
Response via on line pdf

22 September 2017

Bacs response to the PSF consultation: Blueprint for the future of UK Payments

1.1: Do you agree with our recommendation to move towards a ‘push’ payment mechanism for all payment types? If not, please explain why?

Bacs is fully supportive and committed to developing a payment system that meets the needs of all payments users in the UK in the future.

The current UK electronic payments system has developed over a period of years and has grown to meet the needs of consumers, whether they are individuals, organisations or corporates. Money transmission must be safe and secure and the integrity of the payments systems and process must be beyond reproach. This must be the focus of the development of the NPA.

Before considering the merits of changing the entire UK system to follow a single ‘push’ process we believe that the next step in the journey must be to complete a comprehensive user-needs analysis looking at the requirements of all stakeholders, seen through the lens of product requirements. This will help in developing the robust evidence base that is required for a decision on processing approach to be made.

The Direct Debit product is built around a pull payment process that has proved highly attractive to both consumers and collecting organisations. For consumers it offers peace of mind that important bills will be paid without worry or unnecessary effort on their part, underpinned by the ‘gold standard’ Direct Debit Guarantee that ensures they can get their money back in the event of error. For organisations it provides a high degree of cash flow certainty. With all the supporting processes now automated it also offers them the most cost effective cash collection mechanism, with most having fully automated processes built around the services Bacs has created to simplify management of the DD. With around 40,000 organisations using the product an efficient supply chain has built up with over 700 organisations providing software and processing services giving flexibility and choice in the way the product can be used.

Against that backdrop any proposal to migrate to a push payment mechanism must show how it can support products that offer simplicity and certainty to both consumers and organisations, and ensures that products can work for all so as not to exacerbate digital exclusion. That includes showing how the commercial arrangements, including liability model, can be supported. Migration planning would also need to recognise the pace of adoption for any new product. Typically consumer adoption of a new product type would be protracted and influenced by demographic trends, while organisational adoption

would be influenced by investment cycles for billing and payment processes. These typically can be extended since they are not considered primary business applications.

In 2016 and 2017 Bacs has completed a comprehensive market analysis and consultation with users of Direct Debit. Following our publication of our key findings on 25 May 2017, we have completed a further focussed call for evidence to consider the attractiveness of four enhancements to the current Direct Debit service. We have made all our analysis enquiries and conclusions available to the Strategy Forum and it is this detailed market analysis that we believe is essential for the NPSO to consider in the next phase of the work to develop the NPA.

Please use the following links to access Bacs Direct Debit Consultation summary and findings:

www.bacs.co.uk/DDConsultation

www.bacs.co.uk/DDConsultationAnnexes

1.2: In the proposed transition approach it is expected that Third Party Service Providers including current independent software providers, bureaux and gateway providers will update their systems to enable existing payment formats to continue to operate with limited or no negative impact on the current users of services such as Direct Debit. As a PSP or TPSP, do you agree we have identified the implications of adopting a push model adequately? If not, please set out any additional impacts that need to be considered.

The remedies proposed by the NPA may have the capability to address some unmet market needs. However, our research indicates that these unmet needs might exist in relatively small market segments which are not well served by the payment products already available in the market. This might therefore limit the attractiveness to third party payment processors.

This effect might lead to third party service providers, including independent software providers, bureaux and gateway providers, considering that there may not be a business case for developing and delivering new services into potentially limited markets. This could impact on their appetite to make the capital investment to offer new services.

We know that the market is dominated by well-established payment products, for example Direct Debit, and this dominance might make it difficult for PSPs to offer viable and competitive new services in the market place.

Conversely, current corporate users of Direct Debit may not be convinced that an alternative to their current use of Direct Debit and connectivity to the existing system would be improved by contracting via a third party provider for essentially the same service.

At present the level of market analysis does not provide complete answers to these challenges and we believe more robust market analysis and product design would be required before this question can be effectively assessed.

1.3: As a potential vendor, participant or user of the NPA, are there any other design considerations that should be included in the NPA, especially with regards to considering the needs of end-users? If yes, please provide a description of those areas and why they are important to explore.

We would expect that the NPSO, upon receipt of the Forum work and consultation responses would be required to continue the market analysis to understand in more detail what the market requirements are prior to constructing any proposals on additional or different design proposal for NPA. This would include a more detailed definition of what products that go to market will look like. This would need to include a comprehensive appreciation of current favoured payment processing and would assist in the decision making as to whether any future NPA requires both 'push' and 'pull' functionality.

Care will be required in defining the NPA and how it supports current services such as the Current Account Switch Service (CASS), particularly through the inevitable transition period. Whilst CASS might superficially be considered an overlay service some of its processes are embedded in the core payment processing engines used by Bacs and FPS. A detailed design study will be required to ensure it is effectively supported in the NPA.

1.4: The nature of the layering approach enables new components to be added or updated with minimal impact on components in the other layers. We believe this will support greater levels of competition and innovation especially in the upper layers of the NPA. In your view, as a vendor or service provider, will layering the NPA in this way simplify access and improve your ability to compete in the UK payments market? If not, please explain why.

Layering would theoretically create opportunity for competition between third party service providers. Yet, the present system provides a very vibrant market to thrive and consists of over 700 third party providers and bureaux. In creating any new market a potential competitor and current market participant would obviously need to properly assess whether their business proposition has a market and would be profitable. So, whilst a layered NPA may provide opportunity, there needs to be an understanding of the products and services that are wanted by the end user.

We agree that layering provides potential opportunities but without any analysis of the size and likely dynamics of the market whether it will generate competition needs to be proved.

1.5: With the recommended centralised clearing and settlement option, as a participant or vendor who is accessing or delivering the clearing and settlement service, do you think: a. We have reached the right conclusion in recommending this option? b. The right balance of managing risk versus competition has been achieved? If not, please explain why.

We believe it is very difficult to conclude the right solution is reached without rigorous testing and assessment first. Only this approach will ensure that the right balance of risk versus competition is achieved.

1.6: Do you agree with our analysis of each of the clearing and settlement deployment approaches? Which is your preferred deployment approach?

We will not have a view until the full preliminary analysis is completed.

1.7: As a vendor of services in any layer of the NPA, do you think that more work is required to prove

any of the main concepts of NPA before embarking on the procurement process? If so, please explain which areas and why.

Bacs view is that it will be the responsibility of the current Schemes, under Specific Direction from the PSR, and the NPSO to develop and define future procurement strategies. The PSR has laid clear Direction on all the affected Schemes to deliver procurement strategies that include use of ISO 20022 as the common messaging standard. To ensure the procurement of the NPA is optimum, the NPSO needs to take into account relevant user requirements. At present, there needs to be further clarification around products and market demand since these will define detailed requirements before an effective procurement strategy is developed. This should be the role of the NPSO.

2.1: As a payee, a. Does your organisation serve customers who experience challenges paying regular bills? b. Does your organisation experience unpaid direct debits? Please comment on the extent, to which you experience this and any trends you see in this area.

Currently around 2% of DD collections are returned unpaid of which around 20% are paid on representation. Bacs can provide further analysis of trends in unpaid experience, such as looking at a sectorial analysis. Working with FPS it should be possible to develop a more robust understanding of customer behaviour in respect of unpaid bills which would help understanding of the market opportunity for services such as RTP.

2.2: Request to Pay provides visibility to payees on the intentions of a payer. Would the increased visibility benefit your business? If so, how?

Bacs research suggests increasing net collections is a key goal of payee organisations. Request to Pay may have a role in supporting this, but it is how Request to Pay is packaged with payment fulfilment mechanisms and the associated costs of those mechanisms that will be critical in achieving its success. Bacs product development work suggests that some market segments might welcome pre-payment authorisation or a 'request to pay' function that might enable some payers to have greater control over their regular payments.

There are two separate markets for an optional 'request to pay' arrangement:

- Payers who already use Direct Debit to pay regular bills
- People who do not pay by Direct Debit, either from personal choice or market restrictions.

Our view is that the NPSO and the potential Request to Pay provider market will need to critically assess the economic case for the provision of the product to assess the business case for how it is delivered.

Request to Pay could be used with existing Direct Debit products to effectively extend the reach of those products. Bacs recently completed a call for evidence on a pre-authorisation product for Direct Debit and the results suggested that current users of Direct Debit:

- 33% felt that pre-authorisation of payments was a required enhancement to DD (47% felt it was not)
- 32% felt that it tackled an area of real need (44% felt it did not)
- 25% felt that pre-authorisation would make it more likely to use / offer Direct Debit (41% said it would not)

Full analysis of the Direct Debit call for evidence, including a comprehensive analysis of verbatim comments from responders will be provided to the PSF to assist in the summarising of the NPA blueprint consultation feedback.

2.3: Request to Pay will result in increased communication between the payee and the payer. As a payee: a. Would the increased communication present a challenge? If so, in what way? b. What benefits could you envisage from this increased communication? c. Do you see any additional potential benefits resulting from Request to Pay other than those described? If so, which ones?

We believe an increased communication between service providers and their customers offers the opportunity to improve net collections, but these benefits are dependent on effective integration, with business processes beyond payments.

We believe Request to Pay offers the potential for migration of payments to lower cost alternatives but that the market is relatively limited.

2.9: Does the Request to Pay service as described address: a. The detriments identified in our Strategy? b. The challenges experienced by your customers? Does it introduce any new challenges?

We believe Request to Pay can play a role in addressing the detriments identified in the strategy document by potentially allowing wider access to the most beneficial deals from payment service providers normally associated with the use of Direct Debits, however there is a risk it creates incremental payments and leads to migration from more cost effective payments to more expensive mechanisms leading to the unintended consequence of an increase in overall payment processing costs.

There may also be the unintended social impact that offering consumers a way to effectively delay payments may, in some cases increase payment arrears. Before Request to Pay can be fully understood more research into the behaviour of payers across the population needs to be understood. There is a wealth of academic research in the behaviours that could be utilised to ensure that social impact aspect of introducing more personal choice and decision making into payments is delivered.

2.15: We have presented two CoP response approaches (Approach 1 and Approach 2). a. As a payer, what would be your preferred approach? Why? b. As a PSP, what would be your preferred approach? Why? c. As a regulator, i. What applicable considerations must be made for each approach? ii. What safeguards must be put in place for each approach?

Bacs has significant experience with the process of CoP based on our experience with CASS. The initial steps in the account switching process involved confirming that account holder details match between old and new account. Matches are achieved in around 95% of cases suggesting that approach 1 could provide a relatively high level of assurance. Approach 2 would seem to have significant data protection challenges and could also expose accounts to other potential fraudulent activity.

2.19: We have highlighted several considerations relevant to the delivery of Assurance Data. As an end-user of Assurance Data: a. Are there any risks that we have not addressed or highlighted that you would like to add? b. Are there any unintended consequences that we should consider?

2.20: As a payer: a. How would you use Enhanced Data? b. What Enhanced Data would you add to payments?

2.21: As a payee: a. How would you use Enhanced Data? b. What Enhanced Data would you add to payments?

2.22: As a payee: a. How would you use Enhanced Data? b. What Enhanced Data would you add to payments?

2.23: Some changes will be required to enable the loading and retrieval of Enhanced Data. For example, corporates will need to modify their internal systems. As an end-user, what internal change will be needed to allow you to add and receive Enhanced Data through the NPA?

2.24: We have highlighted several considerations relevant to the delivery of Enhanced Data. As an end-user of Enhanced Data: a. Are there any risks that we have not addressed or highlighted that you would like to add? b. Are there any unintended consequences that we should consider?

2.25: We recognise that additional work needs to be done in identifying safeguards including liability considerations associated with Enhanced Data. As an end-user of Enhanced Data: a. What are some of the liability concerns that you may have? b. Would you be interested in working with the Forum to define, at a high-level, the various liability considerations required for Enhanced Data? If so, please contact us as soon as convenient through the Forum website so we can get you involved.

No Comment

3.1: Are there any additional principles you think we should add or significant amendments that should be made to those already stated?

No Comment

3.2: Are there any additional assumptions you think we should add or significant amendments that should be made to those already stated?

No Comment

3.3: Do you agree with the sequence of events laid out in the implementation plan? If not, what approach to sequencing would you suggest?

We feel it is too early to define the sequencing of implementation until a more detailed requirements gathering exercise is completed, specifically, consideration needs to be given to effective sharing and re-

use of existing components between the schemes. For example, the wider use of the existing Bacs Bulk Batch accessing and processing systems.

Indeed, the payments landscape is very fluid with other wider industry initiatives, for example PSD2, GDPR and others potentially leading to impacts on end users that in turn impact on the forward strategy that the industry will need to adopt.

We believe that it will be up to the NPSO to, on receipt of the Forum NPA work package to include a decision on implementation sequencing.

3.4: Do you agree with the high-level timetable laid out in the implementation plan? If not, what timing would you suggest?

The timing needs to reflect the considerations detailed in the answer to question 3.3. It will be up to the NPSO to, on receipt of the Forum NPA work package to include a decision on implementation sequencing.

3.5: Are there any significant potential risks that you think the implementation plan does not consider? If the answer is yes, then please provide input about what they are and how we can best address them.

The most significant concern is that insufficient consideration has been given to wider customer needs and demands, and the extent to which these are effectively met by the existing payment services. There is a need for consideration of wider product design beyond the process and infrastructure. This lack of evidence from the corporate and government users of payment services that is absent from the Forum evidence should be taken up by the NPSO once it takes responsibility for the NPA project.

3.6: Do you agree with our proposed transition approach? If not, please provide your reasoning.

As with the previous questions, we believe there needs to be further research into end user requirements and product design before this question can be properly answered. This is an area of NPSO responsibility.

4.1: Are there any material quantifiable benefits that have not been included? If so, please provide details.

Our concern around Request to Pay is that further consideration needs to be given to maximising the net collections as an effective measure of benefits.

4.2: Do you agree with the cost assumptions with regards to the NPA and each of the overlay services (Request to Pay, Enhanced Data, and Assurance Data)? If not, please state your reasons and, if possible, please suggest alternatives analysis.

The Cost Benefit Analysis (CBA) is based on assumptions that we have considered in the light of research we have conducted to better understand the end-to-end payments value chain, where costs arrive and how benefits are created, and our experience of managing Direct Debit and Bacs Direct Credit products. In our response we comment on some of the costings and present alternative evidence that may be helpful in reassessing some aspects of the CBA.

Failed DD figures driving the RTP business case:

The costs for representation of a DD appear significantly higher than our research has suggested, since first representation is typically an automated process. Also it is not clear what leads to the assumption that 18% unpaid DDs will be addressed by RTP. We would also suggest that other more significant benefits might be achieved through RTP by encouraging migration from relatively more expensive payment mechanisms, for both customer and service provider, creating a further benefit thread. Bacs can support more detailed analysis of the potential market size based on existing payments traffic.

Undocumented costs - Line item charges:

The CBA ignores a key issue that businesses have to pay per credit or debit on their business banking account. Currently, a typical cost would be 35p per line item. This leads to incorrect assumptions being used in the CBA and may lead to wrong conclusions.

For example: a business submits a file of 100 DD transactions, but because it's done in bulk, they receive only one credit onto their account for the total value of all these DDs, so the business is charged 35p to receive the money.

We believe that the proposed Request to Pay model would potentially drive up transaction costs through two effects:

- 1) It anticipates a move to push payments, where each credit onto the business' account would carry the 35p cost. Therefore, using the same example of 100 DD transactions, if everyone sends 1 push payment for their whole bill the file would cost the business £35 (35p x 100 = £35) as they would be processed as single payments not as one bulk file transaction. (35p x 1 = 35p)
- 2) Even if the business case is correct, as Request to Pay allows people will pay in increments, the overall cost of transmitting the total payment would increase. For example, using the same 100 payments as in the last example, assuming everyone pays the monthly bill in 4 weekly instalments, the business will receive 400 credits for the same payments. Therefore, the file cost could be up to £140, rather than the 35p it costs under the current bulk DD approach.

Rate calculations:

The CBA assumes that unpaid Direct Debits are a) unpaid because the payer doesn't have the money and b) that they would have the money at another near point so would pay by RTP. However the CBA does not take into account other reasons for failed DD's.

We know, for example, that around 10% of unpaid DDs 'fail' because the customer has cancelled the DD instruction, not because the customer doesn't have the funds, but because they wish to pay differently.

If a DD instruction is cancelled for these reasons, it requires a further debate to consider whether the customer may pay by Request to Pay.

In addition, we know, for example that 1% of the unpaid DDs are because the payer is dead.

There is also a serious social impact of RTP that requires proper and detailed consideration. It is likely to be true that current DD arrangements allow people to manage their regular payments successfully. Offering an opportunity to delay all or part of any payment might change people's behaviour and lead to fewer payments being made on time. This might be particularly relevant for people on restricted or limited earnings.

We note that payments that are successful by DD but would be unsuccessful if an RTP was sent is not included in the CBA. RTP legitimises non-payment by offering "decline" as an option, therefore we believe the potential for unpaid RTPs to be higher than DD needs to be seriously considered prior to any decision to make RTP universal.

RTP case study:

There are already working RTP options, offered by payment companies, which are seemingly identical to the one proposed, which are payment agnostic, multi-channel and the payer does not have to have an account with the PSP. However the PSP does not use its version of RTP to collect payments themselves, only using it as peer to peer. Funds collection in this model is via card, DD, or pre-funded wallet. It may be that existing solutions have already captured a significant proportion of the potential market.

Electronic Invoicing

The CBA calculates an invoicing fee based on the cost of producing and sending paper invoices yet consideration is only given to medium and large businesses who largely adopt alternative means of invoicing including a variety of cheaper electronic channels.

However, many companies have already migrated to e-invoices.

There may be other reasons why companies still use paper bills, for example, there is a campaign <http://keepmeposteduk.com/campaign> with influential backing (e.g. USwitch, Money Saving Expert) that says 5.2million households in the UK do not have internet access (*Office for National Statistics*) and 16 million consumers aged over fifteen do not have basic online skills (Go On UK).

Invoice Fraud Reduction

The CBA estimates that there will be a 100% reduction in invoice fraud as a result of Confirmation of Payee. We believe that this is an unreasonable assessment as simple Confirmation of Payee will never truly remove the risk that payments are sent to the wrong details through deliberate misconduct. The onus would lie with firms in cross-referencing the payee data with that which would be displayed through assurance data – this is unlikely ever to reach 100%.

The likelihood is that the confirmation of payee solution just moves fraud to a different area. At a basic level this could be just committing fraud involving people with roughly the same name as the fraudster.

The solution does have a role to play, however the assumption that there will be a 100% reduction and no negative impact is, we feel, incorrect.

4.3: Do you agree with our description of the alternative minimum upgrade? If not, please explain your reasoning.

We believe a more effective central facility could have been developed based on product development activities already in train with Bacs in cooperation with Faster Payments.

5.1: Does our competition framework adequately capture the types of competition that may exist in payments?

5.2: Do you agree with the NPA competition categories described? If not, please explain why.

No comment

5.3: Does our framework capture the dynamic roles the NPSO may play in the market?

We believe there are opportunities for the NPSO to play a significant leadership role in fostering competition within the industry by developing a range of product offerings. These, we believe will extend beyond the narrow landscape of the NPA processing model.

It will be for the NPSO Board and Executive to consider and act to deliver the scope of NPSO product and strategic activity.

5.4: Are there any other important criteria that we should use to assess the funding options we have identified?

No comment

5.5: Do you agree with our NPA competition assessment? If not, please explain why.

No Comment

5.6: Do you agree with our assessment of the End-User Needs Solutions? If not, please explain why.

The Forum has identified three specific end user needs. However these may not be universal needs and might only be attractive to specific portions of the whole end to end payments value chain and use requirements. Having said that, they are examples on how marginal detriments can be addressed by a consolidated payments service operator. We expect that on establishment, the NPSO would take a comprehensive approach to the wider market for payments and address this through its delivery strategy. The Forum end user needs will form a part of that.

5.7: Do you agree with our list of funding stakeholders? If not, please explain why.

No comment

5.8: Are there other significant sources of funding or types of funding instruments the NSPO could secure that have not been described? If not, please explain why.

No Comment

6.1: Do you agree with the outlined participant categories identified for the Payments Transaction Data Sharing and Data Analytics strategic solution? Are there other categories that should be considered for inclusion? Please explain your response.

No Comment

6.2: What is your opinion on the role non-payments industry participants should have as part of the Payments Transaction Data Sharing and Data Analytics strategic solution? (This could include Government, Law Enforcement, or others). If appropriate, please outline your views on the usage of the system, provision of data to the system, and legal considerations for participation.

No Comment

6.3: Do you agree with the potential use cases outlined for the Payments Transaction Data Sharing and Data Analytics strategic solution? If not, please provide your reasoning. Please indicate if there are other potential uses for the system that should be considered.

No Comment

6.4: Do you agree with key principles we have outlined for the implementation of the Payments Transaction Data Sharing and Data Analytics strategic solution?

No Comment

6.5: Other than those already listed, what stakeholders should be consulted and engaged during the design and implementation of the Payments Transaction Data Sharing and Data Analytics strategic solution?

No Comment

6.6: Do you agree with the high-level timeline for the Payments Transaction Data Sharing and Data Analytics strategic solution? If not, what timing would you suggest and why?

No Comment

6.7: Do you agree with the establishment of the recommended framework for the sharing and exchanging of a core set of SME customer data overseen by a governance body? If not, please explain your reasoning.

No Comment

6.10: To engender trust in the sharing and exchanging of a core set of SME customer data, are there other responsibilities you would expect the governance body to have oversight over?

Bacs suggests that the framework adopted by NPSO could take as its model the contractual framework used successfully for CASS.

Note – additional comment based on work with Project Bulldog to be added.

6.11: In your view, do any existing bodies (industry or other), already perform this oversight role? If not, is there an existing body you believe should perform this role, or would you expect a new body to be established?

No Comment

6.12: Do you think a temporary testing environment as described is the right approach? If not, please explain your reasoning.

No Comment-

6.13: Are there any other key features you would expect in the temporary testing environment?

No Comment

6.14: Do you agree that value-added service providers would benefit from the data sharing environment enabled by the framework?

No Comment

**6.16: Do you see other advantages or challenges for net data consumers that were not listed above?
Please explain your answer.**

No Comment