

LLOYDS  
BANKING  
GROUP



**LLOYDS BANKING GROUP PLC**  
**Payments Strategy Forum**

***Response to **Being responsive to user needs: a draft strategy for consultation.*****

## LLOYDS BANKING GROUP PLC

### Response to Payments Strategy Forum – Being responsive to user needs: a draft strategy for consultation.

#### INTRODUCTORY REMARKS

1. Lloyds Banking Group (LBG) is committed to being the Best Bank for Customers and to Helping Britain Prosper. Having effective and efficient payment systems is critical in achieving these goals and for the wellbeing of the UK economy as a whole. LBG therefore has a strong interest in ensuring that the UK's payment systems are highly robust, reliable, and secure, while providing a platform to develop services for end-users. In this regard, LBG believes that the UK payment systems are world-leading, but strongly supports the PSF's work to deliver further improvements.
2. Delivering better outcomes for users of payment systems is rightly at the core of the draft strategy, arising either directly from the initiatives proposed in the draft strategy or through laying the foundation and creating the environment to deliver enhanced competition and innovation through the end to end payments value chain. LBG therefore welcomes many aspects of the draft strategy and will continue to work with and support the Payments Strategy Forum as the strategy evolves through its study, design, and cost benefit analysis and prioritisation phases.
3. **The PSF has done excellent work in the time available** and has successfully brought together a wide range of stakeholders across the industry representing traditional banks, new entrants, fin-techs and representatives of end user groups to speak with one voice and to lay down an ambitious blue print for the development of UK payments. In responding to the PSF consultation, we have grouped the initiatives into the following three broad categories:
  - **Proposals that the industry has been working for that are obviously right for customers and the UK.** The PSF should use the platform and momentum it has created to press on with these initiatives as quickly as possible. These include customer awareness and education on fraud and financial crime threats; the adoption of the Advanced Sanctions Data model in the UK; the development of a standard focused on how Payment Service Providers (PSPs) verify the identities of their customers; enhancing the availability of sort codes for PSPs; better access to settlement account options proposed by the Bank of England (BoE); enabling and developing aggregator models to broaden the range of connectivity options available to PSPs; and the creation of a multi-stakeholder group with the objective of clarifying liability in indirect access models.
  - **LBG also strongly supports the proposals to simplify Payment System Operator governance** and as part of this to deliver a common participation model and rules making it easier for PSPs to join and participate in UK payments. LBG considers that delivery of this simplified model will be a key enabler to the successful delivery of the mid-term and strategic change elements of the PSF strategy.
  - **Proposals linked to the Simplified Payments Platform (SPP)** i.e., that logically form a core part of or will be developed as an overlay service on the centrepiece of

PSF strategy to design and develop a new payments infrastructure for the UK's inter-bank clearing systems. This includes moving the UK to modern payment messaging standards; payment transaction data sharing and data analytics; Know Your Customer data sharing; financial crime intelligence sharing; and the overlay services of Request to Pay and Assurance Data (Confirmation of Payee). The SPP proposal is rightly ambitious and we welcome that the PSF has acknowledged that more work needs to be done to complete study and design activity on these elements of the strategy.

We also believe that the PSF strategy presents an **opportunity for the UK to lead the way on driving Open Banking and Payment Services Directive II (PSD2)** by ensuring that these deliver good outcomes for service-users underpinned by authentication and liability models that both protect customers and provide a frictionless experience.

4. This naturally leads on to one area where LBG believes the PSF strategy should go further. **Payments-related fraud is prevalent and growing**; it represents a significant source of money lost between customers and the finance industry. The PSF has outlined (and LBG welcomes) systems measures to make fraud harder (e.g., recipient ID; confirmation of payee) and consumer education measures to make people less vulnerable.

However, customer responsibility, supported by education, can only get us so far, some customers are more vulnerable and fraudsters are highly sophisticated and have successfully "phished" even financially-astute people. Customers seem likely to continue carrying the burden of phishing unless we work together as an industry to align the interests of customers with those able to make a difference. By making better use of our AML/KYC capabilities to better identify, report, pursue and prosecute fraudsters the recovery of funds and losses from fraud could be substantially reduced.

PSD2 and Open Banking create opportunities for great products and customer experiences; they also bring opportunities for confusion and the loss of trust if TPPs become a channel for fraudsters; **now is the time to act.**

5. LBG welcomes the work done by the PSF and the industry to gather the views of a wide range of stakeholders and service users regarding the current model of payments systems in the UK. The PSF has correctly identified that benefits could be realised from reducing the cost of change, improving agility and by simplifying UK payment systems. It is important to recognise that the current system has served the UK well, is considered to be world leading in many aspects, and continues to deliver safe and secure payments to millions of consumers and businesses every day. Therefore future change does need to be carefully considered, subject to a robust cost benefit analysis, with changes rigorously planned and tested. That said, we welcome the draft PSF strategy as a good starting point and agree with the PSF that more work needs to be done before implementation commences on the initiatives proposed. As a critical next step we believe that the PSF should initiate the foundation actions described in point 9 of our introductory remarks.
6. We note that the comments in 4.1 and 4.2 of the draft strategy document recognise the complexity of UK payment systems and the need to collaborate means that changes are time consuming, expensive to implement, and leads to change being delivered at the pace of the slowest. LBG agrees that improvements can be made in these areas however, given that every payment typically involves two different parties (a payer and a payee), who

typically utilise two different PSPs, a degree of collaboration, standardisation, and rules will always be necessary to ensure the efficient and secure execution of individual transactions. **We do not agree with the assertion in 4.2 that there is very little ability for PSPs to differentiate the interbank payment products they offer**, and would point to the growth in internet and mobile banking and the competitive market in transactional banking product offerings, for SME, commercial and corporate clients as evidence of this. The PSR Indirect Access Market Review Report also found that there was effective competition in the market for indirect access services and that a range of initiatives already in course would enhance competition and innovation further.

7. **LBG agrees that the PSF strategy should develop a long term strategic vision** for the industry that focuses on the areas where collaborative change is needed to drive competition and innovation. We agree that the PSF strategy should make recommendations on key priorities for the industry and, as part of this, work with the PSR, other regulators and Government to make sure these priorities are sequenced with other industry regulatory and mandatory change.
8. LBG notes the outcomes for consumers, PSPs and all service users in 4.7, 4.8 and 4.9 and agree with these in principle. We believe a sensible next step will be to undertake more detailed customer research where appropriate on the individual initiatives proposed in the strategy to ensure the expected outcomes are delivered, identify any unintended consequences, to identify the extent to which the services will be taken up by service-users and ultimately to inform business case development
9. **It is right that the PSF prepares for the next phase of the strategy.** In doing this there are a number of key questions and foundation activities that the PSF, working with the Payment Systems Regulator (PSR), other regulatory bodies and Government, needs to address:
  - (a) We welcome the PSF proposal to complete **study and design activity** to ensure that the specification of each of the initiatives are documented with sufficient information and detail to undertake customer research, market testing, cost benefit analysis and to identify dependencies across the initiatives in the draft PSF strategy as well as the industry regulatory and mandatory changes outlined on page 38 of the PSF strategy document.

The PSF strategy document recommends that the SPP design is developed further over a two-year time period from the publication of the final PSF strategy later this year. Given the magnitude, importance and far reaching impact of SPP, we support this as a sensible and reasonable time period to undertake this work and believe that an open-minded approach is essential given the range of alternatives and opportunities to improve outcomes for users. Careful planning will also be required.
  - (b) As part of this study activity the PSF needs to answer **three key questions in relation to the SPP**:
    - Should the PSF initiatives be delivered on the existing UK payments infrastructure? This will require detailed analysis of the pros and cons of delivering the initiatives on existing infrastructure in comparison to delivering the initiatives at the same time as SPP or as an overlay service on SPP and should form the core of the business case for SPP. **This is an important**

**consideration as we believe that the PSF strategy should be delivered on SPP or existing infrastructure but not both.**

- If it is concluded to proceed with SPP, detailed analysis is required to determine whether SPP should be delivered on a **centralised or decentralised** model.
- If SPP progresses, which of the PSF initiatives would be affected, and what are the costs and benefits of implementing them on a transitional basis on the existing infrastructure rather than on the SPP?

**If SPP progresses there are three key pieces of work that the PSF needs to undertake in conjunction with the PSR and other regulators:**

- to agree a framework against which to evaluate all future industry change to determine if the change should be deployed to the existing infrastructure, built into the delivery scope of SPP or held over to implement once SPP is live; and
  - to set an end date for the decommissioning of the existing infrastructure. The latter will be a key factor in the costs benefit analysis of SPP as we do not believe it will be economically viable to maintain both the existing infrastructure and SPP indefinitely.
  - to develop a detailed implementation plan and approach that ensures the stability and continuity of service to service users especially during the cutover/implementation phases of SPP.
- (c) At the same time as the PSF will be completing the study and design activities for SPP, the UK will be implementing cheque imaging based on a new central infrastructure that utilises modern international standards, is scalable and appears to have the capability to support all current UK payment services and the overlay services proposed in the PSF strategy. We would therefore encourage the PSF to investigate whether or not the significant investment in this infrastructure can be leveraged to provide the core of SPP.
- (d) LBG welcomes the PSF's acknowledgement that further analysis is required to better understand the true scale of the benefits and associated cost of development of the initiatives included in the draft strategy through the need for a robust **cost benefit analysis**.

Whilst we understand the drive to conclude the cost benefit analysis to meet the publication of the final strategy document in the autumn we would urge the PSF to invest time in this part of the process to get it right and to ensure a robust and rigorous outcome. As noted above, where initiatives are potentially affected by the SPP, final decisions on some of these initiatives may need to be subject to the PSF's conclusions on SPP.

- (e) As part of undertaking the prioritisation of the strategy and the cost benefit analysis it is important that the PSF takes into account the **opportunity cost** of implementing the strategy by identifying other projects/initiatives that may need to be delayed or cancelled to free up resources and capacity to implement the strategy safely.

- (f) The PSF has rightly identified the need for more work to complete the **prioritisation and sequencing analysis** described in section 9 of the strategy document, 'Our strategy in sequence'. This analysis should quickly identify the initiatives that are good for customers and 'stand-alone' that are sensible to commence during the design and study phases of the PSF strategy.

At the same time as the PSF strategy was being finalised the UK voted to leave the European Union. The uncertainty and inevitable change required to maintain continuity will use up resources and change capacity across the industry when the current regulatory change programme is already significant, and accordingly we welcome that the PSF has acknowledged in 3.8 that it will look again at timelines and priorities in light of the UK's decision to leave the EU.

- (g) It will be critical to identify any **changes to laws and regulation** that will be required to underpin the successful delivery of the PSF strategy and the individual initiatives proposed in the strategy document. It will be important to identify these changes during the design and study phase described in (a) of this section, to ensure sufficient time is allowed to schedule any changes required to laws or regulation.

Coordination with regulators will be essential:

- Some of the workstreams may need to be enabled by regulation. E.g. ensuring that there are no undue competition law or data protection barriers to cooperation, and that the security proposals are compatible with financial crime regulation. We recommend that the PSF identify these contingencies and work up a plan for resolving them in cooperation with the relevant UK/ international regulators.
- Some proposals may need to be mandated to drive implementation and universal acceptance; the PSF may need to engage with the PSR and other relevant regulators if it identifies undue delay to delivering benefits to service users.
- It will be important for the PSF and PSR to work with other regulators to ensure consistency with change already mandated by the CMA and PSD2, etc., where there is a high degree of overlap with the PSF strategy.
- In order to support the successful delivery of the PSF strategy it will be important for the PSF to work closely with the industry, the PSR, other regulators and the Government to provide regulatory certainty and 'breathing space' to focus the industry's resources and capability on delivering the strategy at the same time as the other regulatory and mandatory initiatives identified during the prioritisation and sequencing analysis described above.
- It will also be important if it is agreed to proceed with SPP that the PSF works with the PSR, other regulators and the Government to agree the terms of a 'change freeze' on the current industry infrastructure to avoid 'throw away' development and adding complexity and risk to the delivery of the PSF strategy.

- The PSF will need to consider the implications on the proposed strategy of the UK leaving the EU in due course, as it is envisaged that these could be significant.

Timelines will need to recognise that some of these regulatory aspects are out of the industry's control.

- (h) The draft strategy does not specify **how the proposals will be funded**. This is a critically important element of the strategy, because the funding model can have significant implications for the efficiency of the system, its users' incentives, and for competition and equity between users. Funding will be a prerequisite for delivering (and, in some cases, designing) the strategy, and therefore should be given appropriate priority. In order to develop an economically sound model, and reduce the scope for delay in reaching agreement on funding among industry stakeholders, we would urge the PSF to engage with the PSR to determine economically sound **principles on how to allocate costs** (build costs and running costs) of the system.
- (i) In parallel to the foundation activities outlined in (a) to (g) inclusive, the PSF and the industry must agree the **delivery body and supporting governance** that will work with the PSF to deliver the agreed PSF strategy. This delivery body must be identified early in the design and study phase of the strategy to ensure it understands fully the key drivers and analysis that underpins the components taken forward to the execution phase of the strategy.

It will be essential that the delivery body has the expertise, capability, governance structure and authority to act, to drive forward the implementation of the strategy. We would expect this delivery body to take the lead on setting standards, as this will be critical to the successful execution of the strategy. The Delivery body must have the support of the PSR, other regulators and HM Treasury (HMT).

We believe that there are **two options to provide this delivery capability**:

- 1) to design and incorporate a world-class delivery capability into the consolidated Payment System Operator entity proposed in the PSF strategy; or
- 2) To expand the scope of the Implementation Entity currently being put in place by the industry to deliver the Open Banking remedies mandated by the Competition Market Authority's (CMA) Retail Banking market investigation. It will be important that the PSF working with the PSR, other regulators and HMT weighs up the pros and cons of these two options before making a final decision.

10. Finally, we note that the PSF strategy document is silent on the **process for reviewing the strategy** and we would urge the PSF to be clear on how this will be taken forward, including the future role of the PSF.

## PAYMENT STRATEGY FORUM CONSULTATION QUESTIONS

Contained within LBG Question Response Template