



Ruth Evans
Chair of the Payment Strategy Forum
Via email

20 September 2017

Dear Ms Evans

I am writing to you in my capacity as chair of the Senior Officials Group in Government which has the responsibility to ensure full engagement with the payments industry as it goes through an unprecedented period of change. In this respect, as the Payment Strategy Forum consultation draws to a close, I thought it would be appropriate to add this over-arching letter covering Central Government's view as a customer to the Forum's considerations to complement the separate submissions you will have received from key Departments and Agencies.

At the outset, I would like to congratulate you and your team for creating a document which can act as a definitive manual of how retail payment systems operate today as well as the challenges to be faced and opportunities to be grasped now and in the future. The level of engagement with the payments community in the last several months, whether as user, operator or potential future provider, has been much appreciated by the various areas in Government whose opinion has been sought as part of this process. We very much look to continue our contribution as the next stage develops and recognise our role as a significant user of payments with an impact on almost every citizen in the UK.

Turning to key themes from our submissions which I would like to underline:-

New Payments Architecture

The need for investment in a new platform is clearly understood when viewed in the round to address detriments around innovation, user access and increased competition. However, in line with, we suspect, many large corporates, we have a concern that the move to a "push" environment risks removing some of the certainty of settlement on a particular day which is an integral part of the cashflow forecasting which impacts on day to day management of the National Debt. (Further comment is made on this below). We are also keen to make sure that it would not impact the high level of automation needed to run payments systems efficiently for tens of millions of Government customers. From a practical perspective, the layering approach proposed is fully understood but we would be strong advocates for ensuring rigorously enforced explicit standards as part of the process. Our experience of two major procurements for money transmission services in the last ten years and a further purchase of an integrated reporting tool has made clear to us, even with the current smaller population of financial institutions, that definition of reporting fields, for example, can be more of an art than a science. It is to be hoped that ISO20022 will assist but we would want to ensure that there is a pro-active stance on this topic.

End User Solutions

In summary, the logic of the proposals in this section is well understood but there are concerns about the potential conflict between customer expectation and legislation. Another theme across all three proposals is the cost to the user of technical change and the bandwidth to do so against a number of

competing priorities. Clearly, there may be some synergy that can be created by changing systems successfully once but to do so requires a degree of certainty of the "what" and the "when" that is not yet apparent. More specifically:-

(i) Request to Pay - the longer term benefits for financial inclusion and the reduction in value destructive activities e.g. handling of unpaid direct debits are recognised but, unlike corporates, Government cannot even in the medium term change terms of trade in respect of tax collection whether that be revenue or excise duties. Anything in this space would require public consultation (most likely) and primary legislation (most certainly). This having been said, it may be that the development of this product could support the Government's digital agenda in areas such as HM Revenue & Customs' Tax Accounts where a mature product might reduce the January self-assessment peak of activity through Faster Payments, providing it can do this without clerical intervention on individual requests to pay.

(ii) Assurance/Confirmation of Payee - subject to this complementing work already underway, we see the value of this both in terms of greater trust in the system and the potential to limit at least one area of fraud. As ever, the detail as it develops will be important in terms of practical application. By way of background, Central Government makes in excess of 1bn Direct Credit payments every year of which a minimal number are erroneous. The cost/benefit analysis of checking each one and the technical capacity to do this at speed is critical.

(iii) Enhanced Data - the adoption of ISO20022 across all payment systems and its potential then to see extra data exchanged is something colleagues in Department for Work and Pensions have been interested in for a number of years. Subject to the detail, we can see other Departments using this over time but the value only comes if it is a universal rather than an optional product. Encouragingly, the expected central build cost for this seems to have come down from initial estimates and we presume this is linked to the architectural approach. Clearly the detailed business case when developed by the New Payment Systems operator will shine a light on this.

Implementation and Cost Benefit

There has been a recurring conversation and concern in all our meetings around the dual aspects of (1) ensuring safe transition to any new world which does not undermine the high level of trust in the payment systems in the UK and (2) not underestimating the cost which users will need to bear to adapt to the new products and architecture. Cost is not just a financial measure but one of bandwidth against a range of other priorities, many of which in our case are set by others such as Parliament, Ministers and HM Treasury.

Payment Transaction Data Analytics

Comment from Government as a user has been light across all our responses largely due to the cross cutting Fighting Financial Crime work in which Home Office plays a leading role. Clearly, the extent to which the payments industry and its current and future systems can limit error and fraud is of keen interest to us and we note that you have quoted Benefit Fraud as one of the examples in the consultation document. I think we all appreciate there is a fine balance to be struck to ensure use of data is appropriate and proportionate, especially in the light of GDPR which comes in next year.

Other thoughts

One final point to comment on is an area that is probably less covered in the document than we might have anticipated, namely Financial Inclusion. We fully appreciate that the changes proposed should have a benefit in reducing the number of "unbanked" because of improved flexibility (e.g. Request to Pay) and confidence (e.g. Confirmation of Payee). However, this does create the risk of marginalising the smaller number of people who cannot participate and who will be left further behind. We would like to keep this topic firmly on the agenda as we move to the next stage, not least because this cohort can be substantial users of Government services.

I hope the submissions made by Government and the engagement to date have been of value to the Forum and my colleagues and I look forward to seeing the conclusions towards the end of the year which will help us organise ourselves to continue support into next year and beyond.

Yours sincerely

A handwritten signature in black ink, appearing to read 'L. Hume', followed by a small dot.

Lesley Hume
Chief Operating Officer to the Cabinet Office