

The rising tide of change across the UK payments landscape

The Rising Tide of Change across the UK Payments Landscape

“With great change brings new choices, with new choices brings new opportunities, with new opportunities, brings new ways of developing, managing and innovating payment processing needs.”

Neelam Jobanputra, Head of Electronic Payments, UK

The biggest change to UK payments since Ring Fencing

The UK is venturing on the largest change programme for UK domestic payment processing it has seen since the Cruickshank Report in 2000 announced the need for speed and mandated the industry to deliver a Faster Payments service in the UK. Under the authority of the Payment Systems Regulator established in 2015 the UK payments landscape is on the tipping point of further, more radical change.

A change to drive standardisation, open access, richer data and innovation in payments. Under the auspices of the Payment System Regulator, the Payments System Taskforce outlined the change agenda - an agenda set upon delivering change by 2023 (see timeline of events on page 3).

What does this all mean?

UK domestic payments are on a journey. By 2023, the adoption of a single ISO20022 payment format is anticipated for all payments processed in the UK. This means the withdrawal of Bacs Standard 18 and FPS ISO8583. This also means a

change to the way in which payment processing are governed. 2 key development phases are recognised:

Phase 1 – the creation of the New Payments System Operator Pay.UK – the outcome of the consolidation of the Bacs, Faster Payments, mobile and cheque Imaging payment schemes to govern UK electronic payment processing.

Phase 2 – the creation of a robust and resilient technical “UK plc” payments platform for processing Bacs, Faster Payments, mobile and cheque imaging payments. At the heart of this initiative is the development of core and non-core (Managed Services) payment processing requirements.

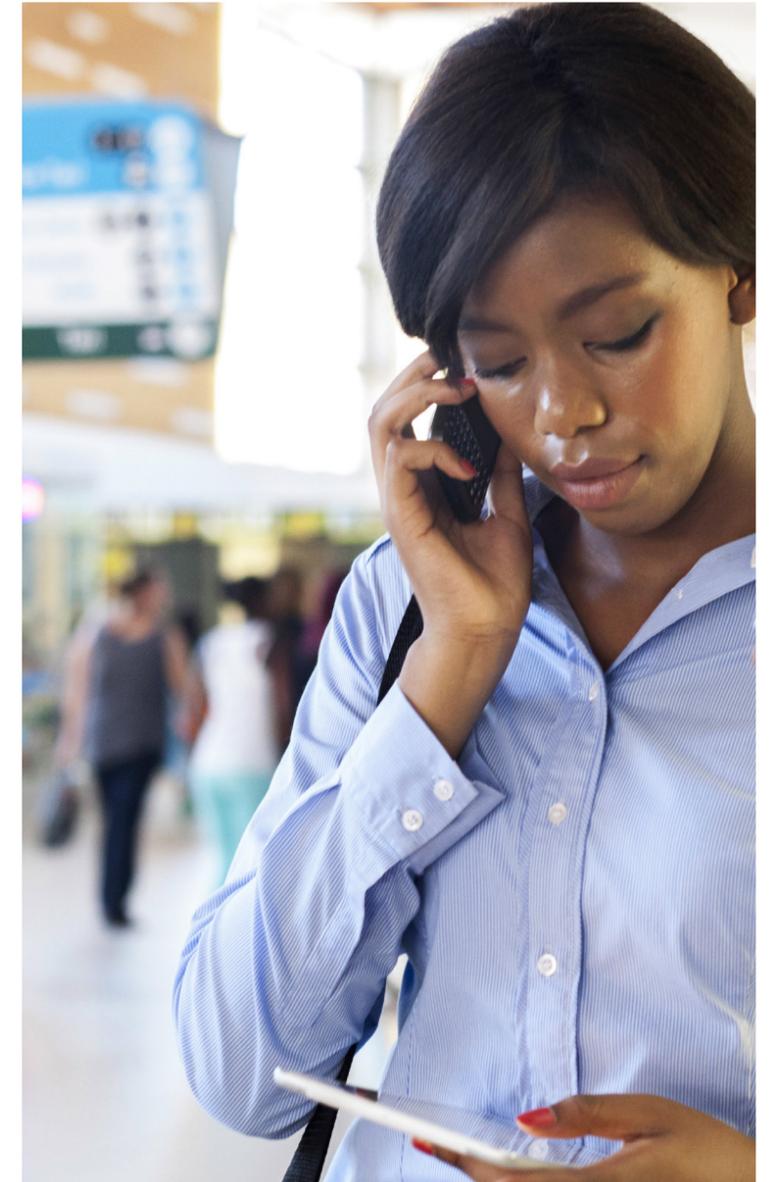
Let’s also not forget CHAPS payments. The Bank of England is also looking to move away from CHAPS MT messaging in favour of ISO20022. The Bank of England will potentially align its migration timeframe with Pay.UK activities and is currently consulting on this.

The forthcoming changes for the UK are not without concern for many who provide electronic payment propositions and processing capabilities.

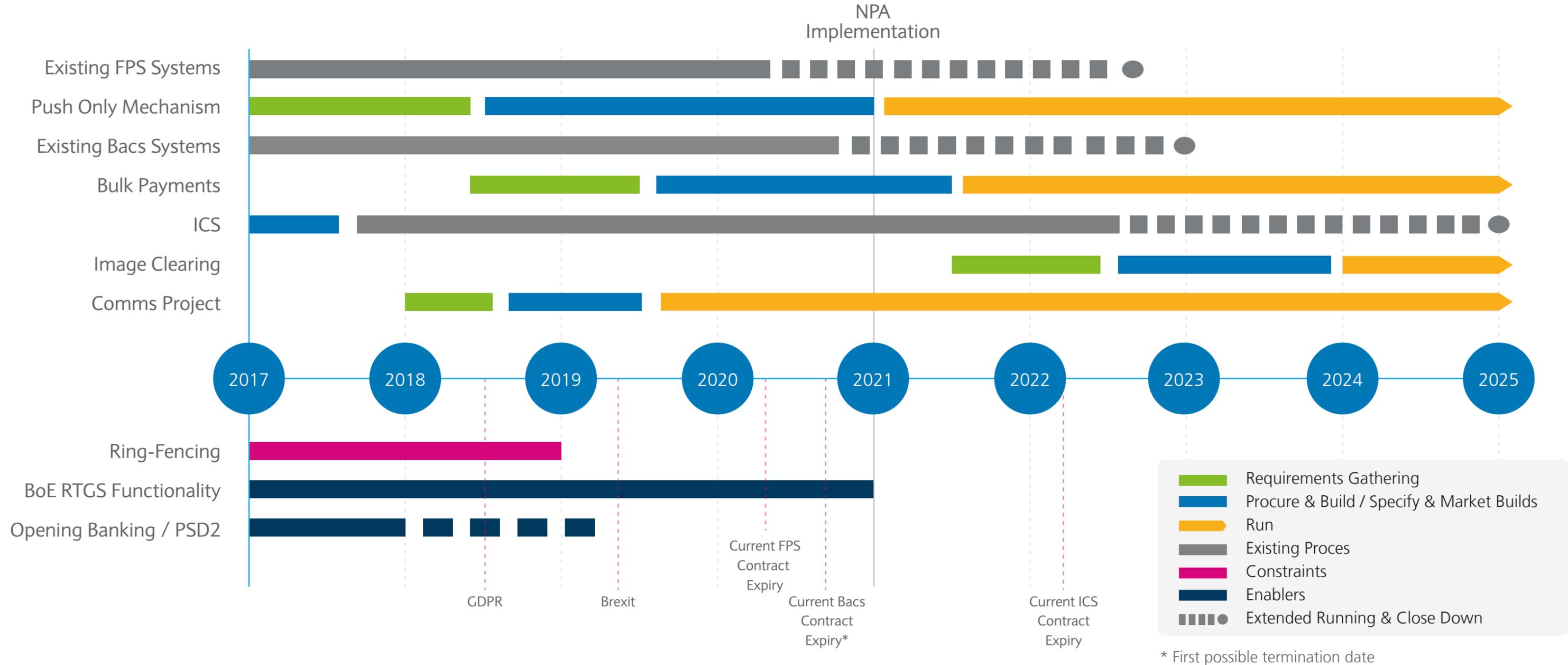
There is little clarity, yet, on what the future architecture will look like when it comes to core and non-core services provisioned under the new Pay.UK governance model. With limited clarity it makes it tough to establish what the framework of change will look like and where investment decisions might be made. One thing is for sure, at Barclays we have the ‘finger on the pulse’ working with Pay.UK and the schemes it now governs to protect the future of our client’s payment processing needs.

Why now?

Why not now? The regulatory environment which UK payments operates within continues to evolve. This is evidenced through the introduction of PSD2 and Open Banking. Couple this with societal changes driving demand for enriched payment processing experiences alongside the Payment System Regulator and Taskforce objectives, it was only a matter of time before the central governance and processing of electronic payments in the UK would adopt a change program.

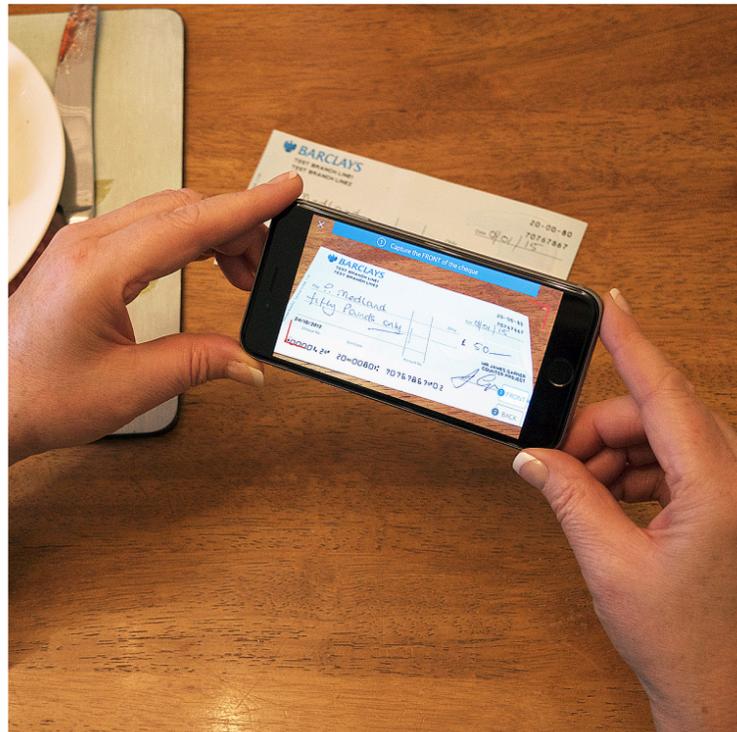


New Payments Architecture – Timeline of Events



Payment System Regulator

- To ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers who use them
- To promote effective competition in the markets for payment systems and services between operators, payment service providers (PSPs) and infrastructure providers
- To promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems



Payment System Taskforce

- Create easier access to the current payment systems, foster more competition and enable innovation
- Move the UK to a payments system that is simpler, more agile and responsive to the changing needs of users

What the future will bring

To my mind the future will bring enhanced ways in which Payment Product Solutions are provided to clients - underpinned by a toolkit of options at a single entry point to service a multitude of business payment requests, processing, reconciliation and tracking needs. With the lens focused firmly on standardisation, open access, richer data and innovation in payments, its easy to consider that focus and demand will centre upon a single 247 payments product solutions to cater for business needs - but there will always be a need for bulk solutions. Societal and technological advancements continues to drive expectations of 247 real time experiences and Faster Payments usage is becoming a key payments backbone to many businesses as the payments submission and receipt of choice where:

- Reachability grows as businesses extend their operating models to make use payment

solutions in near real time to service their end customer base

- Ease of liquidity management trends as businesses look for ways to make their liquidity work smarter for them
- Optionality of choice for customers and businesses alike increases as the balance of control is shifting to favour push payments

Payment behaviours, choice and the way in which customers and clients pay for and receive goods and services are evolving and Pay.UK's forthcoming change agenda centres upon supporting change at the heart UK plc's payment processing ecosystem

As Pay.UK takes flight in consulting upon and mobilising towards a New Payments Architecture for UK Plc, Pay.UK also intend to bring to market two new initiatives:

Confirmation of Payee

'Confirmation of Payee' is a new service expected to be made available to Pay.UK participants during the first half of 2019. The ability to confirm payee information prior to initiating a payment affords the opportunity to potentially reduce misdirected payments occurring. It may also afford businesses with the opportunity to ensure legitimacy of direct debit set ups prior to these being lodged therefore potentially reducing direct debit fraud.

Request to Pay

'Request to Pay' is a new service expected to be launched potentially by H2 2019. It will allow businesses and customers alike to initiate and send payment requests. In the wake of the shifting control to the payer, this service is not likely to replace traditional direct debit bulk solutions – rather it will offer an alternative way in which regular or single payments can be made and offer businesses with another payment method to its customer base. An interesting way to plug the gap in traditional bill payment methods.

On both Confirmation of Payee and Request to Pay initiatives, we are engaged with Pay.UK to establish how these initiatives might be brought to Clients alongside the product solutions we provide today.

PSD2 and Open Banking

Coming back to PSD2 and Open Banking matters, Pay.UK will see new entrants coming to market as it paves the way for Payment Initiation Service Providers (PISPs), Account Information Service Providers (AISPs) and Third Party Payment Providers (TPPs) bringing alternative and/or new payment solutions to the payments ecosystem. Many will be forgiven in thinking that these solutions will change the way in which payments will actually be processed. The fact is these solutions bring an alternative way in which



businesses, and customers, are able to initiate and instruct upon their payment needs. These solutions mark a change of mandate so to say. A change that reflects moving away from a business or customer's direct engagement with a 'traditional bank' in favour of these entities engaging on their behalf. With API connectivities "coming online" under Open Banking, PISPs, AISPs and TPPs will be able to market solutions and value add services aimed at offering comfort and confidence in

payment processing, reconciliation and receipts needs. The question to my mind will be one of trust. Trust that these entities will protect data and payment processing requirements against the current traditional institutions who have been providing and innovating payment solutions for a very long time.

Faster Payments and Open Access

Did you know that prior to Pay.UK taking the reigns to govern Faster Payments Scheme, the scheme launched their Directly Connected Non Settling Participant Product (DCNSP) offering? An offering brought to market as one of the outcomes of its Open Access programme. DCNSP enables eligible financial institutions direct access into the Faster Payments Central Infrastructure for near real time <15 second payments and receipts capabilities under sponsorship by a Direct Participant. At Barclays, we are pleased to be first to market with this offering - helping businesses grow, demonstrating our thought leadership and support to enabling direct access to the scheme!

The theme of change, increased access and new market entrants, offering payment solutions is at an all time high in what has historically been a traditional "banking" payments landscape. Data security, storage and AI capabilities is at the forefront of many Product Managers' minds as

they take stock of how initiatives breaking through can coexist and inter-relate with the current and future payment infrastructure environment - paramount when you consider what part of the Value Chain financial institutions, technology providers, businesses and customers are on. Exciting times to many but potentially confusing to some. With payment formatting also set to standardise many may consider the forthcoming Pay.UK change agenda to be a reconciliation nightmare as infrastructures transition to accommodate the change – at what cost?

The ripple effect of angst is felt across the UK payments landscape and whilst its not going to be an easy ride, it is fair to say change is welcome as the end result will surely reap benefits. Growth across electronic payments continues. The opportunity to shape new and emerging initiatives is at the forefront of many at Barclays as we continue to engage Pay.UK with their change agenda and further develop our own suite of electronic payment solution to meet the needs of our clients.

Did you know...?

- The Way We Bank Now report by UK Finance revealed that there were about 5.5 billion log-ins to banking apps last year, a 13% rise on the previous year. Mobile banking is most popular among millennials, with almost 59% of 16 to 24-year-olds and 69% of 25 to 34-year-olds using their smartphones. In contrast, almost half (49%) of 65-year-olds bank online
- Technology is also changing the way bank statements are being produced. Some already provide forward-looking statements that give a clear indication of when regular or pending payments will come out of an account and affect the customer's balance
- Some banks now send more than 16 text alerts every second in an indication of how much we now rely on smartphones rather than computers to manage our money
- The cards industry is investigating how Faster Payments can be integrated into their product and solutions needs.....Real Time Credit is an example of this where a payment may be initiated via a card payment with payment returns back to a client being initiated via a faster payment

About the author



Neelam is Head of UK Electronic Payments in Barclays International where she holds responsibility for the Product Management and strategic development of Bacs, CHAPS, Faster Payments and International Payments.

With over 15 years experience in the financial services industry, she has previously held roles with Bacs Payment Schemes where she was involved with the strategic development of Bacs and the launch of Faster Payments.

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