



**Experian's response to the Payments Strategy Forum - "Being Responsive to User Needs:
A Draft Strategy for Consultation" (dated July 2016)**

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Introduction

Experian welcomes the opportunity to provide feedback on the draft strategy for consultation, published in June 2016 by the Payments Strategy Forum - Being Responsive to User Needs.

Experian is a leading global information services company, providing data and analytical tools to clients in more than 80 countries. The company helps businesses to manage credit risk, prevent fraud, and automate decision making. Experian also helps individuals to check their credit report and credit score, and protect against identity theft.

Given that the draft strategy for consultation expressly refers to other sectors in addition to the payments market we have, where appropriate, widened our comments to embrace those areas. Moreover, we are not in a position to answer all questions which you have presented in the draft strategy.

Responses to areas of relevance to Experian

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

Broadly speaking, Experian's view is that these proposals are focussed more heavily on consumers than businesses. It is worth noting that 94%-95% of payments in the UK start or end with organisations (businesses, charities, national and local government) and the majority of automated payments and collections are initiated by them. It is in the interest of consumers that payments work across the piece. As such, we take the view that the specific concerns of organisations should be given more consideration in the proposed solutions.

2.

A: Do stakeholders agree with the financial capability principles?

B: How should these principles be implemented?

C: How their implementation should be overseen and how should the industry be held to account?

Experian believe that the availability of consumers' payment data via the API will make it relatively quick and easy to analyse. It should be noted that the European Banking Authority's consultation on the regulatory technical standards for PSD2 overlap with the Competition Markets Authority's (CMA) recommendations. It is likely that the API standard for sharing of customer's transactional data and associated security protocols will be agreed by the CMA Working Group prior to PSD2 timings which will need to be considered.

It should be further noted that the processes of managing money and current accounts is not necessarily a payments issue. Banking issues like these are being examined separately, by bodies like the CMA which

recently reported on their retail banking market investigation. We believe these issues should continue to be examined separately to avoid confusion.

3.

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

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

C: Is there a business case for investing in solutions to address these needs and if not, how such an investment can be justified?

D: Are there any alternative solutions to meet the identified needs?

E: Is there anything else that the Forum should address that has not been covered?

We believe that further consideration should be given to qualifying the identity and authenticity of organisations wishing to process payments and access a customer's transactional data. In association with this, a process needs to be established for capturing and monitoring consumer consent for sharing of data and permission given for use of the shared information. This should include the use of information for marketing purposes.

Finally, we think careful consideration needs to be given to liability assigned to the Disclosing and Requesting organisations in managing access to and exchange of personal information including the likely impact of a breach in data security and associated Right of Redress for consumers.

4.

A: Is there a business case for investing in transitional solutions while the new payments architecture is being delivered and if not, can such an investment be justified?

B: Are there any viable technical solutions to deliver some of the consumer benefits early without compromising the longer term solutions recommended by the forum?

There are many examples of detriments which currently have a significant impact on payment service users, such as invoice fraud and other financial crime, which would benefit from transitional solutions in the short term. These can be designed to work in either a single payment platform or a legacy architecture and in most cases can evolve to meet the new payments architecture.

Experian believes there is a strong case for the simplification and improvement of key parts of the payments systems to the benefit of the end user (whether that is a business, consumer or government department).

Technical solutions are already available between components of end-to-end payments systems which allow for change in each component without compromising the robustness and reliability of the overall system. In the case of Bacs, where the vast majority of payments are initiated directly by organisations rather than banks,

“Bacstel-IP” software is available to take payment instructions from business systems and deliver them in an appropriate format to the clearing system; Experian is a provider of software responsible for more than 40% of the all Bacs payments and over 50% of Direct Debit transactions and therefore would propose that similar software could be used to introduce some customer benefits as they become available for the longer term.

In addition, Experian already provides ancillary services to address the risk of fraud. We have developed a product which verifies the identity of individuals and employees, by issuing them with a reusable digital identity. By implementing this more broadly, a variety of services could be accessed securely through one set of credentials.

5.

A: Do you agree with our proposal regarding customer awareness and education? If not, please provide evidence to support your response.

B: Do you agree the delivery of these activities should be through an industry trade body? If so, which one would be most appropriate to take the lead role?

Experian believes that the issue of customer awareness and education needs to be addressed. Key to building consumer confidence and trust in the service is to mitigate the immediate concerns regarding security, data privacy and customer support when data exchange falters. Clarity is needed in terms of how these initiatives are funded to ensure they are effective. In particular, consistency of terminology when communicating with payment service users is of great importance to avoid the misunderstandings and misconceptions which allow criminals to exploit payment service users.

Whilst Experian broadly agree with the trade body route, this solution would be dependent on finding an organisation which all relevant parties are members of.

6. Do you agree with the establishment of guidelines for identity verification, authentication and risk assessment? If not, please provide evidence to support your response?

Experian supports the establishment of guidelines in this area although more detail is needed. Experian believes that auditable standards would allow payment service providers to rely on identity-related services performed by other participants in the payment system. Experian works with the Open Identity Exchange on private sector schemes looking at lower-level identity assurance programmes where appropriate and these could in principle meet the needs for a national digital identity.

7.

A: Do you agree with our solution to develop a central data repository for shared data and a data analytics capability? If not, please provide evidence to support your response?

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

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

Experian broadly agrees with this solution although we believe that this should be applied beyond transactional data which predominantly affect consumers. Experian believes that the access to this data should not be given to just one provider. We recommend the development of a secure sandbox for trusted analytics providers, including payment service providers, allowing interested parties to perform analytics on real-life data in a secure and trusted environment.

8.

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

B: In what way does this solution improve financial inclusion? More generally, how should the intelligence sharing be used for the “public good”

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

D: Do the benefits of financial crime intelligence sharing outweigh the new potential risks created?

E: Can this operate without changes to legislation? If not, what changes to legislation would be required to make this happen? If any legislative change is required, would such change be proportionate to the expected benefits?

F: What governance structure should be created to ensure secure and proper intelligence sharing?

No comment.

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

Yes, Experian agrees with the current proposals on this issue and notes that a successful operation of a corporate KYC solution may pave the way for shared “know your customer” information for consumers.

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

No comment.

11. Do you agree with our proposal regarding access to sort codes? If not, please provide evidence to support your response

Yes, Experian agrees with the current proposals on this issue. We note that much of this has already been implemented and further recommend that these sort codes are used to implement modulus checking on the related account numbers, in order to increase the reliability of capturing payments data from payment service users.

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

No comment.

13.

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

B: How can the development of more commercial and competitive access solutions like aggregators be encouraged to drive down costs and complexity for PSPs?

Experian agrees with these proposals and has in the past proposed similar solutions to UK scheme management companies to reduce the barriers to accessing clearing systems.

14. Do you agree with our proposal regarding Common Payment System Operator participation models and rules? If not, please provide evidence to support your response

Yes, Experian agrees with the current proposals on this issue.

15.

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

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

Experian is not convinced that single payment platform (SPP) is the only approach to improving access to clearing systems for a number of reasons:

- a) many, if not all, the proposals could be delivered in either environment;
- b) there is significant difference between a bulk payments system such as Bacs and a real-time, single payment system such as Faster Payments. Many of the economies experienced by businesses using Bacs are due to a batch-based approach;

- c) the SPP proposal creates a single point of failure or attack for malicious actors. Currently the interdependency between some systems is low;
- d) it is not clear how establishing and developing standards across a number of different payments models would work; this might therefore stifle innovation in the system;
- e) the benefits of other proposals which overlap with or might be delivered by the proposed SPP might not as easily be delivered using a single platform or such a platform would need to be extended to cover addition; and
- f) a single payment platform may well not support directly the initiation of payments by non-payment service providers, who currently submit the vast majority of Bacs payments and the vast majority of the value in regular payments systems.

For these reasons it is unclear that investment in a single payments platform is warranted and that improvement and alignment of existing systems is more cost effective and lower risk.

16. Do you agree with the proposal to move the UK to a modern payments message standard? If not, please provide evidence to support your response

Experian is very supportive of these proposals. By allowing more data to be carried in a structured way between payment service users, all parties benefit. For example, reconciliation can be improved, name matching can be made more accurate, making some frauds more difficult to perpetrate and salary payments can be linked more directly to taxpayers resulting in efficiency gains and a lower burden on payment service users. ISO20022 XML is a properly-managed standard which allows for interoperability not only between UK PSPs but also for payments globally, thereby not restricting UK trade.

17.

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

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

C: In your view, which entity or entities should lead on this?

One of the impediments to indirect access providers delivering service to a payment service provider is risk of non-compliance with applicable law. In our view, there are two different types of risks experienced by IAPs:

- a) risks around providing payment services to a payment service provider
- b) risks around the other payment service provider's operations including their compliance. This risk is outside the IAPs control and they are typically unable to verify the mechanisms in place to manage these risks, including competition and secrecy. In some cases, regulators outside the UK have oversight of UK IAPs provision of payment services to other UK PSPs. It

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is therefore difficult for an IAP to comply with the requirement to provide access and
comply with non-UK regulation.

For risks in category b) above, if it were possible to ensure that the indirect access customer complied with standards sufficient to allow the IAP to quantify and manage the risks, this might allow more indirect access provision. The identity verification, authentication and risk assessment technical standard referred to in the consultation paper could be one such standard.

18.

A: Do you agree with the proposal for a co-ordinated approach to developing the various types of APIs? If not, please provide evidence to support your response?

B: What are the benefits of taking a co-ordinated approach to developing the various types of APIs? What might be the disadvantages of taking this approach?

C: How should the implementation approach be structured to optimise the outcomes?

Whilst it might allow easier and swifter integration across a number of third-party providers, creating a single set of APIs may well result in a “lowest common denominator” solution which would be an impediment to future innovation. Using existing standards where possible, such as the ISO20022 data dictionary, this may offset the potential deficiency of a joint specification by a variety of disparate parties.

Creating numerous APIs will generate additional work for banks and PSPS to successfully exploit the benefits of the different API’s. It will also require a governance and API management layer such as an Orchestration Hub to centrally manage the implementation of these APIs, monitor their use and exchange of information.

19.

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

B: Should the new consolidated entity be responsible for leading the development of the new rules/scheme or should a new body be given this responsibility?

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

D: Would it be better for the processing and clearing functions of the simplified framework to be built on distributed architecture or a centralised infrastructure? Could there be a transition from a centralised structure to a distributed structure over time?

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

Experian does not believe it is clear what the implications of the Simplified Delivery Mechanism would be. The key point, from our perspective, is that the requirements of a real-time delivery mechanism vs a

delayed/future-date payment are different. It is therefore difficult to amalgamate these different requirements into one.

New and currently unproven technologies such as distributed ledgers may have some value, but the need for rapidity and privacy may prevent implementation for such a mission-critical service in the short term.

20.

A: Do you agree that the existing arrangement of the payments system in the UK needs to change to support more competition and agility?

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

Existing arrangements do offer competition, but increasing competition with the larger firms needs to be addressed despite the dominance of the market by small number of users.

21.

A: Do you agree with this proposed sequence of solutions and approach outlined to further clarify this?

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

No comment.

22.

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

B: Who should oversee the implementation of the Forum's Strategy?

C: What economic model(s) would ensure delivery of the Strategy recommendations?

Experian believes that there is a role for technology vendors (non-payment service providers) to play in facilitation, from which they have been typically excluded. The approach should be informed by an understanding of what is already being done by payment services providers to address these issues, balanced by an assessment of what may be possible.

Experian is willing to provide support where appropriate to ensure effective policy standards and industry cooperation.

23.

A: Do you agree with the proposed approach for quantifying the potential costs and benefits of the proposed solutions?

B: Do you agree with the costs and benefits drivers outlined in this document?

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

No Comment