



# General Direction 4 report

24 October 2024

Classification: Public



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# 1 Documentation Information

## 1.1 Copyright statement

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## 2 Introduction

Pay.UK operates the payment systems that make payments secure, safe, and simple for UK's banks and building societies, payment service providers (PSPs), and their customers. Our key purpose is to power payments, champion innovation and give the UK choice in how it pays. We enable individuals and organisations in the UK to transfer money to others whenever they need to, quickly, safely, and cheaply.

Pay.UK sits at the centre of a complex ecosystem with a range of stakeholders that each has expectations of us. While decision-making authority for our activities rests with us as an independent payment system operator (PSO), it is mutually beneficial for our stakeholders to be able to influence and understand the decisions we make. We rely on our stakeholders to enable, or directly help with, the delivery of our work.

We continuously work to foster strong relationships with stakeholders and work collaboratively with them to deliver the most effective operational and change activities for the ecosystem. To this end, we employ a regular programme of engagement activities across multiple channels, including advisory councils, stakeholder groups, bilateral engagement, and a programme of research and insights. These engagements provide the payments community the opportunity to be part of, to co-create, and to challenge us on the work we do.

The Payment Systems Regulator's (PSR) General Direction 4 (GD4) requires Pay.UK to actively ensure that we take the views of each relevant service user into account when setting our strategy and when making decisions, including those related to the design and rules underpinning our payment systems. Under GD4, Pay.UK is also required to *'publish a report on its engagement with service-users once a year, covering the 12-month period to 30 September. It must do this by 31 October the same year. The report must:*

- *Explain service-user engagement over the preceding 12 months*
- *Detail the issues that the operator expects to discuss with its service-users over the next 12 months, and how it intends to engage with service-users.*<sup>1</sup>

Our 2024 GD4 report summarises our industry engagement activity over the past year, and how we have used input and feedback from our stakeholders to shape our work. It also discusses our plans to engage with service users over the coming year. This report is split into two parts:

- Part 1: A summary of Pay.UK's stakeholder engagement approach;
- Part 2: Our stakeholder engagement work across our five strategic priorities, reflecting and the past year and looking ahead.

<sup>1</sup> General Direction 4 (psr.org.uk)

**Diagram 1: The Pay.UK stakeholder ecosystem**



### 3 Our approach to stakeholder engagement

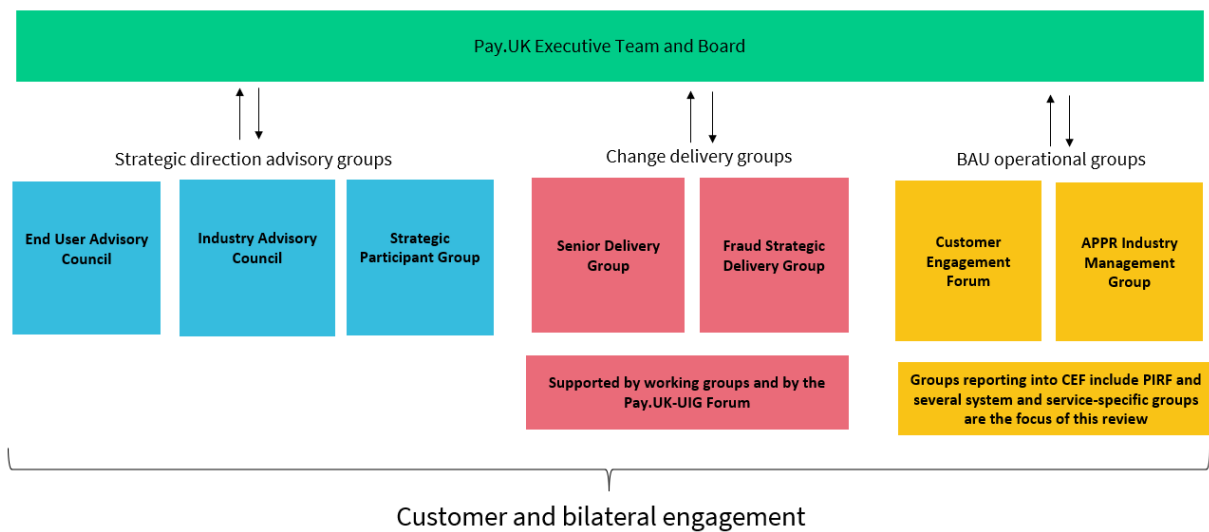
Following the appointment of a Chief Policy and Engagement Officer (CPEO) in June 2023, we have prioritised the ongoing improvement of stakeholder engagement based on four objectives. While this remains work in progress, some of the improvements we have made to our stakeholder engagement in this reporting period include:

- a. **Planning for engagement:** We continue to work on being clear on what we are trying to achieve, and what we need (and when) from stakeholder engagement to support our decision-making and delivery.
- b. **Engaging collaboratively with stakeholders:** We continue to engage with stakeholders – our customers, the broader payments industry, and the end-user community via councils, groups and bilateral meetings. Within these forums, we are working to make the engagement more collaborative.
- c. **Informing our decisions and explaining our decision-making:** We continue to work on improving how our engagement informs Pay.UK’s decision-making. For example, our Stakeholder Engagement Team captures and synthesises thematic feedback for sharing with our Executive Team (ExCo) and Board. We are also working on the transparency of our decision makers and what we share with our stakeholders. One example is the introduction of verbal corporate reports presented (usually by our CEO) at our strategic stakeholder groups and council meetings. We also endeavour to provide greater detail on issues and themes that matter most to our customers, such as costs.
- d. **Deliver with excellence:** We have improved the quality of the information that we share at our committees and forums, including the papers, and to support two-way dialogue. We assess the success of our engagement, and the levels of confidence, through day-to-day interactions with stakeholders, and also gathering more structured feedback via our annual stakeholder satisfaction survey. This is supported by an interim pulse survey and followed up by deep dive interviews with key stakeholder representatives.

## How we engage: Councils, stakeholder groups, bilateral engagement and research

We engage with our stakeholders across a range of stakeholder groups and via bilateral engagement. More informally, we also engage with stakeholders via day-to-day operational interactions and at events/conferences etc. Below outlines our senior stakeholder groups that are structured to cover three pillars that have a direct reporting line to the Pay.UK Board. We also engage through our research programme which supports our understanding of market shifts and changes in end-user behaviour. This is aligned to our Platform Leadership strategic priority.

**Diagram 2: Pay.UK groups reporting structure**



### **Strategic direction advisory groups**

These groups are senior stakeholder advisory bodies that discuss strategic change. They support decision-making for our strategic direction to make sure decisions are comprehensively informed by the views and insights from the wider payments ecosystem.

- **End User Advisory Council (EUAC)**

The EUAC meets quarterly to advise Pay.UK on current and potential strategic deliverables from the perspective of end users (including those with specific needs, and those in circumstances that make them vulnerable). EUAC has its own annual report published on our website and most recently provided invaluable feedback on the development of our end-user personas. EUAC is chaired by Anna Bradley, one of the independent Non-Executive Directors (NEDs) on the Pay.UK Board.

- **Industry Advisory Council (IAC)**

The IAC advises on and considers the medium and long-term evolution of the payments ecosystem. Members include organisations, beyond our direct customers, with whom we have commercial relationships, as well as partners and suppliers. The IAC has its own annual report published on the Pay.UK website. IAC has an independent chair, Lorraine Brady, who does not hold an executive position with Pay.UK.

- **Strategic Participant Group (SPG)**



The SPG brings together a broad range of our direct customers. It enables stakeholders to advise and challenge the process of delivering our key strategic deliverables. While the SPG was originally set up to focus on the NPA, we are repurposing SPG to instead advise Pay.UK on strategic decisions (i.e. Pay.UK's future focuses). We expect SPG to operate under its new focus from early 2025 (with revised Terms of Reference as appropriate). SPG is co-chaired by an industry representative, Simon Eacott (NatWest).

### **Change delivery groups**

Our change delivery groups provide a vehicle for us to work with the payments industry on delivering major change.

- **Fraud Strategic Delivery Group (FSDG)**

Established in Spring 2024, the FSDG enables industry representatives and customers to discuss and influence Pay.UK's work on our Fraud Programme in a timely and efficient way. It provides a clear escalation route to the Board, should customers have concerns with the direction of the programme. This has been a key group in the delivery of the Authorised Push Payment Reimbursement regime (launched on 7 October 2024).

- **Senior NextGen Delivery Group**

This group is yet to be stood up but will be a key group in supporting the delivery of NextGen payments infrastructure. This is subject to receiving regulatory approval to the submissions delivered by Pay.UK to the PSR and Bank of England in late June 2024 (please refer to the item in Part 2 on NextGen infrastructure).

### **BAU operational groups**

BAU operational groups allow us to work with the industry to manage operational effectiveness of the payment systems e.g. incidents management and lessons learned, maintenance of scheme rules, and contingency planning.

- **Customer Engagement Forum (CEF)**

The CEF enables senior level dialogue between Pay.UK and our direct customers on operational issues, such as finance, risk, technology, and business development. Membership includes direct customers of the Bacs Payment System (Bacs), the Faster Payment System (FPS) and the Image Clearing System (ICS). The CEF enables direct customers to collectively discuss key issues, concerns and observations, and provide feedback at a senior level that could be considered by our Executive Team and Board. CEF is co-chaired by an industry representative, Mark Nalder (Nationwide).

- **Authorised Push Payment Reimbursement (APPR) Industry Management Group (IMG)**

The APPR IMG is a new forum for PSPs to identify, discuss and resolve operational issues that may prevent the efficient operation of the APP reimbursement regime. The views of this group inform any decision-making concerning the APP reimbursement regime and are shared with the PSR to support their decision-making, as appropriate.

There are a number of stakeholder engagement sub-groups that support the senior change delivery and BAU operational groups. We are currently in the process of rationalising these and ensuring alignment and reporting between engagement groups.

### **Bilateral engagement**

Alongside the groups discussed above, we undertake material bilateral engagement with a range of stakeholders. These meetings are undertaken at multiple levels (including Chair, CEO and at working level). These meetings allow us to obtain more in-depth feedback and insights. We are working to formalise the coverage of these sessions (to ensure we are meeting the right people across our stakeholder group) and have already offered all direct customers the opportunity for engagement at CPEO level. Anecdotal feedback suggests these meetings are a valuable use of time between organisations and we have committed to scheduling them into our 2025 calendar.

### **Research programme**

In this reporting period, our research profile has supported teams in Pay.UK to inform decision-making specifically for A2ART, digital wallets, Big Tech, and payments and sustainability. For the remainder of 2024 and going into 2025, there are plans for research to be conducted on topics such as fraud protection, benchmarking risk identification and management across critical national infrastructures, and future infrastructures analysis.

### **How do we assess engagement and collaboration?**

We receive useful insights into the success of our engagement and changing levels of sentiment through day-to-day interactions with stakeholders. We also gather more structured feedback via an annual stakeholder satisfaction survey, interim pulse surveys, and follow-up deep-dive interviews with key customer representatives. The annual stakeholder survey seeks feedback on: (i) how well Pay.UK delivers business-as-usual operations; (ii) how well Pay.UK engages on its business-as-usual operations; (iii) how well Pay.UK delivers its strategic change initiatives; and (iv) how well Pay.UK engages on its strategic change initiatives.



## 4 Engaging stakeholders with our strategic priorities to inform our decision-making and planning for 2025

In this section we share examples of how service-user views have fed into our plans for 2024 and how stakeholder engagement has supported the development of key Pay.UK initiatives. These are categorised below according to each of our five strategic priorities.

**Diagram 3: Pay.UK strategic priorities**



### **Strategic priority 1: PSO performance**

As the systemic risk manager for interbank retail payments, our primary responsibility is to effectively manage and maintain the functionality of our payment systems and services, ensuring their resilience, security and dependability. In supporting this, we have collaborated with stakeholders to develop a Payments Industry Resilience Forum (PIRF), have engaged with customers to learn lessons from operational incidents, and have reviewed the CASS strategy with stakeholders.

### **The Payments Industry Resilience Forum (PIRF) and scenario test**

The PIRF was established in November 2023 to foster cross-industry collaboration, and to share best practice, to address the challenges faced by Pay.UK and the wider payments ecosystem in maintaining operational resilience (in line with regulatory expectations). PIRF is supported by three working groups covering: feasibility and design; crisis management; and market communications.

A key deliverable for PIRF in 2024 was to work together (under Pay.UK's leadership) to deliver an industry-wide exercise that would test the extreme but plausible scenario of a multi-day outage to Bacs. Plans for the exercise were supported by an industry playbook that was collectively developed by PIRF members to aid recovery and enable faster decision-making. Utilising this material, we delivered this test scenario in September 2024. Outcomes of the exercise will support future activities to enhance resilience. We will engage with PIRF to plan further scenario tests in 2025 and work with the industry to address any outstanding vulnerabilities.

### **Current Account Switch Service (CASS)**

The Switching Service Customer Committee (SSCC) has delegated authority for proposing the CASS annual strategy and budget, and for overseeing the delivery of the switching services (CASS, Cash ISA and the bulk payment redirection service, BPRS). In July 2024, we delivered a strategic workshop with SSCC members. The workshop reviewed the wider strategic purpose of the CASS and its role in the ecosystem. We are now collating the outputs from the workshop which will help shape the future of the CASS going into 2025, pending regulatory approval.

### **Strategic priority 2: Platform leadership**

As a platform leader, we play a pivotal role in coordinating the industry on key issues, creating an environment that fosters innovation on our platform. This year we have conducted research that has

actively driven discussions on industry-wide matters, most notably the development of the National Payments Vision (NPV) and the response to the Bank of England discussion paper on innovation in payments and money. We have also advanced the end-user personas used to inform our analysis and decision-making.

### **Research and the national payments tracker**

In 2022, we launched our first national payments tracker survey. This is a comprehensive survey that aims to understand the payment behaviours and attitudes of UK consumers and SMEs. The survey is conducted twice a year and is put to a nationally representative sample of 3,000 consumers and 1,000 SMEs. We have now completed four waves of the payments tracker. These insights have contributed to our work in planning for future payments infrastructure and has helped us to shape end-user outcomes in our NPV submission. These outcomes were further developed and refined by a subgroup of the EUAC and were tested with our IAC.

### **End user personas**

The Pay.UK end-user personas are based on the national payments tracker. A comprehensive understanding of the behaviours, attitudes and preferences of end users around payments, together with the context of the wider market and payments ecosystem, ensures that end-user choice and benefits remain central to our thinking. In 2024, we benefitted from EUAC members readily guiding us through their knowledge and experience of the process and successful methodologies they have seen used elsewhere. We will continue to work with EUAC going into 2025 on the best way to embed personas and end-user thinking more broadly within Pay.UK analysis and decision-making.

### **National Payments Vision (NPV)**

The NPV will outline the Government's ambition for UK retail payments and is expected to be published in late 2024. In summer 2024, we provided a submission to support the Government's work. In developing our submission, we consulted with SPG, IAC and EUAC, which was helpful in informing our views. Overall, our submission recommended that the NPV:

- Be rooted in end-user outcomes. We shared the end-user outcome statements which we had developed based on choice, convenience, certainty and control.
- Provides a shared strategic direction through a clear set of outcomes and allocation of roles and responsibilities. This includes reinforcing the crucial role of an independent PSO.
- Sets out the priorities for interbank payments. We believe these include infrastructure renewal, fraud prevention and detection, and the creation of the right conditions for interbank transactions to thrive in retail.

### **Defining Pay.UK's role in the ecosystem**

One of the issues we raised in our NPV submission was the lack of a common understanding of our role. To address this issue, we have developed a description explaining the distinction in our approach between:

- Maintaining resilience, relevance and access to the services we provide as PSO (infrastructure, rules and standards);
- Collaborating with industry to create new propositions outside of PSO services, which enable innovation for the benefit of all.

We have begun socialising this approach with our regulators, customers and wider stakeholders.

### **Bank of England discussion paper on innovation in payments and money**

In July 2024, the Bank of England (BoE) published a discussion paper on its approach to innovation in money and payments. The BoE is taking a helpful step forward in embracing innovation and

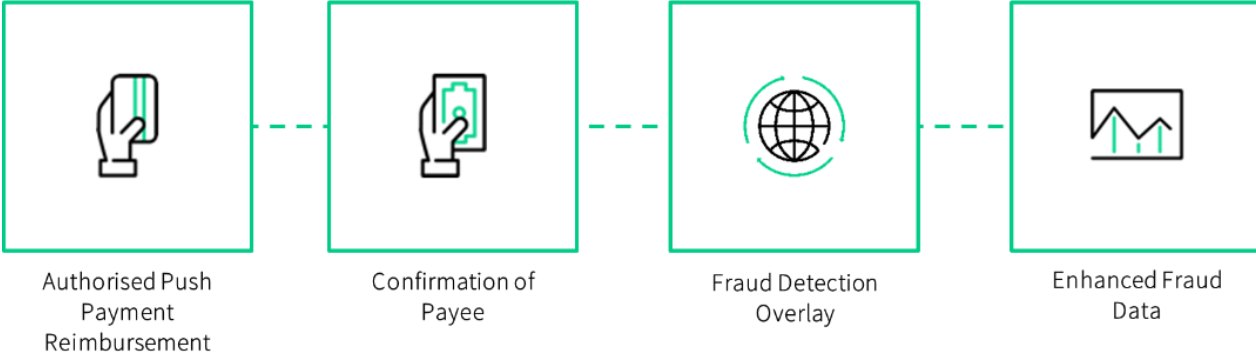
competition alongside robust and resilient operations. We think it has an important role to play in co-ordinating public authorities to provide the shared strategic direction we called for in our NPV submission. We have been actively engaging with stakeholders vis our groups seeking feedback to inform our response. We plan to make our submission to the Bank by the end of October. Looking forward, we will work with our stakeholders and authorities on shaping the future direction of the ecosystem and will continue to engage on this during the remainder of 2024 and into 2025.

**Strategic priority 3: Product innovation**

Product innovation means that we deliver products that are designed to meet the needs of service users. We do this in collaboration with the wider payments ecosystem. This year, our focus has been on fraud detection, prevention, and reimbursement solutions across four fraud workstreams.

**Diagram 3: Our whole of market approach to fraud prevention, detection and reimbursement**

**Leading a whole-of-market approach to protect all people and businesses against fraud, regardless of who they bank with**



**Workstream A: Authorised push payment (APP) reimbursement**

Throughout the year, a huge amount of work went in to delivering the APP reimbursement regime (in line with PSR’s SD19 and SD20) in October. We wanted to draw out several examples of where collaboration has led to positive outcomes.

**Compliance monitoring and engagement**

We held engagement sessions to discuss the proposed rules and data requirements. We were able to inform in-scope PSPs of their obligations, elicit their feedback, and socialise the proposed data elements (for the Reimbursement Claims Management System, RCMS). To gain industry views on our compliance monitoring proposals and to work through outstanding operational issues, we invited over 330 attendees from more than 100 PSPs to additional workshops throughout March and April 2024. The feedback received informed the final version of the Compliance Monitoring Regime and FPS reimbursement rules, which were published in June.

### **Developing an application programming interface (API) for our customers**

During engagement, a number of in-scope PSPs asked us to build a new API to enable users of UK Finance's Best Practice System (BPS) to access the RCMS directory, thereby making the processing of claims more efficient. The API was delivered and supports the new regime which came into effect on 7 October.

### **Dispute management**

One of the most notable areas where we have collaborated with the industry has been dispute management between PSPs following an APPR claim being raised. This is an area which falls outside the remit of what Pay.UK is required to do. However, through extensive collaboration with the industry, we delivered a three-stage dispute resolution mechanism, which includes clear principles to follow to avoid disputes.

Looking to 2025, we will continue to engage with the industry on the transition of those PSPs that currently use BPS to using RCMS. We will work together to ensure a smooth transition which will result in a single whole-of-market solution for recording and processing claims. We will also continue to engage on the operation of the APPR regime and address any deficiencies as they arise.

### **Workstream B: Confirmation of Payee expansion (CoP)**

Introduced in 2020, the CoP overlay service mitigates certain types of APP fraud and accidentally (or maliciously) misdirected payments. Due to its success, in October 2024, the PSR mandated 400 organisations to join CoP and we widened the scope of CoP to make it available to all PSPs, both direct and indirect. To deliver the CoP expansion programme, we established various industry groups to consider requirements, plan implementation, and remove blockers to support the PSR's SD17 timelines. We worked with industry to deliver on the switchover from the Open Banking Limited directory to our new Pay.UK CoP directory on 22 September (following a short delay to allow more time for PSP configuration and peer-to-peer testing).

### **Workstream C: Enhanced Fraud Data (EFD) programme**

EFD is a mechanism for sharing specific data points from end users' accounts and payments data to help PSPs detect payments at higher risk of fraud. Engagement with our customers has predominantly been through the EFD delivery authority, which is co-run with UK Finance. Customers have highlighted the need for more clarity on the EFD product attributes and technical requirements. Taking this into consideration, and acknowledging that our customers were already under pressure to deliver on mandated fraud projects, it was decided to pause the work and replan. In consultation with the PSR and customers, it was decided that for the remainder of 2024, the work would be limited to providing the minimum amount of documentation to enable customers to assess the value of EFD and plan it into their fraud prevention initiatives for 2025.

### **Workstream D: Fraud Detection Overlay proof of concept (POC)**

A key piece of work aligned to our product innovation strategic priority is the cross-industry Fraud Detection Overlay initiative. The initiative aims to create a new overlay service for all PSPs (both direct and indirect) that will safely and securely analyse money flows and use predictive intelligence to detect fraud and help prevent crime before it occurs. During the POC phase (October 2023 – March 2024), we established a customer working group to oversee the POC delivery and outcomes to gather feedback on the data analysis. The results of the POC and customer input has helped us to shape the results analysis and has fed into our strategic development discussions. To ensure we continue to effectively engage and work collaboratively with customers, we have established a new fraud product innovation customer working group to develop the fraud overlay and EFD initiatives. We are now developing our plan for 2025 to move on to the design and delivery phase.

**Where IAC has made a difference: EFD:** We outlined our vision for fraud prevention and detection to IAC and asked members to share their views on a whole of market approach to delivering the products. We received significant support for both products and the innovation they will bring to the ecosystem, as well as useful insights and validation of our whole of market approach. We are now considering how the market can support the delivery of the EFD programme and continue to develop our thinking.

#### **Strategic priority 4: Next generation infrastructure**

Next generation infrastructure means that we are underpinned by the right infrastructure, rules and standards, and commercial model. In this section we outline the critical work to support the delivery of this priority.

#### **NextGen Infrastructure Group – planning for the future**

We completed several significant milestones of the NPA Programme before the procurement was paused following the publication of the Government’s Future of Payments Review (FPR) in late 2023 and the announcement that the Government would work on a National Payments Vision. Despite the pause brought about by the FPR, we remain committed to delivering the key benefits and outcomes of the NPA.

In April 2024, Pay.UK received letters from the PSR and Financial Market Infrastructure Directorate (FMID) asking that we work directly with Vocalink to develop a series of options that could ensure the resilience of our payment systems and the enhancement to their capability and benefits. The work was without prejudice to the ongoing NPA procurement process. As part of the request, we were asked to provide a view of the likely industry reaction. To do this, we initiated a series of stakeholder roundtable events, supported by Vocalink, to ensure we had a strong understanding of the ecosystem’s needs, priorities, and drivers. Industry roundtables were held every two weeks over the spring and summer to validate thinking and challenge priorities. Feedback informed the prioritisation of the optional enhancements and allowed us to categorise options into five key themes: resilience and systemic risk; fighting financial crime; lowering barriers to entry; operational benefits; and alternative to cards.

We made our submission to the regulators in late June 2024 (and subsequently shared a summary with our stakeholders). We began reengaging the industry in the autumn in preparation for work in 2025. Throughout 2025 we will convene the Senior NextGen Delivery Group (see Part 1) and a series of sub-groups to work on key aspects of the programme.

#### **Bacs strategy**

This year we launched an initiative to explore how Bacs products and services could be adapted, to meet the future needs of our service users, whilst ensuring those elements really valued by the ecosystem are maintained. In Q1 2024, we completed a number of ‘have your say’ sessions with service users. As part of the next generation initiative, we plan to continue our collaboration and focus on these enhancements to meet the needs of our end users and the UK economy.

#### **Image Clearing System (ICS)**

In 2023 we commenced a strategic review of the ICS as we consider extensions to the current ICS contracts. Our focus for 2024 has been to engage with the industry to co-design a roadmap for the ICS. As part of this work, we undertook detailed industry data analysis to understand cheque use cases. We shared our findings with the industry by hosting five well attended customer workshops to: understand future forecasts and scenarios; identify essential features and capabilities to deliver a cheque clearing solution; and to design a roadmap for change in a declining market, whilst maintaining end-user outcomes to pay and be paid by cheques. We have further engaged our EUAC and IAC to gather broader

views. This activity aims to deliver an ICS product roadmap which we will work with industry on during 2025 as plan delivery.

### **Account-to-account retail transactions (A2ART) and variable retail payments (VRP)**

In 2023 and early 2024 we ran a project to develop a strategy with the payments industry to establish a capability to pay for goods and services directly from a bank account as an alternative to card payments in the UK. Our 2024 A2ART agenda is focused on two key areas:

- To support the development and delivery of a VRP solution to the market
- To understand the roadmap to create a scalable alternative option to cards for retailers via a mix of Central Infrastructure (CI) and non-CI based initiatives.

To date, we have worked with the industry to establish a joint governance model and have set up a working group with cross industry and end-user members to help advise and establish the framework to VRPs and consumer protection requirements. We want to work with the wider payments industry to develop the A2ART vision and drive forward the strategy. We will do this with EUAC, IAC and SPG to establish a clear view of what needs to be delivered, when, and what Pay.UK's responsibilities are with regards to others in the industry.

### **Strategic priority 5: Organisational excellence**

To deliver each of our strategic priorities and respond to the continued evolution of payments in the UK, we must ensure that we have the right people, capabilities and technology across our business. One of our key deliverables in this space for 2024 was to mature our environmental, social and governance (ESG) strategy.

#### **ESG strategy**

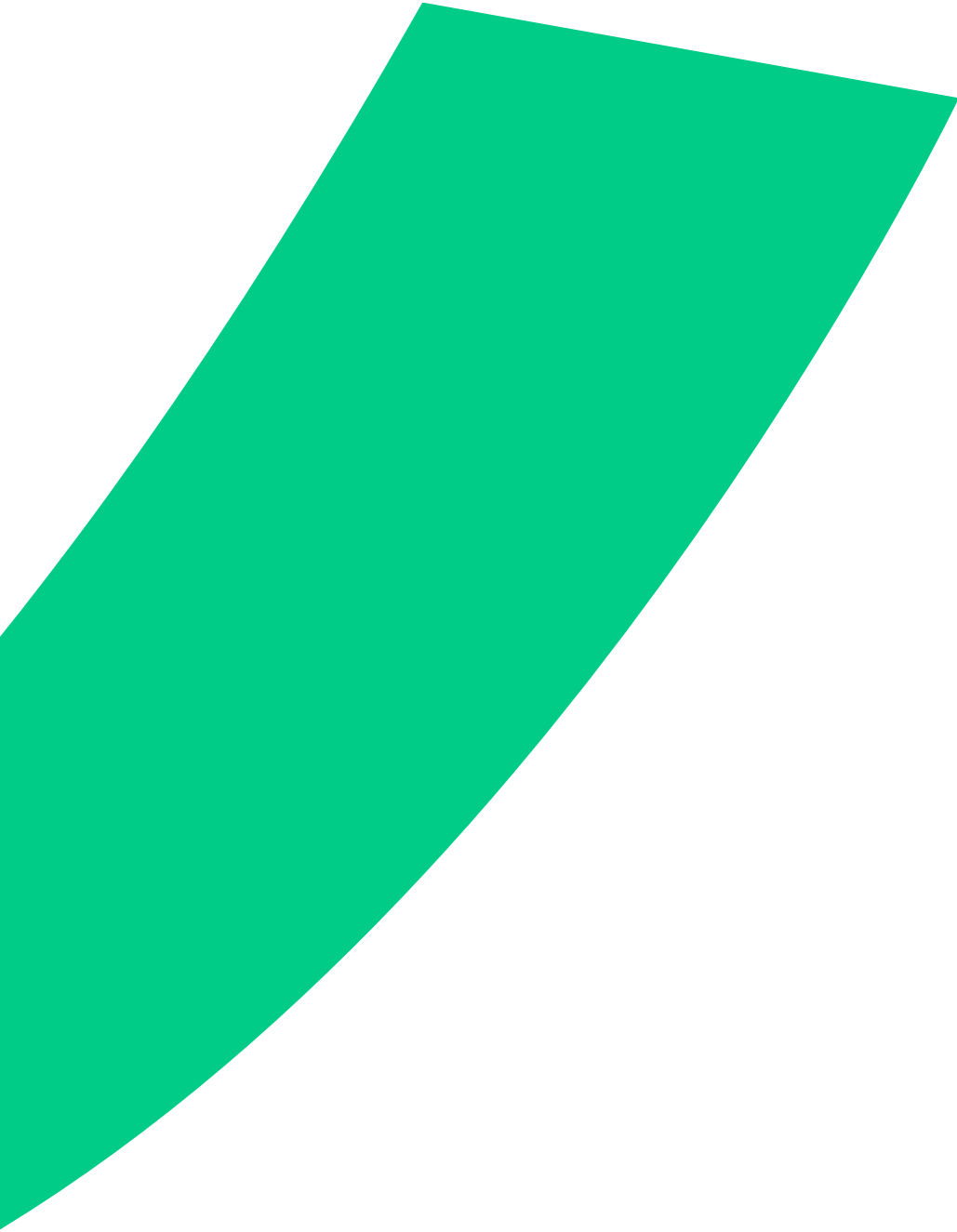
In Q4 2023, we published our ESG strategy, which involved research and engagement with our customers regarding their own ESG expectations and considerations. Going forward, we will develop a roadmap and action plan for our ESG strategy.

#### **Shaping the strategy**

The wording above discusses how engagement supports the delivery of our existing strategic goals. Importantly, though, engagement is also intended to support what those strategic goals should be (i.e. what should Pay.UK deliver in the future?). In late 2024 and going into 2025, we intend to hold a series of discussions on our strategic roadmap with the strategic advisory groups – EUAC, IAC and SPG. The purpose of these discussions will be to consider developments in the payments ecosystem and consider what Pay.UK needs to do further work on, what we should prioritise, and what our role should be versus others in the ecosystem. This will help us co-create and make sure that we only move forward when we are in alignment with the ecosystem and have fully considered the insights of our direct customers, the broader payments industry, and the end-users that rely on our payment systems and services.

## 5 Conclusion

As we finish this reporting year and look to our next GD4 reporting period, we will continue to make progress in delivering against our stakeholder engagement objectives. We will use the insights that we gather from across the payments ecosystem to inform our decisions and will learn, develop and change direction where we need to, to continue to fulfil our purpose to power payments, champion innovation and give the UK choice in how it pays.



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