



PSR proposed approach to Specific Direction 3

UK Finance response

Contents

Introduction	3
National Payments Vision – Requirements for retail infrastructure	3
Next steps on retail infrastructure – work of the PVDC.....	4
Consultation questions.....	5
What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?	5
What are your views on our proposal to require Pay.UK to seek out non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?.....	7
What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?.....	7
What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?	8
What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?	8

Introduction

UK Finance fully supports the UK National Payments Vision (NPV), published in November 2024, and the strong direction it provides. We believe the NPV represents a significant opportunity to strengthen the UK's payment ecosystem, including its supporting infrastructure. UK Finance agrees with the aims of the NPV and welcomes the establishment of the Payments Vision Delivery Committee (PVDC) and the Vision Engagement Group to drive its implementation alongside industry. There are pressing questions regarding the specific directions related to the New Payments Architecture (NPA), and this consultation provides a timely opportunity to offer views on the way forward, alongside other submissions we have made to the PVDC.

National Payments Vision – Retail Infrastructure Requirements

We believe the NPV has been very clear on what it is seeking from a new retail infrastructure for the UK:¹

- Timely and significant investment to ensure it is resilient and better enables innovation and competition
- A more agile and flexible approach to delivering infrastructure needs, that is better able to take account of future developments and innovation, particularly distributed ledger technology
- Consideration of interoperability between different payment systems, both domestically and internationally; to be balanced against domestic security of our systems.

The NPV has also been clear that **new** direction and delivery arrangements are required to meet these needs, noting that:²

- The UK's retail payment infrastructure needs a strong and effective payment systems operator (PSO) and that the current set of organisational arrangements in Pay.UK could be improved, to enable swifter and more strategic decision-making.
- While Pay.UK has delivered from an operational perspective, its design has made it very difficult to progress a strategic agenda.
- This is likely to require more effective governance arrangements and a more sustainable funding model that delivers value for money for market users.

¹ National Payments Vision, page 22

² National Payments Vision page 23

Next steps for Retail Infrastructure – Role of the PVDC

The government has asked the Bank of England and the PSR, through the Payments Vision Delivery Committee (PVDC), to examine and refresh the requirements for the UK's retail infrastructure including:³

- Delivering timely upgrades to the Faster Payments System (FPS) to enhance its performance and resilience.
- Defining future requirements to address broader needs and capitalise on emerging innovations.
- Strengthening governance arrangements, including proposed reforms to Pay.UK, informed by relevant international best practices.

It is important that the work of the PVDC should be permitted to run its course without potential complications owing to the continued application of the substantive obligations under SD3. This is particularly important because the PVDC's mandate includes clarifying upgrades required to the existing FPS, which overlaps with the areas currently addressed under SD3.

Next steps on Specific Direction 3 (SD3)

All UK Finance members agree that, given the significant innovation and increased competition in UK payments since 2016, it is important to assess whether the procurement obligations under SD3 remain proportionate to the harms they aim to address and the future requirements for retail payments infrastructure.

- Some members strongly argue that the best way to achieve this is through repealing SD3 in order to remove any confusion over the future development of retail payments infrastructure; and to prevent existing assumptions around the provision of central infrastructure from persisting.
- Other members would prefer to revisit SD3 at a later point and in light of the PVDC findings for the future of retail payments infrastructure. The conclusion of the PVDC may, for example, render SD3 redundant.

Either way, SD3 will have to fundamentally be reconsidered and rewritten to take into account the evolving landscape and circumstances. In this response we set out the considerations the PSR should take into account when determining its next steps.

³ National Payments Vision page 24

Consultation questions

1. What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?

We recognise that the PSR will need to reconsider its approach as the PVDC sets out its future plan for retail payments infrastructure.

We support the immediate cancellation of the 2026 date and we welcome the fact that the PSR is not committing to introduce a new deadline for competitive procurement. We view this SD3 proposal as an interim step which allows the PSR time to consider a different approach. This approach provides the necessary flexibility to adapt to evolving circumstances while ensuring that key objectives are met in a timely and proportionate manner.

This would give Pay.UK and other market participants the breathing space to consider and adapt to the NPV, and for the PSR holistically to assess the position against its statutory objectives with the benefit of all relevant information. It also would help avoid unnecessary pressure on stakeholders and ensure that the focus remains on delivering effective and resilient outcomes for the UK payments infrastructure. It would also prevent any potentially conflicting and costly procurement exercises from being commenced that may prejudice the outcome of the NPV.

The PSR should make clear in its decision on SD3 that it is not expecting Pay.UK to prepare for or take into account any future procurement in negotiating existing contracts; nor should Pay.UK feel obliged to align decisions to mitigate the risk of future regulatory requirements for a procurement process beyond 2036 instead of aligning decisions to the current market conditions.

In assessing its options, the PSR should consider:

- **Changing market conditions.** SD3 itself arose from the 2016 market review into the ownership and competitiveness of central infrastructure provision and was a direct product of the market conditions and prevailing regulatory landscape at the time. The UK payments industry has evolved considerably since then and much of that market review is no longer relevant. There have been significant innovations in payments technology and infrastructure in the intervening period, including the Bank of England's RTGS Renewal Programme, the launch of open banking, the introduction of an omnibus account, and the FMI Sandbox. These and other developments powerfully demonstrate the rapid and increasing pace of change in the payments landscape in the UK. Reassessing SD3 should focus on

evaluating whether the same risks identified in 2016 still exist and on new approaches to managing these risks. For instance:

- Advances in standards (like ISO 20022) could enable a more competitive, European-style market with multiple interoperable central infrastructures, which could not only improve competitive dynamics but also resilience in the market.
 - Advances in technology, such as digital currencies and the Regulated Liability Network (RLN), could introduce fundamentally different alternatives to traditional payment systems.
- **Changes in infrastructure ownership.** We recognise that concerns remain on the market power balance of the core infrastructure provider Vocalink; and the vertical and horizontal risks identified in the 2016 market review on infrastructure. However, the PSR and PVDC need to consider carefully where competition needs to reside in payments. Removing the obligations under SD3 could strengthen resilience by encouraging other suppliers to enter the market potentially fostering competition across different layers of the payment's ecosystem, addressing a longstanding challenge that has hindered progress in this area. Encouragingly, new competitive offerings are already beginning to emerge, demonstrating the potential for a more dynamic and inclusive market.
 - **Balancing the procurement process with the need to encourage competition.** It should be assessed whether the onerous procurement processes mandated by SD3 are the appropriate means of fostering competition and innovation in the light of new and emerging players, platforms and technologies. An onerous procurement process may unfairly prejudice nascent platforms and technologies that may better serve the interests of competition, innovation and users over the medium to long term.
 - **Existing experience of the procurement process.** In a concentrated market a competitive procurement process for central infrastructure providers is unproven means to encourage competition. Unlike in 2016, we now understand what is required to run a competitive procurement process under SD3 and can evaluate the costs versus the benefits of such a process more clearly. It is clear that SD3 as it currently stands is not workable in the current market environment and structure, given that no successful competitive procurement process has been concluded under SD3, while significant costs and efforts have been expended on running such a procurement process.

The PSR should leverage the PVDC process to reassess the type of regulation required in the evolving payments landscape, with a view toward substantially rewriting SD3—or repealing it entirely—as the environment becomes clearer. By considering these developments, the PSR can ensure that regulation is proportionate, forward-looking, and supportive of innovation and competition.

2. What are your views on our proposal to require Pay.UK to seek out non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?

UK Finance believes that the non-objection process used for the New Payments Architecture (NPA) was opaque to outside parties and too lengthy. In August 2023 the PSR judged Pay.UK to have provided sufficient assurance on the design, business case and funding of the NPA. The industry at large did not support that conclusion but there was no formal way for this view to be fed into the process and there was a lack of transparency on next steps through the remainder of 2023 and much of 2024.

UK Finance members support the current contract extension work (pending agreement on any enhancements⁴), given the need to safeguard the continued service provision while the PVDC agrees the long-term roadmap with industry.

In the contract negotiation process between Pay.UK and Vocalink, UK Finance wants to see a robust process that meets the necessary checks and balances provided by regulators, engages the industry to build confidence in Pay.UK's delivery and paves the way for benefits to be provided to participants' customers. Under these circumstances we believe that a non-objection process, by both the PSR and the Bank of England, could be appropriate.

We would in addition like to see Pay.UK make full use of the procurement expertise that lies in its major participants. Relieved of the competitive tender obligation, it should be possible for Pay.UK to be more open about the negotiation. We hope the PSR will encourage this, which will enhance the confidence of the participants that the contract is the best possible.

3. What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?

As above we believe the PSR should treat this SD3 as a holding document. In general though, the criteria which the PSR should consider when making material decisions should also include the needs and views of the industry – i.e. the payment service providers as users of payment systems and providers of these to their customers. A positive example of this can be found in the NPV which has highlighted regulatory congestion as leading to

⁴ UK Finance has provided a separate submission to the PVDC on the short-term enhancements to FPS and Bacs, ranked according to the following criteria: alignment to NPV outcomes (resilient foundations, and innovation, competition, security pillars), the cost and effort to deliver; and whether the enhancement is foundational for long-term change or could be considered a 'throwaway' activity.

duplicate investment across competing infrastructure initiatives and impacting on sector capacity to innovate and respond to customer needs.

4. What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?

We welcome the removal of reporting requirements which are not necessary in the single supplier environment. Eliminating the existing reporting obligations also reduces unnecessary administrative burdens on Pay.UK, allowing it to focus resources on delivering meaningful outcomes that align with the NPV and broader industry objectives.

5. What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?

We acknowledge that any changes to SD3 must be accompanied by a reconsideration of the NPA Regulatory Framework, but this should not prejudice the outcome of the PVDC or, more generally, the implementation of the NPV. The conclusion of the PVDC may, for example, render SD3 redundant and therefore the Regulatory Framework would be moot.

The PSR should present proposals to the PVDC on the implementation of certain measures to address innovation and competition in retail payments in the UK. In particular, we feel that it is important that the PSR's planned 2025 consultation on an updated NPA Regulatory Framework, and any directions intended to be given by the PSR as part of that framework, are considered at the PVDC.

We have included below a list of the enhancements to the NPA Regulatory Framework that we consider to be necessary to support the conclusion of the NPV and the amendments to be made to SD3. These include:

- The regulatory oversight which Pay.UK should be subject to while the competitive procurement requirements under SD3 do not apply. In certain cases, it could, for instance, be appropriate (and best enable the PSR to meet its statutory objectives) for Pay.UK to refrain from delivering, or collaborate with other market participants on, certain parts of the central infrastructure platform – for example, in relation to any innovation that takes place at the orchestration layer. Through such oversight, the PSR could also establish a foundation to support the efficiency and effectiveness of future competitive procurement processes that

Pay.UK may be required to conduct under SD3. This could further include a requirement regarding the interoperability of the central infrastructure platform with other systems and its compliance with global standards to facilitate integrations that encourage broader market competition.

- More generally, the requirements which Pay.UK is subject to in respect of its governance, which will form part of the NPV.
- The requirements that should apply to central infrastructure service providers and the actions that the PSR may take if central infrastructure service providers fail to meet these requirements. We refer, for example, to the PSR's proposal to require Vocalink to demonstrate efficient pricing and quality and to support innovation. We similarly believe that Pay.UK themselves should demonstrate efficient pricing and quality of services. This requirement, together with other requirements which central infrastructure service providers and operators may be subject to by the PSR, must strike a balance between ensuring innovation and competition and the need to ensure the resilience and efficiency of central infrastructure provision in the UK's retail payments. These requirements must be proportionate to the harms that they seek to address and should ensure value being delivered.
- The PSR should set out how its powers under the Financial Services (Banking Reform) Act 2013 will work in respect of a supplier to Pay.UK. It should highlight any gaps which the PVDC may wish to address. The PSR could also consider powers arising from its concurrent competition function with the CMA.
- Providing support to other nascent platforms, technologies and initiatives who represent new market participants (and therefore necessarily introduce competition) that are developing innovative solutions in the UK retail payments landscape.
- Certain requirements preclude effective engagement with, and involvement from, industry in ensuring an effective delivery model for infrastructure renewal. For example, the requirement that Pay.UK must "be the primary interface and decision-maker for central infrastructure provision" seems to preclude any involvement of industry / the customers, impeding the confidence in the delivery model.

Conclusion

UK Finance supports the PSR's efforts to ensure that regulatory approaches remain fit for purpose in the evolving payments landscape. By leveraging the work of the PVDC and aligning regulation with the National Payments Vision, the PSR can help create a payments ecosystem that is resilient, inclusive, and capable of supporting the needs of businesses and consumers both now and in the future.