



Next Generation Standard for UK Retail Payments

Mid Term Consultation Update

14/09/2020



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1 Progress update and way forward

The consultation on the ‘Next Generation Standard for UK Retail Payments’ closed on 28 April 2020, following a four-week extension due to COVID-19. Pay.UK received 40 responses in total from a range of financial institution participants, service providers, end user representatives and other interested parties. We would like to use this opportunity to thank respondents for taking the time to provide their responses, particularly at this time of uncertainty and wider health considerations.

We are issuing this update, ahead of our plan to publish our full conclusions by the end of 2020, to keep you informed of our progress.

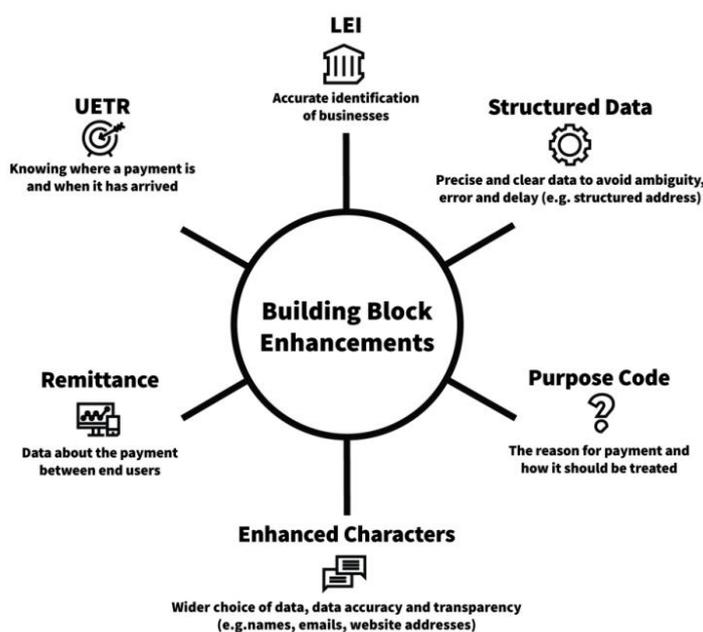
Across the summer, we have continued to coordinate closely with the Bank of England, as operator of CHAPS (and RTGS). We have also been able to share our initial thinking with various stakeholder groups and with UK Finance as part of their Future of Payments initiative on standards. We have recently established the “Community of Developers” (a forum for Pay.UK to engage with industry stakeholders on the implementation of ISO 20022) and begun to outreach to HMRC and to the British Accountancy Software Developers Association to explore how we can interact with these communities of interest to collaborate on standards for the payment ecosystem from an end user perspective.

In the run up to this update, we have also had the pleasure of engaging with the End User Advisory Council (EUAC) of our Board to ensure that end user benefit remains in focus for standards.

You may recall that we structured our consultation in three distinct parts (recommended direction, foundation technical details, and future direction concepts). This update focuses on direction. We want to signpost our delivery plans to help frame the next steps and overall timings.

2 Recommended Direction for the Adoption of ISO 20022

We received overwhelming support for the direction we proposed. Pay.UK continues to prioritise the development of the ISO 20022 messaging standards for the NPA core clearing and settlement capability, working closely with the Bank as operator of CHAPS (and RTGS) to ensure close alignment with CHAPS. We are confident now, based on the consultation responses and subsequent engagement with end users, that the Data Enhancement Building Blocks (shown on the next page) will enable significant improvements. These building blocks are the right ones to enable innovation in payment services for the benefit of end users. They will enable end users or Participants to know more about the purpose of a payment, information about the payment, who is involved in a payment transaction as well as tracing the status of a payment. We have heard consistently that these benefits are relevant to all users whether they are participants, businesses, individuals or government departments.



In the following sections we summarise what we have heard you tell us about each of the building blocks, and what we propose next.

2.1 Unique End-to-End Transaction Reference (UETR)

Respondents welcome the use of the UETR; Pay.UK will mandate this to be carried within the payment data standard. The objective is to support the use of this data to enable traceability of payments. This has the potential to support the payer and payee in knowing more about the status of a payment and, indeed, end users are very positive about the ability to know, with certainty, the status of a payment. Some respondents to the Consultation also asked practical questions about the usage of the UETR, how the identifiers will be issued and any guarantee of uniqueness. Pay.UK plans to work through the practical approach to the adoption of the UETR and build upon the existing work with SWIFT on the GPI pilot for FPS.

Key next step:

- Develop the adoption approach for the UETR and build upon the existing work on the use of the UETR being piloted in FPS.

2.2 Legal Entity Identifiers (LEIs)

Pay.UK plans to mandate the use of LEIs in payments between financial institutions accessing the NPA. Therefore, we will use the LEI as a standardised identifier of a participant legal entity. In practice, this means that all participants using the NPA and its services will need to be identified using an LEI. The majority of respondents agree with this approach, citing the benefits around improved AML and fraud prevention.

We also believe that if the LEI were more widely adopted throughout the retail payments ecosystem, it would be a valuable source of verifiable identity data which could significantly reduce challenges such as misdirected payments and invoice fraud, and simplify verification of digital identities as a reliable, verifiable data source. However, several respondents noted the usage of LEI in this wider payments context is a much broader issue which requires coordinated action. We therefore, at this stage, do not propose that LEIs should be mandated for all legal entities within the wider end-to-end retail payments ecosystem at this stage, only for financial institutions accessing the NPA.

Key next steps:

- Work closely with Global LEI Foundation on streamlining the adoption of the LEI by direct participants.
- Refine the payment journeys as part of the NPA standard to detail the exact usage of LEIs within the specific payment journeys.
- Engage with the Bank as operator of CHAPS (and RTGS) and the Standards Advisory Panel to consider what action could promote the understanding of the value case of adopting the LEI more widely in the UK.

2.3 Structured Data

Specifically here, we have looked at two types of Structured Data: Structured Address and Structured Remittance Data. As detailed in our Consultation, Pay.UK is committed to the ambition to phase out unstructured free format data going forward as a potential source of friction in the payments journey. This ambition was widely appreciated directionally.

There was, however, mixed feedback on the recommendation to phase out unstructured addresses over the long term. Some respondents felt that the structured address should not be mandatory because its use in retail payments at present is very limited. A concern is that providing this information could prove onerous for end users and may not add value. Others suggested that with the future of banking processes relying heavily on machine-readable data, structured addresses should be introduced at the foundation of the NPA and that the use of structured address information for domestic payments was more likely given the advancing challenges with financial crime and real time payments.

From a technical perspective, where address data is to be included as additional information in a domestic payment initiation, it will mandatory for it to be completed in the prescribed, structured format. Where addresses are passed through from overseas, they will need to be passed through “as received” (e.g. structured or unstructured). By 2025, we expect that the adoption of a standard structured address by other FMIs and by the interbank correspondent networks will be a significant milestone. Because of this, and aligned with our objectives on interoperability, the structure of an address for the NPA Standard will adhere to the ISO definition and, as appropriate, will be in line with the adoption by the Bank as operator of CHAPS (and RTGS).

Key next step:

- Pay.UK will work with industry as part of the NPA standards development to focus on the case to use structured data in specific payment journeys. Where that is not possible, we will

establish the standards policy direction to highlight why unstructured data remains necessary and any next steps or dependencies in that regard.

2.4 Purpose Codes

Respondents agree that purpose codes should be mandatory for specific payment transaction types but wanted to understand the plan for adoption. Use of the purpose codes would impact the payment initiation channel as the choice of code will need to be offered to the end user. There is more work planned to agree the outcome and benefits that the purpose code can enable and how this data would be used within the payments ecosystem. This work will involve the advisory groups of the NPA as the standards are developed.

Work on purpose codes has been on-going since May, and we are working towards developing the following:

- A draft purpose code list (a subset of the ISO 20022 External Code List) with the Bank as operator of CHAPS (and RTGS), covering wholesale and retail payments.
- Working with the Bank as operator of CHAPS (and RTGS) on using the ISO 20022 External Code List to ensure international alignment, and where appropriate, adding any codes that may be missing and required for inclusion in the ISO 20022 standard against our objectives on interoperability.

Key next step:

- Further engagement with stakeholder groups to validate the choice of codes and how they will be used within the payment journeys as part of the NPA standard.

2.5 Enhanced Remittance Data

Respondents and end users see a huge opportunity enabled by the more extensive remittance data carrying capability. This is rightly balanced against the fact that being able to send and having to receive additional data will have operational implications, require investment and must include privacy by design. Input from participants, accountancy software providers and other users of this data will be critical to shape how the standard can best enable this opportunity.

Key next steps:

- Agree the usage of structured and unstructured remittance data within the payment journeys as part of the NPA standard.
- Engage with accountancy software providers and HMRC to assess their requirements for the use of enhanced remittance data.

2.6 Enhanced Characters

The NPA standard will support the full character set that can be UTF-8 encoded. Respondents support this change, noting that Bacs Standard 18 has been very limiting over the years. Several respondents noted the benefits of introducing new characters such as @. This creates space for innovation and future-proofs the standard. We understand that the use of more extensive standardised characters will impact participants' systems, particularly on operations such as sanctions screening for non-domestic payments. Pay.UK will consider carefully the introduction of new characters, aligning, where appropriate, to the adoption by other FMs.

Key next step:

- Refine the payment journeys as part of the NPA standard to detail the enhanced characters to be used within specific data fields.

3 Delivery plan for the Next Generation Standard

We plan to dovetail the development of the NPA standard with the work to define the NPA Propositions. This will enable us to work up the standards, focusing on business outcomes and requirements from a top-down perspective. The Proposition Exploration Group (PEG) will be key to how we do this. Our approach can be broken down into a three step process:

- Identify the candidate ISO messages.
- As appropriate, perform ‘alignment’ against specific standards used by other markets and FMIs – including the Bank as operator of CHAPS (and RTGS) – to validate interoperability and maximise harmonisation.
- Formulate the technical collateral: Implementation Guides and (xml) Schemas.

The schedule of activities with target dates is set out in the table below and is in line with our commitment to collaborate on standards; all of this work will involve consultation and engagement to ensure the choices we make will maximise the transformative opportunity.

	Retail Banking Payments	Bulk Credit Payment Management	Direct Request	Mandate Management	Participant-to-Participant
ISO message identification	Aug, 2020	Aug, 2020	Sep, 2020	Sep, 2020	By end Q4, 2020
Alignment	Nov, 2020	Nov, 2020	Jan, 2021	Jan, 2021	By end Q1, 2021
Publish Implementation Guides & Schemas	May, 2021	Aug, 2021	Feb, 2022	Feb, 2022	By end Q2, 2021

4 Concluding remarks

By year end, we plan to publish our full conclusions building on this update, detail the technical work plan, and set out the forward plan for the future direction on standards over the coming 12 months.

Of course, should you have further comments or questions, do please contact us directly at standards@wearepay.uk.