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

Respondents basic details

Consultation title:	The Payments Strategy Forum – Being responsive to user needs Draft strategy for consultation	
Name of respondent:		
Contact details/job title:		
Representing (self or organisation/s):		
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Address:		

Publication of Responses

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

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parts of it to be published or referred to in this way you need to separate out those parts and mark them clearly ''Not for publication'.

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with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.

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

Response template

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

If you do not want parts of or all of your response to be published you need to state clearly ('Not for Publication') over specific information included in your response, please be sure to clearly mark this by yellow highlighting it.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

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

Thank you in advance for your feedback.

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

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

We agree that the strategy has identified the needs of end users, including the needs of receivers of payments by digital media. Subject to the responses below, we believe the prioritising of solutions should be reconsidered because bringing forward improvements in the area of Enhanced and Richer Data would diminish concerns over Payment Assurance.

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

The financial capability principles set out in Appendix 5 are consumer focussed as is the UK Financial Capability Strategy (https://prismic-io.s3.amazonaws.com/fincap-two%2Fd176f87b-48f9-4344-9d26-afc4df5d86f5_uk+financial+capability+strategy.pdf) . Elsewhere the draft strategy refers “businesses and the wider financial system” (Section 2.7).

Consumers use payments systems to pay and receive value from business and from governmental agencies (for example tax paid and welfare received). Businesses, financial and non-financial, and government agencies are also users of payments systems. The costs of new systems, both implementation costs and then the costs of managing the change they have created, will fall on business and operational government units as direct costs, as in those incurred in internal reconciliation and allocation, and through the charges paid to system providers.

We are concerned that initiatives such as Request to Pay are driven by concerns about economically vulnerable consumers better handled within the bounds of the social welfare state, and not within business and operational government units through deferral of payment which is a hidden cross subsidy of those consumers by all consumers which we do not believe meets expectations of open government.

Also we recommend the principles recognise the need for the consumer to engage with the process as much as the process being required to enable the consumer. If a consumer can recognise the need to write their utility account reference on the back of a cheque or send it with a pre-coded Giro slip, they can recognise the need to enter the same data on a digital payment screen.

Question 2b: How should these principles be implemented?

The strategy promotes many changes in payment systems. These are however often inter linked. We believe the strategy requires a “90:10” process. Ninety percent of useful effort needs to go into planning, and ten per cent into implementation.

As an example of badly implemented systems where increased planning process would have assisted consumer adoption, we cite the hurried implementation of mobile payments. These payment systems, aided by the sudden availability of smart phones, were implemented prior to further work on use and validation of Richer Data and therefore perpetuate a failure of the established internet banking systems. Receivers of large numbers of similar value payments, which include utilities and local authorities for council tax, continue to receive payments without reference data which does not enable value to be allocated to a consumer's liability.

The lack of Assurance, money sent but not allocated to accounts will be part of reluctance of consumers to adopt these otherwise efficient processes, and perpetuates a myth that large organisations are "stealing" consumers' money. What has occurred is that the costs of managing large consumer databases has been increased by reconciliation processes which often require considerable clerical effort and sometimes rely on consumer complaints to finally identify the payee account, and that cost ultimately goes back to consumers.

The payments industry needs to move forward with caution, and ensure that each change is visible and robustly challenged by all participants: consumer bodies; business; government agencies; and systems developers.

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

The PSR is unique in the UK. Transaction numbers in the UK are substantially GBP. The UK clearing banks no longer have a central role in payments systems development or management. Although not enamoured of the cost of UK regulatory systems, the PSR appears the successor to the role previously played by the clearing banks and can bridge the gap between the differing systems of traditional bank processes (BACS, CHAPS, Cheques) and those of card processors.

This requires however that the PSR can be held accountable for the success, or failure of further payment system change.

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

Users of payment systems (consumers, business, banks, and government) would become more content that funds are delivered to the correct payee, with appropriate reference data, securely, in reasonable time if they had a single point of accountability at which to simply and resource-cost effectively direct their challenges to those systems.

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

We refer to the risks identified in 5.11, 5.12, 5.16, and 5.20 as those to which the question refers.

Risk associated with greater Consumer control:

5.11/5.12: We expect the PSR to provide a conformed expectation as to what “greater control” is. We are uncomfortable with the ability of payers to defer previously agreed payments and we have identified no problem with the current pay/no pay process.

Deferral implies uncertainty for the payee which has its own payments to make and simply moves uncertainty onto the next entity in the payment chain. Consumers should clearly understand their obligations in the provision of goods and services. We recognise there are economically vulnerable consumers but expect their problems to be resolved within the realm of the social welfare system and not to be hidden within the payment systems.

We also note that encouraging consumers to regard such pull payment mechanisms as discretionary would lead to greater use of alternate payment systems for economically vulnerable consumers. For example, utilities may increasingly require cash deposits and pre-payment keys in lieu of direct debits thereby pushing the vulnerable back to a cash economy and self-disconnection.

5.16: We believe that consumer lack of confidence arises from the lack of validation processes. Transfers between mobile telephones have addressed this for P2P payments but Richer Data validation is required if this form of assurance is to be achieved for P2B payments.

5.20: We regard the transmission of accurate reference data with value as vital. There is little sense in P2B, P2G, B2G, and B2B payments being made if the recipient does not know the purpose of the payment. Enhanced Data and Richer Data are essential improvements to digital payment processing. Otherwise we will see an increase in the receipt of unallocated value by business and government. We would argue that the risk of a utility service being disconnected is far greater than the perceived privacy risk when those in the payment system see a reference number given the more sensitive banking data they anyway see on a daily basis.

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

Data validation is in the interests of all parties. The business case exceeds direct costs. Payers will not continue to take up digital payments unless they have certainty that their payments will be allocated to their accounts. The issue of Enhanced Data, the ability to allocate a single payment to multiple debtor accounts at the payee, is a B2B (and B2G) issue which although not rare requires payer and payee agree a protocol for exchanging information. This does not detract from the need for payments to business and government to have mandatory reference data, and for at least the format to be validated. We understand that certain charity and debt collection organisations assist the economically vulnerable by acting as agencies managing their payments. We do not accept that these organisations cannot be held responsible for knowing the purpose of funds they collect and therefore proving the correct reference data to ensure payment allocation.

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

Separated payments, single reference with payment with separate channel to transmit further detail. We would recommend talking with in particular utilities on their current work with multi-site clients.

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

The discussion over economically vulnerable consumers has run with an assumption that there is some means of bringing them into digital payments. We appreciate government concern to eliminate so called “black” economy transactions (Haldane for BoE: http://www.ft.com/cms/s/0/8ef4dcb0-ca6f-11e5-be0b-b7ece4e953a0.html#axzz4HTve9o8d) but a complete movement to digital would require a change in legislation to oblige payers to pay digitally and to provide the means of inclusion, including enhanced digital signal availability and quality. To date they have been brought to digital by increasing costs and inconvenience when making cash and cheque payments but this is not a complete solution and certainly not for a country which prides itself as a social welfare state.

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

justified?

The demand for IT services created by Brexit and MiFID2 does not encourage development other than to achieve lasting solutions. We do not recommend transitional solutions.

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

We have not identified any. The main risk we perceive is continued offering of mobile payment solutions which enable payments without reference data and this should be discouraged until the viability of data validation is better understood.

QUESTIONS IN RELATION TO SECTION 6 | IMPROVING TRUST IN PAYMENTS

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

We agree the proposal. Press reports of fraud suggest that consumers are generally unaware of the risk of exposing themselves to fraud while those reports of data theft from companies may suggest that fraud is solely caused by “big business”.

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

The need identified is for the management of central databases for analysis, controlled sharing of KYC data, and listing of sanctioned payees. We would previously have recommended that this was managed by the clearing banks and based on their existing cooperative movements (VocaLink, BACS, CHAPS). However, as a result of disruption, this formal cooperation has become, and is increasingly becoming less viable. We would see the PSR as the successor organisation. Any attempt to vest these duties in a trade body would inevitably expose it the accusation that it only represented its members, however broad in scope they are.

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

We agree with centralised and standardised terminology and processes being established. We provide as an example of poorly standardised terminology the fragmented interpretation of BIS field specifications throughout the derivative repository industry as an example of a failed process which continues to grapple with inconsistent terminology four years after inception. This process has created considerable confusion, and repeated re-processing of data because neither the BIS internationally, nor ESMA within the EU accepted the role of standard setter.

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

We agree with the use of a central data repository as a means of ensuring standardised data.

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

We agree with the risks outlined which is our reason for preferring that such a data repository remains under the control of a government agency. Farming this role out to a private association would lead to the perception in consumers' minds that the data was open to manipulation such as you envisage in 6.17, and regardless of the ring-fencing applied to its control.

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

We believe that should legislative change be required, it is appropriate to do so to provide an accepted, sound base to enable development. Failure to make a change of this nature would affect the confidence of all payment process users (consumer, business, and government) and their adoption of digital processes. The potential economic benefit cannot be forecast, but nor could that of the many other parts of our social infrastructure on which we now rely.

Question 8a:	Do you agree with our solution for financial crime intelligence sharing? If not, please provide evidence to support your response?

The problems are at the root of any western society response to organised crime and terrorism. The questions to be asked are: how is the data to be protected to satisfy users that their data is not being used for other purposes; what qualifies individuals given access to it; and who authorises exchanges of data with other regulating authorities? Given we are leaving the EU but the risks are global, this is probably a question better directed to the security forces as Section 6.24 foresees, and who are directed by central government.

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

The objective would appear to be identifying those to be excluded and again this is more within the ambit of the security forces.

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

We agree with the risks outlined, which are inherent in any large database process such as those considered for the NHS and HMRC. The PSR needs to consider the balance between the potential incorrect exclusion of a few to the security offered to the many.

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

Probably not at the macroeconomic level but the question is whether the UK wants to move to digital payment processes, essentially a digital substitute for money in which case this is part of the process of doing so. Consumers as payment system users in particular, will not continue to adopt digital processes unless they are confident they are secure.

Recent data does show that consumers are reluctant to make payments through mobile technology although they have become comfortable doing so with internet banking portals. Further adoption of mobile payment technology will require their security and assurance concerns are met, and the development of centralised security systems would help providing they are considered to operate under governance processes which in themselves do not raise consumer concerns about confidentiality and accuracy.

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

No response.

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

The problem will be to form a governance structure which has broad social acceptance and this is most likely one within the government structure, and not private enterprise.

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

KYC has become an inefficiency to the detriment of consumers and business and so this proposal is agreed with.

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

We agree 6.32: seek adoption by HMT of standards which enhance the quality of the sanction list. We do not agree 6.33: the payments industry should rely on the HMT sanctions list and not seek to adopt liability for its content through reinterpretation. We have no example, but believe the need to comply with central government requirements is the essence of sanctions.

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

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

We agree that sort codes should be available to payment system participants.

We do not agree that sort codes can be regarded as transferable.

High volume transaction processors are already looking with trepidation to proposed bank ring-fencing rules which could require they change sort codes: an expensive long tail process exposing them to deferment of revenue and expense in terms of cash and IT resource. Any form of transferring sort codes would in our mind create a risk of this occurring and the bank ring-fencing issue shows that financial services industry has not grasped the impact on users.

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

We agree the proposal in regard to settlement accounts. Liberalisation of payment systems requires the Bank of England accept the population of service providers is now greater than the banks. Not to do so would signal a move back to payment processes being under the control of banks.

Separate settlement accounts would also strengthen governance as the activity of new payment service providers would come directly under Bank supervision. Thereby ensuring a common level of supervisory burden on new participants to that of existing participants.

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

No response

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

No response

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

We agree a common participation model would be preferable but any decision to pursue one should first ask why there are different models given that most payment systems in use in the UK have evolved under only two commercial groups: clearing banks; and card issuers. The diversity may reflect the nuances of different systems.

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

No response

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

No response

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

Standardisation of messaging standards is desirable but establishing a common standard of use of ISO 20022 is essential, and this needs to conform to the highest degree possible to its use outside of the UK to facilitate international payments.

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

We agree that guidance is required.

We believe that AML governance can only be performed by the party with access to the payer and that guidance cannot place liability on the Indirect Access Provider. This would replicate the current tissue in trade finance where both a customer's own bank, and the country specific agent bank must both undertake KYC, AML, and Sanctions due diligence with associated cost and time delay.

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

Guidance should recognise that the entity accepting a payment instruction must take responsibility for ensuring the instruction is valid, legal and correct. It cannot before the ultimate account holding entity, or the Indirect Access Provider to be required to take liability for payment instructions a consumer has issued through a third party.

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

The PSR.

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

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

We agree this approach which would enable large payment system users, banks business and governmental, to participate in the development of new processes. Co-ordination is essential: for example, to adopt a standardised version of ISO 20022 to simplify the build of the processes and their connections between the "layers" described.

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

The coordinated approach would ensure separate entities could undertake development of their architecture and APIs. In our opinion this requires that interface protocols, for example ISO 20022 messaging formats, are set early in the development process and currently differing versions of these protocols are in use. The disadvantage is therefore that some extant systems will require re-writing and this requires a mechanism to equitably spread these legacy costs over all beneficiaries of new systems.

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

We generally agree the vision set out in Section 8.

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

No response

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

As discussed elsewhere in this response, the market, and regulators, could historically look to the main UK clearing banks to undertake development work and their response to the request to implement Faster payments is an example of their co-operation. Their role is diminishing and there is a requirement for an agent to manage future change.

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

As noted in our response to Question 18b. , some existing systems would be required to change. The issue to be decided is which are best suited to be changed and who pays the cost.

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

We have noted in our responses that there are some parts of the payment systems which are best managed as centralised processes (KYC, Sanctions, Sort Codes). We do not encourage this generally. Centralised systems have systemic risk, and their development would not leverage of the resources already available in payment system participants. Hence our call for more effort being applied to the process of agreeing overall payment system design.

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

We note the current demand for IT services arising from continued implementation of existing regulations, the implementation of MiFID2, and an unknown demand to implement Brexit. We believe unlikely that the new payments infrastructure can be developed beyond its conceptual phase in the near future, but this does provide time to consider the design fully with payment market participants prior to the commencement of any detailed system design. We note however that systems analysis resource will be required to understand the feasibility of some of the desired processes: for example, how could Enhanced and Riche Data work in practice.

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

It is not clear how competition is promoted by change. The objective should be to enable consumers, businesses, and government agencies to maximise the efficiency of digital payment systems while ensuring no consumers are excluded from payment processes. What change is required is to ensure that new payment systems, principally now through mobile telephone technology, do not increase problems of error, fraud, and incomplete information, and that implementation is not confounded by lack of telecommunications capacity. We note from history, telephony and railway that competition can lead to over supply to the detriment of consumers, subsequent loss of capital, and the need for periods of monopolistic intervention to enable rationalisation.

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

The principal advantage we see in the SPP is the reduction of the number of software routes and that the opportunity for change is bringing into the SPP efforts to reduce error, fraud, and incomplete information. As a professional association of corporate treasurers, we are unable to comment as to what alternatives could exist, but the commencement of the withdrawal of banks from ownership of payment processes now removes one substantial group from having commercial purpose in pursuing change and this has left the PSR with its SPP concept as the remaining cohesive option with no other party likely to challenge the PSR.

QUESTIONS IN RELATION TO SECTION 9 | OUR STRATEGY IN SEQUENCE

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

No. It is essential to proceed through the PSR to a complete and cohesive plan now that the prior dominance of clearing banks has been challenged. The risk otherwise is that resource is not applied to development of payment systems because potential developers lack certainty as to their status in future systems.

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

Aside from our response to call for a cohesive plan now, there is a commercial requirement to bring forward urgently Enhanced and Richer Data to meet Assurance concerns of consumers and cost relief to business and governmental agencies, and some form of relief to KYC arrangements which are impacting across a wide range of participants: charities, SMEs; large corporates.

Although not the simplest objectives these are highly desirable and rewarding across the full spectrum of payment users. Failure to do so would be to imply that we would have been better to retain the status quo and rely on commercial pressures to seek out solutions which recent experience shows will focus on consumer-attractive point of payment, and data aggregation.

QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

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

As noted in earlier questions, develop as soon as possible a cohesive plan prioritising work by its importance and not by perceived achievability.

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

The PSR

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

Payments infrastructure has now been recognised as social infrastructure, and so a utility form of regulation already implemented in the UK water, telecommunications, and energy industries would be an appropriate economic model.

QUESTIONS IN RELATION TO SECTION 11 | COST BENEFIT ANALYSIS APPROACH

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

We do not agree that the analysis is complete. The cost to payment systems users of managing error and fraud are neither measured, nor often readily measurable. For example, the value of Enhanced and Richer data has been discussed since prior to the PSR's existence, but there is no quantification of its cost, and the implementation of enhanced data is regarded as a 3+ years objective. Similarly, KYC processes have become a barrier to business but these are also a 3+ year objective.

We recommend more analysis is put into quantifying and qualifying the objectives identified in the strategy to be able to feedback to strategy participants a cost benefit analysis which can then be used to prioritise the objectives.

To date prioritisation appears largely based on loosely informed preferences.

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

See response to 23a above

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

We recommend that the PSR conducts a survey to collect accurate cost data. The ACT would be pleased to engage in so far as its members work in the FTSE350 companies, but work also needs to be done with smaller and mid-cap businesses.