payment service providers. However, as the list of regulated entities above makes clear, UK payments is a highly concentrated market. It also handles a lot of money. It might seem to the consumer that payments are "free" – most of us do not feel we are paying to transfer money when it zips from our account via faster payments, or when we set up a direct debit. There are, however, very real costs to an economy from having a highly concentrated and less than streamlined payments system.

Of course, the UK system is reliable and secure, and that this is what people value most. Why mess with it? As Andrew Hauser, executive director, banking, payments and financial resilience at the Bank of England, noted in a recent speech: "There is a one word answer to that: complexity... It's easy to list 10 or 15 payments pathways without even trying. Each system does a great job for its own customers. But each operates, by and large, in splendid isolation from one other, requiring different standards and languages, technologies, fees and governance frameworks".

Hauser argues that the frictions that arise from this not only keep out new entrants who might bring better and cheaper services, it also poses a threat to resilience – something that is increasingly important in an age of cyber attacks.

So, the UK government is going to rattle the staid world of payments and is doing so across the board – it is working, too, on an upgrade of the Bank of England's real-time gross settlement system. Announcements on that are due early this year. ■

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A platform for change

Richard Northedge *examines plans for a new common payments platform and explains why many banks have serious reservations about how the system will operate*

Moving money about is the lifeblood of banking but it is also the boring bit of the business. There is no competitive advantage, for example, in fund transfers that involve an account at a rival bank beyond the counterparty's control. Most bankers, therefore, are happy in principle to delegate this dull utility operation to a common payments platform. But there is much less agreement on what the platform should look like and how to get there because, although payments is a utility, it is a big utility. In 2014, the UK's domestic payments and settlement system dealt with £245tn, according to the Bank of England.

Banks concede that change is coming as they are squeezed by a European payments directive (PSD2), changing international standards such as the introduction of the International Organisation for Standardisation (ISO) 20022 messaging standard, a UK monopolies authority and a new industry regulator.

The UK Payments Strategy Forum (PSF) is proposing a simplified payments platform (SPP) that could cost more than £4bn to build. UK banks are in no mood – or position – to finance it. The PSF aims to have a payments system that is "responsive to user needs", with more innovation, adaptability and security. Lowering barriers to entry is supposed to deliver that, but it will also bring in new competition that eats the banks' lunch. That is not popular.

Santander complains: "To create a scenario where banks are expected to pay for change but have no leadership or definition of the outcome would bring the potential to disrupt the services of many to support the few – which is clearly too high a risk to pay for needed change, particularly in the current economic environment."

But the prospect of banks turning from suppliers of the payments system into its customers is causing a change in their attitudes. As owners, they boast that the current system is the best in the world – citing, for example, the UK's early adoption of faster payments. Once the banks are users among many, however, they are likely to start to see potential faults. They already insist that the SPP be run for the benefit of end-users, even if the biggest users are the government and utility companies.

> *"Substantial change to existing, well-established and highly-embedded systems is fraught with difficulties*

Nor do all banks feel committed to the new SPP, so there will be no Big Bang in which current systems are switched off one day and the SPP takes over the next. Old could operate alongside new for several years, although that might deter investment both in building the new and updating the old. While the payments market is expanding, dividing it more widely also jeopardises the economies of scale that justify investment.

Lloyds accepts that there will be dual-running for some years but believes a sunset clause is essential to ensure the old system is eventually turned off. "It will not be economically viable to maintain both the existing infrastructure and SPP indefinitely," it says.

Clydesdale warns, and is not alone in doing so, that the slowest stakeholders could delay progress. Indeed, many banks politely describe the PSF's timetable as "challenging". (Faster Payments prefers "unrealistic".) Besides building the platform's architecture, changes may be required to legislation covering data-protection, proceeds-of-crime and additional areas.

There are other doubts, too. Visa fears that opting for standardisation could mean getting stuck with a security system that is not optimal for all payment channels. Barclays is among those that think a one-size-fits-all approach is unlikely to work, saying: "Our preference is for existing payment industry capability and expertise to be utilised, rather than creating multiple new delivery entities."

Barclays' Pingit system has a request-to-pay function (an approach that, unlike direct debits, the consumer can control in quite a granular way and which bodies such as Payments UK welcome). The bank is eager to employ that system, which fits in with the PSF's aim to incorporate existing technology. The Cheque & Credit Clearing Services Company, which is facing merger with Bankers' Automated Clearing Services (Bacs) and Faster Payment under the SPP plans – is also keen to see its Image Clearing System leveraged in. It points out that £455bn of cheques were written in the UK in 2015. But some banks think this form of payment is dwindling so quickly that it has lost importance.

There are other stances on whether to adapt existing systems or start afresh. Royal Bank of Scotland supports a greenfield approach but the British Bankers' Association warns that the proposed solutions are untested, saying: "BBA believes that there are inherent risks in developing such an innovative and 'green' strategy."

Nor is there consensus on how far to centralise systems. Delegating functions such as sanctions-checking to a central body appeals because that is a non-competitive area and more-general know-your-customer (KYC) inquiries may go to a common utility. No bank should lose customer information that it currently holds – so the scope for cross-selling remains – but some bankers fear that the KYC burden will increase because of unnecessary due-diligence demands.

There are also worries by some about sharing data and especially the risks of phishing and other crimes. Santander states bluntly: "The benefits of financial crime intelligence-sharing do not outweigh the new potential risk created."

Sainsbury's Bank echoes the fears, saying: "The risks in centralising repositories (data protection, security, etc – 'all eggs in one basket') and the perceived threat of misuse by organisations outweigh the benefits. Past history suggests that it is central control that often leads to misuse." It says that avoiding central control would help allay the public's concerns about misuse of personal data.

Banks that favour the alternative, a distributed architecture, avoid referring to "blockchain" or, even worse, "bitcoin", but opponents happily use such phrases pejoratively. "The distributed model has not been proved to be able to deliver the volumes and speeds of the current UK payment traffic," says Barclays. "Bitcoin has between 125,000 and 300,000 transactions a day. Faster Payments had an average of nearly 3.5m in 2015 and Bacs had an average daily volume of 24m."

Faster Payments describes blockchain as "highly speculative" and says it cannot see how the proposed distributed technical architecture materially simplifies or enhances changes in retail payments.

There is some apparent agreement between banks, not least that account-number portability seems to have been abandoned. There are also question marks over the future of cheques and the standing-order looks a likely victim of moving to an SPP.

The concept of a single platform is not supported by all, however: some want to see the Bank of England take on high-value transfers with the Clearing House Automated Payment System (Chaps) while the simplified platform processes the high-volume Bacs and Faster Payments business – ideally with interoperability between the two systems so that they can back up each other. Indeed, many want to see the BoE taking a greater role. Barclays would like the central bank to oversee the SPP's design.

The PSF's design timetable of six to 18 months is tight but with so little consensus among stakeholders, the longer the project takes the more chance there is of views diverging. Equally, the longer it takes, the less willingness there will be to invest in existing systems that face redundancy. Even before it starts, MasterCard says: "There is not sufficient evidence to conclude that the SPP can deliver the benefits outlined." More fundamentally, its Visa rival suggests that a common platform would remove the competition that spurs innovation.

Royal Bank of Scotland fears that adding layers to the SPP will make a "simpler" payments platform that replaces the current complexities with new complications. It warns: "We do not think the PSF or wider industry should under-estimate the challenge of the design and transition to a new payment system. Historically, substantial change to existing, well-established and highly-embedded systems that span many organisations is fraught with difficulties due to multiple stakeholders with differing interests in minimising the change implications on their existing architecture and the way that it implements the various payment systems."

That sums up the problem. If only the solution were so simple. ■

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