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# Access to UK payment systems

Background paper: Access Event

5 June 2014

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# Introduction

# Introduction

- The **purpose of this background paper** is to provide background information to the PSR stakeholders that will attend the PSR event on 'Access to UK payment systems' on 5 June 2014.
- It is not expected that stakeholders form a detailed view of the information presented in this paper in advance of this PSR event. It is intended that this paper assist in focussing discussions on the day and to identify key areas of concern for particular stakeholders.
- The paper does not represent PSR findings or views, or a comprehensive review of access to UK payment systems. It instead provides (i) key background information regarding access to payment system and (ii) an interim summary of industry views and concerns regarding access. Its aim is to take forward discussions and consultation with industry participants.
- The information was collected from responses to the PSR's Call for Inputs paper (consultation closed 15 April 2014), as well as follow-up meetings with the key interbank payment system operators and sponsoring banks in their capacity as suppliers of access to payment systems.
- The PSR is still gathering information and will continue to collect evidence and conduct meetings with key stakeholders over the coming months before considering policy proposals.
- This background paper only considers interbank payment systems i.e. BACS, CHAPS, Cheque and Credit Clearing Company, Faster Payments and LINK. Card-based payment systems will be considered in future discussions.

# Reviewing access to UK payment systems

- The PSR intends to review access to UK payment systems holistically i.e. by referring to **ACCESS** as the ability of **ALL** payment service providers to use the services provided by payment systems to enable the transfer of funds.
- Current interbank access regimes in the UK payment systems typically operate on several levels (or tiers) i.e. a payment service provider either has '**direct**' access or '**indirect**' access.
- The PSR would like to consider access to UK payment systems overall in order to understand:
  - whether the access regime (direct or indirect) is itself creating barriers to entry, or
  - whether certain features of that access regime unduly prevent, restrict or distort competition and innovation in UK payment systems.
- The views and experiences of service users and end users in payment systems will be key in informing the PSR's interim views and policy proposals.
- At the 'Access to UK payment systems' event on 5 June 2014, the PSR will present further information on the framework it will use to review current access regimes.

# Discussions and views

- The PSR welcomes responses and views from stakeholders on:
  - The information presented in this background paper;
  - Whether there are additional concerns with current access regimes not mentioned in this paper;
  - Any views on the on-going and potential developments identified by stakeholders, and whether these may address some of the concerns raised; and
  - The role for the PSR in regulating access to UK payment systems.
- At the PSR event on 5 June 2014, we will have two focussed breakout sessions to gather these views for:
  - Faster payments
  - Other inter-bank systems (CHAPS, C&CCC, BACS, LINK)

# Structure of the background paper

- The paper first presents a short summary of access to UK payment systems, followed by an Annex setting out information for each individual UK interbank payment system regarding:
  - The direct access regime;
  - The provision of indirect access;
  - Concerns raised by all stakeholders regarding access; and
  - On-going and potential developments identified by stakeholders that may affect the nature of the current access regimes.

# Summary of 'Access to UK payment systems'



# The provision of access

- The population of payment service providers (PSPs) with access to UK payment systems is diverse. The payment system access requirements of members of this population are similarly diverse and are typically determined by the needs of the customers they serve; their technical capabilities; and their regulatory status within the UK (i.e. are they authorised payment institutions, authorised credit institutions etc.). PSPs also differ markedly in size and the nature of their business.
- Most PSPs can access payment systems either through:
  - '**Direct access**' which refers to where a PSP has an arrangement in place with the **operator** of the payment system to allow it access to the services being provided by the payment system.\*
  - '**Indirect access**' which refers to where a PSP has an arrangement with another **payment service provider with direct access to the payment system** (i.e. through agency arrangements with sponsoring banks).\*\*

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\* We may also refer to PSPs that have direct access as direct members and/or direct participants.

\*\* We may also refer to PSPs that have indirect access as indirect participants.

## The provision of access (cont.)

The PSPs with **direct access** to payment systems are primarily the large credit institutions in the UK that offer end customers with current account related banking services. Depending on the payment system, it may also include smaller banks, building societies and foreign banks.

Broadly, there are two levels of **indirect access** provided by sponsoring banks to indirect participants:

- **Directly addressable:** The indirect participant is allocated or has a sort code which allows its customers' accounts to be directly addressable for receipt of payments through the major UK interbank clearing schemes. Essentially, this allows indirect participants to provide current accounts to their own customers. Indirect participants that fall in this category are commonly referred to as '**agency banks**'.
- **Indirectly addressable:** The indirect participant is not allocated a sort code of its own, meaning its customers' accounts are not directly addressable for receipt of payments through the major UK clearing schemes. These indirect participants may include:
  - **Corporate customers** - Indirect participants looking to offer simpler payment services to customers may adopt this model. These PSPs may include building societies, E-Money Institutions or Payment Institutions that offers a broad range of payments and financial services to customers. From a sponsoring bank's perspective, the services provided to this type of indirect participant are similar to those provided to corporate customers.
  - **Correspondent banks** - Traditional international correspondent banking relationships with foreign banks are also typically of this type and are usually dominated by a high proportion of payments made through the CHAPS scheme.

## The provision of access (cont.)

- Payment service providers may choose to access payment systems indirectly if they believe it is not cost effective or commercially viable to become a direct member and/or are satisfied with the level of service they receive as an indirect participant. Other institutions may choose to seek direct access based on an evaluation of the business case and potential improvements to their customer service proposition.
- The arrangements that allow for direct and indirect access to the BACS, CHAPS, C&CCC, FPS and LINK schemes differ in some significant ways, as does the number of PSPs that are currently access the different schemes directly.
- Below we discuss in general terms the provision of direct and indirect access to interbank payment systems. In the Annex we provide specific detail relating to the individual payment systems.

# Provision of direct access: Criteria

Type of criteria	High-level Rationale
<b>1. Eligibility criteria:</b> <ul style="list-style-type: none"><li>- E.g. for FPS, PSP must be an Authorised Credit Institution</li><li>- PSP must hold (or – for LINK - have access to) a Bank of England settlement account</li><li>- Credit rating, reputational and certification requirements</li></ul>	<ul style="list-style-type: none"><li>- Requirements that organisations are authorised and regulated intended to ensure integrity of the systems</li><li>- Some European directives affect eligibility criteria (e.g. PSD, SFD)</li><li>- BoE requirements for a settlement account allow interbank funds to be cleared and settled with other scheme members</li><li>- Credit rating criteria are concerned with managing the risks, the integrity, resilience and continuity of scheme operations</li></ul>
<b>2. Technical and operating requirements</b> <ul style="list-style-type: none"><li>- Need to demonstrate continuous compliance with requirements</li></ul>	<ul style="list-style-type: none"><li>- Provides for compatibility with payments infrastructure and guards against systems being compromised</li></ul>
<b>3. Credit and liquidity risk management requirements</b> <ul style="list-style-type: none"><li>- Approach to collateral requirements and loss sharing</li></ul>	<ul style="list-style-type: none"><li>- Provides safeguards against the financial distress of a direct scheme member impacting on scheme operations and wider financial stability</li></ul>
<b>4. Requirements to pay scheme-related costs</b> <ul style="list-style-type: none"><li>- On-going costs required to manage and operate the system</li></ul>	<ul style="list-style-type: none"><li>- Provides for the recovery of scheme costs</li></ul>
<b>5. Other legal requirements</b> <ul style="list-style-type: none"><li>- Membership and shareholder agreement requirements</li></ul>	<ul style="list-style-type: none"><li>- Provides a legal framework that governs the operation of the scheme</li></ul>

## Provision of direct access: Services received

**Stakeholders identified a number of desirable service characteristics that can be associated with having direct (as opposed to indirect) access to payment systems:**

- Greater technical access and capabilities (this was noted as a particular issue in relation to FPS)
- Better information on service performance issues (including disruptions and outages)
- Greater control over the payment services being provided to customers
- Greater control of risks associated with payment service provision
- Participation in scheme governance and decision making functions
- Remove reliance on a sponsoring bank for access to payment system

# Provision of direct access: Key stakeholder concerns

## Concerns over complexity

- General view that direct access arrangements can involve dealing with significant up-front and on-going complexity

## Concerns over eligibility restrictions

- View that direct access should be opened up to more payment service providers (the availability of sort codes also raised in this context)
- View that requirements to have a BoE settlement account can unduly restrict direct access opportunities (not relevant to LINK)
- Initial joining charge for C&CCC raised as a significant issue as it takes account of the cost other members expect to incur from admitting the member

## Concerns over the costs and potential exposures associated with direct access, driven by:

- Technical and operating requirements e.g. lack of standardisation across schemes identified as exacerbating cost implications
- Credit and liquidity risk management requirements – particularly onerous for smaller players
- Technical and operating requirements were identified as key for FPS
- In the case of BACS, liability arrangements were raised as a concern
- The setting and calculation of the reverse interchange fees in LINK

## Provision of indirect access: Criteria

- There are five **sponsoring banks** that currently provide indirect participants with indirect access to BACS, C&CCC, CHAPS & FPS:
  - Barclays
  - Co-operative Bank
  - HSBC
  - Lloyds Banking Group
  - RBS Group
- There are two different levels of criteria that indirect participants must consider when seeking indirect access:
  - **Scheme-level criteria:** The type of criteria imposed by schemes on indirect members varies by scheme and the type of indirect access sought. Generally, the sponsoring member takes responsibility for the indirect participant so the scheme itself imposes limited criteria on the indirect participant.
  - **Sponsor-level criteria:** Sponsoring banks also impose criteria on PSPs seeking sponsorship to access interbank payment schemes. Again, these criteria vary across the schemes and the type of access the indirect participant is seeking. Typically, sponsoring banks have criteria that fall into the following criteria:
    - Compliance e.g. KYC and fraud monitoring
    - Technical and operating requirements
    - Creditworthiness, including collateral and funding requirements

# Provision of indirect access: Services received

Sponsoring banks provide a range of services to indirect participants. The type and nature of these services varies across the payment schemes and by sponsoring bank. The services provided by sponsoring banks typically fall under the following broad categories:

## Gateway services

- The provision of a gateway (or 'channel') to enable the transmission and receipt of payment instructions and data between the indirect participant and sponsor bank for respective interbank payment systems. For example, a host-to-host connection or an internet banking portal.

## Settlement services

- The provision of a settlement account at the sponsor bank. This account receives the credits and debits relating to payments made and received by the sponsoring bank on behalf of the indirect participant. The indirect participant will also rely on the sponsoring bank's settlement account at the Bank of England to affect the settlement of ultimate interbank obligations arising from payments made/received on behalf of indirect participants' customers.

## Processing services

- The processing and submission and/or receipt of payment instructions relating to indirect participants' customers to/from the central payment system infrastructure. Processing services may include services such as message validation, repair and exceptions management.
- For BACS and FPS, the sponsoring bank may also sponsor an indirect participant (and customers of the indirect participant) to allow a direct technical connection to the central payments infrastructure. This enables the indirect participant to submit (and in some cases receive) its own payment instructions.
  - **Direct agency access:** The ability to sponsor the indirect participant itself with a direct technical connection to the central scheme infrastructure.
  - **Direct corporate access:** The ability to sponsor an indirect participant's corporate customers with a direct technical connection to the central scheme infrastructure. This service is also provided to a sponsoring bank's own corporate customers that require direct technical access.

## Information services

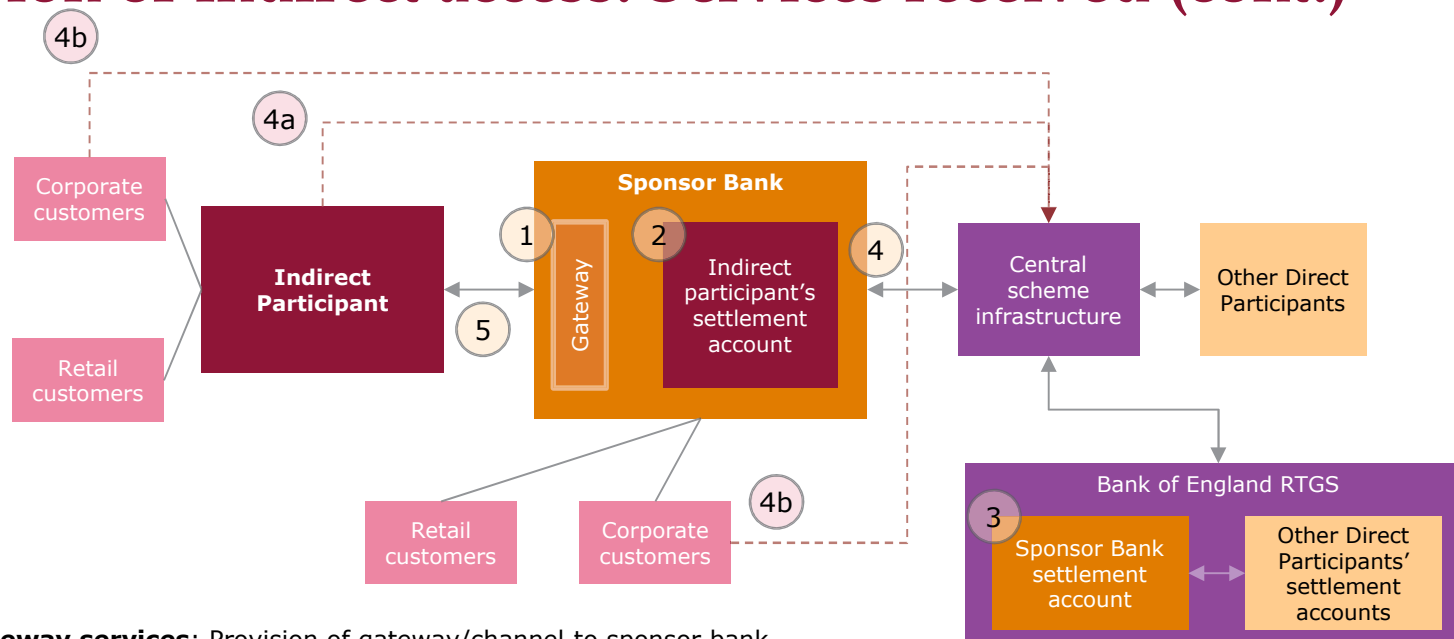
- Provision of payments data to the indirect participant to allow credit/debit of indirect participant customer accounts.

## Customer support services

- This can include the provision of a dedicated customer support team to provide support and advice to indirect participants.



# Provision of indirect access: Services received (cont.)



- 1 **Gateway services:** Provision of gateway/channel to sponsor bank
- 2 **Settlement services:** Provision of settlement account at sponsor bank; Use of sponsor bank RTGS settlement account to settle interbank obligations
- 3 **Processing services:** Processing and submission/receipt of payment instructions to central scheme infrastructure
- 4a **Direct agency access:** Sponsor direct technical access for indirect participants (for Bacs and FPS)
- 4b **Direct corporate access:** Sponsor direct technical access for corporate customers (for Bacs and FPS), including indirect participant's corporate customers
- 5 **Information services:** Provision of payment data relating to indirect participant's customers  
**Customer support services:** Provision customer support services to indirect participants

Note: The above diagram is a generalisation only. The specific payment system infrastructure and services provided by sponsor banks differs between payment schemes (e.g. for CHAPS, the central scheme infrastructure is the Bank of England RTGS itself). The diagram focusses on electronic payment systems (Bacs, CHAPS, FPS), but similar services are provided with regard to cheques.

# Provision of indirect access: Key stakeholder concerns

## General access concerns

- Few potential sponsors - operational, credit, liquidity, reputational and regulatory risks mean only largest banks provide agency services
- Uncertainty in supply - access can be terminated suddenly or at short notice due to lack of formal contractual arrangements
- On-boarding requirements and AML processes seem onerous
- Direct membership requirements for BoE settlement account and bank status can be a barrier
- High switching costs including issues with sort code portability
- Concerns regarding the disclosure of business models to sponsor banks
- Terms and conditions may restrict innovation
- The process to gain indirect access can be long and expensive

## Transparency and availability of information

- Non-transparent and complex indirect access arrangements/contracts
- Limited availability of information

# Provision of indirect access: Key stakeholder concerns (cont.)

## Technical and operational concerns

- Simpler / cheaper direct access solutions need to be developed for infrastructure, e.g. single gateway provider of access to all schemes
- Need for technical integration with sponsor bank can create high switching costs
- Several and non-standardised technical interfaces

## Cost of gaining access

- Upfront costs associated with access, including own infrastructure costs is prohibitive.
- Fees are perceived to be unreasonable or not transparent

## Quality of services

- Concerns raised with regard to agency services included:
  - Lack of near real time payment solutions;
  - Delays in gaining access to new services;
  - Over-zealous approach to regulatory compliance;
  - Lack of formal communication; and
  - Unsatisfactory access to information
- Hard to compare differing agency service offerings between sponsor banks

## Ring-fencing

- Impact of ring-fencing on sponsor bank market remains unknown and is creating uncertainty

# On-going and potential developments identified by stakeholders

- Several responses to the Call for Inputs and discussions with key stakeholders identified a number of on-going and potential developments to UK payment systems that could address or alleviate some of the concerns raised. These include:

## 1. Technical and operating requirements

- The potential for requirements and costs for smaller direct members to be reduced through the adoption of a more risk-based approach has been raised. CHAPS has been reviewing the potential application of such an approach.
- The potential for standardisation and the development of a common 'infrastructure hub' across schemes raised by stakeholders as a means of reducing technical connection and operation costs for lower scale participants

## 2. Credit and liquidity risk management requirements

- FPS and BACS will be introducing cash pre-funding by end-2014 aimed at removing operational complexities, residual credit and liquidity risks and the requirement for shared losses that exists in the current collateral based arrangements

## 3. Consideration of C&CCC issues largely focused on cheque imaging requirements

- Consideration of a future clearing model that facilitates much greater direct access

## 4. Increase information availability regarding access options and indirect access provision

- Consideration of the creation of a central repository of information regarding scheme access options and providers of indirect access solutions
- Short term initiatives to enhance agency service propositions to address information gaps, quality of services and transparency in charging arrangements

# Annex: Overview of Current Access Regimes

# Overview of current access regimes

In this annex, for each of the interbank payment schemes we present summaries of:

1. The criteria for direct access;
2. Options and criteria for indirect access;
3. Scheme specific concerns identified by stakeholders; and
4. On-going and potential developments identified by stakeholders.

## Bacs

### Direct Access Criteria

#### Pre-requisites for direct participation

- Authorised Credit Institution as defined by the Financial Conduct Authority (FCA)
- Hold a Bank of England Settlement and/or Reserve Account
- Carry out business or operate an office within the European Economic Area (EEA)

#### General requirements for direct participation

- High credit rating\*
- Ability to pay all costs associated with membership
- Sign and remain party to membership agreements
- Complete an Audit & Certification Process
- Provide details of anticipated volumes of Payment Messages
- Be a guarantor to the value of £10

#### Technical requirements for direct participation

- Compliance with technical and operational requirements

\*A member must have a minimum credit rating of (a) a prime short-term credit rating of A-3 or higher by S&P, F-3 or higher by Fitch and P-3 or higher by Moody's and (b) an investment grade long-term credit rating of BBB+ or higher by S&P, BBB- or higher by Fitch and Baa3 or higher by Moody's.

# Bacs

## Options and criteria for indirect access

### Indirect access options

- PSPs have a number of alternative options for *submitting Bacs direct debit and credit instructions*:
  - Submit instructions through a Bacs bureau.
  - Acquire Bacs approved software solution<sup>1</sup> (BASS) or establish a direct communications link such as SWIFT Transmission Service (STS).
  - Submit instructions indirectly through a Bacs member.
- PSPs that wish to *receive Bacs direct debit and credit instructions* related to its customers and to *settle interbank obligations generated by Bacs instructions* require a sponsor agreement with a Bacs member.<sup>2</sup>

### Scheme criteria for indirect access

- **Use of a bureau:** The use of an accredited bureau is a commercial matter between the user and the bureau.<sup>3</sup>
- **Direct connection to Bacs:** To acquire a direct connection to the Bacs infrastructure, the Bacs scheme sets out a range of functional, technical and security requirements that must be met.
- **Sponsor agreement with member:** The scheme places no direct specific criteria on indirect participants submitting instructions indirectly through a Bacs member.

1. See <http://www.bacs.co.uk/Bacs/SoftwareSuppliers/Pages/WhatIsABacsSoftwareSupplier.aspx>.

2. For the purpose of this document, these services are referred to as 'Bacs settlement services'.

3. See <http://www.bacs.co.uk/Bacs/Bureaux/Pages/WhatIsABacsBureau.aspx>.



# Bacs

## Options and criteria for indirect access (cont.)

### Services provided

- **Use of a bureau:** The type, technical requirements and commercial terms of bureau services are based on bilateral agreements between the bureau and indirect participant. The scheme does not get involved in these agreements.
- **Direct connection to Bacs:** The Bacs scheme provides a range of services to indirect participants that directly submit instructions to the central Bacs infrastructure, including payment reporting and
- **Sponsor agreement with direct member:** The type, technical requirements and commercial terms of Bacs settlement services are based on bilateral agreements between the sponsoring member and indirect participant. The scheme does not get involved in these agreements.

### Providers

- **Use of a bureau:** Over 650 bureaux are listed in the latest directory of Bacs approved bureaux.
- **Direct connection to Bacs:** Direct connections to the Bacs infrastructure are negotiated directly with the Bacs scheme.
- **Sponsor agreement with member:** The following Bacs members currently provide sponsor agreements for Bacs clearing services to non-member PSPs:
  - Barclays
  - Co-Operative Bank
  - HSBC
  - Lloyds Banking Group
  - RBS

## Bacs

### Scheme-specific concerns identified by stakeholders

- Direct debit guarantee (unlimited in time and amount) creates increased risks to sponsoring banks when providing indirect access
- Limited portability of sort codes increases switching costs
- Complexity and information availability regarding access options

## Bacs

### On-going and potential developments identified by stakeholders

- Implementing cash prefunding by end 2014 to remove the operational complexities, residual credit and liquidity risks and requirement for shared losses in the current collateral based settlement liquidity and loss sharing arrangements.
- Issue of sort code portability with respect to Bacs largely addressed by most sponsoring banks

# CHAPS

## Direct Access Criteria

### Pre-requisites for direct participation

- CHAPS direct participants must be “Participants in Financial Markets” (within the definition of participant in the Financial Markets and Insolvency Regulations 1999)
- Hold a Bank of England Settlement Account\*

### General requirements for direct participation

- Ability to pay all costs associated with participation
- Sign legal participation documents
- Enter into a separate agreement with current settlement participants
- Complete an Audit & Certification Process
- Provide details of anticipated volumes of Payment Messages and details on values for tiering assessment
- Become a shareholder in the company
- If domiciled outside of England and Wales, to provide a legal opinion and cover any CHAPS legal costs of analysing implications for settlement finality

### Technical requirements for direct participation

- CHAPS direct participants must comply with the technical and operational requirements of the system which predominantly relate to connectivity and compatibility, resilience, financial stability and security.
- Direct participants must have a connection to the SWIFT payment messaging network.

\* For Commercial banks this must be backed by a Bank of England Reserve Account

# CHAPS

## Options and criteria for indirect access

### Indirect access options

- Payment service providers wishing to settle payments through CHAPS can do so via contractual arrangements with a direct CHAPS Participant.

### Scheme criteria for indirect access

- CHAPS does not currently mandate any criteria for indirect participants.

### Services provided

- The type, technical requirements and commercial terms of services provided to indirect participants are based on the contractual arrangements they have with a direct CHAPS Participant. The scheme does not have visibility of these arrangements.

### Providers

- Direct participants of CHAPS provide indirect access to over 5,000 indirect participants (many of which are international). The large number of indirect participants reflects CHAPS primary focus on international wholesale GBP payments relating to correspondent banking relationships.
- Sponsor banks that provide agency banking services related to the other UK interbank schemes also provide indirect access to CHAPS. These banks are:
  - Barclays
  - Co-Operative Bank
  - HSBC
  - Lloyds Banking Group
  - RBS

## CHAPS

### Scheme-specific concerns identified by stakeholders

- Complexity and cost of requirements for direct membership

# CHAPS

## On-going and potential developments identified by stakeholders

### Identifying the applicability of requirements to different categories of participant

- Some stakeholders pointed to the potential for a more risk based approach to CHAPS requirements to reduce cost and complexity.
- In Q4 2013, the CHAPS Board endorsed a revised risk based participation model which will be introduced later in 2014. This will result in 3 categories of participation. It is anticipated that any challenger institutions that might join CHAPS would be in Category 3, given their volume/value mix.
- In parallel, CHAPS has been reviewing its rules in order to identify the applicability of each requirement to the different participation categories. It is anticipated that Category 3 participants will need to adhere to only a subset of CHAPS' requirements, and that this will reduce their internal participation costs. CHAPS anticipates that revised rules will go live in Q1 2015 following Participant Consultation in the second half of 2014.

### Charging arrangements

- CHAPS is in the process of reviewing its funding model with the intent to introduce a revised cost allocation model from 2015.

### Affiliates Group

- CHAPS will be launching its Affiliates Group in July 2014. The aim of the group is to broaden CHAPS' ability to communicate its thoughts on future strategy to a wider audience and to receive feedback to inform the Company's planning processes.

# Cheque & Credit Clearing Company

## Direct Access Criteria

### Pre-requisites for direct participation

- Authorised Credit Institution OR an e-money institution as defined by the Financial Conduct Authority (FCA), a public authority or publicly guaranteed undertaking
- Hold a settlement account at the relevant Settlement Service Provider (SSP) for the relevant currency and/or the agreement of the relevant SSP to allow access to the settlement arrangements
- Carry out business and operate and office within the European Economic Area (EEA)
- Must provide or provide upon becoming a Member a service to its customers whereby they may effect paper clearing transactions (sterling cheques and/or sterling credits and/or euro cheques) between themselves and third parties through the relevant Clearing System (recognising that the Clearing System is a domestic clearing that is not able to process cross-border payments)

### General requirements for direct participation

- High Credit Rating\*
- Ability to pay all costs associated with Membership
- Sign settlement documents and commit to provide liquidity up to a pre-determined amount in the event that one of the other members fails to settle under the loss sharing agreement
- Enter into a separate joint membership agreement with current settlement members and C&CCC
- Complete an Audit & Certification Process
- Become a shareholder in the company

### Technical requirements for direct participation

- Members must demonstrate continuous compliance with technical and operational requirements of the system

\*A member must have a minimum credit rating of (a) a prime short-term credit rating of A-3 or higher by S&P, F-3 or higher by Fitch and P-3 or higher by Moody's and (b) an investment grade long-term credit rating of BBB+ or higher by S&P, BBB- or higher by Fitch and Baa3 or higher by Moody's.



# Cheque & Credit Clearing Company

## Options and criteria for indirect access

### Indirect access options

- PSPs wishing to access the C&CCC scheme may enter into a sponsor arrangement with a direct member.

### Scheme criteria for indirect access

- Indirect participants must be a PSP as defined under the Payment Services Regulations.
- Indirect participants must comply with the technical and operational requirements of the scheme. It is the responsibility of the sponsoring member to ensure that it does.

### Services provided

- The type, technical requirements and commercial terms of sponsor services provided are based on bilateral agreements between the sponsoring member and indirect participant. The scheme does not get involved in these agreements.
- The types of services provided by a sponsoring member will typically include paper processing and settlement of interbank obligations.

### Providers

- The following C&CCC members provide sponsor services to indirect participants:
  - Barclays
  - Co-Operative Bank
  - HSBC
  - Lloyds Banking Group
  - RBS Group

## Cheque & Credit Clearing Company

### Scheme-specific concerns identified by stakeholders

- Switching agency provider very difficult, primarily due to lack of portability of sort codes
- Inability as an agency participant to influence the level of costs in the system
- Perceived higher cost of participation for indirect participants than direct members
- Initial joining charge raised as a significant issue as it takes account of the cost other members expect to incur from admitting the member
- Potential conflicts of interest caused by sponsor bank ownership of processing companies (e.g. iPSL is a joint venture between Unisys, Barclays, HSBC and Lloyds Banking Group)

# Cheque & Credit Clearing Company

## On-going and potential developments identified by stakeholders

### Recent changes

- Increased information made available and increased engagement by C&CCC

### Changes under consideration by C&CCC

- Initial joining charges: Review of current member costs for new member joining
- Annual charges: Review of minimum 2% charge for company call
- Publication of information on membership costs

### Development of a future clearing model:

- Work is underway on enabling cheque imaging, within the scope of the HMT consultation and the existing cheque legal framework. Draft legislation is pending
- Potential for the future clearing model to allow for different types and combinations of direct access, including:
  - Direct settlement members (which would provide settlement facilities to a processing member);
  - Direct processing members (which would have an agreement with a settlement member to settle their obligations); and
  - Direct corporate members (which would have an agreement with a processing and a settlement member).

# Faster Payments

## Direct Access Criteria

### Pre-requisites for direct participation

- Authorised Credit Institution as defined by the Financial Conduct Authority (FCA)
- Hold a Bank of England Settlement and/or Reserve Account
- There is nothing within the FPSL Rules that specifies domicile of EEA; all that is asked of any non-EEA organisation is that they obtain a legal opinion to give FPSL comfort that their own jurisdiction would support the principles of the Settlement Finality Directive. i.e. if a Member based in a non-EEA country were to fail, then FPSL needs assurance that it's liquidators/administrators would not be able to overturn the principles of settlement finality

### General requirements for direct participation

- Ability to pay all costs associated with Membership
- Sign legal membership documents
- Enter into a separate membership agreement with current settlement members
- Complete an Audit & Certification Process
- Provide details of anticipated volumes of Payment Messages

### Technical requirements for direct participation

- Faster Payment members must demonstrate continuous compliance with technical and operational requirements of the system and have a 24/7/365 connectivity to central infrastructure

# Faster Payments

## Options and criteria for indirect access

### Indirect access options

- Two types of access available to PSPs that are not full members:
  - Direct agency: Agency has direct technical connection to FPS infrastructure but has an arrangement in place with a direct member for settlement services.
  - Indirect agency: Agency uses a direct member for both technical connectivity and settlement services

### Scheme criteria for indirect access

- The FPS rules set out criteria that PSPs seeking direct agency access to FPS must meet. It is the responsibility of the sponsoring member to ensure that these criteria are met. FPS does not mandate any requirements on indirect participants.

### Services provided

- The type, technical requirements and commercial terms of sponsor services provided to indirect agencies are based on bilateral agreements between the sponsoring member and indirect participant. The scheme has no visibility of these agreements.
- Direct agencies are able to access the FPS infrastructure on equal terms to full members and are able to provide a 24/7/365 proposition to customers.
- The proposition available to indirect agencies varies widely and depends on the type of access negotiated with the sponsoring member.

# Faster Payments

## Options and criteria for indirect access (cont.)

### Providers

- 5 of the scheme's 10 members currently provide various forms of indirect agency propositions to financial institutions in the UK:
  - Barclays
  - Co-Operative Bank
  - HSBC
  - Lloyds Banking Group
  - RBS Group
- The scheme has one large PSP that gains direct technical access to the central infrastructure using a Direct Agency proposition from a direct member who settles on their behalf.

# Faster Payments

## Scheme-specific concerns identified by stakeholders

### Direct access

- High infrastructure costs to meet scheme technical requirements
- VocaLink relationship with FPS and PayM together with bank ownership of VocaLink creates conflicts of interest and may create barriers to access for new payment services providers

### Indirect access

- Limited number of sponsoring banks providing access to Faster Payments
- Not all sponsoring banks will engage with non-banks
- Queries regarding the large difference between direct and indirect participants' access costs
- Difficult for providers with small volumes to find a cost-effective access and technology solution
- Lack of 24/7/365 real-time connectivity option for indirect participants
- In terms of product proposition, differences in connectivity levels are exacerbated further by developments such as PayM

## Faster Payments

### On-going and potential developments identified by stakeholders

#### Ongoing developments

- FPS implementing cash prefunding by end 2014 to remove the operational complexities, residual credit and liquidity risks and requirement for shared losses in the current collateral based settlement Liquidity and Loss Sharing arrangements.

#### Other potential changes raised by stakeholders

- The potential for requirements and costs for smaller direct members to be reduced through the adoption of a more risk-based approach. Some proposals for 'infrastructure lite' options to be allowed for to overcome some technical requirements.
- Some support for access solutions to be designed into infrastructure provision through some form of central hub (including that potentially provided for access across schemes).
- Other potential aggregation options have also been raised as a potential way of reducing the costs of smaller direct participants.



# LINK

## Direct Access Criteria

### Pre-requisites for direct participation

- Have access to a Bank of England Settlement Account
- Be regulated by an appropriate body acceptable to the Scheme Executive and the Bank of England

### General Requirements for Membership

- All members must confirm their acceptance of and compliance with all relevant regulatory requirements as related to ATMs and the use of cards in ATMs
- Complete an Audit & Certification Process
- Must be of appropriate integrity and business reputation
- Must have good general creditworthiness and the financial resources to discharge their liabilities under the terms of their membership agreement
- Sign legal membership documents
- Deliver a Business Plan identifying anticipated number of cards/ATMs and payment transactions for the next five years together with any charging intentions
- ATM operators intending to operate a merchant fill model must demonstrate that appropriate safeguards are in place to protect merchant funds

### Technical requirements for direct participation

- LINK members must demonstrate continuous compliance with technical and operational requirements of the system and have 24/7/365 connectivity to central infrastructure

# LINK

## Options and criteria for indirect access

### Indirect access options

- LINK has a single level of membership, and the rules do not allow indirect access. Members who do not have their own Bank of England settlement account need to have a settlement arrangement in place with a Member that does.

### Scheme criteria for indirect access

- n/a

### Services provided

- A LINK member without a settlement account needs to negotiate settlement services through a commercial agreement with a sponsoring bank. These negotiations fall outside the scope of the LINK scheme and the scheme does not get involved.

### Providers

- Any member with a settlement account at the Bank of England can provide settlement services to another member.

## LINK

### Scheme-specific concerns identified by stakeholders

- Basic Bank Account customers do not have access to LINK ATM network, which has distorted the economics of LINK
- Concern that current interchange fees and structure provides excessive profit (i.e. in excess of cost recovery including cost of capital) to members with large ATM networks
- Perceived lack of investment in infrastructure (e.g. banks not upgrading ATM software)
- VocaLink relationship with LINK together with bank ownership of VocaLink creates conflicts of interest and may therefore lead to barriers to access for new payment services providers

## LINK

### On-going and potential developments identified by stakeholders

- Formal separation between the LINK scheme and VocaLink to increase independence and limit conflicts of interest