the payments association

connecting the future

Consultation paper CP24/13

Proposed approach to Specific Direction 3 Pausing the requirement for a competitive procurement

Payment Systems Regulator
December 2024

Response from
The Payments Association
January 2024

Introduction

The Payments Association welcomes the opportunity to contribute to the PSR's Consultation paper CP24/13 "Proposed approach to Specific Direction 3 Pausing the requirement for a competitive procurement".

The community's response contained in this paper reflects views expressed by our members and industry experts recommended by them who have been interviewed and who are referenced below. As The Payment Association's membership includes a wide range of companies from across the payments value chain, and diverse viewpoints across all job roles, this response cannot and does not claim to fully represent the views of all members.

We are grateful to the contributors to this response, which has been drafted by Riccardo Tordera, our Director of Policy & Government Relations and Robert Courtneidge, Advisor to the Board. We would also like to express our thanks to the PSR for their continuing openness in these discussions. We hope it advances our collective efforts to ensure that the UK's payments industry continues to be progressive, world-leading, and secure, and effective at serving the needs of everyone who pays and gets paid.

Tony Craddock
Director General
The Payments Association

Members' "responses to the questions" set out in the consultation:

Overview

The TPA members emphasised that the removal of the outdated Specific Direction 3 (SD3) is the preferred approach, as this would provide the necessary flexibility for the development of the New Payments Vision (NPV) that can accommodate future innovations and deliver a 'resilient payment infrastructure'. Rather than prolonging SD3 with an extended timeframe of 12 years, our members advocated for a forward-looking approach that allows the Payments Vision Delivery Committee (PVDC), set up under the NPV, to evolve without the constraints of legacy frameworks.

Additionally, the TPA members expressed concerns about the scope creep of the PSR, particularly its move beyond the New Payments Architecture (NPA) into broader considerations of a "new infrastructure." NPA was perceived as limited in scope and misaligned with emerging technologies such as blockchain, stablecoins, CBDCs, and tokenisation, which represent groundbreaking opportunities for the payments ecosystem.

Finally, the TPA members felt that the PSR's immediate priority should be focused on stabilising Pay.UK during its transition as envisioned by the NPV, ensuring it is fit for purpose in delivering innovation and operational efficiency. The TPA viewed the focus on SD3 adjustments as less productive compared to supporting a more strategic and innovative direction under the NPV.

The section numbering below corresponds to the numbering of the 'questions for respondents' in this paper.

1. What are your views on our proposal to replace the current deadline in SD3 (1 July 2026) with an express reference to PSR's ability to notify Pay.UK of a new deadline (which will not be before 1 July 2036)?

The TPA members strongly felt that extending the deadline for SD3 by 12 years (to no earlier than 2036) is unnecessary and counterproductive. Instead, the preferred approach would be to remove SD3 entirely, allowing the Payments Vision Delivery Committee to set a clear and ambitious direction for the future of payment infrastructure.

The current National Payments Architecture (NPA) framework and SD3 provisions were viewed as too narrow and outdated, failing to accommodate emerging innovations like blockchain, tokenisation, and CBDCs, the changing demands of consumers and the reality of today's global payments industry. Extending SD3 rather than cancelling it is likely to limit the pace at which the payment system would be modernised and would stifle the scope and pace of new solutions. Indeed, rather than preserving NPA at all, it was felt that the PSR should wait for direction from PVDC.

To be competitive in the fast-moving world of payments the UK needs to have speed and agility to adapt quickly and use all available technology and not be determined by the views pertaining when SD3 was originally conceived.

Notwithstanding the above, if a time extension on SD3 was seen as the only way forward, then it needs to be 'chunked down' into more tangible shorter milestones with strong oversight and clearer decision criteria.

TPA Recommendation:

- Remove SD3 entirely to allow NPV to drive innovation without the constraints of legacy timelines.
- If retained, break down the timeline into shorter milestones to ensure flexibility and adaptability.

2. What are your views on our proposal to require Pay.UK to seek PSR's non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?

The TPA members acknowledged the value of PSR oversight but expressed concerns about the potential for this requirement to introduce delays and inefficiencies. More broadly, members questioned whether the PSR's non-objection rights represent unnecessary regulatory scope creep, especially in areas extending beyond NPA into "new infrastructure."

Furthermore, members are concerned about who has these 'non-objection rights' (i.e. PSR, BoE, FMID or other relevant stakeholders) and whether more of such rights will be brought in across other SDs in future. While oversight is important, our members felt that the focus should shift to stabilising Pay.UK during its transition as envisioned by the NPV, rather than introducing additional regulatory hurdles that could slow down innovation.

In addition, some of our members felt Pay.UK had the roadmap upside down by focusing on technology first. Other jurisdictions have seen significant successes in innovating payments when they focus on users' needs first before formulating the solution and then finally moving on to procuring the technology partner to deliver it.

Finally, it was stated that current contractual arrangements between banks and infrastructure providers are functioning effectively and hence the introduction of PSR oversight here may disrupt well-functioning systems.

TPA Recommendation:

- Limit PSR's oversight to areas directly relevant to the current scope of NPA.
- Clarify the scope of PSR's non-objection rights and ensure these do not duplicate or conflict with other regulatory stakeholders.
- Encourage a user-first approach to payment infrastructure development, aligning with international best practices.

3. What are your views on the criteria the PSR will take account of before deciding to notify Pay.UK of a new deadline?

The TPA members felt that discussing criteria for notifying a new deadline is irrelevant if SD3 is removed entirely, as recommended above. However, if a deadline mechanism remains in place, the criteria should reflect a commitment to aligning with the NPV and enabling innovation and should not focus solely on legacy systems.

In addition, we are unclear about how this will fit with the regulators' general new requirements to focus on 'growth and competitiveness' and, in the case of the PSR, encouraging innovation. Whilst regulators can be innovative in creating regulation and regulate to allow innovation, it is only the industry itself that can provide innovation.

Finally, it was emphasised by our members that, whilst it is important for the regulators to look at best practice examples around the world like Pagamento Instantâneo (Pix) in Brazil and the Unified Payments Interface (UPI) in India, the UK's existing payments infrastructure and user needs should be the foundation for everything else.

TPA Recommendation:

- The PSR's criteria must reflect its new statutory objectives around growth, innovation and competitiveness.
- While global benchmarks like Pix and UPI are valuable references, the UK must adapt these models to its unique payments' ecosystem and user needs.
- We must avoid tying the industry to outdated timelines that may hinder the adoption of future-ready solutions.
- Innovation must come from the industry itself, with regulation acting as a facilitator rather than a driver.

4. What are your views on the drafting of SD3b (varying SD3), including the removal of reporting requirements and expanding the 2016 definition of the NPA?

The TPA members supported the removal of redundant reporting requirements but expressed strong concerns about the expansion of the 2016 NPA definition to include "new infrastructure." This was seen as inappropriate scope creep by the PSR and misaligned with the industry's vision for NPV.

NPA was viewed as a limited and transitional step, whereas NPV is intended to offer a broader and more innovative framework that can incorporate emerging technologies. Expanding the NPA definition risks conflating the two and creating confusion.

TPA Recommendation:

- Remove SD3 altogether and avoid expanding the NPA definition. Instead, focus on defining NPV as the future framework for payment infrastructure.
- Ensure any new regulatory requirements are aligned with NPV's vision for innovation and do not constrain the adoption of groundbreaking technologies.

5. What are your views on the potential enhancements to PSR's Regulatory Framework in response to the changed circumstances?

The TPA members agreed that the regulatory framework needs to evolve but felt that the focus should be on stabilising Pay.UK during its transition as envisioned by the NPV rather than expanding regulatory scope. NPV provides an opportunity to address future challenges and embrace innovation, which should be the priority for regulatory enhancements.

Overregulation at this stage could risk slowing down progress and stifling industry growth. Instead, the focus should be on ensuring Pay.UK is well-positioned to deliver on its objectives as envisioned by the NPV.

One member pointed out that Pay.UK should concentrate on a 'no-regret' methodology (i.e. a strategic approach aimed at making decisions and taking actions that are beneficial regardless of future uncertainties or outcomes. This would avoid it making premature decisions (such as setting rigid deadlines or overly prescriptive frameworks) that might hinder innovation or adaptability later or curtail investments now. It would allow Pay.UK to address immediate needs without compromising its ability to adopt transformative technologies and methods in the future.

TPA Recommendation:

- Focus on stabilising Pay.UK and supporting its transition under NPV.
- Pay.UK to follow a ‘no-regrets’ methodology and avoid introducing regulatory enhancements that may add complexity or delay progress.

Conclusion

The TPA’s overarching message is clear:

- **Remove SD3 entirely** to provide the flexibility needed for NPV to define the future of payment infrastructure.
- **Avoid scope creep** into areas like "new infrastructure," which should fall under the remit of the NPV rather than the legacy NPA framework.
- **Prioritise the stabilisation of Pay.UK** during its transition as envisioned by the NPV, ensuring it can deliver operational efficiency and support innovation.

This approach will empower the UK payments industry to compete globally, embracing transformative technologies while delivering user-centric solutions that drive growth and innovation.

About The Payments Association

The Payments Association is for payments institutions, big & small. We help our members navigate a complex regulatory environment and facilitate profitable business partnerships.

Our purpose is to empower the most influential community in payments, where the connections, collaboration and learning shape an industry that works for all.

We operate as an independent representative for the industry and its interests, and drive collaboration within the payments sector in order to bring about meaningful change and innovation. We work closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

Through our comprehensive programme of activities for members and with guidance from an independent Advisory Board of leading payments CEOs, we facilitate the connections and build the bridges that join the ecosystem together and make it stronger.

These activities include a programme of monthly digital and face-to-face events including our annual conference PAY360 and PAY360 Awards dinner, CEO round tables and training activities.

We run seven stakeholder working Project groups: Inclusion, Regulator, Financial Crime, Cross-Border, Digital Currencies, ESG and Open Banking. The volunteers within these groups represent the collective view of The Payments Association members at industry-critical moments and work together to drive innovation in these areas.

We also conduct exclusive industry research which is made available to our members through our Insights knowledge base. These include monthly whitepapers, insightful interviews and tips from the industry's most successful CEOs. We also undertake policy development and government relations activities aiming at informing and influencing important stakeholders to enable a prosperous, impactful and secure payments ecosystem.

See www.thepaymentsassociation.org for more information.

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