



**Electronic Money Association**

Crescent House  
5 The Crescent  
Surbiton, Surrey  
KT6 4BN  
United Kingdom

Telephone: +44 (0) 20 8399 2066

[www.e-ma.org](http://www.e-ma.org)

**Payment Systems Regulator**

12 Endeavour Square,  
Stratford, London E20 1JN

By email to: [PSRNPA@psr.org.uk](mailto:PSRNPA@psr.org.uk)

19 March 2021

To whom it may concern,

**EMA response to [PSR CP21/2](#) - Consultation on delivery and regulation of the New Payments Architecture, Questions 1 to 6**

The EMA welcomes the opportunity to comment on the options that the PSR are considering to de-risk the on-going procurement of a provider to build and run the New Payments Architecture (NPA) central infrastructure services (CIS).

The EMA is the EU trade body representing electronic money issuers and alternative payment service providers. Our members include leading payments and e-commerce businesses worldwide, providing online payments, card-based products, electronic vouchers, and mobile payment instruments. Most members operate across the EU, most frequently on a cross-border basis. A list of current EMA members is provided at the end of this document.

I would be grateful for your consideration of our comments and proposals below.

Yours sincerely,

A handwritten signature in black ink that reads 'Thaer Sabri'. The signature is written in a cursive style and is underlined with a long horizontal stroke.

Dr Thaer Sabri  
Chief Executive Officer  
Electronic Money Association

### **General Comments**

#### **Ecosystem engagement**

We would like to note that our consultation responses stem from a position of limited visibility of the requirements definition for the CIS, or the procurement process to date. Lack of sustained stakeholder engagement across the whole ecosystem as the design for the NPA has evolved has resulted in a disconnect between PSPs using the payments systems and this large infrastructure change project which will directly affect their customers.

We consider that lack of engagement gives rise to the risk that the NPA may not cater for the developments that have occurred in the payments market, nor meet future requirements. This inevitably will require further time and expenditure to resolve without delivering benefits to end payment users.

Going forwards, effective stakeholder engagement is critical to ensure that the requirements of all market and end users, in particular in-direct participants of the payment schemes, are understood and considered. We are not proposing additional stakeholder engagement processes that would introduce further delays to the procurement or CIS design process, but that Pay.UK look to effectively communicate with the payments ecosystem on progress, and open up participation models so that interested parties can become more involved in the NPA programme.

#### **Meeting strategic objectives**

As the PSR remarks in the consultation, the current conceptual design for the NPA would appear to have moved away from the 'thin' clearing and settlement layer approach envisaged by the Payment Strategy Forum. The design of the CIS has clearly evolved as requirements have been defined during the procurement process. However, building on our point above, the wider payments industry has no visibility of the design decisions that have been made.

Once the procurement scope and approach has been agreed, we would welcome the PSR and Pay.UK sharing their analysis of how the solution that is being procured meets the strategic objectives of the NPA as defined by the Payment Strategy Forum (PSF).

We do not intend to suggest actions which may bring further delays to the overall NPA programme. However, given the time that has elapsed since the PSF set out the blueprint for the UK's payment infrastructure, and subsequent market developments, we simply seek transparency.

### **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?**

We agree with the risks that the PSR has defined, and recognise the balance that the PSR is aiming to achieve between delivering the NPA and maintaining the stability of the existing payments infrastructure.

In particular, as we note above, we fully support the PSR's conclusions that because the functional specifications of the CIS have not been fully defined or validated with stakeholders, this jeopardises 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?**

The ideal approach for the UK payments market would be to develop the central infrastructure for the NPA to support all transaction types from both Faster Payments and BACS. However, given the delays to the NPA programme, a revised scope and approach make sense in order to de-risk the project.

**Scope Option 1** – given the time that has elapsed since the procurement process began, we agree with the PSR's analysis that including all payment types from Faster Payments and BACs (including Direct Debit) in the initial procurement of the CIS may disproportionately risk the successful delivery of the NPA.

**Scope Option 2** – we agree that by focusing on procuring a CIS which supports immediate payments and file-based submission of transactions, that an alternative path to migrating some BACS Direct Credit transactions may emerge, and a second procurement may become unnecessary. However, this focus does not address the market requirement to modernise the BACS Direct Debit infrastructure to encourage innovation and competition.

We suggest that limiting the scope of the procurement to only the existing Faster Payments scheme functionality might restrict the CIS's ultimate ability to meet the market's strategic objectives for the NPA. However, given the delays to the NPA programme, we suggest that reducing the initial procurement scope to all types of credit transfer (push) payments could be a pragmatic compromise that lays a strong foundation for the NPA. Please see response to Q3 for further comments regarding this.

### **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?**

We understand the rationale for reviewing the scope of the procurement of CIS at the payment scheme level. It is the natural demarcation when the industry is considering the complex migration of existing transactions to the new architecture. And we agree with the proposal to narrow the initial scope of procurement in order to de-risk and drive the programme forward at pace.

However, if the CIS is viewed as the platform for driving future payments innovation and change, we suggest this offers a different lens through which to define the required CIS functionality, and ensure the functionality is not focused on like-for-like migration of existing payment schemes.

In 2017, the Payment Strategy Forum envisaged that the NPA would provide a 'single push payment' rail, and it was widely acknowledged that the requirements for moving Direct Debit (a 'pull' payment) to the NPA would need further in-depth exploration and impact analysis before migration. Since then, the payments market has evolved significantly and we agree with the stakeholders referenced in the consultation (para 3.10) that new services based on Faster Payments, (such as Request to Pay (RTP) and potentially Variable Repeat Payments (VRP)), will emerge which might become attractive alternatives to Direct Debit in some use cases.

As outlined in our Q2 response, we therefore suggest a compromise approach; that the scope of the initial procurement of the CIS delivers the clearing and settlement functionality required to support all 'push' credit transfers. This could include single immediate payments, same day non-urgent payments, future dated payments, real-time bulk payments, and regular payments (standing orders). Then, if required at a later stage, functionality for supporting 'pull' transactions (such as Direct Debit) could be considered (which may require further procurement). This would thus enable, as the PSR anticipate with Option 2, the migration of all existing Faster Payments transactions, as well as supporting the transfer of BACs Credit transactions in a phased manner.

We understand the efficiencies of developing central 'common services' to assist with the migration of existing transactions to the NPA, and that the complexities of defining these services for both credit (push) and direct debit (pull) transaction types have not been fully specified.

Hence focusing initially on procuring the CIS which supports 'push' credit transfers will simplify the initial procurement, whilst supporting the market to migrate Faster Payment transactions first, and launch emerging propositions. However, as we discuss in Q4.C the initial procurement would still need to consider the functional requirements for delivering 'pull' direct debit type transactions. We don't consider that this would be a like-for-like mapping of current Direct Debit (DD) functionality to support the migration of existing transactions, but rather improved features that will allow organisations to collect payments from their customer's accounts automatically with the appropriate authorisation and consents in place.

We acknowledge this alternative view may introduce further complexity into the programme as a whole, in terms of the operation of the individual FPS and BACs schemes and the unbundling and

migration of transactions at individual PSP level. However, we believe these could be tackled in parallel to the technical design and build of the CIS, and should not further deter the procurement process.

#### **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?**

We believe there is a risk that alternative propositions for BACS Direct Debits (DD) may not be able to emerge and gain traction unless the market is sufficiently motivated to adopt them. We recognise that Variable Repeat Payments (VRP) or Request to Pay (RTP) may not be suitable alternatives for all business and government use cases which currently use Direct Debit. Hence the business case for migrating from DD to an alternative proposition is not tangible for some market participants. The resilience and stability of the existing transaction volumes on which UK businesses rely upon is also a key consideration. However, there are gaps in the DD proposition which VRP and RTP address and that would bring benefits to payers, payees, and PSPs.

We therefore urge both the PSR and the CMA to consider mitigating the risk that lack of commercial incentive for incumbent PSPs suffocates the development of alternative market-led solutions when contemplating the NPA programme, and the future scope of the Open Banking initiative. Upon further consultation and analysis it may be determined that mandating support of RTP and VRP by the largest PSPs may well deliver wider payments market and end-user benefits than the migration of all BACS Direct Debit transactions to the NPA.

##### **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?**

We think that file-based submission (or bulk submission) of 'push' credit transfer transactions should be included in the scope of the initial procurement in order to provide the option for possible migration of BACS Credit transactions. Though, we recognise that the full assessment of moving from scheduled to real-time clearing and settlement of bulk BACS Credit transactions hasn't been completed.

##### **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?**

Please also refer to our Q3 response; where we consider an alternative option that the initial procurement of the CIS supports the functional requirements for clearing and settlement of all credit transfers. We anticipate this may involve quantifying the market requirements to assist with the migration of BACS Credit transactions, and hence should be included in the initial procurement. Also as we noted, if the requirements for delivering 'pull' direct debit type transactions are not purely viewed as designing a like for like replacement of BACS Direct Debit, then the initial procurement should also consider how these requirements could be developed in the future.

The degree of detail on the BACS related features that may need to be specified before the initial procurement will depend on the procurement approach that Pay.UK are pursuing. If Pay.UK intend the CIS provider to be building to specification, then our suggestions will likely require all BACS features to be fully considered before initial procurement; however, if the CIS provider will be co-designing the solution with Pay.UK, then the design could be phased, and BACS related specifications may not be required for 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.**

We do not have enough visibility regarding the progress of the procurement to date, nor the cost benefit analysis of each option, to determine whether the existing (Scope 1) or starting anew (Scope 2) is required in order to secure the outcomes that the market is looking to achieve.

However, we strongly support a competitive procurement process; not only to achieve better value for money, but to drive the quality of the solution for the CIS and maximise its capabilities, which in turn will support the UK payments strategy and market well into the future, and ensure the industry is not faced with incremental costs to keep pace with innovation.

We recognise the possible advantages in the time to delivery, mitigating migration risk, and cost of implementation, if Pay.UK were to negotiate directly with Vocalink to deliver the CIS. However, we do not consider that these outweigh the benefits to the UK payments market as a whole that a competitive procurement process would bring.

#### **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)?**

No further comments.

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