

**Santander UK response to the Payment Strategy Forum's Blueprint for the Future of UK Payments
consultation (the "Consultation Paper")
September 2017**

General comments

1. Santander UK plc (Santander) welcomes the opportunity to respond to the Payment Strategy Forum's (PSF's) Consultation Paper, which sets out an ambitious blueprint for the future of UK payments.
2. This document provides a thorough update to the previously issued Payment Strategy which set out a vision for the UK payments landscape, seeking to bring more innovation and security to Users and end-customers of the services available. We are broadly supportive of the proposed blueprint and have provided comments in answer to the questions set out in the Consultation Paper relevant to Santander.
3. As a scale challenger focused on retail and commercial customers, we are advocates of digital and technological developments which enhance the speed and quality of the services we provide. A simple, stable and efficient payments infrastructure is critical to ensure that we are able to meet growing demand from our customers for fast, accurate online and international payments. Ensuring that enhancements to payment systems safeguard against increasingly sophisticated fraud, the evolving criminal methods being used for money laundering and terrorist financing and protect vulnerable customers, must be a central priority for the implementation of the New Payments Architecture ("NPA").
4. We recognise there are a number of key proposals drawn out in the document to support the future design of a UK payment model including the proposed design for the New Payments Architecture which is an ambitious development in the payments landscape, intended to assimilate existing payments infrastructures and incorporate technology to create a future which works to benefit the UK economy.
5. The blueprint also sets out remedies to resolve issues experienced in the current payment services, particularly around security and integrity - Confirmation of Payee will look to address, at least in part - as well as finding alternative payment types for an ever evolving customer base, particularly with Request to Pay as an alternative to Direct Debits and recurring card transactions.
6. The UK payments landscape is already going through a significant focus of change – either under the guise of "business as usual" change with regular & annual updates, or more fundamental changes such as PSD2 & Open Banking, and Cheque Image programmes. These Blueprint proposals are of a similar, if not greater magnitude of change, and therefore will need to be considered and designed in great detail. Whilst short term solutions may be possible, these need to be considered in the context of the longer term aims, as well as the do-ability of the requirements in the context of all the other changes; there is a severe risk to the Industry as a whole that the scale of change could lead to an unacceptable detriment to customers and service users. With this in mind, it is important to ensure the sequencing of events during transition to the NPA, as well as pace and scale of change associated with the

transition, is proportional and conducive to the evolving payments environment. As such, careful consideration will need to be given to the planning, delivery and migration of all these programmes of activity, and we strongly believe the NPSO is best suited to lead this for the Industry.

7. Of critical importance is the need to determine the future funding model and to ensure that the share of costs is done appropriately and fairly across all parties of the ecosystem. As emphasised from ongoing discussions there is a genuine need for the payments industry to clearly demonstrate there is no single group of PSPs driving change, so the governance and future funding will be one key area to ensure a fair playing-field is provided for all participants. To share the costs in implementing the NPA, we would recommend that costs are apportioned to participants of the wide-reaching payments landscape to reflect the benefit the streamlined future will bring to each particular form of entity. This will not only ensure a fair approach to funding but will encourage each of the benefactors of all scale and type of the new design to engage appropriately.
8. In the interests of minimising operational risk in the banking sector – particularly given the importance of payments infrastructure – it would be remiss not to emphasise the material regulatory burden currently facing banks as they seek to implement and interpret the inter-linkages arising from multiple, complex regulatory change initiatives. We strongly endorse the consultation’s comments that the implementation approach seeks to leverage and align with initiatives already underway such as Open Banking, the Payment Services Directive 2 (PSD 2), and reform to the Bank of England’s Real Time Gross Settlement system (RTGS). We also consider there to be a role for the PSF to play in ensuring multiple payments regulatory initiatives are aligned and that they adhere to financial crime and anti money laundering requirements.
9. These developments (along with the new General Data Protection Regulation) have great potential to empower consumers but also bring significant risk to customers, regulators and industry if they are introduced under pressure, at speed, and without the implications being clearly understood by all parties. Structural changes to the sector such as ring-fencing, the Markets in Financial Instruments Directive 2 (MiFID 2), and managing the EU’s exit from the European Union, give rise to an additional layer of risk and complexity. We would welcome the opportunity to contribute to a detailed discussion on how the design and implementation work for the New Payments Architecture will be aligned with wider regulatory demands on the industry, along with the timing of any future work.
10. Should you wish to discuss any aspects of our response to the Consultation, please do not hesitate to contact us at santanderregulatoryliaison@santander.co.uk. Please note that we have also inputted to the response from UK Finance.
11. Please note that **we do not consent to the publication of this response** without prior discussion, particularly given the confidential and commercially sensitive information in this response.

Santander response to the PSF's consultation on a blueprint for the future of UK payments

The New Payments Architecture

Q1.1 Do you agree with our recommendation to move towards a 'push' payment mechanism for all payment types? If not please explain why.

12. We broadly agree that a move towards a 'push' mechanism for all payment types is a logical step forward. Further enhancement to 'push' payments will be able to expand on the services currently available to enhance the user experience too. However we feel there is a lot more focus required on the migration approach to protect the user – both corporate and end-Users - experience, particularly in the Direct Debit (DD) domain.
13. The proposal will need to ensure that the overall ecosystem is considered and the corporate customer base in particular has a clear journey – the scale of this change cannot be underestimated. There are examples of this type of change – Bacstel-IP migration, as one, but the proposals have the potential for scale internal system changes if the underlying basic process of Direct Debits is changed – today all transactions are assumed to be paid, this feature would be one key principle needing clear rationale for change.
14. The migration plans are logical, and as further planning is undertaken this will demonstrate the reality of whether they are achievable - for example late 2021 implementation gives time for the industry and originators to adapt. But all end-dates, in particular, will need to be continually reviewed to ensure they do not bring any detriment to the customers we are working to support. On the counter-side to this, we also need to consider the cost implications on the continued dual running of the legacy systems, as well as their resilience.

Q1.2 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.

15. As noted in 1.1, we believe more work is required in this area. From a DD Originators viewpoint, there needs to be an understanding of the mechanism which advises when the customers Direct Debit authorisation is no longer active and a change in reconciliation processes as currently this is done by exception when receiving an unpaid DD. The timings need to be understood around when a paid item will be received by the DD Originator.
16. The detail of design will determine the size of impact on PSPs, such as an understanding of when an inactive authorisation can be removed from the PSP consent file. Further detail on how this will impact the CASS service would be beneficial.

Q1.3 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.

17. The over-arching demand from the NPA is to ensure User access is simplified, to stimulate more innovation and enhancement to customers experience and bring more trust and security to the model. Essential to any of this is the integrity and scale-adoption to support

end-users. The current models meet the demands of many, but it is recognised that the services need to adapt to the changing demands of a digital-world and changing workforce model. Giving customers more control where they want it is key to the future design, but it is also important to remember that the vast majority do not want to have more control of the vast majority of their bills and payments, as they are content to leave this to the Service Users and PSPs to manage this for them. At present for a consumer using DD, in the majority of instances, they set it up and then no further action is required from them. Provided the customer experience works and they don't have to relearn how to manage DD's, in the context of NPA we see no need for further requirements. However there are scenarios in the rules (eg the length of DD Indemnity Claim window) that do need to be considered.

18. The Blueprint, understandably to a degree, does only focus on the current interbank model, and there is little reference to the card transaction base which at this moment consumes a significant proportion of customer transaction behaviour, the NPA future considerations should also look at how it could integrate into a cards model to further support Access for PSPs to further simplify the engagement layers.
19. Whilst it need not be a priority of the current design the routing mechanism should permit the possibility of account number portability, for any participants wishing to pursue this. The NPA should also aim to provide, or interoperate with, a range of identity validation solutions to support a variety of participation solutions. To this end the NPA model should be not only layered but architected as discrete functional services to allow for ongoing enhancement with minimal impact on existing services (this will also facilitate testing of components).

Q1.4 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.

20. We agree that layering in a way as described in the Consultation is likely to simplify access and improve competition. However it would be useful to understand whether there are likely to be any new regulatory or competition restrictions on how many layers or parts of layers individual institutions could compete within.
21. Stability is of paramount importance to the payments industry and great effort is put into maintaining a safe and secure payments platform. With ever increasing cyber-security risks, the need to manage the most secure payment ecosystem has to be the highest importance in the NPA design, and the component parts constructed to maintain this demand.

Q1.5 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?*

22. At this stage of the analysis we believe this is appropriate.

b) *The right balance of managing risk versus competition has been achieved? If not, please explain why.*

23. At this stage of the analysis we believe this is appropriate.

Q1.6 Do you agree with our analysis of each of the clearing and settlement deployment approaches? Which is your preferred deployment approach?

24. Yes, but as noted earlier, a constant review of these approaches will be necessary to ensure that they meet all the demands of the payment ecosystem and minimise any risks and detriments.

Q1.7 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.

25. N/a

Collaborative Requirements and Rules for the End-User Needs Solutions

Q 2.1 As a payee:

a) Does your organisation serve customers who experience challenges paying regular bills?

26. As an organisation we do 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.

27. Yes, as an ASPSP we do, in both the Corporate and Retail Bank. Unpaid DD's are very low in volume, these are mainly for lack of funds and have reduced further with the education given to customers on the retry process. Currently over a third more DD's are being paid due to customers being aware of the retry process, this is likely to further increase with the changes due for opting customers into alerts on their accounts. Other unpaid DDs are for technical rejection reasons such as "Instruction Cancelled". For Corporate customers sometimes it is due to businesses having financial problems, other times it can be a timing issue where the customer has just paid a large VAT bill. Whereas for our retail customers, unpaid DDs are slightly higher which would support the case for Request to Pay (RTP) to support the specific customer base. The customer base differs, in Corporate the timing of high value DD claims is an issue; in Retail the volume of DD claims at the start of the month is a peak point of referrals.

28. As a DD Originator we experience the issues mentioned above, with most returns as a result of lack of funds, instructions cancelled in mid-collection.

Q2.2 Request to Pay provides visibility to payees on the intentions of a payer. Would the increased visibility benefit your business? If so, how?

29. One of the key benefits RTP will bring is a greater level of transparency between payer and payee. It is likely to benefit a merchant or a PSP for payees as it could reduce the need to provision for the uncertainty of past due payments. It may cost effectively reduce late fee payment refunds and associated admin if the payments can be correctly forecast. It also is an additional control to identify issues and errors.

Q2.3 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?*

30. Increased communication would present a challenge if it was excessive. It must not be a free-form exercise, but could be positively prescriptive. Free-form could result in customers delaying payment who wouldn't normally and it could create work responding to queries if it was possible to re-contact and communicate with the customer. An automated option to respond might help in an example whereby a delay request is received, e.g., a maximum 14 days could automatically be granted, but obviously this is very much dependent on the options payees want to offer. Other challenges could be increases to call volumes to challenge payments and a reduction in verbal engagement for financial difficulty cases. Questions and concerns would therefore be around headcount and forecasting which could offset any potential reduction in payment acceptance costs from an RTP solution. It is essential that the end-User has the ability to pause or block communications from payee to protect particularly the vulnerable in what they may view as any excessive levels of communications. Scheme Rules will need to be robust enough to act as a deterrent to any acts of abuse.

b) *What benefits could you envisage from this increased communication?*

31. A key benefit is the ability to support and protect customers. Currently if a bill isn't paid it is often the case that letters or random phone calls are the only way to engage a customer. A more personalised, and customer appropriate communication engagement via an app/smartphone, will enhance engagement and support providing the right solution to those customers who may otherwise be struggling. Being able to append customer data with payment intentions would help with customer debt provisioning and also better engagement and payments, from more vulnerable customers. Other benefits include errors being identified before the detriment occurs.

c) *Do you see any additional potential benefits resulting from Request to Pay other than those described? If so, which ones?*

32. Additional benefits include reduced payment expense for payees. Non DD payment acceptance methods are much more expensive than DD, and cancelled/failed DDs have significant overheads for payees.

Q2.4 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?*

33. We would have the ability to provide other items of information that the customer would benefit from having with payment requests. See below for more information.

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?*

34. While the list provided is very comprehensive it may be too much for many payees. It will depend on the industry and relevant payment options (and thus information) presented. Additional information could be product type. There needs to be the ability to dynamically

link the payment to the customer, for fraud and financial crime purposes. This would involve the value, date and merchant information that we could exclusively link the payment to the merchant.

Q2.5 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?

35. This would be considered as a future dated payment from the merchant and therefore would follow normal payment processing procedures. There may be two fraud checks in the customer journey, one when consent is gained and another as the payment goes out. Customer experience would therefore need to be considered. A payment period is a key component of the messaging. This would align to the period over which an arrangement to repay arrears is agreed. However with all agreed timeframes, payers must receive messaging around official payment due dates, any late fees incurred and potential credit bureau implications, where they would apply.

Q2.6 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? If so, please provide more details as to how these plans are offered, their conditions and to which customers.*
36. Our business model does support different payment plans. As a provider of corporate payee services this can hugely vary. More sophisticated private organisations (e.g. media) will want a multitude of options whereas the public sector will want a much simpler set of options, and some highly regulated industries (e.g. water companies) may not have options available to them. If a bill is a payment in advance and treated as a credit plan (e.g. telecommunications) late payment 'options' could have credit bureau implications.
37. RTP can be flexible depending on the payer, however guidance must be given to the customer on the implications e.g. delinquency parameter cycles, the differing payment scheme rules and the fraud D+1 rule. Retail customers who are in arrears plans may require individualised and regularly monitored management
- b) *Do you have a predominant payment method used by your payers? If so, what percentage of customers use it?*
38. The predominant payment method used is Direct Debit and card-based transactions.
- c) *Do you offer your payers a choice of payment methods? If yes, what determines how much choice you offer? If not, what are the barriers preventing you from doing so?*
39. Yes we do offer payers a choice of payment methods depending on the customer circumstances and preferences. Payees try to offer as many options as possible and are often unclear which ones are better suited to their profile of payers. It is important to consider vulnerable customers in what payment options we provide our customers.

d) *Are there any incentives to use one payment method over another? If so, what is the rationale?*

40. No, not as an ASPSP. We recognise that payees are still offering DD incentives as DD is still seen as the most efficient way to collect payment, mainly driven by the lower administration costs associated with DD collections compared to cash, cheques and push payments.

Q2.7 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?*

41. Yes we do. For our retail customers this is generally as a result of a period of customer vulnerability (e.g. natural disaster or financial difficulty) additionally some of our products/propositions have holiday periods etc built into them.

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

42. It is based on customer affordability for reduced or late payments; payment holidays are available on a limited number of products by request.

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

43. N/A

Q2.8 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?*

44. Yes – for PSPs it will support pre-identifying potential arrears cases or vulnerable customers with this information or utilise this information as a pre-delinquency indicator.

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

45. We believe some payees may not want the ability for a payer to 'decline' a request to pay. An alternative may be to limit/have specific reasons for the decline to give the option to choose to pay by another method and thus take no action against an RTP request, or, execute an RTP payment. Declines may suggest issues with statements / fees charged etc. which need to be taken up directly with the payee. Any rationale for decline should support continued engagement between relevant parties.

Q2.9 Does the Request to Pay service as described address:

a) *The detriments identified in our Strategy?*

46. We believe it does.

b) *The challenges experienced by your customers? Does it introduce any new challenges?*

47. We believe it does address the challenges experienced by customers, but like any new service being introduced widespread adoption and education (for all parties in the service model) is essential to ensure success. The new challenges for the bank as a PSP would be declined payments and open communications. We would need prescriptive communications, not free-form so that we could ensure communication is controlled. Additionally, the majority of customers are happy with DD proposition as it works for them, so for these customers they wouldn't see the benefit.

Q2.10 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?

48. As a PSP we envisage the changes needed as a payee to be: the business case for adoption and the benefit to customers to pay this way; the scale of technical system changes and integration into all relevant channels; the service design and rules to wrap around the service; the legal and regulation (eg liability models) that will be required to support the ongoing service; production of new training material; amendment to existing material; additional training for the entire collections department as well as QA teams; and MI and financial reporting. There are also additional considerations required within the QA model and head count review. The consent and security model will also need to be reviewed, along with the collaboration and exchange of data and scheme model. Customer strategies and education will be of high importance. We need to understand the 'layers', providers, information flows and economics better.

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

49. Challenges include economic, system restrictions and other IT challenges. Customer exceptions for DD, card on file, card based fees and the consideration of which merchants are going to adopt this (as the proposition will differ) all need to be assessed. Plus the volume of other regulatory changes being delivered at the same time adding pressures to finite resource and funding.

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

50. This will need to be considered and prioritised by the industry. They will need to define rule sets and create a realistic industry timeline, taking into account other industry-wide programmes of work including GDPR, PSD2 and Open Banking. The independent and industry timelines would then need to be aligned.

Q2.11 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?

51. A clear set of rules and guidelines is essential for this service to ensure that there is a consistent customer experience. This will be one of the lead determinants to the success of the new product.

52. As a PSP to corporates we can see that it might be useful for companies if there was an option to have a set of standard responses e.g. if clients requested an extension, a 14 day extension was automatically granted for the first request, or a 30 day extension was granted if 50% of the bill was paid immediately etc. Making customers aware of the consequences of non or late payment when declining payments. Providing contract information for the appropriate team for the rejected payment.

Q2.12 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 you would like to add?

53. We think the risks and considerations were very thorough. However, we would have significant concern around vulnerable customer groups. It is well documented that technological advancements can leave some of the most vulnerable groups more and more isolated and at risk of detriment. We know this customer segment is a high priority in the Forum's thinking, and as design proceeds this must remain paramount. We would extend the same concern to the ageing population where we are likely to see grey pound users continue to use traditional payment channels which need to be maintained and supported.

b) Are there additional unintended consequences that we should consider?

54. There is a payee concern that this could cannibalise Direct Debit. Consideration of how variable payments will work as mortgages can vary month on month and are subject to interest rate changes with initial terms up to 35 years. This may result in requiring authorisation every month if the amount changes. Further examples include decisions being taken in isolation by the customer and without the understanding of which is the priority payment and which carry the largest negative financial outcome where a deferral is required.

Q2.13 We recognise that additional work needs to be done in identifying safeguards including liability considerations associated with Request to Pay. As an end-user of Request to Pay:

a) What are some of the liability concerns that you may have?

55. As an alternative to Direct Debit, which comes with a payer guarantee, we would welcome clarification around what the 'rules' will be around RTP faster payments (FP). We would also encourage thought around how the industry can provide the level of reassurance that BACS have taken decades to build around DD. In the event of a mistake and the customer mistakenly accepts who is responsible if both parties are complicit in the error?

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.

56. N/A.

Q2.14 As a PSP:

a) Do you currently offer real-time balance information to your clients? What information do you offer them?

57. Yes, customers have access to their current available balances.

b) If not, what are the constraints?

58. N/A.

Q2.15 We have presented two Confirmation of Payee (CoP) response approaches (Approach 1 and Approach 2).

a) As a payer, what would be your preferred approach? Why?

59. We would favour approach 2 as it gives the payer more information in order to make an informed choice.

b) As a PSP, what would be your preferred approach? Why?

60. We prefer approach 2, as we cannot see Approach 1 being operationally viable or easily understood by customers. It will involve matching, which may cause issues for customers. The detail in approach 2, combined with the detail of the bank name etc. would be potentially powerful in some fraud / scam situations. We would need to control the 'trawling' of this, potentially by limiting the use in various ways. We appreciate that providing a simple yes or no as to whether sort code / account number and account names match is best from a data protection standpoint but adds very little value as payers will need to have precise account name details already. But providing account names when a payer enters a sort code increases the risk of fraudulent "payers" entering random account numbers to elicit account names, and potentially other unforeseen problems. This could be minimised by monitoring/restricting the frequency of CoP requests made by user online banking accounts. Cost would need to be considered. Consent to release account name would also need to be held. Overall we feel approach 2 is most useful as long as it is agreed across the industry and data protection is carefully managed but there will be significant cost to implement.

61. Paym identified vulnerable customers as a concern, someone keeping their name out of the public domain for a reason. I.e. witness protection.

Q2.16 As a PSP:

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

62. Yes, we see no reason why the data couldn't be embedded into the online services (mobile / digital). We would need to review how this would work on the phone or in branches. Controlling the process should be design based, not exception. We feel that we would need to combine this with a more intelligent methodology of asking customers to 'define' why they are making a payment and providing in line warnings about scams / the risks of liability on push payments. Consideration or consultation with consumer groups would be advised.

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

63. Changes required to all channels in scope in order to provide validation response to the customer. Potential changes for all customers regarding using their data for this service, T&Cs etc. Assume changes to API, internal databases, operational changes regarding maintenance

of data and queries. Internal education and training to aid customer understanding. Coaching and feedback to ensure that it is embedded and used by all

Q2.17 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?

64. Yes.

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

65. N/A.

Q2.18 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?

66. Data is already available in Faster Payments, however in regards to Chaps payments and Cheques, it is available on a limited basis. A richer set of response codes and true instant/real time payments will give benefits to the customer if the industry wants to develop them.

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

67. Challenges would arise if Payments Status Tracking was adopted for all payment channels and products. Further challenges arise as a result of legacy systems, budget and resource.

Q2.19 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?

68. We outline the following potential risks:

- a. Recipient Checks: One consideration is the clarity of the Account Name that will be used as the assurance data. If the customer is making a payment to a business, the account name will need to clearly reference that company, as opposed to being internally named, e.g. Office Account, Receivable Account etc. Fraudsters may try set up payee accounts with similar names to genuine entities resulting in the Assurance Data providing false security to payers.
- b. Available Funds Checks: Ability of PSPs to accurately provide 24/7 live status including all pending debit transactions e.g. cheques, future dated forward payments.
- c. Status Updates: If a firm has switched Banks e.g. due to experiencing fraud against them, they may not wish all payers to know the new account details which would be revealed by the status updates.

b) Are there any unintended consequences that we should consider?

69. Personal customers who re-marry but are estranged from previous partners, but who have maintenance payments directed between them. There is a need to ensure that all information shared does not compromise individual's security. Any delays to payment clearing if the payer's PSP is unable to confirm with the payee PSP should also be considered.

Q2.20 As a payer:

a) How would you use Enhanced Data?

70. Invoice Reference plus relevant beneficiary details would be two key data items.

b) What Enhanced Data would you add to payments?

71. Options should include attaching documents, e.g. invoice, breakdown of payments, to help the payee in reconciling the payment.

Q2.21 As a payee:

a) How would you use Enhanced Data?

72. Potentially to aid reconciliation and reporting. Receivables management and collections processes and to ensure that the remitter met AML requirements.

b) What Enhanced Data would you add to payments?

73. As the Payee, we do not suggest adding anything.

Q2.22 Does the Enhanced Data capability as described address the detriments identified in our Strategy?

74. Yes, although this raises the question of whether some controls over data entry would be appropriate to assist with data matching by the recipient.

Q2.23 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?

Q2.24 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?

75. We would highlight a need to ensure that all PSPs are able to accept Enhanced Data within timescales defined. This may mean developing an online platform to be able to show all Enhanced Data. There will be cost and time considerations associated with this development as well as with other channels, e.g. mobile.

b) Are there any unintended consequences that we should consider?

76. Please consider the impact on data storage capacity.

Q2.25 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?

77. We are concerned that inappropriate data may be transmitted that could breach Data Protection by including data that is not directly required for payments e.g. marketing messages. This leads to another liability consideration which would be whether the storage and maintenance of this data would create a duty of care on the PSP to be aware of the data's contents, for AML, fraud, anti-terrorism reasons.

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.

78. We will consider this opportunity.

Implementation Plan

Q3.1 Are there any additional principles you think we should add or significant amendments that should be made to those already stated?

79. Given these principles define what is desirable of the implementation effort then there should be specific reference to delivery of the End User Needs and NPA Design Principles. Suitable quality is also required of the deliverables (which may influence the approach, such as Test Driven Design) and any plan should have low implementation risk (which again may influence the approach, such as function by function implementation and deployment). Whilst an element of dedicated infrastructure may be required for security purposes the NPA should plan adopt a capacity on demand model for development, testing and operational use. Existing schemes and service must be decommissioned.

Q3.2 Are there any additional assumptions you think we should add or significant amendments that should be made to those already stated?

80. These are a number of ambitious assumptions all of which will require thorough evaluation. In particular lessons must be learned from other industry programmes (such as ICS) where progress can be limited by the capability or pace of the slowest participant. As such it should be assumed that participants will adopt the NPA at differing rates, and that provision for a co-existence mechanism with existing schemes and services will be necessary.

Q3.3 Do you agree with the sequence of events laid out in the implementation plan? If not, what approach to sequencing would you suggest?

81. The overall sequence of events appears to provide a pragmatic solution to transitioning from the current schemes and services into the NPA. In terms of encouraging innovation it would be useful to illustrate how additional overlay or competitive services could be added to exploit the initial NPA core functionality.

Q3.4 Do you agree with the high-level timetable laid out in the implementation plan? If not, what timing would you suggest?

82. A major challenge for such industry programmes are the continuous stream of change requests that will undoubtedly be generated (another assumption perhaps). The project should be subdivided into discrete steps, each delivering quantitative business value and extending the capability of the NPA. This will allow the NPA to build out from a lean end to end core service, with each iteration having the shortest possible implementation window from detailed design through to deployment. The delivery approach must allow for flexibility - there should be a combination of traditional waterfall / big upfront design for the core services and API and a more responsive, agile approach for other elements.

Q3.5 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.

83. We have previously made mention of potential risks due to poor quality solutions (as a result of requirements or design issues), of delays due to changing requirements, and of participants having differing capabilities to transition to the NPA. We have also suggested possible approaches which might mitigate these risks. We are also aware of challenges that have been created as a result of the supplier contracts established for other payment schemes. To avoid supplier tie-in and to ensure the ongoing longevity it will be necessary to take early steps to suitably protect any IP and assets that the NPA requires to function.

Q3.6 Do you agree with our proposed transition approach? If not, please provide your reasoning.

84. We agree with the proposed transition approach, however it is likely that the payments landscape will evolve significantly during the coming 8 years so it will be necessary to review this plan on a periodic basis. Some form of co-existence between the current schemes and services and the NPA will be necessary to decouple the transition plan from individual participants. These facilities might be provided on a commercial basis, assuming that the NPA can support such marketplace features.

Cost Benefit Analysis of the NPA

Q4.1 Are there any material quantifiable benefits that have not been included? If so, please provide details.

85. At this stage of the analysis we believe this is a good base of benefits. As the programmes develop in the design phases it is essential that the tracking continues to ensure the costs will retain the benefits suggested; if not then a review of whether to proceed or change/drop is needed

Q4.2 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.

86. We believe this a positive start, but would emphasise the difficulty to achieve accurate cost estimates at this early stage of the design. Only once the detail of change is better understood will the real order of magnitude be better understood. Recent programmes – CASS, Paym, Cheque Image – have all demonstrated that it is only when the true extent of change is well defined are the real costs identified – and it is essential that the end-to-end cost analysis is considered, reducing the risk of a “payment-tax” being perceived. As a clear example, the introduction of cheque imaging brings excessive cost across the ASPSP as well as the corporate user base, at an increasingly poignant time due to its decaying use as a payment instrument. We would encourage a more realistic analysis of potential costs for non- critical changes before they are made mandatory. At this time the dual running costs are a particular unknown, and until the contract extensions are concluded and any system changes identified and defined, there is a significant exposure that will need to be considered for all relevant participants. We would recommend that the cost benefit analysis be kept under review during the feasibility analysis stage. Such measure would prevent the potential for Government making premature commitments to implement specific solutions afore they are properly priced.

Q4.3 Do you agree with our description of the alternative minimum upgrade? If not, please explain your reasoning.

87. As the Blueprint moves into a design & delivery mode, the NPSO (assumed as the central lead) will need to determine whether the proposals are sufficient and have appropriately considered all other changes previously referred to. Short term opportunities need to be considered both for their immediate benefit, but also potential detriment or risks they could bring.

NPA Commercial Approach & Economic Models

Q5.1 Does our competition framework adequately capture the types of competition that may exist in payments?

88. We agree that the proposed competition framework adequately captures the types of competition that may exist in payments.

Q5.2 Do you agree with the NPA competition categories described? If not, please explain why.

89. We agree.

Q5.3 Does our framework capture the dynamic roles the NPSO may play in the market?

90. Yes, strong leadership and vision setting is essential from the central body and a fair balance of all needs is of utmost importance.

Q5.4 Are there any other important criteria that we should use to assess the funding options we have identified?

91. The current payment ecosystem is well protected with stability of participants and suppliers a critical factor and this must be maintained.

Q5.5 Do you agree with our NPA competition assessment? If not, please explain why.

92. At this level we support the position, but more depth of analysis will be needed to ensure this is sustainable in the end-solution.

Q5.6 Do you agree with our assessment of the End-User Needs Solutions? If not, please explain why.

93. We agree.

Q5.7 Do you agree with our list of funding stakeholders? If not, please explain why.

94. The list should reflect an equitable allocation of costs to participants in a manner which does not unduly prejudice banks versus disrupters. This must be a high priority for the NPSO to drive forward to ensure a fair and appropriate model is delivered.

Q5.8 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.

95. At this stage we have not identified any, but as above, will continue assessment of this.

Improving Trust in Payments

Q6.1 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.

96. We do agree with the participant categories identified.

Q6.2 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.

97. Non-payment participations needs to be included with strategic solution and must provide insight to models/data utilised. We would recommend looking at wide scale usage of unsupervised learning models on large payment data sets.

Q6.3 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.

98. We firmly agree and note that all use cases are very applicable and currently being explored within the bank. Further use cases can be provided if required.

Q6.4 Do you agree with key principles we have outlined for the implementation of the Payments Transaction Data Sharing and Data Analytics strategic solution?

99. Yes, we consider this to be a solid implementation solution. We would however welcome clarification on what the first deliverable is by mid-2020 and in particular, who the accredited entities will be.

Q6.5 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?

100. Generally it should be the Office of Financial Sanctions Implementation, the Information Commissioner's Office, HM Treasury, the Home Office, Payments/Fraud/AML Team/Financial Crime/CyberSecurity/Chief Data Office/Data Quality internally and their external supporting schemes.

Q6.6 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?

101. In principle the high-level timeline appears appropriate. However, work is needed to ensure that the alignment with other anti financial crime related initiatives is understood. For example, it will be important to consider the fit between the proposed activity and reform of the SARs regime.

102. More detail on the details of the data sharing would be helpful. This can inform full consideration of how data will be shared and used, so as to ensure adherence to laws and regulatory guidance for financial crime compliance.

Q6.7 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.

103. We agree and have no further comments.

Q6.8 We are keen to get your input on the benefits provided by the framework.

a) Do you agree that the focus on sharing a core set of SME customer data is beneficial for the KYC processes in your organisation? If not, please explain your reasoning.

104. We agree in principle. It will be important to fully understand the legal framework for sharing the customer data including how this data can be used.

b) Which other business activities could be supported by / benefit from the described sharing and exchanging a core set of SME customer data?

105. Any shared data leads to general improvement in data models utilised within bank as these can be trained further. This does not matter if it is a fraud or customer data model, these can all be retrained by shared data further to improve general accuracy. This will only work with correct levels of traceability on shared data.

Q6.9 Do you agree that the topics covered by the standards will provide sufficient guidance in order to implement the data sharing framework without being too prescriptive? Are there additional topics you believe should be included?

106. Yes, generally as this is covered in PSD2 and Open Banking. We would however raise concern over those PSPs who consume more than they contribute and how this is managed.

Q6.10 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?

107. We have no further comments.

Q6.11 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?

108. Data in the Payments Industry: The Payments Systems Regulator has posed questions on our data and how we are currently using it. We consider this to be a good position for them to start oversight activities.

Q6.12 Do you think a temporary testing environment as described is the right approach? If not, please explain your reasoning.

109. Yes, but provided this environment is monitored (even though it is temporary) and competition is managed to ensure it does not become malicious between PSPs/KYC service providers. Consideration should be given to how it will be managed when it is removed.

Q6.13 Are there any other key features you would expect in the temporary testing environment?

110. We have no further comments.

Q6.14 Do you agree that value-added service providers would benefit from the data sharing environment enabled by the framework?

111. Yes we agree.

Q6.15 Are the arguments put forward compelling enough to encourage net data providers to engage? If not, please provide examples of what else would be required to make them participate.

112. Yes, we agree the arguments are sufficient.

Q6.16 Do you see other advantages or challenges for net data consumers that were not listed above? Please explain your answer.

113. Just the general concern on Data Quality from those net data providers and how this will affect net data consumers.

Q6.17 Do you agree with the high-level implementation timeline for the Trusted KYC Data Sharing solution? If not, what timing would you suggest and why?

114. N/A.

Q6.18 Are there other initiatives with a similar focus that should be considered in order to deliver the Trusted KYC Data Sharing solution?

115. We have no further comments.

Santander UK Plc

September 2017

[ENDS]