

Blueprint for the future of UK Payments – A Barclays response

1. About Barclays

- 1.1. Barclays is a transatlantic consumer, corporate and investment bank offering products and services across personal, corporate and investment banking, credit cards, and wealth management, with a strong presence in our two home markets of the UK and the US.

2. Summary

- 2.1. The Payment Strategy Forum's (the Forum) blueprint contains welcome proposals on how the UK can maintain its lead in payment innovation and Barclays support this. We would welcome new payment capabilities to meet the needs and desires of all our customers. We also think that a simplified payment system landscape, with simpler access requirements, will enable greater innovation and increased competition. However, more work is needed to evaluate the proposed new payments architecture (NPA), and to ensure a resilient design that meets the needs of all users.
- 2.2. New and existing capabilities could be delivered by evolving Faster Payments to support new services for end users, and "pull" payments. We think this could be achieved quickly, safely, and be components within the framework of the NPA, whilst also lowering cost. The evolved Faster Payments must be simple to access to support greater direct access and use international messaging standards.
- 2.3. Barclays recommend a period of re-evaluation once the blueprint is passed over to the new payment system operator (New PSO). In section five of this response we suggest areas of further work that the New PSO should undertake to take the blueprint forward.

3. The New Payments Architecture

- 3.1. The UK has one of the most feature rich and innovative payment system ecosystems in the world.¹ But, the world does not stand still and other countries have invested, or are investing in, more advanced payment systems.²
- 3.2. Barclays believe that it is good for UK individuals, companies and payment service providers (PSPs) to have easy access to a best in class payment system. It can provide a great payments experience and help maintain the UK's position as a magnet for FinTech innovators. So we applaud and support the work of the Forum on the blueprint.
- 3.3. Barclays support a vision for a UK payments ecosystem that provides flexibility and choice for customers; is easy for PSPs to access; is designed in a scalable, modular and futuristic way; is supportive of FinTech; and, provides maximum opportunity for competition and differentiation between PSPs.
- 3.4. But, there is more to be done to develop the blueprint into a workable approach that will meet the needs of all users of the payment system.³ That work must consider the evolution of the UK's world leading payment systems as opposed to their wholesale replacement.

The challenge of change

- 3.5. The Forum proposes the replacement of the payment systems of Bacs and Faster Payments (and in the fullness of time, Image Clearing System for Cheques) by the NPA. These payment systems

¹ Page 36, Lipis Advisors (December 2015), *Payment system ownership and access models: comparative analysis of 13 countries: Research report for PSR*, <<https://www.psr.org.uk/psr-publications/market-reviews/MR1522-lipis-report>> [accessed September 2017]

² Singapore has a "push" and "pull" immediate payment system. America and the Eurozone are introducing immediate payments in the next few years, and Australia is in the process of introducing a very advanced payment system.

³ See section five for more details on the activities that we recommend that the New PSO undertake.

account for over £6.5 trillion payments per year. This is forecasted to rise to £7 trillion when the NPA is due for implementation in 2021 and nearly £7.5 trillion when the Image Clearing Service will be supported (see appendix one for statistics on the payment systems in scope).⁴

- 3.6. These payment systems are critical to the UK economy and must be resilient, efficient, secure and reliable. They are responsible for paying peoples' wages; supporting one billion pension and benefits payments made by Government;⁵ and, they let people pay their households bills. They have to work. Wholesale replacement of them is a significant undertaking and any material issues or problems could have serious consequences for economic stability. For those reasons, Barclays do not consider the case for wholesale replacement has been made yet and we think that the proposed implementation timeline for the NPA is based on overly optimistic assumptions.
- 3.7. Barclays think that less risky options, such as an evolution of an existing payment system to offer the additional services proposed – an *alternative maximum upgrade*, should be given more consideration. As we stated in our response to the Forum's draft strategy in 2016: *more analysis will be required to better understand this vision [New Payments Platform] and other models should not be ruled out at this stage.*⁶
- 3.8. A next generation upgrade of Faster Payments, based on international messaging standards, that is simple to access for PSPs, and offers the new capabilities proposed by the Forum, as well as existing capabilities, is a credible alternative approach. Bacs is consulting in parallel on improvements to the Direct Debit proposition to better meet the needs of its users.⁷ The outcomes from this should be considered as part of the blueprint. For example, Bacs are considering notifications in advance of a Direct Debit collection, with the option to delay, prevent or authorise the collection.⁸

The alternative maximum upgrade

- 3.9. The UK's Faster Payments system is world leading. When introduced it was only one of nine real-time payment systems in the world. However, there are now eighteen countries with real-time payment systems. The USA and Eurozone, alongside eleven other countries, are also planning to introduce such systems.⁹ These new systems have been, or are being, built with new capabilities. For instance the system in Singapore – FAST – has been built using ISO 20022 messaging standards and allows "pull" payments as well as "push" payments.¹⁰ The payments systems being developed in Australia, Canada, Eurozone, and USA are being built with simplicity of access for PSPs as a priority. Considering this, it is Barclays' view that it could be possible to upgrade Faster Payments to meet and go beyond the Forum's vision.
- 3.10. Faster Payments has in the past few years dramatically expanded its number of direct participants. When the company was formed in 2011 there were only ten direct participants. There are now fifteen and more institutions are expected to join during the rest of 2017.¹¹ A non-Bank PSP already directly connects to Faster Payments, and a wider range of access options, such as technical aggregation, are now available to PSPs. Great strides have been made in making access to this payment system simpler and the upfront costs of direct access are getting lower and lower. The PSR reported that the cost of accessing a payment system in December 2015 was in the order of £2.5 to £4 million. In March 2017 they reported that this has reduced to between £1.5 and £2.5 million.¹² Barclays support this, and wants this progress to continue.
- 3.11. A maximum upgrade of Faster Payments at the appropriate renewal opportunity, and via a competitive procurement exercise, would enable the New PSO to develop new and innovative capabilities for PSPs to provide to their customers; adopt international messaging standards; and continue to simplify access. An upgraded real-time payment system that builds on what the UK

⁴Page 8, Payments UK (June 2017), *UK Payments Statistics 2017*

⁵Page 6, Payments UK (June 2017), *ibid*

⁶Page 3, Barclays (September 2016), *Barclays response: Payments Strategy Forum: Being responsive to user needs, a draft strategy for consultation*

⁷Bacs (July 2017), *Direct Debit call for input*, <<https://www.bacs.co.uk/Services/bacsschemes/directdebit/Pages/DirectDebitConsultation.aspx>>, [accessed September 2017]

⁸Page 16, Bacs (May 2017), *Direct Debit consultation outcomes*, <https://www.bacs.co.uk/documentlibrary/dd_consultation_outcomes.pdf>, [accessed September 2017]

⁹Page 7, SWIFT (April 2015), *The Global Adoption of Real-Time Retail Payments Systems (RT-RPS)*, <<https://www.swift.com/node/44536>>, [accessed September 2017]

¹⁰VocaLink (2015), *VocaLink: Exporting payments excellence*, <<https://www.vocalink.com/downloads-and-media/case-studies/exporting-payments-excellence/>>, [accessed September 2017]

¹¹Page 13, Payment Systems Regulator (March 2017), *Access and governance report on payment systems: update on progress and areas for ongoing focus*, <<https://www.psr.org.uk/sites/default/files/media/PDF/Access-and-governance-report-March-2017.pdf>>, [accessed September 2017]

¹²Page 21, Payment Systems Regulator (March 2017)

already has, learns from across the world, and enables greater competition through simpler access is the best option for the UK. We think it could be achieved quickly, safely and at a lower cost (which will lower participation costs) than the NPA. And we think the New PSO should consider this alternative option as part of a re-evaluation.

“Push” only versus “push” and “pull”

- 3.12. The Forum proposes a single “push” payment rail instead of dedicated “pull” payment capability sitting alongside the “push” payment capability. It suggests that new overlay services should provide existing “pull” payment services. It is technically possible to create “pull” style payments using a “push” rail and a messaging service – as our Pingit “request a payment” service demonstrates. But we do think that the Forum and New PSO need to re-evaluate whether this direction of travel for all “pull” payments is the right one.
- 3.13. Barclays is deeply concerned about the ability of a single “push” only rail to provide retail and corporate customers with the full range of payment options. The proposed “push” only approach adds too much complexity for too high a volume of payments and so may jeopardise resiliency – over 50% of payments in scope of the new payments architecture are “pull” payments (see appendix one).¹³
- 3.14. It may also negatively impact the experiences of end users by introducing additional “friction” into the payment process, particularly for those not digitally active, and eroding legal rights to refunds. For instance, the legal right to a refund in the Payment Services Regulations 2017 makes specific reference to a “Direct Debit” payment and the SEPA definition of a Direct Debit.¹⁴ Also Direct Debit payments are (provided there is no involvement of the payer’s PSP) out of scope of the revised Payment Services Directive’s (PSD2) draft requirements for two-factor authentication.¹⁵ It is not clear that a “pull” payment overlay service based on credit transfers (“push” payments) would attract the same consumer benefits.
- 3.15. Businesses and consumers support the existing Direct Debit proposition.¹⁶ It offers ease for business and consumers, unparalleled consumer protection, and is embedded into the economy. The blueprint does not put forward a persuasive case that Direct Debit should be an “overlay” service as opposed to being an integral part of the payment system.

Distributed or centralised

- 3.16. In relation to clearing and settlement the views of the Bank of England will be paramount. However, Barclays do not support a distributed or multi-vendor approach for settlement. We do not consider it to be practical and it has few obvious benefits for the UK market.

4. Collaborative requirements and rules for the end user needs solutions

- 4.1. Barclays believe that users of the payments system should get the best payment experience possible. The identified additional capabilities are logical and we support the introduction of such services by PSPs, some of which we are already providing via Pingit. And we want to provide those services on a ubiquitous basis. However, the case has not been made for a whole new payments architecture to be built to deliver these capabilities.
- 4.2. We would welcome greater reflection by the Forum and the New PSO on the potential trade-off between making these additional capabilities mandatory for participants, and so ubiquitous, and simplicity of access to the payment system for new and existing participants.
- 4.3. We also think that existing payment system features should not be degraded or removed. Payment systems must continue to provide the services used by the majority of payment system users. Or provide alternatives that offer the same or better features with minimal disruption.

¹³ Page 8, Payments UK (June 2017), *ibid*

¹⁴ Regulation 79 (3), *Payment Services Regulations 2017*, <<http://www.legislation.gov.uk/uksi/2017/752/regulation/79/made>>, [accessed September 2017]

¹⁵ Page 7, European Banking Authority (23 February 2017), *Final Report: Draft regulatory technical standards on strong customer authentication and secure communication under Article 98 of Directive 2015/2366 (PSD2)*, <<https://www.eba.europa.eu/documents/10180/1761863/Final+draft+RTS+on+SCA+and+CSC+under+PSD2+%28EBA-RTS-2017-02%29.pdf>>, [accessed September 2017]

¹⁶ Bacs (May 2017), *Direct Debit consultation outcomes*, <https://www.bacs.co.uk/documentlibrary/dd_consultation_outcomes.pdf>, [accessed September 2017]

Existing services and the needs of business and Government

- 4.4. Businesses and Government are responsible for the overwhelming value of payments made in the UK. Even after excluding high value payments made using CHAPS, consumers are only responsible for 21% of all payments in the UK by value.¹⁷ Bacs is almost exclusively used by Government and business to make or collect payments.¹⁸ This represents 76% of payments by volume and 73% by value of the systems in scope for the NPA (see appendix one). All these payments rely on bulk submission and many are submitted directly into the existing payment infrastructure by businesses and Government.¹⁹
- 4.5. The NPA does propose to include a bulk “push” payment service and does show how direct submission could work using third party services. However, Barclays is concerned that the Forum has not given sufficient thought to this method of submitting payments, or to the interests of organisations responsible for paying British people’s wages, supplier payments of all kinds, and Government benefits, including state pensions. Other services, such as the real time information provided to HMRC in relation to salary payments will also need to be considered.

Request to pay

- 4.6. Research commissioned by Barclays shows that consumers would favour the ability to have more control over their regular payments.²⁰ This is supported by Bacs research which found that consumers who only have a few direct debit commitments would value notifications in advance of a collection. And many of them would like the option to delay, prevent or authorise the collection.²¹ So there is clearly a demand amongst consumers for more control and transparency over their payments. And the industry’s collective inability to offer that control and transparency is impacting customers.
- 4.7. Barclays’ Pingit, and a few other payment applications, already offers a “request to pay” type function. However, despite the ability for non-Barclays customers to use Pingit, there are challenges in developing a simple and ubiquitous payment request method.
- 4.8. In addition to ubiquity, other challenges of “request to pay” include the need to minimise the risk of “impersonation” type fraud, to meet the needs of those that are not digitally active, and to make the service attractive to PSPs and collecting organisations. It is our view that the configurability of the request should rest with the collecting body. This way the collecting body will get to define the level of risk it wishes to take with their collections. We also consider that there will remain a role for Direct Debit style payments which make a collection without a consumer having to do anything once they have signed up. Research shows that heavy users of Direct Debit like the fact that once one is set-up they don’t have to think about the payment again.²²

Greater assurance and confirmation of payee

- 4.9. Barclays support the development of solutions to provide greater assurance to end users. The problem of payments going to the wrong recipient is a significant one for the industry. Once a payment has gone to the wrong place, regardless of how effective the existing recovery processes are, it is a problem for all involved – the payer, the intended payee, the unwitting recipient and their respective financial institutions are all impacted. So we support initiatives that will help to ensure that payments go to the right place first time. But, this is not an easy problem to solve.
- 4.10. The two approaches proposed by the Forum are welcome, but, they are not fully formed. We understand that option one depends on the payer typing the exact name of the account holder in the payee “box.” The names customers input into the payee name box can differ dramatically

¹⁷ Page 9, Payments UK (May 2017), *UK Payments Market: 2017*

¹⁸ Page 4, ISOCC (2016), *An introduction to the UK’s interbank payment systems*, <https://www.bacs.co.uk/documentlibrary/an_introduction_to_the_uk_interbank_payment_schemes.pdf>, [accessed September 2017]

¹⁹ Page 4, ISOCC (2016), *ibid*

²⁰ Page 19, Tooley Street Research (June 2015), *Towards world class: The consumer view of current accounts and payments*, <<http://www.tooleystreetresearch.co.uk/wp-content/uploads/2015/06/Towards-world-class-report-by-Tooley-Street-Research-for-Barclays-FINAL-web-version.pdf>> [accessed September 2017]

²¹ Page 23, IPSOS (May 2017), *Bacs Direct Debit consultation outcomes: Annex 1 – Quantitative research*, <<https://www.bacs.co.uk/DDConsultationAnnexes>>, [accessed September 2017]

²² Page 18, IPSOS (May 2017), *ibid*

from the exact name of the account holder – for instance, Bob versus Robert or a maiden name versus a married name. So we do not think that this approach will be effective.

- 4.11. The second approach, where once a payer enters a sort code and account number into a PSP's online payment channel associated account information is played back to them, has, on the face of it, a greater chance of success. But it raises significant issues in relation to data protection and the risk of fraud. Depending on the account information played back to payers, for example account holder's name, bad actors could find out details about customers, that they could combine with other available information, which may allow them to perpetrate financial crime.
- 4.12. Barclays consider that further work will have to be done to work out how a viable confirmation of payee service can be delivered without breaching legal requirements or exposing customers to an accelerated risk of fraud. We remain of the view that the widespread and smart adoption of proxies could offer a better way of helping people to pay the right account first time around. Pingit has shown how proxies, whether mobile number or social media profile, are customer friendly, safer and feasible.
- 4.13. For the other proposals for greater assurance, we consider the provision of real-time balance information (including pending transactions) and information regarding regular payments as a point of difference between us and our competitors. We already do it. And we agree with the Forum that there is little need for collaborative work in this area. All PSPs could show a real-time balance, including pending transactions, if they chose to do so.
- 4.14. Barclays do not see the necessity of a payment status service for UK sterling payments. In a near real time payment system most payments arrive instantaneously. So it is not clear what additional value this service would offer to users. Those that do not arrive instantly may have been delayed for fraud checking or other financial crime prevention purposes. Providing users with the ability to track payments that have been delayed for such reasons may "tip off" the payer of concerns.

Enhanced data

- 4.15. Barclays support the delivery of an enhanced data capability. The capacity to associate more information to a payment is likely to assist the reconciliation of invoices. It can also make payments more personal. However, it will have a cost of implementation for businesses and PSPs.
- 4.16. To deliver this feature we do not favour significantly expanding the payload of payment messages. Instead, we favour agreeing standards that allow for the association of data with a payment and any associated security and privacy standard for such data. The recipient of the payment can then subsequently access a data store where the additional information is stored. It would not be necessary to build an industry specific data store. Such services should be delivered in a way that enables PSPs to compete about how they deliver them. It should be a point of differentiation.

5. The need to re-evaluate

- 5.1. Barclays support many of the proposals in the blueprint. We are supportive of the payment capabilities proposed. Where possible we have offered similar services to our customers already and would welcome the ability to extend and develop those services. We think that a simpler payment system landscape should further enhance innovation and competition by making PSP access to UK payments easier. Delivery of the blueprint's capabilities will have benefits to the UK.
- 5.2. However, we are unconvinced by the benefits case in the consultation paper or whether the interests of all users have been taken into account. The benefits case for the NPA is based on the implementation of a single "push" payment rail at the beginning of 2021, with a defined and reasonably short period of parallel running before the existing schemes are phased out. We think this is based on many overly optimistic assumptions, and so we would expect any costs of implementing the NPA to be significantly higher than those stated by the Forum. Furthermore, the costs as stated exclude some aspects, such as user implementation costs, which must be factored into the evaluation.

- 5.3. We recommend a period of re-evaluation once the blueprint is passed over to the New PSO. The re-evaluation should:
- Consider the possibility of alternative solutions offering a quicker and more effective route to the Forum’s blueprint , including an upgrade of Faster Payments and the opportunities presented by open banking
 - Confirm that the blueprint meets the needs of businesses and Government; and understand the impact of the changes on them, this should include any costs related to a change to ISO 20022
 - Conduct research into the impact, specifically legal and resiliency, of a move to a “push” payment only model
 - Produce more detail on the proposed funding and implementation model, which must reflect the sheer scale and volume of other major regulatory or legal changes facing the industry (PSD2, Brexit, etc.) and the complexity of the blueprint
 - Conduct a legal assessment of the end user needs proposals with a specific focus on data privacy, user experience and financial crime risk
 - Review PSP experiences of implementing structural reform (which includes setting up independent access to the payments systems for each legal entity), and those of the PSPs that have recently joined payment systems for the first time, to better understand the changes required and likely costs.
 - Ensure that resiliency and cyber security requirements are reflected in the blueprint – resiliency is particularly important as the proposal implies the creation of only one retail payment system where previously there were three
 - Assess the blueprint against the wider payment ecosystem – including card payments; as the blueprint develops it will be important to consider all payment options open to users of the UK payment systems.
- 5.4. The re-evaluation of the NPA must be based on a realistic implementation timetable and factor in realistic periods for migration as legacy systems within businesses, the Government and PSPs are upgraded. Open Banking has the potential to change the way payments are made and transaction data is shared and used in the UK. So the assessment must reflect the market as it will be and the future capabilities that will exist.

6. Improving trust in payments

Payments Transaction Data Sharing – strategic solution

- 6.1. Barclays generally agree with the outlined participant categories and agree that non-payments industry participants have a role to play, but we do have legal and data privacy concerns about allowing direct access to payment data outside of PSPs or involved payment industry participants e.g. law enforcement agencies. As a starting point, the sharing of payments transaction data should be subject to existing legal gateways. The status for sharing information with commercial organisations more broadly, such as 192.com, needs further clarification. Moreover, while we agree that other participant groups may emerge over time, we believe the strategic solution should focus on set participant categories to set achievable day one outcomes.
- 6.2. Barclays believe that the system should be used to identify typologies and intercept threats. To this purpose, we believe the strategic solution for day one should only include domestic electronic payment data. However, if this proves successful further enhancement may be possible. But, there remain considerable legal and technical challenges from including customer data sources such as Suspicious Activity Reports, KYC or ID&V data.

- 6.3. In terms of potential use cases, we have concerns about the use of payments transaction data to identify cases of benefits fraud. This requires further exploration and consultation.
- 6.4. The high-level timeline contemplates system design completed in 2018 and implementation in 2019. This timescale seems insufficient for institutions to conduct the full cost benefit analysis required to support the development of any strategic solution. Moreover, as discussed in response to other questions, there remain outstanding legal and regulatory questions before design can begin. To that extent, mid-2020 does not seem feasible. Other key stakeholders to be consulted during the design and implementation should include FCA, Home Office, potential suppliers and consumer organisations.
- 6.5. The EU General Data Protection Regulation (GDPR) comes into force in May 2018. UK Parliament is also debating a Data Protection Bill to implement the GDPR into UK law; thus it is anticipated that the GDPR will apply in full force in the UK. There is a requirement for the UK to clarify the legal basis for continued information sharing to prevent and detect financial crime – Article 10. Currently the draft permits sharing to comply with a legal obligation 6(1)(c), where it is necessary to protect vital interests of another person 6(1)(d), or processing is necessary for the public interest or in the exercise of official authority vested in the controller. References to the sharing of “criminal offence” data, within the draft fail to capture the current scope of information sharing, this needs to be addressed, given that the current Data Protection Act, in particular Section 29 will be repealed.

Trusted KYC Data Sharing

- 6.6. In principle Barclays support the creation of a framework to share and exchange a core set of customer data. However, as discussed above, we have concerns about how the core set of data will be defined. We do see benefits, if a definitive list of core data can be agreed within the industry, as PSPs currently collect slightly different data as part of their KYC processes. However, the current proposal requires further work to agree to appropriate core data.
- 6.7. The Forum recommends that SMEs should be the initial focus of the framework. Barclays do not consider that trusted KYC data sharing will significantly improve the experience of the simplest SMEs. We think the greatest opportunity to improve the customer journey is to focus on complex businesses, irrespective of their size. For instance, the process for businesses with cross border activities, sophisticated ownership structures or where a lot of the required information is not publicly available is inherently more onerous than those without such characteristics.
- 6.8. One outstanding question remains as to where regulatory liability will lie for verification of the core data. If PSPs are unable to rely on the data that is shared from other participants, then the framework will be of limited benefit, as each end user would still need to apply their own KYC/ due diligence.
- 6.9. Barclays do not believe that any existing bodies already perform this role and expect that a new body with the necessary expertise would need to be established.
- 6.10. In principle we agree that a temporary testing environment is the right approach, but we are unable to assess fully until the framework and environment are agreed in more detail. Similarly, more detail is required to full assess whether value-added service providers or net data providers would benefit. We do not believe that the high-level implementation timeline is feasible given outstanding questions as to scope of core customer data and legal and regulatory implications.

7. Contact details

- 7.1. Barclays welcome the opportunity to discuss these matters in more detail with the forum, the new payment system operator and other stakeholders. If you would like to discuss Barclays’ response please contact Hilary Plattern (0207 116 2428) or James Meyrick (0207 116 1096)

Appendix one: payment volumes and values (2016, 2021 and 2024)

The strategy forum proposes the replacement of the payment systems of Bacs and Faster Payments by the NPA (new payments architecture). And, in the fullness of time, the new cheque imaging service will be supported by the new payments architecture. Below is a table containing the current volumes and values of those payment systems and Payments UK forecasts for 2021 (the year the new payments architecture will be implemented) and 2024 (the year that the new payments architecture will support the new image clearing system).

Table 1: Payment volumes and values for NPA in scope payment system (2016, 2021 and 2024) –Source: Payments UK²³

	2016 (actual)				2021 (forecast)				2024 (forecast)			
	Volumes (millions)	Volumes (%)	Values (£ billions)	Values (%)	Volumes (millions)	Volumes (%)	Values (£ billions)	Values (%)	Volumes (millions)	Volumes (%)	Values (£ billions)	Values (%)
Faster payments (one off payments)	1,069	13%	£1,075	16%	1,453	17%	£1,668	24%	1,727	20%	£2,154	29%
Faster payments (standing order)	357	4%	£114	2%	375	4%	£148	2%	382	4%	£173	2%
Bacs (direct credit)	2,147	26%	£3,514	54%	2,145	25%	£3,605	51%	2,159	24%	£3,523	47%
Bacs (direct debit)	4,072	50%	£1,262	19%	4,305	50%	£1,401	20%	4,377	50%	£1,482	20%
Cheque	471	6%	£551	8%	253	3%	£228	3%	187	2%	£139	2%
Total for NPA	8,116		£6,516		8,531		£7,050		8,832		£7,471	

²³ Page 8, Payments UK (June 2017), UK Payments Statistics