

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

Respondents basic details

Consultation title:	Payments Strategy Forum: Being Responsive to User Needs - Draft Strategy for Consultation
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Representing (self or organisation/s):	The Chair and Independent Directors of Cheque and Credit Clearing Company (the C&CCC)
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Publication of Responses

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

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want parts of it to be published or referred to in this way you need to separate out those parts and mark them clearly 'Not for publication'.

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

Declaration

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with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.

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Response template

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

If you do not want parts of or all of your response to be published you need to state clearly ('Not for Publication') over specific information included in your response, please be sure to clearly mark this by yellow highlighting it.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

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

Thank you in advance for your feedback.

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

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

From our respective experiences of the forum and its working groups there is a concern that the work was rushed and was heavily influenced at times by some key stakeholders who had the resources, directional research and influence position to steer debates in particular directions relevant to their objectives.

The working groups were working to very tight time lines and this meant that in some cases sub groups were formed to progress work and some alternate views were closed down in some cases.

Overall the key needs of the end users were captured, but we are concerned that some of the proposed solutions were not fully tested and have been driven by existing interests and a determination to hit a deadline.

C&CCC experienced the danger in this back in 2011 when the then Payments Council and its members were required by government to reverse their unilateral decision to close down cheques as a payment choice, contrary to the wishes and needs of vulnerable users. This event led to the appointment of Independent Directors at C&CCC with a brief to represent the public interest at Board.

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

We agree that changes to payment systems must be as simple and uniform as possible to help users, taking account of varying digital skills and access, inter alia. In our work at C&CCC we are ensuring that while the Image Clearing System process will be much quicker, cheques will still be as simple and familiar to use for customers as they have always been and that the essence of a paper cheque is not lost in the digitisation of the back office.

Question 2b: How should these principles be implemented?

Our experience has shown that clear PSR or other formal Directives help set priorities in the industry. Wider use of explicit public interest duties for PSO Independent Directors (IDs), and re-balancing PSO Boards could be an alternative or supplementary measure.

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

Implementation should be overseen by the PSR and/or annual reports by PSO IDs.

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

Moving to better and consistent data standards opens up the potential for innovation and a range of new service possibilities, which we are also exploring at C&CCC.

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

Payments should be about informed choice for users and therefore simple, safe and reliable solutions are required. As we know, more data requires greater responsibility on how it is used and kept safe so users remain confident. We need to better understand the proposed model for enhanced data use, privacy and, critically, security.

Question 3c: Is there a business case for investing in solutions to address these needs and if not, how such an investment can be justified?

We have no evidence to base and answer on and question if businesses cases put forward by other interested parties groups are fully modelled

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

No comment

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

Our view is that payment options should enable end users to make a choice on how they wish to transact, and protection and increase of choice should be a key objective of the PSR

Question 4a: Is there a business case for investing in transitional solutions while the new payments architecture is being delivered and if not, can such an investment be justified?

C&CCC is already investing in a new technical solution which will not only enable cheques to be exchanged & cleared securely by image so speeding up the process to something faster than Bacs, but also provides the back office building blocks for enhanced data and request to pay solutions

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

The Image Clearing System (ICS) for cheques will be ISO20022 compliant. It will be capable of delivering more than the cheque clearing by use of image; the ICS could have the capability of delivering Assurance Data, Request to Pay and transferring Enhanced Data with some further development such as business invoicing and image exchange between users.

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There is, however, a significant and unacceptable risk to the ICS project in the proposal to merge payment system operators if undertaken during delivery of this investment programme. Any move to merge, if justified by a fully worked up business case, should not be implemented until after the ICS is launched and fully operating.

QUESTIONS IN RELATION TO SECTION 6 | IMPROVING TRUST IN PAYMENTS

Question 5a: Do you agree with our proposal regarding customer awareness and education? If not, please provide evidence to support your response.

This is an ongoing and increasingly complex challenge and is closely related to other online security issues. It should be addressed as part of the wider digital inclusion strategy ie is not peculiar to payments services. Keeping systems simple and clear is probably more important than trying to educate customers retrospectively. So assured data is a key benefit, for example. The focus on the user interface, effective simple security, and user experience are as important as the back office changes that make it possible. Resources may be better spent on that.

Question 5b: Do you agree the delivery of these activities should be through an industry trade body? If so, which one would be most appropriate to take the lead role?

The Personal Finance and Education Group (PFEG) already exists to provide much of this advice, particularly to younger consumers. It may be appropriate for PFEG to expand its activities to wider consumer groups or bring these along with other financial crime and digital safety initiatives under an umbrella body such as a banking trade body. This may be a good role for Payments UK (PUK) or similar trade association to pick up.

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

No comment

Question 7a: Do you agree with our solution to develop a central data repository for shared data and a data analytics capability? If not, please provide evidence to support your response?

This is a very big decision and driven by the time lines and agenda previously mentioned. It requires careful consideration. Increased centralisation, while providing anti-fraud and identity theft prevention opportunities, appears to us also to offer a single target for those who would wish to gain or damage this data for criminal or political purposes. We believe that this should be subject to separate consultation which acknowledges and addresses privacy issues and the interests of the wider public. Again, this is not solely a Payments issue, but is part of a wider societal debate on the collection and use of Big Data.

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

No comment

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

No comment

Question Do you agree with our solution for financial crime intelligence sharing? If not,

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8a: please provide evidence to support your response?

We think it might be useful to examine how the insurance industry dealt with this problem and made significant progress in reducing fraud.

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

We would like to see some sound research undertaken on the impact of these proposals on the marginalised in society, some of whom already resort to payment solutions which offer them more anonymity than conventional PSPs. We believe these alternative providers may increase the vulnerabilities of already vulnerable people, and that any measure which drives more people into the use of these services could have significant unintended consequences. However, without proper research it is not possible to comment authoritatively.

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

The risks listed appear to be almost entirely focussed on the needs of the Payments Community and not the potential impacts on consumers or other end users.

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

No comment

Question 8e: Can this operate without changes to legislation? If not, what changes to legislation would be required to make this happen? If any legislative change is required, would such change be proportionate to the expected benefits?

No comment

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

No comment

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

No comment

Question 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

QUESTIONS IN RELATION TO SECTION 7 | SIMPLIFYING ACCESS TO PROMOTE COMPETITION

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

The Image Clearing System (ICS) will allow full portability of sort codes for cheque users.

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

The ICS for cheques will permit direct access to the exchange and would benefit further if wider access to Bank of England Settlement accounts were possible

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

We are working to ensure the ICS will support aggregators who will be able to connect directly and become full direct participants in the system. We will ensure C&CCC aligns its access requirements with those operated by other PSOs.

Question 13b: How can the development of more commercial and competitive access solutions like aggregators be encouraged to drive down costs and complexity for PSPs?

The promotion of competition has been a key factor in the design of the ICS. Institutions have the opportunity to connect directly, to continue to use a principal (or more easily switch between principals) or use an aggregator. Ensuring alignment with other PSPs in specifying our requirements on aggregators, including the possibility of mutual recognition of certification, is a key consideration. We expect this will in turn promote price and service competition.

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

C&CCC is engaging in working with the other PSOs to develop better commonality of rules etc but it is very important that there is recognition that the schemes operate under different regulatory regimes and legislation. The risks may also be different and therefore at this stage we are steering our colleagues to ensure the integrity of the cheques clearing process is central to their work in harmonising the 'rule book'. That said, we recognise that there could be many potential benefits in harmonisation, although we are not aware of any substantive evidence or cost: benefit analysis to support this assertion. It is intuitive.

The PSF working group & sub group took an extraordinary decision to refuse access to the group of anyone who had previously expressed any view on the market, or possible outcomes on the decisions to bring the PSOs closer together or merge them. This deprived the group of access to anyone close to the situation, including anyone from C&CC, of the operation of PSOs and their respective future plans.

As Independent Directors at C&CC we have an explicit duty to look after the public interest. We are concerned that there is little independent evidence presented to justify changes and a clear presumption that the current model is flawed, citing cost and access.

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We have looked back at the history of payments over the past 30 years and are very concerned at plans to bring schemes under a single entity or regime.

The Payments Council and UK Payments Administration ran the PSOs for some decades during which innovation was slow, only occurring when mandated by government, and competition not encouraged. In the short time that the PSOs have been separated and freed from this constriction, we have seen some promising green shoots of innovation appearing, a focus on attracting new members and on promoting the respective PSO businesses. We believe this will be to the benefit of participants as competition ramps up.

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

Notwithstanding our comments in response to question 14, we do not rule out a potential merger of the schemes if it is justified on the basis of genuinely independent and open assessment of the benefit and risks. We stand ready to take a full part in such a review.

Despite previous reports such as Cruickshank requiring improvement in payments, the market did not fully pick up the challenge when it was under a central entity controlled by PSPs.

Therefore we are of a view that should such a merger/ central entity be judged to be justified following a fully evidenced review, the governance of that body should be such that it is divorced from the direct control of major PSPs and as such:

1. Should have full funding derived from sources other than direct funding from the major banks so that the new entity can operate without constraint or perceived bias.
2. That the new body should have a statutory duty to promote and develop all existing payment systems and develop new ones. This is required to prevent the material risk that an organisation looking at multiple service products may choose to de-prioritise minority products, or those meeting vulnerable consumers' needs such as cheques.
3. The new organisation should be independent from any direct influence of Trade Associations and industry bodies. In particular, key staff and directors must be demonstrably independent of Trade Associations.
4. The new board should have a majority of independent directors, in line with the UK Corporate Governance Code.

Finally, if there is a move to a single entity, this must not interfere with the delivery of the Image Clearing System, which is vital for the cheque clearing industry and its users.

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

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There is some evidence that competition and innovation is being accelerated by the current and recent split of the PSOs since the closure of the Payments Council. This innovation is already pushing the PSOs to move to providing enhanced services, better data standards and improved potential for competition. Currently there is no independent assessment that creating one entity will achieve the desired benefits and indeed may hinder them based on history. If a single entity is established then it needs to meet all of the requirements outlined in answer 15a.

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

Yes this is a key requirement. The Image Clearing System will be ISO20022 compliant.

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

This should be mandated by a regulator and applied consistently across schemes operated by the PSOs.

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

Our observations are that at times regulatory intervention helps the focus of resources. It can also prevent challenge to rules imposed by individual PSPs.

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

The Payment Systems Regulator (PSR).

QUESTIONS IN RELATION TO SECTION 8 | A NEW ARCHITECTURE FOR PAYMENTS

Question 18a: Do you agree with the proposal for a co-ordinated approach to developing the various types of APIs? If not, please provide evidence to support your response?

Achieving a co-ordinated approach can mean working at the pace of the slowest. Open access APIs and common messaging should be the focus. C&CCC will be developing common open access APIs so this solution can be taken forward without co-ordination.

Question 18b: What are the benefits of taking a co-ordinated approach to developing the various types of APIs? What might be the disadvantages of taking this approach?

No comment

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

No comment

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

Without a proper cost/benefit analysis we cannot comment.

Question 19b: Should the new consolidated entity be responsible for leading the development of the new rules/scheme or should a new body be given this responsibility?

While we have no fixed view on this, since one of the key justifications given for consolidation is a reduction of costs to PSPs it would seem perverse to then institute a new and additional cost centre.

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

We believe proper technical and cost/benefit analyses need to be undertaken before drawing any conclusions regarding whether this is feasible and, if so, which scheme would offer the best technological platform.

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Question 19d: Would it be better for the processing and clearing functions of the simplified framework to be built on distributed architecture or a centralised infrastructure? Could there be a transition from a centralised structure to a distributed structure over time?

The history of cheque exchange shows that a distributed architecture can result in barriers to entry. The new centralised hub of the Image Clearing System will, for example, remove the very significant barriers to entry incumbent in the current paper clearing scheme, rendering it non-compliant with PSR requirements. Any proposal for a distributed architecture needs to take account of such issues.

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

Without properly costed and considered proposals, including governance and funding arrangements, it is not possible to comment.

Question 20a: Do you agree that the existing arrangement of the payments system in the UK needs to change to support more competition and agility?

Improvements in competition and agility are being made, but we are already seeing how political proposed collaborative changes can be and how long they can take to deliver, especially given all the other changes happening in financial services. We are concerned that demands for structural change will adversely impact the work currently in progress such as ICS.

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

APIs appear to us to offer the best return on the required investment. However, we are unaware of any rigorous and evidenced cost: benefit analysis of the options.

QUESTIONS IN RELATION TO SECTION 9 | OUR STRATEGY IN SEQUENCE

Question 21a: Do you agree with this proposed sequence of solutions and approach outlined to further clarify this?

It is worth stressing again that if there is a move to a single entity, it must not interfere with the delivery of the Image Clearing System. A fuller and independent assessment of the benefits for a single entity, including costs benefits, control and funding is needed before such a move is mandated. There is no reason, for example, why ISOCC cannot lead delivery of alignment of participation models and rules independent of, and indeed ahead of, any decision on consolidation.

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

It is not possible to comment without a rigorous cost/benefit analysis of the proposals. Measures achieving the highest CBA returns, or where there are dependencies in delivering these high value measures, should be identified as priorities. We are not in a position to identify these based on the consultation document or other material published by the PSF.

QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

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

Full identification of costs, real benefits, funding mechanics and control is needed before implementing the strategy. It should be noted that innovation in payments is ongoing and will continue throughout this process, for example, C&CC has already made decisions about ISO20022 compliant messaging standards for the ICS. We cannot wait for the PSF Strategy to unfold before determining this.

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

The PSR and the Bank of England.

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

No comment

QUESTIONS IN RELATION TO SECTION 11 | COST BENEFIT ANALYSIS APPROACH

Question 23a: Do you agree with the proposed approach for quantifying the potential costs and benefits of the proposed solutions?

We agree this is a vital process in developing the strategy further. The process needs to make it clear who is paying the costs, the impact of who pays in terms of timelines, solutions and governance, and how and when these costs are to be recovered. We are not aware that the detriments asserted have been challenged or costed within the PSF process to date, so it is difficult to understand how it will be possible to calculate whether the proposed solutions are, in fact, cost effective. This is an essential first step ie define the problem factually in order to test the solution.

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

More detail is needed in key areas such as consolidation of PSOs.

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

As stated above, we feel a proper and evidenced review of the proposal to create a single PSO entity is needed. This should include not just the quantifiable cost benefits, but also the societal (eg access, equity, financial inclusion) and governance positives and negatives of such a move, and the checks and balances needed in its funding and control.