

Summary note of webinar

PSR Consultation CP21/2 – Risks to delivery of the New Payments Architecture

10 March 2021

Location: The webinar took place via video/audio link

Attendees: There were 55 attendees from 37 organisations.

Organisations
AIB Group
Association of Independent Risk & Fraud Advisors (AIRFA)
Amazon
Bank of England
Barclays
Citi
DWP
Electronic Money Association
Emerging Payments Association
Finastra
Fire.com
FIS Global
Fiserv
Hanover Communications
Interbacs
KiKa
LINK
Lloyds Bank
Metro Bank
Nationwide
NatWest
Optima Consultancy
Ordo
KPMG
Payment Industry Insights
Payment Matters
PSR Panel
Royal Bank of Scotland / NatWest
RTGS Global
Santander
The Investing and Savings Alliance (TISA)
Trade Finance Global (TFG)
TSB
UK Finance
Visa

Vocalink (Mastercard)
Worldpay / FIS Global

Discussion:

1. The PSR New Payments Architecture (NPA) team introduced the webinar and its purpose - to engage and discuss with stakeholders questions 1 to 6 of the PSR's [CP21/2 consultation on delivery and regulation of the New Payments Architecture](#). These questions relate to risks to the delivery of the NPA and options for reducing these. The consultation paper and our engagement with stakeholders seeks to start a dialogue to find an effective way forward. The PSR noted that there would be an opportunity to contribute anonymously to the discussion via a poll using 'Slido', which would be introduced periodically throughout the session. The PSR made clear that these polls are intended only to supplement the webinar discussion and not replace or act as a proxy for formal responses to the consultation.
2. [The PSR presented a summary of the consultation paper](#) focusing on the options for de-risking NPA delivery and highlighted:
 - The NPA has the potential to deliver significant benefits to consumers and businesses
 - But the NPA programme currently has an unacceptably high level of risk
 - The PSR consider that phasing the procurement of NPA central infrastructure services (CIS) would help to lower risk
 - The PSR is also seeking views on the approach to securing the CIS contract
3. The subsequent discussion, based on pre-submitted and live questions, covered the following themes: (i) scope of the initial procurement, (ii) procurement approach, and (iii) other developments. A summary of the discussion follows.

Scope of the initial procurement

4. The PSR was asked for its views on other options for the scope of the initial procurement, which are not discussed in the consultation paper. For example, one option would be to include services to enable the migration of Faster Payments and Bacs Direct Credit transactions in the initial scope. The PSR provided the following observations on this question:
 - It is correct that there could be alternative options to the two that the PSR discusses in the consultation paper, one being the option raised in the above question. This option would leave the future strategy for Direct Debits open to a separate, lengthier consideration and could provide some of the benefits associated with the PSR's preferred approach as outlined in the consultation paper.
 - Additional time to tackle the strategy for Direct Debit would enable stakeholders to see if there are market led overlay services emerging which may move some Direct Debit volumes over time to the NPA. These might be Request to Pay type services, and other new propositions that leverage Open Banking and application programme interface (API) based services more generally. Open Banking services centring on Variable Recurring Payments is an interesting new development to consider further.
 - The key challenge with such an approach is agreeing the strategy for all credits in a timely manner. If this is met with delays, it would likely add further delays to being able to deliver the service improvements that the NPA intends to bring about for immediate payments.

5. One attendee queried how the system and contract would be varied later to change the scope and what risks this might introduce, if the initial contract does not cater for the migration of all credits. Another attendee queried, where such additional functionality is to be procured from the market, what standards would be necessary.
6. The question of whether to include file-based services within the scope of the initial procurement was discussed, and the PSR provided the following view:
- The PSR's consultation paper asks whether the initial procurement should include the provision of centralised file-based services aimed at replacing the current Faster Payments services of Direct Corporate Access and File Input Module, which currently only have limited usage. There are pros and cons, including that having some file-based common services in the initial procurement could provide a good foundation for the provision of subsequent centralised common services (deemed necessary for migrating Bacs volumes) to be added, and provide earlier clarity and a clear path for eventually decommissioning the current Faster Payment system. On the other hand, there is a risk of procuring file-based common services too soon, before a Bacs migration strategy has been fully thought through and secured industry buy-in.
 - The PSR is currently agnostic on this point, but inclusion of file-based services needs careful consideration and industry engagement to limit the risk of buying services or functionalities that later turn out not to be needed. Consideration also needs to be given to whether a centralised approach to supporting file-based services could have stifling effects on the development of potential downstream overlay competition.¹
 - The PSR is keen to hear stakeholders' views on these points.
7. An attendee questioned whether the option of splitting the procurement into phases, risks needing two different suppliers and processes, thereby adding complexity for users. The PSR answered as follows:
- The PSR observes there are developments taking place in the corporate banking space, where both established banks and new fin-techs are increasingly developing propositions which could in years to come shape the way many corporates make and submit payments. More corporates are also becoming used to using the ISO 20022 messaging standard given their international organisational reach.
 - There are risks with all options, including risks of acting prematurely on file-based and corporate services. Careful consideration needs to be given to developments to establish what the strategy should be.
 - Other attendees added the following:
 - Maybe the advantages of just one real time rail, onto which over time equivalent or better services than today's Bacs ones can be developed, need to be considered and analysed while getting on with the replacement of Faster Payments.
 - In a standalone procurement of a Faster Payments replacement, the future of the existing contract with the incumbent supplier for redirection services needs to be considered. Redirection services need to continue to be available and cannot be left behind.

¹ An instant poll amongst attendees of the webinar received 26 responses, of which approximately two thirds were in support of including file-based services in the scope of the initial procurement.

- The PSR said that it expects that any solution that is put in place, will need to support account switching – redirection services are essential. A view has not been set out by the PSR on whether redirection functionality should form part of the same overarching contract with a central infrastructure supplier for the NPA; there are different ways it could be provided for.

8. Another attendee commented that a revised scope and approach makes sense given the risks to delivery of the NPA. They highlighted the need to consider that change will impact different participant types (direct, indirect, directly connected non-settling) differently, as each participant type will have their own requirements. The way in which indirect participants connect to the core needs to be considered.

- The PSR said the focus to date and in the consultation paper has been on the payments functional scope, but agrees that connectivity and access is an important consideration. If potentially new propositions are to come to fruition, the ability to have ubiquity, or near ubiquity, in terms of reach for immediate processing is likely to be important.

9. The PSR was asked for a view on when the NPA will be available given delays to date. The attendee reflected discussions with the Reserve Bank of India, whose RTGS platform went live in December 2020. The impact of its introduction will be reduced financial friction, and its impact on the economy will be directly measurable. Recognising that the UK is in a pandemic, reducing financial friction would mean better cash flow for businesses and this should be a key objective for the PSR.

- The PSR confirmed that delivering benefits to end users is at the forefront of the PSR's mind. De-risking the NPA programme and simplifying the scope is one of the ways that the PSR thinks some of the benefits can be brought to end users sooner. This needs to be balanced with assurance over what is being procured and that Pay.UK is in a position to procure that effectively.
- The PSR said it has had dialogue with international counterparts in Canada, Australia and elsewhere and discussed their achievements and lessons learned. However, the PSR cannot provide more granular information on NPA delivery dates at this point.

10. Another attendee commented that a phased procurement seems sensible, but that the broader scope of the NPA needs to be known, even with a reduced initial scope of the procurement. What do the specifications look like today, and how active should the CIS provider be in the development process? What is the approach to market – will Pay.UK go to market with specifications fully developed or is there a degree of co-creation of the solution?

- The PSR noted that it was primarily a question for Pay.UK to answer and we would expect them to be able to justify the approach being taken.

Procurement approach

11. The PSR was asked by an attendee whether given the length of the procurement process to-date, it would be quicker, easier, and less disruptive to ask Vocalink to design and build the central infrastructure services. The PSR provided the following observations on this question:

- This is one of the options the PSR presents in its consultation paper. The PSR does not think it should be assumed bilateral negotiations would necessarily be easier, faster and less disruptive.

- The PSR wants to see the benefits of the NPA delivered as soon as possible while minimising risks. It should not be assumed that direct procurement is necessarily quicker, because:
 - In the event of direct bilateral negotiations, the PSR would likely need to carry out additional analysis and consultation
 - The competitive procurement of single push payment rails in some other jurisdictions has been completed fairly quickly (it was noted that this comparison is most valid if the scope of the initial procurement is narrowed).
- On ease and reduced disruption, the PSR understands there are some stakeholder concerns about risks and costs relating to migrating transactions to the NPA if a competitive procurement results in the selection of a provider other than the incumbent. The PSR believes these things need to be assessed in the round to understand if they would offset the benefits of a competitive procurement. It is also important to keep in mind that there are costs to move to a new infrastructure irrespective of the provider.

Other developments

12. The discussion covered implications for the NPA of developments in the industry since the Blueprint was published, such as Open Banking. An attendee queried whether, given changes in the industry, this is the time to examine different ways to deliver the benefits and different operating models.

- The PSR noted that the payment industry continues to evolve rapidly, and Open Banking is one important development relevant to the creation of the NPA. Other developments include the increasing use of APIs and cloud-based services. Such developments need to be taken into account in the design and delivery of the NPA, including in respect of considerations about what NPA services are bought centrally through the Pay.UK procurement.
- An attendee added it is not a single technology that is key, but the breadth and depth that the technologies offer to build new products and channels that suit a broader range of users.
- The PSR said that Open Banking is fuelling use of immediate payments by enabling users to initiate payments from their account via a third party, which strengthens the case to act quickly to deliver that aspect of an NPA. While Open Banking initially focused on consumers, there is increasing innovation in payment propositions for businesses that leverage the Open Banking model and APIs. There could potentially be further developments based on Variable Recurring Payments, which could have the potential to offer an alternative for some current use cases of Direct Debits and recurring card payments.²

13. One attendee asked whether, given the delays to the delivery of the NPA, and the ongoing development of the Bank of England RTGS2 platform, both of which have stated that they could support and “encourage” new payments systems connections, should an alternative system emerge imminently, supporting ISO 20022, before the NPA delivery, would that be welcomed by the PSR. The PSR provided the following observations:

² Some attendees (24) raised additional developments that are relevant to the NPA (via an instant slide poll) as per Annex A.

- The PSR said it welcomes competition and innovation in payment systems, including through development of new products and services that benefit the people and business who use them. Primarily it is a matter for Payment Service Providers (PSPs) to determine how they can best meet the needs of their customers. This includes decisions regarding which payment systems they wish to use in order to do that.
- While new payment systems may provide alternatives ways for PSPs to address user needs, the PSR has not been hearing from stakeholders that this means the NPA is no longer needed. Indeed, one of the themes emerging from engagement with stakeholders to date is that it's important to make progress quickly.

Closing

14. The PSR closed the webinar thanking attendees for their participation and asking for views and contributions to be made via responses to its consultation paper.

Annex A

Wordcloud poll

What are the main industry developments that could be relevant to the design and delivery of the NPA?

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slido