

**Santander response: Payments Strategy Forum
Draft strategy for Payment Systems
“Being responsive to user needs”**

Introduction

1. Santander UK plc (hereafter Santander) welcomes the opportunity to respond to the Payment Strategy Forum’s (PSF) draft strategy for payments. As a scale challenger in the UK market, we are supportive of work which will increase competition and deliver good outcomes for our customers. We welcome Ruth Evans, PSF Chair’s, comments that the future system needs to be modern and open to increase competition and dynamism in payments, balanced against the need for reliability and resilience.
2. Overall we welcome the work of the PSF and supporting working groups who are to be congratulated on developing a comprehensive draft strategy for UK payments systems. We strongly agree there is a need for change and that consumers and users should be at the heart of all that we do.
3. As we have highlighted in previous responses, Santander considers that the core of the UK payment systems are solid and robust, delivering a consistent and reliable service for customers. The UK payments industry provides the best services in the world in a number of areas, Faster Payments and Paym being obvious examples, but individually each system has positive and negative points to consider.
4. Santander has long championed the need for a “Confirmation of Payee” model, and it is positive that this now has the momentum within the Industry to see the benefits it will undoubtedly bring. We also agree that the innovation with the “Request To Pay” model is the right approach to support the trends in customer behaviour, and in particular the flexibility customers want in paying for services and goods. As the draft strategy suggests, these services will complement the payment services customers have today – for example Direct Debit is a fundamental service customers rely on today and we do not see the customer facing proposition changing fundamentally. These two innovations will fundamentally enhance the core proposition customers receive today.
5. Santander also agrees that change is needed in the core infrastructure, and we support the need to understand what technological opportunities could benefit and enhance the UK user experience, as well as support the future model and reliability of payments services. We welcome the determination to look at a new complete payments architecture in the Single Payments Platform (SPP) proposition, but fundamentally this needs to be carefully considered in the wider context of all other changes that the Industry is going through currently, particularly the Regulatory change regime – small changes, such as “Immediate” Faster Payments, to the current propositions may bring most, if not all, of the opportunities SPP may bring. Technology is evolving at pace, and the reliance on a core infrastructure is becoming less of a fundamental architectural feature; and as the “new” technologies such as APIs, Microservices and Distributed Ledgers come more to the fore of banks and PSPs interacting, the need for central networks is diminishing, but it is still somewhat embryonic in areas to assume that the “new” technology can be the future. But the evolution of a standard message format and common railtracks for the movement of data and clearly sensible and logical steps forward, when planned into a strategic, thought-through timeline which should be led by a single Scheme entity.

6. In relation to implementation and next steps for the PSF's draft strategy, two critical areas for early consideration to implement any future changes are:
 - a. **Coordination and delivery:** the reliance the Industry has placed on Payments UK in the past to deliver critical large scale change, such as CASS, has worked well and ensured a clear and consistent model delivery. It is unlikely given the planned changes with FSTAR that this will be a viable/available proposition in future. Central co-ordination by an experienced body is essential; the risk of failure is high without this core feature, as demonstrated recently with the Cheque Image project delivery. The solution that comes from the work on Scheme consolidation may well be the right answer to fix this point, but until that is determined a gap exists; and
 - b. **Leadership & Funding:** this is a fundamental feature that needs to be determined. The past models have all relied on the member banks and building societies fully funding the cost of change and implementation; some banks were able to recover at least some of their costs through commercial models to offset the expenses, but not many. This model also saw the members lead the design and implementation. We agree this model needs to change to clearly demonstrate the needs of users are fully considered in the design and delivery. Implications on the current model - both ongoing and future build - need to be carefully weighed in any decision taken; to create a scenario where banks are expected to pay for change, but have no leadership or definition into the outcome would bring the potential to disrupt the services of many to support the few, which is clearly too high a risk to pay for needed change, particularly in the current economic environment. The Industry will need to clearly demonstrate the need for significant change on the scale of SPP which in itself could bring costs running into hundreds of millions of pounds for the internal and external changes, at a time when the existing pipeline of mandated regulatory changes is both resource and cost intensive. Many significant multi million pound projects are running into 2019 and beyond, with the major UK banks focused on the delivery of: ring-fencing; closure of PPI complaints; MiFID II; and IFRS 9 to name just a few.
7. Please note that we do not consent to the publication of this response, either in whole or in part, without prior discussion. We would be happy to discuss our comments with the regulator or Forum colleagues, and can be contacted at santanderregulatoryliaison@santander.co.uk to arrange this.
8. We look forward to continuing to support the work of the Forum through our participation on its work-streams, and to working with the industry to ensure that the payments sector can deliver the proposals outlined in this paper.

Santander UK plc
14 September 2016

Santander Response to questions posed

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

As high level principles and based on the feedback received around themes of greater control, greater assurance and enhanced data, we agree that the right needs have been captured.

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

Do stakeholders agree with the financial capability principles?

It is important to ensure that the balance of needs are correctly captured, and that the balance of existing benefits are not disrupted by future demands for change, particularly for smaller segments of the payments model. As an example, the Direct Debit service works as required for tens of millions of users every month, with no need to do anything to pay a bill; while the demand for "Request to Pay" is clearly evident, but does not meet the need for all. It would be a detrimental decision to adopt a 'one size fits all' approach and to push all users in the same direction.

It is also important to ensure the business cases developed assess the need for retaining service, for example credit payments in the cheque clearing model remain but, with many modern and preferred consumer alternatives, we believe these are now an unnecessary product to maintain.

How should these principles be implemented?

We agree with the collaborative approach of the draft principles and note that an inclusive model is essential. With multiple stakeholders, a key factor in implementation must be clear governance and oversight to the approach. Early agreement and clarity should also be secured on how the future changes to implement the principles will be funded, particularly given the demanding economic environment and regulatory change pipeline.

While the current model is seen as too bank-centric, the central costs of all collaborative projects have been borne by the banks. The banks have invested the time and resource to create the new services. For the industry to move forward together, inclusive of banks and new participants, everyone should have a stake in a successful outcome, and so we would recommend that funding for future models is fairly and equitably balanced amongst participants and beneficiaries.

How should their [the principles] implementation be overseen and how should the industry be held to account?

The PSR is in a suitable position to take a helicopter view of implementation and hold the industry to account for delivery, particularly given its status as a subsidiary of the FCA, which has statutory responsibility for consumer protection.

On a more practical day-to-day basis, the PSR should look to an implementation body to support the industry centrally and ensure that the projects and programmes are managed effectively. As two practical examples of how this could be taken forward: Payments UK has

demonstrated the benefits of this model well in the past in coordinating such collaborative projects as PSD2 and liaisons with HMT and EBA; and for the CMA remedies, the 9 mandated banks are working to form an Implementation Entity, with a responsible Trustee, which could in turn absorb an infrastructure and implementation project such as this, and would have the appropriate skills and senior management with which to deliver.

- 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?**

As technology and infrastructure develops, the capabilities of Enhanced Data will naturally develop. With more space for data, better information or supporting material could be provided to customers. It is conceivable that in future Direct Debit originators could transport invoices or statements via the payment networks rather than by post or email, attaching the file to the payment data itself. This would subsequently enable queries to be answered when customers query Direct Debit amounts on their accounts. Enhanced Data could also be used if banks want to provide an additional service of matching the invoice to the payment amount being debited and alerting the customer by SMS if different so they can return the payment.

Government has been clear on the benefits they feel can be delivered. As more data travels across the payment network the analytics capabilities become more enhanced, and the Big Data intelligence gained could be used to enhance the customer's experience.

We agree with the risks outlined, and that there will be a need to ensure data privacy, protection and security is appropriately mitigated.

- 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?**

Investing in transitional solutions while new architecture is being delivered should be considered on a case-by-case basis, based on the problem that is being addressed.

As highlighted, the industry is going through significant change with the introduction of APIs. This introduction will support regulatory demands from the Competition and Markets Authority, and the Payment Services Directive II (PSD2) to open up access to innovators and Fintechs to interact with banks on the customer's behalf.

There is a natural cycle to follow with API introduction which is likely to render the need for a central infrastructure as less relevant. As an example, Request to Pay as a service will bring clear benefits for many users. However PSD2 will enable PISPs to create payment instructions on behalf of the consumers as simply, and probably in a more personalised way, than a central model. There is a clear need for a "Rule Book" centrally, to ensure the UK consumers are protected and have a consistent service, but the need for a central build is less likely.

While this should not necessarily stop the further reviews by PSF and others, the demand should not be seen as time critical while the natural order of evolution plays out - the central Operators can play an important influencing position on the rules but not the technology.

Given the timescales on PSD2 and CMA requirements in respect of APIs are less than 24 months away in early 2018, we do not consider there is a need for more urgency on short term ideas, but the focus should be on the successful delivery of a sustainable, robust, longer term strategy.

By taking a measured and controlled approach to this strategy there will be a clear ability to create a defined roadmap with clear deliveries and benefits to the end goal of a renewed payment infrastructure. By providing intervals of milestones, the lower level details of the technology to meet the strategy demands can be incrementally adjusted as time progresses so rather than defining the specific technology or approach now, the flexibility of build can be deferred to the time of implementation.

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?

We agree that customer awareness and education to help people avoid financial crime is central to successfully functioning financial services and boosts individuals' awareness in dealing with payment systems. It also brings short term benefits to some of the issues consumers experience today, as simple and clear instructions made available can help prevent some of the issues and distresses felt.

We agree this should be managed through a central body, as many of the trade associations have run successful financial crime awareness programmes, however at this stage we consider the PSR and PSF would be best placed to select which relevant entity should deliver this work. The industry trade associations are currently subject to a merger following the Financial Services Trade Association Review and so it may be more appropriate for the regulator and PSF to consider how the timings and organisational impact of this change will fit with this proposal before selecting the body and timescales for delivery.

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

We agree that guidelines similar to those in PSD2 or EBA are useful, however these should be made more technically detailed to avoid confusion. A clear explanation as to why they are required would also be beneficial. We also suggest that centralised, industry based risk assessments of the threats to the technology suggested in the guidelines should be conducted and made available.

- 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 with the solution if due consideration is given to privacy and protection, in which case this allows for huge advantages for tracking and improving the ongoing payments experiences, in addition to the clear financial crime advantages.

We would suggest that the proposal is heavily reliant on institutions to build and meet one flexible standard of payment messaging.

- 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? Can this operate without changes to legislation? If not, what changes to legislation would be required to make this happen? If any legislative change is required, would such change be proportionate to the expected benefits? What governance structure should be created to ensure secure and proper intelligence sharing?**

We support the concept of the solution for financial crime intelligence sharing but would point out that the paper refers to fraud intelligence sharing. We would submit that the legal basis for sharing information on Money Laundering (and Terrorist Financing) is different, as it is suspicion based. There is a new process in Government that has been established for this purpose, the Joint Money Laundering Intelligence Taskforce (JMLIT), therefore there would be a danger of duplication if the scope extended to Money Laundering and Terrorist Financing. This would also require change to legislation as Money Laundering/Terrorist Financing gateways do not currently exist.

Regarding how the solution improves financial inclusion, better intelligence for Financial Crime allows targeted controls that stop criminals or mitigate risk without disproportionate impact on genuine customers.

The risks outlined are relevant but they are being addressed by the Criminal Finances Bill.

The benefits of financial crime intelligence sharing do not outweigh the new potential risks created, however the government will need to make new ways of sharing (Legal gateways) through the Policing and Crime Bill.

This cannot operate without changes to legislation as Money Laundering and Terrorist Financing gateways do not exist.

In terms of the governance structure which should be created to ensure secure and proper intelligence sharing, JMLIT provides a good model and can be replicated.

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

We agree that the concept for this proposal is sound. However, we are aware that this idea has been discussed at length prior to this strategy. We are also conscious that the legal barriers and current uncertainty over the EU makes the situation even more challenging.

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 that there is scope for enhancing the quality of sanctions data provided by Government. However as sanctions lists are provided not just by the UK authorities but also by the EU and UN we submit that changes need to be made at all levels in order for this solution to provide the desired result.

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

We agree with the proposal regarding access to sort codes and submit that this is one important feature of enabling greater access to payment systems. With the introduction of Cheque Imaging the ties to a current direct participant are loosened which makes the model more straight-forward to manage. We would expect to see BACS introduce relevant controls to ensure the effective administration of this process.

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

We agree with the proposals regarding access to settlement accounts and welcome the recent work done by the Bank of England in this area to support innovation. We expect that the Bank of England, as well as FCA and HMT, will maintain the level of rigour and review currently undertaken to maintain a stable and robust settlement model to protect the integrity of the payment systems.

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 solutions like aggregators be encouraged to drive down costs and complexity for PSPs?

We welcome this proposal as it reduces costs, creates opportunities and competition, and promotes standardisation of technical interfaces and processing times. We find that our customers receive a different experience when they are sending payments to one of the hundreds of indirect FPS agencies out there, as the time to credit the account once the sponsor bank receives the payment varies. The more indirect agencies that move to real time directly connected FPS, the more uniform the overall FPS proposition becomes. This could also add greater certainty to payments due to the reduction in qualified accepts.

Faster Payments have shown that if payment system operators (PSOs) review their technological and operational standards with a view to open and fair access for all PSPs, then Financial Technology Companies and PSPs will very quickly start building solutions to utilise these.

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 regarding common PSO participation models and rules and believe that this is a clear step towards the PSO consolidation model. We submit that steps such as common terminology and creation of a product catalogue for example should be delivered quickly to demonstrate the appetite for simplification. As the PSOs align, the more structural activity such as testing and on-boarding should be accommodated into the more straight forward model.

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.

We strongly support the proposal regarding establishing a single entity. We believe that this fits well with the need to simplify the PSO model and aligns to creating a forward thinking, innovative strategic focused company. This includes the fit of future contracts and the alignment of rules and standards.

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 to modern message standards (ISO 20022). These may already exist for some classes of payment, however, where no suitable format exists these will need to be agreed and certified. This is a process which will need to be managed in a manner compatible with the principles of the PSF.

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?

We agree with the proposal to develop indirect access liability guidance, which we believe will assist and cover scheme liabilities such as debit cap liabilities at BACS, and addresses how Providers can accurately reflect the liability they hold in the three day cycle at hourly intervals. Santander has requested from BACS an improvement to the way the debit cap position for agency banks is reported out to Providers and this is currently being progressed through the Settlement Committee.

Regarding what could prevent the guidance being produced or having the desired impact, it would depend on where this guidance was being sent from. If it is sent from scheme companies there could be issues gaining agreement at scheme level from Members, however given this has not been an issue previously then this would be unlikely. Given this subject is a high priority for most providers then there should be no reason it will not have its desired impact once agreed.

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 disadvantages of taking this approach? How should the implementation approach be structured to optimise the outcomes?

We agree that it makes logical sense for there to be a co-ordinated approach and that a way of ensuring commonality between open API Implementation Entity (IE) design and other such open APIs would be for the IE to expand its role.

However, in reality, the scope and work of the IE is already large and with challenging timelines; their purpose is wholly to focus on CMA regulation and timelines, and so adding to their scope may be somewhat difficult and misaligned with the actual role of the group. Budget and/or funding of the group is also not yet finalised but it is already envisaged to be a large figure. Additional work would add to this.

Benefits for the proposal would be that open APIs and API standards would be common solutions designed for each regulation to be cohesive, and there would be a reduced level of duplication of work and complexity. However, we note that developing such a co-ordinated approach might risk creating barriers to entry for TPPs.

We submit that the first step, if a co-ordinated approach to standards etc. is decided upon, would be to design and decide upon these common standards. The subsequent overall implementation approach can only really be considered once the design has been looked at in lower level detail. One would assume that since the desire would be to have a layered approach to architecture, once each layer is decided upon, there would be a natural necessary core with subsequent layers sitting on top. Accordingly, we suggest that it would make sense to look at implementation of this core and any relevant security/registration first.

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?

We agree with the proposal to create a Simplified Delivery Mechanism, which would act as a logical "hub" or "network" through which payment related messages can be exchanged.

We submit that the solution should incorporate many of the attributes of existing schemes (resilience, security, trust etc.) but should also facilitate innovative usage and extension whilst being suitable and accessible to all potential participants. Provided that the various criteria can be met, then the actual body responsible is not so critical.

Experience of "new" initiatives such as Faster Payments, CASS, PayM and FCM would suggest that a completely new scheme should be created to develop this new capability in parallel to existing schemes. This would help avoid conflict of interest and facilitate migration / adoption of the Simplified Delivery Mechanism.

Certain aspects of Distributed Ledger Technology (DLT) are potentially interesting, especially for non-repudiation of audit and contractual information, however, the use of DLT as the primary network does not appear to be compelling at this point in time - especially as this is likely to be a "private" service which will be restricted to suitably authorised participants.

It is likely that there will be continuous demand on resources and funding for the foreseeable future, as such delaying the initiative is unlikely to improve matters. It is more important to ensure that the initiative is broken into pragmatic, manageable deliverables, continuously adding value as we evolve towards the final state.

20. Do you agree that the existing arrangement of the payments system 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?

On a technical level some of the existing payment schemes are very restrictive and constrain any real innovation or competition. However for those schemes that are more modern and support greater flexibility there are nevertheless challenging processes to contend with in order to make changes or extend the usage beyond what was originally envisaged, which limits the rate of innovation and is costly. Any new scheme must address these issues.

The benefits outlined appear feasible, provided that the new scheme is able to balance all requirements, presumably by using the proposed layered architecture to manage the conflicting needs of the scheme regulators and controllers with those of participants pushing for rapid innovation.

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?

Whilst there are certain dependencies in the sequence of deliverables, we believe that it is important to embrace certain principles of "agile" development. This approach permits a more rapid delivery of value adding functionality, albeit in an incremental manner. For this to work all participants should agree the prioritisation of functional deliverables and a process of continuous testing and deployment should be established. To address the needs to innovation and time to market, this would seem to be the appropriate way forward, although clearly for certain aspects (specifically regulatory, security and compliance), a more formal approach may be required. This could be accommodated within the layered architecture. As such, the very much simplified categorisation deliverables could be re-visited to reflect a more incremental delivery.

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?

A collective implementation approach governed by the PSR would be difficult and may be met with initial resistance due to the fact that each bank is most likely already progressing a number of the initiatives themselves. As expressed in the strategy itself, an implementation approach can only really be formulated once the SPP design and financial crime solutions are

further advanced so that a full view of scope and size could be obtained. Due consideration must be made to implementation approaches and timelines of other related regulations and regulatory initiatives, such as CMA remedies/PSD2.

A suggestion for who should oversee the implementation of the forum's strategy would be the PSR given the Forum/PSR structure.

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.

Quantifying the potential costs and benefits of the proposed solutions will be a critical factor in determining whether projects press ahead. Whilst we are supportive of the notional ideas, we believe that the real cost of change needs to be considered in decisions. Equally, the funding model is very important in relation to how these changes would happen; we do not believe that it should be assumed that the "big banks" can or should be expected to pay for future developments without a clear economic business case. The high level proposals for costs and benefits are appropriate, but will need to be considered on a case-by-case basis to ensure the theory fits with the relevant project.

[ENDS]