

Achieving a 'world leading' payment infrastructure

Background material
Payment System Regulator
Infrastructure workshop
Monday 16 June

Achieving a 'world leading' payment infrastructure

Thank you for registering for the Infrastructure Event that will take place on Monday, 16 June 2014. Directions to the event are provided on the last page of this document.

We have analysed the feedback provided to our recent "Call for Inputs" exercise and listened to suggestions made to us during stakeholder interviews. Stakeholder responses relating to the topic of achieving a 'world leading' payment infrastructure can be categorised into the following focus areas:

- Infrastructure consolidation
- Message standard convergence
- Agency access (technical)
- Collaborative overlay initiatives

These focus areas, as described in more detail on the following pages, have therefore been collated from your individual responses and do not necessarily represent the PSR's future policy direction.

The event on 16 June has been designed to be an extension of our ongoing engagement with you, during which we shall further explore the above focus areas. The output from the day will help to inform the PSR's future direction on infrastructure matters.

Event objectives

The objectives of the event will be to:

- Explore and understand the functional and technical outlook for the UK's payment infrastructures.
- Consider possible future infrastructure scenarios (focus areas), taking into account:
 - The strategic objectives of the PSR (competition, innovation and service user outcomes);
 - Costs and benefits;
 - Risk/ease of implementation; and
 - Relative impact on stakeholder groups.
- Discuss the role that the PSR could play in regulating the UK's payment infrastructures.

Focus area 1: Infrastructure consolidation

Description

Simplify and consolidate the current infrastructures. There are a number of options for vertical and / or horizontal infrastructure consolidation; a couple are outlined below.

Scenarios

One push (credit) and one pull (debit) mechanism: The end state where a payment is handled based on the type of payment , e.g. a credit transfer or a direct debit. This approach might mean that all entities with a direct connection ultimately had to support 24x7 processing, or ensure a stand-in processing facility is available . This could also support settlement of cheque images. A variant scenario might be to retain a separate RTGS infrastructure that was reserved for very high value transactions.

Message migration: A capability to support legacy formats to ensure that innovation and any required migration is not constrained to the 'pace of the slowest'. For example, a message management facility could enrich a message for Entity A in a number of formats (ST18/ISO8583/ISO 20022 CGI or an ERP format) and send it on to Entity B in ISO 20022 XML, or vice versa. This type of capability could be an interim stage to facilitate a migration, to help overcome data management challenges and reduce the IT change burden on industry participants.

Focus area 2: Message standard convergence

Scenarios Description

An objective to reduce the number of messaging standards in payments, for example by increasingly adopting ISO 20022 XML, could provide efficiencies and support the use of a richer data set.

Potential implications for the UK payment infrastructures may include:

- **Bacs:** Message standard convergence could potentially mean a change to over 100,000 user end points, depending on the detailed approach (although some ERP systems may more easily support changes than others). Changes to Bacstel-IP may be required. There may also need to be some changes made to the central infrastructure.
- **Faster Payments:** Changes to gateways, central infrastructure messaging design and reporting systems.
- **CHAPS:** Currently uses SWIFT MT format messages. A number of High Value Payment systems serving other countries / markets are planning to move to ISO 20022 XML.
- **LINK:** Interoperability with other card schemes, such as UnionPay and Visa/MasterCard, could be impacted.

Richer data / Real Time Information (RTI): Data for government and corporates supporting remittances could be enhanced to provide potentially significant benefits.

Focus area 3: Agency access (technical)

Description

Provide access to central infrastructures via a utility – to allow direct access and reduce technical dependency on sponsor banks. Technical concerns seem to primarily concern cheque clearing and FPS.

Scenarios

Faster Payments: Interfaces and messaging formats may be specific to a sponsor bank, or have some availability constraints. Challenges are commonplace with posting and reconciliation of customer accounts in 24x7. Additional challenges may apply to Paym and any other extended services reliant on FPS.

Bureaux / utility / aggregator model: A facility could be provided which allows a number of agency banks to connect via a shared or central aggregator. This could potentially be set up and operated in a number of ways. The aggregator could allow access to multiple payment schemes. Alternative approaches may also be available to address concerns.

Cheque clearing: The migration to cheque imaging affords an opportunity to address challenges relating to cheques and sort code lead pairs. To improve access, the industry could enable full sort code portability or consider whether it is appropriate to adopt a new approach towards bank and account identifiers.

Focus area 4: Collaborative overlay initiatives

Description

Provide new collaborative overlay initiatives. Some examples are below but this focus area also provides an opportunity for attendees to discuss additional ideas not shown below.

Scenarios

Mobile payments: Potentially this could include geo-location services and embrace the EU Directive on E-ID and ECB SecuRepay Recommendations.

Alias ID: Extend the current mobile proxy database to provide broader services. An alias identifier could provide abstraction for the service users' banking relationships. This could also support the EU Directive on E-ID requirement for a national scheme (or schemes).

Lowest cost routing / single gateway for all schemes: Rather than submitting payment instructions to a specific scheme, a service user could simply submit payment instructions which are then routed via the most appropriate means, based on pre-defined criteria (e.g. price, speed, size of remittance data).

Sort code management / account portability: Provide mechanisms to give agency banks sort code management and service users account portability. This might entail a revised EISCD or similar.

Authentication and anti-fraud measures: Collaborative work to reduce cost to industry for authentication and fraud reduction.

Reference data: Multiple approaches exist; there may be a case for re-engineering UK industry reference data.

Collaborative working

How will the event be run?

The event will be highly collaborative. The process differs from that of a typical planning meeting or negotiation session. You will be facilitated through a process of exploration and assessment.

The event will take place at KPMG's office in a venue specially designed to inspire collective creativity and provide participants with the knowledge and opportunity to explore a wide array of possible business scenarios.

The approach will be explained in more detail by your event facilitators on the day.

Come with honesty and openness

Your job as stakeholders is to bring a rich range of experience to the event, along with an honest intention to engage your peers.

Whilst this event will be 'on the record' we strongly encourage all attendees to approach the day with honesty and openness:

Honesty - The event provides an environment in which you can work honestly with each other, where you are encouraged to say what you really feel. Success without honesty is not possible at this type of event

Openness - Be open with yourself and the other participants at the collaboration event so that all sides of an issue may be examined, and surmount preconceptions of how things are "supposed to be."

The rules of engagement

The following ground rules help us to ensure a successful result:

1. Devote 100% of your attention and efforts to the event. Lay all other work, concerns, and problems aside for the duration of the event. It is natural for you to find a varying degree of value in each activity, but it is important for everyone to participate fully in all event activities.
2. Mobile phones present a serious distraction and can greatly impact quality of focus and thinking. Please do not use your mobile phone during the event, unless there is an emergency.
3. Try to attend the entire event from beginning to end if possible. Disruption in the composition of groups will reduce the quality of the results.

Logistics

Address

Presentation Suite
KPMG LLP
15 Canada Square
London
E14 5GL

Timings

The event will take place on **Monday 16 June 2014**.

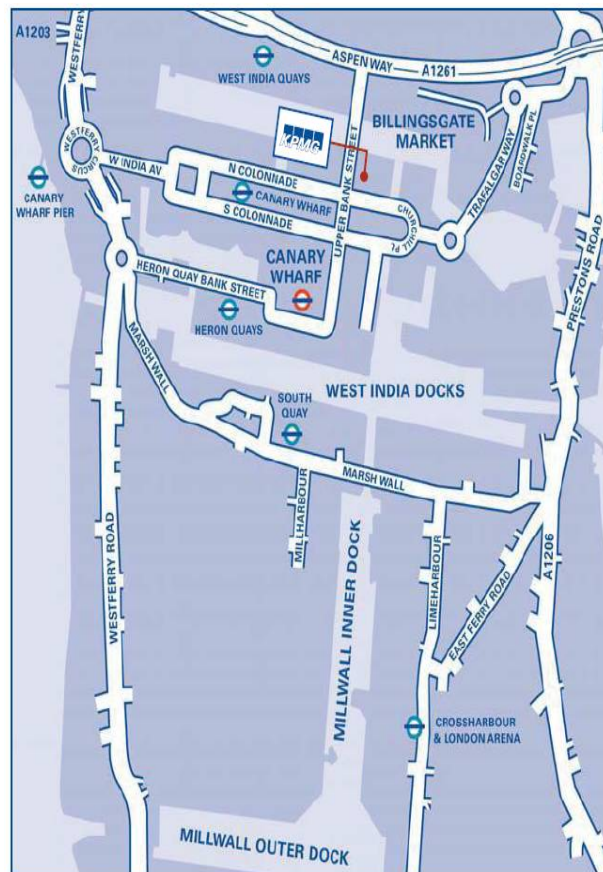
Please arrive from **9.30am** for coffee and refreshments. We will start the day promptly at **10:00am** and finish no later than **4.00pm**.

Environment

The event will be interactive and intensive!

Food

Pastries and lunch will be provided. Coffee, tea and snacks will be made available throughout the day.



Car

Due to the heavy traffic congestion in and around London, we would recommend you do not drive to the office but use the train and public transport services.

London Underground

The nearest Tube station is Canary Wharf on the Jubilee Line, which is a two minute walk to the office.

DLR

The nearest DLR station is Canary Wharf, which is a five minute walk to the office.

Parking

Public car parks are sign posted when entering the Canary Wharf estate.