

# Consultation on delivery and regulation of the New Payments Architecture

Stakeholder submissions  
to consultation CP21/2

July 2021



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Names of individuals and information that may indirectly identify individuals have been redacted.



# Consultancies



## Cenerva Limited



[REDACTED]

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**From:** [REDACTED]  
**Sent:** 17 March 2021 20:18  
**To:** PSR NPA  
**Subject:** Consultation Response: Delivery and regulation of the New Payments Architecture

[REDACTED]

Please find detailed below responses from Cenerva Limited to this PSR consultation:

**Cenerva Limited Consultation Response (Q. 1-6): Delivery and regulation of the New Payments Architecture**

**Questions 1-6: response required by 19 March 2021**

*Questions related to the risks to NPA delivery*

1. Do you agree with our view of the risks to the successful delivery of the NPA?

The two risks, 'not provide value for money' and 'delay realisation of the benefits of the NPA', identified by the PSR are common to all large IT change programmes. Perhaps more important to the scale of risk around the delivery of the NPA is the additional risk identified by the PSR: 'the detailed functional requirements for some of the common services Pay.UK is procuring have not been fully determined or validated with stakeholders and the industry is constantly evolving'.

A lack of clarity in what is being procured will by its very nature increase risk around VfM and benefit realisation especially where a sector is constantly evolving, timelines for a large procurement in that sector are slow, e.g. Pay.UK taking two years to get to the RFI stage of the current NPA procurement, and stakeholders in that regulated sector not being 100% behind the regulators direction to competitively procure.

With regard the third current NPA programme risk identified by the PSR, 'stifle competition and innovation in payment services'. This is not a risk in our opinion associated with the current NPA programme but a risk if a competitive procurement is not progressed at all for the NPA programme.

The PSR should also note, there have been two (2) attempts to run a procurement process (*The PSR consultation paper does not record the NPA procurement that the Faster Payments Scheme commenced prior to the NPSO/Pay.UK fully merging the payment schemes, cancelling the FPS procurement and commencing the procurement that is now paused*) and twice now the process has failed to complete with a decision and a way forward. This would imply that by far the greatest risk to the NPA programme is a lack of skill and expertise to both procure and deliver a programme of this nature. Pay.UK must therefore ensure it has the expertise needed to cover both the complex procurement exercise and also the complex programme governance required.

This risk also highlights the risk, once procured, of the programme taking too much time to be delivered.

With a faster payments ISO20022 functionality focused procurement this should enable the procurement and contracting phase to take no more than 9 months and ensure that delivery of the programme can be completed in a 12-18 month timeframe. If Pay.UK takes 4 or 5 years to deliver after requirements have been created and delivered, these requirements will have changed.

The PSR should also be aware that if Pay.UK is not proactive with regard undertaking a competitive procurement then it might be difficult to convince suppliers it is still in their interest to engage in the



procurement and submit a proposal given all that has gone before. A risk to the NPA is that without a fully transparent, closely regulator monitored procurement no one provides a proposal to a competitive tender other than Mastercard/VocaLink – because suppliers believe that Pay.Uk is just going through the process to enable it to award to Mastercard/VocaLink.

#### *Questions related to procurement scope*

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?

The case that the PSR makes for the scope of the initial procurement is clear and we would agree with the analysis of the suggested risks, pros and cons of the alternative options.

We would also note the additional risk that the PSR identified, ‘the detailed functional requirements for some of the common services Pay.UK is procuring have not been fully determined or validated with stakeholders and the industry is constantly evolving’ which would in our opinion support the need for a new phased procurement with an initial narrower focus on Faster Payments followed by a Bacs phase, if required.

This would also support Pay.UK, that has obviously struggled with procuring the PSR’s Payment’s Strategy Forum vision, in being able to successfully procure at pace a narrower set of functional requirements through a new procurement.

With regard the need for any second procurement phase there are already products emerging that use open banking and offer customers an alternative to BACS, and it will not be long before there are many such offerings. It is right therefore to focus on Faster Payment Service only. By the time this is delivered, the demand for BACS services will be much different.

In line with the response to question 1 for the procurement of the NPA to be a success, keep it simple, small and quick as possible. Equally, once procured large complex programmes are the ones that are difficult to deliver so simpler and smaller will support Pay.UK delivering the agreed functionality on time and too budget.

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?

Scope Option 2, ‘procure using a narrower set of requirements, focusing on just the CSS plus limited additional common services that are needed to support the Faster Payments migration’ is our preferred option. As above this would support Pay.UK in being able to deliver a procurement at pace to support the move to ISO20022, greater interoperability and innovation that the UK needs the NPA to start and deliver.

With regard cost, we do not see, even if Bacs is delivered as a second phase, any particular cost increase from a phased procurement and delivery. As the PSR rightly identifies this might even offer up alternatives for the delivery of Bacs functionality further down the line. Ultimately the migration of Bacs transactions is about minimising change for large Direct Debit/Credit users, e.g. Utility Companies or DWP, as opposed to any change to core NPA Clearing and Settlement or Common services functionality that would have been delivered for Faster Payments.

4. Under scope option 2:

a. 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?

The payment industry has undertaken large migrations of Bacs submitters previously through payments gateway providers. I do not see this being any different in, say 2025, compared to 2005. In



fact it should be a lot easier because there are a smaller number of Bacs gateway providers providing services through the cloud. This will by its very nature make change and migration easier and as such across all Bacs submitters an 18 -24 month migration programme is achievable; enabling Bacs submissions as either ISO20022 or converted Std18 into the already delivered (and fully functioning) for Faster Payments) Clearing and Settlement service.

As above the existing Bacs gateway providers would certainly be able to assist and stimulate the creation of such solutions to support ISO20022 based submissions. Key will be ensuring these ISO20022 standards are available to the industry which if undertaken correctly could leverage work that has been undertaken in other payments markets to support international interoperability.

Equally, as in the response to Question 2 Open Banking offers alternatives to Direct Debit and over time this will see these alternatives reduce the migration volume from Direct Debit and/or offer target services linked to the NPA that Direct Debit users can migrate to. These alternatives will only increase as Variable Recurring Payment, being designed by the Open Banking Implementation Entity, are embraced by the market.

This change in the market with the available of alternative ways of delivering 'Direct Debit' like functionality is why splitting up the procurement to focus on FPS first and then determining the requirements for BACS, if any, at a later point in time makes sense - in 2 years time, direct debits may well be replaced by open banking payments that would be simple overlays to a new faster payments focused NPA service.

b. 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 common services to support the migration of Bacs transactions?

There is no reason why file-based services should not be included. Ultimately it is just a different delivery mechanism. In a perfect payment system (as well as enabling the migration of existing DCA/FIM payments) file-based delivery could support the ability for differential pricing across an Immediate Payment system – file based might mean the payments are made by the service provider within a specified time window for a lower transaction price as opposed to immediate sub-second processing at a higher price.

This type of thinking is not about complicating the delivery it is projecting what the NPA needs to enable, to support innovation and competition.

c. 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?

As implied above, the features of Bacs sit outside of the CIS core. For instance, for Direct Credit payments, as these are simple timed file payments, consideration for the core is about throughput/TPS and the ability to handle Bacs Direct Credit peaks, e.g. DWP Winter Fuel Payments or Easter weekend being at the end of the month.

However, Transactions Per Second (TPS), as it has been for the recent US Fed and Payments Canada Immediate Payment procurements, will be a key requirement of the narrower CIS procurement anyway as CIS will need to be able to scale for future volume from Open Banking, IoT, micro payments, etc.

Equally for Direct Debit the functionality will sit outside of the CIS core and will be determined by how existing large bank systems work today and whether the aim is to replicate existing Direct Debit flows. If Request to Pay, or similar Open Banking variable recurring payment solutions, for instance start to be used by large Utility providers then this will change the Bacs market and negate the need to migrate Bacs Direct Debit users. Equally, if process flows remain the same, there might be benefit from holding Direct Debit mandates centrally; but even changes of this nature would not impact on a narrow CIS procurement focused on Faster Payments as the functionality would be outside of the CIS core.



The mantra should be just focus the NPA on FPS if you want the procurement process completed quickly and programme delivered within a 12-18 month timeline. Bacs will look completely different in 3 years' time and the requirements will be different too.

#### *Questions related to procurement approach*

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.

Pay.UK should be directed to competitively procure the NPA and, if this is by a phased approach (with an initial, narrower, CIS procurement focusing on Faster Payments), this should be through a new procurement.

A new procurement, as identified by the PSR, would ensure that both Pay.UK goes to the market with detailed functional requirements for the CIS and that all suppliers can, afresh, take part.

With functionality now being focused on the core CIS this will also allow Pay.UK to re-assess how it went about procuring the NPA both as the Faster Payments Scheme and Pay.UK – to hopefully ensure third time lucky. The PSR and Pay.UK should also study how the US Fed and Payments Canada have progressed their Immediate Payments procurements and the suppliers that they involved.

A key aspect of their procurements was moving quickly to Proof of Concepts to validate TPS capability, CNI hosting and/or the ability of the technical stack to flex both from a scale and functional perspective.

A competitive process is also needed to get the best solution and at the right price. This is about procuring a long-term partner and as such the procurement needs to be started in a professional, well thought out manner. If this is not done, the supplier will not respect the professionalism of [Pay.uk](#) and the relationship will get worse and worse and the ability to evolve the NPA will be expensive and inflexible – to the detriment of UK PLC.

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)?

We do not see any other realistic options apart from a phased new procurement with an initial, narrower, CIS procurement focusing on Faster Payments.

However, within this (only realistic) option, that the PSR needs to direct Pay.UK to take forward, it will be key that the procurement this time is undertaken in a clearer and more managed way that benefits from copying some of the good international immediate (real-time) payments procurement practice.

As above clear functional requirements and Proof of Concepts will be key. However, in addition the following procurement lessons should be ones the PSR focuses Pay.UK on.

Professionalism and Partnership: The process needs to be conducted in a professional way so that this long-term partnership gets off to the right start. This is very important.

Define a strategy: Make sure it is defined what the key objectives are for the programme. This needs to be very clear.

Clear Approach: Define a clear approach and stick to it. It is going to be difficult because of failures in the past but this time it has to be credible. [Pay.uk](#) has to convince suppliers, other than Mastercard, that this is going to be a fair process and the best solution will win the contract. The procurement timeline being no more than 9 months will support this – suppliers need to know and trust the commitment being sought by Pay.UK to participate in the procurement.



Define a plan: Define timeline through to contract signature and stick to it. In initial documentation put commercial pressure to make sure each supplier is willing to commit resources to make this happen.

Keep it small: Smaller, more manageable scope will mean that the procurement and the project are more likely to be delivered successfully.

Skills: Someone needs to advise the Pay.UK programme who has global expertise in leading procurement processes like this. There are only a few people that have credentials BUT note the point on Motivate the Team.

Motivation of team: If everyone in the programme gets paid by the day or hour and there is no penalty if timelines slip, THEY WILL SLIP. Build into consultant/contractor terms fees held back against milestone deliverables of the procurement and programme and not the individual.

Define Service (non-functional) requirements up front: Almost more important than price is getting the service commitment and resilience requirements agreed beforehand. Define what will happen if the chosen supplier does not meet the required service levels or enable the required level of TPS.

\*\*\*\*\* END \*\*\*\*\*

With kind regards,

[Redacted]

[Redacted]

[Redacted]

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[Redacted]

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## Icon Solutions



## Purpose of Document

This paper is Icon Solutions (Icon) submission in response to the Payment Systems Regulator (PSR) consultation on 'Delivery and Regulation of the New Payments Architecture'.

## Introduction to Icon

Icon is a leading independent provider of payments technology and expertise, with a proven track record of developing, implementing and running innovative, mission critical transaction banking solutions.

From payments transformation strategy, architecture and design to project delivery and software development, Icon enables institutions to rapidly capitalise on the latest innovative technology and market drivers to reduce costs, boost revenues, and ensure compliance with regulatory and industry standards.

Icon uniquely offers its clients a combination of deep subject matter expertise in payments, a proven track record in delivering bank critical systems, and a fintech approach to the use of technology. This is evidenced by longstanding client relationships with some of the most important global financial institutions.

## Opening Comments

Icon welcomes the opportunity to respond to the Payment Systems Regulator's (PSR) consultation on the delivery and regulation of the proposed New Payments Architecture (NPA) in the UK payments market. The proposed NPA is a fundamental infrastructure change for the banking and payments industry, as well as for payments users more widely. We believe that the approach taken by the PSR in terms of its broad consultation, will be useful in determining the next steps for the program and the industry welcomes this open and consultative method.

**We are generally supportive of the preferred direction of travel laid out in the consultation paper on the NPA to move towards an innovation-generating, cost-effective central infrastructure.** However, the UK payments industry must find a way to develop an ecosystem that promotes competition and innovation in a safe manner but also garners wide industry support. Icon is of the mind that this balance has not yet been achieved.



## Responses to Consultation

### Questions 1 to 6: concerning risks to delivery of the NPA and options for reducing these

1	Do you agree with our view of the risks to successful delivery of the NPA?	<p>Icon agrees with the risks outlined by the PSR. <b>The current scope of the current procurement exercise is extremely broad.</b></p> <ul style="list-style-type: none"> <li>• NPA should be viewed as an ‘enabler’ of a vibrant economy as per Pay.UK’s motto, not an end in and of itself. The services and products that will be offered as part of these are yet to be defined.</li> <li>• The move to NPA with its current scope falls alongside other major change programmes for PSPs, large and small – including Brexit, COVID-19, Open Banking, RTGS modernisation, as well as Strong Customer Authentication requirements presented by PSD2. <b>The cumulative impact on industry capacity and resilience must remain a primary consideration.</b></li> <li>• Any payments infrastructure innovation should not be seen as competing with other industry initiatives, but as the foundation, <b>setting up the industry for all future change</b>. Any migration to NPA must be outcome-based looking toward competition, innovation and integrity as key policy drivers. Any infrastructure project at this stage must enable a vision for payments infrastructure that is safe, fast, resilient, easy to access, and future-proof.</li> <li>• <b>Icon believes that the UK payments industry should revisit the first principles of the program and bring the needs of end-users back to the centre.</b> COVID-19 has accelerated significant change to banks, business and consumers, from a cost and innovation perspective and these should be taken into account.</li> </ul>
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		<ul style="list-style-type: none"> <li>Technology has moved on since the initial Payments Strategy Forum Blueprint. <b>To not revisit the foundational blocks for the UK payments market would be a missed opportunity for the industry.</b></li> <li>For NPA to be realised, the scale of change and therefore potential impact on industry resources pooled around the systems themselves and within the back offices of the banks will be vast. The UK payments industry has invested in a fully functioning and well-used instant payments system in Faster Payments. <b>Icon believes that the industry would benefit from a full impact assessment of upgrading Faster Payments (which we have referred to as FPS V2.0 from here on), to achieve the necessary policy objectives of NPA, and also provide value for money and a future-proof infrastructure.</b></li> <li><b>The future of the BACS system itself needs to be carefully considered and agreed upon by the industry.</b> The scale of change to accommodate all the BACS functionality is likely to be far-reaching and costly. It would likely result in an extremely heavy central infrastructure, that matches, if not exceeds the current costs today.</li> <li>If the industry decides that full BACS functionality is a necessary component of NPA in its current form, then Pay.UK should undertake a cost and impact assessment to compare the cost of procuring a lightweight central infrastructure without BACS services versus the cost of procuring NPA with both BACS and Faster Payments functionality. This will provide a full view of cost implications.</li> </ul>
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?	<p>Icon would challenge the need for procurement at this stage for an entirely new payments infrastructure.</p> <ul style="list-style-type: none"> <li><b>The industry needs to return to a first principles basis</b> of understanding what the future requirements for UK payments infrastructure are, and what is required of</li> </ul>



		<p>the current Faster Payments scheme to achieve international competitiveness, vendor independency and light, agile technical functionality.</p> <ul style="list-style-type: none"> <li>• <b>Clarity on a roadmap needs to be given to stakeholders of the payments industry.</b> The target operating model for UK payments needs to have clear and achievable deadlines for migration. A strategic, phased approach is required to move any in-scope transaction volumes from the current schemes that minimises risk but creates buy-in.</li> </ul>
3	<p><b>Do you prefer scope option 1 or 2, or another alternative?</b></p> <p>How do the cost implications differ for you? What are the other reasons for your preference?</p>	<p>Icon's preference would be an alternative scope.</p> <p><b>Industry buy-in is imperative for the future of UK payments infrastructure and its adoption.</b></p> <ul style="list-style-type: none"> <li>• Before initiating a procurement process, there should be a strategy in place that outlines what technical functionality is needed for the future UK payment infrastructure for success.</li> <li>• A green field implementation of the NPA should only be considered if: <ul style="list-style-type: none"> <li>a. The costs of upgrading FPS outweigh the costs of developing a new infrastructure OR</li> <li>b. The challenges and complexities of upgrading FPS are insurmountable.</li> </ul> </li> <li>• <b>It is our opinion that strategic activity should focus on instant payments functionality (including scheduled payments, recurring payments and Request to Pay) and that BACS should not form part of the scope as we believe that this would hinder FPS 2.0</b></li> <li>• The way in which the BACS system operates reflects the time when it was built, where large amounts of functionality were built into the central infrastructure. This was due to a limited innovative</li> </ul>



		<p>payments market but this is no longer the case. <b>The UK payments industry should use this opportunity to build on ISO 20022 standards and not just use NPA as a means to replicate what currently exists today.</b></p> <ul style="list-style-type: none"> <li>• Technology providers have built solutions for FPS and can assist with transitioning the industry to FPS 2.0. Whilst technical service providers, like Icon, stand to benefit from the increased workload that is sure to occur from a project like NPA, it is our view that the benefits case for an NPA development over an FPS upgrade is yet to be made.</li> <li>• <b>There are strong links between NPA and what is currently being delivered by the Open Banking Implementation Entity.</b> ISO 20022 data elements are being used to support API development for the Open Banking payment initiation to ensure consistency across all demands on payments data and processing. There should be deep collaboration between these two to ensure re-use and harmonisation.</li> <li>• The process to procure, build and migrate the Faster Payments volumes to NPA in itself will take an extensive time to mature and that is excluding BACS. During this time, the UK end-user, is not benefitting from any advancements in technology and services that occur in the meantime. Therefore, Icon is of the mind that the case to build a green field implementation must be compelling and all other options for upgrading FPS exhausted.</li> </ul>
<b>4</b>	Questions relating to Scope Option 2:	
<b>a</b>	What do you think would be a suitable timeframe to allow the emergence of market-led propositions that could with the migration of BACS transactions (including Direct Debits) to the NPA?	<p><b>Icon does not believe the industry has developed significant evidence to support a BACS migration to NPA.</b></p> <ul style="list-style-type: none"> <li>• BACS is a complicated infrastructure, with many legacy capabilities that do not befit a modern, lean payments infrastructure e.g. accounting-type functionality.</li> </ul>



	<p>What actions could be taken, and by whom, to help assist or stimulate the creation of such solutions?</p>	<ul style="list-style-type: none"> <li>• BACS transactions expertise is reducing and becoming an increasingly niche market.</li> <li>• We see the future of UK payments as being based on a 'credit-push' infrastructure, with the necessary attributes to ensure 'BACS-like' products could be provided e.g. scheduled, where a payment may be scheduled for 3 days' time; or request to pay to mimic a Direct Debit.</li> <li>• Pay.UK could accelerate the migration of BACS credit transactions to FPS to reduce the risk profile of future transitions in the industry and the reliance on the legacy architecture</li> <li>• Therefore, we do not believe that a migration of full BACS functionality to NPA (or FPS 2.0) is cost-effective or necessary. There is no evidence that there would be a return on this investment.</li> </ul>
<b>b</b>	<p>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 common services to support the migration of BACS transactions?</p>	<p><b>Icon believes that file-based common services should be investigated in more detail.</b></p> <ul style="list-style-type: none"> <li>• Given the fundamental guiding principle of a lean, agile central infrastructure, developing a central mechanism for file-based services might lead to increased complexity.</li> <li>• There are many alternative services in the competitive market that enable file-based input that can then be submitted as singular payments to the central infrastructure.</li> <li>• A more thorough analysis should be undertaken to ascertain the cost and best place for file-based mechanisms to be deployed.</li> </ul>
<b>c</b>	<p>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</p>	<p><b>It is Icon's view that BACS should not form part of any initial CIS procurement for NPA or FPS 2.0.</b></p> <ul style="list-style-type: none"> <li>• With the inclusion of BACS services, any procurement of new technology for UK payments would then undoubtedly be</li> </ul>



	features in particular might require such focused attention prior to the initial procurement?	<p>hamstrung by the native complexity of the BACS system.</p> <ul style="list-style-type: none"> <li>• There is a limited vendor pool from which the UK could procure such services.</li> <li>• Icon believes that BACS should be out of scope for the procurement exercise and NPA.</li> </ul>
5	<p>Which of the procurement options do you consider is the best way forward and why?</p> <p>Please explain if your view differs depending on the scope of the initial procurement?</p>	<p>Icon advocates Option 2, to start a new competitive procurement.</p> <ul style="list-style-type: none"> <li>• However, reiterating our view as expressed earlier, we remain unconvinced that there is industry coalescence around NPA as the future of UK payments, or that the technical functionality is understood sufficiently for Pay.UK to be ready to procure a CIS.</li> <li>• We agree that a revised, less complex scope would make it easier for Pay.UK to develop services being procured and it would also enable greater competition in the infrastructure supply side of the market.</li> </ul> <div style="background-color: black; height: 150px; width: 100%;"></div> <ul style="list-style-type: none"> <li>• There should be an open and competitive tender unless payments infrastructure becomes designated as a critical national infrastructure with HM Government deciding on the procurement criteria.</li> <li>• Without the hindrance of BACS service inclusion, there is a competitive marketplace for real-time infrastructure provision, with a number of providers (10+)</li> </ul>



		that could potentially compete in this tender.
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)?	<p>Icon believes that a rigorous impact assessment and gap analysis of FPS should be conducted as a first step in understanding the cost implications of both FPS 2.0 and NPA.</p> <p>The industry could then use this analysis to make an educated and informed decision on the future foundation of UK payments and decide on the viability of FPS 2.0 or NPA. Only after this would the UK payments industry be able to undertake a procurement process with the solid backing and buy-in of the industry.</p>

## Reponses to Consultation Questions 7 to 14: concerning competition and pricing

7	Do you agree with our description in paragraphs 5.7 and 5.8 of how best to promote and facilitate effective competition in the NPA ecosystem? Please explain your response.	<p>In principle, Icon agrees with the PSR's description of how to promote and facilitate competition in the NPA ecosystem.</p> <ul style="list-style-type: none"> <li>We also see as a potential risk to competitiveness is whether Pay.UK are independently procuring a CIS provider, or doing this in conjunction with their participants. If the latter is the case, then any conflicts of interest should be declared at the start of the process.</li> <li>We particularly agreed with paragraph 5.8 and access options. The UK should look to countries like Singapore who have recently enabled fintechs to directly access the real time payments system. New, modern access arrangements should be considered as part of any technical design to promote greater innovation and cost efficiency.</li> <li>Pay.UK should develop an API framework and sandbox, similar to NPP in Australia,. These combined elements</li> </ul>
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		<p><b>would reduce risk and promote innovation.</b></p> <ul style="list-style-type: none"> <li>• The API Framework should define the key technical approach and mandatory data attributes for FPS 2.0 (or NPA) APIs, aligned to ISO 20022 standards. It would enable easy access to the underlying core clearing as well as also enabling rapid innovation of market overlays.</li> <li>• A sandbox approach could: <ul style="list-style-type: none"> <li>I. reduce onboarding time to the new infrastructure</li> <li>II. enable testing of enhanced functionality</li> <li>III. enable testing of market overlay services</li> </ul> </li> </ul>
<b>8</b>	<p>Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.</p>	<p><b>Icon is generally in agreement with the PSR's assessment of the competition risks.</b></p> <ul style="list-style-type: none"> <li>• However, we would prefer an assessment of the common services scope to determine if the provider of these services needs to be the same provider as the CSS or whether there should be a competitive marketplace of common service providers.</li> <li>• The CIS may indeed wish to offer market overlay services. This makes it all the more important that deploying the CIS does not gift any provider an unfair, competitive advantage when developing market overlays. Open API-based documentation, as much as is safe and secure to do so, is imperative to a vibrant overlay supply market.</li> <li>• A coexistence strategy should be established that allows 'early-adopters' to test their new capabilities as early as possible.</li> </ul>
<b>9</b>	<p>Do you think we have identified appropriate specific mitigations and governance principles to address competition risks? If not,</p>	<p>Icon agrees with the PSR's mitigation and governance principles.</p>



	how do you think they could be improved?	<ul style="list-style-type: none"> <li>Icon agrees that Pay.UK should act as the primary CIS interface. To reduce vendor dependency, Pay.UK needs to have full control and ownership of all documentation to the technical functionality and implementation of the payment schemes. Pay.UK should also act as the responsible entity for engagement with market overlays.</li> </ul>
10	Do you think the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.	No comment.
11	Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another competitive system or the competitive NPA overlay services? Please explain your response	No comment.
12	Do you agree with our proposal to bring forward regulatory measures to ensure specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?	No comment.
13	Do you have any comments on the pricing principles set out in this document?	No comment.
14	Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering	No comment.



Lyddon Consulting





Consultation paper  
Delivery and regulation of the New Payments  
Architecture  
February 2021

Response submitted by: [REDACTED]  
([www.lyddonconsulting.com](http://www.lyddonconsulting.com))

Date: 4<sup>th</sup> March 2021

### Introduction

#### What is Lyddon Consulting?

A specialist consultancy in payments and electronic banking. We have recently acted as advisor regarding the UK payments landscape to a trade body representing UK Payment Institutions and to a major payments communications cooperative reviewing their UK market positioning.

#### Why this evidence is being submitted:

We believe the functional scope of NPA to be deeply flawed, as well as the delivery approach.

There is no value in the project at all unless NPA eliminates the possibility of loss for the payment service user on account of Authorised Push Payments Fraud (APPF) as a Day 1 deliverable. This can be achieved via legal changes necessary to put the liability where it should always have been: with the banks. The liability needs to be brought onto a par with the situation where a bank allows a cheque to be paid into an account with a different name than the name on the cheque's payee line.

On top of this it needs to be excluded that either Visa or Mastercard play any part in NPA, either directly or through a subsidiary (like Vocalink). Market power in UK payments has become concentrated on Visa and Mastercard to an unacceptable degree.

#### Contact details

[REDACTED]  
[REDACTED]  
[REDACTED]  
  
[REDACTED]  
  
[REDACTED]



#### Questions related to the risks to NPA delivery

##### 1. Do you agree with our view of the risks to the successful delivery of the NPA?

Only partially. We disagree with the benefits case for doing NPA at all. It is not acceptable that NPA has got this far without a guarantee that Authorised Push Payment Fraud will be rendered impossible from Day 1 of NPA, by legal changes that lay the responsibility on the payee bank for checking the payee name in a payment against the name on the account identified by Sort Code and Account Number, and by the consequential operational changes that banks will have to implement to carry out the validation check on every payment. At that point the inadequate solutions of Confirmation of Payee and Contingent Reimbursement Model can be retired.

No delivery approach that fails to result in this as an outcome of NPA on Day 1 should be acceptable, just as it should be unacceptable that the disruption and cost of NPA be undertaken simply to achieve the same feature and function, and distribution of risks, as prevail now.

#### Questions related to procurement scope

##### 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?

Generally yes, if one feels there is a benefit to NPA without the exclusion of APPF and without new feature and function. From our viewpoint a like-for-like set of features and functions is not enough. Where then are the supposed benefits of using ISO20022 XML? There must be a Day 1 improvement of feature and function, and of distribution of risks, for the ecosystem to be asked to invest the time and effort to bring NPA into being.

##### 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?

We would not opt for either. We would opt for a re-scoping of the project to deal with APPF and to introduce new feature and function. Otherwise this project simply has the effect of blocking the market space and precluding private initiatives for the period during which NPA is in development, implementation, conversion and post-conversion support. That could be 15 years, starting with the 5 years since the PSF came up with the idea. This market-blocking can be observed in the creation of the Single Euro Payments Area, from the conceptualisation of SEPA in 2000-2 leading to the creation of the European Payments Council in 2002, to the roll-out of the first SEPA Scheme in 2008, until now through annual reissuances of the SEPA Scheme Rulebooks. That is 20 years during which virtually no new feature-and-function has been delivered to users of Eurozone retail payments. In fact some feature-and-function existing only in the national environments was lost during the SEPA Migration, whilst some was built back as "Community Additional Optional Services" or AOS, written to preserve what were known as critical functions of a national payment environment (like the Finnish tax payment date). In very rare instances a piece of Community AOS was incorporated into the main SEPA schemes – to the chagrin of any market actor who had considered developing a new service using the field in the SEPA adaptations of the ISO20022 messages which was then later occupied by this Community AOS, precluding its employment by an individual market actor.



4. Under scope option 2: a. 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?

This is a pipe-dream. It reproduces the failed SEPA Market Model where Value-Added Services were meant to emerge as overlays or add-ons to the Core and Basic SEPA Scheme Services, and populating those ISO20022 fields that were coloured White in the SEPA Implementation Guidelines to indicate "open to use". This meant in theory that private market actors could design their value-adding services by populating these fields. It did not work. The pace at which such VAS would have to have been introduced, the disclosure of plans to other market actors, the ongoing possibility that one market actor's VAS could be incorporated into the Core and Basic SEPA Schemes or that the Schemes would be adapted so that private VAS would be incompatible with them conspired to make VAS an overly risky and uneconomical proposition. No VAS market has emerged. SEPA INST is wrongly called a VAS by SEPA aficionados but it is a Community Scheme based on the Core and Basic SCT Scheme, only done within 10 seconds and for an amount of EUR15,000 or below. It is not VAS introduced by a private market actor in the competitive space so as to gain market share because the actor is the only one offering the service. We need to learn the lessons of where the SEPA "Layered" market model has failed and not delude ourselves as to what "market-led propositions" will fly or not when they are anchored on an official project with a slow timescale, with which the proposition must be interoperable – when the official project itself is likely to be a moveable feast. NPA is based on the concept of the "Layered" market model so the constraints of that model need to be accepted (even though the PSF Horizon Scanning Working Group that proposed this model did not properly describe its shortcomings at the time).

b. 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 common services to support the migration of Bacs transactions?

We cannot provide a satisfactory answer. The NPA Blueprint glossed over the difficulties of combining file-based and individual payments through the same mechanism, using the word "Overlay" services as contrasted with core services in the same way as the SEPA Market Model uses the term "Value-Added Services" as contrasted with "Core and Basic Services". In fact the only supposed example of VAS in SEPA – SEPA INST – is not working properly through the SEPA Clearing and Settlement Mechanism Model, which was designed for file-based payments. The European Central Bank has proposed that all SEPA INST be cleared and settled through its TIPS service (TARGET2 Instant Payment Services) as opposed to through the network of SEPA CSMs, who connect to each other via the interoperability concept. That concept has worked for D+1 payments (Core and Basic) but has failed SEPA INST. This is a clear and real example of the incompatibility of file-based clearing and settlement with individual payment clearing and settlement. This incompatibility was masked by the many Powerpoint decks produced since 2015 but presents itself as an insuperable obstacle now it comes to the acid test.



c. 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?

We have nothing to add here to our response to (b) above: it is unworkable to try and combine file-based clearing and settlement with individual payment clearing and settlement.

Questions related to procurement approach

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.

None – we would add a further one. Re-scope the project to eliminate APPF on Faster Payments as a Day 1 deliverable, and furnish new feature-and-function from Day 1. Leave BACS credit transfers and direct debits out of the equation completely. Reopen the issue as to whether ISO20022 is the best data format to use for NPA: it is already quite old, its messages are bloated, and it has never been selected by end-users anywhere in a competition. Its adoption in SEPA was extremely slow between 2008 and 2011, which is why the European authorities passed the SEPA Migration End Date Regulation 260 of 2012.

This regulation compelled the retirement of national data formats like CFONB (France) and DTA (Germany), and forced users to employ ISO20022 in their file-based traffic between themselves and their payment service providers. The alternatives to ISO20022 for file-based traffic were expunged by Regulation 260 of 2012 in the corporate-to-bank space as they had been from 2008 in the bank-to-bank space. Note that the compulsion was restricted to file-based traffic: it did not apply to individual payments. As such it did not apply to consumers because they do not send and receive files. Furthermore the vast majority of non-consumer users of files managed to sidestep direct usage of ISO20022 by inserting a service bureau between themselves and their payment service providers.

The lessons from the SEPA experience should be clear:

1. ISO20022 adds no value when applied to individual payments, like Faster Payments and CHAPS
2. ISO20022 is good enough to handle file-based traffic, like BACS
3. In the UK we are considering applying it to the payment types for which it is ill-suited
4. It will be over 20 years old by the time it is implemented in the UK
5. Its take-up in the SEPA Area only began when the alternatives were expunged by law
6. Even then its adoption was deemed so unattractive to users that many have side-stepped adopting it directly



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)?

Yes, as per 5 above. Stop the existing work and re-scope so as to add value to users from Day 1. If that proves not to be possible, abandon NPA.



# Northey Point





# Northey Point Limited

## **Delivery and regulation of the New Payments Architecture Payment Systems Regulator Consultation (CP21/2)**

This paper sets out Northey Point's response to the first six questions in the Payment Systems Regulator's (PSR) consultation on the delivery and regulation of the New Payments Architecture (NPA).

These six questions focus on the risks to the delivery of the NPA and the options for reducing these risks by changing the scope of and approach to the initial procurement.

Northey Point plans to submit a further response providing views on the PSR's proposals for mitigating competition risks including the pricing principles by the 5 May 2021 deadline.

Mike Chambers, March 2021



### **Introduction**

Mike Chambers is a recognised authority on retail payments and, as Chief Executive Officer, led Bacs Payment Schemes Limited (Bacs), the UK's biggest retail payment system, from 2004 until 2018. During this time, he successfully steered the company through a record number of payment processing, technological, regulatory and innovative customer proposition 'firsts' including extending Bacs' product offering to include the ownership, management and market adoption of the Current Account Switch Service (CASS) and the Cash ISA Transfer Service.

During his time at Bacs, Mike also led the UK's systemically important RTGS payment system (CHAPS) as its CEO and operated the UK's Faster Payment Scheme as its first Chief Executive creating the Payment System Operator (Faster Payment Scheme Limited).

Mike was an integral part of the industry initiative which led to the New Payments Architecture (NPA) vision (including concepts such as Request to Pay and Confirmation of Payee), the regulatory endorsed merger of the UK's retail payment schemes and the formation of Pay.UK.

Having successfully merged Bacs into Pay.UK, Mike has developed a portfolio including roles as chairman, payments advisor, Non-Executive Director, ambassador. Mike also publishes a newsletter which provides an informed insight into the UK's retail payments landscape.

Within Mike's portfolio he works with a number of clients on the subject of the proposed New Payment Architecture, whilst this consultation response is from Northey Point Limited



he has also worked with Access PaySuite Limited, Answer Pay Limited and the Emerging Payments Association on their respective responses.

## **Consultation questions**

### **A: Questions related to the risks to NPA delivery**

#### **1: Do you agree with our view of the risks to the successful delivery of the NPA?**

We broadly agree with the PSR's view that Option 1 presents unacceptably high risks, we also agree that the current delays are preventing the delivery of end user innovation and that the migration risk is a material concern.

Whilst it could be argued that the COVID pandemic has introduced an additional delivery risk we are of the view that the validity of this risk as a determining factor in deciding the way forward for the NPA has passed.

The passage of time and the various programme resets have clearly had a profound impact on the delivery of the NPA and without clear, decisive and remedial action the future delivery and success of the NPA cannot be assured.

The Pay.UK commissioned independent assurance review in Spring 2019 noted the absence of strong foundations and recommended a programme reset. Whilst it is apparent that the programme reset adopted by Pay.UK and the intervention by the PSR is seeking to ameliorate the identified risks, we are principally concerned that the role of bulk submissions (especially Bacs Direct Debit) has not been thoroughly explored or validated with stakeholders.

On this basis we believe that Option 1 has the additional risk of a vendor being selected and a solution being procured before the full scope of the NPA has been appropriately explored with stakeholders.

A clear tenet of the NPA programme is to deliver increased innovation and competition (both 'in' and 'for' the market'). The PSF was formed six years ago and the delivery timeline of the NPA has yet to be determined. The consequence of the passage of time is that the underlying services delivered by the Faster Payments and Bacs schemes have been preserved in aspic at exactly the time that a societal shift to digital payments, the payment opportunities afforded by Open Banking PISP and VRP and, perhaps even, the future of a Sterling CBDC are placing a greater dependency upon Faster Payments (and Bacs Direct Debit / Direct Credit to an extent). The net result is the delays and uncertainty of NPA are presenting a material risk to effective competition and innovation.

Whether the NPA is delivered as originally envisaged or is delivered to a narrower scope there is a material risk that continued delays, pausing and ongoing uncertainty will make it very difficult for Pay.UK to attract and retain the subject matter expert resources that are required to deliver such a complex and systemically important critical payment system.

Reviewing the scope of the proposed NPA to mitigate the identified risks is not without precedent. The current scope of the NPA focusses on replacing Faster Payments and Bacs Direct Debit / Direct Credit, whereas the original scope also included Image Cheque Clearing. Reviewing the scope as a mechanism to mitigate risk can a pragmatic thing to do.



## **B: Questions related to procurement scope**

### **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?**

The analysis conducted by the PSR explores how delivery risk might be mitigated and the extent to which an alternative approach might stimulate competition and innovation.

The findings of the Cruickshank Report (2000), events leading up to the creation of the Payment Systems Regulator, the Specific Directions set by the PSR and the recommendations reached by the Payments Strategy Forum (2017) all point to competitive procurement of the underlying services that support the UK's retail payment schemes operated by Pay.UK.

Assuming that the regulatory desire for the competitive procurement of clearing and settlement services by a Payment System Operator remains, the analysis of the alternative options outlined in the consultation to mitigate the risks considered to be unacceptably high has the potential to address some, but by no means all, the identified risks.

On balance, and reflecting on the risks covered in question 1, Northey Point broadly agrees with the analysis presented in the consultation paper.

### **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?**

Given the challenges that the NPA programme has experienced since it was inception in early 2018 it is difficult to see how option 1 can be considered to be viable in its current form. Even with a significant reset it is hard to envisage how some of the views held by the PSR on the material risks could be satisfactorily mitigated.

Based on the arguments made in the consultation paper a binary decision between option 1 or option 2 would point to selecting option 2. An initial competitive procurement of a core clearing and settlement service layer along with the common services needed to successfully migrate Faster Payments to a new NPA platform followed by a second procurement approach (if required) for Bacs Direct Debit and Direct Credit would be an obvious solution to a binary choice.

However, for a number of reasons (including para 1.30 of the consultation which states that *...limiting the initial scope will allow time for Pay.UK to do further work to assess how Bacs services should be delivered in the future*) Northey Point would like to propose an alternative option for the NPA programme.

An alternative approach (option 3) would be to progress a reconfigured NPA programme in four distinct tranches.

These tranches could cover:

- **Tranche 1: Settlement Services**



This tranche would focus on the settlement aspects of the NPA and seek to align with the services to be offered by the Bank of England as settlement agent and within the scope of the RTGS Renewal Programme. Including but not limited to: settlement cycles to support Faster Payments moving from NRT to RT settlement, on-boarding access for new participants and efficient use of liquidity across payment schemes.

The historic delays, current pause and any subsequent reinstating of the NPA programme means that the settlement services aspects of the NPA need to be defined, agreed and delivered within the timeframe of the Bank of England's RTGS Renewal Programme or the opportunity to maximise the benefits noted above might be lost.

- **Tranche 2: Faster Payments 2.0**

The consultation paper states a preference (option 2) for a narrower scope initial NPA which might reduce complexity, accelerate Faster Payments migration and support the faster realisation of any benefits.

In addition, this tranche should also consider the end user proposition aspects of Faster Payments including moving the current Near Real Time proposition to Real Time. Such an approach will also benefit developments within Open Banking where a real time payment leg is required and the market adoption of innovations such as Request to Pay.

When launched over a decade ago Faster Payments led the world – Faster Payments needs more than an ISO 20022 based NPA transition, it needs a holistic reset to create Faster Payments 2.0 as an upgraded real time system.

- **Tranche 3: Direct Debit 3.0**

Processing over 4.5 billion transactions a year and a strong 50 year heritage it is clear that Bacs Direct Debit is a much valued payment instrument.

We believe that the future role, function and delivery of Direct Debit within in the NPA has not been fully determined or validated with stakeholders. Para 1.30 of the consultation states that *...limiting the initial scope will allow time for Pay.UK to do further work to assess how Bacs services should be delivered in the future* and the independent assurance review conducted in Spring 2019 noted the absence of strong foundations.

Narrowing the scope of the NPA procurement to exclude Bacs Direct Debit as suggested in the PSR proposals will provide the opportunity to consider the merits of both push (Direct Request) vs pull (Direct Debit) collections, bulk vs 1x1 payments and whether the infrastructure required to serve end user needs is better delivered inside or outside a primarily Faster Payments based NPA.

An additional benefit of this approach is that other facets of the Direct Debit proposition such as processing cycle, consumer guarantee, service user inclusion and alignment with 'overlay' services (e.g. Request to Pay and Open Banking offerings (Variable Recurring Payments and sweeping)) could be explored at the same time.



We believe that time and opportunity drivers point to the creation of Direct Debit 3.0 with assessment of the infrastructure fit within NPA taking place in tandem and not sequentially to the other tranches.

Such an approach would also facilitate, if required, a competitive procurement process for Bacs services within or outside of a NPA procurement process.

- **Tranche 4: Faster Payments DCA / FIM and Bacs Direct Credit.**

When considering option 2, the consultation correctly identifies that Faster Payments DCA / FIM and Bacs Direct Credit are intrinsically linked. It is also clear that choosing an option other than option 1 retains a level of complexity for bulk file submissions for both Faster Payments and Bacs.

Although the market adoption of Faster Payments DCA and FIM is limited it is difficult to envisage these services being withdrawn and, conversely, with the wide market adoption of Bacs Direct Credit it is impossible to contemplate the withdrawal of bulk push payment submissions.

As a precursor to commencing phases 2 and 3 a decision will need to be made about bulk submission. There are four options: (a) withdraw bulk file submission, (b) include DCA / FIM in the Faster Payment / NPA scope, (c) include all push payment submissions into phase 3 or (d) dictate that NPA will only process 1x1 transactions and bulk submission can only be provided as an ‘overlay’ service.

Mindful of the need to meet customer need and the 2009 ‘end of the cheque that never was’ decision, careful consideration of these four potential options is required. At a first glance it seems that only options ‘b’ and ‘c’ are viable, but both have significant pros and cons.

However, option ‘d’ might provide a neat solution for Faster Payments DCA / FIM and potentially provide a solution to enable Bacs Direct Credit migration to NPA be a fast follower to Faster Payments. If this were to occur, then a solution for Bacs Direct Debits outside of NPA but within the settlement layer might present itself.

#### **4: Under scope option 2:**

**a: 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?**

It is possible that the elapsed timeframe to transition Bacs Direct Credit and Direct Debit to a NPA environment may not differ significantly between option 1 and 2.

The alternative approach (option 3) outlined in the answer to question 3 above will cause the ‘bulk submission’ question to be resolved and, subsequently, delivered within a Faster Payments (Tranche 2) or Bacs (Tranche 3) NPA delivery stream.



Crucially, option 3 provides opportunity for the complex Bacs transition challenges to be addressed without any further detrimental impact on the settlement and Faster Payments aspects of the NPA development.

As the consultation suggests there is a need for any decisions regarding the future of bulk file submission and (pull) Direct Debits to be built on solid foundations. Also, to avoid a repeat of the ‘end of the cheque that never was’ decision, a programme of strong end user engagement is required.

These activities should be progressed by Pay.UK, utilising subject matter experts and include independent challenge / thought leadership.

**b: 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 common services to support the migration of Bacs transactions?**

This question has been covered in the answers to questions 3 and 4a.

**c: 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?**

This question has been covered in the answers to questions 3 and 4a.

Although there are many proposition, operational and infrastructure synergies between Bacs Direct Debit and Bacs Direct Credit they are two very different payment instruments that perform very different functions.

If both Bacs Direct Debit and Bacs Direct Credit are delivered outside NPA then ensuring central bank settlement synergies would be important (see question 3 above).

If it is decided that Faster Payment DCA / FIM are delivered via a NPA enabled Faster Payment solution, then it is possible that Bacs Direct Credits could be a ‘fast follower’ and be migrated from the existing Bacs engine. Faster Payments DCA is, in effect, a white label version of Bacs DCA so the process here would reverse the arrangements Bacs originally provided Faster Payments. Obviously other aspects of Bacs Direct Credit will require changing (e.g. clearing cycle).

This would potentially leave Bacs Direct Debit outside of a NPA solution which has pros and cons.

Finally, if bulk submissions were to be delivered as a NPA ‘overlay’ service then any future Direct Debit (pull) or Direct Request (push) may be less complex to deliver inside or outside the NPA.



## **C: Questions related to procurement approach**

### **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.**

The findings of the Cruickshank Report (2000), events leading up to the creation of the Payment Systems Regulator, the Specific Directions set by the PSR and the recommendations reached by the Payments Strategy Forum (2017) all point to competitive procurement of the underlying services that support the UK's retail payment schemes operated by Pay.UK.

Noting the implication of such a decision there is an argument that the provision of systemically important payment systems could be Payment System Operator delivered and not outsourced.

Also, there is precedent that demonstrates that it is possible for a renewed contract to be negotiated with an incumbent supplier.

However, assuming that the regulatory desire for the competitive procurement of clearing and settlement services by a Payment System Operator remains then:

- For option 1 (original NPA scope) the current procurement process ought to continue.

Much time has been invested in progressing the PQQ and RFI stages of the original procurement project and vendors were getting ready for RFP. To start the process again will cause further delay and, given the complexities and vendor experiences, is unlikely to result in additional vendors entering the procurement process.

- For option 2 and option 3 (narrower scope) then a new competitive procurement process should be commenced.

Both options 2 and 3 represent a new and far less complex scope. Therefore, starting a new process (perhaps combining PQQ and RFI into one stage) would provide opportunity for current, excluded and new vendors to enter the procurement process which would support a truly competitive process.

Although elapsed time is an issue, from our experience, there are a number of examples around the world of Faster Payment equivalents being implemented within 12 to 18 month timeframes.

### **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)?**

Answers to previous questions consider the pros and cons of bulk vs 1x1 submissions and the merits, or otherwise, of transitioning a 'pull' payment (Direct Debit) to a 'push' payment (Direct Request).

Permanently excluding Bacs Direct Debit and Bacs Direct Credit from the scope of the NPA is a realistic option. That said, such an option cannot be regarded as a 'do nothing' option as the infrastructure will still need procuring, ongoing hardware / software investment will be required, settlement synergy will be required and the proposition will need developing



(Direct Debit 3.0). All decisions would need to be based on a clear strategy for bulk push / pull payments set in the context of a holistic payments strategy.

Although outside of the scope of this consultation it is important to note that the NPA offers a ‘once in a generation’ migration path to a feature rich ISO 20022 utilising enhanced data building blocks. It is important that, in all the adjustments made to enable the delivery of NPA, the message standard opportunity is not lost.

Mike Chambers

March 2021

<END>





# Northey Point Limited

## **Delivery and regulation of the New Payments Architecture Payment Systems Regulator Consultation (CP21/2)**

This paper sets out Northey Point's response to questions 7 to 14 (competition and pricing) in the Payment Systems Regulator's (PSR) consultation on the delivery and regulation of the New Payments Architecture (NPA).

Mike Chambers, May 2021



### **Introduction**

Mike Chambers is a recognised authority on retail payments and, as Chief Executive Officer, led Bacs Payment Schemes Limited (Bacs), the UK's biggest retail payment system, from 2004 until 2018. During this time, he successfully steered the company through a record number of payment processing, technological, regulatory and innovative customer proposition 'firsts' including extending Bacs' product offering to include the ownership, management and market adoption of the Current Account Switch Service (CASS) and the Cash ISA Transfer Service.

During his time at Bacs, Mike also led the UK's systemically important RTGS payment system (CHAPS) as its CEO and operated the UK's Faster Payment Scheme as its first Chief Executive creating the Payment System Operator (Faster Payment Scheme Limited).

Mike was an integral part of the industry initiative which led to the New Payments Architecture (NPA) vision (including concepts such as Request to Pay and Confirmation of Payee), the regulatory endorsed merger of the UK's retail payment schemes and the formation of Pay.UK.

Having successfully merged Bacs into Pay.UK, Mike has developed a portfolio including roles as chairman, payments advisor, Non-Executive Director and ambassador. Mike also publishes a newsletter which provides an informed insight into the UK's retail payments landscape.

Within Mike's portfolio he works with a number of clients on the subject of the proposed New Payment Architecture, whilst this consultation response is from Northey Point Limited he has also worked with Access PaySuite Limited, Answer Pay Limited and the Emerging Payments Association on their respective responses.

### **Consultation questions**

#### **Questions related to competition**



**7: Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.**

Given the systemic importance of the payment systems operated by Pay.UK, rather than *low barriers* to entry and participation for PSPs and overlay providers, there must be a focus on *appropriate* access and participant criteria. These criteria must be appropriate to the level of risk the service or the provider brings to the system.

Pay.UK should be required to promote effective competition within the NPA overlay aspects of the ecosystem by acting as a market maker or stimulant. For example, the approach taken by Pay.UK to promote the market adoption of the Request to Pay (RtP) service is vastly different to the approach taken for the Current Account Switching Service (CASS). The successful take up and adoption of overlay services will be greatly enhanced by a proactive and engaged approach by Pay.UK.

The access to, and operation of, overlay services must be provided on an equitable basis and be based on a level playing field that neither favours nor disadvantages the CIS provider or members of any consortium. This principle should also extend to preventing the ability of the CIS provider (or members of any consortium) from calibrating (upwards or downwards) the service provided to any provider of an overlay service (including where the CIS is a provider of overlay services themselves).

To ensure the ease of switching between PSP and overlay providers by payers, payees and other users the operation of reference data elements required for the routing of transactions needs to be carefully ‘placed’ within the NPA ecosystem. There is an argument that reference data should be provided within the CIS and not, in themselves, be regarded as an overlay service.

Given the close synergy and dependency that Open Banking has on the NPA, the adoption of open standards is an important facet of the NPA.

Whilst the proposed narrowing of scope (outlined in Chapter 3 of the consultation) might provide an opportunity for market-led overlay services to emerge that can help the *migration* of Bacs transactions to the NPA, it is important to note that the opportunities afforded by varying the delivery of the NPA also provide for the ability to refine the Bacs Direct Debit *proposition*.

**8: Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.**

Safeguards (including structural or organisational separation) will be required to prevent the ability (real or perceived) of the CIS provider (or members of any consortium) from undue advantage in respect of common and overlay services.

An example of this might be where a CIS provider or member of a consortium is responsible for the operation of the CIS that processes Direct Debits / Direct Requests and provides an overlay service such as Request to Pay. In this scenario an organisation would have detailed knowledge of the scheme operation and participant performance and also be a provider of a competitive overlay service.



**9: Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?**

Whilst the monopoly risk of CSS and common services identified within the consultation can be addressed and mitigated by Pay.UK acting as an intelligent buyer, careful consideration in respect of any ‘additional services’ that can only be provided any the CIS provider are required.

Para 5.23 and 5.24 suggest that these services can be scoped and priced on a ‘menu basis’ and offered on an arm’s length basis by Pay.UK on behalf of the CIS provider. Whilst in some cases this might be possible these services are often complex and bespoke and, to guarantee successful delivery, need the CIS provider to be actively engaged.

Rather than Pay.UK acting as the primary interface it might be more appropriate for Pay.UK’s role to be a observer to prevent preferential or discriminatory treatment of these seeking to procure ‘additional services’.

Sufficiently incentivising and equipping Pay.UK to be the primary interface in respect of ‘additional services’ will add an additional, and perhaps unnecessary, layer of cost that the end user will incur.

In a market with a limited number of CIS providers horizontal competition risks are material. Whilst, based on an assumption of Pay.UK acting as an intelligent buyer, the risks can be mitigated within the NPA ecosystem itself although there is the risk that the CIS provider may gain unfair advantage in other systems it operates (e.g. a card payment system, open banking solutions or alternative payments such as Request to Pay).

It is our view that it is not possible to use SLAs to prevent limitation in innovation in interbank payments to favour another payment system. These concerns, to an extent, can be addressed contractually and this area will need special consideration.

**10: Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.**

No response.

**11: Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.**

Although we agree that structural separation of a CIS provider may not be necessary we are of the view that, in addition to operational separation, a CIS provider should also be subject to clear governance separation, with clear boundaries, from any part of the CIS provider that has an interest in another payment system or provides an overlay service.



**12: Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?**

We note that the PSR intend to bring forward the first two regulatory measures and introduce measures that require Pay.UK to introduce measures in respect of the third principle. Given the importance of the third measure we wonder why this measure is not given equal status.

**Questions related to pricing**

**13: Do you have any comments on the pricing principles set out in this document?**

We are pleased to note that the consultation stresses that Pay.UK is not obliged to favour the cheapest bidder. The chosen CIS provider must be able to demonstrate a commitment to continued infrastructure investment (hardware and software) to ensure that the system remains robust, resilient and relevant to the needs of the participants through to the end of any contractual period.

If the contract pricing is to be based on volume, the pricing principles should also reflect the effect of significant volume based scale or retraction variations and contractually protected for both parties. (i.e. clear collar and cap provisions).

Whilst incentivisation by service and price is an important factor it is important that price equitability is maintained for all users – i.e. that price incentivisation is not used to reward those with significant volumes and to, perhaps inadvertently, create an access barrier to those participants with lower volumes. This ‘level playing field’ is noted in para 6.22. Such a mechanism would provide a safeguard about a single or small number of participants having a dominant position in a payment scheme.

**14: Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?**

Whilst using pricing mechanisms to incentivise strategic migration from one payment type to another (e.g. Bacs Direct Credit to Faster Payments) could be a useful tool these mechanisms should form part of a wider payments strategy and be set against tangible and measurable objectives.

Mike Chambers

May 2021

<END>



# Whitechapel Think Tank



## Payment Services Regulator Response

The Whitechapel Think Tank (WTT) is an independent, not-for-profit body created to represent and advance the global FinTech and Distributed Ledger Technology (DLT) community in the UK. Supported by the City of London Corporation and Innovate Finance, its mission is to accelerate the UK's leading role in the financial services sector by directly supporting its stakeholders across the public and private sectors.

The WTT's membership ranges from global financial institutions and seed stage start-ups through to investors, professional services firms, regulators and government departments. By bringing together and connecting the most forward thinking participants in financial services, the WTT, alongside Innovate Finance and the City of London Corporation, is helping to create a more informed, transparent, diverse and inclusive financial services sector in the UK.

With this objective in mind, and with an eye to the accelerating pace of developments in this space, the WTT created the Future of Payments Working Group (the FPWG) in early 2020. The FPWG consists of a sub-group of WTT members and external participants, including academic and other industry participants, who collaborate to research and develop thought leadership and advocacy around the themes of digital economies, and the future of money and payments

The WTT recognises that in the creation of the New Payments Architecture (NPA), the Payment Services Regulator (PSR) has sought to create a payments infrastructure that is efficient, safe, customer friendly and promotes a commercial environment which is innovatory as well as competitive. Having said this, there is a more fundamental question which needs to be asked. Is the PSR and indeed the UK creating an architecture which is fit for the digital age? Although the NPA will bring improvements to the existing architecture (eg the new ISO20022 standard) it is still being built on systems that were designed for a paper age. Digital technologies are going to bring massive change to the way that payment transactions are processed.

One example of these new technologies is The Internet of Things which will allow machine to machine payment instructions (eg a fridge ordering milk from a supermarket). This means that our payment systems will need the ability to interact with machines and process vast numbers of micro transactions. Current architecture is unlikely to be fit for such a purpose. A similar trend occurred in the FX markets just over a decade ago with Algorithmic Trading which the industry then had to adapt to with aggregation technology.

A second example is Distributed Ledger Technology where consumers and businesses have the potential to exchange payments with each other directly across a virtual ledger. This will change the ways that counterparties interact with each other, possibly removing traditional payment intermediaries from the scene. It also introduces "smart" technology which will allow the automated processing of payments based on pre-set computerised validation rules.

A third area is the growth of private stablecoin initiatives such as "Diem" and their public equivalent, central bank digital currencies (CBDC). Again these will bring massive challenges to the payments infrastructure, both centrally and at payments provider level which the industry must be able to accommodate. Such systems will need to be able to process these virtual coins and therefore will no doubt run alongside existing payment systems. interoperability will be an essential requirement as well as the need to operate both domestically and internationally. Globally CBDC projects are proceeding rapidly in areas such as China, Singapore, Canada, Sweden as well as in the EU. Here in the UK there have already been consultations issued on CBDCs as well as private stablecoins, by the Bank of England and HM Treasury respectively.

In view of all the above, the WTT considers it imperative that the PSR takes a wider look at these developments and how they will change the payments architecture in the UK before making a final



decision regarding the NPA. Tinkering with the NPA in isolation is not the answer. NPA development is well behind schedule and, whilst its intended blueprint design five years ago (from the PSF blueprint) would have put it at the forefront then, that is not the case now. However, these delays now mean there is an opportunity for the U.K. to establish a payments Infrastructure truly fit for the future.

While the WTT recognises that there may be a need for a short term solution to the immediate problem, that solution needs to be arrived at in the context of developments such as Internet of Things, Distributed Ledger Technology and in particular stablecoins. Aligned with the latter, the issue of CBDCs needs to be addressed urgently as the UK is currently lagging behind and it needs to catch up fast. CBDCs have implications for payments infrastructures, and also impact equally vital areas such as monetary policy, financial inclusion and the decline in cash usage. These should not be considered in the negative instead looked upon as opportunities to improve and innovate to create a payments system fit for the digital age.

The WTT therefore recommends that the PSR and all relevant bodies work together to agree and produce a medium term strategy to build a payments architecture that is fit for the 21st century. One which takes account of new developments such as Internet of Things, Distributed Ledger Technology and stablecoins to restore the UK to its place as a leading player in the global payments space. The PSR should also consider a much more flexible architectural model that moves away from the traditional monolithic infrastructures that can become so quickly obsolete. Such a strategy will not only benefit payments, but also UK businesses especially in international trade. In view of the latter, it is also key that the wider business and retail community are consulted and not just financial services. The PSR and other bodies should also be cognisant of international developments and where possible collaborate with other countries to take advantage of synergies. Finally the PSR should not just look at payments in isolation, but in conjunction with the public as well as private sectors look at a national digital strategy that will take account of all industry developments

In conclusion this is a once in a lifetime opportunity for the PSR and others to create the payments architecture of the future, Covid 19 has seen a massive increase in both the innovative use of a digital means of communication and the accompanying uptake of the same; this will only increase as time goes on. Our payments infrastructure needs to reflect this.



# X-X.Net



[REDACTED]

[REDACTED]

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From: [REDACTED]  
Sent: 16 March 2021 11:18  
To: PSR NPA <[PSRNPA@psr.org.uk](mailto:PSRNPA@psr.org.uk)>  
Subject: Comments on CP21/2 - Consultation on delivery and regulation of the New Payments Architecture

[REDACTED]

TO: [PSRNPA@psr.org.uk](mailto:PSRNPA@psr.org.uk)  
RE: CP21/2 - Consultation on delivery and regulation of the New Payments Architecture

## About Jason Polis

I'm an independent consultant on communication standards for financial services.  
I run [ISO20022.plus](https://www.iso20022.plus) to help clients adopt and adapt the standard to their needs.  
I am Vice Convenor of the ISO 20022 Technical Support Group.  
I am active in several related international standards working groups,  
via British Standards Institution's committee IST/12 for Financial Services:  
ISO/TC 68/

- SC 8/WG 7 Natural Person Identifier
- SC 9/WG 1 ISO20022 Semantic Models
- SC 9/AG 1 ISO 20022 Registration Authority Oversight Group
- SC 9/SG 1 Review of ISO 20022 Systematic Review comments
- SG 5 Central Bank Digital Currency (UK mirror only)

## My Role in the NPA

I was the standards architect for the NPA programme from September 2018 to April 2019.  
I specified the interfaces for the NPA using existing ISO 20022 messages,  
aligning with those used by TARGET2, and supporting extensions for  
request to pay (creditor payment activation request), confirmation of payee,  
and several others.

Although I participated in several workshops relating to CIS procurement,  
and advised on technical scope, my focus was on specifying the system boundaries  
and interaction between the layers and players in the NPA blueprint.

I was somewhat shocked by the procurement delays, as the NPA should be available for testing by now.

## Summary comments

In summary, my main points are:

- Keep BACS functionality in scope for procurement.  
There is an industry liquidity requirement for daily payments netting.  
There is a government reconciliation requirement to have a lead time.



Batch processing is more efficient than single push payments.

It is beneficial to all parties to keep this in scope.

- Wholly separate any monopoly CIS provider from businesses using the CIS.
- [REDACTED]
- Continue competitive procurement for NPA CIS.  
Have a separate competitive procurement for BACS, Faster CIS.
- Realistic alternatives include:
  - o using TARGET2 which already works, and is capable of supporting other currencies;
  - o deploying CBDC / DLT where each PSP provides their own infrastructure instead of CIS;
  - o buying the relevant parts of Vocalink and into Pay.UK, instead of outsourcing.

## Detailed comments

### 1. *Do you agree with our view of the risks to the successful delivery of the NPA?*

Mostly. If the CIS provider is not structurally separated from a parent company, there are further risks that

- it's finances would not be transparent, and could be mixed in with other parts of the company to hide financial problems;
- it's finances could be pooled with the parent company and subject to financial risk from pension obligations, market risks from its other investments, and regulatory risks in this or other jurisdictions;

### 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?*

Mostly. Pay.UK should competitively procure CIS separately for the old and new payment systems.

It is ok for the old payment systems to continue operating, though the operators may have to adapt to RTGS2.

With this delay in procuring the NPA, this seems more likely now. Pay.UK should have the option to terminate with notice.

Does the current RTGS2 deployment plan require the NPA to be in place ?

### 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?*

Scope option 1. Batch processing for BACS functionality is more efficient in terms of liquidity and computationally, so should remain in scope.

### 4. *Under scope option 2:*

- a. *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?*

18 months from specification of the CIS interface. 6 months from the provision of CIS access.

Pay.UK could publish the interface standards, and the contractual funding requirements for participation in clearing and settlement, and fees.

PSR, PSPs, banks, could fund developments in several ways. Eg. In 1.22 a respondent had suggested Pay.UK could tender for overlay services.

Pay.UK should secure the outright ownership of relevant reference data from Vocalink, possibly with a support contract to maintain the reference data.

- b. *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 common services to support the migration of Bacs transactions?*

File-based common services are processed more efficiently in a batch.

Existing ISO 20022 payment message support the inclusion of many payments in a message.

If the thin CSS is specified to be a single push payment model, then market overlays can be specified to split the batch into individual payments.



It has been expressed that batch processing also provides the ability to for PSPs to sum up all the outgoing payments due on a date.

So, no, they should not be excluded from the initial procurement, as the CIS should easily be able to provide the option to process single or grouped payments, with grouped payments being more efficient for processing – and for clearing as the batches submitted can be offset reducing the net movement of money.

- c. *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?*

Enabling clearing of batch processing for daily payment netting is of mutual benefit to CIS, PSPs, and end users.

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.*

For new NPA CIS : Procurement Option 1: Continue the current competitive procurement

For old BACS & FASTER & related CIS: Procurement Option 1: Have separate current competitive procurement

Have separate CIS provider contracts for each.

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)?*

Competitively Procure CIS for NPA and old payment systems separately.

Use the Euro infrastructure – TARGET2 and TIPS – have been well specified using older ISO20022, and are capable of multiple currency.

CBDC / DLT has become a realistic option, and is starting to materialise.

It may not be necessary to procure a CIS provider at all.

Instead, for a CSS based on DLT, it is only necessary to have agreement amongst parties of the software code being used,

and for the parties to procure their own infrastructure for operating the software.

It is possible to have an organisation that coordinates agreement about software changes between the parties.

This development may happen independently of the NPA programme in any case.

11. Total separation – by company, by finances, by building, by IT infrastructure, of directors & workers ( whether by employment or contracted),

In order to prevent market abuse and monopolistic behaviour of the kind we've seen where a dominant infrastructure provider has a special relationship on prices and priority with its retail arm.

This in in contrast to 1.where 28 Respondents claim that separation of the CIS provider, or restricting it from competing in overlays, would remove the incentives of being an CIS provider.

Unless there is Total separation, the CIS provider must be prohibited from providing overlay services for a fee, but may provide reference implementation for others to run.

Happy to help,

Jason Polis [REDACTED] | Managing Director, X-X.NET Limited, UK.

[REDACTED]



# End User Advisory Council (EUAC)<sup>1</sup>

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<sup>1</sup> The EUAC submitted a related submission to our CP21/2.



## **Pay.UK End-User Advisory Council**

Discussed on 24 March 2021

### **Advice Note from the Pay.UK End User Advisory Council to the PSR in relation to its consultation on “Delivery and Regulation of the New Payments Architecture – February 2021”.**

We would like to thank the Payment Systems Regulator (“PSR”) for taking the time to present the background and content of its consultation on the New Payments Architecture (“NPA”). As a group we found the session helpful context for the subsequent discussion we had with the Pay.UK executive on its response. The advice we offered Pay.UK is repeated in this note, but there a few additional elements which are particularly relevant to the PSR.

EUAC comes to this discussion with the needs of end users front of mind, and an assessment of the likely consequences for end users, of the options that are being discussed. This means we have considered, not just the potential benefits of the proposals, but also the risks that might follow. We have also suggested some potential mitigations.

This note is the second in a series relating to NPA procurement issues. The first Advice Note dates from July 2020 and was directed at the Pay.UK Board and has since been shared with the PSR. It addressed the risks associated with a different approach to procurement, specifically in relation to value for money, and competition and innovation. The note set out the protections and actions we would like to see Pay.UK put in place to bind the vendor and Pay.UK to supporting the development of an ecosystem that continuously meets the needs of end-users in an ever changing environment.

The first Advice note focussed on “two key challenges:

1. How Pay.UK can design, implement and operate the core clearing layer in such a way that, as well as being robust and resilient, it provides the foundation to support the on-going development of a competitive and innovative ecosystem that can meet the evolving needs of end user; and
2. How Pay.UK can build into the vendor contract the right incentives and requirements to ensure they support and don’t restrict the on-going development of a vibrant and innovative ecosystem and ensure the cost of this is reasonable.”

EUAC advised that there are “two key tools for managing the challenges: the nature of the contractual relationship and the extent to which innovation is plugged into that relationship for the long term. We propose that Pay.UK should develop a framework for innovation as part of the procurement process.” The note went on to suggest some specific measures that might be taken (the first note is appended in full to this second one).

Classification: [REDACTED]

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EUAC have reviewed the July advice and have agreed that it still stands. We would therefore encourage the PSR to consider the two advice notes together as it develops its policy thinking.

The new advice in this note relates to scope and the phasing of procurement from an end user perspective.

## **Scope and Phasing**

We agree that there is a significant end user benefit in minimising transition risk (assuring robustness and resilience) and early delivery of some of the features of the NPA (such as the implementation of ISO20022) which are of clear benefit to end users. For these reasons we support the PSR's view that the scope of the NPA should be reduced. We also recognise that the near-term innovation benefits are most likely to be realised using a new real-time payments platform – for example opening the opportunity for FPS as genuine retail alternative to Card. For this reason, we agree that the design and implementation of a Faster Payments replacement should be the priority.

While this approach might deliver more and faster, it is important to note that FPS lacks the kind of consumer protections which exist in both the Bacs and Cards space. This has of course been recognised by regulators and the industry and some work is in hand. EUAC take the view that finding a speedy resolution to the issue of consumer protection in an FPS context must go hand in hand with development of the new real time payments platform. It would be wrong in our view to put so much weight on this new platform, without also having an agreed and implemented solution to these critical end user concerns.

Turning to what this phased approach might mean for Bacs, it is important to acknowledge the significance of Direct Credits and Direct Debits for all end users (from large corporates to individual customers) and the UK economy as a whole. The risks and complexity of migrating Bacs users without the proper level of analysis and engagement, is of course, one of the prime reasons for delaying any Bacs migration and we agree that this analysis is needed. But there are also end user risks associated with delay which we would like to see considered and mitigated.

Our understanding of the PSR approach is that there is a possible scenario in which market led solutions emerge that negate the need for a full or partial Bacs migration in the future. While this might be beneficial, it could also mean that valued services are left to 'whither on the vine' and are not replaced with suitable alternatives.

EUAC therefore advises that there is a need for a clear commitment to, and plan for, managing this 'organic' transition, in a way which minimises end user risk and deliver equivalent or improved service. We would advise that PSR and Pay.UK need to make this commitment and PSR should require Pay.UK to develop an appropriate plan. We think doing this early will help to mitigate potential end user detriment in a managed way.

Classification: [REDACTED]

**Page 2**



We have identified the following, non-exclusive list of considerations to guide that thinking, recognising that some of this is for PSR and some for Pay.UK.

1. We would be concerned about the risk that Bacs could be left to “wither on the vine” and be treated as a secondary service compared to the NPA. We are pleased therefore that Pay.UK has committed to continue to invest in Bacs to address known user detriments and we would expect to see this continue.
2. In the spirit of providing assurance around the delivery of the existing end user benefits associated with Bacs, we see merit in the Pay.UK proposal that it undertakes sufficient analysis, design, and build work to meet the needs of a potential future Bacs migration.
3. We support the idea that work to develop solutions for BACs should culminate in a full public consultation – post NPA go-live. But we would advise Pay.UK to undertake this analysis in a series of steps throughout the procurement and build process debating and discussing with stakeholders
4. If / when market led solutions emerge that could offer an alternative to Bacs Direct Debits and Credits, we would be concerned if these didn’t offer a comparable or better end user experience than today. For example, if a Direct Debit alternative, created by the market, didn’t include an appropriate level of consumer protection. We would therefore advise that there is a plan for monitoring such developments and that criteria should be developed for identifying whether and if so when Pay.UK or PSR might need to step in to protect end user benefits that might otherwise be lost. We would be keen to hear more from both the PSR and Pay.UK view, on how this approach might be developed.
5. Finally, we think it will be important that in announcing decisions on scope and phasing, there is a transparent analysis of the way the PSR’s assessment has taken account of end user risks and benefits and, where required, what trade-offs have been made.

In conclusion, we recognise the potential end user advantages of the approach now being discussed, but think it is critical also to identify the potential end user risks and the way these will be mitigated. We stand ready to help in that further thinking if it should be helpful.



# Large End Users



## Department for Work and Pensions (DWP)



# Consultation questions - Part 1

Opinions and comments have been provided based on the limited information available within the consultation document.

Stakeholders considered the questions but would have benefited from additional market insight to assist provision of well-rounded responses. The absence of information such as; the number of potential suppliers who exist currently within the market, a view on potential new entrants for either Core Settlement, transition or overlay services and an understanding of the number of respondents at the PQQ and RFI stage prevented assessment of key aspects.

## Questions related to the risks to NPA delivery

### 1. Do you agree with our view of the risks to the successful delivery of the NPA?

Yes, in so far as the paper details – it is a complex picture of trade-off for different types of value and the pace of receiving those.

Positive steps have been taken through engagement but risks to end users are detailed. Given the available information, it is a fair assumption that rushing the procurement of NPA in its current form, to include CSS, FP and BACs transition may result in risk to future realisation of vfm. If participants are keen to pursue FP transition due to associated benefits, this may provide additional insight to inform the way forward for BACs transition rather than risking creating products which may become obsolete through natural decline of BACs.

What is not clear is what steps have been taken to address resource gaps and capacity constraints within Pay.UK. Without this it is not possible to make an informed decision on whether their view of risks is accurate, in order to provide a fully considered response to the consultation more information would be required to understand how/if this has been addressed.

There are also wider additional risks relating to capacity and capability across the stakeholder group, for example in Government we are still responding to or feeling the effects of COVID and therefore the time and resource to fully engage with and understand NPA may be limited. This may also be the same across other critical stakeholder groups such as the banking industry.

What is the market intelligence informing about risks? It would be useful to have sight of any market insight to know what the market is saying about capability and capacity to respond to requirements. Has COVID changes this position?

## Questions related to procurement scope

### 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?

At a summary level I agree that a narrow focus seems like the most sensible approach. As per the answer to question 1, more detailed information is required on the specification / scope and an understanding of market capability to provide an informed view.

However the information available confirms that considerations around FP are more advanced than BACS, and cites that PSP's have not yet been consulted in regard to BACS, it is unclear why this is the case?. If limited time and resource, it may be advantageous to focus on the element that will provide



the biggest benefit the quickest and minimise disruption for BACS transition from learning. A safe transition with no disruption to payments is critical to DWP.

I think we have two main observations here:

The consultation is citing that the absence of fully understood requirements, both for delivery of the service and migration to it, is at odds with an attempt to procure the whole infrastructure. It would seem unassailable logic to state you have to know what you want before you attempt to buy it.

The proposed response to the above is to focus on a single current service, in FPS, to reduce that risk and deliver progress quicker.

Two points to note I think on both of those:

There is risk in migrating a single current scheme through a contract, and then having to vary it to add in the other credit services (BACS) when that goes live. Much of the credit infrastructure would be in common; such as channels, sponsorship, settlement etc. Dividing a single NPA product category between 2 infrastructure providers would as an alternative seem full of risk and complexity too.

The other point being that all of this is predicated upon the procurement's approach to the specification. If the supplier is tasked with any degree of co-creation – agile development for example, or is passive to a fully developed and rigid specification. Many of the risks of locked in scope and/or spend could be mitigated by an iterative contract approach.

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?

Has a Government build option been considered / discounted? Rather than an external organisation managing this, could we have a government payment rail and supporting service – or go back to a model of merging the infrastructure provision with the scheme as we had originally with BACS. (Effectively the primary make or buy decision)

Aside from this option and based solely on the information available, scope 2 would appear preferable. Costs are unknown but this option offers less disruption for DWP initially, allows transition to proceed on FP, less risky as most DWP payments are BACS. Provides an element of stability for DWP. Scope 2 also allows for Pay.Uk to learn from the FP transition to see what is needed for BACS transition in a planned controlled manner. If Pay.Uk is not yet considered a well-informed buyer, scope 2 allows knowledge build.

Scope 2 may take more time but this isn't quantified, it would be good to know how much longer this is likely to take until ISO20022 benefits can be realised. Dual running costs – are financial forecasts available to allow a comparison? If costs are significant this may change the opinion

If there is opportunity for some BACS transactions such as Direct Debits to migrate to the NPA without the need for additional services, this would potentially impact the ongoing requirement for BACS transition. Additionally, with the current NPA design of 3 flavours of SIPs – we may end up with the market contributing greatly to the migration of BACS credits if the FP scheme is migrated with the correct foundations.



Building on this I would propose a nuance of the 2<sup>nd</sup> option:

Contracting on the basis of NPA products – specifically credits. So a contract to support the delivery and migration of Faster Payments – but with enough scope to lay the foundations of BACS credits, through sponsorship, channels, pacs messages e.t.c – where migration could follow. Aiming to achieve the economies of scale for a full product scope (at least technically) – whilst not overcommitting in ambition nor migration approach.

4. Under scope option 2:

a. 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?

As above – I think a good implementation of 20022 Credits to replace FPS would pave the foundation for the market to support migration of the remaining credits.

Difficult to make judgement without understanding the market recovery following COVID and also the focus being on CSS & FP, this may detract from development, potential bidders waiting to see what the CIS product looks like before designing to fit.

Industry engagement - we need to understand market capability, has there been further engagement during/following the pause to understand what they consider is the most appropriate timeframe?

Clear messaging and an obligation on the CIS provider that avoidance of a too narrow interface preventing other bidders adopting a “plug and play” approach is needed. The requirement for interoperability and regulation to overcome over-dependency on the CIS supplier is key.

b. 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 common services to support the migration of Bacs transactions?

DWP is not reliant on the file submission routes for Faster Payments – however our contingency service (transforming BACS files into FP’s to meet legal due dates) does make use of both the FIM and DCA infrastructure.

Therefore, the migratory approach and periods of dual running etc, would be critical for us not falling through a gap here. In short our contingency service is dependent on the migration plan and if the ‘legacy’ FP scheme were to be wound down prior to BACS transition that would create a service interruption.

Ultimately, when the BACS DC replacement product line is live, the current design thinking will negate the requirement for our contingency as we currently run it – it is just the transition period where we need some protection.

We recognise though that the move for many customers/consumers from a legacy batch/file based submission format to a real-time message based format is considerable.



I would see 3 scenarios for much of the NPA:

- for small scale users of the industry services – we might generalise that many would either be sheltered by their providers, and see minimal changes in process or software.
- For medium scale users – we might say they would see more far reaching changes to software products that they operate and the commercial arrangements they have around those services – and the back office functions that sit around that engagement.
- For full or scale users, such as Banks and DWP – I think we see the full impact of having to dock with the changes at source level; with technology changes, commercial changes, and business changes.

I think when we consider impacts of things like file base submissions – we have to make sure the NPA isn't focussed too much on that third group, but recognises the challenge and rate of change for that middle group.

c. 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?

As above – BACS credits infrastructure feels like it need to at least be technically built in to avoid needing to introduce major contract change further on.

At a more basic level a clear and transparent road map that explores how this would pause and review to ensure that any developments do not take us so far down the development route that it limits future options. Once again I must reference what market intelligence has been gathered, what are potential providers saying in terms of options, capability and potential for innovation. Should it be one provider for resilience or should the strategy from the outset be for different service providers?

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.

As per response to question 3:

Contracting on the basis of NPA products – specifically credits. So a contract to support the delivery and migration of Faster Payments – but with enough scope to lay the foundations of BACS credits, through sponsorship, channels, pacs messages e.t.c – where migration could follow. Aiming to achieve the economies of scale for a full product scope (at least technically) – whilst not overcommitting in ambition nor migration approach.

As per previous comments on further information: Is there anything that can be shared in respect of market engagement from the previous procurement, if so how did this inform the previous approach? Has / will this market intelligence be refreshed following the pause and with the proposed narrower scope. Would there be any dependencies on the BACS solution that would have to be factored into the initial scope, would this limit the market in the future?



It would be good to know if there were other potential bidders aside from the incumbent and the level of market insight to support this. If there are no other bidders and the scope is to remain the same then the benefits possibly outweigh the risks of lack of leverage as the assumption would be that there would be no competitive tension anyway if the procurement proceeded.

If it is agreed to narrow the scope, the procurement should be started again to encourage participation from suppliers who may not have been able to offer the entire requirement. Awarding directly to the incumbent de-incentivises the decision to move all to NPA and risks creating long term dual running if that decision isn't made prior to award

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)?

If the intention is to award directly to Vocalink due to the lack of competition in the market, could direct award include only the CSS and not the FP/Bacs transitions and have these procured separately either together or as two separate procurements for the reasons already identified? This may increase initial cost but would potentially motivate the market and introduce competition for the separate elements.

Different lots for the various NPA products and scheme level overlay services



## Government Banking



## Consultation questions - Part 1

### Questions related to the risks to NPA delivery

#### **1. Do you agree with our view of the risks to the successful delivery of the NPA?**

Government Banking and its key customers agree in principle with the risks identified. Our priority as end users is that payments continue to flow through the new infrastructure in a secure and timely manner without service interruption whilst providing opportunities for efficiencies or improved services for our customers. However, we also need to be able to evidence that the changes and associated implementation costs will provide tangible benefits and value for money.

The more the scope and innovation impacts systems and processes the more challenging it will be to implement the changes in a safe and timely manner. Innovation beyond the core functionality and the commercial wrapper around it, enabled by the NPA, needs to demonstrate that it offers better functionally and is viable from a cost perspective; if it does then users will naturally migrate to it. At this point innovation in this area is not mature enough for our users to form a view on how valuable (or not) this could be to our processes.

We are concerned that in addition to any internal change costs borne by our own organisations in response to NPA propositions that the supply chain will seek to pass through their own cost of change to us as end users thus negating any benefit or value for money opportunities.

The slow progress developing requirements for a bulk/multi-day payment solution that may replace Bacs and ensures retention of critical government requirements around visibility/advance notice of inbound/outbound transactions further supports our concerns around driving additional costs and benefit realisation risks.

We can see potential opportunities from the implementation of ISO20022 messaging standards, the move to structured data and increased messaging capacity in the clearing message. These changes should remove constraints that drive increased internal resource demands and result in tangible savings.

We remain committed to working with Pay.UK colleagues to seek opportunities for innovation in what we recognise is an extremely complex change programme but the changing landscape, evolving propositions and lack of timelines make it very difficult for Government Banking and its customers to critically analyse opportunities and prepare for the changes ahead, either from a design, resource or funding perspective.

We would caveat the above response in that the consultation document does not contain any evidence to support the statement that the current procurement exercise will not provide value for money and will stifle competition in innovation although we accept that is a logical conclusion based on the information provided. We would have a better understanding of the risks around these areas if the market analysis undertaken in respect of this work was shared by either Pay.UK or PSR for review.

### Questions related to procurement scope

#### **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?**



We broadly agree with the analysis of risks, pros and cons of the alternative options for the scope of the initial procurement.

Both options carry considerable risk and as for question 1, it is felt that tangible evidence in the form of market analysis is needed to support the assumptions and statements made.

From an operational perspective a narrower scope would enable stakeholders to focus on Faster Payment migration whilst giving time to consider and fully define requirements for future Bacs replacement services. We do have concerns that a 2-stage approach could result in Bacs changes being deferred to the extent that potential benefits of a single infrastructure will take too long to be realised, if at all. Publication of potential timelines for both options would be welcomed to assist the review of the alternatives.

There is also a risk that separating the delivery of solutions for Faster Payments and Bacs will result in a sub-optimal solution which does not meet the needs of government users in terms of efficiency, cost and provision of data. Risk also of operating old and new solutions in parallel which, without further insight, is difficult to assess the impact of.

The consultation document references the impact of Covid-19 on resources available to Pay.UK and financial institutions. End users (including government organisations) will have been similarly impacted by Covid-19 challenges so thought should be given to the end to end capacity for delivering systemic change safely and efficiently. Cost of such major change, including pass-through from the supply chain as well as internal implementation costs both for government organisations and their business process providers, together with potentially long lead in to change processes and technology will be a significant factor in determining value for money. Any move from batch processing will further increase cost and risk.

### **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?**

There are pros and cons for both Options, however we would support Option 2.

A narrower scope could be delivered sooner with the changes for end users and the associated costs potentially falling across a longer period than for Option 1.

The counter being overall change activities (to achieve the totality of the transformation) could ultimately cost more however we recognise and value the reduced risk profile and opportunities to build on knowledge gained through the Faster Payment implementation brought by Option 2.

There is a risk of duplicated effort if a second procurement is required for the common services associated with Bacs unless Pay.UK can effectively work through how Option 2 might put appropriate building blocks in place. Separating the development could also give rise to further costs and the risk that the Faster Payment and Bacs solutions are not interoperable. That said we recognise that at the time of this consultation exercise there is limited clarity around what a Bacs replacement or solution could look like.

We also have concerns that continuing to maintain two systems each with their own rules and funding models will prevent the realisation of benefits and drive cost. We need to avoid a modern solution for Faster Payments and have Bacs 'bolted on' as this would add complexity, particularly when systems are upgraded etc. and increase the risk of payment failure. Pay.UK must recognise the user needs when developing for Bacs.



In addition, we consider that Option 2:

- will make it more straightforward for government organisations and corporates to implement the changes due to (currently) much lower volumes of outbound Faster Payments and less system integration
- provides an opportunity to better understand and explore the expected benefits that ISO20022 may bring. Benefits evidenced through the Faster Payment transition can then be considered against the benefits of bulk transaction processing.
- allows time for solutions for the NPA equivalent for the messaging services that wrap around the current Bacs service such as AWACS to be developed.
- Allows for a process equivalent to the Bacs Grade 3 settlement to be developed and implemented for Faster Payments as this is seen as a significant opportunity to deliver efficiencies in the management of the HMT Exchequer pyramid.

The consultation already recognises the need for Pay.UK to ensure the NPA has the capacity for the volumes associated with current Bacs transactions which is very important for government as a user given that we input over 40% of the current Bacs traffic. It would be good to understand how Pay.UK plan to ensure that essential scalability if pursuing Option 2.

Commercial colleagues have suggested a complete options analysis [REDACTED] [REDACTED] would be key to helping them formulate a view of their preferences. More specifically, they would like to understand whether an alternative option of procuring CIS first followed by the Common Services procurement, had been considered. They believe (not having seen the comprehensive supply market analysis referred to in responses above) this would allow Pay.UK to increase competition and reduce some of the risks set out in the consultation paper, e.g. risks around monopoly.

#### **4. Under scope option 2:**

**a. 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?**

Government Banking stakeholders are unable to suggest a suitable timeframe for the market to develop Bacs solutions as the report does not provide the context needed to assess the market position. We would suggest the following potential actions although some of these may have already been undertaken or be in train with Pay.UK:

1. Agree what the market is being asked to deliver.
2. Undertake extensive market engagement and development to understand (as a minimum) the size, structure, capability, capacity, trends and interest of the market.
3. Create clear requirements and define the outcomes required for the market-led propositions in consultation with key stakeholders. We consider it important that the NPA works with the market but retains control.



4. Incentivise the market, potentially, through the creation of 'sandbox' and/or a framework for Proof of Concepts (depending on the maturity of the problem statements/requirements) which would need to be remunerated proportionately.

Government organisations, particularly large complex departments will need at least 2 years to assess requirements, obtain funding for IT and business change and implement any future solution. Depending upon the scale of change required, other government priorities and point in funding cycles at which NPA propositions crystallise this timeline could be further extended. Although the providers may move at a faster pace, end users may not have the same flexibility and will need to plan implementation around peak periods such as year-end, national payment deadlines, existing contractual termination points etc. to manage the change smoothly and ensure there is no detriment to service provision.

**b. 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 common services to support the migration of Bacs transactions?**

Government Banking and the majority of its customers do not currently use Direct Corporate Access or File Import Module solutions so views are mixed about this question.

There will be significant benefits, particularly to corporate customers, if the full functionality for Faster Payments is transitioned but this should be excluded if it will have a significant adverse impact on the implementation of the standard service.

DWP have a narrow but critical reliance on a DCA/FIM solution outside of Government Banking service provision so particular note should be taken of the DWP view on this point. (DWP colleagues have submitted a separate response to this consultation.)

**c. 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?**

For Government transactions the CIS procurement needs to consider the high volumes of transactions, the need for advance notice and associated management information. We would also look for a facility similar to the Government Grade 3 Bacs settlement service within the NPA for Faster Payments that could be developed once Bacs (or its replacement by an alternate multi-day payment solution) is migrated.

More generally, we would expect the Current Account Switch Service and Bulk Payment Redirection Service to be available within the new infrastructure and the associated reporting e.g. equivalent to the Bacs 'A' service messages to be facilitated for all transactions to prevent unnecessary rejected payments.

As an end user we will need clarity regarding the requirements of our suppliers and the impacts of those changes for our submission and settlement processes e.g. the software or access mechanisms we use



**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.**

Government Banking and its customers are broadly of the opinion that procurement Option 2, re-starting the procurement is preferable if the scope is narrowed and Bacs is deferred to a later procurement exercise. Although this is likely to have implications in terms of timescale and transition, it is the cleanest option and will give the market the opportunity to provide the most up to date propositions. It is also the only one of the three options that offers the opportunity to plan and administer the procurement process without showing preference to specific suppliers.

Option 1 would mean continuing with shortlisted suppliers but an amended scope which is not only poor practice but risks challenge by other providers including those excluded at earlier stages.

We would anticipate however that PSR and Pay.UK colleagues will have valuable insight as to the market capacity, capability and appetite to bid on either Option 1 or 2 following the work that has been completed to date and how this can be leveraged to move forward at pace.

Option 3, direct award, is problematic for all the reasons identified in the consultation paper and poses significant risk not least of which is the ability to secure competitive pricing.

Ensuring a truly competitive procurement is seen as key to driving out innovation and value for money.

**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)?**

The option of procuring CIS first followed by common services should be considered. There would be risks around timing, but these risks persist through the programme as a whole already. The extra time could be used to gather outcome-based requirements in line with the market's capability and capacity.

Another option would be to migrate both Faster Payment and Bacs to ISO20022 standards and increase connectivity options prior to bringing them together within the NPA. This would allow change to be more readily controlled and potentially driven more by the market.

We would also welcome piloting or proof of concept activities to help define requirements and build a more evidence-based approach to both defining solutions and benefits which in turn should mitigate some of the risks identified by PSR.

It would be useful to understand how consumer needs are being balanced against the market's capability, capacity and expertise. The consultation paper focusses on the consumer-driven benefits but it has very little information on the market and its appetite to drive competition, innovation, resilience etc.

The final option is of course to do nothing and continue with the existing services. The move to ISO20022 and the risk that services will not keep pace with technology plus previous consultation exercises which demonstrated continued support for transforming the UK payment system in line with the PSF Blueprint potentially prevents this, but it should be seen to be actively considered and discounted.



We enjoy good engagement with Pay.Uk colleagues which we are keen to build on further but as we move forward critical for government organisations is clarity around next steps in terms of planned activity, service definition and delivery timelines to allow us to plan appropriately.



## Consultation questions - Part 2

The responses provided below have been collated from input from Government Banking and a selection of its customers including HMRC, DWP and NS&I.

Questions related to competition

7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.

We agree with the concept of lowering barriers to allow a greater number of organisations to be part of the ecosystem and offer services that will benefit end users. It will encourage new businesses including SMEs to compete giving greater choice for payers and payees and facilitate a move away from the more traditional financial institutions.

We understand the rationale for a thin core layer for the CIS and agree that this will open-up the market and level the playing field for the wider provision of services. Increased competition and ensuring fairness in the quality of the service offering i.e. transaction speed, information carried within the message etc. should drive additional value for users, allow for innovation and continuous improvement of the overlay services. Ease of user switching should also motivate PSPs and overlay suppliers to continuously improve their offering.

One consideration we would like to raise here is the need for standards in the market and the provision of assurance processes by Pay.UK to ensure compliance. (We are assuming Pay.uk here, key point would be if they are to provide the assurance can we be confident that they have the resources and capability to do so?).

Taking Open Banking as an example of a fledgling open service; one of the challenges we are experiencing in this space currently is that there is a great deal of competition but inconsistent confidence in the spectrum of providers. When this is compared to a service that is 'Bacs Approved' we see a significantly more powerful, confidence inspiring brand. Until there is greater confidence in the market, we would expect users to want to marry choice with confidence.

We would however, find it useful to understand more about how PSR expect PAY.UK to achieve effective competition in the NPA ecosystem in practice and what material impact this will have.

8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.

Whilst government users agree with the overall assessment, HMRC commercial colleagues have suggested that it may be over complicated because it is unclear what engagement Pay.UK have had with the market and what level of interest and competition Pay.UK expect to see.

We consider it sensible for the CIS provider to operate separately from the overlay service providers to prevent unfair advantage and suggest that steps should be taken to mitigate the risk that the incumbent may have an advantage when the CIS contract is retendered.

It also seems sensible for Pay.UK to be the primary interface for all providers. This will reduce the risk of organisations affiliated to the CIS having a commercial advantage and give new or smaller providers an equal opportunity to join the ecosystem.



Access to data sources needs to be fully understood and agreed so that all competitors can use information for innovation to ultimately provide end user advantage and support the continuous improvement.

We agree that there is a risk of monopoly but believe this could be eliminated if design principles and standards on pricing and quality for example were enforced as this would ensure maximum participation from the market. As in question 7, we consider that these compliance activities should be undertaken by Pay.UK so they will need appropriate resources and defined assurance processes to do this.

9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?

Yes, we are comfortable with the mitigation identified in the report and agree with the governance principle that Pay.UK controls access to the CIS as the main governance body, actively implements rules to promote competition and ensures that a CIS provider's CIS Functions are operationally separate from other parts of its business that wish to compete within the ecosystem.

We specifically support the proposal that the CIS provider is contractually restricted in how it collects and uses data. If this is taken forward, we suggest that a wider consultation should be undertaken about what data can be used and for what purposes. Colleagues at DWP have looked at the use of holistic data and have commented that it is developing at pace. They have also raised concerns that it can be difficult to determine what differentiates the various products and understand the benefits that can be realised.

10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.

We do not consider that the competition risks in the provision of common services differ substantially from those raised by the provision of the CSS. We believe the focus should be on promoting participation in the future in all levels but are aware that this may require intervention and incentivisation to develop the market.

The Mule Insights Tactical Solution (MITS) is an example of where a lack of agreed data sharing obligations across all scheme members could result in scheme members, CIS or overlay providers controlling data access to support their own advantage. We are aware that this was something that came out of the PSF and would reiterate that a competitive market for the supply of tools, analytical insight and other relevant services is dependent on the standards definition around data sharing.

11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.

We believe that Pay.UK should apply suitable controls to ensure there is no direct contract between a CIS provider and third parties. Where, if a catalogue offering for additional services from the CIS is made available to allow users to pick which elements they need, a transparent pricing structure managed by Pay.UK must be put in place to remove any unfair or perceived advantage.

DWP have identified, through their own direct contracting with the CIS provider, that there are certain initiatives or solutions that are either bespoke, niche, or innovative. Consideration should be given to how these could be implemented; how new things could be brought to market from those



providers and how that interaction would be handled assuming that there is no significant change to the CIS provider's current remit.

In addition to the commercial and competition issues we would also point out that any service involving the transmission of data must ensure the appropriate security and GDPR arrangements are in place.

12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?

Yes, we agree that regulatory measures should be applied at an early stage to ensure the mitigations and governance principles are implemented.

#### Questions related to pricing

13. Do you have any comments on the pricing principles set out in this document?

We support the view that Pay.UK should be a not-for-profit organisation and should cover their costs including those relating to the provision of the NPA. It will be important to have a robust and effective pricing structure that promotes the right behaviours by the core supplier and delivers Value for Money. We believe that Pay.UK should be mandated to publish the participation pricing for transparency purposes.

We expect Pay.UK to understand the cost drivers and provide suitable challenge to the suppliers throughout the lifetime of the contract. Contract management processes, including in respect of pricing, should be detailed within the contract to minimise unexpected changes and allow the assessment of value for money, added value etc.

We support the PSR recommendation that any arrears brought forward from the old infrastructure are not included in the NPA pricing but would like to understand how Corporates will benefit in terms of Value for Money if the transaction costs are fixed over the course of the agreement. When we take into consideration the potential cost of change, the lack of clear timescales for implementation of the NPA and what future pricing could be, it is difficult to identify what, if any, measurable corporate benefits can be achieved at this time.

14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?

Overall, we agree that the principles outlined have the potential to address competition risks in relation to pricing. However, it will be necessary for Pay.UK to provide full transparency and have robust controls and governance in place to manage price fluctuations, impact on NPA participants and the supply networks/chains.

Colleagues at NS&I suggest that pricing should reflect the level of complexity and risk associated with the solution provided i.e. something equivalent to the existing Faster Payment or Bacs service should be charged at the basic price but where there are overlay services, or other optional services which attract greater risk, then the charges should reflect this. For this to work the basic price must be cost effective and any optional services fairly priced.



In relation to the comments in 6.10 regarding CIS user prices incentivising the use of the NPA, we consider that this is a blunt tool to encourage migration particularly if the realisable benefits of using the NPA (once they are quantified) do not service the needs of priority users e.g. government entities that do not have an overwhelming need to issue high volumes of Single Immediate Payments.



# Large PSPs



**Barclays**



# Payment Systems Regulator (PSR) consultation paper: Delivery and regulation of the New Payments Architecture (NPA) – CP21/2 Part one (questions one to six)

## Barclays response

### 1. About Barclays

- 1.1. Barclays is a universal consumer and wholesale bank with global reach, offering products and services across personal, corporate and investment banking, credit cards and wealth management. With over 330 years of history and expertise in banking, Barclays operates in over 40 countries and employs approximately 85,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

### 2. Questions related to the risk to NPA delivery

Question 1: Do you agree with our view of the risks to the successful delivery of the NPA

- 2.1. We agree with the PSR. The NPA programme, as currently constituted, is not and will not provide value for money. The NPA blueprint, as proposed by the Payments Strategy Forum, is complex and the original implementation plan was based on overly optimistic assumptions.<sup>1</sup> The NPA's original breadth of scope has made it difficult for Pay.UK to determine its requirements in sufficient depth. The difficulty in getting to and agreeing to these detailed requirements has meant that a successful single procurement is unlikely.

### 3. Questions related to procurement scope

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?

- 3.1. We agree. See answer to question three for more detail.

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?

- 3.2. We believe that the NPA programme's scope should change to concentrate on building a new infrastructure for the UK's real-time credit payments first, and so we support option two. This change effectively makes the programme a "Faster Payments first" approach with Bacs payments either migrating later or not at all.
- 3.3. The features of Bacs Direct Credit and Direct Debit payments, and how Government and businesses use them, is inherently more complex than the services supported by the UK's Faster Payments Service (single payments, forward dated payments and standing orders). Bacs accounts for the majority of payments in the scope of the NPA programme.<sup>2</sup> Businesses submit these payments in bulk, and many go directly into the existing payment infrastructure. Dramatic

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<sup>1</sup> Paragraph 5, Barclays (September 2017), *Blueprint for the future of UK payments – A Barclays response*, <<https://implementation.paymentsforum.uk/consultation-responses-0>> [accessed March 2021]

<sup>2</sup> In 2020 there were 6.46 billion Bacs payments worth £4.86 trillion, there were 2.85 billion Faster Payments transactions worth £2.1 trillion. Bacs payments account for 69% of the volume and 70% of the value of payment in scope of the NPA. Source: Pay.UK and CHAPS (2021), *Annual Summary of payment statistics 2020*: <<https://www.wearepay.uk/wp-content/uploads/Annual-Summary-of-Payment-Statistics-2020.pdf>> [accessed March 2021]



change of this payment system, and the related services, without sufficient analysis and planning was always going to fail.

- 3.4. Phasing the programme and allowing the possibility that Bacs payment services could be delivered by the market or by retaining a separate infrastructure is a pragmatic solution. It enables Pay.UK to undertake the necessary analysis and planning on an appropriate timeline and without holding back progress elsewhere. It also lowers delivery risks. Maintaining the existing scope is likely to end in all participants soon realising that they are trying to do too much at the same time.
- 3.5. However, it is vital to ensure that work is completed on the current common services provided under the Bacs umbrella that will be necessary for the NPA. This would include reference data, redirection services and the biller update service.
- 3.6. Finally, we believe that a narrower initial procurement will provide the necessary focus to ensure that Pay.UK understands, and has validated with all stakeholders, the requirements of a “Faster Payments first” approach. This activity is key. We have still not seen a formal set of industry requirements. Understanding, in detail, what Pay.UK needs to procure makes it more likely that the UK businesses, consumers and payment service providers (PSPs) will get what they need at an acceptable cost.

#### Question 4: Under scope option 2:

A: 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?

- 3.7. It isn't easy to contemplate a suitable timeframe on Bacs' migration to the NPA until Pay.UK has undertaken the necessary analysis. So we encourage Pay.UK to work with the industry to undertake separate activity on what could be the best approach to Bacs migration. The work needs to consider the extent that market developments could support Bacs migration. What services would require central provision. And, if retention of a separate Bacs infrastructure is desirable.
- 3.8. We believe that there are three trends and developments that could support a market-led migration of Bacs payments. These are:

#### Growth in the use of Faster Payments by businesses

- In 2009, businesses were responsible for only 14% of Faster Payment and other remote banking payments (includes single immediate payment, forward dated payments and "on us" transactions). By 2019 they were responsible for 59% or 1.4 billion payments.<sup>3</sup> An increase in the Faster Payments transaction limit could drive further switching from Bacs Direct Credit.

#### Use of existing Open Banking APIs and API payment initiation services

- A significant proportion of Bacs Direct Credit payments are submitted directly into the Bacs infrastructure by businesses using an approved Bacs software provider. Companies have integrated these software solutions and processes into how they run their businesses. If software providers embed open banking based payment services into their existing products it may be attractive for customers to use them. So it is possible that businesses will start using real time payments or next day payments for payments they currently submit directly into Bacs.

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<sup>3</sup> Figures based on UK Finance data underpinning chart 2.1 and chart 3.2 in UK Finance (June 2020), *UK payments markets 2020*: <https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/uk-payment-markets-2020> [accessed March 2021]



#### Possibility of premium Open Banking APIs and other request to pay services offering collection services

- It is plausible that request to pay type services, whether developed competitively or based on the Pay.UK framework, or premium Open Banking APIs could provide collection services comparable to the Direct Debit. At the collecting organisation's urging, consumers may start substituting a Direct Debit collection method with an alternative method of collection.

3.9. Despite the possibility of market-led migration of Bacs payments, there are several significant reasons why existing users of Bacs services and, indeed new users, will want to retain access to the features and services that Bacs provides. These are:

#### The integral role of Direct Debit in the UK economy

- Direct Debit is the third most popular consumer payment method after cash and debit card. There were over 4.5 billion Direct Debits in 2020.<sup>4</sup> Despite the economic headwinds and growth in the use of card-based collection methods, it has continued to grow. It offers many consumer protections, including the Direct Debit guarantee and retries. Consumers like paying by Direct Debit and, on average, have over four direct debits.<sup>5</sup> It also offers collecting organisations the ability to plan cash flow and operate efficiently. Why would they want to change?

#### Low incentives on businesses to migrate

- Companies use Bacs Direct Credit to pay salaries or to pay suppliers. These payments usually have a known due date. It is more efficient to authorise such payments in bulk rather than individually. It is less costly to authorise payments to be made the next day (or three days in the case of Bacs) rather than intraday. The Faster Payment per item cost is also more expensive than Bacs. Therefore, the majority of payments made by companies are tailor-made for the way that Bacs Direct Credit operates. If you are already making payments in this manner, there is no pressing need or benefit from businesses and Government to change the way they make payments.

#### Resiliency and resource benefits of direct bulk submission

- Because payments are submitted directly into the payment system's infrastructure businesses and Government are not entirely reliant on their PSP's technology to ensure that the payments they need to make and the collections they need to receive are successful. It is also resource-efficient for all organisations involved. If business and Government sent the total volume of Bacs payments (6.45 billion)<sup>6</sup> individually, it would require greater processing power and increase cost across the entire ecosystem.

#### Certainty of credit and debit time

- Bacs Direct Credit is used to pay salaries, benefits and pensions, and Direct Debit to pay regular household bills. Consumers know when their salary, benefits or pension will be credited onto their account, and that any Direct Debits scheduled for the same day will occur after their account is credited. The same is true of Faster Payment standing orders. However, it is not the case for single immediate payments. They can be initiated and received at any time. A wholesale move of regular payments to Faster Payments may lead to additional detriment, or at least greater inconvenience, to significant numbers of workers and pensioners.

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<sup>4</sup> Pay.UK and CHAPS (2021), *ibid*

<sup>5</sup> Page 6, Bacs (September 2016), *Bacs Direct Debit consultation outcomes, Annex 1: Quantitative research*: <[https://www.bacs.co.uk/DocumentLibrary/DD\\_Consultation\\_outcomes\\_annexes.pdf](https://www.bacs.co.uk/DocumentLibrary/DD_Consultation_outcomes_annexes.pdf)> [accessed March 2021]

<sup>6</sup> Pay.UK and CHAPS (2021), *ibid*



- 3.10. Ultimately the reason Bacs services are so popular is because they provide businesses and consumers what they need from their payments; certainty, resiliency and efficiency. They offer comprehensive protections to consumers, and simplicity to businesses. There are opportunities for market-led developments to offer comparable and additional functionality. However, we expect the existing Bacs services to remain popular with users. Nevertheless, and as we observed in our response to the Payment Strategy Forum, the opportunities of Open Banking and industry overlays should be explored.<sup>7</sup>

B: 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 common services to support the migration of Bacs transactions?

- 3.11. We are one of the few participants in Faster Payments that offers all the access options that Faster Payments can provide. We support everything from Directly Connecting Non-Settling Participation to Direct Corporate Access (DCA). We are proud of this fact. We believe it means that we can offer financial institutions and businesses the services they want to run their business effectively. We will be disappointed if the NPA programme decided to exclude DCA and File Input Module (FIM) services from the initial procurement.

- 3.12. [REDACTED]  
One example of how our clients are using DCA/FIM is for salary payments. Businesses can calculate their employees pay to Friday lunchtime and be sure that it will be in their employee's accounts by Friday teatime. Our PSP clients use FIM, giving them access to a higher transaction per second rate. A higher transaction rate is essential to card acquiring businesses who need to pay their merchants quickly and efficiently.

- 3.13. Besides our interests, we believe the retention of a bulk direct submission channel for the NPA makes a market-led migration from Bacs to the NPA plausible. Its absence would guarantee that Pay.UK will have to complete a second procurement. It also increases the risk that the UK will require a separate Bacs infrastructure for the foreseeable future. As noted above, business and participants' ability to submit payment files directly into the central infrastructure offers resiliency and efficiency benefits.

- 3.14. In our opinion, it should be a matter for the NPA programme to decide whether to include these existing services. We think they should not consider retention and reform of DCA and FIM services based on existing users and usage. Instead, whether the retention of DCA and FIM style services makes it more or less likely, that the NPA will promote competition and innovation in UK payment services over the longer term. We are happy to help Pay.UK in that assessment activity.

C: 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?

- 3.15. As in our answer to question 4b, if Pay.UK include existing Faster Payments features that enable bulk direct submission in the initial NPA procurement this could assist in the migration of Bacs payments to the NPA.

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<sup>7</sup> Paragraph 5, Barclays (September 2017), *ibid*



## 4. Questions related to procurement approach

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.

- 4.1. The NPA programme has been running for a long time. It has cost the industry significant sums, and Pay.UK has made little progress. We believe that by narrowing the initial scope of NPA, Pay.UK will deliver the NPA benefits of enhanced data and more modern features sooner. The sooner these features are delivered the sooner that PSPs and others, can combine NPA enhancements with the opportunities from Open Banking and work with the UK's vibrant FinTech sector, to provide new and innovative payment services to consumers and businesses.
- 4.2. To accelerate the programme even more we believe that Pay.UK should negotiate directly with the existing supplier to provide the NPA. In doing so, we believe that it is possible to ensure that Pay.UK gets value for money and the most innovative services available. Although to pursue this route Pay.UK must satisfy itself on the completeness of the existing supplier's available solutions. Naturally, we would have favoured a competitive procurement exercise. However, we do not think that it is desirable to delay the NPA programme further. Retention of the existing supplier would also reduce migration risk and potentially provides the opportunity to speed up migration.
- 4.3. Regardless of the supplier chosen, the resiliency of UK payment systems operated by Pay.UK is paramount. These systems are fundamental to the operating of the UK economy. Once operational the NPA must be able to continue to operate regardless of any issues affecting underlying service providers.
- 4.4. We believe that the UK's complex regulatory environment for payment infrastructure providers has advantages. There are not many jurisdictions where the payment system operator and the infrastructure provider are regulated for competition, innovation and financial stability. The regulatory environment hands the PSR the ability to ensure that retention of the existing provider does not harm competition or innovation. It could ensure transparency to ensure value for money. PSR working with the Bank of England, which also regulate the existing infrastructure provider, could decide that it is in the interests of competition and financial stability that the UK's payments infrastructure provider is entirely ring-fenced, further reducing risks of a direct negotiation.
- 4.5. Finally, it may be desirable to configure the contract with the existing supplier into two. There could be a contract to build the NPA and a separate one to run the NPA. Such a separation would provide the opportunity to include strong step in rights in the event that Pay.UK or its regulators had concerns about the operation of the contract.
- 4.6. Of the other options, we are sceptical that a new procurement exercise could be completed in as short a time frame as mentioned (12 to 18 months). Procurement exercises by Pay.UK predecessor bodies have all taken longer than the timeline suggested. As the PSR observed in the consultation, the original NPA competitive procurement started in December 2018. By the time it was paused in June 2020 (18 months) it had only completed two of four stages. Finally, it is not clear that Pay.UK would end up with a very different shortlist after any additional procurement activity.

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)?

- 4.7. We have no suggested alternative options.



# Payment Systems Regulator (PSR) consultation paper: Delivery and regulation of the New Payments Architecture (NPA) – CP21/2 Part two (questions seven to fourteen)

## Barclays response

### 1. About Barclays

- 1.1. Barclays is a universal consumer and wholesale bank with global reach, offering products and services across personal, corporate and investment banking, credit cards and wealth management. With over 330 years of history and expertise in banking, Barclays operates in over 40 countries and employs approximately 85,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

### 2. Questions related to competition

Question 7: Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response

- 2.1. We have some observations on the PSR's view of what Pay.UK should be doing to promote effective competition and innovation. The PSR proposes that Pay.UK must ensure that the contract to provide the NPA includes incentives to foster and facilitate innovation. Pay.UK must "actively" implement rules to promote competition.<sup>1</sup> Pay.UK's vision and strategic objectives are focused on enabling a competitive and innovative payment industry. Therefore, we expect that its vision and objectives should inform the decisions Pay.UK takes when designing, procuring and operating the NPA.
- 2.2. The PSR states explicitly that the NPA should have "*low barriers to entry and participation for PSPs [Payment Services Providers] and overlay providers, including those with innovative ideas.*"<sup>2</sup> PSR's general direction two requires Pay.UK to set access requirements for Bacs, Faster Payments and the Cheque and Credit payment systems that are proportionate, objective and non-discriminatory (POND). Pay.UK is required to publish its access requirements, notify the PSR of any changes to them, and provide the PSR with an annual access report.<sup>3</sup> Once the NPA launches, we expect the PSR to apply the obligations in general direction two to the NPA services. The PSR should also consider whether and how to extend these existing obligations to overlay services.
- 2.3. Whilst we agree that the NPA access requirements should be both proportionate and objective, they must also reflect the scale of responsibility participants hold and avoid risks to the payment system. Moreover, this requirement should not be overridden by any direction on Pay.UK to provide for low barriers to entry, as referred to in paragraph 5.7. In addition, we find the additional statement that the NPA should have low barriers for "*those with innovative ideas*" confusing.<sup>4</sup> We expect that access requirements for the NPA will be the same regardless of whether a prospective participant is thought of, or portrays themselves, as innovative or not.
- 2.4. The final bullet point of paragraph 5.7 PSR addresses easy comparison and switching between PSP and overlay providers by payers, payees and others. We fail to see how this is strictly an NPA ecosystem issue. Pay.UK does support the excellent Current Account Switching Service (CASS).

<sup>1</sup> Page 39, PSR (February 2021 a), *Consultation paper: Delivery and regulation of the new payments architecture*, <[https://www.psr.org.uk/media/qo0bis0c/cp21\\_2-final-version.pdf](https://www.psr.org.uk/media/qo0bis0c/cp21_2-final-version.pdf)> [accessed May 2021]

<sup>2</sup> Paragraph 5.7, page 40, PSR (February 2021 a)

<sup>3</sup> PSR (March 2020), *General Direction 2: Access (FISBRA) (2020)*, <<https://www.psr.org.uk/media/i43m441g/psr-general-direction-2-march-2020.pdf>> [accessed May 2021]

<sup>4</sup> Paragraph 5.7, page 40, PSR (February 2021 a)



The payment redirection service that CASS relies on must be replicated in the NPA. But, we struggle to understand how a payment system could, on its own, enable easy comparison and switching for users of payment accounts and other PSP services. We consider that separate interventions, like CASS and service information transparency requirements, are more appropriate methods of encouraging comparison and switching between payment accounts and other services.

- 2.5. Concerning the design principles set out in paragraph 5.8, we observe that the principles reflect those included within the original Payment Strategy Forum vision. The vision sought simpler access, stability and resilience, greater innovation and competition, and adaptability and security.<sup>5</sup> We support this vision, so we agree with PSR's design principles for the NPA. However, we caution PSR from being overly prescriptive to Pay.UK on the principles. It may prove that trade-offs exist between them, and PSR should avoid constraining Pay.UK with respect to any trade-offs that do arise. For instance, the provision of a "*wide range of access options*" may conflict with PSR's desire for a "*thin*" design that minimises the scope of services provided centrally.<sup>6</sup> Similarly, there may be opportunities for Pay.UK to provide extra functionality to the benefit of all. Pay.UK must be able to make decisions on trade-offs and extra functionality. When doing so we expect Pay.UK to act in the best interests of UK PSPs, consumers and businesses, and in consultation with its regulators.

Question 8: Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.

- 2.6. Many of the competition risks identified in this consultation paper build on those identified in PSR's January 2020 call for input on risks to competition and innovation in the NPA.<sup>7</sup> In our response to that document, we noted that the competition risks identified by PSR appeared plausible. However, the critical question was the likelihood of these risks actually occurring in practice. We did not consider it likely that the harms identified would occur, provided that Pay.UK fulfils its functions adequately.<sup>8</sup> The PSR has not provided any additional information in this consultation to change our view.

Question 9: Do you think we have identified the appropriate specific mitigations and governance principles address competition risks? If not, how do you think they could be improved?

- 2.7. The PSR has proposed three principles to address competition risks. Pay.UK must be the primary interface and decision-maker. Pay.UK must "*actively implement rules to promote competition and ensure access terms are POND*." The infrastructure provider's functions must be operationally separate. These principles make sense.<sup>9</sup> In our view, these principles apply to a greater or lesser extent with the existing payment systems operated by Pay.UK. We see no reason why the NPA would be different. But we do have a few observations on the principles.
- 2.8. We accept that Pay.UK must be the final decision maker concerning the NPA's rules and services; this is uncontentious. However, we think that Pay.UK must consult appropriately with participants, potential participants, consumers and businesses on the material decisions it must take concerning the NPA.
- 2.9. The PSR propose mitigations in relation to data possessed by the infrastructure provider for the NPA. Currently end-users, and any PSP who has an agreement with the end-user, own the

<sup>5</sup> Page 5, Payments Strategy Forum (November 2016), *A payments strategy for the 21<sup>st</sup> century: putting the needs of users first*, <[https://implementation.paymentsforum.uk/sites/default/files/documents/A%20Payments%20Strategy%20for%20the%2021st%20Century%20-%20Putting%20the%20needs%20of%20users%20first\\_0.pdf](https://implementation.paymentsforum.uk/sites/default/files/documents/A%20Payments%20Strategy%20for%20the%2021st%20Century%20-%20Putting%20the%20needs%20of%20users%20first_0.pdf)> [accessed May 2021]

<sup>6</sup> Paragraph 5.8, page 41, PSR (February 2021 a)

<sup>7</sup> PSR (January 2020), *CP20/2 - Call for input: Competition and innovation in the UK's New Payments Architecture*, <<https://www.psr.org.uk/media/kqImtqci/psr-cp20-2-npa-call-for-input-january-2020.pdf>> [accessed May 2021]

<sup>8</sup> PSR (February 2021 b), *Responses to call for input on competition and innovation in the New Payments Architecture*, <<https://www.psr.org.uk/media/yhjm0aor/cfi-responses-to-cfi-competiton-and-innovation-in-npa-final.pdf>> [accessed May 2021]

<sup>9</sup> Pages 47 to 48, PSR (February 2021 a)



payments data processed by Pay.UK and by the existing payment system infrastructure provider. Neither Pay.UK nor the infrastructure provider can benefit from payments data. This is because they are only allowed to use it for limited purposes and cannot exploit for commercial gain. As we made this clear in our response to the PSR's discussion paper on the use of payments data, we expect this situation to remain the case for the NPA. We believe that it will always remain appropriate for end-users, or the PSPs who have a relationship with the end-user, to have the final say about payments data use.<sup>10</sup>

- 2.10. The PSR refers to the expectation that Pay.UK must “*ensure that the contract with the CIS [central infrastructure supplier] includes incentives to foster and facilitate innovation.*”<sup>11</sup> While we agree with the sentiment, we are uncertain about how Pay.UK can effectively achieve this within a contract with an infrastructure supplier. We suspect compliance with such a requirement will be either unattainable or met in a “*box-ticking*” manner and supervision by the PSR difficult. The PSR should consider structuring such obligations in the negative. For example, the PSR could require that nothing in the contract should harm competition or innovation.
- 2.11. In our response to the first part of this consultation, we noted the potential for resiliency benefits from requiring a more substantial structural separation of the infrastructure provider. Effectively ring-fencing any provider of NPA central infrastructure services. We still think such benefits may exist. We encourage the PSR to work with the Bank of England to consider the broader merits of a more precise separation than the minimum level of operational separation proposed by the PSR in this consultation.

Question 10: Do you think that the provision of some common services could raise competitions risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.

- 2.12. Provided Pay.UK and the supplier of common services respect the existing restrictions on data use, we do not see any specific competition risks.

Question 11: Which elements of operational separation should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.

- 2.13. We think that the PSR should work with the Bank of England to explore the merits of a more precise structural separation of the provider of NPA central infrastructure services.
- 2.14. Reflecting the current and prospective size of the market for this critical national infrastructure, any vendor (whether through a direct award or otherwise) must:

#### Have a track record

- The successful supplier must have a proven track record of successfully deploying a near real-time payment system in a G7/G10 country. Deployment of other types of market infrastructure (CCPs, CSDs, etc.) or IT system is not sufficient for the critical role that the NPA will have in the UK economy.

#### Be compliant

- The successful supplier must demonstrate prior compliance with any regulation or ordinances required by competent authorities regarding previous payment system supply.

<sup>10</sup> PSR (September 2019), *DP18/1: Data in the Payments Industry - Responses to our discussion paper*, <[https://www.psr.org.uk/media/pniju0zt/psr-responses-to-dp18-1\\_.pdf](https://www.psr.org.uk/media/pniju0zt/psr-responses-to-dp18-1_.pdf)> [accessed May 2021]

<sup>11</sup> Page 39, PSR (February 2021a)



#### Be ring-fenced

- Any supplier owned or controlled by a parent company incorporated overseas must agree to ring-fence the totality of the infrastructure (hardware and software) and associated intellectual property in a UK incorporated company. The ring-fenced entity must not be allowed to undertake any other activity. Furthermore, it must accept that Pay.UK and the regulators can step in for reasons of resilience or market abuse.

#### Be competent

- The successful supplier must at all times ensure that there is sufficient technical support in the UK to support the availability service level.

Question 12: Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?

- 2.15. We caution the PSR from bringing forward the detailed regulatory measures as described. We do not think that all the regulatory controls required can be contractual, and that the contract could itself encourage competition and innovation. We consider that the critical issue is ensuring that Pay.UK is competent and able to fulfil its functions to achieve all our ambitions for the NPA.
- 2.16. If Pay.UK adequately understands the requirements of the NPA, and those requirements are agreed with participants, and Pay.UK staff are sufficiently competent and motivated then success is possible without detailed regulatory measures from the PSR. We believe that the independent Pay.UK staff armed with a clear vision of what they are buying, supported by the industry, could achieve the PSR's objectives set out in paragraphs 5.7 and 5.8. Setting restrictive regulatory requirements may make the contract commercially unattractive. It may also limit the flexibility of Pay.UK staff to make the right choices for the UK.
- 2.17. So we believe that the best regulatory approach the PSR should pursue is one of supervision and providing outcome-focused expectations for the NPA (alongside its ex post regulatory powers), rather than detailed directions. The PSR should satisfy itself that Pay.UK has done sufficient work to understand the requirements of the NPA. Those requirements must have support from PSPs, and they must deliver benefit for UK consumers and businesses. The PSR should satisfy itself that Pay.UK governance of the NPA programme is fit for its purpose. The PSR should ensure that Pay.UK staff are sufficiently competent to do the task of negotiating and delivering the NPA. But, the PSR should not unduly bind Pay.UK's hands in the negotiation of the infrastructure services contract. The PSR should not be, metaphorically, in the room negotiating the contract.



### 3. Questions related to pricing

Question 13: Do you have any comments on the pricing principles set out in this document?

- 3.1. We believe that all participants should pay the same price for the same service within the core of the NPA. We do not think there should be discounts for volumes (whether the PSP is responsible for significant or low volumes) or discounts for early migration. We believe charging should be based on costs incurred only, and according to payment volumes instead of value. A payment is a payment.
- 3.2. In terms of the principles set out by the PSR, we have concerns regarding the principle that NPA user prices should “*incentivise utilisation of the NPA.*”<sup>12</sup> We do not consider it appropriate for Pay.UK to artificially increase the costs of existing payment systems to encourage migration. There may be many reasons why businesses or PSPs cannot migrate such payments early. We do not think there should be volume discounts for the early use of the NPA, as this would be detrimental to PSPs with lower volumes of UK payments.
- 3.3. We accept that early adopters of the NPA should not carry the total cost of the NPA build over a short period in the NPA item price. However, users of Bacs and Faster Payments cannot subsidise the NPA programme and build indefinitely. They are already paying a lot. Therefore, we think Pay.UK should smooth the cost of the NPA programme and build into the NPA item price over a long time horizon.

Question 14: Do you think the pricing principles sufficiently address the competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?

- 3.4. We do not propose any additional principles.

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<sup>12</sup> Page 57, PSR (February 2021a)



**HSBC Bank plc**



**HSBC BANK PLC**

**DELIVERY AND REGULATION OF THE NEW PAYMENTS ARCHITECTURE**

**CONSULTATION PAPER**

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**RESPONSE TO PSR CONSULTATION PAPER DATED FEBRUARY 2020**

**19 March 2020**

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## COVER SUBMISSION

HSBC BANK PLC ('**HSBC**') welcomes the PSR's Call for Input on Delivery and Regulation in the UK's New Payments Architecture ('**NPA**').

Progress on the delivery of the NPA has been slower than HSBC either expected or desired. Before responding to the specific questions in the consultation paper (CP21/2), we want to set out important matters for further consideration.

### **Payment Strategy Forum blueprint**

The Payment Strategy Forum ('**PSF**') blueprint was published in July 2017. Section 4.2 of the blueprint sets out the gross benefit opportunity of between £11.5 billion and £14 billion associated with the NPA in the period 2019 to 2031. Given that significant time has passed, HSBC believe it is important that, when publishing the final policy decisions on the NPA, the PSR should consider and re-state the potential NPA benefits, against the context of:

- Potential reduced scope, should the initial NPA delivery be limited to the future Faster Payments solution;
- Future end-user benefits, including the impact of any disruption and migration costs;
- Elapsed time, with the result that even with the potential reduced scope, the NPA will not be delivered for a number of years;
- Some of the benefits set out in the PSF blueprint having already been delivered, and
- Whether the detriments captured in 2015 remain the same today, to ensure that the right outcomes are being delivered by the NPA.

We do not consider that reviewing the benefits needs to delay the NPA development further, but given a number of years have passed and the industry's growing frustration with the lack of progress, securing refreshed commitment, support and enthusiasm for the development at this time is needed.

### **Business Case**

It is essential that the NPA, in whatever final form is determined by the PSR, has a meaningful business case that shows the financial and non-financial benefits of what will be a significant investment across the industry.

It is also critical that the costs: benefits assessment considers the entire industry's costs and not just the Pay.UK programme and delivery investment.



### **Right NPA technology**

Technology has developed significantly since the publication of the blueprint. Cloud processing, Application Programming Interfaces and network capabilities have moved forward considerably in the last five years. It is very important to HSBC that the NPA is delivered using the right architecture, to future-proof the new central layer as far as possible. The NPA investment is likely to be significant and it is therefore even more important that Pay.UK considers the appropriate technology architecture given that the NPA, once established is likely to be the central platform for retail payments for at least the next decade.

### **Right governance and collaboration**

HSBC has been working to support Pay.UK with the complex NPA concepts and proposed requirements. Pay.UK recognised that their level of stakeholder engagement had not been appropriate for a programme of this importance and we have welcomed the changes made in 2020.

Expertise, skills and knowledge for large payments technology change resides in Pay.UK's direct participants, including HSBC. If the NPA is to be a success, then continuing strong collaboration is essential in the interests of achieving the PSR's end users' needs, innovation and competition objectives.



### Questions related to the risks to NPA delivery

#### 1. **Do you agree with our view of the risks to the successful delivery of the NPA?**

- 1.1 HSBC broadly agrees with the PSR's view of the risks to the successful delivery of the NPA.

#### ***Risk One – The NPA programme will not provide value for money***

- 1.2 Firstly, HSBC agrees that there is a very real and present risk that the NPA will not deliver **value for money**. Estimations on the total cost of the work completed to date against the current status of the programme do not provide confidence in further investment. This lack of confidence in the development investment creates a dimension to the risk that Pay.UK loses industry support and backing to move the programme forward.
- 1.3 HSBC's view is that Pay.UK must be clear on the tangible benefits (financial and non-financial) which the NPA should achieve for the UK in light of the significant costs that will be incurred. In our response to the Pay.UK consultation on the NPA Ambition (FEB20), we argued that the benefits should be codified in an agreed industry business case and tracked against the costs being incurred through the realisation of the NPA, with a continuous assessment of the costs and benefits. We said that the business case should be maintained to ensure that the agreed vision and scope are delivered along with the forecast financial and non-financial benefits. Our view remains that this is the most effective way of ensuring the NPA delivers a highly cost effective, efficient and flexible future to enable the evolving UK payments landscape that can demonstrate value for money; and provide confidence in further investment.
- 1.4 In our discussions with Pay.UK we have also encouraged the development of an approach that guarantees value for money for the payments industry along with the fair allocation of the one-off transformation and ongoing run costs. Options for the potential funding of the central infrastructure are under review. Whilst we expect larger participants to make a contribution to the NPA build costs in line with their current share of the market, and will indeed need to invest significantly in transformation of their own systems to interact with the new architecture, larger participants cannot be expected to subsidise other parties (both existing and future) that stand to gain significant advantage from the new infrastructure. We welcome Pay.UK's consideration of the options for an equitable approach to achieve fair value for money, and will support industry buy-in on the significant investment needed.



- 1.5 A further dimension to the fair allocation of costs is affordability of the programme investment required across the industry. HSBC is under no illusion that the NPA programme will require a significant investment. This is set in the context of a range of major industry and wider regulatory change programmes and the extremely challenging economic environment as the result of COVID-19. Whilst this makes calls for investment challenging in the short term, it underscores the importance of the clear and tangible benefits that drive new commercial opportunities, the overdue realisation of customer benefits and assurance that there will be a fair allocation of costs.
- 1.6 HSBC agrees with the PSR analysis that an important driver of the risk that the NPA will not deliver value for money is the scope of the procurement. Given that there appears to be general agreement that a phased approach to migration is more appropriate to reduce risks and allow realisation of the benefits from earlier migration of the less complex transactions faster, we agree that an approach involving the procurement and build of all functionality upfront adds unnecessary risks and potential further delay.
- 1.7 Likewise, we agree that the detailed functional requirements for some of the common services Pay.UK is procuring have not been fully determined or validated with stakeholders. HSBC is concerned that the industry and market are constantly evolving and there is a need to ensure that the proposed requirements are still right for the UK payments landscape in 2021 and into the future.
- 1.8 More fundamentally, customer requirements and expectations are constantly moving and we are conscious that the Blueprint is based on an analysis of customer detriments and available data that was undertaken in 2015. We therefore agree that this adds to the risk that the procurement will not provide value for money. There is a risk that Pay.UK could procure inappropriate solutions to support services that may not be necessary or that have been made redundant by the time they are scheduled for implementation. Equally, we believe that such solutions may be able to be provided competitively by the market, which may deliver better value and innovation for customers.

***Risk Two – The NPA programme will stifle competition and innovation in payment services***

- 1.9 Provided the NPA is established in line with important governance principles, then HSBC does not believe that the NPA will stifle competition and innovation in payment services. Whilst the creation of a single NPA infrastructure maintained by a single provider will inevitably give rise to some degree of competition risk, as it leads to the single provider of the payment system in question, HSBC does not consider mitigation



of such risks to be insurmountable. Such issues are similar to those faced by other utilities and can be managed appropriately via a combination of existing competition laws and the regulatory overlay provided by the PSR. We support the governance principles for the NPA eco-system set out in paragraphs 5.43 to 5.59 in the consultation document (CP21/2) and welcome the idea of the PSR adopting the regulatory supervisory role to manage competition concerns. Whilst we are not opposed to the idea of operational separation, as noted in our response to the Call for Inputs, the benefits of operational separation need to be balanced against the benefits and advantages (in terms of efficiencies and innovation) that can arise from the CIS provider being able to utilise and leverage know-how it receives via its position as CIS provider, and the potential for strong operational separation requirements to reduce interest by providers in competing for the core NPA role, and to add a significant expensive layer of administration and governance.

- 1.10 With regards to scope, we agree that it is important, from a competition law perspective, that Pay.UK realise the vision advanced in the original blueprint, where the central clearing and settlement layer is kept to the minimum, provided end user detriment is not created as a consequence, thus allowing the industry to respond at the overlay services level, to develop innovative solutions and propositions in the interests of end users.
- 1.11 However, whilst we support the development of a new ecosystem that is built to enable effective competition and facilitate new entrants, this must be balanced with the needs of participants operating at scale, which have a responsibility to manage the large-scale daily flow of payments on existing infrastructure and to ensure that at no point does the new ecosystem put at risk the operational resilience of the current payments infrastructure. It is also very important to remember that larger participants, such as HSBC, have clear responsibilities to meet the complex payments needs of all customers, including large corporate, government agencies and indirect access participants.

***Risk 3 – The NPA programme will delay realisation of the benefits of the NPA***

- 1.12 HSBC's view is that a key reason why Pay.UK has found it difficult to make progress on the NPA programme to date, is the sheer scale and complexity of the work. The Faster Payments elements are more straightforward given the parallels between the way Faster Payments works today and the planned Single Immediate Payment 'rail' for the NPA. BACS is more complex, entrenched in business process with more than one scheme, which works under a very different processing, clearing and settlement model to the PSF vision. By focussing on the full range of the PSF vision, it makes it



very difficult to define and move forward with a provider, and risks delaying the realisation of any NPA benefits and ending up with sub-optimal outcomes.

- 1.13 Ensuring ongoing stability and resilience of the UK payments system is our paramount concern. The PSF vision is bold and we believe stability and resilience must be front of mind in all decisions regarding the development and delivery of the NPA. HSBC's customers quite rightly have an expectation that payments will work whenever they have the need to remit or receive a payment. The industry must be satisfied that there will be continuity of service in the event of disruption during the transition and in the future running of the infrastructure. We do not have confidence today that there is a clear view of the risks associated with the migration and then for the industry to agree a collective risk appetite to manage the transition effectively.
- 1.14 On a practical note, the repeated delays and uncertainty regarding the requirements of the NPA delivery creates a challenge for firms to prepare funding requirements and resource in line with annual planning cycles. Whilst Pay.UK understand this challenge and are preparing a plan, without certainty on the outcomes from this Call for Views and the PSR's intended way forward until 3Q-4Q21, our own ability to plan for 2022 and beyond will be hampered.
- 1.15 A further dimension to the risk to successful delivery is the sequencing of change within the NPA and the elapsed time to deliver all in-scope NPA components. The UK payments industry is operating during a period of unprecedented change and the NPA transformation has to be carefully sequenced and overlaid against the complexity of wider ISO 20022 required changes across the payments landscape (see table below); and the expertise and executive attention available to support and direct this effectively and safely. The table below is restricted to key ISO 20022 developments and does not include wider regulatory change, which all has to be delivered over the same period.

Legal and regulatory change	Date
CHAPS – introduction of ISO 20022 like-for-like messaging standards	June 2022
SWIFT – start of ISO 20022 and MT co-existence period	November 2022
Fedwire / CHIPS – Phase one of the introduction of ISO 20022	November 2022
Target 2 / Euro 1 / CHIPS – Migration to ISO 20022	November 2022



Legal and regulatory change	Date
CHAPS – introduction of enhanced ISO 20022 messaging standards	February 2023
SWIFT – end of ISO 20022 and MT co-existence period	November 2025

- 1.17 We have to bring our customers with us on this transformation journey and there may be a limit for how much change customers (consumers and businesses) can embrace within a given period.

#### Questions related to procurement scope

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?
- 2.1 Answer combined with the response to Question 3.
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?
- 3.1 Taking questions 2 and 3 together, HSBC broadly agrees with the PSR analysis of the suggested risks, pros and cons of the two alternative options for the scope of the initial procurement.
- 3.2 If the NPA programme were in a positive position, then HSBC's preference would be for a single procurement programme, covering replacements for both Faster Payments and BACS, both to support the effective procurement of common services and to ensure better value for money given the volume of payments processed through the current BACS and Faster Payments infrastructure.
- 3.3 However, given the current status of the NPA programme and risks to delivery articulated, HSBC supports scope Option 2 - the narrower scope option. In summary, our main reasons for supporting Option 2 are to de-risk the programme and to



support the best overall outcome for customers and the future NPA Direct Participants. Option 2 offers:

- A clear route to achieving a successful procurement of the central infrastructure and therefore to deliver and realise the benefits envisaged by the PSF, even if only in part;
- The best approach to ensuring Pay.UK are a well-informed buyer by making the scope more manageable and well defined, with less complex legacy and end-to-end customer journeys, and
- Supports the de-risking of the initial CIS delivery and enables ISO 20022-based immediate payments more quickly compared with option 1.

3.4 Whilst our reasons are principally about de-risking the delivery, Option 2 is not risk free. The following risks may arise from Option 2:

- The central infrastructure procured needs to ensure that it does not preclude, prevent or impede the addition of services to replace BACS in the future – from technology, standards or delivery perspectives. The approach needs to work towards standards that will be capable of supporting both transaction types.
- There is also a risk that whilst Option 2 may enable an earlier migration for Faster Payments transactions, it could slow down the BACS migration relative to Option 1.
- The BACS infrastructure platform must remain fit for purpose, resilient and stable until beyond 2023. Further investment may be required, that may be throwaway and not represent value for money, depending on the eventual NPA BACS solution.
- A number of potential BACS developments and enhancements for end-users and BACS Participants may have to be further delayed, in the need to deliver the easier Faster Payments solution first.
- The additional risk of incumbency. If there is an entrenched provider of the narrowed-scope NPA (providing the replacement to Faster Payments), and then a decision is taken to invest further in developing the replacement to BACS, the extension is inevitably going to be procured against a backdrop of there being only one plausible provider. If so, then there is real doubt how such an approach could be a competitive process. The NPA provider would be the only plausible provider, and could be in a position to charge what it wants for the extension to cover BACS.



- 3.5 To try to mitigate these risks, HSBC recommends that there is a specific aspect of the procurement that considers the implications of the design for BACS to encourage [REDACTED] Pay.UK to keep a 'future proof' mind-set. We believe that there should be a clear contractual mechanism for extensions or changes to the NPA to be proposed and agreed, and a clear methodology for ensuring that changes and extensions occur on an at-cost or similar quasi-regulated price, accepting there will be only one plausible provider.
- 3.6 Whilst limiting the scope to Faster Payments is the right way forward at this time, there is benefit to the Faster Payments component of the NPA considering the Direct Credit element of BACS functionality, to at least ensure that the future solution could be capable of accommodating all retail push interbank payments in scope for the future NPA.
- 3.7 It is also important that Pay.UK review the existing stack of potential BACS developments and the current VocaLink contract, to ensure that the risks of not developing the BACS requirements at this time are acceptable. Significant adverse impacts for end-users and BACS participants must be avoided.
- 3.8 It is also possible that development may also be required to the Faster Payments existing architecture, given the elapsed time since the NPA was first considered. Depending on when NPA delivery is expected, some developments, particularly in the economic crime prevention and detection space, may not be able to wait until the NPA is implemented.
4. Under scope options 2:
- a. 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?
  - b. 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 common services to support the migration of BACS transactions?
  - c. 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?



- 4.1 In Section 3.6, we propose that the Direct Credit element of BACS functionality be considered as part of the limited NPA delivery. If the Faster Payments element of the NPA is delivered in the right way and the future transaction charge is competitive, then corporate end users, may with encouragement from their provider see the merit of migrating some credit payments from BACS to the NPA solution.
- 4.2 The established batch processing of Direct Credits will need significant further consideration as part of any future design.
- 4.3 The unit price will be critical as without a cost incentive, the investment needed to voluntarily move to a transaction type will be limited. The market will only respond positively if the financial and non-financial benefits, including richer data and functionality, make the investment worthwhile.
- 4.4 Provided the NPA is set up in the right way taking into account the important factors set out in sections 4.1 and 4.2, then the market could start to move relatively quickly.
- 4.5 The timing and way forward for potential Direct Debit market-led propositions is much harder to predict. The Direct Debit Indemnity Guarantee is the key factor that would make it very difficult for market-led propositions to be developed. We are not convinced that the current NPA proposal is able to address the Direct Debit market requirements fully, regardless of the proposed procurement scope change.
- 4.6 Visibility on incoming payments is an important part of the BACS solution today, allowing end users to have prior sight of advance payments, both to provide covering funds but also to allow their PSP to make informed pay / no pay decisions, in the knowledge of a future credit. We know that customers benefit from this future visibility today. If the market is to move away from this clear benefit, then there will need to be an extensive communications programme, if we are to avoid significant customer detriment, where payments that would have been previously authorised are rejected and where customers lose their ability to plan their finances as they do today. The challenges can be overcome but will need a holistic industry approach if customer detriments are to be avoided, especially for vulnerable customers and small businesses, grappling with the impacts of COVID-19.
- 4.7 Ultimately it is the service that matters most and the mechanism that delivers the payments data is not of concern to the majority of most customers. It would be a mistake to allow technical file formats to become an issue and to come before customer needs.
- 4.8 A further important consideration is that without careful planning, BACS could be left in a difficult position. Should a sizeable volume of payments find some form of market-led solution, then there are potential consequences for BACS. As we have seen with the Image Clearing System, as volume declines, then the unit cost has to



increase to cover the central costs. There is also a wider question on future investment. If the market does respond and some of the Direct Credit volume migrates to the NPA solution, then there are important questions over the management, resilience and cost for the remaining Direct Credits.

- 4.9 Whilst HSBC look forward to continuing innovation and completion with the origination of new solutions, it is important for the PSR and Pay.UK to consider the unintended consequences for end users and ensure that the benefits of market-led solutions do not leave some end users behind.

#### **Questions related to procurement approach**

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.
- 5.1 HSBC agrees that it would not be in the best interests of the industry or service-users for Pay.UK to begin or restart any procurement until it has sufficient knowledge, capability and clarity about the requirements to be put into a contract. The outcomes from this consultation will be the key determinant of those requirements and will therefore mean a further delay until work can begin in order for due process to be followed.
- 5.2 We recognise that all three options available for progressing the procurement carry risks and there are some difficult decisions to make to find a pragmatic and effective way forward.
- 5.3 HSBC is not in the best position to be able to judge the progress of the existing procurement process or indeed whether the in-flight process has been established in the right way to deliver the required outcomes. We are of course not privy to the nature of the procurement process, the vendors involved or the reasons for those excluded to date. Against these facts, it is extremely difficult for HSBC to comment on the viability of some of these options, such as whether there is appetite or ability for current bidders to continue the current competitive procurement or enter a new one; or whether previously excluded bidders could re-enter the process under a narrower scope. Accordingly, HSBC needs to rely on Pay.UK and the PSR, who have the benefit of the full factual picture, to make an overall judgement on whether the continuation of the procurement process will deliver the best overall outcome for the industry.
- 5.4 [REDACTED]



5.5 Each of the options has risks and potential benefits. In the context of our comments around option 3 above, we are focussed on supporting Pay.UK to move forward at pace to achieve procurement of the right services to agreed requirements, with a stable and experienced vendor. We are of course not-sighted on the potential NPA bidders and therefore cannot comment on the quality of the potential options.

[REDACTED]

5.6 We do not think that completely re-starting the procurement process will be helpful in the context of wishing to move the programme to delivery. Our understanding of the market is that a narrower scope would be unlikely to lead to additional vendors, with the right experience and capabilities to enter a new process.

[REDACTED]

[REDACTED]

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)?

6.1 Given the time spent since the publication of the blueprint in 2015, it is clear that the industry has limited options at this time, if we believe that the NPA is still the right way forward for the industry.

6.2 In HSBC's response to the final report of the Market Review of the ownership and competitiveness of infrastructure provision (MR15/2.3), HSBC proposed that the industry should also be considering the potential to move to a direct contracting model, where PSPs are able to select the appropriate Payment System Operator-accredited infrastructure provided that meets their individual customers' needs. This would negate the need for such a wholesale competitive procurement exercise and instead open up the UK market to even greater competition and innovation.



**HSBC BANK PLC**

**DELIVERY AND REGULATION OF THE NEW PAYMENTS ARCHITECTURE**

**CONSULTATION PAPER**

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**RESPONSE TO PSR CONSULTATION PAPER DATED FEBRUARY 2021**

**5 May 2021**

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## COVER SUBMISSION

HSBC Bank plc (**'HSBC'**) welcomes the opportunity to respond to the second part of the consultation (CP 21/2), considering the delivery and regulation of the New Payments Architecture (**'NPA'**).

Before responding to the specific questions in the second part of the consultation paper (CP21/2), we want to set out a number of important themes, that we believe merit further consideration by the PSR as they consider the Delivery and Regulation of the NPA.

### **Importance of end user outcomes**

HSBC's view is that it is important that we start to make progress with the NPA development. The UK is now essentially standing still, with limited end user developments in interbank payments, whilst Direct and Indirect Participants await the final direction of travel and way forward.

On this basis, we strongly encourage the Payment Systems Regulator (**'PSR'**) to **focus on the outcomes** for the industry and the customers that depend on the payments in scope for the NPA development. HSBC believes the UK needs a supportive and proportionate regulatory framework for the NPA to ensure that the benefits for customers and participants are delivered and realised.

A number of the proposals in the consultation document are not easily measurable neither do they appear to be outcomes-based, by reference to what the PSR considers to be a well-functioning ecosystem. It is therefore difficult to determine the benefits that will be realised from the proposed regulatory interventions. We urge the PSR to re-align their proposals to measurable outcomes, to ensure that regulatory intervention is evidence-based and proportionate, in order to deliver a successful NPA programme for the industry that promotes competition in the interests of end-users and the industry.

### **Clear PSR and Pay.UK roles**

It is important that the respective roles of Pay.UK and the PSR are clearly defined as we enter the next critical phase of the development of the NPA. Pay.UK's role is to set the NPA requirements and standards and to ensure that the central infrastructure and standards are available to the market as required. However, some of the interventions proposed by the PSR appear to confuse the roles of the PSR as the concurrent competition regulator and Pay.UK, which bears the responsibility for the procurement of central industry infrastructure.



## **Proportionality**

It is essential that not only should all regulatory interventions be appropriate to the identified level of risk, they also need to be designed and executed in a proportionate manner. HSBC is quite rightly not sighted on the Pay.UK procurement process to date, so it is difficult to assess, whether the proposed regulatory measures are reasonable and proportionate in mitigating the competition and pricing risks.

Where appropriate, we recommend that the PSR consider cost-benefit analysis, before finalising the regulatory approach and any associated measures. We welcome further clarity on the proposed regulatory intervention and the process for engaging further with the industry, and especially the Direct Participants who will bear the cost of the NPA development, prior to PSR formal direction.

## **Potential restriction in competition**

The approach proposed in the consultation document CP 21/2 appears to set in stone the existing model, where Pay.UK procure the central infrastructure and Direct Participants are restricted to the arrangements that Pay.UK put in place. The proposed model precludes Direct Participants from undertaking their own procurement process to secure an appropriate solution that meet their and their customers' requirements and risk appetite, restricting future competition. A further disadvantage is that the proposed model could lead to increased costs for direct participants, indirect participants and the end-users that they serve.

In HSBC Bank plc's response to the final report of the Market Review of the ownership and competitiveness of infrastructure provision (MR15/2.3), HSBC Bank plc proposed that the industry should also be considering the potential to move to a direct contracting model, where PSPs are able to select the appropriate Payment System Operator-accredited infrastructure provided that meets their individual customers' needs. This would negate the need for such a wholesale competitive procurement exercise and instead open up the UK market to even greater competition and innovation.

HSBC is unclear from the consultation document what evidence there is of the benefits for continuing with the historic approach. We have long argued that bilateral procurement, would lead to increased competition across the UK. We would therefore welcome a solution where future bilateral procurement is not excluded, enabling greater competition in the future.

## **Update – response to questions 1-6**

Finally, in light of further analysis undertaken by Pay.UK on the merits of a direct award and a competitive tender process, we wish to offer some further views.



Firstly, it is not for HSBC to determine the procurement process for Pay.UK to follow. Whilst HSBC is quite rightly not part of the Pay.UK process, we are supportive of continuing the existing procurement exercise, provided the process achieves the following, to the benefit of the wider ecosystem:

- The main priority must be on outcomes for end users and the process that delivers the right, safe and timely results for customers that rely on these payments;
- A second focus should be on the direct and indirect participants who serve customers that rely on these payments. The right level of resilience, right technology, right functionality, acceptable risk profile and value for money are all critical elements, and
- Lastly Pay.UK needs to be able to lead the NPA programme effectively and at a reasonable cost, through the development, transition and normal operational lifecycle. A procurement exercise may remove some of the regulatory complexity.



## Questions related to competition

7. **Do you agree with our view of the risks to the successful delivery of the NPA? Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.**
- 7.1 HSBC agrees with the PSR's view of the risks to the successful delivery of the NPA, but with the following additional points for consideration;
- Whilst we support the concept of low barriers to entry and participation for PSPs and overlay providers, it is essential that **integrity and resilience** in the payments system is maintained and must always remain the top priority. We expect that Pay.UK will ensure that new participants and overlay providers meet the requirements to participate in the NPA, with appropriate testing and assurance to ensure compliance with the NPA scheme and the appropriate levels of financial standing and technical and operational expertise;
  - We agree that it is essential for all participants, regardless of market power to not behave anti-competitively. However, the consultation document appears to propose that it is Pay.UK's responsibility to monitor the market for the existence of any entity with significant market power and then to take action against them. We do not believe that this is the role of Pay.UK, nor do they have the appropriate tools to fulfil this function, and we suggest that this responsibility should reside with the PSR as part of their competition law powers;
  - We are supportive of the proposal that there should be easy comparison and switching between PSP and overlay providers by payers, payees and other users. However, again, HSBC do not believe that it is Pay.UK's role to ensure easy switching for users of payment services, beyond existing and future Direct Participants. Pay.UK's role is to set the NPA requirements and standards and to ensure that the central infrastructure and standards are available to the market as required. It is not Pay.UK's role to provide the services; this responsibility sits firmly with the PSPs and overlay providers. Pay.UK needs to enable the market and ensure that normal competition and potential new entrants are not deterred.
  - We also support the principle that the CIS provider must not discriminate in service quality between PSPs, overlay providers, payment remitters or beneficiaries. The proposed imposition of Service Level Agreements ('SLAs') is an appropriate and well-established measure of control, that can set objective criteria to ensure appropriate standards are met. It may be very difficult and potentially not cost-effective to remove the potential for service quality discrimination from the NPA system. The use of SLAs, enshrined in the future



contract is an established, proven and practical method of control, that we believe remains appropriate for this purpose of removing the potential risk of service quality discrimination.

- We believe that a further important design principle, is that technology must be future-proofed. As set out in the cover submission to HSBC's response to the first part of the consultation paper, technology has developed significantly since the publication of the blueprint. Cloud processing, Application Programming Interfaces and network capabilities have moved forward considerably and at pace in the last five years. The NPA investment is likely to be significant and once established is likely to be the central platform for retail payments for at least the next decade. It is therefore very important that Pay.UK considers the appropriate technology architecture, to future-proof the new central layer as far as possible to minimise the risk that current design will require significant overhaul. Whilst the Image Clearing System ('ICS') is quite correctly currently out of scope, the declining cheque volume means that a future solution is required and the NPA design should not preclude potential future ICS inclusion.

7.2 HSBC's view is that Pay.UK must be clear on the tangible benefits (financial and non-financial) which the NPA should achieve for the UK in light of the significant costs that will be incurred. In our response to the Pay.UK consultation on the NPA Ambition (FEB20), we argued that the benefits should be codified in an agreed industry business case and tracked against the costs being incurred through the realisation of the NPA, with a continuous assessment of the costs and benefits. We said that the business case should be maintained to ensure that the agreed vision and scope are delivered along with the forecast financial and non-financial benefits. Our view remains that this is the most effective way of ensuring the NPA delivers a highly cost effective, efficient and flexible future to enable the evolving and competitive UK payments landscape that can demonstrate value for money; and provide confidence in further investment.

7.3 In our discussions with Pay.UK we have also encouraged the development of an approach that guarantees value for money for the payments industry along with the fair allocation of the one-off transformation and ongoing run costs. Our view is that this approach will help foster the right incentives for investment in the NPA to leverage its potential benefits.

8. **Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.**

8.1 HSBC is broadly supportive of the PSR's assessment of the competition risks and the practical implications within the NPA ecosystem.



- 8.2 We seek clarification on the PSR's proposal that Pay.UK should deal with a CIS provider on behalf of participants. It is appropriate for Pay.UK to own and manage the relationship with a CIS provider for both pricing and other access terms and conditions. However, there may be operational and technical issues, where direct liaison between a CIS provider and a Direct Participant is required.
- 8.3 We therefore strongly encourage the PSR not to be overly restrictive and to allow PSPs to be able to interface directly with a CIS provider in the interests of resolving operational and technical issues at pace. We see no risk to allowing Direct Participants to engage directly with the CIS provider for such operational and technical issues, ensuring that Pay.UK are kept informed, especially where there has been an adverse impact on service. It is worth noting that Pay.UK does not operate 24 x 7 and so, forcing a PSP to wait for Pay.UK to be available to engage, could delay resolution of an issue for end users.
9. **Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?**
- 9.1 HSBC agrees with the proposed three principles but seeks additional clarity as proposed in paragraph 9.5 below.
- 9.2 When considering the first proposed principle, it is worth noting that today we would consider Pay.UK are already the primary decision-maker and interface for all matters relating to the existing central infrastructure provision. There is therefore no change from the current position.
- 9.3 In connection with the second principle, we support the PSR's position that Pay.UK must have the right capabilities, incentives and governance framework in place to perform its NPA decision-making and monitoring role.
- 9.4 We are also supportive of the third principle but there is a need for a careful balance, to avoid potential unintended detriments. By requiring operational separation, there is a risk that the central architecture could forego innovation, that may otherwise be developed and available in the bidders' wider group companies. Structural separation should not preclude the bidders' wider group companies from competing under their own brand, to introduce innovative solutions and overlays, outside the formal ring-fenced CIS contract. There may also be a risk that one or more bidders may be unable to accommodate the proposed structural separation and withdraw from the procurement process.
- 9.5 We would welcome further clarity on what is proposed by the PSR and as set out in our cover submission, encourage the PSR to ensure that any regulatory intervention



is proportionate to the level of risk identified, has clear objectives that can be measured, against a cost / benefit analysis. The focus must remain on the potential benefits to end user outcomes.

10. **Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.**

10.1 From our review, we have not identified common services that could raise a competition risks that differ substantially from those raised by the provision of the CSS.

11. **Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.**

11.1 HSBC is supportive of the three areas listed in section 5.51 of the consultation document.

11.2 On the third point considering data, it is important to note that the successful bidder will not be the owner of the transactional or other payment information and there are existing data protections in place to protect leakages and cyber-attacks.

11.3 The elements of operational separation will depend on the supplier selected by Pay.UK to build and supply the central infrastructure and it is difficult for HSBC to express definitive views without an understanding of the bidders and their specific underlying corporate structures.

12. **Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?**

12.1 HSBC supports regulatory measures being set out at the outset of the programme, to ensure clarity for Pay.UK, the participating firms and for the potential supplier of the central infrastructure. We also agree that it is important that there is an option to introduce different or further regulatory measures as required, to ensure that the NPA continues to encourage competition and innovation.

12.2 Such measures should be proportionate to the development and safe deployment of the NPA and to support the required governance principles.



- 12.3 The PSR will need to consider the existing Specific Directions 2 and 3 and whether the Specific Directions need to be revised or replaced, in light of the change in scope, direction and uncertain timing.
- 12.4 Care is needed to focus on outcomes and to ensure that the regulatory measures do not lead to a disproportionate increase in cost, nor have the unintended consequence of stifling competition.

### **Questions related to pricing**

**13. Do you have any comments on the pricing principles set out in this document?**

- 13.1 HSBC is supportive of the pricing principles proposed in section 6, in order to ensure effective competitive outcomes.
- 13.2 However, we consider they should not go further than what is proposed or stray into realms of price caps or regulated pricing given that the appropriate economic incentives are already in place.

### ***Reflect efficiently incurred costs***

- 13.3 When considering the principle that CIS user prices should reflect efficiently incurred costs, it is important that the NPA is built and structured in a way that ultimately delivers lower pricing than the current level of pricing for the legacy services. Future NPA services must represent value for money and the level of pricing must be predictable and well-communicated, if adverse outcomes for end users are to be avoided. The costs / benefits of the future NPA must be kept under close and periodic review. The unit costs of the NPA should not be higher than the current level of equivalent transaction pricing. Increased pricing should only be permitted where there are overarching benefits and clear improved customer outcomes that justify the increased unit costs. This principle supports the PSR's overall objective of maximising the overall benefits of the NPA, whilst strengthening interbank payments competition. It is essential that Pay.UK benefit from lessons of the past and ensure that the future procurement enables pricing to protect against significant increase or decrease in payment volumes, during the life of the proposed contract(s) for the delivery and operation of the NPA CIS.
- 13.4 One standard procurement practice is to introduce a built-in mechanism in the contract between Pay.UK and the successful bidder, to facilitate periodic cost and pricing reviews.



### ***Incentivise utilisation of the NPA***

- 13.5 To incentivise widespread participation in the NPA, as highlighted in section 13.3, pricing levels will need to represent real value for money and be no higher than the current pricing for equivalent payment transactions. Pricing also needs to be set at a competitive level compared with other payment systems.
- 13.6 The unit price will be critical as without a cost incentive, the investment needed to voluntarily move to a transaction type will be limited. The market will only respond positively if the financial and non-financial benefits, including richer data and functionality, make the investment worthwhile.
- 13.7 Whilst considering the incentive to migrate payments to the NPA, it is however very important to consider the impacts on Faster Payments still to migrate and on BACS transactions. A big bang migration is not in the interests of stability and so some Direct Participants will be encouraged to migrate at a later time.
- 13.8 In HSBC's response to the first part of the consultation paper (CP21/2), we called out a further important consideration, that without careful planning, BACS and remaining Faster Payments could be left in a difficult position. As we have seen with the Image Clearing System, as volume declines, then the unit cost has to increase to cover the central costs. Careful thought is needed to ensure that remaining Faster Payments and BACS' pricing is not allowed to escalate, potentially disadvantaging end users and participating Payment Service Providers.
- 13.9 We therefore do not consider that pricing is an appropriate lever to encourage early migration. The focus must be a well-planned and sequenced migration, that de-risks the delivery and migration, again in the interests of end-users.

### ***Foster competition in services to end users***

- 13.10 HSBC supports the principle that CIS pricing does not distort competition in overlay markets and there is a level playing field between CIS users.

### ***Be transparent and predictable***

- 13.11 HSBC agrees that CIS pricing needs to be transparent and structured, noting that over the last two years, Pay.UK has established strong practice in providing its Direct Participants with transparent and clear pricing information and rationale.
- 13.12 We would expect the NPA CIS contract to have some provision for inflation adjustment to pricing and for Pay.UK to make that principle transparent to NPA Direct Participants.



- 13.13 Whilst we understand the theoretical aspiration to have increasing competition between the NPA and other payment systems, such competition today is limited. The most important driver behind the requirement for transparent and structured pricing is to support end user outcomes. Only then can participating firms have a solid foundation on which to develop NPA-led service propositions.

***Adapt to changing competitive conditions***

- 13.14 Pay.UK already manages its payment scheme pricing in line with changing market conditions.
- 13.15 As noted already in section 13.3, it is essential that the CIS contract is sufficiently agile to accommodate a significant increase or reduction in payment volumes, during the timespan of the contract, to ensure pricing remains fair and proportionate to the underlying service.
- 14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?**
- 14.1 The proposed pricing principles set out in Chapter 6 address competition risks relating to CIS user pricing.



## HSBC UK Bank plc



**HSBC UK Bank PLC**

**DELIVERY AND REGULATION OF THE NEW PAYMENTS ARCHITECTURE**

**CONSULTATION PAPER**

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**RESPONSE TO PSR CONSULTATION PAPER DATED FEBRUARY 2020**

**19 March 2020**

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## COVER SUBMISSION

HSBC UK Bank PLC (**'HSBC UK'**) welcomes the PSR's Call for Input on Delivery and Regulation in the UK's New Payments Architecture (**'NPA'**).

Progress on the delivery of the NPA has been slower than HSBC UK either expected or desired. Before responding to the specific questions in the consultation paper (CP21/2), we want to set out important matters for further consideration.

### **Payment Strategy Forum blueprint**

The Payment Strategy Forum (**'PSF'**) blueprint was published in July 2017. Section 4.2 of the blueprint sets out the gross benefit opportunity of between £11.5 billion and £14 billion associated with the NPA in the period 2019 to 2031. Given that significant time has passed, HSBC UK believe it is important that, when publishing the final policy decisions on the NPA, the PSR should consider and re-state the potential NPA benefits, against the context of:

- Potential reduced scope, should the initial NPA delivery be limited to the future Faster Payments solution;
- Future end-user benefits, including the impact of any disruption and migration costs;
- Elapsed time, with the result that even with the potential reduced scope, the NPA will not be delivered for a number of years;
- Some of the benefits set out in the PSF blueprint having already been delivered, and
- Whether the detriments captured in 2015 remain the same today, to ensure that the right outcomes are being delivered by the NPA.

We do not consider that reviewing the benefits needs to delay the NPA development further, but given a number of years have passed and the industry's growing frustration with the lack of progress, securing refreshed commitment, support and enthusiasm for the development at this time is needed.

### **Business Case**

It is essential that the NPA, in whatever final form is determined by the PSR, has a meaningful business case that shows the financial and non-financial benefits of what will be a significant investment across the industry.

It is also critical that the costs: benefits assessment considers the entire industry's costs and not just the Pay.UK programme and delivery investment.



### **Right NPA technology**

Technology has developed significantly since the publication of the blueprint. Cloud processing, Application Programming Interfaces and network capabilities have moved forward considerably in the last five years. It is very important to HSBC UK that the NPA is delivered using the right architecture, to future-proof the new central layer as far as possible. The NPA investment is likely to be significant and it is therefore even more important that Pay.UK considers the appropriate technology architecture given that the NPA, once established is likely to be the central platform for retail payments for at least the next decade.

### **Right governance and collaboration**

HSBC UK has been working to support Pay.UK with the complex NPA concepts and proposed requirements. Pay.UK recognised that their level of stakeholder engagement had not been appropriate for a programme of this importance and we have welcomed the changes made in 2020.

Expertise, skills and knowledge for large payments technology change resides in Pay.UK's direct participants, including HSBC UK. If the NPA is to be a success, then continuing strong collaboration is essential in the interests of achieving the PSR's end users' needs, innovation and competition objectives.



### Questions related to the risks to NPA delivery

#### 1. **Do you agree with our view of the risks to the successful delivery of the NPA?**

- 1.1 HSBC UK broadly agrees with the PSR's view of the risks to the successful delivery of the NPA.

#### ***Risk One – The NPA programme will not provide value for money***

- 1.2 Firstly, HSBC UK agrees that there is a very real and present risk that the NPA will not deliver **value for money**. Estimations on the total cost of the work completed to date against the current status of the programme do not provide confidence in further investment. This lack of confidence in the development investment creates a dimension to the risk that Pay.UK loses industry support and backing to move the programme forward.
- 1.3 HSBC UK's view is that Pay.UK must be clear on the tangible benefits (financial and non-financial) which the NPA should achieve for the UK in light of the significant costs that will be incurred. In our response to the Pay.UK consultation on the NPA Ambition (FEB20), we argued that the benefits should be codified in an agreed industry business case and tracked against the costs being incurred through the realisation of the NPA, with a continuous assessment of the costs and benefits. We said that the business case should be maintained to ensure that the agreed vision and scope are delivered along with the forecast financial and non-financial benefits. Our review remains that this is the most effective way of ensuring the NPA delivers a highly cost effective, efficient and flexible future to enable the evolving UK payments landscape that can demonstrate value for money; and provide confidence in further investment.
- 1.4 In our discussions with Pay.UK we have also encouraged the development of an approach that guarantees value for money for the payments industry along with the fair allocation of the one-off transformation and ongoing run costs. Options for the potential funding of the central infrastructure are under review. Whilst we expect larger participants to make a contribution to the NPA build costs in line with their current share of the market, and will indeed need to invest significantly in transformation of their own systems to interact with the new architecture, larger participants cannot be expected to subsidise other parties (both existing and future) that stand to gain significant advantage from the new infrastructure. We welcome Pay.UK's consideration of the options for an equitable approach to achieve fair value for money, and will support industry buy-in on the significant investment needed.



- 1.5 A further dimension to the fair allocation of costs is affordability of the programme investment required across the industry. HSBC UK is under no illusion that the NPA programme will require a significant investment. This is set in the context of a range of major industry and wider regulatory change programmes and the extremely challenging economic environment as the result of COVID-19. Whilst this makes calls for investment challenging in the short term, it underscores the importance of the clear and tangible benefits that drive new commercial opportunities, the overdue realisation of customer benefits and assurance that there will be a fair allocation of costs.
- 1.6 HSBC UK agrees with the PSR analysis that an important driver of the risk that the NPA will not deliver value for money is the scope of the procurement. Given that there appears to be general agreement that a phased approach to migration is more appropriate to reduce risks and allow realisation of the benefits from earlier migration of the less complex transactions faster, we agree that an approach involving the procurement and build of all functionality upfront adds unnecessary risks and potential further delay.
- 1.7 Likewise, we agree that the detailed functional requirements for some of the common services Pay.UK is procuring have not been fully determined or validated with stakeholders. HSBC UK is concerned that the industry and market are constantly evolving and there is a need to ensure that the proposed requirements are still right for the UK payments landscape in 2021 and into the future.
- 1.8 More fundamentally, customer requirements and expectations are constantly moving and we are conscious that the Blueprint is based on an analysis of customer detriments and available data that was undertaken in 2015. We therefore agree that this adds to the risk that the procurement will not provide value for money. There is a risk that Pay.UK could procure inappropriate solutions to support services that may not be necessary or that have been made redundant by the time they are scheduled for implementation. Equally, we believe that such solutions may be able to be provided competitively by the market, which may deliver better value and innovation for customers.

***Risk Two – The NPA programme will stifle competition and innovation in payment services***

- 1.9 Provided the NPA is established in line with important governance principles, then HSBC UK does not believe that the NPA will stifle competition and innovation in payment services. Whilst the creation of a single NPA infrastructure maintained by a single provider will inevitably give rise to some degree of competition risk, as it leads to the single provider of the payment system in question, HSBC UK does not consider



mitigation of such risks to be insurmountable. Such issues are similar to those faced by other utilities and can be managed appropriately via a combination of existing competition laws and the regulatory overlay provided by the PSR. We support the governance principles for the NPA eco-system set out in paragraphs 5.43 to 5.59 in the consultation document (CP21/2) and welcome the idea of the PSR adopting the regulatory supervisory role to manage competition concerns. Whilst we are not opposed to the idea of operational separation, as noted in our response to the Call for Inputs, the benefits of operational separation need to be balanced against the benefits and advantages (in terms of efficiencies and innovation) that can arise from the CIS provider being able to utilise and leverage know-how it receives via its position as CIS provider, and the potential for strong operational separation requirements to reduce interest by providers in competing for the core NPA role, and to add a significant expensive layer of administration and governance.

- 1.10 With regards to scope, we agree that it is important, from a competition law perspective, that Pay.UK realise the vision advanced in the original blueprint, where the central clearing and settlement layer is kept to the minimum, provided end user detriment is not created as a consequence, this allowing the industry to respond at the overlay services level, to develop innovative solutions and propositions in the interests of end users.
- 1.11 However, whilst we support the development of a new ecosystem that is built to enable effective competition and facilitate new entrants, this must be balanced with the needs of participants operating at scale, which have a responsibility to manage the large-scale daily flow of payments on existing infrastructure and to ensure that at no point does the new ecosystem put at risk the operational resilience of the current payments infrastructure. It is also very important to remember that larger participants, such as HSBC, have clear responsibilities to meet the complex payments needs of all customers, including vulnerable customers, all types of business customer and large corporate clients.

***Risk 3 – The NPA programme will delay realisation of the benefits of the NPA***

- 1.12 HSBC UK's view is that a key reason why Pay.UK has found it difficult to make progress on the NPA programme to date, is the sheer scale and complexity of the work. The Faster Payments elements are more straightforward given the parallels between the way Faster Payments works today and the planned Single Immediate Payment 'rail' for the NPA. However, BACS is more complex, entrenched in business process with more than one scheme, which works under a very different processing, clearing and settlement model to the PSF vision. By focussing on the full range of the PSF vision



makes it very difficult to define and move forward with a provider, and risks delaying the realisation of any NPA benefits and ending up with sub-optimal outcomes.

- 1.13 Ensuring ongoing stability and resilience of the UK payments system is our paramount concern. The PSF vision is bold and we believe stability and resilience must be front of mind in all decisions regarding the development and delivery of the NPA. HSBC UK's customers quite rightly have an expectation that payments will work whenever they have the need to remit or receive a payment. The industry must be satisfied that there will be continuity of service in the event of disruption during the transition and in the future running of the infrastructure. We do not have confidence today that there is a clear view of the risks associated with the migration and then for the industry to agree a collective risk appetite to manage the transition effectively.
- 1.14 On a practical note, the repeated delays and uncertainty regarding the requirements of the NPA delivery creates a challenge for firms to prepare funding requirements and resource in line with annual planning cycles. Whilst Pay.UK understand this challenge and are preparing a plan, without certainty on the outcomes from this Call for Views and the PSR's intended way forward until 3Q-4Q21, our own ability to plan for 2022 and beyond will be hampered.
- 1.15 A further dimension to the risk to successful delivery is the sequencing of change within the NPA and the elapsed time to deliver all in-scope NPA components. The UK payments industry is operating during a period of unprecedented change and the NPA transformation has to be carefully sequenced and overlaid against the complexity of wider ISO 20022 required changes across the payments landscape (see table below); and the expertise and executive attention available to support and direct this effectively and safely. The table below is restricted to key ISO 20022 developments and does not include wider regulatory change, which all has to be delivered over the same period.

Legal and regulatory change	Date
CHAPS – introduction of ISO 20022 like-for-like messaging standards	June 2022
SWIFT – start of ISO 20022 and MT co-existence period	November 2022
Fedwire / CHIPS – Phase one of the introduction of ISO 20022	November 2022
Target 2 / Euro 1 / CHIPS – Migration to ISO 20022	November 2022



Legal and regulatory change	Date
CHAPS – introduction of enhanced ISO 20022 messaging standards	February 2023
SWIFT – end of ISO 20022 and MT co-existence period	November 2025

- 1.17 We have to bring our customers with us on this transformation journey and there may be a limit for how much change customers (consumers and businesses) can embrace within a given period.

#### Questions related to procurement scope

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?
- 2.1 Answer combined with the response to Question 3.
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?
- 3.1 Taking questions 2 and 3 together, HSBC UK broadly agrees with the PSR analysis of the suggested risks, pros and cons of the two alternative options for the scope of the initial procurement.
- 3.2 If the NPA programme were in a positive position, then HSBC UK's preference would be for a single procurement programme, covering replacements for both Faster Payments and BACS, both to support the effective procurement of common services and to ensure better value for money given the volume of payments processed through the current BACS and Faster Payments infrastructure.
- 3.3 However, given the current status of the NPA programme and risks to delivery articulated, HSBC supports scope Option 2 – the narrower scope option. In summary, our main reasons for supporting Option 2 are to de-risk the programme and to



support the best overall outcome for customers and the future NPA Direct Participants. Option 2 offers:

- A clear route to achieving a successful procurement of the central infrastructure and therefore to deliver and realise the benefits envisaged by the PSF, even if only in part;
- The best approach to ensuring Pay.UK are a well-informed buyer by making the scope more manageable and well defined, with less complex legacy and end-to-end customer journeys, and
- Supports the de-risking of the initial CIS delivery and enables ISO 20022-based immediate payments more quickly compared with option 1.

3.4 Whilst our reasons are principally about de-risking the delivery, Option 2 is not risk free. The following risks may arise from Option 2:

- The central infrastructure procured needs to ensure that it does not preclude, prevent or impede the addition of services to replace BACS in the future – from technology, standards or delivery perspectives. The approach needs to work towards standards that will be capable of supporting both transaction types.
- There is also a risk that whilst Option 2 may enable an earlier migration for Faster Payments transactions, it could slow down the BACS migration relative to Option 1.
- The BACS infrastructure platform must remain fit for purpose, resilient and stable until beyond 2023. Further investment may be required, that may be throwaway and not represent value for money, depending on the eventual NPA BACS solution.
- A number of potential BACS developments and enhancements for end-users and BACS Participants may have to be further delayed, in the need to deliver the easier Faster Payments solution first.
- The additional risk of incumbency. If there is an entrenched provider of the narrowed-scope NPA (providing the replacement to Faster Payments), and then a decision is taken to invest further in developing the replacement to BACS, the extension is inevitably going to be procured against a backdrop of there being only one plausible provider. If so, then there is real doubt how such an approach could be a competitive process. The NPA provider would be the only plausible provider, and could be in a position to charge what it wants for the extension to cover BACS.



- 3.5 To try to mitigate these risks, HSBC UK recommends that there is a specific aspect of the procurement that considers the implications of the design for BACS to encourage [REDACTED] Pay.UK to keep a 'future proof' mind-set. We believe that there should be a clear contractual mechanism for extensions or changes to the NPA to be proposed and agreed, and a clear methodology for ensuring that changes and extensions occur on an at-cost or similar quasi-regulated price, accepting there will be only one plausible provider.
- 3.6 Whilst limiting the scope to Faster Payments is the right way forward at this time, there is benefit to the Faster Payments component of the NPA considering the Direct Credit element of BACS functionality, to at least ensure that the future solution could be capable of accommodating all retail push interbank payments in scope for the future NPA.
- 3.7 It is also important that Pay.UK review the existing stack of potential BACS developments and the current VocaLink contract, to ensure that the risks of not developing the BACS requirements at this time are acceptable. Significant adverse impacts for end-users and BACS participants must be avoided.
- 3.8 It is also possible that development may also be required to the Faster Payments existing architecture, given the elapsed time since the NPA was first considered. Depending on when NPA delivery is expected, some developments, particularly in the economic crime prevention and detection space, may not be able to wait until the NPA is implemented.
4. Under scope options 2:
- a. 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?
  - b. 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 common services to support the migration of BACS transactions?
  - c. 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?



- 4.1 In Section 3.6, we propose that the Direct Credit element of BACS functionality be considered as part of the limited NPA delivery. If the Faster Payments element of the NPA is delivered in the right way and the future transaction charge is competitive, then corporate end users, may with encouragement from their provider see the merit of migrating some credit payments from BACS to the NPA solution.
- 4.2 The established batch processing of Direct Credits will need significant consideration as part of any future design.
- 4.3 The unit price will be critical as without a cost incentive, the investment needed to voluntarily move to a transaction type will be limited. The market will only respond positively if the financial and non-financial benefits, including richer data and functionality, make the investment worthwhile.
- 4.4 Provided the NPA is set up in the right way taking into account the important factors set out in sections 4.1 and 4.2, then the market could start to move relatively quickly.
- 4.5 The timing and way forward for potential Direct Debit market-led propositions is much harder to predict. The Direct Debit Indemnity Guarantee is the key factor that would make it very difficult for market-led propositions to be developed. We are not convinced that the current NPA proposal is able to address the Direct Debit market requirements fully, regardless of the proposed procurement scope change.
- 4.6 Visibility on incoming payments is an important part of the BACS solution today, allowing end users to have prior sight of advance payments, both to provide covering funds but also to allow their PSP to make informed pay / no pay decisions, in the knowledge of a future credit. We know that customers benefit from this future visibility today. If the market is to move away from this clear benefit, then there will need to be an extensive communications programme, if we are to avoid significant customer detriment, where payments that would have been previously authorised are rejected and where customers lose their ability to plan their finances as they do today. The challenges can be overcome but will need a holistic industry approach if customer detriments are to be avoided, especially for vulnerable customers and small businesses, grappling with the impacts of COVID-19.
- 4.7 Ultimately it is the service that matters most and the mechanism that delivers the payments data is not of concern to the majority of most customers. It would be a mistake to allow technical file formats to become an issue and to come before customer needs.
- 4.8 A further important consideration is that without careful planning, BACS could be left in a difficult position. Should a sizeable volume of payments find some form of market-led solution, then there are potential consequences for BACS. As we have seen with the Image Clearing System, as volume declines, then the unit cost has to



increase to cover the central costs. There is also a wider question on future investment. If the market does respond and some of the Direct Credit volume migrates to the NPA solution, then there are important questions over the management, resilience and cost for the remaining Direct Credits.

- 4.9 Whilst HSBC UK look forward to continuing innovation and completion with the origination of new solutions, it is important for the PSR and Pay.UK to consider the unintended consequences for end users and ensure that the benefits of market-led solutions do not leave some end users behind.

#### **Questions related to procurement approach**

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.**
- 5.1 HSBC UK agrees that it would not be in the best interests of the industry or service-users for Pay.UK to begin or restart any procurement until it has sufficient knowledge, capability and clarity about the requirements to be put into a contract. The outcomes from this consultation will be the key determinant of those requirements and will therefore mean a further delay until work can begin in order for due process to be followed.
- 5.2 We recognise that all three options available for progressing the procurement carry risks and there are some difficult decisions to make to find a pragmatic and effective way forward.
- 5.3 HSBC is not in the best position to be able to judge the progress of the existing procurement process or indeed whether the in-flight process has been established in the right way to deliver the required outcomes. We are of course not privy to the nature of the procurement process, the vendors involved or the reasons for those excluded to date. Against these facts, it is extremely difficult for HSBC to comment on the viability of some of these options, such as whether there is appetite or ability for current bidders to continue the current competitive procurement or enter a new one; or whether previously excluded bidders could re-enter the process under a narrower scope. Accordingly, HSBC needs to rely on Pay.UK and the PSR, who have the benefit of the full factual picture, to make an overall judgement on whether the continuation of the procurement process will deliver the best overall outcome for the industry.





5.5 Each of the options has risks and potential benefits. In the context of our comments around option 3 above, we are focussed on supporting Pay.UK to move forward at pace to achieve procurement of the right services to agreed requirements, with a stable and experienced vendor. We are of course not-sighted on the potential NPA bidders and therefore cannot comment on the quality of the potential options.

[REDACTED]

5.6 We do not think that completely re-starting the procurement process will be helpful in the context of wishing to move the programme to delivery. Our understanding of the market is that a narrower scope would be unlikely to lead to additional vendors, with the right experience and capabilities to enter a new process.

[REDACTED]

[REDACTED]

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)?

6.1 Given the time spent since the publication of the blueprint in 2015, it is clear that the industry has limited options at this time, if we believe that the NPA is still the right way forward for the industry.

6.2 In HSBC Bank plc's response to the final report of the Market Review of the ownership and competitiveness of infrastructure provision (MR15/2.3), HSBC Bank plc proposed that the industry should also be considering the potential to move to a direct contracting model, where PSPs are able to select the appropriate Payment System Operator-accredited infrastructure provided that meets their individual customers' needs. This would negate the need for such a wholesale competitive procurement exercise and instead open up the UK market to even greater competition and innovation.



**HSBC UK BANK PLC**

**DELIVERY AND REGULATION OF THE NEW PAYMENTS ARCHITECTURE**

**CONSULTATION PAPER**

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**RESPONSE TO PSR CONSULTATION PAPER DATED FEBRUARY 2021**

**5 May 2021**

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## COVER SUBMISSION

HSBC UK Bank plc (**'HSBC UK'**) welcomes the opportunity to respond to the second part of the consultation (CP 21/2), considering the delivery and regulation of the New Payments Architecture (**'NPA'**).

Before responding to the specific questions in the second part of the consultation paper (CP21/2), we want to set out a number of important themes, that we believe merit further consideration by the PSR as they consider the Delivery and Regulation of the NPA.

### **Importance of end user outcomes**

HSBC UK's view is that it is important that we start to make progress with the NPA development. The UK is now essentially standing still, with limited end user developments in interbank payments, whilst Direct and Indirect Participants await the final direction of travel and way forward.

On this basis, we strongly encourage the Payment Systems Regulator (**'PSR'**) to **focus on the outcomes** for the industry and the customers that depend on the payments in scope for the NPA development. HSBC UK believes the UK needs a supportive and proportionate regulatory framework for the NPA to ensure that the benefits for customers and participants are delivered and realised.

A number of the proposals in the consultation document are not easily measurable neither do they appear to be outcomes-based, by reference to what the PSR considers to be a well-functioning ecosystem. It is therefore difficult to determine the benefits that will be realised from the proposed regulatory interventions. We urge the PSR to re-align their proposals to measurable outcomes, to ensure that regulatory intervention is evidence-based and proportionate, in order to deliver a successful NPA programme for the industry that promotes competition in the interests of end-users and the industry.

### **Clear PSR and Pay.UK roles**

It is important that the respective roles of Pay.UK and the PSR are clearly defined as we enter the next critical phase of the development of the NPA. Pay.UK's role is to set the NPA requirements and standards and to ensure that the central infrastructure and standards are available to the market as required. However, some of the interventions proposed by the PSR appear to confuse the roles of the PSR as the concurrent competition regulator and Pay.UK, which bears the responsibility for the procurement of central industry infrastructure.



## **Proportionality**

It is essential that not only should all regulatory interventions be appropriate to the identified level of risk, they also need to be designed and executed in a proportionate manner. HSBC UK is quite rightly not sighted on the Pay.UK procurement process to date, so it is difficult to assess, whether the proposed regulatory measures are reasonable and proportionate in mitigating the competition and pricing risks.

Where appropriate, we recommend that the PSR consider cost-benefit analysis, before finalising the regulatory approach and any associated measures. We welcome further clarity on the proposed regulatory intervention and the process for engaging further with the industry, and especially the Direct Participants who will bear the cost of the NPA development, prior to PSR formal direction.

## **Potential restriction in competition**

The approach proposed in the consultation document CP 21/2 appears to set in stone the existing model, where Pay.UK procure the central infrastructure and Direct Participants are restricted to the arrangements that Pay.UK put in place. The proposed model precludes Direct Participants from undertaking their own procurement process to secure an appropriate solution that meet their and their customers' requirements and risk appetite, restricting future competition. A further disadvantage is that the proposed model could lead to increased costs for direct participants, indirect participants and the end-users that they serve.

In HSBC Bank plc's response to the final report of the Market Review of the ownership and competitiveness of infrastructure provision (MR15/2.3), HSBC Bank plc proposed that the industry should also be considering the potential to move to a direct contracting model, where PSPs are able to select the appropriate Payment System Operator-accredited infrastructure provided that meets their individual customers' needs. This would negate the need for such a wholesale competitive procurement exercise and instead open up the UK market to even greater competition and innovation.

HSBC UK is unclear from the consultation document what evidence there is of the benefits for continuing with the historic approach. We have long argued that bilateral procurement, would lead to increased competition across the UK. We would therefore welcome a solution where future bilateral procurement is not excluded, enabling greater competition in the future.

## **Update – response to questions 1-6**

Finally, in light of further analysis undertaken by Pay.UK on the merits of a direct award and a competitive tender process, we wish to offer some further views.



Firstly, it is not for HSBC UK to determine the procurement process for Pay.UK to follow. Whilst HSBC UK is quite rightly not part of the Pay.UK process, we are supportive of continuing the existing procurement exercise, provided the process achieves the following, to the benefit of the wider ecosystem:

- The main priority must be on outcomes for end users and the process that delivers the right, safe and timely results for customers that rely on these payments;
- A second focus should be on the direct and indirect participants who serve customers that rely on these payments. The right level of resilience, right technology, right functionality, acceptable risk profile and value for money are all critical elements, and
- Lastly Pay.UK needs to be able to lead the NPA programme effectively and at a reasonable cost, through the development, transition and normal operational lifecycle. A procurement exercise may remove some of the regulatory complexity.



## Questions related to competition

7. **Do you agree with our view of the risks to the successful delivery of the NPA? Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.**
- 7.1 HSBC UK agrees with the PSR's view of the risks to the successful delivery of the NPA, but with the following additional points for consideration;
- Whilst we support the concept of low barriers to entry and participation for PSPs and overlay providers, it is essential that **integrity and resilience** in the payments system is maintained and must always remain the top priority. We expect that Pay.UK will ensure that new participants and overlay providers meet the requirements to participate in the NPA, with appropriate testing and assurance to ensure compliance with the NPA scheme and the appropriate levels of financial standing and technical and operational expertise;
  - We agree that it is essential for all participants, regardless of market power to not behave anti-competitively. However, the consultation document appears to propose that it is Pay.UK's responsibility to monitor the market for the existence of any entity with significant market power and then to take action against them. We do not believe that this is the role of Pay.UK, nor do they have the appropriate tools to fulfil this function, and we suggest that this responsibility should reside with the PSR as part of their competition law powers;
  - We are supportive of the proposal that there should be easy comparison and switching between PSP and overlay providers by payers, payees and other users. However, again, HSBC UK does not believe that it is Pay.UK's role to ensure easy switching for users of payment services, beyond existing and future Direct Participants. Pay.UK's role is to set the NPA requirements and standards and to ensure that the central infrastructure and standards are available to the market as required. It is not Pay.UK's role to provide the services; this responsibility sits firmly with the PSPs and overlay providers. Pay.UK needs to enable the market and ensure that normal competition and potential new entrants are not deterred.
  - We also support the principle that the CIS provider must not discriminate in service quality between PSPs, overlay providers, payment remitters or beneficiaries. The proposed imposition of Service Level Agreements ('SLAs') is an appropriate and well-established measure of control, that can set objective criteria to ensure appropriate standards are met. It may be very difficult and potentially not cost-effective to remove the potential for service quality discrimination from the NPA system. The use of SLAs, enshrined in the future



contract is an established, proven and practical method of control, that we believe remains appropriate for this purpose of removing the potential risk of service quality discrimination.

- We believe that a further important design principle, is that technology must be future-proofed. As set out in the cover submission to HSBC UK's response to the first part of the consultation paper, technology has developed significantly since the publication of the blueprint. Cloud processing, Application Programming Interfaces and network capabilities have moved forward considerably and at pace in the last five years. The NPA investment is likely to be significant and once established is likely to be the central platform for retail payments for at least the next decade. It is therefore very important that Pay.UK considers the appropriate technology architecture, to future-proof the new central layer as far as possible to minimise the risk that current design will require significant overhaul. Whilst the Image Clearing System ('ICS') is quite correctly currently out of scope, the declining cheque volume means that a future solution is required and the NPA design should not preclude potential future ICS inclusion.

7.2 HSBC UK's view is that Pay.UK must be clear on the tangible benefits (financial and non-financial) which the NPA should achieve for the UK in light of the significant costs that will be incurred. In our response to the Pay.UK consultation on the NPA Ambition (FEB20), we argued that the benefits should be codified in an agreed industry business case and tracked against the costs being incurred through the realisation of the NPA, with a continuous assessment of the costs and benefits. We said that the business case should be maintained to ensure that the agreed vision and scope are delivered along with the forecast financial and non-financial benefits. Our view remains that this is the most effective way of ensuring the NPA delivers a highly cost effective, efficient and flexible future to enable the evolving and competitive UK payments landscape that can demonstrate value for money; and provide confidence in further investment.

7.3 In our discussions with Pay.UK we have also encouraged the development of an approach that guarantees value for money for the payments industry along with the fair allocation of the one-off transformation and ongoing run costs. Our view is that this approach will help foster the right incentives for investment in the NPA to leverage its potential benefits.

8. **Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.**

8.1 HSBC UK is broadly supportive of the PSR's assessment of the competition risks and the practical implications within the NPA ecosystem.



- 8.2 We seek clarification on the PSR's proposal that Pay.UK should deal with a CIS provider on behalf of participants. It is appropriate for Pay.UK to own and manage the relationship with a CIS provider for both pricing and other access terms and conditions. However, there may be operational and technical issues, where direct liaison between a CIS provider and a Direct Participant is required.
- 8.3 We therefore strongly encourage the PSR not to be overly restrictive and to allow PSPs to be able to interface directly with a CIS provider in the interests of resolving operational and technical issues at pace. We see no risk to allowing Direct Participants to engage directly with the CIS provider for such operational and technical issues, ensuring that Pay.UK are kept informed, especially where there has been an adverse impact on service. It is worth noting that Pay.UK does not operate 24 x 7 and so, forcing a PSP to wait for Pay.UK to be available to engage, could delay resolution of an issue for end users.
9. **Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?**
- 9.1 HSBC UK agrees with the proposed three principles but seeks additional clarity as proposed in paragraph 9.5 below.
- 9.2 When considering the first proposed principle, it is worth noting that today we would consider Pay.UK are already the primary decision-maker and interface for all matters relating to the existing central infrastructure provision. There is therefore no change from the current position.
- 9.3 In connection with the second principle, we support the PSR's position that Pay.UK must have the right capabilities, incentives and governance framework in place to perform its NPA decision-making and monitoring role.
- 9.4 We are also supportive of the third principle but there is a need for a careful balance, to avoid potential unintended detriments. By requiring operational separation, there is a risk that the central architecture could forego innovation, that may otherwise be developed and available in the bidders' wider group companies. Structural separation should not preclude the bidders' wider group companies from competing under their own brand, to introduce innovative solutions and overlays, outside the formal ring-fenced CIS contract. There may also be a risk that one or more bidders may be unable to accommodate the proposed structural separation and withdraw from the procurement process.
- 9.5 We would welcome further clarity on what is proposed by the PSR and as set out in our cover submission, encourage the PSR to ensure that any regulatory intervention



is proportionate to the level of risk identified, has clear objectives that can be measured, against a cost / benefit analysis. The focus must remain on the potential benefits to end user outcomes.

10. **Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.**

10.1 From our review, we have not identified common services that could raise a competition risks that differ substantially from those raised by the provision of the CSS.

11. **Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.**

11.1 HSBC UK is supportive of the three areas listed in section 5.51 of the consultation document.

11.2 On the third point considering data, it is important to note that the successful bidder will not be the owner of the transactional or other payment information and there are existing data protections in place to protect leakages and cyber-attacks.

11.3 The elements of operational separation will depend on the supplier selected by Pay.UK to build and supply the central infrastructure and it is difficult for HSBC UK to express definitive views without an understanding of the bidders and their specific underlying corporate structures.

12. **Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?**

12.1 HSBC UK supports regulatory measures being set out at the outset of the programme, to ensure clarity for Pay.UK, the participating firms and for the potential supplier of the central infrastructure. We also agree that it is important that there is an option to introduce different or further regulatory measures as required, to ensure that the NPA continues to encourage competition and innovation.

12.2 Such measures should be proportionate to the development and safe deployment of the NPA and to support the required governance principles.



- 12.3 The PSR will need to consider the existing Specific Directions 2 and 3 and whether the Specific Directions need to be revised or replaced, in light of the change in scope, direction and uncertain timing.
- 12.4 Care is needed to focus on outcomes and to ensure that the regulatory measures do not lead to a disproportionate increase in cost, nor have the unintended consequence of stifling competition.

### **Questions related to pricing**

**13. Do you have any comments on the pricing principles set out in this document?**

- 13.1 HSBC UK is supportive of the pricing principles proposed in section 6, in order to ensure effective competitive outcomes.
- 13.2 However, we consider they should not go further than what is proposed or stray into realms of price caps or regulated pricing given that the appropriate economic incentives are already in place.

### ***Reflect efficiently incurred costs***

- 13.3 When considering the principle that CIS user prices should reflect efficiently incurred costs, it is important that the NPA is built and structured in a way that ultimately delivers lower pricing than the current level of pricing for the legacy services. Future NPA services must represent value for money and the level of pricing must be predictable and well-communicated, if adverse outcomes for end users are to be avoided. The costs / benefits of the future NPA must be kept under close and periodic review. The unit costs of the NPA should not be higher than the current level of equivalent transaction pricing. Increased pricing should only be permitted where there are overarching benefits and clear improved customer outcomes that justify the increased unit costs. This principle supports the PSR's overall objective of maximising the overall benefits of the NPA, whilst strengthening interbank payments competition. It is essential that Pay.UK benefit from lessons of the past and ensure that the future procurement enables pricing to protect against significant increase or decrease in payment volumes, during the life of the proposed contract(s) for the delivery and operation of the NPA CIS.
- 13.4 One standard procurement practice is to introduce a built-in mechanism in the contract between Pay.UK and the successful bidder, to facilitate periodic cost and pricing reviews.



### ***Incentivise utilisation of the NPA***

- 13.5 To incentivise widespread participation in the NPA, as highlighted in section 13.3, pricing levels will need to represent real value for money and be no higher than the current pricing for equivalent payment transactions. Pricing also needs to be set at a competitive level compared with other payment systems.
- 13.6 The unit price will be critical as without a cost incentive, the investment needed to voluntarily move to a transaction type will be limited. The market will only respond positively if the financial and non-financial benefits, including richer data and functionality, make the investment worthwhile.
- 13.7 Whilst considering the incentive to migrate payments to the NPA, it is however very important to consider the impacts on Faster Payments still to migrate and on BACS transactions. A big bang migration is not in the interests of stability and so some Direct Participants will be encouraged to migrate at a later time.
- 13.8 In HSBC UK's response to the first part of the consultation paper (CP21/2), we called out a further important consideration, that without careful planning, BACS and remaining Faster Payments could be left in a difficult position. As we have seen with the Image Clearing System, as volume declines, then the unit cost has to increase to cover the central costs. Careful thought is needed to ensure that remaining Faster Payments and BACS' pricing is not allowed to escalate, potentially disadvantaging end users and participating Payment Service Providers.
- 13.9 We therefore do not consider that pricing is an appropriate lever to encourage early migration. The focus must be a well-planned and sequenced migration, that de-risks the delivery and migration, again in the interests of end-users.

### ***Foster competition in services to end users***

- 13.10 HSBC UK supports the principle that CIS pricing does not distort competition in overlay markets and there is a level playing field between CIS users.

### ***Be transparent and predictable***

- 13.11 HSBC UK agrees that CIS pricing needs to be transparent and structured, noting that over the last two years, Pay.UK has established strong practice in providing its Direct Participants with transparent and clear pricing information and rationale.
- 13.12 We would expect the NPA CIS contract to have some provision for inflation adjustment to pricing and for Pay.UK to make that principle transparent to NPA Direct Participants.



- 13.13 Whilst we understand the theoretical aspiration to have increasing competition between the NPA and other payment systems, such competition today is limited. The most important driver behind the requirement for transparent and structured pricing is to support end user outcomes. Only then can participating firms have a solid foundation on which to develop NPA-led service propositions.

***Adapt to changing competitive conditions***

- 13.14 Pay.UK already manages its payment scheme pricing in line with changing market conditions.
- 13.15 As noted already in section 13.3, it is essential that the CIS contract is sufficiently agile to accommodate a significant increase or reduction in payment volumes, during the timespan of the contract, to ensure pricing remains fair and proportionate to the underlying service.
- 14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?**
- 14.1 The proposed pricing principles set out in Chapter 6 address competition risks relating to CIS user pricing.



# Lloyds Banking Group



**LLOYDS BANKING GROUP PLC**

**Response to PSR Consultation Delivery and Regulation  
of the New Payments Architecture (Part One)**

19 March 2021



### Introductory Comments

Lloyds Banking Group (LBG) is pleased to respond to the Payment Systems Regulator's (PSR) consultation on delivery and regulation of the New Payments Architecture. Our key considerations are as follows, which have informed our response.

**LBG is committed to the vision of a UK domestic payments system that is resilient, adaptable and secure and enables innovation and competition.** These outcomes – identified by the Payments Strategy Forum in 2016 – are as relevant today as they were then. However, since 2016, the payments landscape has changed. Therefore, the NPA approach must change too.

Both technology and associated regulatory oversight have matured, with the European Banking Authority publishing revised guidelines on outsourcing arrangements, including to Cloud service providers, in 2019. **Many payment services providers, including LBG, are moving key internal operations to the Cloud.** Additionally, the digital world has become increasingly interconnected, with customers expecting services and functionality to be joined up and accessible without having to jump from app to app. **Payments are an enabler of a well-functioning economy; therefore, payment systems must support and unlock the capabilities of current and future technological developments,** such as the explosion in E-commerce. At the same time, **resilience is increasingly complex to embed** in this intricate environment of connections and interdependencies.

We also note the **ever-increasing focus on value for money** for participants and customers. This is amplified in the current environment following twelve months of disruption and distress in the light of coronavirus, which clearly could not have been anticipated in 2016.

Lastly, for various reasons **Pay.UK has not been able to progress the NPA sufficiently;** the original timetable devised in 2016/17 anticipated a phased roll-out in 2021/22. A different, improved way forward must now be pursued.

In the light of these considerations, **LBG favours the PSR's preferred option of a narrower scope** focused on procuring clearing and settlement services plus common services to support FPS migration, but with provision for bulk push payments. **We believe the current programme must be paused to allow a fundamental NPA programme reset. This must be followed by a new competitive procurement.**

#### *Risks of the current programme*

LBG agrees with the risks identified by the PSR, which are that it will:

- not provide value for money;
- stifle competition and innovation in payment services; and
- delay realisation of the benefits of the NPA.

**Value for money:** the industry has spent circa £[REDACTED] on central programme costs over three years with little to show for it. We do not have confidence that the current programme has an adequate focus on cost and efficiencies and continuing with the current scope further risks value for money given the complexities of Bacs. Building the NPA using technology that is on the cusp of becoming outdated is likely to result in sub-optimal cost outcomes. Lastly, current governance arrangements are not adequate to hold Pay.UK to account for delivering value for money.

**Competition and innovation:** we agree that procuring both FPS and Bacs services simultaneously risks stifling competition and innovation. Further, we are concerned that failing to build using new technologies, specifically Cloud computing, risks limiting the scope of new services and compromising resilience.

**Delaying realisation of the benefits of the NPA:** continuing with the current approach risks further delays given the Bacs complexities and known governance challenges. We recognise that carrying out a fundamental programme reset and proceeding with a narrower scope arguably increases the length of time to delivery. However, this is not a given; there is not a clear alternative timeline to use to make a meaningful comparison.



### *Preferred scope option*

LBG favours the PSR's preferred option of a narrower scope focused on procuring clearing and settlement services plus common services to support FPS migration, but with provision for bulk push payments. Such an approach could facilitate a migration over time from Bacs.

In addition to narrowing the procurement scope, there must be a pause to allow several additional steps to take place ahead of going out to tender. Pay.UK must:

- undertake a global benchmarking and learning exercise that analyses the capabilities and underlying infrastructure of recent instant payment systems in other jurisdictions;
- devise clear economic outcomes and objectives for the NPA;
- research and develop a technological roadmap for the NPA, with an emphasis on building the NPA in a Cloud-hosted environment; and
- put in place effective governance for the oversight of the development and delivery of the NPA.

Additionally, Pay.UK must identify further efficiencies in the manual processes that exist within Bacs. It should then determine how process change or central infrastructure improvement can reduce or completely mitigate volumes to aid a future NPA migration.

### *Bacs payments*

There are a range of possibilities for migrating Bacs payments – market developments could mean a later procurement exercise and / or a formal migration is not required. A suitable timeframe to allow the emergence of market-led propositions could be two to three years from the roll-out of a new clearing and settlement mechanism plus services to support FPS migration. There are various ways of stimulating the creation of such services, including a sandbox environment, provision for customer protections and research on how to motivate originators to migrate voluntarily.

LBG would support the procurement of services that enable payments that have the core properties of Bacs payments. That is, file-based bulk payment services, alongside the possibility for a delay in settlement to facilitate a short window for amendments. Consideration should also be given to what functionality must be delivered via provision in the core infrastructure and what could be delivered via overlay services. We would expect these considerations to be worked through in the course of the NPA reset that we are advocating.

### *Procuring NPA central infrastructure*

LBG supports the PSR's organisational view that effective competition should be enabled as far as possible. The inherent discipline of well-functioning competitive markets results in the best outcomes for participants, end-users and society. Therefore, LBG believes that the only reasonable way forward is to begin a new procurement following a fundamental NPA programme reset.

Whilst there could potentially be short-term gains around timings and procurement costs, continuing with the current procurement carries material risk that the issues identified by the PSR will perpetuate. Additionally, the current procurement was based on earlier assumptions that have since evolved.

Alternatively, directly negotiating with the incumbent provider is likely to increase the risk that the NPA doesn't provide value for money; it will inevitably put Pay.UK in a weaker negotiating position. Thinking wider, we are concerned this approach risks missing a key step of identifying the most suitable technology solutions and capabilities on which to build the infrastructure. However, if the PSR is ultimately minded to allow a negotiation between Pay.UK and the incumbent to proceed, it must provide strong, close and continuous regulatory oversight to mitigate the competition risks.

It is our clear belief that a new competitive procurement is the best chance the UK payments industry has of developing a world-leading domestic payments system that meets the needs of participants, end-users and society for the long haul.



**Response to Consultation Questions**

**1. DO YOU AGREE WITH OUR VIEW OF THE RISKS TO THE SUCCESSFUL DELIVERY OF THE NPA?**

1.1 LBG agrees with the risks associated with the current New Payments Architecture (NPA) programme identified by the PSR, which are that it will:

- not provide value for money;
- stifle competition and innovation in payment services; and
- delay realisation of the benefits of the NPA.

*Value for money*

1.2 We are conscious that the industry has already spent circa £[REDACTED] on centralised NPA programme costs from 2018 to 2020 with little to show for it. Whilst the coronavirus pandemic could not have been predicted in the life of the programme, we are nevertheless concerned that little progress has been made since Pay.UK's programme reset in 2019.

1.3 The programme is based on the Payment Strategy Forum's blueprint, which was largely produced in 2016 and finalised in 2017. Since the formation of that blueprint, technology has evolved and matured as has the payments market. Payments providers are facing ever-increasing cost challenges; it is therefore imperative that the money spent on industry initiatives gives rise to genuine cost reductions and efficiencies over time for payments providers and ultimately their customers. We do not have confidence that the current programme has an adequate focus on cost and efficiencies, and nor are we aware of any targets or tangible approaches to measuring success of the programme from a cost and efficiency perspective.

1.4 Continuing with the current programme scope further risks value for money given the complexities of Bacs. We are concerned that these complexities are simply too challenging to facilitate a simultaneous FPS and Bacs procurement and delivery approach, and therefore it is possible that the programme will continue to extend out whilst the costs to industry increase. We recognise that, conversely, procuring FPS services first could add costs to the programme given the potential for duplication of procurement plus the risk that Bacs migration is pushed out significantly. However, we consider that over time that developments within the market could mitigate these concerns – see our response to Q2.

1.5 With regards to technology, we are concerned that, if the current programme continues as is, Pay.UK risks missing a vital step in terms of identifying the most suitable technology solutions and capabilities on which to build the infrastructure. Building the NPA using technology that is on the cusp of becoming outdated is likely to result in sub-optimal cost outcomes – in relation to both the costs of investing in physical infrastructure (such as mainframe computing and data centres) plus the many types of costs relating to premature obsolescence.

1.6 Lastly, we also have material concerns about governance of the current programme in the context of it providing value for money. In LBG's view, participants must be able to hold the NPA programme to account against clear objectives for costs and efficiency. The lack of a robust governance framework to facilitate this is a weakness of the current programme that must be addressed.



*Stifling competition and innovation in payment services*

- 1.7 We agree with the PSR that procuring both FPS and Bacs services simultaneously risks stifling competition and innovation in payment services. Further, we are concerned that failing to build using new technologies, specifically Cloud computing, risks limiting the art of the possible in terms of the scope and comprehensiveness of overlay services that can be developed if the computing power and systems resilience is not sufficient for data-heavy applications.
- 1.8 With regards to simultaneous procurement, we are concerned that it risks locking in some current features of Bacs, which then could limit the potential for future innovation. We believe it would be more helpful to ensure the FPS replacement infrastructure has the capabilities to process bulk payments, which could then enable migration of bulk payments away from Bacs over time.
- 1.9 Regarding failing to build using new technologies, there is a risk that payments providers and technical services providers become constrained by the limitations of the central infrastructure they must utilise. LBG, like many providers of payments and other financial services, has a strategic objective to move operations to a Cloud-hosted environment, given the increased efficiency, resilience, flexibility and lower costs this offers compared to other technologies. If the NPA is built using older technology, this risks payments providers being unable to maximise the possibilities of Cloud.

*Delaying realisation of the benefits of the NPA*

- 1.10 LBG is keen that payments providers, end-users and society as a whole benefit from a more efficient, resilient and cheaper instant payments system that meets future needs and supports the provision of services not yet developed.
- 1.11 We have noted above that continuing with the current approach risks delaying the NPA given the complexities in relation to Bacs. We are also concerned that the current approach to designing and developing the NPA lacks the requisite governance to move the programme forward at pace.
- 1.12 Lastly, we recognise our proposal to pause the existing programme, carry out a fundamental reset and then proceed with a narrower scope is likely to increase the length of time to delivery compared with the expected timelines prior to 2020. However, it is more challenging to compare the timelines of our preferred approach with Pay.UK's preferred approach – i.e. appointing the incumbent to develop both FPS and Bacs services, as the timelines for the latter approach have not been scoped.

**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?**

- 2.1 LBG broadly agrees with the risks, pros and cons of the two main scope options – i.e. continuing with the current approach of procuring everything now (clearing and settlement services plus common services to support both FPS and Bacs migration) and the PSR's preferred, narrower option (procuring clearing and settlement services plus common services to support only FPS migration in the first instance).
- 2.2 We agree that continuing with the current scope risks further delays with regards to procurement and development given the Bacs complexities and Pay.UK's limited engagement with participants in relation to Bacs migration. We also agree that procuring Bacs services so far ahead of migration increases the risk of procuring inappropriate functionality and closing off innovation. A potential upside of continuing with the current scope, as the PSR acknowledges, is that it could remove the need for a second procurement



for Bacs services and accelerate the migration of Bacs payments. However, we agree with the PSR that it is by no means a given that a second procurement would be needed.

- 2.3 We concur that pursuing a narrower scope would be less complex and could therefore make procurement of services quicker and easier, with Pay.UK being a better-informed buyer. It might also be the case that a wider range of potential providers are interested in tendering and are credibly able to offer the requisite capabilities, services and infrastructure than under an FPS plus Bacs scenario. Robust governance and oversight will be needed to ensure that a narrower procurement scope delivers value for money and offers more than simply an FPS substitute with the addition of ISO 20022 messaging standards.
  - 2.4 With regards to innovation, pull payments can be redesigned as push payments as happened in the case of cheques via the Image Clearing System. We would expect the NPA to be developed in a way that enables a market-driven migration of payments currently processed as Bacs Direct Credits, with the cost model configured in such a way as to encourage migration to the new rails. This would leave Direct Debits as the key pull payment type that is not directly supported. We recommend that Pay.UK identifies at an early stage the non-core capabilities that the Bacs scheme currently supports, such as ISA transfers and current account switching, as dealing with these elements separately should simplify migration later on.
  - 2.5 We could imagine various ways forward, including the development of competitive solutions to migrate Direct Debits, wider take-up of Open Banking and/or request to pay services (with the benefit of giving additional choice and control to customers), or even retaining a narrow Bacs platform in the medium term just to enable Direct Debits. Economic modelling of the last scenario would need to be worked through in the event that Bacs evolves into a legacy platform as some originators move payments to the NPA. Over the much longer term, if the Bacs platform is largely superseded, we expect it would become easier to close it.
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?**
- 3.1 On balance LBG prefers scope option two of phasing the current procurement, which is also the PSR's preference. Whilst there are pros and cons of each approach, ultimately we agree that the complexities of Bacs have contributed to the very limited progress made with the NPA so far. We also believe these complexities could be acting as a blocker to a competitive procurement process where a range of potential providers are motivated and capable of delivering the necessary services. Pursuing option two could resolve these two key challenges.
  - 3.2 In addition to narrowing the procurement scope, it is LBG's view that the current NPA programme must be paused whilst a number of additional steps take place ahead of going out to tender. Collectively, these amount to a fundamental programme reset. Firstly, Pay.UK must undertake a global benchmarking and learning exercise that analyses the capabilities, challenges and underlying infrastructure of recent instant payment systems in other jurisdictions such as Australia and India, as well as SEPA Instant and the European Payments Initiative. Specific initiatives such as Swish, Sweden's peer-to-peer money transfer app, should also be considered. Pay.UK should use this exercise as a reference point to help inform the scope, objectives and capabilities of the NPA.
  - 3.3 Next, Pay.UK should, in conjunction with stakeholders, devise clear economic outcomes and objectives for the NPA. These should be set with reference to particular timeframes and should be measurable. For example, we would expect to see an objective around lowering



run costs for participants. Linked to this is a point about the need for fairer cost allocations – for example, the costs of FPS payments are currently borne entirely by the sending payment services provider, which could lead to market distortions in an Open Banking environment. We would also expect to see an objective in relation to data sharing and how common data will be made available for the production of services that provide a societal benefit, such as fraud detection and mitigation, as well as frameworks for the commercialisation of data. There should also be an objective in relation to facilitating appropriate customer protections, with Pay.UK using the reset to work up supporting frameworks for customer protections. Another objective could be that the NPA must provide truly instant payments and offer instant settlement to support use cases where instant settlement is required – for example in relation to property purchases.

- 3.4 Further, Pay.UK must research and develop a technological roadmap for the NPA, with a clear emphasis on building the NPA in a Cloud-hosted environment for the reasons set out in response to Q1. Whilst it would be impractical and undesirable to produce a detailed plan without any involvement from the ultimate provider, nevertheless we would expect to see a clear statement of intentions and a high-level approach. Within the roadmap could be an analysis of the different options that it would be expected prospective providers would consider and explore in the course of procurement and development.
- 3.5 Lastly, Pay.UK must put in place effective governance for the oversight of the development and delivery of the NPA. We would expect to see the formation of a Steering Committee that monitors and oversees delivery of the NPA against the economic objectives and outcomes that in our view must be set. Whilst responsibility for delivery rests with Pay.UK, the Committee must have sufficient powers and resources to hold the NPA programme to account. An option to explore is the merits of launching a Special Purpose Vehicle for delivery of the NPA, which would disband at an agreed point.
- 3.6 In relation to costs, it is not straightforward to make a direct comparison of the two options as there is no certainty as to how each option would play out in practice. However, our vision for the NPA – a competitively procured instant payment system utilising modern technologies – necessitates a focus on efficiency and value for money.
- 3.7 Alongside the procurement of clearing and settlement services plus services to support FPS migration, Pay.UK must identify further efficiencies in the manual processes that exist within Bacs. It should then determine how process change or central infrastructure improvement can reduce or completely mitigate volumes to aid a future NPA migration. Use of APIs could be helpful here. Examples of manual processes include Bacs recalls, adherence to Bacs Reversal processing, Bacs referrals, Direct Debit indemnity claims, unapplied payments, non-AUDDIS processing (paper Direct Debit Instructions) and the Credit Payment Recovery process. We recognise that Pay.UK has some of these items marked for improvement on their roadmap, which we support.

#### 4. **UNDER SCOPE OPTION 2:**

**A. 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?**

**B. 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 COMMON SERVICES TO SUPPORT THE MIGRATION OF BACS TRANSACTIONS?**

**C. 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?**

*Timeframe to allow the emergence of market-led propositions to assist Bacs migration*

- 4.1 In LBG's view, a suitable timeframe to allow the emergence of market-led propositions that could assist with the migration of Bacs transactions could be two to three years from the roll-out of a new clearing and settlement mechanism plus services to support FPS migration. Such a timeframe would enable a return on investment for end user improvements in Bacs and allow time for new pull overlays to gain momentum.
- 4.2 In order to assist or stimulate the creation of such solutions, Pay.UK (or another body) could offer a sandbox environment for potential providers to test ideas and develop proof of concepts. We note the support that Pay.UK gave in respect of developing the Request to Pay proposition. Customer protection is another key area – consideration should be given to developing appropriate and sustainable protections that provide customers with the peace of mind that is currently provided by the direct debit guarantee. A further suggestion is that research could be undertaken with the objective of understanding what would be required for direct debit originators to move away from Bacs – in terms of both practicalities and incentives.

*File-based common services*

- 4.3 In LBG's view, there is a need to consider the payments currently administered via Bacs in terms of their core properties. That is, Bacs transactions are generally submitted in bulk and, because of the three-day processing cycle, and the fact that many originators submit files in advance of the required input day, there is window within which payments (full files or individual payments) can be recalled or extracted and amended.
- 4.4 LBG would in principle support the procurement of services that enable payments with the core properties of Bacs payments. Namely, file-based bulk payment services, alongside the possibility for a delay in settlement to facilitate a short window for changes to be made, in the course of a narrower procurement scope. We note that FPS already facilitates bulk standing order payments, so it is not apparent that there would be a significant leap. In the scope scenario we describe, the NPA would be able to facilitate payments that are currently processed via Bacs but there would not be provisioning of a formal migration plan or accompanying migration services, which we believe would significantly reduce the complexities.

*Support of Bacs-related features in the future*

- 4.5 As noted, we believe it would be helpful if a narrower procurement includes provision for facilitating payments that have the key properties of the payments that are currently processed via Bacs. One feature that should be considered is whether there is a need for facilitating a window within which payment orders can be recalled and amended. However, in our view, the need and demand for such features should be viewed in the round. By this we mean that there could be a case for including this functionality within FPS services as well, if there is a need and demand for this type of functionality. Consideration should also be given to what functionality must be delivered via provision in the core infrastructure and



what could be delivered via overlay services – for example, it is possible that overlay services could be used to facilitate a delayed payment mechanism. We would expect these considerations to be worked through in the course of the NPA reset that we are advocating.

**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.**

- 5.1 LBG believes that the only reasonable way forward is to begin a new procurement following a pause whilst a fundamental NPA programme reset takes place. Our reasoning, considering the three options the PSR has outlined, is as follows.

*Continuing with the current procurement*

- 5.2 In our view, continuing with the current procurement carries a material risk that the issues identified by the PSR will perpetuate. We are also mindful that the current procurement was based on earlier assumptions that have evolved over time, and therefore it would be a backwards step not to consider any other potential providers. Lastly, we are conscious that procurement has now been paused for almost twelve months and resurrecting it after such a time lapse risks giving rise to fatigue and disengagement. Whilst continuing with the current procurement might potentially have the benefit of quicker delivery, and potentially lower procurement costs (although this is by no means certain), overall we do not support it. We are ultimately not persuaded it will result in a robust and future-proofed NPA.

*Negotiating with the incumbent provider*

- 5.3 We support the PSR's organisational view that effective competition should be enabled as far as possible. This is because the inherent discipline of well-functioning competitive markets results in the best outcomes for participants, end-users and society. Directly negotiating with the incumbent provider is likely to increase the risk that the NPA doesn't provide value for money because it will inevitably put Pay.UK in a weaker position to negotiate wholesale prices. We can see that the case for a competitive procurement could be weakened in scenarios where either there is just one credible supplier in the market for the provision of the UK's domestic payments infrastructure, or where the risks of moving to a new supplier compared to continuing with the incumbent are materially increased and will be too challenging to mitigate. However, we have not seen persuasive evidence or arguments that either of these scenarios apply in the context of the NPA. Therefore, in our view, competitive procurement should proceed.
- 5.4 Thinking wider, we are concerned that appointing the incumbent risks missing a key step in terms of identifying the most suitable technology solutions on which to build the infrastructure. It should not be treated as a given that the incumbent provider would provide a solution that maximises efficiencies, gives rise to lower run costs and future-proofs UK payments for the years ahead. Such an outcome can only be tested and assured via competitive procurement. Again, directly negotiating with the incumbent might potentially have the benefit of quicker delivery and it would lower procurement costs. However these are not a given and LBG believes there is too high a risk that appointing the incumbent without competitive procurement will not give rise to a robust and future-proofed NPA that offers value for money.
- 5.5 Lastly, if ultimately the PSR is minded to allow a negotiation between Pay.UK and the incumbent provider to proceed, in our view it will be vital that the PSR provides strong, close and continuous regulatory oversight. This will be necessary to mitigate the competition



risks that will undoubtedly be present in a monopoly supplier scenario without the checks and balances we would expect a competitive procurement to deliver.

*Beginning a new procurement*

- 5.6 Beginning a new procurement is the logical next step following both a narrowing of scope and the fundamental programme reset we are advocating. It is our strong belief that this approach is the best chance the UK payments industry has of developing a world-leading domestic payments system that meets the needs of participants, customers and society for the long haul. We recognise that this approach might take more time and that in the shorter term there could be additional costs. However, such an approach provides the highest likelihood of driving down costs in the longer term, as well as the best opportunity to build on efficient, scalable technologies.

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)?**

- 6.1 In LBG's view, there is a need to deliver the NPA in order to provide a world-leading domestic payments system that meets user and participant needs. We recognise the PSR's proposed options are not exhaustive, and we believe there are two other scenarios that could be considered.
- 6.2 One possible approach could be to cease the NPA programme and procurement and continue indefinitely with both FPS and Bacs as they are but bring them up to ISO 20022 messaging standards. This approach would give rise to lower procurement and change costs, which would be welcomed in the current environment, whilst also enabling the potential for enhanced data. However, in our view this approach would not address the need to enhance the resilience, efficiency and capabilities of the UK's domestic payment schemes. It is also likely to give rise to escalating costs over time if there is no competitive pressure on the incumbent. Alternatively, procuring like for like FPS and Bacs services competitively could potentially lower costs over time but would be inefficient in terms of approach, as the need to enhance the current infrastructure beyond data messaging standards is well-established.
- 6.3 Finally, the PSR will know that LBG has long been a proponent of the concept of a distributed clearing and settlement model to underpin domestic payment systems. This would be distinct from the centralised clearing and settlement approach being pursued. We continue to believe that a distributed model could enhance resilience and deliver competition benefits and we would welcome further consideration of this model.



**LLOYDS BANKING GROUP PLC**

**Response to PSR Consultation on delivery and  
regulation of the New Payments Architecture (Part 2)  
– call for views**

5 May 2021



### Introductory Comments

Lloyds Banking Group (LBG) is pleased to respond to the Payment Systems Regulator's (PSR) consultation on delivery and regulation of the New Payments Architecture (NPA) (Part 2).

**As set out in our response to Part 1, LBG is committed to the vision of a UK domestic payments system that is resilient, adaptable and secure and enables innovation and competition for the benefit of consumers, businesses, participants and society. To realise this vision, Pay.UK must proceed with competitive procurement of central infrastructure services (CIS). Further to this, we broadly agree with the considerations and proposals in the consultation, subject to some caveats that we have outlined. However, we believe the PSR should consider further its own regulatory role and powers in driving the right incentives for both Pay.UK and the CIS provider.**

#### *Effective competition in the NPA ecosystem*

We agree that low barriers to entry and participation could help competition and innovation to flourish. However, neither the resilience nor the integrity of the payments ecosystem must be compromised. We also agree that there should be no scope for any entity to exercise market power anti-competitively. With respect to easy comparison and switching between payments providers and overlay providers, we are supportive of the principle, but we note the provision of a range of directly substitutable services is not necessarily a given.

Regarding technical design principles, we support a thin CIS design, but we believe consideration must also be given to the provision of common services that do not play a pure resilience role – for example, those that might be needed to enable interbank consumer protections at pace. We also support the principle that a CIS provider shouldn't discriminate in service quality, whilst noting there could be scenarios where a participant wishes to pay less for a lower level of service. Whilst consideration should be given to how a menu of prices would work, this shouldn't undermine the provision of ubiquitous truly instant payments with certainty of settlement, which must be central to the NPA offering.

We are strongly in favour of scalable and modular services as proposed by the PSR, which will provide a degree of future-proofing with associated efficiencies. LBG advocates the NPA being built on Cloud technology, which lends itself such an approach. We also support the concept of a range of access options, noting that we would like to see a greater range of direct participants enter the market for agency bank services. Lastly, we support open standards for overlays, cautioning that there could be trade-offs in relation to promoting innovation on the one hand, and on the other hand facilitating interoperability and ensuring service-users are not locked in.

#### *Competition risks and proposed mitigations*

We are largely in agreement with the PSR's assessment of the competition risks. We share the PSR's view that a CIS provider might not have strong incentives to control costs or improve services and could set access terms and prices that distort competition. This risk must be mitigated by way of a competitive procurement exercise, which will enable Pay.UK to benchmark the services and costs offered by prospective CIS providers, and additionally incentivise prospective providers to offer the best deal to secure the contract. In turn, the discipline provided by a competitive procurement should limit the need for intrusive ex ante regulation.

We also agree that a CIS provider could exploit its monopoly position as supplier of 'additional services' to PSPs and overlay providers. We tentatively support the PSR's suggestion that Pay.UK should be the primary interface for all participants engaging with the CIS. However, this needs to be considered in more detail to understand whether it is necessary, and if it is, supporting arrangements must be efficient and pragmatic.

We agree that Pay.UK must implement rules that promote competition and ensure access terms are POND (proportionate, objective and non-discriminatory), but we consider that more thought must be given to the PSR's own responsibilities for regulating, incentivising and overseeing Pay.UK, as well as the CIS provider.

In relation to the risk that Pay.UK does not perform its functions effectively, we note the actions following the PSR's Section 82 'Skilled Persons' report are intended to enhance Pay.UK's organisational capabilities, and we trust these are having the desired effect. Pay.UK will need a



clear understanding of the PSR's expectations and objectives. In relation to incentivisation, we believe the PSR has a role to play that combines an effective regulatory oversight model with the scope for Pay.UK to get on with the job on a day-to-day basis. The PSR could consider whether there is a need for "step in" rights as a last resort. At a lower level, the PSR could consider issuing directions to the CIS provider that it must comply with rules set by Pay.UK, with specific consequences for not doing so. We believe there are learnings to be taken from the PSR's role in mitigating authorised push payment fraud and the desire of some participants for the PSR to play a more decisive role underpinned by regulatory powers.

Lastly, we support the principle of operational separation of the CIS provider's activities where required, as this strikes an appropriate balance between safeguarding from a competition perspective and not being disproportionately onerous for the CIS provider.

#### *Common services*

In our view, there is likely to be a requirement for some common services in the NPA that do not play a pure resilience role, such as services needed to support the provision of enhanced interbank protections. In such scenarios, decisions will need to be made regarding which services are exclusively common services, which services could be provided exclusively by competitive overlay or payment services and which services fall somewhere in the middle. Pay.UK should produce a roadmap that includes ways forward for common services. There is likely to be a role for the PSR in monitoring the overall market dynamics and intervening if it is proportionate to do so.

There is also a question about the provision of common data, used for the public good in circumstances such as fraud prevention. Where there are strong arguments for data to be shared and these override any concerns about stifling innovation, then sharing should be facilitated. We also recognise there are types of data that are better suited to being made available on a commercial basis as well as some types of data, created by individual participants in the payments ecosystem, that will legitimately not be made available more widely for competition reasons.

#### *Pricing principles*

We are broadly supportive of the pricing principles the PSR has proposed. As well as CIS prices being set using POND criteria, the PSR proposes that prices should:

- reflect efficiently incurred costs;
- incentivise utilisation of the NPA;
- foster competition in services to end users;
- be transparent and predictable; and
- adapt to changing competitive conditions.

Taking account of the wider pricing considerations that the PSR has outlined, retail prices should represent the overlay of Pay.UK's costs to the industry onto the wholesale CIS provider costs. We support the need for Pay.UK to include appropriate mechanisms for monitoring ongoing operating and maintenance costs throughout the contract.

We agree that CIS user prices should encourage efficient use of the NPA by payments providers by giving them an incentive to migrate their payments to it and support innovations by other parties. However, there are many factors relating to speed of migration. We are mindful of lessons learned from the implementation of the Confirmation of Payee (CoP) service, which many smaller payments providers are holding off joining until they are able to onboard more efficiently.

We also agree that transaction fees should be the same for the same type of transaction regardless of how the payer initiates it. However, we note that the overall price paid by a participant must align to the level of responsibility and risk they take on in the payments chain.

Pricing must be transparent and predictable and must be an improvement on the complexity and opacity of the current pricing within the Faster Payments Service. To achieve transparency, we support publication of certain relevant types of information, plus greater itemisation in invoices in so far as this is helpful to participants.

Lastly, in principle we support Pay.UK being able to adjust its charging structure and levels in response to changing conditions to achieve outcomes in line with its strategic objectives. However, this must be balanced with market participants' need for stability and predictability.



<b>Response to Consultation Questions</b>
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**7. DO YOU AGREE WITH OUR DESCRIPTION IN PARAGRAPHS 5.7 AND 5.8 OF HOW TO BEST PROMOTE AND FACILITATE EFFECTIVE COMPETITION IN THE NPA ECOSYSTEM? PLEASE EXPLAIN YOUR RESPONSE.**

- 7.1 LBG agrees broadly with the PSR's description of how to promote effective competition within the NPA ecosystem:
- low barriers to entry and participation for PSPs and overlay providers, including those with innovative ideas;
  - no scope for any entity to exercise market power anti-competitively, or gain unfair advantages through its position in the ecosystem; and
  - easy comparison and switching between PSP and overlay providers by payers, payees and other users.
- 7.2 We agree that low barriers to entry and participation could help competition and innovation flourish, which would benefit consumers, businesses and wider society. However, barriers must not be set in such a way that the resilience or integrity of the payments ecosystem is compromised. We could envisage the setting of minimum standards in areas such as data and cyber security that prospective payments and overlay providers must meet in order to partake directly.
- 7.3 We also agree that there should be no scope for any entity to exercise market power anti-competitively or gain unfair advantage. In such scenarios, other market players, their customers and wider society lose out if one entity can crowd out competition, which might result in higher prices and / or lower quality services.
- 7.4 With respect to easy comparison and switching between payments providers and overlay providers, we are supportive of the principle, but we note that it assumes the provision of a range of directly substitutable services, which is not necessarily a given. There are legitimate reasons why, for certain types of services, only a small number of providers might be interested in offering them. Reasons could include the level of expertise or specialism required as well as the ability to generate a viable return. Therefore, easy comparison and switching might not be directly relevant in respect of all services.
- 7.5 Regarding technical design principles, we note the PSR's proposals:
- a thin central infrastructure services (CIS) design that provides necessary functionality only;
  - inability for a CIS provider to discriminate in service quality;
  - scalable and modular services;
  - a wide range of access options; and
  - open standards for each overlay that promote competition by enabling sufficient interoperability.
- 7.6 We support the principle of a thin CIS design, but we believe consideration must also be given to the provision of common services that do not play a pure resilience role – for example, those that might be needed to enable interbank customer protections at pace when the NPA goes into delivery. In such scenarios, Pay.UK could potentially buy services from the CIS provider, perform a competitive tender with other providers or encourage provision within the market that aligns to standards specified by Pay.UK.
- 7.7 Regarding inability for a CIS provider to discriminate in service quality, we agree that no service provider should be provided with an inferior service where they have paid the same price for access as another service provider that benefits from a higher level of service. However, we could envisage scenarios where a potential provider wishes to pay a lower price, in return for a lower level of service in particular aspects (the PSR gives transaction speed and information contained in the payment message as examples), in order to make a service commercially viable.



- 7.8 Whilst it is not known whether in practice such scenarios will emerge, it is worth keeping the prospect of unintended consequences in mind. A possible way of addressing this issue is to have a menu of SLAs and corresponding pricing, with “basic”, “standard” and “deluxe” options. The “basic” option would need to be of an appropriate minimum standard as to not undermine the overall NPA concept and offering. In particular, any approach taken must not undermine the provision of truly instant, ubiquitous payments with certainty of settlement, and a level of inbuilt protection, which must be at the heart of the NPA offering.
- 7.9 We are strongly in favour of scalable and modular services, which will provide a degree of future-proofing with associated efficiencies. LBG is an advocate of the NPA being built on Cloud technology, which by its inherent properties lends itself to a scalable and modular approach.
- 7.10 We also support the concept of a range of access options, whilst noting the need for efficiency, which might mean that some access options should be prioritised for development over others. Consideration should be given to how the agency bank model can be enhanced as a means of access, given that currently only nine banks offer such services<sup>1</sup>. LBG would like to see a greater range of direct participants enter the market for agency bank services.
- 7.11 Lastly, we support open standards for overlays so that prospective providers have clear sight of what they must meet to deliver a particular service. However, we caution that there could be trade-offs in relation to promoting innovation on the one hand, and on the other hand facilitating interoperability and ensuring service-users are not locked in. Where a particular service is under-provided, Pay.UK or another party might wish to incentivise its provision, which might include minimum term contracts or a temporary exclusivity clause. In LBG’s view, further consideration of this type of scenario is required to foster an appropriate balance of open access and incentivisation.

## **8. DO YOU AGREE WITH OUR ASSESSMENT OF THE COMPETITION RISKS AND THEIR PRACTICAL IMPLICATIONS WITHIN THE NPA ECOSYSTEM? PLEASE EXPLAIN YOUR RESPONSE.**

- 8.1 LBG is largely in agreement with the PSR’s assessment of the competition risks and their practical implications within the NPA ecosystem.
- 8.2 With respect to monopoly risks, we share the PSR’s view that a CIS provider might not have strong incentives to control costs or improve services and could set access terms and prices that distort competition in PSP or overlay markets. In our view, this risk must be mitigated at the outset by way of a competitive procurement exercise. Such an exercise will enable Pay.UK to benchmark the services and costs offered by prospective CIS providers, and prospective providers will have an incentive to offer the best deal to secure the contract. Ongoing cost control monitoring will be required following the contract award. We also agree that Pay.UK can also address service quality risks by establishing and monitoring minimum quality standards in SLAs, whilst noting the potential need to offer a menu of different levels of service.
- 8.3 We agree that a CIS provider could exploit its monopoly position as supplier of ‘additional services’ to PSPs and overlay providers. We tentatively support the PSR’s suggestion that Pay.UK should be the primary interface for all participants engaging with the CIS, but this needs to be considered in more detail to understand whether it is necessary, and if it is considered to be so, then consideration should also be given to the most efficient way to execute this arrangement. Consideration could also be given to whether there is a need for dispute resolution provisions in relation to the CIS provider and participants. However, we also note that, in practice, the parameters within which participants can negotiate with the

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<sup>1</sup> [Indirect Access \(sponsored access\) | Access to Payment Systems](#)



CIS provider could be relatively narrow. An example being access to types of data that might be held by other participants rather than by the CIS provider.

- 8.4 We also note the risk that Pay.UK does not perform its functions effectively if it is not sufficiently incentivised, equipped and capable to perform its role. Again, in our view Pay.UK must pursue a competitive procurement exercise to set itself up for success. With respect to capability, we note the actions following the PSR's Section 82 'Skilled Persons' report are intended to enhance Pay.UK's organisational capabilities, and we trust that these are having the desired effect. With regards to incentivisation, we believe the PSR has a role to play that combines an effective regulatory oversight model with the scope for Pay.UK to "get on with the job" on a day-to-day basis. Linked to this point is a risk, not referred to specifically in the call for evidence, that the regulatory framework and approach does not adequately foster a competitive environment.
- 8.5 We also agree in principle with the PSR's analysis of the horizontal and vertical competition risks that could arise from a monopoly CIS provider, and the need for a plan to mitigate any such risks. With respect to vertical competition risks, we agree these could arise in relation to market overlays, payment service provider services and account overlays. We envisage that the provision of market overlays is most likely to be a concern in this context given the potential overlap of common and market overlay services.

**9. DO YOU THINK WE HAVE IDENTIFIED THE APPROPRIATE SPECIFIC MITIGATIONS AND GOVERNANCE PRINCIPLES TO ADDRESS COMPETITION RISKS? IF NOT, HOW DO YOU THINK THEY COULD BE IMPROVED?**

- 9.1 LBG is glad to see the efforts the PSR is putting into consideration of specific mitigations and governance principles to address the identified competition risks. Overall, we are supportive. However, we have some reflections on the balance of responsibilities and accountabilities across the PSR, Pay.UK and the monopoly infrastructure provider for the purpose of advancing effective competition, which we believe the PSR must address.

*Pay.UK as primary CIS interface*

- 9.2 With respect to Pay.UK being the primary CIS interface, we tentatively support this proposal as set out in response to Q8. However, such an arrangement must be designed to be efficient – we can envisage a risk of Pay.UK expending increasing amounts of its organisational resource in acting as a go between, particularly in scenarios where a dispute arises. To mitigate this risk, we suggest that clear parameters are set and made transparent to participants. We also suggest that Pay.UK considers at an early stage the aspects of doing business that can effectively be treated as a given and therefore won't tend to require a specific dialogue – for example, maintaining lists of data types that the CIS provider is and isn't able to provide could reduce the need for a plethora of individual conversations.

*Rules that promote competition*

- 9.3 We agree that Pay.UK must implement rules that promote competition and ensure access terms are POND (proportionate, objective and non-discriminatory), but we have some concerns about how this will work in practice. Alongside Pay.UK's responsibilities for overseeing the CIS provider, we consider that more thought must be given to the PSR's own responsibilities for regulating, incentivising and overseeing Pay.UK, as well as the CIS provider. Whilst the call for information pays attention to the role of Pay.UK, it says a limited amount about the specific role of the PSR.
- 9.4 We note that the PSR references the need for Pay.UK to have the right capabilities, incentives and governance framework to perform its decision making and monitoring roles effectively. However, it is not clear what this means in practice. Pay.UK will need a clear understanding of the PSR's expectations and objectives if it is to fulfil the brief successfully. A situation where Pay.UK is not clear on the asks, or where the asks change frequently,



could lead to frustration and inefficiencies on both sides with the resulting risk of uncertainty for participants. We could also envisage a situation where there is a high burden on Pay.UK of providing management information to the PSR, which again could cause frustration.

- 9.5 Regarding the role of incentives in promoting effective competition, we believe there are some risks around Pay.UK having to both implement the rules and monitor the effectiveness of these rules. We suggest the PSR explores the role of incentives in more detail, including how its own regulatory powers could be deployed to incentivise both Pay.UK, the CIS provider and any other participants. At the top level, the PSR could consider whether it requires the power to “step in” if required to protect the infrastructure. At a lower level, the PSR could consider issuing directions to the CIS provider that it must comply with rules set by Pay.UK, with specific consequences for not doing so. We believe there are learnings to be taken from the PSR’s role in mitigating authorised push payment fraud and the desire of some participants for the PSR to play a more decisive role underpinned by regulatory powers.
- 9.6 There are also specific secondary questions such as the extent to which Pay.UK will require its own competition resource to fulfil the brief the PSR is proposing, and if it does then there is the potential for duplication of effort and inefficiencies if the PSR is carrying out its own parallel competition explorations.

*Separated CIS provider*

- 9.7 Finally, we have considered the PSR’s proposal that a CIS provider’s CIS functions must be operationally separate from other parts of its (or its owner’s) business if it (or its owner) has a significant interest in another payment system that competes with interbank payments or in the competitive NPA overlay markets. We support the principle of operational separation as it strikes an appropriate balance between safeguarding from a competition perspective and not being disproportionately onerous for the CIS provider. We note the various considerations that the PSR has outlined, and that the appropriate level of operational separation will depend on various factors that will become known as both procurement and development of the NPA continue. We agree with the PSR’s thinking in this respect.

**10. DO YOU THINK THAT THE PROVISION OF SOME COMMON SERVICES COULD RAISE COMPETITION RISKS THAT DIFFER SUBSTANTIALLY FROM THOSE RAISED BY PROVISION OF THE CSS? IF POSSIBLE, PLEASE SHARE EXAMPLES.**

- 10.1 LBG has some observations, as set out below, in relation to the provision of common services and how these interact with competition considerations. However, these observations do not amount to new competition risks.
- 10.2 As we set out in our response to Q7, we consider there is likely to be a requirement for some common services in the NPA that do not play a pure resilience role. In particular, we are thinking of the services needed to support the provision of enhanced interbank protections to shore up confidence in the system, whilst noting there could be others. In such scenarios, decisions will need to be made regarding which services are exclusively common services, which services could be provided exclusively by competitive overlay or payment services and which services fall somewhere in the middle. By this, we mean services that could in principle be provided by the market, but where the provision of a common service would be more efficient or better meet participants’ needs alongside the possibility of competitive services.
- 10.3 We suggest that Pay.UK gives consideration on a case-by-case basis as to how an identified service or functionality should be provided – i.e. by way of a common service, market solutions or a hybrid approach. As we recommended in response to the first part of the PSR’s consultation, Pay.UK should produce a roadmap that includes plans for common services, following effective governance and decision-making. With reference to the bigger



picture, there is likely to be a role for the PSR in monitoring the overall market dynamics and intervening if it is proportionate to do so.

- 10.4 Related to the provision of common services is a question about the provision of common data, used for the public good, such as in relation to fraud prevention. Where there are strong arguments for data to be shared and these override any potential concerns about stifling innovation, then sharing should be facilitated. We would like to see a simpler governance and access criteria established to facilitate sharing, as currently any agreements to share data require signatures from all participants. The PSR could consider a range of options here, including mandating the supply of APIs to facilitate the provision of read-only data and / or improved governance. Consideration could also be given to Pay.UK specifying that the CIS provider must offer an innovation fund to support the usage of common good data for wider societal benefit.
- 10.5 We also recognise there are types of data that are better suited to being made available on a commercial basis – such as economic indicators or sector trend analysis. Consideration could be given to whether the sale of this data could subsidise common good data, noting that the relevant considerations and implications would need to be worked through carefully. Lastly, we note that some types of data, created by individual participants in the payments ecosystem, will legitimately not be made available more widely given competition considerations.

#### **11. WHICH ELEMENTS OF OPERATIONAL SEPARATION DO YOU THINK SHOULD BE INTRODUCED WHERE A CIS PROVIDER ALSO PROVIDES SERVICES TO ANOTHER PAYMENT SYSTEM OR THE COMPETITIVE NPA OVERLAY MARKETS? PLEASE EXPLAIN YOUR RESPONSE**

- 11.1 LBG has some suggestions for elements of operational separation that should be introduced in the circumstances outlined.
- 11.2 Firstly, with respect to governance, we expect the CIS provider would have a separate board, responsible for providing independent oversight of the CIS provision. The board must promote principles that align with those promoted by the PSR and Pay.UK, and monitor delivery plans. We would expect to see an appropriate balance of executives and non-executives, with sufficient external representation to provide the requisite rigour and constructive challenge. Appointment to the board must be a formal and transparent process, with an emphasis on an appropriate collective balance of experience and skillsets, as well as appropriate representation from a gender and ethnicity perspective, amongst others.
- 11.3 We would also expect the provision of CIS services to be ringfenced from the wider business, with a proportionate approach taken to staffing, including secondments, between the two. Remuneration policies must be designed to reward the right behaviours. For example, remuneration could be linked to high quality work and acting in accordance with the required values, and not be linked to generating work for another part of the overall business. We also support the provision of information firewalls, whilst noting the need to design and implement these on a pragmatic basis.
- 11.4 As the PSR has proposed, we would expect a financial separation between the CIS provision and other parts of the wider business. Such an approach should foster transparency, which incentivises good behaviour as well as aiding identification of any inappropriate subsidisation.

#### **12. DO YOU AGREE WITH OUR PROPOSAL TO BRING FORWARD REGULATORY MEASURES TO ENSURE THE SPECIFIC MITIGATIONS AND GOVERNANCE PRINCIPLES ARE**



## IMPLEMENTED? IF NOT, WHAT ALTERNATIVES TO THE INTRODUCTION OF REGULATORY MEASURES DO YOU SEE?

- 12.1 As set out in our response to Q9, overall LBG is supportive of the PSR's proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented. We have explained where we have concerns about the practical application of some aspects, including in relation to Pay.UK as primary CIS interface and rules that promote competition. We have also suggested that the PSR considers the role it can play itself in driving the right incentives to promote competition and the right behaviours.
- 12.2 We note the PSR intends to review Specific Directions 2 and 3 regarding procuring Bacs and Faster Payments services in a competitive manner, alongside provision of ISO 20022 enhanced data capabilities. We strongly support a competitive procurement for NPA CIS services, which is still the vehicle for complying with these Directions. Given our view, we would support the PSR extending the dates of the FPS Direction from 2023 in the light of delays driven in part by the coronavirus pandemic. However, we are open to other regulatory approaches that will have the effect of safeguarding effective competition, particularly considering the approach to Bacs. As noted in our response to the first half of this consultation, we also support interim improvements to Bacs ahead of migration to NPA.

## 13. DO YOU HAVE ANY COMMENTS ON THE PRICING PRINCIPLES SET OUT IN THIS DOCUMENT?

- 13.1 LBG is broadly supportive of the pricing principles the PSR has proposed. As well as CIS prices being set using POND criteria, the PSR proposes that prices should:
- reflect efficiently incurred costs;
  - incentivise utilisation of the NPA;
  - foster competition in services to end users;
  - be transparent and predictable; and
  - adapt to changing competitive conditions.
- 13.2 At the outset, we want to emphasise the importance of efficient wholesale pricing – i.e. the prices Pay.UK agrees to pay the CIS provider before these are passed on to participants. We note the PSR's stance that, to ensure prices reflect efficiently incurred costs, Pay.UK will need to procure an efficiently priced CIS contract. In our view, it is vital that Pay.UK carries out a competitive procurement exercise for CIS services. Forgoing such an approach and negotiating with a preferred vendor brings an unacceptable risk that Pay.UK fails to secure an efficiently priced contract, which would have a negative impact on participants and ultimately their customers in terms of higher prices, a lower level of innovation and opportunity costs. Should a competitive procurement exercise not be pursued, the PSR must be prepared to pursue more intrusive regulation to mitigate the risk of inflated prices that enable the service provider to generate excessive profits.
- Reflect efficiently incurred costs*
- 13.3 Taking account of the wider pricing considerations that the PSR has outlined, retail prices should represent the overlay of Pay.UK's costs to the industry onto the wholesale CIS provider costs. We agree that Pay.UK's contract with the CIS provider should specify both the one-off capital expenditure costs of building and implementing the CIS, and the annual operation and maintenance costs for the duration of the contract. We also agree that the efficient level of CIS operating and maintenance costs should be established at the outset of the contract, and that the expected efficient level may change in subsequent years in the light of changing behaviours and usage. We support the need for Pay.UK to include appropriate mechanisms for monitoring ongoing operating and maintenance costs throughout the contract, and additionally we note that Pay.UK's costs will be subject to scrutiny from participants and guarantors.
- Incentivise utilisation of NPA*
- 13.4 We agree that CIS user prices should encourage efficient use of the NPA by payments providers by giving them an incentive to migrate their payments to it and support innovations by other parties (such as market overlay providers), which might themselves generate additional transactions and improved services in the NPA. However, we caution



that there are many factors relating to speed of migration, such as the practicalities of sequencing the onboarding process and associated testing. In particular, we are mindful of the implementation of the Confirmation of Payee (CoP) service, which many smaller payments providers are holding off joining until they are able to onboard more efficiently via the upcoming Open Banking CoP-only role profile. We would not want participants to be penalised by way of charges in comparable circumstances. However, on a positive note, we believe Pay.UK and the wider industry have learned lessons from CoP that can be utilised for participants' benefit in the NPA.

*Foster competition in services to end users*

- 13.5 We support the importance of Pay.UK ensuring that CIS pricing does not distort competition in overlay markets and that there is a level playing field between CIS users. To this end, we agree that transaction fees should be the same for the same type of transaction regardless of how the payer initiates it. However, we note that the overall price paid by a participant must align to the level of responsibility and risk they take on in the payments chain. For example, where consumer protections are developed, these must be funded fairly by participants, with costs passed through, such as to Payment Initiation Service Providers where relevant. The provider of the underlying payment account must not be solely responsible for these costs or the current retail banking model will become unsustainable.
- 13.6 Additionally, consideration must be given to the structure of pricing frameworks and how these can foster effective competition – we note that Bacs transaction costs are charged to both the sending and receiving payments provider, whereas Faster Payments transaction costs are charged to the sending payments provider only. In our view, the approach to Faster Payments cost allocation might not be aligning efficiently to participant risks and responsibilities, but this requires further analysis.

*Transparent and predictable*

- 13.7 We agree that pricing must be transparent and predictable, which must be an improvement on the complexity and opacity of the current pricing within the Faster Payments Service. To achieve transparency, we support publication of relevant types of information, plus greater itemisation in invoices in so far as this is helpful and meaningful for participants.

*Adapt to changing competitive conditions*

- 13.8 In principle, we support Pay.UK being able to adjust its charging structure and levels in response to changing conditions to achieve outcomes in line with its strategic objectives. We also agree that Pay.UK should set and adjust the level of fees periodically to ensure that it recovers the funds necessary for it to meet its financial commitments, while reflecting changes in the underlying costs of the CIS. However, the need to balance this prerogative with market participants' need for stability and predictability is paramount and must not be underestimated. Again, we would expect appropriate scrutiny from participants and guarantors to ensure effective decision making as well as analysis of the potential for unintended consequences.

**14. DO YOU THINK THE PRICING PRINCIPLES SUFFICIENTLY ADDRESS COMPETITION RISKS RELATING TO CIS USER PRICING SET OUT IN CHAPTER 6? IF NOT, WHAT ADDITIONAL PRINCIPLES SHOULD WE BE CONSIDERING?**

- 14.1 In LBG's view, the PSR's suggested pricing principles should go a significant way to addressing competition risks relating to CIS user pricing, whilst noting the various considerations we have outlined in our response to Q13. We wish to reaffirm that the starting point must be a competitive procurement for CIS services.
- 14.2 Lastly, we note the potential role of the PSR itself, which could be explored further. We note that the Financial Services (Banking Reform) Act 2013 S. 57 (2) gives the PSR the right to vary any fee or charge, including the power to specify a maximum price. Whilst we would not advocate for the presumption of the usage of this power, we believe the fact the PSR has this power plays into our thoughts in response to Q9 about designing in the right incentives for Pay.UK, the CIS provider and participants. More exploration of the PSR's own role and powers and how these might be used to drive the right behaviours in an arm's length way would be welcomed.



# Nationwide



## **PSR Delivery and Regulation of the New Payments Architecture Consultation (CP21/2)**

Response from Nationwide Building Society

### **About Nationwide**

As a Society of nearly 16 million members with a balance sheet of £236 billion, Nationwide is a systemically important financial institution in the UK. We are focused on retail financial services products. Nationwide is a top three provider of mortgages and savings accounts and has just under 10% share of the current account market.

We have supported the development of the Payment Systems Regulator and its work over recent years, notably through our contribution to the Payments Strategy Forum, ongoing input into the development of the New Payments Architecture (NPA), and recent efforts to combat Authorised Push Payment scams. We value the emphasis on competition, innovation and service in the PSR's objectives and, recognising the dynamics of our market, we know it's sometimes hard to reach our ambitions at the pace the PSR and indeed the industry might like.

With this in mind, Nationwide's headline positions on this first part of the PSR's consultation are:

- We support a scope with a prominent focus on Faster Payments, though we think it important that the industry actively thinks about and plans how services currently supported by Bacs can be developed and enhanced by the opportunities of the NPA with a vision of a single push rail model.
- We align with the PSR's values on the benefits of competition and view the Pay.UK Strategic Participants' Group (SPG) position as a balance of ambition and pragmatism which we would support. But, we're broadly neutral here and should a competitive process be needed, we recommend this be rapidly mobilised [REDACTED] suppliers currently engaged.

### **Questions related to the risks to NPA delivery**

#### **1. Do you agree with our view of the risks to the successful delivery of the NPA?**

We broadly agree with the PSR's view of the risks to successful delivery of the NPA. In particular, the concerns related to achieving value for money and delaying or preventing benefits to competition and innovation expressed in the Consultation Paper. We also acknowledge that the impact of the current Covid-19 pandemic means that PSPs face further resource and funding challenges that were unforeseen before March 2020, which further stresses the need to rigorously assess the business case for the NPA and achieve value for money.

We stress the need to ensure that the NPA creates a cost sustainable infrastructure for all its users – an infrastructure that makes the most of modern technology (including cloud) and provides a thin and inexpensive clearing and settlement layer on which competitive services may be provided. Renewal needs to be paid for by use, and the new infrastructure needs to be cheaper and more scalable than the current infrastructure. We still support the benefits of the Payment Strategy Forum's initial recommendations – notably the need to revitalise the UK's aging payments infrastructure, to the benefit of consumers and other end users of these payments systems.

We agree with the PSR's concern that by procuring the central infrastructure service (CIS) directly from Vocalink without a competitive procurement, it may not secure a contract that provides value for money, mitigates competition risks, and supports effective regulation of the NPA. However, the



materialisation of these risks could be mitigated during contract negotiation through the quality and strength of contract provisions built in. Whilst we acknowledge these risks exist, they should be contrasted against the very real alternative risks associated with starting a new procurement exercise and possibly transitioning away from the incumbent supplier, Vocalink. This would need to be carefully managed by a range of stakeholders across the ecosystem (PSR, Pay.UK, Vocalink, PSPs, IT providers, etc) to ensure the industry risks and costs of transitioning to a new CIS do not prohibit reaching the goals of increased innovation, effective competition, timely delivery, and a NPA that is robust and resilient.

In the scenario where a narrower, Faster Payments only scope for the NPA is adopted as a first implementation, we are concerned that this could have the unintended consequence of creating uncertainty over the future of Bacs, which is still run and maintained by Vocalink. This, may create a spending and innovation risk over the existing infrastructure. Later in this response, we will offer constructive thoughts on to how to mitigate some of the risks associated with the future of Bacs payments.

Over a long period of time, our stakeholders in IT, Security, etc, have found Vocalink to be a good partner on payments provision in the UK. It has an ongoing contractual financial commitment to not only maintain, but regenerate and improve the existing infrastructures which has had a net-positive effect on the current services. There are other UK Payment services like the Cheque Image Clearing System (ICS), CASS, payment redirection and Paym where Vocalink is the technology supplier and further consideration would need to be given to how the supply of these services is affected positively or negatively from any procurement approach taken in future.

We can sympathise with the position of the PSR as an economic regulator, meaning that such questions about threats to competition and innovation are central to the work of the PSR, compared to a regulatory body such as the PRA or BoE, which might prioritise the resilience and market stability given by retaining Vocalink as the CIS provider. We encourage joined up thinking between the regulators to reach the right balance in relation to the provision of the NPA, and note in section 1.6 of the Consultation Paper that the PSR is connected with BoE on the success criteria for NPA.

### **Questions related to procurement scope**

#### **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?**

We understand the rationale for the narrower scope and agree that it would appear to reduce risks to providing value for money in whatever is built for the NPA. There is certainly an argument to say that we should modernise Faster Payments as a priority, to bring quicker realisation of desired benefits in a heavily changing and fast-paced world of payments technology.

We think this option does present inherent risks that need to be managed. The potential de-scoping of Bacs from the initial NPA procurement could mean that Bacs never ultimately migrates to the NPA perhaps because of further delays or prohibitive future costs, or other inertial factors that make it difficult to transition Bacs equivalent services to a push-payment only based NPA. We have fed back in previous NPA related consultations about the technical and financial perils of dual-running the NPA and legacy Bacs infrastructures for a prolonged period – therefore the proposed narrower scope must avoid neglecting the strategy and planning for Bacs.



Noting that Pay.UK is already in conversations with Vocalink as the incumbent supplier about extending current Faster Payments and Bacs contracts beyond 2023, it is important to consider how this aligns with Pay.UK's desire for the new 'Direct Request' payment type to potentially replace Bacs Direct Debits in future years. Co-ordinated industry activities in the last decade or so have shown that major change in the Bacs Service User community is near impossible to do and very time/effort consuming – examples include attempts at migrating all Bacs Service Users from SHA-1 to SHA-256 authentication (which is still ongoing), or attempts to make all Direct Debit authorities to be AUDDIS from non-AUDDIS (which is also ongoing). There has been limited support or incentive from Service Users to participate in these changes and we need to think carefully how to incentivise the whole Bacs ecosystem to support change.

As we've fed back in previous consultations, relating to the ongoing resilience and robustness of the NPA, we would encourage any new central infrastructure to have optimal levels of resilience, to avoid service outages and have broadly have a level of interoperability to sustain equivalent payments services to end users in the event of significant incidents. If Bacs payments remain as they are (not on a ISO20022 standard) for a period of the next five years plus, then there will not be opportunities for interoperability between legacy Bacs payments and Faster Payments on a new ISO20022 standard NPA, and between legacy Bacs payments and CHAPS on a new ISO20022 standard RTGS. The effort, cost and time required to make Bacs payments interoperable may be prohibitive while Bacs payments remain on the legacy infrastructure.

With these systemic risk factors in mind, we later recommend that the basis of the NPA should be a single push-rail, which offers maximum inherent resilience, but also uses modern interoperable standards. This means that there are opportunities for a degree of service continuity with other payments types, such as the upcoming CHAPS/RTGS renewal.

### **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?**

Of the options presented in the Consultation Paper, our strong preference is for scope option two, primarily because the existing scope in option one is too vast to achieve end-user benefits quickly and affordably. As we will expand on in later answers, in the event of the SPG position not being approved/taken forward following this consultation, then our preference is for there to be a short, sharp competitive tender exercise to be undertaken with the existing shortlist of vendors for the delivery of scope option two as restarting any procurement exercise in full will add further delays and cost to any NPA delivery. Restarting any procurement exercise from scratch would also call into question whether the original scope outlined in the PSF Blueprint would need to be completely revisited.

Although we want to see an active strategy and plan for developing services that operate via Bacs today, at the moment we cannot fully support the proposed Pay.UK migration of Bacs traffic from the existing Bacs Direct Debit service, to a new 'Direct Request' (push payment only) service on the NPA. It is currently unclear and has not fully considered a number of complexities to overcome in terms of migration and transition. As we touched on in our answer to question two above, delivering wholesale technology change and process change across a community of thousands of Bacs Service Users, bureaux, software providers, etc, has shown itself to be prohibitively costly, difficult to co-ordinate and challenging to enforce compliance with. The business case for any future changes to the Bacs Direct Debit payment type will need to be strong, and outwardly clear to those accepting them. For the Bacs Service User community to buy-in to them and want the changes to occur in a timely manner, this compelling business case will be crucial.



Scope option two is the best route available to delivering an ISO20022 standard Faster Payments service on the NPA, which would in turn require a shorter period of extension to the existing Faster Payments contract between Pay.UK and Vocalink, which ends in 2023. It is perhaps reasonable to assume this contract renegotiation and extension could deliver more favourable terms for Pay.UK and the whole payments industry if Vocalink are chosen as the new CIS for the NPA, as well as helping to minimise transition risk, certainly this is something Pay.UK and the SPG is trying to qualify.

As we've stated, we are concerned that scope option two creates risks on the legacy Bacs infrastructure. Without the upgrade and improvement to Bacs payments that would come from the NPA (as envisaged by the PSF Blueprint for UK Payments back in 2017), analysis would be required to determine if the legacy infrastructure can continue to cope with increasing payment volumes in the years to come. [REDACTED]

[REDACTED] which would likely need to be addressed for Bacs payments to continue in a resilient and robust manner for a prolonged period. More generally, we support there being file/batch capability in the initial NPA build, alongside the need to support payment redirections. This lays a foundation for the development of services equivalent to, or better than, currently offered via Bacs.

If Bacs payments are de-scoped from the initial NPA procurement, then there is a risk that Bacs payments will need to be upgraded to ISO20022 on the existing Bacs infrastructure. This approach raises viability/cost concerns for the industry, but perhaps the biggest hurdle to overcome would relate to dual running of legacy Bacs payments and ISO20022 Bacs payments on the legacy infrastructure during transition. Therefore, we support an approach that allows the industry to analyse and consider the best route forward for Bacs payments in future, perhaps with Pay.UK taking a research and thought leadership led approach on this important issue for the industry.

If scope option two is the chosen path for the NPA following this consultative activity, then consideration will need to be given to how the industry NPA Programme is funded from that point on – retaining the participant per-click model for example. With Bacs payments no longer being in scope of the immediate NPA design and delivery, Bacs only participants may ask to be reimbursed for any monies they have contributed via their annual Pay.UK costs in previous years. We anticipate that this could be a complex and controversial issue to overcome for Pay.UK, which if not managed effectively could distract Pay.UK from essential work on the NPA design/delivery. Alternative funding mechanisms for the NPA, other than the per-click model, could be explored by Pay.UK, to halt the potential cost conflict if Bacs payments is not delivered on the NPA in future. We look forward to proposing possible solutions to these questions when we respond to the second half of the Consultation (questions 7-14) by early May 2021.

In a wider sense, the overall NPA cost implications are unclear to us currently. We encourage the PSR and Pay.UK to act decisively to establish a clear NPA CIS approach, as we fear that existing costs for Faster Payments and Bacs payments supplied by Vocalink will likely increase if Vocalink is not the preferred CIS for the NPA. Costs could rise, and quality of service supplied could fall, because Vocalink might be disincentivised to offer attractive commercial terms to Pay.UK for the ongoing provision of Faster Payments and Bacs payments services on the legacy infrastructures beyond the existing contract expiry in 2023.

### **Alternative Options**

If the process to decide on NPA scope, procurement approach and eventual CIS selection continues to take too long, then perhaps a complete change of approach could be the best route forwards for delivering a modern, resilient and innovative new payments architecture for the UK. This could take the form of a market-led, fully distributed, peer-to-peer model whereby individual financial



institutions procure their own payments mechanisms, and these operate to standards from Pay.UK with participants obliged to exchange (clear, with redirection) payments between themselves in a market-led manner.

There would be significant implications for how this would be designed and implemented, including the question of what role the Payments Systems Operator (Pay.UK) would play in design/delivery, and setting the standards to be followed for any such model. There would also have to be consideration given to the thoughts of regulatory bodies such as the PRA and FMD, who would want to ensure that this option is highly resilient and equally does not discriminate against smaller PSPs.

#### **4. Under scope option 2:**

**(a) 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?**

The PSR will have heard many arguments in defence of retaining Bacs payments previously, with inertial factors including difficulties in changing technology and operational processes, and indeed we repeat some of these arguments in the text below because they are still relevant considerations. Many of the services offered by Bacs payments provide consumer protection and control through batch/bulk processing, which are highly valued by end-users, Service Users and PSPs alike. We think that these highly valued elements of the current Bacs service should be replicated where possible for new payment types on a push-rail, taking the opportunity to enhance and improve these protections and controls. For example we might use the data capabilities of the NPA and overlay services to maximise straight through processing and design out some of the problem areas

Taking into consideration the already live, but immature, Request-to-Pay (RtP) overlay service and the conceptual 'Direct Request' service that is being explored by Pay.UK currently, it is difficult to speculate on what could be a suitable timeframe to see the emergence of these or other new market-led propositions that could support the migration of Bacs payments to the NPA in future. We think that any new market-led propositions, to be gauged as suitable propositions in the UK, should be subject to similar levels of consumer protection as Bacs, though.

Bacs payments, especially Direct Debits, are reliable and well-liked by UK end-users and businesses alike, and volumes of these payments continue to grow annually. There is not a strong business case to replace Bacs Direct Debits while it continues to work robustly, giving PSPs and billers control through a well-established and secure file based input service, as well as the opportunity for recourse to correct input mistakes and errors.

However, a future technical migration to a push-based only mechanism on the NPA, could lower operational risks for PSPs and would benefit consumers by not taking money out of their accounts whether they can pay or not. With modern messaging and certainty of fate, there is less need for such complicated mechanisms to cater for failures. Even if those mechanisms are well established and well-practised by stakeholders in the Bacs payments ecosystem, we believe they would benefit operationally from being simplified in the NPA in future.

Bacs payments have a richness, for end-users and PSPs alike, that is envied by instant payments providers who are currently poring over whether to add friction to payments to protect consumers. We argue that efforts should continue to optimise Bacs payments in their current form, but always



with a view to how these payments could interact with the NPA in future. As we have hinted, ISO20022 enhanced messaging could add some end user and interoperability benefits over time and these should also be considered.

In our October 2020 response to the HMT Payments Landscape Review, we provided the following in reference to batch/bulk payments with a longer clearing cycle and why they are still needed:

*“It’s potentially optimal at this time, and across the whole payments space, that the UK has a spectrum of interbank options for payment processing that support individual near real time transactions and also bulk, scheduled transactions. There is real value in Bacs offering a ‘pre-clearing’ layer of opportunity to package and manage scheduled payments. There are also benefits rising from the processing cycle enabling in-flight adjustment that can be done very efficiently by managing exceptions, for example using targeted manual interventions supplemented with automation. These controls include file limits, referrals, reversals and recalls, plus the automated Bacs ‘A services’.*

*Another consideration is of course the investment and operations already established in these efficient and resilient scheduled, non-real time bulk payments - including the significant volumes and values paid by HM Government. And of course, the UK has vast numbers of Bacs Direct Credit and Direct Debit service users and the associated supply chain partners for whom reconfiguring to near real time payment processing may appear uneconomic at the current time.*

*But, from a strategic and technical standpoint, it is of course theoretically possible to reconfigure these longer cycle legacy services to become near real time. And yes, there will be some advantages such as the possibility of Direct Debits being payable right up to the end of a payment window, such as a late month mortgage repayment. However, Direct Debits and Direct Credits, in their current mature state, are both highly resilient and very well trusted with in-built protections on Direct Debit for example. So, bearing in mind the concerns we can have with near real time, individual payment processing, we should think carefully about the cost: benefit dynamics of such a change and we should also bear in mind that these legacy payment services are still evolving. They will be capable of adaptation into ISO 20022 for example.”*

In short, we still support the need for file-based/batch-processing on the NPA, mainly because it is simpler and more efficient than real-time processing for non-time-sensitive transactions.

We also support the approach of Faster Payments being fully transitioned to the NPA before other opportunities are explored centrally by Pay.UK. The payments market may change significantly in the next five years, which may guide what next steps are required in relation to existing Bacs payments and new payment types that may actively displace Bacs payments such as Direct Debits.

**(b) 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 common services to support the migration of Bacs transactions?**

We favour file-based common services being included in the initial procurement from a Nationwide standpoint. We acknowledge however, that we have no vested interest in commenting on this question, and encourage the PSR to discuss this matter with the two PSPs who use these types of transactions in the live environment today, to assess how they would be impacted in any future scenario where they may be included (or not).



**(c) 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?**

We encourage the PSR to be joined up in their thinking with several other consultative pieces ongoing, relating to Consumer Protections and APP Scams for example. This question (c) could be expanded wider than just considering Bacs payments related features also, this is likely to be relevant to other future payments types that will need to interact in years to come. e.g. instant Faster Payments at point-of-sale and whether this would be managed as a separate payments scheme unto itself.

On the theme of consumer protections that are especially relevant to Bacs payments – opportunity for recourse and redress, etc – we think it is definitely worth considering how these protections may need to be implemented on a Faster Payments only NPA service in future. In the longer term, other new technological developments such as using Digital Identity to better authenticate end-users, and perhaps the introduction of in-flight payment controls may also need to be supported on the NPA. These could be mechanisms to mitigate many of the existing identified detriments on the Faster Payments service. Consideration of governance and economic models would need to be part of this reasoning.

We recommend that any impacts to payments redirection, relevant to the Bacs and CASS services, are considered from the outset of any discussions about scope and procurement. We understand from the consultation that this service is due to be part of the proposed CSS, but we would appreciate extra clarity on how this would fit in with the option that Faster Payments is procured first and Bacs procured later. This could add complexities with potentially running different solutions if Vocalink didn't successfully procure the Faster Payments solution. We think these considerations would also apply to the other supplementary services mentioned in the scope of the CSS such as the e-ISCD, Bank Reference Data, etc.

Referring back to our question 3 response, and the risks attributed to delaying Bacs in our question 2 response, the proposed approach to splitting out Faster Payments and Bacs payments procurements would mean that there is a dependency on ensuring the initial procurement would be able to be integrated with any future Bacs migration. This could lead to analysis work at this stage and brings risk of additional cost and delay when we get to Bacs migration, as there will likely be issues that could not have been envisioned during the earlier procurement exercise.

As we have described in our question 3 response, Bacs is more complicated to migrate than Faster Payments, and it is still undecided how certain elements will function (the PSR will know there was much discussion previously about moving all interbank payments to a push-only infrastructure). We would warn against removing Bacs Direct Debit functionality, when there is such a high dependency on Direct Debits in the UK currently, and initiatives like Request to Pay (RtP), while a messaging solution, are still immature and Pay.UK's 'Direct Request' payment type is still only conceptual.

**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.**

We favour an approach that introduces competition, echoing the aims and objectives of the PSR and its analysis of the benefits of the NPA. Having previously taken part in, and contributed to, the formulation of the SPG position proposed in 2020 (option three), we endorse the pragmatic arguments



for retaining Vocalink to develop this foundational NPA. However, we are neutral between this possibility and a short, sharp competitive tender exercise with the existing shortlist of vendors for the delivery of the narrower scope option two. We think aiming to award a contract to the successful supplier by the end of calendar year 2021 is a realistic aim.

This could drive competition between these vendors, [REDACTED]  
[REDACTED] In coming to this position, we have focused on the need for delivering the NPA more quickly, and this approach best facilitates this desire. There is a need to continue with the modernisation of the underlying legacy Faster Payments infrastructure regardless, to ensure early delivery of the benefits.

For option three, a non-competitive procurement with Vocalink, we agree that Pay.UK would need to establish controls that are as strong as possible to mitigate the monopoly and mitigate risks to horizontal and vertical competition, value for money and innovation described in the consultation paper and in previous consultation activities. Vocalink has shown itself to be a trusted provider in UK interbank payments though, as well as globally, and it successfully stepped in to be the supplier of the Cheque ICS infrastructure in 2016/2017. An alternative supplier had previously won the competitive tender for ICS, but its inability to understand the payments market led to significant increases in cost and delayed the overall ICS delivery.

As an industry, we have a responsibility to nullify threats to infrastructure resilience and robustness. These risks could come to fruition whilst transitioning to a new NPA supplier for Faster Payments, leaving the legacy infrastructure supplied by Vocalink (and the risk of marginalising Bacs payments and disincentivising Vocalink is discussed in our response to question one). As we have touched upon in previous answers above, choosing to negotiate directly with Vocalink may have the added benefit of enabling better negotiations for the existing contract for Faster Payments supply between Pay.UK and Vocalink, which is due for renewal in 2023. Pay.UK does have leverage over Vocalink with its existing supply contract, across a range of cost, service and risk dimensions including service level agreements and innovations of mutual benefit such as economic crime initiatives - and this should be useful to gain a strong deal with them overcoming, to some extent, points where it is stated in the consultation that Pay.UK has no leverage in negotiations.

We do not support restarting any procurement exercise in full (option two) as this will add further delays and cost to any NPA delivery.

Timescales for alignment to ISO20022 in CHAPS payments should also be considered as a part of this activity and what risks/impacts may occur because of the expected misalignment.

**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)?**

**Option 3 (with nuance)?**

In a future scenario where Pay.UK directly negotiate with Vocalink to build and supply the NPA on the narrower Faster Payments only scope, we consider that a sensible option could be to offer Vocalink a contract length of between 3-5 years. This is on the basis that a competitive re-procurement would follow at the end of that 3-5 year contract – and this could be a competitive re-procurement of both Faster Payments and Bacs payments at this point, with the latter potentially being emulated on a push rail. This approach could offer the industry a balance of initial stability in ongoing Faster Payments supply with Vocalink (on the existing infrastructure), mixed with innovation as Faster Payments migrates on to the NPA supplied by Vocalink. This option would also allow Pay.UK and the industry



time to analyse what is the best longer term approach for the payments that are currently provided via Bacs, while Vocalink still run the legacy Bacs infrastructure. At some point the trajectory for those legacy payment services will influence what happens with the current plan for a competitive re-procurement at the end of the existing Vocalink contract.

We acknowledge that there would be limitations to this approach however, as for Vocalink to sign up to a shorter contract length of only 3-5 years, the unit costs to the industry are highly likely to be higher than if it was a longer term contract. This would have to be balanced with the perceived benefits described above – initial Faster Payments stability, Faster Payments innovation, time for Bacs payments analysis and a future competitive re-procurement or alternative arrangements to migrate the equivalent or enhanced Bacs type services to the NPA's push rail

#### **Distributed model (like SEPA scheme)?**

As we described in our response to question three, a more radical approach could be to reach for a more distributed and market led alternative, where individual financial institutions procure their own payments mechanisms, and these are operate to standards from Pay.UK and participants are obliged to exchange (clear, with redirection) payments between themselves in a market-led manner.

#### **Contact details:**

[REDACTED]  
[REDACTED]  
[REDACTED]  
  
[REDACTED]  
[REDACTED]

#### **Freedom of Information Act 2000 (FOIA)**

For the purposes of FOIA, your organisation is a Public Authority. We are providing the information in this submission on the condition that, in the event you receive a FOIA disclosure request in relation to any of the information it contains, you will, as soon as reasonably practicable after receiving such a request:

1. Notify Nationwide Building Society of such a request by email addressed to the following [REDACTED] and [REDACTED];
2. Advise us of the extent to which the relevant request relates to Nationwide Building Society;
3. Take account of any representations made by Nationwide Building Society before reaching a decision whether to disclose the information;
4. Notify Nationwide Building Society of any decision to disclose the relevant information not less than one business day in advance of the disclosure being made.

Section 44(1)(a) FOIA provides an absolute exemption against the disclosure of information which is prohibited from disclosure under another statute. Therefore, information that comes into the hands of the PSR in the exercise of its competition and regulatory powers must not be disclosed other than in strict accordance with the provisions set out under section 91 Financial Services (Banking Reform)



Act 2013. As such the information must not be disclosed other than in strict accordance with those provisions.

In addition, we would expect any such disclosure would fall under the qualified exemption in section 31(1)(g) FOIA, on the basis that it will, or is likely to, prejudice the exercise by you of your statutory functions.



## PSR Delivery and Regulation of the New Payments Architecture Consultation (CP21/2)

Response from Nationwide Building Society

### About Nationwide

As a Society of nearly 16 million members with a balance sheet of £236 billion, Nationwide is a systemically important financial institution in the UK. We are focused on retail financial services products. Nationwide is a top three provider of mortgages and savings accounts and has just under 10% share of the current account market.

We have supported the development of the Payment Systems Regulator and its work over recent years, notably through our contribution to the Payments Strategy Forum, ongoing input into the development of the New Payments Architecture (NPA), and recent efforts to combat Authorised Push Payment scams. We value the emphasis on competition, innovation and service in the PSR's objectives and, recognising the dynamics of our market, we know it's sometimes hard to reach our ambitions at the pace the PSR and indeed the industry might like.

With this in mind, Nationwide's headline positions on this second part of the PSR's consultation are:

- Nationwide is broadly supportive of the majority of the PSR's proposals and principles expressed in Chapters 5 and 6 of the Consultation Paper. We endorse the PSR's ongoing work and expertise in terms of competition matters.
- Nationwide has a bias towards competition in the NPA infrastructure provision, and we support the Strategic Participant Group (SPG) and Pay.UK positions relating to their being a new narrow, focussed and short procurement exercise undertaken with the existing shortlist of CIS providers.
- Nationwide would encourage the PSR and consequently Pay.UK, not to underestimate the buying power for NPA. Full consideration of the commercial control environment should be made, maintaining a focus on pricing and competition whilst also broadening its thinking by leveraging principles from public sector procurements and EBA guidelines.
- The chosen Central Infrastructure Supplier (CIS), in order to reach desired levels of access and a competitive pricing-point, should not be discouraged from utilising data/information to achieve economies of scale and deliver outcomes that are beneficial to the market.
- Competition at all layers of the infrastructure needs facilitation, encouragement and perhaps mandating, with consideration of not preventing innovation from happening organically. This could take the shape of bilateral arrangements between PSPs in future, overseen and policed by Pay.UK as the Payment System Operator (PSO) and standards setter for the industry.
- There has been a recent spotlight on Pay.UK's capabilities and role in managing competition in UK interbank payments. We consider that the recent Pay.UK review of NPA Programme governance has been necessary to ensure the future success of the NPA Programme. We welcome the recognition by Pay.UK that more engagement with, and involvement from, PSPs is required to make the NPA Programme successful, and we encourage Pay.UK to stick rigidly to these principles moving forwards.

### Questions related to competition

**7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.**

We broadly agree with the description contained in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem, but offer the following questions and points for clarification in the paragraphs below.

When referring to "low" barriers to entry in paragraph 5.7, we think that this wording could be clearer if it also referred to ensuring there are no 'unfair or unreasonable' barriers to entry. Further, specific, proportionate and necessary entry requirements should be in place to protect the wider ecosystem and other participants e.g. from a resiliency/security perspective which are not seen as 'barriers' to entry. If the bar is set too low this could create



further risk for the ecosystem. We also recommend the addition of the word “efficient”, alongside “resilient” to the first bullet point in paragraph 5.8, reflecting that the thin CIS design should be lean and deliver value-for-money, as well as being resilient.

Furthermore, with regard to protecting our own Strategic Investment plans and funding the continuous enhancement of new and existing propositions to our own member base, it is right that we call out the balance that is required in any funding model for NPA. Whilst we endorse low barriers to entry and support collective industry enhancements for the benefit of public, the funding model should be fair, proportionate and payable by all who utilise the NPA, recognising the significant transformational and implementation fees for NPA, but also a likely period of dual running of the current FPS and NPA. We encourage the PSR to consider promoting effective competition, without materially impacting current FPS participants’ ability to offer enhanced products and propositions.

In respect of the open standards requirement in paragraph 5.8, we think that the NPA CIS intellectual property position needs to be considered more thoroughly by the PSR. Is the NPA a new system that is being specified from the ground up, as opposed to being an off-the-shelf product that is being purchased for the UK interbank payments market? If so, then perhaps an intellectual property approach that mirrors the Open Banking model would be appropriate so that the intellectual property is owned by Pay.UK as opposed to any third-party supplier of the NPA. This approach could help additionally support the NPA through the creation of open standards, which would create commonality of requirements, support a simpler transition between third party suppliers, operate to support the management of roadmap items as well as the overall management of third parties within the NPA ecosystem. However, it may be appropriate to explore this approach further via delegation to an industry working group to take account of the views of the membership (and potentially more widely from other interested stakeholders) to ensure that there is an effective process to create those standards and manage the roadmap items as well as the intellectual property more generally.

Reflecting on the Cheque and Credit Clearing Company (“C&CCC”) Image Clearing System programme experience, some of the more flexible and ambitious service propositions were eventually de-scoped further down the line, which impacted the whole industry in terms of cost and time. We encourage that whatever scope is decided for the NPA in the next period, needs to be contractually set and firm, to avoid a repeat of this type of situation. In addition, with a ‘thin’ CIS, there is a risk that the scope could grow which would be an equal problem in impacting the whole industry in terms of cost and time. It is a case of balancing the agility of a CIS layer that is ‘thin’ enough to be agile to evolve, but stable enough for the PSPs dependent on it to have stability in their plans.

#### **8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.**

The Consultation Paper describes competition risks in detail, but speaks little about the opportunities of the CIS provider having a broad view of data and services, that would allow them to develop innovative new payment services and/or overlays – which could benefit end-users of the NPA.

If Vocalink/Mastercard is chosen as the CIS provider, it would have the advantage of having interests in both card payments and interbank payments. It should be compelled to innovate and capitalise on their position to create end-user benefit, and we think these benefits ought to be explicitly offset against the potential harms to competition which the PSR has identified. A company like Mastercard has a wide global reach, which may allow new functionality/propositions to enter the UK market more easily, aided by using ISO20022 as a common global standard also. Another advantage of Mastercard being a composite provider of card and interbank payment systems, is its strong position to potentially help develop the best parts of card payment functionality, which interbank payments currently miss, such as consumer protections.

We think that other growth and quality price incentives could be offered in contract negotiation with the chosen CIS – e.g. as the NPA service volumes grow and/or the NPA service quality improves, then the money paid to the chosen CIS increases in line. Equally as important in future could be contractual incentives from Pay.UK for the CIS to promote innovation in the NPA and in the NPA overlay services.



**9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?**

We agree that the restriction of data usage is important to consider, but much of these mitigations are already built into existing law and regulation. Accordingly, we do not believe that the PSR and Pay.UK need to closely focus in dealing with this concern. Further, there could be an unintended consequence of stifling innovation, rather than encouraging it as the PSR and Pay.UK desire as part of their stated objectives.

There needs to be a balance between not having overly onerous restrictions, which could stifle innovative services being developed by the CIS provider, whilst mitigating against the privileged position of the NPA CIS provider being abused for its own gains/advancements in the other payment services that they may provide. We think this could be written under contract between Pay.UK and the CIS provider. Organisational segregation is not uncommon, however we encourage the PSR and Pay.UK to ensure that such controls do not impinge on the reason for selection, or unduly impact on the knowledge base in any participant facing commercial arm.

We also think that operational separation in the CIS provider creates a risk that concentrated payments knowledge and capability could be eroded within that CIS provider, by having to split SMEs (subject matter experts) out between the two operational entities. This could be a case where over-governance impacts quality of service, resilience and innovation offered by the CIS provider to the NPA and to individual PSPs, who consume other services from that CIS provider (e.g. payment gateway services) on a bilateral basis.

As currently written, it is envisaged that Pay.UK will be responsible for enforcing the behavioural rules relating to NPA provision, as well as monitoring these rules themselves. To overcome this issue of Pay.UK effectively *marking their own homework*, we propose that in this arena, the monitoring would benefit from additional oversight and auditing from an independent body or third party. It is appreciated however that a balance should be struck to ensure that this does not introduce bureaucracy and is utilised only at appropriate milestones and/or timescales to support in addressing the competition risks.

There is much written about the governance principles for addressing competition risks, but little about tangible numbers/measures that could be used to track success in addressing the identified risks. Similar feedback has been expressed by UK Finance members during the member calls so far, and we can expect this feedback to be reflected in their consensus response on behalf of their members also.

It is not clear how a contract with the CIS provider(s) would be drafted to provide incentives to encourage innovation and stop incentives to distort competition. We have ourselves considered additional potential mitigations which predominantly lean towards more public procurement practice such as margin caps, open book accounting or indeed a preference for consortium. The lack of clarity could introduce unnecessary complications in the contract negotiation process and unnecessarily impact the delivery of the NPA.

Competition will, very naturally, vary in its density through the layers of interbank payments in the UK. The focus of the Consultation Paper is understandably on competition at an infrastructure/CIS level, focusing less on other important issues of competition in other market layers – such as the pool of IT providers available to PSPs, like ourselves. If innovative IT and overlay service providers are disincentivised to act in the UK market, then this could reduce the pool of IT providers available to bid for developments at individual PSPs – which could drive up prices and reduce quality and innovation, through the lack of competitive forces. We want appropriate competition at various levels of the supply chain to yield the best outcomes as early as possible.

We also recommend that the PSR consider the full breadth of the market ecosystem, and not take a restricted Central Infrastructure only view. As participants of the Faster Payments service, each financial institution will have its own commercial arrangements with the same and/or alternative payments service providers who will to a differing degree, be impacted by anti-competitive forces leveraged through NPA.



**10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.**

In relation to common services such as central redirection, Bank Reference Data (BRD), eISCD, etc, we do not think that this raises competition risks that differ substantially, no.

**11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.**

In our answer to question nine, we call out a potential knowledge/capability risk caused by operational separation, but we also acknowledge here that there are scenarios where elements of operational separation are necessary. For example, in a future where Vocalink/Mastercard are the CIS, if Mastercard then also entered as a provider of overlay services, then non-disclosure policies should be designed and tested to avoid monopolistic knowledge transfer or privileged information being shared for anti-competitive gain.

We think that the most important advantage comes in the shape of service resilience with sharing of best practice across payment rails and new technology standards. Operationally whereby learnings from one payment type (card payments for example) may be appropriate for other payment types (interbank payments) the facilitation of controlled knowledge sharing across the NPA CIS provider, legacy system provider and wider would likely enhance service resilience but also lead to a more innovative and forward thinking environment.

There is a risk to be acknowledged of potentially Vocalink building/running the NPA and the legacy Faster Payments and Bacs systems concurrently, but Vocalink is a proven and reputable supplier of interbank payments, as we touched on in our first half response to this Consultation.

We have also considered that organisational segregation, into separate entities, increases the likelihood of mergers and acquisitions. The PSR should consider the impacts of a change in control, and control mitigations.

**12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?**

In general, we support the proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented. Aside from the terms and clauses contained within the NPA CIS contract, it is difficult to think of suitable alternatives to regulatory measures.

Through the existing regulatory framework and inclusion of the NPA as infrastructure of a payment system as designated by HM Treasury, we feel that the PSR has a wide range of regulatory powers which it could call upon proportionately if required. So, close monitoring as the NPA develops and use of those powers at the appropriate time is likely to be more effective than pre-emptive regulatory measures for risks that may cease as the NPA develops.

It is also considered that over time and through iterative Change Control, control creep may occur without the oversight of independent bodies, or indeed regulation itself.

**Questions related to pricing**

**13. Do you have any comments on the pricing principles set out in this document?**

Generally, there is a focus only on NPA operating costs throughout the Consultation Paper. We suggest that pricing principles should be applied to the whole life of the service to avoid escalating costs in NPA implementation or Faster Payments decommissioning, for example. Another key point for consideration is how are the whole life costs accounted for in each of the scope options laid out for procurement in the first half of the



Consultation. Similarly, if the CIS is retendered again in 'x' years' time, how are the long-term costs allocated accordingly? We can look at the UK rail industry where franchises are re-let every ten years, for example.

We also need to consider the economic model necessary to support consumer protections in any pricing discussions. This would be the time to look at this, as the NPA is in its formative stages.

The NPA could be processing different types of payments – 'instant', 'priority', 'bulk', 'multi-day' – and these could reasonably have different prices attached to them. The principle that everyone pays the same is valid, but each payment type could carry a different fee. To incentivise usage, price banding on transaction volumes, so that prices are lower for higher transaction volumes, may prove to be appropriate.

We would like to see the phrase "incentivise utilisation of the NPA" to be expanded to include acknowledgement that this will not be through an increase of other payment scheme operating costs. This links into paragraph 6.4 also. Similarly, we suggest that the phrase "adapt to changing competitive conditions" should become "adapt to changing competitive conditions and benefits from cost reductions through introduction of new technologies such as cloud hosting".

Pricing (NPA implementation and operating expenses) should not materially restrict a PSP's own strategic investment, in turn adversely impacting a PSP's own end-user's experiences and product enhancement.

We suggest the addition of another principle, that costs should reduce over time as operational familiarity with NPA increases and supplier return-on-investment (RoI) is achieved. This goes to our previous point about price incentives and continuous improvement in our answer to question eight.

Sustainability of extended supply chains and ethical sourcing should also be noted as key principles of the NPA procurement and ongoing operation.

From the perspective of professionals with expertise in procurement, there are inherent risks associated with Pay.UK's current not-for-profit operating model, in terms of theoretically reduced incentive to drive value in negotiations with a CIS provider. There are mitigations to this risk, partly enabled by a transparent and inclusive governance approach with an economic perspective in pursuit of optimal outcomes for end-users. Over time, we acknowledge that pricing principles may need to be reviewed/reset again in future, to ensure that the current per-click model is still fit-for-purpose. We think that by doing such a review/reset now could distract from the immediate NPA programme priorities, which is not desirable.

**14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?**

We don't think the pricing principles fully address the competition risks relating to CIS user pricing set out in Chapter Six. They are too high level and we recommend that public procurement principles are looked at by the PSR and Pay.UK, which may include percentage revenue caps by supplier, margin caps, etc. An innovation fund with the option for overlay service providers and competing firms to utilise an investment pot for additional NPA (only) growth, funded by the CIS provider could be an attractive possibility.

The costs to the CIS provider will need to cover the provisioning of the CIS and its run costs across the term of the initial contract. We doubt how this will occur if "the prices are not pre-determined by the CIS contract; and that the contract does not place restrictions on Pay.UK's ability to vary the prices". What Pay.UK decide to charge and what is in the CIS contract are different things, as Pay.UK will be expected to layer their own expenditure on top of this. Pay.UK will be able to vary the costs to the PSPs but an element of the infrastructural costs will remain the same irrespective of the volume of payments being processed.

Further and as a direct participant, transparency of spend and increased influence on budgeting (including closer engagement of budgeting and strategic spend priorities) and increased accountability for variance is encouraged as a principle.



**Contact details:**

[REDACTED]  
[REDACTED]  
[REDACTED]  
  
[REDACTED]  
[REDACTED]

Freedom of Information Act 2000 (FOIA)

For the purposes of FOIA, your organisation is a Public Authority. We are providing the information in this submission on the condition that, in the event you receive a FOIA disclosure request in relation to any of the information it contains, you will, as soon as reasonably practicable after receiving such a request:

1. Notify Nationwide Building Society of such a request by email addressed to the following [REDACTED] and [REDACTED];
2. Advise us of the extent to which the relevant request relates to Nationwide Building Society;
3. Take account of any representations made by Nationwide Building Society before reaching a decision whether to disclose the information;
4. Notify Nationwide Building Society of any decision to disclose the relevant information not less than one business day in advance of the disclosure being made.

Section 44(1)(a) FOIA provides an absolute exemption against the disclosure of information which is prohibited from disclosure under another statute. Therefore, information that comes into the hands of the PSR in the exercise of its competition and regulatory powers must not be disclosed other than in strict accordance with the provisions set out under section 91 Financial Services (Banking Reform) Act 2013. As such the information must not be disclosed other than in strict accordance with those provisions.

In addition, we would expect any such disclosure would fall under the qualified exemption in section 31(1)(g) FOIA, on the basis that it will, or is likely to, prejudice the exercise by you of your statutory functions.



**NatWest**



# Delivery and Regulation of the New Payments Architecture CP21/2

## NatWest Response

### Questions related to the risks to NPA delivery

1. Do you agree with our view of the risks to the successful delivery of the NPA?

NatWest agrees that there are significant risks to the delivery of NPA under the existing approach. In particular, there is a risk that it will not deliver Value for Money and may delay the realisation of benefits. This is evidenced by the fact that the core delivery is late and has already required significant funding from participants.

The *overall* NPA programme has, however, delivered some benefits (most notably Confirmation of Payee and Request to Pay), but these have been outside of the provision of the Core Infrastructure Service (CIS) which itself has not yet achieved industry agreement on scope and design.

As a participant, NatWest has had limited visibility of the details of the procurement process for the NPA, but the approach to date appears to have been both complex and lengthy.

Pay.UK has struggled to develop the original Payment Strategy Forum's Blueprint into a deliverable design for the CIS. Our perception is that finding a solution to replace the current Bacs system has been particularly challenging and has materially delayed the overall NPA programme. We do not underestimate the complexity of this task; a new system that will accommodate Bulk payments, including both Push and Pull payments, will not be easy to design at a detailed level.

These factors seem to have contributed to both the elapsed time and high cost of the process to date.

The Coronavirus pandemic has introduced further risks both in terms of resource availability - with focus being placed on activity that directly supports customers during these challenging times - and pressure on participants' budgets being made available for the NPA in future years.

These combined delays mean that the Blueprint is, in substance, now more than five years old and technology has moved on dramatically during that time.

The move to instil in Pay.UK an "intelligent buyer" philosophy, and the engagement of KPMG to support the programme, is welcomed. However, whilst it will assist in procurement, it will not necessarily address the complexity challenge inherent in the design for Bulk/Pull payments.

The risk remains, under the current delivery model, that progress will continue to be slow and inefficient. NatWest believes that the current approach is flawed and suggests that alternatives to both the underlying design and the delivery model are considered (please see points 3 and 5.). We believe that the PSR and Pay.UK, together with the wider industry, should consider and agree the target end-state and operating model for the NPA before determining delivery options.



## Questions related to procurement scope

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?

NatWest agrees that the current procurement, which seeks to cover replacement of FPS, Bacs, and migration services in one exercise, is complex, high risk and is delaying delivery. Accordingly, should the full procurement activity continue, which we do not support (as referenced in points 3 and 5), Scope Option 2, focusing on FPS/Push payments is inherently less risky. Under this scenario, migration of some Bacs credits is likely to follow as Corporate users seek the benefits of ISO20022 enhanced messaging.

Evidence to date suggests that Scope Option 1 (replacement of both FPS and Bacs) is too complex and continuing on the current path risks further delay to early value realisation through the delivery of Push payments. Narrowing scope to focus on FPS/ Push payments only will significantly de-risk the programme.

Whilst there is a risk that focusing on a new Single Push payment CIS to replace FPS initially will delay delivery of a system which can onboard all current Bacs payments, we believe this will be mitigated by the opportunities created by the earlier delivery of the Push payment capability. We believe that this approach will provide Participants and users with experience of using the new system in practice and thereby stimulate further development of new overlay/TPP services which could offer a migration route for both Bulk and Pull payments.

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?

NatWest has carefully considered the impact of delayed delivery of the NPA. As noted in your consultation paper at 2.50/2.51, there have been a number of important developments in payments that affect the NPA since the original Blueprint was drafted.

We believe that technologies that were little developed in 2016/17 are maturing rapidly and could offer a viable alternative to the Blueprint in the near future that are both efficient and resilient. CBDCs are now a factor which should also be borne in mind.

Evidence of this advance in technology is seen in the global market - NPP is well established in Australia; countries such as the Netherlands are making a success of SEPA Instant; and here in the UK, Open Banking has made a reality of API based payments access.

New solutions could also reduce the size and complexity of the CIS. This would reduce the potential for the CIS provider to use its position to influence overlay requirements in its favour.

The rapid advance in technology suggests to us that this is not the time to invest in a Bacs replacement that may become obsolete in the near future. We believe it is more important to deliver a replacement for FPS as soon as possible and that this will catalyse the market to consider how Bacs can be replaced.

We therefore support Scope Option 2, but with an emphasis on the most rapid delivery possible whilst also designing for the future market.

Accordingly, we suggest that a twin track approach is adopted:

- To ensure the most rapid delivery of a Push payment system progressing off the shelf solutions (see below) and
- In parallel engaging a deep collaborative feasibility study to examine the practical options for an alternative solution and approach in the medium term. This would consider alternatives to the Blueprint, acknowledging that five years after it was drafted it may no longer be state of the art.



This is similar to the approach being taken by the Bank of England as it progresses future states of the RTGS renewal.

NatWest and other participants have collectively contributed ██████ to NPA overall to date, with a further ██████ budgeted for this year. NatWest will find it difficult to justify more open-ended funding in the short term without more visible and concrete progress. We agree that attempting to accommodate Bacs migration at this point is a major distraction and will more easily be planned when there is a fully functioning infrastructure in place.

There needs to be greater transparency of programme cost management given the current pass-through nature of the costs to participants. Deeper consideration of the overall funding approach is also required. Given that one of the objectives of the sale of VocaLink was fundamentally to change the established way of governing and funding infrastructure, and that more PSPs are expected to emerge, equity requires that a mechanism is put in place that ensures that future users of the NPA contribute not only to the running costs, but also its initial design and build.

We further believe that the complexity of including Bacs has significantly increased costs. Addressing Bacs once the Push payment capability is in place will help clarify the further requirements and reduce costs.

As explained below our response to this question is inextricably linked to the procurement approach.

#### 4. Under scope option 2:

- a. 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?

Some potential alternatives to Direct Debits (DDs) already exist today - e.g. Request to Pay (RtP), whilst others are under active discussion through Open Banking, e.g. Variable Recurring Payments (VRP). But these will take some time to establish themselves and it is unclear at present where Bulk payment solutions (both credit and debit) are being seriously investigated outside Pay.UK.

The current delay in defining the scope of a Bulk payment solution is in part due to attempting to replicate all the features of the current Bacs system, and a fresh approach which is market led may well deliver a less complex and more efficient solution.

Nonetheless we believe it is likely that circa two years after the implementation of a Single Push payment system, robust and scalable DD alternatives will have become established, albeit these may have a small market share at that stage. If the existing DD system continues to work well and at reasonable cost there will be little incentive for corporates, who have other calls on their investment funding, to migrate to a new product, and the new products may not meet the needs of all DD users.

It is therefore highly likely that:

- i) If corporate users see that gaps remain in the DD-replacement product choice in the market, action will be needed to fill those gaps. Collaboration between corporates, PSPs and Pay.UK may be needed to design and build alternatives.
- ii) When these gaps are filled (which may take a further 12-18 months) Pay.UK will need to set a date when it will “switch-off” Bacs. To allow corporates to budget and plan this may take a further two years. Overall, therefore an elapsed time of circa five years is likely from the launch of NPA to the final switch-off of Bacs. We do not believe that this



would be any shorter if Scope Option 1 is pursued, because we do not believe that capability could be delivered more quickly and nor would it expedite a faster migration path.

Under any scenario which envisages an extended life for the Bacs infrastructure, consideration will need to be given to the commercial arrangements with the supplier as volumes decline.

If the current Bacs contract continues, this opens the possibility of the industry having to continue to pay the high fixed cost of Bacs (currently nearly [REDACTED]), as well as the running costs of the NPA.

We understand that Pay.UK is in negotiation with VocaLink about future contracts for both Bacs and FPS and we seek more transparency of these discussions. We would expect them to include robust mechanisms to force down the annual costs over time. The incumbent should be obliged to assist in proactively migrating Bacs payments to other payment types when available so that there is no benefit to the incumbent from inertia.

- b. 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 common services to support the migration of Bacs transactions?

NatWest does not use these services in FPS today. We have no objection to them being offered if there is genuine demand and their inclusion would not elongate the procurement process, but in terms of the needs of our own customer base, these are not Day 1 requirements

- c. 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 might require such focused attention *prior to* the initial procurement?

The major requirement of the infrastructure of the NPA for Bacs migration is scalability and resilience so that Bacs' six billion items annually can be migrated safely on to the NPA.

Whether any other features of Bacs are required depends on the future vision. If the vision of an infrastructure based purely on Single Push payments supporting innovative customer facing services is realised, few features of Bacs, if any, will be required in the NPA. The opportunity to pursue this vision is probably more fully opened by splitting delivery. Operating the NPA alongside Bacs for a period will give PSPs, fintechs and corporates the opportunity to assess, experiment and develop TPP services.



## Questions related to procurement approach

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.

NatWest believes that the lowest risk course that would expedite progress on NPA is to, engage the incumbent, VocaLink, directly without a lengthy procurement process. We believe that this approach would offer the shortest route to implementation of the essential features of NPA, especially ISO20022.

We further believe that VocaLink should be asked to undertake “no regrets” work on an FPS based solution in parallel to a study of an alternative technology model which we recommend at point 3. above, in order to minimise further elapsed time.

Whilst we are cognisant of concerns about using the incumbent without a full competitive procurement approach, we believe that this provides the most pragmatic way forward. Maximising re-use of the existing FPS infrastructure should also constrain costs.

We say this in the belief that the rapid technological changes being evidenced in the market will open the possibility of a new technology approach in the medium term, even if it is not felt to be immediately appropriate.

As noted above we therefore also propose that Pay.UK works with participants and other stakeholders to produce a detailed plan for future infrastructure requirements beyond the short-term Push payment implementation.

Engagement with the incumbent should be conditional on their commitment to support migration to an alternative technology model at the appropriate time. An outline road map should be agreed, which would incentivise all parties to implement in a flexible way, which would safeguard against the incumbent becoming embedded and which allows simpler migration in the future with minimal customer disruption.

Working with the incumbent in this way would be appropriate whether Scope Option 1 or 2 is followed, but as noted above, we favour Option 2. In terms of Infrastructure competition, Option 2 would have the benefit of not committing Pay.UK to any supplier for a Bacs-replacement at this stage and offer the real possibility of new products/suppliers emerging to cover Pull and Bulk payments in a competitive environment.

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)?

As we indicate at point 3. above on the nature of the technological change and at point 5. in relation to procurement, NatWest believes that technological change could open-up radically different options for payment systems in the coming years. However, this may not yet be sufficiently mature to consider for critical national infrastructure. We therefore advocate detailed work by Pay.UK in collaboration with participants and other stakeholders to produce alternative designs for the medium term. This work should draw on the abilities of the growing pool of skilled technology architects in participants and fintechs. NatWest would be very happy to support such an endeavour.

NatWest’s further observations relate to the governance/delivery model.

Pay.UK has, at times, laboured under its current programme delivery model and governance. We note and endorse your comment that Pay.UK needs to be properly resourced going forward. We support the need for it to have the right skills at its disposal, but believe the current levels of funding



should be more than sufficient to accommodate this when allied to a reform of the governance and industry engagement approach.

We are aware of, and indeed welcome, the additional support that Pay.UK has recently employed to augment its delivery capability and address some of the concerns raised by internally and externally driven reviews. However, we still have concerns that, as currently constituted, Pay.UK does not yet have sufficient skills, resources and an appropriate governance structure to manage both the design and delivery of the NPA.

Pay.UK's historical approach of keeping participants largely at arm's length has potentially hindered progress. This might be contrasted with, for example, the OBIE. Although not a perfect comparator, the OBIE does show what can be achieved where the industry is given a clear remit and then comes together collaboratively to make it a reality. This was also the case in large part with the original implementation of FPS.

We fully support the desired outcome for the NPA to facilitate competition, but believe that a more inclusive, collaborative approach to both the design and implementation would ultimately be more effective in delivery. Pay.UK should therefore reform its formal programme governance on a more collaborative basis to include a cross-section of participants and other stakeholders as partners to bring together considerable expertise enabling rapid problem solving as design, procurement and delivery progresses.

Pay.UK, with this group should be answerable to the PSR and FMID to ensure that progress is well paced, and that the principles of accessibility and resilience are delivered successfully.

18 March 2021

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## **PSR Consultation on Delivery and Regulation of NPA, CP21/2: Part 2**

### **NatWest Response**

NatWest welcomes the opportunity to comment on the PSR's consultation regarding the competition and pricing aspects of New Payments Architecture (NPA). We have previously answered the Part 1 consultation on scope and procurement.

NatWest believes that the UK should have an advanced payments system that meets the needs of our economy and society. The central Clearing and Settlement Service (CSS) component should support competition and innovation in the payments ecosystem. Its design, organisation and management should be a matter of collaboration and co-operation among stakeholders to support these wider aims.

The wider context of the NPA's place in the UK economy should be borne in mind. We agree with the PSR's focus; i.e. an approach that promotes innovation, resilience, safety and competition, which can create a world class infrastructure that works for the country, consumers, business and the payments industry. However, we are concerned that too narrow a focus on the procurement and subsequent management of the NPA may actually frustrate some of these aims and inhibit the NPA's contribution to the success of the whole economy.

International comparisons highlight a tendency for authorities to encourage a degree of collaboration in payments industries, to set up structures that drive forward advanced payments systems that then provide a platform for competition and innovation to the benefit of the whole economy. A spectrum of trade-offs (collaboration vs competition) are managed that strengthen those markets' ability to compete internationally without compromising resilience, safety and user needs.

We will briefly rehearse key points from our Part 1 response. These points support and contextualise our Part 2 responses.

#### **Scope**

Payments technology is evolving rapidly. The solution chosen should command the support of all stakeholders including regulators, government, participants and fintechs as a vehicle through which innovation can thrive in an efficient and secure environment.

Recognising this rapid evolution, NatWest believes that it is crucial in choosing the NPA solution, that there is a clear path to the future *beyond it*. It will be incumbent on the supplier to co-operate in any future transition to the subsequent generation of payments, in particular distributed ledger technology and Central Bank Digital Currencies (CBDCs). These future developments could realise the ambition of a fully competitive eco-system, by further removing utility elements from the payments system



In order to facilitate progress on the NPA, NatWest supports the narrowing of scope to replace FPS in the short term. We believe that this will assist the more rapid realisation of the benefits of ISO20022 standards.

Putting in place a push payment capability will, we believe, give a clearer picture of the environment into which a replacement for Bacs will eventually be introduced. In particular, once in place, the push payment capability will act as a catalyst for new thinking on the replacement of Bacs.

## **Procurement**

Ensuring that the solution chosen to replace FPS in the short term can support its subsequent evolution, is perhaps more important than the framework of its procurement. A collaborative working forum with participant procurement SME participation would be helpful to secure buy-in and establish the optimum process.

## **Competition and Pricing: Introductory Comments**

Turning to Part 2, NatWest believes that the PSR should focus on providing Pay.UK with the tools to help it ensure not only that the CIS supplier does not frustrate competition and innovation, but that it positively works towards the longer term evolution of the payments system. In so doing, the PSR should permit and encourage Pay.UK to work closely with participants and other stakeholders to bring their expertise and experience of the CIS to bear in both managing supply and in planning for the future.

Pricing of the CIS should ensure that the CIS supplier can cover its legitimate costs plus a fair return. All participants should bear a reasonable proportion of the CIS costs on a commercial basis (both up front/sunk and marginal), plus the programme costs of Pay.UK itself. The PSR should consider ways to incentivise the CIS provider to co-operate in evolving the central CSS towards a more distributed future model.

We believe that an overly prescriptive approach to regulating the CIS in future could itself prove to be burdensome, and that a principles AND outcomes focused approach should be adopted by the PSR.

## **Questions related to competition**

7. Do you agree with our description of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.

NatWest supports the promotion and facilitation of competition in the NPA ecosystem.

We agree with the PSR's description of how best to promote and facilitate effective competition in the NPA ecosystem within the confines of its remit i.e. its statutory objectives to promote competition, innovation and the interests of service-users. With respect to facilitating competition in this central part of the ecosystem, we agree that a mixture of specific mitigations and governance principles is a reasonable approach.



As we noted in our introductory remarks, however, international comparisons highlight a broader consideration around the competitiveness of 'UK PLC'. We therefore suggest that the PSR should be mindful not to put overall UK competitiveness at a disadvantage for the sake of achieving competition (or regulating a supplier) in what is only a subset of the overall UK payments ecosystem.

Whilst Pay.UK should be the primary interface with the CIS provider, it is imperative that it involves participants and other stakeholders in this relationship, through appropriate consultations and related decision making. We believe that until very recently Pay.UK did not sufficiently involve these parties in its NPA work and as such denied itself access to a pool of expertise to support the effective development of effective solutions.

We agree that the central CSS layer should be as thin as possible and thereby encourage maximum competition around it. However, It could be that the most efficient solutions for some overlay services involve the CIS also providing the overlay, and as such, this option should not be dismissed given it could bring efficiencies and help to ensure that overall costs are not inflated.

In the medium term we believe that it is likely that technology will evolve rapidly and payment systems which may reduce further the need for a central infrastructure will emerge. Not least CBDCs, which would organically address concerns raised around the impact of a central layer forming a monopoly. For this reason, we would suggest a pragmatic approach to procurement. Whilst a suitable contract is necessary, building on existing infrastructure could provide a pragmatic and cost-effective way forward whilst ensuring such a procurement process is as competitive as possible. After procurement is complete, in parallel to NPA implementation, other more advanced solutions should be actively investigated to provide a more technically advanced solution and opportunities in the medium term.

**8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.**

NatWest agrees that there are competition risks, but some of these may be a theoretical rather than practical concern. In general, we support the precautions to ensure that the CIS does not abuse its position. We do, however, have a concern that if restraints on the CIS are too strict or disproportionate in light of these theoretical concerns, potential synergies between the CSS and overlays might not be realised, causing unforeseen detriment to users.

As a general rule, we believe that the efficiency of regulation is likely to be enhanced by the PSR setting parameters for Pay.UK rather than regulating at the detailed level itself. These parameters should set both principles and outcomes against which Pay.UK should view the performance of the CIS provider. This will minimise any potential "gaming" of the system.

Such an approach would not preclude regulatory intervention, if necessary, as a last resort.



9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?

NatWest view:

## Mitigations

- *ensure that the contract with a CIS provider includes incentives to foster and facilitate innovation, and limits incentives to distort competition*
  - As we note above, in the medium term we believe that additional innovative technology solutions are likely to be required. The CIS provider should be incentivised to support both their development and a smooth migration.
  - It should benefit from supporting third parties to innovate in overlays to promote efficiencies.
  - Participants should also be incentivised to share and support the benefits of innovation (Gain share).
- *prevent a CIS provider (or its owner) using commercially sensitive information for its own benefit in another market*
  - We believe that, where appropriate, ensuring the right information barrier arrangements are in place within a CIS provider (or across its Group) will be an important step to mitigate competition risk. Beyond that we believe that participants have a duty to their customers to safeguard the latter's data. As such the CIS provider (or an overlay provider) would not be able to use such data without the express permission of the participant, who in turn would need to act in a way consistent with its GDPR and other obligations.
- *include, and then monitor, service level agreements (SLAs) in a CIS provider contract*
  - We would expect a contract such as this to include rigorous SLAs. We agree that Pay.UK should monitor these SLAs and take enforcement action where necessary, potentially including service credits.
  - We are considerate of how far this monitoring should go; would Pay.UK have audit rights to ensure that costs were being effectively managed and that limitations on the freedom of the CIS provider were being observed? This might not be proportionate and could be expensive to administer.
  - Contractual requirements need to be sufficiently clear that there is a low risk of legal dispute over interpretation as to whether SLAs and other requirements are being met.
- *ensure CIS user prices are set using proportionate, objective, and non-discriminatory (POND) criteria and follow the pricing principles set out in Chapter 6*
  - Please see our comments at 13.

## Governance

We agree that Pay.UK should be the primary interface. We are concerned, however, that this role including, we assume, close monitoring of the contract with the CIS provider, could be a large-scale task. This has at least two inherent risks:

- The apparatus for maintaining the relationship could be unwieldy and expensive.
- Pay.UK could make mistakes if it does not consult widely on issues of common interest.



Access and rules should be managed on a POND basis.

Please see Q11 regarding operational separation.

10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.

It is possible that the provider of any common service could use that position to make it difficult for competitors to enter the market or to use information obtained in performance of that service to assist it in competing for further services. In principle, therefore, similar mitigations should be used where any common service is provided by a single supplier.

11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.

NatWest believes that where the CIS provider also operates the infrastructure of another payment system, it is essential that the two are completely operationally separate for reasons of resilience and continuity of service. It is essential that there is no dependence between the two.

This independence should extend to telecoms channels and key personnel.

Where customer data is provided on a confidential basis this should also be maintained separately to avoid uses which may lead to identification of customers.

In so far as the design of the CIS is developed by Pay.UK, this intellectual property must also be maintained separately within the CIS provider.

The split between the two parts of the CIS provider should also maintain the financial integrity of the system. The infrastructure supporting NPA should not be affected if the other operations of the CIS provider become insolvent. In general, the NPA infrastructure should not be used to subsidise other operations of the CIS.

On the other hand, it would be helpful if the financial resources of the CIS could be brought to bear to support the NPA where necessary. In particular, we would expect the CIS provider to fund the build of the NPA from its own resources and then earn this funding back over the contract life.

Overall, the structure of the separation should be sufficient to ensure the resilience and integrity of the NPA, while allowing efficient allocation of capital and resources. This would suggest there should not be any form of legal separation, merely evidence that the NPA is not in any way dependent on the supplier's other activities and would withstand any shock to the latter. We do not have any objection to sharing knowledge where this may create efficiency and innovation.

We are mindful of difficult examples in this sphere e.g. BT and Openreach. Both NPA and Openreach are National Critical Infrastructures and regulation is to be expected. However, the cost of Openreach is of a different magnitude from the likely cost of the NPA. This makes the application of



POND principles to NPA, and a straightforward view of outcomes, essential. It would be in no party's interest to expend excessive resource on managing the separation in the context of a relatively small cost to the UK economy, albeit one that enables an essential service.

12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?

NatWest is not currently clear on how regulatory measures would work in this context. We understand that the PSR could bring forward directions or other measures. We assume that the subject of such directions would be Pay.UK rather than the CIS provider.

We therefore assume that Pay.UK would need to incorporate the effect of directions (or other measures) into the contract of supply with the CIS provider. This may make writing the contract challenging and its operation complex.

Pay.UK may require a form of audit right over the CIS provider to ensure that the mitigations are fully observed. However, we are also concerned that such measures are proportionate and efficient.

We are concerned that monitoring the contract could require a large and expensive team at Pay.UK, which would need to be funded by participants. Any saving gained for participants and end users in keeping infrastructure cost low, might be lost in additional fees payable to Pay.UK.

Similarly, we would be concerned if the infrastructure provider needed to operate more than normal KPI monitoring to evidence its competition compliance to Pay.UK.

We already have concerns that the cost of running Pay.UK is materially greater than its predecessor schemes combined.

## Questions related to pricing

13. Do you have any comments on the pricing principles set out in this document?

NatWest supports the principles which the PSR sets out, which should benefit all users through efficient and stable pricing.

NatWest is currently the largest user of Bacs and FPS combined and as such would hope that, in common with other users, large and small, it would benefit from these principles.

We do have some practical points to make, however:

**Volume discount** - given the more commercial approach to CIS provision, we would hope to see a discount for volume for larger users of the NPA. This would be consistent with the PSR's desire to incentivise use of the NPA. [REDACTED]

[REDACTED]

[REDACTED]



**Certainty of pricing** – one of the principles you raise is for pricing to be “transparent and predictable”. Whilst we support the principles, and can see no issues with transparency, we have a concern that predictability has its own price e.g. in return for long term stability, would the CIS provider expect a premium over the life of the contract? There is a discussion to be had on this issue and a balance needs to be struck.

**Transparency** – consideration will need to be given to whether advertising the price for using the CIS gives rise to any unintended consequences e.g. would other infrastructure providers (e.g. cards) gain an advantage if they are not required to be so transparent?

**Incentivisation of use of NPA** – we agree that the CIS price should be the same regardless of the channel used to initiate a payment, albeit as noted above there should be discounts for volume

We would like the PSR to clarify which alternatives it has in mind when it mentions incentivisation. Does this refer to incentivisation to “price out” FPS and Bacs?

At 6.21 you mention the existing contracts for Bacs and FPS. Your comments could be read to suggest that price per item for Bacs and FPS should be allowed to rise (covering the fixed cost due to the incumbent). Presumably this would be an incentive to migrate to NPA.

We support the objective of a short migration, but such a process will need careful consideration; some end-users might have long, but justifiable, lead times to migrate. They should not be unduly penalised. Similar considerations may apply to participants. In all cases the impact on end-users should be a consideration.

On the other hand, if the PSR is referring to incentivisation versus other payment types, e.g. cards, it should clarify how that would be achieved, given the need for the NPA to recover its costs in the long run.

We assume that the PSR’s suggestion that costs should be spread over the whole contract suggests that any up-front build cost should therefore be recovered over the full life of the contract. We support such an approach. We believe that the CIS provider should be expected to fund upfront costs from its own resource. Safeguards will be needed, however, to ensure that this approach does not merely pass on external funding costs to participants.

The principle of spreading cost to the user over the life of the contract could usefully be extended to upfront costs being incurred by Pay.UK already. These are currently being recovered on a “pay-as-you-go” basis by the existing participants. We believe that these costs should also be wrapped up with the CIS’s build costs and paid over the contract life, by users in proportion to their usage. There is a risk at present that current participants subsidise future users, which we believe is inequitable.

### **Pay.UK Setting Prices**

Although Pay.UK will have responsibility for setting prices, its flexibility to do so should not be exaggerated. The CIS provider’s costs will need to be recovered plus a reasonable return on its



investment. Fluctuations in volume are likely to affect the price per payment. Most costs are likely to be fixed, but consideration should be given to a mechanism to provide a fixed base payment to the CIS provider and then vary the remainder with volume.

As mentioned above, we also have concerns about the costs of operating Pay.UK. The true cost per payment will include Pay.UK's costs. These have escalated in recent years, not only in respect of NPA design and procurement, but more generally. In comparison with its predecessor schemes, Pay.UK is expensive. In considering the true end-to-end price of a payment the PSR should factor in Pay.UK as well as CIS costs billed to the participants.

The PSR should consider how to make this price setting as efficient as possible. An ongoing "checking mechanism" for Pay.UK to audit CIS costs could itself be expensive to operate. Establishing contract pricing at the outset might be easier to administer over the contract life.

Consideration of contract length will also be a key determinant of price. We would argue for a relatively short contract to allow evolution to a more radically new payment system. In order for the price of this contract to be fair to both the supplier and the users, this suggests that the NPA itself will need to be a relatively straightforward system.

If the initial Scope for NPA development is narrowed to focus on FPS replacement only, Bacs pricing would still require careful consideration, given the possibility that some Bacs users might consider migrating to NPA. In general, this would be a desirable outcome, but could impact Bacs end-user pricing. If this is the PSR's intention it should be wholly transparent to Bacs users.

At 6.25 and 6.26 you write that the price for a payment passing through the CIS should be the same wherever it originates (whether direct PSP or PISP etc). We believe that this is the situation we see today; the PISP etc would then add its own costs where appropriate.

**Overlays** - The reference to separate pricing by overlay providers is interesting. The implication is that these would bill separately from the CIS. If the overlay is a utility type provider, we assume it would bill Pay.UK who would then bill the users. However, if there were multiple providers of a specific overlay service, would they bill the participants direct?

14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?

We have no additional principles to add, but would refer you to our points at 13.

5 May 2021

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## **Delivery and Regulation of the New Payments Architecture CP21/2**

### **NatWest Group Additional Response to PSR on the NPA**

NatWest Group is pleased to have the opportunity to make additional comments in light of Pay.UK Ltd's response to the NPA Scope and Procurement Consultation.

#### **Procurement**

As we noted in our response to Part 2 of the consultation, like Pay.UK, we have concluded that changing circumstances suggest that the way to achieve our shared objectives (early delivery of a robust and innovative NPA from a credible supplier) is likely now to be through continuing the competitive tender process.

This judgement reflects the effects of:

- Narrower scope, which will simplify the process, and
- The likely impact of safeguards which we understand would be required in the case of direct award to the incumbent to prevent any possible abuse of this situation. We understand implementation of the safeguards could be a lengthy process.

#### **Scope: Pay.UK's Suggestion of a "Less Thin" Central Core**

NatWest believes the basis of the NPA should be a flexible architecture which will allow it to develop as the payments market continues its rapid evolution. In particular, the gradual move to distributed systems and the emergence of digital currencies are likely to demand continuing adaptation in NPA.

A flexible central infrastructure will be beneficial in the ultimate transition of Bacs to NPA, as well as accommodating many new and emerging use cases.

As we articulated in our own response, we support the narrowing of scope to replace FPS initially and believe that this will create the conditions where "Bacs replacements" will emerge and gradually win volume from Bacs, using the NPA's "FPS" rails. There are already signs of developments e.g. Open Banking Variable Recurring Payments, which would use the FPS/NPA infrastructure, but could substitute for Direct Debits.

Development of competitive overlays will be likely not only to make NPA attractive to Bacs users, but potentially represent an alternative to some cards uses. As such competition between payment systems could be promoted in line with the PSR's strategy.

We recognise that many corporate users of Bacs are very comfortable with it. There is a need for deep dialogue with corporates both to determine their future needs and support them in preparing for evolving payments technology and products. The current Bacs infrastructure will need to be maintained for a period.



Providing replacement for the bulk payment mechanisms available in FPS today, may help in developing alternatives to Bacs.

We would agree that market action alone is unlikely to lead to the migration of all Bacs volumes to NPA. We would expect that ultimately an industry approach to a planned migration of the rump of Bacs volume will be required.

In this context any flexibility which will ultimately support the Bacs migration will be helpful. With this in mind we would support ensuring that the NPA core is able to support many payment types. In the case of Direct Debit replacement, the NPA Core should be able to support message initiated payments such as RtP.

However, we also believe that too much focus on Bacs at this stage will be detrimental to progressing NPA and the desired rapid migration of FPS. We were surprised to see reference to a multi-day payment process and would counsel against attempting to accommodate the detailed features and idiosyncrasies of Bacs in the design of the “FPS” replacement. The effort to replace FPS and Bacs more or less simultaneously has been, we believe, a factor in the slow development of NPA to date.

In the long run it is likely that demand for Bacs as it is today will decline. Therefore any functionality which supports a Bacs style service (which we assume is about file based, bulk input/output), should be basic in nature. No decision, or detailed design, to support a Bacs-type service should be made until after the NPA is live and ready for FPS transition.

### **Combating Fraud**

The profile of the issue of fraud has risen steadily since the Blueprint was published. APP Scams have been a particular problem and social engineering fraud has become ever more sophisticated as bad actors have adapted to take advantage of more and more consumers moving online for their payment needs. The PSR has understandably highlighted this issue in its recent Call for Views. We also understand that Pay.UK is looking more closely at its role in addressing fraud and APP Scams.

Stopping fraud is not a competitive issue. Therefore, as Pay.UK considers the immediate APP scam problem and the scope of NPA, it would be appropriate for it to work closely with participants and others to design into NPA the strongest possible anti-fraud measures.

22 June 2021

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**Santander**



PSR Consultation

# CP21/2 – Consultation on delivery and regulation of the New Payments Architecture

Santander UK Response

01 April 2021



## 1. Do you agree with our view of the risks to the successful delivery of the NPA?

Yes, we agree with the risks presented by the PSR for the following reasons:

### **There is a risk that the NPA does not provide value for money:**

- There could be more cost-effective alternatives to realising the benefits of ISO2022 that haven't been explored. For example, leveraging all or part of the existing service and infrastructure.
- Where changes to Participants, end users, corporates, software providers etc have been proposed, inadequate cost/benefit analysis has been performed and assumptions have been made as to the investment end users are prepared to make in order to adopt NPA.
- It is likely to be more cost effective to remove risks/problems via contract with the current vendor than procuring new infrastructure.

It is likely that the current vendor will be able to deliver service enhancements immediately and bring quick benefits to the ecosystem. By leveraging the current service, the innovation and competition aspects of the NPA could be realised more quickly. It is imperative that in any work undertaken immediately it allows easier access to authorised Third parties other than VocaLink and that any changes are reusable if new platforms are developed

### **There is a risk that the current approach stifles competition and innovation:**

- Recent years have demonstrated that innovation and competition is possible under the current framework, and the need to change platforms is not a principal driver for this. The market has seen a number of new players emerge and take advantage of Faster Payments in particular, and this is likely to grow as Payments in Open Banking matures.
- The uncertainty in the market regarding which services will be in scope of NPA and which in the competitive space is stifling innovation. For example, whether bulk payments, Paym and RtP services form part of the overall NPA roadmap.
- The opportunities to create competitive markets and innovative offerings are within the overlay service space. The protracted process for a competitive procurement at the CIS layer is delaying the delivery of these overlay services.
- The attempt to fully define all Bacs and FPS services into the scope of NPA, rather than let the market innovate on top of a thin CIS layer stifles competition.
- Clear boundaries of what services need to exist for all, and what services should be left open to Innovation and competition is a critical definition required – for example moving a message between two institutions is one element which has limited scope for competition (accepting the discussions on bilateral exchanges); but a central economic crime modelling capability is a service that could be expanded by many that have access to the data.

### **There is a delay in realising the benefits of the NPA:**

- Tackling the full scope of FPS and Bacs clearly delays the realisation of any benefits to the market, without necessarily guaranteeing that full FPS and Bacs services will be delivered sooner via a single procurement process.
- A driver to move FPS first should be the current limitation of the existing FPS CI.
- It is likely that as uncertainty continues with NPA scope, the organic growth of innovation and competition seen over recent years will slow further.

## 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?



Yes, we agree with the information put forward in the paper. By reducing the scope of the initial procurement, implementation risk will be significantly reduced. Not least because of the volume of end users that would be impacted by wide ranging Bacs service changes.

Also, a reduction in scope will clearly allow the market to realise FPS benefits sooner than a joint procurement. Delivering better outcomes for end users at the earliest opportunity should be a priority.

Separating the immediate procurement challenges should allow more flexibility in the near term, giving the Industry and Pay.UK the ability to procure the Faster Payment position quickly. But it is critical that the strategy around Bacs is also considered in the near-term, looking to leverage the push payment solution more strategically would help break the size of Bacs scope down – e.g. with a batch strategy, DCA and FIM could be removed as the costly bespoke solutions they are, replaced with a more customer-focused common service, with this service being positioned in the innovation and competition space openly developed, using the core rails to process the message.

The downsides presented that a split procurement would cost more and that benefits to Bacs users will be realised late, are risks which may or may not materialise. The cost of running two procurements may not necessarily be more expensive than the current approach.

We should though recognise the shift in the commercial position for a procurement to meet what is currently the smaller segment of the domestic payment market. Bacs still holds the lion's share of the volume and in due course the income opportunities to fund development and delivery.

This may in some way be mitigated as Bacs user benefits might not necessarily be realised later with a split procurement. In delivering a reduce scope NPA core sooner but having provisioned for future Bacs traffic and base functionality, we would expect Bacs equivalent services to start emerging as overlay services.

### **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?**

Our preference is option 2, split procurement of FPS then Bacs. However, the functionality and services that currently fall under the FPS and Bacs brands need to be unpacked and assessed individually. If FPS is delivered in the correct way, we could see traditional Bacs services and usage move to new overlay service options. This has the potential to reduce the scope of the residual Bacs procurement considerably. Some existing Bacs services are also critical to the initial FPS offering and we see that the following should be considered in scope for the core NPA procurement.

- Bank Reference Data/Routing Data
- CASS Redirection and Bulk Payment Redirection Services
- Back-office functions and reporting provided via the Payments Services Website
- Bank to Bank and Central Infrastructure to Bank messaging

Regarding the cost implications of moving to a split procurement. It is not possible to accurately assess at this time. However, because the scope of the current procurement is so broad, Scheme participants funding an NPA core delivery could fund development of services they are not users of, DCA for example. Individual pricing and cost benefit needs to be performed on the constituent services included in the NPA, to ensure that they are common to all users of the NPA core. Additional services not common to all Participants, and not critical to clearing and settlement of payments, should be developed and subscribed to as separate overlay services.

Independent of NPA core procurement, consideration to other services such as Enhanced Data and File Bulking/Debulking can still be conducted by interested parties. These are relevant to the eventual full migration of users from the existing payments services. However, they are independent of the NPA core functionality. Enhanced data for example should not need to be delivered as part of the payments message



cleared via the NPA CIS. We would see significant benefit in keeping the CIS message payload to a minimum in order to reduce cost, complexity and risk whilst enabling scalability and real time payment SLAs.

**4a. 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?**

There are many services already found in the market that offer alternatives to Bacs DD users, both on the biller and payer side of the payment journey. Services such as Variable Recurring Payments and Request to Pay offer further competition in this space. Delivery of a core NPA capability will clearly allow further innovation of services that can co-exist with Bacs DD and DC. However, we foresee that there will always be a need to cater for existing Bacs users. Therefore, regardless of timeframe replacement services will need to be delivered in order to migrate away from the existing Bacs infrastructure. These do not necessarily have to be delivered via the NPA core, and in our opinion would more likely sit in the competitive overlay service space.

**What actions could be taken, and by whom, to help assist or stimulate the creation of such solutions?**

Target markets can be catalysed by the payment schemes through standards setting and facilitating industry collaboration.

**4b. 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 common services to support the migration of Bacs transactions?**

Bulk services should not form part of the core clearing and settlement layer as they are not common to all payments use cases. However, DCA and FIM will need to be addressed as part of the overall FPS migration. This could be done via a new overlay service or by injecting the current transactions into the new NPA core instead of the current FPS service.

**4c. 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?**

The initial procurement should concentrate on a thin core, providing the common clearing and settlement rails on which all payments can be processed. This should consider the core clearing and settlement requirements for the entire payments industry and not just existing Bacs and FPS services.

When considering Bacs, some services which currently sit within the Bacs brand will need to be provisioned, routing data and redirection tables for example.

Outside of the proposed initial scope of NPA Core and FPS migration, Bacs related overlay services should continue to be discussed and developed across the industry. Services to disaggregate/aggregate bulk payment files for example are still relevant, but as an overlay service.



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.

Should a competitive tender process be required, our preference would be to continue with the already-started procurement process and complete the existing process within a 3-month timeframe.

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)?

It is important the mindset of all involved is adjusted to protect the future strategy.

We need to ensure that a replacement for Faster Payments is needed, and the benefit case for this is clear – e.g. would just adding a ISO20022 wrapper around the existing platform bring enough benefit and longevity to the solution?

If we look to a Faster Payments replacement platform, this should be defined clearly as a “push-payment” service, moving a financial message from one point to another. With this change in thinking, the notion of Faster Payments can be adjusted to include other messages moving from point to point – e.g. a Direct Debit replacement is a “non-financial request for funds”, followed by a “push-payment”, which fits with a Variable Recurring Payment need in Open Banking.

There are further options that need to be considered within the context of the split FPS and Bacs procurement proposed. Functionally, what does a separate Bacs and FPS procurement mean; push then pull, single then bulk, real time then asynchronous capabilities for example? Also, consideration must be given to services which sit outside of these two brands that will also be dependent on the NPA. For example, PISP, VRP, RtP and IoT payments.

There is a growing desire for bilateral exchange between banks driven by Open Banking. It is therefore imperative that NPA recognises that there are alternative payment models outside of the NPAs control, that can have a direct impact on the current a future payments landscape. Scalability for both volume increases and decreases over time, as the market demands, will therefore be critical.



## Introduction

We welcome to the opportunity to provide our second response to the PSRs consultation.

In the time since our first submission, there have been various discussions regarding the approach to procurement. Santander still retains the view that the industry can gain significant benefit by engaging on a Direct Award basis, [REDACTED]

[REDACTED]. Although we recognise the perceived benefit of a procurement process, cost alone cannot be the factor that leads the decision-making process. Faster Payment is a critical infrastructure and is a complex service to run. VocaLink has demonstrated over the years that they are very competent at running this service. [REDACTED]

[REDACTED]

[REDACTED]

Innovation is critical to the ecosystem, and as we referenced in our previous response, we believe that this can be further enabled quicker by the Direct Award approach. Pay.UK has an opportunity to drive more from VocaLink in the short term, moving effort away from building the much wider technical specification documents that will be needed for a new supplier.

As an Industry we face a strong challenge to take a grip of the wider strategic needs that are coming to the fore. If we consider the impact that Covid has had on cash and cheques in particular, there are serious consequences that need to be considered in the affordable longevity of those services. The volumes of ATM withdrawals are driving costs of transactions up; the ICS service is running at c10% of capacity. Yet these technical services are only considered in isolation. A more formed position around how to manage these would well benefit from thought leadership. A body not encumbered by scheme operation would be best suited to lead this , to consider these opportunities, embracing the criticality of ISO20022 , along with ideas in Open Banking, Digital ID and other customer focused innovations.



## Questions related to competition

### 7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.

We are supportive of the ongoing oversight provided by the PSR in terms of continuing to monitor the progress of Pay.UK and ensuring that any future procurement process provides value for money and ensures competition in the marketplace across the layers of participants involved in payments.

We would however reiterate the need to recognise where the competitive market exists and opportunity for innovative offerings are within the overlay service space, rather than CIS. Dictating a competitive procurement at the CIS layer will only delay the delivery of these competitive overlay services. As noted below, it is paramount that the interests of operational resilience and financial stability are borne in mind by the PSR.

On the wording provided in 5.7 we do encourage “lower” barriers to entry, remembering that the stability and resilience, both from a technical and operational perspective are critical to trust in the service.

A business case approach should be adopted in the design and Standards requirements set – so a broad definition of “a wide range of access options” needs to be quantified and the full business case and funding approach of each additional access option (as the example provided) needs to be considered – it should not be assumed that a small number of institutions will fund for every demand.

### 8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.

Yes, we agree, the consultation paper has done a thorough job of categorising and identifying the competition risks and implications and we would not propose to raise any further competition risks given the mitigations already identified.

It is essential that the PSR balances the likelihood and materiality of the competition risks against the materiality of other non-competition risks that precipitated the rethinking of the NPA, such as sustainability, operational resilience and ensuring payments continue to be safe and secure. The mitigation of these risk factors clearly benefits consumers and therefore the PSR would be correct to have regard to these in its competition assessment.

This also needs to be considered in the context of the wider payments landscape and changes currently underway, not to mention the cost of change. Particularly given the scale and cost of change for instance from Open Banking and potentially open finance to come. Too much change in terms of change of underlying payments suppliers could create far greater risks to the stability of the payment systems. The complexity of the ecosystem compounds these risks. Any proposed change needs to be assessed carefully and the risks fully understood. As previously stated to the PSR, the scale of change is significant, and the availability of experienced resources to support this is limited, the complexity of payments needs careful management.



9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?

Yes, we believe that an effective procurement (noting that in Santander's view an effective procurement could be bilateral due to a Pay.UK threat to walk away), appropriate ongoing governance and already established ring fencing can provide the necessary mitigations as proposed in the paper.

An analogy to railways is a good one in considering how competition could work. There can be competition among the users of the rails, provided that they have access to the rails on a fair basis. This does, of course, mean that effective principles need to be in place to ensure that monopolistic requirement has the appropriate safeguards in place as correctly identified in the consultation paper and in particular POND access.

10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.

No specific examples are obvious to us beyond those already raised. The model of a central service works where all parties are able to effectively collaborate, and it is important that the barriers and controls referenced in the CP are defined and clear. As noted, we agree that the CSP must be controlled and the services they provide openly available to trusted parties. But the CSP will also be able to provide support innovation from the centre, so this ability needs to be considered to be safely deployed.

11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.

Santander considers that it is important that a CIS provider is prevented from leveraging any market power it obtains in the NPA into other markets in which it competes. On the other hand, Santander considers that it is important to allow firms to diversify within the payments industry, which is a positive step considering the pace of change within payments, particularly the move away from card to direct bank payments.

There are many examples in the market of where ring fencing of different business services can be effectively managed via appropriate governance, regulation and contract, [REDACTED]. There is also a long term resilience upside in terms of the core payment services being part of a larger established and well-funded organisation, which has a good reputation that it wishes to protect.

Keeping the illustration simple, some examples of our thoughts are below:

- anything that is core to moving a transaction from A to B should be controlled by the CIS provider. Information within that flow can be made available – for example if an ASPSP or Pay.UK wanted to create their own dashboards on service stability, volumes, etc this could be accessed through an API service
- data from the transactions should be readily accessible to trusted entities – the Open Banking Directory model provides one example of how this could operate – and according to the permissions set, will enable innovation and service support from multiple providers



- new product offerings on the ICS core rails are open to all. Pay.UK (or other Standards bodies) should be writing the standards required of the new opportunities – and where needed the ICS provider will share that information via collaboration tools with all interested parties.

As we consider the wider demands of the payment ecosystem – be that Bacs, Cheques, Paym or even potentially other aspects such as ATM traffic - Operational separation should be structured clearly to define the requirements for that contracted service; if there are benefits derived through technical leverage – eg shared platforms or standards – the benefit needs to be shared with the Industry reduce the ever-increasing cost burdens.

**12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?**

If the decision is taken to reduce the scope of NPA and accelerate the procurement process, it makes sense to bring forward the specific mitigation and governance principles proposed to ensure competition is maximised within each layer of the proposed architecture enables competition above the CIS layer and access terms are POND. As above, Santander would not be supportive of regulation forcing a competitive tender where a bilateral negotiation is equally, or more, suitable.

Equally, any Regulation must carefully consider the wider implications on the ecosystem. Over-regulation can drive excess cost, it can also hamper thinking or innovation (or actively encourage blinkered thinking).

**Questions related to pricing**

**13. Do you have any comments on the pricing principles set out in this document?**

Most importantly the stated principles that pricing reflect “efficiently” incurred cost and pricing that is competitive with other payments systems makes sense providing we can clearly define what is efficient, and there are incentives in place to ensure unit costs reduces over time.


Likewise, pricing transparency can only be helpful in terms of fostering competition. As we see Open Banking continue to gain traction, particularly with launch of new payments functionality such as variable recurring payments, we expect to see the volume of faster payments grow significantly. As third parties take advantage of new payment capabilities via open banking, increased transparency from a pricing perspective is going to be important to ensure that there continues to be a level playing field given the expectation on banks to continue to provide a free payment service on behalf of customers via profit motivated third parties.

All costs attached to the services provided need to be carefully considered. Taking cost out of one supplier is beneficial, but ensuring that value is created for all in the wider service chain is equally important. A strategic focus on who is doing what in the Industry should help refine activity and output.

**14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?**

Can we presume that the proposed model of price parity no matter whether from a direct PSP, or indirect PSP, assumes that is the price that is charged by Pay.UK but does not prevent the direct PSP





from charging a margin for providing the aggregation or other service to ensure that there is an efficient market based on commercial principles.

Likewise, does it not continue to make sense that the pricing continues to be based on volume as in every other commercial environment. This increases the incentive for participants to use the NPA due to the benefit gained through volume, and likewise benefits the competition, and provides scale benefit to aggregators that can be passed onto smaller players.



Pay.UK<sup>2</sup>

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<sup>2</sup> We published Pay.UK's responses to CP21/2 concerning the scope and approach to the procurement of central infrastructure services in June 2021. See: <https://www.psr.org.uk/publications/general/pay-uk-s-responses-to-our-consultation-on-the-delivery-of-the-npa/>





# **Pay.UK's tranche 2 response to the PSR's Consultation on "Delivery and Regulation of the New Payments Architecture"**

**Non-confidential version**

May 2021

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## EXECUTIVE SUMMARY

1. Pay.UK has reviewed the Payment Systems Regulator (“PSR”)’s Consultation on “Delivery and Regulation of the New Payments Architecture”, outlining competition and innovation risks for the New Payments Architecture (“NPA”) and how these can be mitigated through procurement and delivery.
2. This document provides our response to the PSR’s Consultation questions on competition and innovation, and pricing. These relate specifically to the Central Infrastructure Services (“CIS”) that will be provided centrally by one (or more) Central Infrastructure Provider (“CIP”).<sup>1</sup>
3. The view expressed in this document are based on information currently available to Pay.UK, and our position on these matters might evolve as new information comes to light and the NPA programme progresses.
4. We welcome the Consultation as a chance for Pay.UK and the wider industry to reflect on how to best deliver competition and innovation for the NPA ecosystem, and as a chance for the PSR, Pay.UK and the wider industry to agree a clear direction for travel for the NPA and an appropriate and clear regulatory framework.
5. Pay.UK is committed to enabling competition to deliver end-user benefits as fast as possible, a goal it shares with the PSR and the wider industry. Our work on the NPA is informed by engagement with our participants and end-users, and through this response we aim to further this discussion with the PSR and industry as we work together to deliver the NPA.

### **Pay.UK agrees that competition and innovation risks on the NPA need to be monitored and managed**

6. Pay.UK broadly agrees with the PSR’s overall high-level hypotheses for competition and innovation risks on the NPA. This is consistent with Pay.UK’s position in its response to the PSR’s Call for Input (“Cfi”) where the PSR had outlined a series of risks which broadly match to the ones discussed in the Consultation.
7. While Pay.UK considers that the PSR has carried out useful further analysis of these risks and how they might arise in its Consultation, Pay.UK considers that the likelihood of these risks materialising remains untested, given that they relate to new markets, or new market arrangements. While this isn’t to suggest these risks should not be carefully considered, it does point to the need to be particularly cautious and pragmatic in implementing ex-ante regulation. A mix of design, contractual arrangements and governance will play a role in managing the likelihood in practice of any of these risks materialising.
8. Pay.UK recognises that its work in establishing appropriate design, procurement and governance arrangements for the NPA will play an important role in managing these risks, while at the same time fostering competition and innovation, and allowing a competitive market to flourish. Pay.UK already plays a similar role for the current infrastructure in a number of areas, and will continue to develop its approach for the NPA, with further detail provided in response to the PSR’s questions. Pay.UK’s approach is broadly consistent in a number of areas with the PSR’s proposed framework.

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<sup>1</sup> Please note that in this response we alternatively refer to CIP or vendor, depending on the context.



9. At the same time, it is important to note that Pay.UK's purpose (as set out in its articles) is to enable competition (for example, by designing the NPA in a way which means competition and innovation are possible) rather than to promote it (that is, actively encouraging competition). This is important for legal and practical reasons.
10. This does not rule out Pay.UK playing a role in promoting opportunities for innovation and market entry of new products and new providers, as this would be reasonably incidental to our purpose. Examples of activities which Pay.UK considers could attract innovators to the market, while remaining compatible with its current legal framework, would be funding an innovation prize, or setting industry challenges or hackathons, or contacting potential overlay providers to invite them to innovate on the NPA.
11. Pay.UK welcomes the Consultation as a chance for the PSR and the industry to agree a clear direction for travel for the NPA and an appropriate and clear regulatory framework.

### **A regulatory regime for the NPA**

12. At an overarching level Pay.UK and the PSR broadly agree on the way forward to manage competition and innovation risks on the NPA through a mix of effective procurement, contractual arrangements, design and governance. However, as we have discussed, there is further detail and specificity to be developed around these proposals and Pay.UK notes the following points for consideration as the PSR takes forward this work:
  - i. Interventions should be designed with an eye to delivering identified end-user benefits, or to mitigate identified end-user detriments: Regulation for the NPA ecosystem – whether applicable to the CIS provider, Pay.UK or other entities – should aim to deliver end-user benefits, and should be linked to measurable outcomes. When designing regulation, the PSR should give due evidence-based consideration to which outcomes might be expected to be delivered through the normal functioning of the NPA market, and which ones might instead benefit from proportionate regulatory intervention.
  - ii. Where possible and appropriate, the incentive created by ex-post enforcement should be preferred to ex-ante regulation: Pay.UK would advocate caution when the PSR sets out to establish an ex-ante regulatory regime to promote competition and innovation on the NPA. Promoting competition through ex-ante regulation poses some significant costs and design challenges, and the PSR should carefully consider which interventions are needed as the NPA is delivered, and which ones are better left to ex-post regulation of the NPA ecosystem through its existing concurrent competition powers and the wider competition law regime. Clearly, until the NPA is designated as a regulated payment system by HM Treasury, the PSR's FSBRA regulatory powers will be limited somewhat, but nevertheless it would be helpful to the industry for the PSR to give advance guidance.
  - iii. Proportionate mitigations: The approach to mitigations needs to be carefully calibrated on the basis of available evidence to assess the effectiveness and proportionality of proposed remedies. This should help avoid unintended consequences in terms of the business case for the NPA (including in terms of industry costs) and of robustness and resilience of the NPA. Any intervention needs to be grounded in addressing observed adverse outcomes in the ecosystem, as noted above.
  - iv. Clarity on process: The PSR should give Pay.UK and the industry clarity as soon as possible on the measures it considers necessary to mitigate competition risks, and the assurance process that will lead to the PSR signing off on mitigations – including



a CIS contract. The PSR should also give clarity to the industry on the outcomes it will monitor going forward, and what measures it might consider introducing were those outcomes not to be delivered. Both Pay.UK and the prospective providers will need clarity from the PSR over the coming months in order to engage in a robust and effective procurement.

- v. Clarity on responsibilities: The PSR should give Pay.UK, the vendor and industry clarity on who will be responsible to design, implement, monitor and enforce the regulatory regime and mitigations it is planning to introduce. Any such responsibilities should be consistent with each party's role, other obligations, capacity and ability, as we elaborate below.

**Pay.UK acknowledges it has a role to play in managing competition and innovation risks**

13. Pay.UK agrees that it has an important role to play in enabling and facilitating competition, in conjunction with meeting its other objectives and obligations:
  - i. In the short term, Pay.UK has a role to play in the design, procurement and delivery of the NPA, including the inclusion of specific contractual and governance arrangements to mitigate identified competition risks. Pay.UK will also ensure that the functional and technical specifications for the CIS are fit to enable and facilitate competition and innovation. This will also include how we set standards; ensuring where possible that these are open and freely accessible, and that the process for standards development and change follows a well-defined and consistent approach.
  - ii. In the medium to long term, Pay.UK will have a role to monitor the operations of the NPA and undertake our role as Platform Leader.
14. Pay.UK's vision for the NPA, and the work it has undertaken, is broadly aligned to the PSR's mitigations. The governance principles and obligations set out by the PSR broadly represent activities that Pay.UK either envisions for itself on the NPA, or already carries out on its existing payments systems.
15. However, Pay.UK would stress that competition and innovation cannot solely be delivered through actions by Pay.UK, and it is important that market-led solutions are given space to flourish. It is important that the market, where it can, is able to develop independently, with Pay.UK enabling rather than delivering that innovation. We consider this is consistent with both the objectives of the PSR, and the views of the wider payments industry.
16. It will remain the case as for the current payment systems that the PSR, through its concurrent competition powers and its responsibilities and powers under the FSBRA, is the regulator and enforcer of competition rules in the NPA ecosystem where applicable.<sup>2</sup> In addition, an important part of the overall system of checks and balances in the NPA ecosystem is the role of participants, who have direct information on whether the NPA is delivering benefits for them and their customers, and provide such feedback to the PSR and Pay.UK.
17. Any role for Pay.UK in the ongoing monitoring of mitigations or outcomes must be proportionate, and consistent with its role, powers, capacity, capability and ability to take on and manage specific risks. It must also consider the legal duties that Pay.UK has as an operator of recognised payment systems and its duties under the Banking Act and with

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<sup>2</sup> We note that some overlay service providers might not be participants in a payment system and therefore may fall outside of the PSR's FSBRA powers and potentially its concurrent functions under the Competition Act 1998 as well.



regard to risk. At this stage, Pay.UK considers – for example – that its ability to monitor and control cost, quality and access to the NPA would be discharged through contractual enforcement [34].

18. It is important that any additional obligations on Pay.UK by the PSR [34] are carefully considered in terms of their proportionality. Any obligation on Pay.UK will create cost, as Pay.UK will need appropriate resources to discharge that obligation and manage the compliance risk associated with it. Any such costs will be ultimately passed on to service users, and as such it is important to consider whether the end-user benefits associated with any obligation outweigh these costs.
19. Pay.UK is currently in the process of refreshing its company strategy. This sees Pay.UK take on its role as Platform Leader to power the UK economy as the preferred platform for retail payments. A key part of that strategy will be to facilitate market growth, competition and innovation.
20. Our strategy to deliver better end-user outcomes will involve Pay.UK assessing clearly when innovation is for us to enable and the market to deliver (which we hope will be the most common outcome) or when the market dynamics - or even a market failure - might mean that an innovation is for Pay.UK to drive.
21. We would consider it appropriate that a regulatory framework for the NPA should be predicated on the same basis, and that any obligation of Pay.UK to take a proactive role in driving innovation should be limited to a consideration of scenarios where the market has not been able to deliver innovation.

#### **Next steps**

22. Pay.UK welcomes the PSR consultation as a way for Pay.UK and industry to obtain clarity from the PSR in terms of the process as a regulatory regime when the NPA is delivered. Pay.UK is keen to work closely with the PSR as it further develops these proposals to ensure alignment of expectations on the regulatory regime for the NPA.



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## SECTION 1: ADDRESSING THE CONSULTATION QUESTIONS RELATED TO COMPETITION

### Consultation question # 7

**Do you agree with our description in paragraphs 5.7 and 5.8 of how best to promote and facilitate effective competition in the NPA ecosystem?**

23. Pay.UK broadly agrees with the PSR's description of effective competition and that Pay.UK will act to enable and facilitate competition, in conjunction with meeting its other objectives and obligations:
- i. In the short term, Pay.UK will play a role in the design, procurement and delivery of the NPA. Pay.UK is also ensuring that the functional and technical specifications for the CIS are fit to enable and facilitate competition and innovation. This will also include how we set standards; ensuring where possible that these are open and freely accessible, and that the process for standards development and change follows a well-defined and consistent approach.
  - ii. In the medium to long term, Pay.UK will monitor the operations of the NPA and undertake our role as Platform Leader.
24. However, Pay.UK would note that, while it holds an important role in enabling and facilitating competition and innovation on the NPA ecosystem, competition and innovation cannot solely be delivered through actions by Pay.UK, and it is important that a) the market actively takes up its role to help drive this itself and b) market-led solutions are given space and time to flourish. It will remain the case that the PSR, through its concurrent competition powers, remains the body with a statutory duty to promote competition, and the enforcer of competition rules in the NPA ecosystem.
25. More generally, Pay.UK would advocate caution when the PSR sets out to establish a regulatory regime to promote competition and innovation on the NPA. Promoting competition through ex-ante regulation poses significant challenges, and the PSR should carefully consider which interventions are needed as the NPA is delivered, and which ones are better left to ex-post regulation of the NPA ecosystem through its powers and the wider competition law regime.

### **Pay.UK should promote effective competition within the NPA**

26. Pay.UK is committed to enabling and facilitating effective competition in the NPA ecosystem, and as we deliver the new platform our objectives make clear that competition and innovation issues are an essential aspect of the considerations that need to be made through the design and procurement of the NPA. Pay.UK does not consider that it would be possible for it to *promote* competition – that is to actively encourage competition. We elaborate on this further in our answer on the PSR's second governance principle in Q9.
27. In paragraph 5.7 of the Consultation, the PSR offers the following description of effective competition:
- i. Low barriers to entry and participation for PSPs and overlay providers, including those with innovative ideas;



- ii. No scope for any entity to exercise market power anti-competitively, or gain unfair advantages through its position in the ecosystem;
  - iii. Easy comparison and switching between PSP and overlay providers by payers, payees and other users.
- 28. As broad points describing effective competition in the NPA ecosystem, Pay.UK agrees with the importance of minimising barriers to entry and participation, with limiting unfair advantages and with easy comparison and switching.
- 29. Pay.UK is aware that achieving these broad objectives will depend on a number of factors, many of which go beyond purely Pay.UK's role. For example:
  - i. On the first of the PSR's points in paragraph 5.7, ("low barriers to entry and participation"), Pay.UK can play a role by, for example, by ensuring that the NPA will have a variety of access options, and by controlling cost of access to the NPA. Indeed, from a standards perspective, we have publicly stated that we seek to achieve setting standards that are open and freely accessible. Furthermore, any external party that wishes to develop a new standard can do so, following well-defined and consistently applied approach. However, we would caution that, when it comes to interbank payments, access requirements will always need to meet a proportionately high bar of robustness and resilience, to ensure the solidity of the system.
  - ii. On the third point ("Easy comparison and switching"), Pay.UK can play a role for example in its standard setting capacity, to make sure open standards enable and facilitate competition, as well as providing clarity on access options and charges to inform current and prospective participants. However, Pay.UK cannot control the behaviour of PSPs or end-users, both of which might impact the level of switching in the market.
  - iii. The PSR therefore needs to be conscious of the broader set of market participants and their roles, and be pragmatic about the role Pay.UK should specifically play and how this role fits with the wider legal and regulatory framework.
- 30. Pay.UK would also note the need to carefully consider the objectives that the PSR seeks to achieve. In particular, the PSR's second objective as currently written sets an extremely high bar in relation to the exercise of market power. In most markets there may be scope for companies to exercise market power anticompetitively, and this risk is managed through the competition law framework. We therefore would consider it more appropriate that the PSR's regulatory approach should be centred on ensuring that there are not specific factors created by the design and structure of the NPA that might create specific risks in this regard.

**Pay.UK should ensure that certain design principles are embodied in the functional and technical specification of the CIS**

- 31. It is Pay.UK's role to make the overall design decisions for the NPA (including taking into account any regulatory feedback on design). In so doing, Pay.UK has made and will seek to make decisions that as well as ensuring robustness and resilience, will facilitate competition and innovation across the ecosystem. A full description of the benefits associated with Pay.UK's preferred scope option has been included as part of our Tranche 1 response to this consultation.
- 32. Through detailed analysis of the NPA use cases and participant engagement, Pay.UK has grown more informed and is clearer in its design decisions since the PSR launched its consultation. This means Pay.UK's reliance on third parties, including the vendor, to design



some parts of the service will be limited, allowing Pay.UK to set out clear expectations regarding the accessibility and openness of the platform.

33. Pay.UK will continue to monitor and evaluate how design can address competition risks going forward through the procurement and delivery phases. In order to deliver a service which is fit for purpose at launch, Pay.UK will undertake regular 'Horizon Scanning' analysis of new technical and product developments and risks across the global payments ecosystem and carefully considers whether the NPA needs to take these developments into consideration.
34. Pay.UK considers that its approach to design should enable the benefits of effective competition and innovation across the NPA ecosystem, by:
  - i. delivering low barrier to entry for PSPs by providing a number of access options, which should in particular make it easier for providers to set up as direct participants;
  - ii. curtailing the CIP's ability to affect quality;
  - iii. set clear and freely accessible message standards and rules in order to maximise the NPA's openness to overlay Providers. This includes API access to the platform.
35. In relation to the design principles set out by the PSR at paragraph 5.8 of the consultation, we provide here an assessment of how Pay.UK's preferred scope option aligns to these principles at this point in time, as well as commentary on the principles themselves.

Design principles in the PSR's Consultation	Analysis against Pay.UK's preferred Scope option
<b>A "thin" CIS design that provides only functionality that is necessary to maintain the ongoing resilience provision of services to service-users, and minimises the scope of services provided centrally by a single supplier.</b>	<p>In Pay.UK's preferred Scope option, we focus on delivering a thin Clearing and Settlement layer which supports FPS migration and ensures minimal changes would be required for a possible future Bacs migration. Only the necessary functionality to replace the FPS services will be delivered centrally in phase 1 such as a Bulk service, Identity Management and Reporting Tool.</p> <p>Pay.UK would also note that, in order to ensure continuity of service and robustness, it may be necessary for Pay.UK to centrally procure the provision of certain overlay services. While not part of the "core", these services would still be centrally procured by Pay.UK and awarded to a single provider.</p>
<b>Inability for a CIS provider to discriminate in service quality (for example, transaction speed or information contained in a payment message) depending on the PSP, overlay provider, payer or payee.</b>	<p>Pay.UK will contractually agree a set of Service Level Agreements (SLAs) and suitable monitoring processes with the CIP which will allow Pay.UK to ensure all participants are receiving a similar service.<sup>3</sup></p> <p>Additionally, even within the parameters set through SLAs, the CIP would not be able to discriminate across PSPs or overlay providers. This is because the NPA core will be</p>

<sup>3</sup> This reflects the current arrangements and the directions relating to Bacs and FPS having proportionate, objective and non-discriminatory ('POND') terms of access.



Design principles in the PSR's Consultation	Analysis against Pay.UK's preferred Scope option
	agnostic to the recipient and beneficiary, thus making the CIP unable to identify (and therefore discriminate) the quality (either speed or amount of information) for specific payments.
<b>Scalable and modular services that allow cost-efficient capacity expansion and / or changes in functionality to accommodate innovations over time</b>	<p>Pay.UK is designing the NPA 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).</p> <p>To allow for future expansion, innovation and the ability to upgrade, the solution is designed using modular technical components (including future-proofed and scalable standards) and flexible access channels (i.e. APIs), which should make the development of additional services, and access to the core, lower-cost compared to the current propositions.</p>
<b>A wide range of access options</b>	<p>The design includes three access channels for Participant connectivity (Gateway, API and Portal) which will allow a wider range of participants to join the service compared with FPS and Bacs.</p> <p>The possibility of accessing the NPA through APIs would in particular lower the cost of access for those PSPs or overlay providers with the capabilities and agility to develop their own interfaces for the NPA.</p> <p>By leveraging ISO 20022 and, where possible, aligning the NPA standards to other domestic and international payment services (e.g. through the use of the Common Credit Message with CHAPS) we allow more re-usability and interoperability across the industry.</p>



Design principles in the PSR's Consultation	Analysis against Pay.UK's preferred Scope option
<p><b>Open standards for each overlay that promote competition by enabling sufficient interoperability between competing providers, so that providers face lower barriers to entry and service-users are not locked into a particular provider because of network effects.</b></p>	<p>Pay.UK's current legal framework does not allow it to take on role to promote competition, which should remain the statutory duty of the regulator, as articulated elsewhere in this response.</p> <p>Firstly, Pay.UK has included the foundations for overlays into the NPA design to date (for example in terms of access options).</p> <p>A core assumption in the current design is that the logical data model, the APIs and the ability to leverage the data collected by the NPA for overlays are retained by Pay.UK. This would ensure the right foundations for the provision of overlays are included in the design.</p> <p>Additionally, Pay.UK will set standards for the NPA. This will be to safeguard the robustness and resilience of the NPA and each overlay being set up, but also to enable and facilitate competition and innovation by setting open standards.</p> <p>Pay.UK will further:</p> <ul style="list-style-type: none"> <li>• Set standards where there is a clear and demonstrable market need, which may include defining how the users of the standard will provide assurance of their adherence.</li> <li>• Facilitate collaboration to allow market participants to work together to define standards.</li> </ul> <p>Pay.UK's standards setting role may sometimes require setting standards in the interface to end-users, for example when addressing specific detriments. However, that may not always be the case, and some standards set for overlays may only prescribe the standards to connect to the NPA.</p> <p>Pay.UK should be mindful of not overstepping in this regard. To that end, Pay.UK will consult on proposed standards, and will expect the market to push back if there is a sense Pay.UK is overstepping. Additionally, Pay.UK will continue to monitor and implement this issue as it has been the case through services developed to date (COP and RtP).</p> <p>See further detail below regarding our discussion on the second governance principle in our answer to Q9.</p>



## Consultation question # 8

### Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem?

36. Pay.UK broadly agrees with the PSR's overall high-level hypotheses for competition and innovation risks on the NPA. This is consistent with Pay.UK's position in its CFI response from May 2020, where the PSR had outlined a series of risks which broadly match to the ones discussed in the Consultation.
37. While Pay.UK considers that the PSR has carried out a useful further analysis of these risks and how they might arise in its Consultation, Pay.UK considers that the likelihood of these risks materialising remains untested, and that the likelihood of these risks arising and affecting competition will be managed through a mix of design, contractual arrangements and governance.
38. The approach to mitigating these risks therefore needs to be carefully calibrated on the basis of available evidence to assess the effectiveness and proportionality of proposed remedies to avoid unintended consequences in terms of the business case for the NPA (including in terms of industry costs) and of robustness and resilience of the NPA. The risk is otherwise that ex-ante regulation stifles rather than encourages innovation; impose costs on industry that are not proportionate; or unnecessarily impacts the robustness and resilience of the NPA.

## Introduction

39. Pay.UK's strategic objectives make clear that competition and innovation issues are an essential aspect to be taken into consideration through the design and procurement of the NPA.
40. Pay.UK provided the PSR with its views on competition and innovation risks as part of its May 2020 response to the PSR's Call for Input on "Competition and Innovation in the UK's New Payments Architecture". In that response, Pay.UK noted:
  - i. Broad agreement with the PSR's overall high-level hypotheses in relation to monopoly, vertical and horizontal risks. Pay.UK noted additional risks to the PSR, in relation to degradation of quality of service by a monopolist, and the risk that a monopolist might wish to impose barriers to transition to another provider at the end of the contract period.
  - ii. That, to the extent any of these risks had likelihood of materialising, these could be managed through mitigations, and Pay.UK has been considering these might include design requirements, effective negotiations on key contractual terms, as well as governance procedures including Pay.UK's control of processes on aspects of the NPA operation.
  - iii. That the hypotheses raised by the PSR were being considered in its strategy and approach to the NPA programme, and procurement.
41. Pay.UK welcomes the PSR's outlining its further thinking on competition risks and their practical implications within the NPA ecosystem. In the rest of this response Pay.UK provides some commentary on specific aspects of the PSR's assessment in its consultation.



42. Pay.UK remains committed to managing competition and innovation risks through the procurement, delivery and operation of the NPA, and will continue to engage with the PSR on these issues as the programme progresses.

### **Pay.UK's understanding of PSR updated assessment of competition risks for the NPA ecosystem**

43. Pay.UK has reviewed the PSR's revised assessment of competition and innovation risks for the NPA included in the consultation. Pay.UK notes that the risks identified by the PSR – and corresponding mitigations – are for the most part in line with the risks highlighted at the Cfl stage. On those risks, Pay.UK remains in broad agreement with the PSR.
44. We provide below our detailed commentary on the assessment carried out by the PSR.

### ***Pay.UK's comments on the PSR's assessment***

#### Monopoly: CIS provider exploits its monopoly position as supplier of CSS or common services

45. Pay.UK considers that the nature of the CIS might give rise to incentives to distort competition. Such distortions could take several forms, as Pay.UK articulated in its Cfl response.<sup>4</sup>
46. Pay.UK agrees with the PSR that this risk can be mitigated through a process of effective procurement and the establishment of adequate contractual terms, including on quality and innovation.
47. Pay.UK also considers, consistently with its Cfl response, that an effective mitigation might be provided by governance arrangements where Pay.UK, rather than the CIS provider, has responsibility and control over issues such as setting standards, rules, and appropriate terms and conditions of access.

#### Monopoly: CIS provider exploits its monopoly position as supplier of 'additional services' to PSPs and overlay providers

48. To the extent that, as the PSR explains, there are some "additional services" that only the CIP could provide due to its role as the sole provider of the CIS, Pay.UK broadly agrees that the same monopoly hypotheses outlined above in relation to the CIS might also apply to these additional services.
49. Pay.UK considers that the likelihood of this hypothesis materialising will be lessened by mitigations which might include design, contractual terms and governance mechanisms.

#### Monopoly: Pay.UK does not perform its functions effectively

50. The PSR raises an issue that monopoly concerns may be exacerbated where Pay.UK does not adequately perform its functions.
51. Pay.UK recognises that it holds a central role in procuring and designing the NPA, and in ensuring appropriate contractual and governance arrangements are in place with the CIP.
52. We understand that delivering on this role is important for participants, end-users and our regulators, and Pay.UK remains committed to play a role in enabling and facilitating

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<sup>4</sup> These include: not controlling costs; raising prices above levels that reflect costs; setting prices for access that distort competition; setting other price and non-price terms of access that distort competition; degrading quality of service; making insufficient investment over time; not supporting innovation over time; selling services beyond the scope of its contract; putting in place barriers to transition.



competition and innovation – alongside Pay.UK’s other objectives – within the powers and constraints of its role.

53. Pay.UK will work with its regulators going forward as its role within the ecosystem crystallises.

#### Horizontal

54. The PSR’s assessment of horizontal risks is consistent with its Cfl analysis. Pay.UK recognises the risk of such a situation potentially arising, either because of a current CIP’s owner having interest in another payment system, or such a situation arising after the appointment of a CIP through mergers and acquisitions.
55. Pay.UK had outlined at the Cfl stage that it was considering a mixture of design specifications, control over rules and standards, control over interactions in the value chain and access to the NPA, and restrictions on information sharing across part of a supplier could manage this risk. The PSR’s assessment in the Consultation appears to be consistent with Pay.UK’s set of potential measures as outlined in its Cfl response.

#### Vertical: Market overlays

56. Pay.UK recognises the risks raised by the PSR in the consultation. These are consistent with the hypotheses set out in the Cfl. The PSR has provided further illustration of how these risks are expected to play out in practice for market overlays; where a PSP is also a CIP provider of some common services; and account overlays.
57. As the PSR sets out in its consultation, market overlays are services which make use of an NPA proposition. The overlay providers therefore require access to the CIS in order to develop and deploy its proposition.
58. As such, the overlay providers may face the risk of this access being distorted in some form by a CIP which also has an interest in the overlay space.
59. In terms of pricing, Pay.UK agrees with the PSR that a CIP might have an incentive to raise CIS costs above its own marginal cost, in order to favour its own overlay affiliate. This risk, as the PSR notes, can be managed through oversight of the CIP’s costs.
60. The PSR also notes that a CIP might face a lower aggregate marginal cost across the group (that is, across its CIS and overlay activities), resulting in an efficiency for the CIP to innovate in the overlay space compared to other overlay providers (as the group as a whole would face the marginal cost of CIS provision, rather than the CIS price).
- i. While we recognise the PSR’s concern about this issue potentially distorting competition, this needs to be weighed against the possibility of the CIP’s greater efficiency stimulating innovation in the overlay space and the need to ensure that competition is in the interests of end-users.
  - ii. Careful consideration should be given to additional interventions in relation to this issue. Pay.UK considers that this is an example of a theoretical concern for which no action should currently be envisioned.
  - iii. Pay.UK considers that the PSR would need to provide greater clarity if envisioning further specific intervention following its suggested monitoring exercise, the design of which should include a proportionality assessment.
61. Pay.UK considers it is important to ensure there is a level playing field in the overlay space which does not grant the CIP unfair advantage over other overlay providers. Pay.UK is developing a framework around overlays, which has at its core the requirement to



safeguard such a level playing field. We include more detail on this as part of our response to Q9.

#### Vertical: PSPs

62. Pay.UK also agrees that, to the extent that a party acted as both a PSP and a provider of common services, this might also give rise to vertical concerns of a similar nature. In this regard, Pay.UK notes that these concerns were considered particularly prominent when the infrastructure provider for interbank services was owned by PSPs.
63. Pay.UK considers that, to the extent these issues arise due to the nature of common services and of the CIP, these might be managed through contractual arrangements and robust governance.

#### Vertical: Account overlays

64. Pay.UK considers that the PSR has provided a sensible assessment of potential concerns in relation to account overlays.
65. As these overlays do not make use of the CIS, the CIP will not be able to affect cost or access terms for account overlay providers.
66. However, it may still be the case that a CIP may have some advantage, and the PSR has set out some hypotheses in this regard.
67. Pay.UK would caution interventions on these hypotheses without robust evidence of harm. For example, the fact that the CIP has better understanding of the CIS, which might allow it to design new account overlays or adapt existing products would be a benefit to PSPs and end-users, and actions that might prevent that should only be taken if deemed necessary and proportionate to identified competition issues.

#### ***Pay.UK's updated view on competition and innovation risks***

68. While the PSR Consultation makes a valuable contribution to understanding the competition issues, Pay.UK notes:
  - i. as indicated by many other respondents to the CFI, the likelihood of the risks materialising remains untested;
  - ii. the approach to mitigating these risks therefore needs to be carefully calibrated on the basis of available evidence to assess the effectiveness and proportionality of proposed remedies, to avoid unintended consequences, for example in terms of the business case for the NPA (in particular, in terms of industry costs) or of resilience of the NPA;
  - iii. additionally, it is worth considering that some of these risks might already be significantly mitigated by scope and design considerations.



## Next steps

69. Pay.UK recognises it holds a role to enable and facilitate competition and innovation in the NPA ecosystem (while noting there are limits to its capacity and capability to enable and facilitate competition). Pay.UK does not consider it can promote competition, which is a statutory duty that will sit with the PSR.
70. Pay.UK notes that the PSR had intended to provide assurance to Pay.UK that the commercial and governance arrangements around the NPA had suitably mitigated identified competition and innovation risks.
71. Despite recent developments which had not been envisioned at the time – such as the consultation – Pay.UK would still expect to engage with the PSR going forward to obtain assurance on its approach and role. We elaborate on this further in our answer to Q9.

## Consultation question # 9

### **Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?**

72. Pay.UK broadly agrees with the PSR that the competition and innovation hypotheses set out in the consultation could be mitigated through a mix of measures which might include design, contractual arrangements and governance. The package of mitigations as set out in the consultation broadly reflects this principle.
73. Pay.UK had outlined similar considerations in its Cfl response in May 2020, and its current strategy and direction of travel for the NPA is to manage the competition and innovation risks through a mix of design, contractual arrangements and robust governance.
74. While Pay.UK and the PSR broadly agree on the way forward to manage competition and innovation risks on the NPA, Pay.UK would caution that the approach to mitigations needs to be carefully calibrated on the basis of available evidence to assess the effectiveness and proportionality of proposed remedies to avoid unintended consequences in terms of the business case for the NPA (including in terms of industry costs) and of robustness and resilience of the NPA. Any intervention needs to be grounded in addressing observed adverse outcomes in the ecosystem, or delivering identified end-user benefits.
75. Moreover, Pay.UK's role in monitoring must be consistent with its role, powers and ability to take on risk in a way which is consistent with its constitution and its legal duties as a recognised payment system operator under the Banking Act 2009. Pay.UK, additionally, cannot take on responsibilities to promote competition, which will remain a statutory duty of the regulator.
76. Pay.UK welcomes the PSR consultation and further engagement with the PSR, as a way for Pay.UK and industry to obtain clarity from the PSR in terms of the process to reach a regulatory regime for the NPA.



## **Introduction to mitigating competition and innovation risks**

77. As Pay.UK articulated above in our commentary on the PSR's assessment of competition risks, the key objective should be to manage the CIP's incentive and ability to distort competition and innovation on the NPA. Consequently, a package of mitigations needs to focus on:
- i. procuring effectively the NPA to guarantee value for money in build;
  - ii. limiting the CIP's incentive to distort competitive and innovation, for example through some form of business separation;
  - iii. limiting the CIP's control over cost, quality, innovation, terms of access, confidential commercial information on PSPs, overlay providers and the NPA as a whole.

## **Pay.UK's position in Cfl in relation to design, governance, mitigations**

78. Many of the governance principles and mitigations set out by the PSR in the Consultation were mentioned in either the PSR Cfl, or Pay.UK's response to the Cfl. In particular, Pay.UK had expressed its position in that response in favour of considering measures such as:
- i. control of interactions in value chain with Pay.UK, including cost and access requirements; and setting rules and standards. This is broadly aligned to the PSR's first governance principle;
  - ii. confidentiality of information, including between parts of a supplier. This is broadly aligned to the PSR's second governance principle, and the obligations around confidentiality;
  - iii. having consideration of business structure in appointing a vendor. This is broadly aligned to the PSR's third governance principle;
  - iv. inclusion of contractual terms around SLAs, confidentiality, and clear contractual requirements regarding the need to support and deliver innovation at Pay.UK's direction. In its August 2020 application, Pay.UK further elaborated on some contractual clauses it would seek to pursue in a Direct Award.

## **Pay.UK's assessment of the PSR's proposed framework**

79. Pay.UK therefore broadly agrees with the PSR's package of measures as a way to address the identified competition and innovation risks:
- i. Having Pay.UK as the primary interface for the NPA, and having cost reflective and transparent pricing should ensure the CIP is not able to affect the cost of accessing the NPA;
  - ii. Having Pay.UK set open and freely accessible standards and rules, together with obligations around SLAs and innovation should ensure a level playing field between the CIP and other PSP or overlay competitors;
  - iii. Operational (and potentially, accounting) separation might deter the CIP ability and incentive to engage in such activities.



### ***Comments on the overall package of measures and Pay.UK's current approach***

80. Pay.UK would note a number of high-level comments on the approach to designing mitigations in relation to the NPA.

#### Focusing on outcomes

81. Pay.UK broadly agrees with type of measures that will be most effective in enabling effective competition and mitigating competition risks, and recognises it holds a unique role to implement some of these measures in the NPA ecosystem.
82. However, it is important to note that any role played by Pay.UK would need to sit within a wider set of ex-ante regulation and ex-post monitoring and interventions. Some of these may focus on market operators other than Pay.UK and the CIP.
83. In the design of these measures, it will be important for the regulatory framework to be focused on the ultimate outcomes that we are seeking to achieve. This will be in terms of outcomes for end users – such as the price, speed, security and functionality of the NPA propositions and overlay services – as well as outcomes for participants (including considerations such as value for money, low barriers to entry and innovation, functionality, robustness and resilience).
84. To some extent different strategies and actions may be pursued by Pay.UK (and others) to seek to facilitate and enable effective competition. The focus for the PSR in terms of assessing and monitoring the NPA ecosystem should be outcomes-driven, rather than focussed on whether or not specific detailed actions have been undertaken.
85. A clear focus on whether the system is achieving benefits for end-users is likely to be most effective in driving these benefits.
86. In addition, an important part of the overall system of checks and balances in the NPA ecosystem is the role of participants, who have direct information on whether the NPA is delivering benefits for them and their customers, and provide such feedback to the PSR and Pay.UK.

#### Proportionality

87. As set out in response to Q8, while Pay.UK recognises in principle the competition risks that the PSR refers to, the likelihood of these risks materialising remains untested. Properly understanding the likelihood of these risks materialising or their potential magnitude would require deeper analysis of the existing constraints on a vendor, the impact of the design approach Pay.UK is pursuing, and the impact of the preferred scope position, among other factors.
88. Against this backdrop, it is important that the regulatory framework that the PSR puts in place, in particular the obligations on Pay.UK, are carefully calibrated on the basis of available evidence to assess their effectiveness and proportionality.
89. It will be important to avoid overly burdensome regulatory interventions which might produce disproportionate unintended consequences. As such, the consequences of any interventions must be carefully weighed in terms of their impact on cost to industry and end-users, on robustness and resilience of the NPA, and any impact on stifling competition and innovation.
90. While the PSR has set out some high-level thinking about where different risks may apply, this kind of robust analysis has not yet been conducted. Pay.UK recognises that the PSR's ability to assess proportionality ex-ante, when no information on outcomes and costs is



available, is limited. This points to the importance of any ex-ante regulation being flexible and able to adapt, and for it to be monitored for effectiveness and proportionality as the NPA is deployed and operated.

#### Pay.UK's role

91. As noted above, the PSR's proposed regulatory framework envisages a number of obligations on Pay.UK – and as noted above many of these broad obligations correspond to actions Pay.UK is already pursuing.
92. [X] The PSR's framing of and implementation of these obligations should be consistent with Pay.UK's role, and not envisage a role – or legal obligation – that is beyond Pay.UK's capacity and control or is inconsistent with its legal obligations.
93. This is in particular relevant where the PSR envisions a role for Pay.UK to actively promote competition in the ecosystem.
94. While Pay.UK has a role to play in setting rules and standards, particularly for the NPA, Pay.UK would note that Pay.UK's purpose, as set out in its articles of association, is to enable and facilitate competition. We have been clear in our publications that the setting of standards should enable this. Promoting competition, which in regulated industries is the statutory duty of the regulator, would be beyond the scope of Pay.UK's role and responsibilities, as well as present a number of legal and practical challenges for Pay.UK.
95. That said, Pay.UK is developing a new strategy that will include efforts to promote its services to the market – for example, to bring to life how market players could develop new standards or solutions on the NPA as a way to enable competition.
96. Considerations of Pay.UK's role, capacity and control are also relevant where the PSR specifies obligations on Pay.UK that speak to the conduct of the vendor or other market participants (for example, the obligation to prevent a CIS provider using commercially sensitive information, or the obligation to reflect efficiently incurred costs).
97. [X]
98. [X]
99. In this context, it is important to consider Pay.UK's role in monitoring operational separation carefully.
  - i. While the PSR has indicated that operational separation will be an obligation on the vendor (if relevant), it has also indicated that Pay.UK may have a role in monitoring this operational separation.
  - ii. [X]
  - iii. [X] This is discussed in more detail in response to Q11.

#### Clarity on process

100. Pay.UK notes that the PSR's consultation document sets out mitigations at a high level at this stage. Pay.UK hopes that this response is helpful in setting out more of Pay.UK's thinking in some of these areas, where it is already pursuing strategies that are broadly aligned with the PSR's proposed approach. Pay.UK will continue to develop its thinking on these areas, and looks forward to an ongoing dialogue with the PSR.
101. However, Pay.UK is also conscious that the PSR's thinking is also still evolving. We consider it might be appropriate for the PSR to engage in an ongoing dialogue about how its thinking



is evolving, and how it is envisaging the regulatory framework that it has specified at a high level being implemented.

102. Both Pay.UK and the prospective providers need clarity early on in the process from the PSR, in order to engage in a robust and effective procurement. Pay.UK needs this clarity in order to plan a robust timeline out to go-live, and to ensure that there are no unexpected regulatory interventions that could introduce delays. Prospective bidders similarly need clarity in order to understand the basis on which they will be bidding, and to gain comfort around a robust and efficient process being discharged.
103. This need for clarity relates therefore both to the PSR's proposed process and timeline for taking forward its regulatory approach, as well as what detailed requirements it might specify under each of the high-level mitigations it has currently set out. On this latter point, this would include Pay.UK obtaining greater certainty and comfort from the PSR on the points raised in the preceding paragraphs, in relation to its role and the proportionality of obligations.
104. As stated above, we would recommend that any PSR intervention should be grounded in an assessment of the outcomes it aims to address. We also consider it appropriate that the PSR provide clarity to the industry on the outcomes it will monitor going forward, and what measures it might consider introducing were those outcomes not to be delivered.

### ***Pay.UK's view on governance principles***

#### Governance principle 1: Pay.UK as primary CIS interface

105. The PSR is envisioning that Pay.UK should be the primary interface and decision-maker for all matters relating to CIS provision. This includes:
  - i. setting of prices and terms for access to CIS;
  - ii. setting of prices and terms of access for additional services; and
  - iii. setting standards and rules.
106. As stated in our response to the Cfl, Pay.UK acknowledges that suitable governance is likely to play a role in managing the risks to competition and innovation for the NPA.
107. Pay.UK's current strategic direction is that it will be the primary interface for overlay providers and PSPs to access the NPA, be it for CIS or additional services. Pay.UK will also continue in its role to set rules and standards to access the NPA and its propositions and data.
108. However, Pay.UK would note that, as currently envisioned in its NPA strategy:
  - i. The CIP will still be involved in activities it is technically best placed to perform – for example, tech support and attestation / onboarding. SLAs will be in place to ensure that the CIP is not in a position to affect the quality of access to the NPA through its role in these activities, and Pay.UK will set the rules around testing and attestation.
  - ii. Pay.UK is further exploring issues in relation to pricing as it progresses in developing its strategy. This will likely also include consideration of practical matters (for example, one issue that has come to light is that VAT implications might require invoicing to be done by the CIP for some propositions (with Pay.UK oversight)).
  - iii. Pay.UK will set standards for some overlays, in particular when deemed essential or as part of an industry initiative (as it was the case with RtP and Cop). However, Pay.UK's role



as a Platform Leader is to enable innovation and competition rather than initiate innovation and product development. It is important that the market, where it can, is able to flourish independently, with Pay.UK enabling rather than delivering that innovation.

Governance principle 2: Pay.UK must actively implement rules to promote competition and ensure access terms are POND

109. The second of the PSR's governance principles is that Pay.UK actively implement rules to promote competition and ensure access terms are proportionate, objective and non-discriminatory (POND). The PSR further clarifies that:
  - i. Pay.UK must monitor the effectiveness of the rules.
  - ii. Pay.UK must control how a CIS provider uses the information it holds, in particular:
    - i. Ensure that information that could give a CIS provider (or its owner) an unfair advantage is available to other relevant parties at the same time;
    - ii. Place restrictions on how information and data can be used by a CIS provider.
110. One of Pay.UK's strategic objectives is to – in some situations - stimulate innovation in the marketplace to drive competition, all the while actively managing systemic risk. This is ultimately to ensure that PSPs can provide end-user value, and to the benefit of the wider UK economy. Pay.UK fulfils this role by, among other things, implementing rules to enable competition and innovation, and ensure access terms are fair.
111. Pay.UK notes that it is currently in the process of revising its company strategy, and that within that it envisions a more proactive role for itself in promoting the benefits of its products– for example, to bring to life how market players could develop new solutions on the NPA.
112. This includes playing a role in promoting opportunities for innovation, market entry of new products and new providers, as this would be reasonably incidental to our purpose. Examples of activities which Pay.UK considers could attract innovators to the market, while remaining compatible with its current legal framework, would be funding an innovation prize, setting industry challenges or hackathons, developing new standards that unlock the potential of enhanced data, or contacting potential overlay providers to invite them to innovate on the NPA.
113. Our strategy to deliver better end-user outcomes will involve Pay.UK clearly assessing when innovation is for us to enable and the market to deliver (which we hope will be the most common outcome) or when the market dynamics - or even a market failure - might mean that an innovation is for Pay.UK to drive.
114. We would consider it appropriate that a regulatory framework for the NPA should be predicated on the same basis, and that any obligation of Pay.UK to take a proactive role in driving innovation should be limited to scenarios where the market has not been able to deliver innovation.
115. Pay.UK looks forward to collaborating with the PSR as it moves to implement this strategy, to ensure it aligns with the PSR's own strategic objectives and to the benefit of end-users.
116. However, Pay.UK would note that Pay.UK's purpose, as set out in its articles of association, is to enable and facilitate competition.
117. Promoting competition, which in regulated industries is the statutory duty of the regulator, would be beyond the scope of Pay.UK's role and responsibilities, as well as present a



number of legal and practical challenges for Pay.UK. Pay.UK therefore considers that the PSR's second principle should be re-considered to better reflect the limitations of Pay.UK's role and powers, which cannot stretch to covering the roles usually discharged by the regulator.

118. Within its remit and strategic objectives Pay.UK will play a role enabling and facilitating competition by setting standards and rules to access the NPA and overlays.
119. For the NPA, Pay.UK is currently envisioning a number of measures which will enable competition and innovation.
120. **Agreeing a strong contract with the vendor**, which ensures fair access to PSPs and overlay providers. This will include, for example, potentially including measures such as:
  - i. [X]
  - ii. [X]
121. The ongoing development of an **overlay framework**, which aims to ensure a level playing field in the overlay space, with no advantage given to the CIP. While this strategy is still being developed, Pay.UK is currently considering it might include principles such as:
  - i. Each overlay will be developed using open NPA standards, with interested parties allowed to sign up to the initiative, test and deploy their propositions.
  - ii. The standards will be published at the same time for all providers, including any vendor subsidiaries.
  - iii. A sandbox environment will be set up to allow interested overlay providers to test their proposition before moving to production. To the extent the vendor will be required to facilitate this process, this support would be subject to SLA / contractual terms.
  - iv. A monitoring regime is also likely to be set up, to ensure that all overlay providers act within the limits of the agreement on each standard. Pay.UK is currently considering options on how such a regime might work, for example leveraging Pay.UK's experience in monitoring Bureaux services.
122. Another way Pay.UK is looking through facilitate competition is through the development of our **Standards Direction and Role**, which we consulted on in 2020 and have recently published feedback on. This has also received support from the PSR in supporting product differentiation in the ecosystem.<sup>5</sup> We will use our Standards Framework (summarised on our website) to ensure that we deliver open standards on each overlay, published publicly, to ensure wide participation in the development of solutions on each overlay.
123. Within the scope of enabling and facilitating competition, Pay.UK would also caveat that:
  - i. Pay.UK cannot impose and mandate rules outside of its remit. Similarly, Pay.UK monitoring and enforcing of such rules can only extend to those parts of the ecosystem it has oversight of.
  - ii. While Pay.UK has a role – as a Platform Leader – to enable and facilitate competition in some situations, Pay.UK should be wary of taking on an unnecessarily active role in the market that stretches beyond its mandate and remit. Pay.UK role should be to enable competition and innovation by creating the space for providers to innovate.

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<sup>5</sup> PSR Letter dated 30 April 2020, "Next Generation Standard for UK Retail Payments".



Standards and Rules that are might end up stifling rather than facilitating competition.

Governance principle 3: Separated CIS provider

124. Please see our answer to Q11.

Obligation 1: Run an effective procurement process

125. Alongside the competition and innovation questions, the PSR has also consulted on the procurement approach to be followed for the NPA. We have responded to the PSR with our views on these matters as part of our Tranche 1 response on 19 March, and as articulated in our follow-up response to Tranche 1 covering our preferred procurement approach, our preferred procurement approach is to proceed with a competitive procurement.

126. Regardless of the outcome of the consultation, it will remain Pay.UK's objective to run an effective procurement for the NPA.

127. [X]

128. [X]

Obligation 2: Ensure that the contract with a CIS provider includes incentives to foster and facilitate innovation, and limits incentives to distort competition

129. Pay.UK agrees that incentives to foster and facilitate innovation are likely to play a role in mitigating some of the identified competition risks, and our thinking in this regard has been informed by advice received by our End User Advisory Council (EUAC) in July 2020 and included as part of our August application.

130. As stated in its Cfl response, Pay.UK considered a relevant mitigation might be to include clear contractual requirements regarding the need to support and deliver innovation in response to Pay.UK's direction.

131. [X]

132. Pay.UK will also seek to leverage insights from other markets and jurisdictions, to ensure Pay.UK is leveraging the best strategy to support innovation.

133. Pay.UK's current NPA requirements also list a number of areas which will be key to drive innovation:

- i. **The construction of sandbox to promote innovation:** This would be an environment that would be accessible to overlay providers with innovative ideas, in order to develop and test their products before deployment to the NPA. This is currently envisioned in Pay.UK's strategy as a key requirement to develop overlay solutions, some of which may be needed from launch of the NPA.

ii. [X]

134. [X]



Obligation 3: Prevent a CIS provider (or its owner) using commercially sensitive information for its own benefit in another market

135. As stated in Pay.UK's Cfl response, Pay.UK will seek to include terms in the contract that:
- i. require effective handling and protection of confidential information as part of the contract with the CIS provider. Such provisions will limit the extent to which information flows between different parts of the CIS provider – even if standalone.
  - ii. ensure transparency of critical information to a range of suppliers in a way that effectively addressed any advantage that the CIS provider would otherwise have.

136. [X]

137. [X]

138. [X]

Obligation 4: include, and then monitor, service level agreements (SLAs) in a CIS provider contract

139. Pay.UK agrees that including SLAs is an important mitigation to ensure consistent quality in the NPA. This will have to cover both the core service (e.g. SLAs relating to the speed of a payment through the NPA rail), as well as SLAs relating to operational support, such as incident management.
140. In Pay.UK's current thinking and direction of travel, these will be stem from propositions and use-cases – mapping the payment flows and identifying where SLAs might be needed. [X]
141. Pay.UK is undertaking work to design SLAs to be included into the NPA design.
142. The SLAs will then have to be agreed with the vendor, and during Operational Acceptance Testing, the vendor's technical solution will be tested to ensure it can achieve the stated SLAs. SLAs will also be tested with participants through participant readiness testing.
143. Pay.UK is regulated by FMID, and we expected that will be the case for an NPA provider as well. This will also contribute to ensure quality throughout the NPA.

Obligation 5: ensure CIS user prices are set using proportionate, objective and non-discriminatory (POND) criteria and follow the pricing principles set out in Chapter 6

144. Please see our answer to Q13 and 14 below.



### Consultation question # 10

#### Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS?

145. Pay.UK understand that the PSR risk relates to common services giving a provider greater information than if the CIP were to only deliver the CSS. This would lead to an increased risk of that information being abused. Pay.UK considers that some common services do provide greater information than what would be captured through sole operation of the CSS, but where that is the case, Pay.UK envisions that data usage agreements in place will be in place to prevent a provider from using it to distort competition elsewhere in the NPA ecosystem. In Pay.UK's experience of operating FPS, Bacs and ICS gives Pay.UK confidence that suitable data controls can be designed to manage the risk associated with the kind of data which would be stored by the CIP.
146. [X]
147. Regarding the FPS replacement services, Pay.UK notes that in either the PSR's preferred Scope, or Pay.UK's preferred Scope, the CIP would provide a variety of common services in addition to the CSS.
148. We do not believe that including a Bulk common service in the Pay.UK preferred option to replace DCA/FIM would materially increase the risk of data being used to gain a competitive advantage [X] Similarly, if in the future, following industry consultation, the industry was to support the delivery of a Multi Day service then we do not believe CIP would gain a material advantage by offering the associated common service.
149. [X]

### Consultation question # 11

#### Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets?

150. Pay.UK has expressed broad support for operational separation before and continues to do so.
151. Pay.UK agrees with the PSR that structural separation would likely not be proportionate in this context. Partly, that is to preserve the benefits where a vendor is part of a financially resilient organisation.
152. [X]
153. In relation to Pay.UK's role in monitoring operational separation, it is important that this is within Pay.UK's capacity and ability to take on risk.

### Introduction

154. As stated above, the horizontal and vertical risks are more likely to arise when there is a strong economic incentive for the CIP. It is also the case that a vertically or horizontally integrated CIP with entities with other interest would have greater ability to distort competition on the NPA by for example using information it holds in its role as CIP.
155. Therefore, there is some role for operational separation as this would act to reduce the incentive and ability to engage in such activities.



156. While we understand this is something for the PSR to implement and not an obligation on Pay.UK, we provide some considerations on the subject.

#### **Pay.UK's position in the Cfl**

157. In our response to the Cfl, Pay.UK noted that ownership and structure of the vendor need to be given consideration when assessing competition risks and mitigations. This includes considering the issue of business separation.
158. Pay.UK also noted that significant thought should be given to measures which might affect the attractiveness of the proposition to potential vendors. This would include prohibition on the CIP from providing overlay services, and requirements that would unduly restrict the CIS provider utilising assets and intellectual property from other ventures (particularly if using such assets was a core part of the offering valued by Pay.UK in the procurement process).

#### **Pay.UK's position on latest PSR's thinking**

159. The PSR's proposal for operational separation is that, at a minimum, this would include:
- i. Distinct branding between CIS provider's CIS activities and its (or its owner's) overlay services, to address the risk of it creating the impression that on overlay service is part of CIS;
  - ii. Separate accounting and business processes, so that efficient attributable costs and any potential anti-competitive subsidies can be verified; and
  - iii. Information firewalls to prevent the CIS provider sharing information within the wider corporate group.
- The PSR has also noted that the second of the points above could extend to accounting separation.
160. Pay.UK notes that operational separation can take different forms, and the implications of operational separation on the vendor and on outcomes will depend on the detailed arrangement that are imposed. With that in mind, in developing its proposals in this area in more detail, it will be important for the PSR to weigh up potential pros and cons of different aspects of operational separation.
161. Pay.UK is supportive of aspects of separation that serve to increase transparency (for example in relation to costs) and improve the ability to scrutinise vendor conduct and enforce contractual obligations. [X]
162. Aside from considerations of robustness and resilience, Pay.UK notes that the PSR will need to be careful that obligations around operational separation are not so onerous that this puts in jeopardy prospective bidders participating in the procurement process.

#### **Pay.UK's position on any monitoring responsibility placed on us**

163. Pay.UK understands that monitoring responsibilities around operational separation might be placed on Pay.UK.
164. Pay.UK notes that its ability to take on such a role would be through the enforcement of contractual clauses which specify, for example, information barriers.
165. If Pay.UK is required to play a role in overseeing operational separation this might introduce additional costs, which are not known at this stage. These costs will ultimately be borne by



end-users, so the PSR will need to think carefully about the proportionality of any monitoring obligations it places on Pay.UK.

166. Additionally, it will be critical that any monitoring role imposed on Pay.UK is feasible and does not lead to significant additional extra risk for Pay.UK in seeking to comply with the obligation. For example:
- i. Pay.UK may not have the right skills and capabilities to perform a role, depending on the nature of the operational separation and how the monitoring role is specified. Similar roles in monitoring of operational separation are often carried out by independent third-party trustees, which are appointed and provided with detailed instructions on the monitoring framework by the regulator. Clear instructions will be critical for Pay.UK not to face unmanageable risks through lack of clarity in expectations.
  - ii. Certain aspects of operational separation – for example formal accounting separation – may also require specialist skillsets which are beyond the current capacity and/ or capabilities of Pay.UK
  - iii. Pay.UK would consider that any role which involved it being required to make a judgement over whether a vendor was compliant. This judgement should be the remit of the PSR given that this is an obligation placed directly on the vendor by the PSR. Being required to express such judgements would also expose Pay.UK to inappropriate risks. A situation could arise where Pay.UK – based on the best information available to it – concluded that the vendor was likely to be compliant, only for that to turn out to be incorrect. If Pay.UK was somehow liable for that judgement having been incorrect, this would be inconsistent with Pay.UK's powers to ensure vendor compliance and therefore its risk tolerance.
167. Therefore, Pay.UK's role, if any, should be limited to monitoring of factual, and clearly defined, information which it has the capability and capacity to collect. For example, reporting back to the PSR on whether the vendor has provided a defined set of data, on time.

### Consultation question # 12

**Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?**

168. As stated above, Pay.UK considers that the identified competition risks can be managed through suitably designed mitigations, encompassing design, contractual arrangements and governance.
169. The introduction of regulatory measures would enshrine this framework into law, given necessary certainty to the CIP and Pay.UK on their role and obligations. Suitable clarity on the regulatory regime would also help bidders properly calibrate their proposals to Pay.UK on the realistic future regulatory regime.
170. Pay.UK therefore welcomes increased clarity in this regard going forward.
171. As stated in our response to Q9, Pay.UK would also note that any such regulation should:
- i. Be outcome focused;
  - ii. Provide sufficient clarity for Pay.UK and bidders;



- iii. Impose obligations on Pay.UK which fit with Pay.UK's role, responsibilities and risk appetite.



## SECTION 2: ADDRESSING CONSULTATION QUESTIONS RELATED TO PRICING

### Consultation question # 13

**Do you have any comments on the pricing principles?**

### Consultation question # 14

**Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?**

- 172. We broadly agree with the pricing principles set out in Chapter 6 of the PSR's Consultation.
- 173. However, as Pay.UK develops its pricing framework for the NPA, it has identified and will continue to identify tensions between these principles, and between the principles and other obligations and objectives, which we will continue to refine as we develop our pricing approach and engage with stakeholders.
- 174. It is important to note, however, that these principles are broadly consistent with Pay.UK's current role, and Pay.UK's approach to pricing that it has been implementing already. Pay.UK draws on this extensive existing experience in developing its pricing approach to the NPA.

### Introduction

- 175. Pay.UK welcomes the PSR's contribution on the principles that would apply to pricing on the NPA. These principles are broadly consistent with Pay.UK's existing approach to pricing FPS and Bacs.
- 176. Pay.UK is currently undertaking work to consider an outline pricing and funding framework for the NPA.
- 177. The principles set out by the PSR are aligned to Pay.UK's pricing strategy, and Pay.UK is actively considering the PSR's principles as it develops its pricing and funding strategy. These principles will inform Pay.UK's strategy, alongside other considerations relevant to Pay.UK and its obligations and objectives in delivering the NPA.
- 178. In performing this work, Pay.UK is undertaking various analysis into potential pricing and funding structures and models, including giving due consideration to the basis on which these may be procured and the roles, requirements and responsibilities of relevant stakeholders (including participants, prospective vendors and Pay.UK). This exercise will identify proposed outline models where the specific structuring of any such models would take place later in the programme once there is a detailed understanding of the proposed arrangements for the NPA.
- 179. To complement this analysis, Pay.UK intends in due course to undertake appropriate market sounding in respect of potential funding structure(s). The support of participants to the pricing and funding framework will ultimately be required prior to entering into the NPA contract to provide appropriate certainty to all parties.
- 180. In the rest of this response, Pay.UK provides:
  - i. additional detail on the work carried out to date on pricing and funding;



- ii. Pay.UK's comments on pricing principles, including whether any additions to these principles will be needed;
  - iii. the interplay and trade-offs between pricing and Pay.UK's other objectives and constraints; and
  - iv. considerations on next steps.
181. As noted elsewhere in this response, Pay.UK notes that further engagement with the PSR on pricing would be beneficial to provide clarity on the regulatory process to developing a framework around pricing.

**Pay.UK work to date on pricing and funding**

182. Pay.UK has established a workstream within the NPA programme to consider pricing and funding.
183. In parallel to the development of the preferred design scope and procurement strategies, the workstream is undertaking a series of activities with the aim to:
- i. finance the build and transition to the NPA;
  - ii. design an effective pricing structure to allocate the various operational 'run' costs in delivering the relevant services under the NPA; and
  - iii. recover Pay.UK's costs of designing, building, implementing and running the NPA, and that meets Pay.UK's strategic objectives and regulatory requirements.
184. Pay.UK work to date has focused on:
- i. developing a consolidated outline framework for pricing and funding, which combines principles to enable and facilitate competition and innovation (aligned to the PSR's pricing principles), with Pay.UK's wider obligations and constraints; and
  - ii. developing funding options for the NPA build cost, with an aim of providing value for money for the NPA in the preferred procurement (and scope) scenario.
185. In undertaking this work, Pay.UK is seeking to evaluate such options with a balanced approach considering the PSR's pricing principles in addition to the various broader objectives for the programme, relating to the robustness and resilience of the NPA and the role performed by Pay.UK.
186. In developing a pricing and funding framework, Pay.UK will also give due consideration to lessons learned from the existing systems.

**Pay.UK's comments on pricing principles, including whether any additions to these principles will be needed**

187. We broadly agree with the pricing principles set out in the consultation document, and note that Pay.UK already plays a key role in pricing of current services drawing on some of the same broad principles in its approach.
188. We note that whilst the pricing system (underpinned by the pricing principles) clearly has a role to play in mitigating against monopoly, vertical, and horizontal competition risks and to foster innovation and competition for the benefit of end-users, it won't be able to deliver this on its own. Rather, the pricing principles will need to sit alongside appropriate design principles and robust contractual arrangements, as discussed in our response to Q9.
189. For example, while the setting of prices will determine whether prices are efficient and that the NPA, as a whole, provides a competitive alternative to other payment system, these



issues are also linked to the question of procurement, value for money and the business case for the NPA.

190. Taking this into account, as part of our emerging thinking on the pricing principles and their practical implementation into the actual pricing structure, we have identified a number of considerations that we will consider as we develop our pricing approach. These considerations reflect the fact that the PSR's principles, while broadly appropriate, in some instances may be potentially result in certain mutually exclusive trade-offs when it comes to implementing them in practice as part of delivering the overall NPA programme and/or a complete pricing and funding framework.
191. We outline these considerations in summary form below and are planning to discuss them in more detail with our stakeholders as the work on the pricing strategy for the NPA as its implementation progresses.

#### Trade-offs across pricing principles

192. When getting closer to finalising the detailed structure of the payment system, some of the proposed pricing principles may imply trade-offs. We will work closely with stakeholders to identify potential tensions that may arise and to jointly resolve them to the best benefit of end-users.
193. Examples of such possible trade-offs include:
- i. The principle of “**reflecting efficiently incurred costs**” might create a tension with “**fostering competition and innovation**” and “**incentivising utilisation of NPA**”. For example, in the face of a large build cost amortised over a relatively short period of time, cost reflective CIS price might imply that prices are at such a level to deter transition to the NPA, or new entrants to either the PSP or overlay space. This interplay will need to be considered carefully in designing an appropriate funding structure for build costs, and how these costs are reimbursed.
  - ii. “**Being transparent and predictable**” might need to be traded-off against “**reflecting efficiently incurred costs**”, as prices might need to be adjusted to reflect cost changes which may not have been predictable.

#### Potential additional considerations

194. Additional considerations that Pay.UK has identified include:
- i. Fairness: It will be important to consider the principle of fairness, for example where some customers have taken more risks than others (e.g. volume commitments). This may be in tension with principles about being fully cost reflective, so will need to be carefully considered.
  - ii. Incentivisation: Pay.UK is considering whether the pricing system should have explicit rewards and penalties for performance against agreed KPIs. This is a fundamental principle of regulatory price regimes, and while such complex incentivisation systems are beyond the scope of the NPA, [3<]
  - iii. Monitoring and enforcement: [3<]

#### **The interplay and trade-offs between pricing and Pay.UK's other objectives and constraints**

195. As noted elsewhere in this response, Pay.UK notes that the implementation of these obligations needs to be balanced against Pay.UK's other functions and objectives, such as



its not-for-profit status and its commitment (and regulatory requirements) in terms of robustness and resilience.

196. Further engagement with the PSR on pricing would be beneficial to provide clarity on the regulatory process to developing a framework around pricing.

### **Conclusions and next steps**

197. The pricing principles as set out in the consultation document appear to be broadly sufficient to address competition risks relating to CIS user pricing, noting that in delivering the overall pricing and funding framework, in practice there may be potential for certain trade-offs to exist between the principles which will need to be appropriately balanced.
198. We are planning continued engagement with stakeholders on how best to implement the pricing principles into the actual pricing system.
199. We expect that once we move closer to the implementation stage for the pricing structure, this will provide further detail in respect of the specific features and requirements for the NPA programme, which may raise additional considerations that could require amendments or additions to the pricing principles and their implementation, including the need to balance potential trade-offs. Pay.UK intends that application of such amendments will be informed by the aims and objectives for the NPA, the competition concerns set out in the consultation document and close engagement with stakeholders.
200. The mitigations for many of the competition risks are likely to be equally (if not more) impacted by other elements of the regulatory and commercial framework for the NPA rather than the pricing principles alone. This means that implementation of the pricing principles needs to develop alongside other decisions around the NPA, something we are mindful to do.



PSOs



[LINK](#)



# Delivery and Regulation of the New Payments Architecture

LINK's response to the Payment Systems Regulator's consultation paper, February 2021

8<sup>th</sup> March 2021

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Classification: "Public" and available at [www.link.co.uk](http://www.link.co.uk)

## LINK's Experience of Competitive Infrastructure Tenders

1. On 5 February 2021 the PSR issued a [consultation paper](#) on the renewal of the UK's interbank payment infrastructure. This consultation covers the PSR's Specific Directions 2 and 3 (SDs). These require Pay.UK to run a competitive procurement for the central infrastructure for Bacs and Faster Payment Service (FPS) respectively. The PSR notes in its consultation paper that *"In the light of our conclusions, we will consider whether the directions should be varied, revoked or replaced"*.
2. LINK has recently conducted its own competitive tender for its central infrastructure service under a PSR SD (SD4), similar to those now being considered by Pay.UK for Bacs and FPS. LINK is therefore responding because its experience is directly relevant to the PSR's deliberations.
3. Although the consultation paper poses a number of detailed questions, LINK is providing this single overall response which it believes best summarises its experience.
4. LINK's recent competitive tender and the resulting Vocalink contract are subject to extensive commercial confidentiality constraints. Therefore, it is not possible to include commercial details in this public document. However, all the key points are set out. The PSR has already been provided with great detail relating to these events in its role as one of LINK's regulators and therefore has access to other evidence.

**LINK recommends that the new contract should be negotiated with Vocalink directly and that the concept of a competitive tender not be pursued further**

5. Pay.UK and LINK together run all the systemically important interbank payment schemes in the UK. They are both regulated by the PSR and the Bank of England. Transitions of core infrastructure to new suppliers can be extremely risky due to the complexity of the networks involved, their high volume 24/7 nature, and the large number of participants connected to the central switches. Investment alone cannot always mitigate this risk. All of these systemically important interbank switches are currently provided by Vocalink or its precursor companies.
6. LINK is very similar to a system such as FPS, as FPS was developed by Vocalink and its members from the LINK infrastructure. The LINK experience is therefore directly



comparable to the FPS situation (albeit LINK has the additional issue of declining transaction volumes to manage).

7. The implementation of the New Payments Architecture (NPA) is now much delayed from the original plan. Opportunities to speed matters up are therefore likely to be valuable.
8. In light of this and the complexity of the task in hand, LINK recommends moving immediately to a detailed negotiation with Vocalink rather than spending another year assessing the competitive tender option. We have set out the main reasons for this recommendation below by reference to some of LINK's own experiences.
9. LINK found that the systemic risk management components of negotiations with bidders was greatly assisted by the regulatory approach followed by the Bank of England which uses a strong and established framework based on the BIS-IOSCO Principles for Financial Market Infrastructures (FMIs). This is identical to that used for other FMI including FPS and Bacs. This was a "regulatory requirement" of any new contract and this would have been the case whether or not a competitive procurement was undertaken. As such, from a risk management and operational resilience perspective, LINK does not consider that a competitive tender is needed to ensure a satisfactory contract.
10. LINK's view is that a similar approach could be adopted in respect of the PSR's competition and other requirements for the NPA such that any contract negotiated bilaterally with Vocalink must comply with any regulatory framework imposed by the PSR.
11. LINK notes that if these and other regulatory requirements and acceptable commercial terms were not achieved in direct negotiations with Vocalink then clearly Pay.UK and the PSR should reserve their right to revert to a tender/competitive process. The participants and process for that should be left as much as possible to the discretion of the board of Pay.UK to avoid further delay arising from a bureaucratic and lengthy competitive tender process.
12. In the case of LINK, a pressing strategic issue at the time of the competitive tender was (and remains) how to manage the reduction in cash usage by UK consumers and a smooth and inclusive move to digital alternatives. Declining cash volumes made a competitive tender a challenging proposition for participants (in seeking to recover "transition" costs) and LINK. The possible benefits from a competitive tender in respect of a lower price and improved terms were insignificant when compared to dealing with this enormous challenge (and taking account of the view of LINK that improved terms from a systemic risk perspective could be achieved through the regulatory framework required by the Bank of England). The LINK competitive tender therefore diverted scarce resources from a central challenge facing the UK in relation to cash. LINK also had to continue throughout as an effective systemic risk manager in line with its regulatory obligations. LINK's competitive tender took 18 months, cost millions of pounds in advisory fees, and was a top risk on the LINK risk register for that period. It absorbed some 25% of senior management and Board time to the detriment of managing other matters. LINK also estimates that the companies that elected to respond to the Request for Proposal would collectively have spent millions of pounds in participating in it.



13. It seems to LINK that the timely and safe rebuilding of the UK's digital infrastructure is the priority issue when it comes to the NPA. LINK itself is dependent in part on a successful and rapid outcome, as this is needed by cash users to enable a smooth and inclusive move to digital payment methods. LINK assumes that these relevant lessons from the LINK experience will be useful when considering the situation facing the NPA.
14. In the case of the LINK service, great emphasis was put by SD4 on the pricing improvements available through a competitive tender. Whilst an improved price was achieved, the cost of the service compared to the overall cost of running the ATM network and the LINK Scheme is insignificant. The actual reduction achieved is a fraction of this. LINK would have expected to have achieved a cost reduction in a bilaterally negotiated contract with Vocalink. While the extent of this can't easily be assessed, what is certain is that the cost of achieving this would have been significantly less than by running a competitive tender. Therefore, the focus on infrastructure pricing was not in line with the overall pricing of the payment system. LINK also notes that there are alternative mechanisms to a competitive tender to manage pricing with a supplier, including with an incumbent, such as benchmarking and open book approaches.
15. The Payments Strategy Forum originally set out its Vision for payments in November 2016. It proposed:
1. The development and implementation of the NPA.
  2. The consolidation of the main UK retail Payment System Operators including Bacs and FPS.
  3. A set of solutions to help prevent or reduce the impact of financial crime on users.
16. Almost five years on, matters are now pressing, especially in relation to point three.
17. The first and last of these Vision components can be delivered through direct engagement with Vocalink. The second has been delivered already in the case of the scheme (this is Pay.UK) and in the case of the infrastructure is irrelevant given that all proposed options plan to progress just with FPS.
18. As noted above, if direct engagement with Vocalink were not to result in a suitable outcome then it would be up to Pay.UK to return to a process with some element of competition to resolve any impasse. This should be a last resort.

**Pay.UK should be trusted to develop the technical and commercial capabilities it needs to manage the negotiation with Vocalink**

19. LINK's experience was that significant commercial and technical skill was required within its team to manage the contract negotiations with potential suppliers, and the final detailed negotiations with Vocalink.
20. Given the temporary nature of a tender (whether competitive or a direct negotiation with an incumbent) these skills will inevitably involve procurement of temporary external expertise.
21. This sourcing of such external expertise takes skill and effort. It was a key responsibility for the LINK Board, and this will presumably be the case for the Board of Pay.UK. LINK notes that both Boards are leading not-for-profit companies limited by guarantee and with a public interest focus.



22. It is LINK's experience that it should be up to the Board of Pay.UK to seek the best advice and have broad discretion to operate the procurement process within a clear regulatory framework and that when regulators trust the Boards of the companies that they regulate, and focus on regulating, this leads to good outcomes. LINK's Board is aware that, should regulators not be satisfied with the competence of the Board to execute its role effectively, then a number of remedies are available within the existing regulatory framework.

**The industry, informed by extensive consumer insight, has developed already a good blueprint for the future and the need now is to get on with delivery urgently**

23. LINK's competitive procurement was informed by a clear requirement largely based on duplicating the existing service. This was because there was no need to change what was being delivered.
24. LINK notes that, whilst the NPA is a new service, robust work has already been done by industry and informed by extensive consumer insight on what is required. LINK notes in particular the excellent summary of requirements set out in the UK Finance document *"Future Ready Payments 2030 - Working with a dynamic, purposeful and united agenda for the UK"* published in February 2021".
25. LINK's experience of working with Vocalink is that it has extremely good capability in translating such requirements into live services. The issue is managing the negotiation to achieve a satisfactory commercial outcome.
26. Given the already lengthy delays with the NPA, LINK recommends moving immediately to a negotiation with Vocalink, utilising an appropriate commercial and technical capability within Pay.UK to deliver the negotiation, and not pursuing a competitive tender except as a last resort.
27. A final point relates to the whole of payments infrastructure. Whether for good or bad, Vocalink currently runs all the regulated interbank infrastructure and the Post Office Counter Service network infrastructure. It is beyond question that it does so efficiently with a very high level of resilience. If Vocalink loses responsibility for one service, this could well have implications for other parts of the industry. Vocalink is itself regulated as a systemically important infrastructure provider. The PSR should move away from the need for a competitive tender process for the provision of infrastructure which at best could provide only limited benefits and certainly involves substantial costs and risks.

**About LINK**

28. Link Scheme Holdings Ltd (LINK) manages the UK's main cash dispenser (ATM) network and is central to the operation of the UK's cash infrastructure.
29. LINK's network connects the vast majority of ATMs (both free and charging) in the country and allows customers of banks and building societies (card issuers) who are LINK Members to make cash withdrawals and balance enquiries with their payment card at almost all ATMs. All major card issuers and ATM operators currently choose to become Members of LINK. This helps to ensure that consumers in the UK have the choice of using cash should they wish to.
30. Cash is in long term decline in the UK and, whilst the Government committed in March 2020 to introduce legislation to protect access to cash, this has yet to be implemented,



meaning there are no obligations that give consumers the right to access cash (free or otherwise). In the absence of legislation, LINK is continuing to ensure that communities throughout the UK have satisfactory free access to cash.


31. LINK is regulated by the PSR and by the Bank of England as a systemically important payment system and values a collaborative and strategic relationship with both.
32. The LINK network is based on a highly resilient real-time high-volume infrastructure, currently supplied by Vocalink. The contract with Vocalink resulted from a competitive tender mandated by the PSR through its SD4 which is similar to the SDs in force for Bacs and FPS. LINK has already fed back its views and lessons learned to the PSR.

**-ENDS-**



Visa





## Visa Europe's response to the Payment System Regulator's Consultation Paper on "Delivery and Regulation of the New Payments Architecture"

The UK is home to one of the most advanced payments ecosystems in the world, and we welcome the efforts and focus of the Payments System Regulator (PSR) to ensure that the UK remains open to new ideas, technology and collaboration, by promoting competition and innovation in payments.

The payments landscape is changing at an unprecedented rate – technological innovation, the emergence of fintech and new players, and the rapid adoption of e-commerce and new, next generation retail experiences are all contributing to this rapid change. Covid-19 has accelerated and shifted behavioural trends across the payments sector. For example, in Europe, 15 countries had a 40% or higher increase in e-commerce transactions in December 2020 (vs December 2019)<sup>1</sup>. However, consumers' expectations and priorities remained the same – **trust, security and reliability**. We understand that it is consumers who will ultimately drive the economic recovery in the UK, and we are committed to helping enable them.

The payments industry has come a long way, and we are proud of the many benefits that digital payments can offer. There is also further scope for ongoing change and innovation, and we welcome the PSR's focus on how to facilitate a modern interbank infrastructure that promotes competition and innovation.

Today **interbank payments constitute the large majority of the total transaction value<sup>2</sup> in the UK**. In particular, BACS and Faster payments are contributing to about 80% of all payments' value. As set out by the PSR, it is crucial that this large share of the UK payments market **works well for customers**. We agree that one of the key responsibilities of the PSR is to ensure the delivery of a well-functioning New Payments Architecture (NPA), by developing a clear governance and regulation framework, promoting innovation and competition and ensuring a competitive **level playing field** that allows market participants to compete in a way that delivers outcomes that customers want.

This is more important than ever as the UK recovers from the pandemic and forges a fresh direction outside of the European Union: transparent and appropriately-measured regulatory approaches that promote innovation and good customer outcomes can underpin the success of "UK Plc", especially in areas which are critical to economic growth.

Many players, including Visa, are ready to support the development of the NPA with their experience and innovative service solutions that can add value to all stakeholders, for example by helping customers manage and pay their bills or by helping participants manage fraud risks.

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<sup>1</sup> Source: Internal Visa data

<sup>2</sup> Source: UK Finance, UK Payment markets 2020



## Our call for action for the PSR

We welcome the opportunity to respond to the PSR's consultation. In addition to responding to the specific questions on the procurement process and approach, we have identified some key actions which we believe are important to ensure a successful outcome for customers. Many of these are aligned with points that the PSR has already identified in its consultation. However, we have built on these to ensure that the objectives that we share with the PSR can be realised to the benefit of customers.

- 1. Ensure a level playing field.** The current framework allows a single provider to deliver interbank services with very limited opportunity for effective competition.

Whilst there has been significant focus on a number of areas within payments, for example in the cards market in terms of compliance with the business rules of the IFR, there has been considerably less focus on issues relating to interbank payments today and the business and commercial structures that sit around these payments.

Given the overall delays that have been experienced to date, and the time that will be inevitably required to refresh the process to set up the NPA, it would be appropriate for the PSR to consider the measures for interbank needed in the interim to promote a level playing field both *within* interbank and *between* interbank and other payments systems. This should include ensuring that there is no cross subsidisation between the interbank system and other payment systems which could distort competition more broadly,

There is also an opportunity to improve existing governance processes to increase transparency, broaden stakeholder engagement at all stages and drive clarity on existing controls.

- 2. Proceed with a competitive procurement under scope option 2 and be prepared to 'fail fast'** in the event that there are insufficient credible bidders to promote effective competition.

A narrower scope that focuses on the provision of basic interbank clearing and settlement services for Faster Payments, combined with clear guidance on the technical specifications, can help accelerate the procurement process and may drive further interest from a broader set of players; therefore, we understand that the PSR may want Pay.UK to test the market further.

However, it is by no means certain that, even with a narrower and more defined scope, effective competition can emerge within a reasonable timescale.

Therefore, it is crucial that a 'fail fast' approach is adopted in order to quickly (i.e. within six months) recognise when no credible competition is emerging. To deliver this, Pay.UK should develop a clear and transparent programme of work, with well-defined milestones, requirements and criteria (for example in relation to commercial viability, credentials, etc.) that can quickly ascertain whether the emergence of any credible competition is likely. We recommend that this programme of work is developed and progressed (for instance in relation to defining the scope and, if necessary, testing the market) in parallel to the PSR's consultation process, as this would improve efficiency in delivery. As outlined in the



consultation document, the organisational aspects of the NPA programme will be equally important, including **ensuring that the NPA programme is appropriately resourced.**

It is important to highlight that any procurement process for the NPA should not preclude the delivery of alternative solutions for Faster Payments by the market.

- 3. Clearly define a regulatory and governance framework that is fit for purpose and addresses the competition concerns** that the PSR has clearly outlined. In particular, it will need to ensure that there are business rules and regulatory oversight that facilitate a level playing field, which allows players to compete for the delivery of value-added services and does not unfairly advantage the CIS provider.

Regardless of whether any competition for the market may emerge, the PSR should set out strong governance arrangements and market rules that aim to protect against the potential risks to competition that the PSR has already identified. In addition, the PSR should introduce a clear framework that provides the appropriate incentives and change management controls for the selected CIS provider. Experience from other markets shows that if these are not in place, this can impact the level playing field and may consolidate incumbency positions.

As part of this thinking, the PSR should also consider the appropriate duration for the CIS contract. In addition, Pay.UK should set clear and transparent targets, including for operational resilience and uptime. These factors are fundamental to any payments infrastructure, as they ensure clear expectations in the ecosystem.

We welcome the ongoing engagement from the PSR on this and look forward to continuing the dialogue on this issue.

In the remainder of this response, we provide our views on procurement and our answers to the specific procurement questions posed by the PSR in its consultation. We will provide more detailed thoughts around regulation, governance and the pricing regime in our separate response to the PSR's questions on competition and innovation, due on 5th May 2021.



## Visa Europe's response to the PSR's questions related to the risks to the NPA delivery and procurement

### Visa response to the PSR's question related to the risks to NPA delivery (Q1)

Covid-19 has accelerated and shifted behavioural trends across the payments sector, but consumers' expectations and priorities remain the same – trust, security and reliability, which are at the core of Visa's payments network. We recognise the importance of building a secure and resilient central interbank infrastructure for the NPA and agree that the renewal of the UK's retail interbank infrastructure presents an important opportunity to meet the growing demand for digital payments.

Many players, including Visa, are ready to support the development of the NPA with experience and innovative service solutions that can add value to all stakeholders, for example by helping customers manage and pay their bills or by helping participants manage fraud risks.

**The risks to competition and innovation in continuing with the status quo in the context of the NPA are significant.** Therefore, **we welcome the PSR's review of the programme**, and its intent to assess the risks and delays that the current scope of the NPA procurement may bring to the market. We think this offers a key opportunity to clarify and simplify the scope of the procurement process, while removing unnecessary frictions and complexities. This in turn will allow the industry to more easily develop innovative value-added services onto the NPA, ultimately benefitting customers and the future development of interbank payments.

We recognise the current uncertainty about the future roadmap of the procurement process and would encourage **the PSR to clearly articulate how a phased approach will be implemented**. As discussed in the front end of this response, we think a narrower scope that focuses on the provision of basic interbank clearing and settlement services for Faster Payments, combined with a clear guidance on the technical specifications, can help accelerate the procurement process. Indeed, a very clear specification could enable not just competition for the market, but also competition in the market, potentially removing the need for a procurement process (which could for example be replaced by an accreditation process). In any case, the procurement process for the NPA should not preclude the delivery of alternative faster payments solutions in the market.

In addition, we also note that, if suitable competition does not emerge in the time available, the PSR should prepare to adopt a rigorous 'fail fast' approach to quickly implement an alternative approach.

Regardless of the level of competitiveness achieved in the procurement exercise, however, we encourage the PSR to clearly define a regulatory and governance framework that is fit for purpose and addresses any competition concerns. The **regulatory and governance framework must also be agreed before procurement** and should prioritise **supporting effective innovation and competition** in interbank payments. To that end, the PSR should ensure that there is a credible implementation plan. This needs to be transparent, agile and take into consideration the views and needs of a wide range of stakeholders.



## Visa Response to the PSR's questions regarding the procurement scope (Q 2, 3 and 4)

The **overall design of a 'thin' central infrastructure service (CIS)**, providing basic interbank clearing and settlement services and allowing the provision of value-added services by different parties is an important principle of the overall design of the NPA. As originally intended, the **PSR should continue to ensure that this principle is adhered to throughout the procurement process** and is maintained as an ongoing design principle as the CIS platform is developed over time.

We also note the rationale behind the PSR recommendation of option 2, which has a narrower scope, focused on the provision of basic interbank clearing and settlement services for Faster Payments, and prioritises the first stage of the migration. We agree that this could remove significant complexity driven by the inherent differences between the BACS model (which is a three-day, direct access, pull payments service) and the envisaged NPA model (real-time, interbank push payment service).

However, we think it is important to recognise a number of additional considerations.

First, we recognise that BACS transactions currently constitute the majority of all interbank payment volumes. However, while we understand that some of these transactions could be redirected relatively easily to the 'thin' CIS infrastructure, we agree that a narrower scope should exclude, at least initially, a proportion of the market from the initial scope (in particular Direct Debit). Yet, as already mentioned, we do not think option 2 is sufficient on its own to eliminate the risks of harm to competition and innovation. Therefore, we think the PSR's considerations on an **appropriate regulatory and governance framework are applicable to both the NPA and the legacy BACS infrastructure**.

Second, as already outlined, the technical specification of the **CIS provider needs to be as robust and clear as possible**, and the procurement design options should also be based on a strong technical specification including fully defined APIs and message sets. This will ensure greater interoperability with the ecosystem and allow the supplier of the operation system to be replaced more easily over time. In addition, the CIS provider requires to be run on commonly understood industry standards (ISO 20022), with appropriate support and transition for providers and services currently using legacy standards. This may remove many of the complexities encountered in the procurement process to date, help attract some competitive interest, and prevent the deployment of specific solutions that could favour the incumbent provider or, in the future, the incumbent CIS contractor. Instead, by focusing on industry standards in this first phase of the CIS procurement, there will be greater incentives for players in the market to develop services that can be added onto the CIS. This will be crucial for the competitive provision of a wider set of value-added services. In addition, the NPA should set quantifiable non-functional requirements such as throughput (tps), availability (% uptime) and



resilience (for example degree of redundancy and time to failover in contingency). As outlined earlier, these factors are fundamental to any payments infrastructure.

Third, **common services that are ancillary or additional to the provision of Faster Payment clearing and settlement should not be included in the scope of the CIS procurement** due to the risks associated with a single provider delivering interbank services, unless there is a clear and transparent case that these cannot be provided by the market.

Examples of services that could be provided by the market (rather than being included as “common services”) are already commercially available and developing at a fast pace. At the most basic level, these include value-added services used for pay-in services and, more widely, for security and fraud management purposes. Another typical example are business directory services managing data, such as legal entities identifiers (LEI), and verifiable identity services that would make it easier for third parties and the ecosystem to connect to the central infrastructure and use these services to build and enable the provision of innovative digital payments.

Fourth, as mentioned in our previous response, **innovative solutions**, including in relation to data, **should be open to the participants of the NPA**. A ‘thin’ infrastructure, combined with a strong policy framework and standards, should allow innovative value-added services to be provided more easily and competitively (e.g. tokenization). This will enable Pay.UK to encourage new players into the market and reduce the cost to serve participants. Extension of the governance framework to ensure participants have access to data, with appropriate relevant controls, will also permit these solutions to amplify the power of innovation and competition.

Finally, and more broadly, the procurement scope should also ensure transparent conditions to the development of technical design choices and specifications are in place, **subject to the challenge and approval by a governance group at Pay.UK and a wide range of key interested stakeholders**. The procurement scope should also give weight to internationally accepted standard approaches where they exist. Indeed, this is in line with the approach used and adopted by other regulators in the UK and internationally, including the European Central Bank and the Bank of England.

### **Visa Response to the PSR Questions regarding the procurement approach (5,6)**

As discussed in the front end of this response, we believe that **the PSR needs to clearly define a regulatory and governance framework that is fit for purpose and addresses the competition concerns identified**. A well-articulated regulatory framework would set expectations for any prospective CIS provider, delivering a level playing field and greater clarity on the contracts and regulatory measures for the NPA.

We do not believe that the PSR can solely rely on the market to ensure the level of competition and innovation that it is seeking for the NPA is achieved. As the PSR has already hypothesised in the previous consultation, the likelihood that risks of harm could manifest is significant, should a single CIS operator become the sole provider of these services. Therefore, we do not think it is appropriate to provide detailed comments on the procurement approach until the current scope,



planned governance and regulatory arrangements for the delivery of the NPA are better defined. However, we have set out high-level commentary of the CIS contract and its ongoing governance below.

We believe that the PSR should have a rigorous 'fail fast' strategy in place

As discussed, a narrower scope, together with a competitive approach to procurement will help improve transparency with the requirements of the services that are procured. However, Pay.UK should be prepared to 'fail fast' in the event that there are insufficient credible bidders to promote effective competition, as another extended period of impasse would be detrimental to customers and the industry. As outlined in the front end of this response, it is by no means certain that, even with a narrower and more defined scope, effective competition can emerge within a reasonable timescale. Therefore, we believe Pay.UK should outline a clear programme of work, with well-defined milestones and criteria, to determine quickly (i.e. within six months) whether any credible competition is likely to emerge.

A procurement process that ends when the CIS goes live without an appropriate level of ongoing governance and oversight would pose unacceptable risks to competition and innovation


To that end, we recommend the PSR considers the longer-term incentives on the CIS provider once the contract is awarded. For example, there are potential risks of harm to competition, well established in the experience of other regulated sectors, e.g. an indication of the **contract length may exacerbate further the limited competition for the market** and generate cost overruns in the procurement process, regardless of the number of bidders that compete.

Therefore, the procurement approach should consider strong **incentives** and **change management processes** to ensure a successful delivery is achieved and rival firms are enabled to provide the CIS infrastructure in the future. These include:

- **Time** based, e.g. rewards/penalties based on timely completion
- **Cost** based, e.g. clawbacks, cost overrun/cost saving sharing factors
- **Quality** based; e.g. rewards/penalties based on timely completion and asset performance/availability incentives

Such incentives will be particularly relevant to the NPA, which is expected to be highly innovative and dynamic. Additionally, many of these mechanisms can be seen in existing regulatory frameworks and may be appropriate for the NPA's ongoing governance. Therefore, we would encourage the PSR to consider examples and lessons learned from other industries, such as rail, where there are time-bound concessions, in which these types of mechanisms are introduced to help minimise distortions to competition in the market.





## Visa Europe's response to the Payment System Regulator's Consultation Paper on "Delivery and Regulation of the New Payments Architecture" (Submission 2)

The UK is home to one of the most advanced payments ecosystems in the world, and we welcome the efforts and focus of the Payments System Regulator (PSR) to ensure that the UK remains open to new ideas, technology and collaboration, by promoting competition and innovation in payments.

The pandemic has accelerated the speed of digitisation and the payments landscape is changing at an unprecedented rate – technological innovation, the emergence of fintech and new players, and the rapid adoption of e-commerce and new, next generation retail experiences are all contributing to this rapid change. Covid-19 has accelerated and shifted behavioural trends across the payments sector. For example, in Europe, 15 countries had a 40% or higher increase in e-commerce transactions in December 2020 (vs December 2019)<sup>1</sup>. However, consumers' expectations and priorities remained the same – **trust, security and reliability**.

Visa has supported customers, merchants and governments throughout the period – building on decades of reliability and innovation – to ensure the payments system has stood up in this time of need. Moving forward, we will continue to support the high street recovery, as well as the broader economic recovery in the UK, by focusing on the outcomes that matter to consumers and merchants.

As an ecosystem, our ability to keep delivering outcomes is determined by a policy and regulatory landscape that has reached a tipping point. We must decide if we want a UK interbank framework that delivers a fast-paced, competitive and innovative dynamic, or one that is overly-prescriptive and limited by a lack of market participation – to the ultimate detriment of consumers.

Over the past ten years, the UK has cemented itself as a world-leading market for payments innovation. Decisions made now, including on the New Payments Architecture (NPA), will set the course for the potential of payments for the next decade – we can't allow for further delays on these critical decisions.

Whilst working to recover from the pandemic, the UK is also forging a fresh direction outside of the European Union. This creates a unique opportunity for the PSR to foster a competitive and innovative payments ecosystem that will underpin the success of 'UK Plc.'

Today, **interbank payments constitute the large majority of the total transaction value<sup>2</sup> in the UK**. In particular, BACS and Faster Payments are contributing to about 80% of all payments value. It is crucial that this large share of the UK payments market **works well for customers, both now and in the future**.

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<sup>1</sup> Source: Internal Visa data

<sup>2</sup> Source: UK Finance, UK Payments Market 2020



For this reason, the PSR needs to consider the current interbank system, as well as the future NPA (many aspects of which are unclear, and especially so given the current uncertainty on the scope of procurement).

**Regarding the current interbank system**, many of the competition issues that the PSR has rightfully identified in the context of the NPA may be applicable now. This includes potential issues that could arise in the current monopoly interbank infrastructure. Given the overall delays that have been experienced to date, and the time that will be inevitably required to refresh the process to set up the NPA, it may be **appropriate for the PSR to consider the measures for interbank needed in the interim to promote a level playing field both within interbank and between interbank and other payments systems**. Achieving a level playing field is key to delivering the outcomes that customers want. This would be a proportionate approach given that, as highlighted above, the vast majority of UK payments value flows through this system.

Specifically, to ensure a successful outcome for customers, we believe it is important for the PSR to consider now how to:

- **Ensure a level playing field**. In particular, this means ensuring that there is no cross subsidisation between the interbank system and other payment systems which could distort competition more broadly.
- **Accelerate transparency** in the governance of the interbank system. The PSR sets a clear expectation that there should be transparency in how the NPA is governed, and in particular how Pay.UK oversees the monopoly infrastructure provision. The PSR should encourage similar levels of transparency in the governance of the interbank system now, given the similarly monopolistic provision of infrastructure that currently exists.

**Regarding the future NPA**, Visa welcomes the PSR's vision of the interbank network under the NPA and its desire to develop a modern interbank infrastructure that promotes innovation and competition. We agree with the PSR that it is **critical that the NPA is delivered and works well for consumers** - this is a crucial opportunity to ensure that the interbank payments sector is fit-for-purpose going forward, especially as it has the potential to become even larger, and support a growing range of payment types. Failure to achieve innovation and competition in interbank payments will be a missed opportunity for consumers.

We are pleased to see that the PSR has considered the risks that may arise in the NPA model and has identified the potential adverse impacts on a level playing field for competition both within the NPA and between the NPA and other payment systems.

In our procurement response, we called for the PSR to **clearly define a regulatory and governance framework that is fit for purpose**, since, regardless of the way that central infrastructure services (CIS) procurement proceeds, the interbank ecosystem is likely to require strong interventions to promote competition and innovation in order to ensure the NPA ecosystem delivers for end users.

The detailed regulatory and governance measures appropriate for the NPA will depend directly on the extent to which the centrally procured CIS operator has an interest in providing value-added services or in other payments systems. There is inherent uncertainty on this at the moment. In our view, the PSR needs to continue developing its thinking on the specific measures that would address



the vertical and horizontal competition risks that would apply and, in turn, what regulatory and governance measures would be appropriate to address the heightened risk to competition. This is critical to unleashing the competitive future that is possible for the UK payments sector.

We set out in this response our detailed views on the regulatory and governance framework of the NPA. We think there are two key elements where the PSR may consider additional measures:

- The appropriate level of **separation** is strongly linked to the vertical and horizontal competition risks that would apply in the event that the CIS operator has an interest in providing value-added services or in other payments systems. In particular, this could include requirements for the CIS operator to demonstrate that there is no cross-subsidisation between CIS service provision and any other payments activities and promote a level playing field for competition within the NPA and across payment systems.
- There should be a strong **governance** model in place to ensure that the fundamental design premise of a market-led approach to value-added services is maintained, with **no scope for Pay.UK to specify or tender for value-added services and solutions that are available from the market.**

There should be a process for **price setting** and review that is transparent and clearly defines the involvement of providers of value-added services, who will depend on access to the CIS. It is important for the PSR to define a clear and transparent programme of work (with well-defined milestones) for developing and implementing the full package of regulatory and governance measures.

As touched upon in our procurement response, the NPA should also be aligned with the regulatory agenda around **operational resilience**. In particular, Pay.UK should set clear and transparent targets, including for operational resilience and uptime. These factors are fundamental to any payments infrastructure, as they provide all stakeholders with clear expectations in the ecosystem.

In the remainder of this response, we provide our answers to the specific questions posed by the PSR in its consultation. This document complements our earlier submission to the PSR on the procurement process and approach to the NPA.

We stand ready to support the development of the NPA, using our experience and innovative service solutions that have already proven to deliver real value to UK consumers and merchants. There are many players, like Visa, who are ready to compete in this market. It is therefore of paramount importance that the governance and **regulatory regime is fit for purpose and allows for all players to compete on a level playing field within the UK payments space.**

We remain very committed to being engaged in the process and we look forward to continuing the dialogue and supporting the PSR on this issue as it continues to develop its thinking on the NPA.



## Visa Europe's response to the PSR's questions related to competition and pricing

### Visa response to the PSR's questions related to competition risks (Q7-10)

As we have set out in the introduction to our response above, it is important for the PSR to **examine potential risks in the current configuration of the interbank payment systems**. There is potential for horizontal competition risks that the PSR has identified for the NPA to arise in the current interbank systems, but without the mitigation of the regulatory and governance measures that the PSR considers necessary for addressing such risks in the NPA. In this part of our response, we address the proposals that the PSR has made specifically for the NPA. However, as noted above, the PSR should consider broadening the scope of its consideration to include the current interbank systems as well.

Visa broadly agrees with the high-level principles that the PSR outlined in their consultation that work to promote effective competition within the NPA ecosystem. In general, the PSR's proposed principles of lowering barriers to entry, preventing anti-competitive exercising of market power and facilitating switching are in line with our call for action to **ensure a level playing field across payments**.

In addition, Visa broadly agrees with the PSR's technical design principles for the NPA. In particular, Visa believes it is crucial for the PSR to ensure that the principle of a 'thin' CIS platform that *"minimises the scope of services provided centrally by a single supplier"*<sup>3</sup> is adhered to in the procurement process and that Pay.UK is held to account on this as it procures the CIS platform. The PSR must ensure that the NPA operates, in practice, according to these design principles and that future development of and innovation in the services provided by the NPA is truly driven by the market. This includes, for example, ensuring there is with no scope for Pay.UK to specify or tender for value-added services and solutions that are available from the market.

Furthermore, the PSR should also consider the implications of **hold-out risks** for the ongoing governance framework for the NPA. Hold-out risk refers to the risk of the appointed CIS provider **exploiting their bargaining position after the procurement process**, as there would be barriers or costs associated with switching to another supplier once the provider was awarded the CIS contract. This could result in a provider attempting to achieve better outcomes for itself, but which may ultimately lead to adverse outcomes for the wider NPA ecosystem.

Hold-out risks may apply after the award of the CIS contract and could result in unfavourable outcomes, such as:

- **Delays to delivery of CIS platform or inflated costs of delivery** if the provider does not deliver as efficiently or tries to re-open negotiations on the terms of the contract.
- **Reduction in the quality, functionality or scope** of the CIS platform compared to what was promised during procurement if the provider wants to cut costs.

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<sup>3</sup> PSR Consultation, paragraph 5.8.



- **Inefficient change management**, which could inhibit future innovation and development of the NPA and its value-added services.

In addition to the risks that the PSR has already identified, the potential for hold-out risks further reinforces the need for ongoing measures to oversee CIS provision and the NPA after the procurement process. We would encourage the PSR to be mindful of cases where adverse outcomes can occur even after competitive procurement processes. For instance, in the rail sector, there have been concerns around the quality of service provision after some rail franchises were awarded to operators. Another example may be the “smart metering” rollout in the UK. This encountered issues with cost overruns and delays, in part driven by changes in technical specifications and rollout strategy over time.

Finally, Visa has not identified any common services that need to be provided on a centrally procured basis other than access to the core CIS infrastructure. In general, Visa believes that common services only need to be provided on such a basis if it can be demonstrated that a service would not be provided in a competitive market or that some other market failure would arise. The scope of common services that are centrally procured should be kept as narrowly defined as possible to align with the vision of the NPA as a competitive services ecosystem and realise the benefits of service innovation in a competitive market environment.

#### Visa response to the PSR’s questions related to operational separation (Q11)

Visa agrees with the PSR’s proposed principle for operational separation of the CIS provider since it will be a sole provider of interbank infrastructure by design. However, Visa believes further detail is required to define how these principles would be applied in practice.

In particular, we suggest a number of additional measures building on the PSR’s thinking outlined in its consultation. These are based on industry precedents and may be required to address the specific competition risks resulting from the monopoly provision of the CIS in the context of the NPA.

This should include robust requirements on the sole CIS provider, in the event it has an interest in providing value-added services or in other payments systems, to **demonstrate that cross-subsidisation is not taking place** across both vertical and horizontal dimensions. This could be achieved through accounting and reporting requirements or further financial separation rules, such as limiting the capital movements in and out of the CIS operator. This aligns with the PSR’s principle of accounting and business separation and clarifies how to operationalise this principle. Visa agrees with the PSR’s proposals for information firewalls to restrict the flow of information and prevent behaviour that could enable an unfair advantage to either downstream services or other payment system provision. Specific measures that could work together to achieve this include:

- **Separation of personnel**, including having dedicated staff for the CIS who operate independently, with further consideration given to restrictions around the staff movements which may facilitate information transfer that distorts competition in favour of the CIS operators group activities. This would be reflective of separation rules in other regulated entities, such as National Grid in energy and Openreach in telecommunications.



- **Separation of systems**, in the form of a dedicated technology platform with access restricted to CIS personnel. This will help prevent the unfair use of information from the CIS platform.
- Enforcement using a **Code of Conduct**, that formalises the expected behaviours of the CIS leadership and staff.

Finally, separation should facilitate **open and non-discriminatory access to data** to the CIS platform, to foster a level playing field across access-seekers. Such data may be a key input to developing value-added services for the NPA or services for other payment systems.

The benefits of open and non-discriminatory access to data goes beyond just competition. Visa believe that enabling open access to data can help **foster greater innovation**, especially with regards to the market for value-added services. As outlined above, such data could be integral to the development of a range of value-added services, providing a greater diversity of service offerings for consumers.

### Visa response to the PSR's questions related to governance principles (Q12)

As mentioned above, Visa believes that a comprehensive set of regulatory and governance measures are required to mitigate the risks to competition identified by the PSR. We are encouraged by the PSR's focus and agree with the proposal to put governance measures in place.

With that in mind, Visa acknowledges the PSR's proposals for Pay.UK as the 'primary interface' for all participants in the NPA but believes that the governance model needs to be developed in significantly more detail to ensure that there is sufficiently robust oversight of the CIS provider.

This should set out the roles and responsibilities of all stakeholders in the governance model, including all relevant regulatory authorities and downstream service providers, as well as the roles, responsibilities, and processes for making decisions that affect the NPA eco-system.

With this in mind, we suggest the PSR considers a number of additional key features for the governance model:

- **Involvement of a range of relevant authorities**, such as the PSR and Bank of England, which have an interest into the development of the NPA, run by a non-for-profit body. These authorities could support the further development of the NPA by reviewing any decisions being made, provide strategic steer on the development of the NPA and hold Pay.UK to account over how the NPA delivers against its objectives.
- Involvement of **stakeholders (including end-users)** to ensure that the interests of stakeholders that make up the competitively provided services eco-system are appropriately represented and that industry expertise on a fast-moving payments sector is utilised in the strategic direction of the NPA. Such involvement could be facilitated through structures such as stakeholder advisory committees that can inform on operational and strategic governance matters.
- **Transparency** over governance processes and decision-making to give stakeholders confidence that the decisions carried out are in line with NPA's stated objectives and principles.



- Measures that complement the operational separation of the CIS provider, such as the **Code of Conduct**, as outlined above.

Finally, there is a further governance question relating to the boundary of what the PSR should define as a 'centrally procured' service compared to a market-led innovation. This goes to the heart of the operation of the NPA and so we believe that this should not be restricted to a question on procurement, which is why we raise this in this response.

The PSR has rightly recognised that one of the fundamental design premises of the NPA is to have a **market-led approach** to value-added services, leading to greater innovation to the benefit of consumers. It is critical that the PSR ensures this design premise is applied in practice so that the market is allowed to deliver innovations that ultimately benefit end users. As we have mentioned above, this includes ensuring there is no scope for Pay.UK to specify or tender for value-added services and solutions that are available from the market.

Taking these all into consideration, the PSR should ensure that there is a credible implementation plan for these interventions. This needs to be transparent, agile and take into consideration the views and needs of a wide range of stakeholders.

#### Visa response to the PSR's questions related to pricing principles (Q13,14)

The pricing of access to the CIS is a key area of the PSR's proposed interventions since CIS access pricing will be a key input for providers of value-added services. As such, the success of the CIS pricing framework is likely to be an important determinant of outcomes for the NPA more widely.

The PSR's Proportionate, Objective and Non-discriminatory (POND) pricing principles cover a range of relevant concerns for CIS pricing, reflecting the importance and broad range of impacts that CIS pricing could have on outcomes in the NPA.

The PSR's POND pricing principles are broadly appropriate for pricing access to the monopoly CIS infrastructure of the NPA. However, we recommend some modifications or additions to give a greater focus on end-users. Specifically:

- that the principle "foster competition in services to end users" is changed to **"foster sustainable and effective competition in services to end users"**. Such a change would place the emphasis on promoting competition where it has a benefit for end users, as opposed to competition for its own sake, in line with in the PSR's own duties<sup>4</sup>. It is also a common distinction made by regulatory and competition authorities, including the FCA<sup>5</sup>.
- that the PSR sets an additional objective that CIS pricing should **"confer the greatest possible benefits for end-users"**. Whilst the current set of principles focus on the direct impact of CIS pricing on businesses, Visa believes that that end users should be the ultimate concern of the

<sup>4</sup> See *Financial Services (Banking Reform) Act 2013, Section 50*, which makes reference to a duty to promoting "effective competition...in the interests of those who use, or are likely to use, services provided by payment systems."

<sup>5</sup> FCA Mission: Approach to Competition, October 2018, where it is explicitly stated that "Our objective is to promote competition in the interests of consumers, not for its own sake".



PSR and that this should be reflected in the pricing principles. This is in line with the PSR's own "service-user objective"<sup>6</sup> and the regulatory framework in other sectors<sup>7</sup>.

Furthermore, the PSR should be alive to the potential of the principle to "incentivise utilisation of the NPA" to lead to pricing decisions that **distort the level playing field** between interbank and other payment systems in the UK payment space.

Whilst the principles are broadly appropriate by themselves, they do not give sufficient assurance that pricing will support good outcomes in the NPA. This is because there is inherent scope for different interpretations, and several principles could push pricing in different directions under different circumstances, requiring balances and trade-offs to be struck between principles in setting prices. As one example, CIS pricing may need to evolve quickly in order to **adapt to changing competition conditions**, whilst it could be argued that pricing that is **transparent and predictable** may need to evolve more gradually. The setting of CIS prices is likely to require careful exercising of regulatory judgement to achieve appropriate balances between the pricing principles. This balance may also need to evolve through the course of the NPA's development.

Visa notes that the PSR is proposing that Pay.UK is responsible for setting CIS pricing and that such prices should not be pre-determined by the CIS contract. Whilst Visa agrees that CIS pricing **should not be restricted by either the CIS contract or set at the discretion of the CIS operator**, given the complexity of achieving and balancing between multiple pricing principles, Visa believes these should be a clear and structured **process** for setting CIS prices that includes the following features:

- **Transparency** to give stakeholders comfort that CIS pricing is being set in line with the POND pricing principles and in the interests of the NPA eco-system.
- Allows **input from all of the NPA's stakeholders**, particularly the providers of downstream value-added services, for which the price of CIS access will have significant commercial implications. This input should also inform judgements on the appropriate trade-offs to be made between different pricing principles that reflect the particular needs of the NPA and end users at a particular point in time.

The PSR has an important role as the sector regulator to ensure these principles are applied effectively. As stated above, Visa believes that CIS pricing will be an important determinant of outcomes for the NPA and would welcome further engagement with the PSR on the development of the price setting process.

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<sup>6</sup> See Financial Services (Banking Reform) Act 2013, Section 52.

<sup>7</sup> See, for example, *Communications Act, Section 88*, applicable to Ofcom's regulation of the communications sector.



## Visa Europe's comments regarding Pay.UK's response to the PSR's consultation on delivery and regulation of the NPA

Thank you for publishing Pay.UK's responses to the PSR's consultation on the delivery and regulation of the New Payments Architecture (NPA). Given the limited timeline, we are providing some high-level comments in relation to key aspects of the response. These comments complement our initial response to the PSR consultation on NPA procurement, which we have attached for your reference.

As a reminder, our initial response set out the following "call to action":

1. the PSR should ensure a level playing field and accelerate transparency in the governance of the interbank system (including in relation to the status quo arrangements);
2. The PSR should proceed with a competitive procurement under scope option 2 (a narrower scope that focuses on the provision of basic interbank services for Faster Payments) and be prepared to 'fail fast'; and
3. the PSR should clearly define a regulatory and governance framework that is fit for purpose and addresses the competition concerns.

We welcome Pay.UK's response and, in particular, its support for a competitive procurement process. However, in our view there are two key areas where Pay.UK's proposed approach is not fully aligned with the principles set out in the PSR's consultation document and may lead to sub-optimal outcomes for customers:

### **1. Pay.UK should test market interest**

In its May response, Pay.UK advocates for returning to the existing competitive procurement process. We agree that a competitive procurement process can deliver important benefits, and we agree that there are benefits from leveraging some of the work undertaken to date. However, the narrower scope, combined with clear guidance on the technical specifications, may drive further interest from a broader set of players. Therefore, Pay.UK should test whether market interest has changed from the initial Rfl phase.

As explained in our consultation response, we recognise the importance of avoiding further delays to the delivery of the NPA. Hence, we maintain our position that the PSR should have a rigorous 'fail fast' strategy in place in the case that there are insufficient credible bidders to promote effective competition.

### **2. The proposed scope should not include BACS capabilities**

As previously highlighted, Visa broadly agrees with the PSR's technical design principles for the NPA. In particular, Visa believes that common services only need to be provided through the core infrastructure if it can be demonstrated that a service would not be provided in a competitive market or that some other market failure would arise. It is crucial for the PSR to



ensure that the principle of a 'thin' CIS platform that "minimises the scope of services provided centrally by a single supplier"<sup>1</sup> is adhered to in the procurement process and that Pay.UK is held to account on this as it procures the CIS platform.

Pay.UK's proposal recommends introducing bulk and multi-day payments capabilities within the scope of the provision of Core Infrastructure Services, to provide flexibility in functionality and facilitate future BACS migration. This approach is not consistent with the principle of "thin" infrastructure provision and adds unnecessary complexity by implicitly assuming that the BACS services will be migrated at a future date in their current form.

As the PSR outlines in its consultation document, services to support the migration of BACS transactions could be provided by the market through value-added services or overlays instead, aligning with the vision of the NPA as a competitive services ecosystem. Such an alternative model for managing bulk payments would retain the principle of a "thin" CIS, reduce the loading on critical parts of the CIS and enable equivalent functionality to the current BACS service to be provided by participant banks and/or third party providers through a competitive ecosystem. These capabilities are readily available in the market from existing providers. We would be happy to discuss such arrangements with you if helpful.

We welcome the opportunity to respond to Pay.UK's publication and look forward to continuing our engagement with the PSR on this issue.

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<sup>1</sup> PSR Consultation, paragraph 5.8.



# Smaller PSPs



Credec





# CreDec Response

To the Payment Systems Regulator

## **CP21/2 - Consultation on delivery and regulation of the New Payments Architecture**

**March 2021**

*This CreDec Response to the Payment Systems Regulator (PSR) and the information it contains is submitted in accordance with the PSR's publication policy on comments and submissions as referenced, except where CreDec has expressly designated information as commercially confidential.*

*Please contact CreDec as necessary for any additional clarification or guidance at*

**[REDACTED]**



## Introduction

CreDec welcomes the opportunity to respond to the PSR's CP21/2 - Consultation on delivery and regulation of the New Payments Architecture. The PSR's recognition and oversight of such a critical element of the UK's core financial market infrastructure is a positive development and gives confidence to all stakeholders.

## CreDec

This information is submitted by CreDec Limited on behalf of CreDec.

## Competition & Pricing – Questions

CreDec anticipates making a further response to Questions 7 – 14 for the PSR's later deadline of 5 May 2021.

## Additional Information

For further clarification or comment, please contact CreDec via

[REDACTED]



## Questions 1 – 6

### Procurement

#### **1. Do you agree with our view of the risks to the successful delivery of the NPA?**

Yes.

CreDec agrees and wholly endorses the PSR's view of the importance of the NPA as a core enabling payments infrastructure for the UK, and its view of the risks arising from its delivery.

We recognise successful deployment of the NPA is central to the PSR's mandate of increasing innovation, competition, and resilience in UK payments in the interests of all payment service users. It is the appropriate authority to have ultimate oversight of the NPA's delivery. Its own terms of reference and the promise of what the NPA can deliver are well aligned.

Simply stated, the procurement of what will be the UK's core payments infrastructure is too important to get wrong and should be subject to the rigour and safeguards of a competitive tender, with the appropriate governance and controls to ensure it serves the interest of all stakeholders. The required controls and procurement safeguards should be explicitly provided for in the tender process and the agreements that give effect to it.

Regardless of whether or not a competitive tender process results in the appointment of the incumbent, there is no discernible logic not to use a competitive procurement process to reset the existing relationship with the incumbent provider.

#### **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?**

Yes.

We consider the PSR has framed the approach correctly and that a focus on core CIS services to support real time payments messaging and settlement is right.



Also, the requirement to incur the additional cost of replicating even current 'common services' i.e., FPS FIM/DCA services, is not obvious because these could - and likely should - be market competitive capabilities provided by members or overlay service providers in the NPA, and not as an ancillary part of the NPA's own common central infrastructure.

It is important to bear in mind that the migration cost and risk for members collectively will increase materially if they are required to migrate to an NPA which provides for such additional generic, but non-core 'common services' capabilities, which are not used by all member firms.

Our view is that the delivery of a core, streamlined platform focused on CIS represents the best way to de-risk delivery for all stakeholders. Given the cost and risk attendant on any delays in the NPA migration plans of members, any slippage arising from entirely avoidable delays implementing these discretionary ancillary capabilities cannot be justified.

### **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?**

CreDec's preference is for Scope Option 2, "to procure using a narrower set of requirements, focusing on just the CSS plus limited additional common services that are needed to support the Faster Payments migration".

We consider it is a reasonable working assumption that the simpler the CIS / CSS infrastructure of NPA the lower the cost and risk will be. Therefore, any additional common services included in Scope Option 2 should be strictly limited to support actual migration, not replicate old scheme common service functionality thereafter in NPA unless there is a majority consensus among members for any such common service.

In general, however, if the intent is only to replicate BACS and FPS more or less 'as is' in the NPA, it begs the question 'why bother?' as such an outcome could very likely be more efficiently achieved through incremental improvement of the legacy FPS and BACS schemes.

The common sense answer must be that the NPA's potential to unlock greater competition, and innovation to serve the interests of UK payment service users and the wider economy, depends on it providing just such an enabling CIS infrastructure. One that enables capability and innovation rather than prescribes functionality and how it must be consumed by members: an 'enabling' infrastructure.

Even allowing for the imperative of security and resilience of the UK's FMI and its critical retail payment schemes in the transition, and thereafter, to the NPA, it is difficult to see



how any advance can be realised without a clear progression to a new infrastructure that follows this 'enabling' approach.

#### **4. Under scope option 2:**

**a. 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?**

CreDec agrees with the approach that the market should drive the emergence of such ("market-led") propositions to assist the migration of BACS transactions and capabilities, and so – by definition – such time frames cannot readily be defined. Such time frames, if laid down, would be prescriptive and largely artificial.

The issue is whether or not to allow the market to "assist with" or deliver such propositions outright. Our view is that the market should deliver such functionality entirely.

What might best serve the interests of an efficient market led set of responses would be for the PSR and BoE to make clear Bacs was not to be migrated to the NPA, but rather that while Bacs would continue for the foreseeable future there would be no direct migration. If such an approach were adopted, the market would be sure to respond where it was made clear there is to be no centrally prescribed (Bacs) successor alternative in the NPA.

Such an approach, for example, might allow a period of 12-24 months for the legacy Bacs scheme to continue to operate on identical terms and continue thereafter with those institutions that wished to continue to use it beyond the defined date bearing the increased cost of its reducing transaction volume.

**b. 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 common services to support the migration of Bacs transactions?**



Yes. It is important that file-based common services are excluded from the migration of FPS to NPA not only in the initial procurement but thereafter also.

They should be excluded on all reasonable grounds: not simply as the obvious way to reduce cost and risk of delivery, but to ensure at least minimal iterative innovative advances are required by firms that rely on such file based approaches in the NPA. We cannot see any reasonable grounds to retain them, especially given (as noted) they are used by only a minority of member firms.

It is difficult, in our view, to make any argument for all member firms to bear the cost of DCA/FIM services when they are currently utilised by a minority of members and these services are readily delivered competitively in the existing FPS infrastructure already, without recourse to the FPS's own functionality for these components. The Scheme's current such capabilities and their technical design reflect a technology approach that was current at the Scheme's first implementation, but which have since been superseded.

The proposed streamlined CIS approach only of the FPS Scheme's successor capability in the NPA, will readily support such 'file' services as simple overlays using more appropriate approaches.

We do not understand why there is any requirement to migrate Bacs transaction volumes to the FPA, when its core characteristics of warehousing future dated payments until their designated value date(s) and batch functionality are readily managed in the NPA as overlay services. It seems retrograde to us to consider replicating a 3 day settlement service in any new payment system, especially one that aims as the NPA does to deliver competition and innovation.

**c. 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?**

We accept our view may be partial, but it is worth pointing out that some 13 years after FPS started in the UK, Bacs continues to process some 3 times the volume of FPS transactions, when real time execution is laid down as the default 'rail' for retail (immediate) payments.

(Annual Summary of Payment Statistics 2019 Bacs: FPS 2,439,913 (000) compared to Bacs 6,510,396 (000) <https://www.wearepay.uk/factsandfigures/>)

It is difficult to see any compelling argument being made for the retention of Bacs, above all lower cost, when higher FPS volume would allow a material reduction in FPS unit costs.

Future dated payments (calendar) and batch functionality capabilities are readily supportable in FPS as overlay services and there are good public interest reasons for the



lowest cost of payments execution to be a real time service. For example, government access to real time payments by default, as the largest single user of the UK payment system, would benefit Universal Credit claimants who would avoid the 3 working day delay on the receipt of their awards. During the Covid-19 pandemic HMRC's operation of the CJRS furlough scheme relied on Bacs to make critical payments to employers, as government's default payment rail, when a real time service had it been available would have served better.

CreDec considers that the market will deliver better successor solutions to Bacs Direct Credit and Direct Debit, via the NPA, Open Banking and Request to Pay than can be provided for by centrally ordained successor 'scheme' capabilities in the NPA.

**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.**

CreDec's considered view is that Procurement Option 2: Start a new competitive procurement, is the best way forward.

Our reasons are as follows.

First, we think that Procurement Option 1 has been invalidated by the SPG/Pay.UK's recommendation (one of many) that the current competitive procurement be cancelled and the CIS be procured directly from Vocalink, the incumbent provider. As we are not in favour of a direct award - given the interests of the incumbent provider may reasonably be presumed to be best served by recycling as much of the existing infrastructure and technology into the successor NPA platform – this effectively leaves Procurement Option 2 as the only credible way forward.

Secondly, and in general, we do not see how the strategic vision of the NPA - as the only enabling infrastructure capable of delivering the competition and innovation aims of the UK Payment Strategy Forum and the PSR (acting as the voice of UK payment service users) and the UK's wider economic interest – can be delivered by a simple incremental progression of the existing retail schemes.

Some ambition is required. We also consider some ambition (by which we mean an 'enabling' approach) to be in the best interests of all FPS members, including the very largest transacting volume members, even if they are of a different view currently.



**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)?**

No. The PSR's CP21/2 consultation provides an appropriate framework and baseline from which stakeholders should progress the procurement of the NPA following the Specific Directions the PSR provides for.

CreDec

19 March 2021



**Fire**



# Consultation on delivery and regulation of the New Payments Architecture



19<sup>th</sup> March 2021

## Objective

This document proposes Fire's response to questions 1-6 from the consultation from the PSR around ways to reduce risks to the successful renewal of the UK's interbank payment systems and proposals to mitigate risks to competition and innovation

## 1 Background on Fire

As an Electronic Money Institution, Fire-UK ('the Firm') is authorised to provide the following activities under the Electronic Money Regulations 2011 ('EMRs'):

- Electronic Money Issuance.
- Services enabling cash withdrawals from a payment account and all of the operations required for operating a payment account.
- The execution of the following types of payment transaction:
  - i. direct debits, including one-off direct debits;
  - ii. payment transactions executed through a payment card or a similar device; and
  - iii. credit transfers, including standing orders.
- The execution of the following types of payment transaction where the funds are covered by a credit line for the payment service user:
  - i. direct debits, including one-off direct debits;
  - ii. payment transactions executed through a payment card or a similar device; and
  - iii. credit transfers, including standing orders.
- Issuing payment instruments and acquiring payment transactions.
- Money remittance.
- Providing Payment Initiation Services.
- Providing Account Information Services.

The Firm provides euro and sterling digital accounts for personal users and businesses in the UK and Ireland. The service is delivered via mobile app and web channels. The business market is the Firm's primary focus. Fire helps businesses to manage payments with digital accounts and debit cards, supporting a range of payment services all accessible via a powerful Application Programming Interface ('API').



## 2 Consultation Questions

Question	Response
1. Do you agree with our view of the risks to the successful delivery of the NPA?	Yes, Fire agrees with the PSRs view of the risk to the successful delivery of the NPA. The risk as it stands is too big.
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?	Yes.
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?	<p>Fire prefer option 2 to procure a thinner CIS focused on the CSS and achieving the Faster Payments migration.</p> <p>In supporting this approach, it is imperative that all potential participants have equal access to the benefits of NPA <b>at the same time</b>. In order to achieve this outcome, we would propose that option 2 includes the connectivity and access layer that would enable directly connected non-settling participants to access NPA from inception.</p> <p>We believe this approach would lead to a better outcome for end users as they would instantly receive lodgements by bank transfer, and this would also have benefits to payments made via Open Banking which are currently processed by Faster Payments.</p>
4. Under scope option 2: b. 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 common services to support the migration of Bacs transactions?	<p>a. No comment</p> <p>b. These services should be included in the scope.</p> <p>c. No comment</p> <p>d. No comment</p>
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.	<p>Fire fully support option 3 (Procurement Option 3: Directly Negotiate with Vocalink without a competitive procurement) as it delivers the NPA in the shortest possible time.</p> <p>In this process consideration should be given to the fact that Mastercard also provide services directly to retailers and Open Banking solutions which could result in the scheme operator competing with smaller participants and TPPs in the market and having a competitive advantage over them.</p> <p>There is a potential risk of overlap between schemes owner, scheme operator and the overlay services with other service providers such as TPPs in the market. As part of this process, it could be useful for the PSR to outline where they see inappropriate overlap occurring between participants and provide comment. (e.g., request to pay is a payment arrangement developed by the scheme which competes with solutions already in the market).</p>
6. Do you consider that there are other realistic options available that we have not identified?	No comment.



# Go Cardless



## Consultation Response:

### Delivery and regulation of the New Payments Architecture

To whom it may concern,

Please find below GoCardless' response to the above referenced consultation.

GoCardless helps businesses collect recurring payments. We serve more than 65,000 merchants across 30 countries through our global bank debit network that spans nine payment rails (Bacs, Open Banking, SEPA, ACH US, PAD Canada, BECS Australia, BECS New Zealand, Autogiro Sweden and Betalingsservice Denmark).

In the UK, our core market, we process Bacs payments worth £13bn+ annually. We believe that the NPA has the potential to secure a leading UK retail payment system for years to come and have welcomed Pay.UK's level of ambition.

As per the consultation paper, we appreciate the PSR's wish to de-risk the NPA programme. We also understand the significant costs the industry will incur getting ready for migrating both Faster Payments and Bacs. Nonetheless, we are concerned with the proposed delay to Bacs. As it stands, the UK's direct debit system lags behind many other schemes GoCardless operates in. As an example the US, Canada, Australia and New Zealand all offer same day mandate setup and collection cycles. Bacs has seen limited innovation over the years and with the NPA on the horizon, the industry is unlikely to invest in the scheme in the interim. Where Bacs stands out compared to other international schemes, however, is its success as a consumer facing scheme and as a trusted brand. GoCardless has proven that bank-to-bank payments can compete with cards, especially in the recurring space. This along with the ability to build on top of an already strong Bacs cornerstone creates a huge potential for future bank-to-bank payments. This does, however, require timely development of a Bacs replacement solution.

#### **De-risking a Bacs migration through early enablement of overlay services**

The PSR emphasises the principles of a 'thin core', which we fully support. We agree that a thin central infrastructure services (CIS) layer provides the best opportunity for third party innovation. That being said, instead of only focusing on common services for Faster Payments, we strongly encourage that Pay.UK build the minimum common services required to enable a Bacs replacement overlay service. A limitation of scope could be achieved by only focusing on these core common services, rather than trying to accommodate multiple propositions (such as multi day payments, smart mandates).

This could be left to third parties. If done right, we believe a single design will not impact costs or timelines, but the benefit to consumers and the industry will be significant.



Enabling third parties to develop a Bacs replacement in conjunction with the Faster Payment migration will allow:

- A much needed, enhanced direct debit solution to be brought to consumers and businesses much faster
- A gradual and controlled migration of traditional Bacs flow to a new enhanced direct debit overlay. This de-risks a large scale Bacs migration later on
- Better competition in the market, easier access for PSPs and consequently a more equal distribution of market. This aligns directly with the objective of the CMA and Open Banking.

We believe the above significantly outweighs the downside of running two systems simultaneously.

### **Close coordination between NPA and Open Banking**

In developing the NPA, we strongly urge Pay.UK to coordinate with Open Banking. It is our impression that there has been limited coordination to date. As an example, Pay.UK could consider utilising the existing Open Banking APIs for the Peer to Peer network. Duplicating common services or lack of interoperability leads to additional integration costs for PSPs. Smaller PSPs could ultimately be forced to choose between one or the other to the detriment of consumers.

### **Competition and Pricing**

Overall, we believe that the PSR has identified the right risks and mitigants related to CIS provider competition and pricing. Ultimately, in our view the more pressing items are building a thin core layer and enabling the market to develop a Bacs solution simultaneously with Faster Payments. Addressing these issues is what will allow innovation and competition within the recurring payments space.

We would be happy to discuss the above in detail and provide further examples of the points made.

Sincerely,

[Redacted signature]

[Redacted signature]

[Redacted signature]



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Questions related to competition	
7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.	We support the governance principles that the PSR have laid out, in particular the point about Pay.UK being the primary CIS interface. In our experience, engaging directly with Vocalink on say conversation about ETS solutions for direct connectivity to Bacs have been challenging and slow. Having Pay.UK as the sole interface could help avoid such a situation. We want to emphasise, however, that this does require Pay.UK to be sufficiently equipped to be able to support PSP and third parties in a timely manner. It will significantly hinder innovation if Pay.UK becomes a layer that slows down time to market.
8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.	We believe that the PSR has identified the main competition risks.
9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?	<p>We believe that the suggested governance principles will help mitigate the competition risks. We find that the point on data and information to be particularly important to avoid that an infrastructure provider exploits these for commercial gain. GoCardless supports the wider industry view that data is owned by the end-user or the PSP who has an agreement with the end-user.</p> <p>Pay.UK has effectively engaged a broad range of stakeholders in the NPA work and we encourage them to continue to do so. The engagement with PSPs will be key to identify competition issues as they arise and take the right measures to mitigate them.</p>
10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.	We believe that the risks related to the CIS have been sufficiently identified.



<p>11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.</p>	<p>In addition to the proposed elements, Pay.UK might request some level of transparency around the services provided by the wider corporate group to the CIS provider. This could help ensure that the services provided outside the group (eg to the CIS provider) is of the same standard as services provided inside the group.</p>
<p>12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?</p>	<p>We welcome PSR's oversight and willingness to step in with regulatory measures if needed. In doing so we ask that the PSR engage with multiple industry players incl. PSPs to ensure that the proposed measure will have the intended effect.</p>

#### Questions related to pricing

<p>13. Do you have any comments on the pricing principles set out in this document?</p>	<p>We agree with the principles set out by the PSR. We in particular support the transparency element both in terms of CIS user prices and setup costs. In our experience, the fact that CIS user prices are hard to obtain lowered our ability to negotiate efficiently with a Direct PSP (sponsor bank) when first obtaining indirect access to the scheme. The transparency will help ensure fair pricing for indirect PSPs, which in turn will help innovation and competition.</p> <p>GoCardless has no strong preference for a 'per click' versus 'value based' pricing model. The most important factor is that that price is locked in for a set time period (typically one year). Variable pricing complicates earning forecasts for PSPs as they often operate on fixed pricing models with larger customers and/or are unable to change their customer pricing with short notice.</p>
<p>14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?</p>	<p>Yes we believe the principles are sufficient. We have no further comments.</p>



**Kikapay**





## Kikapay Response to PSR Consultation on Future of NPA Programme

Below you will find the response to questions from Kikapay. Kikapay are a PISP/AISP and Guarantor of Pay.uk.

Response

PSR Consultation Paper: Delivery and regulation of the New Payments Architecture  
February 2021

### Consultation questions

#### Questions 1-6 by 19 March 2021

##### Questions related to the risks to NPA delivery

1. Do you agree with our view of the risks to the successful delivery of the NPA?

No, I do not agree.

The greatest risk by far is that the NPA does not deliver at all. There have been 2 attempts to run a procurement process and twice now the process has failed to complete with a decision and a way forward. A third failure would be a national embarrassment.

Mark Hoban believes he is coming in to provide oversight to the Pay.uk operations. The NPA is a project that is now bigger and more important than the operation. Mark Hoban is coming to oversee the NPA. He will not survive if the NPA fails and if he does not know how to deliver a complex partnership project. We have no reason to believe that he does. Mark's role is even more important to the programme in the absence of the Pay.uk CEO.

A further significant risk to the NPA programme is a lack of skill and expertise to deliver a programme of this nature. This expertise needs to cover complex procurement exercises and also the complex governance required. I would however not advocate bringing in Accenture, KPMG, EY, Deloitte or PWC. I know the capability of consultancies in the market for this type of project and it does not rest with these companies. Pay.uk does not have the skills to manage these companies either.





A further key risk to the programme is through taking too much time. If the programme takes 4 or 5 years to be delivered from the time the requirements were agreed, the programme will be difficult to deliver. The procurement and contracting phase should take no more than 9 months.

Another key risk is that if the NPA is tendered competitively, you will need to convince other suppliers it is still in their interest to submit a proposal given all that has gone before. A HUGE risk to NPA is that no one provides a proposal to a competitive tender other than Mastercard.

## Questions related to procurement scope

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?

Yes, keep it small. Do Faster Payments first and leave BACS for later.

Kikapay already have a product that uses open banking and offers clients an alternative to BACS for outbound payment services. This type of innovation should be rewarded by the market and not stifled by over regulating what the market can solve.

With our product, the payments themselves move across the FPS rails. It will not be long before there are many such offerings. It is right therefore to focus on Faster Payment Service only. By the time this is delivered, the demand for BACS services will be much different and the problems that needs to solved for BACS will be different.

For the procurement of NPA to be a success, keep it simple, small and quick as possible. Large complex programmes are the ones that cause difficulties in delivering.

Maybe the PSR are looking at this in the wrong way. Perhaps there should be 2 or even 3 ways for payments to be settled immediately ie there should be several faster payments service alternatives open to Banks.

Maybe an alternative is to create a new faster payment service or several so there is competition in the market. Perhaps corporates should be able to choose which payment rails are used by the bank. That way competition could be generated.

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?

Another lever that Pay.uk has not considered is the use of charging for different types of payments to promote use of alternative payment rails. If a charge were imposed on an inbound direct debit, more payment traffic would move away from BACS.

4. Under scope option 2:





a. 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?

The open banking alternative to a direct debit is being rolled out. Variable Recurring Payment is still being designed by Open Banking Implementation Entity. This is another reason for splitting up the procurement to focus on FPS first and then BACS later. In 2 years time, direct debits may well be replaced by open banking payments.

This could be accelerated by use of charging corporates for inbound direct debits. The PSR needs to appreciate that they have not considered how the commercial frameworks can also be used to resolve many of these problems. So for example what would it take to get banks to move direct debits over faster payment rails?

b. 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 common services to support the migration of Bacs transactions?

Just focus on Faster Payment Service. A key learning from OBIE is that regulators do a poor job at driving innovation. It is the market that drives innovation, and this is the right place for it to happen. Kikapay has a file based service for payments that already uses FPS. This is innovation. Creating a standards based service for a file based solution is exactly what is NOT needed.

Just focus on FPS. Let the market do the rest. However, regulation of faster payment charges needs to go hand in hand with this approach. Banks collectively have the ability to nullify any innovations with anti-competitive pricing if the regulator does not do its job.

c. 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?

No just focus on FPS if you want the procurement process completed quickly. BACS will look completely different in 3 years' time and the requirements will be different too.

## Questions related to procurement approach

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.

A competitive process is needed to get the best solution and at the right price. This is a long term partnership being chosen and needs to be started in a professional, well thought out manner. If this is not





done, the supplier will not respect the professionalism of Pay.uk and the relationship will get worse and worse in the future. Start in the wrong way and the relationship will continue in the wrong way.

I believe not enough thought has gone into the strategic approach to this procurement exercise. One approach could be to run another Faster Payment Service in parallel and run down the old one. This would derisk migration (AND MIGRATIONS ARE TRICKY). It would also enable competition to flourish because new functionality and operational effectiveness is invested in new platform so companies moving to that will benefit.

Why are there not more services in the UK that offer the equivalent of Faster Payment Services. There are always issues in any market for technology when there is only one choice.

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)?

Yes, 2 approaches to consider.

Yes, 2 further approaches need to be considered.

Additional Option 1: Give Mastercard a specific time to negotiate a contract. If this succeeds they move forward as provider. If the contract does not get signed, Mastercard are excluded from a future selection exercise.

This works well in keeping the process competitive when only talking to Mastercard. However to make this work, Pau.uk will need to set a date for contract signing and stick to it. They also need to allocate £1m to starting a selection process in case contract is not signed.

Our recent experience of Brexit shows that doing negotiations when keeping a threat of an alternative (No Deal in the case of Brexit) is difficult if you have weak government. If Pay.uk are weak, this may be difficult.

Additional Option 2: Keep Faster Payments going and create a second, new Faster Payment Service and run in parallel until FPS winds down.

I am a global expert in Procurement of complex Payment Systems. I have advised or led many £1bn+ payment systems partnership decisions around the world. I presented to [REDACTED] how I could help in November 2019 but he decided that he did not need my help.





For free, here are my top 8 tips for this programme

1 Define a strategy

Make sure it is defined what the key objectives are for the programme. This needs to be very clear.

2 Clear Approach

Define a clear approach and stick to it. It is going to be difficult because of failures in the past but this time it has to be credible. Pay.uk has to convince suppliers, other than Mastercard, that this is going to be a fair process and the best solution will win the contract.

3 Define a plan

Define timelines through to contract signature and stick to it. In initial documentation put commercial pressure to make sure each supplier is willing to commit resources to make this happen.

4 Keep it small

Smaller, more manageable scope will mean that the procurement and the project are more likely to be delivered successfully.

5 Regulation or Innovation

Do not try to regulate too much. Generally, the market will find innovations not the regulator.

6 Skills

Someone needs to advise the programme who has global expertise in leading procurement processes like this. There are only a few people that have credentials.

6 Motivation of team





If everyone in the programme gets paid by the day or hour and there is no penalty if timelines slip, THEY WILL SLIP. Build into contractor terms fees held back against milestone deliverables of the programme and not individual milestones. Same for consultants.

7 Define Service (non-functional) requirements up front

Almost more important than price is getting the service commitment and resilience requirements agreed beforehand. Define what will happen if the chosen supplier does not meeting required service levels.

8 Service Requirements do not differentiate proposals

If a competitive tender is progressed, differentiation of service requirements across the proposals does not differentiate the proposal. This is the biggest mistake of all. This is because if a service requirement is needed, ALL proposals will have this requirement included.

Is it service performance that is key, commitment to innovate, ability to partnership are more important.



# Modulr



## Modulr Response to PSR CP21/2 Q.1-6 - Consultation on delivery and regulation of the New Payments Architecture

To follow up please contact both:

- [REDACTED]
- [REDACTED]

### Introduction to Modulr

In order to provide context for our answers, we felt it would be useful to provide a brief introduction to Modulr as follows:

Modulr is the payments and banking-as-a-service API platform for digital businesses. We're not a bank but we provide payments and accounts infrastructure as an alternative to traditional banking infrastructure. We integrate into any product or system, and our direct settlement access to the Bank of England and critical payments infrastructure gives businesses a faster, easier and more reliable way to move money. Businesses can automate payment flows, embed payments into their platforms and build entirely new payment products and services themselves. All managed in real-time, 24/7 from one API.

We are a five-year old Authorised Electronic Money Institution regulated in the UK and Ireland with c. 200 employees in London, Edinburgh, Dublin and Amsterdam. Modulr joined FPS and BACS as a direct participant in 2019, and are one of the few non-bank FIs direct settling at the Bank of England, with volumes that have already grown to over 1% of all FPS transactions. We are active on all PayUK committees including those on RtP and the NPA itself. We pride ourselves on being an innovator and are an active TPP participant in Open Banking, and were part of the first ever RtP transaction testing during the pay.uk pilot phase in late 2019.

Beyond the UK payment rails we process SEPA Credit Transfers and will be going live with SCT Instant shortly. We also offer virtual and physical card functionality and will be launching SWIFT payments and additional currencies later this year.

Our key principles in relation to the NPA are:

- There is a need to ensure open competition and that smaller non-bank FI participants are not disadvantaged, as is the case in a number of respects at the moment.
- The initial "ethos" of the NPA in opening up new payment options, combining historic payments into one scheme, changing legacy 3 days cycles / Direct Debit and innovating for the next 20 years needs to be maintained, as there is a danger of watering down the innovation and benefits too far when cost vs functionality compromises need to be made.
- The single settlement model at the Bank of England (avoiding the need for separate settlement and collateral accounts and the concordant need for "double funding" which puts larger banks at an advantage) is particularly key *and needs to be solved even ahead of the much delayed first phase of the NPA*



- Costs must be carefully managed and clarity on pricing strategy is needed. There has been no discussion of this as yet, however the aim should be to reduce NPA per transaction pricing to match international comparable schemes such as SCT Instant and benefit UK plc.
- Funding strategy needs to be considered so that costs don't fall only on existing participants given future players will also benefit – this could be solved by PayUK borrowing over the to cover the timing gap.

As an innovation-led smaller non-bank FI and a direct participant in FP and BACS we have a fairly unique view of the NPA and trust this will be of value to the PSR. We are very happy to discuss this further with you, and would particularly like to explore an interim single settlement account solution.



## Questions related to the risks to NPA delivery

### 1. Do you agree with our view of the risks to the successful delivery of the NPA?

We agree partially.

The biggest longer-term risk we see is a UK payments system that is still running with legacy BACS processes many years from now, resulting in non-delivery of the vision of the NPA as envisaged by the Payment Strategy Forum and various consultations previously held. This will stifle competition not just in the payments market, but also prevent the significant innovation benefits we see in shortening payment cycles and replacing schemes such as Direct Debit that were designed over 50 years ago.

We do understand the current issues with Faster Payments and strongly support some of the changes proposed by the NPA, in particular the proposed better management of participant exposure and the move to a single settlement account at the Bank of England. We also strongly support the innovation proposed around new “immediate payment” types, and the various efforts to remove some of the current detriments to smaller non-bank participants.

We believe however that the far bigger wins for the UK as a whole and the majority of innovation (particularly for end user improved outcomes) are driven by replacing the current BACS system with its 3 day+ cycles.

We see BACS as not fit for UK payments going forward, yet maintaining the status quo for BACS is an easy option for established players. Our overriding concern is that the outcome may be a replacement for FPS with additional costs rather than a structural price reduction and not much innovation in actual underlying payment systems. There will be under-delivery on the potential of the NPA and BACS could remain a legacy system that persists for many more years causing ongoing fragmentation.

We do however recognise the risks and complexity of any change particularly around BACS and the need to manage risks of disruption during migration – we have therefore made some suggestions in other sections of our response on how a modified approach may achieve change at lower risk.

We would also like to raise the risk of value for money, most importantly in the relation to the target NPA operating costs per transaction by type. Today the scheme costs of FPS per transaction are many multiples of BACS, and significantly much higher than the costs of other instant schemes such as SEPA Instant. We would expect NPA transaction costs to come down to internationally competitive levels to benefit UK plc, however have not seen any indication that this is the intent of PayUK nor any pricing analysis from them to date. Our concern if the NPA were not to include BACS volumes is that the cost per transaction would stay the same or even increase.



## Questions related to procurement scope

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?

Partially agree

We believe it is imperative to plan towards a single payments scheme (at a settlement and clearing level) with a common central infrastructure. Multiple separate schemes are a barrier to entry and we believe the distinction between FPS and BACS is an historical artifact which should be consigned to history.

Current BACS credit outbound arrangements also create a barrier to entry to smaller and non-bank participants, due to the credit risk on the part of the sender as part of the three-day cycle. This makes it imperative that the new “same day” NPA transaction types (intended to replace BACS credits) are available to participants early and at a lower cost than immediate payment types.

Ideally we would prefer the first approach where the procurement is done as one, but recognise the identified challenges to this, in particular in replacing a BACS system that has over 50 years history and much complexity. We would point out that we believe some of the risks relate to existing participants trying to replicate legacy processes “as is”, in an attempt to provide a like for like service / make their lives easier and they are not being sufficiently bold to imagine different ways of working.

We believe the second approach of leaving all consideration of BACS replacement to the future introduces other substantial risks as generally covered in your consultation paper, namely:

- The risk we end up with two disparate systems (in the worst-case scenario with separate central infrastructure elements) and that BACS requirements are not sufficiently understood or specified when procuring the central clearing and settlement parts.
- Procurement risk where the provider of CIS systems may be in an advantaged position in future negotiations should changes be needed to include BACS features which are defined at a later date.

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?

Option 1 is preferred as the ideal approach to a world class payments system for the UK. However we recognise some may feel this is too risky given their legacy investments and the complexity of BACS, therefore if the majority feel this is too risky we propose another alternative as described below.

Modulr’s alternative option 3 (sits between PSR options 1 & 2):

- Procure Core Clearing and Settlement
- Procure Services to support FPS migration
- Procure and deliver (as part of initial scope) the full range of additional push/credit payment types envisaged in NPA, specifically to include same day lower priority payments.



Possibly delay to later procurement:

- Procurement of Direct Request (DD replacement) could be delayed
- DCA and indirect/bureau access for BACS replacement could also be deferred
- BACS credits and DD would continue in parallel to any enhancements made on the NPA in the meantime.

We would also suggest considering in the initial procurement of core clearing and settlement any key requirements that are known to be required to support later BACS Direct Debit deliverables. Actual BACS Direct Debit replacement procurement and delivery could then follow separately at a later date.

It would also be wise to mandate FPS participants participate in the NPA as recipients of push payments at the earliest opportunity. This would require migration of FPS send functionality so the current FPS infrastructure does not linger and could be combined with any remaining FPS senders being charged ever escalating transaction costs, to incentivise moving to the NPA.

Under the approach proposed above, we believe that market led propositions will drive substantial BACS credit volumes to the new NPA payment types. Key will be for the NPA to provide a same day (non-urgent) payment type, priced competitively to compete with current BACS costs. We firmly believe that a majority of corporates as payers would have no desire to use a 3-day BACS payment cycle if a competitively priced same day solution were made available to them as part of the NPA.

We now turn to BACS Direct Debit services and pull payments in general, where there is a significant opportunity for innovation / competition and driving better outcomes for end users.

The current DD mandate process and collection cycles are a big barrier to innovative payment solutions and do not work in an increasing real- time economy. We fully support the approach proposed by the NPA for Direct Request and its benefits, but also acknowledge the challenges and complexity in migrating existing BACS DD volumes and number of players involved.

We believe there are alternatives to Direct Request that are lower risk and closer to market adoption today. We have for some time been struck by the similarities and overlap in potential application of Direct Request (NPA DD replacement), Request to Pay (RtP) and Open Banking Variable Recurring Payments (VRP).

We suggest two different approaches using these which ideally when both delivered, will drive innovation / and mitigate the impact of delaying Direct Request to a later NPA “BACS phase”. Further, we believe these solutions are closer to being delivered in the market, relatively well defined, can operate with current FPS payment types, do not require any new central infrastructure or scheme procurement and are lower risk as they allow for alternative approaches to be market led and tested alongside the current Direct Debit system :

- Approach 1 = using Request to Pay (RtP).  
We believe that the Pay.uk solution for RtP could work well for many use cases, particularly ad-hoc requests. Our experience to date has been a lack of any adoption on the payer/consumer end which has hindered take up by corporates. We believe this will only work when a critical mass of payers accounts support it, and therefore it requires the PSR to mandate major providers of current accounts support RtP functionality on all payer accounts that support DD today as a default / standard feature. It would of course be up to consumers and corporates to choose to



use the solution, but we believe it should be made available today in the same way that Direct Debit is available to all users.

- Approach 2 = Open Banking Variable Recurring Payments (VRP).

We believe this could be a workable replacement for Direct Debits, and actually see many similarities between VRP and the proposed NPA Direct Request / Smart Mandates. We believe that if the PSR were to mandate support of VRP by the CMA9 institutions and allow long lived consents to be granted by consumers for payment initiation, this would drive critical mass and allow corporates to trial it as a solution to replace Direct Debits. We acknowledge that there may be concerns around consumer protections and providing equivalent safeguards to Direct Debit in using VRP, but believe these issues can be solved, e.g. by raising the bar for this service to a subset of Open Banking participants that adhere to equivalent rules.

These two measures would provide a more immediately available solution than Direct Request, however having been closely involved in the development of both RtP and VRP, we are convinced that unless these are mandated in regulation for a critical mass, participation will not take off and the benefits of challenging legacy DD will not be realised.

Finally we believe an advantage of this approach is that these measures can be put in place and tested by the market in advance of the NPA as they are agnostic of the payment method used to deliver the resulting payment i.e. they would work with the current Faster Payments system and not be dependent on launch of any elements of the NPA.

#### 4. Under scope option 2:

a. 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?

We believe that option 2 alone is not enough to drive market driven approaches. The additional actions required to drive the innovation are outlined in our answer to Q3 above.

We believe that provided the required infrastructure and measures to mandate RtP and VRP adoption are in place, a period of 12-24 months would allow the emergence of market driven alternative propositions.

b. 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 common services to support the migration of Bacs transactions?

Yes we believe these are legacy solutions and can be excluded for the purposes of NPA replacement of FPS. We believe these are not a major part of the volumes and alternatives are available or can be developed by participants to accept and convert these into standard payment types. If these are excluded from the NPA it should not lead to a need to extend operation of the existing FPS system to support them.



c. 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?

We believe this has been covered in our answer to Q3, however to summarise the BACS-related features we propose are:

- Full range of push payment types envisaged by the NPA, not just direct like for like replacement of FPS types
- Target of BACS comparable scheme pricing for non-urgent same day payments in the NPA to enable market-led competition / migration for key BACS corporate volume payers



## Questions related to procurement approach

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.

There should be a modification to the current procurement process. It is imperative the contract is not “default awarded” to Vocalink for all the reasons you have stated, albeit we acknowledge they may still emerge the winner from a competitive process.

We would be against restarting the competitive tendering process from scratch, as that would waste all the pre-qualification work PayUk has carried out to date and delay realising the benefits of the NPA first phase even further.

It will however be imperative to define the change of scope and as many BACS features as possible (even if they are not built immediately) in order to avoid the problems of cost inflation when late features are added. This has been more fully explained in our previous answers.

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)?

No further information to add.



# Ordo





**PSR Consultation:**

**Delivery and regulation of the New Payments Architecture**

**Part 1 – questions 1-6**

**(paper CP21/2)**

**Ordo response**

Submission to [PSRNPA@psr.org.uk](mailto:PSRNPA@psr.org.uk)

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## Context and Introduction to Ordo

### *Who we are:*

We are Ordo, the trading name of The Smart Request Company Ltd (company number 11338545). We are a fintech start-up and TPP. We are regulated by the FCA to carry out AIS and PIS under FRN 836070

The five founding directors incorporated the business in May 2018, having previously worked together in the Faster Payments Scheme, driving new competition in banking and payments and transforming access to the Systemically Important payment system. Whilst we were the leadership team at Faster Payments, we instigated bringing on new challenger banks and other PSPs such as Monzo, Starling, Atom, ClearBank and Transferwise. The team were awarded the Payments and Cards Awards Industry Achievement Award in 2017 by their payments industry peers for their work to allow Transferwise and its customers direct access to the Faster Payments System.

Following our time at Faster Payments, we set up Ordo to build and run Open Banking enabled solutions such as Request for Payment, eCommerce and Account Details Verification services, amongst others. We are backed by Nationwide Building Society, and are fully integrated with the well-known accounts package services QuickBooks, Sage, Xero, and banking platforms such as Contis. We are partnered with CGI to run our platforms.

The first of our solutions, our Request for Payment service, went live on 23 March 2020. Hundreds of thousands of pounds has been transferred using Ordo with thousands of payment requests being sent and successfully paid, helping businesses and consumers pay and get paid easily.

### *Ordo's company purpose is:*

to improve financial wellbeing of individuals, businesses, social enterprises, charities, community groups and the public sector by helping them to be more in control of their finances. We do this by:

- enabling payers to securely and simply see what they've been asked to pay, trust who's asking, and then choose how and when they make or don't make payments;
- enabling billers to securely, simply and cost effectively provide information to, and request payments from, their customers without having to gather, store and protect payers' private financial information; and
- enabling billers to understand the status of their payment requests and receive settlement irrevocably and without delay from their customers, directly into their bank accounts.

We are leveraging our collective experience in payments, technology, consumer markets and regulation to achieve this.

### *Our view and what we think a secure payments future should look like:*

We are creating a better way to request and make payments with a new, secure end-to-end competitive digital payments overlay services. We believe the solutions we have built are an important part of the strategic long-term solution which will afford all payers, be they individual consumers or businesses of any size, the confidence and assurance that their payment has gone to the intended destination, and businesses to be able to receive payment instantly, securely and at low cost.

If every payment begins with a request from the biller concerned (which could be a consumer or a business) with the business populating its account and reference information, this significantly lessens the likelihood of a payment going to the wrong destination and being defrauded. A biller's request for payment, be it via a



specific Request for Payment service, or via one of our Open Banking enabled eCommerce, QR code or point of sale solutions, will contain the account details for the biller as inputted by the biller, and these are neither revealed to, nor can they be changed by, the payer. The receiving (of the request for payment) potential payer will then only choose to pay the request if they recognise the biller, what the requested payment is for and if it is for the correct amount.

### Questions related to the risks to NPA delivery

1. Do you agree with our view of the risks to the successful delivery of the NPA?

Yes.

### Questions related to procurement scope

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?

Yes.

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?

Option 2 is the only viable option. In our view, the risks identified by the PSR are closer to certainties and as a result continuation under option 1 is unlikely to deliver anything approaching the vision of the PSF Blueprint or NPA. It is worth noting that the narrower scope of Option 2 was the basis for the original Faster Payments led NPA phased competitive procurement developed in 2016 and launched in 2017. This original model was chosen as it delivered the earliest NPA benefits at the lowest risks, was designed to be scalable to carry future Bacs traffic growth if required, and provided time for the more intractable replacement and migration challenges of the more complex Bacs Direct Debit service to be fully considered over a longer time frame. After much bidder work this procurement was halted in 2018 and replaced with the combined Faster Payments and Bacs procurement in December 2018.

As we operate as an overlay service provider abstracted from the CIS through the open banking APIs there is no direct cost impact on our business. Our views are driven by the common good of delivering a lower cost, competition and innovation supportive central payments infrastructure for the UK that will meet future service user needs. Option 2 is in the public interest and the interests of the UK economy.

4. Under scope option 2:

4a. 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?

24 months after the delivery of regulatory clarity should be long enough to see the emergence of market-led propositions that could provide alternatives to Bacs bulk credit and Direct Debit services. These services could initially be carried over the existing Faster Payments service. However, these services will not develop unless competitive providers have sufficient regulatory certainty in the following areas:



- For Bacs bulk credit services, probably delivered by Technical Aggregators and ASPSPs, the regulatory and Pay.UK support of competitive bulk submission services needs to be clear.
- For competitive Direct Debit alternatives, it needs to be clear that a one-for-one replacement of the current Bacs central service will not be contemplated by the PSR or Pay.UK unless there is an absolute failure of competitive alternatives to start to emerge within an appropriate timeframe (say 24 months beyond clear regulatory statements covering all these points).
- Additionally, there needs to be industry-wide clarity that the current Direct Debit service will be closed down within, say 5 years, and is likely to rise in unit cost as volume migrates, encouraging service user migration.
- As an essential prerequisite, that Open Banking Variable Recurring Payments (VRP) will very quickly become a mandatory requirement on all ASPSPs that currently support Direct Debit payment. If VRP is an optional service, where TPPs can only access PSU accounts at Bank A if TPPs agree to Bank A's terms, then individual VRP provision is a monopoly service provided by each ASPSP to TPPs. Consequently, VRP must be provided on the same zero contract, zero cost basis to authorised TPPs as current open banking/PSD2 Payments Initiation Services. To the extent ASPSPs charge for the service, that should be to their Payment Service Users as is the case with Single Immediate Payments via open banking today, where some competitive pricing forces can apply. This also mirrors the commercial arrangements for the provision of Direct Debits (DD Originators pay their ASPSP and may also procure submission tools from one of a number of competitive software providers).
- Finally, it is essential that a high hurdle is set before considering the establishment of any overarching centralised standards that might seem helpful in supporting innovative new services. Pay.UK's attempts to standardise the UK's approach to Request to Pay is an example of what can go wrong. Pay.UK has overreached itself in defining in too much detail, and in the wrong way, what services should look like, and as a result, delivered no market solutions. A number of other players, however, have built and launched valuable Request services using open banking, in spite of the attempts of Pay.UK to promote a particular approach. Common frameworks can be helpful, for example the emerging SEPA RtP Scheme rules, but they must be established in a way that adds value to, and supports the development of, innovative competitive solutions that might take different approaches to delivering new value to users.

If the PSR quickly takes the regulatory lead in providing this context, this will give confidence to the market, and market led competitive services will quickly emerge, both to provide these new services and also to help service users migrate from the current Direct Debit platform to the new, more innovative alternatives.

4b. 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 common services to support the migration of Bacs transactions?

Yes. They should be excluded from the initial procurement and only provided by the central infrastructure provider on an arms-length/Chinese walls basis as one of a number of competitive solutions. There is no technical reason why file processing services need to be provided by the central infrastructure. It is an act of history that they are provided by the central infrastructure provider for FPS, and with the exception of one ASPSP, they have not been adopted by the market. Incorporating them into the initial procurement adds unnecessary complexity and cost for no obvious benefit. Looking to the future, these services could and should be competitively provided by any/multiple PSPs with access to the central



infrastructure. This is a competitive market opportunity that should not be gifted to the winner of the central infrastructure provision.

4c. 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?

The Faster Payments replacement should be procured to be capable of carrying the volume and value of individual push payments resulting from the carriage of Bacs Bulk credits provided through aggregators, and Single Immediate Payments deliver via VRP as a replacement for current Bacs Direct Debit volumes. No other Bacs legacy features should be supported in the Faster Payments replacement.

### Questions related to procurement approach

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.

Procurement Option 2: Start a new competitive procurement with the narrower scope proposed is the only viable option. The current approach will not deliver and direct procurement with VocaLink is oxymoronic. It is almost impossible to imagine how a good outcome can be achieved or demonstrated from such an approach as Pay.UK would have no buying power, and VocaLink would have no incentives to provide best service and price. [REDACTED]

[REDACTED]; not doing so now would effectively shut the door on the UK ever doing so, which cannot be in the interests of service users and the broader economy.

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)?

No.

We are a commercial company running competitive solutions for the payments ecosystem.

Our response is being led by one of our co-founders, [REDACTED], and can be contacted at [REDACTED]. You can talk to her directly on [REDACTED].



**TSB**



PSR Consultation into Delivery of NPA ref CP21/2

**Part 1**

Consultation Questions Part 1 (by 19 <sup>th</sup> March)	TSB Response
<b>Questions related to the risks to NPA delivery</b>	
1. Do you agree with our view of the risks to the successful delivery of the NPA?	<p>We agree that there are significant risks to the successful delivery of the NPA as currently planned. We are particularly conscious of the risk associated with the disruption to critical national infrastructure, delays to delivery of end user benefits, cost and delivery risk.</p> <p>In addition, we are mindful of the following:</p> <ul style="list-style-type: none"> <li>• The significant amount of industry change – notably RTGS Renewal (CHAPS) and SWIFT CBPR+ migration to ISO20022 message formatting. Scheduling will be key as smaller banks are disproportionately affected due their ability to both absorb workload and costs.</li> <li>• The need to finalise the technical design in advance of selecting a CIS provider.</li> <li>• The lack of clarity on how a new overlay service “marketplace” will be created or managed that enables third parties to compete on a commercial basis. The absence of this commercial framework may delay innovation and new payment propositions being brought to market.</li> <li>• We continue to have reservations about delivery risk. Whilst the support of KPMG is welcome, the BAU organisation would benefit from greater technical leadership.</li> <li>• We feel there should be more focus on identifying any additional consumer protection measures required to support new payment propositions on NPA, instead of the current focus on replacing existing measures (DD Guarantee).</li> </ul>
<b>Questions related to procurement scope</b>	
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?	<p>TSB supports an incremental approach to implementation. We support the development of early capability that enables the decommissioning of FPS. Rather than describe this as ‘migration of FPS’, we believe that the early scope should be focussed on facilitating push payments and this should form the basis of the Procurement.</p>



	<p>It is difficult to make a judgement on whether a second procurement process is required until customer behaviour and market evolution has been assessed. We support deferring work on BACS DD etc. but believe that a focus on building 'Push' capability will naturally drive adoption of the NPA, thus replacing Direct Credits organically.</p> <p>Therefore, our view is that Bacs Direct Debit should not be proactively migrated. Instead, as a future step, a new pull request ("Direct Request") capability should be enabled in the new scheme, that results in underlying push payment(s). End users, corporates and PSPs being encouraged to use this new capability.</p> <p>If the new capability provides smarter mandates, certainty over payment fate, improved reconciliation, better protection against fraud and richer data then there will be a strong motivation for organic transition. This could even be extended to include a new process for the settlement of ICS transactions which could bring cheques into future scope.</p>
<p>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?</p>	<p>We support a reduced scope based on Push Payment needs. Our concern is that the language of the consultation (and indeed historically from the NPA programme itself) is still too wedded to the concepts of "migrating" Faster Payments and Bacs. We would like to see a shift in mindset and language towards the creation of a new payments' platform/scheme and the transition of transaction volumes from legacy schemes to the new, that achieve the same end user outcomes. Our concern is that being constrained by the legacy schemes' ways of working will inherently compromise the innovation and value to be derived from a new ISO20022 based scheme.</p> <p>We continue to believe that the scope of the procurement for NPA delivery should not include migration of Bacs payment types – instead it should enable "Bacs equivalent" capability, and the industry should review the fate of Bacs in due course once NPA for Push Payments has gone live and Faster Payments volumes transitioned.</p> <p>This may delay any potential cost savings from combining the two schemes, but equally, it could prevent committing the industry to unnecessarily procuring capability for BACS that may not be required and thus materially reduce overall cost of NPA.</p>



<p>Under scope option 2:</p> <p>a. 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?</p> <p>b. 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 common services to support the migration of Bacs transactions?</p> <p>c. 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?</p>	<p>a. We feel a minimum of 3 years to observe the behaviours that follow the implementation of NPA. We think a new proposition, such as Direct Request, will allow customers to self-select how they choose to pay in certain use cases which will stimulate market diversification especially if there is incentivised promotion of the NPA and in particular the use of Direct Request. Such a move would put greater control in the hands of the payer and contribute towards improved fraud controls.</p> <p>In parallel, we would recommend consideration is given to any additional messaging standards required to support Direct Request, and in particular what consumer protection measures would need to be put in place to support any new propositions.</p> <p>b. No, we feel the focus should be on enabling delivery of batch submissions of multiple push payments/messages for high volume participants but not constrained to just DCA/FIM. As mentioned previously, we believe we should not be looking at migrating the legacy services but thinking about new propositions for customers which achieve improved end user outcomes but not being constrained by legacy schemes processes. For DCA/FIM file-based processes we should consider if a file-based process needs to be part of the scope of NPA. Instead, we should look to exploit and move to ISO 20022 which will bring benefits such as being an enabler to migrate Direct Credits from Bacs, e.g. a single ISO 20022 pacs.008 message could contain an entire salary run that would previously have been a file of multiple payments.</p> <p>c. An understanding of how Push and Bacs equivalent propositions would be enabled across the CIS is key. Our view is that the passage of time, the increase in bi-lateral message exchanges facilitated by Open Banking, and the growth in developments in network and cloud technology require the industry to reconsider the scope of CIS. We believe that the need for a centralised clearing and settlement capability is somewhat dated and the new CIS solution should be focussed on Settlement with Clearing being left to bilateral exchange with 'Y-Copy' style messaging to the CIS to settlement only. The Bacs-related feature that should be included in the initial procurement is the eISCD process which effectively underpins all the schemes including CHAPS so needs consideration early in the design process.</p>
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<p>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.</p>	<p>Whilst TSB is increasingly ambivalent to the procurement approach; we instinctively believe that procuring for a reduced scope of Push with a “thin” clearing and settlement services layer is a less competitive area by nature and should increasingly be viewed as part of the architecture that does not need to be subjected to market forces. Particularly as it represents critical national infrastructure. We would therefore advocate exploring opportunities with the incumbent, whilst keeping the competitive procurement process on hold. We believe this would pose the least time, cost and risk to the programme.</p> <p>There is far more opportunity for competition and innovation in the overlay services arena and the focus therefore should be on ensuring that no barriers are put in place that prevent this.</p> <p>Our view is the incumbent would need to be subject to certain structural constraints in order to a/ not compromise competition between card and non-card payment schemes and b/ prevent any competitive advantage by virtue of being the CIS provider. If these constraints were deemed unacceptable by the incumbent, or an acceptable commercial arrangement could not be secured, this would largely rule them out of bidding and set the landscape for open procurement on the revised scope.</p>
<p>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)?</p>	<p>TSB is conscious that several years have passed and technology has advanced since the original PSF Blueprint was written and its design principles agreed. Participants’ usage of APIs is now far more prevalent, Open Banking has established itself in the industry with innovation already taking place and the concept of centralised infrastructure in a highly networked, global environment seems increasingly outdated. Rather than considering the NPA in the traditional sense of a central application, perhaps the industry needs to consider it as an Ecosystem with many institutional and vendor participants, where bilateral exchange of messages takes place across a secure network, with a settlement facility at its centre and overlay service providers building innovative customer propositions.</p> <p>In this respect, consideration should be given to partnerships not just for provision of the settlement activity but also the secure network, e.g. SWIFT.</p> <p>From a procurement perspective, if the incumbent is asked to proceed, we would therefore recommend that any commercial contracts put in place are more flexible and modular by nature, with potentially separate pricing and cost recovery models associated with them, such that separate procurements for discrete capabilities could be undertaken in the future, rather than an “all in one” scenario that we have today.</p>



#### **Addendum 1.**

**Further comments, as at 22 June, following publication of elements of Pay UK's responses to the PSR's February consultation paper.**

'Whilst our original view was that a direct award would have appeared on the face of it to reduce both risk, timescales and cost, the proposed reduced scope to concentrate on push payments and the fact that Pay.UK presented information that suggests there was little time benefit of a direct award has meant we have a more neutral view than that set out above.'



**PSR Consultation into Delivery of NPA ref CP21/2**

Consultation Questions Part 2 (by 5th May 2021)	TSB Response
Questions related to competition	
7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.	We broadly agree with the descriptions to promote and facilitate effective competition in the NPA but would also add that we believe that different parts of the NPA ecosystem perhaps warrant different approaches when considering competition, e.g. the CSS vs the network vs overlay services, due to the different levels of criticality and controls required in each.
8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.	We broadly agree with the assessment of competition risks and their practical implications within the NPA, noting that certain parts of the NPA ecosystem are more critical than others and the risk of market failure needs to be considered. We would also suggest consideration needs to be given to the inherent commercial risks of consciously introducing multiple 3 <sup>rd</sup> party suppliers to the NPA ecosystem and how the risks of any given supplier failing can be managed. Specifically, how do we avoid a “too big to fail” scenario occurring within the overlay services marketplace.
9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?	Noting the statement below for response to Q11, regarding horizontal risks relating to Point of Sale (PoS).  No further comments to add.
10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.	Pay.UK is currently proposing a discrete, managed core network service into which all CSS, common and overlay services would “plug in”. Since practically speaking this core network can only be provided by a single supplier, we would suggest this warrants special attention. Other common services that again may need special attention would be any that relate to collection, aggregation or provision of data, either transactional or reference, where access to such data provides insight into competitors’ behaviour. There may need to be design principles put in place around anonymisation of such data to avoid competition risks arising. An additional scenario could be if the incumbent were to remain as NPA CIS provider and has access to existing scheme information that provides them with a competitive advantage in terms of managing customer migration from existing overlays to new ones.



11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.	<p>Specific and clearly defined SLA's for NPA should be defined in the contract with a focus on resilience, separate accounting, business processes and information firewalls should be introduced. A horizontal competition risk could materialise if point of sale payment innovation was inhibited by a conflict of interest. This could occur if the CIS Provider is also an incumbent PoS payment service provider. Alternatively, they may be incentivised for NPA to succeed if it enables a more efficient payment journey that can be leveraged.</p> <p>Any constraints placed around legal entity separation at the point of contract signature are valid, but there is a risk around the ongoing enforcement of such constraints especially in the context of the CIS provider being involved in merger/acquisition activity which may compromise the original separation.</p>
12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?	No further comments to add.
<b>Questions related to pricing</b>	<b>Response</b>
13. Do you have any comments on the pricing principles set out in this document?	The pricing principles outlined seem reasonable. One observation however is that the principles relate purely to CIS pricing – from an end user perspective, an overlay service provider is likely to charge for their services separately (and covering their own CIS usage costs). We need to ensure that by creating a marketplace of overlay providers, providing services that were previously provided centrally as part of the single CIS, e.g. Bacs, we do not create a situation whereby the cost to the end user is higher due to multiple suppliers adding their own profit margin.
14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?	We suggest considering a principle relating to size of CIS user, such that the pricing model does not inhibit or disadvantage smaller and mid-tier participants.



# Virgin Money UK



## Questions related to the risks to NPA delivery

1. Do you agree with our view of the risks to the successful delivery of the NPA?

Virgin Money Response:

We agree with the views expressed regarding risk to the successful delivery of the NPA. The complexity of the current scope in terms of the migration of Faster Payments and Bacs will we feel lead to cost escalation, delayed delivery, reduced value for money and subsequent delay to tangible consumer benefits.

## Questions related to procurement scope

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?

Virgin Money Response:

We agree with the stated risks, pros and cons set out in terms of the scope of the initial procurement. The narrowing of the scope and focus on Faster Payments and the introduction of ISO 20022 coupled with single immediate payments will expedite the benefits of NPA and de risk the overall implementation.

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?

Virgin Money Response:

We prefer scope option 2, progressing with a narrower scope focussing on CSS and the common services needed to migrate Faster Payments will reduce complexity and promote more immediate realisation of benefits. A review of Bacs migration with the advantage of already having migrated Faster Payments can then be undertaken. In terms of cost implications option 2 will allow us to focus internal resource more acutely which should bring benefits in cost.



4. Under scope option 2: a. 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?

b. 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 common services to support the migration of Bacs transactions?

c. 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?

Virgin Money Response:

- a. We have no definitive view on timeframes at this point. We would welcome the opportunity to review and contribute where applicable to market -led propositions at a point where we are happy that that the initial scope of the NPA (as detailed in previous answers) was at a mature position. We would advocate a think tank consisting of consumers, participants, relevant commercial representatives (firms that utilise bulk BACs payments) and fintechs.
- b. Yes, file-based common services should be excluded and reviewed in conjunction with the migration of Bacs to ensure there is a joined up strategic approach to bulk payments across all channels
- c. We feel that, as stated above, removing bulk processing from the initial scope enables a full review of bulk processing functionality in a later phase and brings advantages in a joined up strategic direction for this form of payment processing

## Questions related to procurement approach

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.

Virgin Money Response:

We feel that at this point Option 3 is preferred. Although we see the benefits in competitive procurement, progressing with the current incumbent will give greater benefits in terms of the quickest route to delivery and subsequent benefits. We feel there would also be a reduction in the overall risk profile and quicker realisation of benefits if the incumbent can deliver on the 'fast track' items on the existing platform including an ISO 20022 wrapper and a quicker route to immediate payments. We would urge Pay.uk and the current supplier to provide more tangible detail and guarantees on the fast track items as soon as possible. The above view is based around the narrowing of scope for the initial procurement, should the decision be made to continue with the original scope then we would look more favourably on option 2.

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)?

VM Response – No we feel the options detailed are sufficient.



## Virgin Money Response to the PSR consultation – Delivery and regulation of the New Payments Architecture

7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.

Virgin Money Response: We agree with the descriptions around how to best promote and facilitate effective competition. In terms of low barriers to entry we feel that this is key with NPA and are confident that the work Pay.UK have completed to date in terms of the lowering barriers, as can be seen with the increase in participation numbers through Faster Payments for example, will continue through to NPA.

We agree that there should be no scope for participants to behave in an anti-competitive manner through market power and that there should be easy access to comparison and switching between PSP's in order to promote competition in the NPA ecosystem. We feel that governance of competition as detailed above is a shared responsibility through PSP's, the regulator and can be enabled by Pay.UK however the full remit of responsibility for effective competition cannot be left solely with PAY.UK.

In terms of the technical design principles we agree broadly with the principles detailed in paragraph 5.8. It is key that the design of the CIS allows resilient, scalable solutions that can deliver and monitor ongoing high service levels whilst promoting competition and innovation.

8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response

Virgin Money Response: We broadly agree with the assessment of competition risks and implications. We agree that there are tangible risks around a possible monopoly and the eventual CIS provider taking advantage of their position in the supply of additional services. We feel it is key that Pay.UK address these risks and ensure pro-competitive behaviour is evident and monitored and elements such as competitive pricing are at the forefront.

9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?

Virgin Money Response: In terms of both the high-level mitigations and governance principles that have been identified we feel that these are valid in addressing competition risk. There does however need more work in clarifying how these mitigations/principles can be effectively put in to practice and ensuring the benefits can be realised as detailed in the UK Finance response to this consultation.



10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.

Virgin Money Response: No, we do not consider that the provision of common services for the initial scope of procurement will materially alter the competition risks raised by the PSR in their analysis of the provision of the CSS

11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.

Virgin Money Response: We feel that the specific elements of operational separation have a dependency on the chosen supplier, however consideration should be given to accounting separation to ensure fair and honest accounting of services and branding to ensure there a clear differential to other services that may be offered by the chosen supplier.

12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?

Virgin Money Response: We have no issues with the proposal to bring forward regulatory measures around mitigations and principles however, as mentioned previously, further clarity on how these are put in practice is needed.

13. Do you have any comments on the pricing principles set out in this document?

Virgin Money Response: We are supportive of the principles set out in the document and that they should be considered by Pay.UK through the procurement process.

14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?

Virgin Money Response: Yes, we feel the principles set out in the document can help in the mitigation of competition risks



**Wise**



## PSR: Delivery and regulation of the New Payments Architecture - Wise response

### **About Wise**

Wise is a global technology company, building the best way to move money around the world. With the Wise account people and businesses can hold 55 currencies, move money between countries and spend money abroad. Huge companies and banks use Wise technology too; an entirely new cross-border payments network that will one day power money without borders for everyone, everywhere. However you use the platform, Wise is on a mission to make your life easier and save you money.

Co-founded by Taavet Hinrikus and Kristo Käärmann, Wise launched in 2011 under its original name TransferWise. We're proud to be UK HQ-ed, employing over 2,200 globally, and to have a sustainable business model which has turned a net operating profit for four consecutive years. Over ten million people use TransferWise, which processes over £4.5 billion in cross-border payments every month, saving customers over £1 billion a year.

We are licensed as an Electronic Money Institution (EMI) in the UK and offer a range of products and services, including a money transfer service and a multi-currency account that functions as a wallet. Our customers now hold over £3 billion on these multi-currency accounts.

<b>Questions related to the risks to NPA delivery</b>
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#### **1. Do you agree with our view of the risks to the successful delivery of the NPA?**

Wise agrees with the PSR's risk assessment. The main priority for the New Payments Architecture (NPA) should be to deliver value for consumers. In order to achieve that goal and to ensure that innovation is encouraged, the NPA needs to be delivered in a way that allows for maximum iteration. We believe that can best be achieved by adopting a minimum viable product (MVP) approach, allowing ample room for testing, iterating and improving. If we wait for the NPA to be in a near-finalised stage before we start pushing volume through and opening up access, we risk delaying the whole project unnecessarily.

Opting for an MVP approach, which can easily be iterated upon, would also ensure the procured services can be more future-proof. The payments landscape is constantly evolving and iterations allow for more of these services to be taken into account as they come into existence. Allowing for additional flexibility will also ensure that the NPA can deliver change faster than what is currently possible under FPS, where changes take at least six months to be delivered.

Today, the connection options for Bacs and FPS create barriers to entry that shouldn't just be moved across to the NPA. We have to be mindful of delivering value for money, including for smaller PSPs and their customers.



In addition, we agree with the PSR's statement that the pandemic has only made delivering on the NPA more pressing. While it's important to acknowledge that some PSPs may have seen a loss in revenue, it's equally important to note that the same is true for consumers and smaller businesses, and delivering value for users of those PSPs is integral.

To mitigate the risks to the swift delivery of the NPA, incentives should be put in place to discourage delays in decommissioning FPS. This could take the form of the remaining participants that haven't moved from FPS to the NPA - and are therefore causing a delay to the decommissioning of FPS - having to foot the bill for the entire infrastructure. We should not apply this approach to Bacs, where immediate decommissioning would mean a certain loss of data (e.g. direct debit mandates). A phased and measured approach is more appropriate. Our preferred approach is detailed further down in this response.

**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?**

Yes.

We applaud Pay.UK's decision to not simply implement an ISO20022 like-for-like but to ensure that additional services can be added onto the NPA to make it future-proof and innovation-friendly. This is why we would also highlight that it's important the NPA doesn't just become a like-for-like to replace FPS.

It's important, however, that the NPA does not promote the use of legacy systems. The industry and regulators have an opportunity to start afresh and should ensure that the NPA isn't limited by prescriptive measures such as physical infrastructure. To enhance the NPA's resilience, allowing for the use of cloud services has to be an integral part of the architecture's set-up. Not only would this ensure that the NPA provides a future-proof service, it would also allow for iterations to happen much more quickly and seamlessly. The payments landscape evolves at such rapid speeds, it is crucial that oversight and operations are allowed to happen digitally.

**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?**

We agree with the PSR's assessment and would have a strong preference for the option that allows us to deliver on the NPA faster, which is option 2. Option 2 would allow for more innovation and faster delivery, ultimately benefiting consumers and businesses. It is important to note that this requires the NPA to be delivered in a way that allows for easy adaptation and iteration, to ensure innovation isn't stifled by prescriptive architecture.

Wise is agnostic about the provider that ultimately supplies the NPA. Our primary concern is around the delivery time. If the current supplier - Vocalink - is able to supply the NPA quickly, while providing value for money and delivering on the NPA's main objectives, we would stand behind a decision to continue with the same supplier, as long as this means the latest standards - as well as enough wiggle room for future developments - are implemented.



**4. Under scope option 2:**

- a. 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?**

We shouldn't migrate Bacs at the same time as FPS, but should take a stop-and-start approach. Migrating FPS transactions is easier, as we are moving the payment scheme to new rails. Bacs predominantly relies on legacy systems, reliant on older assumptions. The benefits of migration are much less impactful than for FPS. With Bacs, direct debit instructions would be lost and it would require a fresh start. Therefore, start-stop might be a more optimal solution for BACS.

- b. 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 common services to support the migration of Bacs transactions?**

Yes, they should be excluded as they are used by a limited number of institutions.

- c. 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?**

We have no views on this 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.**

Wise is a direct participant in FPS. Our customers have hugely benefited from its implementation and its openness to non-bank participants. We believe a speedy delivery of the NPA will provide the best value for money for our customers. This is conditional on the NPA being delivered in a way that allows for iterations to ensure it continues to support the latest innovations in the payments landscape.

The decommissioning of FPS is key to the value proposition of the NPA. We won't see the true value of the NPA until FPS is fully decommissioned, which should happen as early as reasonably possible. We shouldn't aim for a variety of features for the NPA's go-live date, but we should aim to make FPS fully redundant by introducing new features which can be added on to the NPA at a later stage through iteration.

**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)?**

We have no views on this question.



## **WISE LTD CONSULTATION SUBMISSION**

### **DELIVERY AND REGULATION OF THE NEW PAYMENTS ARCHITECTURE [QUESTIONS 7-14]**

**For the attention of  
PAYMENT SYSTEMS REGULATOR**

MAY 2021





## ABOUT WISE

*Wise welcomes the opportunity to respond to this consultation. Wise is a global technology company that's building the best way to move money around the world. Whether you're sending money to another country, spending money abroad, or making and receiving international business payments, Wise is on a mission to make your life easier and save you money.*

*Co-founded by Taavet Hinrikus and Kristo Käärmann, Wise (formerly TransferWise) launched in 2011. It is one of the world's fastest growing tech firms. We're proud to be headquartered in the UK, employing over 2,300 globally, and to have a sustainable business model which has turned a net operating profit for 4 consecutive years.*

*Over eight million people use Wise, which processes over £4.5 billion in cross-border payments every month, saving customers over £1 billion a year.*

### Questions relating to competition

**Question 7: Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.**

1. Wise agrees that there should be ongoing low barriers to entry for the New Payments Architecture (NPA), protection against anti-competitive behaviour, and easy switching between Payment Service Providers (PSPs). All three are fundamental to supporting further innovation and competition in the payments landscape, and should be warmly welcomed.
2. On the technical design principles in 5.8 of the consultation paper, Wise broadly agrees with those outlined. In particular, Pay.UK should be mindful of the scalability of services to ensure cost effectiveness moving forward. It is important for products to go live as quickly as possible and be flexible, in order to accommodate a variety of payment services and infrastructure, that exist now and in the future, at speed. This will allow the NPA to add new features over time, and help futureproof the payment rails.

**Question 8: Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.**

3. With regards to competition in the procurement process for delivering the Central Infrastructure Services (CIS) to the NPA, Wise believes Pay.UK should continue with the existing competitive procurement process. We are committed to fair and open competition; given the information we have currently, the existing competitive process allows us to deliver the NPA in the quickest manner possible, benefitting the end user which is our top priority. Wise also has secondary concerns that any non-competitive direct negotiation with a CIS provider would set an uncomfortable new precedent, which in our opinion will create negligible time and cost benefits to the delivery of the NPA.





4. As outlined in the consultation paper, Wise agrees that managing the scope of functions of any CIS chosen to deliver the NPA will be important in managing risk to competitiveness. The paper correctly identifies potential monopolistic risks from a CIS, and Wise agrees that Pay.UK should be the primary interface for all participants engaging with the CIS in order to prevent it from directly dealing with participants. This will also help to deliver fair competition amongst companies to deliver features on the NPA, which Wise believes is a more important consideration than any potential anti-competitive risk of building the technical infrastructure itself. This also helps to mitigate horizontal competition risk, as outlined in 5.26 to 5.30 of the consultation paper.
5. The PSR should also remain mindful of the issues facing the Faster Payments System (FPS) today, and consider these when conducting the CIS procurement process. For example under FPS, the CIS obligates all participants to connect via networking channels which are profitable for the CIS; this requires expensive physical infrastructure for all market participants, and is an expensive barrier to entry - as well as being inefficient - for innovative fintechs. More inclusive internet-based access, either through cloud connectivity or via APIs, can and should be adopted for the NPA.

**Question 9: Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?**

### **Specific mitigations**

6. Run an effective procurement process: Please see paragraphs 4 and 5 in this consultation response.
7. Ensure that the contract with a CIS provider includes incentives to foster and facilitate innovation, and limits incentives to distort competition: Wise requests the PSR provides more information on how it expects to include such incentives contractually. While the ambition to do so is admirable, negotiations with a CIS provider should not be unduly delayed due to such provisions. As outlined in paragraph 5 of this response, Wise believes that strong competition will arise from participants delivering innovative features to the NPA over time - however, oversight of the CIS provider with regards to the principles of innovation and competition distortion is required.
8. Prevent a CIS provider (or its owner) using commercially sensitive information for its own benefit in another market: While the principle of this mitigation is a correct one, Wise would like greater clarification on what existing or new legal or regulatory mechanisms it plans to implement to achieve this. The suggestion of requiring the CIS to have operational separation is an interesting one; there is value in allowing operational information sharing across markets to ensure that the payment rails remain robust and competitive using best-practice standards internationally. However, excluding commercially sensitive information is important, and enforcement and monitoring concerns remain.





9. Include, and then monitor, Service Level Agreements (SLAs) in a CIS provider contract: SLAs are a key part of any outsourced contracts, particularly for an infrastructure project the size of the NPA. It is important to make clear the expected quality of service, outline remedial options when this service cannot be met, and in extreme cases penalties for service delivery failure.
10. Ensure CIS user prices are set using proportionate, objective and non-discriminatory (POND) criteria and follow the pricing principles set out in Chapter 6: Wise welcomes the use of the POND criteria for pricing, and agrees with the pricing principles set out in Chapter 6 of this consultation. It is in the interest of all participants for the NPA to be priced in such a way to incentivise migration from the Faster Payments System (FPS) to the NPA.

### Governance principles

11. Pay.UK should be the primary interface and decision-maker for all matters relating to CIS provision: Wise agrees - please see paragraph 4 of this consultation response.
12. Pay.UK must actively implement rules to promote competition and ensure access terms are POND: Wise agrees that access terms to the NPA should abide by POND principles. Pay.UK has already demonstrated its ability to promote competition within the payments sector; however, the PSR should clearly outline how it intends to implement such a compulsion on Pay.UK in the delivery and oversight of the NPA.
13. If a CIS provider (or its owner) has a significant interest in another payment system that competes with interbank payments or in the NPA's competitive overlay markets, its CIS functions must be operationally separate: Wise agrees that any potential conflict of interest through competing payment rails should see the CIS provider implement operational separation, in order to maintain competition and fairness. Wise also agrees that the PSR should take regulatory measures to enforce this if the CIS provider does not proactively and independently deliver said operational separation if required. However, Wise also agrees with 5.54 of the consultation paper in that if *structural* separation is required it would be highly intrusive, and should only be implemented when it is proportional to the problem.

**Question 10: Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.**

14. No, Wise does not consider that the provision of common services for the initial scope of procurement will materially alter the competition risks raised by the PSR in their analysis of the provision of the CSS.

**Question 11: Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.**





15. Wise agrees with 5.51 of the consultation paper that requiring the NPA CIS to have separate accounting and business services is an appropriate first step, as well as information firewalls to ensure the NPA effectively competes with other payment systems. However, the PSR should note that were it to require a full legal separation in the future, the NPA could see a loss of expertise, which could harm future design improvements and innovation, as any successful CIS provider is expected to have significant experience in delivering payments infrastructure across different markets. This option should only be sought after if strictly necessary.

**Question 12: Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?**

16. It is in the interest of all future NPA participants for the PSR to bring forward regulatory measures where required to ensure specific mitigation and governance principles are implemented (please also refer to paragraphs 6 to 13 of this consultation). However where possible, regulatory measures should not be too prescriptive ex ante, but rather provide the PSR with fallback enforcement powers if and when required.
17. The PSR should also continue to work closely with industry and Pay.UK to ensure the effective risk mitigation and governance of the NPA.

**Questions relating to pricing**

**Question 13: Do you have any comments on the pricing principles set out in this document?**

18. Reflect efficiently incurred costs: Wise agrees that Pay.UK should be able to establish an efficient cost level for building and maintenance of the NPA. We also believe that future efficiency gains, either through technological improvements or through increased transaction volumes, should be factored into any contract signed with a CIS provider. There should also be clear oversight mechanisms for ongoing operating and maintenance costs.
19. Incentivise utilisation of the NPA: Wise agrees that Pay.UK should ensure that there are appropriate incentives for PSPs to utilise the NPA once it goes live. The user prices must be immediately attractive to PSPs to ensure enough transaction volume switches to the NPA for users to realise the benefits of use. Such competitive pricing will encourage broader adoption and migration of FPS payments. However, cost competitiveness must also remain conscious of seeking the eventual migration of Bankers' Automated Clearing System (BACS) payments also.





20. Foster competition in services to end users: Wise supports the principle of fair and equitable pricing for different types of end users. Whether a direct or indirect PSP, an account or market overlay provider, fair pricing will help to ensure that participants remain competitive and continue to innovate product offerings. However, Wise remains unclear as to how it intends to ensure transaction fees are exactly 'the same regardless of how the payer initiates [a payment]', given complex pricing structures already seen through FPS and BACS.
21. Be transparent and predictable: Wise agrees with 6.28 - 6.31 in the consultation paper.
22. Adapt to changing competitive conditions: Wise agrees with the principle of Pay.UK remaining agile enough to ensure the NPA remains competitive to changing market conditions over time. Wise expects that per transaction cost should decrease over time, as transaction volume increases. As the consultation paper states, reviewing and adjusting the fee level periodically is a sensible approach; however, this period should be set in advance to ensure that PSPs have enough warning ahead of any cost change. Any cost reductions should be implemented without delay; however should there be any proposed cost increases, Wise recommends that this is done on an alternating basis - a set period for cost and pricing structure review only (and to collect industry views if required), followed by a second set period to implement any cost increases (or to conduct a second review if the first did not result in the need for cost change).

**Question 14: Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?**

23. Overall, Wise supports the pricing principles set out in the PSR consultation paper. However, it may also be useful to explicitly include the need for pricing to consider how it acts as a barrier to entry for new market participants. Whilst consideration of barriers to entry is included in the design principles of the NPA, Wise believes it should cover pricing also. On pricing, the principle of 'fostering competition in services to end users' broadly touches on this issue, however Wise believes an expansion of this or a new principle to cover the role of pricing as a barrier to entry would be beneficial.





# Technology Services Providers



# Access PaySuite Limited



# Delivery and regulation of the New Payments Architecture Payment Systems Regulator Consultation (CP21/2)

## March 2021

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Response from Access PaySuite Ltd

**Access PaySuite Limited**

**Date:** 16 March 2021

**Version:** 1.0 FINAL

**Assignment:** PSR Consultation CP21/2: Delivery and regulation  
of the New Payments Architecture



This paper sets out Access PaySuite's response to the first six questions in the Payment Systems Regulator's (PSR) consultation on the delivery and regulation of the New Payments Architecture (NPA).

These six questions focus on the risks to the delivery of the NPA and the options for reducing these risks by changing the scope of and approach to the initial procurement.

Access PaySuite plan to submit a further response providing views on the PSR's proposals for mitigating competition risks including the pricing principles by the 5 May 2021 deadline.

### **About Access PaySuite Limited**

Access PaySuite Limited is a leading BACS Approved Bureau and FCA regulated Payment Institution currently submitting over £6b in total BACS Direct Debit and BACS Credit volume. Access PaySuite is part of the Access Group which is a leading provider of business management software to mid-sized organisations. It helps more than 35,000 customers across commercial and not-for-profit sectors become more productive and efficient. Its innovative Access Workspace cloud solutions transform the way business software is used, giving every employee the freedom to do more. Founded in 1991, The Access Group employs more than 3000 staff. For more information about The Access Group, visit [www.theaccessgroup.com](http://www.theaccessgroup.com).

Author: Mike Chambers



## Questions related to the risks to NPA delivery

### ***1: Do you agree with our view of the risks to the successful delivery of the NPA?***

We broadly agree with the PSR's view that Option 1 presents unacceptably high risks, we also agree that the current delays are preventing the delivery of end user innovation and that the migration risk is a material concern.

Whilst it could be argued that the COVID pandemic has introduced an additional delivery risk we are of the view that the validity of this risk as a determining factor in deciding the way forward for the NPA has passed.

The passage of time and the various programme resets have clearly had a profound impact on the delivery of the NPA and without clear, decisive and remedial action the future delivery and success of the NPA cannot be assured.

The Pay.UK commissioned independent assurance review in Spring 2019 noted the absence of strong foundations and recommended a programme reset. Access PaySuite believes that the need to establish strong foundations and to reset the debate is particularly relevant for Direct Debit and, to an extent, Direct Credit.

It is apparent that the programme reset adopted by Pay.UK and the intervention by the PSR is seeking to ameliorate the identified risks.

Whilst there are many facets to the proposed NPA, Access PaySuite is principally concerned that the future strategic direction of the UK's pre-eminent 'pull' payment system has not been thoroughly explored or validated with stakeholders.

On this basis we believe that Option 1 has the additional risk of a vendor being selected and a solution being procured before the full scope of the NPA, especially the concept of transitioning a Direct Debit ('pull') to a Direct Request ('push') has been appropriately explored with stakeholders.



A clear tenet of the NPA programme is to deliver increased innovation and competition (both 'in' and 'for' the market'). The PSF was formed six years ago and the delivery timeline of the NPA has yet to be determined. The consequence of the passage of time is that the underlying services delivered by the Faster Payments and Bacs schemes have been preserved in aspic at exactly the time that a societal shift to digital payments, the payment opportunities afforded by Open Banking PISP and VRP and, perhaps even, the future of a Sterling CBDC are placing a greater dependency upon Faster Payments (and Bacs Direct Debit / Direct Credit to an extent).

The net result is the delays and uncertainty of NPA are presenting a material risk to effective competition and innovation. As time passes the stagnation in developing and enhancing Direct Debit is becoming increasingly apparent.

Whether the NPA is delivered as originally envisaged or is delivered to a narrower scope there is a material risk that continued delays, pausing and ongoing uncertainty will make it very difficult for Pay.UK to attract and retain the subject matter expert resources that are required to deliver such a complex and systemically important critical payment system.

A phased approach to delivery is essential to successful delivery. An agile and iterative approach to delivery will ensure scope for checkpoints throughout the project where participant feedback can be gathered for continuous improvement throughout the delivery.

Reviewing the scope of the proposed NPA to mitigate the identified risks is not without precedent. The current scope of the NPA focusses on replacing Faster Payments and Bacs Direct Debit / Direct Credit, whereas the original scope also included Image Cheque Clearing. Reviewing the scope as a mechanism to mitigate risk can a pragmatic thing to do.

## Questions related to procurement scope

### ***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?***

The analysis conducted by the PSR explores how delivery risk might be mitigated and the extent to which an alternative approach might stimulate competition and innovation.



The findings of the Cruickshank Report (2000), events leading up to the creation of the Payment Systems Regulator, the Specific Directions set by the PSR and the recommendations reached by the Payments Strategy Forum (2017) all point to competitive procurement of the underlying services that support the UK's retail payment schemes operated by Pay.UK.

Assuming that the regulatory desire for the competitive procurement of clearing and settlement services by a Payment System Operator remains, the analysis of the alternative options outlined in the consultation to mitigate the risks considered to be unacceptably high has the potential to address some, but by no means all, the identified risks.

On balance, and reflecting on the risks covered in question 1, we broadly agree with the analysis presented in the consultation paper.

***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?***

Given the challenges that the NPA programme has experienced since it was inception in early 2018 it is difficult to see how option 1 can be considered to be viable in its current form. Even with a significant reset it is hard to envisage how some of the views held by the PSR on the material risks could be satisfactorily mitigated.

Based on the arguments made in the consultation paper a binary decision between option 1 or option 2 would point to selecting option 2. An initial competitive procurement of a core clearing and settlement service layer along with the common services needed to successfully migrate Faster Payments to a new NPA platform followed by a second procurement approach (if required) for Bacs Direct Debit and Direct Credit would be an obvious solution to a binary choice.

However, for a number of reasons (including para 1.30 of the consultation which states that ...limiting the initial scope will allow time for Pay.UK to do further work to assess how Bacs services should be delivered in the future), Access PaySuite would like to propose an alternative option for the NPA programme.



An alternative approach to the binary choice between option 1 and 2 would be to further develop option 2 and progress a reconfigured NPA programme in four distinct tranches:

### **Option 3**

- ***Tranche 1: Settlement Services***

This tranche would focus on the settlement aspects of the NPA and seek to align with the services to be offered by the Bank of England as settlement agent and within the scope of the RTGS Renewal Programme. Including but not limited to: settlement cycles to support Faster Payments moving from NRT to RT settlement, on-boarding access for new participants and efficient use of liquidity across payment schemes.

The historic delays, current pause and any subsequent reinstating of the NPA programme means that the settlement services aspects of the NPA need to be defined, agreed and delivered within the timeframe of the Bank of England's RTGS Renewal Programme or the opportunity to maximise the benefits noted above might be lost.

- ***Tranche 2: Faster Payments 2.0***

The consultation paper states a preference (option 2) for a narrower scope initial NPA which might reduce complexity, accelerate Faster Payments migration and support the faster realisation of any benefits.

In addition, this tranche should also consider the end user proposition aspects of Faster Payments including moving the current Near Real Time proposition to Real Time. Such an approach will also benefit developments within Open Banking where a real time payment leg is required and the market adoption of innovations such as Request to Pay.

When launched over a decade ago Faster Payments led the world – Faster Payments needs more than an ISO 20022 based NPA transition, it needs a holistic reset to create Faster Payments 2.0 as an upgraded real time system.



- ***Tranche 3: Direct Debit 3.0***

Processing over 4.5 billion transactions a year and a strong 50 year heritage it is clear that Bacs Direct Debit is a much valued payment instrument.

We believe that the future role, function and delivery of Direct Debit within in the NPA has not been fully determined or validated with stakeholders. Para 1.30 of the consultation states that ...limiting the initial scope will allow time for Pay.UK to do further work to assess how Bacs services should be delivered in the future and the independent assurance review conducted in Spring 2019 noted the absence of strong foundations.

Narrowing the scope of the NPA procurement to exclude Bacs Direct Debit as suggested in the PSR proposals will provide the opportunity to consider the merits of both 'push' (Direct Request) vs 'pull' (Direct Debit) collections, bulk vs 1x1 payments and whether the infrastructure required to serve end user needs is better delivered inside or outside a primarily Faster Payments based NPA.

An additional benefit of this approach is that other facets of the Direct Debit proposition such as processing cycle, consumer guarantee, service user inclusion and alignment with 'overlay' services (e.g. Request to Pay and Open Banking offerings (Variable Recurring Payments and sweeping)) could be explored at the same time.

We believe that time and opportunity drivers point to the creation of Direct Debit 3.0 with assessment of the infrastructure fit within NPA taking place in tandem and not sequentially to the other tranches.

Such an approach would also facilitate, if required, a competitive procurement process within or outside of a NPA procurement process.

- ***Tranche 4: Faster Payments DCA / FIM and Bacs Direct Credit.***

When considering option 2, the consultation correctly identifies that Faster Payments DCA / FIM and Bacs Direct Credit are intrinsically linked. It is also clear that choosing an option other than option 1 retains a level of complexity for bulk file submissions for both Faster Payments and Bacs.



Although the market adoption of Faster Payments DCA and FIM is limited it is difficult to envisage these services being withdrawn and, conversely, with the wide market adoption of Bacs Direct Credit it is impossible to contemplate the withdrawal of bulk push payment submissions.

As a precursor to commencing phases 2 and 3 a decision will need to be made about bulk submission. There are four options: (a) withdraw bulk file submission, (b) include DCA / FIM in the Faster Payment / NPA scope, (c) include all push payment submissions into phase 3 or (d) dictate that NPA will only process 1x1 transactions and bulk submission can only be provided as an 'overlay' service.

Mindful of the need to meet customer requirements and the 2009 'end of the cheque that never was' decision, careful consideration of these four potential options is required. At a first glance it seems that only options 'b' and 'c' are viable, but both have significant pros and cons.

However, option 'd' might provide a neat solution for Faster Payments DCA / FIM and potentially provide a solution to enable Bacs Direct Credit migration to NPA be a fast follower to Faster Payments. If this were to occur, then a solution for Bacs Direct Debits outside of NPA but within the settlement layer might present itself.

#### 4: Under scope option 2:

***a: 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?***

It is possible that the elapsed timeframe to transition Bacs Direct Credit and Direct Debit to a NPA environment may not differ significantly between option 1 and 2.

The alternative approach (option 3) outlined in the answer to question 3 above will cause the 'bulk submission' question to be resolved and, subsequently, delivered within a Faster Payments (Phase 2) or Bacs (Phase 3) NPA delivery stream.



Crucially, option 3 provides opportunity for the complex Bacs transition challenges to be addressed without any further detrimental impact on the settlement and Faster Payments aspects of the NPA development.

As the consultation suggests there is a need for any decisions regarding the future of bulk file submission and ('pull') Direct Debits to be built on solid foundations. Also, to avoid a repeat of the 'end of the cheque that never was' decision, a programme of strong end user engagement is required.

These activities should be progressed by Pay.UK, utilise subject matter experts and include independent challenge / thought leadership.

***b: 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 common services to support the migration of Bacs transactions?***

This question has been covered in the answers to questions 3 and 4a.



***c: 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?***

This question has been covered in the answers to questions 3 and 4a.

Although there are many proposition, operational and infrastructure synergies between Bacs Direct Debit and Bacs Direct Credit they are two very different payment instruments that perform different functions.

If both Bacs Direct Debit and Bacs Direct Credit are delivered outside NPA then ensuring central bank settlement synergies would be important (see question 3 above).

If it is decided that Faster Payment DCA / FIM are delivered via a NPA enabled Faster Payment solution, then it is possible that Bacs Direct Credits could be a 'fast follower' and be migrated from the existing Bacs engine. Faster Payments DCA is, in effect, a white label version of Bacs DCA so the process here would reverse the arrangements Bacs originally provided Faster Payments. Obviously other aspects of Bacs Direct Credit will require changing (e.g. clearing cycle).

This would potentially leave Bacs Direct Debit outside of a NPA solution which has pros and cons.

Finally, if bulk submissions were to be delivered as a NPA 'overlay' service then any future Direct Debit (pull) or Direct Request (push) may be less complex to deliver inside or outside the NPA.



## Questions related to procurement approach

### ***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.***

The findings of the Cruickshank Report (2000), events leading up to the creation of the Payment Systems Regulator, Specific Directions set by the PSR and the recommendations reached by the Payments Strategy Forum (2017) all point to competitive procurement of the underlying services that support the UK's retail payment schemes operated by Pay.UK.

Noting the implication of such a decision there is an argument that the provision of systemically important payment systems could be Payment System Operator delivered and not outsourced.

Also, there is precedent that demonstrates that it is possible for a renewed contract to be negotiated with an incumbent supplier.

However, assuming that the regulatory desire for the competitive procurement of clearing and settlement services by a Payment System Operator remains then:

- For option 1 (original NPA scope) the current procurement process ought to continue.

Much time has been invested in progressing PQQ and RFI and getting ready for RFP, to start the process again will cause further delay and, given the complexities and vendor experiences, is unlikely to result in additional vendors entering the mix of potential vendors.

- For option 2 and option 3 (narrower scope) then a new competitive procurement process should be commenced.

Both options 2 and 3 represent a new and far less complex scope and starting a new process (perhaps combining PQQ and RFI into one stage) would provide opportunity for current, excluded and new vendors to enter the procurement process which would support a truly competitive process.

Although elapsed time is an issue there are a number of examples around the world of Faster Payment equivalents being implemented within 12 to 18 month timeframes.



***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)?***

Answers to previous questions consider the pros and cons of bulk vs 1x1 submissions and the merits, or otherwise, of transitioning a 'pull' payment (Direct Debit) to a 'push' payment (Direct Request).

Permanently excluding Bacs Direct Debit and Bacs Direct Credit from the scope of the NPA is a realistic option. That said, such an option cannot be regarded as a 'do nothing' option as the infrastructure will still need procuring, ongoing hardware / software investment will be required, settlement synergy will be required and the proposition will need developing (Direct Debit 3.0). All decisions would need to be based on a clear strategy for bulk push / pull payments set in the context of a holistic payments strategy.

Although outside of the scope of this consultation it is important to note that the NPA offers a 'once in a generation' migration path to a feature rich ISO 20022 utilising enhanced data building blocks. It is important that, in all the adjustments made to enable the delivery of NPA, the message standard opportunity is not lost.

<END>



# Amazon Web Services



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*Via-email: PSRNPA@psr.org.uk*

19 March 2021

**Amazon Web Services (AWS) response to the Payments System Regulator's Consultation Paper on "Delivery and Regulation of the New Payments Architecture"**

Dear Sir/Madam,


AWS welcomes the opportunity to provide comments to the PSR's Consultation Paper "Delivery and Regulation of the New Payments Architecture". As a cloud services provider, we have limited our observations to the issues where we believe we have relevant insight and technical knowledge.

By way of background, AWS provides cloud computing infrastructure to many of the UK's leading brands, including those in the financial sector, such as Barclays, HSBC, Monzo, Starling Bank, and Standard Chartered. According to a report on the economic impact of AWS and cloud technology across the UK<sup>1</sup>, and which we commissioned to a third party consultancy, AWS is generating £8.7 billion in economic value for businesses across the UK and companies running on the cloud are nearly three times as likely to be growing over 5% a year than those who are not. Equally important, this growth is accompanied by enhanced security and resilience, with wider benefits for UK consumers and the economy in general.

In providing our responses, included in the annex, we have borne in mind that the PSR's plan to transform the UK's payments infrastructure is not just a point in time ambition, but an on-going objective to make it suitable for the digital age. We believe that Cloud-based technologies will have an important role to play in the development of a UK's National Payments Architecture that benefits people and business across the country. It offers low cost, scalable, resilient and secure infrastructure that crucially provides a platform for innovation and the evolution of payment services in the UK. We believe that this is relevant to the scope (Questions 4a and 4b) and approach (Question 6) to procurement of central infrastructure services (CIS). Additionally, Cloud technology has a role to play in promoting competition (Question 7) and the delivery of low cost, transparently-priced payment services (Question 13).

AWS strongly believes that a Cloud-based solution has an important role to play in helping to address the challenges facing the UK Payments Sector and the stated requirements of the PSR while supporting its digital transformation. We thank the PSR for the opportunity to comment on the consultation paper, and would appreciate the opportunity to discuss the responses included in the submission at a time of your convenience.

Kind regards,



AWS

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<sup>1</sup> See <https://awsimpactreport.publicfirst.co.uk/>



## **Annex: AWS responses to questions 4a and 4b, 6, 7 and 13.**

***Question 4a: 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?***

Please refer to our answer to Question 6 regarding the design of infrastructure that could support the emergence of market-led propositions to assist with the migration of Bacs transactions, particularly the development of Open APIs, event driven architecture, and the use of cloud Infrastructure as a Services (IaaS), and Platform as a Service (PaaS) providers.

***Question 4b: 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 common services to support the migration of Bacs transactions?***

Please refer to our answer to Question 6 regarding Open APIs based on RESTful design.

***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)?***

AWS supports Scope option 2 (Para 3.11) as a procurement approach to reducing the risk of delivery of the NPA. A reduced scope and targeted programme to enable Clearing and Settlement Services (CSS) as part of a 'thin core' and minimum viable solution for migration of Faster Payments is prudent. While reducing the risk of the programme with a narrower scope, we believe the programme can simultaneously establish a robust, scalable and functionally extensible foundation by leveraging open standards and modern cloud architecture design patterns.

To facilitate this extensible foundation we recommend:

- Use of ISO 20022 as an open payments data model. As past Pay.UK consultations have confirmed, leveraging such a standard that is itself rich and extensible; interoperable across corporate & retail payments; supports low, high & instant payment systems; and will soon be supported in correspondent banking and domestic clearing systems of all major currencies, will enable an interoperable data layer for the NPA, and its planned and future participants. In following the Scope option 2 approach, this should use rich ISO 20022 data fields in its first phase of services similar to the approach that SWIFT and other countries have opted. Rich data will further enhance value, facilitate innovation and interoperability in the programme.
- An event-driven architecture that enables decoupled microservices. Such architectures, built either on containers or serverless cloud services, are highly scalable, fault-tolerant, and enable agile and independent development and deployment. Moving away from monolithic and tightly coupled proprietary applications will allow the programme to reduce vendor lock-in, increase interoperability (Para 3.25) and make it future-proof by enabling new payment services in the future with reduced complexity and costs.
- As an extension of its internal event driven system architecture the NPA, where possible, should use Open API based on RESTful design as a service channel to participants and third party service providers. Moving away from messaging and file-based payment schemes will allow lightweight integrations and facilitate open banking practices, while reducing complexity and costs for the UK payments community. Where legacy payment schemes (Para 3.32) such as Direct Corporate Access (DCA) and File Input Module (FIM) require messaging or file based channels, an ingestion layer may be implemented to extract, transform, load (ETL) data from legacy formats and protocols for API-based processing.



- Use of cloud Infrastructure as a Services (IaaS) and Platform as a Service (PaaS) providers for compute, storage and database services to: a) shift programme cost structures from large, committed, upfront capital expenditures to a pay-as-you-go cost model; b) allow highly scalable payment services in anticipation of an increasingly digitized UK economy; c) provide flexibility to down-size services and costs from periods of high market volatility or seasonality; d) reduce the need to anticipate and contract for future Bacs migration (Para 3.37); e) shift limited IT talent and capacity from infrastructure operations to more meaningful payments innovation and market integration; and f) enable more resilient, fault-tolerant infrastructure.
- Where possible, procuring infrastructure, platform, application, serverless services and consulting services based on modern pay-as-you-go constructs that limit contractual risks for Pay.UK due to “procuring functionality that turns out to be unnecessary or needs changing” (Para 3.19). For large multi-year programmes where benefits are realized over long design and delivery time horizons this is a key measure to mitigate contract performance risks.

***Question 7: Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.***

We agree with the descriptions in paragraphs 5.7 and 5.8 as they relate to the importance of facilitating effective competition in the NPA ecosystem. Ensuring the NPA ecosystem achieves this objective will be, in large part, a result of effective regulatory measures and functional design. Modern technology supports design options that can enable regulatory measures for the parties involved.

As described above in our response to Question 6, and consistent with the policy objectives of paragraphs 5.7 and 5.8, technology developments such as Open APIs, event-driven architectures, and cloud based IaaS and PaaS can significantly reduce barriers to entry for third parties both large and small and provide the means to scale services quickly and take advantage of economies of scale equally. These technologies also can facilitate switching between providers, as we can see from the development of open standards such as OpenBanking. The success of the cloud native FinTech sector in the UK, disrupting established players with product and service innovations, demonstrates the potential for the NPA ecosystem to place customer focused innovation at the heart of long-term value creation for the UK Payments Sector. These technologies and design principles can also create a data rich environment with which to measure and manage risk. This can form the basis of built in compliance reporting against all payment events or transactions and monitoring of the payments system wide integrity.

We share the view that proceeding with the programme presents risks of not providing acceptable value for money (Para 1.8). In particular we agree with the observation that “...detailed functional requirements for some of the common services Pay.UK is procuring have not been fully determined or validated with stakeholders and the industry is constantly evolving. This adds to the risk that the procurement will not provide value for money: for example, if Pay.UK buys inappropriate solutions, services that may not be necessary or solutions that have been made redundant by the time they are scheduled for use.”

One of the core of objectives of the NPA programme is to deliver “benefits to competition and innovation in payment services” (Para 1.8). In order for the NPA to remain future-proof, it is therefore important to consider the relationship between those benefits and those that might be delivered through the introduction of new initiatives, such as a Central Bank Digital Currency (CBDC). A CBDC solution would enable innovation and open up payment services to new providers through the introduction of an entirely new infrastructure for payments not dependent on the existing banking system. For example it would be possible to define new standards and protocols for offline payments and the programmability of money as part of a CBDC solution which may have wide benefits for users and the wider economy (See AWS CBDC White-paper – [link here](#)). The introduction of a CBDC may also enable new service providers to enter the market more easily and drive innovation further.



This consideration further supports the proposed approach of delivering: “an NPA with only a ‘thin core’ at its centre” in order to simplify procurement and allow the impact of a possible CBDC solution to be taken into account. It also raises the possibility of an alternative procurement approach that is more flexible in coordinating design and delivery options to be able to evolve to take into account plans for a CBDC. For example, such an approach may enable opportunities for interoperability between CBDC and NPA solutions to be considered. It is also possible that lessons learned from the introduction of a CBDC about how to support innovation in new payment services could be incorporated into the design of the CIS in future.

Finally, it is also important to take into account that possibility that delivery of a CBDC may result in a reduction in the volume of transactions against the growth rate currently projected as the CBDC system takes over a significant proportion of payments. This would affect the scale of the infrastructure required for the CIS and therefore potentially its design, which could benefit from the adoption of scalability through cloud technology in order to adapt to future changes in demand.

**Question 13: Do you have any comments on the pricing principles set out in this document?**

We support the PSR’s assertion in paragraph 6.12 that “NPA products and services [should] be priced competitively compared to other payment systems”, and that “CIS user prices [must] reflect efficiently incurred costs”. Further, we fully agree that quality and resilience considerations are also important in ensuring that the NPA sustainably meets the ongoing, and ever changing, requirements of end users.

We note that cloud based technology is different to traditional infrastructure in that it is consumed on a pay-as-you-go basis. Whilst there will always be costs associated with the building, testing and ongoing development of cloud based infrastructure by any CIS provider, cloud based technology costs are usage based. This has some important implications that benefit both the provider (s) of NPA infrastructure, and the Regulator.

- With cloud computing, providers like AWS manage and maintain the technology infrastructure in a secure environment and customers, such as the provider of the CIS, access these resources via the Internet to develop and run their applications. Capacity can grow or shrink instantly and customers only pay for what they use.
- At AWS, our customers can quickly spin up resources as they need them, deploying hundreds or even thousands of servers in minutes. This means customers can very quickly develop and roll out new applications, and it means teams can experiment and innovate more quickly and frequently. If an experiment fails, customers can always de-provision those resources without risk (Para 6.19).
- Further, customers can consume cloud technology at a cost that is much lower than they can provide for themselves. What is more, customers can provision the amount of resources that they actually need, knowing they can instantly scale up or down according to their needs, which also reduces cost and improves the customer’s ability to meet their user’s demands.
- Cloud technology provides for the transparent monitoring of usage through an event driven micro services environment that can be used to form the basis of the management of costs throughout the contract to ensure the most efficient use of services is maintained (Paras 6.17, 6.25, 6.27 & 6.28).
- Cloud also allows customers to innovate faster because they can focus their highly valuable IT resources on developing applications that differentiate their business and transform customer experiences instead of the undifferentiated heavy lifting of managing infrastructure and data centres.



# Answer Pay Limited



## PSR Consultation CP21/2: Delivery and Regulation of the New Payments Architecture



For Payment Service Providers and Banks

# Your API for Request to Pay



## **Delivery and Regulation of the New Payments Architecture Payment Systems Regulator Consultation (CP21/2)**

This paper sets out Answer Pay's response to the first six questions Payment Systems Regulator's (PSR) consultation on the delivery and regulation of the New Payments Architecture (NPA).

These six questions focus on the risks to the delivery of the NPA and the options for reducing these risks by changing the scope of and approach to the initial procurement.

Answer Pay plan to submit a further response providing views on the PSR's proposals for mitigating competition risks including the pricing principles by the 5 May 2021 deadline.

Answer Pay Limited was founded to meet the growing needs of businesses and workers in the Gig economy. With 1 in 10 workers engaged in flexible working arrangements it was clear that existing payment options were failing to meet their needs.

Answer Pay was born to create a more empathetic approach and drive communication in payment services.

To bring the world closer together through smarter payments. We do this by:

- Empowering; in a busy world we support rather than replace.
- Ensuring relationships are mutually beneficial; businesses win when customers win.
- Being smarter; Billing can be contextual, timely and personal.
- Simply communicating; fire and forget messages do get forgotten.
- Standard led; but not being bound by them.

Mike Chambers  
Chairman  
Answer Pay Limited

Email: [REDACTED]  
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### **Questions related to the risks to NPA delivery**

#### **1: Do you agree with our view of the risks to the successful delivery of the NPA?**

We broadly agree with the PSR's view that Option 1 presents unacceptably high risks, we also agree that the current delays are preventing the delivery of end user innovation and that the migration risk is a material concern.

The Pay.UK commissioned independent assurance review in Spring 2019 noted the absence of strong foundations and recommended a programme reset. Whilst it is apparent that the programme reset adopted by Pay.UK and the intervention by the PSR is seeking to ameliorate the identified risks, we are principally concerned that the role of overlay services (such as Request to Pay) have not been thoroughly explored or validated with stakeholders.

On this basis we believe that Option 1 has the additional risk of a vendor being selected and a solution being procured before the full scope (core and overlay) of the NPA has been appropriately explored with stakeholders.

A clear tenet of the NPA programme is to deliver increased innovation and competition (both 'in' and 'for' the market'). The PSF was formed six years ago and the delivery timeline of the NPA has yet to be determined. The consequence of the passage of time is that the underlying services delivered by the Faster Payments and Bacs schemes have been preserved in aspic at exactly the time that a societal shift to digital payments, the payment opportunities afforded by Request to Pay are placing a greater dependency upon Faster Payments (and Bacs Direct Debit / Direct Credit to an extent).

Given Answer Pay's role in the Request to Pay eco-system we believe that the delays and uncertainty of NPA are presenting a material risk to effective competition, innovation and creation of a vibrant Request to Pay marketplace.



## Questions related to procurement scope

### 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?

The analysis conducted by the PSR explores how delivery risk might be mitigated and the extent to which an alternative approach might stimulate competition and innovation.

The findings of the Cruickshank Report (2000), events leading up to the creation of the Payment Systems Regulator, the Specific Directions set by the PSR and the recommendations reached by the Payments Strategy Forum (2017) all point to competitive procurement of the underlying services that support the UK's retail payment schemes operated by Pay.UK.

Assuming that the regulatory desire for the competitive procurement of clearing and settlement services by a Payment System Operator remains, the analysis of the alternative options outlined in the consultation to mitigate the risks considered to be unacceptably high has the potential to address some, but by no means all, the identified risks.

On balance, and reflecting on the risks covered in question 1, we broadly agree with the analysis presented in the consultation paper.

### 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?

Based on the arguments made in the consultation paper a binary decision between option 1 or option 2 would point to selecting option 2. An initial competitive procurement of a core clearing and settlement service layer along with the common services needed to successfully migrate Faster Payments to a new NPA platform followed by a second procurement approach (if required) for Bacs Direct Debit and Direct Credit would be an obvious solution to a binary choice.

However, for a number of reasons (including para 1.30 of the consultation which states that *...limiting the initial scope will allow time for Pay.UK to do further work to assess how Bacs services should be delivered in the future*) we would like to propose an alternative option for the NPA programme.

An alternative approach (option 3) would be to progress a reconfigured NPA programme in four distinct tranches:

- **Tranche 1: Settlement Services**

This tranche would focus on the settlement aspects of the NPA and seek to align with the services to be offered by the Bank of England as settlement agent and within the scope of the RTGS Renewal Programme. Including but not limited to: settlement cycles to support Faster Payments moving from NRT to RT settlement, on-boarding access for new participants and efficient use of liquidity across payment schemes.

- **Tranche 2: Faster Payments 2.0**

The consultation paper states a preference (option 2) for a narrower scope initial NPA which might reduce complexity, accelerate Faster Payments migration and support the faster realisation of any benefits.

In addition, this tranche should also consider the end user proposition aspects of Faster Payments including moving the current Near Real Time proposition to Real Time.

Such an approach will also benefit the creation and subsequent market adoption of a vibrant Request to Pay eco-system.

When launched over a decade ago Faster Payments led the world – Faster Payments needs more than an ISO 20022 based NPA transition, it needs a holistic reset to create Faster Payments 2.0 as an upgraded real time system.

- **Tranche 3: Direct Debit 3.0**

Processing over 4.5 billion transactions a year and a strong 50 year heritage it is clear that Bacs Direct Debit is a much valued payment instrument.

Answer Pay believes that the future role, function and delivery of Direct Debit within the NPA has not been fully determined or validated with stakeholders. Para 1.30 of the consultation states that *...limiting the initial scope will allow*



*time for Pay.UK to do further work to assess how Bacs services should be delivered in the future* and the independent assurance review conducted in Spring 2019 noted the absence of strong foundations.

Narrowing the scope of the NPA procurement to exclude Bacs Direct Debit as suggested in the PSR proposals will provide the opportunity to consider the merits of both push (Direct Request) vs pull (Direct Debit) collections, bulk vs 1x1 payments and whether the infrastructure required to serve end user needs is better delivered inside or outside a primarily Faster Payments based NPA.

An additional benefit of this approach is that other facets of the Direct Debit proposition such as processing cycle, consumer guarantee, service user inclusion and alignment with 'overlay' services such as Request to Pay could be explored at the same time.

We believe that time and opportunity drivers point to the creation of Direct Debit 3.0 with assessment of the infrastructure fit within NPA taking place in tandem and not sequentially to the other tranches.

Such an approach would also facilitate, if required, a competitive procurement process within or outside of a NPA procurement process.

- **Tranche 4: Faster Payments DCA / FIM and Bacs Direct Credit.**

When considering option 2, the consultation correctly identifies that Faster Payments DCA / FIM and Bacs Direct Credit are intrinsically linked. It is also clear that choosing an option other than option 1 retains a level of complexity for bulk file submissions for both Faster Payments and Bacs.

However, whilst we have views on the role of bulk payment submissions, which we would be happy to share, the future of bulk payment submission is not a debate that is relevant to the part of the payments eco-system that Answer Pay operates in.

#### **4: Under scope option 2:**

**a: 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?**

It is possible that the elapsed timeframe to transition Bacs Direct Credit and Direct Debit to a NPA environment may not differ significantly between option 1 and 2.

The alternative approach (option 3) outlined in the answer to question 3 above will cause the 'bulk submission' question to be resolved and, subsequently, delivered within a Faster Payments (Phase 2) or Bacs (Phase 3) NPA delivery stream.

Crucially, option 3 provides opportunity for the complex Bacs transition challenges to be addressed without any further detrimental impact on the settlement and Faster Payments aspects of the NPA development.

As the consultation suggests there is a need for any decisions regarding the future of bulk file submission and (pull) Direct Debits to be built on solid foundations and to be considered in the context of innovations such as Request to Pay.

Also, to avoid a repeat of the 'end of the cheque that never was' decision, a programme of strong end user engagement is required.

**b: 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 common services to support the migration of Bacs transactions?**

This question has been covered in the answers to questions 3 and 4a.

**c: 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?**

This question has been covered in the answers to questions 3 and 4a.



## Questions related to procurement approach

### **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.**

The findings of the Cruickshank Report (2000), events leading up to the creation of the Payment Systems Regulator, Specific Directions set by the PSR and the recommendations reached by the Payments Strategy Forum (2017) all point to competitive procurement of the underlying services that support the UK's retail payment schemes operated by Pay.UK.

Noting the implication of such a decision there is an argument that the provision of systemically important payment systems could be Payment System Operator delivered and not outsourced.

Also, there is precedent that demonstrates that it is possible for a renewed contract to be negotiated with an incumbent supplier.

However, assuming that the regulatory desire for the competitive procurement of clearing and settlement services by a Payment System Operator remains then:

- For option 1 (original NPA scope) the current procurement process ought to continue.

Much time has been invested in progressing PQQ and RFI and getting ready for RFP, to start the process again will cause further delay and, given the complexities and vendor experiences, is unlikely to result in additional vendors entering the fray.

- For option 2 and option 3 (narrower scope) then a new competitive procurement process should be commenced.

Both options 2 and 3 represent a new and far less complex scope and starting a new process (perhaps combining PQQ and RFI into one stage) would provide opportunity for current, excluded and new vendors to enter the procurement process which would support a truly competitive process.

Although elapsed time is an issue there are a number of examples around the world of Faster Payment equivalents being implemented within 12 to 18 month timeframes.

### **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)?**

Answers to previous questions consider the pros and cons of bulk vs 1x1 submissions and the merits, or otherwise, of transitioning a 'pull' payment (Direct Debit) to a 'push' payment (Direct Request).

Permanently excluding Bacs Direct Debit and Bacs Direct Credit from the scope of the NPA is a realistic option. That said, such an option cannot be regarded as a 'do nothing' option as the infrastructure will still need procuring, ongoing hardware / software investment will be required, settlement synergy will be required and the proposition will need developing (Direct Debit 3.0).

All decisions would need to be based on a clear strategy for bulk push / pull payments set in the context of a holistic payments strategy encompassing initiatives such as Request to Pay.

Although outside of the scope of this consultation it is important to note that the NPA offers a 'once in a generation' migration path to a feature rich ISO 20022 utilising enhanced data building blocks. It is important that, in all the adjustments made to enable the delivery of NPA, the message standard opportunity is not lost.

<END>



# Bottomline



PSR Pay.UK / NPA Project Team  
Payment Systems Regulator

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## **RE: CP21/2 Delivery and regulation of the New Payments Architecture Questions 7-14**

We enclose our follow up responses to Questions 7-14 of the consultation in addition to our prior responses.

### [About Bottomline](#)

With more than 30 years' experience in UK clearing, Bottomline are a leading provider of Bacs solutions to a wide swathe of UK companies from FTSE 100 blue chip organisations through to small business. We also provide Financial Messaging solutions that help banks connect to clearing & settlement services domestically and internationally.

### [Questions related to the risks to NPA delivery](#)

#### *1. Do you agree with our view of the risks to the successful delivery of the NPA?*

Bottomline broadly agrees with the PSR's assessment of the risks to a delivery of the New Payments Architecture (NPA) in its current form; there is a significant and growing set of risks that the NPA will not deliver value for money in a timely fashion.

The length of time between the formation of the Payment Strategy Forum (in 2015), the publication of the PSF blueprint, and the subsequent work towards a procurement by Pay.UK has been significant. It is important to recognise that the accelerating rate of change in technology throughout the intervening period – including initiatives such as Open Banking, CBDCs and international RtP workgroups – may need to be reflected in changes to the scope or applicability of the recommendations in the original blueprint.

The PSR was right to reject the recommendation of the Strategic Participant Group (SPG) and subsequent request from Pay.UK to cancel the current competitive contract. This approach would have unfairly skewed the aims of the NPA & Pay.UK towards a singular outcome at the expense of a competitive & innovative procurement. Of particular concern should Pay.UK's request for exemptions from obligations under PSR SD 2 & 3 have been allowed would have been a risk that the current incumbent being unable to accept any restrictions and regulations placed on it as part of a contract for CIS; including the reductions in any economic interest it may have in overlay services or other payment systems being part of Mastercard. This could lead to a breakdown in ability to reach agreement on terms, resulting in deadlock and a complete failure to deliver the NPA CSS scope.



## Questions related to procurement scope

### *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?*

Bottomline agrees with the PSR's assessment of Options 1 & 2 generally.

We would however emphasise particularly for Option 1 the importance of Pay.UK taking appropriate steps to enhance its current level of knowledge and understanding to ensure that it is able to discharge the role of 'well informed buyer', especially in relation to Bacs; this need is particularly acute given that the majority of detailed knowledge is held within the current incumbent technical provider (Vocalink) and is unable to be readily accessed in the current tender process. This overall need for education of Pay.uk would undoubtedly have an impact on timescales [however we believe that any delay would be outweighed by the increased likelihood of the procurement delivering a better outcome].

We would also call out the need for Pay.UK and the PSR to be mindful of the risks that could arise from adopting a 'competition at all costs' approach, particularly in an Option 2 scenario where the CSS layer is stripped down. Currently (ancillary to clearing) services like the Current Account Switch Service (CASS) & Bulk Payments Redirection service play an essential role, and we would strongly suggest they should be considered central services; any forced 'competition' in these could have unintended consequences by destabilising and fragmenting services whose efficacy is predicated on being ubiquitous & consistent. This is especially important in Option 2; where these systems must 'bridge' and be interoperable between NPA, FPS & Bacs in transition period.

Furthermore, any perceived downside under Option 2 resulting from the extended period until any migration of Bacs occurs, could be mitigated by encouraging further direct & indirect participation in Bacs clearing in the intervening period supporting the PSR's access to payment systems aim.



*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?*

Of the Options presented, Bottomline considers that an approach of the type outlined as Option 2 – a reduced scope initial CIS procurement focussed on CSS – is likely to have much lower delivery risk whilst also providing a greater opportunity for market-led solutions.

The Option 2 approach (with potentially some variation) also provides the shortest time-to-market route to realise the initial vision of the New Payments Architecture. We would however encourage the PSR to require Pay.UK to restart the procurement exercise with a reduced scope, in the expectation that a reduced scope would attract more bidders to participate than in the current procurement which is likely to result in better outcomes which would outweigh any additional time that it would take. Functionally a ‘slimmer’ CSS concentrating on immediate payments would be akin to Australia’s successful New Payments Platform (NPP)<sup>1</sup> which could serve as a benchmark in approach to requirements & procurement.

This narrower initial approach would also provide reassurance for the many thousands of businesses that rely on the current Bacs service, in particular Direct Debit. By concentrating initially on the successful delivery of a new immediate payments infrastructure, the additional time and ‘bedding in’ of the new service before any changes are made to Bacs services would allow for a deeper understanding of the needs, use cases & outcomes around Bacs and any replacement for Direct Debit.

We would, however, suggest that consideration is given to variations in approach around Option 2 related to a future replacement of Bacs – these are outlined in the response to Question 6.

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<sup>1</sup> <https://www.rba.gov.au/payments-and-infrastructure/new-payments-platform/>



4. *Under scope option 2:*

a. *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?*

We believe the development of truly compelling market-led alternatives to Bacs will require certain ‘primitives’ to be available in the CIS initial phase delivery (please refer to section 4.c) to act as a catalyst.

Current alternatives being developed such as OBIE Variable Recurring Payments (VRP) have some potential, but need significant maturation to provide a truly comprehensive alternative, particularly around consent management, inclusion & consumer protections. The current convenience of Direct Debit for most consumers would be unmatched by VRP in its current guise, and its adoption by ASPSPs is unlikely without a clear business benefit (or a regulatory mandate).

Similarly, Request to Pay (RtP) as an overlay service has potential, but as a complementary service rather than replacement to Direct Debit, increasing inclusion in regular electronic payments for those consumers that have different banking needs. Again, in its current form it has challenges of adoption by both ASPSPs and Billers, and is unlikely to provide the same convenience as Direct Debit.

A good example of the process, timeline & central support needed to develop alternatives to existing ACH services can be found in the recent developments in Australia’s NPP program. Since it’s launch in 2018, there has been debate on extending functionality/migrating payments across from the Direct Entry system. The reserve bank of Australia consulted the market in 2019 and developed a number of potential extensions<sup>2</sup>. This has now progressed to the proposal for NPP ‘Mandated Payments Service’<sup>3</sup> to address third party payment initiation, which has many parallels with the issues that need to be addressed in any Bacs replacement.

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<sup>2</sup> <https://www.rba.gov.au/payments-and-infrastructure/new-payments-platform/functionality-and-access-report/functionality-and-overlay-services.html>

<sup>3</sup> [https://nppa.com.au/wp-content/uploads/2020/05/NPP-Mandated-Payments-Service-Overview\\_final-Apr-2020-min.pdf](https://nppa.com.au/wp-content/uploads/2020/05/NPP-Mandated-Payments-Service-Overview_final-Apr-2020-min.pdf)



*b. 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 common services to support the migration of Bacs transactions?*

Bottomline would strongly support Faster Payments DCA and FIM being excluded from the initial procurement on the basis that they are only useful in a limited number of use cases for immediate payments and even then, do not account for a significant subset of service users or transaction volume that could not be met by alternative means. Given this limited application, we believe that FPS DCA and FIM's inclusion at any stage should be re-evaluated.

The underlying premise of Faster Payments DCA that it shared with Bacs, creating a 3rd Party payments initiation channel, has never been delivered upon, with support limited to two banks. A fresh approach would be to allow TPSP as part of initial procurement, but without a forced migration of FPS DCA & FIM. This would enable market-led services to develop which would naturally replace the existing services and could also (potentially) drive a significant natural shift away from Bacs transactions.

*c. 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?*

A narrower CIS procurement should nevertheless take the opportunity to build in certain 'primitives' that will allow for future replacement of Bacs services in a centrally orchestrated procurement, or through the market-lead development of Bacs alternate services. Failure to do this could make a subsequent replacement of Bacs more costly, and take more time, which could significantly increase the delivery risk.

A key primitive is the support for non-value messages in the CIS, particularly around the creation & amendment of mandates<sup>4</sup> and a 'payment initiation' request of the type that has been discussed for Direct Request. These could enable a broad range of 'mandated' payments including:

- third parties (e.g. payroll bureau, cloud accounting) looking to initiate payments from a business account to perform a business service (this is a common use of Bacs Bureau) – 'Payment Initiation on behalf of'
- payers wanting to authorise a payee to initiate payment on their behalf for regular commitments (Direct Debit equivalent)

Careful consideration also needs to be given to interoperability with non-CSS services that are essential to Bacs & FPS (and any replacement) – e.g. Current Account Switch Service (CASS) & Bulk Payments Redirection. These need to operate during any transition of FPS transactions to NPA, and still have interoperability with Bacs leading up to and through any future phases to replace Bacs.

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<sup>4</sup> A set of ISO PAIN messages (009.001-012.001) already exist to support mandate operations which could be replicated as interbank non-value message



## Questions related to procurement approach

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.*

Bottomline believe that the best chance of a realisation of the NPA would be to start a new competitive procurement process with a limited CIS scope (broadly 'Option 2' as described). This would have the greatest likelihood of delivering the foundational layer of the New Payments Architecture in a timely fashion. This change of approach could also bring in new participants to the procurement process, particularly those with recent experience of developing similar services in other geographies.

We do not believe in the case of 'Option 1' fuller CIS requirements, the current procurement should continue without reset, and we agree with the PSR's rejection of Pay.UK's request to abandon competitive procurement and negotiate with the incumbent only.

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)?*

Bottomline believe that under 'Option 2' there are alternative approaches that could be adopted in respect of a future replacement of Bacs services. These do not broadly change the 'slimmer' initial procurement of CIS focussed on CSS around immediate payments. These include:

- *Evaluate migrating Direct Credit transactions from Bacs as part of initial phases, leaving Bacs in place to support Direct Debit.*
  - The benefits of ISO20022 migration are more limited for Direct Debit, and the service is well understood by the industry and consumer.
  - Direct Credit payments would be well suited to migration if CIS access is available for 'Bureau' (TPSP) equivalents who can perform warehousing, debulking etc.
    - This requires 'mandated payments' support for payment initiation on behalf of (payroll, accountancy firms etc.)
- *Look at maintaining & upgrading Bacs & Bacstel-IP alongside NPA immediate payments*
  - The upgrade of various elements of current Bacs services may provide a cost effective alternative to wholesale replacement at much lower overall risk to delivery. This could include
    - Migration to ISO20022 within Bacs
    - Upgrade settlement interfaces to support RTGS renewal
    - Incremental upgrades of services (PSW, reporting)
    - New services to better serve existing market (B2B DD Scheme)

A major benefit of approaches such as these would be to simplify the delivery of the NPA and future replacements of (elements of) Bacs which should enable both to be delivered in a more cost and time effective manner.



## Questions related to competition

### *7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem?*

Bottomline broadly agree with the principals in 5.7 & 5.8, particularly that the design should be 'thin' (but considering the need for certain centralised services such as CASS). We believe a key consideration under the 'wider range of access options' should be the encapsulation of the ongoing need for business to have a bank agnostic payment initiation channel similar to that provided by Bacstel-IP. An important consideration for promoting competition is that this channel gives business the freedom of choice to move bank providers or otherwise seek multiple relationships at scale without needing to cater for the idiosyncrasies of each bank's own payment initiation channels.

### *8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem?*

The PSRs assessment of horizontal & vertical competition risks and their potential implications are comprehensive. We would call attention to two potential implications:

1. Care must be taken to ensure that Pay.UK itself is operated in a POND fashion. With Pay.UK as the primary interface for the CIS, brokering all interactions with the CIS provider there is a risk that Pay.UK evolves into a labyrinthine bureaucracy, with the disintermediation of the CIS providers from participants getting in the way of the very promotion of innovation that the PSR wishes to foster.
2. The governance principals set out to remove competition risks could prevent a successful delivery of the program. Most potential bidders will be diverse organisations supplying many services & FMI. It may be that the restrictions & enforced separation are unpalatable to the functioning of these bidders (e.g., in our response to Q1 we outlined a potential scenario for the incumbent).

### *9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?*

We support the PSRs assessment of mitigation & governance principals, whilst calling out the potential implications of these as outlined in our response to question 8. We would also highlight that if structural separation were to be considered proportionate, it is so invasive that it may be counterproductive to the entire procurement process.

Care must also be taken by the PSR in its direction to Pay.UK that the governance principal of a Separated CIS provider operationally still allows for the experience, knowledge, design patterns & know-how the potential bidder has developed in other solutions, services and markets to be leveraged in delivering a cost-effective solution. A CIS delivered in a 'clean room' approach from first principals is unlikely to be effective & value for money.



*10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS?*

We believe that the provision of some 'baseline' common services are absolutely necessary for the NPA to be successful, such as a ubiquitous CASS service that bridges to the current service in any transition. We do not consider this would raise alternate competition risks to those already outlined.

*11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.*

A comprehensive response to this question is challenging to articulate without the particulars of the parties, existing business and requirements, and may change depending on these circumstances. Generally, we would support the 'ringfencing' within a successful bidder of a function to deliver and operate the NPA, and 'open book' style accounting to demonstrate value for money. However, this should not prevent the bidder leveraging its infrastructure, capabilities or other know-how to enable a successful delivery and economy of scale.

*12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?*

We believe that regulatory measures are necessary at this juncture to enable the best chance of delivery of the NPA principals, including giving Pay.UK clear mandate to drive change. Equally, the PSR must show strong oversight in line with POND principals to hold Pay.UK to account for the timely implementation of the NPA vision.



## Questions related to pricing

### *13. Do you have any comments on the pricing principles set out in this document?*

We have no additional comments on the pricing principals as set out. We would encourage that these principals are also applied to Pay.UK itself; as CIS pricing will encompass the costs of operating elements of Pay.UK itself; especially given the governance principal that Pay.UK will be the primary CIS interface it is feasible this could become a significant proportion of overall costs. Transparency around cost is crucial to success.

### *14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?*

As part of the PSRs aim of encouraging both competition & innovation there is merit in considering an additional principal of encouraging emerging businesses to participate either direct or indirect in the NPA. A set of incentivised measures could be put in place to encourage these emerging businesses to participate, either through structured pricing or other support measures to assist with mitigating the initial costs & impact of joining.



ClearBank



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## Payment Systems Regulator Consultation on New Payments Architecture (Questions 1-6)

ClearBank welcomes the opportunity to respond to the Payment Systems Regulators' consultation on the New Payment Architecture programme being developed by Pay.uk. Payments underpin all banking arrangements and provide the foundation for the wider economy so it is therefore vital that Central Infrastructure Services (CIS) are designed and delivered effectively and efficiently.

ClearBank was established in 2015 to provide a real alternative in the provision of clearing services. We are committed to being a responsible business, driving transformation through our innovative technology platform and banking licence, enabling our partners to thrive by providing access to next generation financial solutions.

To maximise the benefit to end users, ClearBank needs to be able to access modern and reliable payment systems that allow the development of competitive products.

In response to the specific questions raised in the consultation, we would respond as follows:

### 1. Do you agree with our view of the risks to the successful delivery of the NPA?

We agree that currently there is a significant risk that the NPA programme will not be delivered in a way that benefits end users. This programme has now been in place in various forms for over four years with significant sums already spent and to date there is no agreed delivery plan or timescale for delivery. This programme currently does not provide value for money and innovation and customer benefits are being marginalised through this ongoing cost and delays to delivery.

The original objectives of this project were to improve connectivity, ensure competition leading to enhanced products, whilst cost is minimised through competitive tendering.

Without agreed specifications and standards we and other institutions cannot start developing products that could take advantage of the new architecture and must continue to develop products and features against current standards rather than being able to truly innovate.

What we do urgently need to arrive at is an agreed end state for the procured architecture, so that so that we can commence developments against it even allowing for phased migrations. That target architecture must take into account the developments that have taken place in the four years since this process started and the direction the industry is



moving in, with open banking and cloud technology. Failure to do so will stifle market development and be a block to innovation.

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

Firstly, we would agree that the project needs to deliver value for money, enable competition and innovation in payment services, and deliver in a reasonable timescale.

We also agree that it is of paramount importance that these systems are robust and resilient at all times, including through the period of transition.

Whilst we agree that the Faster Payments (FP) service is less complex than BACS and in theory should be easier to replace, we disagree that the scope of the initial procurement should be limited to a Faster Payments replacement. We believe that moving the current FP service by itself to NPA will have limited benefit to end users, most of whom would not see any change from the service they receive today. Of the two services, FP running on ISO 8583 is arguably more in line with current standards than BACS utilising standard 18 and of the two perhaps the priority should be BACS.

For NPA to deliver on its stated aims, particularly now that the Bank of England is driving forward with the RTGS and Chaps replacement on ISO20022 we do need both BACS and FP to be part of NPA. Whilst transition could be separated (see below) if procurement is not completed on the basis of both services migrating, there would be a risk that the second phase either did not complete, or the timeline could be extended further diluting customer benefit and increasing cost. At the very least we need the initial procurement to build the foundations of the end state architecture.

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?

In line with our comments above we believe that the industry should procure CIS based on the end state target architecture. However, further scope work needs to be undertaken to ensure that the target is fit for the world we are moving to, rather than a product of thinking five years ago. The CIS procurement however should be the minimum required allowing so that the industry can innovate on top and thus developing competition.

We do believe that there are elements in the current proposals where Pay.uk are trying to innovate and provide services centrally that would be better left to the market.

The instant SIP proposal is one example. We recognise the use case in retail settings for customers to be able to evidence transactions instantaneously to facilitate bank payments as a credible alternative to card transactions. That said, we believe that solutions aimed at satisfying this requirement leveraging Open Banking, Request to Pay and the current FPS SIP channel provide significant opportunity for PSPs to offer innovative solutions to meet this need. Rather than introduce a number of incremental payment types, we would encourage the NPA to have one true immediate payment format which facilitates propositional



development at PSP level – thus reducing the number of new payment types and simplifying the end offering for participants, PSPs, Corporates and end customers alike. Similarly, we do not feel there is the need for a slower, Single Same Day payment. We would expect that the underlying infrastructure would be able to support the desired throughput, and leave PSPs to determine appropriate optionality for customers from a payment delivery perspective. It should also be noted that at this point, pricing proposals have yet to be shared with participants and we would like to understand how these different payment types will impact the delivery and operating cost models.

Removing these areas from the scope will reduce the delivery risk.

4. Under scope option 2:

- a. 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?

In parallel to the NPA programme the industry has developed the framework for a Request to Pay (RtP) service. RtP which has been developed to place more control in the hands of the consumer could with the addition of a recurring payment option and use of open banking permissions be developed as a successor to Direct Debit. This would have the benefit of removing the need for pull payments (DD's) allowing all payments to go through one infrastructure, simplifying delivery and reducing cost.

The build could allow a migration of say 5 years during which the existing BACS DD service was retained. Corporates potentially need to integrate into RtP anyway, this would mean they do not need to build a further integration into a replacement DD service.

- b. 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 common services to support the migration of Bacs transactions?

We believe that the treatment of bulk credits in FP today needs to have been resolved as part of the target architecture as part of the procurement. As these files are processed over the FP infrastructure today alongside individual transactions, it is not difficult to imagine a new CIS capable of processing individual transactions and those submitted in files.

Due to the volumes of payments submitted by file in both FP and BACS today we think that corporate and business clients are going to require this service for some time going forward.



- c. 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?

As explained above we do not think that this would be the approach to take.

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.

As we understand it, the current competitive procurement process was initiated to appoint a vendor to build clearing and settlement services that would replace the existing BACS and FP services. On that basis we would expect that it can continue albeit with a narrower scope as outlined above. (i.e. we recommend pursuing the option set out in paragraph 1.34 bullet 1 of the consultation document). Cancelling the current competitive procurement process and starting again will lengthen the timescale and may lead to fewer bidders in that those who have previously bid may not be willing to invest in further rounds of procurement.

[Redacted]

We do not support the option of directly offering the contract to Vocalink, in that without a competitive procurement process there is no understanding of whether value for money is being achieved.

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)?

The NPA programme started life in 2016 under the separate BACS and FP service companies. Over four years later and after a significant spend we still do not have a clear delivery path or an agreed target architecture for the CIS. Open Banking, cloud technology and FinTech development have moved substantially during that period.

Whilst there is now an urgency to deliver this project, we also need to ensure that the marketplace they are building for is that of 2021 and beyond, not that of the past. During this period of review and reflection, engagement is also required to establish that the target architecture and the requirements needed for a robust and resilient clearing and settlement layer are fit to move forward with. We hope that the current procurement process can then proceed to conclusion, but with a narrower scope than today.

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## Payment Systems Regulator Consultation on New Payments Architecture (Questions 7-14)

### Questions related to competition

7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.

In so far as engagement of a provider of NPA central services is concerned we agree that Pay.uk should be the central contracting party, ensuring that direct access is available to all Participants that wish to directly connect and that they can do so on the same terms. However, to effectively fulfil this role Pay.uk does need to demonstrate that it has the commercial ability to procure and manage such contracts and that there is no change in the liability model to the detriment of participants and consumers.

We would reiterate our response to question 3 that we think the scope of any central services should be thin and limited to the minimum required to enable central clearing.

We agree that such services need to be scalable and modular, both allowing for growth but also ensuring that we do not build and pay for excess capacity as is the case currently with Image Clearing Services (ICS)

Whilst we acknowledge there is a requirement for a CIS provider, in the passage of time since the Payment Strategy Forum (PSF) undertook its review and this programme of work commenced there has been innovation in the financial sector and significant technological development. We think additional competition will be brought to the market by some directly connected Participants and technology providers switching and settling transactions where both parties are connected to them and only using the central service where necessary which has the potential for those parties to bring innovation to the market and new pricing structures.

8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.

Whilst the CIS provider has access to the data flowing through it, that data is owned by the Participants in the system and not available to the provider without the agreement of the Participants, which if desirable can be obtained through Pay.uk as the system operator. This should in itself be sufficient to stop the CIS provider being in a position to abuse its position in the market and gain competitive advantage.

9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?

We have answered this question as part of other answers in this section of our response.



10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.

As stated previously we believe the CIS should have a narrow scope and therefore provide a thin central service allowing the market to develop overlay services aiding innovation and providing competition. This organisation of services will in itself reduce competition risks.

11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.

The governance and oversight arrangements for the CIS provider need to be clear for operational and regulatory purposes, with operational separation from any part of the provider servicing alternate payment systems. However, care needs to be taken to ensure that such segregation does not preclude the CIS provider leveraging innovative technology and products from other services that the company / corporation may provide as this could potentially limit innovation within the UK NPA environment.

12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?

Whilst we agree with the outline of the three principles detailed in section 5.0 (page 39) of the report we are thoughtful as to whether the PSR should bring forward regulatory measures at this time. The NPA programme is a major change to the UK payments operations, being designed and delivered during a period of significant technological development impacting financial services and payment systems. We would welcome a principle based approach to regulation in this space as this would more likely drive greater innovation and hence richer outcomes to the ecosystem, thus avoiding the potential unintended consequences that can sometimes arise out of rulebook based regulation.



### Questions related to pricing

13. Do you have any comments on the pricing principles set out in this document?
14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?

Questions 13 & 14 have been answered together:

We agree that the fee structure for processing through the CIS needs to be consistent for all transactions irrespective of where the transaction has originated, however those organisations providing services to indirect participants need to be able to price ongoing services taking into account the additional service being provided and risks being covered, otherwise competition and the availability of service for those that choose not to participate directly will be potentially reduced.

Traditionally newer financial institutions choose to operate on an indirect basis initially which is typically to reduce their own direct costs allowing another participant to provide services to them. We also note that some of these indirect participants have ceased to operate as a going concern in recent years, in these circumstances the indirect operation has helped insulate the wider market from potential instability.

We would also like to discuss the pricing options during the transition period from the current services to the new CIS. To mitigate risk during this window it is likely migration will need to be phased with a period of parallel operations. During the early period we need to ensure that there is a balanced cost across both environments and equally to avoid delaying the closure of the current systems those not ready to migrate within agreed timescales should bear any additional costs incurred to avoid unnecessary costs being shared by all.

5<sup>th</sup> May 2021



# Euronet Worldwide



## Consultation paper – Delivery and Regulation of the NPA

### Consultation questions

***7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.***

We fully agree with the concept described in paragraph 5.7 around the definition of effective competition within the ecosystem. The achievement of the stated objectives will ensure same terms to all PSPs and overlay providers to offer services to consumers and will also enable them to focus on the user experience and convenience.

Furthermore we believe that the design principles described in paragraph 5.8 related to the anticipated thin architecture, will trigger overlay providers to innovate towards a complete offering as this will be their only means of differentiation from their competition.

It goes without saying that Pay.uk will be playing a critical role within the ecosystem as apart from the technical standards, commercial aspects, and level Ts&Cs for all participants, they will be also supervising the day to day operation of the whole ecosystem ensuring the adherence to the stated principles.

***8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.***

We agree with the assessment of the competitive risk in all three dimensions - monopoly, horizontal and vertical risk factors. A setup where the CIS services provider is acting as an overlay service provider as well could allow them to leverage access to the information available within the CIS operator role in order to benefit the overlay services. In the same manner a card services provider operating the CIS service would have access to data that would substantially enhance the card services or allow them to launch new products that could directly compete with Pay.uk products in the market.

A possible mitigation of the overall competition risks might be an approach where Pay.uk further splits the NPA components and contracts with different vendors for these components. As an example, there could be a vendor for the CSS build, another vendor for the common services, and a third vendor for the hosting and operation of the CIS system.

Obviously, this would have to be properly assessed from a technical and commercial point of view and would also require Pay.uk to set the governance model for the implementation project(s) and introduce the role of an integrator within the overall implementation context.

***9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?***

We agree with the roles segregation (CIS, PSP, account and market overlays providers, Pay.uk), and the three principles discussed in the document. Pay.uk should be acting as the primary interface for all participants to control access to the CIS services and data and apply the related price controls. In this sense Pay.uk will ensure that the data available to the CIS service provider is made available to all new entrants in a consistent manner and also control data that is accessed by the CIS provider.



**10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.**

We believe that the provision of common services in CIS could raise the risk as the more services are concentrated at CSS the more data available to the CIS service provider to create monopolistic situation. The risk level though would have to be checked against the common services to be bundled along the CSS provision.

**11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.**

We agree that structural separation is not required. Some type of operational separation would be beneficial to the transparent operation of the system in case the CIS provider is also acting as an overlay provider or participates into another payment system directly or indirectly. This separation would broadly address data and business processes, however it is important that the separation model is set to what will be reasonably needed – an excessive segregation model might impact the CIS provider's ability to use act as an overlay provider utilizing their experience and insight as a CIS provider and prove to be a competition risk at the end.

**12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?**

We do not believe that regulatory measures will be needed in this respect, assuming that the roles and responsibilities of all parties (Pay.uk, CIS providers, NPA participants) are clearly defined, and the terms and rules of NPA participation are transparent and well communicated.

On top of this, stringent regulatory measures may challenge or restrict innovative ideas which is one of the guiding principles of the NPA. In this sense we think that appropriate scheme rules in form of framework, strict monitoring of compliance, and clear definition of roles should be sufficient.

**13. Do you have any comments on the pricing principles set out in this document?**

No specific comment.

**14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?**

No specific comment.



# FIS (Worldpay)





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FIS

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[Redacted]

e: [Redacted]  
t: [Redacted]

19 March 2021

To whom it may concern,

**FIS response to questions 1 to 6 of the Payment System Regulator's consultation on delivery and regulation of the New Payments Architecture (CP21/2)**

Thank you for the opportunity to provide input to the Payment System Regulator's (PSR) consultation on delivery and regulation of the New Payments Architecture (NPA). In this response, we provide our views on questions 1 to 6 of this consultation (deadline 19 March). We plan to respond to the remainder of the questions later (deadline 5 May).

FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights.

We have a strong interest in ensuring the NPA is a success, along with seeing the continued growth of real-time payments (RTP) in the UK more generally – both consumers and businesses have much to benefit from greater use of RTP. Our Banking Solutions business provides several propositions to banks that are based upon real-time payment (RTP) technologies. For our Merchant Solutions business, we see RTP-based payment methods playing an increasingly important role in the future.

[Redacted]  
[Redacted] This has significantly strengthened our capabilities in the provision of A2A CIS and has increased our interest in the potential future provision of elements of the NPA central infrastructure.

We support the PSR's ambition to ensure the NPA is developed in a manner that promotes resilience, competition and innovation, whilst balancing cost effectiveness and timeliness in delivery. We provide more detailed responses to the PSR's specific questions in the remainder of this submission. In summary, we support the PSR's proposals for Pay.UK to (i) adopt a phased approach to procurement (Faster Payments, followed by Bacs) and (ii) start a new competitive procurement process on this revised scope. Considering the developments to date and the options outlined, we believe this approach presents the best way forward to achieve the PSR's objectives for the NPA. Ensuring stability in the narrower revised procurement scope, along with inclusion of sufficiently detailed specifications to manage market expectations on capabilities, will be key to minimizing timing and cost delivery risks under the revised approach.

We would welcome the opportunity to discuss these issues further with the PSR.

Sincerely,

[Redacted]  
Senior Policy Manager  
Public Policy & Government Affairs

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[Redacted]  
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## Questions related to the risks to NPA delivery

### 1. Do you agree with our view of the risks to the successful delivery of the NPA?

Given the various developments that have preceded this consultation, we agree with the PSR that the level of delivery risk for the NPA now needs to be reduced and that a new way forward needs to be found.

## Questions related to procurement scope

### 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?

FIS generally agrees with the PSR's analysis of the alternative options for the scope of the initial procurement.

### 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?

FIS sees most merit in the PSR's preferred approach of option 2 i.e. limiting the initial procurement to only clearing and settlement services (CSS) and the common services needed to facilitate the migration of Faster Payments transactions (including Standing Orders). We prefer this approach for the following reasons:

- The next-generation real-time payments that the NPA will enable will be the greatest benefit of the NPA (in terms of impact on competition and innovation). Faster Payments should thus be the priority for the initial NPA procurement.
- Narrowing the scope of the procurement will widen the pool of capable and willing potential CIS providers. It could also result in more focused and compelling proposals from potential providers.
- Narrowing the scope should compress the timescale for procurement and delivery of the NPA, increasing the pace at which benefits can begin to be realized.

It is important that the common services contained in the initial procurement include functionality and capabilities that will help further simplify adoption of Open Banking (which relies upon Faster Payments).

### 4a. 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?

The PSR could help stimulate the creation of 'Bacs like' solutions as an overlay service to the Faster Payments part of the NPA in a few ways.

1. Consider amendments to Strong Customer Authentication (SCA) regulations such that PIS payment transactions do not require SCA for every individual payment. This would allow service users to give authority to a PISP to initiate a payment on a regular basis for use cases such as utility bill payments, subscription fees, regular charity payments, and regular transport payments. This would bring PISP A2A payments in line with card payments, where a service user can either 'whitelist' a merchant or provide consent for a series of Merchant Initiated Transactions, such that SCA is not required for every single payment in a series of recurring payments.
2. Modify Request to Pay (R2P) to widen its usability. R2P is currently somewhat shackled by the requirement that all R2Ps must allow part payment. Ideally, the Biller/Merchant should be allowed to select whether part payment is allowed or if full payment is instead required. In doing this, the R2P mechanism would become usable in a much wider number of use cases. In order to keep the original benefits of the part payment option (to help those service users for whom Direct Debit usage can present financial challenges), it could instead be mandated that certain merchants (such as essential utility companies) must offer the part payment option, but non-essential



providers do not have to. For example, a water company would be required to offer part payment, but merchants such as Netflix/Disney Plus/Spotify would not have to and could instead require full payment.

3. In combination with point 2. above, mandate that the CMA9 implement R2P capability in their mobile and online service channels. Doing so would give a critical mass of service users the ability to receive R2Ps. By doing this in combination with 2. the PSR could create a market for an innovative R2P based 'Bacs like' solution. This would help move the market away from Bacs ahead of an eventual migration. Without such catalyzation from the PSR, it is unlikely that R2P will reach mass market adoption quickly, if at all.

**4b. Under scope option 2, 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 common services to support the migration of Bacs transactions?**

FIS recommends that the option 2 scope includes common services that could support the migration of the existing Faster Payments file-based services (i.e. Direct Corporate Access (DCA) and File Input Module (FIM)). Although this would increase the complexity of the common service component of the revised initial procurement, it would facilitate the NPA having more complete coverage of existing Faster Payment input capabilities.

**4c. Under scope option 2, 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?**

No comments.

## **Questions related to procurement approach**

**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.**

Given our preference for a revised, narrower scope for the initial procurement (i.e. Option 2), starting a new procurement process appears to be the only credible way forward. Not having such a process goes against one of the key statutory objectives of the PSR namely "to promote effective competition in the markets for payment systems and services - between operators, PSPs and infrastructure providers". The key reason to have such competition is in order to get better outcomes for service users, realised by a greater level of innovation which is derived from a competitive process. Furthermore, a competitive process will tend to result in lower costs and therefore better value for the market as a whole.

**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)?**

We do not believe there are any other credible approaches to procurement beyond those outlined by the PSR.





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FIS

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[REDACTED]

23 June 2021

To whom it may concern,

**Comments on Pay.UK response to Payment System Regulator's consultation on delivery and regulation of the New Payments Architecture (CP21/2)**

Thank you for the opportunity to provide comment on Pay.UK's response to the Payment System Regulator's (PSR) consultation on the delivery and regulation of the New Payments Architecture (NPA).

FIS responded to the PSR's consultation on 19 March. In our response we set out our support for the PSR's proposals for Pay.UK to (i) adopt a phased approach to procurement of the NPA (Faster Payments, followed by Bacs) and (ii) start a new competitive procurement process on this revised scope.

Given this, we welcome Pay.UK's own positions of:

- broadly supporting the PSR's position of narrowing the scope of the initial procurement, with an initial prioritization of Faster Payments functionality.
- calling for a restart of the existing competitive procurement process.
- calling for inclusion of Direct Corporate Access (DCA) and File Input Module (FIM) in the initial procurement (this also aligns with our consultation response)

With regard to Pay.UK's proposal to manage the optionality of a future Bacs migration through a flexible architecture in the initial procurement, we would encourage the PSR to consider the merits of this approach relative to enabling "Bacs-like" functionality using enhanced Faster Payments overlays in the NPA (including amendments to the Request to Pay framework). Our view is that it is better to focus the initial procurement on Faster Payments only to minimize NPA time-to-market and delivery risk, and to instead encourage longer term migration of Bacs payments to Faster Payments based options, supported by enhanced overlays.

We would welcome the opportunity to discuss these issues further with the PSR.

Sincerely,

[REDACTED]

Director  
Public Policy EMEA



**Fiserv**



March 1, 2021

PSR Pay.UK/NPA project team

Re: Consultation paper – Delivery and regulation of the New Payments Architecture – February 2021, questions 1 to 6

To whom it may concern:

Fiserv appreciates the opportunity to respond to the PSR's request for comment on the consultation paper regarding the delivery and regulation of the New Payments Architecture. This response addresses the first 6 questions raised in the paper relating to the delivery risks and options to reduce these. Fiserv will be submitting further comments on the final 8 questions pertaining to competition and pricing at the end of April 2021.

For more than 35 years, Fiserv has been a trusted leader in financial services technology, enabling clients worldwide to create and deliver financial services in step with the way people live and work today. Our more than 34,000 associates serve thousands of financial institutions and millions of businesses in more than 100 countries around the world, advancing quality and innovation in payments, processing services, risk and compliance, customer and channel management, and insights and optimization.

Fiserv is a member of the FORTUNE® 500 and has been named among the FORTUNE Magazine World's Most Admired Companies® for eight consecutive years, recognized for strength of business model and innovation leadership. Fiserv subject matter experts and thought leaders are actively involved in a number of prominent industry and advisory bodies, including the European Payments Council technical forum, ISO RTPG, Payments Canada's Stakeholder Advisory Council and NACHA Payments Innovation Alliance, and are helping to drive the industry's evolution and adoption of best practices and message formats to benefit all users of the payment ecosystems.

This significant depth and breadth of experience provides us a unique perspective in responding to this request for comments.

## **A. Questions related to the risks to NPA delivery**

### **1. Do you agree with our view of the risks to the successful delivery of the NPA?**

*Yes, Fiserv agrees that the New Payments Architecture is a significant undertaking with inherent risks, however, Fiserv believes its success is of critical importance in ensuring that the UK has a modern central infrastructure that promotes innovation and competition at the same time as reducing overall payment and settlement risk.*

*While we agree that there is a risk that the current approach will stifle competition and innovation along with delaying the benefits of the NPA, these risks can be mitigated.*

*There are also risks related to the lack of speed of rollout, the lack of clarity for migrating the current BACS traffic and the identification of the common services (overlay services) necessary to realize innovation and competition.*



## **B. Questions related to procurement scope**

### **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?**

*In essence Fiserv supports the analysis of the alternate options, the identified risks and the benefits of each.*

*Fiserv would like to highlight an additional risk associated in option 2 that was not addressed in the consultation paper. The use of an extended data set based on ISO 20022 is a key requirement for modernization especially in the use cases associated with the current BACS traffic. It is the majority of these underlying use cases that would benefit from the enriched data. Delaying the migration would deter competition and innovation unless clear incentives (such as per transaction costs) encouraged transition to the new instant payments capability of NPA.*

### **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?**

*Fiserv prefers option 2. However, Fiserv would like to see a timetable laid out for the discontinuation of the current BACS system and the movement of its traffic to the NPA. Incentivising this transition is critical.*

*Fiserv agrees that a market led approach to competitive overlay services would help speed this transition and lead to more competition and innovative services.*

*However, the scope of the common overlay services needs to be reviewed to include centralised services that reduce the barriers to entry, reduce the risk for new market entrants and clarity for the users of the payment system, especially if the end goal of the single unified payment experience of the NPA is to be realised. Common services such as an alias directory (that includes both individual user alias/identifiers as well as business alias/identifiers), fraud detection services and user recourse services are critical to the roll out and success of the NPA.*

## **4. Under scope option 2:**

### **4.a. 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?**

*Fiserv believes that it is important to balance the opportunity for innovative services to be provided alongside the speed of migration. BACS has evolved over time to be a very efficient payment environment for the banks, and corporates have refined their business processes to reflect the way BACS operate. While overlay services such as Request to Pay and mandated payments could replicate the current Direct Debit scheme, they would still need significant enhancement from what is available today.*

*Alongside the technical propositions for the migration of BACS transactions, the PSR and Government needs to create recourse policy and services that provide the same degree of protection for users of today's direct debit scheme. Moving to an instant, with finality,*



*scheme means that while the customer experience could be made to look the same, but the outcome of an exception would be significantly different.*

***b. 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 common services to support the migration of Bacs transactions?***

*Allowing direct access to corporates, alternate Payment Services Providers and fintech is a core element for a modern, competitive and innovative payment ecosystem.*

*Without providing a similar direct access capability at the start of the FPS migration, the users of these file-based services would be put at a disadvantage and would delay the final migration from the current FPS system. It is unlikely that commercial propositions would be developed for this market given the uncertain nature of BACS migration given option2.*

***c. 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?***

*Focusing on a narrower CIS procurement provides additional time to review the current BACS features and decide if they need to be replicated in the NPA, or whether a modern approach can be taken to solving the underlying business requirements of the end users. However, a decreed deadline for completing the migration of BACS transactions must be set out to ensure that the benefits of the NPA, including competition and innovation are available across the payments ecosystem in a timely manner.*

**C. Questions related to procurement approach**

***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.***

*Fiserv supports the reduction in scope for the initial release of NPA as this provides additional time to define what functionality would be required for the migration of the existing BACS transactions to NPA and the opportunity for a wider set of competitive overlay services to be developed.*

*As such, Fiserv supports procurement option 2. It is imperative that a new, competitive procurement process is undertaken given the change in scope and potential direction of NPA and provide potential opportunity for alternate suppliers that were precluded by the original scope.*

***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)?***

*Fiserv believes that the only viable procurement options are to continue to negotiate with the currently selected companies who reached the RFP stage, but with a reduced stage, or our preferred option of starting the process again with the revised scope. As set out in our*



*response to question 5, given the revised scope, alternate suppliers may be in a better position to offer an improved capability that better matches the NPA needs.*

*Fiserv does not support the awarding of NPA without a competitive procurement process. Should the existing supplier's offer meet the needs of the NPA from a functional, operational and cost basis then it should stand a good chance of winning a competitive procurement process. In other jurisdictions we have seen examples of continuing with an existing supplier proposal has led to more risk and delay being created.*

Thank you for the opportunity to comment

Sincerely,

[REDACTED]

[REDACTED]

Enterprise Payment Solutions

Fiserv



**From:** [REDACTED]  
**Sent:** 29 April 2021 12:49  
**To:** PSR NPA  
**Subject:** Consultation paper – Delivery and regulation of the New Payments Architecture – February 2021, questions 7 to 14

**Categories:** [REDACTED]

**\*\*This email has come from an external source. BE CAREFUL of links and attachments and report suspicious emails\*\***

April 29, 2021

PSR Pay.UK/NPA project team

Re: Consultation paper – Delivery and regulation of the New Payments Architecture – February 2021, questions 7 to 14

To whom it may concern:

Fiserv appreciates the opportunity to respond to the PSR's request for comment on the consultation paper regarding the delivery and regulation of the New Payments Architecture. This response addresses the final 8 questions (questions 7 to 14) relating to competition and pricing.

For more than 35 years, Fiserv has been a trusted leader in financial services technology, enabling clients worldwide to create and deliver financial services in step with the way people live and work today. Our more than 34,000 associates serve thousands of financial institutions and millions of businesses in more than 100 countries around the world, advancing quality and innovation in payments, processing services, risk and compliance, customer and channel management, and insights and optimization.

Fiserv is a member of the FORTUNE® 500 and has been named among the FORTUNE Magazine World's Most Admired Companies® for eight consecutive years, recognized for strength of business model and innovation leadership. Fiserv subject matter experts and thought leaders are actively involved in a number of prominent industry and advisory bodies, including the European Payments Council technical forum, ISO RTPG, Payments Canada's Stakeholder Advisory Council and NACHA Payments Innovation Alliance, and are helping to drive the industry's evolution and adoption of best practices and message formats to benefit all users of the payment ecosystems.

This significant depth and breadth of experience provides us a unique perspective in responding to this request for comments.

#### **D. Questions related to competition**

**7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.**

*Fiserv agrees that an open and transparent environment that ensures low barriers to entry and easy comparison and switching is a key factor in providing a competitive market.*

*However, to foster innovation in the UK's payments ecosystem, overlay services should be defined as providing common services, standard services or competitive services.*

- *Common overlay services, such as 'alias/directory', 'digital id' services should be governed and managed by a national, independent body and made available to organisations outside of the payments ecosystem.*
- *Standard overlay services, such as 'Request To Pay', 'Account Information' and 'Verification of Payee', require a standard governance and management structure to ensure equal access to these services.*



- *Competitive overlay services should be allowed to define their own standards and governance structures to allow for innovation and competition to drive the market forward.*

*Fiserv agrees that the CIS provider must ensure that there is equal and open access to the CIS and that the service does not differentiate between participants or users.*

**8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.**

*Given the proposed approach to the initial procurement has changed the nature of what will be defined as the common services necessary to provide the CIS, it is difficult to assess the competition risks.*

*Fiserv agrees that the original procurement plan that included common services for the migration of the current BACS transactions raised competition risks with the CIS provider having greater knowledge of the NPA participant plans and potentially a controlling position in their migration and take up of competitive services. However, a greater risk is from a provider of the CSS also being in a dominant position providing payment services that would directly compete with the NPA. In this instance, these horizontal risks provide the potential, either inadvertently or perceived, to overly influence the payments market and distort competition, both in the CSS and overlay services. Fiserv agrees that the proposed governance structure addresses the potential service degradation risks, but not the competition risks.*

*While the proposed procurement process may address monopoly pricing risks, it does not address competitive risks associated with the knowledge of the behaviours of the NPA participants.*

**9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?**

*Fiserv does not believe that a provider of CIS services (both CSS and Common Services) would use their position to degrade the service offered to overlay service providers who use the CIS.*

*Of concern would be the knowledge derived from the provision of the CIS and the potential for competitive advantage this has when defining and bringing to market new market and account overlay services.*

*The proposed governance principles allay most of the competition risks identified and the third governance principle to separate the CIS provider's CIS functions from other parts of its payment business addresses the monopolistic position that a provider of competitive payment capability would have.*

**10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.**

*No. The first and second governance principles address any concern about competition risks for the provision of common services.*

**11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.**

*Fiserv concurs with the boundaries identified to separate the CIS providers business where the provider (or its owner) have significant interest in another prominent UK payment mechanism.*

**12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?**

*Yes.*

**E. Questions related to pricing**

**13. Do you have any comments on the pricing principles set out in this document?**

*No.*

**14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?**

*Yes.*

Thank you for the opportunity to comment.

Sincerely,

  
VP, Strategy & Innovation  
Enterprise Payment Solutions





Fiserv

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# Trade Associations



## **Association of Independent Risk & Fraud Advisors (AIRFA)**



## Consultation questions

### Questions 1-6 by 19 March 2021

The responses below to questions 1-6 of the PSR Consultation Paper (CP21/2) are provided as a summary of the review feedback from the members of the Association of Independent Risk & Fraud Advisors (AIRFA). Further information on AIRFA can be located on our website at [www.airfa.net](http://www.airfa.net).

Should you have further questions or require additional clarification, please do not hesitate to contact AIRFA on [REDACTED]

#### a) Questions related to the risks to NPA delivery

1. Do you agree with our view of the risks to the successful delivery of the NPA?

Yes. The risks seem to include:

1. 'The project may not provide value for money' and
2. 'The Delays will prevent the benefits of the NPA from being realised – or delay them',

These could apply to any / all projects.

A bigger issue may be that (as identified by the PSR): ‘

3. The detailed functional requirements for common services have not been sufficiently determined or validated with stakeholders, and
4. The industry is constantly evolving and so any delivery needs to be highly adaptable, i.e., ‘futureproof’.

There is a significant risk associated with the project having taken more than two years so far without clarity of any deliverable. Projects that do this cause costs to escalate, and lose competitive advantage of being ahead and staying ahead of the competition (internationally) to the detriment of UK Plc. The ‘staying ahead’ aspect relates to the project itself and the infrastructure, but also to the development that can accelerate commercially, once the infrastructure is in place.

This project has been beset by delays and failings, where a third failure could become a national embarrassment and give rise to the risks above. If the programme takes 4 or 5 years to be delivered after requirements have been created and delivered, these requirements may then, no will, have changed.

Our perception upon the reasons behind the previous failings to deliver NPA rest in:

- a) the lack of skills and expertise to lead and deliver a programme of this size and nature.
- b) complexities of the procurement exercises and also the complex governance required.
- c) An over involvement of too many stakeholders without the vision to address long term UK Plc competitive strategies.
- d) The complications of having a major incumbent supplier and wanting to / NOT wanting to replace or keep them or to displace one behemoth with another. A HUGE risk is that no one



would be able to provide a proposal to a competitive tender other than (or against) Mastercard.

We worry that a big risk might be that the flexibility, adaptability and futureproofing of the system will not be 'built-in' and will progress only in 5-year cycles as the process moves in cycles of renewed disappointment and re-starts of the same process.

## b) Questions related to procurement scope

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?

The case that the PSR makes for the scope of the initial procurement is clear and we agree with the analysis of the suggested risks, pros and cons of the alternative options.

We would also note the additional risk that the PSR identified, 'the detailed functional requirements for some of the common services Pay.UK is procuring have not been fully determined or validated with stakeholders and the industry is constantly evolving' which would in our opinion support the need for a new phased procurement with an initial narrower focus on Faster Payments followed by a BACS phase, if required.

This would also support Pay.UK, that has obviously struggled with procuring the PSR's Payment's Strategy Forum vision, in being able to successfully procure at pace a narrower set of functional requirements through a new procurement.

For the procurement of the NPA to be a success, it must be simple, introduce multiple suppliers and routings that compete commercially and delivered as fast as possible. Large (single supplier) complex programmes cause difficulties in delivery, make systems rigid and inflexible and do not allow for competition and innovation. Future change and modular change in the future with a different or several different suppliers could be key to this.

The vision - one core shared infrastructure / reporting etc., but with multiple and competing choices of 'payments rails' and an easy gateway into introducing competitive parallel working. But could be 2 or more ways for payments to be settled immediately i.e., there should be several faster payments service alternatives open to Banks. Corporates would be able to choose which payment rails are used by the bank. That way competition could be optimised.

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?

Scope Option 2, 'procure using a narrower set of requirements, focusing on just the CSS plus limited additional common services that are needed to support the Faster Payments migration' is our preferred option.

As above this would support Pay.UK in being able to deliver a procurement at pace to support the move to ISO20022, greater interoperability and innovation that the UK needs the NPA to start and deliver.

With regard cost, we do not see, even if BACS is delivered as a second phase, any particular cost increase from a phased procurement and delivery.



The PSR rightly in our opinion identifies this might even offer up alternatives for the delivery of BACS functionality further down the line. The migration of BACS will be to minimise change for large Direct Debit/Credit users, e.g., utility companies or the DWP, as opposed to any change to core NPA Clearing and Settlement or Common services functionality that would have been delivered for Faster Payments.

#### 4. Under scope option 2:

a. 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?

The payment industry has undertaken large migrations of BACS submitters previously through payments gateway providers. We do not see this being different to similar projects from 20 years ago, rather a lot easier because there are a smaller number of Bacs gateway providers providing services through the cloud.

BACS gateway providers would certainly be able to assist and stimulate the creation of such solutions to support ISO20022 based submissions. Key will be ensuring these ISO20022 standards are available to the industry which if undertaken correctly could leverage work that has been undertaken in other payments markets to support international interoperability.

The open banking alternative to a direct debit is being rolled out. Variable Recurring Payment is still being designed by OBIE. This is another reason for splitting up the procurement to focus on FPS first and then BACS later. In two years, direct debits may well be displaced by open banking payments.

b. 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 common services to support the migration of Bacs transactions?

There is no reason why file-based services should not be included as it is just a different delivery mechanism. We should not complicate the delivery if it is projecting what the NPA needs to enable to support innovation and competition. The architecture and delivery should at every stage encase:

- future, innovation and progressive change and evolution, and
- dictate against major stepped changes in the future to deliver these things.

A focus on Faster Payment Service would be the strongest solution as the initial direction to take. A key learning from OBIE is that regulators are not proficient in driving innovation. It is the market that drives innovation and its pace, and this is the right place for it to happen. Creating a standard should not be encouraged whatsoever.

c. 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?

The features of BACS (and Direct Debit) should sit outside of the CIS core. For instance, for Direct Credit payments, as these are simple timed file payments, consideration for the core is about throughput/TPS and the ability to handle BACS Direct Credit peaks, e.g., the DWP Winter Fuel Payments or Easter weekend being at the end of the month.



However, Transactions Per Second (TPS), as it has been for the recent US Fed and Payments Canada Immediate Payment procurements, will be a key requirement of the narrower CIS procurement anyway as CIS will need to be able to scale for future volume from Open Banking, IoT, micro payments, etc.

Focus upon FPS will lead to a faster procurement and delivery process. BACS should look completely different in 3 years' time as will its requirements.

### c) Questions related to procurement approach

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.

Pay.UK should be directed to competitively procure the NPA and, if this is by a phased approach (with an initial, narrower, CIS procurement focusing on Faster Payments), this should be through a new procurement.

A new procurement, as identified by the PSR, would ensure that Pay.UK goes to market with detailed functional requirements for the CIS and that all suppliers can, afresh, take part.

With functionality now being focused on the core CIS this will also allow Pay.UK to re-assess how it went about procuring the NPA both as the Faster Payments Scheme and Pay.UK – to hopefully ensure third time lucky<sup>1</sup>.

The PSR and Pay.Uk should also study how the US Fed and Payments Canada have progressed their Immediate Payments procurements and the suppliers that they involved.

A key aspect of their procurements was moving quickly to Proof of Concept to validate TPS capability, CNI hosting and/or the ability of the technical stack to flex both from the scale and functionality perspectives.

A competitive process is needed to get the best solution and at the right price. This is a long-term partnership being chosen and needs to be started in a professional, well thought-out manner. If this is not achieved, the supplier will not respect the professionalism of Pay.Uk and the relationship will worsen.

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)?

We do not see any other realistic options apart from a phased new procurement with an initial, narrower, CIS procurement focusing on Faster Payments.

However, within this (only realistic) option that the PSR needs to direct Pay.UK to take forward it will be key that the procurement process this time is undertaken in a clearer, structured and more managed way that benefits from some of the good international immediate payments procurement practice.

As above clear functional requirements and Proof of Concepts will be key. However, in addition the following procurement lessons should be ones the PSR focuses Pay.UK upon:

- a) A professional approach
- b) Long term partnerships

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<sup>1</sup> The PSR consultation paper does not detail the earlier efforts of pre-NPA procurement when the Faster Payments Scheme started to seek full merger of the payment schemes. The FPS procurement was cancelled, and this delayed procurement is now paused.



PSR Consultation Paper CP21/2:  
Delivery & Regulation of the New Payments Architecture  
February 2021



- c) Enable two or more FPS immediate payment solutions to be created, to provide greater resilience to the UK.
- d) Create separate project and governance modules to avoid single provider solutions – such as that of Mastercard
- e) Include delivery deadlines with penalties
- f) All suppliers informed that Mastercard will not be the supplier in the future. (Better response envisaged from suppliers if they know they are not competing with Mastercard)
- g) Develop a clear strategy, clear plan, clear timings
- h) Keep things focused
- i) Get the right skills
- j) Motivate the team.



# British Retail Consortium





## BRC response to PSR consultation on delivery and regulation of the New Payments Architecture: Questions on Pricing & Competition May 2021

### 1 New Payments Architecture: Pricing & Competition

- 1.1 The British Retail Consortium (BRC) is the trade association for the retail industry with a membership accounting for half of all UK retail by turnover. Our diverse industry spans large multiples, independents, high street and out of town retailers, from online to bricks and mortar, selling goods across all sectors to increasingly discerning consumers.
- 1.2 All BRC members have an interest in the payment system as end users, in fact retailers are one of the most significant end user groups, processing more than 50 million transactions per day and around £394 billion per year for products & services sold in store, online & over the phone. A priority for the BRC has therefore been to ensure an innovative, transparent and competitive payments market for all retail end users and their customers.
- 1.3 Today, insofar as retail is concerned, payments are almost exclusively made involve those for cash and for cards. We are yet to see just how much the pandemic has shifted retail payments for the long-term towards cards but, prior to the pandemic, card payments constituted approximately 80% of retail purchases by value, or almost two thirds by volume.
- 1.4 The dominance of cards in UK retail payments is a long-standing concern for the retail industry given that the cost of processing card transactions remains very high. Debit cards are around four times as expensive as cash to process, whilst credit cards are more than three times as expensive to process than debit cards. Interbank payments, whether Faster Payments or open banking PIS solutions, are currently of negligible impact on retail payments.
- 1.5 Given the lack of competition or cost-effective payment channels available to merchants, the retail industry supports the Government and PSR objective to enhance competition and innovation in UK payment systems through the development of interbank payments under a New Payments Architecture.
- 1.6 The BRC welcome this consultation from the PSR and shares the PSR's concerns about a CIS provider exercising or abusing a dominant position in interbank payments.
- 1.7 Adoption of novel interbank payments will clearly be driven is driven by 1) consumer demand and 2) by what is cheaper for the merchant to use. Pricing will be a driving factor for retail adoption, specifically the cost differential between this and other payment channels. Significant costs for merchants will kill demand for these end-users.
- 1.8 The BRC objected to the Mastercard/Vocalink merger, and queried whether the PSR would consider a divestment requirement for an NPA CIS provider. This PSR consultation paper does not





propose structural separation, but that the PSR bring forward measures to impose operational separation of a CIS provider to mitigate against the risks associated with a CIS provider's dominant position.

- 1.9 The PSR must therefore ensure an appropriate regulatory framework to deliver competitive pricing for interbank payments. The BRC is supportive of a PSR proposal to give Pay.UK a role in setting CIS pricing, to ensure this is set at fair and competitive level.

## 2 Developing an Appropriate Consumer Protection Regime

- 2.1 **Bolster Consumer Protection:** The matters of competition and pricing covered in the consultation will be crucial to get right in order to provide merchants with the appropriate incentives to adopt novel interbank payments, but the consumer adoption is the other critical half of this chicken and egg equation. The BRC continue to assert that a bolstered consumer protection regime is essential to support consumer confidence and demand for novel interbank payments.
- 2.2 **The Right Balance:** The BRC believe it is important to ensure that the right balance is struck between an interbank consumer protection regime strong enough to inspire consumer confidence and trust on the one hand and, on the other hand, avoiding an expensive scheme that removes any cost incentive for payment end-users to adopt it – essentially destroying the prospects for growth and development of interbank payments.
- 2.3 **Selective Use Cases:** The PSR have set out in Chapter 4 of the call for views examples of various use cases for interbank payments. The BRC suggest that in developing a consumer protection regime for interbank payments that the PSR focus on the higher risk use cases, where the current lack of protections has greatest potential for consumer harm.
- 2.4 **Lower Risk Payments:** The majority of UK retail payments could be characterised as low risk based on payment value – the average transaction value (ATV) of any given retail transaction stood at £24.08 in 2019 (2018: £23.06) according to the 2020 BRC Payments Survey. In addition, the retail industry is highly competitive and responsive to the demands of its customers, with most disputes resolved swiftly and amicably between the retailer and the customer without the need for third party intervention.
- 2.5 **Higher Risk Payments:** We would argue that higher risk use cases for interbank payments rarely involve retail payments at all, but instead relate to goods or services provided by sellers that offer customers no other payment option except cash – and therefore no protection, for example builders, plumbers, or other contractors. These transactions will often pose a greater risk given the value of the purchase and the reliability of the seller.
- 2.6 **Maintaining Competitive Advantage:** There are clearly insufficient consumer protections in place for interbank payments today, and so the introduction of a targeted regime is necessary to protect consumers from harm in those use cases where the risk is greatest. However, the introduction of a consumer protection regime that extends to even typically low value, low risk





retail transactions would result in a more expensive regime and adversely impact the merchants' incentive to adopt it. If the same consumer protections, and associated costs, are to be replicated for interbank payments as exist for payment cards then any competitive advantage that interbank payments would have over card payments will be lost.

### 3 Integrated Legal & Payment Protection

- 3.1 **Targeted Solution Possible:** In targeting higher risk payments, the BRC believe that a significant enhancement to consumer protection is achievable for interbank payments without the need for extensive additional measures or a large and costly scheme.
- 3.2 **Payment Protection:** The PSR have provided a table in Chapter 1 of the call for evidence covering "consumer protection options across different payment methods" which we believe identifies the crucial flaw in interbank consumer protections – the lack of any official "payment protection." Chargebacks are, for credit and debit cards, arguably the most important tool of consumer protection available to the end user. An interbank payment on the other hand, despite its properties of being a traceable electronic transaction facilitated by regulated payment institutions, provides the end user with no payment protection whatsoever.
- 3.3 **Legal Protection:** The lack of any payment protection for interbank payments leaves consumers with only two courses of action in the event of a dispute – to arrive at a resolution with the payee or take legal action. Whilst legal action may often be considered complex, risky and time-consuming, HM Courts & Tribunals Service's Money Claim Online (MCOL) facility is a relatively convenient way of making a money claim on the internet through a simple court process. A small claim can take as little as 6 weeks, whilst the limited costs involved should deter spurious claims, encourage the payee to come to a resolution, or can be reclaimed by successful claimants. These small claims processes are arguably no longer or more complex than the chargeback process for card payments yet, unlike card payments, the cost of administering this dispute resolution scheme is not built into payment provision.
- 3.4 **Integration Needed:** A key failing in consumer protection for interbank payments is that a payer may well take legal action against a payee in the event that a dispute cannot be resolved, and win, yet still not see the return of their money because there is today no relationship at all between legal and payment protection. The PSR should therefore introduce a mandate on payment service providers to reverse an interbank payment on receipt of a court judgement in the payer's favour, and appropriate mechanisms should be mandated by payment service providers to facilitate this process as swiftly and frictionlessly as possible for the payer – ideally an automated process.
- 3.5 **Dispute Mechanism:** Whereas HM Courts & Tribunals Service's Money Claim Online facility may provide interbank payment end users with an adequate dispute mechanism, the PSR could use its powers to ensure that (an) appropriate interbank payment service provider(s) create an effective, adequately integrated, user-friendly process on the payment side of the equation. The process to reverse an interbank payment could be administered by the customers bank, by Faster Payments or, in the case of open banking payments, through PISPs as appropriate.





**For further information**

[Redacted text block containing five lines of blacked-out information]



## Electronic Money Association (ema)





**Electronic Money Association**



[www.e-ma.org](http://www.e-ma.org)

**Payment Systems Regulator**

12 Endeavour Square,  
Stratford, London E20 1JN

By email to: [PSRNPA@psr.org.uk](mailto:PSRNPA@psr.org.uk)

19 March 2021

To whom it may concern,

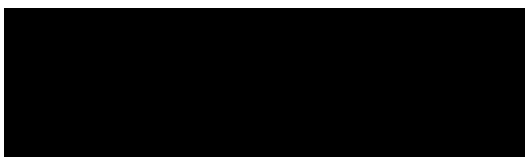
**EMA response to [PSR CP21/2](#) - Consultation on delivery and regulation of the New Payments Architecture, Questions 1 to 6**

The EMA welcomes the opportunity to comment on the options that the PSR are considering to de-risk the on-going procurement of a provider to build and run the New Payments Architecture (NPA) central infrastructure services (CIS).

The EMA is the EU trade body representing electronic money issuers and alternative payment service providers. Our members include leading payments and e-commerce businesses worldwide, providing online payments, card-based products, electronic vouchers, and mobile payment instruments. Most members operate across the EU, most frequently on a cross-border basis. A list of current EMA members is provided at the end of this document.

I would be grateful for your consideration of our comments and proposals below.

Yours sincerely,



Chief Executive Officer  
Electronic Money Association



### **General Comments**

#### **Ecosystem engagement**

We would like to note that our consultation responses stem from a position of limited visibility of the requirements definition for the CIS, or the procurement process to date. Lack of sustained stakeholder engagement across the whole ecosystem as the design for the NPA has evolved has resulted in a disconnect between PSPs using the payments systems and this large infrastructure change project which will directly affect their customers.

We consider that lack of engagement gives rise to the risk that the NPA may not cater for the developments that have occurred in the payments market, nor meet future requirements. This inevitably will require further time and expenditure to resolve without delivering benefits to end payment users.

Going forwards, effective stakeholder engagement is critical to ensure that the requirements of all market and end users, in particular in-direct participants of the payment schemes, are understood and considered. We are not proposing additional stakeholder engagement processes that would introduce further delays to the procurement or CIS design process, but that Pay.UK look to effectively communicate with the payments ecosystem on progress, and open up participation models so that interested parties can become more involved in the NPA programme.

#### **Meeting strategic objectives**

As the PSR remarks in the consultation, the current conceptual design for the NPA would appear to have moved away from the 'thin' clearing and settlement layer approach envisaged by the Payment Strategy Forum. The design of the CIS has clearly evolved as requirements have been defined during the procurement process. However, building on our point above, the wider payments industry has no visibility of the design decisions that have been made.

Once the procurement scope and approach has been agreed, we would welcome the PSR and Pay.UK sharing their analysis of how the solution that is being procured meets the strategic objectives of the NPA as defined by the Payment Strategy Forum (PSF).

We do not intend to suggest actions which may bring further delays to the overall NPA programme. However, given the time that has elapsed since the PSF set out the blueprint for the UK's payment infrastructure, and subsequent market developments, we simply seek transparency.



**Questions related to the risks to NPA delivery****1. Do you agree with our view of the risks to the successful delivery of the NPA?**

We agree with the risks that the PSR has defined, and recognise the balance that the PSR is aiming to achieve between delivering the NPA and maintaining the stability of the existing payments infrastructure.

In particular, as we note above, we fully support the PSR's conclusions that because the functional specifications of the CIS have not been not been fully defined or validated with stakeholders, this jeopardises the successful delivery of the NPA.

**Questions related to procurement scope****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?**

The ideal approach for the UK payments market would be to develop the central infrastructure for the NPA to support all transaction types from both Faster Payments and BACS. However, given the delays to the NPA programme, a revised scope and approach make sense in order to de-risk the project.

**Scope Option 1** – given the time that has elapsed since the procurement process began, we agree with the PSR's analysis that including all payment types from Faster Payments and BACs (including Direct Debit) in the initial procurement of the CIS may disproportionately risk the successful delivery of the NPA.

**Scope Option 2** – we agree that by focusing on procuring a CIS which supports immediate payments and file-based submission of transactions, that an alternative path to migrating some BACS Direct Credit transactions may emerge, and a second procurement may become unnecessary. However, this focus does not address the market requirement to modernise the BACS Direct Debit infrastructure to encourage innovation and competition.

We suggest that limiting the scope of the procurement to only the existing Faster Payments scheme functionality might restrict the CIS's ultimate ability to meet the market's strategic objectives for the NPA. However, given the delays to the NPA programme, we suggest that reducing the initial procurement scope to all types of credit transfer (push) payments could be a pragmatic compromise that lays a strong foundation for the NPA. Please see response to Q3 for further comments regarding this.



**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?**

We understand the rationale for reviewing the scope of the procurement of CIS at the payment scheme level. It is the natural demarcation when the industry is considering the complex migration of existing transactions to the new architecture. And we agree with the proposal to narrow the initial scope of procurement in order to de-risk and drive the programme forward at pace.

However, if the CIS is viewed as the platform for driving future payments innovation and change, we suggest this offers a different lens through which to define the required CIS functionality, and ensure the functionality is not focused on like-for-like migration of existing payment schemes.

In 2017, the Payment Strategy Forum envisaged that the NPA would provide a 'single push payment' rail, and it was widely acknowledged that the requirements for moving Direct Debit (a 'pull' payment) to the NPA would need further in-depth exploration and impact analysis before migration. Since then, the payments market has evolved significantly and we agree with the stakeholders referenced in the consultation (para 3.10) that new services based on Faster Payments, (such as Request to Pay (RTP) and potentially Variable Repeat Payments (VRP)), will emerge which might become attractive alternatives to Direct Debit in some use cases.

As outlined in our Q2 response, we therefore suggest a compromise approach; that the scope of the initial procurement of the CIS delivers the clearing and settlement functionality required to support all 'push' credit transfers. This could include single immediate payments, same day non-urgent payments, future dated payments, real-time bulk payments, and regular payments (standing orders). Then, if required at a later stage, functionality for supporting 'pull' transactions (such as Direct Debit) could be considered (which may require further procurement). This would thus enable, as the PSR anticipate with Option 2, the migration of all existing Faster Payments transactions, as well as supporting the transfer of BACs Credit transactions in a phased manner.

We understand the efficiencies of developing central 'common services' to assist with the migration of existing transactions to the NPA, and that the complexities of defining these services for both credit (push) and direct debit (pull) transaction types have not been fully specified.

Hence focusing initially on procuring the CIS which supports 'push' credit transfers will simplify the initial procurement, whilst supporting the market to migrate Faster Payment transactions first, and launch emerging propositions. However, as we discuss in Q4.C the initial procurement would still need to consider the functional requirements for delivering 'pull' direct debit type transactions. We don't consider that this would be a like-for-like mapping of current Direct Debit (DD) functionality to support the migration of existing transactions, but rather improved features that will allow organisations to collect payments from their customer's accounts automatically with the appropriate authorisation and consents in place.

We acknowledge this alternative view may introduce further complexity into the programme as a whole, in terms of the operation of the individual FPS and BACs schemes and the unbundling and



migration of transactions at individual PSP level. However, we believe these could be tackled in parallel to the technical design and build of the CIS, and should not further deter the procurement process.

#### **4. Under scope option 2:**

**a. 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?**

We believe there is a risk that alternative propositions for BACS Direct Debits (DD) may not be able to emerge and gain traction unless the market is sufficiently motivated to adopt them. We recognise that Variable Repeat Payments (VRP) or Request to Pay (RTP) may not be suitable alternatives for all business and government use cases which currently use Direct Debit. Hence the business case for migrating from DD to an alternative proposition is not tangible for some market participants. The resilience and stability of the existing transaction volumes on which UK businesses rely upon is also a key consideration. However, there are gaps in the DD proposition which VRP and RTP address and that would bring benefits to payers, payees, and PSPs.

We therefore urge both the PSR and the CMA to consider mitigating the risk that lack of commercial incentive for incumbent PSPs suffocates the development of alternative market-led solutions when contemplating the NPA programme, and the future scope of the Open Banking initiative. Upon further consultation and analysis it may be determined that mandating support of RTP and VRP by the largest PSPs may well deliver wider payments market and end-user benefits than the migration of all BACS Direct Debit transactions to the NPA.

**b. 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 common services to support the migration of Bacs transactions?**

We think that file-based submission (or bulk submission) of 'push' credit transfer transactions should be included in the scope of the initial procurement in order to provide the option for possible migration of BACS Credit transactions. Though, we recognise that the full assessment of moving from scheduled to real-time clearing and settlement of bulk BACS Credit transactions hasn't been completed.

**c. 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?**



Please also refer to our Q3 response; where we consider an alternative option that the initial procurement of the CIS supports the functional requirements for clearing and settlement of all credit transfers. We anticipate this may involve quantifying the market requirements to assist with the migration of BACS Credit transactions, and hence should be included in the initial procurement. Also as we noted, if the requirements for delivering 'pull' direct debit type transactions are not purely viewed as designing a like for like replacement of BACS Direct Debit, then the initial procurement should also consider how these requirements could be developed in the future.

The degree of detail on the BACS related features that may need to be specified before the initial procurement will depend on the procurement approach that Pay.UK are pursuing. If Pay.UK intend the CIS provider to be building to specification, then our suggestions will likely require all BACS features to be fully considered before initial procurement; however, if the CIS provider will be co-designing the solution with Pay.UK, then the design could be phased, and BACS related specifications may not be required for the initial procurement.

### **Questions related to procurement approach**

#### **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.**

We do not have enough visibility regarding the progress of the procurement to date, nor the cost benefit analysis of each option, to determine whether the existing (Scope 1) or starting anew (Scope 2) is required in order to secure the outcomes that the market is looking to achieve.

However, we strongly support a competitive procurement process; not only to achieve better value for money, but to drive the quality of the solution for the CIS and maximise its capabilities, which in turn will support the UK payments strategy and market well into the future, and ensure the industry is not faced with incremental costs to keep pace with innovation.

We recognise the possible advantages in the time to delivery, mitigating migration risk, and cost of implementation, if Pay.UK were to negotiate directly with Vocalink to deliver the CIS. However, we do not consider that these outweigh the benefits to the UK payments market as a whole that a competitive procurement process would bring.

#### **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)?**

No further comments.



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Electronic Money Association

[REDACTED]  
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Payment Systems Regulator  
12 Endeavour Square  
London E20 1JN  
UK

[REDACTED]  
[REDACTED]

[www.e-ma.org](http://www.e-ma.org)

13 May 2021

Dear [REDACTED]

**Re: EMA response to [PSR CP21/2 Consultation on delivery and regulation of the New Payments Architecture Q7-14](#)**

The EMA is the EU trade body representing electronic money issuers and alternative payment service providers. Our members include leading payments and e-commerce businesses worldwide that provide online payments, card-based products, electronic vouchers and mobile payment instruments. Most EMA members operate as indirect participants of the UK's main payment schemes, although a few are direct participants. A list of current EMA members is provided at the end of this document.

I would be grateful for your consideration of our concerns.

Yours sincerely

[REDACTED]

[REDACTED]  
Chief Executive Officer  
Electronic Money Association



## **EMA response to consultation - Questions 7-14**

### **Questions related to competition**

**7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.**

Given that it is proposed that Pay.UK act as the sole interface to the CIS provider, we strongly agree with the principle set out in paragraph 5.7, that Pay.UK must promote effective competition within the NPA ecosystem.

As we illustrated in the [EMA response](#) to the [PSR's Call for Input in January 2020](#), historical technical design decisions made with regards to the UK payment systems have led to downstream competition issues, and in some cases prevented payment providers entering and participating in the ecosystem. We therefore support the PSR's proposal in paragraph 5.8 to introduce technical design principles for the NPA, and welcome that they go beyond the original Payment Strategy Forum's Blueprint to reflect the current payments market, and in particular the inclusion of the principle to ensure scalability and modularity of the services provided to ensure future cost effectiveness. Pay.UK's full consideration of these principles in the functional and technical specifications for the CIS will mitigate against the risk that the technical design introduces competitive barriers from the outset.

**8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.**

We agree with the PSR's assessment of competition risks and the implications this may have for the NPA ecosystem.

However, we note that the PSR will not be able to fully pre-empt every possible competition scenario that may emerge, and that the process to procure a CIS provider should continue at pace. The PSR's oversight of the NPA's design and governance structures should be the critical control which can mitigate against an anti-competitive ecosystem developing.

**9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?**

### **Specific Mitigations**



The EMA supports the proposed specific mitigations, but we consider that the PSR's oversight of Pay.UK's adoption of the measures will be the key factor which can mitigate the competitive risks from materialising.

## **Governance Principles**

### **1. Pay.UK as primary CIS interface**

We agree that making Pay.UK the primary interface between the ecosystem and the CIS provider may mitigate the risk that the CIS provider could exploit its monopoly position, and ensure consistent treatment of all participants. However, as the PSR discusses in the consultation, this places Pay.UK in a pivotal role, one which must be conducted effectively.

As discussed in the [EMA response to Questions 1-6](#) of this consultation, we consider some changes to Pay.UK's industry engagement model and governance structure for the NPA programme are required to support their successful management of competitive risks in the NPA.

#### **Stakeholder engagement model**

Whilst we recognise that Pay.UK have taken steps to engage the market in their overall operational and governance structure, the NPA programme itself has not been open to broad participation from the whole market as the design for the NPA has evolved. For instance, the membership of the NPA Strategic Participant Group (SPG) was nominated by UK Finance<sup>1</sup>, and the structure and operation of the programme working groups are completely opaque to the wider industry. The EMA is unable to identify how small and mid-tier market participants can meaningfully engage with the programme.

We believe that unless Pay.UK take the opportunity to refresh the NPA programme industry engagement model while the design phase is underway, there is a clear risk that the eventual operating model of the NPA, and Pay.UK's decision making process, will suffer from the same lack of transparency and industry representation, and introduce competition risks by design into the NPA.

We do not suggest that the degree of industry engagement should, in any way, slow the pace of the programme further. But engagement should, as a minimum, enable PSPs to understand the NPA design and implementation plans that could directly impact their customers.

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<sup>1</sup> <https://www.wearepay.uk/programmes/new-payments-architecture-programme/engaging-with-the-programme/>



## **2. Rules that promote competition**

We fundamentally support the principle that Pay.UK must actively promote competition and ensure access to the NPA is proportionate, objective, and non-discriminatory (POND).

## **3. Separated CIS provider**

In principle, we support the operational separation of the CIS functions if the CIS provider has other business interests in competing payment systems or the competitive layers of the NPA. We also agree with the PSR that legal separation measures should only ever be implemented in proportion to the scale of the problem; for instance, if structural separation is required before the CIS provider is selected, it may narrow the pool of possible or interested providers, unduly affect the procurement process, and drive up overall industry costs of implementing the NPA. Thus, a measure originally designed to support competition, in fact may stifle the market for CIS providers and deter the overall efficiencies that the NPA may deliver.

For similar reasons, we suggest that the PSR develop specific criteria for when operational separation may be necessary. This will inform potential CIS providers of the environment they will be expected to operate during the procurement phase, and may mitigate against the risk of affecting the operation of NPA services, as far as possible, in the future.

## **10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.**

Our view is that some common services (provided by the CIS provider) could raise competition risks which may stifle emerging market overlay services, but overall, these risks may not differ substantially from those already identified by the PSR.

Pay.UK's decision-making and industry consultation process for assessing whether a service should be provided centrally, will be key to mitigating competition risks arising from common services. For instance, transaction reference data will be provided by the core CSS platform<sup>2</sup>; clearly there is scope for the CIS provider to enhance that data and provide this via common services directly to PSPs using NPA propositions. This may compete with market overlay providers, such as payment gateways, seeking to provide payment and data services to their

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<sup>2</sup> As indicated in paragraph 2.15 of the PSR consultation document.



customers. Hence the boundaries between common services provided by the CIS provider and services which could be provided competitively by the market will need to be clearly defined and agreed.

**11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.**

We agree with the PSR's initial minimum set of elements of operation separation in the consultation. We note the particular importance of information firewalls if the CIS provider may have access to commercially sensitive information from NPA participants.

As the ownership, products and services offered by the CIS provider's wider corporate group may differ over the period of the contract for providing CIS for the NPA, Pay.UK and the PSR will require sufficient oversight of the CIS provider's wider corporate operations, and tools to introduce further operational separation measures, should it become necessary.

**12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?**

Given Pay.UK's central role in ensuring effective competition in the NPA, we agree that regulatory measures are appropriate to implement the proposed mitigations and governance principles. However, we suggest that any regulatory measures should not be too prescriptive before the risks manifest, so as not to introduce further delays or complexity to the NPA programme. Rather the measures should reinforce the PSR's ability to oversee and enforce the risk mitigations and governance principles, if required.

**Questions related to pricing**

**13. Do you have any comments on the pricing principles set out in this document?**

We welcome the PSR's objective of establishing a level playing field for CIS user pricing and support the pricing principles that the PSR has set out. However, we note that some of the principles may conflict with each other in the early stages of the NPA rollout; please see discussion below.

- Reflect efficiently incurred costs



We agree that once the NPA is fully implemented and running, Pay.UK should be able to establish CIS user prices that reflect the incurred operational cost of the CIS service. However, applying a 'cost recovery' model throughout the 'build' phase of the NPA programme will naturally lead to high fees for initial CIS users as the infrastructure investment costs will need to be recouped. In turn, this could act as a disincentive from joining the NPA until the pricing reduces in value.

This indicates that the ability to achieve this principle may be wholly dependent on whether Pay.UK seeks additional funding for the building of the CIS infrastructure, such as the options suggested by the Payment Strategy Forum in its analysis of the commercial approach<sup>3</sup> for the NPA (funding by investment, or debt).

- Incentivise utilisation of the NPA

As the PSR mentions, the user pricing will be a key incentive to encourage migration to the NPA, and in supporting new payment market participants to develop services at all levels of the NPA. Pay.UK will have to consider the commercial approach for building the CIS infrastructure, and consequently this may also warrant that they have to consider alternative user pricing structures and levels.

- Foster competition in services to end users

The EMA supports the principle of fair and equitable pricing for all end-users, but also acknowledges that the NPA has to provide a compelling commercial proposition for all participants. Perhaps as an extension to this principle Pay.uk should consider that CIS pricing should not in itself create barriers to providing competing services based on the NPA.

- Be transparent and predictable

We fully support transparent and predictable CIS-user pricing, and the PSR's suggestions for how Pay.UK can achieve this (in paragraph 6.29 of the consultation), including publishing the methodology for calculating all pricing.

To enhance the predictability of user pricing, Pay.UK should also consider a regular user pricing review cycle which would be conducted in consultation with industry in a fully open and transparent manner.

- Adapt to changing competitive conditions

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<https://implementation.paymentsforum.uk/sites/default/files/documents/Commercial%20Approach%20and%20Economic%20Models%20Blueprint.pdf>



As discussed above, we concur that CIS user pricing should be adaptable to changing market conditions, and ensure that the NPA is a commercially attractive proposition for all participants.

**14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?**

As discussed above, we support the proposed CIS-user pricing principles and consider that they will address competition risks.



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# Emerging Payments Association



# **Delivery and regulation of the New Payments Architecture**

## **Payment Systems Regulator Consultation (CP21/2)**

**March 2021**

*Response from the Emerging Payments Association*

### **Abstract**

This paper sets out the Emerging Payment Association's (EPA) response to the first six questions Payment Systems Regulator's (PSR) consultation on the delivery and regulation of the New Payments Architecture (NPA). These six questions focus on the risks to the delivery of the NPA and the options for reducing these risks by changing the scope of and approach to the initial procurement. The EPA plan to submit a further response providing views on the PSR's proposals for mitigating competition risks including the pricing principles by the 5 May 2021 deadline.

***March 2021***



## Introduction

The Emerging Payments Association (EPA) welcomes the opportunity to contribute to the Payment System Regulator's consultation on '*Delivery and regulation of the New Payments Architecture*'. The community's response contained in this paper reflects views expressed by our members and industry experts recommended by them. As the EPA's membership includes a wide range of companies from across the payments value chain, and diverse viewpoints across all job roles, this response cannot and does not claim to represent the views of all members fully.

We are grateful to the EPA's members and the experts they have recommended to us, who have contributed to this response which has been drafted by Mike Chambers, one of the EPA's long-serving ambassadors. We hope it advances our collective efforts to ensure the UK's payments industry continues to be progressive, world-leading and secure, and effective at serving the needs of everyone who pays and gets paid.

  
*Director General*  
**Emerging Payments Association**

*Author: Mike Chambers*

## Contents

### Questions related to the risks to NPA delivery

#### 1) Do you agree with our view of the risks to the successful delivery of the NPA?

The EPA broadly agrees with the PSR's view that option 1 presents unacceptably high risks. We also agree that the current delays are preventing the delivery of end user innovation and that the migration risk is a material concern.

Whilst it could be argued that the COVID pandemic has introduced an additional delivery risk, we are of the view that the validity of this risk as a determining factor in deciding the way forward for the NPA has passed.

The passage of time and the various programme resets have clearly had a profound impact on the delivery of the NPA and without clear, decisive and remedial action, the future delivery and success of the NPA cannot be assured.



The independent assurance review in Spring 2019 commissioned by Pay.UK noted the absence of strong foundations and recommended a programme reset. Whilst it is apparent that the programme reset adopted by Pay.UK and the intervention by the PSR is seeking to ameliorate the identified risks, we are principally concerned that the role of bulk submissions (especially Bacs Direct Debit) have not been thoroughly explored or validated with stakeholders. On this basis we believe that Option 1 has the additional risk of a vendor being selected and a solution being procured before the full scope of the NPA has been appropriately explored with stakeholders.

A clear tenet of the NPA programme is to deliver increased innovation and competition (both ‘in’ and ‘for’ the market’). The PSF was formed six years ago and the delivery timeline of the NPA has yet to be determined. The consequence of the passage of time is that the underlying services delivered by the Faster Payments and Bacs schemes have been preserved in aspic at exactly the time that a societal shift to digital payments, the payment opportunities afforded by Open Banking PISP and VRP and, perhaps even, the future of a Sterling CBDC are placing a greater dependency upon Faster Payments (and Bacs Direct Debit / Direct Credit to an extent). The net result is the delays and uncertainty of the NPA are presenting a material risk to effective competition and innovation.

Whether the NPA is delivered as originally envisaged or is delivered to a narrower scope, there is a material risk that continued delays, pausing and ongoing uncertainty will make it very difficult for Pay.UK to attract and retain the subject matter expert resources that are required to deliver such a complex and systemically important critical payment system.

Reviewing the scope of the proposed NPA to mitigate the identified risks is not without precedent. The current scope of the NPA focusses on replacing Faster Payments and Bacs Direct Debit / Direct Credit, whereas the original scope also included Image Cheque Clearing. Reviewing the scope as a mechanism to mitigate risk can be a pragmatic thing to do.

## Questions related to procurement scope

### **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?**

The analysis conducted by the PSR explores how delivery risk might be mitigated and the extent to which an alternative approach might stimulate competition and innovation.

The findings of the Cruickshank Report (2000), events leading up to the creation of the Payment Systems Regulator, the Specific Directions set by the PSR and the recommendations reached by the Payments Strategy Forum (2017) all point to competitive procurement of the underlying services that support the UK’s retail payment schemes operated by Pay.UK.



Assuming that the regulatory desire for the competitive procurement of clearing and settlement services by a Payment System Operator remains, the analysis of the alternative options outlined in the consultation to mitigate the risks considered to be unacceptably high has the potential to address some, but by no means all, of the identified risks.

On balance, and reflecting on the risks covered in question 1, the EPA broadly agrees with the analysis presented in the consultation paper.

### **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?**

Given the challenges that the NPA programme has experienced since it was inception in early 2018, it is difficult to see how option 1 can be considered to be viable in its current form. Even with a significant reset it is hard to envisage how some of the views held by the PSR on the material risks could be satisfactorily mitigated.

Based on the arguments made in the consultation paper, a binary decision between option 1 or option 2 would point to selecting option 2. An initial competitive procurement of a core clearing and settlement service layer along with the common services needed to successfully migrate Faster Payments to a new NPA platform, followed by a second procurement approach (if required) for Bacs Direct Debit and Direct Credit, would be an obvious solution to a binary choice.

However, for a number of reasons (including para 1.30 of the consultation which states that *...limiting the initial scope will allow time for Pay.UK to do further work to assess how Bacs services should be delivered in the future*), the EPA would like to propose an alternative option for the NPA programme.

An alternative approach to the binary choice between option 1 and 2 would be to further develop option 2 and progress a reconfigured NPA programme in four distinct tranches:

Option 3:

- *Tranche 1: Settlement Services*

This tranche would focus on the settlement aspects of the NPA and seek to align with the services to be offered by the Bank of England as settlement agent and within the scope of the RTGS Renewal Programme. This would include but not be limited to: settlement cycles to support Faster



Payments moving from NRT to RT settlement, on-boarding access for new participants and efficient use of liquidity across payment schemes.

The historic delays, current pause and any subsequent reinstating of the NPA programme means that the settlement services aspects of the NPA need to be defined, agreed and delivered within the timeframe of the Bank of England's RTGS Renewal Programme or the opportunity to maximise the benefits noted above might be lost.

- *Tranche 2: Faster Payments 2.0*

The consultation paper states a preference (option 2) for a narrower scope initial NPA which might reduce complexity, accelerate Faster Payments migration and support the faster realisation of any benefits.

In addition, this tranche should also consider the end user proposition aspects of Faster Payments including moving the current Near Real Time proposition to Real Time. Such an approach will also benefit developments within Open Banking where a real time payment leg is required and the market adoption of innovations such as Request to Pay.

When launched over a decade ago Faster Payments led the world – Faster Payments needs more than an ISO 20022 based NPA transition, it needs a holistic reset to create Faster Payments 2.0 as an upgraded real time system.

- *Tranche 3: Direct Debit 3.0*

Processing over 4.5 billion transactions a year and a strong 50 year heritage, it is clear that Bacs Direct Debit is a much valued payment instrument.

The EPA believes that the future role, function and delivery of Direct Debit within the NPA has not been fully determined or validated with stakeholders. Para 1.30 of the consultation states that *...limiting the initial scope will allow time for Pay.UK to do further work to assess how Bacs services should be delivered in the future* and the independent assurance review conducted in Spring 2019 noted the absence of strong foundations.

Narrowing the scope of the NPA procurement to exclude Bacs Direct Debit as suggested in the PSR proposals will provide the opportunity to consider the merits of both push (Direct Request) vs pull (Direct Debit) collections, bulk vs 1x1 payments and whether the infrastructure required to serve end user needs is better delivered inside or outside a primarily Faster Payments based NPA.

An additional benefit of this approach is that other facets of the Direct Debit proposition such as processing cycle, consumer guarantee, service user inclusion and alignment with 'overlay' services



(e.g. Request to Pay and Open Banking offerings (Variable Recurring Payments and sweeping)) could be explored at the same time.

The EPA believes that time and opportunity drivers point to the creation of Direct Debit 3.0 with assessment of the infrastructure fit within NPA taking place in tandem and not sequentially to the other tranches.

Such an approach would also facilitate, if required, a competitive procurement process within or outside of a NPA procurement process.

- *Tranche 4: Faster Payments DCA / FIM and Bacs Direct Credit.*

When considering option 2, the consultation correctly identifies that Faster Payments DCA / FIM and Bacs Direct Credit are intrinsically linked. It is also clear that choosing an option other than option 1 retains a level of complexity for bulk file submissions for both Faster Payments and Bacs.

Although the market adoption of Faster Payments DCA and FIM is limited it is difficult to envisage these services being withdrawn and, conversely, with the wide market adoption of Bacs Direct Credit it is impossible to contemplate the withdrawal of bulk push payment submissions.

As a precursor to commencing phases 2 and 3, a decision will need to be made about bulk submission. There are four options: (a) withdraw bulk file submission, (b) include DCA / FIM in the Faster Payment / NPA scope, (c) include all push payment submissions into phase 3 or (d) dictate that NPA will only process 1x1 transactions and bulk submission can only be provided as an 'overlay' service.

Mindful of the need to meet customer needs and the 2009 'end of the cheque that never was' decision, careful consideration of these four potential options is required. At a first glance it seems that only options 'b' and 'c' are viable, but both have significant pros and cons.

However, option 'd' might provide a neat solution for Faster Payments DCA / FIM and potentially provide a solution to enable Bacs Direct Credit migration to NPA be a fast follower to Faster Payments. Were this to occur, then a solution for Bacs Direct Debits outside of NPA but within the settlement layer might present itself.



#### 4) Under scope option 2:

*a: What do you think would be a suitable time frame 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?*

It is possible that the elapsed time frame to transition Bacs Direct Credit and Direct Debit to a NPA environment may not differ significantly between options 1 and 2.

The alternative approach (option 3) outlined in the answer to question 3 above will cause the 'bulk submission' question to be resolved and, subsequently, delivered within a Faster Payments (Phase 2) or Bacs (Phase 3) NPA delivery stream.

Crucially, option 3 provides opportunity for the complex Bacs transition challenges to be addressed without any further detrimental impact on the settlement and Faster Payments aspects of the NPA development.

As the consultation suggests, there is a need for any decisions regarding the future of bulk file submission and (pull) Direct Debits to be built on solid foundations. Also, to avoid a repeat of the 'end of the cheque that never was' decision, a programme of strong end user engagement is required.

These activities should be progressed by Pay.UK, utilise subject matter experts and include independent challenge / thought leadership. The EPA would be willing to provide access to practical expert input to support this process.

*b: 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 common services to support the migration of Bacs transactions?*

This question has been covered in the answers to questions 3 and 4a.

*c: 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?*

This question has been covered in the answers to questions 3 and 4a.



Although there are many proposition, operational and infrastructure synergies between Bacs Direct Debit and Bacs Direct Credit, they are two very different payment instruments that perform different functions.

If both Bacs Direct Debit and Bacs Direct Credit are delivered outside of NPA, then ensuring central bank settlement synergies would be important (see question 3 above).

If it is decided that Faster Payment DCA / FIM are delivered via a NPA enabled Faster Payment solution, then it is possible that Bacs Direct Credits could be a 'fast follower' and be migrated from the existing Bacs engine. Faster Payments DCA is, in effect, a white label version of Bacs DCA so the process here would reverse the arrangements Bacs originally provided Faster Payments. Obviously other aspects of Bacs Direct Credit will require changing (e.g. clearing cycle).

This would potentially leave Bacs Direct Debit outside of a NPA solution which has pros and cons.

Finally, if bulk submissions were to be delivered as a NPA 'overlay' service then any future Direct Debit (pull) or Direct Request (push) may be less complex to deliver inside or outside the NPA.

## Questions related to procurement approach

### **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.**

The findings of the Cruickshank Report (2000), events leading up to the creation of the Payment Systems Regulator, Specific Directions set by the PSR and the recommendations reached by the Payments Strategy Forum (2017) all point to competitive procurement of the underlying services that support the UK's retail payment schemes operated by Pay.UK.

Noting the implication of such a decision, there is an argument that the provision of systemically important payment systems could be delivered by the Payment System Operator and not outsourced.

Also, there is precedent that demonstrates that it is possible for a renewed contract to be negotiated with an incumbent supplier.

However, assuming that the regulatory desire for the competitive procurement of clearing and settlement services by a Payment System Operator remains, then:

- For option 1 (original NPA scope) the current procurement process ought to continue.



Much time has been invested in progressing PQQ and RFI and getting ready for RFP. To start the process again will cause further delay and, given the complexities and vendor experiences, is unlikely to result in additional vendors entering the fray.

- For option 2 and option 3 (narrower scope), then a new competitive procurement process should be commenced.

Both options 2 and 3 represent a new and far less complex scope and starting a new process (perhaps combining PQQ and RFI into one stage) would provide opportunity for current, excluded and new vendors to enter the procurement process, which would support a truly competitive process.

Although elapsed time is an issue, there are a number of examples around the world of Faster Payment equivalents being implemented within 12 to 18 month timeframes.

**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)?**

Answers to previous questions consider the pros and cons of bulk vs 1x1 submissions and the merits, or otherwise, of transitioning a 'pull' payment (Direct Debit) to a 'push' payment (Direct Request).

Permanently excluding Bacs Direct Debit and Bacs Direct Credit from the scope of the NPA is a realistic option. That said, such an option cannot be regarded as a 'do nothing' option as the infrastructure will still need procuring, ongoing hardware / software investment will be required, settlement synergy will be required and the proposition will need developing (Direct Debit 3.0). All decisions would need to be based on a clear strategy for bulk push / pull payments set in the context of a holistic payments strategy.

The scope and role of the proposed overlay services component of the NPA remains undefined. The role of overlay services in driving competition and openness in the eco-system should not be underestimated.

It is worth questioning the extent to which a central infrastructure is required, and we invite the regulator to consider deploying a distributed architecture model, such as that deployed in the EU with the introduction of SEPA and SEPA Instant, where the role of the EPC is quite different to that of Pay.UK. This would perhaps relieve Pay.UK of the procurement pressure and lead to increased focus on scope, design and the rulebook, as well as greater supply side competition and more competitive pricing.



Although beyond the scope of this consultation, it is important to note that the NPA offers a ‘once in a generation’ migration path to a feature-rich ISO 20022 utilising enhanced data building blocks. It is important that, in all the adjustments made to enable the delivery of NPA, the message standard opportunity is not lost.

Finally, it is important not to lose sight of the Financial Stability Board’s cross border payments roadmap as a joined up approach that cascades down to domestic application is important.

## About the Emerging Payments Association (EPA)

The Emerging Payments Association (EPA), established in 2008, sets out to make payments work for everyone. To achieve this, it runs a comprehensive programme of activities for members with guidance from an independent Advisory Board of 16 payments CEOs.

These activities include a programme of digital and (when possible) face-to-face events including an online annual conference and broadcast awards dinner, numerous briefings and webinars, CEO Round Tables, and networking and training activities. The EPA also runs six stakeholder working groups. More than 100 volunteers collaborate on the important challenges facing our industry today, such as financial inclusion, recovering from COVID-19, financial crime, regulation, access to banking and promoting the UK globally. The EPA also produces research papers and reports to shed light on the big issues of the day and works closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

The EPA has over 130 members that employ over 300,000 staff and process more than £7tn annually. Its members come from across the payments value chain including payments schemes, banks and issuers, merchant acquirers, PSPs, retailers, TPPs and more. These companies have come together to join our community, collaborate, and speak with a unified voice.

The EPA collaborates with its licensees at EPA EU and EPA Asia to create an interconnected global network of people passionate about making payments work for all.

See [www.emergingpayments.org](http://www.emergingpayments.org) for more information. Contact [REDACTED] for assistance.



# Federation of Small Businesses



**19/03/2021**

Address / Via Email to: [PSRNPA@psr.org.uk](mailto:PSRNPA@psr.org.uk)

## **Consultation on delivery and regulation of the New Payments**

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the above-named consultation. The Federation of Small Businesses (FSB) is the UK's leading business organisation. Established over 40 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that's led by our members, for our members.

Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including legal advice, financial expertise, access to finance, support, and a powerful voice in government. FSB is the UK's leading business campaigner, focused on delivering change which supports smaller businesses to grow and succeed.

Our lobbying arm starts with the work of our team in Westminster, which focuses on UK and English policy issues. Further to this, our expert teams in Glasgow, Cardiff and Belfast work with governments, elected members and decision-makers in Scotland, Wales and Northern Ireland.

Innovative and faster new payment systems are vitally important in the day-to-day running of small businesses across the UK. However, many small businesses are not aware, or do not have the time to consider all the different options and mechanisms that may utilise. This is why it is vital that we encourage a diverse and dynamic marketplace, so that competition drives consumer choice.

We trust that you will find our comments helpful and that they will be taken into consideration.

Yours sincerely,

[Redacted Signature]

National Lead, Payments

Federation of Small Businesses



# **FSB response to: Consultation on delivery and regulation of the New Payments**

**March 2021**



## Notes on Recommendations

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

Yes, especially to a phased approach which should enable quicker delivery of core services first, starting with Faster Payments. This goes hand in hand with narrowing the scope of the procurement to essential core services, and such procurement should be done competitively and not awarded at the outset to one single entity.

### **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?**

To help reduce risks, our preferred approach is for Pay.UK to limit its initial procurement to the CSS and any common services needed to migrate Faster Payments transactions, as represented by Scope Option 2. The original deployment of Faster Payments in 2008 suffered from lack of awareness at large and the 2009 government review suggested that benefits could have been realised faster. Because of the volumes associated with this type of payments and the overall consumer familiarity with the process, we don't believe that the NPA will suffer the same fate. This also means that the benefits should be realised quicker, deriving economies of scale. We do stress however that should there be any differences in process to the end-user, and effective awareness campaigns should be planned at the outset.

#### **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?**

Given that Open Banking is now in its third year, we hope 2021 will be a year of further growth and deployment of innovative solutions in this area. The Kalifa review



has just been published, and we are in agreement with its findings and recommendations in terms of stimulating the industry. We think innovative solutions will start to become mainstream in 2022.

**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 common services to support the migration of Bacs transactions?**

Yes, as innovative solutions emerge, the procurement DCA/FIM transactions should be excluded from the initial procurement in order to take advantage of these innovations at a later stage.

**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?**

Whilst a narrower CIS procurement focusing on Faster Payments will considerably de-risk the implementation of the NPA and allow for benefits to be realised quicker, we believe that the intent of the Bacs-related features should be taken into account in this procurement, but not the intrinsic features themselves. The NPA should not base its design on outdated processes or features and limit itself, as this could preclude the usage of enabling technologies that would render processes more efficient/ repeatable/ etc. Particular attention should be paid to open standards, connectivity, etc. in order to support an eventual smooth migration.



## Questions related to procurement approach

**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.**

Our preferred option would be to start a new competitive procurement (Procurement Option 2) with the narrower scope option 2. This would allow entities previously excluded due to the wider scope to participate, and thus promote innovation and competition further. This should also be a simpler exercise than the initial procurement.

**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)?**

Whilst we have not examined the ecosystem implications of this, an ecosystem with several providers of the CIS (in a similar way to the card networks where Visa and Mastercard operate separate infrastructures). This could encourage competition in that space.

We hope you have found our recommendations to the interim report helpful, and we look forward to the publication of the final report.

Yours faithfully,

[Redacted Signature]

National Lead, Payments

Federation of Small Business

**For further information**

[Redacted Contact Information]



## Global Legal Entity Identifier Foundation (GLEIF)



## Response of the Global Legal Entity Identifier Foundation (GLEIF) to the UK Payment Systems Regulator (PSR) for the Delivery and Regulations of the New Payment Architecture (NPA) - Consultation Paper

March 19<sup>th</sup>, 2021

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide response to the Payment Systems Regulator (PSR) for the Delivery and Regulations of the New Payment Architecture (NPA) Consultation Paper. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) in the centralized governance framework for identifying accurately all NPA program participants, thereby to diminish risks in transition from existing payments systems, support innovation of the payment services in the UK and set NPA as a best practice globally.

### ***GLEIF would like to respond to Question 1: Do you agree with our view of the risks to the successful delivery of the NPA?***

GLEIF acknowledges PSR's analysis of the risks associated with the delivery of the NPA. GLEIF thinks that using the ISO 20022 payment message can help to mitigate the risks that would possibly occur during the migration from Bacs and Faster Payments transactions to the NPA. In a [FPS \(Faster Payments Services\) Questionnaire](#) conducted by the Pay.UK in 2019 shows that 54% of respondents agreed that transitioning to an ISO 20022 standard that emulates FPS data sets would reduce technical complexity and de-risk transition.

That being said, current migration to ISO 20022 can be enriched by adding better structured customer reference data. In order to move from the status quo to the target ISO 20022 state, it is crucial that the financial institutions and banks strongly promote, monitor, and – at a certain stage – enforce structured customer data from their customers/senders. The LEI is an important structured data element that can enable full transparency on payment parties and promote faster payment processing, reconciliation and automation.

The LEI, a globally accepted open standard for unique and unambiguous identification of legal entities, is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). The code connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions including their ownership structure. With the Central Infrastructure Services (CIS) implementation, use of the LEI consistently can ensure an accurate and unique identification of all NPA participants. Given the LEI reference data also displays the corporate hierarchy of a legal entity, having this information would assist PSR and Pay.UK to paint a broader picture of the Payment Service Providers (PSPs) and assess the potential risk factors associated with a specific PSP. Most traditional financial actors (e.g., commercial banks) already have LEIs. Since new actors such as FinTechs or big data providers join the payments landscape in recent years, it is crucial to identify all PSPs through a standardized approach, which is enabled through the LEI. Having this broader picture about a legal entity can enable supervisory authorities to adopt comprehensive remediation plans in a timely manner in case of any disruptions in the migration from Bacs and Faster Payments to the NPA.



When it comes to NPA implementation for end-users, which is the key element of a successful NPA delivery, it is most crucial to ensure a secure, transparent payment ecosystem for end-users to conduct transactions. According to Statistica, there were roughly 2,75 million payment fraud cases reported in the UK in 2019, and this number is very likely to rise due to the impact of the pandemic and increasing number of business processes conducted digitally. Moreover, in line with PSR's recommendation to include Central Bank Digital Currencies (CBDC) and digitally enabled payment services in the NPA, ensuring trust is becoming one of the key elements for securing the online transactions.

Taking this opportunity, GLEIF would like to provide an update on its digital strategy that can strengthen trust in a secured environment and help to build a digitally enabled NPA ecosystem, so as to ensure a smooth transition from Bacs and Faster Payments transactions to the NPA.

First, integration of the LEIs in digital certificates. This would allow anyone to easily tie together all certificate records associated with an entity, determine which certificates are current, and clear up variances. In this way, it can provide certainty of identity and trust in any online interaction between entities, making it easier for everyone to participate safely in the global digital marketplace. It also significantly reduces the complexity and cost, both people and technology-related, associated with due diligence and validation of customers, partners and suppliers.

Second, GLEIF's work in verifiable LEI (vLEI). GLEIF recently unveiled the issuance and technical infrastructure models for its recently announced vLEI system. A vLEI is a secure digital attestation of a conventional LEI, which is digitally signed by the owner and cryptographically secured with the owner's private key. By combining three concepts – the organization's identity, represented by the LEI, a person's identity represented by their legal name, and the role that the person plays for the legal entity, vLEI credentials can be issued and become part of organizational wallets. With vLEI, companies could easily identify and authenticate the counterparties with whom that are executing transactions, and remediate issues especially associated with payment processes.

Today, different digital ID systems are based on varying standards, keys and encryption and the only common link between them is the entity name, which can vary widely and change over time. Without a consistent machine-readable link between IDs, automated methods will always result in errors and further challenges for organizations. The LEI is perfectly poised to provide this consistent link and, by doing so, cement its position as a force for good in the digital economy as a whole. Leveraging the LEI for payers, payees, PSPs and other NPA participants in the NPA can help to create a trusted and digitally enabled ecosystem leveraging the LEI for entity identification and reduce challenges in migration to the NPA.

***GLEIF would like to respond to Question 4a: What actions could be taken, and by whom, to help assist or stimulate the creation of such solutions?***

A strong collaboration between the Pay.UK, PSR and Bank of England is foundational for a successful NPA delivery and smooth implementation of CIS. Private sector's buy-in is crucial for achieving an effective NPA design and maximizing benefits that the NPA could bring to all participants.

As stated in section 2.13 in the Consultation Paper, one of the principles underpinning NPA design set out by Payments Strategy Forum is 'adoption of a common international messaging standard, ISO



20022, to enable access, innovation and interoperability, in the UK and potentially for international connectivity'. For ensuring international connectivity, adoption of global standards plays a crucial role.

GLEIF appreciates that the value proposition of the LEI was already recognized by the Bank of England through the Bank's LEI mandate in ISO 20022 messages used in Clearing House Payment System (CHAPS). The Bank of England considers expanding the LEI mandate for all legal entities depending on the overall growth of the Global LEI System. Victoria Cleland from the Bank of England [stated](#) that *"In addition to financial stability benefits, LEIs provide valuable data and support anti-money laundering and combating the financing of terrorism efforts. They could, if linked to portable credit files, improve access to the domestic and global financial system, support greater choice and competition for business finance. The LEI could also act as the unique identifier for a digital ID, which could help the two-step verification process required for a more secure system."*

Therefore, based on recent developments in payments landscape in the UK and Financial Stability Board's work on resolving challenges in cross-border payments, GLEIF thinks that agreeing on and implementing common message standards is key for unlocking efficiency and transparency. Achieving these benefits is not possible without the adoption of a common identification approach and unique identifiers such as the LEI as confirmed by the Financial Stability Board. By mandating the LEI in the design and delivery of the NPA programme, the PRS has the opportunity to enhance the efficiency of payment processing by eliminating manual reconciliation of names. This will enable much faster, more secure and transparent transaction processing for all involved parties.

***Lastly, GLEIF would like to comment to Question 7: Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.***

GLEIF suggests that interoperability is an important aspect of the technical implementation scheme for the NPA. A focus on interoperability will prevent network effects, the possible emergence of a monopoly and foster competition in the NPA ecosystem.

The LEI serves as an important element of interoperability. All LEI reference data is available as open data, easily accessible via web search, full file download or API. End-users can conduct basic due diligence on desired PSPs and overlay service providers in least costly manner.

Therefore, requiring the LEI from the initial design would help Pay.UK and PSR to promote effective competition within the NPA ecosystem. Use of the LEI would allow end users to easily compare and switch between PSPs and overlay providers based on their preference, promoting the desired competition in the NPA ecosystem. The LEI can help consumers to compare PSPs and overlay service providers in an easy, transparent and standardized way.

Use of the LEI also would ensure that supervisory authorities can more easily monitor transactions and interconnectedness between different parties. For example, supervisory authorities could more easily calculate PSP's market power and potential anti-competitive trends.

From the perspective of the NPA technical design, interoperability and open standards stand at the core of the system which is to minimise barriers of entry and remove network effects of a particular provider.



Given proprietary data sources would trigger more operational costs for NPA participants, it is crucial to leverage the LEI as a globally recognized open standard from the initial design of the NPA.

Submitted by:

██████████ CEO GLEIF

████████████████████



# UK Finance



## PSR CP21/2 – NPA Delivery and Regulation

### UK Finance response

**Date:** 19/03/2021

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**Sent to:** [PSRNPA@psr.org.uk](mailto:PSRNPA@psr.org.uk)

UK Finance is the collective voice for the banking and finance industry.

Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

Our members consider the delivery of the NPA to be a key enabler of competition and innovation for payment providers and are committed to continue working with the PSR and Pay.UK to ensure that it is a success for industry participants as well as the UK consumers and businesses whose daily financial lives are facilitated by this essential and important service.

In light of this, this response outlines a reply to the PSR's initial questions along the following themes:

1. **Scope:** UK Finance are supportive of the scope clarification provided by the PSR, as suggested by the Strategic Participant Group (SPG). The enablement of immediate payments functionality supported by the ISO 20022 standard will expedite the ability for firms to innovate in this market.
2. **Outcomes:** We believe that this will deliver additional customer benefit through enhanced data bandwidth, upgraded connectivity standards, reduce the opportunity cost for industry participants and enable the industry to benefit from a modern payments infrastructure – ultimately, delivering tangible benefits to UK consumers and businesses.
3. **Procurement:** The majority of our members also support the proposal for Pay.UK to engage directly with the current supplier – in order to enable the earlier delivery of end user benefit through the tangible industry outcomes this can deliver; a significant minority believe the competitive procurement process should be reset.
4. **Technology:** Five years on from the development of the Payments Strategy Forum vision in 2016, the industry needs to be reassured that the technological solution is future proofed and the case for centralised infrastructure is well-founded.
5. **Governance:** The governance of the NPA programme may need future consideration – in particular, to ensure the major users have the right level of input on the major design and implementation choices. Industry needs a decisive voice at key decision points.

We also consider that it is necessary to re-state the tangible outcomes that our members believe will be enabled by the NPA. While we appreciate the PSR's consideration of innovation,



competition, timely delivery and resilience as critical success factors, it is also important to consider the practical impact that the NPA will have for firms who provide payment services in the UK. Articulated below are six such outcomes that we consider are relevant to this consultation:

- New services and end-to-end payment enhancements delivered through enhanced data deliverables and the implementation of ISO 20022 messages, including increased reconciliation capabilities, increased straight through processing (STP) capabilities for all parties in a payment chain.
- Enhanced ability to detect and reduce fraud and other economic crime, reducing end-user harm, through the use of purpose codes and other enhanced data.
- Increased innovation and new services through the implementation of overlay services as has already been achieved through Confirmation of Payee and Request to Pay.
- Use of latest technology and best practice, including ensuring interoperability with cloud-based solutions, support for API plug-ins and the facilitation of data access for Open Finance
- Efficient and cost-effective operation with transparency of costs to industry of operation and development.
- Continued high standards of security, resilience and minimum service standards for the central infrastructure and the implementation of future overlay services.

There is a strong case for building out these deliverables into a compelling justification for the implementation of the NPA alongside a robust delivery model.

The NPA is also considered a critical pathway to supporting economic crime prevention and detection. Further delays to the delivery of the NPA will have an impact on the industry's ability to deliver against its strategic priorities and protect customers from economic crime.

Our members also remain particularly concerned with the current governance processes that are in place for the implementation of the NPA. Several potential constructs have been suggested in discussion with our members to increase the confidence of the industry in a successful delivery of the programme: from the establishment of a Special Purpose Vehicle (SPV); recommendations for industry participants and funders of the current process to form a decision making committee to guide Pay.UK and wider industry through the final stages of procurement and on into the implementation period; or for a clearer articulation of decision gates and consultative periods for Pay.UK and the PSR to gain reassurance from the industry of their support. We have not yet established whether the potential introduction of delivery risk, increased cost and the efficacy of any of these models justify their implementation; members have not reached consensus on any particular model and remain unclear about the specific need for any action at this juncture.



## 1. Do you agree with our view of the risks to the successful delivery of the NPA?

Our views on the risks identified by the PSR in their consultation is outlined below:

- not provide value for money

UK Finance and its members agree that the current implementation of the NPA has yet to demonstrate an ability to deliver value for money. Pay.UK budgeted £[REDACTED] in 2019 and £[REDACTED] in 2020 to support the NPA programme; and is expected to budget a further £[REDACTED] in 2021, a time period in which the project progress is broadly paused. Despite this investment by the industry, there appears to be relatively little to show for it; the concrete scope and timeline for implementation remain undefined and the current procurement process has now been significantly delayed. There is little industry confidence that the current programme has an adequate focus on cost and efficiencies.

- stifle competition and innovation in payment services

We recognise the PSR's concern that the approaches proposed for the appointment of a vendor to provide services to support the function of the NPA may threaten the benefits of a competitive procurement. The PSR's consultation in 2020 on the potential competition concerns through the procurement of a central infrastructure are helpful measures to consider in this light. We maintain that the current design of the NPA, as defined by the Payments Strategy Forum, is specifically conceived to increase competition in the market and its implementation, regardless of procurement approach, will deliver the best outcomes for industry and innovation.

The industry has already seen the implementation of overlay services ahead of the delivery of the NPA central infrastructure through the implementation of Confirmation of Payee and the subsequent design of Request to Pay. Additionally, the innovation that has been enabled through the Open Banking ecosystem are further examples of competition developing in payments market. By contrast, the relative benefit of competition for the infrastructure provision of the NPA is relatively minor in contrast to the competition that its implementation will open up.

That is not to say that such competition risks do not exist, only that the competition benefits of the NPA's implementation, even through a centralised infrastructure provision, are considered to far exceed the competition risks associated with the current process.

- delay realisation of the benefits of the NPA

As we outline earlier in our response, the implementation of the NPA holds great potential to deliver tangible outcomes for our members and their customers – the UK businesses and consumers that continue to rely on their services to undertake their financial lives. We note that the delay to the implementation of this infrastructure is the primary driver for industry demands to adjust both the scope and the procurement approach of the NPA. The increase to speed of delivery was the primary motivation for the Strategic Participant Group's initial submission to Pay.UK for a reduced scope and adjusted procurement approach.

We also consider that the delay to the NPA is also creating a significant opportunity cost for our members as we understand that various technical innovations may be delayed due to a lack of certainty about the timelines by which the NPA will be delivered. Our members consider that the optimal outcome of this consultation, whatever approach is decided upon, is for a clear expedient timeline for the implementation of the NPA that is able to deliver to the industry the benefit of this innovation.

Our answer to Question 5 outlines our views on this matter in more detail.

We note the following additional risks:



- Need for reassurance for industry that there is a consistent business case for the continued funding of, and investment in services built on, the NPA.

As noted above, we view the NPA as capable of delivering manifold tangible benefits to the payments' ecosystem. These include:

- New services and end-to-end payment enhancements delivered through enhanced data deliverables and the implementation of ISO 20022 messages, including increased reconciliation capabilities, increased straight through processing (STP) capabilities for all parties in a payment chain.
- Enhanced ability to detect and reduce fraud and other economic crime, reducing end-user harm, through the use of purpose codes and other enhanced data.
- Increased innovation and new services through the implementation of overlay services as has already been achieved through Confirmation of Payee and Request to Pay.
- Use of latest technology and best practice, including ensuring interoperability with authorised cloud-based solutions, support for API plug-ins and the facilitation of data access for Open Finance
- Efficient and cost-effective operation with transparency of costs to industry of operation and development.
- Continued high standards of security, resilience and minimum service standards for the central infrastructure and the implementation of future overlay services.

The industry remains unclear on the precise scope of the NPA and, therefore, the ability of the NPA to deliver these outcomes. While the scope clarification under consideration by the PSR and industry is a useful step forward, it does not provide the granularity of scope clarification that will provide our members confidence that the NPA will deliver end user benefits.

In light of this, UK Finance continues to work with our members to understand the tangible benefits that the NPA could deliver, and the technological requirements of this delivery. We will continue to engage with the PSR and Pay.UK as this consultation process continues in order to support this process and ensure the voice of the industry is heard clearly on this important topic.

- Technology risk

Our members consider that there is a risk that continuing the NPA is unable to be delivered using the most up to date technology and technical processes, including taking advantage of cloud hosting and API interfaces. As noted previously, we are looking to work with members to understand more clearly the technical implementation considerations that our members believe will achieve the optimal use of time and resources for the NPA.

- Governance arrangements

Our members share concerns that the current governance approach for the implementation of the NPA may introduce unnecessary delivery risk for the programme, particularly if industry stakeholders are unable to remain engaged with the design and implementation decisions required for the NPA. All of our members are keen to understand how the NPA will deliver the benefits to the industry as outlined earlier, and we are working with members to understand their preferences for mechanisms for ensuring that industry is able to remain tightly integrated into the implementation of the NPA.



## **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?**

We agree with the PSR's analysis of the risks, pros and cons of the alternative options for the scope of the initial procurement. Our members support a revised scope of the NPA that initially procures services equivalent to those provided by the Faster Payments infrastructure.

However, this scope should remain cognisant of the need to ensure that development does not just seek to replace existing services and instead look to ensure that a platform for the NPA is built, future-proofed against additional requirements of the NPA. We consider that this scope could comprise the procurement of push payment services for single immediate payments and batch payments. This meets industry requirements rather than simply creating a like-for-like replacement of Faster Payments functionality. We understand that Pay.UK have already undertaken work in this regard and are supportive of their continuing to develop a procurement scope approach that best delivers the optimal service to industry rather than re-packaging past developments.

The industry is supportive of the PSR's principles for success as outlined (increased innovation, effective competition, timely delivery and robust and resiliency). However, a more granular understanding of these outcomes is necessary to ensure we understand what will ultimately be achieved through the delivery of the NPA.

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

UK Finance are supportive of the scope clarification provided by the PSR, as suggested by the Strategic Participant Group (SPG). The enablement of single immediate payments supported by the ISO 20022 standard will expedite the ability for firms to innovate in this market. However, this scope should remain cognisant of the need to ensure that development does not just seek to replace existing services and instead look to ensure that a platform for the NPA is built; we have already articulated our view that the scope should comprise the procurement of push payment services for single immediate payments and batch payments. It may also be considered that the facility to enable a short window for amendments or enable other forms of pre-submission notification could be of benefit to the industry. We understand that Pay.UK have already undertaken work in this regard and are supportive of their continuing to develop a procurement scope approach that best delivers the optimal service to industry rather than re-packaging past developments.

## **4. Under scope option 2:**

### **a. 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?**

We have no views on the timeframe that could be required for market-led propositions to assist the migration of Bacs transactions to the NPA. We consider that the technical development of some solutions (that rely mostly on message translation capabilities) could easily be developed in a matter of weeks; however, market adoption and/or approval necessary for these services to be put in use by market participants may take several months to achieve. Ultimately, the speed of market to adopt such services will depend largely on the economic model incentivising their development and use. It is not clear yet whether the implementation of the NPA will enable a beneficial economic model to strongly incentivise firms to migrate from existing payment options to the NPA.



Customers, both businesses and consumers, continue to value existing services provided by Bacs infrastructure and an industry narrative that simply threatens change, with all the risk that this brings, without articulating benefit is unlikely to generate strong support. In order for migration to occur, it may be necessary for a clear realisation of benefit to be available for those users who would migrate to different payment channels and those providers who would need to recommend these services.

- b. 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 common services to support the migration of Bacs transactions?**

We recommend that the inclusion of batch payments, including DCA/FIM capabilities, and any other appropriate access models within the scope of the initial NPA procurement will enable industry to migrate a greater array of existing products to the NPA earlier than a simplified single immediate payment/restricted Faster Payments scope.

- c. 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?**

As noted previously, we consider that the procurement of a narrower CIS infrastructure would benefit from the inclusion of batch payment functionality and consider that this nuance to the proposed scope will pave the way for Bacs-related features in future. The industry remains concerned about any eventual migration of Direct Debit volumes to the NPA and the wholesale migration of batch/bulk payments from Bacs infrastructure to the NPA without an understanding of the technical implications of these transfers and any liquidity complications which may arise as a result. It is considered that these considerations would benefit from further industry consideration rather than any attempt being made to resolve these issues prior to the proposed model for an initial procurement.

- 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.**

Our members have articulated a number of concerns relating to the procurement approach for the NPA. Broadly, these align to the project delivery triumvirate of cost, quality and time. The strongest consensus from members has been for a speedy delivery of the NPA. We support the SPG's recommendation for a direct negotiation with the current provider of services to Pay.UK. In contrast to this, some of our members have noted the increased risks that this approach raises in relation to the quality of the outcome (including the ability of the NPA to deliver with the right scope, level of competitiveness, deliver to the industry against requirements as well as ensure that the PSR itself is comfortable that the competition risks associated with the design and implementation of the NPA are appropriately mitigated) as well as the overall cost of the project (with reference to potentially escalating costs from multiple procurement stages and rushed or ineffective design).

We expect that the PSR will ensure that the articulation of its final decision will provide sufficient rationale to the market for its decision and the compromise that it has sought to create with Pay.UK between the three principles discussed. In this, we trust the PSR will, particularly in light of the repeated delays to the NPA delivery, clearly understand the industry's preference for the delivery of the NPA to proceed in a clear and timely fashion. Industry also expects that the conclusion of this consultation will help Pay.UK and the industry articulate a clear roadmap for the implementation of the NPA.



- Direct negotiation

While we appreciate the PSR's decision to refuse "Pay.UK's Application for Exemptions from Obligations under PSR Specific Directions 2 and 3" in light of the impact of Covid-19; it is considered that the continued inability of current processes to mitigate delivery risks and proceed with a timely procurement constitute sufficient justification that the current situation constitutes extraordinary circumstances. We believe the PSR's decision should not be based on an assessment of the cause of these extraordinary circumstances, but an assessment of the outcome of these circumstances.

Since Pay.UK (then, the NPSO) undertook responsibility for the implementation of the NPA in December of 2017, following the expectation of the PSODG, the Bank of England and the PSR; questions of the scope and delivery timeline of the NPA have not been resolved. The process followed has continued to be opaque to industry and, even following the publication of Pay.UK's Procurement Prospectus in 2018, the industry remains unclear of the precise implementation schedule of the NPA. It has been noted that the PSR's consultation also adds further extension to this selection process.

Our members have noted that these ongoing delays to the implementation of the NPA have resulted in significant opportunity cost for the industry as firms have felt unable to sufficiently justify investment in innovation that may, or may not, be delivered through the NPA. In order to unlock further industry innovation, our members prefer for the expedient delivery of the NPA; hence our support for the SPG's recommendations.

As we considered earlier, our members believe that a number of benefits may be delivered to the market through the implementation of the NPA; although we have enumerated these before, for the sake of completeness:

- New services and end-to-end payment enhancements delivered through enhanced data deliverables and the implementation of ISO 20022 messages, including increased reconciliation capabilities, increased straight through processing (STP) capabilities for all parties in a payment chain.
- Enhanced ability to detect and reduce fraud and other economic crime, reducing end-user harm, through the use of purpose codes and other enhanced data.
- Increased innovation and new services through the implementation of overlay services as has already been achieved through Confirmation of Payee and Request to Pay.
- Use of latest technology and best practice, including ensuring interoperability with authorised cloud-based solutions, support for API plug-ins and the facilitation of data access for Open Finance
- Efficient and cost-effective operation with transparency of costs to industry of operation and development.
- Continued high standards of security, resilience and minimum service standards for the central infrastructure and the implementation of future overlay services.

The NPA is considered a critical pathway to supporting economic crime prevention and detection. Further delays to the delivery of the NPA will have an impact on the industry's ability to deliver against its strategic priorities and protect customers from economic crime.

[REDACTED]

[REDACTED]

[REDACTED]



[REDACTED]

In addition to these early benefit realisations possible under this approach, the topic of timing must also bear in consideration. While we appreciate the PSR's view shared with industry on the 10 March that a direct engagement with the current supplier to Pay.UK for services in relation to the NPA may not necessarily deliver the timing benefits desired by industry and that competitive procurements for similar infrastructure in other nations has progressed at far greater pace than has been achieved in the UK; to ignore the fact that the Pay.UK competitive procurement process has, to date, spanned two years and three months is inadvisable. There may be many differences between those other procurement processes and the one undertaken by Pay.UK that would explain such shortfall; it is not the scope of this response to enumerate these differences. As it remains unclear precisely why the Pay.UK procurement process has overrun to the extent that it has, we continue to maintain that a change of approach is recommended.

This approach is not without its risks and our members agree that this proposal is likely to increase the risk that the NPA doesn't provide value for money; it will inevitably put Pay.UK in a weaker position to negotiate. There are also concerns that appointing the incumbent risks missing a key step of identifying the most suitable technology solutions on which to build the infrastructure. Should this approach be taken, we recognise that Pay.UK and the industry will need to work with the PSR to understand how strong, close and continuous regulatory oversight may help to mitigate the associated competition risks.

- New competitive procurement

Not all our members agree with this approach and a significant minority believe that the procurement process may need to be re-set in order for industry to be assured that the NPA is able to take advantage of the changes in technical best practice that financial firms have developed over the years since the original conception of the NPA. Adopting the best available technology and utilising all the benefits of recent innovations such as cloud hosting and direct API access is expected to increase the effectiveness of the NPA and reduce cost to the industry.

There are also concerns from members similar to the risks that the PSR has identified throughout this consultation with an approach of direct procurement, including increased threats to effective competition across all layers of the NPA, a reduced benefit to innovation as well as potentially increasing delivery risk as a non-competitive procurement may create less incentivisation for the chosen vendor to deliver on time. While members have elsewhere highlighted the need for the delivery of the NPA in order to enable the benefits that this development may bring to the industry, there are also concerns that an unnecessarily aggressive timeline may rush the final requirements of the common services, increasing the risk of later difficulties.

- Continue with current competitive procurement

None of our members have provided significant support for the continuation of the current competitive procurement process. Continuing with the current procurement carries material risk that the issues identified by the PSR will perpetuate and the ongoing delays to delivery will continue. Additionally, the current procurement was based on earlier assumptions that have since evolved. Should the PSR and Pay.UK be able to respond to these concerns, it is possible that the



approach may be considered as acceptable by the industry should it enable the expedient delivery of the NPA.

**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)?**

Our members are considering to what extent greater guidance from the industry is able to be leveraged by the procurement process for the infrastructure supporting the NPA and to what extent the procurement process for the NPA may need to be separated from the ongoing activity of Pay.UK as standards setter and market catalyst. Several potential constructs have been discussed in our engagement with members to date, from the establishment of a Special Purpose Vehicle (SPV); recommendations for industry participants and funders of the current process to form a decision making committee to guide Pay.UK and wider industry through the final stages of procurement and on into the implementation period; or for a clearer articulation of decision gates and consultative periods for Pay.UK and the PSR to gain reassurance from the industry of their support.

However, these considerations may unnecessarily increase the cost of the NPA and significantly impact its delivery to market and our members have not fully assessed the potential benefit that these, potentially drastic measures, may deliver versus the cost and increased risks to delivery that they may bring. We articulate these considerations here to outline the significance with which our members attach to their desire to remain closely connected to the continued implementation of the NPA. UK Finance remain committed to working closely with our members, the PSR and Pay.UK in order to understand best how the industry may be assured of the delivery of the NPA.

If you have any questions relating to this response, please contact [REDACTED].  
[REDACTED])

[REDACTED]  
**Manager, Payments Policy**



## PSR CP21/2 – NPA Delivery and Regulation

### UK Finance response – Part II

**Date:** 05/05/2021

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### Opening remarks

UK Finance is the collective voice for the banking and finance industry.

Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation. These firms include industry incumbents, funders of the existing NPA programme, new fintechs and payment firms. Across all these stakeholder groups, there is a growing desire for the benefits of the NPA to be realised for the industry. We consider the delivery of the NPA to be a key enabler of competition and innovation for payment providers. Our members are committed to continue working with the PSR and Pay.UK to see the NPA as a success for industry participants as well as the UK consumers and businesses whose daily financial lives are facilitated by this essential and important service. We consider the competition risks raised by the PSR to be useful to consider in light of the expected delivery of the NPA.

The importance of the delivery of the NPA is particularly important given the benefits that it can bring to the industry. There is a requirement to strategically develop an infrastructure that maximises information and intelligence sharing across the sector. Consideration is needed to ensure connectivity in the building of any central technical solution. We see the NPA as delivering a great deal of innovation and enhancing the competitiveness of the ecosystem more generally, particularly through the delivery of:

- New services and end-to-end payment enhancements delivered through enhanced data deliverables and the implementation of ISO 20022 messages, including increased reconciliation capabilities and increased straight through processing (STP) capabilities for all parties in a payment chain.
- Enhanced ability to detect and reduce fraud and other economic crime, reducing end-user harm, through the use of purpose codes and other enhanced data.
- Increased innovation and new services through the implementation of overlay services as has already been achieved through Confirmation of Payee and Request to Pay.
- Use of latest technology and best practice, including ensuring interoperability with cloud-based solutions, support for API plug-ins and the facilitation of data access for Open Finance.
- Efficient and cost-effective operation with transparency of costs to industry of operation and development.



- Continued high standards of security, resilience and minimum service standards for the central infrastructure and the implementation of future overlay services.

These deliverables must be viewed in light of the competition risks identified by the PSR. We have already noted in our response to the PSR's Call for Input on Competition and Innovation in the UK's New Payments Architecture (CP20/2) that the governance design of the NPA and Pay.UK will continue to help the industry reduce anti-competitive behaviour in the market. We welcome the PSR's consideration both of what measures may be necessary to take now in order to further mitigate against the competition risks identified, and what actions and monitoring may be necessary from the PSR in order to ensure that, should such risks materialise, they are appropriately controlled.

We additionally note our members continued concern that the governance of the NPA programme may need future consideration. In particular, to ensure its users have the right level of input on the major design and implementation choices. Industry needs a decisive voice at key decision points. It will be necessary for the governance model of Pay.UK, and the NPA, to continue to evolve to support the industry. This includes approaches to Pay.UK's role in setting market standards, in light of the growing demand for Open Banking services and future transformation into Open Finance.

Given this, we welcome the PSR's consideration of what ex ante regulation may be necessary to further protect the industry against anti-competition influence that may arise through the development and/or operation of the NPA. Our concerns with the proposals articulated may be summarised in the points below:

- **Clarity:** There is a lack of clarity on precisely what the PSR is suggesting and the process by which any specific legal documents or policy principles will be socialised with the industry prior to PSR intervention.
- **Measurable:** Not all the proposals made by the PSR appear to be easily measurable, potentially leading to unnecessary regulatory intervention for unclear objectives in an ongoing regulatory environment.
- **Benefit:** While the PSR articulate a number of potential controls, it is not clear at this stage what benefit these controls would deliver to the industry. The PSR does not appear to have assessed the likelihood or severity of these competition risks materialising and it is difficult to quantify the benefit to industry of any controls.
- **Proportionality:** Given the activities of Pay.UK and existing measures that have been put in place to control the competition risks associated with the procurement of the NPA, we expect that the PSR will ensure that any interventions are proportionate to the level of risk identified.

We are concerned that, in places, the interventions proposed by the PSR appear to confuse the roles of the PSR and Pay.UK, vis-à-vis their respective roles as competition regulator and procurer of central industry infrastructure. We find it appropriate to consider our understanding of the roles of the PSR and Pay.UK at this juncture:

- **The PSR:** Ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them. Promote effective competition in the markets for payment systems and services - between operators, PSPs and infrastructure providers. Promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems
- **Pay.UK:** Enable a vibrant interbank payment system by delivering best in class payment infrastructure and standards to support a thriving and growing UK economy.



We see the role of the PSR to ensure that the market develops appropriately and to undertake any specific requirements on industry, or Pay.UK, in order to control identified risks to competition. This could be achieved through certain ex ante regulation to control risks and additionally through later interventions in the market. It is important that these interventions are undertaken with appropriate due process, consultation and with a clear outcome in mind. We do not think that Pay.UK is the correct mechanism to perform supervisory decision-making and undefined monitoring roles in the industry. Even in their role as 'market catalyst'. Conversely, we consider the PSR's role is to ensure that appropriate activities are being undertaken by the industry in order to monitor and control the identified risks to competition. We consider the PSR best placed to articulate industry agreed principles to control competition risks - and monitor firms' compliance to these.

### On a Competitive Procurement

In UK Finance's first response to the PSR on CP21/2, we articulated the industry preference for direct engagement with the current supplier. At that time, our members considered that a direct engagement would ensure a compressed timeline for the delivery of the NPA and enable firms and their customers to benefit from the tangible outcomes that the NPA can deliver to industry. Following this articulation, Pay.UK have subsequently shared documentation with the Strategic Participant Group that articulates a clear route to delivery for the NPA under both a competitive procurement and direct engagement approach. Our members have been greatly reassured by Pay.UK's articulation of this roadmap and we consider this an important step from Pay.UK to continue to ensure that its customers are sufficiently informed about the progress of the NPA. This documentation also highlighted the limited time benefit that could be gained through progressing through a direct engagement approach.

In light of these developments, it is worth noting that the rationale for a direct engagement approach with the current supplier has been significantly reduced in the eyes of some of our members.

Notwithstanding the recommendation of Pay.UK to the PSR, informed by their synthesis of the SPG's recommendations and their own work; our members wish to state again the industry need for an expedient delivery of the NPA. Particularly given the extended period of development that the PSR articulate in the opening matter of CP21/2. Regardless of the approach required by the PSR, we expect that this decision will be taken in light of the growing need to deliver the NPA to market.



**7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.**

The PSR outline three ways for Pay.UK to promote effective competition within the NPA ecosystem:

- low barriers to entry and participation for PSPs and overlay providers, including those with innovative ideas

We agree and are supportive of ongoing low barriers to entry for the NPA. This may be delivered through open standards, transparent governance, onboarding expertise and market engagement. In these regards, we see Pay.UK already making great strides to deliver against these objectives. While the industry has been previously concerned with the level of stakeholder engagement undertaken by the NPA programme, more recently the level and extent of engagement has been encouraging to industry. Similarly, their consistent engagement with the industry in the setting of standards has helped to ensure that the standards at the heart of the NPA are clearly communicated and all parties have the opportunity to input into their design. We are yet to see any definition of the onboarding process for the NPA; however, Pay.UK's continued investment into the onboarding processes associated with the existing payment schemes is reassuring. Faster Payments now has over 30 participants by way of example, a great increase over recent years. We expect to see the lessons learned from this process to be brought to bear on the NPA.

- no scope for any entity to exercise market power anti-competitively, or gain unfair advantages through its position in the ecosystem

We agree that it is essential for participants, regardless of market power, to not behave anti-competitively. We recognise that market power could become concentrated both in the provision of the CIS and within competitive overlays. The PSR appears to suggest that it is Pay.UK's responsibility to monitor the market for the existence of any entity with significant market power and take action against them. This appears to overstep the role of Pay.UK and we suggest that this is a role that the PSR should look to exercise in its role to 'promote effective competition in the markets for payment systems and services - between operators, PSPs and infrastructure providers'. We expect that this will take place through ex ante precautions agreed with industry and ex post monitoring and intervention.

- easy comparison and switching between PSP and overlay providers by payers, payees and other users

We broadly agree, however we do not consider that it is Pay.UK's role to ensure easy switching for users of payment services, beyond those direct customers that they engage with. Pay.UK, as a provider of standards and a catalyst for the ecosystem, has a role to play in ensuring that any technical means, be they standards or central infrastructure, are available to the market as required. However, it is incumbent upon PSPs and overlay providers to provide these services, not Pay.UK. Again, the PSR's role to 'promote effective competition in the markets for payment systems and services - between operators, PSPs and infrastructure providers' appears to suggest that the PSR should take responsibility for this measure in the future.

The PSR outline five further technical design principles embodied in the functional and technical specifications for the CIS:

- a 'thin' CIS design that provides only functionality that is necessary to maintain the ongoing resilient provision of services to service-users, and minimises the scope of services provided centrally by a single supplier



This principle is aligned with the original Payments Strategy Forum design and is supported by the industry. We do note that there may be instances where infrastructure is required by industry in order to deliver pro-competitive outcomes for the industry. We consider that this principle should not be articulated in such a way as to preclude the existence of other pieces of infrastructure to promote positive customer outcomes.

- inability for a CIS provider to discriminate in service quality (for example, transaction speed or information contained in a payment message) depending on the PSP, overlay provider, payer, or payee

We agree that the CIS provider should not discriminate in service quality. The PSR has helpfully identified the use of Service Level Agreements (SLAs) as a measure of control for this principle. These will ensure that the risk of the CIS provider discriminating in access will be appropriately controlled. It is important that the industry and Pay.UK, as an intelligent buyer of the NPA, have the ability to

- scalable and modular services that allow cost-efficient capacity expansion and/or changes in functionality to accommodate innovations over time

The industry is supportive of the NPA utilising the best technology in order to ensure future scalability and cost-effectiveness.

- a wide range of access options

We agree that the NPA architecture should support a broad range of access options in order to ensure that as many firms may take advantage of the technical services of the NPA.

- open standards for each overlay that promote competition by enabling sufficient interoperability between competing providers, so that providers face lower barriers to entry and service-users are not locked into a particular provider because of network effects

Later in this consultation we revisit the concept of Pay.UK fulfilling a central role in all elements of the NPA. While we agree that Pay.UK should act as market catalyst and point of co-ordination for the development of standards relevant to the NPA; we note that, in some cases, market participants may be able to launch bespoke services atop the NPA, or in competition with the NPA, within the context of a competitive market and we do not currently see any particular reason why these approaches should be inhibited by a centralised role of Pay.UK. We are supportive of open standards as an enabler of competition across standardised infrastructure. It should not be required for an innovative firm to share their intellectual property with the entire industry.

#### **8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.**

We broadly agree with the risks that have been identified by the PSR. The proportionality of responses and the effect that they will have on the industry is considered in greater detail in our response to questions 9 and 12.

The PSR is correct in its identification that the competition risks associated with the procurement of central infrastructure for the NPA may change if multiple providers are able to provide elements of the services required. There may also be alternative methods of interbank payment innovation which occur outside of the remit of the NPA. While the market is committed to ensuring that the NPA is delivered and its benefits realised for the UK, there are concerns that the approaches proposed by the PSR may unduly tie the industry in to the structures of the NPA and Pay.UK and prevent firms from exploiting other commercial opportunities.



Specifically, on the risks identified by the PSR. We agree that there is a risk that the provider of CIS services may exploit its position in the market and agree that it is incumbent on Pay.UK to ensure that a competitive pricing agreement for the provision of CIS services is achieved.

We agree that there is a risk of the eventual CIS provider taking advantage of their position in the supply of additional services to the market. We articulate in our response to question 9 why we believe there is limited risk that the CIS provider could have access to additional information associated with the running of infrastructure. However, there are risks associated with the approach articulated by the PSR. Principally that Pay.UK may become a barrier to innovation in the market if the CIS provider is able to act quickly to deploy services. We consider that the PSR may have a more significant role in ensuring that anti-competitive behaviour does not arise rather than imposing constraints on the ability of the market to innovate effectively.

We agree with the vertical competition risks associated with the CIS provider deploying market overlays, account overlays or other PSP services. These risks may incentivise them to act in an anti-competitive manner. It is in the interests of the whole payments industry to control these risks as best as possible.

We disagree with the PSR's suggestion that the CIS provider will have a significant advantage in providing account overlays. The provision of account services is a step removed from the provision of central clearing and settlement services. Accounts often deliver far more than payment functionality to users, including interest features, the provision of internal transfers, integration into other products that a financial provider may offer (such as Open Banking services or investment opportunities). It is unclear the precise advantage that the CIS provider will have in providing overlay services of this nature.

**9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?**

We provide specific comment on the specific mitigations and governance principles below. At this juncture, we reiterate our core response themes to the PSR:

- **Clarity:** There is a lack of clarity on precisely what the PSR is suggesting and the process by which any specific legal documents or policy principles will be socialised with the industry prior to PSR intervention.
- **Measurable:** Not all the proposals made by the PSR appear to be easily measurable, potentially leading to unnecessary regulatory intervention for unclear objectives in an ongoing regulatory environment.
- **Benefit:** While the PSR articulate a number of potential controls, it is not clear at this stage what benefit these controls would deliver to the industry in light of competition risk. The intended outcome, and key risks to be controlled, may appear unclear in places.
- **Proportionality:** Given the activities of Pay.UK and existing measures that have been put in place to control the competition risks associated with the procurement of the NPA, we expect that the PSR will ensure that any interventions are proportionate to the level of risk identified.

Implementation of the principles articulated by the PSR would undoubtedly control the competition risks identified by the PSR. Our concerns remain that the implementation of these principles may cause unintended consequences or unnecessary overhead for the industry, disproportionate to the level of risks controlled.



## **Specific Mitigations**

### **Run an effective procurement process**

UK Finance agree that Pay.UK should run an effective process and that this should result in the selection of a provider which both Pay.UK and the industry have confidence will be able to deliver the required infrastructure to time and budget and reliably manage these services on an ongoing basis. We provided a view on the method of procurement process considered by the industry in our opening discussion.

### **Ensure that the contract with a CIS provider includes incentives to foster and facilitate innovation, and limits incentives to distort competition**

We have concerns with this proposed mitigation on grounds of clarity, measurability and benefit.

**Clarity:** It is not clear how a contract with the CIS provider would be articulated to provide incentives to foster innovation and limit incentives to distort competition. This lack of clarity could introduce unnecessary complications in the contract negotiation process and unnecessarily impact the delivery of the required services.

**Measurable:** Similarly, it is unclear how compliance with this principle will be measured within the contract for the CIS provider, leading to ongoing uncertainty both for the CIS provider and for Pay.UK whether the contractual obligations on the CIS provider are being fulfilled adequately and the provider is not in breach of contract. This could create unnecessary uncertainty for Pay.UK, the CIS provider and the wider industry on the stability of the ecosystem and the ongoing support of the CIS provider to industry.

**Benefit:** While fostering innovation is of benefit to the industry as a whole, it is not clear to what extent the CIS provider will be able to bring benefit to the industry through fostering competition, given that there are other mechanisms (such as activities by Pay.UK as 'market catalyst') through which this outcome could be achieved. Additionally, requirements not to distort competition are already enshrined within legal requirements on all firms involved in competitive markets (including the eventual provider of the CIS infrastructure) so the inclusion of additional requirements under contract through Pay.UK would appear to be slightly redundant.

### **Prevent a CIS provider (or its owner) using commercially sensitive information for its own benefit in another market**

We have concerns with this proposed mitigation on grounds of clarity and benefit.

**Clarity:** Under current arrangements, UK Finance understand the end-user, and any PSP who has an agreement with the end-user, owns the payments data processed by Pay.UK and any NPA infrastructure. Neither Pay.UK nor the NPA infrastructure provider can benefit from data that they are only allowed to use for limited purposes and cannot exploit for commercial gain. We understand that precedence for this principle already exists within the industry and do not consider that change of this status quo is necessary.

**Benefit:** Given the previous, it is unclear how additional regulatory requirements regarding the use of data by firms in the industry when it has been processed by the provider of CIS services will provide material benefit to industry.

There may be opportunities for the use of this data that may only be available through provision of central services. For example, through the provision of centralised fraud analytics or other solutions. We consider that Pay.UK, in their existing role as market catalyst, are in the optimal position to take forward proposals for such solutions and engage effectively with the market.

The PSR may consider it useful to assess the ability of Pay.UK to ensure the appropriate protection of data for the industry. The industry expects that Pay.UK will ensure that the contract



covers this use case clearly enough and ensures that participants' data – ultimately their customers' data – is appropriately protected and sufficient control is available to participants and Pay.UK as to its use.

Include, and then monitor, service level agreements (SLAs) in a CIS provider contract

We agree that Pay.UK should impose appropriate SLAs through their contract with the CIS and consider that this is standard practice for the procurement of such infrastructure. We note further views on the benefit of the PSR intervening in this manner in our response to question 12.

Ensure CIS user prices are set using proportionate, objective and non-discriminatory (POND) criteria and follow the pricing principles set out in Chapter 6

We agree with the pricing principles articulated by the PSR and it is in the interest of the industry for the NPA to be priced effectively, efficiently and ensure that migration to the NPA is appropriately incentivised by the industry. We note some concerns with the proposal of the PSR to create regulatory obligations in this regard in our answer to question 12 and discuss in greater detail the pricing principles articulated by the PSR in our answer to questions 13 and 14.

**Governance principles**

Pay.UK should be the primary interface and decision-maker for all matters relating to CIS provision

We have concerns with the proposed governance principles on the basis of proportionality.

**Proportionality:** The industry agrees that Pay.UK have an important role to play in the management of the NPA ecosystem. Our members have concerns that the proposals appear to lay too great a responsibility on Pay.UK and centralise to an unhealthy degree the decision-making powers of Pay.UK. In discussions, our members highlighted that there may be circumstances where firms wish to deploy commercial services based on the CIS service. These services may necessitate negotiation outside of a collaborative industry body. To hold Pay.UK formally or informally to account for the entire ecosystem may inhibit rather than enable competition and the development of innovative services.

In addition, our members have reiterated their concerns that the governance of the NPA may require more thorough assessment by the industry. In short, while Pay.UK may have garnered greater support from the industry in recent months, there are still important stakeholders in this process that remain unsure whether the current governance models are suitable to ensure the adequate implementation of the NPA and effective management of its running. In light of this, the suggestion by the PSR to increase the strength of existing Pay.UK governance is not supported by industry without a proper articulation of the limits of this strengthening and the expected outcomes.

Pay.UK must actively implement rules to promote competition and ensure access terms are POND

We agree with the PSR's proposal for access terms to central infrastructure to abide by POND principles. We consider that the role of Pay.UK as market catalyst already delivers it a mandate to promote competition within the NPA; however, we have concerns as to how rules might be implemented to promote competition.

**Clarity:** While UK Finance and its members are supportive of enhancing competition for the industry. The requirement for Pay.UK to articulate rules to enable competition is a sensible continuation of their current role. However, the articulation of specific scheme rules and requirements that actively promote competition is considerably different to those that ensure a level playing field for all participants to access CIS services. Such rules would have to undergo significant review in order to ensure that they do not result in unforeseen outcomes.

**Measurable:** Without clarity on how rules to promote competition and access would be drafted, it is difficult to understand how firms will be able to comply with requirements. This intervention risks



creating unnecessary obligations upon the industry and risks exposing the industry to greater uncertainty as to the ongoing stability of the NPA.

If a CIS provider (or its owner) has a significant interest in another payment system that competes with interbank payments or in the NPA's competitive overlay markets, its CIS functions must be operationally separate

Our members agree broadly to the principle articulated by the PSR. We do recognise the view of the PSR that these are intrusive measures and should only be used when there is justified rationale for doing so. We expect that the PSR will work closely with industry to articulate any requirements as the need for these measures become clearer.

**10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.**

No, we do not consider that the provision of common services for the initial scope of procurement will materially alter the competition risks raised by the PSR in their analysis of the provision of the CSS.

**11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.**

UK Finance consider that the elements of operational separation necessary for the provider of the CIS will likely depend on the nature of the firm chosen to supply the CIS. We consider that accounting separation between the different business arms of the provider of CIS would be a sensible first step towards ensuring that there is a fair and honest accounting of services. Should the PSR consider additional measures, it is possible that a full separation of CIS provision into a separate legal entity may be beneficial. However, this step could dramatically increase the difficulty of ensuring technical or business innovations are able to be deployed to the UK market. This could result in reduced innovation and threaten the UK's implementation of CIS in comparison with other national payments infrastructures. We expect that the successful provider of CIS services will be experienced in offering CIS infrastructure and will therefore be active in other markets.

**12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?**

Given the circumstances arising due to the perceived need of industry for a central clearing and settlement system for the provision of interbank payments systems, PSR driven ex ante regulation could prove beneficial to UK Finance members. Notwithstanding the other infrastructure of relevance in the provision of retail payments to UK consumers (including, but not limited to, the provision of CHAPS services, use of cash, card networks, the provision of e-money and other payment account facilitation), such regulation may still generate a variety of improvements to the industry. In this light, UK Finance and its members agree that the consideration of ex ante regulation on the part of the PSR is helpful for the industry.

## **Specific Mitigations**

### Run and effective procurement process

We note that the PSR has existing specific directions for the procurement of Bacs and Faster Payments infrastructure. Our understanding has been that the PSR will regard these specific directions to be fulfilled through the procurement of a central infrastructure for the NPA. We consider that the PSR, if it wanted to provide additional direction in this area, should consider



retiring the existing specific directions regarding procurement processes as a replacement exercise.

Ensure that the contract with a CIS provider includes incentives to foster and facilitate innovation, and limits incentives to distort competition

We have already noted our concerns on this proposal on the grounds of clarity, measurability and ultimate benefit to the industry. Based on those reasons alone we consider that the PSR would not proceed with an intervention on this basis.

**Proportionality:** We also question the proportionality of the proposed PSR's actions in this regard. Negotiating contracts is already a complex and difficult endeavour, notwithstanding any additional requirements imposed by the PSR which may provide difficult for either of Pay.UK and the chosen CIS provider on commercial grounds. We recommend that the existing legal mitigations on these concerns are sufficient to mitigate the competition risks identified by the PSR.

Prevent a CIS provider (or its owner) using commercially sensitive information for its own benefit in another market

Previously we articulated our understanding that the end-user, and any PSP who has an agreement with the end-user, owns the payments data processed by Pay.UK and any NPA infrastructure. Neither Pay.UK nor the NPA infrastructure provider can benefit from data that they are only allowed to use for limited purposes and cannot exploit for commercial gain.

Include, and then monitor, service level agreements (SLAs) in a CIS provider contract

We have concerns regarding the proposal by the PSR to impose regulatory requirements for SLAs to be included within the contract between Pay.UK and the provider of CIS services. It is expected that Pay.UK will agree with the CIS provider appropriate SLAs during the negotiation process. We consider that Pay.UK, as an intelligent buyer of CIS services, will be best placed to define appropriate SLAs for the ongoing contract. Our concern then rests in two parts:

- That Pay.UK will already incorporate the negotiation of SLAs into the contract with the CIS provider and that the PSR's proposal for regulatory requirements to undertake the same will be redundant.
- That Pay.UK, as the intelligent buyer of CIS services, are best placed to establish the appropriate SLA's to ensure that the ecosystem is appropriately managed and that equal services are provided by the CIS provider to all participants in the ecosystem. We do not consider it proportional that the PSR provide additional requirement to undertake this exercise.

We recognise that the PSR may wish to have a degree of oversight of the SLAs agreed. It is important that this process is informed by industry experts, within Pay.UK and its participants, and appropriate within the confines of a commercial contract.

Ensure CIS user prices are set using proportionate, objective and non-discriminatory (POND) criteria and follow the pricing principles set out in Chapter 6

We agree that the CIS user prices should be set ensuring POND principles. As the PSR note, Pay.UK is already required to do so. We discuss further the pricing principles articulated in question 13 however, given that later discussion, we do not consider that it is necessarily proportional for the PSR to impose additional regulatory requirements for the pricing of the NPA.



## Governance principles

Pay.UK should be the primary interface and decision-maker for all matters relating to CIS provision

We have already outlined concerns with the proportionality of the proposed approach. We consider that additional requirements may be disproportionate and introduce additional complexities to innovation in the market.

Pay.UK must actively implement rules to promote competition and ensure access terms are POND

We agree with the PSR's proposal for access terms to central infrastructure to abide by POND principles and note as previously outlined that we understand such requirements to already exist on Pay.UK. Given the concerns associated with the implementation of rules to promote competition, it is unclear at this stage whether the inclusion of regulatory mandate to introduce such rules is proportionate.

If a CIS provider (or its owner) has a significant interest in another payment system that competes with interbank payments or in the NPA's competitive overlay markets, its CIS functions must be operationally separate

Our members agree broadly to the principle articulated by the PSR. We do recognise the view of the PSR that these are intrusive measures and should only be used when there is justified rationale for doing so. We expect that the PSR will work closely with industry to articulate any requirements as the need for these measures become clearer.

### 13. Do you have any comments on the pricing principles set out in this document?

Our discussion below articulates the view that the principles outlined are broadly supported by industry. We note that there are existing drivers for Pay.UK to ensure appropriate pricing mechanisms which the below principles outline. It is therefore our opinion that the PSR's proposal for greater enforcement of these principles may hinder rather than assist Pay.UK in achieving the outcome of a resilient, competitive, efficient and accessible NPA ecosystem – while mitigating monopoly and vertical competition risks.

We are supportive of the PSR publishing these principles as a recommendation to the procurement process for Pay.UK. We also support the work of Pay.UK, the PSR and industry in ensure funding participants' comfort with the final outcome. However, our view is that this should by no means imply that the PSR must give formal approval to the final funding model, approach or governance.

- reflect efficiently incurred costs

Industry agrees that Pay.UK should only charge its members for efficiently incurred costs of the NPA. Our members are already actively considering the likely cost of the NPA and will consider closely how Pay.UK plans to arrive at these costs. Similarly, we agree that it is important for Pay.UK to maintain strong a commercial negotiating position in order to secure the optimal price for the CIS for industry. Our members consider that there are good economic incentives for Pay.UK as a cost recovery entity funded by the industry to ensure that costs are controlled appropriately.

- incentivise utilisation of the NPA

The industry is supportive of a sequenced migration to the NPA as and when it is delivered and demonstrated to deliver tangible benefits to its users. The precise management of any migration is potentially a point of contention for the industry as it is likely that there will be some degree of phased onboarding of current FPS and Bacs participants to the NPA. This means that certain firms will benefit from any economic incentive to migrate to the NPA from existing schemes before others have the opportunity to do so. While market readiness will potentially go some way to smooth out the new participant curve of the NPA, this is an issue that may well require complex



choreography of participants. We consider that the PSR should remain mindful of the potentially anti-competitive impact that it may have on the market through enforcing any specific mechanisms for NPA participants to benefit from favourable cost metrics. The industry's own experience in the implementation of Confirmation of Payee has already highlighted the competitive advantages that can inadvertently be delivered to certain firms through regulatory mandates and the industry is keen to ensure that similar situations are not provoked by the PSR's activities in this regard.

- foster competition in services to end users

Members of UK Finance are supportive of a clear pricing structure to support competition in services to end-users. The NPA should have a variety of access models with, as the PSR previously articulated, an efficient passing on of associated costs to its participants. Insofar as it is able, Pay.UK should ensure that pricing is fair and equitable across these access channels. If firms are accessing infrastructure indirectly, any pricing structures will be outside of Pay.UK's control.

Pay.UK already has robust charging structures in place to handle FP and Bacs charging processes.<sup>1</sup> We agree that the principle articulated by the PSR is beneficial, however it is unclear at this stage whether it is beneficial for the PSR to introduce ex ante regulation in this regard, given Pay.UK's current processes.

- adapt to changing competitive conditions

Pay.UK already has robust charging structures in place to handle FP and Bacs charging processes.<sup>2</sup> We agree that the principle articulated by the PSR is beneficial, however it is unclear at this stage whether it is beneficial for the PSR to introduce ex ante regulation in this regard, given Pay.UK's current processes.

**14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?**

On balance, we are supportive of the principles articulated by the PSR in aggregate. We are uncertain as to whether the PSR's proposed intervention in this area will be of greatest aid to the industry, particularly as there are current processes driving similar behaviours for Pay.UK and the ecosystem at large without the PSR's intervention. We recommend that the PSR engage more with industry prior to adopting any particular view on any of these proposals.

If you have any questions relating to this response, please contact [REDACTED].  
[REDACTED]

[REDACTED]  
**Manager, Payments Policy**

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<sup>1</sup> <https://www.wearepay.uk/wp-content/uploads/2019/12/Pay.UK-PFMI-Self-Assessment-Dec-19.pdf> cf. Item 23.4

<sup>2</sup> <https://www.wearepay.uk/wp-content/uploads/2019/12/Pay.UK-PFMI-Self-Assessment-Dec-19.pdf> cf. Item 23.4



# Vocalink / Mastercard





VOCALINK

# Delivery and regulation of the New Payments Architecture

## Response to PSR Consultation Paper

19 March 2021



### Introduction to Vocalink

Vocalink's technologies power the UK's real-time and batch payments systems, in addition to the country's network of nearly 55,000 ATMs. Vocalink is specified under Part 5 of the Banking Act 2009 as a Service Provider for the Bacs, Faster Payments and LINK payment systems.

### Executive Summary and General Comments

1. Given all of the circumstances, we strongly believe that the optimal way forward would be for the PSR to conclude that Pay.UK should now negotiate directly with Vocalink to deliver the NPA infrastructure, initially against the reduced scope the PSR has outlined, and in parallel undertake a public consultation on the future of Bacs.
2. The process of direct negotiation, and the focus the PSR has placed on this topic through the current consultation, would create the necessary degree of competitive tension and deliver the same outcomes as a competitive procurement process, but in a much more cost effective, efficient and faster manner.
3. The direct negotiation approach can be progressed in a way which would deliver a number of key outcomes:
  - A faster and cheaper procurement process and transition, providing the quickest route to unlocking end-user benefits by leveraging the ability to deploy an ISO 20022 real-time solution [3<].
  - Value for money, ensured through techniques such as benchmarking, and high service quality
  - A programme of ongoing innovation
  - A platform for enabling competition throughout the ecosystem.
4. Vocalink is supervised by the Bank of England, because of the systemic importance of the services it provides to the Bacs, FPS and LINK schemes, meaning that Vocalink would not be able to offer a poor quality of service as operational resilience is such a key focus of the Bank. [3<].
5. [3<].
6. The UK has lost its long held global leadership position in account to account payment infrastructure, as a direct consequence of the time spent over the last few years designing, specifying and debating the NPA, including a number of false starts in procuring the NPA CIS.
7. These delays have been to the detriment of UK end users, including consumers and businesses of all sizes, who have been denied access to the innovations and benefits that will flow from modernising the current infrastructure, such as ISO 20022-enabled use cases or further enhancements to anti-fraud capabilities. [3<].
8. The latest PSR consultation has had the effect of adding at least an additional 12 months to the timeline, before any potential (new) competitive procurement process could even commence.
9. Taking into account the time that would then be needed to effectively and safely run a new competitive procurement process, followed by a period of implementation, the likely outcome would be for the benefits of the NPA to only become available a full decade after the creation of the Payment Strategy Forum (PSF). Such an outcome would be inconsistent with the PSR statement that it *"wants the benefits of the NPA delivered as soon as possible"*.
10. A new competitive NPA procurement process, if this were to be the outcome from the PSR consultation process, would create additional delay and uncertainty for Pay.UK and all Participants and would fail to deliver overdue benefits to end users.



11. Furthermore, whilst it might be tempting to adopt a rushed competitive procurement process at that stage, this would be a risky strategy. The initial stages of the cheque imaging procurement process provide a recent illustration of the dangers inherent in such an approach.
12. The combination of a 'purist' approach to the PSF design and the PSR regulatory approach has had the unfortunate effect of holding back progress and delaying work on the sub-set of the PSF Detriments list that had an infrastructure dimension to them. It is now time to be pragmatic and at the same time remove the regulatory uncertainty that has paralysed the market. Vocalink would be able to bring an ISO 20022 solution to the UK [X], with a subsequent roadmap of enhancements to unlock further benefits.

## 2) General comments on risks to delivery of the NPA and options for reducing these risks

### General Comments

#### a) The Current Situation

- Despite the ongoing uncertainty surrounding the NPA, the UK's account-to-account payments ecosystem has seen recent examples of innovation and enhanced competition. This has largely been in the overlay space (examples such as Confirmation of Payee 'CoP' and Request to Pay 'RTP') and in relation to Open Banking, and has happened on top of the existing rails, which have continued to perform well and in a highly resilient way.
- At the same time, progress has been made on technical measures and processes to tackle Authorised Push Payment 'APP' fraud and other types of payments-related financial crime (examples include Mule Insights Tactical Solution 'MITS' and CoP). However, implementation of additional measures and capabilities has been delayed, to the direct detriment of end users, by unfounded regulatory concerns that Vocalink appears to have a monopoly on the use of payment systems transaction data. [REDACTED]
- Indeed, Vocalink could already have delivered additional protections for consumers, corporates and FIs through enhanced services including near real-time risk profiling solutions on outbound and inbound transactions and cheque fraud analysis. These solutions would have offered direct responses to some of the APP fraud challenges in the market. Further progress could also have been made on financial inclusion-related initiatives, such as the ability to assess creditworthiness through historical payment analysis.
- In parallel, the UK payments industry should also have been modernising the core rails over the last few years, but despite the investment of a huge amount of time, cost and effort very little progress has been made.
- The PSR has directly contributed to this slow pace of progress by issuing the current consultation, as well as last year's initial consultation on the NPA competitive landscape, thus contributing to the ongoing uncertainty.
- By contrast, Vocalink could have implemented ISO 20022 (and other technical innovations) by now. Instead, we have effectively been blocked from proposing and/or implementing many positive enhancements as a consequence of having been engaged in NPA-related procurement processes with Pay.UK and its predecessor organisations since 2017.

#### b) What Should Happen Now

- We support the PSR proposal to narrow down the initial NPA scope – the scope of the current procurement process is very wide, and has contributed to the lack of progress.
- Given the time lost, the primary focus should now be on how to get the innovations that would be enabled by a modernised central infrastructure available to end-users, unlocking the resultant benefits, as soon as possible.



- Enabling the use of ISO 20022, implemented in a progressive way to support Participants' own evolving capabilities in this area, will empower benefits such as:
  - Important enhancements in the protection of consumers against financial crime, such as enhanced financial fraud scoring and greater interoperability and consistency of messaging across additional data sets, enabling enhanced fraud detection and prevention.
  - New services to end users, particularly corporates and government, who will be able to take advantage of enhanced data – for example to enable automated reconciliation of invoices, reducing a significant business cost. Additionally, enhanced messaging such as confirmation of receipt would enable greater adoption of instant payments in retail use cases (supporting Open Banking) and requests for return of funds could support both misdirected payments and retail use cases where refunds are required.
  - Participants would be able to realise the efficiency and interoperability benefits available to them from moving to a consolidated message format, enabling considerable in-house technology platform consolidation.
- Given the importance of realising such benefits, Vocalink has developed an approach that shows how we could bring an ISO 20022 solution to the UK [36], with a subsequent roadmap of enhancements to unlock further benefits.
- The optimal way forward now would be for the PSR to give Pay.UK the mandate to negotiate directly with Vocalink, with a view to Vocalink delivering a modern central infrastructure against the narrower procurement scope option, on top of which a competitive ecosystem of overlay services will be able to thrive. In taking forward such an approach, there are a range of contractual levers available to ensure the desired levels of value for money and operational performance are achieved, as well as ensuring thriving competition and innovation in the overlay services space
- Vocalink can support the migration to a new infrastructure in a way which is faster and delivers value for money, high service quality, a programme of ongoing innovation, and a platform for competition throughout the ecosystem. All of this would be underpinned by continued payment integrity, including maintaining the ongoing resilience of the current infrastructure and a low-risk migration approach. This approach would be faster, because it will eliminate the time needed by the multiple rounds of the procurement process. It would be cheaper, for both Pay.UK and Participant PSPs and ultimately end-users, because it is a shorter process and it removes the uncertainty as to the identity of the supplier.
- In parallel with the initial activity to replace FPS as part of the reduced scope procurement approach, it would make sense for there to be a wide ranging consultation held in relation to Bacs, aimed at gathering perspectives from end users and participants of all types in the current Bacs ecosystem on their preferred approach.

### c) Direct Negotiation

Since the PSR Infrastructure Market Review concluded and its Specific Directions requiring competitive procurement processes for Bacs and FPS (SD2 and SD3) were issued in 2017, there have been several significant developments. From the perspective of the UK payments ecosystem, these have included the emergence of a competitive overlay market, with services such as CoP and RTP, and the launch of Open Banking. From a Vocalink perspective, the company was acquired by Mastercard in 2017 following approval from the competition authorities. [37]. Given that when viewed collectively these developments are substantial, it is therefore appropriate for the PSR to consider the on-going appropriateness of the SD2 and SD3 requirements for competitive procurement and whether direct negotiation is now a valid alternative.

Direct negotiation will create competitive tension, and can lead to just as good outcomes as competitive procurement. There are a number of factors in the current situation that will ensure that a high level of competitive tension will exist:



i) *Pay.UK is a knowledgeable buyer*

- Pay.UK has built extensive knowledge of real time payment infrastructure through the NPA procurement process and by virtue of being the PSO of Faster Payments.
- Any remaining gaps in Pay.UK's knowledge can be filled by the use of external consultancy expertise.
- The reduced NPA procurement scope option suggested by the PSR would further reduce the effect of any information asymmetry.

ii) *Benchmarking is a powerful tool*

- Benchmarking can cover price, cost, service quality, adherence to standards and almost any aspect of the negotiation.
- The reduced procurement scope option preferred by the PSR will facilitate benchmarking because there are now many examples of real time payment implementations around the world.
- As part of the direct negotiation, Pay.UK could independently benchmark Vocalink's offer, by comparing it to:
  - Other real time payment services around the world.
  - Submissions made at the RFI stage of the original NPA procurement process.
  - [X]
- Pay.UK can run the benchmarking as a completely independent exercise, with Vocalink contractually obligated (as we are today) to support the process by providing the detailed information needed.

iii) *Reputational considerations*

- If, having been given permission to negotiate directly with Pay.UK, Vocalink and Pay.UK were to fail to reach agreement, there would be significant reputational harm to the Vocalink and Mastercard brands, both in the UK and globally, not least given the importance that the UK holds for Mastercard as a reference site.
- Additionally, Pay.UK would retain the ultimate threat of starting a competitive procurement process.

iv) *Regulatory oversight*

- We expect that both the PSR and the Bank of England would request frequent updates on the progress of direct negotiations, ensuring that key milestones were being achieved.

v) *The process of the PSR considering direct negotiation is itself creating competitive pressure*

- Vocalink is confident that, for the reasons set out above, direct negotiation will result in the same outcome as a competitive procurement process, but with the benefit of being delivered faster and more cheaply, but is aware that this needs to be demonstrable to the PSR. In the next section of our response, we articulate our views in relation to the PSR concerns about direct procurement. Some of these items also overlap with the topics covered by the second half of the PSR consultation, which we will respond to at a later date.
- In effect, the process of the PSR assessing the appropriateness of direct negotiation is in itself creating competitive pressure on Vocalink. Vocalink is aware that it needs to convince the PSR that direct negotiation is a better option than a competitive tender and demonstrate that the benefits (speed and cost) are not outweighed by any disadvantages. This places competitive pressure on Vocalink [X]. The PSR can then be confident that a competitive procurement process is not required to deliver good outcomes.
- [X]



#### d) Addressing the PSR's concerns regarding direct negotiation

In paragraphs 4.33 to 4.37 of the consultation document, the PSR sets out its concerns regarding the option of direct negotiation compared to competitive procurement. In the following table, we comment against each of the points the PSR has raised.

PSR concern	Vocalink comment
Concerns about the lack of commercial leverage that Pay.UK would have in bilateral negotiations (4.33)	Vocalink considers that Pay.UK has sufficient commercial leverage, because competitive tension would be created through the combination of the PSR assessing direct negotiation and the direct negotiation process itself. The level of competitive tension that would exist in this scenario is sufficient to deliver the same outcomes that a competitive procurement would. Benchmarking would also provide commercial leverage, as part of the bilateral negotiation process.
Concerns that the benefits to innovation and competition that come from the commercial tension in a competition cannot be replicated (4.33)	One of the benefits of the reduced scope NPA procurement approach preferred by the PSR is that there is a global market for real time payment solutions. This means Pay.UK will benefit from the existence of innovation and competition in this global market, without having to run its own competitive procurement process. This can be achieved through benchmarking and also by comparing Vocalink's offer to the extensive information Pay.UK has gathered during the NPA process to date. An unintended outcome of the NPA-related competitive procurement processes that have been running since 2017 has in fact been to hold back innovation.
Doubts that this option would lead to faster delivery than the other options due to the need for additional analysis, consultation and review by us to gain assurance over the negotiated design and contract. (4.33)	<p>Direct negotiation will remove multiple rounds of the procurement process and therefore reduce delivery time.</p> <p>Vocalink considers that any additional processes that the PSR may wish to put in place with the direct negotiation option can be operated in parallel with the direct negotiation process.</p> <p>[X]</p> <p>Furthermore, as a result of being unencumbered by the requirements of competitive procurement to treat all parties equally (which means that the same meeting is repeated with each of the bidders or that Pay.UK and the PSR feel it is inappropriate to discuss issues with bidders), the direct negotiation process and the process of understanding Pay.UK and PSR views can both happen much more directly and efficiently.</p>
Pay.UK would be unable to secure the contractual protections against the risks to competition (4.34)	<p>In section e) below, Vocalink sets out why it considers that many, if not all, these risks are unlikely to materialise because:</p> <ul style="list-style-type: none"> <li>• they are inherently unlikely to materialise;</li> <li>• there are existing mitigations; and/or</li> <li>• [X].</li> </ul>



Pay.UK would be unable to secure a contract that reflects the regulatory oversight and other requirements that we would want to secure, to mitigate these risks to competition (4.34)	[X] [X]
Mastercard/Vocalink may want to avoid the precedent set by any contractual and regulatory protections in the UK, including in so far as they might be replicated in other countries. (4.36)	<p>Vocalink would offer contract terms and other regulatory protections that are most appropriate to the UK market and regulatory environment. Mastercard/Vocalink would consider whether these terms and protections might also be appropriate to other markets as and when the matters arise. We already operate under a variety of regulatory regimes globally, so we have considerable relevant experience to call on in the area of contractual and regulatory protections.</p> <p>Vocalink would nevertheless expect that commercial elements of the contract and regulatory protections remain confidential to protect competition. Vocalink would welcome a discussion with the PSR as to the level of public disclosure it might seek.</p> <p>We also note that the PSR has chosen to conjecture in paragraph 4.36 of this public consultation document about Vocalink/Mastercard's possible motivations and economic incentives, which we find concerning.</p>
The balance between the revenue generated for Mastercard/Vocalink through continuation of the current contracts (for Faster Payments, Bacs and C&C Image Clearing System) relative to the value offered in the new CIS contract. (4.36)	Vocalink believes that the NPA will happen in one form or other, as it is the right thing for the UK. Vocalink wants to be part of the NPA, and its reputation and long-term commercial interests are aligned with the NPA's success, rather than with frustrating or delaying its implementation. The UK is a highly important reference site for Mastercard and we would wish this to continue in a way that sees Vocalink becoming the CIS provider of a modernised UK infrastructure.
The value that might accrue to Mastercard if it is able to secure a competitive advantage in related markets, through delay or through using delay as a way of securing an outcome in its favour (4.36)	[X]
Concerns expressed about the difficulty of securing value for money where there are changes to design or capability after contract award (4.37)	If such difficulties exist, they can occur regardless of the process of awarding the contract (i.e. they can occur following competitive procurement or direct negotiation). Indeed, there may be greater incentives on bidders in competitive procurements to not reveal issues until after they have been selected to bi-laterally negotiate the contract. In any event, there are processes and techniques that can be utilised to reduce the potential for such difficulties arising, for example the use of ongoing benchmarking.



## e) Promoting competition and innovation

- In Section 5 of the consultation document, the PSR discusses the potential risks to competition and innovation including mitigations. In Section 6 of the consultation document the PSR discusses the pricing of CIS. The PSR has requested responses to these sections with a later deadline of 5<sup>th</sup> May, and so we will be providing our response in due course.
- However, some of the issues raised by the PSR in these sections are relevant to our response to the topics and questions in our current response, and therefore we cover them to the extent relevant here.

### *Monopoly, horizontal and vertical risks*

- The price that Pay.UK will pay to the CIS provider can be benchmarked to other suppliers, and the reduced NPA procurement scope approach will make this easier to achieve. For example, very up to date comparator pricing would be available to Pay.UK as a result of recent implementations of instant payment services in other parts of the world by Mastercard and other suppliers.
- We agree that Pay.UK should set CIS user prices, both for transactions and any other services that involve the CIS.
- Vocalink is supervised by the Bank of England due to the systemic importance of the services it provides to the Bacs, FPS and LINK schemes. Vocalink would expect that the NPA CIS provider (whether that is Vocalink or another company) will be similarly supervised. Vocalink would simply not be able to offer a poor quality of service because, [REDACTED], operational resilience is a key focus of the Bank of England and will soon be further ensured through the Bank's requirement for Vocalink and other systemically important providers to maintain an Operational Resilience Framework. The Bank of England is a very pro-active and engaged supervisor [REDACTED]  
[REDACTED] Operational incidents are reported to the Bank of England [REDACTED] The fact that the UK represents a key reference site for Mastercard acts as an additional incentive to ensure that we continue to operate with an unrelenting focus on service quality and resilience.
- [REDACTED]  
[REDACTED]  
The current contract therefore provides a strong benchmark against which to compare the NPA. Additionally, we expect this position to be strengthened further as the Bank of England's Operational Resilience Framework approach is implemented, including a specific focus on an agreed set of Important Business Services and Impact Tolerances as an additional risk control measure.
- The PSR appears concerned that the CIS provider will be able to exploit its position in order to gain unfair competitive advantage in the supply of overlay services to PSPs. Using the example of transactional data, [REDACTED]  
[REDACTED]  
[REDACTED] to do so by Pay.UK. Vocalink anticipates that similar requirements will be included in the NPA contract to ensure a level playing field.
- [X]
- [X]
- [X]
- Furthermore, Mastercard's cards business is entirely separate from Vocalink's interbank payments business. This separation should also give the PSR assurance that horizontal risks are mitigated too.



#### **Q1. Do you agree with our view of the risks to the successful delivery of the NPA?**

We broadly recognise the risks the PSR is describing in paragraphs 2.27 – 2.33 of the consultation document. In particular, we can see how PSPs will have had their available resources impacted by the Covid-19 pandemic, and also that the current procurement scope and approach risks delaying access to the innovations and benefits that will flow from modernising the current infrastructure e.g. by migrating to ISO 20022 or further enhancing anti-fraud capabilities.

We also share the view that it would be absolutely essential to minimise the risks of any disruption to payments during the migration process as ongoing resilience and stability is critical. Payments such as salaries, benefits and supplier payments underpin the UK economy.

#### **Q2. Do you agree with our analysis of the suggested risks, pros and cons of the alternative options for the scope of the initial procurement?**

We broadly concur with much of the PSR analysis of the alternative scope options as set out in sections 3.14 – 3.28 of the consultation document. In particular, we agree that scope option 2 has the potential to help de-risk the initial CIS delivery and enable ISO 20022-based immediate payments more quickly compared with scope option 1, making benefits enabled by the adoption of ISO 20022 for Faster Payments available sooner to end users.

#### **Q3. 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?**

As a bidder/supplier, we would be willing to continue under either of these scope alternatives, and would put all our efforts into producing a high quality proposal. From a cost perspective, we would note that we have already invested heavily in participating in the NPA and related procurement exercises that have been running since 2017.

However, from the perspective of the objective of being able to complete any procurement process (competitive or bilateral negotiation) more quickly, move into the implementation phase, and deliver benefits to end users as soon as possible we can see a compelling case for refocusing the scope to the more slimmed down version described in scope option 2.

In relation to the faster pace of benefits delivery that an initial slimmed down scope could unlock, it is relevant to note that Vocalink has developed an approach that shows how it could bring an ISO 20022 solution to the UK [8], with a subsequent roadmap of enhancements to unlock further benefits. This would empower the early realisation of benefits to end users, such as the enablement of automated reconciliation of invoices, thereby reducing a significant business cost. Additionally, efficiency and interoperability benefits would become available to Participants by moving to a consolidated message format, and important enhancements in consumer protection would also be enabled via enhanced fraud detection and prevention.



#### **Q4. Under scope option 2:**

**a. 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?**

As mentioned in our answer to the previous question, we believe that there is a very strong case for progressing with the reduced scope option 2. At the same time though, we believe that there should be a parallel consultation on Bacs. This consultation could be used to test Participant and end user appetite for the migration of Bacs transactions to NPA and possible approaches and timelines. Meanwhile, it is relevant to note that some market-led propositions are already emerging, such as Request-to-Pay and Open Banking-related payment transactions, which could provide an alternative to Direct Debit for some transactions. It also needs to be recognised that a full migration away from the current Direct Debit system would necessitate a superior alternative being available, which will require substantial levels of innovation.

**b. 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 common services to support the migration of Bacs transactions?**

If this were to be a requirement from the market, it is certainly something we would be happy to support, but it would logically be for Pay.UK and Participants to express a view on how important it would be for this aspect to form part of the initial procurement, or considered at a later stage.

**c. 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?**

A narrower procurement scope should still recognise the need to build in certain key requirements and considerations that anticipate the needs of a potential later Bacs-related migration.

In particular, for example, it would make sense to ensure that the procured solution would be capable of being scaled to meet the substantial additional volumes that would result if the ultimate decision was to migrate all the current Bacs volumes (Credit and Direct Debit) onto this single new infrastructure. A further example would be to consider incorporating file based (e.g. DCA/FIM) capabilities at an early stage, if this is something that Participants would value.

Our response to this narrower CIS procurement approach would certainly be to adopt a future-proofed approach in this regard. For example, Vocalink has developed an approach that shows how we could deploy an ISO 20022 real-time solution [8].

**Q5. 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.**

We do not consider procurement option 1 to be a viable approach. It is not realistic to re-start the current procurement process, under either of the procurement scope options that the PSR has identified.

If the decision were to be made to commence a new competitive procurement process, in line with procurement approach option 2, then we think it would be much more effective to do so based on the narrower scope represented by scope option 2 that the PSR has identified. If any new competitive procurement process was commenced, the industry's experience of the initial cheques procurement demonstrates that such competitive procurement processes should not be unduly rushed.



In our view, however, procurement option 3, direct negotiation with Vocalink, represents by far the best option available given all the circumstances. Our assessment is that this option:

- Offers the best prospects of minimising and mitigating the NPA Programme delivery risks that the PSR has highlighted in the consultation document. In this context, we also note the PSR's statement in the Consultation that *"Irrespective of how the procurement proceeds, we want the benefits of the NPA to be delivered as soon as possible"*.
- Can be done in a way to bring forward the benefits of the NPA from an innovation and end-user perspective significantly faster than either of the other procurement options.
- Can be done in a way which addresses all the concerns and theoretical risks that the PSR has articulated of going down a direct negotiation route, compared to continuing with a competitive procurement.

We believe that procurement option 3 would be viable for either of the procurement scope options that the PSR has described. However, given that a phased delivery would be highly appropriate from a risk perspective, procurement scope option 2 would offer the best approach.

**Q6. 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)?**

The PSR has identified the key options that seem relevant, given the current circumstances.





VOCALINK

# Delivery and regulation of the New Payments Architecture

## Response to Part 2 of the PSR Consultation Paper

5 May 2021



### Introduction to Vocalink

1. Vocalink's technologies power the UK's real-time and batch payments systems, in addition to the country's network of nearly 55,000 ATMs. Vocalink is specified under Part 5 of the Banking Act 2009 as a Service Provider for the Bacs, Faster Payments and LINK payment systems.

### Executive Summary

2. In our response to the first half of the consultation we stated that the optimal way forward would be for the PSR to conclude that Pay.UK should now negotiate directly with Vocalink to deliver the NPA infrastructure, initially against the reduced scope the PSR has outlined.
3. We also said that:
  - The process of direct negotiation, and the focus the PSR has placed on this topic through the current consultation, would create the necessary degree of competitive tension and deliver much the same outcomes as a competitive procurement process, but in a more cost effective, efficient and faster manner.
  - The direct negotiation approach can be progressed in a way which would deliver a number of key outcomes, including: a faster and cheaper procurement process and transition, providing the quickest route to unlocking end-user benefits; value for money, ensured through techniques such as benchmarking and high service quality; a programme of ongoing innovation; and a platform for enabling competition throughout the ecosystem.
  - Vocalink would be able to bring an ISO 20022 solution to the UK [X] with a subsequent roadmap of enhancements to unlock further benefits.
4. In this document, we set out our response to the second half of the consultation relating to the topics of competition, innovation and pricing. However, for a complete understanding of our position, both parts of our response should be read together.
5. In respect of the proposed design principles for the CIS set out in the consultation, it is our view that:
  - the PSR should not be overly detailed in the way that it sets technical design principles for Pay.UK to follow, because this might reduce the flexibility required to implement the NPA successfully;
  - for example, the 'thin core' principle needs to be deployed in a thoughtful way, taking account of resiliency, efficiency, and the need to create a platform for innovation and competition. Speed to market of innovation is of particular importance, given the UK has lost its long held global leadership position in account payment infrastructure as a direct consequence of the time spent over the last few years designing, specifying and debating the NPA, including a number of false starts in procurement; and
  - operational and cyber resilience should be given the highest prominence and should be an over-arching design principle.
6. In respect of the competition risks previously raised by the PSR, we welcome the recognition in the current consultation that most of these can be mitigated through the proposed governance measures. Whilst we continue to believe that these risks are highly unlikely to manifest in practice due to existing mitigations and incentives, we note that it is the PSR's intention to ensure that a comprehensive set of mitigations is put in place to further reduce the possibility of them occurring.
7. The proposed operational separation requirements for the CIS provider, as detailed in paragraphs 5.49 to 5.53 of the consultation, would represent a reasonable and proportionate approach. However, we would note that extending separation requirements too far (such as



a full structural separation) would run the risk of being 'anti-innovation', as it would make it harder for Pay.UK and participants to benefit from the resources that the CIS provider would otherwise be able to call on through being part of a larger group. Additionally, an extreme set of separation requirements could make the provision of the CIS commercially unattractive to the CIS provider, or more costly to participants.

8. We have concerns with the proposal in the consultation that the prices that the CIS provider charges Pay.UK should reflect efficient costs and be adjusted within contract for changes in the cost base. We agree that cost efficiency is a key consideration, but we think it is important to strike a balance between focusing on costs and focusing on the benefits that market pricing can offer. Additionally, with multi-year pricing certainty, the CIS provider can smooth prices despite lumpy underlying costs and increase predictability of CIS issuer prices. More generally, we think that being too prescriptive or overly detailed in the pricing requirements would reduce flexibility and might have unintended consequences.

## 1. Competition and Innovation

### a) Designing the NPA to promote competition and innovation

- 1.1. In terms of general approach, we would urge the PSR not to be too prescriptive or overly detailed in setting design requirements for Pay.UK to follow, because this might reduce the flexibility required to implement the NPA successfully.
- 1.2. Paragraph 5.8 of the consultation sets out the design principles that the PSR considers should be embodied in the functional and technical specifications. We suggest that operational and cyber resilience should be given the highest prominence and be the over-riding design principle, with Pay.UK having the flexibility to decide how to balance the remaining principles. In respect of ensuring resilience, Pay.UK obviously has a role to play here as the systemic risk manager of the scheme. However, the CIS provider will also be subject to the Bank's oversight regime, as set out in the Banking Act 2009 (Part 5). In particular, it will have to meet the Bank of England's operational resilience requirements.
- 1.3. The first of the design principles mentioned in the consultation is for a 'thin' CIS design that provides only the functionality that is necessary to maintain the ongoing resilient provision of services to service-users, and minimises the scope of services provided centrally by a single supplier. Vocalink understands the competition reasons for a 'thin' core design concept and why, as an economic regulator, the PSR favours this principle. Vocalink is also aware that, although the thin core design is the prevailing concept for the NPA, non-UK markets are following a range of different designs. Most importantly, the thin core principle needs to be deployed with precision, mindful of other considerations relating to resilience, efficiency and the need to create a platform for innovation and competition. Speed to market should also be a consideration, because speedy CIS deployment will benefit the ecosystem and enable good consumer outcomes, such as financial crime protection services, to be delivered sooner.

### b) Competition risks

- 1.4. We welcome the PSR's acceptance that most of the original set of competition risks described in its 2020 Call for Input (CfI) are unlikely to materialize. We would also reiterate our perspective (from our response to the CfI) that in order for any of these issues to manifest in reality, numerous conditions would need to be met and no preventative measures be in place. In practice, there are many existing factors which would naturally prevent these competition issues arising. (See our response to question 8).
- 1.5. However, whilst we continue to believe that these risks are highly unlikely to manifest in practice, we note that it is the PSR's intention to ensure that a comprehensive set of mitigations is put in place to further reduce the possibility of them occurring.



## *Monopoly risks*

- 1.6. In paragraph 5.20, the consultation states that 'a CIS provider might not have strong incentives to control costs or improve services and could set access terms and prices that distort competition in PSP or overlay markets'. By contrast, the profit incentive gives the CIS provider a strong incentive to control costs and not to set terms and prices that could, as the consultation document suggests, distort competition in PSP or overlay markets. Benchmarking can be a powerful tool in this regard.
- 1.7. The PSR seems concerned that for additional services the CIS provider may be able to charge a high price, offer low service quality or not provide access on terms that promote competition and innovation (paragraph 5.22). Similar to today's position, this can be managed through the contract, which we would expect to include obligations on the CIS provider to provide additional services to third parties at pre-agreed rates within pre-agreed SLAs. In addition, the proposed governance and pricing principles put the responsibility firmly and rightly on Pay.UK to manage the interfaces (including access) and pricing. It is not in the CIS provider's interest to ever compromise on service quality, for the many reasons we set out in our response to last year's Cfl. It is also our view that the Bank of England would never tolerate a deterioration of service, even an additional service.
- 1.8. As a current service provider to Pay.UK we do not receive preferential treatment in the provision of overlay services, including Request to Pay and Confirmation of Payee related services. Nevertheless, we do support the proposal in the consultation that Pay.UK should play the role of primary interface for all participants, which will help remove any perception that the CIS provider might receive preferential treatment. Such an approach would help ensure that affiliates of a CIS provider providing services in an overlay market would engage with the CIS provider through Pay.UK in the same way as non-affiliates. Standard setting by Pay.UK also plays a key role here to help ensure a level playing field.

## *Horizontal risks*

- 1.9. The consultation states in paragraph 5.27 that 'if a CIS provider (or its owner) has a significant interest in another payment system that competes with interbank payments – for example, a card payment system – there are 'horizontal' competition risks.' The consultation then sets out some hypothetical theories of harm, which are then discounted because of responses to the PSR's previous consultation (e.g. the existence of SLAs, the CIS provider's reputation and good governance). We strongly agree with the conclusion in the consultation that to the extent that any horizontal competition risks ever existed, they can be managed by the mitigations.

## *Vertical risks*

- 1.10. In paragraph 5.31, the consultation states that 'if a CIS provider (or its owner) has a significant interest in markets for overlay services, this can lead to 'vertical' competition risks where the CIS provider has an unfair advantage over other providers of similar overlay services'
- 1.11. The consultation goes on to state in paragraph 5.32 that 'many respondents to the call for input recognised that these risks could arise in principle but they were mainly of the view that the ability of a CIS provider to offer higher prices or worse service quality to its competitors in overlay markets could be mitigated'. We agree that, to the extent that any vertical competition risks exist, they can be managed, for example by the practical examples we set out in our response to question 8.
- 1.12. In paragraph 5.35, the consultation states that CIS provider affiliates could face lower marginal costs of providing market overlay services than its competitors. Given Pay.UK sets standards, and given the proposal for CIS provider affiliates to pay Pay.UK the same price as its competitors, the actual marginal cost will depend on what other services the CIS provider affiliates and its competitors may provide in the UK and/or internationally. Indeed,



for these reasons the CIS provider affiliates could face higher marginal costs than its competitors.

- 1.13. The consultation also sets out some new vertical competition risks that could arise in relation to account overlays (paragraph 5.41), not mentioned in the previous CfI. We believe that these new vertical risks are implausible because of existing mitigations, as explained in Table 1 below.

Table 1

Possible vertical risks (paragraph 5.41)	Existing mitigations
The CIS provider (or its owner) ...  could take advantage of its better understanding of the CIS operations to design new account overlays or to adapt existing products	New account overlay services are unlikely to require any detailed understanding about CIS provision which is not in the public domain (e.g. published standards, including ISO20022) or isn't already known by a well-informed market participant such as a PSP.
could use its position as CIS provider in its marketing to give the impression that the account overlay is part of the CIS – which could result in end users choosing this product on the assumption that it is more secure, reliable or otherwise superior or subject to more regulations than competitors' products	The CIS provider is expected to be operationally separate from group companies providing overlay services. It should also be noted that under the Banking Act, Part 5 s205 it is an offence for a person who is not a service provider in relation to a recognised payment system (a) to assert that the person is such a service provider, or (b) to do anything which suggests that the person is such a service provider.
might limit access to information that new and innovative account overlay providers need to develop their products – for example, a provider of a payment initiation service might need to access macro trend data held by a CIS provider	As well as the points noted above with respect to design and other information, we note that Pay.UK would control access to data. [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] We would expect a similar clause to be included in the NPA contract.

### c) Governance principles

- 1.14. The consultation sets out three governance principles.
- Pay.UK as primary CIS interface;
  - Rules that promote competition and ensure access terms are POND; and
  - Separate CIS provider.
- 1.15. As the consultation notes, the first two principles are directed at Pay.UK, while the third is directed at the CIS provider. Therefore we have focused our following comments on the third principle, but we would observe that the first two principles look broadly logical and sensible.
- 1.16. In respect of operational separation, the consultation sets out three potential components (as a minimum):
- distinct branding between a CIS provider's CIS activities and its (or its owner's) overlay services, to address the risk of it creating the impression that an overlay service is part of CIS



- separate accounting and business processes, so that efficient attributable costs and any potential anti-competitive subsidies can be verified
- information firewalls to prevent the CIS provider sharing information within the wider corporate group

1.17. [X].

1.18. However, we would be concerned if the PSR was to decide to go much further down the path of separation, which the consultation suggests is possible in paragraphs 5.17 and 5.18. The risk with going further, particularly if this were to go towards structural separation, is that it might have an 'anti-innovation' effect, by making it harder for Pay.UK and participants to benefit from the CIS provider being part of a larger group. In the case of Vocalink, for example, this could mean not being able to benefit from [X]. Such an outcome would be to the significant detriment of the NPA ecosystem. It is also important to note that being part of the Mastercard group further enhances Vocalink's financial, operational and technical strength.

1.19. A CIS provider which is a separate legal entity within the corporate group should be sufficient to meet requirements for separate accounting and business. No further separation in this regard should be necessary for the PSR to impose and the CIS provider should not be expected to have different policies, procedures and processes to other companies in its corporate group.

1.20. It is therefore important that the PSR should focus on the minimum necessary aspects of separation, and carefully consider the costs and lost benefits of further separation measures.

1.21. To implement its operational separation governance requirement, the PSR could place the requirement on Pay.UK and for it to be captured in the contract between the CIS provider and Pay.UK.

## 2. Pricing

- 2.1. The majority of the comments in the consultation on this topic are focused on the pricing between Pay.UK and participants and overlay providers (CIS user prices). This is predominately a matter for Pay.UK and its participants to comment on, although we would observe that we fully agree that it should be for Pay.UK to set CIS user charges. The remainder of our comments focus on the price that Pay.UK will pay the CIS provider.
- 2.2. Vocalink agrees that the CIS prices should be charged to Pay.UK, rather than directly to PSPs, overlay providers or other similar providers. The structure of these prices (for example the relative balance of fixed or per transaction charges) can be used to drive the outcomes the PSR wishes to see. For example, a per transaction charge incentivises the CIS provider to facilitate the growth of transaction volumes, while a fixed charge may incentivise investment as it provides a greater degree of certainty.
- 2.3. However, we would caution against the PSR being prescriptive to Pay.UK in terms of the structure or level of prices it expects for CIS provision. It would be sufficient for the PSR to set the outcomes it wishes to see, and for Pay.UK and the CIS provider to agree the structure and level of prices. Benchmarking could be used to assess the appropriate level of prices.
- 2.4. In paragraph 6.15, the consultation states that prices should reflect efficient costs, and in paragraph 6.17 that 'Pay.UK would need to include appropriate mechanisms for monitoring ongoing operating and maintenance costs throughout the contract, so it can ensure that they reflect only efficient costs.' The consultation also seems to be suggesting that prices



should be adjusted within the contract period for changes in the cost base.<sup>1</sup> We have a number of observations in relation to these points:

- It is the price of the service, not the cost of the service, that should ultimately be of the greatest interest to the PSR, Pay.UK and participants.
- We fully agree that cost efficiency is important, but we think it would be appropriate to strike a balance between a focus on costs and a focus on the benefits that market pricing can offer. [8<].
- Additionally, with multi-year pricing certainty, the CIS provider can smooth prices despite lumpy underlying costs and increase predictability of CIS issuer prices.
- Careful consideration should be given to the effects of cost-based pricing adjustments on the incentives to invest and to make cost efficiency improvements.

2.5. In paragraph 6.16, the consultation states an expectation that 'Pay.UK's contract with the CIS provider will specify both the once-off capital expenditure costs of building and implementing the CIS, and the annual operation and maintenance costs for the duration of the contract.' This is one possibility, but another scenario is that Pay.UK and participants may not want a significant upfront charge in relation to the building of the service. Both scenarios should be left open for the time being.

## Specific Answers to Consultation Questions 7 - 14

### **Q7 Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.**

In line with our comments in paragraphs 1.1 to 1.13 and Table 1, we agree that competition or competitive tension within the NPA ecosystem is important and that Pay.UK has an important role to play to promote competition in the way that it provides services to participants and overlay providers. When performing this role, we consider that Pay.UK should do so through the lens of securing good outcomes for consumers and other end users in a timely manner, rather than focus on the process of competition.

In line with our comments in paragraphs 1.1 to 1.3, we do have some concerns with the PSR's technical design principles. In particular, we think that resilience should be the over-riding design principle and that Pay.UK should be given the scope to balance the remaining principles. We are also concerned that if the PSR were to impose overly detailed design requirements then this could delay and frustrate the successful implementation of the NPA and stifle innovation.

### **Q8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.**

We remain of the view, as set out in our response to the PSR's Cfl in April 2020, that the competition issues raised by the PSR are hypothetical, rather than evidence-based. Additionally, we noted in that response that consideration of the scenarios presented in the Cfl demonstrates that each would require numerous conditions to be met, and for no preventative measures to be in place, in order for the issues to materialise.

We also noted that in practice such conditions are very unlikely to be met and that there are many existing factors which would naturally prevent the issues arising. These include:

- strong economic incentives for the CIS provider to make the NPA a success, widen access and encourage overlay services;
- the risk of reputational damage to the CIS provider; both in UK and globally;

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<sup>1</sup> We expect there to be a Change Management Process in the new contract and an agreed pricing approach to changes (including new requirements) requested by Pay.UK.



- a sophisticated buyer (Pay.UK) with strong governance and setting technical standards;
- robust contractual frameworks, including SLAs;
- rigorous Bank of England supervisory regime; and
- no opportunity for the CIS provider to price - or service quality - discriminate between overlay providers or participants.

**Q9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?**

As noted in our answer to question 8, we believe that the competition risks that the PSR has raised are highly unlikely to materialise in practice. However, we note that it is the PSR's intention to ensure that a comprehensive set of mitigations is put in place, to further reduce the possibility of them occurring. In line with our comments in paragraphs 1.14 to 1.21, we believe that the proposed specific mitigations and governance principles proposed by the PSR (as summarised on page 39 of the consultation) would further ensure that the competition risks will never materialise.

In terms of the specific measures that that PSR is considering in the consultation, we would caution against going further with the potential separation requirements, for the reasons given in paragraphs 1.18 and 1.19 of our response. Our other concerns relate to the proposal for cost-based pricing between the CIS provider and Pay.UK (see paragraph **Error! Reference source not found.** of our response) and the risks involved were there to be overly prescriptive design principles (see paragraph 1.1).

**Q10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.**

No. Even if some of the risks were to materialise, there is no basis today on which to conclude that the competition risks of common services would be substantially different to those of CSS provision.

**Q11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.**

In line with our comments in paragraph 1.21, Vocalink finds the operational separation requirements of the NPA CIS provider proposed in paragraph 5.51 of the consultation document to be broadly acceptable. Indeed, Vocalink has already substantially introduced the type of separation that the PSR is seeking to impose. However, in paragraphs 1.18 and 1.19 we note some concerns in the event that the PSR were to contemplate extending the degree of separation further, particularly the risk that this might hamper important innovations being brought forward, to the benefit of Pay.UK and participants, if the CIS provider was no longer able to draw on capabilities from across its wider corporate group.

**Q12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?**

Any formal regulatory measures, such as Directions would reduce the flexible implementation of such principles. We would therefore suggest that it would be more appropriate and effective for the PSR to issue pricing and design guidance and for Pay.UK to have regards to this guidance, working with the payment ecosystem stakeholders to establish the principles.

The three governance principles are broadly acceptable, however they would not need to be implemented by way of Directions. For example, the CIS separation governance principle could be



implemented by way of clauses within the contract between Pay.UK and the CIS provider. This could be achieved either through a commitment from the CIS provider and Pay.UK to do so, or alternative as a regulatory requirement on Pay.UK.

More broadly, ex-ante regulatory measures should be grounded in clearly evidenced competition issues, and any interventions by the PSR at this stage should be the minimum necessary to achieve the desired outcomes.

**Q13. Do you have any comments on the pricing principles set out in this document?**

We note that the majority of the PSR's comments relate to the CIS user prices. Regarding the related but separate topic of the PSR's statements on the price Pay.UK will pay the CIS provider, we do have a number of concerns, as set out in paragraphs **Error! Reference source not found.** to 2.5 of our response.

**Q14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?**

As a potential CIS provider, we do not comment on CIS user prices, other than to note that:

- it is correct that Pay.UK should set CIS user prices; and
- there is a risk that overly prescriptive guidance from the PSR in this area could reduce the ability to use pricing flexibly in order to achieve the desired outcomes.





VOCALINK

# Delivery and regulation of the New Payments Architecture

Comments in relation to the publication of Pay.UK response to the PSR Consultation Paper

22 June 2021



1. Vocalink welcomes the opportunity to provide additional comments in relation to the potential procurement scope and approach for the NPA central infrastructure services, following the publication of Pay.UK's responses to the first part of the PSR consultation.
2. We note that Pay.UK has reconsidered the scope of the initial procurement and its views on the most suitable procurement approach, in the light of changes since it made its application in August 2020, to directly negotiate with Vocalink. We also note that Pay.UK has 'concluded that on balance the optimal approach is for Pay.UK to restart the existing competitive procurement process'.
3. In summary, we would confirm that our views remain those we set out in our two-part response to the PSR consultation, and do not change in light of Pay.UK's responses.
4. In respect of the scope of the initial procurement, we continue to agree that a narrower scope, focused in particular on enabling the migration of FPS transactions is appropriate. It is our view that the very wide scope of the original NPA procurement has directly contributed to its slow progress to date. The precise scope is for Pay.UK and the participant financial institutions to decide and agree with the PSR. However, we recognise the logic of Pay.UK's proposal to include elements in the initial procurement phase that would help manage the optionality of a future Bacs migration and include bulk payments functionality.
5. In respect of the procurement process, we remain of the view that direct negotiation with Vocalink would more quickly deliver consumer outcomes which are as good as achieved by competitive procurement. Any additional PSR or Bank of England processes that might be required because of direct negotiation can be run in parallel to the negotiation process, need not be sequential and, therefore, should not significantly add to the time required to deliver the NPA and unlock benefits to consumers.
6. Ultimately, whichever scope and procurement approach is finally adopted, Vocalink is committed to putting in a high quality and competitive response.