

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

Respondents basic details

Consultation title:	Being Responsive to User Needs
Name of respondent:	RBS

Publication of Responses

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

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want parts of it to be published or referred to in this way you need to separate out those parts and mark them clearly 'Not for publication'.

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with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.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

Response template

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

If you do not want parts of or all of your response to be published you need to state clearly ('Not for Publication') over specific information included in your response, please be sure to clearly mark this by yellow highlighting it.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

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

Thank you in advance for your feedback.

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

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

RBS considers that the PSF has properly captured and articulated the needs of End Users, particularly in respect of control and assurance. RBS has not identified additional needs, but considers that the enhanced data proposals extend beyond simply End Users needs, to ones which could also usefully make the payment system more secure and resilient.

Whilst supporting the objective of increasing flexibility and choice, we would caution against proposing fundamental changes without detailed customer research, as very many users remain comfortable with familiar ‘tried and tested’ payment mechanisms, and are satisfied that these meet their needs.

Similarly, it isn’t necessarily the case that greater flexibility leads to better outcomes for users. In the case of Request to Pay, for example, increased flexibility might lead to reduced certainty for both payers (not knowing if the request is genuine or overlooking a request) and payees (payments now received on known dates being spread over many dates). This would clearly be unhelpful to business users, both in terms of managing cashflow, and of a potential greater incidence of overdue payments and reconciliation.

We note too, at this early stage in our response, that customers have an expectation regarding confidentiality and security of their information held by the financial services sector. To ensure customer trust in payment services, it is therefore paramount that security and privacy considerations lie at the heart of any proposal the Forum wishes to pursue.

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

RBS agrees with the proposal to create design principles for financial capability as set out in the draft strategy paper, but mindful that the UK’s Financial Capability Strategy aim is much more about improving how people manage money throughout their lives. Its action plans are shaped by financial capability needs at each stage of life. At no stage is there any specific reference to payments capability being an area for strategic focus, albeit we might impute this for accessibility to services for older people.

Particular reference is made to those who are vulnerable and RBS already provides wide-ranging support and assistance to such customers. RBS also considers that some payment products or channels, as with other products, may be unsuitable for vulnerable people.

We also believe that the design principles as drafted may not fully address the requirements of business users and that further research and evaluation of these requirements should be undertaken, to consider the different needs of small business users to those of large corporates.

Question 2b: How should these principles be implemented?

Based on the above, RBS suggests that the draft principles are considered further, linked to the wider UK Financial Capability plans and activity, and that revised, perhaps less generic principles should be developed and agreed for payment systems and PSPs. Implementation and adherence may be more relevant for service development and project delivery activities.

RBS proposes that the relevant industry trade bodies, working together with appropriate parties and their members, develop simple principles and guidelines against which the development, delivery and ongoing support of payment services can be measured against the UK's wider Financial Capability Strategy.

It will also be important to agree when such principles should begin to apply to the impacted organisations, and to allow sufficient time for internal procedures to be revised or developed to ensure effective adherence.

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

We believe that further discussion will be needed on who should oversee implementation and ongoing adherence. The choice will depend on whether the principles retain a voluntary (industry) status or are subject to regulatory oversight.

It will also be important to differentiate between the payment systems, where systems operators would be expected to evidence their compliance with them; and competitive payment services, where individual PSPs would be the responsible party.

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

RBS would expect a range of benefits to accrue from these facilities:

Request to Pay (RtP) – payers that choose to use this service, feeling in greater control of their payments and money management, and potentially valuing more those service providers which offer the service. In addition we would expect that this might allow some users to migrate from cash to electronic methods of payment.

Careful consideration will need to be given to the needs of payers and payees, because, as mentioned in our Q1 response, introduction of RtP products may lead to reduced certainty for both parties and potentially to payments inadvertently not being made because the Request was overlooked.

It will also be important to consider the needs of corporate billers, many of which already offer flexible payment options and have customer service teams that can offer advice and restructure payment schedules. Additionally many billers provide online and mobile app access to billing information and payments and consideration should be given to how easily RtP could be integrated with these existing services.

Finally, RBS believes that the Direct Debit will continue to have a major part to play for a large number of customers. It could itself be subject to development (e.g. ability to defer payment), but current levels of use suggest it meets the needs of many both billers and payers as an easy to budget automated payment.

Assurance Data – RBS envisages that it would give confidence to users who want to check who they are paying before a payment is sent. It should also ensure fewer payments made in error, with the continued risk of loss for users, despite co-ordinated industry procedures to support funds recovery. The solution will provide an impetus for more users to make electronic rather than perhaps a cheque payment. RBS is less convinced that the other benefits will automatically flow from this proposal, and these will need to be considered further (see 3.e).

The provision of assurance data may be achieved in a number of ways, with the draft report specifying two potential approaches (validation based on past transaction history and a centralised industry proxy service). We believe that other options (e.g. a decentralised service that accesses PSP data by means of APIs) could also be feasible, and we would be keen to see all options evaluated (including cost: benefit analysis), before decisions on technical solutions are reached.

Other aspects of the wider assurance data proposal, such as knowing where non-real time payments are in their cycle are more complex, and may be better considered as part of the simplified payment platform considerations.

Enhanced Data Capability – RBS considers that such a facility potentially offers multiple different benefits but that further analysis is required to identify requirements and confirm demand. We are aware of competitive specialist FinTech providers already offering competitive enhanced data capability for business users, for instance the ability to capture images of expenses receipts and geo-location data tagging precisely where a transaction took place.

Whilst the core requirement of the enhanced data proposition, i.e. the ability to carry a higher volume of data, may be linked to the adoption of ISO20022 standards, it may not be necessary to delay progress on the issue of enhanced data solutions until revised messaging standards have been implemented.

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

RBS agrees with the risks identified, in particular that data privacy and protection issues are issues of concern across a number of the proposed solutions. We consider that more risks will emerge as the solutions are considered in more detail. These risks may be different if delivered alongside current payment system infrastructure as say against a potential, still to be determined future infrastructure. Any migration will lead to transition risk for users, and require clear communication and support for end users from PSPs and service providers.

Ensuring a high level of security and confidentiality as well as the development of strict participation and/or data usage codes/requirements will be instrumental to ensure customer trust and mitigate against any negative privacy impact on the customer resulting from unauthorised use of their personal data. RBS notes that by combining the payment functionalities of Enhanced Data with proposed data analytics solutions has the potential to cause 'harm' to consumers. We recommend therefore that data protection requirements are balanced against the need to provide a simpler customer experience, and to prevent financial crime and phishing.

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?

RBS considers that each solution option needs to be articulated fully and an indicative industry business case for investment shown, which may justify investment and indeed prioritisation of development.

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

RBS considers, that alongside other solutions within the Forum's strategy, these offer the highest potential to enhance the user experience. As such RBS proposes that further work is undertaken on them as set in our 3.e response.

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

Request to Pay (RtP) - RBS is supportive of undertaking further work to look at options for delivering a RtP capability which could sit alongside those other payment products (e.g. Direct Debit) which work very well for the majority of users. We do not however consider RtP a new payment instrument, but rather a new service which could support multiple payment types.

Such work should include discussions with corporate billers using Direct Debit as the main method for payment, in particular utility, media and telecommunications companies and government entities, to establish how they would see RtP working in practice informing discussions for design. It should also include preparation of an implementation business case which explores societal benefits e.g. to vulnerable consumers as well as financial ones.

Assurance Data - RBS is supportive of undertaking further work to look at options for providing end users with more assurance that their intentions were followed through. This should consider of the extent to which product design is a competitive issue, and include business case analysis looking not only at cost saving benefits (e.g. from avoiding the cost of recovering misdirected payments), but also the gains in terms of improving consumer confidence in electronic/mobile payment services. It will also be important to consider data protection and privacy issues in any such assessment.

Enhanced Data Capability - RBS is supportive of undertaking further work to look at options for delivering enhanced data. This should include research across a range of corporates to understand their requirements and, to support business case analysis, their propensity to pay for an enhanced service. We are aware of research undertaken by Payments UK in the early stages of their work on this topic which may be helpful.

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?

RBS believes that consideration should be given to short term solution options, based on current systems, for meeting end user needs, where evaluation shows there to be a strong enough requirement.

This should be developed alongside detailed consideration of the design proposals and business case for investing in new payments architecture. At this stage, there is much work to be done to understand what a new architecture might involve, and how long it would take to implement, assuming that business case justification is found to exist. It would be preferable to avoid delaying the delivery of service enhancements designed to address customer needs whilst the architecture debate is taken forward.

The Forum should also encourage non-traditional and challenger organisations to develop compelling services. Where a business case exists, competition will not be slow to find gaps in the market.

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?

RBS is aware of some emerging proposals and solutions, in particular on RtP, but cannot as yet say if any are technically or commercially viable.

We do however believe that serious consideration should be given to delivering consumer benefit, ahead of any agreed longer term solutions, depending of course on the length of time for delivery of each and the impacts of adapting the early solution in time to operate as part of the longer term solution.

RBS also considers that more work will be needed to evaluate the proposed solutions and assess which can most easily offer the best short-term consumer benefit.

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.

RBS agrees with the proposal, albeit that this activity is already in the process of being developed, the UK Action Plan for anti-money laundering and counter-terrorist finance published by the Home Office and HM Treasury in April 2016 refers, (the “UK Action Plan”).

The UK Action Plan identified that education of the public would be a key step in preventing abuse of the Financial Services sector by criminals (action 6 of the UK Action Plan).

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?

The UK Action Plan specifies the BBA as the lead industry body for this initiative; however it also states that input from the PSF/stakeholders would doubtless be welcomed.

We would support this and encourage BBA to work with other expert and representative organisations to ensure effective communication to all impacted customers.

Given their credibility with their own personal and corporate customers, it would be beneficial for PSPs to support this activity by communicating with their customers directly, based on agreed/consistent industry messages.

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.

RBS has separated its response in to headings which cover the several aspects of this question. In summary however, our view is that clear and co-ordinated processes are already in place to develop guidance across industry bodies and that, whilst accepting improvements may be needed, they should be developed under current structures, to ensure the continued clear alignment and understanding between regulators and the industry.

Guidance - by way of background, it is worth emphasising that the need to identify and verify customers is already a process laid out in Money Laundering Regulations 2007. PSPs are familiar with the government-approved Joint Money Laundering Steering Group (JMLSG) guidance, which has been produced to help the financial sector understand how to develop systems and controls to comply with the money laundering regulations; including the implementation of identity and verification (ID&V) and a risk assessment. The Law Society and HMRC also maintain similar guidance for the sectors they supervise – the legal sector and MSBs/Estate Agents respectively.

As a bank which follows JMLSG guidance, our strong preference would be that the PSF avoids producing separate guidance on this subject – rather that the existing guidance is developed to incorporate and address any aspects arising from this solution which are not already fully covered.

An important feature of the existing regulatory approach is that firms are expected to take a Risk Based Approach to ID&V – dedicating the most time/resource to those that potentially present the most risk. Whilst supporting the principle of consistency of approach, we would be concerned if this led to all customers being subject to an Enhanced Due Diligence process i.e. being asked for more information than necessitated by the current approach.

ID&V Standards - the recent Competition and Market Authority investigation report remedy ‘Requiring all banks to agree and adopt a core set of standard information and evidence requirements for SMEs opening a Business Current Account (CMA review, section 19.1 d (iii), page 710) although limited to nine GB and Northern Ireland Banks and the provision of current accounts, is similar to the proposed ID&V solution. The proposals to address the CMA remedy, and the current wider stakeholder engagement activity, may provide an ideal foundation to support the advancement of this solution.

Digital Identity - RBS supports the proposal to look at innovative digital identity verification, and would encourage the PSF to engage with the BBA and PWC, who are currently investigating the possibility of using the government’s Gov.UK Verify solution for the purposes of ID&V within the financial services sector. This work also forms part of a wider Open Identity Exchange (OIX) which is looking at how developments in online solutions can be used to improve identity verification.

In addition, there are already a number of commercial service providers offering identity and verification services, and whilst we are aware that at least one of these has contributed to the development of this solution; we would encourage input from other providers to this debate. RBS also considers that the industry approach should remain provider agnostic.

Whichever solution design may be decided on to provide the identity verification solution, RBS would also wish to reassure itself that customers’ identities were being verified to a high standard and that we could be confident we were dealing with the individual ‘verified’.

It is important to emphasise that those subject to the Money Laundering Regulations 2007 (“obliged entities”) retain responsibility for complying with the obligations under those Regulations (see regulation 17) and as such, firms have to be confident that the information provided is accurate and up-to-date, and verified to a high standard.

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?

RBS supports the Data Sharing principle and the need to work together to act upon this intelligence. We note however that there proposals already form a key item within the UK Action Plan to tackle Financial Crime. We therefore suggest that the PSF engages with the relevant bodies (National Crime Agency, National Fraud Intelligence Bureau, Home Office, HMT and BBA) to understand what activity is already underway, and the extent to which the challenges in the Consultation are being addressed.

Data sharing is already a strong component of industry practice in the fight against fraud and can be seen in practice under the auspices of FFAUK, (✂)

When considering the business case for developing a central data repository, consideration should be given to the potential offered by the development work arising from the PSD2/Open Banking/CMA Remedies; it may be, for example, that a distributed system utilising PSP data via APIs provides a more flexible and low cost alternative

We are conscious too that the current proposals are limited to inter-bank payment system data already held as part to their processing. The data is thus limited both by transaction type and by what is initially captured. We anticipate that if this solution progresses, it will need to consider what other data might be needed to allow it to become more effective. Early stage analysis may provide pointers on this.

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

RBS agrees with the risks outlined, and great care must be taken not to expose detailed sensitive payment / account details to unnecessary threat. We would add questions around data reliability, i.e. the veracity of the underlying data, which could potentially create liability issues for a participating organisation if a participant relies on the incorrect information provided by another participant. The Forum would therefore need to consider how participants can be protected from such potential additional liability to ensure useful information is indeed shared by participants.

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

RBS suggests that this needs to be considered as part of the solution development. If consensus is reached on the 'what' and the 'why', this will enable an answer to this question to be considered.

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

RBS agrees that there may be a potential need for more and better intelligence sharing, but does not underestimate the challenges to achieve this. We support however further work to expand typology and trend sharing, but reserve our position on the proposal to build a 'single view' of data.

The growth in cyber-threat and broader fraud and financial crime risk make continued evaluation and exploration of the challenge essential.

The Data Protection Act 1998 ('DPA') provides data controllers with a limited ability to disclose personal data for the prevention and detection of crime and the apprehension or prosecution of offenders (s.29 of the DPA) however it is generally not possible to apply this as a blanket policy.

This means that, in order to comply with the DPA by ensuring a sound legal basis for the sharing of this type of information, participating organisations would be required to assess whether a decision not to share the relevant data would be likely to prejudice the prevention and detection of crime and the apprehension or prosecution of offenders.

The proposed data sharing activity does not appear to fall within the narrowly set scope of the exemption offered under s.29 of the DPA and as a result it will be difficult for participating organisations to legitimise their data sharing activities, risking non-compliance with the DPA and the associated regulatory sanctions.

Therefore the Forum may find it beneficial to engage with the Information Commissioner's Office to facilitate discussions around how data protection legislation can be amended to allow for wider information sharing around suspicious activities etc. and how the proposed activities link into the forthcoming legislative changes introduced by the general Data Protection Regulation.

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

Whilst RBS is not aware of the size of the issue here and thus cannot assess whether this solution would improve financial inclusion, we are aware that there are risks to consumers from sharing this type of data.

Labelling people wrongly can cause significant issues for those who are wrongly the victims of forced account closure. Flagging 'suspicious' accounts of people who have not been prosecuted for criminal activity may be considered unfair or inappropriate.

If this is covered by the reference to financial inclusion, it is possible, if a way forward could be found, there would be less consumer detriment if well executed.

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

RBS suggests that data privacy issues and cyber-threat are considered in the development of any such service.

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

RBS does not consider that enough has yet been done on the solution to reply to this question.

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?

RBS does not consider that enough has yet been done on the solution to reply to this question, but our early view is that it would almost certainly need a legislation change.

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

RBS does not consider that enough has yet been done on the solution to reply to this question.

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

Our response to Q6 provides details of existing work in this area by the banking sector, in particular activity identified by the CMA market investigation. Linked to this, RBS is aware of work which specifically looked at the establishment of a common data repository to reduce friction in the SME CDD/KYC/KYB account opening process.

Whilst the CMA remedy does not propose a utility, and only seeks to cover certain customer types, it is possible that this could form the basis to develop a type of future KYC utility.

However this would not be without potential challenge, and as we state under Q6, the PSF needs to be mindful of the Risk Based Approach that all firms are expected to take in the development of identity verification processes. There will also be significant differences between a KYC utility for Personal and Business customers, based on the information needed and verification to be undertaken.

For any such service, it would be essential to know who would be responsible and liable for submitting the information and ensuring that it remains accurate and up-to-date

The final CMA remedy/conclusion on identity verification may be an informative basis for PSF work in this area, albeit that in practice many of the PSF members, such as RBS, are banks already required to implement the CMA remedy required for current accounts. It will be important to ensure there are no unintended consequences for those banks covered by the CMA remedy being expected to follow different KYC processes for the purposes of PSF strategy as this could potentially impact negatively on customers.

The PSF consultation also indicates that there are KYC Gaps (6.26). We suggest that PSF engages with the CMA, and the FCA generally, to articulate what these gaps are, as it is our view that the comprehensive JMLSG guidance should if required encompass any revised guidance.

Question Do you agree with our solution for enhancing the quality of sanctions data? If not,

10: please provide evidence to support your response?

RBS supports the proposal to work with HMT to improve the quality of its listed data. This will ensure that firms correctly identify and block only payments of legitimate Sanction targets. Such a workstream should include reference to the lists issued by other bodies e.g. OFAC, UN, and EU, with a view to producing a single authoritative source of data.

It would be beneficial if anything published as a result of this workstream was either an update to, or replacement of, existing guidance as an additional separate set of guidelines would be likely to add further complexity to the existing fragmented situation.

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.

RBS supports the proposal regarding access to sort codes and sees this as an enabler to improved direct access, along with other initiatives such as the RTGS review and the proposals to extend access to Bank of England settlement accounts, combined with the development of aggregator models.

Sort code provision as part of indirect access services remains an integral part of an IAP's proposition alongside other solutions, such as settlement and handling of transactional data for a specific scheme.

It should be noted that it is only 'agency' sort codes which are portable. This is not the case for indirect PSPs that have accounts based on a branch sort code.

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

RBS supports the proposal regarding direct access to accounts in RTGS. We see the strengthened supervisory regime for those who apply for an RTGS settlement account, as critical to its success.

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

RBS supports the current approach in terms of encouraging the development of more commercial and competitive access models. We recommend that the extent to which current market initiatives have been successful is reviewed in line with PSR review timetable, currently early 2017, and that consideration is given at that point as to whether further action is required.

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?

RBS considers that work is underway by PSOs already to encourage and support the development of such solutions, and that commercial providers are responding. We would like to see the interbank payment systems co-ordination group (ISOCC) engage on this topic, to ensure close alignment of individual PSO workstreams.

The Faster Payments Access programme provided the catalyst for such development. It has encouraged providers to come forward and supported them through the technical accreditation and testing. There is a growing number of accredited providers choice to PSPs. Whilst the level of demand for these services remains to be seen, and may to some extent be linked to the Bank of England providing wider access to settlement accounts, we believe that this model, when fully in place across multiple PSOs, could lead to a shift in the dynamics of the industry.

In addition, Bacs, which has already comprehensive direct access options for PSPs and corporate customers now has an aggregator proposition development programme in place. Its current options for smaller PSPs to achieve fully independent direct access are more suited to high volume PSPs and we envisage the provider market responding to these needs.

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.

RBS supports the proposal regarding Common Payment System Operator participation models and rules, and is encouraged by the action already underway by the PSOs through their co-ordination committee, to engage with a broad range of PSPs/representative bodies to determine priority areas for action.

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

RBS supports the proposal to establish a single retail PSO entity, subject to the outcome of the detailed planning work still to be undertaken.

A single PSO entity would allow

- Greater scale and critical mass in schemes
- Greater specialisation among staff
- More thorough processes for e.g. risk management
- The development of common rules and entry criteria to be facilitated
- Future strategy to be developed in complementary fashion
- Possible rationalisation of infrastructure to be examined dispassionately
- Efficiencies in e.g. managing participant relationships and risk
- Rationalisation of board level functions e.g. one audit committee not three

However, care will need to be taken in the short term that the existing rule books and infrastructure arrangements are properly managed – reduced board oversight could increase risk in the short term.

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.

RBS supports the principle of moving the UK to a modern payments message standard and believes that a single message standard would also promote competition of supply by making the UK a more attractive market for infrastructure service providers.

That said, we recommend that an 'expert' group is formed to undertake a comprehensive study of how this might be achieved, the likely costs and timescales involved, and the implications for end users.

Wholesale changes to messaging standards across multiple payment schemes and services may be complex to coordinate and difficult to implement. Consideration should be given to the phasing of such changes and any dependencies such as the impact on enhanced data referenced earlier.

The impact on end users and their IT systems should not be underestimated - many corporate customers will have long lead times to secure investment change budget and will in turn be dependent on technology vendors to update software.

The difficulty and complexity of moving users beyond the PSP sphere must be factored in. Recent experience with the Bacs SHA2 (Secure Hash Algorithm) upgrade, undertaken to ensure continued security of file-based transactions, and a small migration task by comparison, shows the difficulty of co-ordinating end users and persuading them of the need for, and merits of, change.

It may be possible to develop middleware that acts as a translator to smooth this transition at least in the short-medium term though this would be a disposable development.

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

RBS supports the proposal to develop indirect access liability guidance, and we are aware that early work to map liabilities is underway.

Our view is that whilst additional clarity around liability and accountability may be helpful, we believe that the final decision on whether to provide a bank account to a customer, whether or not a PSP, should rest with the PSP providing the commercial service, based on its ongoing assessment of sector /country exposures and its risk/reward criteria.

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

RBS considers that the initial mapping will need to be validated, and taken via an appropriate 'expert' group for this purpose. We remain keen to obtain the view of regulators, such as FCA and HMRC, to consider that they will have a strongly influencing role to play by setting clear regulatory expectations.

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

The solution proposes that the BBA should be the lead body and determine which of its groups will be responsible. It will be important to ensure that all stakeholder groups are represented.

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?

RBS supports the principle of a co-ordinated approach to developing the various types of API across the numerous regulatory and industry initiatives covering APIs, specifically the CMA Retail Banking market investigation, PSD2 and Open Banking, as well as the PSF proposals for the Simplified Payments Platform. Wherever possible however, common issues in current and potential future developments should be identified to maximise aligned thinking. Our current view is that (whilst noting that it is still in the process of being established) the Implementation Entity, as recommended by the CMA, is potentially the best placed candidate.

RBS believes the Strategy's objectives and the development of common, easy to access and easy to operate APIs will require not only a common Messaging Standard, but also harmonisation and simplification across the existing payment schemes. Areas this will need to cover include data formats, standards, user proposition, exception and rejection handling, liquidity funding and settlement.

To encourage competition, the governing/co-ordinating entity should focus on the mandated APIs needed, whilst providing guidance and best practice on how discretionary APIs develop.

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?

A co-ordinated approach is essential for a successful implementation but this will need to be tempered with a focused, delivery oriented organisation capable of navigating differing stakeholder viewpoints.

RBS believes that this requires an agreed and managed approach:-

- Clear problem / opportunity statement
- Vision for the desired solution supported by a conceptual architecture
- set of high level requirements aligned to the detriments
- An achievable roadmap with sustainable transition states
- Robust governance and change control

RBS also notes that this initiative will operate alongside PSD2 and Open Banking, both of which are looking at common API infrastructure and standards. The ability of the industry to accommodate and support all of the change required by these initiatives, plus other major industry changes such as ICB and FCM, needs to be assessed holistically.

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

RBS supports the recommendation of the report that the Implementation Entity proposed by the CMA expands its role to govern other end-user APIs.

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

The proposed Simplified Delivery Mechanism (SDM) as defined is one part only of a payment system i.e. the payment instruction message, potentially covered by a 'set of rules' or 'scheme'.

RBS does not consider it appropriate to agree to this only, as the SDM would have to be considered as part of a broader infrastructure competitive tendering or renewal. In addition, any new mechanism would need to have been clearly defined during a collaborative requirement gathering and design phase.

Indeed, with a full regulatory change agenda spanning UK and EU developments extending to 2018, and potential Brexit impacts subsequently, RBS considers that anything which might potentially disrupt the resilience of current payment systems would not be sensible.

Our suggested focus would be on enabling activity, namely consolidating the retail PSOs, embedding the new organisational structure, continued simplification of their models, processes and rules, leading to increased numbers of direct participants. These could then progress to considering what is needed in terms of a modernised and simplified infrastructure.

In addition, introducing the proposed SDM would only be realistic if all other elements of the new overlay services could be delivered at the same time, making the design, development, implementation and those impacted much larger. It would be a contrary outcome, if current systems were replaced by a simpler payment system, which incorporated multiple different 'rules' in other layers or overlay services, resulting in different complexities and creating transition and operational risk.

We are very conscious too that current proposals refer to a 'push' only instant payment message, largely a consumer payment, whereas the UK's highest volume electronic payment is a Direct Debit, a business initiated planned 3-day cycle batch pull payment. Corporate direct Bacs users have been largely absent from discussion on these or other payment system change, and we are aware of the issues affecting such users as part of the SEPA migration.

RBS considers that, despite the engagement with the payments community as part of the PSR and PSF activity, much greater consultation and coalescence on what the UK's future payment systems should be will be needed, supported by a clear business case and cost: benefit analysis.

Nonetheless, RBS recognises that the UK payment systems have differing degrees of complexity and thus supports the principles of progressive simplification and modernisation. We consider this will require:

- a simple shared vision
- clarity of the key drivers (detriments and goals)
- robust end to end design and governance
- the focus of the strategy to move from a technology perspective into one which looks at the end to end value chain and the change to current payment instruments
- collaborative engagement of all stakeholder groups with effective communication plans
- well managed, focused requirements – especially around resilience, performance and scalability appropriate for a key piece of national infrastructure

- realistic planning that takes account of the other major change programmes affecting payments and banking
- a viable and compelling migration plan, that provides architecturally clean and sustainable transition points

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?

RBS considers that this question naturally supports the new consolidated entity taking on rules management, however we would propose that this decision is deferred until the SDM design phase is completed, allowing a clearer and more informed choice on whether this or another proposal is the better option.

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

RBS recommends expanding the focus to consider the end-to-end value chain for the various existing payment instruments and using this knowledge to define the functional and non-functional characteristics of the SDM. This would then allow a comprehensive gap analysis / assessment on any potential re-use and enhancement of an existing 'scheme' or whether development of a new one is more appropriate.

RBS notes that the existing schemes have over time evolved to address a specific combination of volume, value, speed and risk factors. It is important to understand these factors and their relevance, or not, to the SDM. Re-purposing an existing scheme may not be the most effective way to achieve simplification, because of the wider changes proposed under SDM/SPP. The experience of SEPA suggests that developing a new scheme could be the more expedient approach

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?

RBS suggests that this must be carefully evaluated, given the need for any future payment system to demonstrate the expected regulatory levels of security and resilience of a Financial Market Infrastructure, as covered by the Committee on Payments and Market Infrastructures published principles...

RBS proposes that an evaluation of the key characteristics of centralised and distributed systems is undertaken and that these are aligned to the major drivers/requirements of the simplified framework (payment system). For example, a centralised system tends to be strong on control and security whereas a distributed system may be considered stronger on flexibility, accessibility and transparency.

RBS considers that any investment in a new simplified system is likely to require a combination of these characteristics with a lightweight central entity that would oversee the scheme (e.g. publish rules, manage systemic risk etc.).

RBS views distributed ledger technology as a significant development and one that should be explored further as part of the evolving strategy but believes that there are aspects of the technology and its management and control that require further development and proving before it should be used in a critical national infrastructure (e.g. protection from manipulation by nation states, implications of full ledger transparency, and national agreement on protocol, mediation and resolution of ledger disputes).

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

RBS considers that clear decisions need to be made on the prioritisation of the Forum's proposed solutions and their design and delivery sequencing.

Depending on what is agreed, this may see other solutions take priority and thus resource (already in contention with resource to design and deliver e.g. PSD2/CMA/Open Banking), so making the simplified framework a less immediate priority.

As certainty emerges on other developments, this would give time to consider options for the new payment infrastructure and their socialisation with the payments and user communities to develop consensus on approach and timing.

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?

RBS is supportive of the aim for competition and agility and recognises and supports the need for change in the way the existing payment systems operate. What is meant by 'existing arrangement' is not clear in this context and suggests that it is referring perhaps to PSO structural consolidation.

It is imperative that a vision is produced with a compelling rationale for change that all stakeholders can support. It is particularly important that the vision motivates self-migration of key stakeholders, especially new and existing PSPs, to the new system through a strong benefits case.

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

The package of proposals does outline an attractive vision for a simplified payments framework and as stated earlier, RBS supports the principle of simplification.

However, further work is required to develop and expand the vision for a Simplified Payments Platform, how it addresses the key detriments, to clarify the benefits for each stakeholder group, and to explain what it means to the existing payment instruments, customer propositions and an assessment of how migration could be achieved.

We do not think that the PSF or wider industry should underestimate the challenge of the design and transition to a new payment system. We also believe it essential to continue the UK's ubiquity of payment choice for all types of end user and to ensure a transition takes place over a relatively short time period, to deliver end-user benefits and a cost-effective outcome.

The reference to the Bank of England's RTGS review and its underlying infrastructure renewal illustrates how much more there will be to consider in developing a new payments system e.g. how will settlement messages be communicated to participants e.g. an ISO20022 message via a conventional messaging platform or a dedicated blockchain.

We are mindful that with the Market Review on Infrastructure Provision, and the likelihood of potential new infrastructure providers in the UK market, investment decisions may need to be made in the relative near term. This may impact these proposals and should be considered early in the solution evaluation and scheduling phase.

We are aware too that both Faster Payments and Bacs have infrastructure contract renewal in the medium term. These are large and complex exercises, requiring clear planning and early consideration. Given the Market Review, we expect full competitive procurement exercises to be run, taking potentially longer. How this will overlap with SPP considerations needs to be carefully considered.

We also consider it possible that some of the detriments could be addressed by adjusting the existing indirect / agency access terms and conditions and support the emergence of aggregator propositions, certainly to support a medium term decision making on a new payments infrastructure

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?

RBS believes further work is needed on the solutions and migration approach, as described in answer 20 above, before agreement can be reached.

The vision and drivers for a Simplified Payment Platform need to be expanded to cover all stakeholder groups and to ensure the solution addresses their needs in an holistic and integrated fashion.

The solution is currently technology focused and this needs to be broadened out to address in detail the customer proposition and payment instrument implications.

The timescale proposed for the solution, in the context of other mandatory industry change such as CMA remedies/PSD2/Open Banking, as well as the EU General Data Protection Regulation and 4th Money Laundering Directive is challenging. RBS believes it is important that the approach and sequencing of solutions is framed in the context of all relevant regulatory and payment scheme initiatives.

A first key step is the definition and delivery of the Open Access API and its introduction alongside existing schemes. RBS suggest there may be a better approach to delivery of this capability (see next section for details)

Learnings from other recent market introductions of Immediate Payment technology should be sought, and analysis in depth undertaking of what worked well, what did not and applied to the Simplified Payment Platform.

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

Historically, substantial change to existing, well established and highly embedded (in differing ways) systems that span many organisations is fraught with difficulties, due to multiple stakeholders with differing interests in minimising the change implications on their existing architecture and the way in which it implements the various payment schemes.

RBS suggests that a Greenfield approach to delivery, supported by development and consultation on a national plan for payment scheme infrastructure renewal, migration and decommissioning would be the most effective way to bring forward the anticipated benefits.

RBS also suggests assessment of an alternative initial sequencing approach is considered so message conversion is performed by a central service aligned to the relevant payment system, rather than by each PSP or potentially corporate user requiring to map separately. This approach would have the following benefits:

- It would help accelerate direct access by new PSPs, by avoiding the need to wait for all existing PSP access layers to be converted to ISO20022;
- It reduces the volume of change needed to be supported by existing PSPs in the short to medium term;
- It would enable the entity overseeing the Simplified Payment Platform to focus on the design and delivery of a simplified ISO20022 compliant payment, working closely with the PSOs who have the greatest knowledge and understanding of how each scheme operates;
- It would mean existing schemes would support core payment functionality in their existing and ISO20022 compliant formats

Ahead of implementation sequencing being agreed, any new core payment messages (SDM) should be identified and harmonised against the current scheme messaging first. This would be the critical first step towards definition of the new Access layer and messaging standard.

QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

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

Further consideration is needed once clarity is established between the detriments, the strategy and the proposed solution. A similar approach to the one proposed by the CMA using an independent Implementation Entity could be appropriate.

RBS thinks that it will be necessary to have a collaborative Implementation Entity for the Forum's Strategy, which evolves from the CMA Implementation entity.

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

RBS anticipates that given the nature of the proposed potential changes, that there will be regulatory oversight from several regulators, but as a minimum the PSR and Bank of England. We would also expect strong interest from HMT.

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

Further work is required to define the various options and assess their benefits and limitations.

RBS notes that past, and indeed current, developments, such as that on APIs linked to the CMA remedies, rely on larger PSPs funding them. Whilst such a principle may remain relevant for certain future developments, RBS considers that as infrastructure competition becomes more open, with potentially more providers and thus wider options for PSPs, a more commercial funding model is likely to be required. We recommend that this is considered as part of the delivery modelling.

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?

As indicated above, RBS believes that the key recommendations made in the Strategy should be the subject of business case analysis – incorporating societal as well as financial benefits.

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

RBS agrees that the costs identified are valid categories but considers them insufficiently wide-ranging to cover the types of cost in major change programmes.

These involve as a minimum:-

1. New control and risk model development;
2. Staff training and communication;
3. Customer communications and potentially full customer terms and condition changes;
4. PSPs that support indirect PSPs will need to engage and update their indirect access proposition to be compliant.
5. Post implementation monitoring

On benefits, we also consider that although wide-ranging detriments were identified, it is only to a limited extent that formal benefit evaluation has been undertaken e.g. for which users, how many and to what extent.

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

RBS has responded to the request for cost information to PSR in connection with the Accenture work programme.