NPA Phase 3 Transition

FPS Questionnaire Final Report

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pay.uk

Summary Findings

Pay.UK received an excellent response to its FPS transition questionnaire with 63% of current and future participants responding, which accounts for 97% of current FPS transaction volumes. The questionnaire was open over the summer and asked industry to consider our recommended FPS transition approach ('all receive, then send'), the adoption of ISO 20022 messaging standards and broader transition considerations.

The results of the questionnaire show that a controlled 'all receive, then send' approach received near-unanimous support from industry. To mitigate against delays, the majority of responders were keen to see the introduction of commercial and regulatory incentives to adhere to agreed migration timelines.

Responses from high-volume, more complex participants indicated a transition window of 12 months would be required to move FPS traffic to the NPA. Smaller organisations indicated a shorter period may be achievable.

Respondents also indicated that a dual collateralisation/settlement model through transition was a key concern. Pay.UK should support transition by working with participants and the Bank of England to mitigate the impact through the transition window.

Adoption of the ISO 20022 message standard has a central role in transition. The majority of responders were keen to see certain enhancements introduced at the time of transition. This approach is in line with adoption of ISO20022 in other market infrastructures.

Pay.UK would like to thank all those that responded to the Questionnaire. As we move forward with programme and transition state planning this report and the responses received will be a valuable input to decisions that lie ahead.
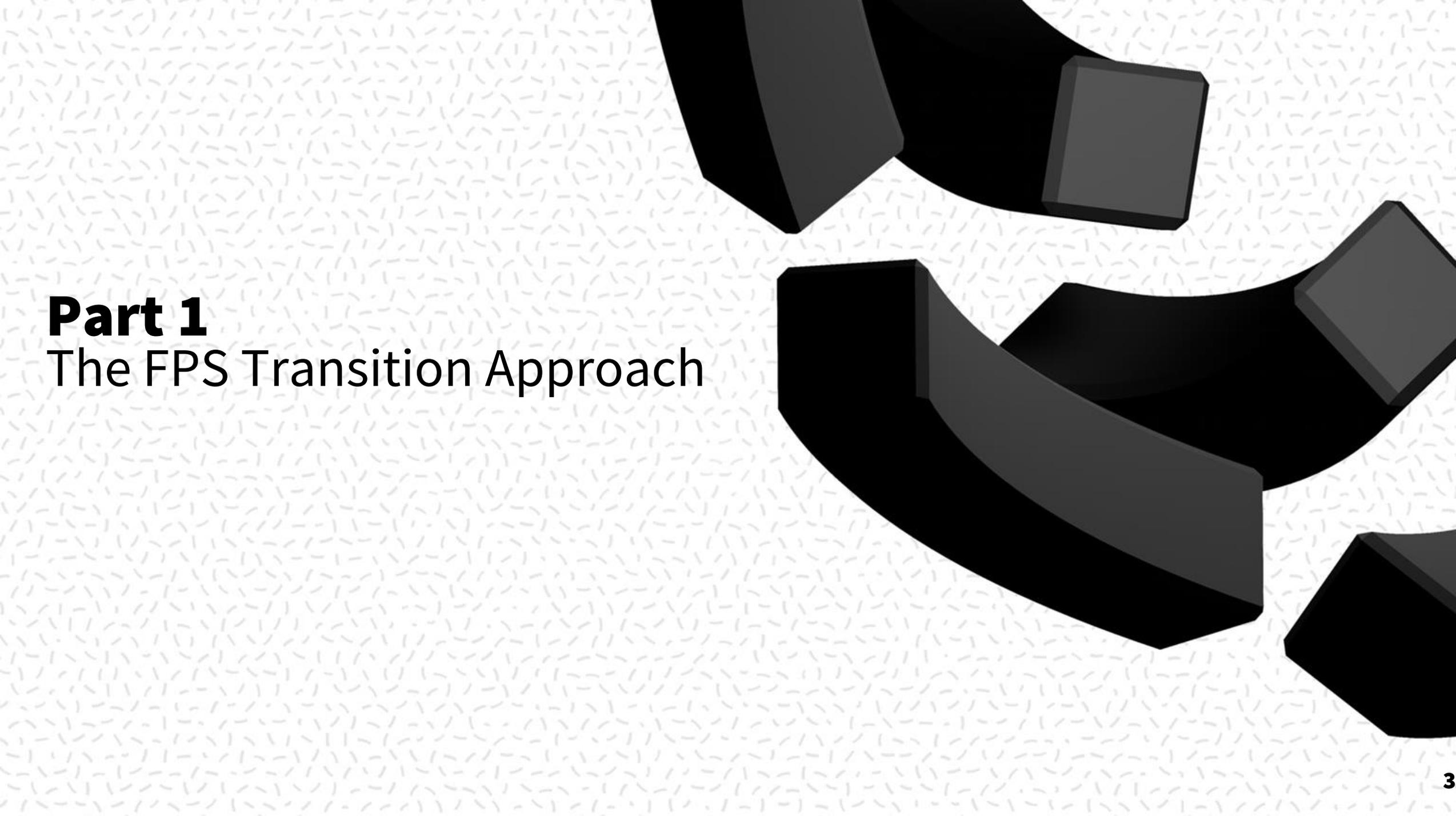
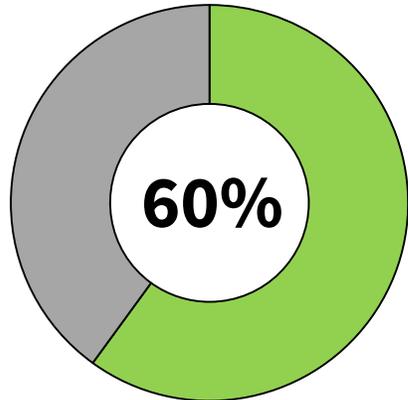# Part 1
The FPS Transition Approach

Summary of Responses
Section 1 - Transition Approach (1/3)

Q1 – Controlling Send Traffic

Using the payer's '**Sort Code**' was the preferred method to control the ramp-up of Send Traffic

60%

**% of Respondents who preferred to limit Send traffic by 'Sort Code'**

- The strong preference was to use sort codes in order to control the ramp-up of traffic

- Some smaller organisations only have a single sort code and therefore may chose to Transition in a 'Big-Bang'

- Two organisations informed us that they would likely further split their Transition phases by brand and/or jurisdiction. Pay.UK may need to maintain multiple schedules for these complex organisations

Q2 – Number of Transition Tranches

- Large, more complex PSPs need a greater number of tranches than the other participant types. Estimations ranged from 6 to 100 tranches

- The other respondents, including newer online banking providers, were much less complex organisationally and required far fewer tranches

- Larger participants will need a more rigid, controlled transition schedule, whereas smaller organisations will have more flexibility

- The reliance some PSPs have on aggregators to facilitate their Transition needs to be taken into consideration when agreeing tranche timings

Estimated number of tranches by participant type
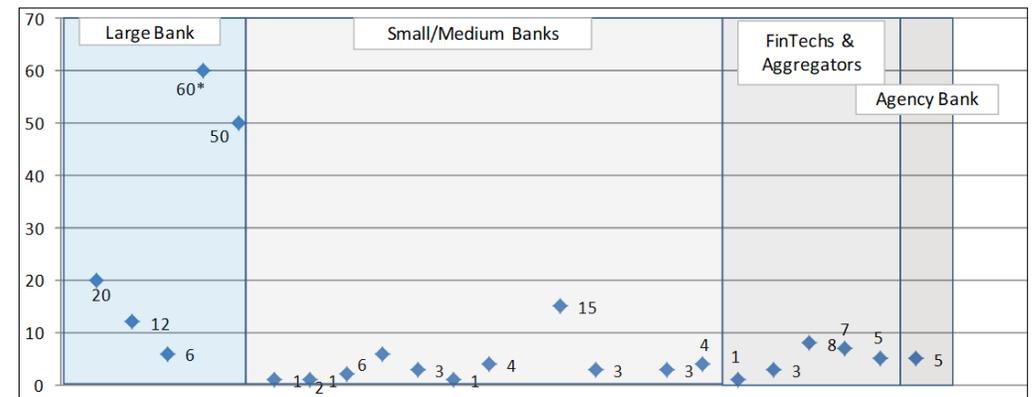
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# Summary of Responses
Section 1 - Transition Approach (2/3)

Q3 – Duration of FPS Transition Window

Most large banks estimated **12 months** was a reasonable amount of time but their mix of brands, jurisdictions, customer types and agency banks adds significant risk

- The larger organisations will form the cornerstones of the FPS Transition schedule, while smaller organisations can be much more flexible; e.g. delay their start of transition or ramp up slower
- Smaller and less complex organisations believed transition could be delivered much quicker (<6 months)
- The general consensus was that transition of each organisation would begin with small volume, spaced out tranches which would prove the system. The size and frequency of tranches would increase over time

Breakdown of Estimated Durations

Legend: Large Bank (green), Other (grey)
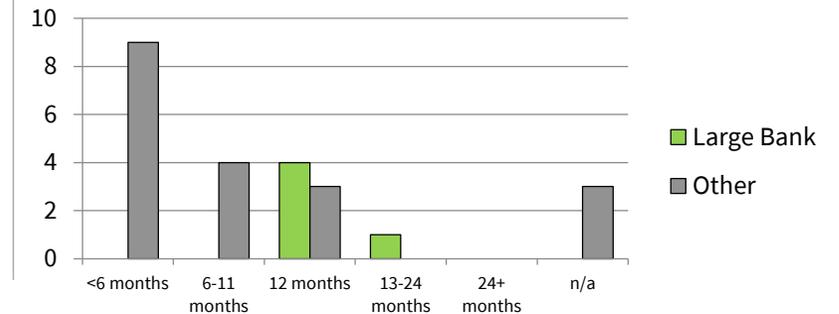
Q4 – Weekday Transitions

If the NPA solution allows mid-week reference data changes, two of the large PSPs and many of the smaller organisations **would support mid week transitions**
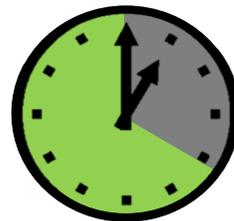
Participants recommended **avoiding** peak FPS Standing Order and Bacs windows

While many organisation would consider mid-week changes, the risks of this approach were highlighted by a number of those organisations:
- Less time for recovery
- Mid-week SIP volumes were higher than at the weekend
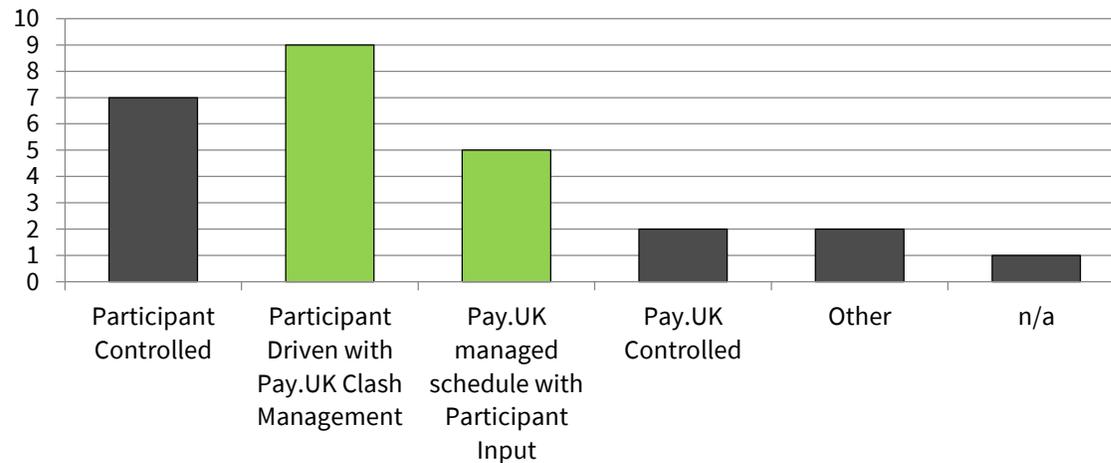- Standing Orders are only processed during the week

Summary of Responses
Section 1 - Transition Approach (3/3)

Q5 – Pay.UK Transition Oversight

There was no clear majority position on what Pay.UK's role should be in scheduling participant tranches. However, when taken together the options advocating for a **joint role between Pay.UK and participants** was preferred


- 'Clash Management' was seen as a key role for Pay.UK in terms of helping to match Transition partners in terms of organisational size, tranche size and likely transaction value
- There was a suggestion that we could use a 'two speed' approach wherein organisations with higher volumes would require more oversight
- There was appetite from a minority of organisations for either Pay.UK or the participants to have full control over transition scheduling (1st and 4th options in the chart above)

Q6 – Rejections and Returns

The majority of respondents advocated **returning payments using FPS** during the transition window rather than requiring participants be able to send NPA returns at the start of transition
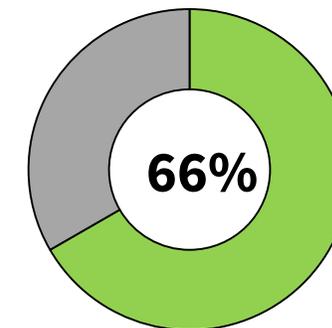
% of Respondents who preferred to return payments via FPS

- Returning via the NPA would mean having to be ready to send and receive before starting transition, this was considered against the preferred transition approach and more technically challenging
- There were a number of technical and operational questions raised by respondents which we need to consider; such as how returns would be reconciled with the original NPA transition
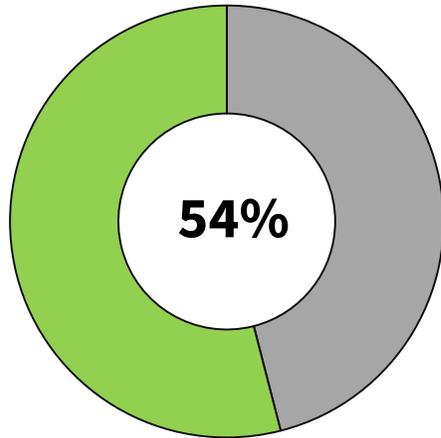
Part 2
ISO 20022 Adoption

Summary of Responses
Section 2 – ISO 20022 Adoption (1/2)

Q7a – Would emulating existing FPS data sets reduce transition Risk?

Q7b – Alternatives that will minimise the time required for Transition

54% of respondents agreed that transitioning to an ISO 20022 standard that emulates FPS data sets would **reduce technical complexity**


54%

% of Respondents who thought emulating existing data sets would de-risk transition

- Most of the Large Banks expressed an interest for a ISO 20022 Standard simulating a like-for-like to the FPS Standard to ease their transition to the NPA. Note these Banks make up the majority of payment volumes today

- Some smaller banks and organisations preferred to go straight to an Enhanced ISO 20022 Standard to minimise the need for two implementation projects. Some of these players are already on ISO 20022

Most respondents want to see a clear roadmap of NPA Propositions and a migration plan for implementation, and the Standards to cater for these propositions
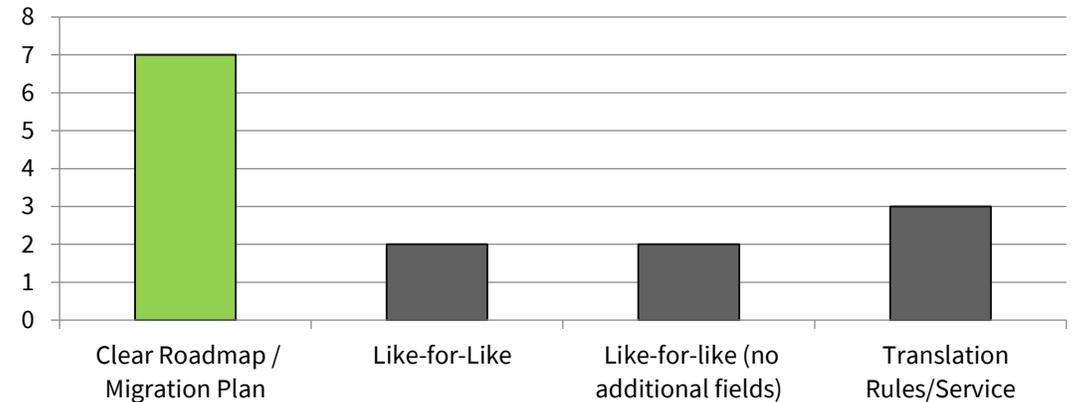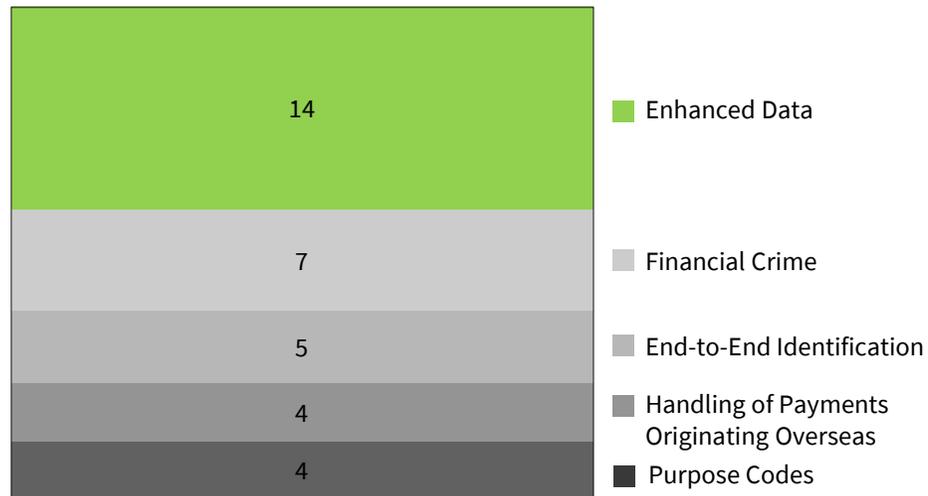

- Most respondents want a clear roadmap/migration plan, and a phased approach for Transition. A clear roadmap pertains to NPA Propositions and the necessary ISO 20022 standards to cater for these propositions (e.g. Enhanced Data)

- There is an appetite for translation rules or a translation service to help minimise the time for transition

Summary of Responses

Section 2 – ISO 20022 Adoption (2/2)

Q8a – Enhancements respondents would like introduced

Top Enhancements respondents would like introduced in the ISO 20022 Standard

|	
14	■ Enhanced Data
7	■ Financial Crime
5	■ End-to-End Identification
4	■ Handling of Payments Originating Overseas
4	■ Purpose Codes

Enhanced Data is considered the top enhancement respondents would like introduced

- The top five enhancements proposed by respondents is Enhanced Data, Financial Crime, end-to-end identification (UETR), handling of Payments Originating Overseas and purpose codes
- Other enhancements evident in the responses include: status of a payment, character sets, return payments, tokenization, and flags for payment on behalf of (POBO) and recipient on behalf of (ROBO)

Q8b – Enhancements introduced at the same time as Transition

A majority of respondents would like to see enhancements implemented at the **same time as Transition**

60%
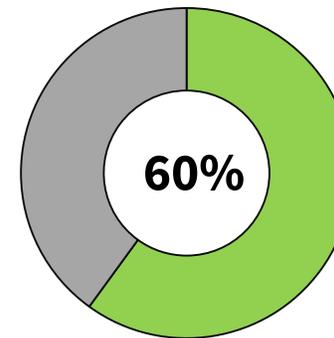
% of Respondents would like enhancements implemented at the same time as Transition

- Most of the respondents (a mix of large banks and smaller institutions) would like to see enhancements introduced at the same time as transition
- 36% of respondents stated they did not know at this time
- 4% of respondents wanted enhancements to be introduced as a separate activity

Q8c – All FPS participants to implement enhancements for ubiquity

36% of respondents would like **all** FPS participants to implement enhancements at the same time for **ubiquity**

- The majority of respondents would like all Faster Payments participants to implement enhancements at the same time for ubiquity
- 28% of respondents said this was not required
- 16% stated all participants to implement but also the concept of Closed User Groups (CUGs) is also required
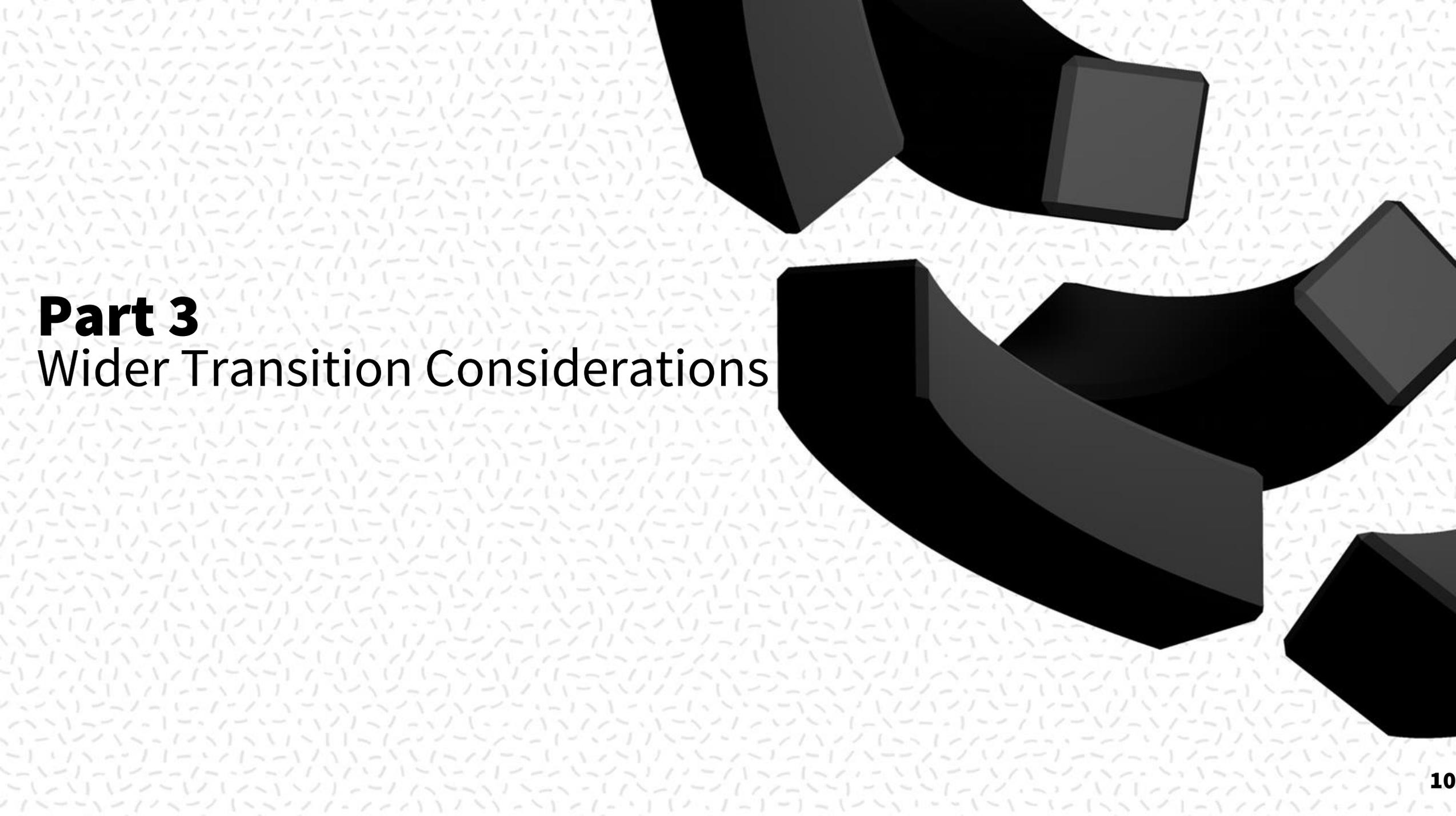
Part 3
Wider Transition Considerations

Summary of Responses
Section 3 – Other Considerations (1/3)

Q9 – Impact of Dual Settlement

The dual settlement period **concerned the majority of participants**. There were a number of recurring concerns across all respondents while some smaller organisations had specific concerns due to their business models

- Most organisations would potentially need to significantly increase their collateralisation across both schemes. The size of this dual funding will vary greatly across the industry
- Some organisations have unique funding models due to the nature of their business which will add complexity to their transition arrangements
- Operational teams would need to be able to support two schemes during the Transition window, this may require additional, temporary resources
- The ability for organisations to move funds between schemes was a concern due to different settlement cycles and the inflexibility of the FPS debit cap process

Respondents suggested that Pay.UK should support the industry in reducing the impact of dual settlement by:

- Supporting participants in scheduling their tranches to coincide with other similarly sized organisations. The effect would be to net off the value of sent and received payments across both organisations
- Working with the Bank of England and incumbent FPS technology provider to mitigate the impacts of dual settlement

Q10 – Managing Industry Change Congestion and Prioritisation

The key concern was with the NPA programme's non-mandatory status. Due to the number of LRM and Business Critical changes in the payments space the **NPA will be at a disadvantage** when trying to secure funding and resourcing

Legal, Regulatory, Mandatory and Business Critical Change		Non-LRM Change
Target 2	Brexit	
RT2	SWIFT	
PSD2/SCA	Strategic Change	NPA

Many respondents felt that Pay.UK needed to provide more information in a number of areas to support their efforts to secure budget and resources:

- A more detailed and robust plan
- Details of the NPA technical solution including an explanation of RT2 alignment
- The business case for the NPA
- Clash management with other industry programmes to avoid multiple Transitions in parallel
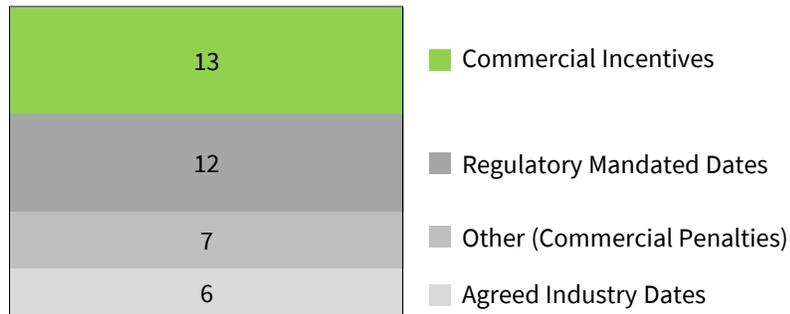
Summary of Responses
Section 3 – Other Considerations (2/3)

Q11 – Participant Incentives

Number of requests for each incentive

13	■ Commercial Incentives
12	■ Regulatory Mandated Dates
7	■ Other (Commercial Penalties)
6	■ Agreed Industry Dates

There was support for the industry to agree their own deadlines but believed they may subsequently need to be mandated by a regulatory body. Based on the ICS experience, many were concerned that **mandatory dates on their own are not sufficient**

- More than half of the respondents who wanted to see commercial incentives believed both positive and negative incentives were needed. Funding additional FPS CI costs was a common negative incentive

- Respondents believed a wide range of Commercial Incentives should be considered

- Any dates which are agreed, either by the industry or mandated, should include interim milestones and it was suggested that an independent body should be able to review participant plans and evidence

Q12 – FPS Central Infrastructure Funding

There was support for **financial benefits and strict rules regarding legacy infrastructure costs** for organisations who respectively do and do not meet their obligations

- Financial benefits, such as reduced NPA transition fees, were the preferred option however a sizable number of responses suggested that if an organisation causes the FPS CI to be extended then they should pay for the additional industry costs

- A number of risks associated with penalties were raised; how would additional third party costs be accounted for? Would penalties incentivise the wrong behaviours, such as attempting Transition too early? Are penalties anti-competitive?

Q13 – Impact on Indirect Customers

Sponsor Banks believed there would be **minimal impact** on indirect and agency customers

- The primary concern of Sponsor banks was that they do not currently have enough technical detail to perform a full impact assessment

- Translator services would likely be used to minimise indirect customer impact. One respondent asked whether a central service could be provided by Pay.UK

- A number of responses raised the many issues which the ICS migration experienced. In particular, failures by sponsoring banks which resulted in a negative impact to their customer's experience

Summary of Responses
Section 3 – Other Considerations (3/3)

Q14 – Most Significant Transition Risks

Securing **key resources was the most common risk** to participant's NPA and FPS transition plans

- The primary concern was participants ability to secure internal change resources, subject matter experts and third party vendors to support the programme in light of competing regulatory and strategic changes

- The lack of a detailed NPA delivery plan was also highlighted as a concern by a number of respondents

- Participants were keen to get early visibility of technical details to give them, and their third party vendors, the maximum amount of time to make the necessary technical changes

- The impact of maintaining two settlement models and the effect on liquidity was raised again. This appears to be a much larger issue for the small banks and non-bank participants

Q15 – Other Concerns or Comments

A number of topics were raised by multiple organisations, these topics included:

- the NPA to provide a clearer roadmap and timelines for the overall programme

- the NPA to provide clarification of technical standards (message formats, settlement processing and network connectivity)

- the NPA to clarify how Agency Banks will be managed throughout the process (communications, testing and transition)

Other topics raised by individual participants were:

- consideration needs to be given as to how NPA payments are presented to end-users compared to Faster Payments

- The NPA should be future proof and not re-use legacy infrastructure . There was a desire to be able to connect directly to the NPA in a cost-effective manner. Preferable using cloud/internet based infrastructure unlike today's FPS service

- the NPA should provide a business case to the industry for the NPA programme

End of 'FPS Transition Questionnaire' Summary

Appendix

Appendix A – FPS Questionnaire Questions

1	Participants will transition 'Send' payment volumes from FPS to the NPA over a period of time. What characteristics would you envisage being used to determine how payment traffic is routed to the NPA?
2	Assuming each participant controls the rate at which their own transition occurs; how many tranches would you envisage utilising to transition your entire send volumes.
3	The anticipated duration of FPS transition is 12 months although some organisations may require longer. How long do you believe it would take your organisation to fully transition all of your Faster Payments volumes to the NPA?
4	The NPA solution may be able to accommodate mid-week changes to key reference data unlike the weekly process used today (i.e. EISCD routing changes). Would you have concerns if participants were asked to transition 'Send' traffic to the NPA mid-week? If so, what would your key concerns be?
5	Pay.UK will co-ordinate the overall transition across the industry. This can be achieved in a number of ways ranging from passive monitoring to active management of each participant's transition plan. Please indicate which options you would support in order of preference.
6	The 'All Receive, then Send' approach means that participants who are receive-only would be unable to initiate Return payments to the NPA. A temporary Returns process would need to be used during Transition (e.g. send a Faster Payment). Do you agree that: a) Participants should be able to initiate payment Returns via the NPA at the start of Transition? b) Returns should be sent via an alternative process (FPS) if a participant is not yet 'Send Ready'
7	We understand from the Transition Advisory Group that an approach to transition which would require you to implement ISO 20022 message standards that will emulate as closely as possible the existing FPS (ISO 8583) data sets and message constructs will significantly reduce the time required by you to complete migration. We expect this to be beneficial as it would reduce the total time required to maintain legacy infrastructure until such time as all FPS participants have transitioned.
7.a	a) We would welcome your views to confirm our understanding that this approach will de-risk the technical complexity of the ISO 20022 migration step for you?
7.b	b) What, if any, alternatives would you propose that will minimise the time required to transition?
8	In line with the objectives of Pay.UK to catalyse market innovation and competition, we expect that you will want to tell us about the ISO 20022 based enhancements you would like to see introduced. We would like to understand from you the following: a) A summary of the ISO 20022 enhancements you would like to see introduced? b) Whether you would be ready to implement these enhancements at the same time as transition, or if not how soon after transition you expect to be able to implement them? c) Whether all FPS participants would be required to implement these enhancements as they rely on ubiquity, or if a 'closed user group' of participants would be sufficient?
9	During the transition window there will be a period where settlement of FPS and settlement of the NPA will be required at the same time. The details of the NPA settlement model have not yet been agreed with the Bank of England. For the purpose of this question, please assume that there would be no solution to share liquidity between the existing FPS and the NPA payment systems; instead participants would have to fully fund both systems simultaneously.
9.a	a) To what extent will this influence your transition scheduling?
9.b	b) Is there any additional information that would help you to manage these positions?
9.c	c) How significant an impact do you see this having on your own operation?
10	Appreciating that there are a number of significant industry development programmes occupying a similar window to the NPA:
10.a	a) Are there any factors that will influence the speed & priority of your development effort?
10.b	b) What if anything will support you in securing the resources you need to safeguard FPS transition development?
11	The preferred transition option 'All Receive, then Send' will mean the transition window will only open when the last participant is ready to receive. If one or more participant is not ready on time there will be a knock-on impact to the NPA and other participants. What measures would you advocate to ensure that participants adhere to transition dates?
12	As participants transition to the NPA and volumes decrease on the existing FPS Central Infrastructure there will be a period where both infrastructures will be operating in parallel, both with an element of associated fixed cost. Participants are asked to provide their views on the principle of financial incentives to encourage transition from FPS to NPA.
13	Participants are asked to illustrate how the transition of FPS to the NPA will impact their indirect customers and what measures, if any, will assist them in that activity.
14	What are the most significant risks to your organisation's ability to transition FPS to the NPA within the allocated window?
15	Please use this space to provide commentary on any aspects of the Transition Approach not covered by the above questions.

# Appendix B - Introduction to 'Receive All, Then Send'

The questionnaire was written on the basis that we would be following the '**Receive All, Then Send**' approach.

This approach was suggested within the PSF Blueprint and following an extensive period of review and challenge has subsequently been endorsed by the Transition Advisory Group.

Step 1: All participants connect to the NPA and confirm their ability to receive ISO 20022 messages defined for real time payments.

Step 2: Once all participants are 'Receive Ready', they will enable changes to their operational and IT processes to begin transitioning Send traffic to the NPA.

Step 3: When all participants have transitioned their 'Send' traffic to the NPA, the FPS Central Infrastructure (CI) can be decommissioned. This would be the final step in the FPS transition to the NPA.
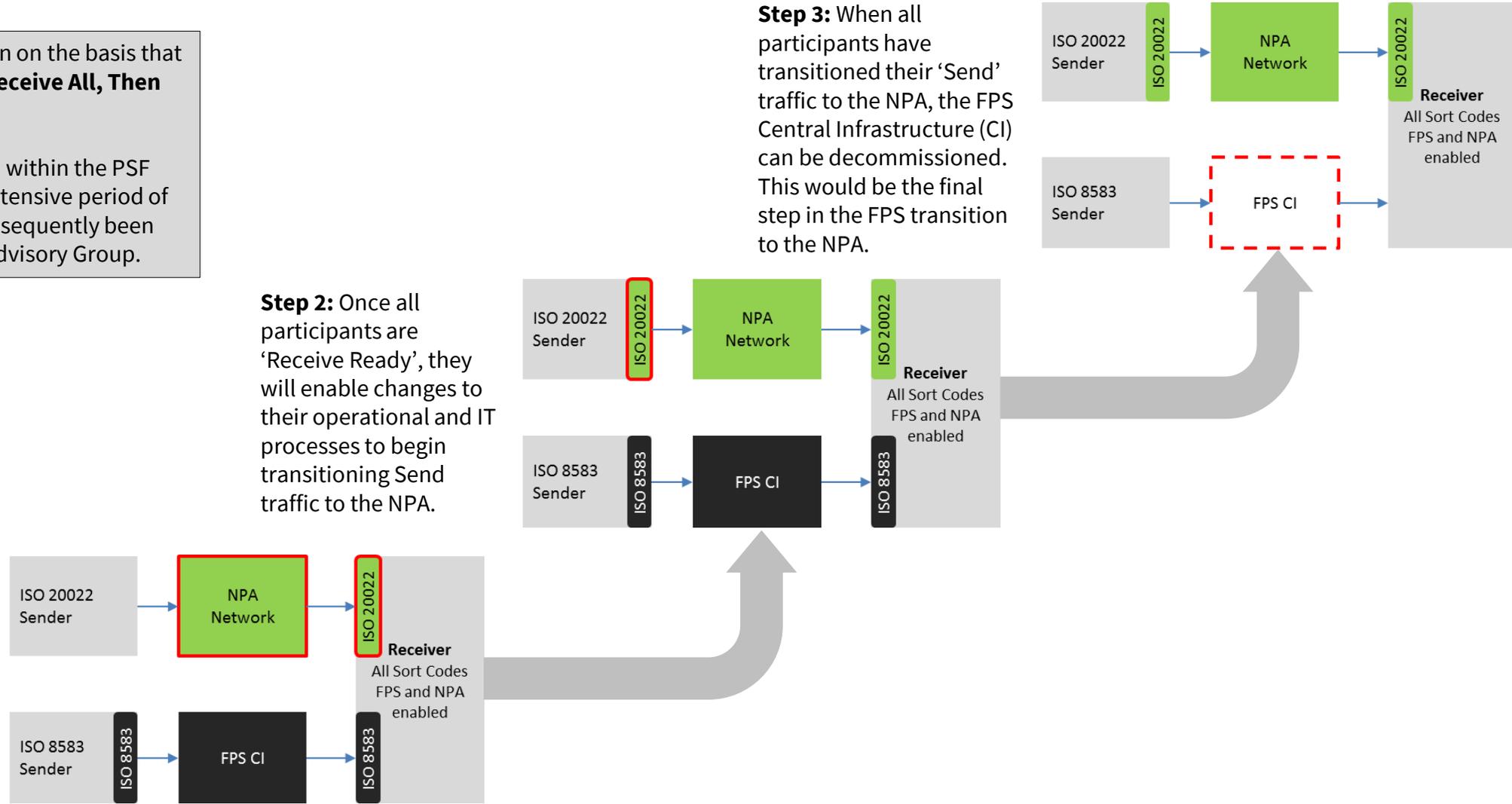
Appendix C - Transition Principles

robust & resilient – our approach will always give priority to the stability and safety of our payments infrastructure

efficient – we will deliver the most economical & fastest path to migration within our risk tolerance

end user focussed – our customers will remain at the heart of our approach, no adverse impacts for our end users

competitive – our approach will ensure that vendors and participants will be able to operate competitively

innovative – we will encourage innovative solutions and embrace 3rd party overlays in a competitive environment

collaborative – all participants and user groups will have the opportunity to provide insight into our transition plans