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

Respondents basic details

Consultation title:	Being responsive to user needs
Name of respondent:	
Contact details/job title:	
Representing (self or organisation/s):	Virgin Money
Email:	
Address:	

Publication of Responses

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

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parts of it to be published or referred to in this way you need to separate out those parts and mark them clearly ''Not for publication'.

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

Declaration

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with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.

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

Response template

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

If you do not want parts of or all of your response to be published you need to state clearly ('Not for Publication') over specific information included in your response, please be sure to clearly mark this by yellow highlighting it.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

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

Thank you in advance for your feedback.

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

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

We agree that the draft report captures the key needs of end users with regard to payment systems based on our experience. In particular the key end user needs articulated with regard to greater control of payments (for consumers to be able to choose when funds leave their accounts with more certainty), greater assurance of payments having been made (to allow consumers to track a payment and be sure it has been made) and enhanced data on payment transactions to improve end user interactions with government and businesses are all key end user need requirements. These principles become increasingly important due to the continued growth of electronic payments over traditional payment methods.

We believe that there could be further end user needs that could be articulated based on the needs of business users of payments (as opposed to consumers) over and above enhanced data which further discussions with business users of payments may highlight. In addition, there could be further end user needs which might also need investigation with different end users groups to ensure they are addressed. For example, there could be further end user needs related to account switching – given the poor rate of switching in the UK such as the ability to retain an account number and sort code – known as Account Number Portability (ANP), which could benefit both end users and businesses.

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

We agree with the financial capability principles that the needs of all end users should be considered, that services should be designed for the least capable users wherever possible and the impacts to end users are considered during the design of new payment solutions. It is important, however, that innovation in terms of new payment solutions is also encouraged and it should be recognised that some of these innovations may only be relevant to more sophisticated users of payment systems.

Question 2b: How should these principles be implemented?

The principles need to be implemented in a fashion where they do not prevent the rapid development of the new capabilities required by the UK payments industry and ultimately slow down the developments that seek to assist the most vulnerable customers. This could be achieved by a number of mechanisms, for example having representation from consumer groups or charities on the key design and development programmes related to payment systems or by the provision of voluntary guidelines which could be applied to an evaluation of a new initiative to confirm that it meets the required principles.

As discussed in our answer to the question above, it is important that the needs of all consumers are taken into account when designing new initiatives but that a balanced view is taken depending on the initiative being evaluated and the potential impact on customers of varying levels of financial sophistication.

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

Given the importance of these principles to UK consumers, PSPs and other stakeholders involved in the development of payment initiatives should be asked to commit to the core principles articulated. Once commitment have been obtained, it will be possible for the industry to self-regulate against the principles, consulting with end user representatives and others as required to help ensure the principles have been applied correctly.

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

Request to pay

The key benefit associated with request to pay relates to customers who require greater control of their income by having the ability to choose more precisely when scheduled payments are made from their bank accounts – as opposed to the current direct debit mechanism where the customers do not get a warning about a scheduled payment other than by reading the billing information associated their direct debits. These customers either currently risk the payments not being made (and therefore the consequential fees from their banks or service providers) or have to choose an alternative payment method such as debit card which allows greater control but typically incurs additional costs from the collecting service provider.

At Virgin Money we see an example of this with customers choosing to make their mortgage payments via debit card in order to control the payment date on a monthly basis to ensure that the payment is made in line with when they are paid by their employer. We accept the extra charges for this payment method rather than passing the cost onto the customer but many organisations provide a discount for paying by direct debit.

Assurance data

The key benefit for consumers in terms of providing confirmation of payee and tracking/assurance of payments will be in increasing confidence in electronic payment mechanisms, helping to reduce fraud (as customers can verify the recipient bank account belongs to the company/individual they expect) and therefore drive more vulnerable groups to make more use of electronic payment methods which are inherently more secure and often provide financial benefits (such as a discount on payment) as opposed to use the use of cash or cheques.

For banks and customers the current process for recovering misdirected payments is onerous and time consuming resulting in complaints and customers potentially being without access to funds for an extended period of time. Increased assurance data would help to prevent misdirected payments as customers would understand who their payee were – even if payments are still made in error the increased data available would make tracing misdirected payments quicker and simpler.

In terms of customer expectation, being able to track orders, deliveries, government services and other services is a key expectation by all types of consumers; we believe that this same ability to track should be applied to payments also.

Enhanced data

We believe that provision of enhanced payments data would provide benefits to our internal systems and processes as well as assisting customers with understanding their finances:

• It will allow payments to be reconciled more easily as enhanced information will provide more detail to provide reconciliation against

• It will allow us to display more information to customers relating to the payment, reducing the need for customers to contact their bank to query a transaction

• Additional data could be used by newer generation bank budgeting and financial management tools to help categorise spend and assist users with understanding their financial position

• As part of processes related to misdirected payments (or other payments made in error such as overpaying a mortgage or an ISA), the ability to add more narrative onto the payment should speed up the return of the funds to the customer and require less interaction with other banks to ensure the payments are returned successfully and with the right explanation attached

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

We agree with the risks presented on the potential for the delivery of the functionality not to fully benefit consumers as well as security and privacy risks which we know are a concern for consumers and need to be considered carefully in light of current and new legislation (such as the EU GDPR). In addition to those risks, we believe that there is a key risk associated with request to pay in terms of customer inaction and unintended consequences – as explained below:

Customers are used to the current direct debit process providing assurance that the bill for important services such as mortgages and utilities has been paid (subject to available finances). The introduction of request to pay could cause some customers inadvertently not to pay important bills, leading to non-payment and associated consequences. In addition, there are risks associated with all bill collectors making changes to their systems to support request to pay and the potential issues a customer could experience – for example being able to defer their mortgage/rent payment as their provider supports RTP but not being able to defer their gym or other subscription payment and therefore resulting in a customer not paying a higher priority bill

Therefore we would recommend further consultation on request to pay functionality with a cross section of existing merchants and bill collectors to understand how this functionality could be implemented and if it would be appropriate for it to be implemented in all circumstances. This could lead to a recommendation that the request to pay functionality is not made mandatory for all merchants and all PSPs.

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

Request to pay

This functionality is likely to have the highest impact in terms of cost due to the requirement for not just banks to invest but also every entity that collects direct debits from customers currently who will be required to make changes to their systems and processes in order to cater for the request to pay functionality.

Without further consultation with a cross section of the bill collecting community (as we have suggested in our response above) it is difficult to quantify this cost but we would expect it to be significant and therefore it may outweigh the benefits for consumers as these costs are likely to be passed onto all consumers in the long run and may only provide a benefit to a subset of consumers.

Assurance data

There could be a business case for investment in assurance data, based on the number of payments that are sent to the wrong account and the associated effort for all financial institutions to rectify this. There could also be benefits in terms of increased use of (cheaper) electronic payment methods for businesses and consumers if they can provide a higher level of certainty of delivery than is currently associated with cash payments.

In turn, there could be wider benefits in terms of reducing the “shadow economy” as electronic payments become more widely used.

Enhanced data

We believe there is a business case to be made for enhanced data which might be primarily driven by government departments and businesses who could make use of the enhanced data. Further evidence from both government departments and a cross section of businesses will be required to understand the value associated with this extra data to offset against the costs of change for industry.

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

As discussed in our response to Q4 – transitional capabilities, the use of the new APIs associated with payments could provide similar functionality to the request to pay and also payment assurance technology by making use of messaging that sits alongside the payment (rather than being embedded in the payment) to provide the additional functionality without having to reengineer payment systems in the short term.

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

We are aware of other issues relating to end user detriment, which may be considered by the Forum at a later date – including: Account Number Portability (as mention in the response to Q1, above), and also relating to Card-based payments. We recognise the Forum has focussed on deficiencies relating to retail based payments at this time.

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

The business case for transitional solutions (implementation of some of the recommendations suggested on the existing payments architecture) would depend on the cost and complexity of implementing those transitional solutions. Request to pay, for example, would likely be very costly given the changes required in bill collectors' systems and may not justify the effort associated with integrating it with the existing payment systems. As noted above, the full costs to industry and bill collectors will need to be understood in order to determine the value of a transitional solution in this space.

Consideration also needs to be given to the transitional solutions in light of the potential timelines and complexity associated with implementing a new payments architecture. If more detailed planning suggests that a new architecture takes an extended time to deliver then the business case for transitional capabilities increases and therefore there may be a case for implementation – especially in the case of extended data and assurance which are likely to have a lower cost to implement.

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

As noted in the report, APIs could be used as a mechanism to both request and make payments – for example a push notification from a utility's app could notify the customer that a payment is due and if the customer has linked their account to the supplier it could also confirm their current balance and allow the customer to initiate a bill payment from within the app. This would not require any change to the UK payment systems but would fulfil the request to pay functionality and provide a higher degree of certainty to the bill collector that the payment will be made

QUESTIONS IN RELATION TO SECTION 6 | IMPROVING TRUST IN PAYMENTS

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

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

We welcome a coordinated approach to education and awareness activities in the prevention and detection of fraud and financial crime, and would see FFAUK as a potential industry trade body capable of taking this forward. FFAUK already runs education and awareness initiatives alongside public sector bodies, and we would see the Forum's proposals as a natural extension of their activity. We welcome both public and private sector input to the direction and focus of awareness activities, most pertinently input from law enforcement areas at a regional level, where support and advice for victims of fraud can differ according the size and sophistication of the force.

Activities currently exist such as the FFAUK 'Take Five' campaign however it is recognised that a more joined-up approach would enable these campaigns to become more effective at educating customers. One industry trade body coordinating all activities would also increase public trust if this body were endorsed and promoted by all interested participants.

We would welcome education and awareness that target those areas of society most vulnerable to cyber crime and payment fraud. One area of suggested focus in addition to Appendix A3 would be to target those over retirement age. It is recommended that a variety of media be considered to reach as many areas of society as possible.

We would also expect a trade body responsible for education and awareness activity to co-ordinate their work across all sectors of fraud and financial crime including areas such as professional body fraud (protecting against mortgage fraud for example). This co-ordination would enable a joined-up approach and allow effective awareness of all risks to the public from one source.

We would also like to see education and awareness activity extended to areas such as charities and non-profit donation facilitators such as Virgin Money Giving. Charity giving is an area vulnerable to money laundering and on occasion deals with sending funds to high risk jurisdictions owing to the nature of work carried out by charitable organisations. Education and awareness of the risks associated would increase the awareness on the part of charities and donation sites of their AML responsibilities as well as common and emerging trends. As charitable organisations are often customers of PSPs and organisations such as Virgin Money Giving rely on PSPs education and awareness in these areas would provide added rigour in preventing money laundering by moving funds under the guise of ‘donations’.

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

We are supportive of the development of a common nomenclature across PSPs to ensure a common understanding and standard of identity verification (IDV). We would encourage participation of all PSPs in the development of common linguistic dictionary to cover the widest possible range of financial products and services.

Extending JMLSG guidelines into more practical advice and guidance for identity and verification would help ensure that collective minimum standards are applied when opening and operating accounts, as well as sending/receiving funds. Guidelines would need to be adaptable and interpretive, given the large variety of products available throughout the industry and the new upcoming Payment Accounts Directive 2016 (enabling basic bank account access in the UK to all EU residents). We suggest that work in this area be done alongside the upcoming General Data Protection Regulation due to come into force mid 2018 as this regulation includes updated IDV legislation on accounts for the provision of children and the trustees that act on these accounts and how data is communicated, collected and stored. Work undertaken in this area should cover electronic, paper and verbal IDV, and consider standards of documentation may vary considerably across EU countries.

We also encourage guidelines to take into consideration basic bank accounts and other socially excluded accounts which can often rely on non-standard ID and lack electronic verification. It is anticipated that accounts opened by EU residents will also lack electronic verification and rely on non-UK documentation.

In addition to the above, the provision of documentation support account opening (and ongoing screening) is often a source of embarrassment and confusion for customers which consistent, common guidelines should help to mitigate as the customer requirements for account application should be consistent.

Question 7a:	Do you agree with our solution to develop a central data repository for shared data and a data analytics capability? If not, please provide evidence to support your response?
Question 7b:	Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?
Question 7c:	If any legislative change is required to deliver this solution, would such change be proportionate to the expected benefits?

We agree with the proposal to develop a capability for analysis of payments transactions moving between PSPs, and believe it would enable more efficient identification of fraudulent and criminal payments activity, however we recognise that the Data Protection Act would need to be taken into consideration to protect customer data and to ensure that only regulated entities access this information. We would also like to see a framework to ensure that any analysis undertaken would only be for the prevention and detection of crime. Ensuring there was a framework established when receiving this analysis would also be imperative to ensure PSPs do not fall foul of money laundering, proceeds of crime or terrorist financing reporting obligations. It would be pertinent to refer to the General Data Protection Regulation which states that data protection impact assessments must be carried out and evidenced and must include a 'privacy by design' approach.

We would welcome a secure and controlled method of effectively and easily sharing more financial crime intelligence data between PSPs. Fast, effective communication between PSPs is crucial in preventing fraud and financial crime through the speed of freezing funds. In the world of Faster Payments this is especially challenging when attempting to seize proceeds of crime. We would expect that any method of sharing this intelligence be subject to stringent membership standards and that only approved persons in each PSP were enabled in sharing intelligence, given the sensitivity of information being exchanged. We would also expect that any PSPs exchanging data signed up to a reciprocal agreement meaning all PSPs receiving such data were also obligated to share their own fraud and financial crime intelligence, and that service level agreements were in place regarding the speed of the data sharing to ensure that intelligence is shared accurately and promptly.

We would expect new agreements to be in place for both analysis and financial crime intelligence sharing, and that firms submit to external audit to ensure the quality and standard of data be maintained at a high level to enable effective fraud and financial crime data sharing.

There are currently bodies such as the CIFAS and National Hunter that, whilst not public sector, are non-profit fraud and financial crime prevention and detection agencies with SAFO status (Specified Anti-Fraud Organisation). Both have strong links to law enforcement - CIFAS works alongside the Home Office to provide the approved Immigration Act 2014 list. A condition of membership for National Hunter includes membership of one of several trade associations including Payments UK. These agencies have strong links to many PSPs and currently enable effective application fraud vetting; they also already have established membership requirements and audit standards, as well as existing systems, data gateways and infrastructures in place for sending data which could potentially be adapted for PSP data sharing. We would encourage dialogue with both agencies in addition to public bodies for a centralised storage facility or analytics system.

It is anticipated that a similar membership structure to CIFAS and National Hunter would need to be adopted to ensure that data being shared was restricted to fraud and financial crime areas and strictly controlled to ensure the regulator was on board. Data Protection legislation would require that PSPs do not share data unless it is for the prevention or detection of crime. Therefore a common burden of proof/reporting standard would need to be agreed and developed across PSPs – again, such standards already exist in both CIFAS and National Hunter. It is also anticipated that a cost for the provision the system required to facilitate such activity would need to be absorbed and paid for by PSPs and would therefore need to be cost effective in order to justify investment.

We believes that PSPs would need to adapt T&Cs and application forms in order to comply with the sharing of such data, and to ensure that Fair Processing Notices and scripts also draw customer attention to payments data being shared with non-profit fraud and AML prevention agencies. It would also be prudent to engage with Law Enforcement Agencies (who can currently access CIFAS data via a portal) as there is potential to effectively share and detect/prevent fraudulent or suspect payments and allow police to see and access this data once a burden of proof has been satisfied.

We would also encourage any central data repository to enable the faster, more effective indemnification of funds across all PSPs and would encourage burdens of proof to be linked to indemnification requests.

Question 8a:	Do you agree with our solution for financial crime intelligence sharing? If not, please provide evidence to support your response?
Question 8b:	In what way does this solution improve financial inclusion? More generally, how should the intelligence sharing be used for the "public good"?
Question 8c:	Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?
Question 8d:	Do the benefits of financial crime intelligence sharing outweigh the new potential risks created?
Question 8e:	Can this operate without changes to legislation? If not, what changes to legislation would be required to make this happen? If any legislative change is required, would such change be proportionate to the expected benefits?
Question 8f:	What governance structure should be created to ensure secure and proper intelligence sharing?

Overall, we agree with the approach for financial crime intelligence sharing. We consider the establishment of a vulnerable customer indicator beneficial, however we note that documented classification of what constitutes a vulnerable customer would need to be adopted and agreed by PSPs to ensure consistency of this indicator being used. We recommend the FCA Occasional Paper No. 8 on Consumer Vulnerability be considered as this paper recommends that firms take greater responsibility in protecting vulnerable customers and ensuring they are not excluded from certain financial products and services. PSPs would need to consider their own internal infrastructures and how these would need to be adapted to absorb such an indicator when opening accounts and processing transactions. Firms would likely also need to ensure their own companies had well documented Vulnerable Customer policies, procedures and internal control environments (note that Appendix 4 Practitioners Pack in the FCA Paper contains guidelines for firms on this).

Adopting such an indicator would require enhanced human intervention as PSP level which would likely create more social inclusion for vulnerable customers. However, we suggest that Social Services and local Law Enforcement be included in the development of an indicator and that a public sector contact list for PSPs be created, enabling them to reach out to public sector where genuine concerns exist. An industry link to Social Services would be highly beneficial for PSPs when concerns exist over the validity of a transaction request.

We consider that there is considerable overlap in the proposal to adopt an intelligence sharing initiative to indicate fraudsters, as CIFAS already provides a similar facility to those PSPs who choose to be members – we note CIFAS is referenced in the proposal and would agree that industry seek to engage and look to utilise existing relationships and processes where possible. Costs should be considered if, given many PSPs already pay for similar confirmed fraud data via CIFAS and National Hunter. National Hunter also allows members to record both confirmed fraud and suspected fraud via the Experian system Hunter II and the Synectics system SIRA at application stage; National Hunter membership requires firms to subsequently manually record confirmed fraud on existing accounts, albeit that existing data fields may not fulfil the brief for the proposed solution. However, we would encourage this avenue to be explored as there may be a basis here to fulfil the Intelligence Sharing requirements set out.

We would also comment that restricting data to only ‘prosecuted fraudsters’ could potentially limit the volume of data, as many online frauds are difficult to prove in court and likely to incur significant cost to PSPs to prosecute if law enforcement does not pursue via criminal courts. Prosecution in itself is not conviction and therefore a ‘standard burden of proof’ and required reporting procedures such as Action Fraud or National Crime Agency Suspicious Activity Reports may be more prudent as justification of recording an individual as a ‘known fraudster’.

We would welcome any improvement on industry MI and reporting, specifically trends and typologies; we would particularly welcome this broken down into product specific sectors and geographical locations such as ‘hotspot’ areas of potential criminal activity. We would envisage this data to be at high level and PSPs agree to a standardised approach for the data capture and formatting so that reporting was consistent.

In addition, we suggest that the PSF consider industry responses to the Home Office "Consultation on Legislative Proposals" contained in the "Action Plan for Anti-money laundering (AML) and Counter-terrorist Finance (CTF)" paper that was published in April 2016. This sought feedback on the risks and benefits of information sharing.

Finally we would note that PSPs should be required to have their own burden of proof before declining any transactions based on another PSP’s flag, so that genuine customers do not suffer a ripple effect of declined accounts/transactions based on another PSP’s decision. For customers who are victim of account takeover/impersonation this would be important as they should not be unfairly penalised.

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

We do not currently offer a significant number of business accounts, however we would advise that a central KYC repository would require PSPs to evidence due diligence, enhanced due diligence and ongoing due diligence as per JMLSG guidelines. Currently JMLSG regulations state that if reliance is placed on a third party to perform checks, responsibility for failure to adhere to the regulations sits with the firm processing the transaction. Under a continuation of those regulations, Virgin Money would comment that PSPs should be strongly encouraged not to rely on the repository in place of their current anti-fraud and money laundering checks and not to see the 'matching' of KYC data as a sign that a payment is not suspect. Rather, we would see triggers such as discrepancies in the central repository as a potential prompt for enhanced due diligence. Virgin Money would also comment that a central repository would not necessarily allow PSPs receiving funds to see the ultimate beneficial owner (UBO) and its country of inception or of how complex the business structure was in comparison to its turnover and business nature – both examples of indicators that should be taken into consideration when processing payments and flagging up for additional due diligence on their customers. One PSP's risk appetite when conducting KYC on a business may differ considerably from another's - depending on their product range and size and their own internal automated and manual payment controls.

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

We would welcome improved, consistent data on sanction lists. This would provide a basic level of information by which to discount potential matches, and based on our experience would mean less customer intervention to evidence discounting and fewer pended transactions whilst additional investigation is completed.

We would also welcome improved and consistent data PEP matching. We would encourage PEPs to also be included -covering both domestic and non-domestic PEPs although we recognise that PEPs are not sanctioned entities, we suggest that payment screening should flag up if a customer is sending or receiving money from a designated PEP due to the perceived increased risk of bribery and corruption. It should be noted that PSPs treatment of PEPs may differ depending on PSPs' own internal policies and procedures, and also on the nature of the product and volume of funds.

We would welcome a standardised approach across both lists for payment filtering and client screening activities, which would in turn filter benefits into screening of relatives and close associates. We would expect that increased available data on sanction or PEP matches would facilitate better fraud and financial crime payment freezing and reporting to HMT, and in addition there would be potentially less risk of the 'tipping off' offence if PSPs were able to make fully formed decisions on payments without contacting customers to retrieve additional data from them in an attempt to discount potential matches.

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

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

We strongly support the proposal regarding access to sort codes. The ability to obtain a sort code should not be dependent on one of the existing large banks – especially if a new entrant is not intending on making use of any sponsor bank services.

For example, if a new entrant or existing indirect participant was planning on launching a proposition where they require direct access to payment systems they would currently be required to speak to a bank with an existing sort code range in order to request sort code(s) for their accounts. Although there are sponsor bank confidentiality guidelines, for a new entrant wishing to keep their development in the marketplace confidential ahead of launch there may be a reluctance to expose their plans to potential future competitors which would be avoided if sort codes could be obtained without needing to expose future plans to existing banks.

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

We support the proposal around access to settlement accounts. The current requirement to pay for sponsor bank services that applies to smaller PSPs could place them at a competitive disadvantage and as per the answer to question 11, the ability for a new entrant to be able to set up a full payments infrastructure without reference to incumbent banks is something that should be encouraged and could help create a more level playing field for new and innovative entrants.

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

We agree with the proposal regarding aggregator access models and would encourage aggregators to go further and provide access to all payment schemes rather than the current focus (for many) on faster payments which means a sponsor bank is still required for access into other schemes.

At present, a new entrant or existing institution looking to expand into direct scheme membership still faces a number of challenges. Primarily, these challenges relate to the lack of provision for aggregator access beyond Faster Payments (recognising that BACS is currently consulting on enhanced access using aggregator models). Lack of aggregator access outside of FPS leads to an increased complexity in the payments infrastructure required as the institution is required to maintain a direct FPS connection through an aggregator and additional, separate connections to sponsor banks to access BACS, CHAPS and C&C.

Additional complexity also results in additional cost in terms of infrastructure and personnel required to operate separate arrangements with a sponsor bank and the scheme directly.

Aggregators should also be encouraged to spend more time understanding the requirements of institutions and the services that they currently receive from sponsor banks. For example, some sponsor banks provide suites of tools to allow institutions to control and reconcile their payments – these tools are not provided directly by the scheme and currently aggregators are not providing these either. Depending on the banking solution being used, lack of these additional tools could be a deterrent to some institutions to become a direct participant.

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

Currently, aggregator providers will be required to work with each scheme individually to understand the technical requirements, required certifications and other elements that are mandatory to provide a service to institutions to access a particular scheme. To avoid the complexity resulting from the need for working with each scheme separately, the schemes could coordinate to develop a central point that potential aggregator providers could work with to assist with the development of the aggregator propositions with the aim of increasing the speed to market of the proposition as well as enhancing the number of schemes into which the aggregators can provide access. In addition, currently, each scheme has varied data messaging standards. A move to support common messaging standards, such as ISO20022 should also simplify access arrangements across schemes.

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

We agree with the proposal regarding common models and rules, and we encourage the PSF to go further and work to ensure an element of reusability in the on-boarding administration requirements to help reduce the burden on banks when having to join multiple schemes during the start-up phase. It would be especially helpful if the consolidation also resulted in scheme staff assigned as a "single point" to assist institutions with joining multiple schemes rather than the current situation where there is a requirement to work with on-boarding managers from each scheme and coordinate the required activities independently with each scheme.

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

We support the proposal to establish a single entity. The current multiple governance model requires significant effort to manage, especially for a smaller institution such as Virgin Money and therefore provides a disincentive to join more schemes as a direct participant due to the increased resource requirement to manage each of the schemes in terms of on-boarding and ongoing compliance and governance activities.

We believe that the major barrier to joining schemes as direct participants, however, remains the technical differences associated with each scheme; these technical differences drive the majority of the costs associated with joining and operating multiple payment schemes. We would prefer a strong focus to be on reducing these technical barriers in the first instance through harmonisation of technical differences, including messaging standards, interfaces, and gateways.

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

Not applicable

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

We agree that moving the UK to the ISO20022 message standard as a precursor to a new payments architecture would be beneficial. Benefits of moving to modern payments messaging standards apply especially to new entrants who would otherwise need to comply with a variety of different standards and therefore bear higher costs to join the payment schemes.

In making the move to ISO20022, consideration will need to be given to the needs of existing participants with translation mechanisms potentially being required to support an interim position while existing participants make the technical changes required to connect via the new technical standard.

We believe that there would need to be a requirement that this move be made mandatory in the long term as the full benefits to the industry would not be realised. Imposing a mandatory end-point would be in line with the approach that occurred in Europe as the move to SEPA took place.

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

We agree with the proposal to develop indirect access liability guidance. In the current model the view is that sponsor banks bear all of the legal liability for the payments and therefore have systems and processes in place to handle liability.

The current situation could result in potential sponsor banks not being willing to enter the market as they perceive a high level of risk associated with the existing liability model which does not balance the business case in terms of the income available from sponsorship.

When Virgin Money has previously evaluated sponsorship as an opportunity (both independently and in response to requests for sponsorship from new start-ups) the potential liability has been a factor in decisions not to move forward with offering sponsorship.

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

KYC of agency banks could still be an issue, unless regulators reduce the expectation on sponsor banks to bear a liability on payments made by their agency customers.

Unless the FCA and other regulators sign up to the guidelines and agree that regulated agency entities can be held liable (and not the sponsor bank) then sponsor banks will still be responsible for the risk and the industry situation will not change.

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

We currently have liability models from Visa and MasterCard with C&CCC developing a clear liability model as part of the future cheque clearing model development.

In terms of an industry entity to lead on liability models, we would suggest investigating whether FFA UK would facilitate the work between industry and regulators as they have experience of liability models and are generally seen as an independent entity within industry.

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

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

We agree with the coordinated approach for API development put forward by the Forum; avoidance of fragmentation in terms of the APIs being produced across industry will be key to the success of payments APIs.

There is a risk of fragmentation of API specifications due to the multiple bodies that have mandated API access to accounts in the UK (CMA read access, EU PSD2 read and write access, potentially PSF end user need requirements) and the potential for different specifications and requirements associated with each of these mandates. Furthermore, there have been different bodies proposed to assist with the development of the APIs such as the implementation entity for the CMA and it is not yet clear how these requirements will develop into PSD2 implementation requirements.

If fragmentation occurs then there will be increased costs for financial services companies (banks, PSPs, etc.) in terms of supporting multiple APIs and also for the potential consumers of the APIs as they will also need to support multiple implementations.

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

As discussed in the previous response, the avoidance of fragmentation would be the key advantage to taking a co-ordinated approach.

In order to comply with PSD2, develop APIs to support end user needs solutions and to meet the CMA requirements for more competition in banking there should only be one type of API framework.

Having competing frameworks would mean that users of those frameworks would need to implement their innovative solutions multiple times to create end to end user experiences – a potentially expensive, wasteful approach. Not having any coordination would mean users potentially having to develop multiple approaches to interface with different banks – which could kill competition and mean not meeting the underlying objectives of the CMA, PSR, Treasury and stymy Fintech business in the UK

A potential disadvantage of a co-ordinated approach could be to reduce the agility of the API production due to the requirement to agree decisions through a wider stakeholder group. We understand that the risk of reduced agility has been discussed as part of the CMA implementation entity consultation process and there is an awareness of the issue and potential mitigants – such as making use of representative bodies in order to reduce the number of participants "in the room".

Another potential disadvantage would be that if participation were heavily weighted to larger banks then the resulting APIs might be limited to work with the products and services offered only by those traditional banks and therefore the framework may miss functionality that is offered by newer institutions.

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

18c:

We agree with the approach suggested by the CMA in terms of allowing access to the least sensitive information via APIs first to allow a "test and learn" phase without financial institutions having to tackle some of the more complex issues around security and authentication in the first instance, moving on to more complex areas in further iterations. This iterative approach will allow some benefits to be felt whilst work continues to enable the more functionally rich APIs. We understand that an iterative approach to development has been used elsewhere in other open data initiatives.

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

We agree with the proposal to create a simplified delivery mechanism; the current multiple scheme model is inefficient and was built more by evolution than design which means that it does not support the needs of new FIs and future payment types. In addition, there is a risk that the proposed end user need enhancements (enhanced data, request to pay, payment assurance) could not be delivered on the existing scheme technical platforms without additional cost, complexity and market harm (as the incumbent banks who make up the vast majority of direct participant will have early access to these benefits). There could also be additional cost implications for smaller institutions in order to change their interface arrangements with their sponsor banks. A simplified payment platform would also have additional competition and innovation benefits as a more open platform will allow Fintechs and others to develop their own payment propositions and compete on the provision of infrastructure to PSPs.

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

Given the new consolidated entity should be set up in a way that represents the interests of all payments users (and potential users) we believe that giving this body responsibility for leading the development would likely lead to efficiencies as well as reducing the required engagement for users.

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

The existing schemes are geared around the particular payment service that they support – Faster Payments is closest to the new model but given the system will be redesigned from the group up and will therefore needs to have its own rules, compliance and engagement model a new scheme without any legacy or previous rules created by incumbent banks would likely be a better option.

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

We believe a distributed model would have a number of advantages – primarily around resilience of the payment system (which is an important issue given a number of high profile failures in recent years) and also around the potential more easily to enable competition, especially for provision of infrastructure for smaller PSPs. The proposed implementation approach of piloting the SPP would provide a good opportunity to test the different models and understand, in particular, how the choice of model could have a different effect on competition and ultimately affect the price to access payment systems for PSPs. It may be possible, as determined during the pilot, to have a hybrid approach where a number of core distributed infrastructure providers service a number of smaller PSPs.

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

The development of the new payments infrastructure needs to be considered in terms of a business case that will eventually reduce the costs for the participant institutions and therefore it would make sense for potential participants to invest in incremental funding. In particular, industry should invest in the proposed approach of commencing a pilot and the outcomes and benefits fully understood after the pilot – we believe it is entirely feasible to commence work on this pilot while current programmes continue.

The same is true of the future cheque clearing model which requires a large amount of spend and effort but will ultimately deliver a modern and more efficient (cheaper to run) scheme for the participant banks.

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

We agree that the current arrangement of payments systems in the UK are not fit to support the new world of start-up PSPs, Fintechs, digital payments and API access which will all continue to grow over the coming years.

Ensuring that all users of the payment systems can compete on an even footing without having to rely on incumbent banks or deal with complex and onerous technical standards and processes will help to improve competition and bring economic benefit in terms of new services.

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

The simplified payments platform provides a strong foundation to help deliver the benefits that have been outlined. In order to achieve all of the benefits, further work will be required through the pilot phase to ensure that the design and the required overlays support the needs of the new payment users and therefore providing the benefits outlined.

QUESTIONS IN RELATION TO SECTION 9 | OUR STRATEGY IN SEQUENCE

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

We agree with the proposed sequence of activities which should help deliver some of the immediate benefit while the longer term items are being progressed. Close monitoring of some of the interdependent industry and regulatory developments – i.e CMA APIs and PSD2 will be required to ensure that the sequence dovetails into the required dependencies being developed elsewhere in the industry. We agree with the detailed proposal to sequence the initiatives into short, medium and long term proposal with the initial short term focus being on aggregators & sort code access along with the governance frameworks. We would encourage the pilot on SPP, although included in the medium term box, to be considered as soon as possible in order to maintain momentum on this important development and provide an early view to industry as to the potential benefits associated with a SPP. We do not, however, agree with ANP being placed into a box to not be considered – as stated in our previous responses, we believe more work is needed to understand the user detriment associated with switching which could support more work being required on ANP

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

If ANP were bought forward we believe there could be significant developments in terms of customer switching and potentially reduced costs across business who take payments in reducing the intervention required to track down missing payments when users and companies change their payments providers. As proposed by the Horizon Scanning Working Group, the enablement of ANP does not need to be an onerous as the industry suggests – by making use of the permanent CASS switching which has been made available and asking institutions to optionally display the customer's "original" account number in their interactions with the customer we could provide a better switching service to customers without needing to change the whole payments architecture. We would expect the new UK payments architecture to support portability between institutions from the initial design and this should be a key consideration.

QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

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

We agree with the approach outlined in the report for implementation of some of the "near term" objectives such as the PSO governance making use of existing organisations who are working in this space to complete the delivery. We also agree that the proposed "implementation entity" which is initially focussed on the CMA recommendations form the basis of the ongoing API governance proposal and should also pick up the work required on defining PSD2 in order to provide a consistent definition of APIs going forward. We further agree that financial crime should be taken forward in parallel, making use of the appropriate industry bodies (and wider industry and stakeholders) as appropriate.

For the longer term aspects such as the SPP, a hybrid approach is likely to be required – making use of some existing bodies with experience in this space (such as Payments UK) but potentially looking to a new scheme or other body to complete the large scale delivery and implementation of the full solution. This could potentially be a new scheme company that has responsibility for development of the new simplified payments platform or one of the existing schemes (or the new combined scheme at that point in time if the scheme simplification recommendation is progressed). This hybrid approach would ensure a level of control to the central delivery but given that the infrastructure could be distributed and may not be similar to today's payments schemes model that PSOs have experience in managing we believe that significant care will need to be taken to ensure the original aims of SPP are maintained

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

There are a number of bodies who could oversee the implementation of the strategy, the PSR could perform this role or a new body could be established from the forum membership to oversee the continued implementation

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

In order to ensure delivery of the recommendations, there would need to be sufficient incentives for infrastructure providers to develop aggregator and other solutions for PSPs. Creating incentives will require an economic view of the costs associated with payment participation (including settlement costs, funding costs, bank infrastructure costs) in order to understand the margins associated with aggregator solutions as opposed to full sponsored access into payment schemes which is the alternative model for PSPs. The funding of the simplified payments platform will need consideration, especially given the proposed distributed nature of the infrastructure to ensure that sufficient investment is invested in the core of the scheme but where there is still a good competitive market for the provision of the distributed infrastructure to PSPs

QUESTIONS IN RELATION TO SECTION 11 | COST BENEFIT ANALYSIS APPROACH

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

We broadly agree with the approach for quantifying the potential costs and benefits of the proposed solutions. We would also suggest that as well as considering change costs for the counterfactual option to provide some of the capabilities requested in the report, any costs to upgrade the existing solutions to cope with increased volumes and participants should also be considered as these could be avoided by the implementation of new solutions.

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

In general we agree with the costs and benefits drivers outlined but we have contributed in more detail through our membership of the forum and working groups

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

As we are a participant in the working groups we will be providing the input on costs and benefits directly into the cost benefit work being undertaken by the working groups