

**Pay.UK's tranche 1
response to the PSR's
consultation on delivery
and regulation of the New
Payments Architecture**

March 2021

EXECUTIVE SUMMARY

1. As per our August 2020 application, Pay.UK judges that the NPA Programme needs to be de-risked, as a way of enabling the delivery of NPA benefits in a timely way. Pay.UK therefore welcomes the Payment System Regulator's consultation on the '*delivery and regulation of the New Payments Architecture*' which seeks industry feedback on (amongst other issues) the scope of the NPA for the initial procurement and options for the procurement approach.
2. Our own analysis aligns with the PSR's position of de-risking the programme by narrowing the scope of the initial procurement to prioritise the timely delivery of NPA functionality to replace FPS, while keeping open the opportunity for a future Bacs migration to the NPA (with a decision deferred, pending further analysis).
3. In considering the initial scope and related procurement approach, we have assessed options against seven criteria which are aligned with the above aims of de-risking and timely delivery, as well as with our established NPA Programme objectives.¹ These criteria are: (i) delivering a robust and resilient platform; (ii) enabling competition and innovation; (iii) speed to market for FPS migration; (iv) end-user, participant and service user benefits; (v) managing transition risk; (vi) managing overall delivery implications; and (vii) cost.
4. The views expressed in this response are those of Pay.UK and have been agreed by our Board. These views have been informed through our stakeholder engagement activities and have been tested with the Strategic Participant Group (SPG). We also continue to discuss the NPA with our End User Advisory Council.

Pay.UK's preferred scope option for the initial procurement of the NPA

5. As requested by the consultation document, we have considered the merits of the PSR's preferred scope option. In order to more fully deliver against our criteria, we propose expanding on the PSR's preferred scope in two ways: (i) building flexibility into the core to de-risk a potential future Bacs migration; and (ii) including replacements for Direct Corporate Access (DCA) and File Input Module (FIM).

#1 Managing the optionality of a future Bacs migration through flexible architecture

6. Pay.UK recommends that we undertake (as part of the initial procurement) sufficient analysis, design, and build work on the NPA core and shared common services to meet the needs of a potential future Bacs migration (which would enable a potential end-state of a single NPA platform to replace the two existing FPS and Bacs infrastructures).
7. If a future decision is taken to deliver Bacs replacement services centrally, Pay.UK recommends introducing bulk, multi-day payment capabilities (this represents a change to the original NPA scope - on which our August 2020 application was predicated - which envisaged a real-time approach). This follows feedback from participants and [X] highlighting that moving to a single real-time push payment service would result in the removal of the inherent benefits of the Bacs three-day cycle.

#2: Inclusion of replacements for Direct Corporate Access (DCA) and File Input Module (FIM)

8. While the PSR discusses the potential for including NPA replacement services for DCA and FIM in the initial procurement, Pay.UK has a firmer position. Not including DCA and FIM in the

¹ Pay.UK's objectives for the NPA Programme are: (i) maintaining a robust, resilient, and scalable payments platform; (ii) adoption of global standards (ISO20022) on which a wider set of end user services can be offered; (iii) development of an instant payment; (iv) ensuring there are lower barriers to entry and flexibility of access options; (v) delivering a safe and secure environment for all users; and (vi) that any efficiencies should benefit participants and users and not the vendor.

initial NPA scope would, we believe, delay the decommissioning of the existing FPS, creating unnecessary costs for the industry.

9. Adding the functionality to support file-based payment submissions combined with a bulk payment option into the initial scope may also encourage the organic migration of some Bacs Direct Credits traffic to the NPA (however, further work is needed to validate this view with the industry).
10. We recognise that our proposed additions would result in a slightly less 'thin' core than the PSR's proposal but this has been a conscious decision in order to deliver future proofing benefits and the ability to decommission the FPS platform sooner.

How would Pay.UK's preferred scope deliver against the assessment criteria?

11. **Robustness and resilience:** Our preferred scope would have very high resilience, commensurate with the NPA being critical national infrastructure.
12. **Competition and innovation:** Negotiating leverage (increasing competitive pressure on the prime vendor) will be supported through splitting the procurement into an initial one and a potential second procurement that could be opened up to another provider. In addition, deferring the decision to procure and deliver Bacs replacement services would give the market an opportunity to develop innovative overlay services or utilise other payment initiatives (such as Open Banking) to offer suitable replacement services.
13. **Speed to market for FPS Migration:** The uplift in effort to future proof the NPA core (in the Pay.UK preferred scope option compared with the PSR's preferred option) would not be material and would not delay the delivery of the FPS replacement services. The delivery of those services would be achievable on the same timeframe under both the PSR and our preferred scope options.
14. **End user, participant, and service user benefits:** Through a thorough technology refresh, we would: deliver a thinner core than today; build in ISO20022 messaging; and deliver an NPA foundation for instant payment capability as requested by participants to support retail payments use, financial crime analytics, overlays, and enhanced access (thereby enabling a competitive ecosystem where PSPs and overlay providers can compete and offer innovative end user solutions, such as new payment types).
15. **Transition Risk:** Transition risk would be reduced relative to the original scope, given it would be narrower and there would be no forced Bacs migration under this model.
16. **Overall delivery implications:** Our preferred scope option (in contrast to the PSR's preferred option) future proofs the NPA core for the potential migration of Bacs services at a later stage. We judge that deferring all work on a potential future Bacs migration or waiting to see whether market-led solutions emerge, as the PSR's approach suggests, could open up the risk of incurring avoidable cost and complexity in the future. Our approach is also likely to assist the viability of any future competition around Bacs replacement. While Pay.UK would like to see the emergence of market-led solutions, we remain cautious about whether this will happen to the extent necessary, and need to be prepared for a scenario where it does not. We would only look to build and deliver these services subject to a full public consultation and market conditions at the time.
17. **Cost:** The cost of design and build, based on information available at this time, is expected to be only marginally higher for the initial scope (versus the PSR's preferred option) owing to the additional effort needed to create a flexible architecture. While the uplift in costs will be marginal (because only core, critical changes will be designed), we judge that the additional up-front costs would be warranted to future-proof (as far as viable) the NPA for the potential

migration of Bacs Participants and end users (thereby helping to enable competition and innovation for Bacs replacement services).

Approach to procurement

18. In our August 2020 application, Pay.UK argued for a direct award, primarily on the grounds of minimising transition risk (and specifically the risk of moving suppliers), but also as it would be quicker than continuing with the competitive award. In light of the narrower scope, we are reconsidering the best procurement approach.
19. In doing so, we must consider our responsibilities as a regulated payment system operator (PSO). Whichever procurement approach is taken forward, Pay.UK: (i) will own the scope of the NPA; (ii) require value for money; and (iii) ensure appropriate contractual terms that support competition and innovation (alongside robustness and resilience). And depending on the outcome of this analysis, we may also need to consider and discuss with the PSR and Bank of England implications for the existing assurance and non-objection processes.
20. [X]
21. [X]
22. [X]
- [X]
23. [X]
24. [X]
25. [X]
26. [X]
27. [X]
28. [X]

SD2 and SD3

29. As part of the consultation process, we understand that the PSR is revisiting SD2 and SD3. Given our preferred option would see a decision on Bacs migration deferred, we recommend that the PSR consider replacing SD2 with an obligation on Pay.UK to consult on the future of the Bacs payment system, post the implementation of the initial scope of the NPA and with sufficient time to understand how organic migration has evolved. This approach would ensure that the question of Bacs migration was not deferred indefinitely but, importantly, would not divert effort away from the priority of delivering the foundation architecture for NPA and NPA replacement services for FPS.
30. Further, Pay.UK considers that SD3 could be amended or replaced so that the obligation is less focused on the replacement of FPS, and is more focused on delivering the outcomes of the NPA, to be set out by the PSR in its policy position in 2021 Q3.

Next steps

31. Pay.UK's views on: (i) delivering and safeguarding competition and innovation via the NPA; and (ii) the PSR's proposed pricing principles will be presented in our second tranche response to the PSR consultation (due by 5 May). [X]
32. Ahead of its policy decision in Q3, we are keen to engage with the PSR to discuss, and reconcile, any differences between the PSR and Pay.UK preferred approaches for scope and procurement so that we can collectively deliver certainty for the industry. Beyond the PSR's policy decision, we look forward to working with regulators and the industry in delivering the



NPA benefits in a timely manner. As with any large complex programme, changes and iterations are likely to be made to the NPA as we progress. We are confident, however, that this process provides a firm foundation to move forward.

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SECTION 1: BACKGROUND

A. Pay.UK's SD2/SD3 exemption application and the PSR consultation

33. In August 2020, Pay.UK applied to the PSR for an exemption from SD2 and SD3 (which mandated competitive procurement for the delivery of the NPA) in order to explore the option of delivering the original NPA scope via a direct negotiation with the incumbent, Vocalink.
34. This original scope had been validated by an industry questionnaire and through engagement with SPG. Because of this validation, our application sought to de-risk the NPA Programme by amending the delivery method, rather than by narrowing the scope.
35. Pay.UK's argument was based on the exceptional events provision in SD2 and SD3 and was centred on the totality of risks facing the programme, across three layers:
 - i. **Baseline risks associated with the NPA transition:** the transition to the NPA, given the original scope, was considered in itself a hugely significant undertaking, involving inherent risk irrespective of the chosen infrastructure provider.
 - ii. **Additional risks associated with the existing delivery approach:** the application discussed the additional risks that could arise in the event of using a new supplier for the NPA, including the complexities this could cause for transition.
 - iii. **Impact of Covid-19:** the application argued that the Covid-19 crisis (which constituted the 'exceptional circumstance') not only added new risks, but exacerbated the first two layers of risk.
36. Pay.UK's assessment of the risks had been contributed to by insights from participants, notably the SPG.
37. On 29 January 2021, the PSR rejected Pay.UK's application. The PSR recognised that Covid-19 had an impact on the NPA Programme but concluded that, as the exceptional circumstance relied upon by Pay.UK, the impact of Covid-19 on the programme was not sufficient to justify the PSR approving the exemption application.
38. However, the PSR recognised that the application raised some important points about the risks in the programme, and informed Pay.UK of its intention to consult on the delivery and regulation of the NPA.
39. Pay.UK welcomes this development as a way to help move the NPA Programme forward in a manner which will de-risk the programme, and secure necessary clarity across Pay.UK, the industry, and the regulators on next steps.
40. In particular, Pay.UK recognises the need for certainty on the future of Bacs. For several years, there has been material challenges in whether and how the current Bacs payment system should be replaced and migrated to the NPA. Working with regulators and industry, we hope that further certainty on this issue can be achieved.
41. On 5 February 2021, the PSR published a consultation, seeking industry feedback on: (i) current risks to delivery of the NPA; (ii) options on the scope of the NPA for the initial procurement; (iii) options on the procurement approach; (iv) approaches to facilitate competition; and (v) pricing principles.
42. Depending on the outcome of the PSR consultation, the PSR will decide on the appropriate legal instruments to apply to Pay.UK's delivery of the NPA (including whether SD2 and SD3 should be varied, revoked or replaced).

43. This document is Pay.UK's response to the first part of the PSR's consultation and addresses items (i) to (iii) above. Pay.UK will respond to the issues covered under items (iv) and (v), the tranche 2 response, by the PSR's deadline of 5 May.

B. Evolution of the Programme since our application

44. We have made progress within Pay.UK and the NPA Programme since the submission of our application in August 2020. We consider that these changes, particularly the continued enhancement of capability, puts Pay.UK in a stronger position to design and deliver the preferred NPA scope, as discussed in this document.
45. In November 2020, the new Pay.UK Chair took office. Shortly after this, our Chief Operating Officer was appointed Interim Chief Executive Officer, pending the appointment of a permanent CEO. We subsequently made a number of structural changes to the programme. A new Chief Transformation Officer role (with responsibility for the NPA programme) was created, intending to drive efficiencies whilst ensuring robust governance and commercial value.
46. KPMG became the client-side delivery partner on the NPA Programme in October 2020 and commenced its engagement with a four-week discovery phase. The main purpose of this engagement was to understand and assess the current state of the programme as a whole, and to recommend the structure, capability and management that needed to be in place. Following the completion of the discovery work, Pay.UK appointed KPMG as its client-side partner (KPMG had originally been selected in early 2020 but the onboarding was delayed due to the impact of pandemic restrictions).
47. Pay.UK has instituted a new programme structure to provide appropriate focus on key areas and reflects that we are building a financial market infrastructure, not just undertaking a procurement. The programme structure will evolve as the needs of the programme change and as we move through the programme phases.
48. As part of the programme restructuring work, we have enhanced our industry engagement at all levels. The SPG and Pay.UK's End User Advisory Council (EUAC) have both continued to meet on a regular schedule, and Pay.UK continues to run working groups, through which we are accessing expertise from the wider payments industry to further develop the work already completed and to help shape how retail payment services will work in the future.
49. In January 2020, an enhanced approach to the programme has been adopted, with particular attention being given to the new approach for design and delivery under the NPA which inherently reduces delivery risk. The NPA design and delivery approach has moved forward significantly to include more specific detail. Rather than high level, conceptual scope statements, the new approach requires detailed requirements will be written (for instance messages sets, message definitions, processing rules, logical data model, a data dictionary and a business process catalogue) for comparison with the existing vendor solutions through a 'gap fit' exercise. This provides greater clarity on the scope of the NPA and much greater clarity over the gaps to existing solutions. This approach considers the logical sequence of designing, delivering, and transitioning legacy schemes to the NPA.

SECTION 2: PAY.UK'S APPROACH IN RESPONDING TO THE CONSULTATION

A. Principles underpinning Pay.UK's response

50. Pay.UK welcomes the PSR's consultation process as a tool to help deliver certainty for the payments industry, and we are keen to work collaboratively in reaching a broad consensus on how to take the NPA Programme forward. In considering our response, we have reflected on the shared aims across Pay.UK, our regulators (the PSR and Bank of England), and the industry.
51. There is broad consensus to de-risk the NPA Programme to enable the delivery of benefits in a timely way. We need to reduce the risk of further programme delays, and make it easier for the industry to transition to the NPA. While there is little industry support for Bacs functionality being included in the initial scope, there is broad support for building an NPA foundation that does not preclude Bacs volumes being migrated to the NPA at a later date following further analysis and consultation (and this needs to be managed in such a way that it will not harm the delivery of the functionality that will replace FPS).
52. Underpinning our response are three design principles:
 - i. **Focus on FPS replacement:** Prioritise the delivery of the NPA foundation functionality sufficient to support the migration of traffic from the FPS to NPA so that FPS can be decommissioned. Defer a decision on the delivery of the build and migration of Bacs to the NPA until after a future consultation. The NPA Programme will therefore have reduced industry impact and transition risk (relative to the original scope).
 - ii. **New NPA functionality:** Through a thorough technology refresh, deliver: a thin core; build in ISO20022 messaging; and deliver an NPA foundation for instant payment capability as requested by participants to support retail payments use, financial crime analytics, overlays, and enhanced access (thereby enabling innovation and end user benefits). We understand that these enhancements are what participants and end users want delivered quickly and would be concerned if these were delayed by giving too much focus (and resource) to working on the migration of Bacs to the NPA.
 - iii. **Flexible architecture:** Design and build the NPA core in a manner that avoids constraints that would inhibit the future migration of Bacs volumes to the NPA (including future payment types such as bulk multi-day payments, or real-time direct requests). Total Bacs payments are significantly higher than FPS (including Direct Debits and Direct Credits) and not declining materially. A number of participants have stressed that they consider low-cost, bulk payments processing should be considered as part of the NPA scope in the future.
53. Alongside the above, Pay.UK remains committed to delivering value for money for the industry (requiring the maintenance of negotiating leverage with any commercial partner chosen to build and run the NPA infrastructure) and meeting our regulatory obligations including delivering payment systems that are robust and resilient while enabling competition, innovation, and supporting end users (which are aligned with Pay.UK's strategic objectives).
54. These design principles are aligned with Pay.UK's six programme objectives for the NPA, namely (and as recommended by SPG and incorporated by the Pay.UK Board in May 2020): (i) maintaining a robust, resilient and scalable payments platform; (ii) adopting global standards (ISO20022) on which a wider set of end user services can be offered (for example

richer data and payment track / trace) and to facilitate interoperability with other payment systems; (iii) development of an instant payment capability to enable real-time consumer-business payments but maintaining flexibility / choice for those users who require alternatives; (iv) ensuring there are lower barriers to entry and flexibility of access options, to meet the needs of evolving business models; (v) delivering a safe and secure environment for all users by adopting appropriate security throughout and also including the development of appropriate financial crime solutions; and (vi) that any efficiencies should benefit participants and users and not the vendor.

B. Assessing scope and procurement options

55. In achieving the above aims, we recognise that the scope of the initial NPA procurement is of primary importance. In this document, and aligned with the questions in the PSR consultation, we have sought to first determine what our preferred scope option for the initial procurement should be. Any preferred approach for procurement should then follow from that scope.
56. In undertaking the analysis, Pay.UK has sought to be open-minded on scope, and in the sections that follow, we share the rationale behind our preferred scope option. We are, of course, cognisant of the arguments we presented in our SD2/SD3 exemption application, and provide justification in this document for where our conclusions have evolved.
57. Given the need to de-risk the programme but deliver the benefits of NPA replacement services for FPS in an optimal timeframe, we have started from a position of needing to narrow the scope of the initial procurement. The original scope (on which our August 2020 application was predicated) involved designing and procuring the NPA core and NPA replacement services for both FPS and Bacs in one stage.
58. To provide a helpful framework for our analysis and to consider the attributes most important for the programme, we considered a range of scope options which helped us to arrive at our preferred option. In considering these scope options, we assessed how they would perform against a range of criteria: (i) delivering a robust and resilient platform; (ii) enabling competition and innovation; (iii) speed to market for FPS migration; (iv) end-user, participant and service user benefits; (v) managing transition risk; (vi) managing overall delivery implications; and (vii) cost. A summary of the scope options considered is included in annex 2.
59. Our analysis has been supported by previous engagements with stakeholders, for example our 2019 FPS transition consultation and our 2020 consultation on the '*Next Generation Standard for UK retail payments*', as well as the deep technical knowledge within the NPA Programme. We have also held discussions with SPG members (both collectively and bilaterally) during late February and early March to consider the progress on our analysis.
60. For the procurement approach, we have considered the three options cited in the PSR consultation: (i) continue with the current competitive procurement; (ii) restart a competitive procurement; and (iii) directly negotiate with Vocalink without a competitive procurement. We considered these options against time and cost to contract signature, broader market capability, confidence that the process achieves its intended outcomes, and procurement risks.
61. In this submission we present the findings and rationale of our analysis. Detailed analysis underpins this submission, and we can discuss this with the PSR if required.

C. Limitations in the analysis underpinning Pay.UK's response

62. Pay.UK is confident that the depth of analysis included in this response is appropriate for this stage of the programme, noting that thinking will naturally develop as we progress our own design work, further engagement with stakeholders, and in discussions with bidders (we will assess any changes against programme objectives). However, as previously noted to the PSR, there are some limitations regarding how much analysis we have been able to complete ahead of the 19 March 2021 deadline.
63. Our engagement with participants regarding the analysis included in this response has been limited. Although we have held discussions with SPG members, we have not been able to gather detailed feedback (e.g. via a consultation). However, the participant feedback collected over the past twelve months via governed forums such as the Participant Engagement Group, the Technical Working Group, and through bilateral discussions has fed into our analysis and our position on preferred scope.
64. Delivery plans for the scope and procurement options assessed have been completed at a high level to inform the analysis and are based on internal assumptions and understanding. Yet timelines do of course depend on external stakeholders including participants, regulators, and the selected vendor for the NPA infrastructure. Over the coming months, further detailed planning will be needed, following the conclusion of the PSR consultation process and further engagement with industry.
65. The industry costs of different scope options have been considered at a high level within the analysis informing this response. However, these have not been validated.
66. Given the limitations to analysis, we are keen to work with regulators and the industry, following our submission, to further develop the preferred scope option and to lead the industry towards delivery.

D. Ongoing relevance of PSF Blueprint

67. The PSF Blueprint, as well as establishing a vision and a set of guiding principles for interbank infrastructure renewal, was quite prescriptive regarding how the vision and principles should be delivered, including how and when Bacs volumes should be migrated to the NPA.
68. Our engagement with industry in 2020 re-confirmed that the PSF vision and principles were still broadly appropriate. On this basis, Pay.UK agreed six strategic objectives for the NPA Programme as recommended by the SPG, and agreed by our Board in May 2020.
69. However, as we discussed in our August 2020 application and as set out in section 3.29 of the PSR's consultation document, there have been changes in the industry since the Blueprint was published in 2017. These changes are influencing both Pay.UK's and the industry's thinking on how the NPA should be delivered. In summary:
 - i. Pay.UK understands more about equivalent payment system developments in other countries and some of the challenges faced. We have seen examples of very different approaches, for example the Clearing House in the US does not follow the thin core design and has a rich set of central capability, whereas Australia's New Payments Platform is based on a thin core and capability to enable overlays, although this has seen only one overlay developed since the platform was launched in February 2018. Neither model is optimal and the design approach Pay.UK took throughout 2020 looked to maximise the best features of each where we could. It is worth noting that no country has attempted, in implementing a new instant payment system, to replace their legacy bulk payment systems at the same time.

- ii. Although the PSF recognised there would be challenges in delivering the NPA, Pay.UK and the industry now understand in more detail the complexity and risk associated with a forced Bacs migration.
- iii. Pay.UK has launched the standards and rules of two consumer facing overlay services (Confirmation of Payee and Request to Pay), providing an insight of how innovative services can be developed outside of the core.
- iv. Open Banking has launched and continues to evolve. This opens up future possibilities for the market to develop competitive solutions to replace services for legacy payment types, allowing a natural rather than forced migration.
- v. Material advancements in technology have occurred (and will continue over the coming years) and these could have implications for connectivity, access, and build of the NPA. (As an example, multiple banks are now using cloud technology, which was not the case at the time of the Blueprint.)
- vi. As noted in our application, we need to remain mindful of the impact of the pandemic financial crisis, and the impact that the current economic backdrop has on the payments industry (and how different this is compared with 2017), including what this means for the affordability and deliverability of major change programmes.
- vii. Finally, we anticipate that the payment ecosystem will continue to evolve over the next few years and ahead of the implementation of the NPA. It is therefore key that the evolution of the solution architecture has a clear focus on enabling ongoing innovation so that there is flexibility to avoid constraints that could inhibit future payment types.

SECTION 3: ADDRESSING THE CONSULTATION QUESTIONS ON SCOPE

70. In this section, we address questions #1 to #4 of the PSR's consultation (the questions focusing on the scope of the initial procurement). We discuss Pay.UK's preferred scope option against the PSR's preferred option and changes from the original NPA scope (on which our August 2020 application was predicated).
71. For further detail, annex 1 includes a comparative table of features covering the original NPA scope, the PSR preferred scope, and Pay.UK's preferred scope.

Consultation question #1

Do you agree with our [the PSR's] view of the risks to the successful delivery of the NPA?

72. In its consultation document, the PSR discusses a range of risks to the successful delivery of the NPA, noting its view that *'there are unacceptably high risks that the current NPA programme will: not provide value for money; stifle competition and innovation in payment systems; delay realisation of the benefits of the NPA'*.²
73. Pay.UK agrees that the NPA Programme needs to be de-risked. Indeed, it was this goal that underpinned Pay.UK's application to the PSR in August 2020, (the application document discussed risks and potential mitigants for delivering benefits, achieving value for money, and enabling competition and innovation).
74. As discussed throughout this document, Pay.UK still considers that the NPA Programme needs de-risking and agrees with the PSR that this can be achieved through narrowing the scope of the initial procurement. This de-risking will minimise delays and help realise NPA outcomes and benefits sooner than would have been the case under the original scope.
75. [✂]

Consultation question #2

Do you agree with our analysis of the suggested risks, pros and cons of the alternative options for the scope of the initial procurement?

76. As discussed above, Pay.UK agrees with the PSR that the delivery of the NPA Programme needs to be de-risked. The original NPA scope (as included in Pay.UK's August 2020 application) risks delaying the delivery of the NPA benefits and of reducing Pay.UK's negotiating position and commercial leverage, while also preventing the possibility of a further procurement or of market-led propositions emerging for the replacement of Bacs.
77. Pay.UK agrees that that these risks can be addressed by re-thinking the scope of the initial delivery and therefore the initial procurement. We recognise that the PSR's preferred scope de-risks the delivery of the NPA by reducing the complexity of the solution and therefore aims to expedite procurement and therefore enable faster delivery of some of the benefits of the NPA, while still delivering a resilient solution and leaving the opportunity for market-led propositions to emerge for the replacement of Bacs.

² Paragraph 2.28 or the PSR consultation document.

78. However, we also note that the PSR’s proposed scope option would likely increase transition risk for the potential second phase by not addressing industry concerns regarding the difficulty of migrating Bacs to the NPA.
79. We present below our assessment of the alternative options discussed in the PSR’s consultation document for the scope of the initial procurement. We provide a further and more detailed assessment of the PSR’s preferred scope option against our preferred scope option under our answer to Q3 below.

Consultation scope option 1: The original NPA scope

	Original NPA scope		
	FPS migration	Bacs Direct Credits migration	Bacs Direct Debits migration
NPA proposition	Priority payment		Direct request
Design phases	Single design		
Procurement phases	Single procurement		

80. The original NPA scope is closely aligned with the PSF Blueprint. It incorporates a single design and procurement stage to deliver the NPA core clearing and settlement services and the replacement services for both FPS and Bacs on a phased basis through the introduction of a single push payment functionality.
81. This original scope had been validated by an industry questionnaire and through engagement with Pay.UK’s SPG. However, at the time of the application, Pay.UK analysis concluded that this scope option would have resulted in unacceptably high risk in the context of delivering it via competitive procurement. Because of the industry validation of the scope, our application sought to de-risk the NPA programme by amending the delivery method rather than by narrowing the scope.
82. In the time since we submitted our application to the PSR, a number of factors have changed in the delivery approach which has led Pay.UK to re-assess the risks associated with this option, including further work on detailed design, engagement with participants in relation to migration risk, and further work to understand the approach to transition. This has led Pay.UK to reconsider scope (as well as procurement approach) as a way to de-risk the programme.
83. Pay.UK has concluded that while delivering significant benefits, the original scope presents unacceptably high levels of delivery risk and does not reduce transition risk or address the concerns raised by the industry regarding the difficulty of migrating Bacs on to the NPA.
84. The complexity of these risk has already led, and would continue to lead, to delays in delivery, and therefore delays in how quickly benefits could be realised by the industry. Pay.UK therefore agrees with the PSR that this option should be discounted as we move forward.

	PSR's preferred scope option		
	FPS Migration	Bacs Direct Credits migration	Bacs Direct Debits migration
NPA proposition	Priority payments		Direct request
Design phases	Design phase 1	Potential design phase 2	
Procurement phases	Procurement phase 1	Potential procurement phase 2	

85. The PSR's preferred option is presented in the consultation document as an alternative approach to de-risk NPA delivery by undertaking two procurement, design and delivery phases split between the replacement of the legacy payment systems (i.e. FPS and Bacs). Under the PSR's preferred scope:
- i. The initial NPA scope and delivery contract should be limited to FPS replacement services only (potentially including the capability to facilitate Direct Corporate Access, DCA, and File Input Module services, FIM), thereby enabling the innovation benefits this may bring (these enhancements are subject to further detailed design and stakeholder engagement).
 - ii. The design procurement and delivery of Bacs replacement services should be deferred, and should only happen following further analysis. The PSR's preferred scope option is not definite about whether a second procurement would need to happen, citing that '*a second procurement may not be necessary: for example, if services to support the migration of Bacs transactions are provided by the market or further analysis demonstrates that Bacs payments should continue to be delivered through a separate infrastructure*'.³
86. There are clear benefits associated with the PSR's preferred scope option, in that it prioritises FPS delivery and, through the splitting the procurement (with an optional second procurement), it potentially increases Pay.UK's commercial position by contracting for the first and potential second delivery phase separately.
87. However, Pay.UK's analysis has concluded that the PSR's preferred scope option creates a design risk, in that any changes required to the core to reduce transition risk would be included in the potential second delivery phase and could include significantly greater complexity and delivery risk. Second by deferring all design changes, necessary for the Bacs migration to the NPA, this option also creates greater commercial risk over the subsequent delivery contract.
88. Pay.UK has therefore developed an alternative scope option that, while similar to the PSR's preferred scope, mitigates these outstanding risks. We present our preferred option and compare it against the PSR's preferred option in our answer to question 3.

³ See PSR consultation, paragraph 1.28.

Consultation question #3

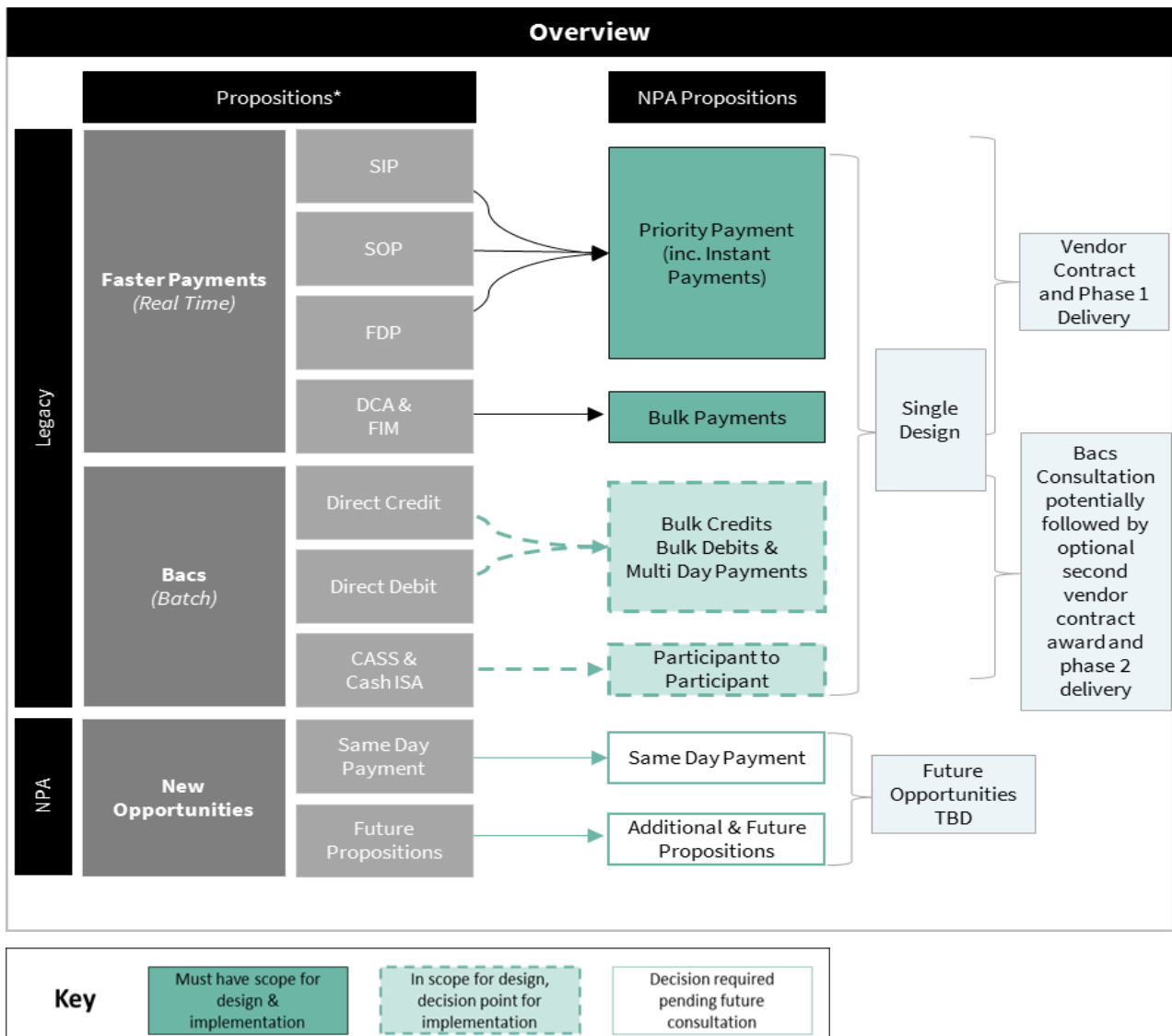
Do you prefer scope option 1 or 2, or another alternative? How do the cost implications differ for you? What are the other reasons for your preference?

89. Following a period of analysis, and after discussion and approval by our Board, Pay.UK is recommending a narrower scope (relative to the original NPA scope) for the initial NPA procurement. Pay.UK preferred scope option shares many characteristics with the PSR’s preferred scope.
90. Our analysis supports a modified variation that is in the spirit of the PSR’s preferred option, with enhancements that achieve the same outcomes and with enhanced mitigation of delivery risks, while respecting the design principles discussed in section 2. The differences between our preferred scope option and the PSR’s preferred scope option are as follows:
- i. **Managing the optionality of future Bacs migration:** Under Pay.UK’s preferred scope option, we would: (i) undertake a degree of work upfront to ensure that the core services are not designed in a way that prevents or hinders Bacs migration; and (ii) this would include design to support a potential bulk multi day proposition, that would be delivered in a potential second phase (this would mitigate participant costs and transition risk around a Bacs replacement services).
 - ii. **Migration of DCA/FIM:** Under Pay.UK’s preferred scope option, we would include a new proposition – bulk payments – in the first design and procurement phase to enable a simpler migration of FPS DCA/FIM, reducing NPA and participant processing costs from the launch of the NPA (and allowing for faster decommissioning of the current system). The inclusion of the bulk proposition might also enable the migration of some current Direct Credits volumes to the NPA where a bulk solution is suitable for participants and customers.
91. The Pay.UK preferred scope option retains the benefits of the PSR’s preferred scope option, by both delivering the NPA benefits associated with replacing the existing FPS services and doing so in the shortest possible time. In addition, the Pay.UK approach mitigates design risk, and reduces the transition risk associated with a possible future Bacs migration, as well as the industry cost of that migration.

How does the Pay.UK preferred scope differ from the PSR’s?

	Pay.UK preferred scope option		
	FPS migration	Bacs Direct Credits migration	Bacs Direct Debits migration
NPA proposition	Priority Payments and bulk payments	Multi-day payment	
Design phases	‘Single design’ (covering core services and FPS common services)	Further detailed design work (subject to consultation)	
Procurement phases	Procurement phase 1	Procurement phase 2 (subject to consultation)	

92. Like the PSR's preferred scope option, Pay.UK's preferred scope option focuses on delivering the core clearing and settlement services in a first procurement phase, together with the common services that are needed to support the migration of FPS traffic to the NPA.
93. Under the Pay.UK option, this initial design phase would additionally include consideration being given to designing the NPA core in a manner which would allow potential new propositions that could support the migration of Bacs traffic (if this is desired following a future industry consultation). A potential second procurement and contract to support Bacs migration might be needed. However, the work undertaken as part of the first design phase would provide assurance that the core is not designed in a way that prevents or hinders any such potential future migration of Bacs.
94. The Pay.UK preferred scope option also includes a bulk proposition as a replacement for FPS DCA/FIM whereas this is left optional under the PSR's preferred option.
95. The diagram below maps existing propositions onto NPA propositions, with an indication of the associated design and delivery phases.



Managing the optionality of future Bacs migration

96. Pay.UK's preferred scope option incorporates a single design phase covering the core and common services needed to: (i) deliver NPA replacement services for FPS; and (ii) build elements of the core needed for an optional future Bacs migration, compared to two independent design and delivery phases in the PSR's preferred scope option.
97. Undertaking this work up front would ensure that materially fewer changes would be required to business critical NPA clearing and settlement components during the potential second delivery phase, while not introducing any delays to implementation of the first phase. Non-urgent elements of the Bacs replacement service design, such as agreeing detailed message formats, will not be included in the high-level design. This approach will retain flexibility when designing the detailed Bacs replacement services, if required, in the future.
98. Even with the introduction of the bulk proposition (see below), participants and end users would have to adapt to a same-day cycle for bulk payments, from the current three-day cycle. Participant engagement has revealed that making the necessary changes to become fully real time would incur significant costs for many participants, while also having a detrimental impact on their internal payments processing and potentially customer outcomes (such as delayed salary or benefit payments). Therefore, as part of the design phase, Pay.UK is proposing that consideration should be given to future proof the core to the potential introduction a bulk, multi-day proposition. This approach de-risks the potential future migration of Bacs to the NPA by offering a cost-efficient service to process bulk cyclical payments. The design and future delivery of a multi-day payments solution would lower the overall resource demand on Pay.UK and the industry because the service is closer to the existing Bacs service and would therefore require fewer technology and business changes.
99. Should a decision be made to migrate Bacs (only following further analysis and consultation), this would offer the chance to introduce multi-day as an option to reduce migration duration and, as a result, speed up the decommissioning of the existing Bacs platform.
100. As the delivery of the FPS replacement services is dependent on the Bank of England's RTGS2 implementation, we believe that the additional uplift in design effort for the first phase required for this approach can be absorbed into our overall programme plan and that these additions will not impact the timelines for delivering the FPS replacement services.

Inclusion of Bulk payments to replace DCA/FIM

101. In the PSR's preferred scope option, the inclusion of DCA/FIM is optional. In Pay.UK's preferred option, bulk services will be delivered to replace DCA/FIM in the first design and procurement phase. We have concluded, on the basis of subject matter expert input and participant engagement, that it is essential for the NPA to be able to process submissions of bulk payment files centrally in order to deliver value for money by reducing the NPA and participant processing costs and allowing the legacy FPS service to be decommissioned in the shortest timeframe.
102. The PSF Blueprint envisaged that bulk payment submissions, such as DCA/FIM and Bacs Direct Credits, could be migrated to the NPA by utilising overlay providers. Overlays would be used to bulk or de-bulk transaction files and submit them to the NPA as individual transactions. However, our analysis indicates that, while this approach is achievable, it introduces significant burdens (and additional costs) on service users due to the requirement to introduce another third party into the payment flow (the overlay provider). Without a central bulk service, participants would be unable to exchange high-volume payment files

with the NPA, this leads to more complex solutions being required as individual transactions need to be processed and reconciled separately rather than the same being undertaken at file level.

103. We have concluded that it is essential for the NPA to be able to process submissions of bulk payment files centrally in order to deliver value for money by reducing the NPA and participant processing costs. However, this does not prevent overlay providers offering a similar de-bulking service as part of their own propositions, where customer demand exists.

How our preferred approach meets Pay.UK's criteria

104. Pay.UK's analysis has considered the following benefits in assessing its preferred option:
- i. **Robustness and resilience:** Pay.UK's preferred scope would have very high resilience, commensurate with the criteria for critical national infrastructure, which is the same as in the PSR's option. Building into the core the potential for a multi-day proposition (if this is the preferred option following industry consultation on the future of Bacs) would result in redundancy being built into the system, as an alternative clearing cycle would be available.
 - ii. **Competition and innovation:** We consider that our preferred approach would deliver a solution which fits the objectives of a scalable, accessible, and interoperable platform, thereby enabling competition and innovation for the payments ecosystem. Negotiating leverage (increasing competitive pressure on the prime vendor) will be supported through splitting the procurement into an initial one and a potential second procurement that could be opened up to another provider. In addition, deferring the decision to procure and deliver Bacs replacement services would give the market an opportunity to develop innovative overlay services or utilise other payment initiatives (such as Open Banking) to offer suitable replacement services.
 - iii. **Speed to market for FPS Migration:** The uplift in effort to future proof the NPA core (in the Pay.UK preferred scope option compared with the PSR's preferred option) would not be material and would not delay the delivery of the FPS replacement services. The delivery of those services would be achievable on the same timeframe under both the PSR and Pay.UK preferred scope options. Full FPS transition would be completed at an earlier date in this approach compared to the PSR's preferred approach, given the introduction of DCA/FIM replacement services in the initial scope. This would allow earlier de-commissioning of the existing FPS service.
 - iv. **End user, participant, and service user benefits:** Through a thorough technology refresh, our preferred scope option would: deliver a thinner core than today; build in ISO20022 messaging; and deliver an NPA foundation for instant payment capability as requested by participants to support retail payments use, financial crime analytics, overlays, and enhanced access (thereby enabling a competitive ecosystem where PSPs and overlay providers can compete and offer innovative end user solutions, such as new payment types). End users, participants, and service users will benefit from the full features of the NPA replacement services for FPS and, in the future the Bacs replacement propositions including multi-day payments, if this is the preferred option following the industry consultation on the future of Bacs.
 - v. **Transition risk:** Transition risk would be reduced relative to the original scope, given it would be narrower and there would be no forced Bacs migration under this model. This option manages transition risk which could be included in the PSR's preferred

scope option by future proofing the core for the potential migration of Bacs services (following consultation).

- vi. **Overall delivery implications:** Our preferred scope option (in contrast to the PSR's preferred option) future proofs the NPA core for the potential migration of Bacs services at a later stage (this will be done by defining requirements upfront in the initial design phase). We judge that deferring all work on a potential future Bacs migration or waiting to see whether market-led solutions emerge, as the PSR's approach suggests, could open up the risk of incurring avoidable cost and complexity in the future. While Pay.UK would like to see the emergence of market-led solutions, we remain cautious about whether this will happen to the extent necessary, and need to be prepared for a scenario where it does not. This approach would additionally allow for consultation on the introduction of a multi-day proposition to de-risk Bacs migration should a future decision be taken to migrate Bacs, as that would minimise change between the current Bacs service and the NPA, leading to lower design complexity and resource demand.
 - vii. **Cost:** The Pay.UK cost of design and build is marginally higher in this option compared to the PSR's due to additional design and procurement requirements to create a more flexible architecture. This uplift is marginal because only core and critical changes will be designed. Costs will also be marginally higher due to the increased scope to deliver the replacements for DCA/FIM. Detailed design of the Bacs replacement services would only be undertaken if agreed upon post further analysis and industry consultation. However, if Bacs migration does go ahead in a second phase through the multi-day proposition, subsequent phases for the delivery of the replacement services for Bacs will be significantly easier than if the additional design work was not included up front. This would expedite subsequent delivery of Bacs migration, meaning a decommissioning of the legacy Bacs service in a shorter period of time which reduces the industry's parallel running cost.
105. Note, a preference for deferring a decision on migrating Bacs to the NPA does not mean the existing Bacs service will not be invested in. Pay.UK is currently managing a number of Bacs projects and process enhancements which are due to be implemented over the next few years. These changes range from documentation and rule changes to process and system enhancements. These represent investment in our processes and infrastructure in excess of £5m. For Bacs, we also have access to both a 'Development Fund' and 'Industry Initiatives Fund' to support further improvement.

Consultation question #4

Under scope option 2: What do you think would be a suitable timeframe to allow the emergence of market-led propositions that could assist with the migration of Bacs transactions (including Direct Debits) to the NPA? What actions could be taken, and by whom, to help assist or stimulate the creation of such solutions?

- 106. Pay.UK recommends that this issue should be opened for consultation to market participants and other interested stakeholders, to express their views on the preferred approach to Bacs, including whether through emerging market-led propositions.
- 107. In the rest of the response to this question, Pay.UK has provided some emerging thinking on the role that overlay services are likely to play in a Bacs transition.
- 108. Pay.UK considers that in order to maximise competition in the overlay space, the NPA should only deliver the minimum number of components centrally (i.e. deliver a 'thin core'). We have determined that the components included in the scope of our delivery (including common

services that could assist with the migration of Bacs transactions) must be centrally procured for the following reasons:

- i. They are the minimum necessary components required to allow the NPA propositions to function.
 - ii. Allowing numerous third parties to operate critical business services within the secure NPA infrastructure would risk the service's robustness and resilience.
 - iii. There is significantly greater complexity, cost and delivery risk inherent in migrating existing services such as Direct Debits to a combination of a direct request and a priority payment with a central mandate database (or without) than would be involved in offering a new, front book product for smart mandates and direct requests. It may be preferable to offer improved existing Direct Debits, on the NPA, to mitigate manual processing of rejects for instance, rather than entirely replacing the existing scheme. Feedback from participants indicates that there are diverging opinions on push versus pull payments and on the value of the Direct Debit 'brand' and guarantees to end users that merit further consideration and consultation.
109. In deferring a decision on whether to procure and deliver NPA replacement services for Bacs, we give the market an opportunity to develop innovative overlay services or utilise other payment initiatives such as Open Banking to offer suitable replacement services to the marketplace.
110. In Pay.UK's view, it remains more likely that Bacs services would be carried out through a second procurement awarded to a single provider. We consider it unlikely that overlay providers would be able to entirely replace Bacs Direct Debits due to challenges migrating the existing 370 million Direct Debt mandates to a new service.
111. Pay.UK therefore does not envision any of the common services being solely provided through market-led propositions. This, however, does not rule out that overlay providers could be present to provide some of the centrally procured services alongside the NPA where demand exists for them. Pay.UK remains willing to engage with the market to help foster the development of such alternative solutions.

Do you think file-based common services to enable the migration of Faster Payments DCA/FIM transactions should be excluded from the initial procurement and considered further, in conjunction with Bacs-related migration requirements?

112. We consider that replacements for DCA/FIM should be included as part of the scope for the initial procurement. Please see our response to question 3 for more detail.

To what extent would an initial, narrower, CIS procurement (focusing on Faster Payments) still need to consider how the procured solution could support Bacs-related features in the future? Which Bacs-related features in particular might require such focused attention prior to the initial procurement?

113. We consider that a single design should be developed for the core and shared common services, to future-proof the potential transition of Bacs services to the NPA. Please see our response to question for more detail.

SECTION 4: ADDRESSING THE CONSULTATION QUESTIONS ON PROCUREMENT

Consultation question #5

Which of the procurement options do you consider is the best way forward and why? Please explain if your view differs depending on the scope of the initial procurement.

114. [X]

115. [X]

Reconsidering our position on procurement

116. In our August 2020 application, Pay.UK argued for a direct award, primarily on the grounds of minimising transition risk (and specifically the risk in the event of moving suppliers), but also as it would be quicker than continuing with the competitive award.

117. Pay.UK's preferred scope approach would de-risk the NPA Programme. As such, it is right that we reconsider options for the procurement of the initial NPA scope.

118. The PSR's consultation discusses three procurement options: (i) continue with the current competitive procurement, i.e. inviting those bidders that were successful at the RFI stage to the request for proposal (RFP) phase; (ii) start a new competitive procurement; and (iii) directly negotiate with Vocalink without a competitive procurement.

[X]

119. [X]

120. [X]

121. [X]

Competitive procurement versus direct award

122. As was the case with the August 2020 application, there are three key factors to consider when considering the optimal procurement approach for the initial NPA scope: (i) negotiating leverage; (ii) time to deliver benefits to service users; and (iii) transition risk.

123. [X]

124. [X]

125. Regardless of procurement option adopted, Pay.UK would still need to specify the required scope, obtain and assess some form of formal proposal, undertake a thorough product assessment, and negotiate a contract.

126. [X]

Consultation question #6

**Do you consider that there are other realistic options available that we have not identified?
What do you see as the risks and benefits of any additional option(s)?**

127. Pay.UK does not consider there to be any other realistic options for procuring the initial NPA scope beyond the three options discussed in the PSR consultation document.

SECTION 5: NEXT STEPS AND REGULATORY OBLIGATIONS

A. [X]

- 128. [X]
- 129. [X]
- 130. [X]
- 131. [X]
- 132. [X]
- 133. [X]
- 134. [X]
- 135. [X]
- 136. [X]
- 137. [X]

B. Pay.UK views on regulatory obligations

- 138. As part of this consultation process, we understand that the PSR will revisit the existing regulatory obligations which are codified in SD2 and SD3. This is of course a matter for the PSR but we wanted to share our views.
- 139. In light of the Pay.UK's preferred option for the scope of the initial NPA procurement, Pay.UK considers that SD2 could be replaced with an obligation on Pay.UK to consult on the future of the Bacs payment system, post the implementation of the initial scope of the NPA. This future consultation could assess industry demand in light of, for example, whether new products and services have emerged that could replace Bacs. We think that this approach would ensure that the question of Bacs migration was not deferred indefinitely, but that it would not divert effort and resources from delivering NPA replacement services for FPS.
- 140. Pay.UK considers that SD3 could be amended or replaced so that the obligation is less focused on the replacement of FPS, and is more focused on delivering the outcomes of the NPA (for example, ISO20022 and access). This approach may be more aligned with the PSR's policy decision on the NPA (scheduled for 2021 Q3).

C. Working together in moving forward

- 141. Pay.UK fully recognises that our preferred scope option for the initial NPA procurement represents a material change from the position discussed in our August 2020 application. However, we have needed to revisit the approach in light of the need to de-risk the NPA Programme, and following feedback from regulators and industry stakeholders.
- 142. Our analysis, in preparing this response, has demonstrated that the narrower scope in our preferred option would reduce overall risk, would deliver industry and service user benefits in a timely way, and would not preclude the option for the future migration of Bacs to the NPA (while minimising the risk of disruption in doing so).
- 143. Ahead of its policy decision in 2021 Q3, we are keen to engage with the PSR to discuss and reconcile any differences (which we consider to be small and manageable) between our preferred scope options so that we can collectively deliver certainty for the industry.

144. Beyond the issues discussed in the consultation, we are also keen to work with the PSR and the Bank of England to optimise the timeframes for engagement regarding regulatory milestones, so that we are able to fully meet our regulatory obligations while exploring opportunities to reduce the time needed for the programme's critical path.
145. Following the PSR's policy decision, we look forward to working with regulators and the industry in delivering the NPA benefits in a timely manner. As with any large complex programme, changes and iterations are likely to be made to the NPA as we progress. We are, however, confident that this process provides a firm foundation to move forward.

ANNEX 1: ORIGINAL NPA SCOPE VS PSR PREFERRED SCOPE VS PAY.UK PREFERRED SCOPE

	Original NPA scope (Aug 2020)	PSR preferred scope	Pay.UK preferred scope	Rationale for difference between Pay.UK and PSR's preferred scopes
Description	<ul style="list-style-type: none"> Pay.UK could procure CIS based on a broad set of requirements, including the CSS (needed to process every NPA transaction) plus all the common services it thinks will be needed to support both the FPS and Bacs migrations. 	<ul style="list-style-type: none"> Pay.UK could procure the CSS using a narrower set of requirements and limited additional common services that are mandatory to support the migration of FPS traffic. At some point in the future deeper analysis and industry input will consider what common services, if any, are required to support Bacs migration including how and when each requirement would be subsequently delivered. 	<ul style="list-style-type: none"> Like the PSR's preferred option, this initially focuses on the CSS plus the common services that are needed to support the migration of FPS. This includes a single design phase to assess the design implications for adding bulk, low cost, or overnight payments processing, to de-risk a solution that could support the future migration of Bacs traffic <u>if this is desired</u>, following a future industry consultation. 	<ul style="list-style-type: none"> Retains the benefits of the PSR's preferred scope and delivers migration of FPS traffic to the NPA in the shortest possible time. Adds significant additional benefit from mitigating the design risk and reduction of possible technical debt. Enhances Pay.UK commercial leverage. Reduces transition risk associated with a possible future Bacs migration.
Design Phases	<ul style="list-style-type: none"> Single design phase for everything required for FPS and Bacs migrations. 	<ul style="list-style-type: none"> Split design phase focussed on FPS migration first and Bacs second (if required). Open question on whether Faster Payments file-based services should be in scope. 	<ul style="list-style-type: none"> A single design phase for FPS migration; FPS enhancements and the changes to core and common design layers required to support bulk, low cost payment processing. 	<ul style="list-style-type: none"> Reduces the risk of technical debt by including consideration for bulk payments processing. Reduces the risk of service disruption created by undertaking core changes on top of a live service later. Reduces transition risk by providing clear focus for both back book migration and front book products in one phase to better support the strategic opportunity of a single NPA platform long term. Includes DCA/FIM to enable FPS decommissioning.
Procurement Phases and Contract Award	<ul style="list-style-type: none"> One single procurement phase and one contract for both Bacs and FPS replacement services. 	<ul style="list-style-type: none"> One procurement and contract to support the FPS migration. A potential second procurement and contract to support Bacs migration (if required in the future and subject to further analysis). 	<ul style="list-style-type: none"> One procurement and contract to support FPS migration, includes consideration in the core design of bulk, low cost, or overnight processing. A potential second procurement and contract to support Bacs migration (if required and subject to further analysis / public consultation). 	<ul style="list-style-type: none"> Retain the benefit of a split procurement phase. Include enhanced design in vendor gap fit to mitigate design risk/ technical debt. Reduced commercial risk through option for extended delivery / second contract award increasing the commercial leverage.

<p>FPS Migration</p>	<ul style="list-style-type: none"> • FPS launch would be prolonged by longer design and procurement phases. 	<ul style="list-style-type: none"> • Deliver Faster Payments Migration in the shortest possible time. 		<ul style="list-style-type: none"> • Delivers the FPS Migration in the same time as the PSR's preferred scope, assuming a bulk replacement is available for DCA/FIM in both approaches.
<p>Bacs Migration</p>	<ul style="list-style-type: none"> • Commitment to a phased delivery post implementation of NPA and migration of FPS. • Complex Bacs migration onto real-time services. 	<ul style="list-style-type: none"> • Post implementation of NPA and migration of FPS, possibility for further analysis / consultation. • Complex Bacs migration onto real-time services. 	<ul style="list-style-type: none"> • Post implementation of NPA and migration of FPS, possibility for further analysis / consultation. • Reduced complexity and timescales for a future migration of Bacs traffic if desired in the future. 	<ul style="list-style-type: none"> • Also includes the option for future consultation and analysis on a Bacs replacement. • Clarifies the business case and benefits for the future migration of Bacs traffic if agreed. • Directly addresses the transition risk and cost of change for participants.

ANNEX 2: SUMMARY OF SCOPE OPTIONS CONSIDERED

This annex outlines the options we considered when reviewing the PSR consultation, the criteria we used to evaluate each option, and a comparative analysis of each option.

Delivery Options

In our analysis responding to the PSR consultation, Pay.UK considered five scope options. The first option (Option 1) was the original NPA scope that Pay.UK's August 2020 application was predicated on. The second (option 2) is the PSR's preferred scope option. We also considered three further scope options which incorporate a split procurement and/or a change in the delivery and design scope.

Option 1 – Original NPA scope (on which our August 2020 application was predicated)

This option was based on enabling the full scope delivery with a functionally broad core clearing and settlement infrastructure service that will include the common services to replace both FPS and Bacs on a phased basis. This approach consists of a single procurement process and a single design phase.

Option 2 – PSR preferred scope option

This option was presented by the PSR as an alternative approach to de-risk delivery. It involves an initial procurement focusing on the clearing and settlement service and those common services needed for the migration of FPS. The Bacs migration would then potentially be designed and delivered through a second procurement process (more detail is included in the main body of this document)

Option 3 – Pay.UK alternative approach (not preferred)

This option identifies the differences in procurement phases, contractual phases and design phases and splits these into what could be considered logical functional groupings. In this option functionality will be split by those services required to process payment transactions (phase 1) and those required to process non-payment messages (phase 2). Pay.UK considered this option because the migration of FPS required very similar functionality to that required for the migration of Bacs Direct Credits.

Option 4 – Pay.UK preferred scope option

This option splits delivery into two phases (with the second phase being optional) and like all other options is immediately focused on FPS replacement. The first phase of this approach also delivers the single design for core payment processing, clearing and settlement and services for replacing FPS plus the additional changes to the core that would support a multi-day processing proposition in future to support Bacs migration. More detail on this option is included in the main body of this document.

Option 5 – Pay.UK alternative approach (not preferred)

This option is based on a single design and procurement which would deliver the NPA functionality needed to replace FPS only. As our analysis progressed, it became clear that this option was very similar to the PSR's preferred scope option should the PSR option not result in Bacs migration through a potential second phase.

In considering the above scope options, we assessed how they would perform against a range of criteria covering.

Criteria	Detail
Delivering a robust and resilient platform	<ul style="list-style-type: none"> • What would the risks be to robustness and resilience of the underlying payment systems under the different scope options?
Enabling competition and innovation	<ul style="list-style-type: none"> • Implications for competition and innovation within the NPA ecosystem under the different scope options. • This includes consideration of: (i) barriers to entry and participation for PSPs and overlay providers, including those with innovative ideas; (ii) whether an entity could exercise market power anti-competitively, or gain unfair advantages through its position in the ecosystem; and (iii) the ease of comparison and switching between PSP and overlay providers by payers, payees and other users.
Speed to market for FPS migration	<ul style="list-style-type: none"> • Consideration of how quickly each option begins to offer end user benefits by allowing Faster Payments migration to begin. In addition, this criterion will also explore the impact of migrating Faster Payment DCA/FIM transactions to the NPA.
Transition risk	<ul style="list-style-type: none"> • Consideration of the risks associated with transitioning from the current infrastructure to the new infrastructure.
Business case, efficacy of service user benefits, and costs (In the main document, we have discussed benefits and costs separately.)	<ul style="list-style-type: none"> • Implications for the NPA business case under the different scope options. This includes consideration of: (i) the benefits to the industry and to service users; and (ii) the costs. • We acknowledge there are limitations in respect of the granularity of cost data (especially industry costs) available to us to inform our analysis in this respect but we are seeking to understand the relativities of cost between the different scope options in terms of: (i) build costs; (ii) parallel run costs; and (iii) end-state running costs.
Overall delivery implications	<ul style="list-style-type: none"> • Implications for the overall NPA delivery under the different scope options, taking into account the full scope of each Option e.g. assuming the Bacs replacement is included as part of Options 1-4 (for options 3 and 4 it is optional). • This includes consideration of the solution complexity, delivery approach, industry resourcing challenges, and implications for Pay.UK's capabilities.

The following tables provide a summary of the comparative analysis undertaken based on the six criteria above.

Delivering a robust and resilient platform

Option 1 (original NPA scope)	Option 2 (PSR preferred scope)	Option 3	Option 4 (Pay.UK preferred scope)	Option 5
Very high resilience commensurate with a Critical National Infrastructure				
<div style="border: 1px solid black; padding: 5px;"> Contingency available through alternative clearing service if second potential phase not taken forward (NPA & Bacs) </div>			<div style="border: 1px solid black; padding: 5px;"> Contingency available through alternative clearing service (NPA Multi-day payment and real time) </div>	

Enabling competition and innovation

Option 1 (original NPA scope)	Option 2 (PSR preferred scope)	Option 3	Option 4 (Pay.UK preferred scope)	Option 5
<p>This approach delivers the benefits of innovation and competition in the NPA ecosystem once NPA is live and at full.</p> <p>The provision of services is centrally concentrated into a single provider, which is less competitive than a split procurement / contract award.</p>	<p>This approach delivers the benefits of innovation and competition in the NPA ecosystem once NPA is live and at full volume – subject to industry support to implement the Bacs replacement services.</p> <p>The common services for Bacs are excluded from the first procurement phase, reducing the scope of services procured centrally with respect to the first release. However, technical reasons mean it is unlikely that the procurement for Bacs would identify a different vendor from the prime.</p>	<p>The provision of Direct Requests is excluded from the first procurement phase, reducing the scope of services procured centrally with respect to phase 1. While it's more likely a second provide is appointed for phase 2 than option 2, it remains speculative whether this would happen.</p>	<p>This approach delivers the benefits of innovation and competition in the NPA ecosystem once NPA is live and at full volume – subject to industry support to implement the Bacs replacement services.</p> <p>Overlay providers could still offer alternative or supplementary Account or market overlays to support the migration of Bacs or processing of the Bacs replacement services.</p> <p>If a second phase was undertaken, the up-front design would mean that second vendor could deliver the Bacs replacement services and plug them into the existing NPA Core with minimal disruption. This increases the likelihood that a new vendor could be awarded the contact for the second delivery phase.</p>	<p>Option 5 delivers partial benefits of innovation and competition in the NPA ecosystem, as PSPs will need to participate in two entirely separate schemes.</p> <p>This option reduces the scope services procured centrally by a single provider. While this limits the services that are concentrated into a single NPA provider, it implies the ongoing Bacs contract – which is centrally provided – will need to run for a number of years or be awarded to the vendor for the first FPS delivery.</p>

Speed to market for FPS migration

Option 1 (original NPA scope)	Option 2 (PSR preferred scope)	Option 3	Option 4 (Pay.UK preferred scope)	Option 5
Options 1-5 have approximately the same timelines for Faster Payment delivery and the start of migration.				
Across all the Options, FPS delivery is constrained by participant readiness and the RT2 go-live.				
Option 1 and 2 requires overlay providers to support the migration of DCA/FIM to Priority Payments. This could result in a longer transition period and higher transaction costs.	Options 3-5 allow migration of DCA & FIM onto the Bulk Payment Proposition, this speeds up FPS transition and reduces the duration of parallel running.			

End-user, participant, and service user benefits and cost⁴

Option 1 (original NPA scope)	Option 2 (PSR preferred scope)	Option 3	Option 4 (Pay.UK preferred scope)	Option 5
End users, participants and service users will benefit from the full features of the NPA Faster Payments and Bacs replacement propositions (should option 2 result in a second phase to migrate Bacs).			End users, participants and service users will benefit from the full features of FPS and Bacs replacement services including MDP. They will only benefit from the real time push payment benefits under phase 1 and not any benefits of the NPA collection services.	End users, participants and service users will benefit from the NPA Faster Payments replacement proposition only. Existing Bacs infrastructure would need to be operated separately to NPA.
Participant adoption costs are expected to be high given the extent of process and system changes required to interface with this scope option.			Participant adoption costs are expected to be lower due to greater similarity of existing systems and processes to those required to interface with this scope option.	Participant adoption costs are expected to be materially lower than all other options given changes to migrate Bacs are not required.
Highest first delivery phase design and build costs due to complexity of full scope delivery although the aggregate build costs (for the first and second delivery phases) and run costs are potentially lower than options 2 and 3 due to synergies of building and running a single platform and vendor.	The costs through to delivery of FPS would be lower due to the lower first delivery phase design and build costs than options 1, 3 and 4 (as only FPS is included in the scope of this phase). However, the aggregate build cost for the first and second delivery phases (after implementing both FPS and Bacs replacements in full) is higher due to the need for a longer and more complex design and build phase for Bacs.	Higher first delivery phase design and build costs than option 2 because of FPS and Bacs Credits both being included. However, the aggregate build cost for the first and second delivery phases (after implementing both FPS and Bacs replacements in full) would be lower than Option 2 (due to a more cost efficient approach to implementing Bacs) and higher than Option 1 (due to a longer design and build phase for Bacs).	The first delivery phase design and build cost is marginally higher than option 2 due to the addition of bulk services in the first delivery phase. This uplift is marginal. However, the aggregate build costs for the first and (potential) second delivery phases would be materially cheaper given the MDP Payment proposition does not require centralised mandate management service, reducing complexity of migration and cost. Furthermore, we believe this approach allows the decommissioning of the legacy Bacs service in a shorter period of time which reduces the industry's parallel running cost.	Lowest design and build costs as these relate to FPS only. This option does not allow the decommissioning of the Bacs service. Run costs would therefore be higher due to the need to continue to operate the legacy Bacs system in parallel. Bacs upgrade costs would also need to be funded.

⁴ In the main document, we discuss benefits and costs separately.

Managing transition risk

Option 1 (original NPA scope)	Option 2 (PSR preferred scope)	Option 3	Option 4 (Pay.UK preferred scope)	Option 5
<p>This option does not address the complexity in migrating Bacs from the cyclical, three-day services to a fully real time service.</p> <p>Assuming DCA/FIM services are not included, this approach has a difficult transition path for DCA/FIM transactions. This adds to the overall transition risk of this option and could delay the end of FPS transition if some participants are unable to make the necessary changes to migrate DCA/FIM payments</p>	<p>This option does not address the complexity in migrating Bacs from the cyclical, three-day services to a fully real time service.</p> <p>It is undecided whether a bulk payment proposition would be included in this option.</p>	<p>This option does not address the complexity in migrating Bacs from the cyclical, three-day services to a fully real time service. However, by introducing a bulk payment proposition in the first phase, Bacs migration is de-risked by allowing organic migration of Bacs Credits earlier than option 2.</p>	<p>This approach specifically addresses the high transition risk associated with migrating Bacs transactions (in a potential second delivery and procurement phase) by delivering a multi-day Payment solution</p> <p>The proposed multi-day payment service minimises changes participants need to make and reduces the risk that the start or end of Bacs migration will be delayed. This option simplifies migration of Direct Debit mandates.</p>	<p>This is the same transition risk for FPS as the other options because only the Faster Payment services need to be transitioned to the NPA.</p>

Managing overall delivery implications

Option 1 (original NPA scope)	Option 2 (PSR preferred scope)	Option 3	Option 4 (Pay.UK preferred scope)	Option 5
<p>The most complex delivery option overall as there is more effort concentrated “upfront” to procure and deliver the FPS and Bacs replacement propositions leading to the highest demand on Pay.UK and industry resources.</p> <p>Defining requirements upfront in a holistic manner minimises the risk of building in constraints to the solution.</p>	<p>Resource demand across the industry is higher in this approach because of the more complex changes required for Bacs migration (should a migration be required as part of a potential second delivery and procurement phase).</p> <p>This approach could have high delivery risk due to the design phase split based on the legacy payment schemes which may result in changes being required to the Live production service.</p>	<p>Defining requirements upfront in a holistic manner minimises the risk of building in constraints to the solution.</p> <p>Option 3 delivers all of the payment functionality for both FPS and Bacs Direct Credits in a single release. Given push payments all share common functionality, then delivering both upfront would be more efficient and reduce delivery risk.</p>	<p>Defining requirements for the core upfront in a single design phase minimises the risk of building in constraints to the solution.</p> <p>This approach introduces the MDP proposition which minimises change between Bacs and the NPA, reducing design complexity and resource demand (should a potential second phase be delivered). Allows for the decommissioning of the FPS and (potentially) Bacs services in the shortest amount of time.</p>	<p>Option 5 would not involve gathering requirements for the Bacs replacement services.</p>

ANNEX 3: GLOSSARY OF TERMS

Terms	Explanation
FPS Single Immediate Payment, Standing Order Payment, Future Dated Payment (SIP, SOP, FDP)	These are the three main payment types which participants can send using the Faster Payments service. The key difference is that participants can submit SIPs 24 hours a day whereas participants are required to process the majority of SOP/FDP payments within the 'Standing Order Window' (00:00-06:00) to provide a consistent experience across the industry.
FPS Direct Corporate Access / File Input Module (DCA/FIM)	The DCA and FIM services are part of the Faster Payments service which allow corporate customers to initiate Faster Payments directly with the CIS. The benefit of this service is that corporate customers remain in control of their payment submissions and do not have to use their PSP's payment channels. DCA/FIM and Bacs Direct Credits require similar NPA functionality to enable migration.
Bacs Direct Credit and Direct Debit	Bacs payments take three days to process – Input Day, Process Day and Entry (aka Value) Day. When service users submit a Direct Credit on the first day, their account is debited and their recipients are credited simultaneously on the third day. Direct Debits credit the service user's account and debit the recipients account simultaneously on the third day. There are a number of support services which operate in parallel to Bacs Credits and Debits such as Return Payments, Direct Debit Refunds (Indemnity Claims) and Reporting.
Current Account Switching Service (CASS)	The Current Account Switch Service is a free-to-use service that makes switching personal or business account between banks and building societies in 7 Days. The Current Account Switch Guarantee means customer's regular payments and remaining balances are transferred to their new account provider.
Cash ISA Transfer	The Bacs Cash ISA Transfer Service automates the communication between an acquiring party and a ceding party for a Cash ISA transfer. It involves information exchanges (messages) between both parties. The service was developed in response to the changing regulatory landscape relating to the speed of the transfer of Cash ISAs.
NPA Same Day Payment	A potential new NPA proposition which would offer participants a low-priority, same day payment for processing high-volume payment processing. Same Day Payments would only require the beneficiary to respond with the outcome of the payment within the same business day (subject to an agreed cut-off time).
NPA Instant (Retail) Payment	A type of NPA payment which is designed to be processed immediately, supporting only Accepted or Rejected responses from the receiving Participant and with a very short (less than 2 seconds) response time. Intended for new Use Cases such as retail shopping environments where Faster Payments and NPA Priority Payments can't be used (due to the possibility of payments being put into a 'Pending' state).
NPA Priority Payment	A type of NPA payment which requires an initial response of Accept, Reject or 'Pending' within a short period of time (less than 15 seconds). The Pending response allows for participants sufficient time to send transactions onwards to their agency banks and receive a response before providing a final Accept or Reject – this process can take a number of hours and is therefore not suitable for use in retail environments.
Central Infrastructure Service (CIS)	The central services operated by Pay.UK which enable the existing and future payment services; Bacs, Faster Payments and NPA.
Clearing and Settlement Service (CSS)	The NPA technical components specifically required to enable payments to be security exchanged between participants (clearing) and subsequently settled using participant funds at the Bank of England (settlement).

