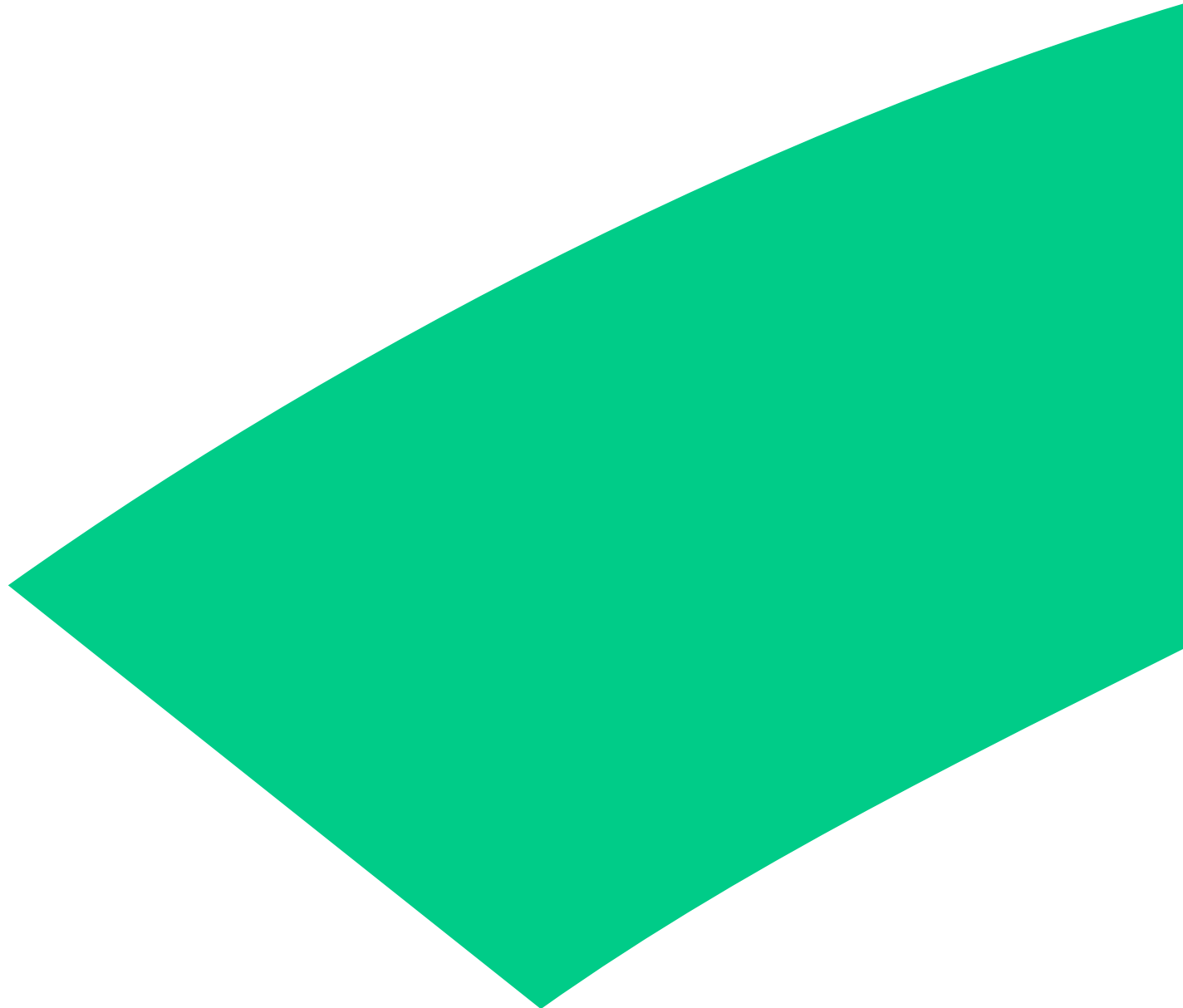




A view of our stakeholder (service user) engagement

October 2022 to September 2023



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1 Foreword

Effective engagement with the payments community and beyond is key for Pay.UK to deliver safe, secure and simple payments for the UK's banks and building societies, payment providers and their customers.

Maintaining an open dialogue with our stakeholders and end users helps us to fulfil our mandate as the UK's recognised operator and standards body for interbank retail payments. We actively seek the views of our stakeholders to ensure that their voice and their needs are at the heart of what we do, both now and in the future.

The increased digitalisation of payments has seen rapid development, driving further innovation and competition in our industry. This has in turn made our stakeholder environment broader and more complex. We, at Pay.UK, are ready for the opportunities and challenges that this evolution brings. It is essential to remain trusted and relevant to our wide range of stakeholders, including our end users – from people and businesses across the country, to HM Government and other service users; collaboration with the payments community is instrumental in achieving this.

Collaboration remains vital and engagement is a key pillar of delivering our strategy. Recognising this, we have recently created a new team with responsibility for leading on Pay.UK's engagement and communications strategy. In my new role I am conducting a review of our engagement programme – with our stakeholders - to ensure that our work actively reflects the needs of both the payments community and the end users we serve.

David McPhee

Chief Policy and Engagement Officer

Pay.UK

2 Executive summary

Our approach to industry engagement aligns with the Payment System Regulator's (PSR) General Direction 4 (GD4) requirement that, as an operator of regulated interbank payment systems, we must continue to make transparent decisions and consider service-user interests in decision-making processes.

As we work to deliver further benefits for our users through our products and services by effectively adapting to an evolving payments landscape, we continue to invest in industry insight to help us make decisions, set objectives, and inform our current and future work.

To this end, we engage in frequent, open dialogue with a variety of stakeholders and end users at both strategic and operational levels. Comprising Board advisory councils, committees, working groups and forums, these meetings provide the wider payments community with the opportunity to be part of, consult, and challenge us on the work we do.

This report outlines our industry engagement activity over the past year, and how we have used input and feedback from our stakeholders to shape our work:

- Our role as a Payment System Operator (PSO)
Our primary responsibility as a PSO is to ensure our payment systems and services operate robustly. Effective engagement helps us ensure our work reflects the needs of our customers, end users and everyone else who uses and relies on our platform, maintaining their confidence in secure and reliable payments
- Next-generation payments platform, the New Payments Architecture (NPA)
We have refined our user and industry groups to effectively support the delivery of the NPA
- Product innovations and enhancements
We are developing new and existing products and services, such as those that help detect and prevent fraud with the support of our payments community
- Rules and standards
We continually consult with a variety of stakeholders to ensure our rules and standards meet the needs of the evolving ecosystem.

As the ever-changing payments landscape continues to present opportunities and challenges, we recognise the continuous need for improvement and further engagement within this space. We will continue to actively engage with the industry, and expand our reach where we see occasion, in our capacity as a PSO.

3 Engagement councils, committees and forums

3.1 End User Advisory Council (EUAC)

The EUAC meets quarterly to advise the Pay.UK Board on the interests of the end users of the services that we deliver today, through our current platforms, and that we will deliver in the future, through the NPA. Membership is based on independent and individual representation of end-user interests and includes private and not-for-profit users, small and medium enterprises (SMEs), large corporates and the Government Banking Service. Senior Independent Non-Executive Board Director Anna Bradley chairs EUAC.

In September 2022 the EUAC welcomed six new members, as recommended in our 2021 external stakeholder engagement review¹. Our new members reflect the interests of larger corporate end users and merchants, who bring expertise in the use of technology for end-user benefits.

In the past reporting year, the EUAC has provided advice and guidance to Pay.UK on: our approach to end-user engagement, end-user research, Request to Pay (RtP), authorised push payment (APP) scam reimbursements, the decommissioning of mobile payments service Paym, and the NPA.

3.2 Industry Advisory Council (IAC) - our newest advisory council

Created as a result of the 2021 external stakeholder engagement review, the IAC's inaugural meeting took place in May 2023. Meeting quarterly, the Council's role is to provide strategic advice and guidance to our Board as the single voice for the payments industry.

The IAC, whose membership represents the full breadth and diversity of the ecosystem, including organisations with whom we have commercial relationships, along with partners and suppliers, looks at the medium- and long-term evolution of the payments landscape. Since its first meeting, IAC has provided advice and guidance to Pay.UK on account-to-account payments for retail transactions (A2ART). Independent industry representative Lorraine Brady chairs the IAC.

EUAC and IAC directly engaged with the Future of Payments Review, chaired by Joe Garner, both at a joint council meeting and through a separate submission alongside Pay.UK's formal response.

3.3 Customer Engagement Forum (CEF)

The CEF is a forum for the senior direct customer representatives of our Bacs, Faster Payment and Image Clearing payment systems. The CEF meets quarterly with a broad and varied agenda, which, in addition to specific areas of focus, such as the NPA and fraud, includes regular items on finance, risk, payments operations, and products.

This past year CEF areas of focus included systemic risk, our enhanced fraud data standards project, the cloud assurance policy and code of conduct, the NPA, Paym, and the third-party management framework (TPMF).

Dougie Belmore, Chief Payments Officer at Pay.UK, chairs the CEF.

¹ [A view of our stakeholder \(service user\) engagement: 2021-22, Pay.UK, 2022, p. 6.](#)

3.4 Strategic Participant Group (SPG)

The SPG is co-chaired by Simon Eacott, Head of Payments at NatWest, and Michael Ellis, Pay.UK Chief Finance Officer. This important monthly forum brings together key customers from across the industry to facilitate strategic feedback and challenge on the NPA programme.

The SPG complements other NPA forums at both a strategic and working level, covering specific topics such as commercial, customer readiness and technology implementation. The industry co-chair reports on industry sentiment and challenge at Pay.UK Board meetings. Pay.UK Non-Executive Board Directors also attend the SPG. The agenda covers NPA programme progress, milestones, and emerging topics.

4 Next-generation infrastructure

4.1 New Payments Architecture

The NPA programme is creating the next-generation payment platform for the UK. Central to our strategic vision to be the smartest way to move money, now and in the future, it will build on existing capabilities and unlock substantial benefits for our customers, end users and the UK economy. It will increase choice, boost security and reduce costs, and generate new market opportunities for the financial services sector by enabling the industry to more easily create new payment products and services.

The NPA is based on principles, objectives and analysis developed through engagement with our customers, regulators and the wider payments community.

Through our industry forums, along with direct meetings and smaller group discussions, we have fulfilled our customers' requests to contribute to the development of key NPA areas such as migration, settlement and technical documentation.

4.2 NPA committee and industry engagement review

In H1 2023, we reviewed our NPA committee and industry engagement working group structure.

Feedback from customers, industry group members and key internal stakeholders indicated there was a need to restructure the NPA engagement groups for a variety of reasons. These included high meeting frequency, duplication of information being shared across forums and an increase in customer engagement requests to our triage team. We also agreed with our customers the need to prioritise commercial and contractual factors, initially through the Legal Working Group (LWG) and latterly through the customer-led User Interest Group (UIG). As we move into 2024 we are working with stakeholders on the governance model to support the NPA build phase.

4.3 Developing commercial principles and contract negotiation

Feedback from customers has shaped not only our work on the NPA, but also our approach to continued engagement with customers in this area. In 2022, we engaged with customers on 10 commercial and funding principles through working-level groups and direct meetings. Following this engagement, we secured broad alignment on how the NPA will be funded and the length of the customer contract.

Established in March 2023, the UIG brings together 40 customers under one legal representative, allowing for large efficiencies of resource and detailed discussions on the contract. Customers shared feedback on commercials in May, allowing us to complete the drafting of the NPA customer contract. We are now working closely with the UIG to reach alignment on key contractual issues.

4.4 NPA vendor selection and announcement

In September 2022 we issued the final request for proposal (RfP) for the NPA vendor, informed by customer input in industry working groups and business impact assessments. In addition to our broader engagement, we also worked closely with the SPG, to ensure that we factored the views of our customers into our final vendor recommendation. Our engagement structure for the NPA has ensured that the customer voice is present in every stage of our decision-making, including the timing of our vendor announcement following the conclusion of the regulatory processes.

4.5 NPA and wider industry engagement

As part of our broader engagement across both business-as-usual (BAU) and the NPA, we held quarterly one-to-one sessions with our key stakeholders both within our current customer set and more broadly. This assisted us in addressing any customer-specific concerns and to identify any recurrent issues. We have continued to hold one-to-one engagements with our current FPS customers on NPA-specific topics and have engaged with the Bank of England on the role of the NPA in the digital pound architecture.

We are also engaged with key actors in the Regulated Liability Network proof of concept, looking at the future of money, and will continue to monitor its developments.

We held regular meetings with the GBS, and additional workshops to ensure that we considered its unique and high-volume requirements in the NPA design. We undertook several individual meetings, forums and engagements with GBS and the Bank of England, in addition to our collaborative Retail Settlement and Liquidity Group (RSLG) forum. This group supports the industry to discuss our proposed approach to settlement and liquidity management for the NPA, as well as to provide input on how NPA settlement will work (including default protections).

4.6 Standards

Our standards role for the NPA programme will see us provide additional technical collateral for ISO 20022 messages and APIs to enable their transition, and self-validation testing and future test phases. We will continue to consult with customers and liaise with the selected vendor to ensure the standard is effective.

5 Product innovation: Fraud detection, prevention and reimbursement

Fraud continues to be a big issue for the payments industry, and particularly for consumers and businesses that fall victim to APP fraud. On the back of our work in 2021, we continued our collaborative dialogue with regulators and the industry on how our collective efforts can mitigate the impact of fraud, giving evidence before the House of Lords Fraud Act 2006 and Digital Fraud Committee. We engaged

with the PSR on its proposals on APP fraud reimbursement and also appeared before the Treasury Sub-Committee on Financial Services Regulations.

We also hosted an end user and propositions industry group workshop dedicated to economic crime and fraud prevention in April 2023, and digital identity and digital onboarding in April 2023.

5.1 Confirmation of Payee (CoP) expansion

In a continued effort to reduce APP scams and misdirected payments, the PSR has directed 394 PSPs to introduce CoP to offer consumers and businesses increased levels of protection and confidence when making payments (through Specific Direction 17 (SD17)). The PSR has identified two groups of firms: group one - 32 specific Payment Service Providers (PSPs) that will need to implement the service by 31 October 2023, and group two – 362 PSPs to implement the service by 31 October 2024. To this end, onboarding and accreditation of non-regulated parties must be enabled in the CoP ecosystem.

Next year we will work with directed organisations to support the implementation of CoP as per SD17, including understanding their specific needs; we are also considering operational and technical improvements to the current processes for the whole stakeholder community. We will consult a broad range of stakeholders to allow us to analyse, evaluate and implement the changes throughout 2023 and beyond.

5.2 Authorised push payment reimbursement (APP)

Over the past year we have engaged extensively with our service-user stakeholders on how to best approach reimbursement, and on their expectations for Pay.UK's role to ensure the requirement delivers consistent outcomes for consumers and efficiency for the industry. This engagement has informed our responses to the PSR's various consultations.

The PSR's vision is for Pay.UK to make, maintain, monitor and enforce comprehensive payment system rules that protect consumers and prevent fraud from entering the system. The PSR is consulting on aspects of its APP policy throughout Q3 and Q4 2023, and will finalise in December 2023 with implementation expected in 2024. We are working closely with our customers to understand their needs. This, alongside the input from our EUAC, continues to inform our analysis and support our overall position on APP reimbursement.

5.3 Enhanced fraud data (EFD)

The objective of the EFD project is to implement a data standard to support the sharing of enhanced data between financial institutions for the detection and prevention of fraud. This includes an API and directory-based service, similar to CoP, to enable bilateral sharing of data between PSPs.

We are leading the industry, working in partnership with UK Finance, to implement EFD following the impressive results from the proof of concept in early 2020. We completed phase 1 of our EFD standard work in 2022, with input and collaboration from many industry specialists within the Enhanced Fraud Data Standards Group (EFDSG). We have now completed phase 2 in which we defined the structure and usage of a selection of specific data fields identified as key by economic crime specialists. This phase followed a wide industry consultation via our standards engagement forums, the Standards Advisory Panel (SAP), the Industry Standards Coordination Committee (ISCC) and our Community of Developers (CoD).

We established our EFDSG with UK Finance to provide technical standards expertise in the development of a data standard for sharing enhanced data between financial institutions. Standardising data is a solution that can address some of the existing challenges around data exchange.

On 31 March 2023, we published the first iteration of technical collateral for the EFD standard for review, consideration and input by the wider payments industry. As part of this consultation we held industry-wide webinars in May, June and September 2023. We continue assessing the feedback, including bilateral meetings and we plan to share a newer iteration by the end of 2023 for further review by the industry.

We are seeking industry support for the content and conditions of use of the data by the end of Q1 2024 at which point we will start its development. If industry is supportive of ISO-registration, we could start that process from Q2 2024 onwards.

5.4 Fraud overlay proof of concept

Earlier this year, we embarked on a collaborative fraud overlay proof of concept to test our hypothesis that access to a wider set of data and combining with this third-party artificial intelligence and machine learning, could greatly increase fraud detection rates and encourage market competition in this space. Eight customers, covering around 52% of all FPS transactions, are taking part. Throughout 2022 and 2023, we engaged with customers to seek data permissions and develop the contextual fraud data transfer process.

The proof of concept started in October 2023. Due to complete in February 2024, the results of the proof of concept will drive our engagement in 2024 to gather feedback and support further development of the service to help protect victims of fraud.

6 PSO performance: Payment systems and overlay services

6.1 Faster Payment System (FPS)

We continued with our regular engagement with customers at various levels, and specifically on two issues:

- We consulted with the FPS customer group on the potential increase of the scheme transaction limit from the current £1m. We decided, based on customer feedback that included consideration of end user benefit and the potential harm caused by APP fraud scams, to retain the £1m limit
- In consultation with FPS customers, we developed a protocol to support the new SWIFT CBPR+ (a program for adopting ISO20022 for cross-border payments and reporting messages in correspondent banking) within the current message formats in the existing FPS solution.

6.2 Bacs Payment System (Bacs)

We are considering our Bacs strategy within the context of a dynamic and evolving payments ecosystem. In Q1 2023 we began our engagement with key Bacs stakeholders on the future of the Bacs payment system. The input from these sessions, as well as feedback gathered about Bacs services over a number of years, informed our engagement approach.

As well as providing regular updates into Pay.UK forums including the Bacs Customer Committee, SPG and the End User Advisory Council (EUAC), we have adopted a more engagement-based approach, working with key stakeholders to agree the future delivery options for Bacs. We will later look to co-create the Bacs products and services in partnership with the industry. This work will continue into 2024 and we will continue to keep all interested parties informed as work progresses.

6.3 Image Clearing System (ICS)

We have held workshops for our customers on the strategic plan for ICS to ensure that end user outcomes continue, whilst acknowledging and acting on declining volume. We also engaged with the wider cheque industry throughout 2023. We ran our customer forums with representatives at operational and senior levels, focusing on operational performance, strategic, and fraud-related matters.

6.4 CoP

CoP was the first new, strategic service delivered by the NPA programme. It is a name-checking service for UK-based payments, designed to help reduce misdirected payments and certain types of push payment fraud, giving payers greater assurance that their payments are being sent to the intended recipient and not accidentally, or deliberately, misdirected.

The service receives positive feedback from customers and the payments industry and has been recognised as a leading development. Since its launch, CoP has become a utility service that customers expect to see when making a payment to an account they have never previously paid. Over 70 organisations have already implemented CoP, with over 1.6m requests every day.

We engage with stakeholders through bilateral meetings, and technical, implementation and other working group meetings that comprise existing and prospective CoP participants, including the technology solution providers community. We continue to engage bi-monthly with our industry steering group which discusses industry-level issues, working to understand the needs of participants to develop future strategies and direction for CoP. We collaborate with the industry to enhance and refine processes for testing, onboarding and documentation. Considering feedback from participants drives the support needed to expand the service.

We have been working with our customers and the payments community to develop and implement service enhancements including a name checking service to support Direct Debit (DD) payment mandate set up (payer name verification) and scoping initial requirements for a CoP international payments proposition.

6.5 Request to Pay (RtP)

RtP is an overlay service that helps when initiating a payment by providing a new, flexible way for bills to be settled between people, organisations and businesses. Following the 2022 Accenture report², we undertook a review of the potential market of repository providers and billers, working in close collaboration with our customers and the payments ecosystem to develop the RtP service further and to give potential RtP providers opportunities to enrol onto the framework.

We engaged through a combination of round table sessions, individual and group meetings involving a broad range of stakeholders including individuals, organisations and government departments, and with support from the EUAC. The RtP development group now has a wider range of representation from banks, building societies, fintechs, utility providers, accounting firms and charities. This expanded group is giving us fresh insight on how best to develop RtP and the challenges faced by those wishing to join the framework.

² A view of our stakeholder (service user) engagement: 2021-22, Pay.UK, 2022, p. 12.

6.6 Current account switch service (CASS)

Each year we hold a CASS strategy day with our customers and the wider ecosystem to discuss the future strategic opportunities for the service. Following the strategy day in March 2023, we took the inputs from our stakeholders to inform our approach and potential enhancements to this service, including:

- Use of digital ID to reduce switch rejections
- Introduction of other payment types to be switched (Variable Recurring Payments (VRPs)), continuous card authorities)
- Enhancing our profile in end-user engagement/partnership.

We continue to work closely with stakeholders to maintain end-user awareness, using the insight to support our communications plan for 2024, which includes engagement with the CASS committees, working groups and wider payments community.

6.7 Account-to-account payments for retail transactions

From October to December 2022, we played an active role in the Joint Regulatory Oversight Committee (JROC) work on the future of Open Banking and A2ART.

JROC published its report in April 2023, and we have been working with Open Banking Limited to support or lead, where appropriate, across workstreams on fraud, disputes and improved transaction descriptions, and with JROC on premium APIs including VRP and future entity.

We are focused on ensuring that PSPs and end users can benefit fully from the introduction of ISO 20022 messaging on the NPA – we are working with Open Banking Limited to align the development of NPA and Open Banking standards in this respect. We will continue with this approach, also working with the wider industry and our regulators to further develop the design of instant payments to support A2ART, including consumer and retailer feedback.

7 Rules and standards

We set rules to manage systemic risk and ensure the robust and resilient functioning of our services by obligating our customers to conform and adhere to them. Standards play a key control role in ensuring the data exchanged across our services conforms to a specific structure and definition, enabling near-seamless information flow and promoting data integrity.

Any stakeholder, customer or relevant party can engage with us to access information or to propose the development of a new rule or standard, or changes to existing rules or standards where appropriate (within the bounds of our Rules and Standards Management Framework (RSMF)). To facilitate this, the development of rules and standards is open, inclusive and constituted in such a way as to balance interests across a broad range of stakeholders, ensuring compliance and supporting our risk appetite.

7.1 Industry engagement and collaboration

Our relationship with the Bank of England, as operator of CHAPS and the Real Time Gross Settlement (RTGS) service, is formalised through our jointly-held Standards Advisory Panel (SAP). This has led to two current specific areas of work in which we are an active participant and providing subject matter expertise:

- We are working with industry representatives and experts through the SAP to derive a potential framework and principles when developing UK payment APIs

- We are working with the BoE and corporate customer representatives, via the Association of Corporate Treasurers (ACT), on structured enhanced data usage guidelines. This workstream gathers use cases and direct customer feedback in the challenges and opportunities that unstructured and abridged remittance information has for UK businesses payment and supply chains.

We play a leading role on the international standards stage to represent the UK's payments industry voice on the ISO committees and working groups. In May 2023, we led the joint submission between Pay.UK and UK Finance and its members to the Committee on Payments and Market Infrastructures (CPMI) consultation on ISO 20022 harmonisation for cross-border payments.

7.2 Tax and bulk salary payments

We published an API specification standard in March 2023 which will make bulk salary payments easier for small UK businesses. The scope of our tax transformation project is the result of 18 months' work with HMRC and ongoing engagement with customers, accountancy software providers and trade bodies. We have now published an API specification enabling accountancy software providers to standardise their bulk payment submissions.

We continue to collaborate with the Bank of England and our customers on interoperability of the ISO 20022 standard for UK retail interbank payments and CHAPS. In 2024 our engagement will comprise bilateral events, working groups and the NPA's customer and industry engagement forums.

We are also focused on strengthening our role in standards-setting forums, including internationally with other payment system operators outside the UK, and infrastructure providers such as SWIFT, through the UK Finance Standards Engagement Forum and with other bodies such as Open Banking entities.

In addition to further work on enhanced and structured data uses, for example to simplify tax payments, we will find new opportunities for customers and engage with enterprise resource planning providers to use the ISO 20022 standard to innovate, leading to improved operating efficiency.

8 Appendix: Other activities seeking stakeholder views

8.1 Research

A significant new contribution to our end-user insight is the launch of our twice-yearly payments tracker. This activity is designed to complement our annual research program and enhance our understanding of end-users and their payment journeys.

We survey a nationally-representative sample of consumers and SMEs to understand their behaviours and attitudes towards all payment types over time. This enables us to understand usage, barriers and drivers to create tailored end-user payment personas and understand the attitudes and behaviours around payments for consumers and SMEs. Analysing these behaviours will help us to design and build a payment infrastructure for the future that considers their needs and preferences

Our research and insight programme informs and supports the evolution of our strategy. During 2022-2023 we carried out a number of projects focusing specifically on end users, including:

- Evaluating the banking behaviours of overdraft users
- Exploring how technological and behavioural developments will drive switching behaviours in the future
- The likely impact of the decommissioning of mobile payments service Paym.

In November 2022 we published a thought-leadership paper and hosted a webinar on the back of the overdraft-user research. We also convened a roundtable in November 2022, chaired by the Financial Inclusion Commission's Chris Pond, to discuss how the payments ecosystem can better improve the way consumers and small- and medium-sized enterprises (SMEs) make payments. This was followed by a white paper setting out the findings on SME payment needs and behaviours, and on financial vulnerability in payments, and the discussions around priorities in this space which we shared via our social media channels.

8.2 Deep insight and horizon scanning

Our deep insight programme provides us with a well-informed, authoritative and independent voice. It comprises research and analysis, horizon scanning, modelling and simulation.

8.3 Innovation portal

We use our innovation portal to both share the outputs of our deep insight programme, and gather the views and ideas of stakeholders to encourage innovation and collaboration. We currently have around 600 external industry stakeholders from over 300 organisations using this platform.

8.4 Surveys and stakeholder feedback

A significant new contribution to our end-user insight is the launch of our twice-yearly payments tracker. It complements our annual research program and enhances our understanding of end users and their payment journeys.

8.5 Annual stakeholder survey

We survey a wide range of our stakeholders to understand their expectations and experience of engaging with Pay.UK across our strategic priorities. This year's results are currently being analysed and we will use our findings to inform our engagement strategy.

8.6 Stakeholder event

We hosted an industry breakfast on 4 July 2023 for our senior stakeholders. At the event, we set out the strategic priorities that guide our delivery and support our vision to be the smartest way to move money now and in the future. The event provided stakeholders with the opportunity to ask questions, provide challenge and network with one another and Pay.UK colleagues. Having received much positive feedback about the event, we are planning to hold similar events going forward.