22 September 2017

UK FINANCE RESPONSE TO THE PAYMENT STRATEGY FORUM'S CONSULTATION PAPER: BLUEPRINT FOR THE FUTURE OF UK PAYMENTS

UK Finance is a trade association representing 300 of the leading firms providing finance, banking and payments-related services in or from the UK. UK Finance has been created by combining the activities of the Asset Based Finance Association, the British Bankers' Association, the Council of Mortgage Lenders, Financial Fraud Action UK, Payments UK and the UK Cards Association.

Our members are large and small, national and regional, domestic and international, corporate and mutual, retail and wholesale, physical and virtual, banks and non-banks. Our members' customers are individuals, corporates, charities, clubs, associations and government bodies, served domestically and cross-border. These customers access a wide range of financial and advisory services, essential to their day-to-day activities, from our members. The interests of our members' customers are at the heart of our work.

UK Finance is the UK representative on a number of international trade associations including the European Banking Federation and the International Banking Federation.

Introductory comments

UK Finance welcomes the opportunity to respond to the consultation on the Blueprint for the Future of UK Payments.

The Blueprint presents an impressive volume of work that has substantially built on the strategy published in November 2016, undertaken in a short amount of time. Together, they set out a clear vision and path to evolve the UK payments systems to achieve simpler access, greater competition and innovation, increased adaptability and better security to meet the needs of current and future customers and payment service users. **UK Finance supports the aims of the strategy and the Blueprint to ensure the UK can retain its position as a global leader in payment systems and remain fit for the UK and global economy.**

Our response focuses on the collaborative aspects of the Blueprint and where we can bring value in representing the views of our members collectively. We provide our comments in the spirit of a critical friend, providing challenges and recommendations to help shape the Blueprint further into a successful implementation plan, including where we think the New Payments System Operator (NPSO) should lead the next steps in bringing it to fruition and where we think further work or consultation is needed. We have structured our response into two sections: a summary of our key overarching comments and observations; and a response to the relevant questions set out in the questionnaire.

Separately we will be responding to the letter from the Forum's Chair Ruth Evans asking UK Finance to take on the delivery of three of the Financial Crime solutions: Financial Crime Data and Information Sharing; Identity Guidelines for Verification, Authentication and Risk Assessment; and Enhanced Sanctions Data Quality. We will be taking forward these solutions as a coherent part of UK Finance's agenda to support the wider industry on these topics. We will progress and evolve these areas based on our work with the industry as is our role as a trade body, which is not subject to regulatory oversight.

Summary and overarching comments

The Blueprint is a significant step forward from the November strategy. It presents a level of detail on the strategy which is being seen for the first time by those not directly involved in the Forum's working groups. The strategy was not definitive in several areas of policy and it is helpful to see that the thinking has advanced through the stages of contemplating various ways of delivering outcomes to proposing specified models.

There is no doubt that the strategy and this Blueprint present radical changes for the payments landscape, particularly the New Payments Architecture (NPA), but also for wider UK plc. This is the kind of ambitious, innovative, customer-centric and forward-looking thinking that the PSF sought to achieve and consult on through to handover for delivery.

We note that card payments are outside of the scope of the strategy but will need to be considered in its context, particularly when considering payments from the view of the consumer. A strategy should be about looking forward at opportunities and increased customer choice, not only to address identified detriments from the past. It needs to be a continual evolution based on factors of market and technology developments. If nothing else, it is important to understand what is available to customers from the cards market to get an overall understanding of payment choices and where these further opportunities lie, and where innovation is occurring that could provide solutions to other detriments or fill identified gaps.

Ultimately the success of the Blueprint's final design and implementation will be determined by having the appropriate governance established in the NPSO, which is expected to the deliver the majority of the work.

Our overarching comments on the Blueprint, based on five key principles that the industry should be seeking to achieve, are:

1. **A simpler infrastructure with greater competition**

The proposed New Payments Architecture (NPA) is intended to replace the inherent complexity of running separate Bacs, Cheque & Credit and the Faster Payments Service infrastructures and address historical problems of slow innovation and concentration of ownership. This 'thin' collaborative infrastructure will enable greater competition and innovation in payments services, with a single set of standards and governance to ensure interoperability. A similar approach is being adopted by other countries such as Australia and Canada as they transform their payment systems.

This collaborative infrastructure will follow the move of consolidating the governance of the three retail payment scheme operators into the NPSO, a decision which we support. The NPSO will need to ensure that this new payment ecosystem is appropriately governed.

We support the direction of travel laid out in the Blueprint and the development of a new architecture. This is right to pursue for all users of payments, the benefit of UK plc and the country as a whole. The NPSO, as the body expected to deliver this new infrastructure, should determine the final design and implementation approach to the NPA in consultation with the industry and other impacted stakeholders – its design as well as the delivery timescale and migration – and ensure it is appropriately aligned with other major regulatory and market changes already in train. UK Finance will seek to support the NPSO as it does this.

a. **Impact of a push only model on consumers and the business and charity sectors**

The proposal for a push-only mechanism for all payment types in the New Payments Architecture is a radical and potentially challenging change. Customers must be front and centre when considering whether this is the right model for the UK payment infrastructure, with a leading principle of design that there should be no detriment to the current customer experience, only enhancement, and a smooth transition to the new model.

Consequently, we believe more work needs to be done to understand the practical implications and costs for all stakeholders. Although the Blueprint is clear that existing pull payment products such as Direct Debits will be available as an overlay service (but run as a push payment), we recommend that more analysis is undertaken to assess the impact on Direct Debit submitters and the customer experience of this service compared to the current model. Ensuring the continued 'frictionless' experience of today's Direct Debits will be fundamental to the NPA's successful implementation.

Furthermore, great care should be taken in communicating the changes to prevent customer confusion over what it means for them. A key message here is providing reassurance on the continuance of Direct Debits as a popular and trusted payment method to avoid the changes being misconstrued as 'the end of Direct Debits'.

We believe it is necessary to socialise these proposals more widely amongst corporates of a range of sizes. In particular, further work should assess the specific impact on the business and charity communities that use Direct Debits. We understand that the vision is for an equitable or better customer experience, however a robust impact assessment of the new model must include the transition for organisations in moving from the current service to an overlay model and any communications/repapering of commercial terms with their customers.

b. Ensuring stability in the NPA rollout and migration

The development of services to improve customer options and services should always be approached with maintaining stability and resilience first and foremost. The networked nature of payments means that there are inherent tensions between ensuring stability and generating innovation, and between creating competition whilst maintaining ubiquity. This creates a difficult balance to determine and manage, and to meet the requirements of a varied group of stakeholders.

In general, we feel that the Blueprint emphasises innovation and competition, rather than the stability of the critically important national infrastructure of payments. We understand that this approach has been taken to create a strategy to address the identified detriments, but it is our view that stability and resilience must come first. The NPA is a radical change which needs to be implemented in a considered and careful way, over the appropriate timescale (recognising that a lengthened implementation period increases costs) to protect stability. Migration needs to be handled sensitively given the far-reaching implications for multiple parties outside of the payments industry. It is therefore important to undertake due diligence in a timely but thorough manner to ensure that the changes are implemented in the right way – both in terms of specific features and timing.

2. Innovation in payment systems and services to address user needs

The infrastructure will have the flexibility to support new ‘overlay’ services, including different payment types and end user services. This will enable flexibility to be responsive to user demand. The infrastructure will also enable a real-time end-user experience that is more aligned to the expectations of customers. We believe this presents an exciting opportunity for payment service providers, new entrants and customers to drive change in payments.

In creating the framework for increased competition for services to be offered to customers, a high minimum standard to enable ubiquity in customer experience and consistent protections will be critical and the Blueprint needs to reflect this. Priority should be given to developing the legal framework and liability model in this regard – including the legalities around data sharing and addressing public privacy concerns. This needs to form part of strong customer communications to explain available choices, what’s changed (and what’s not) and what protections exist.

The NPSO and industry should explore where benefits to the market and customers can be delivered more quickly without depending on the implementation of the NPA where possible (e.g. Confirmation of Payee).

The imminent implementation of Open Banking, the second Payment Services Directive (PSD2) and the General Data Protection Regulation (GDPR) is also a critical consideration in terms of the impact they will have on the market for customers[1]. They will create a major shift in the customer experience of payments and the openness, competitiveness, innovation and adaptability of the payments market. They are critical factors which need to be incorporated into the NPA design. Together, these changes will pave the way for different types of providers to enter the payments market and for new and innovative services to be available to customers, along with changes in how customers are encouraged to use and share their personal data.

These changes will undoubtedly impact on the customer detriments identified in the PSF strategy and Blueprint and the market more broadly. Although the industry is working hard to ensure that the customer experience is positive, new detriments may emerge. We believe that there is some merit in letting these changes bed-down before setting a prescriptive course for the Blueprint, enabling an NPA to be built that is responsive to the new environment and set with a glide path to implementation that is well sequenced for better customer and market outcomes. The industry will be keen to avoid duplication and to leverage the investment of time and resource that is going into

[1] We also note that the planned evolution and changes to both the UK and US settlement infrastructure needs consideration, although the impact of these changes will fall more in the interbank space.

delivering some of the current regulatory requirements, and to ensure the change experienced by customers are introduced as smoothly as possible.

3. Increased access to payments

The NPA's thin, layered approach to infrastructure should allow easier access to payments for all players in the market, including new infrastructure providers. It should also enable multiple providers of different business models to enter the market and compete in offering new overlay services and products to customers. We are highly supportive of the changes that will bring the benefits of increased access and greater competition for UK plc and customers.

4. A funding model that is not reliant on the big banks

The Blueprint has proposed a set of options for how the NPA may be funded in a way that facilitates appropriate competition and incentives for various investors. A spectrum of options has been identified that will address historical concentration and rigidity in funding solutions; with different models depending on the level of systemic risk across the value chain and openness to the market, based on the nature of the competitive service provided.

One of our predecessor organisations, Payments UK, commissioned PA Consulting to undertake work to design an optimal model for a consolidated retail payment scheme operator and on funding options. A report setting out proposals was attached to the Payments UK response to the consultation on the PSF strategy[2]. Under the issue of funding, it was considered that the appropriate objective would be to ensure the funding model is commercially sustainable, is fair to all users and facilitates competition and innovation. This remains a relevant objective by which to judge funding options.

We agree that the NPSO should determine the funding model. Work to land on an appropriate economic model to provide funding for the implementation of the Blueprint (that does not concentrate the costs on a few market participants) must be agreed as a matter of priority so that it does not delay the mobilisation of the programme. The funding for the implementation of the Blueprint should also be considered separately to the funding model that the NPSO will adopt for its ongoing running. Ultimately, the NPA and the overlay services should have a credible business case that can attract external investment. This will help to ensure that innovation is funded appropriately in the longer term.

5. Improved trust in payments

The Blueprint proposes a strategic solution for Payments Transaction Data Sharing and Data Analytics to enable payment institutions to take a more effective and proactive approach to identifying and preventing financial crime to benefit industry, the public sector and law enforcement.

We are broadly supportive of the proposed strategic solution. It should enable firms to take a more effective and proactive approach to identifying and preventing financial crime, the benefits from which are self-evident, along with also delivering benefits to the public sector and law enforcement. Further work is required to fully understand and overcome some of the potentially significant legal and data privacy challenges and to determine the appropriate timescale for delivery before confirming industry commitment and investment.

The Blueprint also sets out a Trusted KYC Data Sharing Framework for the exchange of data attributes to support activities that are currently inefficient for member firms and causing detriment for users like SMEs.

We are broadly supportive but believe further work is required to better understand the SME user need, the right governance framework and to explore reliance and liability issues. We also believe that it would be worthwhile exploring an evolution of the industry's Project Bulldog[3] work in the first instance.

[2] https://www.paymentsuk.org.uk/policy/consultation-responses

[3] CMA Remedy & Order that aims to reduce friction and stimulate enhanced switching, by standardising and communicating a streamlined information set (SIS) and ID&V to open a Business Current Account. The Order provides for UKF to facilitate the process and to manage governance/changes over time.

RESPONSES TO QUESTIONS

1. A New Payments Architecture

1.1 Do you agree with our recommendation to move towards a 'push' payment mechanism for all payment types?

Yes No – unable to state yes or no at this stage

If not, please explain why.

Developing new payments infrastructure is an important step in modernising the UK's payment systems in order to help meet the demands placed upon them and to enable future innovation for the benefit of customers. We are supportive of changes that will help realise the additional functionalities that can, and should, be offered to customers. The NPA's thin, layered approach to infrastructure should allow easier access to payments for all players in the market, including new infrastructure providers. It should also enable multiple providers of different business models to enter the market and compete in offering new overlay services and products to customers.

The flexibility built into the new infrastructure will enable the industry to be more responsive to user demand and the real-time end-user experience will be better aligned to meet changing customer expectations and requirements. It will present an exciting opportunity for payment service providers, new entrants and customers themselves to drive change in payments and innovate in types of functionality we can't yet even imagine.

However, the move to a push-only model would be a radical and potentially challenging change. Customers must be front and centre when considering whether a push-only mechanism for all payment types is the right answer for the UK with a leading principle of design that there should be no detriment to the current customer experience, only enhancement, and a smooth transition to the new model. As a result, our view is that more work needs to be done to understand the implications for all stakeholders before we can fully agree with the recommendation of moving to a push-only model.

Specifically, we would like to see further analysis undertaken to prove that a transition to a push-only model of the NPA would not negatively impact customers or other users, particularly where detriments are not encountered with the current system and to clearly document what the long-term benefits could be for new players in the supply chain, such as whether the technical and operational process would become easier. It constitutes a profound change to the UK's payments infrastructure and therefore it is the duty of the industry – in its widest sense - to ensure that a robust and thorough assessment of its implications is undertaken before reaching a final position. The NPSO seems the logical place for this work to be done.

Furthermore, the importance of communications to explain the changes to customers, corporates and payment service providers cannot be underestimated. We believe early thought should be put into this as a vital element of a major change programme. This should not only be about conveying the benefits and new possibilities of the changes coming in, but importantly to also reassure customers that they will not be losing anything that they value now.

For consumers, the NPA would provide the framework upon which a number of overlay services could be provided offering increased choice and opportunities to make the most of new technologies in payments and banking, in line with expectations of how they manage other areas of their daily lives. Consumers in the UK already benefit from high levels of customer protections (for example the Direct Debit Guarantee exceeds regulatory requirements) and any changes that are made on the back of the NPA being implemented must ensure that the current customer experience is retained as a minimum or is enhanced. The impact of the challenge documented in the Blueprint of requiring contractual customer consent needs to be considered against the sea of other changes that will entail customers receiving revised Terms and Conditions due to regulatory requirements. Customer confusion and lack of incentives to continue reading and acknowledging legalistic documents needs to be taken into account.

There would not yet appear to be a full understanding of the impacts, costs and benefits for the corporate and charity sectors, or what risks may come about from a move away from a system that is working robustly for a high volume of batch payments. There are circa 130,000 Bacs Direct submitters who would be impacted by a move to push-only and required to make system changes to support the new mechanism. Additionally, we need an understanding of whether the benefits of the NPA would only be felt by those businesses with the willingness and resource to invest in the changes necessary to experience them rather than across the board (and to note the knock-on impact this could have on competition for the business sector).

We strongly recommend that the NPSO is allowed the opportunity to undertake thorough analysis of this proposal from a corporate and charity perspective, engaging directly with the sector and through representative bodies to capture the views of organisations of all sizes, before confirming an appropriate approach. We would like to offer our help to the NPSO in convening and facilitating this dialogue with representative bodies and our members' corporate customers.

We understand that a 'pull' payment would be reconstructed into an overlay service (e.g. Direct Debits). What is not clear at this stage is how the NPA would interact with the rules and standards of euro payment schemes and we would highlight this as an area for further investigation. Specifically, it is unclear how a 'pull' overlay service would operate once the European Banking Authority's Regulatory and Technical Standards on strong customer authentication and secure communication under the revised Payment Services Directive (PSD2) come into force. These standards are in draft but currently require the use of two-factor authentication for most payment transactions with a few exemptions, one of which relates explicitly to Direct Debit payments. If the use of a push-only rail and overlay service renders this exemption moot then consumers will be required to authorise, using two-factor authentication, all their Direct Debit payments – in total around four billion payments a year.

Developing the legal framework, how it will interact with PSD2 more generally and euro payment schemes, and developing the liability models are also priority pieces of work to understand how the NPA will operate in practice.

1.2 In the proposed transition approach it is expected that Third Party Service Providers including current independent software providers, bureaux and gateway providers will update their systems to enable existing payment formats to continue to operate with no or limited negative impact on the current users of services such as Direct Debit.

As a PSP or TPSP, do you agree we have identified the implications of adopting a push model adequately?

No

If not, please set out any additional impacts that need to be considered.

As stated in our response to question 1.1, we do not believe that sufficient engagement and assessment has yet been done to fully understand the implications of adopting a push model, particularly for those corporates and charities with a level of access to the infrastructure. We strongly recommend that further work is undertaken in this area, working with representative bodies and our members' corporate customers. The cost benefit analysis for the NPA in section 4 of the Blueprint states that the estimates for the implementation and running of the NPA do not include the costs for end-users, such as corporate customers needing to connect to the NPA and migrate from FPS and Bacs (p.54). This seems to be a significant exclusion when assessing the best developments for the UK's payments infrastructure, which is based on meeting the needs of its users.

1.3 **As a potential vendor, participant or user of the NPA, are there any other design considerations that should be included in the NPA, especially with regards to considering the needs of end-users?**

Yes

If yes, please provide a description of those areas and why they are important to explore.

The NPA is purposely designed to be simpler for the benefit of all users, which we agree is the right direction of travel. There are a few risks that would come with this: consolidating three sets of infrastructure into one constitutes a single point of failure (albeit that there will be a single supplier for all three once ICS is implemented for cheques); and the provision of the NPA layered core and overlay services being provided by different firms, which could create a risk in how the different elements work together and clarity over accountability when something goes wrong. Further design work must include building in sufficient resilience and ensuring safety nets are in place, particularly once migration has completed. This should involve discussion with the Bank of England as it builds the new RTGS.

As previously stated, it's important that the NPA is designed in a way that ensures the customer experience and protections are in no way diminished by the changes to infrastructure. One concern we do have is that the table setting out the benefits and challenges of a push-only model (table 1.2, pp.10-11) mentions that commercially, customers' payments can be protected by a refund guarantee as they are today under the Direct Debit scheme. The use of the term 'commercially' has caused concern as it could suggest that there is no intention at this stage to make the offer of a payment guarantee along the lines of the Direct Debit Guarantee as standard. This would be a fundamental reduction in customer protection and could potentially cause customer confusion when a payment feels like a Direct Debit but doesn't have the same Guarantee. It would also create an unlevel playing field in customer experience. However, we don't believe that this is the intention of the Blueprint and we expect to see the Guarantee retained as a fundamental design feature that forms part of the liability framework as it is developed.

This is also part of a wider point that feeds into the standards and rules for the NPA. Customer protection would seem an obvious area where the NPSO could determine minimum service levels that all participants must offer (with the ability to go above and beyond these as part of their competitive offering). This would not only help ensure that current levels of protections are at least maintained, but would also help with providing a consistent customer experience and the ubiquity that is needed in a payments market. This is particularly important if it is the intention to leave open as to who would decide which overlay service provider to use for services offered on the NPA: the customer, the corporate, or the PSP of either. If the offer of a guarantee is left to a commercial decision, it is questionable how much control a customer would have over whether they benefit from this protection.

Implementing a framework that facilitates a healthy level of competition to benefit customers and the market is undoubtedly the right ambition, but it must be achieved in the right way. Given the networked nature of payments there are inherent tensions between ensuring stability and generating innovation, and between creating competition whilst maintaining ubiquity whenever considering developments. This creates a difficult balance to determine and manage, and causes challenges in meeting the requirements of a varied group of stakeholders.

We are concerned that the balance is not right in the interests and importance of mitigating against risk for a critically important national infrastructure. In general, we feel there is too much focus on innovation and competition and not enough on stability. The NPA is a radical change that would need to be implemented in a considered and careful way, over the appropriate timescale (recognising that a lengthened implementation period increases costs) to protect stability and to not disadvantage users. It's therefore important to undertake due diligence in a timely but thorough manner to ensure that the changes are implemented in the right way – both in terms of specific features and timing.

There also needs to be an understanding of the impact of an increased focus on competition from the customer perspective. Whilst creating the framework for increased competition in services for customers is in itself a positive step, this could also lead to a reduction in ubiquity, and conversely an increase in customer confusion over their rights, obligations and protections. It's critical that the right balance, with the appropriate support for customer understanding, is put in place.

1.4 The nature of the layering approach enables new components to be added or updated with minimal impact on components in other layers. We believe this will support greater levels of competition and innovation especially in the upper layers of the NPA.

In your view, as a vendor or service provider, will layering the NPA in this way simplify access and improve your ability to compete in the UK payments market?

Yes

If not, please explain why.

We believe that the layering approach would benefit the market in terms of making it easier to offer new services and for new participants to join, and would allow maximum opportunity for competition and innovation in the market.

Establishing a liability framework will be particularly important in making the layered approach successful as it could introduce/increase confusion over where an error has occurred and with whom the fault lies. Therefore, fully effective operating models will be needed to ensure end users, whether consumers or corporates or their partners in the payments supply chain, are not compromised by liability issues.

1.5 With the recommended centralised clearing and settlement option, as a participant or vendor who is accessing or delivering the clearing and settlement service, do you think:

a. We have reached the right conclusion in recommending this option?

Yes

If not, please explain why.

We support the PSF's recommendation as a single point for clearing and settlement reduces risk, complexity and development costs, which aligns with our view that more emphasis needs to be put on stability and resilience in designing and implementing these changes. Centralised clearing and settlement via the Bank of England is the only viable option. Furthermore, the views of the Bank will be paramount.

b. The right balance of managing risk versus competition has been achieved?

Yes

If not, please explain why.

It is not yet clear how the market would respond to the NPA proposals and the market impact of providing a framework that enables competition. The consultation exercise will help identify supplier readiness. The PSR also flagged in its recent report that *"there are signs that the industry is becoming more competitive"*[4] in terms of both access and governance. It also launched competitive market dynamics as an area of focus during 2017-18 and it will be helpful to see its assessment of the PSF proposals' impacts on the market.

1.6 Do you agree with our analysis of each of the clearing and settlement deployment approaches?

Yes

Which is your preferred deployment approach?

We agree that the NPSO should decide this along with other final decisions regarding the NPA. A single vendor deployment approach would likely deliver risk and control benefits.

1.7 As a vendor of services in any layer of the NPA, do you think that more work is required to prove any of the main concepts of NPA before embarking on the procurement process?

Yes

If so, please explain which areas and why.

As set out in our responses to the questions above, we believe that further work is required to prove the main concepts. We see the NPSO as the appropriate body to undertake this work in conjunction with the industry and other impacted stakeholders, and to ensure due diligence is carried out before embarking on any aspect of procuring and implementing the NPA, or indeed confirming that the push-only model is the most appropriate to pursue. The final decision on how to implement it should rest with the NPSO. In summary, we believe these areas of further work to be:

- Further engagement and thorough analysis of the implications of a push-only model, particularly for users of Direct Debits and the corporate and charity sectors, including the costs that would be felt by all users and any changes to consumers' rights;
- Consideration of other options under the alternative minimum upgrade work (see comments under later section) to ensure all viable scenarios have been explored to land on the most efficient/effective way to deliver the required outcomes;

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- Work to determine the liability models and legal framework to ensure the concept of the NPA will work at a practical level. If these can't be agreed, the new architecture cannot be delivered;
- Further consideration of the customer experience, taking into account what is presently the case and how to avoid the unintended consequence of encouraging more competition in the market at the expense of ubiquity and customer protections;
- Further design work to mitigate against the NPA constituting a single point of failure; and
- Consideration given to the timescale for implementing the NPA that is cognisant of the risks associated with implementing and migrating such a radical change for all users and participants, alongside all the other change currently in train.

Solid consideration of the funding and economic model will also be vital for the NPSO to be able to proceed with the work.

However, we wish to be clear that in recommending the NPSO be given the opportunity and time to test these aspects of the NPA concept, we do not see a need to delay other aspects of the Blueprint, such as the implementation of overlay services that we believe can be built and offered to customers without the new architecture in place.

2. Collaborative Requirements and Rules for the three End-User Needs Solutions

UK Finance is supportive of the three End-User Needs Solutions, their genesis having been born in the thought leadership work of one of our predecessor organisations, Payments UK. The PSF has done a significant amount of work to move the concepts on and think more about their practical implementation, which we are very pleased to see. They have great potential to develop strategically and lead to other opportunities for customer services and products.

The concept of the EUN Solutions being offered as competitive overlay services will bring increased choice for customers and help drive innovation in this sector from non-traditional firms. This approach allows customers to be in control of driving the future market on a supply and demand basis.

However, the competitive provision of additional overlay services could cause market fragmentation and potentially lead to confusion and differing levels of service for customers, which would reduce the level of benefit derived from such an approach. The NPSO will need to set the standards and rules for the services at a significant level that still encourages their competitive provision, but allows ubiquity and a consistent (minimum) experience.

There needs to be recognition that the exclusion of card payments from the scope of the PSF's strategy and Blueprint has the potential to create a confusing picture for customers who generally do not differentiate between card payments and online payments from the same account and this would need to be explained to customers in any supporting communications. Real-time balance information cannot deliver a correct picture, for example, if it does not take into account all pending transactions. However, we also recognise that there would be a trade-off with having functionality currently available to customers on their cards that does not allow for real time balance updates. A strategy should be about looking at forward at opportunities and increased customer choice, not just to address identified detriments from the past. If nothing else, it is important to understand what is available to customers from the cards market to get an overall understanding of customer payment choices and where innovation is happening in all parts of the industry.

Liability models for these solutions need to be addressed as a matter of priority; failure to reach agreement on these – bearing in mind the number of parties that will need to be comfortable with them – could potentially stall the work from progressing to completion.

2.12 We have highlighted several risks and considerations relevant to the delivery of Request to Pay. As an end-user of Request to Pay:

a. Are there any risks that we have not addressed or highlighted that would like to add?

Yes

There is a need to consider what impact this might have on users of Direct Debit. We understand it is assumed that a Direct Debit-type product will continue to be offered as an overlay service, with Request to Pay available as a complementary service for those companies and customers wanting to use it (but will be agnostic on the method used to make the underlying payment). The impact of the availability of a Request to Pay service that may move customers away from the Direct Debit model to other types of payment is not known.

The risks that have been identified by the Blueprint feel like they cover the core points and they only serve to stress the importance of building a liability framework as a matter of urgency. The PSF may also consider involving bodies like the Trading Standards Institute, if they haven't already been consulted, in this work to help define the clear perimeters between what's a Request to Pay issue, what is an issue concerning the underlying payment, and importantly, what should sit in the contract between the customer and corporate for the service or goods being provided. Reputationally, this must be clearly spelled out to prevent the service becoming a 'scapegoat' for contractual issues between the two parties involved.

PSPs will need to be mindful in their Terms and Conditions of perceived customer negligence in the use of untrustworthy service providers. A register of accredited service providers would need to be accessible for customers to check, alongside a programme of customer awareness to ensure they understand it exists and their responsibilities in choosing to use such a service. When combined with the potential for Request to Pay to be used in conjunction with a payment initiation service (as supported by the PSD2 legal framework), the picture of the different parties involved does become more complicated from a liability point of view but clearly delivers a whole new level of control and flexibility to customers. We can also envisage cases of Request to Pay being used in conjunction with Confirmation of Payee (CoP), which could help mitigate customers falling prey to some payment scams.

b. Are there additional unintended consequences that we should consider?

Yes

Comments in line with the risks outlined above.

2.13 We recognise that additional work needs to be done in identifying potential safeguards including liability considerations associated with Request to Pay. As an end-user of Request to Pay:

a. What are some of the potential liability concerns that you may have?

There needs to be clear agreement and understanding on where liability sits at different stages in the Request to Pay journey. There will be more parties involved in this service than traditionally would be experienced when making a payment so there needs to be clarity over individual roles and responsibilities. The natural customer response will be to go to their PSP (which is probably going to be right), but the PSP needs clear recourse to the party at fault. Additionally, Request to Pay was described as a communication service at the PSF stakeholder event rather than a payment service – implications of what this means (if anything) needs careful consideration from a liability perspective when the message and payment are independent of each other.

b. Would you be interested in working with the Forum to define, at a high level, the liability considerations for Request to Pay?

Yes

If so, please contact us as soon as convenient through the Forum website so we can get you involved.

UK Finance would be happy to play a role in helping to convene industry discussions to support the NPSO as it takes this work forward.

2.15 We have presented two CoP response approaches (Approach 1 and Approach 2).

a. As a payer, what would be your preferred approach? Why?

b. As a PSP, what would be your preferred approach? Why?

c. As a regulator,

I. What are applicable considerations that must be made for each approach?

II. What safeguards must be put in place for each approach?

The success of any CoP approach relies on ubiquity and all PSPs being willing to share their customers' data – if the NPSO is to manage the governance framework for a CoP service it will need the authority to ensure that this happens and data is updated on a regular basis.

There are some extremely important considerations around the legalities of sharing customer data and these will need to be addressed and resolved as a priority. The NPSO will need to work closely with the Information Commissioner's Office on the data sharing framework and to appropriately deal with public concerns on data privacy.

At this stage we do not have a preference of one approach over another, as we believe they both deserve further analysis.

We are aware that competitively offered solutions for a CoP service are being developed; for example, we know that Paym has an advanced proposition to provide such a service. All market solutions should be considered as is right in a move to a much more competitive environment, albeit under the same strategic direction to avoid fragmentation.

2.19 We have highlighted several considerations relevant to the delivery of Assurance Data. As an end-user of Assurance Data:

a. Are there any risks that we have not addressed or highlighted that you would like to add?

Yes

The list of considerations seems comprehensive. However, a key missing element is the lack of visibility over debit card payments covered at the collaborative level which would need to be supported by explanatory communications to avoid confusion for customers.

b. Are there any unintended consequences that we should consider?

Yes

Further to comments above, an unintended consequence is that customers have a false picture of available funds and the solution is unable to achieve its ultimate aim.

2.22 Does the Enhanced Data capability as described address the detriments identified in our Strategy?

Yes

We support the capability described and the benefits that it should deliver to all parties. It would facilitate the simplification and streamlining of business processes and reduce the overall costs associated with payment reconciliation activities. It would also deliver benefits to consumers and provide a capability that is more in line with customer expectations, such as being able to send scanned receipts or invoices with their payments.

2.24 We have highlighted several considerations relevant to the delivery of Enhanced Data. As an end-user of Enhanced Data:

a. Are there any risks that we have not addressed or highlighted that you would like to add?

No

Regulation and legislation exists to protect individuals and entities from the mishandling of data – the onus will be on the governance to ensure it is appropriately enforced and working closely with the regulators.

b. Are there any unintended consequences that we should consider?

Yes

In line with our comments in the answer above, any data breach could be reputationally very damaging for the service.

2.25 We recognise that additional work needs to be done in identifying safeguards including liability considerations associated with Enhanced Data. As an end-user of Enhanced Data:

a. What are some of the liability concerns that you may have?

The safe management of the additional data needs appropriate consideration, in line with data privacy requirements, AML and sanctions screening, and GDPR.

b. Would you be interested in working with the Forum to define, at a high-level, the various liability considerations required for Enhanced Data?

Yes

If so, please contact us as soon as convenient through the Forum website so we can get you involved.

UK Finance could play a role in helping to convene industry discussions to support the NPSO as it takes this work forward.

3. Implementation plan and timeline

3.1: Are there any additional principles you think we should add or significant amendments that should be made to those already stated?

Yes

Comments on some of the principles:

- *Ensure customer considerations are at the heart of any solution development plans*: We agree that this is a vital principle. However, in line with comments made elsewhere in our response we think it is important to view considerations in line with stability, ubiquity and consistent customer protection requirements.
- *Recognise wider industry developments when developing the plan*: whilst we consider that the PSF has done a good job of identifying the other high priority developments currently underway in the industry, we feel there is a gap in terms of understanding the real bottlenecks these developments will lead to over the next five years in particular. We also believe that in some instances – such as the implementation of the NPA - the possibility of waiting to see what the outcome of some of these changes will be has not been duly considered, including whether current detriments are met by the evolving market and new ones emerge as unintended consequences. While we respect the view that 'to do nothing is not an option' and in any case we would not advocate this position, we do not think this is the same as taking the time to assess the changes already underway for some parts of the Blueprint, which would have a lot of benefits, not least for ensuring that resilience and stability is maintained. This is particularly important in relation to Open Banking, PSD2 and GDPR.
- *Provide optimum benefit for stakeholders*: This principle talks about maximum benefit at lowest cost and risk. However, we are not convinced that the implementation plan as devised adheres to this principle, which seems to incline towards the higher risk option of wide scale change without fully demonstrating the commensurate increase in benefit beyond some of the possible intermediary solutions.

In terms of additional principles, we believe a key item missing from the list concerns the importance of retaining resilience and stability of the system. While this may be an inherent assumption it is vital to call it out as a natural and important temper to the tendency towards the most complex change proposals.

3.2: Are there any additional assumptions you think we should add or significant amendments that should be made to those already stated?

No

3.3: Do you agree with the sequence of events laid out in the implementation plan?

No

If not, what approach to sequencing would you suggest?

The proposed dual running periods do have some benefits including for stability reasons and managing the customer journey during migration. However, there are also challenges, especially for smaller players for whom the cost and technical challenges will be high. This needs to be considered as part of the wider work we propose the NPSO undertakes with the industry to determine the appropriate balance – extending the timeline would impact the CBA and economic models and there would be implications for corporates and intermediaries. This isn't just about changing the infrastructure, it is far wider reaching than that and entails everything in the payment chain changing at once. The implications of this are huge – and importantly will be felt across multiple industries, the public sector and constituencies of customers – and shouldn't be underestimated. The final sequencing needs to be determined with all of this in mind.

3.4: Do you agree with the high-level timetable laid out in the implementation plan?

No

If not, what timing would you suggest?

Payment systems must be resilient, efficient, capable and reliable. Over £6.5 trillion a year travels across the payment systems in scope for the New Payments Architecture[5]. These are peoples' wages; one billion pensions and benefits payments made by government; and household bill payments. It is of paramount importance to the economy that we can all rely on these systems to work. Wholesale replacement of them is a significant undertaking, fraught with risk. For those reasons, we do not believe that the proposed implementation timeline for the NPA is appropriate.

As with other areas of the Blueprint there does not appear to have been full enough consideration of the need to identify and mitigate the multifarious areas of impact within end user (e.g. business) processes.

We also think that the timeline should include some checkpoints at which to pause and consider the cumulative impact of change up until that point, and to look at whether the remaining delta is the same and is being addressed by the NPA work. The impact of changes like PSD2 and Open Banking will only become fully apparent after 2019 and yet they may fundamentally impact the premises on which the NPA are built – this period would pose an obvious checkpoint in the process. The point at which the EBA RTS on Strong Customer Authentication and common and secure communications is live would provide a milestone at which a review could take place.

It seems that one of the drivers for the shorter implementation timescales is the need to make the cost benefit work (i.e. the tension that arises because a longer dual running period is more expensive and this erodes the cost benefit). However, if the timescales for change are compacted in this way a range of other risks emerge that will have costs attached. The drivers for timescales need to be the right ones and should largely be determined by the requirements of stability and mitigating risk.

We think there would be value in building a timeline of the 'essential' changes as well, i.e. the ones needed to create the ubiquitous network effects. Fundamentally we believe that this work should be about creating a market enabling infrastructure, rather than something to solve specific detriments. There are also elements of the Blueprint – such as the EUN Solutions that could be delivered sooner if they are detached from, and congruent with, the NPA.

We also need to consider that the NPSO is the body expected to implement a lot of the changes but it is not yet in existence. There is a need to allow the NPSO the time to get set up and be fully functioning to deliver its vital BAU work of managing the schemes as this always needs to be its priority.

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[5] Page 8, Payments UK (June 2017), *UK Payment Statistics*

Establishing a funding and resource model is also hugely impactful on the timeline and what is possible.

It may be a useful exercise to use migration to euro payment schemes, such as SEPA, as a case study to understand from previous experience what worked well and where lessons could be learned. We would be very happy to support the NPSO in investigating this.

3.5: Are there any significant potential risks that you think the implementation plan does not consider?

Yes

If the answer is yes, then please provide input about what they are and how we can best address them.

Not having an appropriate funding model secured should be considered a major potential risk to progressing the implementation of the Blueprint. It could also be the case that as solutions are technically and operationally defined, their economic viability in terms of supply and demand falls short of expectations. This could lead to the commercial support for development and implementation faltering.

3.6: Do you agree with our proposed transition approach?

No

If not, please provide your reasoning.

We recommend a period of consideration after the Blueprint has been passed over to the NPSO to enable the full assessment and robust analysis of the proposals, as set out elsewhere in this response. This should include more research into the views of the business and charity sectors, a full impact assessment, development of the business case and funding models.

4. Cost Benefit Analysis of the NPA

We acknowledge the challenge that compiling a full cost-benefit analysis of the NPA represents, particularly where the full technical specification of the service is not yet available. From an industry perspective, the key consideration is the benefits that would be delivered to customers. If it is decided to pursue a funding model that is based on attracting external investment, those potential private competitive providers will make their own commercial decisions about what to invest in and on what terms. However, a credible business case that can attract external investment is vital to ensure the long-term funding for innovation and change.

However, given the PSF is asking for feedback on the CBA work done to date, we have provided thoughts to the questions raised, particularly around potential benefits that have not been included and costs that may impact customers.

4.1 Are there any material quantifiable benefits that have not been included?

Yes

If so, please provide details.

a) Infrastructure competition

The benefits analysed in the CBA are only those that relate to the three overlay services. However, it is expected that the NPA will generate benefits for the market related to increased infrastructure competition and/or competition between PSPs, arising through simplified access to the UK's payments architecture (as compared to the alternative minimum upgrade). Such competition benefits should be considered by the NPSO.

b) Benefits beyond remedying consumer detriment

The CBA analysis focuses mainly on the reduction of identified consumer detriments. The remedying of these detriments may have been a driving factor behind the move to adopt the NPA; however, there may be additional benefits that the NPA could deliver, beyond just remedying perceived detriments associated with the current situation (or the alternative minimum upgrade). The PSF could consider other benefits in its analysis such as those delivered to society and those that are macro-economic.

4.2 Do you agree with the cost assumptions with regards to the NPA and each of the overlay services (Request to Pay, Enhanced Data, Assurance Data)?

No

If not, please state your reasons and, if possible, suggest alternatives analysis.

a) Impact on billers

The impact on billers of the changes involved in the NPA would benefit from more detailed exploration. For example, if billers are to adopt Request to Pay as the basis of their customer relationships, this will require considerable implementation investment, including:

- IT costs
- changes to billing processes and customer relationship management
- staff training
- ongoing costs of managing a different reconciliation process and a revised method of chasing unpaid bills (particularly if adoption of “Request to Pay” results in a large number of customers rejecting a payment request each month).

b) Adoption timescales for business customers

It is important to understand not just the timescales for construction of the NPA, but also the timescales that are likely to govern the take-up of new services by businesses. To a large extent, this adoption rate will determine the value of benefits that could be generated by the NPA in the years following its construction. More research should be undertaken into how long it is likely to take for businesses to adopt the new overlay services. Anecdotal evidence concerning IT investment patterns for large corporates suggest that it could take up to 10 years for IT changes to be made and for billing processes to be changed, even where a business sees benefits in adopting the new overlay services. This should be reflected in the CBA and be considered by the NPSO to identify any actions that can support business change.

c) Costs of construction and dual-running phase

Further research is needed into the length of time required to construct the NPA, as well as the required period of dual-operation alongside the existing payments services before it can be guaranteed that the NPA is ready to be relied upon exclusively to provide the resilience required by the UK economy. These time periods are key drivers of the costs associated with implementation of the NPA and should be understood as clearly as possibly at the outset.

d) Consideration of all the costs associated with implementing and running the NPA

The cost benefit analysis for the NPA in section 4 of the Blueprint states that the estimates for the implementation and running of the NPA do not include the costs for end-users, such as corporate customers needing to connect to the NPA and migrate from FPS and Bacs (p.54). This seems to be a significant exclusion when assessing the best developments for the UK’s payments infrastructure, which is based on meeting the needs of its users.

4.3 Do you agree with our description of the alternative minimum upgrade?

No

If not, please explain your reasoning.

The analysis of the alternative minimum upgrade does not take account of the fact that some of the overlay services could be provided in that situation and thereby delivering some of the end user needs that have been identified as being fundamental to the new payments architecture. Work is already underway towards how Request to Pay and Confirmation of Payee could be provided using the existing payment architecture, and how PSD2 and Open Banking raise the potential for a range of services to be introduced competitively by the market (either by existing market players or Third Party Providers). These should be fully explored to ensure that the NPA will capitalise on investment already being undertaken by the industry, and will not crowd out private investment and innovation that could arise through competitive processes.

It is unclear to what extent other, less risky, options have been considered such as an evolution of existing payment systems to offer the additional services proposed – an *alternative maximum upgrade*.

The NPA proposals change the underlying infrastructure on which Open Banking and PSD2 are being implemented. There could be costs in re-working the Open Banking implementation to run on the NPA and these costs and impacts should be assessed.

5. NPA Commercial Approach and Economic Models

We agree that a key question is how the NPA and the EUN solutions will be funded to design and deliver them to market. This is especially critical for the design and delivery phase through the NPSO.

The Board of the NPSO will have to consider the most appropriate funding solution and its capacity to use existing development budgets and draw on reserves. To do so, it will need an accurate view of the quantum of resource required to undertake the work and will need to prioritise against other calls on its capacity and capability – including that of running the UK's payment schemes.

The NPSO will also need to consider its capability to use debt and equity finance and generate a return to service and repay the debt.

There is an industry appetite to develop a fair and equitable funding solution that ensures the costs are borne fairly and equitably by all the users of the NPA.

The funding for the implementation of the Blueprint should also be considered separately to the funding model that the NPSO will adopt for its ongoing running. Ultimately, the NPA and the overlay services should have a credible business case that can attract external investment. This will help to ensure that innovation is funded appropriately in the longer term.

Payments UK commissioned PA Consulting to undertake analysis of funding options for running the NPSO (before it was agreed to consolidate the PSOs) and for delivery projects. That analysis was shared confidentially with the PSO DG and would still be relevant for the NPSO to consider here.

5.1 Does our competition framework adequately capture the types of competition that may exist in payments?

Yes

Please explain.

We do not have any comments on the competition framework, which provides a helpful theoretical framework for exploring the commercial and economic models.

5.2 Do you agree with the NPA competition categories described? If not, please explain why.

Yes

We do not have any comments on the competition categories, which provide a helpful theoretical framework for exploring the commercial and economic models.

5.3 Does our framework capture the dynamic roles the NPSO may play in the market?

Yes

The NPSO will need to consider the roles it plays in the market. This will require a detailed assessment of the market, in particular where it is acting to catalyse the market where the current market judgement is that there isn't a commercial opportunity.

5.4 Are there any other important criteria that we should use to assess the funding options we have identified?

Yes

The NPSO will need to consider the financial resilience of the entities operating the different elements of the NPA – and where there is a greater tolerance of risk. Payments is a critical national infrastructure and a more distributed model spreads the financial risk. It is important however that all the entities are financially resilient and there is a commercial model that maintains their resilience.

5.5 Do you agree with our NPA competition assessment? If not, please explain why.

Yes

5.6 Do you agree with our assessment of End-User Needs Solutions? If not, please explain why.

No

We do not think the assessment of end-user solutions being built on the existing infrastructure is complete. We refer to our suggested assessment of the potential to meet the PSF's outcomes through enhancements to the existing infrastructure.

5.7 Do you agree with our list of funding stakeholders? If not, please explain why.

The NPSO will need to undertake a detailed assessment of funding stakeholders and assess their potential to fund the NPA.

5.8 Are there other significant sources of funding or types of funding instruments the NSPO could secure that have not been described?

If not please explain why.

As above the NPSO will need to undertake a review of potential funding instruments and its capacity to deploy them for design and delivery.

6. Improving Trust in Payments

We are broadly supportive of the proposed strategic solution for Payments Transaction Data Sharing and Data Analytics. It should enable payment institutions to take a more effective and proactive approach to identifying and preventing financial crime, the benefits from which are self-evident, along with also delivering benefits to the public sector and law enforcement. Further work is required to fully understand and overcome some of the potentially significant legal and data privacy challenges and to determine the appropriate timescale for delivery before confirming industry commitment and investment.

6.1 Do you agree with the outlined participant categories identified for the Payments Transaction Data Sharing and Data Analytics strategic solution? Are there other categories that should be considered for inclusion? Please explain your response.

We agree with the categories outlined and in addition to these, the following should be considered for inclusion:

- Financial crime prevention agencies (e.g. CIFAS)
- 3rd party PSPs (e.g. VocaLink or payment facilitators operating in the card acquiring ecosystem)
- Credit reference agencies (e.g. Experian, Equifax, Call Credit).
- Further assessment/consideration is needed to determine the appropriacy of including other commercial entities in some form, such as security solution vendors (e.g. FICO, SIRA) and separately, other financial crime data sharing solutions which may also need to be in scope.

Considerations should also be given towards the impact of distributed ledger payments aka virtual currencies. Criminals are said to be increasingly using these new payment methods to accept and move illegally obtained funds.

6.2 What is your opinion on the role non-payments industry participants should have as part of the Payments Transaction Data Sharing and Data Analytics strategic solution? (This could include Government, Law Enforcement, or others). If appropriate, please outline your views on the usage of the system, provision of data to the system, and legal considerations for participation.

Law enforcement agencies should have controlled access and this should be extended to bodies responsible for the protection of critical national infrastructure such as GCHQ. This would enable law enforcement to supplement and significantly enrich the data and intelligence they hold on their own systems. This could also reduce instances where production orders are required by law enforcement who are currently reliant on this time and resource consuming procedure to gain access to customer data from payment institutions. Law enforcement would also benefit from the proactive financial crime alerting capabilities the solution could offer.

Prior to granting access to non-payment related participants, a clear legal basis and proportional access rights should be in place, like that of existing data sharing arrangements between government agencies and the payments sector e.g. Counter Fraud Defence Alliance pilot.

It's unclear what, if any, considerations have been given towards the legal and data privacy issues surrounding the strategic solution. Prior to obtaining industry commitment and investment, it's vital that these implications and/or requirements are fully understood, as well as how they can be overcome especially if 'White' personal customer data is to be shared. Failure to do so could lead to inadvertently failing to comply with GDPR (General Data Protection Regulation) and the industry incurring extra costs in mitigating any legal or data privacy issues retrospectively. Therefore, we would strongly encourage the undertaking of a privacy impact assessment and clear guidance from the ICO. Other related considerations are as follows:

- Post Brexit impact on compliance to EU regulation i.e. GDPR.
- The need to change existing money laundering legislation to enable the easier exchange of suspect financial crime data between payment institutions.
- Brexit activities taking priority could impact/delay any legislative changes required.
- The SARS review. The solution would need to be considerate of the CFA implementation e.g. Super SARs regime.

6.3 Do you agree with the potential use cases outlined for the Payments Transaction Data Sharing and Data Analytics strategic solution? If not, please provide your reasoning. Please indicate if there are other potential uses for the system that should be considered.

Yes, we are broadly in agreement with the use cases outlined although, they do appear to be quite narrow with an understandably heavy focus on fraud. There should be further considerations towards other/additional potential use cases outside of fraud. For example, the solution could bolster the capabilities and support the remit of HMRC, DWP and other government departments.

As mentioned above, further work is required in understanding how compliance to data protection regimes could impact the realisation of the use cases outlined. For example, the complexities that PCI Compliance brings when scoring transactional data.

6.4 Do you agree with the key principles we have outlined for the implementation of the Payments Transaction Data Sharing and Data Analytics strategic solution?

Yes, whilst we are broadly in agreement with the key principles outlined for the implementation, these are based on several critical dependencies, one of which is the outcome from the implementation of the tactical solution. For example, how PSPs utilise the new capability, the benefits and costs to build new processes required for use of the data. There is a significant risk that this lack of detail will impact the timelines and makes it difficult to undertake a proper assessment of the strategic solution and establish a business case. Therefore, this needs to be urgently addressed.

Other key dependencies include:

- Delivery of the NPSO (New Payment System Operator)
- Clear benefit vs cost analysis – PSPs invest significant sums in internal monitoring solutions and will therefore want to understand and justify the financial and resource investment
- The provision of data from the sources outlined

The tiered participation and funding and model outlined is one option for consideration; however, we would be interested to know if there were any other options considered and if so, what they are and why were they discounted.

6.5 Other than those already listed, what stakeholders should be consulted and engaged during the design and implementation of the Payments Transaction Data Sharing and Data Analytics strategic solution?

Yes, input from consumer protection bodies (e.g. Which?) would be useful, engagement with these bodies who represent consumer needs and concerns would demonstrate the positive work/developments the industry is investing in to reduce financial crime such as Scams targeting vulnerable customer groups.

6.6 Do you agree with the high-level timeline for the Payments Transaction Data Sharing and Data Analytics strategic solution? If not, what timing would you suggest and why?

Following the solutions detailed design phase in early 2019, it leaves participants only a year to deliver it which may not be feasible. In addition, considering the uncertainties surrounding the critical/key dependencies mentioned above, it’s difficult to make a proper assessment on appropriacy of the timeline set out in this consultation. A better understanding of the following is required:

- Impact of the legal and data privacy challenges
- Outcome from the implementation of the tactical solution
- NPSO timetable and any key dependencies for on time delivery
- Impact from Brexit activities on regulatory and legislative changes

6.7 Do you agree with the establishment of the recommended framework for the sharing and exchanging of a core set of SME customer data overseen by a governance body?

Yes (but subject to caveats outlined below)

If not, please explain your reasoning.

We broadly agree on the need for collaborative action around the exchange of data attributes where these can be leveraged to support activities that are currently inefficient for member firms and causing detriment for users like SMEs. The topic of data attribute sharing is highly prevalent at present and the effective sharing of data is a challenge in many sectors. KYC is only one use-case of many and we need to be clear that in driving forwards standards that this is the right lead use-case.

As a result, any standardisation in this area should aim to be solution and technology agnostic. Any framework should create the conditions necessary for market solutions to develop. We also note that the underlying assumptions of this about the value this solution would deliver to SMEs should be confirmed (there may be other areas of inefficiency/cost that are a higher priority for them).

Some kind of governance framework around this work may be valuable but we believe that more work needs to be done to determine what the precise parameters of this should be. There are several ways to address the underlying need (i.e. the interoperable exchange of data attributes) – e.g. point to point, via third party, via APIs, via a storage utility, etc. At this point in the maturation of such new solutions, the focus should be on the development of a standards environment that stimulates innovation, encourages collaboration and protects and enhances standards, while reducing cost and friction for both consumers and market participants. We have some concerns that the consultation is (perhaps unintentionally) directing thought towards a particular type of solution, when we believe we could be encouraging a variety of approaches at this stage.

We note that the industry has been working on Project Bulldog[6] for some time and good progress has been made on the challenge of agreeing a common data set needed for opening SME bank accounts. The logical next step of this work is that there needs to be some way for that agreed data set to be exchanged. We believe that given the intense period of change currently underway, there would be value in pursuing an evolution of the Project Bulldog work in the first instance to test some of the principles and assumptions of the KYC Framework proposals. This would have the advantage of delivering benefit to SMEs whilst ensuring that the industry does not create a superfluous or duplicative framework that would only meet the more circumspect needs of KYC.

Finally, we would also like to see some further analysis done on the key issues of Reliance and Liability. While the paper suggests that all parties will retain their own liability, in reality in the market it tends to be more complex. This might impact on the willingness of net data providers in particular.

6.8 We are keen to get your input on the benefits provided by the framework.

a. Do you agree that the focus on sharing a core set of SME customer data is beneficial for the KYC processes in your organisation?

Yes

If not, please explain your reasoning.

As with any standardisation exercise, there are potential benefits for a range of players in the ecosystem. However, as the paper touches on, there is likely to be asymmetry in the benefits derived and this needs to be considered. We need to consider what the shape and value of the market being created will be.

Even under the same framework of laws, regulations and best practice, the KYC onboarding process varies significantly from bank to bank – both in terms of the range of information sought about the applicant, and from where this data is derived, and authenticated. The different range of information required from bank to bank can result in confusion for applicants, and this is in the process of being substantially addressed by Project Bulldog.

The process by which customer information is collected by banks as part of the KYC process also varies. This results in a wide range of costs, and levels of complexity, and therefore different banks will benefit from a shared core set of customer data to varying degrees. The asymmetry of cost and benefit also needs to be given consideration when attributing any development costs. However, in principle, sharing customer data (with consent), and providing ways of accessing and verifying data more efficiently, and to a high level of confidence, has potential benefits to both customers and the industry.

b. Which other business activities could be supported by / benefit from the described sharing and exchanging a core set of SME customer data?

As noted earlier, this is fundamentally a proposal about better data attribute sharing. As such it is applicable in a wide range of scenarios and businesses throughout the supply chain (e.g. insurance, landlords/tenants, etc). KYC is only one use case.

[6] Project Bulldog is work being undertaken by several firms and supported by UK Finance to standardise and simplify BCA opening procedures by developing a common application form with a standardised data set.

As per the overarching aims of the PSF Blueprint (to improve outcomes for end users) we think that it is important to ensure that this solution is addressing the areas that cause most inefficiency/cost for SMEs. It may be that there are other areas of the business process where data attribute exchange would be more valuable. In principle, any business activity requiring the SME to assert its corporate identity, and the identity of significant individuals within it (and the potential risk associated with them) could be a use case.

There are a number of ongoing activities relating to the prevention and detection of financial crime, both through the PSF and other stakeholders, where this would be of significant interest and potential benefit, and with which this proposal would require careful alignment and planning.

6.9 Do you agree that the topics covered by the standards will provide sufficient guidance in order to implement the data sharing framework without being too prescriptive?

Yes

Are there additional topics you believe should be included?

Yes, broadly speaking these are the right areas. However, as previously noted, the need for standardisation of data attributes goes much wider than SME KYC as a use case. Given this it may be that any future standards work will also need to include an element of engagement with other industries to ensure that there is no duplication of standardisation effort.

6.10 To engender trust in the sharing and exchanging of a core set of SME customer data, are there other responsibilities you would expect the governance body to have oversight over?

The main areas seem to be covered.

6.11 In your view, do any existing bodies (industry or other), already perform this oversight role?

No

Given the ubiquity of work on data currently underway in a wide variety of sectors we think it likely that there will be efforts already underway that we can learn from or indeed work with. For example, the international standardisation work carried out by ISO; pan-European efforts connected with eIDAS; or, in the UK, the Gov.Verify Good Practice Guides

6.12 Do you think a temporary testing environment as described is the right approach? If not, please explain your reasoning.

Yes

In principle, a testing environment for work of this kind is useful. One possible reservation is that sandboxes tend to be associated with standards that are fairly well prescribed. We believe that standards in this area need to be flexible enough to allow for a range of solutions to emerge and this might have an impact on the utility of the sandbox.

6.14 Do you agree that value-added service providers would benefit from the data sharing environment enabled by the framework?

Yes

It is clear that there is a great deal of value that can be gained from the exchange of data attributes (in a range of sectors). Especially if the standards are flexible.

There are a variety of service innovations expected over the coming months in a range of areas, not least driven by the use of APIs, post-PSD2. Given the rapid innovation that this period is likely to see, and the lack of clarity on the options that will open up for the industry as a result, it is likely that significant industry value will be derived from a data sharing environment. However, given the changes to the associated regulatory regime, through GDPR for example, the role and interests of the consumer as an owner of data, not only as a recipient of data-derived services, needs to be given detailed consideration.

6.15 Are the arguments put forward compelling enough to encourage net data providers to engage?

Yes (with caveats)

If not, please provide examples of what else would be required to make them participate.

As we previously noted, there is likely to be market asymmetry as a result of these proposals and this needs to be recognised. Where net providers might benefit is in the possible recuperation of costs via an effective commercial model and a functioning market in data supply. However, as noted earlier, there are potential challenges that emerge around liability and reliance and these are potentially exacerbated where there is a commercial contract in place.

6.17 Do you agree with the high-level implementation timeline for the Trusted KYC Data Sharing solution?

No

If not, what timing would you suggest and why?

The timeline is highly dependent on the final approach that is adopted, for example whether an evolution of Project Bulldog is pursued or whether something is designed from scratch.

6.18 Are there other initiatives with a similar focus that should be considered in order to deliver the Trusted KYC Data Sharing solution?

Yes

See answer to 6.11