Payment Systems Regulator

Lowering risks to delivery of the NPA: Draft Specific Directions

Stakeholder submissions to consultation CP21/8

February 2022

Contents

Names of individuals and information that may indirectly identify individuals have been redacted.

Access PaySuite Limited

Lowering risks to delivery of the New Payments Architecture – Annexes 3 and 4 Draft Specific Directions

September 2021

Response from Access PaySuite Ltd

Access PaySuite Limited

Date: 9 September 2021

Version: 1.0 FINAL

Assignment: PSR Consultation – NPA Annexes 3 and 4 Draft Specific Directions

[redacted]

[redacted]

This paper sets out Access PaySuite's response to "Annexes 3 and 4: Draft Specific Directions" which propose varying Specific Directions 2 and 3 as part of the Payment Systems Regulator's (PSR) consultation on the delivery and regulation of the New Payments Architecture (NPA).

About Access PaySuite Limited

Access PaySuite Limited is a leading Bacs Approved Bureau and FCA regulated Payment Institution currently submitting over £6b in total Bacs Direct Debit and Bacs Credit volume. Access PaySuite is part of the Access Group which is a leading provider of business management software to mid-sized organisations. It helps more than 35,000 customers across commercial and not-for-profit sectors become more productive and efficient. Its innovative Access Workspace cloud solutions transform the way business software is used, giving every employee the freedom to do more. Founded in 1991, The Access Group employs more than 3000 staff. For more information about The Access Group, visit www.theaccessgroup.com.

Author: [redacted]

General Comments

Notwithstanding the fact that it is four years since SD 3 and SD 4 were first directed to the operator of the Bacs and Faster Payment schemes and five years since the Payments Strategy Forum (PSF) set outs its 'blueprint' strategy we agree that the current position of the New Payments Architecture procurement process necessitates that SD 3 and SD 4 are revised. Access PaySuite welcomes the opportunity that the PSR has given to provide comments on the proposed revised statutory instruments.

We agree that the proposed revisions to the Specific Directions are required to reflect the narrow 'Faster Payments first' strategy published by the PSR in July 2021.

SD2 (Procurement: Bacs)

Access PaySuite welcomes the requirement for the payment system operator to consult in relation to any new contract or the extension of an existing contract as part of the PSR's non-objection process and that the PSR will take into account the conclusions of the consultation.

Whilst we welcome the requirement on the operator to report to the PSR on work considering the future of the Bacs system and the services it operates, we would argue that a first reporting date of the 30 June 2022 is too far out. The future strategy for Bacs 'push' payments (Direct Credit) needs to be considered as part of the 'Faster Payments first' strategy.

In a similar vein, we'd argue that innovation and developments in 'pull' payments (Direct Debit) has diminished over recent years, that both the scheme that the strategy has been set in aspic and that Direct Debit faces an immediate threat / opportunity from Open Banking Variable Recurring Payments (VRPs). On this basis, we urge the PSR to reconsider the scope and timeline of a review of the Bacs system, the schemes it operates and consider whether these services sit within or outside of the proposed New Payments Architecture.

We note that any functionality to enable or prepare for the migration of Bacs Direct Credit and / or Direct Debit can only be included in scope if Pay.UK specifically ask the PSR and they subsequently agree. There is a suggestion in the PSR's policy document that the outcome of work on the long-term strategy of Bacs might lead to more radical solutions for the future of the UK's bulk ACH transactions. That said, the PSR suggest that work to define the future strategy for Direct Debits can be deferred while Pay.UK gets the initial CIS procurement back on track. Given the role of Direct Debit in the nations payment habits and the threat and / or opportunity provided by Open Banking Variable Recurring Payments (VRP's) we are concerned by such a deferral.

We are concerned by the apparent lack of a clear timeline for the procurement of Bacs services being set out in the revised Specific Direction. This appears to be inconsistent with the approach taken for Faster Payments in the revised SD3 and, given the underlying end user dependency on the Bacs services, continued uncertainty is unhelpful.

We think it would be helpful for the minimum reporting criteria described in section 3.3b to include the consideration of alternative replacement options other than a new central infrastructure contract.

We are supportive of the reporting requirement on payment migration from Bacs to the NPA (3.3e) but note that the proposed reporting timescales and the narrow 'Faster Payments first' strategy may result in the fulfilment of this criteria being too late to be resolved via the proposed NPA procurement timeline.

It is our view that there is an urgency to consider the future of the Bacs system and the services it offers and, whilst we are supportive of the need for the operator to report to the PSR, we believe that the first reporting date of 31 March 2022 should be brought forward.

SD3 (Procurement: FPS)

We note the 1 April 2026 milestone for Faster Payments and calculate that this will be nine years since the original Specific Direction was issued and ten years since the PSF 'blueprint' strategy was published. Whilst it is not possible to address the pathway to this point, we urge the PSR to ensure that a realistic and robust programme plan with appropriate accountabilities is set by the payment system operator and measured by the PSR that ensure that the revised milestone is achieved.

Para 3.4 proposes a new clause (2.3a) which sets out the approach to both minimum and additional scope for a central infrastructure contract. We have a concern over potential unintended consequences of this approach.

As a minimum the mandated narrowed scope of the CIS contract must "…buy services needed to support single-push payments (which will allow **most** Faster Payments transactions to migrate to the NPA)." This minimum mandated scope has the potential to prevent some of today's Faster Payment variations from migrating to the proposed NPA. It also enables the development of future Faster Payment variants to become a later optional extra. On the face of it rather than the NPA delivering Faster Payments 2.0 there is a danger that the NPA may actually only deliver Faster Payments 0.9 and constrains the objective of innovation and increased competition.

As part of its non-objection process, we welcome the fact that the PSR recognises the need for the payment system operator to have undertaken consultation, that the PSR will take the consultation into account and that competition and innovation will form part of the non-objection process.

Similar to our view expressed regarding SD2 we welcome the reporting requirements set on the payment system operator but believe that the first reporting date of 31 March 2022 should be brought forward.

<END>

HSBC Bank plc

HSBC BANK PLC

LOWERING THE RISKS TO THE DELIVERY OF THE NEW PAYMENTS ARCHITECTURE

CONSULTATION PAPER

RESPONSE TO PSR CONSULTATION PAPER CP21/8

9 SEPTEMBER 2021

COVER SUBMISSION

HSBC Bank PLC ('**HSBC'**) welcomes the PSR's policy statement on lowering the risks of delivery of the New Payments Architecture ('**NPA**') and the consultation on the associated legal instruments.

Overall, we support the PSR's policy response and the approach set out to require Pay.UK to narrow the scope of the CIS contract, as a minimum, to the services needed to support single push payments, with the potential for additional services and system functionality, subject to PSR non-objection. This brings much needed clarity to the procurement scope for the NPA and will lower the risks to NPA delivery by reducing the complexity of the NPA programme.

HSBC's view is that a key reason why Pay.UK has found it difficult to make progress on the NPA programme to date, is the sheer scale and complexity of the transformation. The Faster Payments elements are more straightforward, given the parallels between the way Faster Payments works today and the planned Single Immediate Payment 'rail' for the NPA. Bacs is more complex, entrenched in business process with more than one payment type, which operates under a very different processing, clearing and settlement model to the Payment Strategy Forum vision.

HSBC therefore also welcomes the policy statement in relation to Bacs. Further work on the future long-term strategy for Bacs is essential and we support the approach planned that will help ensure transparency and keep the matter high on the industry's agenda. Removing the current compliance deadline of 2 December 2023 for Specific Direction 2 ('**SD2**'), with the power for the PSR to give Pay.UK notice of a new date should that be appropriate, is a pragmatic and sensible approach that will allow industry to focus on delivering the CIS for single push payments on the NPA, without an arbitrary date being set in relation to Bacs.

1. **Do the draft changes to SDs 2 and 3 effectively implement our decisions?**

1.1 HSBC's view is that the proposed draft changes to SDs 2 and 3 will effectively implement the PSR's decisions.

1.2 The obligations on Pay.UK to carry out a competitive procurement process will remain and must deliver the right end user outcomes and value for money. The variations to SDs 2 and 3 enable the phasing of the NPA's development, without setting an arbitrary date for Bacs or precluding the requirement for a second procurement phase. For example, if services to support the migration of Bacs transactions are provided by the market or further analysis demonstrates that these transactions should continue to be delivered through a separate infrastructure.

2. **Is the proposed deadline for SD3 reasonable?**

2.1 The proposed deadline for SD3 (1 April 2026) is described as the date by when the PSR reasonably expect payments will no longer be processed by the Faster Payments central infrastructure.

2.2 We note that the date has been informed by Pay.UK's baseline plan, which is currently assuming that the NPA will go live in mid-2024, with formal industry migration lasting up to 18 months, under a scope of a narrowed CIS contract (in line with the PSR decision) and a competitive procurement process.

2.3 The policy statement notes that Pay.UK has sought input from a number of stakeholders in developing the plan and for these reasons, it is considered a reasonable basis for setting the amended SD3 deadline, noting that significant work remains. There is therefore a continued risk of setting a deadline now, without a clear understanding of the steps and developments needed.

2.4 HSBC does not have sufficient information from Pay.UK to provide assurance that the deadline for SD3 is achievable. There are a number of significant dependencies and we note the following important points:

- At this stage of the NPA programme, no requirements, draft rules or business artefacts have been issued to proposed NPA Direct Participants. On a practical note, this means there is still very little detail for firms to define funding and resource requirements. To achieve the proposed date, HSBC urgently need timely, comprehensive and clear requirements and rules, from which we can develop an internal plan, and then to devise a robust test plan to ensure a smooth implementation for our customers that rely on Faster Payments.

- Risks, end user impacts, corporate customer impacts or the expectations and requirements on indirect participants (and their readiness to consume the change) are not yet fully understood and need careful consideration. We do not have confidence today that there is a clear view of the risks associated with the migration neither has the industry agreed a collective risk appetite to manage the transition effectively.

- The scope and governance structure for the CIS with the provision of overlay services and multiple bilateral contracts is not yet defined. This proved challenging and complex during the adoption for Confirmation of Payee and will require careful definition for the NPA. It is critical that we get the right governance arrangement in place with appropriate transparency and consideration of interparty liability both from a payment architecture and participant perspective.

- A further dimension to the risk of successful delivery against the timeframe proposed by Pay.UK is the sequencing of change within the NPA and the elapsed time to deliver all in-scope NPA components.

- The UK payments industry is operating during a period of unprecedented change and the NPA transformation has to be carefully sequenced and overlaid against the complexity of wider ISO 20022 required changes across the payments landscape; and the expertise and executive attention available within banks to support and direct this effectively and safely.

- The table below, which we provided in our response to the February 2021 consultation on the delivery and regulation of the New Payments Architecture (CP21/2) illustrates the breadth of current regulatory change. This table is restricted to key ISO 20022 developments and does not include wider regulatory change, which all has to be delivered safely over the same period.

Key ISO 20022 Industry Milestones	Date
CHAPS – introduction of ISO 20022 like-for-like messaging standards	June 2022
SWIFT – start of ISO 20022 and MT co-existence period	November 2022
Fedwire / CHIPS – Phase one of the introduction of ISO 20022	November 2022

Key ISO 20022 Industry Milestones	Date
Target 2 / Euro 1 / CHIPS – Migration to ISO 20022	November 2022
CHAPS – introduction of enhanced ISO 20022 messaging standards	February 2023
SWIFT – end of ISO 20022 and MT co-existence period	November 2025

- [redacted]
- We have to bring our customers with us on this transformation journey and there may be a limit for how much change customers (consumers and businesses and indirect access participants) can embrace within a given period.

3. Do you have any other comments on how the proposed changes to SDs 2 and 3 have been drafted?

3.1 HSBC have no further comments, other than we look forward to continuing to engage with both the PSR and Pay.UK on the developments linked to SD2 and SD3.

HSBC UK Bank plc

HSBC UK BANK PLC

LOWERING THE RISKS TO THE DELIVERY OF THE NEW PAYMENTS ARCHITECTURE

CONSULTATION PAPER

RESPONSE TO PSR CONSULTATION PAPER CP21/8

9 SEPTEMBER 2021

COVER SUBMISSION

HSBC UK Bank PLC ('**HSBC UK'**) welcomes the PSR's policy statement on lowering the risks of delivery of the New Payments Architecture ('**NPA**') and the consultation on the associated legal instruments.

Overall, we support the PSR's policy response and the approach set out to require Pay.UK to narrow the scope of the CIS contract, as a minimum, to the services needed to support single push payments, with the potential for additional services and system functionality, subject to PSR non-objection. This brings much needed clarity to the procurement scope for the NPA and will lower the risks to NPA delivery by reducing the complexity of the NPA programme.

HSBC UK's view is that a key reason why Pay.UK has found it difficult to make progress on the NPA programme to date, is the sheer scale and complexity of the transformation. The Faster Payments elements are more straightforward, given the parallels between the way Faster Payments works today and the planned Single Immediate Payment 'rail' for the NPA. Bacs is more complex, entrenched in business process with more than one payment type, which operates under a very different processing, clearing and settlement model to the Payment Strategy Forum vision.

HSBC UK therefore also welcomes the policy statement in relation to Bacs. Further work on the future long-term strategy for Bacs is essential and we support the approach planned that will help ensure transparency and keep the matter high on the industry's agenda. Removing the current compliance deadline of 2 December 2023 for Specific Direction 2 ('**SD2**'), with the power for the PSR to give Pay.UK notice of a new date should that be appropriate, is a pragmatic and sensible approach that will allow industry to focus on delivering the CIS for single push payments on the NPA, without an arbitrary date being set in relation to Bacs.

1. Do the draft changes to SDs 2 and 3 effectively implement our decisions?

1.1 HSBC UK's view is that the proposed draft changes to SDs 2 and 3 will effectively implement the PSR's decisions.

1.2 The obligations on Pay.UK to carry out a competitive procurement process will remain and must deliver the right end user outcomes and value for money. The variations to SDs 2 and 3 enable the phasing of the NPA's development, without setting an arbitrary date for Bacs or precluding the requirement for a second procurement phase. For example, if services to support the migration of Bacs transactions are provided by the market or further analysis demonstrates that these transactions should continue to be delivered through a separate infrastructure.

2. Is the proposed deadline for SD3 reasonable?

2.1 The proposed deadline for SD3 (1 April 2026) is described as the date by when the PSR reasonably expect payments will no longer be processed by the Faster Payments central infrastructure.

2.2 We note that the date has been informed by Pay.UK's baseline plan, which is currently assuming that the NPA will go live in mid-2024, with formal industry migration lasting up to 18 months, under a scope of a narrowed CIS contract (in line with the PSR decision) and a competitive procurement process.

2.3 The policy statement notes that Pay.UK has sought input from a number of stakeholders in developing the plan and for these reasons, it is considered a reasonable basis for setting the amended SD3 deadline, noting that significant work remains. There is therefore a continued risk of setting a deadline now, without a clear understanding of the steps and developments needed.

2.4 HSBC UK does not have sufficient information from Pay.UK to provide assurance that the deadline for SD3 is achievable. There are a number of significant dependencies and we note the following important points:

- At this stage of the NPA programme, no requirements, draft rules or business artefacts have been issued to proposed NPA Direct Participants. On a practical note, this means there is still very little detail for firms to define funding and resource requirements. To achieve the proposed date, HSBC UK urgently need timely, comprehensive and clear requirements and rules, from which we can develop an internal plan, and then to devise a robust test plan to ensure a smooth implementation for our customers that rely on Faster Payments.

- Risks, end user impacts, corporate customer impacts or the expectations and requirements on indirect participants (and their readiness to consume the change) are not yet fully understood and need careful consideration. We do not have confidence today that there is a clear view of the risks associated with the migration neither has the industry agreed a collective risk appetite to manage the transition effectively.
- The scope and governance structure for the CIS with the provision of overlay services and multiple bilateral contracts is not yet defined. This proved challenging and complex during the adoption for Confirmation of Payee and will require careful definition for the NPA. It is critical that we get the right governance arrangement in place with appropriate transparency and consideration of interparty liability both from a payment architecture and participant perspective.
- A further dimension to the risk of successful delivery against the timeframe proposed by Pay.UK is the sequencing of change within the NPA and the elapsed time to deliver all in-scope NPA components.
- The UK payments industry is operating during a period of unprecedented change and the NPA transformation has to be carefully sequenced and overlaid against the complexity of wider ISO 20022 required changes across the payments landscape; and the expertise and executive attention available within banks to support and direct this effectively and safely.
- The table below, which we provided in our response to the February 2021 consultation on the delivery and regulation of the New Payments Architecture (CP21/2) illustrates the breadth of current regulatory change. This table is restricted to key ISO 20022 developments and does not include wider regulatory change, which all has to be delivered safely over the same period.

Key ISO 20022 Industry Milestones	Date
CHAPS – introduction of ISO 20022 like-for-like messaging standards	June 2022
SWIFT – start of ISO 20022 and MT co-existence period	November 2022
Fedwire / CHIPS – Phase one of the introduction of ISO 20022	November 2022

Key ISO 20022 Industry Milestones	Date
Target 2 / Euro 1 / CHIPS – Migration to ISO 20022	November 2022
CHAPS – introduction of enhanced ISO 20022 messaging standards	February 2023
SWIFT – end of ISO 20022 and MT co-existence period	November 2025

- [redacted]
- We have to bring our customers with us on this transformation journey and there may be a limit for how much change customers (consumers and businesses) can embrace within a given period.

3. Do you have any other comments on how the proposed changes to SDs 2 and 3 have been drafted?

3.1 HSBC UK have no further comments, other than we look forward to continuing to engage with both the PSR and Pay.UK on the developments linked to SD2 and SD3.

Lloyds Banking Group

LLOYDS BANKING GROUP PLC

Response to PSR Consultation P21/8 - Lowering risks to delivery of the New Payments Architecture

Submission Date 10/09/2021

Introductory Comments

Lloyds Banking Group (LBG) is pleased to respond to the Payment Systems Regulator's (PSR) consultation on lowering risks to delivery of the New Payments Architecture (NPA). We are committed to the vision of a UK domestic payments system that is resilient, adaptable and secure and which enables innovation and competition.

We support in principle the PSR's decision to narrow the scope of the NPA to those payments currently served by the Faster Payments service, whilst noting our support for a considered approach to Bacs migration and the resolution of the current challenges associated with Bacs manual processes.

We also welcome the PSR's decision to retain the obligation on Pay.UK to carry out a competitive procurement. However, we believe Pay.UK must justify its decision to continue with the previous paused procurement exercise instead of beginning afresh, to ensure the identified risks are addressed.

In response to the PSR's earlier consultation (CP21/2), we proposed that Pay.UK carries out a series of activities, including identifying and setting economic outcomes, ahead of commencing the NPA build. Our strong preference is still to pause the NPA programme whilst these activities are carried out. If such a pause is not implemented, then we strongly recommend that, as a minimum, the PSR sets a formal gateway for Pay.UK to produce an agreed industry plan that sets out economic outcomes, including but not limited to infrastructure development and customer protections underpinned by sustainable commercial models. In our view, the NPA build should not begin until such a plan is in place.

Narrowing scope and enabling Pay.UK to buy additional services and system functionality

We note the PSR's key decisions on these topics:

- requiring Pay.UK to narrow the scope of the CIS contract by mandating that it must, as a minimum, buy services needed to support single push payments; and
- enabling Pay.UK to buy additional services and system functionality if the PSR does not object to their inclusion in the CIS contract.

Whilst agreeing with the PSR's decision to narrow the scope of the CIS, we believe Pay.UK should consider the case for including within the NPA the provision of services to support bulk push payments in addition to single push payments. Such an approach could facilitate a migration over time from Bacs and support standing orders currently processed in bulk via Faster Payments.

Further, we believe there are significant inefficiencies in the manual processes within Bacs, which give rise to operational and resilience risks. We are pleased that Pay.UK has some of these processes marked for improvement on its roadmap, and we also note the PSR's statement that it expects incremental enhancements to the Bacs system and services to continue to be considered and taken forward by Pay.UK where there is sufficient stakeholder support to do so. **In the light of the factors we have outlined, plus the potential for Bacs to continue to operate for some years beyond NPA implementation, we ask that the PSR considers incorporating a reporting requirement under s.3 of SD2 to ensure Pay.UK provides regular updates on how it is taking forward the required Bacs improvements.**

Lastly, we strongly believe there should be provision in the NPA for enhanced customer protections supported by a sustainable commercial model that incentivises all participants in the payments network to contribute fairly to the cost of protections and reducing fraud. We believe Pay.UK must consider its approach to customer protections further ahead of building the NPA, as we set out below in response to Q2, and only proceed with the NPA once an agreed plan is in place to deliver customer protections under a new economic model.

Retaining the competitive procurement obligation

The PSR's key decision is to retain the obligation on Pay.UK to carry out a competitive procurement.

We greatly welcome this decision. However, we note the PSR has chosen to mandate only that procurement is carried out on a competitive basis, which provides the flexibility for Pay.UK to either continue with the existing procurement exercise or begin a new exercise. In our view, there are risks in relation to continuing with the existing procurement. We still believe that a new competitive procurement would be the optimal approach. However, we note that Pay.UK has decided to continue with the existing procurement exercise. We therefore ask that the PSR considers mandating Pay.UK to report on its decision-making process including how it has taken adequate steps to address / mitigate the risks identified. Such an approach would facilitate confidence and transparency in relation to the rigour of Pay.UK's decision making.

Reporting on the future long-term strategy for Bacs

The PSR's key decision is to require Pay.UK to provide reports at specified intervals on its planning activity and subsequent steps taken to progress work on the future long-term strategy for Bacs.

We support this requirement. There are various ways that the payments currently processed via Bacs could be taken forward via the NPA, and it could take some years before migration takes place. We therefore agree the requirement for regular reporting is necessary, in addition to the reporting we have proposed on addressing current Bacs challenges.

The proposed deadline for SD3

We recognise the PSR's rationale for the proposed April 2026 deadline in that this aligns to Pay.UK's baseline plan. However, whilst understanding the rationale, we have significant reservations about Pay.UK's ability to meet this deadline and carry out the additional work we believe is crucial to the success of the NPA.

In response to CP 21/2, we said Pay.UK should pause the NPA programme whilst it carried out activities including undertaking a global benchmarking and learning exercise, devising clear economic outcomes and objectives, developing a technological roadmap and embedding effective governance.

We said Pay.UK should consider measurable economic outcomes and objectives, including lowering run costs for participants, fairer cost allocations, a data sharing strategy, facilitating appropriate enhanced customer protections underpinned by a sustainable economic model and providing truly instant payments and offer instant settlement.

Our clear preference is still for Pay.UK to pause the NPA programme until it has carried out the activities we have outlined, including setting economic outcomes and objectives, and developed a plan for addressing the issues and risks we have identified. This process is vital to ensuring the NPA delivers the required outcomes. If the PSR was to implement a pause, then we could envisage the proposed 2026 deadline being extended by at least twelve months enabling full consideration of all the aspects we have suggested.

If such a pause is not implemented, then we strongly recommend that the PSR makes provision in its reporting requirements for a formal gateway process, requiring Pay.UK to report on progress in setting and delivering economic outcomes. This plan would include, but not be limited to, infrastructure development and customer protections underpinned by sustainable commercial models. The NPA should not progress out of the procurement stage until an agreed industry plan is in place. Subject to a full assessment, we suggest it could be reasonable that Pay.UK takes until end-Q2 2022 to deliver such a plan, with the build and delivery scheduled to commence in Q3 2022 subject to approval at the gateway. The PSR could in turn extend its proposed deadline to October 2026.

Response to Consultation Questions

1. DO THE DRAFT CHANGES TO SDS 2 AND 3 EFFECTIVELY IMPLEMENT OUR DECISIONS?

1.1 LBG notes the PSR's key decisions:

(a) requiring Pay.UK to narrow the scope of the CIS contract by mandating that it must, as a minimum, buy services needed to support single push payments (which will allow most Faster Payments transactions to migrate to the NPA)

(b) enabling Pay.UK to buy additional services and system functionality (beyond that required to support single push payments) if the PSR does not object to their inclusion in the CIS contract;

(c) retaining the obligation on Pay.UK to carry out a competitive procurement; and

(d) requiring Pay.UK to provide reports at specified intervals on its planning activity and subsequent steps taken to progress work on the future long-term strategy for Bacs.

1.2 Having reviewed the draft changes to SD2 and SD3 against the PSR's explanation of its key decisions, we are satisfied that the changes effectively implement these decisions. However, we have comments and requests for further consideration by the PSR on some key matters as follows.

Narrowing scope and enabling Pay.UK to buy additional services and system functionality

1.3 By way of recap, we agree with the PSR's decision to narrow the scope of the CIS contract to procuring clearing and settlement services plus common services to support FPS migration. However, in response to CP 21/2 (Delivery and Regulation of the NPA), we stated our view that the procurement scope should include the provision of services to support bulk push payments in addition to single push payments. We noted that FPS already facilitates bulk standing order payments, so it was not apparent that there would be a significant leap to incorporating the provision of bulk payments. We said that such an approach could facilitate a migration over time from Bacs.

1.4 Whilst the PSR has decided not to mandate the provision of services to support bulk push payments, we note it states it is content for Pay.UK to do further work over the coming year on the trade-offs of including, within the CIS contract, additional services and system functionality beyond that required to support single push payments. This includes examining the inclusion of file-based services and system functionality intended to make it easier to support further payment types and use cases in the future, for instance to help with a migration of Bacs transactions.

1.5 We still consider there should be inclusion of services within the NPA that facilitate bulk push payments within the CIS contract for the reasons stated. We are concerned about how standing orders will be facilitated in the absence of such provision. In the absence of a direct mandate from the PSR, we support the provision enabling Pay.UK to buy additional services and system functionality (beyond that required to support single push payments) if the PSR does not object to their inclusion in the CIS contract. We will continue to engage with Pay.UK in relation to this matter.

1.6 Further, we believe there are significant inefficiencies in the manual processes within Bacs, which give rise to operational and resilience risks. Examples of manual processes include Bacs recalls, adherence to Bacs Reversal processing, Bacs referrals, Direct Debit indemnity claims, unapplied payments, non-AUDDIS processing (paper Direct Debit Instructions) and the Credit Payment Recovery process. We are pleased that Pay.UK has some of these items marked for improvement on its roadmap, and we also note the PSR's statement that it expects incremental enhancements to the Bacs system and services to continue to be considered and taken forward by Pay.UK where there is sufficient stakeholder support to do so.

1.7 In the light of the factors we have outlined, plus the potential for Bacs to continue to operate for some years beyond NPA implementation, we ask that the PSR considers incorporating a reporting requirement under s.3 of SD2 to ensure Pay.UK provides regular updates on how it is prioritising and implementing the required Bacs improvements.

1.8 Lastly, we are strongly of the view that there should be provision in the NPA for enhanced customer protections for account-to-account payments. There are various ways this could be approached, which could potentially include the inclusion of centralised services within the CIS contract. Whilst the provision of overlay services underpinned by standards is likely to be the preferred approach, the consideration of the full range of options for customer protections should take place as a matter of priority to decide on the appropriate approach. We believe Pay.UK must consider its approach to customer protections further ahead of building the NPA, as we set out below in response to Q2.

Retaining the competitive procurement obligation

1.9 Regarding the PSR's decision to retain the obligation on Pay.UK to carry out a competitive procurement, we greatly welcome this. As we noted in response to CP21/2, the inherent discipline of well-functioning competitive markets results in the best outcomes for participants, end-users and society.

1.10 We note the PSR has chosen to mandate only that procurement is carried out on a competitive basis, which provides the flexibility for Pay.UK to either continue with the existing procurement exercise or begin a new exercise.

1.11 We also stated in response to CP21/2 that, in our view, continuing with the current procurement would carry a material risk that the issues identified by the PSR perpetuate. We said we were mindful that the current procurement was based on earlier assumptions that have evolved over time, and therefore it would be a backwards step not to consider any other potential providers. Lastly, we said procurement had been paused for almost twelve months and resurrecting it after such a time lapse risks giving rise to fatigue and disengagement. We noted that whilst continuing with the current procurement might potentially have the benefit of quicker delivery, and potentially lower procurement costs (although this is by no means certain), we did not support it overall.

1.12 We still believe that a new competitive procurement would be the optimal approach. However, we note that Pay.UK has decided to continue with the existing procurement exercise. In the light of the considerations we have set out, we ask that the PSR considers mandating Pay.UK to report on its decision-making process including how it has taken adequate steps to address / mitigate the risks identified. Such an approach would facilitate confidence and transparency in relation to the rigour of Pay.UK's decision making.

Reporting on the future long-term strategy for Bacs

1.13 Lastly, we support the requirement for Pay.UK to provide reports at specified intervals on its planning activity and subsequent steps taken to progress work on the future long-term strategy for Bacs. As we outlined in response to CP21/2, there are various ways that the payments currently processed via Bacs could be taken forward via the NPA, and it could take some years before migration takes place. It will be important that the requisite level of consideration, momentum, discipline, engagement and oversight is applied to the Bacs strategy, and therefore the requirement for regular reporting is necessary.

1.14 As already stated, we ask that the PSR considers incorporating a reporting requirement under s.3 of SD2 to ensure Pay.UK provides regular updates on how it is prioritising and implementing the required Bacs improvements.

2. IS THE PROPOSED DEADLINE FOR SD3 REASONABLE?

2.1 LBG recognises the PSR's rationale for the proposed April 2026 deadline in that this is the date when the PSR reasonably expect payments will no longer be processed by the Faster Payments central infrastructure based on Pay.UK's baseline plan, allowing for some contingency. However, whilst understanding the rationale, we have significant reservations about Pay.UK's ability to meet this deadline whilst carrying out the additional work we believe is crucial to the success of the NPA.

2.2 In response to CP 21/2, we proposed that Pay.UK should pause the NPA programme whilst it carried out the following activities:

- undertake a global benchmarking and learning exercise that analyses the capabilities and underlying infrastructure of recent instant payment systems in other jurisdictions;
- devise clear economic outcomes and objectives for the NPA;
- research and develop a technological roadmap for the NPA, with an emphasis on building the NPA in a Cloud-hosted environment; and
- put in place effective governance for the oversight of the development and delivery of the NPA.

2.3 We said Pay.UK should consider the following economic outcomes and objectives, which should be set with reference to particular timeframes and should be measurable:

- lowering run costs for participants compared with the present FPS costs;
- fairer cost allocations – for example, the costs of FPS payments are currently borne entirely by the sending payment services provider, which could lead to market distortions in an Open Banking environment;
- data sharing and how common data will be made available for the production of services that provide a societal benefit, such as fraud detection and mitigation, as well as frameworks for the commercialisation of data;
- facilitating appropriate customer protections, with Pay.UK using the reset to work up supporting frameworks for customer protections; and
- providing truly instant payments and offer instant settlement to support use cases where instant settlement is required – for example in relation to property purchases.

2.4 Our view remains that Pay.UK should carry out and measure progress against the above activities including setting economic outcomes and objectives. This will help ensure the NPA delivers the outcomes required by the PSR, including meeting the needs of participants and end-users and fostering further competition.

2.5 Our clear preference is still for Pay.UK to pause the NPA programme until it has carried out the activities we have outlined, including setting economic outcomes and objectives and developed a plan for addressing the issues and risks we have identified. This process is vital to ensuring the NPA delivers the required outcomes. If the PSR was to implement a pause, then we could envisage the proposed 2026 deadline being extended by at least twelve months, enabling full consideration of all the aspects we have suggested.

2.6 If such a pause is not implemented, then we strongly recommend that the PSR makes provision in its reporting requirements for a formal gateway process, requiring Pay.UK to report on progress in setting and delivering economic outcomes, ahead of commencing the NPA build. This plan would include, but not be limited to, infrastructure development and customer protections underpinned by sustainable commercial models.. Such an approach would align to the PSR's statutory objective to ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them

2.7 In our view the NPA should not progress out of the procurement stage until an agreed industry plan is in place. Subject to a full assessment, we suggest it could be reasonable that Pay.UK takes until end-Q2 2022 to develop the plan we have outlined, with the build and delivery scheduled to commence in Q3 2022 subject to approval at the gateway. The PSR could in turn extend its proposed deadline to October 2026.

3. DO YOU HAVE ANY OTHER COMMENTS ON HOW THE PROPOSED CHANGES TO SDS 2 AND 3 HAVE BEEN DRAFTED?

3.1 LBG has no further comments on how the proposed changes to SDs 2 and 3 have been drafted.

Nationwide

PSR Consultation on Varying SD2 and SD3 (CP21/8)

Response from Nationwide Building Society

About Nationwide

As a Society of nearly 16 million members with a balance sheet of £236 billion, Nationwide is a systemically important financial institution in the UK. We are focused on retail financial services products. Nationwide is a top three provider of mortgages and savings accounts and has just under 10% share of the current account market.

We have supported the development of the Payment Systems Regulator (PSR) and its work over recent years, notably through our contribution to the Payments Strategy Forum, ongoing input into the development of the New Payments Architecture (NPA), recent efforts to combat Authorised Push Payment scams, and in responding to the PSR's Strategy Consultation. We value the emphasis on competition, innovation and service in the PSR's objectives.

With this in mind, Nationwide's headline positions on this consultation are:

- We broadly agree that the draft changes to SDs 2 and 3 to implement the decisions of the PSR. We suggest that the PSR be mindful not to impact thinking/analysis on the future of Bacs payments, or their equivalent or indeed improved replacements while exercising SD2 and SD3 as legal instruments. As NPA develops with its primary focus on Faster Payments, part of the analysis and strategy for Bacs should consider levering the NPA push capability as a foundation for transactions that are equivalent to, or indeed improvements over the existing Bacs equivalents, including scheduled payments.

  We feel clarity about the migration period would be helpful. The Consultation document says that 'most' Faster Payments will migrate over the 18 month migration period. The timing and possible overlap is an important dimension as operating and funding both the NPA and legacy Faster Payments scheme will have implications – but the industry may be best placed to manage this with participants having the responsibility to pay where they continue to use the heritage system.

- We suggest that SD3 is changed to reflect 1 April 2026 as the date when most Faster Payments are made using the NPA, rather than that being the date the service has to have been competitively procured by. We acknowledge that the initial reduction in the scope of the NPA should help ensure a quicker delivery and therefore the 1 April 2026 implementation date appears appropriate and attainable.

- Within the scope of SD3, the 'central infrastructure contract' includes all the regulated payment systems designated by HMT that process single push payments, which could mean that CHAPS payments are deemed in scope. We suggest that the amendment to the definition of 'central infrastructure' is reviewed to clarify and remove any ambiguity.

- On a specific scoping element, in the long term we feel it important to allow account redirection information to be shared to other competing systems. As a principle, this will require the NPA to avoid excessive vertical integration and be more loosely architected and API enabled thereby allowing participants and other payment systems to understand whether the destination account has moved and allow for that in their routing. As such, we would hope that Pay.UK be encouraged to consider making redirections an open facility, rather than a closed one.

- There are currently no timings for the procedural steps if the 'no objection' route is followed, and no indicative timeline for the action that the PSR has to take to enact its 'no objection'. The PSR can also attach conditions to a 'no objection'. We ask the PSR to provide clarifying timescales and parameters in relation to these points.

1. Do the draft changes to SDs 2 and 3 effectively implement our decisions?

We broadly agree that the draft changes to SDs 2 and 3 implement the decisions of the PSR, with several points requiring some clarification, that we will expand upon below.

We think that one of the key debates stemming from this consultation is about whether the PSR is being too controlling/restrictive, by necessitating that Pay.UK should seek 'non-objections' from the PSR on developments relating to the Central Infrastructure Service (CIS) contract and future long-term strategy for Bacs payments. There are certainly contrary standpoints that perhaps the PSR is being helpful to the industry by being so prescriptive, giving clear direction to Pay.UK and then monitoring developments through reporting at regular intervals.

However, we are concerned that this introduces risks of organic competition and innovation in the market being stifled, which could have a detrimental effect on future outcomes for Bacs payments. However, we are comforted that because of the PSRs statutory objective to promote effective competition, that any non-objection requests will be considered objectively against that backdrop.

To this end, we suggest that the PSR be careful not to adversely impact thinking/analysis on the future of Bacs payments, while exercising SD2 and SD3 as legal instruments. We expect Pay.UK's thought-leadership role to be bolstered by it having a legal obligation to progress Bacs strategy in the NPA and report to the PSR on progress. We would urge the right balance here between organic innovation in the Bacs space and the controls being applied – Bacs payments are so important to money transmission in the UK economy that they, or their potential replacements, should always be on our collective radar and as we have stated in our opening comments, the NPA's potential as a platform for new payments that are the equivalent of, or improvements upon, existing Bacs payments should be explored.

As we state in our opening comments, we seek clarity about whether all Faster Payments will migrate on to the NPA, as the Consultation document says that 'most' will migrate over. We are interested in understanding what types of Faster Payment are envisaged to be staying on the legacy infrastructure, for what period, and why.

To illustrate the point made above, provided that the submission to the central infrastructure and the output from the central infrastructure happen on the same day, the Faster Payment will be a Single Push Payment within the definition provided by SD3, that should travel via the NPA. There appears to be an implication that if not all Faster Payments sent go through the central infrastructure on the same day, participants will have to maintain and support legacy systems – this may be appropriate as part of the industry's own management of the transition, as long as heritage services are paid for by those that use them.

Clarity on expectations around the timescales for Faster Payments is obviously important. As well as the implications for underlying systems, which ideally are as efficient and resilient as possible, we need to consider when it will be correct to apply 'suitable friction' in order to better balance the service and security dynamics of high risk transactions. Can the PSR therefore confirm what it has in mind in the Consultation where it refers to 'most' Faster Payments migrating onto NPA?

2. Is the proposed deadline for SD3 reasonable?

The re-drafted SD3 refers to having a contract in place by 1 April 2026. In the consultation document, the PSR says that the original deadline of 30 June 2023 is deemed to be unrealistic, so the deadline is being extended to 1 April 2026. This is the date by which payments can no longer go through the existing Faster Payments system, however it is not the start date for the NPA. The PSR states in the Consultation that its current expectation is that NPA will go live in mid-2024 and that there will be an eighteen month implementation period – therefore, we suggest that SD3 is changed to reflect 1 April 2026 as the date when most Faster Payments are made using the NPA, rather than that being the date the service has to have been competitively procured by. Helpfully, there will be pressure to migrate all Faster Payment users across to the NPA as soon as possible, as we see no industry appetite to support dual running for any longer than is necessary. [redacted]

As noted in the above paragraph, the PSR expects the NPA to go live in mid-2024, and accordingly from mid-2024 to 1 April 2026 is envisaged for implementation and transition. Contrasting views are likely to be expressed by stakeholders that this 2026 date is pushed too far out (it represents a nearly ten-year period from when the Payments Strategy Forum undertook its work to formulate the blueprint for UK Payments), but others may feel the capacity and capability for NPA will require yet more time, including the resourcing of Pay.UK). Encouragingly, there will be more transparency with the new reporting requirements imposed on Pay.UK by the PSR, which should encourage Pay.UK to deliver on schedule. We anticipate that the PSR will be able to adjust the timeline and the obligations on Pay.UK via a variation to the SDs should that prove necessary.

The intervention of the PSR to narrow the NPA scope to just Faster Payments, and defer Bacs to a later date, is mitigation to try and ensure that something gets delivered quickly and cost-effectively, so we recognise that the PSR have made allowances already for the aforementioned challenge of a delivery of this size. We acknowledge the (initial) reduction in the scope of the NPA should help ensure a quicker delivery and therefore the 1 April 2026 implementation date, see previous comment above, appears appropriate and attainable.

Another important strand underpinning efforts to safely adhere to the new 1 April 2026 compliance deadline relates to ongoing Pay.UK activities to renegotiate and renew the existing central infrastructure contracts with Vocalink for Faster Payments and Bacs payments. Hopefully these will not be objected to by the PSR, allowing for a possible extension to the year 2027, which builds in some contingency.

3. Do you have any other comments on how the proposed changes to SDs 2 and 3 have been drafted?

<u>Commercial Market</u>

By decoupling the procurement of Faster Payments and Bacs central infrastructure, a number of commercial risks are introduced that we encourage the PSR consider and by consequence, Pay.UK to proactively manage. Through a combined procurement activity, it was envisaged that economies of scale and inherent organisational cooperation would be present through the awarding of a single contract to a single, or consortium of organisations.

By separating, the following risks are noted:

- Economies of scale are potentially reduced.
- Should there be deviation from core standardised practices, use of bespoke, organisational unique languages or standards, there is a risk of restricted future competition with some potential competitors not having these unique capabilities to compete for SD3.
- Cooperation and sharing of Faster Payments confidential information across organisations for interoperability with Bacs or efficient transactional flows, potentially controlled under intellectual property rights, will be required.
- Unsuccessful vendors from the combined FP and Bacs tender will likely be disengaged, having incurred high bid costs, leading to position of ‘no bid’ when SD3 is tendered and therefore reduced competition.
- It is assumed that working with a single organisation, or single eco-system for SD2 and SD3 is optimal; the supply chain for Faster Payments will be aware of this and it would be likely without commercial mitigation inserted into any Faster Payments first agreement, that pricing will be subject to higher levels in the future.

<u>Reporting/Governance Requirements of Pay.UK</u>

The reporting requirements relate only to delivery of the NPA and the future strategy for Bacs payments, they are not intending to provide a wider view of Pay UK governance. If we consider the reporting requirements through that lens, then on review of the detail in Section 3 of SD2 and SD3, they appear quite comprehensive and fit for purpose. A slight concern is that the PSR can vary the content and frequency of the regular reports that Pay.UK has to provide (3.7 of SD2, 3.2 of SD3), but there is no minimum notice period required for these changes. We think this could this cause a lot of disruption to Pay.UK, for example if the PSR makes significant changes to the reports at short notice.

In addition, more direction could be given by the PSR on how it expects Pay.UK to consult with industry and end-users when making non-objection requests. Currently industry engagement is through the Strategic Participant Group (SPG), but there is a risk of this group not addressing all end-user needs if the participation is limited. With this in mind, and in the wider context of the PSR's Strategy consultation, we would recommend a specific focus on how all stakeholders, including participants and the PSR itself, can best support Pay.UK in effective governance of the NPA and indeed around other developments that are on the horizon for the UK's retail interbank payments such as consumer protections and more.

<u>Continued as-is funding model of NPA</u>

Since the launch of Pay.UK and the contribution through participant funding towards a common ISO20022 set of standardised payment rails, members' funding has been scoped against the transformation of Faster Payments and Bacs combined. It may be disputed that these fees have not delivered the intended value to participants with these changes to SD2 and SD3; we would encourage greater focus on cost-efficiency and transparency of spend to provide participants a greater level of confidence that funding is being spent in the best interests of our customers.

<u>Definition of Single Push Payment</u>

There is a possible issue with the scope of SD3, in that the 'central infrastructure contract' includes all the regulated payment systems designated by HMT that process single push payments. While we believe that the intention here is to future proof the CIS to accommodate new payment types, as currently drafted this could bring CHAPS payments into scope. We suggest that the amendment to the definition of 'central infrastructure' is reviewed to provide clarity and remove any ambiguity on this point. It may be the intention of the PSR to focus solely on Faster Payments here and if so, perhaps an amendment would help. That said, we recognise that some payment developments, such as the Confirmation of Payee overlay, can apply across different payment types – whether retail or wholesale – but for this specific contract, we assume Faster Payments is the scope.

<u>Redirections</u>

As we've stated earlier, and recognising the ambition we share in the industry for competition, we feel it important to allow account redirection information to be shared to other competing systems. A redirection facility should be 'open' and not 'closed', enabling participants to route effectively and efficiently where destination accounts have moved. As such, we would hope that Pay.UK be encouraged to consider making redirections an open facility, rather than a closed one.

<u>Procedural Timings</u>

As drafted, there are currently no timings for the procedural steps that have to be taken if, for example, Pay.UK decide to go down the 'no objection' route (e.g., in 2A.3 and 2A.5 of both SDs). There is currently no indicative timeline for the action that the PSR has to take to enact its 'no objection'. The PSR can also attach conditions to a 'no objection', and there are no parameters around that. We ask the PSR to provide clarifying timescales and parameters in relation to these points.

Contact details:

[redacted]
Payments Industry Team
Nationwide Building Society

[redacted]

<u>Freedom of Information Act 2000 (FOIA)</u>

For the purposes of FOIA, your organisation is a Public Authority. We are providing the information in this submission on the condition that, in the event you receive a FOIA disclosure request in relation to any of the information it contains, you will, as soon as reasonably practicable after receiving such a request:

1. Notify Nationwide Building Society of such a request by email addressed to the following [redacted] and [redacted]

2. Advise us of the extent to which the relevant request relates to Nationwide Building Society;

3. Take account of any representations made by Nationwide Building Society before reaching a decision whether to disclose the information;

4. Notify Nationwide Building Society of any decision to disclose the relevant information not less than one business day in advance of the disclosure being made.

Section 44(1)(a) FOIA provides an absolute exemption against the disclosure of information which is prohibited from disclosure under another statute. Therefore, information that comes into the hands of the PSR in the exercise of its competition and regulatory powers must not be disclosed other than in strict accordance with the provisions set out under section 91 Financial Services (Banking Reform) Act 2013. As such the information must not be disclosed other than in strict accordance with those provisions.

In addition, we would expect any such disclosure would fall under the qualified exemption in section 31(1)(g) FOIA, on the basis that it will, or is likely to, prejudice the exercise by you of your statutory functions.

NatWest

Private and Confidential

PSR Pay.UK/NPA project team
Payment Systems Regulator
12 Endeavour Square
London E20 1JN

[redacted] **Head of Product Development & Innovation**
250 Bishopsgate
London
EC2M 4AA

[redacted]
Email:
[redacted]

Dear PSR,

Special Directions 2 and 3

Thank you for the opportunity to comment on the revised Special Directions 2 and 3.

NatWest supports the direction of the PSR's Policy Statement on NPA set out in *Lowering risks to delivery of the New Payments Architecture*. In particular we concur that phasing delivery of the NPA, by initially narrowing scope to focus on delivering a replacement for Faster Payments, will be the most effective way to ensure early progress. The replacement of Bacs will follow.

We have carefully read the proposed amendments to Special Directions 2 and 3. Some of the changes are of course essential to reflect the revised delivery timescales for NPA and the decoupling of FPS and Bacs replacement.

We note that the PSR has retained the original wording which advises Pay.UK to "have regard" to the work of the Payment Strategy Forum. Although as we explained in our response to the original consultation on CP21/2, the Blueprint could require substantial revision due to the rapid advance of technology since it was drafted in 2016/17, we agree that the high-level principles of the Forum remain good guidance for Pay.UK. These include focussing on user needs and the single message standard.

NatWest would suggest, however, that further consideration should be given to the relatively prescriptive new drafting, especially in relation to the reporting requirements for Bacs in draft SD 2a Section 3. We share the PSR's concern about the slow progress in understanding the requirements for Bacs replacement. We believe, however that Pay.UK, will need a degree of freedom to gain confidence and respond flexibly to the inevitable rapid evolution of the market. It should work closely with participants and other stakeholders to build its understanding and develop a consensus on requirements. In doing so it should maintain a close dialogue with the PSR, but we believe that too formal an approach, as detailed in the drafts SDs, may further risk hindering progress.

I hope the foregoing is helpful and would be very happy to discuss.

[redacted]

[redacted]

Northey Point

Northey Point Limited

Lowering risks to delivery of the New Payments Architecture
Annexes 3 and 4: Draft Specific Directions

This paper sets out Northey Point's response to "Annexes 3 and 4: Draft Specific Directions" which propose varying Specific Directions 2 and 3 as part of the Payment Systems Regulator's (PSR) consultation on the delivery and regulation of the New Payments Architecture (NPA).

Mike Chambers, September 2021

[redacted]

Introduction

Mike Chambers is a recognised authority on retail payments and, as Chief Executive Officer, led Bacs Payment Schemes Limited (Bacs), the UK's biggest retail payment system, from 2004 until 2018. During this time, he successfully steered the company through a record number of payment processing, technological, regulatory and innovative customer proposition 'firsts' including extending Bacs' product offering to include the ownership, management and market adoption of the Current Account Switch Service (CASS) and the Cash ISA Transfer Service.

During his time at Bacs, Mike also led the UK's systemically important RTGS payment system (CHAPS) as its CEO and operated the UK's Faster Payment Scheme as its first Chief Executive creating the Payment System Operator (Faster Payment Scheme Limited).

Mike was an integral part of the industry initiative which led to the New Payments Architecture (NPA) vision (including concepts such as Request to Pay and Confirmation of Payee), the regulatory endorsed merger of the UK's retail payment schemes and the formation of Pay.UK.

Having successfully merged Bacs into Pay.UK, Mike has developed a portfolio including roles as chairman, payments advisor, Non-Executive Director and ambassador. Mike also publishes a newsletter[1] which provides an informed insight into the UK's retail payments landscape.

Comments on the draft legal documents

General Comments

Notwithstanding the fact that it is four years since SD 3 and SD 4 were first directed to the operator of the Bacs and Faster Payment schemes and five years since the Payments Strategy

[1] Payments:Unpacked www.payments-unpacked.com

Forum (PSF) set outs its 'blueprint' strategy we agree that the current position of the New Payments Architecture procurement process necessitates that SD 3 and SD 4 are revised. Northey Point welcomes the opportunity that the PSR has given to provide comments on the proposed revised statutory instruments.

We agree that the proposed revisions to the Specific Directions are required to reflect the narrow 'Faster Payments first' strategy published by the PSR in July 2021.

SD2 (Procurement: Bacs)

We welcome the requirement for the operator to consult in relation to any new contract or the extension of an existing contract as part of the PSR's non-objection process and that the PSR will take into account the conclusions of the consultation.

Whilst we welcome the requirement on the operator to report to the PSR on work considering the future of the Bacs system and the services it operates, we would argue that a first reporting date of the 30 June 2022 is too far out. The future strategy for Bacs 'push' payments (Direct Credit) needs to be considered as part of the 'Faster Payments first' strategy.

In a similar vein, we'd argue that innovation and developments in 'pull' payments (Direct Debit) has diminished over recent years, that both the scheme that the strategy has been set in aspic and that Direct Debit faces an immediate threat / opportunity from Open Banking Variable Recurring Payments. On this basis, we urge the PSR to reconsider the scope and timeline of a review of the Bacs system, the schemes it operates and consider whether these services sit within or outside of the proposed New Payments Architecture.

In a recent NPA:Unpacked newsletter[2] we stated that:

Any functionality to enable or prepare for the migration of either Bacs Direct Credit or Direct Debit can only be included in scope if Pay.UK specifically ask the PSR and they subsequently agree. There is a suggestion in the PSR's policy document that the outcome of work on the long-term strategy of Bacs might lead to more radical solutions for the future of the UK's bulk ACH transactions. That said, the PSR suggest that work to define the future strategy for Direct Debits can be deferred while Pay.UK gets the initial CIS procurement back on track. Given the role of Direct Debit in the nations payment habits and the threat and or opportunity provided by Open Banking Variable Recurring Payments (VRP's) this is a real shame.

We are concerned by the apparent lack of a clear timeline for the procurement of Bacs services being set out in the revised Specific Direction. This appears to be inconsistent with the approach taken for Faster Payments in the revised SD3 and, given the underlying end user dependency on the Bacs services continued uncertainty is unhelpful.

[2] https://npaunpacked.substack.com/p/nine-takeaways-from-the-psrs-decision

We think it would be helpful for the minimum reporting criteria described in section 3.3b to include the consideration of alternative replacement options other than a 'new central infrastructure contract.

We are supportive of the reporting requirement on payment migration from Bacs to the NPA (3.3e) but note that the proposed reporting timescales and the narrow 'Faster Payments first' strategy may result in the fulfilment of this criteria being too late to be resolved via the proposed NPA procurement timeline.

It is our view that there is an urgency to consider the future of the Bacs system and the services it offers and, whilst we are supportive of the need for the operator to report to the PSR, we believe that the first reporting date of 31 March 2022 should be brought forward.

SD3 (Procurement: FPS)

We note the 1 April 2026 milestone for Faster Payments and calculate that this will be nine years since the original Specific Direction was issued and ten years since the PSF 'blueprint' strategy was published. Whilst it is not possible to address the pathway to this point, we urge the PSR to ensure that a realistic and robust programme plan with appropriate accountabilities is set by the operator and measured by the PSR that ensure that the revised milestone is achieved.

Para 3.4 proposes a new clause (2.3a) which sets out the approach to both minimum and additional scope for a central infrastructure contract. We have a concern over potential unintended consequences of this approach, this concern was published in a recent NPA:Unpacked newsletter[3]:

As a minimum the mandated narrowed scope of the CIS contract must "…buy services needed to support single-push payments (which will allow ***most*** *Faster Payments transactions to migrate to the NPA)." This minimum mandated scope has the potential to prevent some of today's Faster Payment variations from migrating to the proposed NPA. It also enables the development of future Faster Payment variants to become a later optional extra. On the face of it rather than the NPA delivering Faster Payments 2.0 there is a danger that the NPA actually only delivers Faster Payments 0.9 and constrains the desired innovation and increased competition.*

As part of its non-objection process, we welcome the fact that the PSR recognises the need for the operator to have undertaken consultation, that the PSR will take the consultation into account and that competition and innovation will form part of the non-objection process

Similar to our view expressed regarding SD2 we welcome the reporting requirements set on the operator but believe that the first reporting date of 31 March 2022 should be brought forward.

Mike Chambers

September 2021

[3] https://npaunpacked.substack.com/p/nine-takeaways-from-the-psrs-decision

Pay.UK

Pay.UK's response to the PSR Policy Statement "Lowering risks to delivery of the New Payments Architecture"

Non-Confidential

September 2021

Pay.UK's response to PSR policy statement

1. Pay.UK has reviewed the PSR's Policy Statement of 29 July 2021, "Lowering risks to delivery of the New Payments Architecture".

2. Pay.UK welcomes the statement, which provides increased clarity to us and the industry on the PSR's views on scope (and the non-objection process that could lead to this view being updated) and procurement as we progress with the delivery of the NPA. Regulatory clarity helps Pay.UK and the industry as they work together to develop and deliver the NPA.

3. Pay.UK looks forward to receiving further clarity from the PSR on the regulatory framework for the NPA in the PSR's upcoming policy statement. While our work preparing the RfP remains mindful of the risks and potential mitigations outlined by the PSR in its consultation, further certainty ahead of RfP via the PSR forthcoming policy statement will be welcome. Additionally, Pay.UK considers that clarity in relation to the timing and process of the designation for the NPA would be beneficial to its planning.[1]

4. This document is Pay.UK's response to the policy statement. We present comments on specific elements of the PSR's decisions and proposed amendments to SD2 and SD3. We present our responses to the PSR's consultation questions in an **Annex**.

Pay.UK is broadly supportive of the PSR's decisions on Scope and Procurement in the Policy Statement

5. In Pay.UK's assessment, the PSR's decision aligns with the NPA programme's approach to procuring the NPA central infrastructure and the responses we provided to the PSR's consultation.

6. On Procurement, the PSR decision aligns with Pay.UK preferred approach to un-pause the competitive procurement.[2]

7. On Scope, the PSR minimum scope[3] may be narrower than Pay.UK's preferred scope when it is finalised following the gap-fit process.[4] As Pay.UK noted in our Tranche 1 response to the PSR, the PSR preferred scope could be expanded by (i) building flexibility into the core to de- risk a potential future Bacs migration; and (ii) including replacements for Direct Corporate Access (DCA) and File Input Module (FIM). Engagement with stakeholders has suggested there may be benefits arising from such wider scope. Pay.UK believes that 'gap-fit' is the best

[1] Pay.UK notes that currently NPA is not a regulated payment system or a payment system (according to s.41 FSBRA) and that Pay.UK is not a participant in relation to it.
[2] "Pay.UK's tranche 1 (question 5) follow-up response to the PSR's consultation on delivery and regulation of the New Payments Architecture" of May 2021, paragraph 3.
[3] The PSR's definition of minimum scope in the Policy Statement is of Single Push Payment, defined as "A payment that is initiated by or on behalf of the payer where both submission to and output from the central infrastructure happens on the same day using single payment messages. It can be an immediate payment or any other same-day payment, including a diarised payment."
[4] "Pay.UK's tranche 1 response to the PSR's consultation on delivery and regulation of the New Payments Architecture" of March 2021, paragraphs 5-10.

approach to evaluate the inclusion of DCA/FIM and optionality at the core to enable a potential future migration of Bacs to the NPA.

8. The PSR decision allows Pay.UK's to take its proposed broader scope through 'gap-fit', which will allow the incremental assessment of additional functionalities to the minimum scope and to understand the potential user benefits as well additional risk, complexity and broad cost of including the additional functionality. [✂].[5]

9. Pay.UK is therefore broadly supportive of the PSR's decisions on Scope and Procurement. However, Pay.UK considers it important that implementation of these decisions do not create unnecessary hurdles to the delivery of NPA. It is important that the Directions are implemented and applied in a proportionate way that is not unduly rigid or focused on specific solutions and inputs rather than outcomes. (We elaborate further on this point below).

10. It is important that Pay.UK and the PSR work together to ensure timely (and cost effective) delivery of end user benefits via the NPA.

Regulation of NPA and Pay.UK should be flexible, and focus on outcomes

11. The payments landscape in which the PSR and Pay.UK both operate is increasingly complex and demanding: new technology and new payment service providers are changing the competitive landscape; the needs and expectations of users are growing; and what was once a purely domestic business of retail payments is becoming more international and global. Continual evolution in this external environment requires Pay.UK to change and itself evolve – whilst ensuring Pay.UK continues to deliver a robust, resilient and cost-efficient payments platform to support the UK economy and end-users.

12. Pay.UK's strategy is being developed against this backdrop. Our new strategy focuses on our role as platform leader: enhancing our current platform, including through setting new rules and standards; as well as scoping, procuring and building our next generation platform via the NPA programme, through which many of our responses to the evolving market will be delivered. As a platform leader, we will focus on adding value across the whole ecosystem and identifying where a collaborative approach will deliver more value in the long term[6]. We will actively seek out and consider the views of those in the current ecosystem and be agile in what we do so we are ready for future requirements and opportunities. In this, our strategy is broadly aligned to the PSR's own strategy.[7]

[5] [✂].
[6] Where it is consistent with our Banking Act 2009 responsibilities and the general legal framework in which we operate.
[7] PSR Consultation Paper CP21/7 "Our proposed PSR Strategy" of June 2021 and Pay.UK's response to the consultation on the proposed PSR Strategy.

13. Against that background, Pay.UK considers that it is of great importance that the NPA programme is able to be flexible in reacting to changing market conditions. For that to be the case, Pay.UK considers that any regulatory consideration around NPA – including PSR directions - should be rooted in the delivery of outcomes, rather than focussing on specific inputs or features – which is why we think the ultimate application of these Directions is important. [8] For example, Pay.UK considers that an onerous application of the PSR's proposed non-objection process for what could be relatively small increases in the Scope – potentially the inclusion of DCA/FIM – might not be proportionate, and would not allow Pay.UK the flexibility needed to address participant and end-user needs efficiently and effectively. Any failure to properly address participant needs will increase the global business risk for the NPA programme[9] and would not be in the interests of the industry or end-user.

Regulation of NPA and Pay.UK should be proportionate, and not introduce unnecessary costs or delays

14. The decision introduces a number of additional reporting obligations on Pay.UK. This fits within a general theme of detailed regulatory engagement for the NPA, which requires significant programme bandwidth. As noted above, it is important that such requirements are introduced in a way which balances the provision of information to support regulatory oversight of the programme with the timely (and cost effective) delivery of end user benefits.

15. **Scope non-objection:** The introduction of a potentially lengthy non-objection process to expand the Scope is likely to have implications for programme timing, were the programme to conclude through 'gap fit' that a wider scope is in the best interest of end users. Seeking non-objection at that stage may introduce delays as: (i) it will take time to prepare the evidence needed for a non-objection submission; and (ii) the PSR might object to Pay.UK's preferred scope. Strong engagement with the PSR throughout 'gap-fit' and a proportionate approach to setting the threshold requirement will be needed in order to manage this risk and apply this obligation in the optimal way, and the same principles should apply to the procurement of any further functionality as the programme progresses.

16. **Reporting requirements**: The amended reporting requirements in SD3,[10] which increases reporting frequency from every six month to every quarter, is likely to be onerous and duplicative – particularly in the context of the other information that the PSR is receiving from Pay.UK on the NPA programme (for example through the PSR's assurance process). We would urge the PSR to consider reporting requirements holistically in this regard, to avoid introducing unnecessary delays and costs to the industry. The reporting on the progress on Bacs transition also seems somewhat burdensome, and we would appreciate the PSR to working with Pay.UK to explore the possibility of lighter-reporting. We consider that a first report due in June 2022 may be sensible, though such a report may be more appropriate for Pay.UK to set out its plans for a consultation around Bacs migration, rather than a full status report.

---

[8] "Pay.UK's tranche 2 response to the PSR's Consultation on "Delivery and Regulation of the New Payments Architecture" of May 2021, paragraph 12 and 81-86.

[9] An inability to properly manage such risks is inconsistent with our Banking Act duties.

[10] PSR Policy Statement "Lowering risks to delivery of the New Payments Architecture", Annex 4, paragraphs 3.6-3.7.

Annex: Pay.UK's answers to the PSR's consultation questions

Consultation question #1

Do the draft changes to SDs 2 and 3 effectively implement our decisions?

17. Pay.UK has reviewed the draft legal text, and considers that they effectively implement the PSR's decisions. However, Pay.UK has some specific comments, outlined below.

18. In relation to the Bacs infrastructure contract date in the revised 2.1 of SD2, Pay.UK considers it would be sensible for the date to read "such date as the PSR may notify the operator of in writing, such date being not less than [one/two year(s)] from the date of notification", in order to introduce a notice period into the process.

Consultation question #2

Is the proposed deadline for SD3 reasonable?

19. The proposed date by the PSR to terminate FPS in April 2026 aligns with the current plan. However, this is conditional on having procured (or the market having supplied) all functionalities needed to migrate volumes from FPS to NPA.

20. Uncertainty - including around scope and any non-objection process - means it is not clear whether all FPS functionalities will be migrated within the SD3 timetable. Pay.UK therefore considers that it would be appropriate to introduce a simple and proportionate mechanism to allow the PSR to vary the deadline based on market developments.

Consultation question #3

Do you have any other comments on how the proposed changes to SDs 2 and 3 have been drafted?

21. As an overall comment, we are concerned that a direction which initially sets out extensive reporting requirements, and relies on exemptions and change to those requirements over time, is likely to be unnecessarily and administratively complex, and therefore difficult for both the PSR and Pay.UK to track and manage. It would be preferable for the obligations to be tightly defined. This would be supplemented of course by the PSR's extensive information gathering powers, regular meetings and its assurance process.

22. If the PSR does not feel this is possible, Pay.UK considers that, in deciding how to interpret and apply the directions the PSR has set out, it should consider the proportionality of the interventions against the issues it wishes to address. Pay.UK considers that it would be appropriate for the PSR to communicate to Pay.UK as soon as feasible how it is planning to interpret and apply these directions (for example, in deciding whether to raise a non-objection to an increase in Scope, and the evidentiary requirements in case a non-objection is raised).

23. We suggest that retaining the six-monthly interval in the original directions for SD3 is a reasonable and more practical reporting requirement.

Virgin Money UK

Virgin Money UK Response to the PSR Call for Views – Delivery of the New Payments Architecture

1. Do the draft changes to SDs 2 and 3 effectively implement our decisions?

Virgin Money UK Response: Virgin Money agree with the reduction in scope at this time and concur that the removal of the SD2 milestone and extension of SD3 to April 2026 does effectively implement the decisions to de-risk implementation of the project.

2. Is the proposed deadline for SD3 reasonable?

Virgin Money UK Response: We feel that the timescale is reasonable, however, question whether there should be a longer contingency period between the end of migration and the end of processing through the current FPS CI. As these dates are c5 years in the future we feel that timescales must be continually reviewed to take into account any obstacles that may arise and ensure that as the project progresses the dates remain achievable. Participants of all sizes must also be fully engaged and given sufficient time to achieve the dates. Pay.UK should be aware of other regulatory deadlines such as RTGS2 - Transition State 3 (Core Ledger Switchover) which could potentially impact the deadline.

3. Do you have any other comments on how the proposed changes to SDs 2 and 3 have been drafted?

Virgin Money UK Response: Virgin Money are comfortable with how the changes have been drafted and appreciate the continued engagement to seek Participants opinions.

Other

[redacted]

From: [redacted]
Sent: 09 September 2021 16:25
To: PSR NPA
Subject: Response to consultation on draft directions

****This email has come from an external source. BE CAREFUL of links and attachments and report suspicious emails****

[redacted]

The procurement capabilities and approaches in the NPA are not governed by any financial services recognised framework; indeed the recruitment and role definitions for each of the highly priced consultants working on and running the NPA programme put into question what role does Pay.UK in the guise of the NPA have if Deloitte or KPMG are going to deliver the NPA because Pay.UK repeatedly cannot? Applying the normal material outsourcing governance alongside a Senior Managers regime would have prevented the "nobody being responsible for the NPA achieving nothing".

And that is sadly the case. Two separate reviews, both concluding in a "reset". Pay.UK has been neither accountable or effective in executing the only job it had to do on the NPA.

Continuing to run Pay.UK without applying the same rules which govern the overwhelming majority of actors in the sector has resulted in remarkably poor outcomes for stakeholders with no negative consequences for Pay.UK leadership.

I strongly believe unless transparency and accountability is forced upon Pay.UK acting as the NPA, doing the same thing and expecting a different result is the definition of insanity.

Kind regards,

[redacted]