide would encourage tackling financial crime and increasing end user protection through the development of legal and secure data sharing. However, while it is possible to agree with this proposal in principle, it is not possible on the level of information currently available to say that the benefits would outweigh the costs. Therefore, Nationwide would encourage Business Case Evaluation to understand what would be involved in the development and delivery of such a capability.

This should specifically consider:

- The fraud, AML and KYC benefits and their proportionality against the costs of creating and managing a secure central data repository, including costs necessary to overcome risks.
- The governance challenge and the key issues of 'who' would be involved and 'how' data management would be approached, including consideration of existing PSP and industry solutions (such as those used in the cards industry).
- Whether legislative change is necessary and, if so, if this is proportionate to the benefits anticipated.
- Customer attitudes to the sharing of their data for these purposes, any consumer education understanding of the benefits of a repository and any impact on their usage of associated payment systems, plus any approvals necessary to enable the solution.
- What the content of the data to be shared actually is, how it is protected and what rules will exist about who can legitimately interrogate it and by what means.
- The industry's capacity to design and deliver such changes at the time of ring-fencing, PSD2, Image Clearing System etc.
- How investment and operational costs for this solution would be shared, now and in the future.
- The counterfactual implications of not taking one or more of these proposals forward in terms of the wider strategy.

Should such a solution be developed, Nationwide proposes that financial transactional data (i.e. facts) be shared and an indicator be added to this 'master record' of the respective PSPs to denote that an attempted, or completed, transaction has been reported as fraud. In this scenario, there should not be a separate database of fraudulent transactions.

Finally, as a general principle, wherever possible future data sharing should build on existing information sharing mechanisms.

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

Nationwide agrees with the risks. Suggesting a security solution is difficult at this stage, however, as it is how the central repository is accessed, updated, operated and data transmitted that will determine the complexities of securing it.

Risks and considerations include:

- From a data privacy perspective there is a need for clarity about under what condition (within the Data Protection Act 1998) data will be allowed to be shared between the organisations.
- Although mentioned briefly in the text, in May 2018 the General Data Protection Regulation (GDPR) will replace the Data Protection Act 1998. The GDPR introduces increased protections for personal data, greater transparency about its use and new requirements such as privacy by design in the building of systems. Inasmuch as this proposed solution deals with the processing of personal data, it will need to be designed to be GDPR compliant.
- Data integrity is also very important. The system will need to consider how to guard against instances such as false or erroneous fraud reports by payers leading to transactions marked in

error and which could have serious repercussions for the beneficiary account.
- As suggested in 7a above, ownership and the practical operation of the database are fundamental issues to be resolved.

A business case (see 7a above) will help understand and mitigate these risks. It will be especially important to consider how data sharing would work in practice. Answering questions such as 'what data would PSPs need to pass whilst not adding additional risk to customers?' and 'who would act as central point?' and 'how would the integrity of usage be ensured?' etc.

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

Nationwide would encourage analysis to be conducted of the detailed proposition, including its principles of management (storing, handling and sharing personal customer data) and use of information within the data protection legislation. This is necessary to understand if any legislative change is necessary and appropriate / proportionate within a measurable business case,

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

The Financial Crime Intelligence Sharing proposal has the potential to safeguard customers. Whilst being supportive of developing a central solution, the strategy should recognise there is already ongoing data sharing with a number of organisations, including the NCA, CIFAS, National Hunter, Action Fraud, JMLIT and FCA. As such, the Financial Crime Intelligence Sharing solution would represent a significant undertaking and step change for all stakeholders.

As guiding principles, wherever possible, Financial Crime Intelligence Sharing should build on existing information sharing sources and Nationwide would encourage this initiative to place data-sharing and obligations for action on both the paying and receiving banks to enable identification of criminal activities.

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

This solution could be used to:
- Identify users of payment services who have received proceeds of fraudulent transaction and enable active management of these accounts.
- Prevent a vulnerable customer from paying the recipient of a previously fraudulent transaction.
- Enable the identification of fraudsters through history being attached to their records, rather than allowing them to re-start fraudulent activities by simply shutting one account and opening another.
- Support those new legitimate customers whose activity and customer profile, in the absence of any other context, make them appear as high risk relationships by enabling some reliance upon information provided by other PSPs who have an existing or prior relationship.

Controls would need to be implemented to ensure inappropriate detriments did not occur (such as those listed below).

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

Nationwide agrees there are significant risks to be considered in the development of this solution. In an extension to the existing arrangement for banks to report financial crimes to the NCA, Nationwide would advocate that the NCA should administer the database of reported fraudulent transactions, victims and beneficiaries.

Engagement with the UK Government will be needed to address the risks outlined as these stem from provisions within a number of UK laws such as the Data Protection Act and Proceeds of Crime Act. A number of the organisations outlined above (including CIFAS and National Hunter) also have specific data sharing rules that will need to be considered.

Further risks include:

- From a data privacy perspective there is a need for clarity about under what condition (within the Data Protection Act 1998) data will be allowed to be shared between organisations.
- The risk of incorrectly flagging accounts is clearly significant.
- More generally, however, from a Data Protection Act / General Data Protection Regulation basis, processing has to be conducted fairly and lawfully - clearly ensuring accuracy. Therefore, minimising errors, enabling swift corrections etc will be important.
- Where this system processes personal data, it engages data subjects' rights in respect of their data. There is a risk that customers could object to the processing of data for this purpose.
- The risk of unfair customer exclusion may be exacerbated by the sharing of adverse or 'red flag' activity, if is it not put into the context of the initial notifying institution. A lack of consistency in standards across institutions could result in an inconsistency in events or activities that could give rise to adverse financial crime data.

In other responses in this section, Nationwide has called out the relevance of changes to legislation.

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

If a Financial Crime Intelligence Sharing capability for the sharing of reported and confirmed fraud were created through a regulated body such as the NCA, the benefits here could outweigh the risks. These would need to be understood through a business case as described in our response to question 7.

If a payment from user A to user B is reported as fraud, that fact should be recorded and shared, potentially through an indicator being added to the master record (as discussed above). This would enable any bank with a relationship to user A to know they are vulnerable to financial crime and any bank with a relationship to user B to know they may receive a fraudulent payment.

The sharing of such information could prevent financial crime and money laundering activities, thereby protecting the public. This model has parallels with that which protects merchants from fraudulent transactions in the cards world.

To make this solution a success, reciprocity must be delivered in the data sharing arrangements with effective intelligence being provided back to contributing institutions. In addition, industry-wide participation would be essential as opt-outs would significantly erode the collective benefits.

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?

From the information supplied it is unclear whether data protection legislative change is necessary as the draft Strategy does not detail how it proposes to operate within the current or future framework (i.e. the Data Protection Act / General Data Protection Regulation). A positive outcome in the development of this solution would be the provision of clearer guidance on interpretation of the existing and new legislation.

However, the following should be noted:

- Under the new General Data Protection Regulation (which replaces the DPA in May 2018) there is currently no provision for the sharing of data that relates to criminal convictions / offences unless the organisation involved is an 'official authority' or there is member state law that authorises it. Nationwide and its peers are not official authorities and there is no law that allows such transfers currently.
- In addition, specific obligations relating to 'Tipping Off' under the Proceeds of Crime Act and Terrorism Act would need to be overcome to allow firms to disclose suspicion or knowledge of money laundering and/or terrorist financing. To Nationwide's knowledge, there are no such changes of the legal horizon currently.

If any changes are required, they should be assessed to understand if they are justified, proportionate and possible (e.g. within the national application of General Data Protection Regulation).

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

Please see our responses above which comment on proposals for governance. Further industry engagement would be needed to fully answer this question. However, at a high level, governance should consider the following:

- Establishing minimum standards relating to any shared intelligence.
- Defining the standard firms must establish to ensure data is not misused.
- Identifying the mechanism and responsibility for overseeing the intelligence sharing and policing the industry to ensure fair customer outcomes are maintained.

The governance structure should be one involving expert groups, including legal advisers and Police / NCA. Potentially it could involve further work with the joint venture between the payments industry and Police under the Dedicated Card and Payments Crime Unit (DCPCU). Again, building on existing information sharing mechanisms.

To ensure the Police have a full picture on which to act to fight financial crime the governance structure should consider how visibility of both the sender and receiver of fraudulent transactions can be improved.

This could be effected by requiring the losing banks to report every single transaction through all channels as a result of a fraud report - whether this results in a refund, a customer loss or a prevented transaction. This could potentially happen through an indicator on the transaction through which the receiving bank should be required to link the receiving transaction.

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

Again, Nationwide would be supportive of this proposal in principle although, as called out in the draft Strategy, success in this area will depend on the quality of the data captured at application stage and the practical management issues we have highlighted in response to question 7.

In addition to considering if the benefits of this solution outweigh the development and operating costs, a business case for this solution should consider:

- Risks around data security; how the data is held, transmitted, updated and operated and used (and the complexities of securing this).
- Any legal barriers about the recency of the documentation which needs to be provided at account opening.
- Any operational dimensions such as the independence of a Central KYC Utility to sustain its support to the industry as the landscape evolves. This could be an important consideration if the solution is dependent on commercial organisations whose strategies may change.

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

The proposal is supported by Nationwide, although we note this is focusing upon HMT only. For most firms, sanctions compliance extends beyond HMT lists. In particular, US Sanctions maintained by OFAC are the most challenging and have a high impact on both firms and customers which is derived from the US nexus and specific measures applied against prescribed countries and their infrastructure. To provide an effective solution Nationwide recommends the scope of the objective is broadened.

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.

Yes, Nationwide agrees in principle and there are no immediate significant concerns but a few considerations to note are:

- Today, there are current associations between existing sort code ranges and different PSPs. When introduced, the '04' sort code range won't immediately be associated with one single PSP. This is important as 'lead pair' association with sort code ranges is currently used within fraud checking; especially within cheque processing in the current paper process. Whilst the introduction of the Image Clearing Service will change this process, we must ensure that increased fraud isn't experienced under this initiative. New players should be supported in the onboarding process (including through quality checks on reference data) to ensure that payments continue to work smoothly for end users. Potentially this may involve the support of central infrastructure partners such as VocaLink.
- The timing of the increased access to sort codes will need to consider the implementation of the new Image Clearing Service. If a new PSP wishes to issue cheques, the existing PSPs would need to change existing technology, processes etc in advance of fuller solution being provided by the new Image Clearing System in 2017.

Longer term, increased access to sort codes will offer new PSPs increased choice of how they access payment systems. However, Nationwide would encourage that any future change in the governance of sort code management (currently with Bacs) is collaborative with any move towards a single PSO entity. We would expect further consultation on any movement of sort code governance to a new entity over time.

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

Nationwide is supportive of this in principle and welcomes the measures outlined to safeguard resilience as access is extended. Direct settlement provision that reduces liability challenges and reliance on other credit institutions is an important enabler for expanding competition in the market, including aggregator proposals.

The resilience of Real Time Gross Settlement (RTGS) is paramount in preventing a major incident, such as that experienced in 2014. Reassurance will be required to provide confidence in the integrity of the solution as an increased number of users participate with more settlement accounts.

Nationwide believes that pre-funding is an effective model mitigating settlement and liquidity risks. However, operational risk must be managed in opening up access to what may become a much larger number of PSPs.

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

The PSF initiatives below should be introduced in line with the launch of new aggregators, to ensure new detriments are not introduced or existing ones worsened:

- Simplicity / consistency of approach to PSO participation. New PSPs can have a range of aggregators to choose from but there must be a simple consistent approach in utilising them.
- PSPs should have access to settlement accounts.
- Indirect liability models / guidance must be clear / agreed.
- Simplified rules and governance when interacting with PSOs.

Given the proposed solution for a new architecture for payments, the question should be asked if pursuing this interim position is an effective use of industry time / resources or if the focus should be on achieving longer term strategic objectives. Additionally, what is the business model for prospective aggregators providing this service knowing that market access may change if a Single Payments Platform is introduced?

It is also important that the customer's experience when using a PSP connected through an aggregator be considered in the development of these arrangements. For example, there may a service differential for end users which may, or may not, be significant depending on the expectations of the related product. Any implications on existing PSPs when dealing with these commercial aggregators and should be clearly identified.

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?

Streamlining the following elements towards a singular approach should be front of mind when considering how to encourage development of access solutions which drive down costs and complexity for PSPs:

- Method of connection.
- Set of operating rules and assurance methods.
- Approach to governance.

The ability to have an effective voice at the PSO without full membership commitments could be attractive to new entrants. Consideration could be given to utilising an approach similar to that used within Bacs today for Affiliates.

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.

Simplified and cost-effective support mechanisms and assurance would be welcome. The number of different compliance activities PSPs undertake at present is cumbersome and is duplicated in part across the various PSOs. If this can be made more efficient by increasing the value from the efforts of PSPs, whilst not losing the governance and control, it would be beneficial.

Migration to a new participation model and rules must be carefully planned and implemented (considering contractual and participation implications for existing members in different PSOs). Whilst the end state will be positive for new and existing members, transition could disrupt 'BAU' unless executed well with effective communication throughout. This is particularly important if the Single Payments Platform is developed and during a time of other regulatory change (Image Clearing System, PSD2 etc.).

Any costs incurred by existing PSPs 'making changes to current practices and procedures as changes are made across different schemes to align processes' should be minimised, focusing on the essential necessary movements is important.

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

Nationwide supports this proposal in principle. The end state appears to be desirable but the transition path and benefits case need further clarification.

Established PSPs currently dedicate large amounts of resource in representing their organisations at PSO committee structures. The consolidation of this would be welcome assuming the same level of governance and control is maintained. However, the combination of, three boards or risk committees etc would need to be managed carefully to ensure continued effective and robust management of three such different services without creating a new governance layer.

The proposition does not define which body / vehicle would manage and enact transition and it's vital that resilience and risk management are not compromised during migration. PSOs are extremely busy already – C&CCC, for example, with the introduction of Image Clearing System and this significant change cannot detract from existing critical deliverables.

The development of a cost benefit analysis, along with a proposed new operating model in the next phase of the PSF's deliverables, is essential to enable meaningful insight into what simplified governance looks like. The industry must be mindful that existing knowledge and expertise within the PSOs is preserved during any migration process – it should be acknowledged that this is a particularly unsettling time for PSOs and their staff and this must be carefully managed.

The new consolidated model must have an effective and streamlined governance structure. Care is needed on its ongoing funding and how decisions and monitoring of this expenditure are managed by those providing the funding. The new entity must drive innovation and competition and the need for investments and transformation for existing PSPs' operations must be co-ordinated with any development of the Simplified Payments Platform – especially the single push payment mechanism.

The inclusion of LINK should be assessed in the context of a single entity for interbank payments governance and consideration should also be given to the inclusion of Paym and CASS within consolidation of Faster Payments and Bacs. CHAPS should be re-evaluated once the BoE RTGS review has been completed.

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

N/a

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.

Nationwide is supportive of this in principle. The introduction of common standards which facilitate customer identification and potential messaging will enable the UK's electronic payments to become more resilient and innovative.

While recognising the importance of reaching an agreed way forward, the timeframe of moving UK Payment Systems, all PSPs, translation service providers etc. (and potentially end-users) across to this standard within 3-5 years, while delivering PSD2 etc, is ambitious and must be carefully managed to avoid the risk of undermining stability and resilience of existing systems.

Therefore, a full analysis featuring all component parts in the payments value chain should be developed to enable an informed consultation. This analysis should include the cost / benefit aspects and, crucially, the assessment of risk. As we progress towards lower levels of detail in our solution definition we should consider options including the role of an open standard wire-level messaging protocol – such as Advance Message Queuing Protocol (AMQP) as a possible interoperable, vendor neutral, performant, approved international standard.

The management of the administration of the schema and organisation necessary to support a standard should also be considered in the development of this solution. An important consideration is the ongoing consolidation of trade associations into the emerging new body through the Financial Services Trade Association Review (FSTAR) process. Development of contemporary common message standards is a direction of travel supported by the existing associations and their members. We need to nurture the existing intellectual and transformation capability and capacity for this and other collaborative payments work in the coming period.

Whilst developing this initiative, substitutability between existing and new payment systems should be prevalent to facilitate interoperability in the event of system failures. Therefore, Nationwide would favour a phased, evolutionary approach to moving to a common messaging standard – avoiding unnecessary cost of a more abrupt switch.

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

Nationwide is supportive of this but further work should be progressed. Whilst a list of scenarios would not be exhaustive, it may be beneficial to map out 'typical' scenarios with various outcomes and overall liability confirmed.

More detailed regulatory guidance in this area would assist in reducing the degree of risk that providers of indirect access perceive are posed by certain sections of the PSP market. This would assist in the development of a solution to remedy current concern about 'de-risking' by agency and correspondent banking providers.

We should appreciate there are limits to which guidance can influence towards the desired outcome here. There are a range of powerful drivers in the market, not least the balance of risk and reward which extends beyond the commercial aspects. Failures in the supply chain can lead to significant reputational damage, this is obviously not unique to financial services but there are notable concerns, particularly around anti money laundering controls and other aspects of financial crime.

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

A lack of mandate and a clear decision making forum could stifle progress. The challenge includes reaching an agreed legal position that is satisfactory to all parties. In addition, the guidance should contain a clear view as to how regulatory supervisors and enforcement bodies are likely to view firms that apply the guidance in practise.

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

There is no existing forum which would be the obvious choice to lead this process. Consideration could be given to this being led by the PSR given its strategic insight on access to payments markets but the final conduct and risk exposures, which could include market integrity, might be best overseen and assessed by the FCA and PRA.

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?

Nationwide strongly supports the proposal for a coordinated approach to developing APIs. This is certainly important at the foundation level of generic APIs which set the framework for basic functionality from which additional, compatible services can be developed in the competitive space.

As well as the functional imperative for common standards in the Open, Overlay and Access APIs, there is a real need to progress API development at pace. Drivers include the CMA review, PSD2 and Open Banking and a well-coordinated, transparent and inclusive approach will optimise the UK's advantage in this vital area of banking and payments strategy.

Given the need to develop at a pace, the governance structure should be established in this spirit, (including perhaps the use of focused groups in the development of APIs as a straw man before opening to wider community).

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?

As stated above, the development of APIs can happen collaboratively and competitively. At this stage, we feel it right that a coordinated approach is taken as the material we will use for the development of new and valuable services needs to offer a consistent experience based on adoption and maintenance of open standards, for example reference data.

In time we will develop services based on highly sensitive personal data allowing for tailored interaction with consumers, including via third parties. Again this ought to develop in a way that aligns with legal and regulatory expectation, with a strong collective protocol to ensure we sustain a consistent optimum balance of service with security as APIs fulfil their potential.

In reaching that ambition, it will be very helpful for existing and new participants in the market to be able to join and operate in an environment that isn't fragmented with multiple variations of standards. The existence of these standards will avoid unnecessary investment and potential reworking of PSP solutions to reach consistency.

There are risk factors to consider including the effective engagement of different, but relevant, authorities (HMT, CMA, PSR, FCA etc). Also, the tension between delivering to PSD2 timescales and the aspirations of the Strategy will need to be balanced so that we deliver not just compliant outcomes, but also services that are highly valuable for customers.

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

Nationwide has taken a lead in mobilising the Implementation Entity requested in the CMA's remedies for retail banking. A clear high level plan has been shared with the relevant authorities and key stakeholder observers, including the PSR which now attends the Steering Group. The approach is being developed to optimise delivery and inclusivity, bringing in technical expertise from Fintechs and the insight of others such as consumer representatives. A key milestone will be the recruitment of an independent Implementation Trustee which is underway.

In the meantime, the work is being socialised and high level technical requirements are being drawn up. Nationwide feels the approach is consistent with the aims of the draft Strategy, though naturally this will be reviewed as the process develops. In addition, the potential for this approach to be a model for other PSF solutions will need to be considered – it is possible that the CMA remedy might be seen as an early example of an output where the CMA is, in effect, the first customer of an Implementation Entity.

It is important to note there are also options for the approach to ongoing governance and maintenance of APIs in the future. These include Open Source and Proprietary approaches as well as a hybrid of the two. Various factors need to be assessed in more detail here, including the control and commercial dimensions.

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

Nationwide can see the value in the idea of a real time, push credit payment mechanism with new characteristics such as common messaging and overlays that allow enhanced services for end users. However, in bringing this to life, the Forum may have focused too heavily on a vision for a future technical horizon and possibly overlooked some of the already emerging opportunities from the existing centralised infrastructure which is developing its capabilities domestically as well as being successfully exported.

Currently, the draft Strategy implies that innovations to fully provide creative and valuable end user services will depend on fundamental changes to architecture, possibly increasing the risks of cost and delay for implementing the strategy. We feel it is important, therefore, to have a disciplined approach to the Business Case Evaluation and we support the proposed development period to refine the design of a Simplified Delivery Mechanism.

The UK and other countries now have payment systems that offer mass market near real time payments and we agree a Simplified Delivery Mechanism, whether centralised or decentralised, can adapt and develop these proven payment types. We need to be sure that changing the payment rails and creating an alternative model such as a decentralised, layered approach is the right thing to do. Does it really allow additional value to be yielded, beyond that being developed in the evolving infrastructure, at an affordable and sustainable cost?

An example of where we need more detail to inform this assessment might be in the end user offerings of Request to Pay, Assurance Data and Enhanced Data – is it the case that these could only be fully developed in a layered and potentially decentralised operating model with the richness of data flowing separately from, but in relation to, the payment messages?

There are, naturally, a number of significant factors to consider in the design and implementation before committing to the new architecture. These include:

- Service continuity, which is vital. End users have benefited from secure and stable electronic interbank payment systems which have worked with consistent resilience, this is a fundamental enduring outcome.
- Understanding any delivery and ongoing support issues associated with distributed models.
- The concept of the Single Delivery Mechanism has the potential to reduce the number of mechanisms PSPs need today. However, this needs to be defined as does its impact on current interfaces to the existing payments infrastructure.
- A controlled and effective migration route that balances security and pace, considering the challenges of interoperability in a parallel running phase and minimising any service differentials to end users.

Given the level of detail provided and decisions still to be made such as whether to move to a centralised or distributed model (including distributed ledger), it is difficult to comment on this solution in further detail. Nationwide welcomes the opportunity to continue to input and comment on this initiative as it takes shape.

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?

Until there is further analysis that leads to a new target operating model, it is difficult to prescribe the governance set up required in the long term. A decentralised model of peer to peer connectivity (especially if distributed ledger technology is applied) may call for a different form of governance than a centralised model which may be more akin to today's PSO led approach in which the infrastructure is procured.

On the journey towards the target operating model we would anticipate the industry would develop and deliver the solutions, possibly including a Simplified Payments Platform model but with an appropriate governance vehicle overseeing this. In principle, a single entity acting as a design authority with a strategic direction and a planned, progressive target operating model could be a practical way forward.

Indeed, given the potential developments in the draft Strategy and the changing nature of payments industry bodies and trade associations, we see there is now an opportunity to create such a single and independent payments entity. This aligns to the solution proposing a consolidated retail PSO and it would have important systemic responsibilities - to deliver and develop payment services. This would differ from the more fragmented legacy model and operate with transparency and accessibility for regulatory oversight.

We take a positive view that new ways of working are possible, as we are seeing in the early days of the collaborative and inclusive work on API governance. It is possible this may form a blueprint design that fits within the single payments entity, perhaps the CMA remedies being one early example of outputs and common payments messaging standards being another.

We also recognise the potential for the payments supply chain to change whether the long term architecture is decentralised or remains largely centralised – it's possible the latter could certainly feature more competition within the layers of the model with new approaches to procurement of services which can happen independently but to a common standard. We comment further on this below.

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

The governance set up by which the Simplified Delivery Mechanism could be developed and implemented will need to carefully assessed in the coming months to reflect the target operating model we decide upon after we evaluate options.

At this stage there are strong theoretical arguments for a distributed model, particularly as it may offer markedly easier and broader access to the market from the c2,000 PSPs in the UK, of which just 2% currently have direct connections. However, the current performance of distributed ledger technology falls short of handling the volumes we need to process at the necessary speeds with the reliability we expect. Therefore, to sustain the performance and throughput required for clearing in the UK, in the short and medium term we would be likely to continue to operate a core infrastructure with high speed switch technology.

In this context, there may be a short and medium term trajectory sustaining a centralised model approach, likely to re-use existing infrastructure. This may be necessary in order to balance our drive for a more accessible and innovative market with the fundamentals of resilience for consumers and businesses. If we opt to continue with a centralised approach, which needn't be confined to a single supplier (as reflected in the PSR's Market Review of Infrastructure Provision), it is possible an existing scheme could adapt to procure the single push rail mechanism – but this is just one of the deliverables.

There would obviously be technical and operational changes required to adapt to the inputs and outputs expected to flow into and out from the scheme. Some of these changes are anticipated in the work of the Simplifying Access to Markets Working Group. There are practicalities and sensitivities on this issue and we feel some further analysis of the options are needed to conclude whether or not the governance entity should evolve in this way, or be a new and distinct organisation.

An option which should be considered is the building on the existing investment in a current PSO which could move strategically from its current guise to develop the Simplified Delivery Mechanism. Alternatively, using the genesis of a new consolidated PSO as the fulcrum point to develop a Simplified Delivery Mechanism could be the way forward. This would allow maintenance of security of delivery by the current PSO whilst a new capability is developed and then available to move to. Working with experts in the industry it would be possible to understand any lessons to be learnt for the Single Delivery Mechanism.

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?

At present Nationwide believes that no conclusions should be made on this point until there has been a thorough evidence based evaluation to determine which is the best option.

As noted above, there are practical and vital, considerations around scalability and resilience for processing the payments and data we are already familiar with. At the present time, it may be possible to design a clearing and settlement framework based on a wholly distributed model but it may prove difficult to actually build it given the current constraints of the technical architecture. To take these steps we need evidence of the benefits which are not clear as yet.

The Horizon Scanning Working Group has been alert to the parallel and related developments in the market including the Bank of England's work on Distributed Ledger Technology. With this in mind, a number of transition states are proposed in the solution for a simplified framework – including the movement to modern messaging standards and improving end user services via overlays.

Delivery of these proposed solutions would move the industry closer to the vision of the Simplified Payments Platform. Thereafter, the access points to the payments system would include the new core for exchanging messages. The further stages of development see the use of compatibility overlays to allow continuity of service as participants transition from legacy services to the new core. This would happen progressively before the final retirement of those legacy services estimated to be c8-9 years from initial scheme reform.

A transition to a decentralised model may be possible and if carefully managed, could balance the essential continuity of service with the fullest development of the competition and innovation benefits anticipated by the draft Strategy. However, at present the benefits case is uncertain and a range of factors have to be considered such as the implications of supporting both the existing and new systems and transition between these.

If we move towards a more detailed design and evaluation phase for the Simplified Payments Platform we should have a robust approach to the 'counterfactual', i.e. the proven benefits a centralised model offers should not be underplayed or undermined through the analysis of a decentralised alternative. Factors to consider include:

- Continuity of operations / processing should one of the parties in a scheme have a systems issue through 'payments held at scheme'.
- Central schemes can set, arbitrate and enforce rules for the health of the scheme and end users.

- The eligibility criteria and onboarding process for new entrants protect the health of the scheme and end users – although these can be improved as per the Simplifying Access solutions.
- Reduction in the overhead resources involved in managing all parties who wish to connect with others.
- The possible charging models that may, or may not, arise with new overlay services are also a consideration with implications for the real cost of payments to consumers.

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

The industry is going through a considerable period of change. Capacity and funding is likely to be limited to build this new infrastructure at the same time as ring-fencing, PSD2, SEPA, the Image Clearing System etc. Therefore, it is important that any design phase of this and the wider strategic proposals is co-ordinated and supports other existing regulatory deliverables.

That said, we need to enact these wider formal requirements with a clear design for a new payments infrastructure at the same time, as there may be much less scope to consider a new payments infrastructure at some point in the future and to do so may require formal regulatory action.

Nationwide's position on resources, funding and operational choices may differ in some ways from our established peers given our operating profile which has sustained strong and independent performance with a UK centric retail focus. In turn, all established PSPs will have very different commercial prospects to new entrants and emerging challengers to the market and as things stand, the established PSPs continue to fund the delivery and development of central governance of interbank payments in the UK.

However, in basic terms the payments market is driven by supply and demand and should not be overly constrained on the supply side, possibly favouring the interests of shareholders above consumers and businesses at large who can benefit from competition and innovation. There are also important micro and macroeconomic benefits to be gained from a world class payments system which can assist businesses in the UK as well as continuing to be a significant British export (or attractive investment).

For incumbent players there will of course be challenges around the costs versus benefits of the solutions in the draft Strategy. There will also be even greater challenges around the capacity for change. However, these should not deter the effort to design new payments systems in order to achieve the competitive market yielding the innovations we are capable of. One of the key enablers will be configuring our payments community for new ways of working, bringing in the agility and talents of Fintechs and the insight of consumer representatives, supported by a positive and progressive regulator. The PSF process to date has been a good foundation for this.

However, we now need to be clear on the governance approach to undertake the two year design and definition process discussed in the document. This crucial process will enable an informed decision to be made about the new architecture for payments. It is imperative that industry players and the wider payments community have meaningful engagement in this decision and its incremental decision points so we balance the medium and long term investments for optimal outcomes for end users.

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?

Nationwide supports the aims of the PSR to see greater competition and innovation in the UK payments market and thereby deliver world leading services for end users. To enable this we also agree the existing arrangements need to evolve. It's important to understand there is a spectrum of change ranging from the relatively conservative and familiar, to the more radical and unproven.

For competition and agility to be accelerated beyond their current pace, we can see the effects of reform at the PSO level and common messaging being very helpful stimuli. They are among the more conventional developments, which are already underway to some degree, and they will help move the supply side of the market away from its dependency on, for example, the slowest adopter. Another contributory factor towards more competition and agility may be the changing provision of central infrastructure including the remedies proposed and underway following the PSR's recent market review.

To more fully realise the potential for access and innovations leading to new and creative services, we understand the demand for more extensive change which, among other things, will address one of the key constraints of the payment systems – their data limitations. The end game anticipated by the Simplified Payments Platform allows for real agility and bespoke service provision probably far beyond those we have anticipated so far in the strategy.

However, as intimated above, the commitment required to achieve the Simplified Payments Platform would be significant. Therefore, the design phase should consider the above and the need to retrofit existing solutions, for example, those to meet PSD2 into this.

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

As stated in earlier answers, there are many potential benefits in the delivery of the Simplified Payments Platform. At this very early stage of solution assessment, it seems likely that the model offers the best opportunity for end user proposals such as Enhanced Data to reach their full potential.

However, the pace, scale and complexity of change introduces high level of risk around delivery of this and there clearly are opportunities to deliver, at least to some degree, our desired outcomes via a 'counterfactual' approach. This is why the work that is now underway on Business Case Evaluation for the Simplified Payments Platform and other solutions in the draft Strategy is so important.

At this stage it is difficult to provide an evidence based argument for, or indeed against, the Simplified Payments Platform proposal. Elsewhere in our response we have called out an absence of analysis on card based solutions which are continuously developing and should be considered as part of a holistic assessment about future investment given their importance to end users. We have also suggested that a more extensive approach could be taken to considering all the 'end users' that could benefit from the solutions in the draft Strategy and this is another factor in the assessment.

If we do commit to a more fundamental change in the UK's payments ecosystem, adopting the Simplified Payments Platform, we must give significant thought to any 'cutover' activity of processing, no matter how phased it is, as we will undertake a high level of complex change across all current schemes and central infrastructure which will bring inherent risk in itself.

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 it stands, the draft Strategy proposes the earlier solutions which create opportunities for the payments market to become more accessible and competitive. We agree this is a positive foundation to improve consumer choice and value. However, the solutions that would bring innovation to life for end users are scheduled to be implemented much later and in our view this this should be examined carefully. Nationwide welcomes, therefore, the proposal to add further detail through Business Case Evaluation and implementation plans, to be followed by cross industry working and co-ordination between regulators and industry on priorities.

There are some key points to make in relation to the sequencing of solutions, here are three examples – the first in the short term, the second taking a strategic perspective and the third calling out a dimension that Nationwide feels is missing:

- The early proposal on Access to Sort Codes should be carefully assessed so we can understand the implications for existing arrangements between established PSPs as well as for new PSPs. This will inform the sequence and timescales for any delivery.
- While the draft Strategy should enable new entrants to the market and thereby stimulate competition in the medium term, it projects a longer term delivery of key solutions to meet end user needs. The possibility that some of these could take 5 years to deliver is concerning. Nationwide would encourage earlier solutions are identified and delivered where possible, efficient and congruent with the eventual decided end state. There is a fundamental challenge here, which we recognise the PSR and Forum are alert to, that centres on when and how to deliver new payments outcomes to end users against a progressively phased development of the payments ecosystem.
- As noted elsewhere in our response, we feel an analysis on card payments and their potential evolutionary development is important in making these very significant strategic choices. At the moment, the absence of card payments from the work of the Forum means we don't have a truly holistic perspective that has all end users and their most common payment experiences, in mind.

It will be very useful to understand the level of confidence the Forum will have in the cost benefit analysis and implementation plan to be delivered in the final strategy in November 2016. Also, how this may relate to the later evaluation at the end of the two year design phase of the Simplified Payments Platform. The interdependencies between these two milestones may need to be highlighted so we avoid building short and medium term solutions addressing today's challenges when they may become obsolete in the payments environment of tomorrow. Clarity should be given on the extent to which one is an interim to another and the actions the strategy will expect of PSPs in advance of this final plan.

Such clarity will be particularly important as there will be a challenge to deliver these proposed solutions within the timescales laid out. The Forum's plans should be conscious of the costs and capacity issues for the industry such as ring-fencing, the Image Clearing System and compliance with PSD2 when considering the timeframes for proposed solutions – particularly in the mid-term. Many of these existing and proposed solutions will involve the same people, organisations and expertise. In order to effect change smartly and without impacting resilience and good customer outcomes, any strategy implementation will need to be carefully and efficiently managed and co-ordinated with ongoing initiatives.

It is notable that the timetable for PSD2 will require action to be complete within the timeframe for the 'mid-term' proposals. The design principles for the proposed eventual strategic change of payments systems will need to be agreed in a similar timeframe, so that any system development that is required to comply with PSD2 will also reflect and promote the changes envisaged for the Simplified Payments Platform. In essence, Nationwide feels the strategy should aim to yield tangible end user benefits as early as possible while balancing the short, medium and long term developments to optimise the value of investment.

We call out other important dependencies in the responses below, notably around the necessary governance and resourcing, including the challenge of equitable funding and ensuring we have an enduring intellectual capability based on the right expertise in an environment where Payment Service Operators and Trade Associations are changing.

Another factor to consider is the strategic direction of central infrastructure provision given the PSR's directions on competitive procurement as soon as possible versus the potential changes that could arise from the draft Strategy. The commercial decisions of possible infrastructure providers will need to be set in the context of what could become a very different payments architecture, potentially challenging the viability of their tendering for a share the UK market.

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

In our answer to question 3c and elsewhere we comment on the need for a business case to consider if any transitional solutions could be put in place to meet end user needs – examining the case for both meeting these as part of the Simplified Payments Platform, or through, transitional measures.

Nationwide believes that a further consultation and reappraisal of sequencing should take place once a full cost benefit analysis is available. As such, we are supporting the PSF's ongoing efforts on building a Business Case Evaluation. We appreciate this calls for a market-wide perspective on the benefits case rather than individual assessment of the return on investment, and this should extend beyond consumers to include other end users such as corporates, charities and the government (and ultimately to the benefit of consumers).

However, the strategy will be a significant undertaking and risks creating industry disruption. There is a need to be very clear about the strategy's:

- Scope (notably the need for it to be holistic by featuring card payments)
- Objectives
- Benefits
- Costs
- Demand
- Industry capacity
- Funding structure
- Governance; and
- Phased implementation plan.

This should provide an evidenced rationale for action and will enable accountability of strategy delivery to take place.

QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

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

Good governance of the strategy going forward is essential to monitor and oversee its progress and to have the correct delivery vehicle(s) in place to bring it to fruition. It will also be critical to its success that as details become more final, there is very effective interaction across all parties involved with representation from across the payments community in the development and delivery process.

Nationwide would recommend a number of individual initiatives are logically grouped for delivery together. The implementation approach must have consistent overview and ensuring all elements remain on track, while managing any conflicting elements (specifically around resource) which could create unhealthy tension and impact delivery plans. A phased delivery approach is key to the success of this specifically in terms of minimising risk whilst maximising value. Lessons can be learned from earlier implementations such as Paym and Image Clearing System.

To get to the implementation stage we have to analyse, as best we can, the true costs and benefits of development and we need to recognise the funding challenge as we move on from the familiar historic models of collaborative development and delivery in the payments industry. Neither the legacy payment schemes nor trade associations will continue in their current guise. Future models of delivery will need to balance their inclusivity with effectiveness in delivery.

That said, it is important to acknowledge we are already finding new ways of working for mandatory change such as the CMA remedy on API standards. Nationwide is playing a key role in the development of an Implementation Entity for this objective and it is possible the approach may form a 'blueprint' for wider governance moving forward. Potentially, a single Retail PSO, with regulatory designation, may become a vehicle whereby such individual deliverables are developed towards implementation and possibly supported thereafter in production. In this sense, the CMA may be seen as an early example of a 'customer' for the services of a central, collaborative design authority.

In the short term, the draft Strategy anticipates key, possibly increased, roles for existing bodies such as the Interbank System Operators' Coordination Committee (ISOCC) and calls out the Bank of England's role in partnership with the PSR on governance reform of the PSOs. These are perhaps other examples of specific implementations that may benefit from the central coordination offered by a collaborative design authority.

In the context of what we need to do to bring the strategy to life and considering the other mandatory developments on the horizon, there are some strong practicalities to consider in support of a single independent design authority. These include:

- Focusing the industry's attention and avoiding disparate and incremental development.
- Enabling a swift and safe path to common standards such as ISO 20022 whilst having the reach and influence to optimise transition across the whole industry.
- Building on the early foundations to oversee development, delivery and maintenance of Open Banking API standards.
- Possibly facilitating the building blocks towards a potential Simplified Payments Platform which include the two year technical assessment of its more transformational elements such as the layered model and its potential for decentralisation.
- The single body responsible for this collaborative work could be formulated with direct connections to all relevant authorities and lever the benefits of their common, collective interest rather than having unnecessary duplication.
- In addition, as suggested by our experience to date with the CMA remedy on APIs, the body itself may provide the strategic overlay and governance for a range of developments for which specialist entities are brought into play.

Some of the people, processes and tools needed to fulfil this approach to implementation already exist across existing industry bodies and Nationwide would recommend we nurture and adapt these where relevant, protecting the capacity and capability we will need. For example, Payments UK has resources with a proven ability in cross industry development and has taken a lead on initiatives that lay the foundations of future payment systems such as common messaging standards. There are, similarly, areas of relevant practical expertise across the PSOs which should not be lost as we develop new governance.

Below we outline how these many and varied developments, which will have a mix of implementation approaches, might be overseen by a central collaborative governance body.

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

As suggested above, we see merit in a single body being at the heart of strategic, collaborative developments in the UK payments industry building on the proposal for a consolidated PSO. This should have regulatory designation, overseen by the PSR as the authority with a specific remit for the delivery and development of payments. We have outlined in the previous answer some of the ways in which it might work, for example by overseeing specialist delivery and implementation within a holistic strategic direction accountable to all relevant authorities.

We recognise the future model must have different characteristics from the traditional approaches of the past where the payments supply chain and its associated governance was heavily integrated by common ownership. We advocate a more plural set up that operates independently but at the same time should utilise the great intellectual potential there is across existing bodies in the industry.

The approach needs to be sustainable and financially viable. This presents a challenge which we will have to address because the historic models of collaborative development have commonly been based on market share of the UK's money transmission which may no longer be appropriate. At the same time, we have to carefully manage the implications for the costs for providers and users of payment services.

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

The funding model for the strategy should recognise the scale of the transformation and the changing nature of the payments industry including its governance and diverse community including the entry of many new players who will benefit from this strategy. At a high level, the PSR as an economic regulator which itself draws on the subscription of industry members, should be able to articulate the long term market benefits of the strategy.

Nationwide appreciates the draft Strategy's Business Case Evaluation has to be approached with this macro as well as a micro perspective. As a successful retail focused PSP with an outstanding record in service and over 14 million members, Nationwide appreciates there are many developments which benefit the consumer at large through the creation of a more open and innovative market.

However, we need to formulate equitable ways of funding strategic change in the market and cannot draw solely on established providers of personal current accounts. We need to be mindful of opportunity costs at play as well – it's important that the investments we make for the future of payments in the UK don't compromise other fundamentals in our market, including the day to day resilience of services or other developments across the breadth of financial products and services.

It is important to move on from the historic concentrations of influence in the UK payments market but at the same time we need to make progress at pace. As such, we need to consider the potential for sharing the investment opportunities beyond the established players, extending the commitment beyond PSPs should be a natural step given the opportunities that flow from open data. Credit Reference Agencies are an example of a third party sector that is already showing an interest in the developments associated with payments data.

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?

In principle, Nationwide supports the PSF's approach which contrasts different development pathways for achieving the outcomes we are aiming for. It is sensible to offer a 'counterfactual' to the more disruptive changes that would be needed for changing the ecosystem, notably a decentralised Simplified Payments Platform.

Aside from the questions of the industry's capability and capacity for the more radical change, we need to consider its long term benefits case against the inherent strengths of the existing set up which include proven resilience and innovation in yielding globally leading payment propositions which are successfully exported.

It is important to be clear about and to measure, as far as possible, the additional benefits of the more ambitious proposals. For example, we know current messaging standards in the UK's payments industry have data limitations – would the 'counterfactual' pathway not reach the fullest potential of the Simplified Payments Platform in this regard and therefore constrain the creation of end user services?

Since the publication of the draft Strategy, efforts to quantify and qualify costs and benefits have started. The Business Case Evaluation approach, supported by Ernst and Young, offers a structured approach and on initial review it prompts the right kinds of macroeconomic and market-wide perspectives to assess the case for change on this scale. This is a useful platform for the PSF and wider payments community to agree a methodology in what will be, to some extent, unfamiliar economic modelling.

However, the accessibility and accuracy of the necessary data may be challenging in the time available and the PSF process needs to carefully manage the risk of its evidence base being compromised. The PSR has, for example, recently undertaken a request for information on the commercials around the delivery and development of interbank payment services which came with a very tight turnaround. Given its relevance for the draft Strategy and recent market review of infrastructure provision this is understandable, but it is important to manage the risks of rushing inputs, which to some extent has been our experience in the drafting process to date.

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

Nationwide agrees with the cost and benefit drivers outlined in the draft Strategy and more detail on the factors we need to consider are proposed in the Ernst and Young Business Case Evaluation work. It is vital we assess solutions to the right level of detail to ensure there is sufficient understanding to input into all decisions. For example, coverage across the market will be critical to any benefit being delivered by Request to Pay, the business case needs to understand what is involved to get to the end stage and this is dependent on the involvement of all counterparties in the end to end service, including the payees.

The 'investment costs' and 'recurring costs' are reasonable high level drivers and the time, plus opportunity cost of developing solutions are also relevant and rightly called out in the draft Strategy. However, some other high level elements are missing such as the ongoing cost to industry around the governance and maintenance of solutions (or services) – although it is important to note these appear in the more detailed Business Case Evaluation work with Ernst and Young. Another cost and benefit driver to consider is the governance, operations and market research cost associated with the support of the Simple to Use Design Principles.

The consumer protection afforded by some payment services is another angle that hasn't significantly featured in the draft Strategy. This may in part reflect the focus the strategy has on interbank electronic payments with its relative exclusion of card payments which have an established overlay of consumer protections such as the Consumer Credit Act elements for Credit Card. There are, of course, other established guarantees in payments in the UK, including Direct Debit and this perspective, indeed the wider issues of 'liability' and 'protection' are important factors in the costs and benefits for the supply and demand of new payment solutions for end users – we feel these are underplayed in the published work of the Forum so far.

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

Nationwide will support the PSF's work on Business Case Evaluation coordinated by Ernst and Young and has input to the PSR's information request on the running and change costs associated with interbank payments. We approve of the inclusion of a broad range of cost drivers including the intellectual property and governance issues that need to be addressed.

As we stated in earlier responses, we recognise the fundamentals at play here – the benefits case for developing and delivering solutions has to balance the viability of an individual player's capacity and capability against the market-wide advantage.