

## Speech

# Paul Smith at the International Cards and Payments Conference 2017

**Speech by Paul Smith, Head of Policy at the PSR, at the International Cards and Payments Conference 2017, hosted by Lafferty Group and Clearbank.**

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When the PSR was set up, access – direct and indirect – was a big area of concern for many people we spoke with. It took too long, it was too complicated, it cost too much, and there was not enough choice.



**Paul Smith**

While figures vary from firm to firm, we have seen a huge reduction – as much as 50% compared to two to three years ago – in the cost of getting direct access to Faster Payments. The time to onboard has also reduced hugely, with one bank achieving onboarding in seven months.

The Bank of England’s announcement of the opportunity for non-banks to get an RTGS settlement account further opens up opportunities for direct access to be a real option for more payment service companies.

While there is still much work to do, massive progress has been made and plans are in place to continue that progress.

We have seen real innovation in the development of access products, which can help unleash wider innovation in payments and retail banking.

## Innovation

The PSR is doing some exciting work around innovation with support from so many of the payments industry to allow those innovations to develop.

Payments are ubiquitous to so much of our lives. They are the means by which we can purchase the necessities of life, but also enjoy our leisure time – and so we will always need reliable and secure payments. One of the reasons the PSR was created was because there was believed to be an opportunity to maintain the reliability and security of payments, while increasing the pace of innovation.

The payments sector is characterised by what could be described as private innovation. This includes more payment options on mobile phones, making it easier for smaller merchants to accept a greater range of payments, more functionality at ATMs, etc.

A key issue identified when the PSR was set up was that innovation required more collaboration within the industry. Historically, this was seen as too slow, not inclusive, not user focused, and only delivering when the government stepped in.

## The Payments Strategy Forum – The Blueprint

When we set up the Forum, there were sceptics as to whether this approach would deliver. But as a regulator we understood that the industry, in its broadest sense, contained a huge amount of knowledge. Unlike what had happened previously, we recognised the vital importance of an inclusive approach. This was intended to help generate broader support for any proposals the Forum developed, but also to make sure that all of the relevant voices were involved in the discussions and the development.

We created a Forum that included a number of the largest banks, along with challenger banks, customer representatives, corporate users of payments, government and Fintechs. We knew that this could create challenges in terms of reaching agreement. However, we expected that the process of debate and challenge amongst the stakeholders would help to develop high quality outcomes. To help facilitate this process of debate, we appointed an independent Chair, Ruth Evans. Ruth has played a key role, particularly in facilitating the discussion between stakeholders and forging agreement.

We are now at a key and very exciting stage of the work of the Forum. The Forum published its strategy last year and, in July this year, a more detailed blueprint, which could transform the UK interbank payment systems. The blueprint aims to deliver new and better services to users of payments systems. These services focus on:

- Giving users more control – such as request to pay. As a user I have more control than with direct debit about the timing and amount of my payment. As a business I reduce the risk of payments not being made.
- Making use of extra message capacity through ISO20022 – such as enhanced data. As a business I can attach invoices to my payments and integrate payments into my accounting package.
- Helping to fight fraud – such as confirmation of payee. As a customer I can make a payment to a new payee with more confidence that I am paying the person I intend to.

The Forum has estimated benefits from between £11bn to £14bn over ten years from the introduction of these services.

These costs are what we know about, can anticipate, and what the Forum can quantify. What the Forum is proposing creates the potential for new services, including services nobody has yet thought of.

The Forum's blueprint sets out plans for a layered and much more agile system than the current Faster Payments, Bacs and cheque systems. This should allow new services to be introduced more quickly and more cheaply. With the concept of overlay services, it should also allow those services to be introduced within a competitive market.

I visited Australia earlier in the year to see how they are developing their faster payments system. It was exciting to see the ideas evolving in that market for new and innovative overlay services. With more players and a bigger market, the UK should have the capacity to do even more.

While we are very excited by these new services, and potential future new services that the blueprint could allow, we remain very focused on making sure the new platform continues to deliver reliable and robust payment systems. The new consolidated retail payment system, currently known as the NPSO, will need to manage the development of the new payments architecture (NPA) alongside running the existing systems, and managing a smooth transition.

The Bank of England has been closely involved in the work of the Forum, and will continue to have a key role in making sure the NPA is reliable and robust as it moves to implementation.

I am sure many of you will have contributed to the work of the Forum so far. Maybe you are a member. Perhaps you have contributed to the working groups. Or you could have been part of the large Payments Community. Others will have responded to the Forum's consultations. In whatever way you have contributed it has very much helped to shape the work of the Forum and given the PSR valuable insight into the support for, and challenges to, the ideas developed by the Forum. The Forum is on track to handover its final blueprint to the NPSO at the end of this year. While the work is in its final stages, your input and contribution remains really important. The Forum will continue to value your input as it considers the responses and decides on the final blueprint.

For the PSR a key issue in the final stages of the work of the Forum is implementation, and managing the risks associated with this. The NPA would be a sizeable procurement project for the NPSO. More generally, it is a large change programme for industry and we want it to be well managed and deliver effectively. This means a well-thought-through implementation and transition plan, and risk mitigation strategy is crucial.

Good progress is being made to establish the NPSO. Melanie Johnson was appointed as the Chair in August, and the process to recruit a CEO is progressing. These two appointments create the foundations for building on the work to date to establish the NPSO.

## PSD2 and Open Banking

One of the most exciting potential aspects of the NPA is how it can help realise some of the benefits of PSD2 and Open Banking. At the heart of both of these changes is unleashing innovation in retail banking and payments through supporting access for new businesses, and principally Fintechs. This comes through the provisions within PSD2 to allow approved AISPs and PISPs, with customer consent, to access bank account information to offer innovative services. It is further facilitated by the APIs created through the Open Banking work.

The PSR has participated as an observer to the Open Banking Implementation Entity. This is to help facilitate a joined up approach, particularly as the use of APIs is common to the Open Banking and NPA approaches. Even though one set of APIs is Business to Customer and the other is Business to Business.

While the potential for the NPA, PSD2 and Open Banking to combine to unleash some great innovation for customers is very exciting, it is also really important it works for consumers. We want consumers to have a good experience. We also want them to be confident their interests will be protected if something goes wrong. The continuing work on these issues is essential to a good outcome.

I doubt there has ever been such an exciting or potentially transformative time in the UK payments sector. Unprecedented technological change, customer willingness to try new options, and the government and regulatory desire to do things differently, are creating a perfect storm to transform UK payments. The Forum, through the NPA idea, is showing the potential to introduce game-changing innovation at the heart of the UK's interbank payment systems. Importantly, the innovation is focused on how to provide better services for consumers, while maintaining reliability and security.

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