

# **Data Standards Body Noting Paper – Action Initiation Framework**

TrueLayer submission

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## **Contact**

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## About TrueLayer

TrueLayer is a UK-headquartered firm, founded in 2016, authorised by the UK's Financial Conduct Authority ("FCA"), incorporated in Australia and soon to be accredited under the CDR. We provide open banking services to customers via our clients' platforms (e.g app or website). Our clients tend to be FinTechs and high-growth tech companies, as well as larger financial institutions and online merchants.

TrueLayer is authorised to provide two open banking services, under the Payment Services Regulations in the UK:

- **Payment initiation services (PIS)** - we can initiate interbank payments (e.g. credit transfers) on behalf of a customer. We connect to the customer's bank, via open banking APIs (securely through the presentation of a valid electronic certificate), and submit a payment order to the customer's bank to pay their chosen payee. Payment initiation Service Providers (PISPs) are not responsible for the *execution* of the payment, but only for submitting a payment instruction to a bank for it to execute. PISPs are therefore not required to become direct participants of the payment systems. Instead, PISPs sit in the 'instructing layer' on top of existing payment systems.
- **Account information services (AIS)** - with a customer's permission, we can access their accounts with a single bank, or multiple banks, and retrieve their account data. Under the Payment Services Regulations, the bank must provide this data to authorised Account information service providers on presentation of a valid electronic certificate.

## Our plans for Australia

Australia is a key growth market for our business, and our first expansion market outside of Europe. We welcome the ongoing amendments and consultation with regards to the CDR regime, and are encouraged by the clear regulatory and government support for FinTech in Australia.



## Executive summary

Enabling the initiation of payments to businesses, including merchants, should be a focus of the Action Initiation Framework

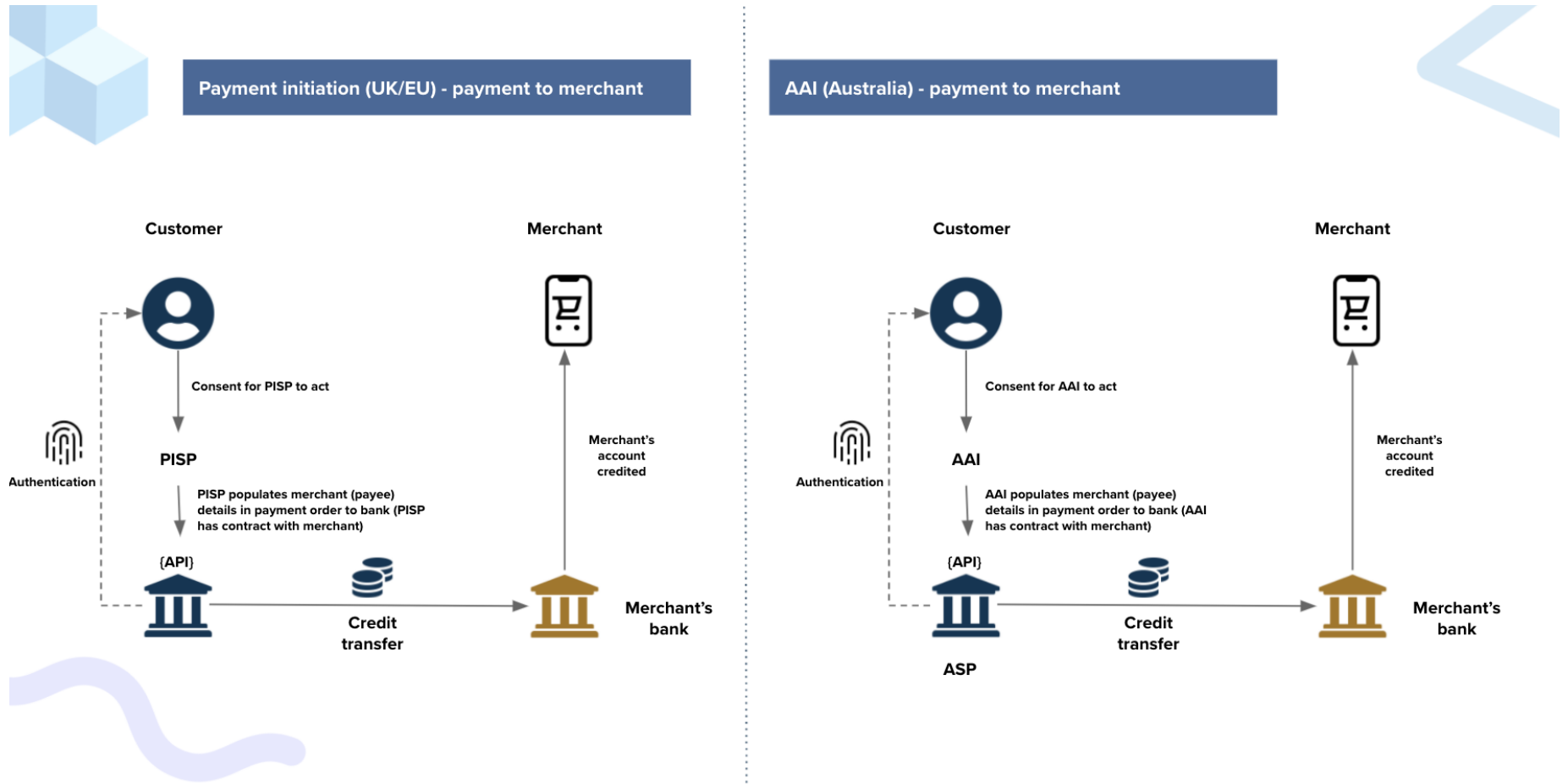
1. There are many and diverse use cases under consideration in the Noting paper for action initiation
2. We believe business payments should be defined as a sub-type of **interbank payments** under the federated action initiation model
3. Business payments should be prioritised as the action initiation use case most likely to have economic value/ return on investment if enabled (competition with cards, more convenient ways to pay for consumers, security benefits)
4. The model proposed for AAls already appears functionally similar to payment initiation in the UK/EU but can avoid some of the pitfalls of the UK/EU model (see figure 1 below)

### Key building blocks for AAI payments to businesses

5. APIs that enable AAls to initiate the same payments that consumers can initiate directly with their banks, including instant payments, free of charge
6. Refunds - The ability for an AAI to return funds from the business account using same instant rails via an API call (this was an oversight in UK/EU framework)
7. ASPs must provide updates on status of the payment, including push notification to AAI when payment has settled (AAls need payment certainty to pass on to businesses so goods or services can be shipped)
8. AAls should be able to initiate variable recurring payments, i.e. an instruction to ASP to make ongoing payments to a business, in order to compete with cards and direct debits
9. Authentication of a payment by the ASP should be kept to the minimum number of steps and use low friction methods such as biometrics
10. Integration - AAls should be allowed to integrate into business checkout/ apps, rather than being standalone AAI payment apps



Figure 1 - comparison of Payment initiation in UK and proposed action initiation for payments in Australia





### 1. What industry use cases could be facilitated within the CDR?

TrueLayer believes the initial priority for the action initiation framework should be in enabling businesses to receive money via AAI action initiated payments. We provide an overview of this use case below in table 1.

In Table 2 We provide recommendations for the action initiation framework (and how it can support payment initiation), we also provide learnings from the UK/ EU market on the development of payment initiation.

**Table 1 : Use case 1 - payments initiated to businesses**

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<p><b>Description:</b> Business payments via AAI</p> <p>Examples,</p> <ul style="list-style-type: none"><li>• Topping up alternative bank account</li><li>• Sending funds from current account to savings/ investment account</li><li>• Paying off credit card</li><li>• Sending funds to merchant (initiated at checkout)</li></ul>	<p><b>Benefits and Value:</b> <b>HIGH</b></p> <p>If a market for AAIs initiated single immediate payments to merchants is established, this could inject much needed competition into payment services to challenge incumbent card schemes in Australia.</p>	<p><b>Actions</b></p> <ol style="list-style-type: none"><li>1. With this arrangement, the AAI has a contract with the business to enable it to receive action initiation payments.</li><li>2. When the customer checks out, and chooses the action initiation payment method, the AAI initiates the transaction of the relevant amount for goods and services, from the customer’s account, to the businesses account.</li><li>3. The AAI provider populates the businesses account details in the payment order to the ASP rather than the customer, ensuring payments cannot be misdirected.</li><li>4. This way of paying online has security benefits because no details are shared between the consumer and the business that could be used to commit fraud (unlike with card payments where the long card details are shared) - See figure 1 above.</li></ol>
<p><b>Priority:</b> <b>HIGH</b></p> <p>As has been demonstrated</p>	<p><b>Risks and Issues:</b> <b>LOW</b></p> <ul style="list-style-type: none"><li>• Need for confirmation of</li></ul>	



<p>in the UK, there is high demand for single immediate payment initiation of account to account payments, especially high value payments to secondary accounts/ investments accounts. For the benefits of AAI to be demonstrated, this should be the first use case pursued.</p>	<p>payment status back from ASP</p> <ul style="list-style-type: none"><li>● Need to ensure the customer knows who to contact:<ul style="list-style-type: none"><li>○ If something goes wrong with the payment (it should be the ASP)</li><li>○ If something goes wrong with the purchase, e.g. goods don't arrive (it should be the business )</li></ul></li></ul>	
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**Table 2 - recommendations for the action initiation framework to support payment initiation**

Category	Recommendation / Comments	Learnings from the UK
Prioritise Payments to merchants using AAls	<ul style="list-style-type: none"><li>• Bank account-to-account payment initiation through the Consumer Data Right should be prioritised so its design can be coordinated with developments in the Australian payments industry and to expedite the benefits it can bring to customers.</li><li>• This is consistent with the recommendation by Scott in the Future Directions Report.</li></ul>	<ul style="list-style-type: none"><li>• This was the first use case adopted in the UK and has demonstrated benefits to consumers and businesses.</li></ul>
Design of Action Initiation	<ul style="list-style-type: none"><li>• We agree with the DSB's hypothesis that the CDR would define a standardised instruction layer whilst leaving the action layer to each industry and each ASP. In this way, the existing regulations, processes and integrations would be retained and ASPs would continue to provide competitive consumer experiences that leverage their existing business rules.</li></ul>	<ul style="list-style-type: none"><li>• In the UK, payment initiation service providers are entitled initiate any payment that a customer can make directly with their bank, whether that type of payment utilises, Faster Payment Systems (FPS), Bacs, CHAPs etc. This also means that if the underlying infrastructure chnges, and new payment systems are developed, PISPs will be entitled to initiate those payments.</li></ul>
Parity Principle	<ul style="list-style-type: none"><li>• There should be a parity principle. Any payment that a consumer can initiate using their online banking should be available to be initiated via an AAl.</li></ul>	<ul style="list-style-type: none"><li>• This is the case with PSD2 in the EU.</li></ul>



Payment Approval	<ul style="list-style-type: none"><li>• We agree that the “ASP may require approval to make a payment when requested by the AAI” specifically, we agree “it may require additional authentication, or perhaps the selection of the account they would like the payment to be made from in the event they have multiple accounts with a banking provider.</li></ul>	<ul style="list-style-type: none"><li>• This is very much how PIS works in the UK/EU.</li></ul>
Non digital steps	<ul style="list-style-type: none"><li>• We don’t agree that “Some processes may involve non-digital steps to be performed before an action can be completed” - <b>this would not work for payments.</b></li></ul>	<ul style="list-style-type: none"><li>• Early on in PSD2 we saw banks interrupting open banking payment flows by requiring a customer to ring their bank. This was very dissuasive for people trying to use open banking.</li></ul>
Authentication with the ASP	<ul style="list-style-type: none"><li>• We agree that action initiation should include authentication with the ASP. This should be required to utilise the most frictionless authentication steps that are available, as a minimum, whatever is available to the customer using mobile/ online banking, should be available in an action initiation journey.</li></ul>	<ul style="list-style-type: none"><li>• Open banking in the UK has benefited from mandatory ‘customer experience guidelines’ for the 9 biggest banks which set out that the authentication steps banks require should be kept to a very minimum and should utilise whatever authentication steps a customer uses when making payments directly with their bank. The use of biometrics in open banking authentication journeys has led to lower abandonment rates.</li></ul>
Variable Recurring Payments	<ul style="list-style-type: none"><li>• <b>Consent to instruct</b> - the action initiation framework should enable AAls to initiate variable recurring payments, so that AAls</li></ul>	<ul style="list-style-type: none"><li>• This was not included in the design of PIS in the UK, which is only now being considered</li></ul>





	can compete with cards (e.g. card on file) and direct debits.	
Instruction to Act	<ul style="list-style-type: none"><li>• We agree that “When an AAI instructs an ASP to act, it is not a guarantee that the action will be performed immediately, if at all. Processes and controls of the ASP may take time or may deny the completion of the action per the instructions given by the AAI”. It should always be made clear that the AAI is only instructing on behalf of a customer. It is still the responsibility of the ASP to carry out the instruction. <b>Accordingly, the ASP should retain responsibility</b>, e.g. for executing the particular transaction.</li></ul>	<ul style="list-style-type: none"><li>• While ASPs should retain responsibility for the execution of transactions, they should also be required to provide AAIs with payment status information in a standardised way. In the UK and EU, a lack of standardisation of payment status messages from banks has led to difficulties for AAIs in determining whether a payment initiation has been successful, and whether the payment has gone on to be executed, or has been rejected by the bank. This uncertainty affects merchants’ willingness to use PIS because they need payment certainty in order to ship goods.</li></ul>
Action Initiation Models	<ul style="list-style-type: none"><li>• We generally agree that the federated action initiation model is appropriate for payments initiated by AAIs.</li></ul>	<ul style="list-style-type: none"><li>• This model resembles the instructing layer in the UK/EU, where a third party provider sends a message to a bank, which executes a payment using the relevant infrastructure, without the TPP having any involvement with the infrastructure layer.</li></ul>
Accreditation	<ul style="list-style-type: none"><li>• Only an appropriately accredited person should be allowed to initiate payments through the Consumer Data Right.</li></ul>	<ul style="list-style-type: none"><li>• Consistent with PISP license arrangements in the UK</li></ul>



	<ul style="list-style-type: none"><li>• An assessment should be conducted by the Consumer Data Right rule maker to determine whether additional requirements to the unrestricted accreditation tier should be placed on those seeking to initiate payments, including how information security and insurance requirements should be adjusted.</li><li>• This assessment should also consider whether different tiers of accreditation for payment initiation could be enabled.</li></ul>	
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## **2. What re-use opportunities exist for existing use cases and industry integrations?**

The federated action initiation model outlined in the noting paper will enable AAls to initiate payments using the existing interbank payment systems. AAls will simply provide the instruction to the bank that the customer would usually provide when making a payment with their bank directly. This is the same model as PSD2 in the EU where PISPs ‘instructing layer’ above the underlying payment systems.

Requiring AAls to become participants in the systems themselves in order to initiate payments, would severely restrict entry to market given the onerous requirements for direct participation in the interbank payment systems. We strongly recommend that existing payment system are ‘re-used’ by creating an instructing layer for AAls under the federated model.

## **3. What implementation timeframes are considered reasonable?**

We recommend that payment initiation to businesses is sequenced ahead of other use cases.

## **4. What dependencies should be addressed or prioritised to support the implementation of Action Initiation?**

The development of standards for payment initiation bank APIs needs to be prioritised ahead of standards for any of the other action initiation use-cases.

We have a number of recommendations to feed into the development of payment initiation standards:

**We recommend building refund capability (two way payment initiation) into any standard from the beginning**

PSD2 enabled PISPs to initiate payments in one direction, i.e. from the payers account to a payees account. This restricted the adoption of PIS in e-commerce, because merchants need the ability to send refunds to their customers. There is now work underway in



the UK to provide for 'refund APIs' that can be used by a PIS to return funds with a simple API call.

#### **4.2 We recommend variable recurring payments be built into any standard for PISPs from the beginning**

Because PSD2 prescribed that each payment initiation must be authenticated individually by an end-user with their bank, it also limited the ability of PISPs to compete with existing payment methods, which allow customers to give an ongoing payment mandate to their bank, for recurring, and often variable amount, payments.

This type of payment is provided by card schemes (continuous payment authorities) or by banks (direct debits). This restrictions means that PISPs cannot compete with banks and card issuers to enable customers to pay for subscriptions, utility bills, or to send regular amounts to savings accounts, for example.

#### **4.3 We recommend status messaging improvements**

When a receiving bank receives a payment request under PSD2 it completes the transaction but does not always provide status messaging back to the PISP on payment which can in turn be passed to the customer. We therefore recommend that the messaging framework include messaging on the status of the payment. This is important because with any payment method they expect to receive some certainty on the success or failure of the payment.

#### **4.4 We recommend data can be called to receive payer and payee information**

We recommend that a PISP can call account information to validate the payment including name of account, BSB, contact details and payer and payee information.

#### **4.5 We recommend that a PISP can obtain some transaction information**



We recommend that a PISP is able to receive some transaction information through the PIS API in order to do inflight affordability checks. The ability to be able to combine both data and payments flows will greatly increase the effectiveness of new use cases like affordability in lending, rental applications or credit applications to give examples.