



THE FUTURE STRATEGY FOR OPEN BANKING PAYMENTS

A UK Finance report



November 2021

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1. EXECUTIVE SUMMARY

UK Finance brought the payments industry together to consider the future opportunity for open banking payments and how the market could collaboratively shape that future.

What is the market vision for open banking payments?

There is a shared vision across the market – to see open banking payments offer greater choice to customers and merchants on how payments are made and received¹. Open banking payments offer the opportunity for payments to be made account-to-account in near real time. In particular, extending the use of the underlying Faster Payments Service – typically used for person-to-person and person-to-business – to e-commerce, charitable donations, tax collection and other types of payments has demonstrated significant benefit. The payments benefit from strong customer authentication and the investment in customer guidelines that make that authentication as smooth as possible.

There is a shared purpose across the market to explore how to improve the standards that underpin the customer experience of open banking payments building on regulatory requirements to make that choice even more compelling. There is particular interest in how the incentives of banks and third parties can be aligned through developing these standards through voluntary commercial frameworks.

This takes place against growth in open banking payment volumes. The number of successful open banking payment transactions has increased from 0.5 million transactions in September 2020, to 2.6 million in September 2021. For single immediate payments, open banking payments work well with improving conversion rates particularly where the payer uses mobile apps. Many fintechs have based their business models on this new and exciting technology and there is significant industry investment in these firms.

What strategic steps will drive forward that ambition?

UK Finance has said previously that open banking payments needs a Participant Group² – leaders from the market who will help promote the commercial development of open banking payment standards and help the market meet its ongoing regulatory obligations.

The Working Group has laid the foundations for a Participant Group and has begun to provide the future vision, direction and industry governance for taking forward those improvements. It is imperative that this pro-competitive, collaborative approach continues to tackle both technically complex issues but also to explore the case for the voluntary, commercial frameworks that might be needed for the future development of open banking payments.

What issues need addressing?

We set out enhancements to open banking payments that can underpin the products and services provided by PISPs and ultimately the end-customer experience. Different firms place varying degrees of weight on these enhancements reflecting their own business models and capabilities. They provide the starting point for driving improvement.

Broadly the enhancements divide into three categories – those that could be resolved through technical development alone, those that might potentially require a multi-lateral framework agreement involving banks and third parties (which we refer to as a Payment Arrangement) or bi-lateral contracts and those that require both.

The report provides case studies illustrative of the enhancements that could be made to the open banking standards, for example, on introducing more payment execution certainty and visibility of payment status. The legislation (Payments Service Directive 2 (PSD2)) allows PISPs to initiate payments but does not require banks to let them know the payment has been executed. For some use cases where the merchant would like to immediately release high value goods or services this can be problematic.

¹ The government has also set out its support for open banking payment in the Payment Landscape Review, HM Treasury, October 2021
² <https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/open-banking-futures-blueprint-and-transition-plan>

Another example is the information flow to the bank on the type of payment being initiated. Currently the standards defining what information (or 'payment context code') should be sent by a PISP along with a payment request, are limited. They do not allow PISPs to transmit important information that could help a bank to better determine the risk of executing a particular payment. For example, if a PISP could use a specific message to tell a bank it has a contract with, and has undertaken due diligence on the payee, this should lead to far fewer of this type of payment being blocked. This is important to support uptake of PISP payments in e-commerce.

We also explore how non-sweeping use cases for variable recurring payments (VRP), for example for use with subscriptions, could be brought to market. Given the volume of subscription payments, the growth in the use of subscription services streaming content and concerns about subscription traps³, this is a potential game changer for the use of open banking payments.

This report is not the only industry initiative looking to support the use of Open Banking payments for industry.

- The Open Banking Implementation Entity (OBIE) has a live programme of work led by the Open Banking Security and Fraud Working Group to ensure open banking payments benefit from the best anti-fraud protections used by the payments industry. Tackling fraud is particularly important to the future success of all payment types, including open banking payments.
- There is a live debate in industry on purchase protection where open banking payments are used in e-commerce and it has been the subject of a joint PSR/OBIE project. The PSR has recently set out its proposed next steps and intention not to intervene in the market at this stage⁴.

UK Finance has been considering these questions with its members, non-member firms including non-member Payment Initiation Service Providers (PISPs), the Open Banking Implementation Entity (OBIE) and Pay.UK and other trade bodies (FDATA and the Emerging Payment Association). The Financial Conduct Authority (FCA) and Payment System Regulator (PSR) sat on the group as observers. We are grateful to Chris Henderson (Tesco Bank) who kindly chaired the working group. UK Finance provided the Secretariat.

UK Finance with Ozone API and Open Future World, with sponsorship from Accenture, Mastercard, Volt and Worldpay/FIS are also supporting the world's first hackathon on variable recurring payments. The market is bringing forward demonstrations of the potential customer value of VRP.

For more details please look at www.vrphackathon.com.

³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1004096/CCS0721951242-001_Reforming_Competition_and_Consumer_Policy_Web_Accessible.pdf

⁴ <https://www.psr.org.uk/publications/policy-statements/ps21-2-consumer-protection-response-to-cp21-4/>

2. RECOMMENDATIONS

Governance

- The further development of open banking payments standards and functionality would benefit from industry governance and an associated technical group (that includes industry bodies). This should be considered once the Competition and Markets Authority's (CMA) decision on open banking governance⁵ and the successor body to OBIE has been made. The governance would need careful consideration to ensure it is representative and commands wide industry support. It would also need to take account of the recent PSR announcement that it intends to regulate open banking payments⁶.
- The Technical Group would be tasked to progress the technical issues that sit outside the Final Open Banking Roadmap⁷ that require a collaborative technical approach to progress/resolve, for example to provide more certainty of payment execution, further develop payment context codes and visibility of payment status. An early task would be to assess with rigour the relative priorities.

Multi-lateral industry framework (aka Payment Arrangement)

- Further work is required to explore the development of a voluntary multi-lateral industry framework to introduce commercial application programme interfaces (APIs) and functionality/performance that sits outside the CMA Order/PSD2.
- The logical starting point for this exploration is a voluntary multi-lateral framework for Variable Recurring Payments – without this there could be fragmentation in the market resulting from bi-lateral arrangements. The group agrees that roles, responsibilities and liabilities of different types of market participant should be the next focus. This could be for defined use cases.

- The group has explored a Payment Arrangement that could have much wider scope, comparable to the proposals for a SEPA API Access Scheme⁸ – but that structure is more complex. It has concluded that a “bite-sized approach” should therefore be taken starting with further exploration of a multi-lateral VRP agreement. UK Finance will on board the legal expertise necessary to help this exploration and inform industry's view of the options.

The recommendations, particularly those relating to governance, have some dependency on the outcome of the CMA consultation on the future governance of open banking and will be reviewed once the CMA decision is made. UK Finance's proposals to the CMA⁹, made in March 2021, suggested that open banking payments' firms could be constituted into a Participant Group that would lead the future development of open banking payments, with appropriate anti-trust protocols.

The views expressed in this report are those of UK Finance. However, we have sought wherever possible to reflect the different views on the future of open banking payments that exist across the market. While we should not present the conclusions of our work as the subject of unanimous agreement across the market or endorsed by all the participants listed in the Working Group, they do command broad support on how the market can drive forward open banking payments.

We did not consider what the regulator might do to intervene on open banking payments – our focus given the emergence of open banking payments, the imminent conclusion of the Final Open Banking roadmap and the absence of any further regulatory intervention is on how best to realise the commercial opportunity.

5 <https://www.gov.uk/government/consultations/future-oversight-of-the-cmas-open-banking-remedies/the-future-oversight-of-the-cmas-open-banking-remedies>

6 https://www.psr.org.uk/news-updates/speeches/speeches/pay360_chris-h_oct-2021/

7 https://assets.publishing.service.gov.uk/media/5ee0a145d3bf7f1eb9646433/Notice_of_proposed_changes_to_the_open_banking_roadmap_-_web_publication_-_cma_gov_uk_-_May_2020_-_pdf

8 https://www.ecb.europa.eu/paym/groups/erpb/shared/pdf/15th-ERPB-meeting/Report_from_the_ERPB_working_group_on_a_SEPA_API_Access_Scheme.pdf?52770756a713895bdc4fd072873346be

9 <https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/open-banking-futures-blueprint-and-transition-plan>

3. THE CURRENT POSITION

Open banking payments have the potential to offer greater payment choice to merchants and customers. There are now over 2.5 million open banking payments a month. In 2018, there was a total of 320,000 open banking payments. A number of major UK merchants offer open banking payments as a way to pay. These include companies selling used vehicles, gaming services and mobile investment.

While there is significant growth in open banking payments in the UK and across the European Union, internationally, there are also significant developments in other jurisdictions, for example Australia¹⁰, Brazil¹¹ and Canada¹² as these nations try to unlock the benefits that open banking payments can bring to their economies.

For the UK, while the general requirements of the EU's second payment services directive (PSD2) have been delivered by the market, there are still undelivered elements of the Final Open Banking Roadmap which will further enhance open banking payments.

First among this is the delivery of VRP, where a customer can define the boundary parameters (such as maximum payment amount, frequency and a clear end-date) for a series of payments to be made from their accounts. In July 2021, the Competition and Markets Authority (CMA) mandated the nine firms under its Retail Banking Market Investigation Order to deliver VRP for sweeping use cases. Sweeping was described by the CMA as the automatic transfer of funds between a customer's own accounts.¹³ The CMA is currently assuming a six-month implementation window for the implementation of this feature and the industry, both firms looking to implement VRP and those TPPs looking to build services on this functionality, will need to invest significantly in these solutions. The Implementation Trustee has however suggested a revised timetable and managed rollout which are currently under discussion.

Beyond this, there are other potential enhancements that sit outside the perimeter of PSD2 and the CMA's Order. The implementation of other technical features outside of regulatory requirements, would have to be voluntary and would require a commercial case. We identify some of these opportunities in section six of this report and they include items such as greater payment certainty, proposals to reduce customer friction and other performance and industry issues.

Substantive enhancements are typically referred to as Premium APIs and the industry has yet to develop the right commercial models that will both incentivise ASPSPs and PISPs to invest in the technical development. The implementation of VRP functionality by the rest of the market, and the expansion of this technical functionality to use cases beyond sweeping, is seen by the industry as the opportunity of choice and widely seen as a compelling enhancement for open banking payments. Several firms are working to understand how subscriptions can be supported by VRP functionality – potentially meeting the growth in the “subscription economy” and an alternative to continuous payment authorities and direct debits.

This is a rapidly growing market. Many innovative firms are looking for more effective forms of payment to handle their large subscriber base. To put this in context, Netflix alone is forecast to have 86 million subscribers in Europe by 2026,¹⁴ making over a billion payments a year for its services.

¹⁰ Payment Systems Review: from system to ecosystem, Australian Government, June 2021

¹¹ https://www.bcb.gov.br/en/financialstability/open_banking

¹² <https://www.canada.ca/en/financial-consumer-agency/services/banking/open-banking.html>

¹³ <https://www.gov.uk/government/publications/retail-banking-market-investigation-order-2017>

¹⁴ Statista.com

4. THE STRATEGIC CONTEXT

Open banking payments have been identified by HM Treasury, the Competition and Markets Authority and the Payment Systems Regulator as a new way of paying that offers greater choice to customers and merchants. They have noted the predominance of card-based payments for e-commerce transactions and that open banking and interbank payments could offer more competition in the market.

In the PSR's recent proposed strategy¹⁵, it identifies competition between payment systems as a priority. It said 'promoting competition between payment systems so that, for example, in future people may choose to use interbank payments (when a payment moves from one bank account to another, like an online transfer) to buy their groceries. Most people currently use card payments.'

The Euro Retail Payments Board has also explored the potential to develop open banking payments beyond the PSD2 perimeter¹⁶. The European Payments Council is now taking forward the development of a scheme – the SEPA Payment Account Access. The intention is to build a commercial payment API framework on the foundations laid by PSD2.

A statement by the European Payments Council¹⁷ describes the next steps: the SEPA Payment Account Access Multi-Stakeholder Group ("SPAA MSG") is established by the Board following an invitation from the ERPB at its 28 June 2021 meeting for the EPC to take up the role of manager of a pan-European scheme in relation to access to payment accounts – with the legal and regulatory requirements of PSD2 constituting the 'baseline', but also going beyond such baseline to encompass value-added ('premium') services that may be provided in the context of 'open banking' as a natural evolution of PSD2, within the contractual framework of a scheme – in line with the requirements defined in the June 2021 report of the ERPB Working Group on a SEPA API Access Scheme.

THE DEVELOPMENT OF OPEN BANKING PAYMENTS IS CONSISTENT WITH THE PSR STRATEGY OBJECTIVES ON COMPETITION, ACCESS, CHOICE

THE UK FINANCE GROUP'S WORK HAS STRONG PARALLELS WITH THE ERPB SEPA API ACCESS SCHEME TO DEVELOP A COMMERCIAL API FRAMEWORK FOR EURO PAYMENTS BUILDING ON PSD2

THE CMA DECISION TO MANDATE VARIABLE RECURRING PAYMENTS FOR SWEEPING CREATES A NEW PAYMENT TYPE AND AN AUTOMATED PAYMENTS BETWEEN A CUSTOMER'S ACCOUNTS

THE HM TREASURY LANDSCAPE REVIEW HIGHLIGHTED OPEN BANKING PAYMENTS AS AN ALTERNATIVE TO CARD PAYMENTS

¹⁵ <https://www.psr.org.uk/publications/general/our-proposed-strategy/>

¹⁶ https://www.ecb.europa.eu/paym/groups/erpb/shared/pdf/15th-ERPB-meeting/Report_from_the_ERPB_working_group_on_a_SEPA_API_Access_Scheme.pdf?52770756a713895bdc4fd072873346be

¹⁷ <https://www.europeanpaymentscouncil.eu/sites/default/files/kb/file/2021-08/EPC166-21v1.0%20-%20ToR%20SEPA%20Payment%20Account%20Access%20MSG.pdf>

There remains a great degree of discussion within the industry about what governance model is best to help lead the industry forward into an environment where open banking payments are easier to implement and use for industry participants and consumers. Some stakeholders continue to maintain that a regulatory driven model is optimal; others agree with the views outlined within previous UK Finance reports that the industry has an opportunity to take forward a market led, commercially focused, model.

Whichever governance model is adopted by regulators, and we still await the CMA's decision on the future of the OBIE, we outline some principles that appear to be common across all different views below:

Continued dialogue: It is imperative that the industry continues the dialogue on open banking payments through the right forum. Whether to discuss the appropriate adjustments to a regulatory environment or to articulate the potential commercial models that could be supported from a market led (or regulatory driven) environment. This dialogue should be taken forward through open terms of participation and not restrict firms from accelerating programs ahead of their competitors.

Neutral forum: In order to continue industry dialogue, the industry will need to agree the appropriate forum to hold these discussions. There are risks that any existing stakeholder will be seen by segments of the industry as predisposed to one particular outcome or another. There is a need for credible leadership to take this discussion forward.

Pro-competition: The sorts of solutions regularly suggested by stakeholders in discussions around the expansion of open banking must be pro-competition. It will be essential for the industry to articulate the ways in which it will mitigate any risk to competition in the development of proposed solutions to industry problems.

Commercial freedom: As much as developing a collective approach to open banking payments, through the development of multi-lateral contracts, an industry-wide 'Payment Arrangement' or a mandatory regulatory environment, could help to deliver a common level of service to consumers, it is vital that firms recognise their own commercial agency to create business models and arrangements that deliver good services to their customers. The introduction of any collective agreements should not prevent firms that wish from taking these approaches.



5. WORK IN PROGRESS - THE FINAL OPEN BANKING ROADMAP

Open banking payments are a relatively new way of making a payment. A major pillar of the Final Open Banking Roadmap relates to improving the customer experience of open banking payments.

The Final Roadmap was agreed in spring 2020 – at the time there were concerns about the performance and stability of the APIs and consent rates. The Trustee’s proposals, accepted by the CMA, were therefore intended to improve performance, fill in the gaps in payment functionality and enable greater user adoption.

More than one year on, and as the OBIE moves towards its completion of the Roadmap, the management information on the performance and availability of the open banking APIs shows an average weighted availability of 99.7 per cent and improving consent rates have been reported.

A critical metric in assessing the performance of open banking payments is that the payment journeys complete successfully – they convert. A major pillar of the current Roadmap has been on consent success rates – given its criticality to the ecosystem this will be the subject of ongoing review.

The table below sets out some of the Roadmap items:

Browser authentication journeys	Covered by OB activity on consent success rates includes MI and OB engagement with TPPs, April 2022 Review
Payment error codes	Covered by OB activity on consent success rates includes agreement of CMA9 to publish their approach to transparency calendar/developer portal. OB has also set up a technical working group
Consumer protection	Consumer Protection Working Group report (June 2021) and recommendations for PSR/OB to consider next steps on method and insights to quantify and mitigate purchase risk, develop leading indicators of risk and emphasise PISP obligations to protect customers

6. TECHNICAL ISSUES

The Working Group identified a number of issues that require further technical work (or engagement across industry communities) to identify potential solutions.

The case study below illustrates a wider requirement in industry to work through the issues relating to open banking and identify; determine priority issues with rigour and data/evidence where it is available; bring in the expertise from industry bodies including Pay.UK and the successor body to OBIE alongside the expertise of market participants from the different open banking communities; define the precise solution requirement(s), the impact and explore the investment case for implementation. These activities need to take place under the appropriate governance model.

These issues are set out in the table below – a complete list is available in the annex:

Illustrative Issue	Description
Decoupled authentication	The open banking standards provide for this feature but there has not been industry implementation
Transaction/ payment limits	Some ASPSPs have begun to introduce transaction limits on payments from consumer accounts to reduce the impact of APP fraud, and other fraud types, on consumers. This impacts high value PISP payments.
Standards consistency	There are concerns about conformance to the standards, in particular, for optional fields which are not implemented consistently.

CASE STUDY

Certainty of payment execution and visibility of payment status

The Working Group discussed how the PISP could receive more certainty of payment execution and visibility of payment status from the ASPSP (who is making the irrevocable FPS payment initiated by the PISP). For some PISPs this is a priority, others do not agree. For those that see it as an issue, they say it is particularly acute for use cases where a merchant is releasing higher value goods and services immediately.

It is also the case that:

- indirect FPS participants can experience longer delays to status updates and settlement
- on-us transactions are not always routed through FPS; the progress of these transactions may follow a differ status pattern for the bank to transactions made through Faster Payments
- there is a related problem with the clarity of error messages and status updates. PISPs may not always understand the underlying FP transaction status process (there may be a barrier to documentation). There may be a lack of transparency in the translation of a FP transaction status code to an OB status code – both internally for a financial institution and for the PISPs using these services.

Some PISPs regard improvement in this area as integral to wider merchant use of open banking payments.

The working group discussed a number of steps including:

- A more detailed technical investigation is required
- The issue should be quantified, and applicable use cases identified
- Documentation is needed mapping the payment flow and information/status codes on the point at which the payment becomes irrevocable
- Exploration of the merits of technical solutions such as web hooks
- A more detailed analysis of the Faster Payment Service messages and the clarity of the flow of information from the ASPSP to the PISP

7. A PAYMENT ARRANGEMENT

During the working group, we explored the hypothesis that open banking payments would benefit from an industry-wide multi-lateral framework that describes the rights and obligations of market participants and brings them into a rule-based framework. Many proponents of this approach advocate for a structure that does not replicate some of the industry issues with centralised payment ‘schemes’.

We used the term ‘Payment Arrangement’ to indicate the formation of this multi-lateral contractual framework. It provides sufficient structure to permit the industry to collaborate and effectively tackle industry-wide issues within an outcome and commercially driven environment that avoids some of the problems experienced by the market when adjusting or changing historic ‘scheme’ structures with significant infrastructure, governance and risk management processes that can inhibit innovation and competitive growth. As with all such proposals, there is an inherent issue of solving the ‘Goldilocks problem’ – some governance may be necessary to achieve the industry’s objectives, but not too much; some risk management may be advisable, but not too much; some infrastructure could be desired by the market, but not too much. In order for the industry to understand the right balance of these priorities, more work and engagement between stakeholders will be necessary to articulate the industry’s preference and find an approach that is ‘just right’ for as many participants as possible.

Of course, there are alternatives, one being to allow the market to drive open banking payments through bi-lateral commercial agreements. In many ways, designing a Payment Arrangement that meets the needs of the market is a very high bar to aim for. It is entirely likely that some potential participants will not be able to agree to the compromise that other parties are happy with and will seek to forge their own path in the industry by agreeing commercial structures with key partners to deliver their services. These agreements are already possible and some market participants may already be negotiating bi-laterally to commercialise open banking payment APIs that provide functionality beyond PSD2 requirements.

Another alternative would be to develop a set of standardised contracts as a resource for the market. One of the strategic issues that a multi-lateral contract may help to alleviate is the propagation of an unmanageable number of contracts between industry participants.

There are currently around a hundred PISPs authorised on the FCA’s Financial Services Register, notwithstanding the fact that other ASPSPs are investigating developing their own PISP services for their customers. An approach for the industry to agree many bi-lateral contracts could deliver a number of negative outcomes for industry. If we presume that a PISP needs to engage with a minimum of twenty ASPSPs to achieve a degree of market ubiquity to support its implementation, each PISP will have to negotiate with those twenty ASPSPs. Meanwhile, the ASPSPs will suffer from a significant bottleneck in their ability to negotiate with the relevant PISPs. This could significantly delay the ability of PISPs to deliver their services to market.

There are different views about how such an arrangement may or may not deal with the commercial incentives necessary to invest in functionality that falls outside of regulatory mandate and indeed whether the regulator should be involved in price-setting. Some members of the group challenged the principle that PISPs should be charged at all for access to accounts outside of PSD2 or the CMA Order.

These incentives could be structured in different ways depending on the parties in the transaction and the nature of the use case. Within the working group, there were some who viewed the commercial incentives as the central pillar of a Payment Arrangement and others who saw them as being separate to be negotiated by market participants.

European Central Bank definitions

A **payment scheme** is a set of formal, standardised and common rules enabling the transfer of value between end users by means of electronic payment instruments. It is managed by a governance body. The rules describe the procedures and payment scheme functions which enable payers and payees to use or accept electronic payment instruments. These functions cover, as a minimum, the governance of a payment scheme but may also include payment service provision, payment guarantee, processing, clearing and/or settlement. The latter can be provided by the governance body itself, participating payment service providers or technical service providers, or other third parties. The rules should be applicable for at least one payment service provider.

The framework also covers **payment arrangements**. These may be a part of or separate from a payment scheme, or they may be provided by the governance body of a payment scheme. A payment arrangement provides functionalities which support the end users of multiple payment service providers in the use of electronic payment instruments. It is managed by a governance body which issues the relevant rules or terms and conditions. Such payment arrangement functionalities include (i) initiation, facilitation or requests to execute transfers of value and (ii) the storage or registering of personalised security credentials or data related to payment instruments.

It is however too early to conclude on the merits of a bi-lateral versus multi-lateral agreements or a mixed economy of both.

Bi-Lateral Contracts	Multi-lateral Contracts	Standardised Contracts
Pros		
Firms can quickly move to market with a key partner.	Firms can build a common service with multiple partners.	Firm can easily understand the terms of any engagement that they propose.
Firms can negotiate on competitive pricing models for the provision of their services.	There are clear processes for establishing the pricing model for the provision of services across the industry.	Firms have guiding principles, that may include pricing, and can negotiate specifics of an agreement in addition.
Cons		
Disadvantages smaller players as market initially (or permanently) gravitates to larger players	Competition risk to participants. A forum would need to manage the competition risk of the industry.	Competition risk to participants. A forum would need to manage the competition risk of the industry.
There are no forums to help many industry participants collaborate on mutually beneficial outcomes.	Agreeing a suitable multi-lateral contract with many parties could be time consuming and costly.	A forum used to create a set of standardised contracts could introduce unnecessary cost and delay in the introduction of OB payments.

The concept of a Payment Arrangement (or multi-lateral framework) could provide benefits to the development of open banking payments. Across industry there are different views about the merits of such an arrangement, its coverage and how necessary it could be.

A Payment Arrangement could in theory cover a number of items including:

- The API standard
- The obligations of market participants to conform to the standard
- Performance and service levels
- Guidelines on the customer experience, particularly the authentication journey
- Standards relating to customer protection and dispute handling
- Liabilities between market participants
- Standardised on-boarding terms
- Pricing for “premium” payments functionality outside of the PSD2 perimeter

Such an arrangement would require governance and funding. It would need careful design to ensure it is pro-competitive and enables access to the market.

A Payment Arrangement would allow:

- a commercial approach to further developing open banking payments – with a commercial case for investment based on value exchange. Pricing could be handled in different ways – inside or outside the arrangement;
- market co-ordination which could be desirable to:
 - harmonise the market for market participants
 - build merchant and customer engagement
 - keep market entry costs down and enable access
 - avoid the complexity of bi-lateral arrangements

- market participants may begin to evolve bi-lateral solutions to premium APIs and commercial arrangements. These could help form the basis of a future multi-lateral agreement
- Given the competition sensitivities the CMA, FCA and PSR would need to be engaged before further work is undertaken
- In the future a Payment Arrangement could enable: VRP and delegated authentication, higher performance and conformance standards, certainty of payment execution, decoupled authentication, refunds and a minimum standard for managing purchase risk.
- It could also be more “scheme” like and include anti-fraud measures, incident management and set requirements on participants

It would need to meet the following ten key design principles:

1. Be supported by an investment case
2. Pro-competitive guided by advice on Competition Law
3. Accessible to market participants of all sizes
4. Manage liability between participants in ASPSP and PISP roles and disputes – building on the foundations in PSD2
5. Ensure high quality and consistent customer experience
6. Drive conformance to standard
7. Low-cost governance, funding and participation model
8. A voluntary participation model
9. Not duplicate other payments infrastructure development (NPA)
10. Take into account other regulatory/legal developments, for example, in subscription protections.

There is however no current appetite in the UK open banking payments market for work to evolve an all-encompassing Payment Arrangement. The market will however keep a watchful eye on developments in Europe which will inform the stance of the UK market.

However, there is appetite from UK Finance members (in particular) to explore a modular “bite-size” approach – with a pragmatic focus on specific use case(s) enabled by Variable Recurring Payments.

- Agreement should be guided by a set of principles/market outcomes
- An agreement is desirable for scale and consistent user experience
- Framework agreement mitigates governance complexity and enables VRP
- Need to simplify by starting with specific VRP use cases – they may give rise to different liabilities
- Liability shift through delegated authentication needs careful consideration
- Price/multi-lateral compensation gives rise to competition issues and need not be part of the framework
- Education of merchants/customers to be considered

UK Finance is committed to supporting this next phase of exploration, it is important to note, however, that this exploration is neutral to the outcome.

Before we conclude the discussion of the Payment Arrangement, it is also important to note that any multi-lateral industry framework would require governance. This governance would require legitimacy across the ecosystem – it is unlikely therefore that UK Finance or indeed any other trade body could provide that governance given their roles in civil society. It would also need to take account of the PSR's intention to regulate open banking payments.

8. CONCLUSION AND NEXT STEPS

The immediate next steps are for the market to continue its dialogue on how to develop and enhance open banking payments. At the right time, this could evolve into more formal governance. The task will then be – once the Final Open Banking Roadmap is complete – for the market to explore and agree what can be done on a commercial and voluntary basis to enhance open banking payments.

This exploration needs to be supported by the right capability – technical where the issues require development to the architecture and standards and legal where the issues require commercial agreement.

The guiding light for the dialogue will be the extension of customer choice and the furtherance of competition and innovation in the payments market.

UK Finance will discuss this report with regulators, other industry bodies and take forward the recommendations during the final quarter of 2021 and the first quarter of 2022.



ANNEX 1

Please note the prioritisation and categorisation is illustrative.

ISSUES IDENTIFIED

#	Name	Priority	Category	Description/Impact
1	VRP	High	P-API	ASPSPs have not implemented VRP standards. These standards could enable enhanced products and services from TPPs.
2	Refunds	Low	Risk	Refund functionality is not used by non-CMA9 banks.
3	Payment Error Codes	Low	OBL	Payment status, and/or error codes are not shared with TPPs from an ASPSP. This is partly difficult as the two systems tend to operate on different messaging methodologies, making it difficult for TPPs to know when to poll end-points for a payment status update (REST vs. SOAP) which is pushed to ASPSPs by central infrastructure.
4	API Error Codes	Low	OBL	HTTP error codes are not reported in sufficient granularity to allow for clarity on actions from TPP/consumer/business in order to remedy payment failure scenarios. Also applies to authentication journeys.
5	Multi-party Authorisation	High	FCA	Implementation of multi-party authorisation journeys and capability is inconsistent across ASPSPs, impacting the ability to offer business centered payment solutions.
6	Business Account Standardisation	High	FCA	There is less consistency of implementation of API standards for businesses than consumers. Some firms have their own direct access solutions, others have different cut-off points for consumer/SME accounts vs. corporate accounts.
7	Delegated Authentication	NA	SCA	Whether TPPs have the regulatory authority to perform an authentication journey on behalf of an ASPSP is unclear. Whether this can be provided for through commercial contracts is also unclear.
8	Decoupled Authentication	Low	SCA	The OBIE standards provide for the implementation of decoupled authentication. Industry implementation of this feature has been limited.
9	Combined AIS/PIS Journey	High	Risk	Implement the ability for firms to initiate a payment (PISP) at the same time as completing a balance enquiry (AISP) to ensure that a customer has sufficient funds in their account.
10	Trusted Beneficiaries	Low	SCA	Use of trusted beneficiaries for PISP journeys to reduce the requirements on consumers when initiating a payment to beneficiaries previously paid.
11	Payment Limits	High	Fraud	Some ASPSPs have introduced payment limits for OB payments. It is understood that this is due to concerns with rising losses from APP scams. There are concerns that these limits impact high value use cases.
12	Payment Context Code Filtering	Low	Fraud	Some TPPs are concerned that their payments are being treated differently depending on the payment context code provided. This means that this data is not always provided and its use is not universally appreciated by participants.
13	Consumer Protection/Liability	Low	Risk	Interbank payments do not currently have strong consumer protection for the purchase of goods and services comparable to card payments.
14	Service Incentive	Low	FCA	Some respondents claim that not all firms in an OB payment journey are incentivised to provide a fluid and competitive service to customers. This could result in some changes being difficult to agree due to lack of commercial opportunity. Lack of senior level support for OB payments may restrict the ability for the market to invest and innovate.

#	Name	Priority	Category	Description/Impact
15	Confirmation of Payment Success	Med	OBL	TPPs are not provided with confirmation that a payment has been successfully made. The messaging flows for Faster Payments do not always provide confirmation that a payment has been made in a timeframe sufficient for a TPP to be provided with confirmation that the payment will be made.
16	Customer Branding	Low	FCA	There is a lack of awareness of OB payments for merchants and consumers; similarly, there is lack of an awareness of any protection or other details about a OB payment that differentiate it from other payment methods.
17	Dispute Handling	Low	Risk	Liability processes (e.g. the OBIE's Dispute Management System - DMS) are not universally used or have not demonstrated effectiveness for the industry.
18	Future Change Alignment	Low	Risk	Future changes that may be required for the OB payments standards may not necessarily be mapped against wider industry change initiatives, such as the implementation of the NPA and the Bank of England's RTGS renewal. This could create market uncertainty in investing in solutions.
19	POS Standards	Med	OBL	There is a potential barrier for the adoption of OB at point of sale if common and accessible methods for initiating OB payments are not agreed and supported by the market.
20	Vulnerable Customers	Low	FCA	OB Payments may not be able to provide vulnerable customers with enhanced abilities to make payments and manage their finances.
21	Confirmation of Payee	Low	OBL	Lack of clarity on the ability of firms, particularly PISPs, to provide Confirmation of Payee.
22	API Benchmarking	Med	FCA	Not all MI on API solutions is provided to the market. OB payment participants could benefit from publication of public data about the growth of OB payments.
23	Issue Escalation	Low	FCA	Not all ASPSPs or TPPs have clear routes of escalating issues to a third-party, without appealing to a regulator (e.g. FCA or PSR).
24	Reliability/Performance	Med	FCA	Not all payment API interface implementations provide sufficient reliability or performance to be relied upon in critical payment functions.
25	Standard Consistency	Low	OBL	Not all payment API interface implementations demonstrate consistent interpretations of standards, or diverge from standards. This is especially the case with optional fields.
26	Browser Authentication Journey	High	SCA	Not all authentication journeys from ASPSPs provide the same conversion rates for completion of a payment. Browser based authentication journeys in particular present a higher drop-off rate than mobile authentication (App-to-app) journeys. Other authentication journeys, such as de-coupled, are also possible. There may not necessarily be a strong business case for ASPSPs to invest in these solutions.
27	Immediate Clearing	Med	FCA	Creation of an immediate payment type for retail interbank payment rails could facilitate greater confidence in Open Banking payments clearing successfully.
28	Fraud Co-Ordination	Low	Fraud	TPPs and ASPSPs may not be sharing relevant fraud decisions and risk analysis. This could result in ongoing issues around fraud prevention for the market.
29	Multi-AISP Journey	High	SCA	Double SCA should be prevented when AISPIS journeys are combined.
30	API throttling	High	FCA	ASPSPs cap the maximum number of API calls per second. In turn this creates a bottleneck for PISPs to offer competitive payment solutions for high-volume use cases. Although there is currently no evidence for this issue in the UK market, there is ample evidence that this happens in EU markets.

ANNEX 2

ISSUES AND ENABLERS

Issues	Examples	Enablers
Customer Friction	<ul style="list-style-type: none"> Decoupled Authentication Delegated Authentication Multi-party Authorisation Consumer Protection Browser Authentication Journey Vulnerable customers/consumer protection Delegated authentication 	<ul style="list-style-type: none"> VRP Improved authentication journeys Trusted Beneficiaries
Merchant/ Industry Issues	<ul style="list-style-type: none"> Payment Limits Customer Branding Future Change Alignment 	<ul style="list-style-type: none"> Regulatory mandates Service Incentive
Consumer Protection Issues	<ul style="list-style-type: none"> Refunds Consumer Protection/Liability Dispute Handling Customer Branding 	<ul style="list-style-type: none"> Regulation Dispute handling Commercial arrangements Implement consistent refund functionality Implement customer protection processes that provides adequate cover for OB use cases
Payment Certainty	<ul style="list-style-type: none"> Confirmation of Payment success Immediate Clearing 	<ul style="list-style-type: none"> Commercial contracts Instant payment proposition
Fraud Issues	<ul style="list-style-type: none"> Vulnerable Customers Confirmation of Payee Payment Context Code Filtering Dispute Handling/ Issue Escalation Payment limits 	<ul style="list-style-type: none"> Fraud coordination Data protection adherence
Performance issues	<ul style="list-style-type: none"> API Error Codes API Benchmarking Payment and API Error codes Standard Consistency Future Change Alignment POS Standards API throttling Business Account Standardisation 	<ul style="list-style-type: none"> Service Incentive Implement a commercial contract which incentivises firms to develop enhanced functionality and features for OB payments. Regulation Combined AIS/PIS Journey Implement more granular reporting on payment status and error codes.

ANNEX 3

LIST OF PARTICIPATING ORGANISATIONS

- Addleshaw Goddard LLP
- American Express Services Europe Limited
- Barclays Bank Plc
- Citi Private Bank
- Coventry Building Society
- Danske Bank
- Emerging Payments Association
- Financial Conduct Authority
- Financial Data and Technology Association
- Fire Financial Services Limited
- FIS Global
- Go Cardless
- HSBC Bank Plc
- JP Morgan Chase Bank
- Mastercard
- Nationwide Building Society
- NatWest Group Plc
- Open Banking Limited
- Ordo
- Pay.UK
- Payments Systems Regulator
- Plaid Financial Limited
- Stripe
- Tesco Personal Finance Plc
- Tink AB
- TransferWise
- TrueLayer
- TSB Bank
- Visa Europe
- Volt Technologies Ltd
- Worldpay (UK) Limited

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