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Dear Mr Garner,

Response to the Future of Payments Review report

Thank you for sending the Future of Payments Review Report to me and I would like to congratulate you on your work in the time available.

Given my response to the Call for Inputs you will not be surprised that I have some points to raise, and that I will also be raising them through a member of the Treasury Select Committee.

Nevertheless the report for the first time testifies to some of the major problems with UK payments and that is a considerable step forward and a departure from the normal airbrushing out of these problems.

One has to point out one anomaly upfront though: the report repeats a mantra that UK payments are secure and reliable. This mantra is difficult to sustain when:

- We have such a high incidence of Authorised Push Payment Fraud (APPF);
- The replacement for the CHAPS system that used the SWIFT MT message format (under the project known as RTGS Renewal) experienced a multi-hour outage a few weeks after it went live with its new-and-improved data format ISO20022 XML.

I have organised my response into three sections:

1. Extra actions
2. The review's process
3. Challenges

Section 1 – extra actions

I recommend three further actions and, given their nature, they should be completed before some of the other actions are taken in hand.

Legal examination of deductions-from-face-value on card payments

I warmly welcome the spotlight shone on the high cost of card payments for merchants. This is testimony to the failure of the Payment Systems Regulator (PSR) in this area. The highlight is Fig. 25 on p.66 and the statement that 'scheme fees have expanded to fill the gap'. The gap is between the 'interchange fee' levels in place before and after the implementation of the Interchange Fee Regulation (IFR). The IFR capped the 'interchange fee' at 0.2% for debit card and 0.3% for credit card, with the intention of reducing overall fees, but the 'industry' simply introduced – and the PSR did not block – newly-named types of fee to make sure the industry's income remained the same.

On pp. 10-11 of our response we examined whether or not the capped interchange fee was the only permitted deduction under the terms of the IFR (which is part of Retained EU Legislation and is not specifically mentioned in the review).

Our reading of the IFR's preamble (which is as important in EU legislation as the detailed articles) is that the 'interchange fee' is the sole and only deduction that can be made and is capped at the levels stated above. The only other permitted cost for the merchant's account is the remuneration the merchant pays to their acquirer under their bilateral contract, over which the merchant has control.

The two interpretations – mine and the card industry's (supported by the PSR) – need to be tested against one another and not by the PSR itself. The PSR's 'work' on the cost of card acceptance has skirted round this issue. The review, by not addressing the issue specifically, has fallen in line by default with the PSR's narrative. This represents a contradiction: the review rightly highlights the high cost of card acceptance but then fails to look into the background for the costs being high and fails to reveal the PSR's stance on the problem.

Operational and legal detail of Authorised Push Payment Fraud (APPF) conducted through a Faster Payment

The review rightly mentions APPF but again tends to fall in with the PSR's narrative, which focuses on reimbursement once it has happened and on its initiation via social media. This overlooks the operational and legal problems in between the two, which were set out on pp. 11-13 of our response.

A specific review, not involving the PSR, is needed of the interplay between the Faster Payments business process and technical message specifications, the exact wording of the 2017 Payment Services Regulations on authorized transactions, a payment contract and unique identifiers, existing case law, and the requirement of payment service providers to state the beneficiary name in the payment order even if it does not form part of the payment contract.

A follow-up piece of work is then needed to compare what the situation will be once Faster Payments and BACS have moved onto the ISO20022 XML message format under the New Payments Architecture project under the plans as they are laid out now. Will APPF be eliminated on Day 1 of New Payments Architecture or not?

Open Banking statistics

The review, on p. 8, refers to the UK having 'historically been a leader in…Open Banking'. Open Banking is in its infancy and has no history. Indeed, its claims to success, which it publishes itself, are questionable, as pointed out in our response on p. 16.

Our full study of Open Banking statistics is available upon request. The problem is a familiar one in multibanking, where an aggregator is appointed to offer a single access gateway to accounts at multiple banks and payment service providers. In Open Banking the problems are compounded by there being no restriction on the number of aggregator set-ups a single person can have, or the number of times a single account can be accessed by multiple aggregators, or the number of accounts a single person can have. There is no economic constraint, because the aggregator services are normally free-to-use, and there is no fee levied by the Account Servicing payment service providers for enabling Open Banking access. Nor are there sanity checks between aggregators or Account Servicing payment service providers, because that would be considered anti-competitive and compromising privacy.

Instead the statistics are defined and collected by the organisation with the largest vested interest in the appearance of success, and the review has crowned Open Banking's self-promotional efforts: Open Banking is the channel through which the review recommends that major benefits shall be garnered.

What could possibly have gone wrong?

Each bank, non-bank payment service provider and the aggregator can count the sole real user as an individual user in their returns. They can each record the transmission and receipt of the same account statement, an automatic doubling up. The real user may have subscribed to several aggregator services in parallel. If the user has 10 accounts, and 4 aggregators are accessing each account, the sole user is responsible for 44 records (4 aggregators plus 4 records at each of the 10 Account Servicing Payment Service Providers).

In fact it might be worse: it could be 84, if each aggregator also records every account. On top of that the same real user could have parallel set-ups under different identities, each accessing 10 different accounts. In a worst-case scenario where the same real user has 3 sets of set-ups with 4 aggregators and 10 accounts under each, this one user translates into 252 users in the Open Banking statistics.

A very large number of records disguises a far smaller number of users and then the sole real user, swamped with identities, services and data, does not use any of them actively, and cannot be said to be benefitting from Open Banking. None of this stops the data flowing between Account Servicing Payment Service Providers and Account Information Service Providers.

Open Banking in the UK demonstrates characteristics of these problems endemic to multibanking and a thorough vetting is required of current usage before Open Banking is invested with so much of the responsibility for bringing about the changes that the review desires.

Section 2 – the review's process

Scope

The review is a 'high-level, strategic view of the digital payments landscape'. While it does refer to cash, there is no mention of cheques, and it has to be questioned whether it is a well-founded approach that digital and non-digital payment means are addressed in isolation from one another.

For example, on p. 9, a criticism of one digital payment method – bank transfer – is made on the basis that it is 'clunky' due to the need for a sort code and account number. This leads on to the later discussion on p. 54 of using a proxy or a digital ID as if the solution to problems in one digital payment method can only be sought within the current or nascent digital world. Actually we already have two payment products where the payer needs to have no data on the banking or personal arrangements of the payee: cash and cheque.

The review mirrors as well as mentions (on p. 44) the oxymoronic 'Natalie Ceeney Access to Cash' review: that 'independent' review, managed by the PSR, was charged with protecting access to cash but instead recommended that priority be given to enabling digital payments. The review became the marionette of those opposed to cash: the proponents of digital payments.

Data

The review has relied on data from major players in the digital payments ecosystem, who can be expected to produce data that is skewed towards a message that digital is the only future.

When this data comes from reports authored by IT application vendors, they must be treated not as proof but as 'market stimulation' for the sale of their products and services (e.g. FIS Global – FNs 59 and 60 on pp. 41-2; ACI Worldwide – FN 91 on p. 46, FN 93 on p.58 and FN 94 on p. 59).

When this data comes from UK Finance, for example the chart of projections on p. 16 of what payment types will be used by 2032, it should not be treated as fully objective because the status quo is already the result of the policies of the members of UK Finance. The future projections are predicated on the direction-of-travel continuing at the industry's behest and without robust challenge. The results can be misrepresented as reflecting what private people and businesses want, as opposed to their being a self-fulfilling prophecy deriving from the agency of the 'industry': the usage by private people and businesses of the service set and access methods that the 'industry' has decided to put in front of them.

What service set to offer, and what not to offer, and how to make one service more accessible and another less so, are policy decisions taken by the 'industry' to serve its own interests, as much as they are driven by demand. It is disingenuous for an 'industry' where the suppliers have as much market power as they do in payments to present the results as objective trends, instead of a projection of where things will land if the market power of suppliers is not challenged.

Lastly the report has taken evidence from activist groups without providing a proper disclosure of their objectives and flaws:

- Fair by Design – see p. 42 – has a certain view that goes unchallenged, namely that that digital inclusion enables financial inclusion, when the trends towards digital payments have gone hand-in-hand with bank branch closures, thinning out of the free-to-use ATM network, and reduced face-to-face access to financial service. Digital, so far, has DAMAGED financial inclusion. Our own research into Fair by Design's 'Poverty Premium' – available upon request – is that its root is lack of access to credit priced at an APR below 20% per annum, which is not as the activists present it;

- The Payments Association is the lobby group for the pre-paid cards industry segment, with some participation from the debit card, credit card, money remittance and Open Bank intermediary segments. Despite its narrow support base, it gets its 'wish list' published on p. 87. One can understand its frustration with what has happened over the last 7-8 years. Many of the topics were included on the initial list of 'Detriments' compiled at the outset of the PSR's 'Payment Strategy Forum (or PSF) in the 2015-6 timeframe. They were then allocated to the 'Simplifying Access to Markets' workstream of the PSF, a stand-out area of failure even within a project that, according to the latest review, failed in its objective of providing a national payments vision for the period 2017-2027.

Acceptance of current direction-of-travel

Despite the review calling for a new national payments vision, it accepts many elements of the current, failing direction-of-travel from its predecessor – the PSF – which accepted many elements in its own predecessor – the World Class Payments Project of the Payments Council:

- The failed Request-to-Pay proposal (p. 44);
- Open Banking as a channel for realizing the desired benefits (p. 11, Recommendations 4-7);
- APPF reimbursement ranking above making the Faster Payments system robust (p. p. 10);
- Accepting the scope of the PSR's work on the costs of card acceptance (p. 12, Recommendation 6).

Interestingly, though, Confirmation of Payee does not merit a single mention: this supposed eliminator of APPF espoused by both the World Class Payments Project and the PSF in succession has been airbrushed out.

Participation

While the invitation to all interested parties to submit responses to the three question was welcome, privileged access was granted to industry insiders, including those who have been intimately involved in setting the current direction-of-travel which the review deems to be failing:

- 'roundtables' took place – who was invited to participate and where are the output documents?
- The review 'listened to the views of…' numerous categories of parties – where is the full list of the organizations interviewed and the attendees from each one, and where are the meeting minutes?
- 'primary research was carried out' – on what and on whom? What topics were addressed? Where are the results?
- 'focus groups' were convened – including whom? Covering what topics? Where are the minutes?
- 'Accenture, Baringa and EY' – under what terms of engagement? What deliverables did they produce? Did their deliverables use reference sources such as UK Finance, FIS Global, and ACI Worldwide?

The danger in this process is that interested parties are able to reinforce one another's messages, which are all variations on the same theme. An apparent spread of views becomes an overwhelming echo when there are such a large number of participants within the payment industry echo chamber. The industry's public affairs budgets are large and there are so many forums, committees, advisory groups and so on available to be populated, from which the same messages can be emitted and reinforced. Our research on the forums established by the Bank of England to study a Central Bank Digital Currency – available upon request – was testament to the success of the industry in populating an influential committee exclusively with individuals from within its own ecosystem whose connections with one another would not be obvious to an industry outsider.

Standard fare in this arena is that organizations participate in one another's surveys and processes, and in surveys and processes orchestrated by trusted intermediaries, be they trade bodies (UK Finance, The Payments Association), adjuncts to quangos (the PSR Panel, the Pay.UK advisory boards), IT vendors (FIS, ACI), consultancies (EY, Accenture, Baringa), or international bodies (EBA Association, Committee for Payment Market Infrastructures, Financial Stability Board, Bank for International Settlements). The agglomeration of these bodies functions like an opinion washing machine. An opinion or desire voiced during a process becomes a piece of data collected during its research phase, and reemerges as an established industry trend.

The upshot is a view of payments through a distorted lens. It furnishes a view designed by industry insiders for people in the Westminster bubble, a view of a synthetic landscape, like a model railway, designed by the industry to serve its interests rather than those of the people and businesses of the UK.

Section 3 - challenges

Several of the challenges have already been touched upon above:

- Can UK Payments be regarded as secure and reliable with APPF and the RTGS outage?
- Should hand-me-downs from World Class Payments and the Payment Strategy Forum be accepted into the new vision or discarded?
- Is there value in the ISO20022 XML data format? There had better be when New Payments Architecture is proposing to use it, and its adoption in place of SWIFT MT as well as Faster Payments and BACS will consume a very large proportion of the available time, resources and money;
- If bank payments are clunky because beneficiary data has to be inserted, why not use cash or cheque?

There are two new challenges:

- Should hand-me-down personnel from World Class Payments and the Payment Strategy Forum also be discarded, alongside their hand-me-down initiatives? If a new vision is needed, surely it should be fashioned by new people, and not by the revolving-door superintendents of past failures? To buck that trend one would need at least to look back as far as the senior management of Vocalink in the period 2006-8 when Faster Payments was designed with the flaws that enable APPF;
- The introduction of a national electronic identity (or eID) is a solution disproportionate to the clunkiness of making bank payments. The action we have recommended regarding Faster Payments and APPF will lay bare some of the inadequacies of the current bank transfer process. Solving those inadequacies should not need – and cannot be used as the leading justification for – a society-changing undertaking of huge scale.

Conclusions

The review has laid down a few benchmarks but we wish to simplify matters and set down our own. They are the cost, speed, convenience and safety (for private people and businesses) of the four basic payment methods: cash, cheque, card and bank transfer. Currently the performance of each payment method against the four benchmarks is:

	Cost	**Speed**	**Convenience**	**Safety**	
Cash	✓	✓	✓	✓	Convenience reduced by ATM/branch closures
Cheque	✓	×	×	✓	Settle quicker than card; pay-in is now made inconvenient
Card	×	×	✓	✓	High costs fall on merchants; settlement is 2-3 days
Bank transfer	✓	✓	×	×	Insecure and inconvenient

The digital methods offer a worse outcome for users than non-digital but a better one for the 'industry'. Non-digital methods have been hobbled by the implementation of policies such as withdrawal of bulk cheque deposit, thinning of the branch network and cancellation of cheque and cash collection at customer premises. The industry has implemented these policies in order to drive customers onto digital services that deliver worse outcomes. That is the true measure of the failure of the payments industry. The review has failed to grasp these basics and so in effect offers carte blanche to the digital payments industry instead of the very robust and detailed challenge that is needed. In fact the review is a perfect manifestation of the very high market power of suppliers in UK payments, the constituency that contributed the most to its creation.

Yours sincerely,

R.J.Lyddon