

The Payments Strategy Forum – Being responsive to user needs Draft strategy for consultation

Respondents basic details

Consultation title:	Being responsive to user needs Draft strategy
Name of respondent:	TSB Bank Plc
Contact details/job title:	
Representing (self or organisation/s):	
Email:	
Address:	

Publication of Responses

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Declaration

"I confirm that our response supplied with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

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This response template is intended to help stakeholders in responding to the questions set out in our Draft strategy for consultation and in its Supporting Papers.

If you do not want parts of or all of your response to be published you need to state clearly ('Not for Publication') over specific information included in your response, please be sure to clearly mark this by yellow highlighting it. We will assume that all other information is suitable for publication.

Responses should be emailed to us at Forum@psr.org.uk in Word and PDF formats by no later than **14 September 2016**. Any questions about our consultation can also be sent to Forum@psr.org.uk.

Thank you in advance for your feedback.

QUESTIONS IN RELATION TO SECTION | RESPONDING TO CONSUMER AND BUSINESS NEEDS

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

TSB agrees that the list of detriments in Appendix 2 is comprehensive. The draft principles for the development of payment systems combined with the solutions cited in section 5 of the document provide good future solutions for the needs of end users. TSB would welcome further discussion on how these new solutions would fit into the overall future payments landscape and whether the PSF supports proliferation of multiple payment methods and whether more transparency, control and choice is required by end users on existing payment methods. For example, is it expected that customers will have the choice of using direct debit, standing order, (regular) card payments, cheques as well as request to pay, and 3rd party platforms (using open APIs) to pay their bills. And if so, will the choice of the method they use be dependent on the payees offering and how will we ensure that customers are clear on the different assurances and protections applicable to each (DD guarantee, CCA protection, security standards etc) and the mechanisms by which they can cancel, amend or retrieve their payments instructions (via the bank, the originator or a 3rd party).

Question 2a: Do stakeholders agree with the financial capability principles?

TSB welcomes careful consideration of end user needs when developing payment systems. The principles outlined by the PSF are helpful and can be used alongside consultation and evidence to better inform PSOs of customer requirements for new and changing payment systems. TSB also welcomes increased regulator focus on vulnerable customers.

Question 2b: How should these principles be implemented?

TSB would welcome the adoption of the principles as part of the overall control framework for all material industry payment projects. A useful exercise might be to test existing payment products and methods against this set of principles.

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question 2c: How their implementation should be overseen and how should the industry be held to account?

Implementation could be overseen by the PSR in conjunction with payments scheme governance.

Question 3a: What benefits would you expect to accrue from these solutions (not necessarily just financial)?

TSB believes that the proposed facilities will accrue the benefits cited in the strategy document and are supportive.

Question 3b: Do you agree with the risks we outline? How should we address these risks? Are there further risks we should consider?

We agree with the risks identified. TSB believe that there may be additional security and data risks to be considered with PSD2 with the inclusion of third party providers. There is also the risk of proliferation and fragmentation of payment methods which could be confusing for customers unless it is well managed.

Question 3c: Is there a business case for investing in solutions to address these needs and if not, how such an investment can be justified?

Further work will need to be undertaken to establish the business case for these solutions. TSB would support the work to produce a business case. It is not clear whether it is expected that banks will pay for the solutions, and whether they will be able to pass on the benefits and costs to end users. This needs to be clarified.

Question 3d: Are there any alternative solutions to meet the identified needs?

TSB believes that more work needs to be done on open APIs and supports a central scheme to develop these within an open API framework. Consideration should be given to how much of the customer benefit could be achieved via this mechanism.

Question 3e: Is there anything else that the Forum should address that has not been considered?

As stated under the answer to question 1, TSB would welcome consideration of the existing landscape as well. We believe that these initiatives should form part of an overall roadmap which takes the entire UK payments industry to a well defined set of offerings which meet customer needs and are transparent. This clarity would assist PSPs, businesses and consumers to ensure that they can avoid complexity, proliferation and cost.

Question 4a: 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?

TSB would like to better understand the customer benefits, financial costs and benefits and the risks associated with the new payments architecture, as well as with any transitional solution. The nature of the business case will determine whether customer benefits can be achieved early in the process and remain aligned to the delivery of the strategic architecture. TSB would encourage the development of business cases that realise early customer benefits.

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question Are there any viable technical solutions to deliver some of the consumer benefits
4b: early without compromising the longer term solutions recommended by the Forum?

TSB does not currently have a view, but can envisage that with the right objective technical architectural support this would be possible.

QUESTIONS IN RELATION TO SECTION 6 | IMPROVING TRUST IN PAYMENTS

Question 5a: Do you agree with our proposal regarding customer awareness and education? If not, please provide evidence to support your response.

TSB agrees that education for consumers and businesses can be helpful and we are supportive of the approach. We support making the underlying propositions as simple as possible for customers as well, as this makes education more intuitive. We cannot expect customers to be payment experts so our efforts must focus on ensuring that the landscape is as simple as possible and that they can make informed choices about the payment mechanisms they chose. Customers should be able to understand their liabilities and understand how to resolve problems.

Question 5b: 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?

An industry trade body such as Payments UK would be a good forum to deliver collaboratively.

Question 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.

TSB agrees that identification and verification (ID&V) must be established that, as a minimum, would allow it to meet its regulatory obligations.

It is true that it is often the case that PSPs have different approaches to ID&V documentation to accept, however this is due largely to accommodating the individual, and often complex, needs of the customer. An agreed criteria seems sensible but TSB is mindful of the need to be adaptive to our customers so as not to restrict/prevent the use of our services.

It's also important to note that for such a process to work, PSPs would be relying heavily on the KYC/KYB carried out by other PSPs. This leaves a range of questions to be answered: Has oversight of this process been considered? How can we be sure that another PSPs systems, processes and procedures are indeed in line with our own risk appetite? What are the proposed key controls that will be in place? Will there be a central manager that aligns policies and procedures while ensuring regulatory requirements are met?

TSB feels this would impact the ability of PSPs to manage its own risks around identity. Not all PSPs offer the same functionality and therefore have different underlying risks, as well as any difference in their own risk appetite. Therefore differences would exist. If standardisation goes to a minimum then risk increases, if it moves up the curve then this could impact financial inclusion. The middle ground is largely where we already are so TSB feels more work needs to be done to understand the consequences of implementing this but does support a minimum standard.

Question 7a: 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?

TSB believes that the ability to share and analyse data to spot financial crime victims and perpetrators to enable the outcomes described is an outcome we support. We agree that further analysis needs to be done to determine the most effective solution to achieve that outcome, whether that is a central repository or another type of technology, such as a distributed ledger.

Question 7b: Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?

Yes, TSB agrees that the risks identified are some of the risks associated with the proposed solution. Further, TSB feel there are certainly a number of additional risks that still need to be considered. A central repository of data would certainly be a target for those seeking to commit financial crime. This requires clarity around what protection would be in place to ensure customer data is protected and what processes would be put in place to ensure minimal disruption to customers should a breach occur.

Processes and governance would need to be established around amending/updating customer data also. If a customer is incorrectly labelled/denied a service, a process would need to be in place to address this relatively quickly.

TSB believe there are potential fraud risks from how secure this data would be and how it may be aggregated. Also this needs to take account of PDS2 and potential access of TPPs to this data. Who owns the data and who has access to it are key considerations.

TSB acknowledges that the size of the risks depend on the level of data shared. The larger the data set; there are likely diminishing returns to identifying actionable intelligence. In order to address these risks, further work needs to be done to define the correct technical solution to address the proposed outcome. As part of that design process, all identified risks should be considered in order to achieve the correct design.

Question 7c: If any legislative change is required to deliver this solution, would such change be proportionate to the expected benefits?

TSB believes this would be dependent on the data to be shared and expected benefits, vs. the overall risks and the legislative changes required.

Question 8a: Do you agree with our solution for financial crime intelligence sharing? If not, please provide evidence to support your response?

TSB does agree with the proposed solution as it would be beneficial to share financial crime intelligence but feels caution is required. The ability to analyse the data and call out trends, identify new red flags and emerging risks will only benefit our customers by allowing us to develop stronger financial crime defences. However, governance would need to be established around the sharing of such data.

TSB feels that work would need to be done to ensure that the categorisations of data work for specific groups as trends/threats for retail banking will be different to investment banking

Question 8b: In what way does this solution improve financial inclusion? More generally, how should the intelligence sharing be used for the “public good”?

TSB believes that unless the solution is developed and managed correctly this could be a detriment to financial inclusion as the view could be that suspicion is enough to decline to take on or remove from the book. TSB is concerned that this could lead to increased de-risking by PSPs.

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question 8c: Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?

TSB believes there are still a number of queries which remain unanswered. For example, if a central repository of data is adopted, who will own ultimately any fraud losses/financial crime that arise as a consequence of using the repository? How will investigations be managed centrally?

TSB also recognises other risks that need to be considered including risk of data loss and risk of use of the data inappropriately. Also, TSB is mindful that the overuse of suspicion degrades quality.

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question 8d: Do the benefits of financial crime intelligence sharing outweigh the new potential risks created?

TSB believes this would depend entirely on the proposed output. For a challenger bank like TSB, we want to have information that provides value. We need to understand what MI will come out of this.

TSB feels a number of clarifications need to be made such as; will this be appropriate for a bank of our size, within retail banking, with a similar portfolio? Will we be able to draw out key metrics that are translatable to our business if the metrics proposed aren't valuable it's likely that the 'benefits' will not outweigh the risks involved.

Question 8e: 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?

TSB believes that this hinges on whether this involves transactional data ONLY or not. It is not clear what processes have already been considered around customer agreement, handling of customer complaints and losses.

Question 8f: What governance structure should be created to ensure secure and proper intelligence sharing?

TSB believes clear reporting lines and oversight will need to be agreed prior to implementation. It is not clear who will be accountable for financial crime and/or fraud losses or who will have effective oversight.

TSB strongly believes there needs to be a clear governance structure in place, with key financial crime metrics being reported. Clarification is needed around whether the reporting/metrics will be shared with the regulator and whether this will inform/trigger potential thematic reviews?

There needs to be clarity on which bits of legislation take primacy over others.

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

Yes in principle as TSB believes that this will make switching easier for customers. However, TSB has highlighted data concerns in the proposal. There are concerns around the quality of data that will be held and the governance of the Central KYC Utility. TSB requires the proposed approach be shared and asks that along with other banks we are consulted regarding the level of KYC we accept in specific circumstances.

Question 10: Do you agree with our solution for enhancing the quality of sanctions data? If not, please provide evidence to support your response?

Yes, TSB agrees that the HMT sanctions list could be improved; details of when sanctions regimes were enforced, changes are made, individuals/entities added/deleted could be clearer.

QUESTIONS IN RELATION TO SECTION 7 | SIMPLIFYING ACCESS TO PROMOTE COMPETITION

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

Yes, TSB agrees that a new utility sort code range would reduce the barriers to entry regarding new entrants wanting to participate in the market. TSB is favourable of any initiatives that boost competition. TSB believes that in the future reference data should be aligned into a retail or wholesale scheme entity or elsewhere. In the meantime TSB believes that Bacs is a competent owner but this should be rethought for the future.

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

Yes, TSB does support the proposal on access to the Bank of England's (BoE) Real Time Gross Settlement System. Allowing none bank PSPs to access a settlement account at the BoE will boost competition, removing barriers to direct access of the schemes.

Question 13a: Do you agree with the proposal regarding aggregator access models? If not, please provide evidence to support your response?

TSB agrees with the aggregator model but is mindful a transition of the governance of the aggregators from one of the current PSOs to a single amalgamated model would need to be considered.

TSB supports any process optimisation, being able to connect to the schemes through a single gateway will bring benefits for PSPs in the long term regarding costs, management of incidents, risk, governance and resource management. This will flow down to the consumers regarding reduced costs for products and services and more choice of PSPs.

TSB supports any initiative that looks to simplify the way PSPs connect with PSOs, anything that drives competition between the network providers is positive for all user groups.

Question 13b: How can the development of more commercial and competitive access solutions like aggregators be encouraged to drive down costs and complexity for PSPs?

TSB feels it would be up to the aggregators to decide what models to offer, what market to target and to make this clear through the solution they deliver. It will be up to them to see how competitive the offerings will be.

A simplified access model will bring with it process efficiency which will drive down costs, these benefits should then be passed down to end users.

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.

Yes, TSB is very supportive of a standardised scheme participation model and rulebook for all PSOs, if these rulebooks are built to provide interoperability, this will drive forward competition. A common scheme participation model and rulebook should become the pillars of any new payments infrastructure and should help the schemes develop new solutions that can benefit customers.

Clarity is needed on how this will work and run parallel to other mandated change such as PSD2.

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question 15a: Do you agree this proposal regarding establishing a single entity? If not, please provide evidence to support your response.

TSB is very supportive of the proposal to amalgamate Bacs, Cheque and Credit Clearing Company and Faster Payments Service into one entity. TSB would welcome efforts to simplify and reduce the contribution and cost of governance and control of the payments schemes to which banks must commit.

As a challenger bank TSB appreciates any efforts from the industry to make access easier. Currently TSB is an indirect access PSP, in the future as we make plans to gain direct access with the schemes having one entity to connect with to provide access to a single scheme would save, time, cost and reduce the complexity associated with on boarding.

Question 15b: If you do not agree, how else could the benefits be achieved without consolidating PSO governance in the way described?

N/A

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.

TSB is favourable of any standardisation across the industry, simplifying the way PSPs connect and communicate with each other would bring with it great benefits. ISO20022 messaging allows extra data to be sent allowing for enhanced data to flourish. An international standard like ISO20022 is built to be interoperable which aligns to the proposed strategy.

Question 17a: Do you agree with the proposal to develop indirect access liability guidance? If not, please provide evidence to support your response?

TSB agrees with initiatives that will boost competition, with IAPs "de-risking" and not providing settlement accounts due to heightened Anti Money Laundering focus and regulatory pressures, clarity and guidance on liability and responsibilities is welcome. Mandating sponsor responsibilities with a route for escalation if they are not met would also be helpful.

Question 17b: What, in your view, would prevent this guidance being produced or having the desired impact?

TSB feels that this guidance is dependent on IAPs and IAPSPs working collaboratively to come to a combined and agreed approach with support from the PSR.

Question 17c: In your view, which entity or entities should lead on this?

TSB believes that the PSR would be best placed to lead on this.

QUESTIONS IN RELATION TO SECTION 8 | A NEW ARCHITECTURE FOR PAYMENTS

Question 18a: 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?

TSB believes building API functionality will meet the requirements of PSD2 and the CMA remedies for retail banking. Taking a co-ordinated approach is vital to making the end to end payments journey coherent and consistent.

TSB supports the aligned delivery of various types of APIs (Open API Standard and PSD2). However, TSB is mindful that in developing the Open API Standard it should be inclusive of not only the mandated PSPs that are required to adhere but other challenger and smaller PSPs. This is to ensure that this initiative does unlock competition and not become a hindrance to it.

The market can develop competitive solutions for the functionality proposed (e.g. Request to Pay) based on individual business solutions. TSB recognises the disadvantage of this approach is that agreeing a UK industry standard will take longer than a single entity developing its own standard for use.

Question 18b: 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?

TSB supports an API co-ordinated approach, the benefits of which will allow the harmonious flow of data around the payments systems. As APIs work end to end this will enable a seamless journey removing the disjointed flow PSPs currently have, connecting to and from the payment systems.

TSB sees the only way that this will work is if all the industry work to the same standards which will allow PSPs, third parties, fintechs etc to deliver consistent services that end users expect. This is why TSB strongly supports the inclusion of challenger and smaller PSPs in the development of the Open API Standard to ensure what is developed is coherent and consistent with need user needs.

Question 18c: How should the implementation approach be structured to optimise the outcomes?

TSB agrees with the theoretical conception of the implementation approach outlined in the Open Banking Working Group (OBWG) report and the remedies proposed by the CMA investigation into retail banking. However, TSB is mindful that the practical applicable needs to be considered carefully. The risk of having a closed group of PSPs involved in the implementation of the open API standard is that it will deliver compliance, but not competition and innovation.

Question 19a: Do you agree with our proposal to create a Simplified Delivery Mechanism? If not, please provide evidence to support your response?

TSB supports any work that will simplify the payments infrastructure. The proposed Simplified Delivery Mechanism seems to aim to deliver a simplified and agile mechanism. TSB believes that the most straightforward way to achieve the desired objectives is potentially to adapt the existing Faster Payments scheme. However, we believe that the best way to ascertain this is to ensure that there is a clear set of high level requirements for the solution, and to assess each option against these. It is important that the cost benefit analysis focuses on customer outcomes for the proposition, and understand the best way to achieve them. Also consideration needs to be given to implementation risks. Options for the design would need to be considered by a skilled and objective architect. If the layered architecture is designed properly the simplified delivery mechanism should be interchangeable as new technologies develop.

The Payments Strategy Forum – Being responsive to user needs

Draft strategy for consultation

Response template

Question 19b: 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?

TSB believes at this stage further in-depth analysis on the different options available need to be undertaken. This document does not present enough evidence to support a view, TSB requires more detail and clarity before providing commentary.

Question 19c: Could an existing scheme adapt to provide the Simplified Delivery Mechanism or should a new one be developed?

TSB recognises that the existing Faster Payments Scheme is world leading and would encourage a deeper understanding of the constraints of developing on this scheme rather than developing a new one. Cost benefit analysis should be undertaken objectively.

Question 19d: 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?

See response to 19b: above

Question 19e: Do you think it is feasible to begin work to design a new payments infrastructure given existing demands on resources and funding?

TSB believes it is feasible but would expect that the work is led commercially with objective expertise.

Question 20a: Do you agree that the existing arrangement of the payments system in the UK needs to change to support more competition and agility?

Yes, TSB recognises that improvements could be made to support more competition and agility. We also recognise that the existing capability in the UK is world leading and that any future proposition should not erode this by being slow and costly to deliver to a degree that would hamper our ability to be competitive.

Question 20b: Will the package of proposals we suggest, the Simplified Payments Platform, deliver the benefits we have outlined? What alternatives could there be?

Possibly, it would depend on whether focus is given to prioritising development and delivery of the right outcomes for customers, and whether the right option for the solution is chosen.

QUESTIONS IN RELATION TO SECTION 9 | OUR STRATEGY IN SEQUENCE

Question 21a: Do you agree with this proposed sequence of solutions and approach outlined to further clarify this?

TSB would like more clarity on the end solution, the roadmap and business case, and the target state for all payment mechanisms in the UK market.

Question 21b: If not, what approach would you take to sequencing to bring forward the anticipated benefits, in particular for end users?

N/A

QUESTIONS IN RELATION TO SECTION 10 | IMPLEMENTATION APPROACH

Question 22a: What approach should be taken to deliver the implementation of the Forum's Strategy?

There are no implementation options documented in the paper so the starting point would be to refer to the OWBG and CMA remedies reports.

TSB recognises considerable work is needed to define in detail the correct implementation plan by the PSF.

Question 22b: Who should oversee the implementation of the Forum's Strategy?

See response to 22a: above

Question 22c: What economic model(s) would ensure delivery of the Strategy recommendations?

See response to 22a: above

QUESTIONS IN RELATION TO SECTION 11 | COST BENEFIT ANALYSIS APPROACH

Question 23a: Do you agree with the proposed approach for quantifying the potential costs and benefits of the proposed solutions?

TSB believes that proper consideration needs to be given to the various options available for the solution and that these should be compared and assessed against a set of high level requirements which is clear and agreed. On this basis comparison could be understood and cost benefits would be transparent. TSB believes that the analysis should be conducted by objective architects and that scoring of the comparison should be visible to interested parties.

Question 23b: Do you agree with the costs and benefits drivers outlined in this document?

See response to 23a: above

Question 23c: We would appreciate any information on the potential costs and benefits you may have to assist our analysis.

See response to 23a: above