

## BRC response to Forum consultation: Blueprint for the Future of UK Payments

*September 2017*

### Introduction

The British Retail Consortium (BRC) is the trade association for the entire retail industry, the UK's largest employer, with a membership accounting for 70% of all UK retail by turnover. Our diverse industry spans large multiples, independents, high street and out of town retailers, from online to bricks and mortar, selling goods across all sectors from clothing, footwear, food and homeware to electricals, health & beauty, jewellery and everything in between, to increasingly discerning consumers.

All BRC members have an interest in the payment system as end users, in fact retailers are one of the most significant end user groups, processing c. 350m transactions per week and more than £350 billion every year for products & services sold in store, online & over the phone. A priority for the BRC has therefore been to ensure an innovative, transparent and competitive payments market for all retail end users and their customers.

The retail community continues to be disappointed that the Payments Strategy and its solutions set out in the Blueprint are focused entirely on the interbank schemes. The BRC's annual Payments Survey shows that card payments account for half of payments processed by UK retailers each year, but that card fees and charges account for three quarters of the total cost of accepting payments.

The BRC nevertheless welcomes the Payment Strategy Forum's Blueprint for the Future of UK Payments and supports the Forum's vision for creating a new architecture that aims to enhance competition in payments. In particular, the development of a retail payment instrument under the New Payments Architecture (NPA) through which customers can elect to pay retailers as an alternative to existing, traditional payment methods would be widely supported by the retail industry.

New infrastructure funding will be required for the New Payments Architecture (NPA) and there is a concern among retailers that the NPSO will be able to determine the level of future investment which will be recovered through the fees it charges. The BRC would therefore wish to see the fees charged to end users (for what are today BACS and Faster Payments services) either regulated or capped to ensure that end users do not see significant cost increases.

Of particular interest for retailers is the intention to move all payments towards a 'push-only' model and the requirements set out for the 'Request to Pay'.

Many retailers accept Direct Debit payments from customers as a key part of their business operations. The move to a push-only payment model could therefore be highly disruptive. A significant cause for concern, should it arise, would be an increase in the levels of non-



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payment or late payments that could impact both business cash flow and the resources required to pursue payments.

For some retailers that extend credit to their customers, the predictability and control of the current Direct Debit arrangements provides them with a degree of confidence over receiving payment from these customers, especially those who have no or limited trade / payment history. There is concern among these retailers that their ability to continue to extend Trade Credit to customers will be compromised by a less predictable arrangement that shifts control away from the retailer.

For paying suppliers, many retailers already push payments via BACS, CHAPS and Faster Payments rather than using direct debit pull payments, therefore the transition is not expected to be as disruptive. However, retailers are more likely to pay for financial services such as insurance and loan repayments via direct debits.

For customers, there are questions around whether a push-only payments model will help or hinder a customer's ability to pay bills. A push-only payments model is likely to increase an individual's visibility and oversight of cash-flow, but the Forum should be mindful of circumstances where it is difficult for individuals to initiate or approve payments for example. The Forum might also want to consider whether a push-only payments model will place greater burdens on some groups of customers to administer their finances.

A further consequence of the additional burden placed on customers through the move to a push-only payments model is that vulnerable or less digitally literate customers could become a target for fraudsters, especially under the transitional period when many of the new payment arrangements will be unfamiliar.

The Request to Pay end-user solution has been designed to provide payers with increased flexibility and control over the payments they make, how much they pay, when they pay, and how they pay. This service may therefore be valued most by customers on low and/or variable incomes.

For payees, Request to Pay might be valued for facilitating improved financial management among customers that may have otherwise missed payments. On the other hand, it could disrupt cash flow and predictability of incoming payments and so it is possible that some businesses may want to price their services differently where this payment solution is available to account for additional risk and uncertainty.

The 'Enhanced Data' end-user solution which is intended provide for more structured data to be provided alongside a payment is likely to require some changes for many retailers but should bring significant benefits for businesses in handling both incoming and outgoing payments.

Finally, some retailers have been seeking the development of a "confirmation of payee" to be displayed before issuing a Faster Payment, and a method to recover if the payment has been made in error to the wrong payee. The 'Assurance Data' end-user solution is therefore a welcome development.

**Question 1.1: Do you agree with our recommendation to move towards a 'push' payment mechanism for all payment types?**



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**Question 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 no or limited 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?**

The proposed transition approach appears to ensure that businesses and consumers currently using Direct Debit system will be able to operate as before going into the transition period. The disruption that switching to a push-only model will cause is therefore merely deferred.

The implications of widespread non-payment or lack of responses from payees should be considered, whilst the related costs to business of pursuing late payments also requires due consideration.

**Question 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?**



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New infrastructure funding will be required for the New Payments Architecture (NPA) and there is a concern among retailers that the NPSO will be able to determine the level of future investment which will be recovered through the fees it charges. The BRC would therefore wish to see the fees charged to end users (for what are today BACS and Faster Payments services) either regulated or capped to ensure that end users do not see significant cost increases.

Retailers would like to see a capability for the settlement of transactions 7 days a week. The exclusion of this requirement in the Strategy was viewed by our members as a lost opportunity for the PSF.

**Question 1.4: The nature of the layering approach enables new components to be added or updated with minimal impact on components in 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?**

Yes, the layering approach is one of the key strengths of the NPA and the BRC welcome that it has been designed with the revised Payment Services Directive (PSD2) in mind, particularly as we see the significant potential for PSD2 to enhance competition in the payments market, generate opportunities for new and innovative players to enter the payments market, as well as for retailers themselves to assume a more direct role in payment services.

**Question 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?**

No comment.

**Question 1.6: Do you agree with our analysis of each of the clearing and settlement deployment approaches?**

No comment.

**Question 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?**

No comment.

**Question 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?**



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**Please comment on the extent to which you experience this and any trends you see in this area.**

The BRC accommodate a range of members, a number of which have a regular billing arrangements with customers through Direct Debits. Within this group of retailers, there is experience of unpaid Direct Debits and some serve at customers who experience challenges paying regular bills. The picture varies from one retailer to another.

**Question 2.2: Request to Pay provides visibility to payees on the intentions of a payer. Would the increased visibility benefit your business?**

The push-only payments model may help or hinder a customer's ability to pay bills. A push-only payments model is likely to increase an individual's visibility and oversight of cash-flow, but the Forum should be mindful of circumstances where it is difficult for individuals to initiate or approve payments for example. The Forum might also want to consider whether a push-only payments model will place greater burdens on some groups of customers to administer their finances.

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**Question 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?**
- 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?**

See response to 2.2

**Question 2.4: We have recommended the minimum information that should be contained in a Request to Pay message. As a payee:**

- a. With the exception of reference ID, are you able to provide other items of information with every payment request?**
- b. Is there additional information, specific to your business, that you would have to provide to payers as part of the Request to Pay message?**

No comment.



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**Question 2.5: We envisage payees stipulating a payment period during which the payer will be required to make the payment. As a payee, how do you think this payment period might be applied within your organisation?**

Some retailers operate a “Click, Pay & Collect” service whereby customers purchase products and payment is taken immediately. The onus is then on the customer to collect the goods from the store within a specified time period. Retailers that operate such models have made a conscious decision not to offer a “Click & Reserve” service, whereby payment is taken after collection, as this can lead to stock being tied-up waiting for collection by customers that may change their mind about the purchase. Whilst there is of course no obligation for retailers to move towards a “Click and Reserve” model under the Blueprint, it should be noted that holding stock in reserve and awaiting a push payment would not be practical for many retailers.

**Question 2.6: Request to Pay will offer payers flexibility over payment time as well as amount and method. As a payee:**

**a. Does your business model support offering payment plans and the ability for payers to spread their payments?**

No comment.

**b. Do you have a predominant payment method used by your payers?**

No comment.

**c. Do you offer your payers a choice of payment methods?**

No comment.

**d. Are there any incentives to use one payment method over another?**

No comment.

**Question 2.7: A minority of payers may not be able to pay within the payment period. Through Request to Pay they will be able to request an extension to the payment period. As a payee:**

**a. Do you currently offer your payers the capability to extend a payment period, request a payment holiday or make late payments?**

**b. What are the conditions and eligibility criteria under which this is offered?**

**c. If you currently don't, what are the barriers preventing you from offering this capability?**

No comment.

**Question 2.8: Request to Pay will offer payers the option to decline a request. The purpose of this option is to provide an immediate alert in case the request was received as an error or will be paid by other means. As a payee:**

**a. Would you find this information useful?**



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**b. Do you have any concerns about providing this capability?**

No comment.

**Question 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?**

**Does it introduce any new challenges?**

See response to 2.2

**Question 2.10: As a payee, considering the information provided in this document,**

**a. What is the extent of change you think you will need to carry out internally to offer Request to Pay?**

**b. What challenges do you see that might prevent your organisation adopting Request to Pay?**

**c. What is the timeframe you think you will need to be able to offer Request to Pay?**

No comment.

**Question 2.11: What are the features or rules that could be built into Request to Pay that would make it more valuable to your organisation, or more likely for you to adopt it?**

No comment.

**Question 2.12: We have highlighted several risks and considerations relevant to the delivery of Request to Pay. As an end-user of Request to Pay:**

**a. Are there any risks that we have not addressed or highlighted that would like to add?**

**b. Are there additional unintended consequences that we should consider?**

No comment.

**Question 2.13: We recognise that additional work needs to be done in identifying potential safeguards including liability considerations associated with Request to Pay. As an end-user of Request to Pay:**

**a. What are some of the potential liability concerns that you may have?**

**b. Would you be interested in working with the Forum to define, at a high level, the liability considerations for Request to Pay?**

**If so, please contact us as soon as convenient through the Forum website so we can get you involved.**

No comment.



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**Question 2.14: As a PSP:**

**Do you currently offer real-time balance information to your clients?**

**What information do you offer them? If not, what are the constraints?**

No comment.

**Question 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 are applicable considerations that must be made for each approach?**

**II. What safeguards must be put in place for each approach?**

No comment.

**Question 2.16: As a PSP:**

**a. Would you be able to offer CoP as described to your customers?**

**b. What is the extent of change that you would need to carry out internally to offer CoP?**

No comment.

**Question 2.17: The successful delivery of CoP is largely dependent on universal acceptance by all PSPs to provide payee information. As a PSP:**

**a. Would you participate in a CoP service?**

**b. Are there any constraints that would hinder you providing this service?**

No comment.

**Question 2.18: The NPA will fully support the functionality for PSPs to provide payment status and tracking.**

**a. As a PSP, what is the extent of change you think you will need to carry out internally to offer Payments Status Tracking?**

**b. What challenges do you see that might prevent your organisation adopting Payments Status Tracking?**

No comment.

**Question 2.20: As a payer:**

**a. How would you use Enhanced Data?**

**b. What Enhanced Data would you add to payments?**



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No comment.

**Question 2.21: As a payee:**

**a. How would you use Enhanced Data?**

**b. What Enhanced Data would you add to payments?**

No comment.

**Question 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?**

No comment.

**Question 2.22: Does the Enhanced Data capability as described address the detriments identified in our Strategy?**

No comment.

**Question 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?**

No comment.

**Question 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?**

No comment.

**Question 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?**

No comment.

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



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**Question 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.**

See response to 5.4.

**For further information**

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