



BANK OF ENGLAND

Speech

A payments strategy for the 21st century

Remarks made by

Andrew Hauser, Executive Director, Banking, Payments and Financial Resilience

Payment Strategy Forum “Launch of the Final Strategy”, London

29 November 2016

Thank you very much for the opportunity to speak to you today at the launch of the PSF's Payments Strategy for the 21st century.

I want to start by emphasising that this is not the Bank of England's strategy – or the UK authorities' as a whole. And that in fact is its great merit: because it has been drawn up by a genuine partnership of those who actually provide and use retail payments services, with the interests of those users uppermost in their minds.

But that doesn't mean the Bank has been 'hands off', or lukewarm over the direction of travel. Quite the reverse. We have a deep interest in, and responsibility for, maintaining the stability of sterling payments. First, through our statutory responsibility for the supervision of the major payments schemes. Second, by ensuring that all material payments either settle in, or are backed by, central bank money – the safest form of settlement asset. And, third, through our role as member of some schemes as a bank in our own right.

It is sometimes said that a focus on stability impedes innovation. But there is no reason why that has to be true. Well-crafted innovation can reduce market concentration, yield new risk-mitigating technologies, and increase the scope for electronic settlement in central bank money: all of which enhances, not reduces, financial stability. So we are open, not closed, to such advances.

At the same time, we make no apologies for having a relentless focus on stability and resilience, and have previously set out the criteria against which we assess change in the payments landscape¹. Indeed, households and companies expect nothing less. Surveys regularly show safety to be at the very top of people's expectations from payments. No amount of real-time, API-enabled, mobile front ends can make up for the prospect – however remote – that one's money might be lost or mislaid; or that a failure in one part of the payments network might bring down other parts of the banking system.

Judged against those yardsticks, the UK's payment systems have actually performed very well in recent years: combining the innovation of Faster Payments, Direct Debits and widespread use of online banking (to give just three examples) with a resilience record which – though by no means perfect – stands in contrast to some other parts of the financial system.

So why the need for change?

There is a one word answer to that, and that is: complexity. The UK has world-beating technologies. But too many sit in silos. To make a domestic retail payment, you can use physical cash (drawn from a bank or a LINK ATM), a cheque, a credit or debit card, a real-time payment over FPS, or a batch payment across Bacs. Wholesale payments may go through CHAPS or the embedded payment schemes of CREST or LCH.

¹ <http://www.bankofengland.co.uk/publications/Pages/speeches/2015/799.aspx>

Cross-border payments might use a correspondent bank, a direct link to an overseas RTGS system or CLS. In fact, it's easy to list 10 or 15 payments pathways without even trying.

Each system does a great job for its own customers. But each operates, by and large, in splendid isolation from one other, requiring different standards and languages, technologies, fees and governance frameworks. Those frictions in turn create barriers to entry for new payments providers, and can also pose risks to system-wide resilience, making it hard (sometimes impossible) to reroute payments between systems in the event of outages.

Those characteristics are increasingly anomalous in a world in which payments users are demanding ever more seamless services – in real time, 24/7 – at lower cost, using the latest technology, providing rich information – and, perhaps most importantly of all, in ways that are secure against increasingly innovative forms of cyber attack.

That is why it is timely to look afresh at the UK's retail payments systems, as the PSF has done. Of the many recommendations in this report, three are of particular importance to us at the Bank:

- First, the consolidation of FPS, Bacs and the Cheque and Clearing Company into a new integrated retail payments scheme should ensure a strong systemic risk manager, governance body and procurer of a new generation of retail payments infrastructure for the UK as a whole. A Delivery Group, set up under the auspices of the UK authorities and with strong cross-industry membership, has already begun this important work.
- Second, moving the UK onto a common messaging standard for interbank payments – ISO 20022 – will make it much easier for the different systems to speak to one another and, where necessary, exchange payments or allow them to flow through seamlessly – so-called 'interoperability'.
- Third, the proposal to develop a new Simplified Payments Platform for retail payments, if successfully translated into a workable design, offers the prospect of providing an integrated, agile infrastructure from which a wide variety of Payments Service Providers can launch innovative and secure products.

But it is not only the retail payments architecture that is changing. At the start of this year, the Bank of England launched a strategic review of its own settlement platform, RTGS. RTGS provides the payments infrastructure that underpins CHAPS and CREST, and ensures that the major retail schemes can also settle in central bank money – processing some half a trillion pounds every day. It has served the UK well for two decades, and has led the way in many areas of innovation. But similar drivers to those behind the PSF mean it too now needs a thoroughgoing refresh to meet the next wave of challenge. Consultation on our vision recently concluded; and, although we are still processing the results of that exercise, it is already clear

that our proposals to boost access, resilience, interoperability and user functionality have received strong support from old and new market participants alike. So it seems likely that, in the next few years, the UK will have a new payments infrastructure for retail and wholesale payments alike.

To have got this far so fast is a real achievement. But in truth the real work for the PSF has only just begun. The challenge now is to translate the high level aspirations in this document into something much more concrete. That means delivering a retail payments design that is technically feasible, secure, and aligned with the Bank of England's settlement models. It also means identifying who will build, and pay for, the new system: no small challenge at a time when the industry faces many competing demands on its resources.

Though the Bank of England has not been a formal member of the PSF, we have been an active observer of proceedings throughout the past year. And we will remain closely involved with the next stage of the Forum's work too. That matters – because our responsibilities for the stability of the financial system mean that we must be satisfied that the new framework can deliver levels of resilience at least as high as those we have become accustomed to, whilst also enabling improved innovation and competition, before it can go live. Working together, I am confident that we can achieve that.