

# Equens response to the payments strategy forum's draft strategy

Being responsive to user needs

Final

8 September 2016  
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The Equens logo is located in the bottom right corner of the page. It consists of the word "EQUENS" in a bold, purple, sans-serif font. The logo is positioned above a decorative horizontal bar that is purple at the top and transitions into a bright pink color at the bottom, with a white, teardrop-shaped cutout on the right side.

## Version history

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## Management summary

Please find below responses to all of the consultation questions that have been asked in the Payments Strategy Forum's July 2016 'Being Responsive to user needs' draft strategy consultation.

In general, our responses are supportive of the work the PSF has undertaken and the draft strategy that it has articulated. We would highlight, as the PSF has, that there are still a lot of unknowns at this point. These unknowns could, if not investigated or progressed correctly, prevent the PSF's final strategy from delivering the benefits set out.

One area that we feel the draft strategy would benefit from, set out in our answer to Question 1, is targeted or aspirational use cases for where the strategy will deliver benefit for real people. Supplementing the strategic findings with such example use cases would provide points of reference that the PSF and wider stakeholder community can validate against by asking of the strategy "will this deliver this real person use case benefit".

Another area that the PSF will, we believe, need to review is the sequence of its deliverables as it finalises its strategy. This would seem to be especially important in assessing whether central or distributed technology should underpin its Simplified Delivery Mechanism and whether there should be a single entity/body or new entity/body responsible for it. As such we believe the PSF needs to determine through pilot or sandpit trials the technology, central or distributed, that it will be strategically progressing to underpin its Simple Delivery Mechanism. By its very nature this will mean that the PSF will need to relatively quickly assess distributed ledger technology to determine if this will or will not form any part of its strategy.

There will be other areas in our consultation responses that the PSF may wish to follow up on and we would be very happy to meet with the PSF to support it in its strategy development.

Mark Munne  
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8<sup>th</sup> September 2016

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## Consultation question 1

- Do you agree we have properly captured and articulated the needs of End Users? If not, what needs are missing?

We agree that the draft strategy correctly highlights that Payment Products should reflect and respond to real people's needs and not those of an idealised 'perfect' customer. However, at this early stage of the PSF's strategy development, it is difficult to express an opinion on whether the payments products that will ultimately evolve will be the ones that support real people's needs both today and in the future.

The PSF, in capturing end user needs, has focused mainly on functionality, with its "request to pay" and data requirements. In our opinion, the PSF should also consider that end users, besides desiring improved functionality, would also appreciate high service quality (e.g. availability, speed, making life easier, etc.) against a fair price.

With regards to functionality, Equens is very active in the e-services space, with offerings in e-payments (iDEAL in the Netherlands is very popular), e-identity and e-mandates, allowing for identification and signing of contracts and mandates through the use of banking credentials.

It is the combination of this wider functionality that allows for very strong use cases, for instance:

- Switching energy suppliers - with e-id I can identify myself at my new energy supplier, the energy supplier gets my bank verified address, with e-signing and e-mandate I can sign the new contract and the direct debit agreement. It can attach the invoice with the direct debit, so I can view the invoice in my internet banking system instead of having to access one of multiple "my utility" websites.
- Verifying age whilst paying for a product or service – with e-id I could allow my bank to verify my age, potentially anonymously, as part of the payment process when I pay for an age restricted product or service.

We would therefore advocate that the PSF develops a broader view of end user needs that starts with use cases instead of individual services. This will then allow the PSF to detail the functionality or individual services that are required to support the needs of real people.

## Consultation question 2

- Do stakeholders agree with the financial capability principles?
- How should these principles be implemented
- How their implementation should be overseen and how should the industry be held to account?

As with our response to Consultation question 1, we agree that the draft strategy correctly sets out (in Appendix 5), appropriate financial capability principles but whether suitable payments products ultimately come to market to support the most vulnerable people is difficult to predict at this time.

For this to happen greater understanding will be needed from organisations such as Toynbee Hall, the Department for Work and Pensions, etc. to ensure clarity on how central infrastructures can better support PSPs and others in bringing payments products to market that support the most vulnerable people.

At the highest level this clarity might be the need for:

- Open access to the infrastructure(s)
- Cost efficiency/predictability
- Transparency and ability to simply track/trace
- Use of clear, understandable codes (e.g. error or transaction codes ("salary payment" instead of "SALA" or "insufficient funds" instead of "AM04")
- Secure, safe, with no fraud

Equally at a more detailed level this clarity might be, for example, that greater control is required within basic bank account products, or more flexibility is needed in payment instruments such as Direct Debit to enable part payment.

### Consultation question 3

- What benefits would you expect to accrue from these facilities (not necessarily just financial)?
- Do you agree with the risks we outline? How should we address these risks? Are there further risks we should consider?
- Is there a business case for investing in solutions to address these needs and if not, how such an investment can be justified?
- Are there any other alternative solutions to meet the identified needs?
- Is there anything else that the Forum should address that has not been considered?

We would expect all three of these enhancements/facilities to drive wider benefit for users of the payments systems but, as per our answers to Consultation questions 1 and 2, it is difficult to say precisely what benefits will actually accrue until the various payments products that might be derived from the new architecture for retail interbank payment systems are better defined.

Again, benefits would need to lie in service quality (e.g. enhanced data enabling a receipt to be attached to the payment or an invoice to a direct debit and then being able to be accessed/viewed via your bank account) and price (i.e. do the enhancements result in lower costs which might be difficult to assert in a free banking environment) as well as functionality (e.g. how the products provide control to enable consumers to manage when they pay and who they pay).

We also agree with the identified high level potential risks for consumers but, equally, if these risks are not addressed in the correct way then there is the possibility that the end user benefits that the PSF is trying to achieve might not be delivered. Key to this will be striking the right risk mitigation balance between central and non central infrastructures and thus the level of central versus remote (e.g. PSP) control that is built into the new payments products.

One example of this might be that, in trying to support real people with flexible or non standard request to pay functionality provided by greater remote (e.g. PSP) control, there could inadvertently, because there is less central control, result in the request to pay functionality being more vulnerable to Phishing.

At this stage though, without a view on the types of products that might evolve, it is very difficult beyond concurring with the very high level risks identified to identify additional risks that the PSF might want to additionally consider.

## Consultation question 4

- Is there a business case for investing in transitional solutions while the new payments architecture is being delivered and if not, can such an investment be justified?
- Are there any viable technical solutions to deliver some of the consumer benefits early without compromising the longer term solutions recommended by the Forum?

Without really understanding the cost base and delivery timelines for the new architecture for retail interbank payments systems and when new payments products can be delivered, it is difficult to offer an opinion on the business case for investing in transitional products.

That said, if the new architecture for retail interbank payments systems is to be based on international standards then once these standards are established there will be the potential for transitional products to emerge because they will by their very nature be products that have the capability to transition onto the new architecture.

This might equally mean that PSP innovation that exists outside the UK has the ability to deliver UK consumer benefits early if the PSP innovator sees the opportunity to enter the UK market based on a known strategic plan for the UK's retail interbank payments systems. This competition, when it appears in the UK market, would draw UK PSP's into investing in transitional solutions to support their market positions.

Key however to this potential market scenario being achieved will be certainty that international standards will be adopted and then certainty over both which international standards will be adopted for the new architecture and the timescales in which it will be delivered.



## Consultation question 5

- Do you agree with our proposal regarding customer awareness and education? If not, please provide evidence to support your response.
- Do you agree the delivery of these activities should be through an industry trade body? If so, which one would be most appropriate to take the lead role?

The approach set out in the Draft Strategy with regards to customer awareness and education is very much focused on the impact of cyber-crime on users' trust. We note that there are many other reasons that users do not use the banking and payment systems and choose to remain in the cash society.

These reasons might include being unable to access the existing payments infrastructure because they cannot open a bank account or having a wider, than just cyber security, mistrust of banking and hence payments.

For these potential users, customer awareness and education would therefore need to be wider than merely building trust in the security of the payments infrastructure. It would need to be based on the new architecture for retail interbank payments systems enabling access for all and achieving widespread customer acceptance that the changes were beneficial.

With regards as to whether these, wider than cyber security, customer awareness and education activities should be through a trade body we do not have an opinion. They would by their very nature benefit from coordination but equally increasing the number of users of payments products benefits all providers which implies it is in every provider's interest to build customer awareness and education into their business models.

## Consultation question 6

- Do you agree with the establishment of guidelines for identify verification, authentication and risk assessment? If not, please provide evidence to support your response?

We agree with the establishment of guidelines for identity verification, authentication and risk assessment to provide a consistency of approach. These though should be based on international standards, ensuring that the UK consumer can interact more easily internationally as well as nationally, and the UK market benefits from wider international innovation and UK innovation is able to benefit from a wider international market.

These guidelines must also ensure that they are applicable to all forms of payment, e.g. online, face to face, B2B, etc., as well as supporting aspects of identity verification, e.g. address, age, etc., to ensure the guidelines enable the widest possible number of payments use cases to be supported to meet the diverse needs of end users across the many different types of payment transactions they want and need to make.

Additionally, if established correctly, this trusted identity foundation would ensure that the verified identity established with one PSP could be re-used not only for payments-related activities across other PSPs but also for other e-ID purposes. The ability for the end user to re-use their established PSP identity or aspects of it, e.g. address, age, etc., in the digital world would be a welcome innovation for both end-users and businesses alike.

## Consultation question 7

- Do you agree with our solution to develop a central data repository for shared data and a data analytics capability? If not, please provide evidence to support your response?
- Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?
- If any legislative change is required to deliver this solution, would such change be proportionate to the expected benefits?

We agree that the introduction of greater transaction data sharing between PSOs and PSPs would enable the identification of priority financial crime use cases. Whether this needs to be a true central data repository for shared data and data analytics, with the resulting data security and privacy concerns this would inevitably raise, will depend on the technology options available to support the level and timeliness of the data analytics required.

For instance what might be required to support the identification of a priority financial crime use case in an immediate real time payment transaction might be different to that required in a regular payment transaction. Equally the tolerance levels around false positives or the slowing of payments down to allow manual assessments to take place will also determine the type of solution required and hence the degree of data held centrally.

We are aware of the data ownership and privacy issues that have previously been experienced with UK central infrastructure initiatives around the identification of priority financial crime use cases and therefore believe that legislative change would be required to support all stakeholders in the payments industry to participate in this PSF initiative.

## Consultation question 8

- Do you agree with our solution for financial crime intelligence sharing? If not, please provide evidence to support your response?
- In what way does this solution improve financial inclusion? More generally, how should the intelligence sharing be used for the "public good"?
- Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?
- Do the benefits of financial crime intelligence sharing outweigh the new potential risks created?

Similarly to our response to consultation question 7, the sharing of data (i.e. intelligence) will support the deterrence and prevention of criminal activity in the payments systems which if centrally organised would allow patterns to be spotted that banks individually would not be able to see.

Equally, if the shared data is used intelligently it will have the power to support greater financial inclusion beyond the examples highlighted.

There are risks to consumers from sharing data but equally if the focus on intelligence sharing is not just financial crime but also financial inclusion then the benefits to both end users and PSPs mean that with the correct data and intelligence sharing frameworks in place the benefits to consumers will substantially outweigh the risks.

## Consultation question 9

- Do you agree with the proposal to develop a Central KYC Utility? If not, please provide evidence to support your response?

We do not disagree with a central KYC utility, focused on business customers, but if it is developed it must not be to the detriment of the PSR's objective to promote competition in the operation of the central payments infrastructures.

Also important will be the ability of a KYC utility to support not just the payment that is being made but also the transfer of enhanced data that is linked or associated to the payment. If the KYC utility was not accepted by other non-payments business sectors then the range of potential enhanced data use cases would be restricted.

The PSF should also note there is potential for this utility to support greater competition if, when a business wishes to change its PSP provider, it is not, because of the utility, required also to change authentication credentials because these are interoperable across PSPs.

## Consultation question 10

- Do you agree with our solution for enhancing the quality of sanctions data? If not, please provide evidence to support your response?

We agree with the solution for enhancing the quality of sanctions data because it is in line with the wider thrust of the draft strategy in adopting international best practice and standards.

## Consultation question 11

- Do you agree with our proposal regarding access to sort codes? If not, please provide evidence to support your response.

We agree that the short term initiative regarding access to sort codes outlined will be supportive of new PSPs entering the UK market.

However if the PSF is proposing a new architecture for retail interbank payment systems then it must also review the UK sort code and account number structure to ensure it does not prevent the new architecture from fulfilling its innovation and competition potential.

## question 12

- Do you agree with our proposal regarding access to settlement accounts? If not, please provide evidence to support your response.

We agree with the response because the inclusion of non-bank PSPs will inevitably increase competition which in turn will increase innovation.



## Consultation question 13

- Do you agree with the proposal regarding aggregator access models? If not, please provide evidence to support your response?
- How can the development of more commercial and competitive access solution like aggregators be encourage to dirve down costs and complexity for PSPs?

We agree with the proposal regarding aggregator access models and also with the implication that access is currently too costly and complex.

If the PSF does want to reduce the cost and complexity of access then it needs to support initiatives that move access away from being by bespoke software from specialist providers (e.g. ACI and VocaLink in FPS) towards being simply an extension of a PSP's existing enterprise software.

Ultimately therefore the aggregator model should not be seen as the solution, as it is simply a reaction to the symptoms of the current infrastructures and governance models. With a new architecture the central infrastructure should enable open access that is fair, easy and affordable for all and therefore negate the need for an aggregator.

## Consultation question 14

- Do you agree with our proposal regarding Common Payment System Operator participation models and rules? If not, please provide evidence to support your response.

We agree with the proposal to minimise non-essential differences between payment system operators' BAU procedures, on-boarding processes and terminology through a common operator participation model based on the ten areas of collaboration identified in the draft strategy. We believe this would support more PSPs directly accessing the Payment Systems which in turn should support greater competition.

However, key to this is that these participation models and rules should where possible follow international standards and best practice to ensure they fully support wider market entry of new PSPs by preventing UK specific barriers to entry being created.

## Consultation question 15

- Do you agree this proposal regarding establishing a single entity? If not, please provide evidence to support your response.
- If you do not agree, how else could the benefits be achieved without consolidating PSO governance in the way described?

Whether common payment system operator participation models and rules need to be delivered through a single entity or not will depend on the number of non-essential differences that exist between PSOs and whether there are any benefits to there being competition between payment scheme operators, e.g. Bacs and Faster Payments.

It might therefore be viewed that if there was a common payment system operator participation model then any benefits from a single PSO for Bacs, C&CCC and FPS would be outweighed by the potential risks e.g. the reform could risk stretching resources and the delaying delivery of the innovations that the PSF has set out.

In determining which approach best supports change and innovation it will be important for the PSF to understand PSO governance, PSO board constitution and the proposed new payments architecture because the former could restrict reform and innovation whilst the latter, if implemented properly, would enhance the ability of PSOs to encourage change and innovation.

## Consultation question 16

- Do you agree with the proposal to move the UK to a modern payments message standard?  
If not, please provide evidence to support your response

We agree with the proposal to move the UK to a modern international message standard.

## Consultation question 17

- Do you agree with the proposal to develop indirect access liability guidance? If not, please provide evidence to support your response.
- What, in your view, would prevent this guidance being produced or having the desired impact?
- In your view, which entity or entities should lead on this?

This recommendation has arisen because e-money providers have evolved their services to mimic bank accounts, by using banks to access payment instruments such as Direct Debit which in turn has left the bank associated with, but having no AML oversight of, the e-money provider's customers.

Within the PSF's draft strategy there are many remedies to the current reasons why e-money providers have evolved their business models this way. These remedies might ultimately negate the need for these e-money providers to go through banks as they do today and thus the need for guidance on indirect access liability.

That said, the PSF's strategy is a long term one and the e-money providers have evolved their services to meet a customer need that participants in the payments industry were not meeting so it would seem sensible for the PSR to lead on developing indirect access liability guidance to support the continued availability for customers of these e-money provider products in the short to medium term.

## Consultation question 18

- Do you agree with the proposal for a co-ordinated approach to developing the various types of APIs? If not, please provide evidence to support your response.
- What are the benefits of taking a co-ordinated approach to developing the various types of APIs? What might be the disadvantage of taking this approach?
- How should the implementation approach be structured to optimise the outcome

We agree that a coordinated approach to developing the various types of APIs is needed because APIs need to work seamlessly across the whole payment journey.

As such we agree that any API strategy that the PSF progresses does need to be fully coordinated with the various stakeholders involved in the PSD2 and Open Banking initiatives that are currently considering API-based models.

Equens has reviewed this subject relatively recently in a joint paper on the “..practical realisation of TPP access as described in the revised Payment Services Directive (PSD2) by adopting an open, optional Controlled Access to Payment Services (CAPS) methodology” it authored with Nets and VocaLink: <http://www.equens.com/Images/CAPS%20%20PSD2%20White%20Paper%20-%20August%20201528-20333.pdf>

If of interest to the PSF we would be happy to explore this in more detail as the PSF develops its strategic thinking.

## Consultation question 19

- Do you agree with our proposal to create a Simplified Delivery Mechanism? If not, please provide evidence to support your response?
- Should the new consolidated entity be responsible for leading the development of the new rules/ scheme or should a new body be given this responsibility?
- Could an existing scheme adapt to provide the Simplified Delivery Mechanism or should a new one be developed?
- Would it be better for the processing and clearing functions of the simplified framework to be built on distributed architecture or a centralised infrastructure? Could there be a transition from a centralised structure to a distributed structure over time?
- Do you think it is feasible to begin work to design a new payments infrastructure given existing demands on resources and funding?

As described the Simplified Delivery Mechanism (SDM) would seem fundamental to achieving the PSF's aims of making access easier for PSPs, reducing the need for collaboration across the system and facilitating innovation and competition. Key though to the SDM achieving these aims, as the PSF has rightly identified, is the question of whether it is delivered through central or distributed technology/infrastructure.

This technology/infrastructure decision would also seem to sit at the heart of whether a new body should or should not be given this responsibility. For instance, if the SDM is based on central technology then a new consolidated entity, evolved from what exists today, might be best. However, if the SDM was to be based on newer distributed technology, e.g. distributed ledgers, then a new body might be better placed to not be blinkered by the past.

This does though imply that a view is required on the technology underpinning the SDM before a decision can be made with regards to the entity/body required to progress it.

As to whether it would be best to build the processing and clearing functions of the simplified framework on distributed architecture or a centralised infrastructure then we believe a view will be required on whether the new distributed ledger technology and thinking does or does not provide the opportunity for delivering business models differently to current, distributed or central, technology sets.

Distributed Ledgers are a very interesting and promising technology and one which we are following the development of very closely, especially with regard to its ability to support different settlement models, with several sandboxes/pilots planned for this year.

However, the use of distributed ledger technology in our main processing capability has not yet been proven. One of our concerns lies in the scalability of the technology which is why, for now, we have decided to develop our Instant Payments capability using a more traditional centralized model.

In addition, the PSF will need to ensure it fully validates whether a single SDM will support all use cases - a direct debit for instance has different data characteristics than a salary payment, which has different data characteristics than a mobile P2P "share the restaurant bill" payment. The PSF therefore will need to ensure if its strategy does recommend a single SDM and single entity/body that this does not compromise both the delivery of the use cases that will benefit real users and potentially restrict areas of unknown future innovation and competition.

As to whether work should commence on the design of the new payments infrastructure, as technology seems to sit at the heart of any SDM strategy it would seem imperative that the PSF

progresses Pilots or Sandboxes as quickly as possible on the technological underpinning that would best support SDM in delivering the benefits that the PSF is looking for from its strategy.



## Consultation question 20

- Do you agree that the existing arrangements of the payments systems in the UK needs to change to support more competition and agility?
- Will the package of proposals we suggest, the Simplified Payments Platform, deliver the benefits we have outlined? What alternatives could there be?

We agree that the existing arrangements of the payments systems in the UK needs to change to support more competition and agility.

Whether the proposals that the PSF suggests succeed in achieving this will depend on more than a new payments architecture; it will also depend on the governance arrangements for progressing the changes that the PSF proposes.

The UK payments industry has undertaken several strategic reviews in recent years which ultimately have come to nothing unless the UK Government has forced the industry to innovate, e.g. Faster Payments and the Current Account Switching Service.

It will be very important therefore that the PSR, with the full weight of UK Government behind it, takes responsibility for the delivery of the PSF's recommendations. This will be especially important because the programme of change required to introduce the new architecture will take a long time to deliver and also see the business models of existing payments industry participants threatened.

We also note that the PSF's proposals are only focused on Bacs, C&CCC and Faster Payments and do not consider Visa, MasterCard or Chaps. This might be the correct approach but equally Visa, MasterCard and Chaps form part of the basket of payment mechanisms for real end users and as such would seem to need to form part of any new strategy that has to deliver payments that are versatile, responsive to user needs, secure, resilient and efficient.

In addition, we are seeing that innovation and flexibility is happening at the customer facing side with Mobile Apps, NFC, Bluetooth Beacons and the like. The infrastructure side is far more concerned with reliability, standards and security. That is the challenge that the PSF will need to address as it evolves this strategy.

## Consultation question 21

- Do you agree with this proposed sequence of solutions and approach outlined to further clarify this?
- If not, what approach would you take to sequencing to bring forward the anticipated benefits, in particular for end users?

We agree that at this conceptual stage of thinking it will be important to initially progress the cost benefit analysis to inform the proposed sequencing of the solutions.

In addition, we would also suggest that the identified detriments are reviewed to see whether any of them, outside of a pure cost benefit analysis, offer the potential of being addressed earlier in the programme. When a large change or transition programme takes place it is always advantageous if benefits can be realised during the programme rather than just towards the end of it.

## Consultation question 22

- What approach should be taken to deliver the implementation of the Forum's strategy?
- Who should oversee the implementation of the Forum's Strategy?
- What economic model(s) would ensure delivery of the Strategy recommendations?

At this draft strategy stage the implementation approach outlined by the PSF seems sensible, especially ensuring that the PSO Governance reform is fully considered ahead of the final strategy being published.

As stated previously we believe the implementation of the Forum's strategy when eventually finalised will need to be overseen by the PSR with the full weight of the UK Government behind it.

With regards to which economic models will best ensure delivery of the PSFs finalised strategy recommendations, this will depend ultimately on what is being recommended. Investment in central infrastructure to make it more flexible will need to be industry funded which could be via a similar economic model to those used to build the Faster Payment or CASS services or the economic model could incorporate the PSR's stated re-procurement of the central infrastructures. For this to be achieved there would need to be clarity on what Infrastructure Providers were being asked to supply as well as the criteria that would be used to assess how they will provide it and how costs will be recovered within any proposed fee structure.

Equally if the central infrastructures exist to support 'innovators' entering the market on equal terms to existing PSPs then it would seem fair that 'innovator' PSPs fund their own product development and market entry costs. This though assumes that a true assessment can be made that the existing barriers to entry have been removed.

## Consultation question 23

- Do you agree with the proposed approach for quantifying the potential costs and benefits of the proposed solutions?
- Do you agree with the costs and benefits drivers outlined in this document?
- We would appreciate any information on the potential costs and benefits you may have to assist our analysis.

We agree with the PSF's approach to quantifying the potential costs and benefits of the proposed solutions contained in this draft strategy document and we agree with the costs and benefits drivers that have been outlined.

We would also be willing outside of this formal consultation response to sit down with the PSF to support its understanding of the costs and benefits of non-UK payments infrastructures to help the PSF quantify the potential costs and benefits of its proposed solutions.

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