

Blueprint for the Future of UK Payments: The Payments Strategy Forum Launches a Consultation on the Future of UK Payments

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Financial Services and Regulation

The Payment Strategy Forum (“PSF”) has published a public Consultation Paper (the “Consultation”) entitled “Blueprint for the Future of UK Payments.” The PSF observes that whilst payment systems in UK are some of the best in the world, they are no longer fit for purpose, given their age and complexity. The PSF has therefore developed a New Payments Architecture, which will consolidate and replace and current tripartite system of Bacs, Cheque and Credit Clearing and the Faster Payments Service. This alert looks at the PSF’s plans and proposals.

Background

The Payments Strategy Forum (“PSF”) was established by the Payment Systems Regulator and leads on a process to identify, prioritise, and help to deliver initiatives where it is necessary for the payments industry to work together to promote collaborative innovation. The aim is to make payment systems work better for those that use them. Its membership includes service-user representatives and payment services providers (“PSPs”). The Bank of England, the Prudential Regulatory Authority (“PRA”), the Financial Conduct Authority (“FCA”) and the Payment Systems Regulator are observers on the PSF.

On November 29, 2016, the PSR delivered its [Strategy](#), which outlined a set of collaborative proposals to meet the needs of users.¹ The Strategy Paper observed that whilst payment systems in the United Kingdom (“UK”) are “some of the best in the world” and perform a critical function for the economy, they are no longer fit for purpose in the 21st Century, due to their age and complexity. The Strategy Paper therefore suggested significant updates and changes to UK payment systems. In particular, the PSF proposed the following.

- The development and implementation of a New Payments Architecture (“NPA”) to introduce effective competition between providers of payment services, composed of a layered structure to make it easier for innovation to occur at a quicker pace. The PSF believes that this would also provide security, stability and resilience.
- The PSF also proposes the consolidation of the three main UK retail Payment System Operators: Bacs Payment Schemes Limited (“Bacs”), Cheque and Credit Clearing Company Limited (“Cheque and Credit Clearing”) and Faster Payments

¹ Payments Strategy Forum, “a Payments Strategy for the 21st Century: Putting the Needs of Users first”, November, 2016

Scheme Limited (“Faster Payments”). These three entities would be consolidated into a single entity, the New Payment System Operator (“NPSO”).

- A set of solutions to help prevent or reduce the impact of financial crime on users.
- Pursuant to the publication of the Strategy Paper, the PSF has now issued a public consultation, entitled “[Blueprint for the future of UK payments](#)” (“the Consultation”).²

The New Payments Architecture

The Consultation provides further detail on the NPA, together with an overview of key elements of the overall conceptual model, which sets out the relationship between participants, connectivity mechanisms and supporting components.

It is envisaged that the NPA will operate with a single set of standards and rules, with strong central governance and will be managed by the NPSO. Particular features or “attributes” of the NPA include the following.

A “Layered Approach”

The “layered approach” is where “capabilities are separated into discrete layers,” with each providing a defined function or part of the payment value chain, based on an agreed standard. Providers may compete for the delivery of the components within a layer, some layers supporting multiple providers delivering services at the same time. The aim is to foster competition, innovation and ease of access to new entrants, as well as reducing systemic risk, service outages and overall costs through standardising interfaces and systems.

Overlay Services

The PSF observes that a payment involves the transfer of value from a payer to a payee. The exchanges between the payer and payee do not technically need to be part of the underlying payment mechanism and the exchanges in supporting data can be delivered via overlay services. The NPA has been designed to facilitate the emergence of PSP overlay services and end-user overlay services. This built-in flexibility will support a range of new end-user overlay services such as Request to Pay and Confirmation of Payee. The PSPs will also be able to provide both end-user and PSP overlay services. The PSF says that it anticipates “a high level of innovation” within this “layer.”

Common Messaging Standards

Common Messaging Standards are necessary in order to enable interoperability between payments systems and to reduce complexity. The PSF is proposing the adoption of ISO 20022 as being the common, international messaging standard and believes that the adoption of ISO 20022 will align the UK with global standards and modernise the UK’s payments infrastructure. Standardising messaging formats will reduce complexity and will provide the basis for functional enhancements, and innovation. It will also reduce future development and integration costs. The PSF believes that ISO 20022 will enable access, innovation and interoperability, both in the UK and internationally.

² Payment Strategy Forum, “Blueprint for the future of UK payments”, a Consultation Paper - July 2017.

“Push” Payment Model

The PSF proposed the use of a push payment model for all NPA payments, in order to provide simplicity and increase customer control. The PSF believes that the push payment model provides a number of benefits and it does not see a significant impact on the overall risk of undertaking payments by moving to a push-only model. Therefore, the NPA is based on a push only approach.

Common Security Standard

The PSF observes in the Consultation that the UK payments infrastructure is highly regarded globally for good security, relatively low fraud levels and high overall resilience. The design of the NPA will focus on maintaining these standards and intends to improve them in the future. The NPSO is expected to mandate a common security standard for all participants of the NPA, which will provide security, resilience and stability across a more open payments architecture. It is proposed that the standards and recommendations from the Payment Services Directive 2 (“PSD2”) will be incorporated into this common security standard.

Proposed Solutions: Improving Trust in Payments

The PSF’s Strategy Document proposed a set of seven solutions to improve trust in payments through the prevention of financial crime. In the Strategy Document, the PSF committed to consult on two solutions, being “Payments Transaction Data Sharing and Data Analytics” and “Trusted KYC Data Sharing” respectively. The PSF believes that these sections will be of particular interest to those with a role in the prevention of financial crime, including PSPs, trade bodies, solution vendors, regulators, law enforcement agencies, and the Government.

Payments Transaction Data Sharing and Data Analytics

The PSF observes that payments in the UK can be made using multiple payments mechanisms, such as BACS, CHAPS and Faster Payments. These payments systems can be used by criminals to launder stolen or misappropriated money, masking the trail of funds and making its origin unclear. The laundered money can be used to fund terrorism or organised crime, or allow criminals to profit from fraud. The Strategy Paper proposed a Payments Transaction Data Sharing and Data Analytics solution to assist in the fight against financial crime, occurring through the misuse of payments systems. The PSF believes that this solution will enable visibility across different transactional data sources and will create a rich data repository and analytical capability.

The objective of this solution is to detect and prevent current and future financial crime by creating an industry-wide capability to analyse end-to-end payment transaction data from all retail interbank payment mechanisms in conjunction with other relevant sources of diagnostic information. The PSF progressed the solution via a “tactical solution” and a “strategic solution.” The proposal is that the tactical solution will provide “early benefit” to aid the detection of money mule accounts and will pilot methods for funds repatriation. It will run as an interim service, until the strategic solution is implemented.

The Consultation focuses on the strategic Solution, which consists of three core capabilities:

- the ability to acquire payments transactions and other contextual data from a wide range of sources;
- the ability to store several years’ worth of this data in an accessible form; and

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- the ability to deliver advanced data analytics on the payments transactions and other data that is acquired.

Next Steps

The Consultation remains open until September 22, 2017. Responses are to be made via a [Consultation Questionnaire](#).

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