

Consultation paper

# Delivery and regulation of the New Payments Architecture

February 2021

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We welcome your views on this paper. If you would like to provide comments, please send comments on:

- **questions 1 to 6** (and other comments on risks to delivery of the NPA and options for reducing these) by **19 March 2021**
- **questions 7 to 14** (and other comments on competition and pricing) by **5 May 2021**

You can email your comments to **PSRNPA@psr.org.uk** or write to us at:

PSR Pay.UK/NPA project team  
Payment Systems Regulator  
12 Endeavour Square  
London E20 1JN

We will consider your comments when preparing our response to this consultation.

We intend to publish all consultation responses (see below about confidentiality).

We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. If you want to claim commercial confidentiality over specific items in your response, you must identify those specific items which you claim to be commercially confidential. Therefore, when submitting your response, please highlight any parts of it which you consider should be redacted before publication due to confidentiality. We may nonetheless be required to disclose responses which include information marked as confidential in order to meet legal obligations, in particular as a result of a request made under the Freedom of Information Act 2000. We will endeavour to consult you if we receive such a request. Any decision we make not to disclose a response can be reviewed by the Information Commissioner and the First Tier Tribunal.

You can download this consultation paper from our website:

<https://psr.org.uk/publications/consultations/cp21-1-consultation-on-delivery-and-regulation-of-the-new-payments-architecture/>

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# 1 Executive summary

- 1.1** The renewal of the UK's retail interbank infrastructure presents a significant opportunity to deliver improved resilience, meet the growing demands for digital payments and support increased competition, to benefit people and businesses across the UK.
- 1.2** To deliver these improvements, there is a need to consider whether the current approach to this renewal maximises overall benefits, while managing risks. Reflecting this, we are consulting on options for reducing risks to the successful delivery of the New Payments Architecture (NPA). This includes seeking views on narrowing the scope of the initial contract for delivery to those services that support the replacement and upgrade of Faster Payments, and on the appropriate way to secure this contract. We are also consulting on proposals for mitigating risks to competition and innovation relating to when the NPA is operational.
- 1.3** The decisions we make following this consultation will have implications for our Specific Directions (SDs) 2 and 3. These require Pay.UK to run a competitive procurement for the central infrastructure for Bacs and Faster Payments respectively. In the light of our conclusions, we will consider whether the directions should be varied, revoked or replaced.

## The importance of interbank payments and the NPA

- 1.4** Millions of us rely on interbank payments every day – whether receiving wages or benefits via Bacs, paying bills using Direct Debit, or transferring money to a friend using internet banking via Faster Payments. They are an important part of everyday life and are central to the smooth functioning of the UK's economy.
- 1.5** The NPA is the payment industry's proposed way of organising the clearing and settlement of most interbank payments in the future, including those that currently use Bacs and Faster Payments.
- 1.6** Pay.UK, the operator of Bacs and Faster Payments, is responsible for facilitating the delivery of the NPA. We, and the Bank of England, expect it to do so in a way that meets our expectations of a resilient, secure service that promotes competition, innovation and the interests of the people and businesses that use the system.
- 1.7** Pay.UK's role includes procuring a provider to build and run central infrastructure services (CIS) for the NPA. As the NPA is intended to replace existing central infrastructures for Bacs and Faster Payments, Pay.UK set out to comply with the requirements in SDs 2 and 3 by running a competitive tender for the CIS.

## Risks to successful delivery of the NPA

- 1.8** Through our monitoring of Pay.UK's work and analysis of information it has provided, we have reached the view that, currently, there are unacceptably high risks that the NPA programme will not provide value for money and could delay or prevent the benefits to competition and innovation in payment services we want the NPA to deliver. We are also mindful of the need to manage potential risks of disruption to payments during the migration of Bacs and Faster Payments transactions to the NPA.
- 1.9** In addition, the current pandemic means payment service providers (PSPs) face new costs and risks, which will affect the resources they have available to support the design of the NPA and migration of transactions to it.
- 1.10** A number of developments relating to Pay.UK's NPA programme and the time it has taken provide important context for this consultation paper.
- 1.11** In spring 2019, Pay.UK commissioned an independent assurance review of its NPA programme. The report found that the success of the programme depended on establishing strong foundations that were not in place, which led Pay.UK to 'reset' the programme in autumn 2019 to action the recommendations in the report. Pay.UK closed the reset in July 2020.
- 1.12** In December 2019, Pay.UK consulted with current and prospective Bacs and Faster Payments participants on the high-level scope of the NPA, and based on this concluded that there was ongoing industry support to realise the scope in the vision set out by the Payments Strategy Forum.
- 1.13** In early 2020, Pay.UK began exploring ways to accelerate the NPA programme. As part of this work, it went on to examine possible alternative approaches to enable the procurement of the CIS, as well as the impact of the onset of COVID-19. To inform this work, Pay.UK engaged with certain stakeholders including the Strategic Participant Group (SPG) – an advisory forum set up as part of the programme reset consisting of large and small banks, and some non-bank PSPs.
- 1.14** The SPG raised concerns about the costs and timescales of the NPA programme and difficulties arising from migration, and made several recommendations to the May Pay.UK Board. One was that Pay.UK should engage with its regulators with a view to cancelling the current competitive procurement and procuring the CIS directly from Vocalink – the incumbent central infrastructure provider for Bacs and Faster Payments.
- 1.15** After evaluating options for de-risking and accelerating the NPA programme, and based on its own analysis and evidence gathered from the SPG, Pay.UK took the decision to pause the current procurement and take steps to explore with us and the Bank of England the option of using Pay.UK's existing infrastructure provider to build and run the NPA. The procurement was paused in June 2020. Subsequently, in August 2020, it applied for an exemption from the requirements in SDs 2 and 3 to run a competitive procurement for the central infrastructure for Bacs and Faster Payments on the grounds of exceptional circumstances. Pay.UK's application set out its view that the totality of risks in the NPA programme were unacceptably high due to the impact of COVID-19, which it argued has created new risks and exacerbated the baseline risks of delivering the NPA and the risks that might arise if a CIS contract is awarded to a provider other than Vocalink.

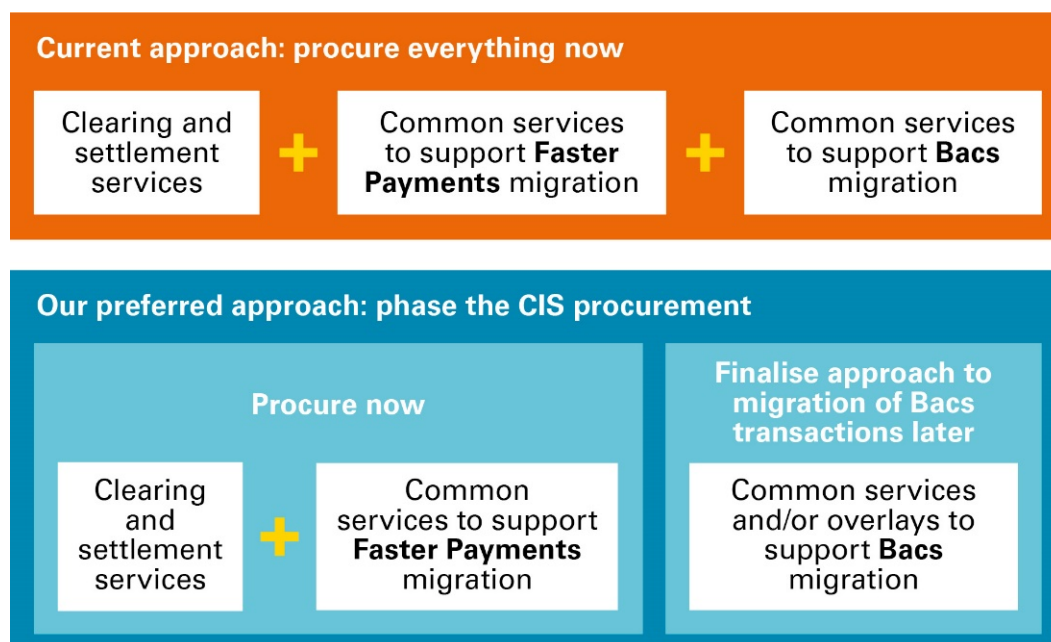
- 1.16** In January 2021, we rejected Pay.UK's application as we considered the exceptional circumstances it relied on were not sufficient to justify the exemptions sought.

## Establishing an effective way forward

- 1.17** We agree with Pay.UK that the NPA programme needs to be de-risked. However, we are concerned that Pay.UK's proposal to procure the CIS directly from Vocalink without a competitive procurement may not secure a contract that provides value for money, mitigates competition risks, and supports effective regulation of the NPA. In determining which procurement approach to take forward, these risks need to be balanced against any benefits of this proposal.
- 1.18** Instead, we consider that service-user outcomes could be better, and risks lower, if:
- the scope of the initial CIS procurement is narrower, which could enable quicker realisation of some of the key benefits of the NPA, promote competition and facilitate the migration of payments to the NPA
  - the approach to procurement is reconsidered
- 1.19** Therefore, we are opening a dialogue with stakeholders to consider the options to help get the programme back on track and give Pay.UK time to build the capabilities it needs to run an effective procurement.
- 1.20** We also have concerns about risks to competition and innovation relating to when the NPA is operational and how these may affect the quality, range and pricing of payment services delivered using the NPA.
- 1.21** The issues considered in this consultation paper interact with each other. For example, the approach to procurement affects how some competition risks might be mitigated. We welcome your views on these risks and the relationships between them. We will take this feedback into account as we consider the way forward.
- 1.22** We – and the Bank of England in its role as macroprudential regulator of the financial system – consider that an important part of Pay.UK facilitating delivery of the NPA is that it has the appropriate resources to do so. We will take this into account when considering the way forward, including in deciding the content of any legal obligations we might impose.
- 1.23** While we are consulting, we have told Pay.UK that we consider it should continue its pause of the current procurement.

## 1. The scope of the initial procurement

- 1.24** The scope of the CIS procurement affects the level of delivery risk. It has implications for the migration of Bacs and Faster Payments transactions, as well as the type and nature of services offered to people and businesses in future. The latter arises, in part, as the scope and design affect the levels of competition and innovation that can be achieved. For example, third parties may not be allowed to compete (if the design requires a single central provider, such as for resilience reasons) or may be disadvantaged or disincentivised from providing services that might be able to compete with those procured centrally.
- 1.25** Pay.UK is procuring a provider of core clearing and settlement services. Its current plan is for the same contract to include an additional set of common services that it thinks are needed to migrate Faster Payments and Bacs transactions (including Direct Debits) to the NPA. We consider that this plan is too complex, which is slowing progress and increases the risk that the CIS procurement does not deliver value for money and stifles competition and innovation by procuring centrally some services that could potentially be provided competitively.
- 1.26** To help reduce risks, our preferred approach is for Pay.UK to limit its initial procurement to:
- the core clearing and settlement services
  - any common services needed to migrate Faster Payments transactions
- 1.27** The diagram below shows our preferred approach compared to the current approach.



- 1.28** Under our preferred approach, the initial procurement may be followed by a second procurement – if common services need to be added to migrate Bacs transactions. Alternatively, a second procurement may not be necessary – for example, if services to support the migration of Bacs transactions are provided by the market or further analysis demonstrates that these transactions should continue to be delivered through a separate infrastructure.
- 1.29** In either scenario, Pay.UK would still need to ensure that the core clearing and settlement services can be scaled up if needed to process the volume of transactions that are currently processed by the Bacs and Faster Payments infrastructures, taking account of future transaction growth. Its design and the contractual and commercial arrangements also need to be able to support the potential future introduction of additional common services needed to migrate Bacs transactions, but specific requirements would not be included as part of the initial procurement. The costs and benefits of the Bacs migration might change significantly depending on the migration approach, which would be subject to further work and validation by Pay.UK and wider industry.
- 1.30** Limiting the initial procurement scope would reduce complexity, making the initial procurement quicker and easier. This could accelerate migration of Faster Payments transactions and hence enable faster realisation of some of the key benefits of the NPA, such as innovation in payment services. It could also promote competition by giving third parties an opportunity to provide services that support the migration of Bacs transactions (rather than procuring these services from a single provider now), which could in turn help reduce transition risk. Limiting the initial scope will also allow time for Pay.UK to do further work to assess how Bacs services should be delivered in future, if appropriate, including how any services necessary to support the migration of Bacs payments could be delivered.
- 1.31** On the other hand, changing the scope of the initial procurement now may ultimately delay closing the existing Bacs payments system and lead to two procurement exercises, both of which would add cost.



## 2. Approach to procurement

- 1.32** The approach to the CIS procurement affects Pay.UK's ability to secure a contract that provides value for money and supports delivery of an NPA that is resilient and promotes competition.
- 1.33** In 2017, we introduced SDs 2 and 3 to open up competition and drive innovation in interbank payment systems. Pay.UK set out to comply with our directions by running a competitive procurement for the CIS that is due to replace existing central infrastructures for Bacs and Faster Payments.
- 1.34** In the light of the risks to delivery of the NPA, Pay.UK pausing the procurement, and Pay.UK's application for an exemption from obligations under SDs 2 and 3, we are seeking views on three options for procuring the CIS. Pay.UK could:
- continue with the current competitive procurement
  - start a new competitive procurement
  - directly negotiate with Vocalink without a competitive procurement
- 1.35** Each option has both risks and potential benefits. For example, direct negotiation with Vocalink may enable a quicker procurement (though this is not guaranteed) but appears to significantly reduce Pay.UK's ability to secure a contract with effective levels of price and service quality. It is also not clear whether Pay.UK would be able to secure the necessary contractual protections to manage the risks to competition and innovation that we have identified.
- 1.36** Carrying out a new competitive procurement with the current or narrower scope would reveal important information about costs and achievable levels of service, and provide incentives for providers to develop high quality and innovative designs. The success of a new competition would depend on attracting sufficient bidders. We would be interested to hear whether there would be interest in bidding should a new procurement be run with the current scope or a narrower scope.
- 1.37** Continuing with the current competitive procurement may deliver the benefits of rivalry and may allow Pay.UK to secure an effective contract for delivery but this depends on the continued participation of the existing bidders. This option may be quicker than starting a new competitive procurement, but – if the existing scope is retained – this is by no means certain given the amount of work required to define the requirements.

### 3. Promoting competition and innovation

- 1.38** Last year, we issued a call for input on potential risks to competition and innovation in the NPA. We have assessed the responses and carried out further analysis.
- 1.39** For competition in the NPA to be effective and to create conditions for innovation, Pay.UK must follow certain principles in the design of the NPA. These include ensuring there is a ‘thin’ CIS design (with only essential functions delivered in the CIS) and a wide range of access options. In addition, any standards that Pay.UK sets for use in the NPA ecosystem must promote competition.
- 1.40** There must also be sufficient protections against a CIS provider’s potential dominant position within the NPA ecosystem. To ensure this, we propose the following mitigations and principles (and to guarantee their implementation through regulatory measures):
- **Specific mitigations** that:
    - Pay.UK runs an effective procurement process
    - CIS user prices are set using proportionate, objective and non-discriminatory (POND) criteria and follow pricing principles we set
    - there are contractual provisions in place that guarantee minimum levels of service quality, place restrictions on information and data sharing, and promote and facilitate innovation.
  - **Governance principles** that:
    - Pay.UK is the primary interface and decision-maker for all matters relating to CIS provision
    - Pay.UK must actively implement rules to promote competition and ensure access terms are POND
    - if a CIS provider (or its owner) has a significant interest in another payment system that competes with interbank payments or in the NPA’s competitive overlay markets, its CIS functions must be operationally separate

### 4. CIS pricing

- 1.41** We think Pay.UK must set CIS user prices as part of its role as the primary interface and decision-maker for all matters relating to CIS provision. This will help Pay.UK to mitigate risks to competition and facilitate development of an NPA ecosystem that is resilient, end-user focused, competitive and efficient.
- 1.42** The CIS contract must not pre-determine CIS user prices or restrict Pay.UK’s ability to vary them.

**1.43** CIS user prices must be POND in line with the existing regulatory framework. In addition, CIS user prices should:

- reflect efficiently incurred costs
- incentivise utilisation of the NPA
- foster competition in services to end users
- be transparent and predictable
- adapt to changing competitive conditions

**1.44** We will take into account POND requirements as we further develop the pricing principles.

## Next steps

**1.45** Irrespective of how the procurement proceeds, we want the benefits of the NPA to be delivered as soon as possible. For this reason, we are seeking feedback on the risks to delivery of the NPA and the options for reducing these risks by changing the scope of and approach to the initial procurement by **19 March 2021**.

**1.46** The responses we receive will inform a follow-up document we plan to publish in Q3 2021, which will set out our updated thinking on the scope and approach for the initial procurement. If we are considering requiring Pay.UK to make changes to the procurement, we will set out and consult on our proposals in that document. It will also include the draft legal instruments we plan to use. We would publish our final decision in Q4 2021, along with the final legal instruments where appropriate.

**1.47** Pay.UK remains responsible for delivery of the NPA within the regulatory framework that we and the Bank of England set. In making decisions relating to delivery of the NPA, we expect Pay.UK to identify the available options and assess these based on robust evidence taking account all relevant considerations and all interested stakeholders' views. Decisions should also be informed by Pay.UK's strategy as agreed by its Board. Our role is to monitor Pay.UK's work – and use our powers, where appropriate – to assure an outcome that supports our statutory objectives to promote competition, innovation and the interests of service-users.

**1.48** We are seeking views on our proposals for mitigating competition risks including the pricing principles by **5 May 2021**. The responses we receive will inform a policy statement that we plan to publish in Q4 2021.

**1.49** We will continue to work closely with Pay.UK, the Bank of England and other stakeholders as we progress our work.

## 2 Introduction

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Pay.UK is responsible for facilitating the delivery of the New Payments Architecture (NPA), including procurement of a provider to build and run the central infrastructure services.

We are monitoring Pay.UK's work to deliver the NPA to assure an outcome that supports our statutory objectives to promote competition, innovation, and the interests of service-users.

We think that the NPA programme currently has an unacceptably high level of risk.

We also have concerns about risks to competition and innovation relating to when the NPA is operational.

We want to hear views on the options and proposals set out in this paper, which will inform what action – if any – we take to reduce risks.

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### The purpose of this consultation paper

- 2.1** In January 2020, we issued a call for input on risks to competition and innovation in the NPA.<sup>1</sup> The NPA is the payment industry's proposed way of organising the clearing and settlement of most interbank payments in the future, including those that currently use Bacs and Faster Payments.
- 2.2** This consultation paper sets out:
- options for reducing the risks relating to the delivery of the NPA, which we consider to be unacceptably high
  - proposals for mitigating risks to competition and innovation relating to when the NPA is operational
- 2.3** We are seeking stakeholders' views on the options and proposals set out in this consultation paper, which will inform what action – if any – we take to reduce risks.
- 2.4** The decisions we make following this consultation process will have implications for SDs 2 and 3, which require Pay.UK to take the action necessary to ensure that any central infrastructure contracts for Bacs and Faster Payments that are in place on or after 2 December 2023 (Bacs) and 30 June 2023 (Faster Payments) have been competitively procured by following the steps set out in the Directions.<sup>2</sup> In the light of our conclusions, we will consider whether the directions should be varied, revoked or replaced.

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1 PSR, *Competition and Innovation in the UK's New Payments Architecture* (2020). See: <https://www.psr.org.uk/publications/consultations/cp20-2-call-for-input-competition-and-innovation-in-the-uk-s-new-payments-architecture/>

2 See: <https://www.psr.org.uk/publications/general/specific-direction-2/> and <https://www.psr.org.uk/publications/general/specific-direction-3/>

- 2.5** The remainder of this chapter provides an overview of the NPA, explains our role, and describes the risks that have prompted this consultation paper.

## Overview of the NPA

- 2.6** Table 1 shows the key milestones in the development of the NPA, beginning with the establishment of the Payments Strategy Forum ('the Forum') in 2015.
- 2.7** The Forum consisted of a mix of representatives from end users and payment service providers (PSPs). It prepared a strategy<sup>3</sup> for the development of interbank payments, and a blueprint<sup>4</sup>, to deliver this strategy. Over 300 stakeholders provided input to its work. One of the Forum's proposals was to create the NPA. On completion of its work in December 2017, the Forum handed over responsibility for developing some of its proposals – including the NPA – to the New Payment Systems Operator (later renamed Pay.UK).
- 2.8** Pay.UK is the system operator for Bacs, Faster Payments and Cheque and Credit. It is also responsible for facilitating the delivery of the NPA.
- 2.9** Pay.UK mobilised its NPA programme in early 2018. One of its main objectives is to select a provider to build and run the NPA central infrastructure services (CIS).<sup>5</sup>
- 2.10** We issued SDs 2 and 3 in June 2017 following our infrastructure market review.<sup>6</sup> As described in paragraph 2.4, they require Pay.UK to run a competitive procurement for the central infrastructure for Bacs and Faster Payments respectively.<sup>7</sup> As the NPA is intended to replace the current Bacs and Faster Payments central infrastructures, Pay.UK set out to comply with our directions by running a competitive procurement for the CIS.
- 2.11** In early 2020, Pay.UK began exploring ways to accelerate the NPA programme. Subsequently, following the onset of COVID-19, it paused the current procurement in June 2020 and applied to us for an exemption from SDs 2 and 3 – see paragraphs 2.37 to 2.41.

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3 Payments Strategy Forum, *A Payments Strategy for the 21st Century – Putting the needs of users first* (2016). See: [https://psr.org.uk/media/0jmkqwwa/a-payments-strategy-for-the-21st-century-putting-the-needs-of-users-first\\_0.pdf](https://psr.org.uk/media/0jmkqwwa/a-payments-strategy-for-the-21st-century-putting-the-needs-of-users-first_0.pdf)

4 See Payments Strategy Forum, *Consultation Assessment Report* (2017) and supporting documents available here: <https://psr.org.uk/payments-forum-archive/design-and-implementation-december-2016-december-2017/key-documents/>

5 As set out in Chapter 5, there could be more than one CIS provider if there are separate providers of CSS and some or all common services.

6 PSR, *Market review into the ownership and competitiveness of infrastructure provision – Final report* (2016). See: <https://www.psr.org.uk/publications/market-reviews/psr-mr15-2-3-final-report-market-review-into-the-ownership-and-competitiveness-of-infrastructure-provision/>

7 The original deadlines for compliance with SDs 2 and 3 – which were extended to the current 2023 deadlines on Pay.UK's application under section 4 of each Direction to provide time to deliver the NPA programme – were 1 December 2020 and 1 July 2020 respectively.

**Table 1: Milestones in the development of the NPA**

Forum develops its strategy and the NPA blueprint / Pay.UK established	2015	<b>March</b> – The PSR sets up the <b>Payments Strategy Forum</b> ('the Forum') to create a strategy for the long-term development of UK payment systems.
	2016	<b>July</b> – The PSR's infrastructure market review finds <b>no effective competition</b> for the provision of UK payments infrastructure for three interbank payment systems, including Bacs and Faster Payments.
		<b>July</b> – The Forum consults on its <b>draft strategy</b> , including proposals for creating the NPA and consolidating the operators of Bacs, Cheque & Credit (C&C) and Faster Payments.
		<b>October</b> – The Bank of England and the PSR set up the <b>Payment System Operator Delivery Group</b> (PSODG) to consider consolidation of the operators of Bacs, C&C and Faster Payments.
		<b>November</b> – The Forum publishes its <b>final strategy</b> , confirming its proposals for <b>creating the NPA and consolidating operators</b> .
	2017	<b>May</b> – The PSODG publishes recommendations for a <b>New Payment System Operator</b> (NPSO), with the NPA as one of its core deliverables.
		<b>June</b> – The PSR issues <b>Specific Directions (SDs) 2 and 3</b> , requiring competitive procurement of the central infrastructure contracts for Bacs and Faster Payments.
		<b>July</b> – <b>Incorporation of NPSO Ltd</b> , which subsequently takes over operation of Bacs and Faster Payments in May 2018 and C&C in July 2018.
		<b>December</b> – The Forum publishes its <b>blueprint</b> for delivering its strategy.
	2018	<b>January</b> – The PSR sends an open letter to the NPSO, setting out its <b>expectations for the NPA programme</b> .
		<b>October</b> – NPSO renamed <b>Pay.UK</b> .
NPA procurement and design		<b>December</b> – Pay.UK launches <b>procurement for the NPA's central infrastructure services</b> (CIS).
	2019	<b>May</b> – The PSR sends an open letter to Pay.UK outlining <b>potential competition and innovation risks</b> in its CIS procurement.
		<b>August</b> – The <b>Berkeley Partnership report</b> found that the success of the NPA programme depended on establishing strong foundations that were not yet in place, leading to a 'reset' of the programme.
		<b>December</b> – <b>Pay.UK consults</b> with existing and prospective Bacs and Faster Payments participants on the high-level <b>scope and ambition</b> of the NPA programme.

<b>NPA procurement and design</b>	<b>2020</b>	<b>January</b> – The PSR issues a <b>call for input</b> on risks to competition and innovation in the NPA.
		<b>March</b> – Pay.UK establishes a <b>Strategic Participant Group</b> (SPG) to advise it and make recommendations on the NPA programme.
		<b>April</b> – The <b>SPG makes recommendations</b> to de-risk the NPA programme, reduce uncertainty and speed up delivery including by procuring the CIS directly from Vocalink.
		<b>June</b> – <b>Pay.UK pauses the CIS procurement.</b>
		<b>August</b> – Pay.UK applies to the PSR for <b>exemption</b> from requirements in SDs 2 and 3.
		<b>September</b> – Pay.UK establishes the <b>Proposition Exploration Group</b> and the <b>Technical Working Group</b> to provide expert advice on the development of propositions enabled by the NPA and technical and migration requirements.

Note: Table 1 does not show details of Pay.UK's work over this period in relation to standards. This work led up to Pay.UK's 2020 consultation entitled 'Next Generation Standard for UK Retail Payments', which includes ISO 20022 and other key standards that will be used for NPA clearing and settlement services.

## The current conceptual design of the NPA

**2.12** Pay.UK is responsible for developing the conceptual design of the NPA, building on the Forum's work.

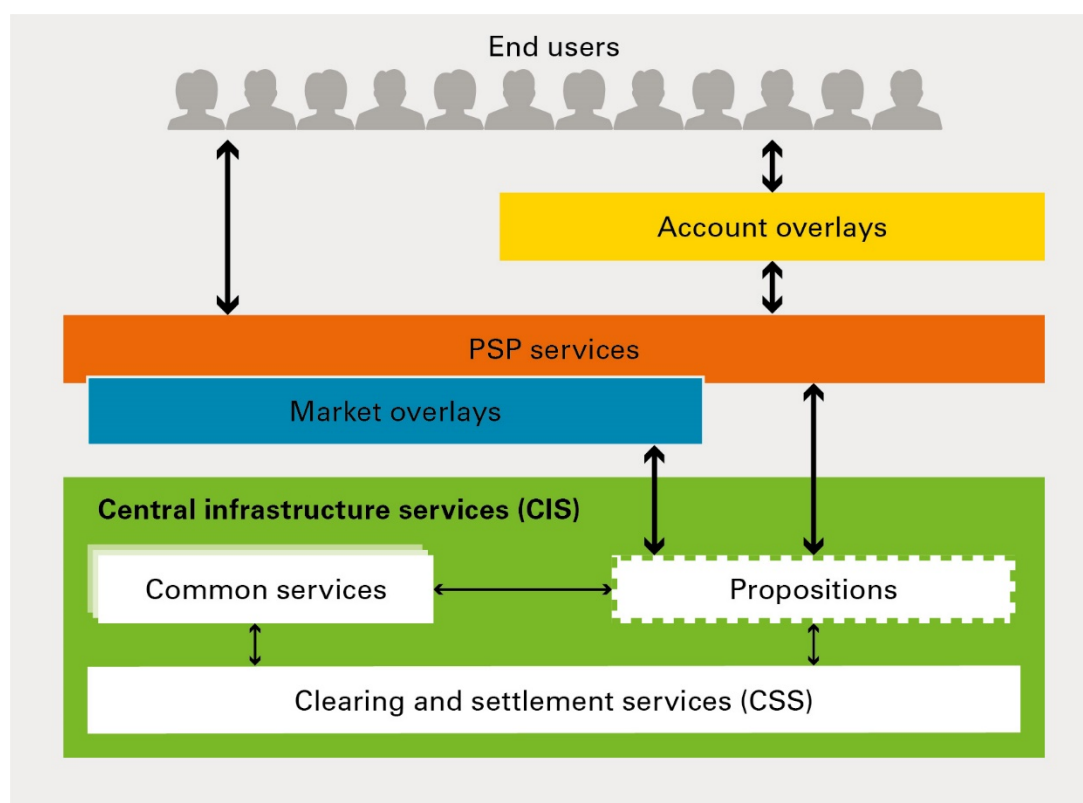
**2.13** The Forum set out four principles that should underpin the design of the NPA.<sup>8</sup> These were:

- a layered approach with a 'thin' collaborative infrastructure to enable competition and innovation
- a single set of standards and rules with strong central governance
- adoption of a common international messaging standard, ISO 20022, to enable access, innovation and interoperability, in the UK and potentially for international connectivity
- security and resilience, with financial stability as a key principle

**2.14** Figure 1 shows our representation of Pay.UK's current thinking on the conceptual design of the NPA. The current conceptual design consists of the separate layers shown in Figure 1 and explained in paragraphs 2.15 to 2.19. We refer to these layers throughout this document. The NPA ecosystem comprises all the layers shown in Figure 1 and all the participants<sup>9</sup> in those layers.

<sup>8</sup> Payments Strategy Forum, *A Payments Strategy for the 21st Century – Putting the needs of users first* (2016), page 12. See: [https://psr.org.uk/media/0jmkqwwa/a-payments-strategy-for-the-21st-century-putting-the-needs-of-users-first\\_0.pdf](https://psr.org.uk/media/0jmkqwwa/a-payments-strategy-for-the-21st-century-putting-the-needs-of-users-first_0.pdf)

<sup>9</sup> The term 'participant' is used broadly to refer to all parties offering services within the NPA ecosystem and is not limited to PSPs.

**Figure 1: Pay.UK's current conceptual design of the NPA**

PSR simplified representation of Pay.UK's current conceptual design of the NPA

## 2.15 The **CIS** consist of the following:

- The 'core' **clearing and settlement services** (CSS). These include services that are essential to payment clearing and for supporting the net settlement processes at the Bank of England (for example: payment message validation, orchestration and routing; netting and settlement reporting; security features; and payment redirection and reference data services).
- A number of **common services**. Pay.UK deems that each common service is:
  - critical to ensuring that the CIS can support the intended payment propositions and services (including some common services that are intended to support the migration of payments from Bacs and Faster Payments)
  - best provided centrally, through a single provider
- Functionality to determine the **NPA proposition** used by an individual payment (that is, the payment type). This will dictate which, if any, of the common services are needed to process the payment.

## 2.16 In the NPA context, an **overlay service** will be a service or solution that is not provided as part of the CIS. **Overlay providers** are participants in the NPA ecosystem that provide overlay services. Through the analysis that Pay.UK has conducted to date, it envisages two types of overlay service: market overlays and account overlays. These are described below.



- 2.17 Market overlays** are services or solutions delivered by third parties. These will use the CIS, CIS data, or NPA propositions, for which Pay.UK will set the technical standards and rules. The third-party market overlay providers will develop their own customer-facing standards and rules for use of the services or solutions they develop and provide. Examples could include fraud identification or prevention services, access-related solutions such as payment gateways and software products, and reference data distribution services.
- 2.18 Account overlays** are services that support end users in initiating or receiving payments but do not directly use the CIS or CIS data. They include Pay.UK's existing account overlay propositions for Confirmation of Payee and Request to Pay, which support users to initiate payments but are not payments in themselves.<sup>10</sup>
- 2.19 PSP services** consist of end-user channels, products and services, including mobile apps and browser-based applications (such as online banking services).

## Our role

- 2.20** We are monitoring Pay.UK's work, through regular interaction, to deliver the NPA to assure an outcome that supports our statutory objectives to promote competition, innovation and the interests of service-users.<sup>11</sup> We are collaborating closely with the Bank of England, which also monitors Pay.UK's NPA programme in line with its responsibilities for the supervision of systemically important payment systems and, more broadly, for financial stability.
- 2.21** We have previously provided to Pay.UK, in an open letter, four targets that we think would need to be met for the NPA to be successful<sup>12</sup>:
- increased innovation in the payments industry
  - effective competition across all layers of the NPA, with low entry barriers for PSPs and other service providers
  - the timely delivery of the NPA, with support and engagement from all stakeholders
  - an NPA that is technically robust and resilient
- 2.22** In July 2020, we began a public discussion about our future strategy as an organisation, defining the outcomes we want to see in the payments sector generally.<sup>13</sup> The NPA can help achieve these outcomes by improving resilience, and facilitating more dynamic competition and innovation in payments.

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10 The services that Pay.UK refers to as 'PSP services' and 'account overlays' were referred to in the Forum's blueprint as 'end-user overlays'.

11 'Service-users' are those who use, or are likely to use, services provided by payment systems. They include PSPs and 'end users' (such as individual consumers).

12 See PSR January 2018 and May 2019 open letters to Pay.UK:  
<https://www.psr.org.uk/publications/announcements/psr-s-open-letter-to-the-new-payment-system-operator-npsol/> and <https://www.psr.org.uk/publications/general/psr-s-open-letter-to-pay-uk-limited-may-2019/>

13 See <https://www.psr.org.uk/psr-focus/psr-strategy>

## Legal framework

- 2.23** In addition to Directions<sup>14</sup> placed on Pay.UK described in paragraph 2.4, there are currently legally binding obligations on access relating to existing payment systems.
- 2.24** Our General Direction 2 requires Pay.UK, as the operator of Bacs and Faster Payments, to:<sup>15</sup>
- have access requirements that are proportionate, objective and non-discriminatory (POND)
  - publish these access requirements, notify us of any changes, and provide us with an annual report containing access information
- 2.25** Additionally, regulation 104 of the Payment Services Regulations 2017 imposes fair access obligations on a PSP in Faster Payments and Bacs if it is providing indirect access to those systems to other PSPs.<sup>16</sup>
- 2.26** In considering next steps, we will take account of the current regulatory framework.

## Risks to successful delivery of the NPA

- 2.27** Delivering the NPA is a significant undertaking for the payments industry. The Forum envisaged the NPA would adopt a pioneering layered architecture and a new messaging standard. It is intended to replace the existing central infrastructures for Bacs and Faster Payments, which process millions of payments per day and are critical to the UK economy. With any change programme of this scale, there are significant risks that must be managed.
- 2.28** We think that, currently, there are unacceptably high risks that the current NPA programme will:
- not provide value for money
  - stifle competition and innovation in payment services
  - delay realisation of the benefits of the NPA
- 2.29** One important driver of these risks is the scope of the procurement. Pay.UK is procuring the CSS plus common services it deems necessary to migrate Bacs and Faster Payments transactions to the NPA. Given there is general agreement that a phased approach to migration is appropriate to reduce risks and allow realisation of the benefits of earlier migration of the less complex transactions faster (see paragraphs 2.36 and 2.38), an approach involving procurement and build of all functionality upfront adds unnecessary risks and delay.

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14 Given under section 54 of the Financial Services (Banking Reform) Act 2013.

15 See: <https://www.psr.org.uk/publications/general/general-direction-2-access-fsbra-2020/>

16 See: <https://www.legislation.gov.uk/uksi/2017/752/regulation/104>

- 2.30** Additionally, the detailed functional requirements for some of the common services Pay.UK is procuring have not been fully determined or validated with stakeholders and the industry is constantly evolving. This adds to the risk that the procurement will not provide value for money: for example, if Pay.UK buys inappropriate solutions, services that may not be necessary or solutions that have been made redundant by the time they are scheduled for use. Moreover, it may be possible for some of these services to be provided competitively; as such, procuring them centrally now without proper assessment risks stifling innovation and competition. Finally, the scale and complexity of the work to define the requirements for necessary common services and agreeing a contract with a provider for them risks delaying realisation of the benefits of the NPA.
- 2.31** Without changes to Pay.UK's NPA programme to reduce these risks, we are concerned that our four targets for the NPA (see paragraph 2.21) will not be met.
- 2.32** We are also mindful of the need to manage potential risks of disruption to payments during the migration of Bacs and Faster Payments transactions to the NPA.
- 2.33** We note that the current pandemic has meant PSPs face new costs and risks. This may reduce their appetite to fund the CIS, and mean they have fewer resources to support the design of the NPA and their migration of payments to the NPA irrespective of the CIS provider. But the pandemic also makes it more important to realise the potential benefits of the NPA quickly. These factors figure prominently in our considerations.
- 2.34** A number of developments relating to Pay.UK's NPA programme and the time it has taken provide important context for this consultation paper.
- 2.35** In spring 2019, Pay.UK commissioned an independent assurance review of its NPA programme from the Berkeley Partnership. The report found that the success of the programme depended on establishing strong foundations that were not yet in place. This led Pay.UK to 'reset' the programme in autumn 2019 to action the recommendations in the report, which included strengthening stakeholder engagement and mapping out the future operating model. Pay.UK formally closed the reset in July 2020.
- 2.36** As part of the reset, Pay.UK set up the Strategic Participant Group (SPG) – a forum of large and small banks as well as non-bank PSPs created to advise Pay.UK and make recommendations on the NPA programme. Pay.UK also consulted at a high level on the scope of the NPA with existing and prospective Bacs and Faster Payments participants. Respondents supported Pay.UK continuing to pursue the Forum's vision of a phased approach to migrating Bacs and Faster Payments transactions to the NPA. Subsequently, Pay.UK also ran a more targeted consultation on the migration of Faster Payments to the NPA (see Chapter 3).
- 2.37** In early 2020, Pay.UK began exploring ways to accelerate the NPA programme. As part of this work, it went on to examine possible alternative approaches to enable the procurement of the CIS as well as the impact of the onset of COVID-19. To inform its work, Pay.UK held discussions with the SPG.

- 2.38** The SPG considered a range of issues including the impact of COVID-19 on the industry's appetite for change and the need to deliver a safe migration to the NPA. In May 2020, it made three recommendations to Pay.UK:
- Pay.UK should incorporate SPG's six scope objectives for the NPA, which SPG agreed are aligned with the Forum's blueprint.
  - Pay.UK should adopt a phased approach to the NPA, with Faster Payments transactions migrated first and a sufficient amount of time given to consider the approach to migrating Bacs transactions.
  - Pay.UK should engage with its regulators with a view to cancelling the competitive procurement and procuring the CIS directly from Vocalink – the incumbent central infrastructure provider for Bacs and Faster Payments.
- 2.39** After evaluating options for de-risking and accelerating the NPA programme based on its own analysis and evidence gathered from the SPG, Pay.UK came to the decision to pause the current procurement and take steps to explore with us and the Bank of England the option of using Vocalink to build and run the NPA. The procurement was paused in June 2020.
- 2.40** Pay.UK also consulted the independent End User Advisory Council (EUAC), a group it set up to provide advice and challenge on the end-user interest in its work. EUAC recognised that two reasons Pay.UK had for engaging with its regulators with a view to cancelling the competitive procurement – minimising migration risk and improving speed to market for some NPA features – are of clear benefit to end users. It also said that cancelling the current competitive procurement would introduce end-user risks (if mitigating actions were not taken) relating to the value for money in the pricing and service that is agreed as part of the contract and to the development of the NPA ecosystem.
- 2.41** In August 2020, Pay.UK applied to us for an exemption from the requirements in SDs 2 and 3 to procure competitively the central infrastructure contracts for Bacs and Faster Payments, on the grounds of exceptional circumstances. It argued that the impact of COVID-19 has created new risks, and exacerbated:
- the baseline risks of delivering the NPA
  - the risks that might arise if the CIS contract is awarded to a provider other than Vocalink
- 2.42** We rejected Pay.UK's application as we considered the exceptional circumstances it relied on were not sufficient to justify the exemptions sought. In determining Pay.UK's application, we did recognise that the COVID-19 pandemic has had some impact on the NPA programme and will continue to have an impact.
- 2.43** We will publish Pay.UK's application and our decision on our website.<sup>17</sup>

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<sup>17</sup> See <https://psr.org.uk/publications/general/pay-uk-application-for-exemptions-from-obligations-under-psr-specific-directions-2-and-3/>

## Establishing an effective way forward

- 2.44** We agree with Pay.UK that the NPA programme needs to be de-risked. We also agree that adopting a phased approach to the migration of Bacs and Faster payments transactions to the NPA will help to lower risks.
- 2.45** We are concerned, however, that procuring the CIS directly from Vocalink without a competitive procurement may not secure a contract that provides value for money, mitigates competition risks, nor – if Vocalink is unwilling to accept the regulatory requirements that we plan to put in place – supports effective regulation of the NPA. In determining which procurement approach to take forward, these risks need to be balanced against any benefits. We have no view on who should provide the CIS – this is for Pay.UK to consider – but we want to ensure that a robust procurement process is followed and that the outcome is consistent with our statutory objectives.
- 2.46** Instead, we consider that service-user outcomes could be better, and risks lower, if:
- the scope of the initial CIS procurement is narrower (see Chapter 3)
  - the approach to procurement is reconsidered (see Chapter 4)
- 2.47** Pay.UK would still need to ensure that the CSS can be scaled up if needed to process all transactions that today use the Bacs or Faster Payments infrastructures. The costs and benefits of the Bacs migration might change significantly depending on the Bacs migration approach, which will be subject to further work and validation by Pay.UK and wider industry.
- 2.48** We also remain concerned about risks to competition and innovation relating to when the NPA is operational, and how this may affect the quality, range and pricing of payment services delivered using the NPA. Following on from our call for input, we set out how we plan to mitigate these risks in Chapter 5, including specific pricing principles. We discuss the pricing principles in more detail in Chapter 6.
- 2.49** We – and the Bank of England – consider that an important part of Pay.UK facilitating delivery of the NPA is that it has the appropriate resources to do so. We will take this into account when considering the way forward, including in deciding the content of any legal obligations we might impose or change.
- 2.50** The payments industry continues to evolve. Important ongoing developments relevant to the NPA include the implementation of Open Banking, increasing use of application programming interfaces (APIs) generally, and declining cash use. We will take account of these developments in considering the options for reducing risks to NPA delivery and mitigating risks to competition and innovation.
- 2.51** Pay.UK will also need to consider such developments and evolving market demands as it progresses its work to deliver the NPA, including the potential for interoperability with other new systems or initiatives, such as a Central Bank Digital Currency.

## The rest of this document

**2.52** The rest of this document is structured as follows:

- Chapter 3 sets out our views on the scope of the initial CIS procurement
- Chapter 4 sets out options for the approach to procurement of the CIS
- Chapter 5 sets out our assessment of the competition risks identified in our previous call for input, and the mitigations we think will be needed
- Chapter 6 sets out our views on CIS pricing
- Chapter 7 sets out our next steps

**2.53** Annex 1 provides a summary of responses to the call for input.

**2.54** We are seeking views on the options and proposals set out in this paper. We have included specific questions in Chapter 7.

## 3 Scope of procurement of central infrastructure services

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Pay.UK is procuring a contract for the provision of NPA CSS. Its current plan is for the same contract to include a broad set of common services that it thinks are needed to migrate Faster Payments and Bacs transactions (including Direct Debits) to the NPA.

To help reduce risks, our preferred approach is for Pay.UK to limit its initial procurement to the CSS and any common services needed to migrate Faster Payments transactions.

This would reduce complexity, making the initial procurement quicker and easier. It could accelerate the migration of Faster Payments transactions and hence enable faster realisation of some of the benefits of the NPA, while allowing more time for Pay.UK to do further work to assess how Bacs services should be delivered in future – including, if appropriate, how any services necessary to support the migration of Bacs payments are best delivered.

Our preferred approach, of a narrower initial procurement, is also more aligned to the Forum's vision of delivering an NPA with only a 'thin core' at its centre, thereby increasing scope for competition and innovation.

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- 3.1** As set out in Chapter 2, we are concerned that Pay.UK's proposal for de-risking the delivery of the NPA – namely, procuring the CIS directly from Vocalink without a competitive procurement – may not secure a contract that provides value for money, mitigates competition risks, nor supports effective regulation of the NPA. In determining which procurement approach to take forward (see Chapter 4), these risks need to be balanced against any benefits of this proposal.
- 3.2** We are considering an alternative approach to de-risking the delivery of the NPA based on revising the scope of the initial procurement. We are also reconsidering the way forward on the procurement in the light of that narrower scope (see Chapter 4).
- 3.3** Our preferred approach is to narrow the scope of the initial procurement so that it delivers the following CIS components:
- the core CSS
  - any common services that are needed to migrate Faster Payments transactions to the NPA

- 3.4** Under our preferred approach, any common services necessary only to migrate Bacs transactions to the NPA would be procured later through a separate procurement exercise. This chapter provides background information on Pay.UK's intended approach to migrating Bacs and Faster Payments to the NPA, introduces two scope options and then describes our preferred approach.

## Migrating payments to the NPA

### Faster Payments

- 3.5** Industry supports migrating Faster Payments transactions first. The Forum's blueprint favoured this approach and in early 2020, Pay.UK ran a consultation on the NPA's scope with existing and prospective Bacs and Faster Payments participants that reconfirmed this industry support. In general, stakeholders think the migration of Faster Payments has greater potential to support innovation in the interests of service-users such as consumers and businesses. For example, new services could be introduced allowing immediate payments to contain more data.
- 3.6** Pay.UK ran a more targeted consultation on Faster Payments migration to the NPA<sup>18</sup> in July and August 2019, and published its findings in October 2019.<sup>19</sup> Pay.UK's key findings were that:
- there was near unanimous support for a controlled migration approach where all participants must be able to receive payments from the new CIS prior to the first participants being allowed to submit them
  - the use of both commercial and regulatory incentives would help adherence to migration timelines
  - adoption of the ISO 20022 message standard has a central role in migration. Most respondents were keen to see some enhancements introduced at the time of migration (in line with the adoption of ISO 20022 in other market infrastructures)
- 3.7** Following its separate February 2020 consultation on the Next Generation Standard for UK retail payments<sup>20</sup>, Pay.UK decided not to implement a straightforward 'like-for-like' approach to ISO 20022 for Faster Payments, concluding there was strong support for the use of the enhanced data 'building blocks' and the benefits they could enable for payments.

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18 Pay.UK, *Faster Payments Transition Questionnaire* (July 2019). See: [www.wearepay.uk/faster-payments-transition-questionnaire/](http://www.wearepay.uk/faster-payments-transition-questionnaire/)

19 Pay.UK, *NPA Phase 3 Transition, FPS Questionnaire Final Report* (22 October 2019). See: [www.wearepay.uk/wp-content/uploads/2019/10/FPS-Questionnaire-Report-v1.0-External.pdf](http://www.wearepay.uk/wp-content/uploads/2019/10/FPS-Questionnaire-Report-v1.0-External.pdf)

20 Pay.UK, *Next Generation Standard for UK Retail Payments* (30 November 2020). See: <https://www.wearepay.uk/wp-content/uploads/Next-Generation-Standard-Industry-Conclusions-Shaping-the-Way-Ahead.pdf>



## Bacs

- 3.8** Compared with the Faster Payments migration, there is greater uncertainty over when and how Bacs transactions (including Direct Debits) should be migrated to the NPA. Pay.UK has not yet consulted on proposals for migrating Bacs transactions to the NPA. The costs and benefits of the Bacs migration might change significantly depending on the Bacs migration approach, which would be subject to further work and validation by Pay.UK and wider industry. For instance, the continued availability of multi-day payment and collection propositions (whether supported by competitive overlay services or by central common services) might significantly reduce the need to make changes for some organisations. We expect Pay.UK to take the potential migration incentives for different service-users into account when developing its proposals.
- 3.9** Pay.UK's current plans assume that it will include a set of common services in the CIS contract, to help Bacs participants and other service-users migrate to the NPA. This approach is moving away from the industry vision of having a thin NPA core focused on the CSS.
- 3.10** Some stakeholders think industry innovation could lead to the development of attractive alternatives to some current Bacs payments, using propositions based on immediate payments – and that there is potential for this to happen naturally in the next few years. For example, 'request to pay' propositions are now beginning to be made available and may prove suitable as alternatives to some Direct Debit use cases. Considering this, and the support for migrating Faster Payments transactions first, there are some important short-term choices to be made about the scope of the initial CIS procurement.

## Scope options for the initial procurement

- 3.11** We consider that there are two potential scope options for the initial procurement and contract for the CIS:
- **Scope option 1:** Pay.UK could procure CIS based on a broad set of requirements, including the CSS (needed to process every NPA transaction) plus all the common services it thinks will be needed to support both the Faster Payments and Bacs migrations. This is the scope of the current procurement.
  - **Scope option 2:** Alternatively, Pay.UK could at this time procure using a narrower set of requirements, focusing on just the CSS plus limited additional common services that are needed to support the Faster Payments migration. This would allow time for deeper analysis and industry input of what common services, if any, are required to support Bacs migration. This analysis will need to include how and when each requirement can be best delivered subsequently.
- 3.12** Our initial views of the implications of each approach are discussed below. In parallel to our consultation, Pay.UK has agreed to carry out more detailed analysis of these options. The intention is to share this with stakeholders later this year, before or at the same time as we consult on firm proposals (see Chapter 7).
- 3.13** There may be other options for simplifying the scope of the initial procurement. We welcome views on any such options and their implications.

## Scope option 1: procure a functionally broad CIS that includes common services to assist both Faster Payments and Bacs migrations

- 3.14 Timing implications:** The increased scope and complexity of this option will mean more time is needed for Pay.UK to become a well-informed buyer, and to deliver the increased workload related to procuring a functionally broader CIS. These factors may also mean additional time would be needed to put in place acceptable protections through contracts and regulatory measures.
- 3.15 Competition and innovation:** Procuring additional common services to assist the future Bacs migration, far in advance of that migration, increases risks of procuring inappropriate functionality and of closing off innovation and competitive service provision (for example, via new overlay services). These risks increase the longer the gap between the procurement of functionality and the migration that will utilise it. A broad CIS also moves away from the 'thin core' vision set out in the Forum's blueprint.
- 3.16 Impact on service-users:** Scope option 1 provides earlier certainty of Pay.UK's intended high-level Bacs migration approach, which may help enable a more ambitious migration timeline for transactions currently made by Bacs (following after the Faster Payments migration). This could reduce the risk of some service-users remaining on the current Bacs payment system for an extended period but bring forward migration costs. A quicker migration of Bacs transactions to the NPA also means service-user benefits related to the innovation and service improvement enabled by ISO 20022 might become available sooner for those transactions. On the other hand, benefits linked to ISO 20022 might take longer to realise for immediate payments if a more complex system needs to be built prior to commencing the Faster Payments migration.
- 3.17 Resilience:** Under scope option 1, the CSS and all common services are procured together from the same provider. This is like what happens today for Bacs and Faster Payments, with each having a central infrastructure single provider. Therefore, scope option 1 avoids the potential risk of reducing resilience (compared to today's Bacs and Faster Payments systems) that may apply under scope option 2 if the latter uses more than one CIS provider. On the other hand, using one provider could increase concentration risk and the impact of any service failure. This is particularly relevant where Pay.UK intends to procure common services that are not provided centrally today.
- 3.18 Interoperability:** The current Bacs payment system will need to be available until all payments have been migrated to the NPA. Bacs could be retired sooner under scope option 1 than scope option 2, reducing the period for potentially costly dual running of both it and the NPA. In addition, scope option 1 could more quickly provide increased interoperability between different payment types (based on the adoption of ISO 20022), if it succeeded in achieving a faster migration of all Faster Payments and Bacs transactions onto the NPA.
- 3.19 Complexity of procurement:** A broad scope for the CIS procurement adds to complexity, increasing risks relating to contract negotiation, procuring functionality that turns out to be unnecessary or needs changing, and timely delivery. Procuring and designing a contract when requirements are unclear is higher risk in terms of delivery and achieving value for money; currently this risk is particularly relevant to common services that may be needed to support the Bacs migration, which are less well-defined.

**3.20 Implications for Pay.UK's capabilities:** Pay.UK would need to build a greater breadth of capabilities in the short term to progress this option. If it seeks to procure a broad CIS in a single contract it needs to be able to anticipate its future requirements or contract for flexibility to adapt as service-user needs evolve. This is a significant challenge and relative to scope option 2 would be expected to take longer to achieve the capabilities necessary to conduct a successful procurement; pushing back the point at which procurement could be completed.

### Scope option 2: procure a thinner CIS focused on the CSS and achieving the Faster Payments migration

**3.21 Timing implications:** It is currently unclear what the overall timing impact could be. This option does not mean starting again, as much of the completed and ongoing NPA programme work should support quicker procurement from here on – see Chapter 4. The NPA programme timeline will need reviewing and updating in light of recent developments and the way forward on the scope of and approach to the procurement. We envisage that this option should help de-risk the initial CIS delivery and enable ISO 20022-based immediate payments more quickly compared with option 1. Option 2 could, therefore, enable an earlier migration for Faster Payments transactions, but it could slow down the Bacs migration relative to option 1.

**3.22 Competition and innovation:** While there remains a need to consider long-term generic system requirements, including peak volume capacity (see paragraph 3.37), scope option 2 – relative to option 1 – avoids the need to have already completed detailed analysis of requirements for the future Bacs migration. In addition, it could provide a window of opportunity for new market-led business models and propositions to emerge (for example, using APIs and immediate payments functionality, enabled by ISO 20022-enhanced data possibilities). Such new propositions could attract some current Bacs transactions (including Direct Debit transactions) to the NPA without additional central common services being needed. For each service where a competitive overlay approach is preferable, consideration should include whether potential service providers and other service-users require, or would benefit from, the creation of new open standards. We want to obtain stakeholders' views on what would be a suitable timeframe to allow the emergence of market-led propositions that could assist with the migration of Bacs transactions (including Direct Debits) to the NPA, noting that a longer period of dual running for NPA and Bacs incurs greater costs.

**3.23 Impact on service-users:** Benefits enabled by the adoption of ISO 20022 for Faster Payments might be available sooner, including potential immediate payments propositions using the enhanced data capability. While market-based solutions tend to be more flexible and responsive to changes in service-user demands, scope option 2 means the Bacs migration approach is less predictable in the short term and Bacs may ultimately require a longer migration period than with scope option 1, so the benefits from also having Bacs transactions on the NPA might take longer to be realised. Migration risks for Faster Payments should be lower, as a less complex system is needed initially, and the Bacs migration would be subject to greater planning and consultation.

**3.24 Resilience:** The outcome of the in-depth analysis for the Bacs migration options could lead to extending the number of common services procured by Pay.UK from a sole CIS provider (who is also providing the CSS), or procuring some common services from other provider(s), or confirming that some services are best provided competitively as overlay

services and not procured as common services. We do not pre-empt the outcome of the analysis, but it must be able to satisfy the Bank of England's requirements for systemic resilience, and this will need to be a key factor in the evaluation.

**3.25 Interoperability:** Under scope option 2, the current Bacs payment system may be required for longer than envisaged in scope option 1 to allow sufficient time for market-based solutions to emerge and for deeper analysis of common services that may be needed to support the Bacs migration. Some of the interoperability benefits of the NPA would be delayed if the end date for completing the Bacs migration was later than for scope option 1.

**3.26 Complexity of procurement:** Scope option 2 simplifies initial procurement needs, reducing procurement risks and costs and potentially delivering a stronger competition by making it easier for bidders to meet the requirements. It may also increase Pay.UK's ability to secure an acceptable contract and our ability to determine an appropriate regulatory package to manage competition risks. We discuss how we propose to manage these risks in Chapter 5.

**3.27** Narrowing the scope of the initial procurement may mean there is a second procurement – if common services need to be added to migrate Bacs transactions. This could reduce the benefits from a simpler initial procurement. Alternatively, a second procurement may not be necessary – for example, if services to support the migration of Bacs transactions are provided by the market or further analysis demonstrates that Bacs payments should continue to be delivered through a separate infrastructure.

**3.28 Implications for Pay.UK's capabilities:** Scope option 2 reduces the scale of the short-term procurement challenge faced by Pay.UK and so makes it easier for it to become a sufficiently well-informed buyer for that scope. It also avoids the need to negotiate a contract for the future delivery of Bacs services in the short term, deferring this to a later point (should such services be required), when requirements are better known. Beyond the short term, Pay.UK will still need to be capable of delivering an authoritative analysis of the pros and cons of the alternative potential future service delivery models for Bacs transactions.

## Our preferred approach

**3.29** We have considered the changes in the industry since Pay.UK began its first procurement exercise for the CIS. For example:

- the short- to medium-term potential impacts of COVID-19 on the resourcing and change capacity of participants and other service-users
- industry's preference for migrating Faster Payments transactions first, and the potentially greater innovation benefits this may bring
- ongoing developments in Open Banking, and the successes and challenges of using APIs in financial messaging more generally
- developments in other countries relating to the adoption of ISO 20022, immediate payments and related overlay propositions
- Pay.UK's application to us regarding our SDs 2 and 3 (as described in Chapter 2)

- 3.30** We consider there is a need to de-risk the current NPA programme (see Chapter 2). Pay.UK's intention to procure a broad set of common services within the scope of a single CIS procurement (scope option 1) increases certain risks and also goes against the direction of the Forum's vision of an NPA with a 'thin core'.
- 3.31** We consider our preferred approach would help to lower the risks to delivery of the NPA because it would:
- make it easier to secure a contract that provides value for money, by reducing the complexity of this contract and avoiding procuring now common services (to support the migration of Bacs transactions) that have not been fully determined or validated with stakeholders and may not be needed by the time they are scheduled for use
  - help realise some of the benefits of the NPA sooner by reducing the complexity of the procurement and the work required to define the requirements for common services, thereby enabling it to be carried out faster
  - promote competition and innovation by providing an opportunity for market-led overlay services to emerge that can help the migration of Bacs transactions to the NPA
- 3.32** Therefore, our preferred approach is that the initial procurement should focus on the CSS, the common services needed to facilitate the migration of individual Faster Payments transactions (including Standing Orders) to the NPA, and potentially common services that could support the migration of the existing Faster Payments file-based services of Direct Corporate Access (DCA)<sup>21</sup> and File Input Module (FIM)<sup>22</sup> – see paragraphs 3.33 to 3.34. The initial procurement may be followed by a second procurement – if common services need to be added to migrate Bacs transactions and potentially transactions that use Faster Payments file-based services (should the latter be excluded from the initial procurement). Alternatively, a second procurement may not be necessary: for example, if services to support the migration of Bacs transactions are provided by the market or further analysis demonstrates that Bacs payments should continue to be delivered through a separate infrastructure.
- 3.33** The Bacs migration involves many more connected service-users – submitting file-based transactions – than Faster Payments, is more complex, and carries greater risk. Pay.UK has not yet consulted on this and its suggested common services for Bacs may require some (as yet undefined) changes to the propositions faced by service-users and to the business processes many of them need to undertake. By contrast, there is only very limited use of the Faster Payments file-based services at present, with only two PSPs supporting the DCA service. There are pros and cons to including file-based common services in the initial procurement. They could provide a useful foundation for later common services to be added, relevant to the migration of Bacs transactions, and provide earlier clarity of migration requirements for existing Faster Payments DCA and FIM users. However, there is a risk of procuring the file-based common services too soon, before full consideration and consultation on the Bacs migration strategy, leading to additional change requirements for existing Bacs service-users or the CIS later on.

21 DCA is a file-based service that allows users to submit Faster Payments directly to the central infrastructure using a message standard based on Bacs Standard 18.

22 FIM is a file-based service that allows users to submit Faster Payments directly to the central infrastructure using the ISO 8583 message standard.

- 3.34** We therefore invite views on whether or not file-based common services should be excluded from the initial procurement and considered further, in conjunction with Bacs Direct Credit migration requirements, as part of a comprehensive file-based push payments strategy.

## Other considerations

- 3.35** We expect Pay.UK's future work on propositions and the Bacs migration approach to include a full review of current Bacs system use cases, covering whether and how these might best be migrated. This should also include consideration of the likelihood of new market-led propositions encouraging service-users to switch transactions to the NPA, and whether this is itself likely to be influenced by, or conditional on, Pay.UK or other bodies creating new standards. The costs and benefits of the Bacs migration might change significantly depending on the migration approach, which would be subject to further work and validation by Pay.UK and wider industry.
- 3.36** Future work should also consider the following:
- What services that are necessary to support the Bacs migration are best provided centrally as a common service, as opposed to competitively (for example as a market overlay)?
  - For each necessary common service, is it best provided by the CSS provider, or would a separate competitive procurement exercise be likely to bring greater benefits?
  - For each competitively provided service, what actions are needed to promote its development and how long might it take to become available?
- 3.37** Scope option 2 means that some common services, aimed at supporting the Bacs migration, would be excluded from the initial CIS procurement, and may not need procuring subsequently if market-led solutions were successful or further analysis demonstrates that Bacs payments should continue to be delivered through a separate infrastructure. Pay.UK would still need to ensure that the CIS design and contractual approach provides sufficient flexibility to allow it to support all Bacs transactions as well as all Faster Payments transactions, including allowing for anticipated future transaction growth. The industry vision for the NPA envisages that the newly procured CIS will still ultimately cater for all those transactions and the procurement should take this into account.
- 3.38** For scope option 2, we are interested in stakeholders' views on whether – and to what extent – the CIS design must from the outset take into consideration the intrinsic features of the current Bacs service to enable plans for an effective and efficient migration of Bacs transactions to the NPA.

## Summary

- 3.39** We have considered whether an appropriate way of de-risking the NPA programme might be to narrow the scope of the initial procurement, so that it focuses on delivering the CSS and common services needed to migrate Faster Payments transactions. This would allow time for deeper analysis and industry engagement on the best approach to the subsequent Bacs migration (including Direct Debits).
- 3.40** We have provided our views on the implications of this narrower scope option for the initial procurement compared to the current scope, which involves procuring broader functionality that would also include common services relevant to assisting the subsequent Bacs migration.
- 3.41** Our preferred approach is for the narrower scope option, as this helps mitigate risks relating to: achieving value for money; timely delivery of NPA benefits; and competition and innovation in payment services.



## 4 Approach to procurement of central infrastructure services

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We want Pay.UK to ensure there is an effective and timely procurement of the CIS, irrespective of the scope of the initial procurement.

We consider there are three options for procurement of the CIS:

- continue with the current competitive procurement
- start a new competitive procurement
- directly negotiate with Vocalink without a competitive procurement

Each of these options has risks and potential benefits. We are seeking stakeholders' views on them.

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- 4.1** As described in Chapter 2, SDs 2 and 3 require Pay.UK to take the action necessary to ensure that any central infrastructure contracts for Bacs and Faster Payments that are in place on or after 2 December 2023 (Bacs) and 30 June 2023 (Faster Payments) have been procured competitively.
- 4.2** As the NPA is intended to replace the current Bacs and Faster Payments central infrastructures, Pay.UK set out to comply with our directions by running a competitive procurement for the CIS in December 2018. Pay.UK paused this process in June 2020 and in August 2020 applied to us for an exemption from the requirements in SDs 2 and 3 to competitively procure the central infrastructure contracts.
- 4.3** Cancelling the current competitive procurement and procuring the CIS directly from Vocalink is one way that Pay.UK proposes to de-risk the NPA programme. We are concerned that this proposal does not sufficiently address the risks described in Chapter 2 and is likely to introduce additional risks that would be less likely to materialise in a competitive procurement.
- 4.4** In the light of the risks to delivery of the NPA, Pay.UK's decision to pause the current procurement, and Pay.UK's application for exemption from obligations under SDs 2 and 3, this chapter seeks views on three options for procuring the CIS. We acknowledge that there are some difficult decisions to make and want to take into account stakeholders' views to find a pragmatic and effective way forward. We have no view on who should provide the CIS – this is for Pay.UK to consider – but we want to ensure that a robust procurement process is followed and that the outcome is consistent with our statutory objectives. While we consult on the approach to procurement, we have told Pay.UK that we consider it should continue its pause of the current process.
- 4.5** The decisions we make following this consultation will have implications for SDs 2 and 3, which is considered further in Chapter 7.



## Benefits of a competitive procurement

- 4.6** An effective competitive procurement is a common way for organisations to improve value for money and to secure the outcomes that they are looking to achieve. It is a means to an end that also reveals information that would be unavailable from negotiating bilaterally with a single supplier. In the context of contracts for regulated payment systems, a competitive procurement is also a way to identify a party that is willing to accept the contractual and regulatory protections that come with delivering critical national infrastructure that also underpins competition and innovation in payment services.
- 4.7** In particular, a competitive procurement addresses information asymmetries by revealing important information about costs and achievable levels of service quality, therefore providing greater value for money. The competitive tension between bidders also provides incentives for providers to develop higher quality and more innovative designs.
- 4.8** These benefits are less likely to be realised in a bilateral negotiation. In bilateral negotiations, the outcome will typically depend on:
- the balance of information available to each party
  - the incentives on each party to enter into the contract
- 4.9** In the absence of a competitive procurement, to obtain sufficient commercial leverage Pay.UK would rely on its ability to credibly walk away from the contract negotiations.
- 4.10** A well-designed and well-executed competitive procurement could also address some of the vertical and horizontal risks to competition relating to when the NPA is operational, which are discussed in Chapter 5.
- 4.11** We are particularly mindful of the need to secure certain contractual and regulatory protections for service-users. Chapter 5 sets out in further detail the specific mitigations and governance principles we propose to promote competition and innovation. This requires both that Pay.UK can negotiate such contractual protections and that the provider is willing to enter into the contract on this basis and accept the regulatory requirements that are also planned to be put in place.

## Procurement options

- 4.12** Below we describe three options for procuring the CIS.
- 4.13** In theory, all three options could be viable irrespective of the scope of the initial procurement (as discussed in Chapter 3). We acknowledge, however, that if the scope of the initial procurement is narrowed, it may not be appropriate to continue with the current process.
- 4.14** We are seeking stakeholders' views on these options, recognising that each comes with risks. We are also interested in views on any other realistic options for moving this important programme of work forward.

- 4.15** To date, Pay.UK has proposed to award a contract for the build and run of the CIS. This chapter follows this assumption – the initial procurement (irrespective of the scope) would select a provider to build and run the clearing and settlement services and the relevant common services. But there may be opportunities to de-risk the NPA delivery by holding separate procurements for each of the design, build and run phases. We welcome views on this and other ways the approach to procurement could lower risks to delivery of the NPA.

### Procurement Option 1: Continue the current competitive procurement

- 4.16** In December 2018, Pay.UK launched a competitive procurement for the CIS, with an estimated date of Q2 2020 for selection of the winning bid.
- 4.17** The procurement consists of four stages:
- a pre-qualification questionnaire (PQQ) stage
  - a request for information (RFI) stage
  - a request for proposal (RFP) stage
  - a best and final offer stage
- 4.18** The first two stages were completed by Pay.UK before it paused the current procurement in June 2020.
- 4.19** To continue with the current procurement, Pay.UK would need to lift its pause – after completing the necessary work to clarify the requirements of the services it is procuring – and continue with the RFP stage of the process with the bidders that currently remain.
- 4.20** This option may deliver the benefits identified in paragraphs 4.6 and 4.7, but this is not guaranteed and depends partly on the continued participation of the existing bidders.
- 4.21** Continuing with the current procurement could also be quicker than the other options. Though this is by no means certain, given the complexity of the current scope and the amount of work that needs to be undertaken to define clearly all the requirements of that scope.
- 4.22** Given that only the first two stages of the process – the PQQ and the RFI – have been completed, continuing the current procurement with a narrower scope than that currently envisaged by Pay.UK might also be an option. This would reduce the complexity of Pay.UK's work to specify the requirements of the services it is procuring and simplify what the successful provider would need to provide, lowering risk and potentially enabling faster delivery of some of the benefits of the NPA. As discussed in Chapter 3, Pay.UK would need to ensure that the CIS design and contractual approach provides sufficient flexibility to support all Bacs transactions (if needed) as well as all Faster Payments transactions, including allowing for anticipated future transaction growth.
- 4.23** We acknowledge that – particularly if there are bidders that were ruled out through the PQQ or RFI stages based on scoring for elements of the current scope – continuing the existing procurement with a simplified scope might not be realistic.

## Procurement Option 2: Start a new competitive procurement

- 4.24** A second option is for Pay.UK to start a new competitive procurement (either with the current scope or a narrower scope).
- 4.25** This option would provide the benefits of rivalry explained in paragraphs 4.6 and 4.7. Although Pay.UK will still need to establish the requirements of the services it is procuring, the rivalry between bidders would reveal important information about costs and achievable levels of service quality, and provide incentives for providers to develop higher quality and more innovative designs. This would reduce Pay.UK's workload in establishing that information and providing those incentives in other ways, as would be required (if indeed it is possible) under option 3.
- 4.26** Starting a new procurement with a revised, less complex, scope would make it easier for Pay.UK to develop requirements for the services being procured. We understand that in other jurisdictions, procurements of this type – with sufficiently narrow scope, such as a single push payments rail and clarity of the requirements being procured – have been completed in 12 to 18 months.<sup>23</sup> Therefore, this option could be quicker than the other options. We would be interested to hear whether there would be interest in bidding should a new competitive procurement of this type (with the simplified scope described in Chapter 3) be run.
- 4.27** This option also allows the possibility of running a new procurement with the current complex scope, which could cause further delay due to the analysis that would need to be undertaken to clearly define all the requirements of that scope before the procurement could commence (as with option 1). There is also a risk that, after the delays in the current procurement, restarting with the same scope would not attract sufficient bidders for an effective competition. We would welcome views on whether there would be interest in bidding should a new competitive procurement of this type (with the existing scope described in Chapter 3) be run.
- 4.28** We would welcome feedback on the viability of starting a new competitive procurement with each of the scope options (as set out in Chapter 3).

## Procurement Option 3: Directly Negotiate with Vocalink without a competitive procurement

- 4.29** Under this option, Pay.UK would terminate the existing competitive procurement and directly negotiate with Vocalink. As described in Chapter 2, procuring the CIS by directly negotiating with Vocalink is one way Pay.UK proposes to reduce the risks to delivery of the NPA.

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<sup>23</sup> In Canada, the initial central procurement for the Real-Time Rail took around 12 months and in Australia, the central procurement for the New Payments Platform took around eight months.

- 4.30** Pay.UK believes that, if the current competitive procurement results in the selection of a provider other than the incumbent, the risks and industry costs of migrating Bacs and Faster Payments transactions to the NPA will be higher. Therefore, it considers that negotiating directly with the incumbent will de-risk delivery of the NPA. Pay.UK also believes that this option will realise sooner the benefits from competition in overlay services (for example, by enabling a quicker procurement and migration) and enable innovation to the benefit of end users.
- 4.31** Pay.UK's proposal was informed by its own analysis of various options for accelerating and de-risking the delivery of the NPA and engagement with SPG (see Chapter 2), which recommended direct negotiation with Vocalink. SPG considered that this would help minimise risks relating to the migration of payments to the NPA and overall industry costs, and enable the detriments identified by the Forum to be addressed quicker. SPG's view was that the focus should be on promoting competition and innovation in overlay services rather than the CIS, which should be focused on robustness and resilience.
- 4.32** We acknowledge that there would be a switching cost if a competitive procurement resulted in selection of a provider other than Vocalink. However, these costs must be assessed in the round and we have not seen evidence that they would be sufficiently large as to offset the benefits of a competitive procurement. We also note that bidders in a competitive procurement could be asked to demonstrate how they would minimise migration risks and costs, which could form part of the assessment of their bids.
- 4.33** We consider that negotiating directly with the incumbent introduces a number of additional risks and issues (relative to a competitive procurement), including:
- concerns about the lack of commercial leverage that Pay.UK would have in bilateral negotiations
  - concerns that the benefits to innovation and competition that come from the commercial tension in a competition cannot be replicated
  - doubts that this option would lead to faster delivery than the other options due to the need for additional analysis, consultation and review by us to gain assurance over the negotiated design and contract
- 4.34** Some respondents to our call for input also said that a competitive procurement would help mitigate the risks to competition and innovation identified in that document. Indeed, we are concerned that in the absence of sufficient commercial leverage, Pay.UK would be unable to secure both:
- the contractual protections against the risks to competition that we have highlighted
  - a contract that reflects the regulatory oversight and other requirements that we would want to secure, to mitigate these risks to competition

- 4.35** This raises the importance of considering how strong this leverage might be and we invite further stakeholder views on this. To date, some stakeholders have suggested that Mastercard<sup>24</sup>/Vocalink will be mindful of their international reputation and the role that the UK payments markets play in their prospects for winning further infrastructure contracts in other countries.
- 4.36** We are also mindful that there may be economic incentives on Mastercard/Vocalink that could give rise to factors such as the following:
- Mastercard/Vocalink may want to avoid the precedent set by any contractual and regulatory protections in the UK, including in so far as they might be replicated in other countries.
  - The balance between the revenue generated for Mastercard/Vocalink through continuation of the current contracts (for Faster Payments, Bacs and C&C Image Clearing System) relative to the value offered in the new CIS contract.
  - The value that might accrue to Mastercard if it is able to secure a competitive advantage in related markets, through delay or through using delay as a way of securing an outcome in its favour.
- 4.37** We note the stakeholder concerns expressed about the difficulty of securing value for money where there are changes to design or capability after contract award. Indeed, this could be an example of the factors highlighted above at paragraph 4.36.
- 4.38** Our current view is that it would not be in the best interests of the industry or service-users for Pay.UK to begin or restart any procurement until it has sufficient knowledge, capability and clarity about the requirements to be put into a contract. As discussed in paragraph 4.25, removal of competitive pressures requires Pay.UK to establish more information before beginning negotiations than under option 1 or option 2 (because it cannot rely on rivalry to reveal information).
- 4.39** To the extent that the scope of the procurement is unchanged (rather than excluding any common services to support the migration of Bacs payments as set out in Chapter 3), it may take longer for Pay.UK to establish sufficient knowledge, capability and clarity about the requirements, extending the overall timetable.

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24 Vocalink is part of the Mastercard group.

## Summary

- 4.40** We have set out what we view as the three options available for progressing the work to procure the CIS. We acknowledge that all these options carry risks and there are some difficult decisions to make to find a pragmatic and effective way forward. We also acknowledge that there are gaps in our understanding of the viability of some of these options (that is, whether there is appetite for bidders to continue the current competitive procurement or enter a new one). For these reasons, we want to hear stakeholders' and potential bidders' views before arriving at a preferred option.
- 4.41** Regardless of the procurement option that is taken forward, the following criteria are required for the procurement to be concluded successfully:
- an informed and knowledgeable customer
  - clear requirements from that customer
  - the ability to exert commercial leverage
  - an effective contract for delivery, including that mitigates risks to competition
- 4.42** If one or more of the above criteria are missing, Pay.UK's ability to procure CIS that supports the development of an NPA – which is resilient and facilitates competition and innovation in the best interests of service-users – would be compromised.

# 5 Promoting competition and innovation in the NPA

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For competition in the NPA ecosystem to be effective, we consider that Pay.UK:

- must determine the terms of access to CIS
- should ensure the technical design does not create high barriers to entry for PSPs and overlay providers

We are proposing specific mitigations that will require Pay.UK to:

- run an effective procurement process
- ensure that the contract with a CIS provider includes incentives to foster and facilitate innovation, and limits incentives to distort competition
- prevent a CIS provider (or its owner) using commercially sensitive information for its own benefit in another market
- include, and then monitor, service level agreements (SLAs) in a CIS provider contract
- ensure CIS user prices are set using proportionate, objective and non-discriminatory (POND) criteria and follow the pricing principles set out in Chapter 6

We are also proposing that Pay.UK (and a CIS provider where applicable) be required to implement the following governance principles:

- Pay.UK should be the primary interface and decision-maker for all matters relating to CIS provision.
- Pay.UK must actively implement rules to promote competition and ensure access terms are POND.
- If a CIS provider (or its owner) has a significant interest in another payment system that competes with interbank payments or in the NPA's competitive overlay markets, its CIS functions must be operationally separate.

We propose to bring forward regulatory measures that will ensure that the relevant parties implement these specific mitigations and governance principles to address monopoly, vertical and horizontal competition risks. We will monitor the development of the NPA and have a range of powers we could use if we see that competition or innovation is being distorted, or that we need to change our existing regulatory approach.

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- 5.1** In this chapter, we assess the risks to competition and innovation in the NPA and set out our proposals for mitigating these.
- 5.2** We are proposing specific mitigations and governance principles to reaffirm and strengthen Pay.UK's central position in the NPA ecosystem. For there to be effective competition and innovation, and for Pay.UK to act as the central decision-maker on all matters related to CIS provision, Pay.UK must be sufficiently incentivised, equipped and capable to perform its role as intended.
- 5.3** The discussion in this chapter builds on our January 2020 call for input, which described various risks to effective competition and innovation in the NPA. It also set out possible mitigations to address those risks. Annex 1 summarises the 20 responses we received. Almost all respondents recognised that the competition risks could crystallise in the absence of mitigations. Most respondents, however, believed that the risks, where they arise, can be addressed through a combination of effective procurement, technical design, good governance and appropriate 'ringfencing'.
- 5.4** Our proposed approach is based on our assessment of the information currently available to us. We will take account of all responses to the consultation when we determine our approach. We will then keep our approach under review, including whether we need to introduce other measures as issues emerge or circumstances change.

## Designing the NPA to promote competition and innovation

- 5.5** In Chapter 2, we distinguished between different types of services in the NPA ecosystem, including: CIS which include CSS and common services; PSP services; market overlays; and account overlays.
- 5.6** We propose to introduce regulatory measures that mandate Pay.UK to act as the sole counterparty to all other parties in relation to CIS: a CIS provider, PSPs and overlay providers. As the contractual and main operational interface between the monopolistic CIS activities and the competitive activities, Pay.UK will have a critical role in determining the price and non-price terms and conditions for participants.
- 5.7** Pay.UK should promote effective competition within the NPA ecosystem, which in our view means:
- low barriers to entry and participation for PSPs and overlay providers, including those with innovative ideas
  - no scope for any entity to exercise market power anti-competitively, or gain unfair advantages through its position in the ecosystem
  - easy comparison and switching between PSP and overlay providers by payers, payees and other users



- 5.8** Pay.UK should also ensure that certain technical **design principles** are embodied in the functional and technical specifications for CIS, and embedded in the NPA. These include:
- a ‘thin’ CIS design that provides only functionality that is necessary to maintain the ongoing resilient provision of services to service-users, and minimises the scope of services provided centrally by a single supplier
  - inability for a CIS provider to discriminate in service quality (for example, transaction speed or information contained in a payment message) depending on the PSP, overlay provider, payer, or payee
  - scalable and modular services that allow cost-efficient capacity expansion and/or changes in functionality to accommodate innovations over time
  - a wide range of access options
  - open standards for each overlay that promote competition by enabling sufficient interoperability between competing providers, so that providers face lower barriers to entry and service-users are not locked into a particular provider because of network effects
- 5.9** As discussed in Chapter 3, our preferred approach of narrowing the scope of the initial procurement is consistent with a ‘thin’ CIS design. In addition, it provides an opportunity for market-led overlay services to emerge that can help the migration of Bacs transactions to the NPA.
- 5.10** The more Pay.UK must depend on a CIS provider to produce specifications, the greater the risk that these principles will not be applied in practice. This highlights the importance of Pay.UK building sufficient capability to be an informed buyer, under all scenarios discussed in Chapters 3 and 4.
- 5.11** Our technical design principles are informed by the Forum’s blueprint, our observation of market developments in the delivery of Request to Pay and Confirmation of Payee, and responses to our information gathering (including the call for input).

## Competition risks

- 5.12** The call for input focused on three types of competition risks: risks associated with monopoly provision of services, horizontal competition risks and vertical competition risks. Below we present our assessment of these risks for the services in the NPA ecosystem.

### NPA scope, procurement and competition risks

- 5.13** The final CIS scope and how it is procured will affect the nature and magnitude of competition risks that could arise.
- 5.14** Building on the discussions in earlier chapters, for the purposes of the competition assessment in this chapter we have assumed that the CIS comprises two broad categories of services:
- CSS that are used in the processing of all transactions, and under the thin design principle are set to a minimum scope

- common services that are critical to the delivery of some NPA services (here can be different types of common services)

**5.15** We have also used the current assumption of Pay.UK that CSS and common services should be provided centrally, although as noted in Chapter 3, it may be the case that there are separate providers of CSS and some or all common services. Accordingly, in this chapter we use the term ‘a CIS provider’ to refer to either of the following:

- a single entity providing both CSS and common services
- separate monopoly providers of CSS and common services

**5.16** As a general principle, we think that the competition risks are directly related to both the nature and scope of functions performed by a CIS provider. For example, the competition risks of a single entity providing both CSS and common services might differ from the risks that arise where an entity only provides common services. These risks could also differ by the types of common services provided.

**5.17** Based on our current understanding, many of the monopoly, horizontal and vertical price and quality risks are similar for CSS and common services provision; however, the risks associated with the access to, and sharing of, information might differ for CSS and common services provision. For example, depending on the type of service, a common services provider might have access to more detailed or specific information about an NPA participant. This could give it a first mover advantage in an overlay market or could be shared with an affiliate outside of the NPA ecosystem. We invite consultees to provide their views on potential differences between CSS and common services provision.

**5.18** Our assessment of the likely effectiveness and proportionality of regulatory measures will be calibrated to all the relevant circumstances at the time – most obviously the risks attached to the specific CIS being provided. For example, while our current view is that a requirement for structural separation on a CSS provider is not proportionate, that may shift – for instance, where a CSS provider also provides common services that lead to competition risks of sufficient concern to make this intervention proportionate.

## Monopoly risks

**5.19** There are three ways in which the risks associated with monopoly provision (monopoly risks) could manifest in the NPA.

### **CIS provider exploits its monopoly position as supplier of CSS or common services**

**5.20** A CIS provider might not have strong incentives to control costs or improve services, and could set access terms and prices that distort competition in PSP or overlay markets. Several respondents to our call for input identified these types of monopoly risks as a major potential issue in the absence of appropriate mitigations.

- 5.21** Monopoly pricing risks relating to CIS primarily depend on how Pay.UK procures the CIS services from a CIS provider and sets CIS user<sup>25</sup> prices levied on PSPs and market overlay providers (see Chapter 6). Our proposed specific mitigation requiring Pay.UK to run an effective procurement process would help limit risks associated with monopoly provision, including by containing costs. Pay.UK can also address service quality risks by establishing and monitoring minimum quality standards in SLAs for a CIS provider. Pay.UK should also ensure that a CIS contract incentivises a provider to foster and facilitate innovation.

### **CIS provider exploits its monopoly position as supplier of ‘additional services’ to PSPs and overlay providers**

- 5.22** A PSP or overlay provider might require access to ‘additional services’ that only a CIS provider can supply but which are not within scope of any CIS supply contract. For example, an overlay provider might need access to data held by a CIS provider to develop a fraud and financial crime risk management product. A monopoly CIS provider might charge a high price for such access, provide a low level of quality, or not provide access on terms that promote competition and innovation.
- 5.23** We think Pay.UK should be the primary interface for all participants engaging with the CIS – for example, seeking access or managing their ongoing participation (we discuss this further in paragraph 5.45). This means that a CIS provider’s role in providing additional services should be minimised as far as possible; Pay.UK would deal with a CIS provider on behalf of participants, and would determine the price and non-price terms of access for any additional services.
- 5.24** Making Pay.UK the primary interface for all participants would ensure that affiliates of a CIS provider providing services in an overlay market would have to engage with a CIS provider through Pay.UK in the same way as non-affiliates. This reduces the risk of preferential treatment.

### **Pay.UK does not perform its functions effectively**

- 5.25** Pay.UK will be the sole buyer of CIS services from a CIS provider, and the sole (re)seller of CIS. Given its objectives, governance structure and not-for-profit status, Pay.UK should buy services at efficient prices, sell CIS to PSPs and overlay providers on POND terms, and maintain high quality. To do this effectively in practice, Pay.UK must be sufficiently incentivised, equipped and capable to perform its role.

## **Horizontal competition risks**

- 5.26** If a CIS provider (or its owner) has a significant interest in another payment system that competes with interbank payments – for example, a card payment system – there are ‘horizontal’ competition risks. These include risks that a CIS provider could:
- use information and data gained from providing the CIS to adapt products or design new services in another payment system

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<sup>25</sup> A ‘CIS user’ is any participant that pays for using CIS. Typically, this will be a participant that connects directly to the CIS or has another direct dependency on using its data or services – for example, direct PSPs or providers of market overlays.

- delay or prevent innovation in the NPA
- degrade the quality of CIS, giving the other system or interest an advantage

**5.27** Many respondents to the call for input recognised these risks in principle, but most said the risks were unlikely to materialise if:

- Pay.UK controls access to CIS
- a CIS provider is contractually restricted in how it collects and uses data

**5.28** Respondents expected Pay.UK to set SLAs that require a common level of service quality, which would prevent a CIS provider from being able to degrade quality. They also said a CIS provider would want to avoid the reputational damage of acting in such a way. Some noted that a CIS provider will have incentives to drive adoption of new services, and grow the NPA's transaction volumes.

**5.29** In **our assessment**, if Pay.UK is the primary interface for all participants, such as new and innovative overlay providers (as we propose by the first governance principle we set out in paragraph 5.45), then a CIS provider should not receive commercially sensitive information about their business operations and strategies. This should significantly reduce horizontal competition risks. As noted in paragraphs 5.16 and 5.17 above, the risk of information sharing may depend on the nature of the CIS being provided (for example, what common services are included) and the appropriate mitigations should be conditioned on those risks.

**5.30** Implementing our three proposed governance principles and several of our proposed specific mitigations – such as the proposal that Pay.UK must include and monitor SLAs – should mitigate the risks of a CIS provider degrading service quality or limiting innovation in interbank payments to favour another payment system.

## Vertical competition risks

**5.31** If a CIS provider (or its owner) has a significant interest in markets for overlay services, this can lead to 'vertical' competition risks where the CIS provider has an unfair advantage over other providers of similar overlay services. These include risks that a CIS provider (or its owner):

- has early access to information that is not available to third parties, giving it a first-mover and/or long-term advantage in an overlay service
- artificially inflates its costs so that the CIS user price set by Pay.UK for accessing CIS, and faced by PSPs and market overlay providers, is greater than the CIS provider's total efficient costs. This excess margin could be used to subsidise an affiliate in a competitive market
- takes advantage of the lower marginal costs of CIS to the group as a whole in ways that distort competition or foreclose competitors in an overlay market
- degrades the quality to its competitors in the overlay market
- uses information about competitors' plans to its advantage

**5.32** Again, many respondents to the call for input recognised that these risks could arise in principle but they were mainly of the view that the ability of a CIS provider to offer higher prices or worse service quality to its competitors in overlay markets could be mitigated through clear contractual arrangements between Pay.UK and a CIS provider, as well as Pay.UK rules for CIS. Respondents also said that Pay.UK will determine the CIS user prices, meaning that a CIS provider will not directly contract with or charge third parties (such as PSPs or overlay providers).

**5.33** In **our assessment** of the vertical competition risks, we distinguish between the provision of market overlays, PSP services and account overlays (as described in Chapter 2).

### Market overlays

**5.34** A CIS provider (or its owner) may also want to provide market overlay services (for example, gateways, reference data distribution, NPA software services, liquidity solutions). Market overlays consume CIS and/or its data, and, as such, vertical competition risks could arise if a CIS provider (or its owner) provides such market overlay services alongside other providers. These risks relate to price, quality and information sharing.

**5.35** In terms of **price** risks, following our first proposed governance principle set out in paragraph 5.45, Pay.UK would set the CIS user price for all market overlay providers, including any affiliate of a CIS provider. Within this structure, there are two possible vertical competition pricing risks:

- First, a CIS provider might artificially inflate its costs such that the CIS user price set by Pay.UK, and faced by market overlay providers, is greater than the total efficient costs incurred in providing the CIS. This would create an excess margin above cost for a CIS provider, which could be used to subsidise an affiliate in a competitive market, placing it at a competitive advantage and foreclosing competitors in that overlay market.

Our proposed specific mitigation requiring Pay.UK to ensure CIS user prices are set using POND criteria would mean that a provider which is an affiliate of a CIS provider would pay the same inflated CIS user price as other market overlay providers. As discussed in Chapter 6, we also propose that Pay.UK should ensure that prices reflect only efficient total costs through its approach to the procurement of CIS and its ongoing monitoring and adjustment to prices. In addition, our third proposed governance principle below could require accounting separation, which would allow Pay.UK, the PSR and other participants to monitor how closely prices for CIS reflect the underlying costs of that activity (see paragraphs 5.49 to 5.55).

- Second, even though a market overlay affiliate will face a CIS user price set by Pay.UK, the affiliate's output and pricing decisions in the overlay market are likely to be influenced by the marginal cost of CIS to the group as a whole. This is likely to be lower than the CIS user price faced by its competitors.

This difference in costs would affect the balance of incentives between the affiliate and non-affiliate companies to enter the market and to compete. Non-affiliated companies would know this distortion exists and it would affect their expectations of successfully competing in the overlay market.

It is possible that these incentives might intensify competition in market overlays in the short term, with the affiliate being able to compete with lower prices or higher output based on the marginal cost faced by the group.

However, over the longer term, this systematic distortion to how firms compete would likely reduce the intensity of competition. This could undermine competition, innovation and good outcomes for service-users over time.

This points to the need to consider the structure of revenues received by the CIS provider, and to ensure that the incentives faced by the CIS group of companies are broadly equivalent to those facing a non-affiliated new entrant.

Depending upon the ability to address these incentives ex ante through our proposed governance and pricing principles discussed below, there might also be a need for additional regulatory measures to ensure a good outcome for end users. We therefore propose to monitor how competition develops for market overlays and consider the need for additional regulatory intervention, as markets for different overlay services evolve.

**5.36** The risk of a CIS provider degrading **quality** to overlay competitors would be limited by our proposed specific mitigation that Pay.UK will establish and apply minimum quality standards for the CIS that all market overlay providers receive, including any market overlay provider affiliated with a CIS provider. The minimum quality standards will be contained in SLAs between a CIS provider and Pay.UK, and we expect Pay.UK to maintain ongoing governance and oversight of compliance with those agreements.

**5.37** The risk of a CIS provider (or its owner) **using commercially sensitive information** about the business operations and strategies of a market overlay competitor to its own advantage<sup>26</sup> should be addressed by our proposed first governance principle that Pay.UK must act as the primary interface for all participants, including new market overlay providers. Additionally, our proposed third governance principle requires a CIS provider to implement appropriate operational separation, including information firewalls to limit information sharing within a corporate group. As noted in paragraph 5.53, the extent of operational separation may need to be calibrated, for example, to the nature of the CIS being provided.

### PSP services

**5.38** The extent to which vertical competition risks could arise for PSP services depends on whether a CIS provider (or its owner) is active in providing such services. While we do not consider it likely that the provider of CSS will also provide PSP services, it is possible that a provider of common services (which does not provide CSS) could also be active in supplying PSP services (either individually or as part of a consortium). If this is the case, vertical competition risks could arise insofar as the owner of the common services provider might seek to: artificially inflate its costs such that the price set by Pay.UK, and faced by PSPs, is higher than total efficient costs, or take advantage of the lower marginal costs of CIS to the group to distort competition and/or foreclose competitors; degrade the quality to other PSP service providers with which it competes; or use information about competitors' plans to its advantage.

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<sup>26</sup> This could include commercially sensitive information about services to support the migration of Bacs transactions provided by market overlay competitors.

- 5.39** The mitigations we propose to introduce to address these risks are the same as those discussed for market overlays.

### Account overlays

- 5.40** A CIS provider (or its owner) may want to provide account overlays, such as payment initiation services. Because account overlays will not use any CIS, however, there is no scope for a CIS provider to raise the price or degrade quality to its competitors in account overlay markets.

- 5.41** That said, there are some areas where vertical competition risks could arise for account overlays; for example, a CIS provider (or its owner):

- could take advantage of its better understanding of the CIS operations to design new account overlays or to adapt existing products
- could use its position as CIS provider in its marketing to give the impression that the account overlay is part of the CIS – which could result in end users choosing this product on the assumption that it is more secure, reliable or otherwise superior or subject to more regulations than competitors' products
- might limit access to information that new and innovative account overlay providers need to develop their products – for example, a provider of a payment initiation service might need to access macro trend data held by a CIS provider

- 5.42** We discuss below three governance principles for the NPA ecosystem which should address these risks for account overlays.

## Governance principles for the NPA ecosystem

- 5.43** The purpose of our proposed governance principles is: to ensure that rules promote competition and access terms are POND; and to remove any information or marketing advantages a CIS provider (or its owner) might have when providing services in another payment system or overlay markets.

- 5.44** The first two principles are about what Pay.UK must do. The third applies directly to a CIS provider.

### Pay.UK as primary CIS interface

- 5.45** The first principle is that **Pay.UK, rather than a CIS provider, must be the primary interface and decision-maker for all matters relating to CIS provision**. This principle should apply to the setting of prices for access to CIS and for additional services (see paragraph 5.23), and updating standards and rules. Pay.UK should be the main party that market overlay providers, PSPs and other participants interact with. Making Pay.UK the primary interface will limit information asymmetries by ensuring that all participants (including new entrants looking to provide services) are treated consistently and have access to the same information. It also helps mitigate the risk that commercially sensitive information passes to the CIS provider and on to its ultimate owner.



## Rules that promote competition

- 5.46** The second principle is that **Pay.UK must actively implement rules to promote competition and ensure access terms are POND**. Pay.UK must monitor the effectiveness of the rules. It must also control how a CIS provider uses the information it holds, especially information provided by new entrants into the NPA ecosystem.
- 5.47** To remove informational advantages that a CIS provider (or its owner) might have in competition with other providers of payment or overlay services, Pay.UK should:
- ensure that information that could give a CIS provider (or its owner) an unfair advantage is available to other relevant parties at the same time
  - place restrictions on how information and data can be used by a CIS provider
- 5.48** Pay.UK must have the right capabilities, incentives and governance framework to perform its decision-making and monitoring roles in the NPA. As the NPA programme progresses, we will consider whether Pay.UK is on track to perform this role effectively. If it is not, we will consider taking action to fix any deficiencies.

## Separated CIS provider

- 5.49** The third principle is that a CIS provider's **CIS functions must be operationally separate** from other parts of its (or its owner's) business if it (or its owner) has a significant interest in another payment system that competes with interbank payments or in the competitive NPA overlay markets.
- 5.50** The CIS provider (or its owner) is responsible for this separation in the first instance. We propose to introduce regulatory measures to require operational separation and to allow us to monitor its implementation by a CIS provider. The extent of our monitoring will, in part, depend on how Pay.UK implements the first two governance principles and how effective it is in performing its role as the primary interface for all matters relating to CIS provision.
- 5.51** We will need to consider the exact boundaries of any separation further, but are of the view that at a minimum there may be a need for:
- distinct branding between a CIS provider's CIS activities and its (or its owner's) overlay services, to address the risk of it creating the impression that an overlay service is part of CIS
  - separate accounting and business processes, so that efficient attributable costs and any potential anti-competitive subsidies can be verified
  - information firewalls to prevent the CIS provider sharing information within the wider corporate group



- 5.52** The above list of elements of any operational separation is not intended to be exhaustive, and the exact boundaries will depend on all the circumstances that exist at the time we impose our requirements if implementing our third principle. Consideration will also have to be given to potential resilience implications (for the CIS being provided) caused by the degree of operational separation.
- 5.53** The appropriate level of operational separation a CIS provider must implement will depend on factors such as the:
- nature of CIS provided – for example, whether it provides CSS or a specific common service
  - scope of its CIS provision – for example, if it combines the provision of CSS with one or several common services
  - type of any commercially sensitive information or data a CIS provider has access to as part of providing its services
  - ability of a CIS provider to share that information with its affiliates
- 5.54** Most respondents to our call for input were not in favour of structural separation to mitigate the potential competition risks. Some saw merit in some form of ‘ringfencing’ or operational separation. We agree that structural separation remedies, while effective, can be highly intrusive and should only be implemented when they are proportionate to the problem. Based on the information currently available to us, we do not, at the present time, consider structural separation to be a proportionate response to the risks we have identified given the other remedies that we propose. That view may change having taken account of responses to this consultation or if new issues emerge or circumstances change.
- 5.55** In light of our proposed governance principles, we propose bringing forward regulatory measures to ensure that Pay.UK develops and implements our first two principles and to introduce measures to require, so far as consistent with our third principle, operational separation and monitor its implementation.
- 5.56** These three proposed governance principles complement each other and represent an overall package of measures. It is important to note that they each contribute to the same overall regulatory objective and are not alternative options.

## Our monitoring of the NPA

- 5.57** We will continuously monitor the development of the NPA over time, ensuring that the conditions are in place to promote effective competition and innovation that benefits service-users. If we find that competition and innovation are not effectively developing in the NPA, then we will consider introducing further regulatory requirements. These measures could apply to Pay.UK, a CIS provider or other NPA participants. The need for, and nature of, future regulatory measures will depend on various factors, including: the outcome of the procurement exercise; the effectiveness of the specific price, quality and information sharing provisions contained in the contract between Pay.UK and a CIS provider; how effective Pay.UK is in acting as the primary interface between CIS users and a CIS provider; and the development of competition in overlay markets.

- 5.58** We have a range of powers we could consider using if we see that Pay.UK is not effectively performing its role such that competition or innovation is being distorted, or that changes to the existing regulatory approach are needed.
- 5.59** We are consulting on our proposed mitigations and governance principles because we consider they will, taken together, provide effective and proportionate mitigation to the risks we have identified in this chapter. We will revisit that in light of responses, and, of course, if we consider new issues have emerged or circumstances have changed.

## Summary

- 5.60** We have identified various competition risks that could arise within the NPA ecosystem. We have provided our assessment on the likelihood of these risks crystallising, and we have set out proposed measures that will help reduce and manage these risks. In summary:
- We think that a thin CIS design (which minimises the scope of services provided centrally by a single supplier) and effective procurement can reduce the competition risks that need to be managed.
  - We propose to bring forward regulatory measures to ensure the effective implementation of the specific mitigations and governance principles we have set out.
  - Taken together, a thin CIS design and our regulatory measures should provide an overall framework that can mitigate competition risks that arise from a CIS provider being a monopolist and from it (or its owner) potentially having a significant interest in overlay markets or in competing payment systems.
  - For these reasons, we do not currently see remedies requiring divestment or structural separation of a CIS provider as being necessary.
  - If the role of a CIS provider turns out to be broader than we currently envisage, then our assessment of competition risks, and thus the likelihood that these can be managed by the measures we have currently set out, will need to take this into account.
  - Our regulatory measures will need to be calibrated to the circumstances at the time they are introduced, including the nature and scope of the CIS that are provided.
  - We will monitor the development of the NPA. If we find that new issues have emerged or circumstances have changed, and that competition and innovation are not effectively developing in the NPA, then we will introduce different or further regulatory measures, which could apply to Pay.UK, a CIS provider or other NPA participants.

## 6 Pricing of central infrastructure services

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Pay.UK has a critical role in determining prices for connecting to and using the CIS. We want Pay.UK to set CIS user prices to:

- mitigate monopoly and vertical competition risks
- help develop an NPA ecosystem that is resilient, competitive, efficient and accessible to new entrants, with a focus on outcomes for its end users

To achieve this, Pay.UK must be able to set and vary CIS user prices. It is important that the prices are not pre-determined by the CIS contract and Pay.UK's ability to vary prices is not restricted by it.

CIS prices must be set using POND criteria in line with the existing regulatory framework. In addition, the prices should:

- reflect efficiently incurred costs
  - incentivise utilisation of the NPA
  - foster competition in services to end users
  - be transparent and predictable
  - adapt to changing competitive conditions
- 

- 6.1** In Chapter 5, we propose that Pay.UK acts as the primary interface for all participants, and determines price and non-price access terms. In this chapter, we set out five draft principles which we think Pay.UK should follow in its approach to CIS pricing. CIS prices must also be set using POND criteria in line with the existing regulatory framework.
- 6.2** The pricing principles should apply to charges for CIS users – participants which pay for using the CIS, such as direct PSPs and market overlay providers – for both the CSS and the common services. The charges recover the costs of building, maintaining and operating the CIS, which Pay.UK will agree with the CIS provider during the procurement process. They will also cover Pay.UK's own costs.
- 6.3** We will consider the best way to ensure compliance with these pricing principles. We will also consider our approach to CIS user pricing having regard to the existing access obligations discussed in Chapter 2 (notably POND requirements).

## CIS user pricing to deliver good end-user outcomes

- 6.4** The prices users pay for CIS will be important in incentivising direct and indirect participation in the NPA. Relative prices of the NPA compared to other payment systems may give PSPs incentives to encourage end users to use the NPA instead of other payment systems. The prices that direct PSPs pay feed into the prices they charge their customers. For some this includes indirect PSP customers, who connect to CIS through an arrangement with a direct PSP – so the prices could affect indirect PSPs' incentives to use the NPA.
- 6.5** Similarly, for market overlays, the pricing could incentivise providers to introduce overlays which use the NPA rather than other payment systems.
- 6.6** For this reason, we think it is important that CIS prices are competitive with other payment systems, and do not prevent efficient PSPs or overlay providers from accessing the CIS. For example, CIS pricing should not introduce unnecessary barriers to entry or distort competition between the providers. We have developed five draft pricing principles to help achieve this outcome.
- 6.7** The pricing principles closely interact with procurement and competition issues described in Chapters 4 and 5. The pricing principles have been developed to help mitigate competition risks, particularly monopoly and vertical risks that could lead to a CIS price being above the level of efficient costs. To ensure prices reflect efficiently incurred costs (our first pricing principle), Pay.UK will need to procure an efficiently priced CIS contract. This is closely related to the discussion of procurement options in Chapter 4.
- 6.8** Pay.UK will need both expertise and commercial leverage to secure an efficiently priced contract and comply with these pricing principles. It will also need the capability and governance arrangements to be able to set prices to CIS users; it must be able to assess the merits of various pricing structures and levels and select a pricing methodology that is most likely to deliver outcomes in line with its strategic objectives.

## Our draft CIS user pricing principles

- 6.9** Pay.UK's ability to set and vary CIS user prices is central to addressing some of the competition risks set out in Chapter 5. It is important that the prices are not pre-determined by the CIS contract; and that the contract does not place restrictions on Pay.UK's ability to vary the prices.
- 6.10** CIS user prices should:
- reflect efficiently incurred costs
  - incentivise utilisation of the NPA
  - foster competition in services to end users
  - be transparent and predictable
  - adapt to changing competitive conditions
- 6.11** CIS user prices must also be set using POND criteria in line with the existing regulatory framework (see Chapter 2).

### Reflect efficiently incurred costs

- 6.12** We want NPA products and services to be priced competitively compared to other payment systems. Pay.UK must set CIS user prices that reflect efficiently incurred costs.
- 6.13** In its response to our call for input, one respondent expressed a concern about Faster Payments not necessarily being priced efficiently and providing value for money. We want to ensure that these concerns do not arise in the provision of the CIS.
- 6.14** As set out in Chapter 4, we consider that Pay.UK can establish an efficient level of NPA build and operating costs through an effective competitive procurement. This could ensure that a CIS provider does not earn excessive returns or incur inefficient costs. In the absence of a competitive procurement, other methods would be required to fulfil this objective.
- 6.15** Our desire to see prices which reflect efficiently incurred costs does not mean we think Pay.UK should automatically favour the cheapest bidder. Other relevant quality and resilience considerations are also important – such as ensuring the CIS appropriately enable competition in overlay services, and that the whole NPA ecosystem is resilient.
- 6.16** We expect that Pay.UK's contract with the CIS provider will specify both the one-off capital expenditure costs of building and implementing the CIS, and the annual operation and maintenance costs for the duration of the contract.<sup>27</sup>

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<sup>27</sup> We expect Pay.UK and the designated CIS provider to work through the detail of contractual terms during the procurement process.

- 6.17** The efficient level of CIS operating and maintenance costs will be established at the outset of the contract, which may take account of expected efficiency improvements over time. The expected efficient level may change in subsequent years, particularly as transaction volumes and usage of CIS evolves. Our view is that Pay.UK would need to include appropriate mechanisms for monitoring ongoing operating and maintenance costs throughout the contract, so it can ensure that they reflect only efficient costs. A similar view was put forward by one respondent to our call for input.

## Incentivise utilisation of NPA

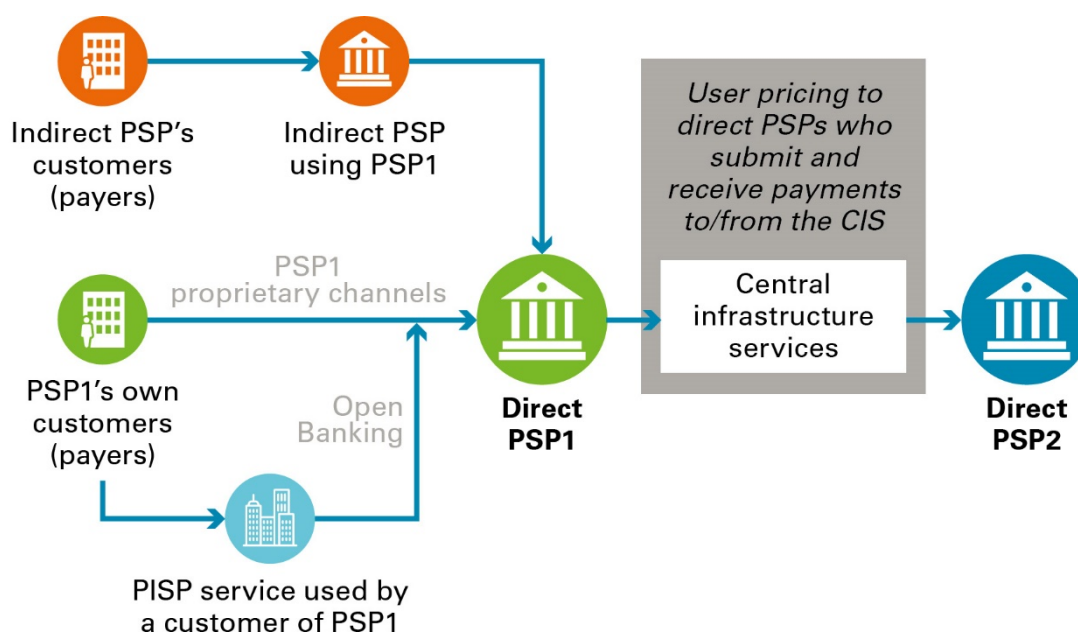
- 6.18** As we want widespread participation in the NPA, Pay.UK needs to consider how the structure and level of CIS user prices can encourage participants to use the CIS.
- 6.19** We want CIS user prices to:
- encourage efficient use of the NPA by PSPs, giving them an incentive to migrate their payments to it (including those from other payment systems)
  - support innovations by other parties (such as market overlay providers) which might themselves generate additional transactions and improved services in the NPA
- 6.20** We expect that over time the sum of Pay.UK's CIS user charges should cover the overall level of CIS costs incurred by a CIS provider, plus Pay.UK's administrative fees (to avoid Pay.UK taking on financial risk). There are a range of ways this can be done in practice. We think that Pay.UK should consider the merits of alternative pricing structures and levels. Pay.UK can then select an approach which would be most likely to incentivise utilisation of CIS (while considering its other strategic objectives), while also taking into account the implementation costs and how best to mitigate the risks highlighted in Chapter 5.
- 6.21** During the migration of Faster Payments and Bacs transactions, the pricing for the CIS and these legacy systems may play a role in incentivising migration of transactions to the NPA. Our objective is for users to be able to realise the benefits of the NPA as quickly as possible. We would be concerned about any pricing methodology which might inhibit this, whether it is for the CIS or for the legacy systems. For example, this could happen if Pay.UK recovered fees it owed to the current central infrastructure provider by raising the fees for CIS users in the NPA.

## Foster competition in services to end users

- 6.22** In Chapter 5 we discuss the importance of Pay.UK ensuring that CIS pricing does not distort competition in overlay markets, and that there is a level playing field between CIS users.
- 6.23** We want the fee structure to promote competition:
- between direct PSPs providing indirect access to the CIS to other PSPs
  - between direct PSPs, indirect PSPs and overlay providers providing services to end users

- 6.24** This pricing principle closely relates to our specific mitigation requiring Pay.UK to ensure that CIS user prices are set using the POND criteria.
- 6.25** To ensure a level playing field for CIS users, we want transactions fees to be the same for the same transaction regardless of how the payer initiates it. For example, a transaction that uses the CIS could be initiated through:
- an account overlay using an Open Banking or other API
  - a direct PSP
  - a market overlay provider
  - an indirect PSP (via a direct PSP)
- 6.26** For the four scenarios, the relevant CIS usage fees will be levied by Pay.UK and payable by either by a direct PSP or a market overlay provider (in the first instance). We want the fees for the same transaction to be the same under all four scenarios, to reflect the fact that the underlying cost of the CIS would be the same for all of them, as shown in Figure 2. This is important, to ensure that competition between providers of services to end users is not distorted.

**Figure 2: Some of the options for initiating payments over the NPA**



- 6.27** We would also want to ensure that CIS user prices (structure or level) do not introduce significant or unnecessary barriers to entry for new users, or otherwise place some CIS users at an undue competitive disadvantage, including in relation to affiliates of the CIS provider.

## Be transparent and predictable

- 6.28** We want CIS pricing to be sufficiently transparent and structured in a way to allow PSPs and overlay providers to make an informed choice between:
- the NPA and other payment systems
  - connecting to the CIS directly or indirectly
- 6.29** To achieve this, it may be necessary for Pay.UK to:
- publish the CIS user prices
  - publish information on the costs of becoming a direct PSP or a market overlay provider
  - publish a methodology and/or a schedule of prices for any additional services
- 6.30** It may also be necessary for Pay.UK to itemise all fees in any invoices.
- 6.31** It is also important that CIS user pricing is clear, so that users find it easy to understand how changes in pricing affect their costs. It should also be predictable, to alleviate planning uncertainty for CIS users. We are mindful, however, that the practicality and costs of capturing relevant information and implementing pricing structures are also relevant factors to consider.

## Adapt to changing competitive conditions

- 6.32** The competitive landscape between PSPs and overlay providers and between the NPA and payment card systems will continue to evolve. We think Pay.UK needs to be able to adjust charging structure and levels in response to the changing conditions to achieve outcomes in line with its strategic objectives.
- 6.33** Furthermore, Pay.UK should set and adjust the level of fees periodically to ensure that it recovers the funds necessary for it to meet its financial commitments (to balance income and expenditure), while reflecting changes in the underlying costs of the CIS that contractually fall to Pay.UK and service-users.
- 6.34** We think it is important for Pay.UK to balance any decision to amend the structure and level of fees with market participants' need for stability and predictability.



## Summary

**6.35** Pay.UK has a critical role in determining prices for connecting to and using the CIS. CIS user pricing is important in mitigating some of competition risks and helping to develop an NPA ecosystem that delivers good outcomes for end users.

**6.36** To achieve this, Pay.UK must have freedom in setting and varying CIS user prices, and this ability should not be restricted by the CIS contract. As well as complying with existing regulatory access requirements (specifically POND), we think the CIS user prices should follow these pricing principles:

- reflect efficiently incurred costs
- incentivise utilisation of the NPA
- foster competition in services to end users
- be transparent and predictable
- adapt to changing competitive conditions

# 7 Consultation questions and next steps

**7.1** We welcome feedback on the issues and proposals raised in this document. We are particularly interested in views on the questions below. Please provide evidence where possible in support of your views. We welcome responses to:

- **questions 1 to 6** (and other comments on risks to delivery of the NPA and options for reducing these) by 19 March 2021
- **questions 7 to 14** (and other comments on competition and pricing) by 5 May 2021

## Consultation questions

### Questions related to the risks to NPA delivery

1. Do you agree with our view of the risks to the successful delivery of the NPA?

### Questions related to procurement scope

2. Do you agree with our analysis of the suggested risks, pros and cons of the alternative options for the scope of the initial procurement?
3. Do you prefer scope option 1 or 2, or another alternative? How do the cost implications differ for you? What are the other reasons for your preference?
4. Under scope option 2:
  - a. What do you think would be a suitable timeframe to allow the emergence of market-led propositions that could assist with the migration of Bacs transactions (including Direct Debits) to the NPA? What actions could be taken, and by whom, to help assist or stimulate the creation of such solutions?
  - b. Do you think file-based common services to enable the migration of Faster Payments DCA/FIM transactions should be excluded from the initial procurement and considered further, in conjunction with common services to support the migration of Bacs transactions?
  - c. To what extent would an initial, narrower, CIS procurement (focusing on Faster Payments) still need to consider how the procured solution could support Bacs-related features in the future? Which Bacs-related features in particular might require such focused attention *prior to* the initial procurement?

## Questions related to procurement approach

5. Which of the procurement options do you consider is the best way forward and why? Please explain if your view differs depending on the scope of the initial procurement.
6. Do you consider that there are other realistic options available that we have not identified? What do you see as the risks and benefits of any additional option(s)?

## Questions related to competition

7. Do you agree with our description in paragraphs 5.7 and 5.8 of how to best promote and facilitate effective competition in the NPA ecosystem? Please explain your response.
8. Do you agree with our assessment of the competition risks and their practical implications within the NPA ecosystem? Please explain your response.
9. Do you think we have identified the appropriate specific mitigations and governance principles to address competition risks? If not, how do you think they could be improved?
10. Do you think that the provision of some common services could raise competition risks that differ substantially from those raised by provision of the CSS? If possible, please share examples.
11. Which elements of operational separation do you think should be introduced where a CIS provider also provides services to another payment system or the competitive NPA overlay markets? Please explain your response.
12. Do you agree with our proposal to bring forward regulatory measures to ensure the specific mitigations and governance principles are implemented? If not, what alternatives to the introduction of regulatory measures do you see?

## Questions related to pricing

13. Do you have any comments on the pricing principles set out in this document?
14. Do you think the pricing principles sufficiently address competition risks relating to CIS user pricing set out in Chapter 6? If not, what additional principles should we be considering?

## Scope of and approach to procurement

- 7.2** We want the procurement of the CIS to proceed as soon as possible. For this reason, we are asking for feedback sooner on risks to delivery of the NPA and options for reducing these risks, in particular **questions 1 to 6**.
- 7.3** Responses on those topics (and questions 1 to 6) will inform a follow-up document we plan to publish in Q3 2021, which will set out our updated thinking on them. If we are considering requiring Pay.UK to make changes to the scope or approach for the initial procurement, we will set out and consult on our proposals in that document. It will also include the draft legal instruments we plan to use. We would publish our final decision in Q4 2021, along with the final legal instruments where appropriate.
- 7.4** The decisions we make next year will have implications for SDs 2 and 3. In the light of our conclusions, we will consider whether the directions should be varied, revoked or replaced. Different considerations may apply to SD2 (on Bacs) compared to SD3 (on Faster Payments). For example, any decisions on the scope of the initial procurement will affect whether specific central common services aimed at supporting the Bacs migration are excluded.
- 7.5** We have told Pay.UK that we consider it should continue its pause of the current procurement during the course of our consultation. We also said that, in view of our position on the procurement pause and given that we will be reviewing SDs 2 and 3 in light of our consultation outcome, for the time being, Pay.UK does not need to take the actions necessary to meet the 2023 deadlines in SDs 2 and 3 to have a competitively procured central infrastructure contract in place.
- 7.6** Pay.UK remains responsible for the conceptual design of the NPA and the CIS procurement within the regulatory framework that we and the Bank of England set, as it may be amended by changes we may make in respect of the scope and approach to procurement (see paragraph 7.3). In taking decisions relating to delivery of the NPA, we expect Pay.UK to identify the available options and assess these, including their implications for competition, innovation and resilience. Analysis should be based on robust evidence taking account of all interested stakeholders' views, relevant market developments such as increasing use of APIs, and changes in use of different payment methods. Decisions should also be informed by Pay.UK's strategy as agreed by its Board. Our role is to monitor Pay.UK's work – and use our powers, where appropriate – to assure an outcome that supports our statutory objectives to promote competition, innovation and the interests of service-users.
- 7.7** Our engagement with stakeholders over the coming year gives Pay.UK time to build the capabilities it needs to run an effective procurement. We'll be monitoring this closely.

## Ensuring effective competition

- 7.8** Responses on competition and pricing, in particular to **questions 7 to 14**, will inform our work on options for mitigating risks in these areas.
- 7.9** We plan to publish a policy statement on these topics in Q4 2021.

# Annex 1

## Summary of responses to call for input

- 1.1** In January 2020, we issued a call for input on risks to competition and innovation in the New Payments Architecture (NPA).
- 1.2** We received 21 responses from a variety of stakeholders, including payment service providers (PSPs), trade associations and Pay.UK. The responses we received informed this consultation paper.
- 1.3** We have published the non-confidential responses we received alongside this document.<sup>28</sup>
- 1.4** This annex summarises responses to the call for input. It outlines some of the general comments we received before summarising the comments that relate to the specific questions we asked.

### General comments

- 1.5** Some respondents welcomed our consultation and our work to promote competition and innovation, and our intention to provide greater clarity about the nature of regulation that might be applied to the NPA. Others, though, were concerned about the timing of our call for inputs and said it created regulatory uncertainty when the current competitive procurement is at an advanced stage, on top of the uncertainty caused by existing delays to the delivery to the NPA. One respondent asked for the procurement process to be paused until clarity is provided, stating that our approach may be harmful to current bidders' commercial interests and suggested a lack of confidence in Pay.UK's capabilities.
- 1.6** Some respondents said that any regulatory intervention should be proportionate, based on robust evidence and should avoid stifling innovation. Some also said that the hypotheses we raised were theoretical or difficult to assess, given that the NPA programme is at an early stage. One respondent said that our call for input was not consistent with earlier assessments of competition in the sector, including the Competition and Markets Authority's (CMA's) approval of the merger between Vocalink and Mastercard, our infrastructure market review, and the Forum's 2017 blueprint.
- 1.7** Some respondents said we should take account of the industry and regulatory changes that have shaped the payments sector since the Forum's blueprint in 2017 as we consider risks to competition and innovation in the NPA.

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<sup>28</sup> See <https://psr.org.uk/publications/general/responses-to-call-for-input-on-competition-and-innovation-in-the-new-payments-architecture/>

## Comments on specific questions

**Question 1. We have set out a number of hypotheses about how the ownership of the NPA CIS provider might adversely affect competition and innovation. Have we missed any?**

- 1.8** Most respondents recognised that the hypotheses we set out in our call for input could materialise. Although many considered they were theoretical at this stage of the NPA design process or could be addressed by a combination of mitigations – some of which are already in place for the Bacs and Faster Payments systems – including both the central infrastructure services (CIS) provider and Pay.UK being regulated by us and the Bank of England.
- 1.9** Several respondents said it was important to balance objectives to promote competition and innovation with the need for resilience and stability. One respondent said overlay providers should meet appropriate minimum standards set by Pay.UK to ensure the safety of the payments system.
- 1.10** Some respondents put forward scenarios that we did not identify in the call for input that could give rise to competition risks. One respondent suggested a scenario in which the CIS provider could have interests in services outside the NPA ecosystem, which use data or systems within the NPA ecosystem. The respondent said most of the potential risks to competition and innovation we raised would apply in this scenario. In another scenario, a respondent said that if the incumbent central infrastructure provider for Bacs and Faster Payments is appointed as the CIS provider, it already has access to information that may provide a competitive advantage in managing customer migration from existing services to new NPA overlay services. Commenting on the parallel renewal of the real-time gross settlement service by the Bank of England, some respondents were concerned about the potential competition and concentration risks should both the Bank of England and Pay.UK appoint the same provider to build and run central infrastructure.
- 1.11** Some respondents raised additional risks to competition and innovation related to the potential behaviour of PSPs. Some respondents said there was a risk that large PSPs exercise a dominant voice in the design and scope of the NPA. These respondents were concerned that time and cost pressures on these PSPs could lead to a more conservative approach and a scaled-back scope (such as leaving Bacs transactions out of scope), which could reduce the potential for innovation or mean existing competition issues are carried over into the NPA. Another respondent suggested that incumbent PSPs (which fund the building of the NPA) may be disadvantaged relative to challengers (whom they suggested may not participate in funding the NPA but will benefit from it).
- 1.12** A number of respondents suggested additional monopoly risks. Some said there was a risk that the appointed CIS provider could put in place barriers to changing provider at the end of the contract period – which would limit future competition for central infrastructure provision – for example, through the technical design of the CIS. One respondent suggested there was a risk that – without relevant contractual provisions – the CIS provider may not invest or put effort into maintaining high-quality services to save itself money.

- 1.13** Some respondents discussed risks associated with the procurement process for the CIS. Some said there are risks and costs from delaying the process further, for individual market participants, as well as to competition and innovation in the NPA. On the other hand, one respondent was concerned about continuing the process at pace given uncertainty over the specific requirements of the services that are being procured.
- 1.14** A subset of respondents said that the design and access rules for Bacs and Faster Payments, including the costs of different connection options for smaller PSPs, create barriers to entry that should not be carried across to the NPA. One respondent said we should consider the ownership structure of the appointed CIS provider and the potential risks that would arise from future mergers.

**Question 2. How likely or unlikely do you think it is that each hypothesis would materialise in practice, and why? What factors could affect whether they materialise?**

- 1.15** Overall, most respondents considered it was unlikely the hypotheses we identified would occur in practice provided there is an effective procurement, SLAs and restrictions on the CIS provider in the CIS contract, a good governance framework for the NPA and appropriate technical design. A few respondents said that potential reputational damage would restrain the CIS provider from engaging in anti-competitive behaviour or that the CIS provider will have incentives to drive the adoption of new services and grow the NPA's transactions volumes. Some also said that regulatory oversight and the independence of Pay.UK would be effective mitigants to the competition risks identified in the call for inputs. A number of respondents said that it was difficult to assess the likelihood of hypotheses materialising at this early stage in the delivery of the NPA.
- 1.16** Some respondents provided a view on which hypotheses are most likely to materialise. Several considered that monopoly risks are most likely to materialise or merited most consideration, including risks relating to pricing of access and failure by the CIS provider to control the costs of initial investment and ongoing operation. One respondent said that we have an important role to play in ensuring Pay.UK runs a procurement process that delivers cost efficiencies for participants. Another said there should be a mechanism for tracking CIS user prices against an appropriate metric – for example based on efficient costs – over the duration of a long-term contract.
- 1.17** Other respondents said that vertical competition risks, such as first-mover advantage, were of greater concern or most likely to materialise because the CIS provider is likely to want to provide overlay services or may already do so. One of these respondents also said that the horizontal risk of the CIS provider discriminating against services provided in the NPA in favour of competing services offered outside of the NPA would have a high probability of occurring if the CIS provider operates other payment systems.

**Question 3. For the hypotheses which you think are likely to materialise in practice, how significant or harmful would they be to effective competition and innovation in the payments industry, and why? Are there any in particular that you think would cause particularly significant harm? How might you or your business be affected?**

- 1.18** As with question two, most respondents said our hypotheses were unlikely to materialise or cause harm provided adequate mitigations are in place. Several respondents also warned of the potential for undue ex-ante regulation to introduce risks or cause harm – for example, by dampening innovation. One respondent said that the potential harms we identified in our hypotheses did not outweigh the primary objective of delivering a resilient and stable NPA.
- 1.19** Some respondents provided a view on which hypotheses would be most harmful if they materialised. Several argued that vertical competition risks would cause significant harm. One respondent said that, if the CIS provider has a first-mover advantage in offering overlay services, this could have a significant long-term impact because customers may be unlikely to switch later on. Another said that first-mover advantage could limit the supply chain, leading to higher costs for PSPs.
- 1.20** A number of respondents were particularly concerned about the harm caused by horizontal competition risks or monopoly risks. Some of these respondents highlighted the potential for higher transactions costs, and the impact on innovation and resilience, should monopoly risks arise. Others were concerned about the impact on innovation – including at point-of-sale and in overlay markets – if the CIS provider has a significant interest in a competing payment system.
- 1.21** One respondent said the risks identified in our call for input could also have an impact on innovation in markets beyond the NPA ecosystem itself, such as on the development of financial crime prevention tools.

**Question 4. Are there any types of mitigations that would help alleviate the harm identified that we have not described? In suggesting any new mitigations, please specify how they would help you or your business, or why they would facilitate competition and innovation more generally.**

- 1.22** Some respondents suggested specific measures that could help address the risks identified or otherwise promote competition, including:
- continuing regulatory oversight of Pay.UK and the CIS provider by us and the Bank of England
  - creating a mechanism for resolving disputes to address any instances where overlay providers or others believe access to the CIS or development of overlay services has been affected by the behaviour of the CIS provider
  - creating a framework for oversight of external platforms used by overlay providers
  - ensuring the views of all PSPs and end users are represented throughout the development and operation of the NPA – for example, through existing forums created by Pay.UK
  - reviewing Pay.UK's company structure



- giving Pay.UK a duty to promote competition and innovation across the NPA and between different payment systems
- creating a tender process for overlay services – run by Pay.UK – to encourage development of such services
- creating a fund that participants pay into to finance research and development of enhancements to the CIS or overlay services
- anonymising data the CIS provider receives to build the CIS – for example, relating to payment volumes and values – and making this available to potential overlay providers to mitigate first-mover advantage
- preventing the CIS provider from providing overlay services for a time to mitigate first-mover advantage
- using open standards for the NPA – for example, in relation to CIS access
- ensuring interoperability between the CIS and overlay services, and between the NPA and other payment systems
- introducing measures to support easy switching between overlay providers
- ensuring close integration between Pay.UK and the CIS provider, to give the former better visibility of potential competition issues (for example, related to onboarding); although others emphasised the importance of clear separation between Pay.UK's role and that of the CIS provider, with the former focused on delivering rules and standards

**1.23** Some respondents suggested considering alternative ways of delivering the NPA or promoting competition. For example, two respondents recommended reconsidering the distributed clearing and settlement model proposed by the Forum rather than procuring the CIS from a single provider, thereby enabling competition in the CIS layer and helping mitigate some of the competition risks we identified without ex-ante regulation. One respondent supported upgrading the existing central infrastructure for Bacs and Faster Payments (arguing against material changes) and said that the focus should be on introducing competition in overlay services.

**1.24** Some respondents suggested possible mitigations to address the additional competition risks they identified. For example, one respondent suggested that there should be a range of options for connecting to the CIS – including connection over the internet – to address existing barriers to entry, such as the costs of and limited options for connecting to Faster Payments. Some respondents also suggested that the contract with the CIS provider should include provisions to mitigate the risk that it puts in place barriers to switching provider at the end of the contract period.

**Question 5. Are any of the mitigations we have described likely to be particularly effective or ineffective in alleviating the potential harms, and why?**

- 1.25** Respondents emphasised the importance of appropriate technical design and robust governance of the NPA to address the risks identified in the call for inputs. Some also said that an effective procurement process, and regulation and oversight by us and the Bank of England, would be important mitigations.
- 1.26** Various suggestions were made about governance processes, including that Pay.UK should take decisions on all aspects of the CIS informed by the views of participants and that existing processes for sharing CIS data with overlay providers should be made more efficient. One respondent also suggested that provisions in the CIS contract that protect competition should be enforceable by third parties or us, as Pay.UK may not always have incentives to act in the event of a breach. On technical design, several respondents argued for use of open common standards and APIs to help create a level playing field and reduce barriers to entry.
- 1.27** A number of respondents commented on the effectiveness of mitigating competition risks by requiring some form of separation. There were mixed views. Some respondents acknowledged the benefits of operational separation or said this would probably be the most effective form of separation – for example, because it would help increase transparency. One respondent said that Mastercard should be required to divest Vocalink. On the other hand, one respondent said that ‘ring-fencing’ could dampen innovation – for example, by preventing a CIS provider from using insights gained in this role to offer overlay services. Others said that the effectiveness of removing or reducing a CIS provider’s economic interest in the market for overlay services or another payment system would be difficult to measure or add costs, potentially reducing the attractiveness of bidding for the CIS or increasing fees for CIS users.

**Question 6. Are any of the types of mitigations that we describe particularly costly or high risk? If so, please explain why.**

- 1.28** Some respondents said that one or all forms of separation to remove or reduce the economic interest of the CIS provider in overlay markets or competing payment systems could be intrusive, costly, difficult to administer and could affect resilience. One respondent said separation could also be difficult to enforce because of future mergers and acquisitions. Another respondent said that the costs of separation would be passed on to participants and ultimately end users in the form of higher fees – so clear evidence of harm would be needed. Several respondents emphasised the costs of joint ventures or their potential impact on resilience, and most respondents that commented on structural separation were not in favour of this as a way to mitigate competition risks. A few respondents said that the costs of mitigations may depend on a variety of factors – such as which CIS provider is selected. Respondents asked us to be proportionate and consider carefully the costs and benefits of different types of separation.
- 1.29** Several respondents commented on the impacts of prohibiting a CIS provider from offering overlay services, arguing that this could discourage parties from participating in the procurement or limited the number that could participate. One respondent said that another impact could be possible stifling of innovation – for example, because the CIS provider would be unable to use insights gained from running the CIS to offer overlay services.

- 1.30** Another respondent said it was important to ensure that Pay.UK has adequate resources if it is to act as the interface between the CIS provider and PSPs participating in the NPA.
- 1.31** Several respondents said that the need for resilience and stability must be taken into account – or should be the primary consideration – when assessing interventions to mitigate risks to competition and innovation in the NPA.
- 1.32** One respondent said that regulatory intervention to address the hypotheses identified in the call for input was unnecessary because the technical design and governance of the NPA – enforced through the procurement and contracting processes – would be sufficient to mitigate any competition risks that might arise. If, nevertheless, we choose to intervene, the respondent said that any regulations we make should be framed in general terms, be fit for purpose beyond the short term and be designed to avoid harming competition.

**Question 7. Are any existing mitigations, to any similar concerns in today's pre-NPA payments ecosystem, particularly effective or ineffective in alleviating the potential harms? If so, please explain why.**

- 1.33** Respondents said there is a range of mitigations used in existing systems that could help alleviate the potential harms. Some respondents said the existing regulatory framework is an effective mitigant of potential harms (noting that we and the Bank of England regulate Pay.UK), although one suggested that the effectiveness of potential penalties could be reviewed. One respondent said that contractual requirements and governance processes relating to existing interbank payment systems already help mitigate the competition risks identified, and noted that the intention is for Pay.UK to have a market catalyst role for the NPA ecosystem, which will help facilitate innovation. A few respondents noted or welcomed the steps Pay.UK has taken to seek input from a range of parties to inform the development of the NPA.
- 1.34** Some respondents discussed access requirements for existing interbank systems. One view was that access to these systems has become easier in recent years – for example, in terms of technical access through aggregators and bureaux. Another view was that access remains time consuming and expensive for smaller participants.
- 1.35** One respondent expressed a concern about Faster Payments not necessarily being priced efficiently and providing value for money. This respondent suggested that Pay.UK should apply lessons learned from the current infrastructure contracts to improve price efficiency and value for money.

PUB REF: CP21/2

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