

Horizon Scanning Working Group

Account Number Portability (ANP) Report

v. June 2016

EXECUTIVE SUMMARY

This report considers the benefits and costs of adding an additional mechanism and process, namely Account Number Portability, for the UK retail banking market as a further encouragement or enabler for consumers with regards ease of switching current account providers.

In 2010 the Current Account Switching Service was implemented, with 17 banks which have customers regularly switching accounts between them. The total volume of consumers switching accounts has not significantly increased since the introduction of CASS, although the service itself seems to function as designed. Further discussion has focused on both reducing the perception of risk or inconvenience from switching as well as improving the proposition to consumers of current accounts.

The primary difference to consumers between CASS and ANP is that under ANP the consumer would be enabled to take with them the account number and sort code they possess today and Bank x to Bank y. The mechanisms for doing so and the ongoing operational implications would not be visible to the consumer. Implementing one possible solution based on CASS would not be complex in terms of central infrastructure, but it is likely that any solution would have significant impacts on the back office technology and operations of participating banks. The implementation costs would be significant and merit a further more detailed analysis if the benefits are considered compelling enough.

The report's conclusions are as follows:

1. Implementing ANP would potentially increase rates of switching. (At the same time banks are working to enhance consumer propositions, products and services which may increase the numbers of consumers happily in the Trust Loop, and reduce rates of consumers keen to switch or port their numbers).
2. Implementing ANP in combination with other payments initiatives, current account differentiation and improvements, greater marketing of the potential cash benefits for current account switching, or the adoption of new Fintech in the mainstream to enhance comparability and possibly reduce friction may help consumers break through their inertia toward more current account switching.
3. ANP could benefit SMEs as well as consumers.
4. There are potentially numerous cases where B2C or B2B banking changes could be smoothly facilitated with the aid of ANP, thereby benefiting corporates too.
5. The longevity of ANP is uncertain – other initiatives could render it redundant.
6. The cost of implementing ANP would potentially be enormous in comparison to other similar initiatives (Faster Payments for example) and could be a visible headline item for banks' reports.

As a next step we anticipate that KPMG, the independent consultant, will analyse the cost benefit and facilitate a decision on whether the industry should progress further with consultation on ANP.

Table of Contents

EXECUTIVE SUMMARY	2
INTRODUCTION	7
PSF DETRIMENTS SPECIFIC TO ANP	8
ANP IN PREVIOUS INDUSTRY REPORTS.....	8
A CASS BASED ANP SOLUTION.....	10
HOW A CASS BASED ANP SOLUTION COULD WORK	10
IMPACTS ON PSPs REGULATORS AND GOVERNMENT.....	12
PARTICIPATING PSPS	12
NON-PARTICIPATING PSPS.....	12
GOVERNMENT AND REGULATOR	13
CONSUMER BEHAVIOURS AND BENEFITS.....	14
REDUCED RISK PERCEPTION	14
INERTIA TO UNDIFFERENTIATED CURRENT ACCOUNTS.....	14
COMBINING ANP WITH OTHER PAYMENTS INITIATIVES.....	15
ENHANCING CASS AS AN ALTERNATIVE.....	15
POTENTIAL CONFLICT BETWEEN TWO COMPETING SOLUTIONS.....	15
ACCOUNT SWITCHING COMPARISONS.....	17
A SIMPLE SENSITIVITY ANALYSIS	18
IMPLEMENTATION ACTIVITY	19
IMPLEMENTATION COSTS.....	20
ADDITIONAL CONSIDERATIONS AND CONCERNS RECORDED	21
CONCLUSIONS	22
Appendices	23
Appendix 1: High Level ANP Proposal for CASS qualifying accounts.....	23
Appendix 2: High Level ANP Solution for corporate accounts	25
Appendix 3: Impacts on payment systems and PSPs	26
BACS.....	26
FPS	27
Paym	27
C&CCC.....	28
CHAPS.....	28
Cross border	29
Appendix 4: Technical and operational issues.....	30
Appendix 5: Impact on PSPs not wishing to support ANP	31

Appendix 6: Regulatory, PSP and scheme approval	32
Appendix 7: CASS participating accounts	34
Appendix 8: CASS Current Functionality and scope.....	35
Full Switch Service (Current Account Switch Service).....	35
Partial Switch Service.....	35
Functions available under a full and partial switch:	36
Appendix 9: Bulk redirection process.....	37
Appendix 10: potential enhanced solutions for CHAPS and international payments	38
Appendix 11: Additional benefits based on BRD	39

Version Control

Name	Version	Date
Chris Higham	V0.1	2016.03.16
Richard Jones	V0.2	2016.03.16
Scott Jessop/ Andrew Philip	V0.3	2016.03.29
Chris Higham/Otto Benz	V0.4	2016.04.01
Richard Jones	V0.5	2016.04.01
Chris Higham	V0.6	2016.04.01
Otto Benz	V0.7	2016.04.02
Chris Higham/Esme Harwood	V0.8	2016.04.06
Otto Benz	V1.0	2016.04.07
Scott Jessop/ Andrew Philip	V1.1	2016.05.16
Ian Hooper	V1.2	2016.05.20
Ian Hooper	V1.2	2016.05.24
Tim Pigott	V1.3	2016.05.25
Ian Hooper	V1.4	2016.05.31
Ian Hooper	V1.5	2016.06.01
Ian Hooper, Tim Pigott, Esme Harwood, Ian Ellis	V1.6	2016.06.02
Ian Hooper (submitted version)	V2.0	2016.06.02

Contributors

Name	Title	Organisation
Chris Higham	HSWG Member	Virgin Money
Richard Jones	HSWG Member	VocaLINK
Andrew Philip	Consultant	Capgemini
Scott Jessop	Consultant	Capgemini
Ian Hooper	VP Banking	Capgemini
Otto Benz	HSWG Chair	Virgin Money
Esme Harwood	HSWG Member	Barclays
Sailesh Panchal	HSWG Member	Lloyds
Tim Pigott	HSWG Member	Nationwide
John Blanchfield	HSWG Member	HSBC
Dora Guzeleva	Senior Manager	PSR
Ian Ellis	Industry Specialist	PSR
Thomas Collins	Independent Auditor	KPMG

Bibliography

Title	Author	Date
Account number portability: a broader perspective	VocaLink	July 2014
Account Number Portability	FCA/Moorhouse	March 2015
Making Current Account Switching Easier	FCA	March 2015
Briefing to PSF – PSF25022016 –(5i) Horizon Scanning Working Group ANP Update	HSWG	February 2016
PSR Policy Statement – PS 15/1	PSR	March 2015
Retail Banking Market Investigation -	CMA	May 2016
Retail Banking Market Investigation – Update on Current Account Pricing	CMA	June 2016
Towards world class: the consumer view of current accounts and payments	Tooley Street Research	June 2015
Consumer Engagement in the Current Account Market	BACS	March 2016

INTRODUCTION

This report presents benefits and costs of implementing Account Number Portability (ANP) in the UK.

A current account switching service (CASS) was successfully implemented in the UK in 2010. Despite this industry investment, account switching remains at an annual 1-2%. Barclays, Lloyds Banking Group, HSBC and Royal Bank of Scotland provide 77% of personal current accounts and 85% of business accounts in the UK. CMA and other industry reports have concluded that consumers continue to stick with their existing account providers due to a fear of disruption from the process of moving, a fear of not being able to get the same lending elsewhere, or because they perceive little additional value from competitors' accounts. These reports have identified that some consumers would be more likely to switch accounts if account number portability were introduced alongside or instead of today's current account switching, and there remains consumer, regulator and industry interest in promoting general market improvement, competition amongst banks, product differentiation and consumer freedom.

Benefits and costs for ANP, as well as excellent research into consumer behaviours and account switching drivers, have previously been presented in earlier papers and report. This paper attempts to draw together a summary of those findings and add where possible further detail to provide a balanced view of the case for ANP.

The structure of this report is as follows:

1. PSF detriments specific to ANP
2. ANP in earlier reports
3. A possible ANP solution based on CASS
4. Impacts on PSPs, Regulator and Government
5. Consumer behaviour and ANP benefits
6. Business and Government benefits
7. Non-banking account switching use cases
8. A simple and illustrative sensitivity analysis
9. High level implementation approach and responsibilities
10. Additional considerations and concerns about ANP
11. Potential costs
12. Conclusions

A note regarding method - Available time and resources to conduct new detailed design, planning, research and marketing activities for this report has been limited. Achieving detailed, tested and quantified benefits and costs for this report beyond a small number of contributing organisations has not been possible. In the event that the industry elects to implement ANP this report recommends that an industry wide exercise is carried out to gather such a view of benefits and costs. For this report secondary data reflecting potential benefits has been taken from previously published papers and reports. In addition, some initial primary research into the high level implementation costs has been included. This research relies on the high level and early stage analysis kindly provided by VocaLink and a number of banks.

This report has chosen to refer to a minimum viable implementation of ANP – namely an extension to the existing Current Account Switch Service (CASS) – today provided by VocaLink and operated by Bacs Payment Schemes Limited (Bacs). The HSWG took a view that, at this stage, this solution could be the lowest cost and effort impact and capable of delivering the

functional uplift to provide an ANP service. Other solutions should be considered in detail if the industry elects to implement ANP – and this report neither recommends nor does not recommend the CASS based ANP solution.

PSF DETRIMENTS SPECIFIC TO ANP

The detriments at the heart of the PSF’s strategy development, via the Payments Strategy Forum (PSF), are focused on key dimensions of the current UK payments ecosystem. They comprise themes including end user needs, access to the payments market and financial crime originating from the wider payments community.

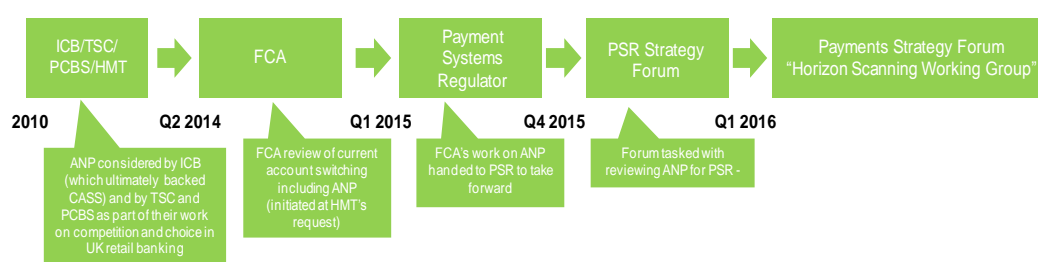
The beneficial outcomes for consumers that flow from a highly dynamic current account market are also driven by factors other than the switching mechanism - including differentiation and comparability. The PSF process is assisting this through its work on access and APIs and other solutions. However, there may be specific benefits associated with ANP which might mitigate some of the control and assurance detriments experienced by end users, whether payers or payees or whether consumers or corporate users. For example, ANP may give confidence about continuity of pre-arranged transactions following an account transfer.

The PSF’s list of detriments includes two specifically addressable by ANP:

Detriment Group	Detriment	Code
Switching	Consumer and corporate reluctance to switch bank accounts which increases costs of banking to end users	HS1
	Difficulty of switching bank provider caused by need to change sort code/account number- causing difficulty for customers making payments / companies receiving and loss of competitiveness in banking provision	HS2

ANP IN PREVIOUS INDUSTRY REPORTS

The positioning of ANP has repeatedly been a topic for discussion in UK banking industry. At the heart of its repeated surfacing is a debate over measurable benefits and the cost-benefit and opportunity cost for the industry of implementing an ANP solution.



In 2010 the Independent Commission on Banking considered current account switching as a part of their recommendation (which ultimately resulted in CASS).

In 2014 the FCA reviewed current account switching which resulted in the March 2015 “Making current account switching easier” report and the companion Moorhouse report, commissioned by the FCA which was published at the same time. The FCA report concluded for the minority of consumers ANP would increase confidence in a smooth, error-free switch although the cost of implementing ANP led to it not being implemented at that time.

In March 2015 the PSR policy stated that a solution for ANP would be considered by the Payments Strategy Forum. The Chair of the Forum has subsequently asked the HSWG to produce this paper on the case and solution for ANP.

The March 2015 Moorhouse/FCA report is the most recent review which contains a thorough analysis of a number of ANP options has been the basis for the proposal presented in this report. This report elaborates on some of the options presented in the light of comments subsequently received from the industry – specifically around the costs and disruption associated with a move to ANP.

The Competition & Market Authority (CMA) published Provisional Decisions on Remedies following their Retail Banking Market Investigation on the 17th May 2016 during the production of this report. The final version of the CMA report is expected in early August. The CMA was unambiguous in specifying priority changes associated with the UK's current account landscape. This report's recommendations were that ANP is neither a necessity nor a priority – a conclusion based on relative priority for the UK banking industry, perceived relative consumer impact and required industry investment.

This year B (with the University of Bristol) has also published reports which share research into switching drivers common across different types of account (banking and otherwise) and consumer behaviours (Trust and Inertia Feedback Loops, and Consumer Learning Journeys).

We have revisited these reports and reviews, and taken into account and consideration the inputs they contain from experts and institutions from across the UK banking industry. They provide an excellent body of research into the inhibitors to consumer current account switching, and the potential benefits of ANP.

This body of work also gives us an estimate of cost for the UK banking industry of implementing ANP, which we have attempted to validate using data provided specifically to help estimate an industry range of investment required.

a possible anp solutionFor the purpose of grounding this report we gave consideration to a number of the options listed in the Moorhouse/FCA report in order to identify a single viable solution which could meet basic functional requirements and would avoid significant new central infrastructure, two factors which seemed likely to limit implementation cost.

We reviewed common customer use cases in checking that the solution identified was valid. Those use cases include:

- Joint account customer switch
- Switch in multiple times between institutions
- Customer account closure after a switch
- Return to previous bank, assuming Opted In
- International payments

This exercise was conducted without the benefit of extensive industry consultation and solution evaluation, which of course should be done at a later point if the industry elects to implement ANP.

This report considers extending the current CASS infrastructure and service to be the most accessible and lowest cost means of fulfilling the functional requirements of an ANP service. This represents the “retain identifier model” referred to in the Moorhouse report.

The solution referenced in this report does have gaps:

- (i) It is recognised that the solution outlined does not provide a mechanism to redirect recurring debit card subscriptions. Further investigation and work with the main card schemes would be required to develop a solution in this space.

- (ii) We did not consider in any detail the ongoing industry total cost of ownership of this solution.

This report therefore has not given detailed consideration to or discussion of other possible technology and service solutions to ANP that are represented in the Moorhouse report. These alternatives may be selected as the best choice for the industry. For completeness the Moorhouse report references alternatives to making sort code and account portable as an extension of CASS, implementing ANP as part of a centralised accounting platform, using a new proxy that will be portable or using an existing proxy e.g. debit card number, phone number or email address etc.

It is worth noting that another alternative - proxy IDs – might form part of a broader alternative account numbering initiative within a larger re-engineering of UK payments, with a separate set of analysis and evaluation.

In addition to ANP as we think of it today, several of the initiatives currently under consideration are intended to increase the number of PSPs and provide access to new or alternative services to those currently available. The impact of ANP may be limited or overshadowed by new initiatives.

Indeed in the course of writing this report it was noted that any investment in an ANP solution should give due consideration to future-proofing in two senses:

- (i) Accommodating unknown future enhancements.
- (ii) Avoiding implementing a solution which could be made redundant in the relative near-term by either intended or accidental benefits of other initiatives.

A CASS BASED ANP SOLUTION

The solution we have identified to ground the paper is an extension of the existing CASS system at the core, which will require significant internal changes for 'Opt In' and potentially fewer changes for 'Opt Out' banks. It is believed that this service would require only limited changes in the payment schemes. One of the additional benefits identified for this solution is the anticipated re-use of previous industry investment in CASS. This report in no way endorses adoption of this solution without extensive and proper due diligence, and it is noted that this solution as presented may not meet all requirements.

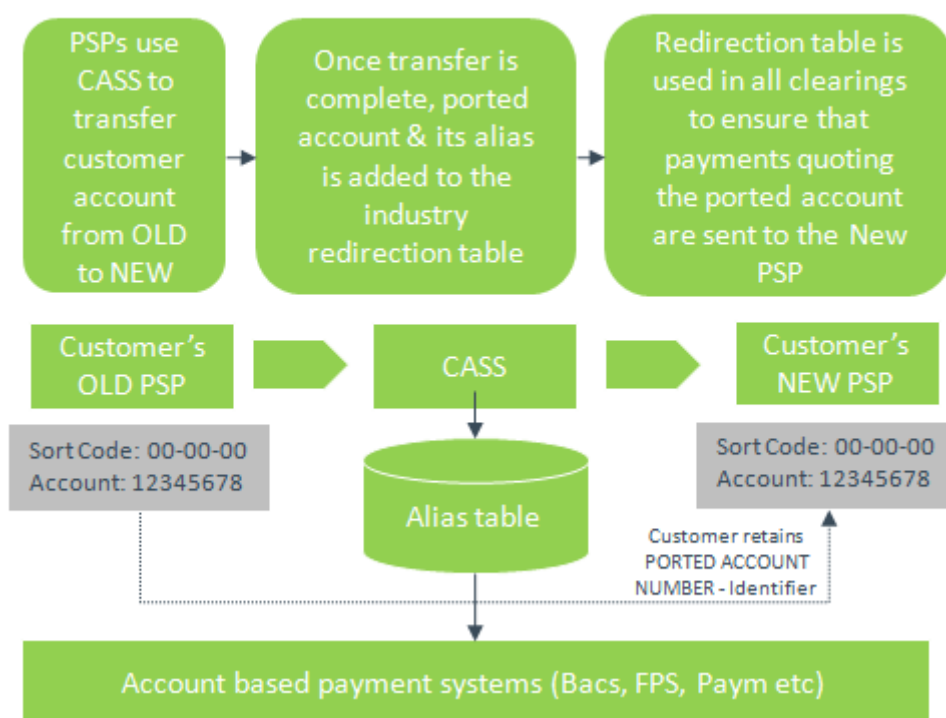
HOW A CASS BASED ANP SOLUTION COULD WORK

The customer's account identifier – existing sort code and account number - could be ported between PSPs and the service would support CASS qualifying accounts and other business accounts. This is the key difference from the customer perspective in that their existing payments (B, CHAPS, FPS, cheques, international) would continue to refer to the old account number no matter which UK bank actually provided their account.

The key component of CASS that would be used to provide ANP is the redirection mechanism. This ensures that even if payments are directed using the customer's old account number, all account based payments will be delivered to their new bank (or Payment Service Provider (PSP)). This ANP proposal would make the redirection permanent and allow the customer to continue to use their "old" account number with their new PSP until they either decided to close the account or move it again.

For CASS qualifying accounts the current transfer process would be broadly unchanged. CASS would be extended to offer ANP as an option. The only real difference would be that customers could elect to retain their old account identifier as part of the transfer process if their new PSP offers ANP. Further detail is in Appendix 1. The proposal would operate as per the chart below where the routing of payments is undertaken by the PSOs using the existing routing table supported by CASS and B:

ANP BASED ON CASS PROCESS



The transfer of corporate / business relationships is often more complex and may not be suited to a CASS-based process (e.g. multiple accounts, broader range of services provided, etc.). Further investigation would be required on this point as the existing CASS solution may be appropriate given further change.

As it stands this solution does not specify a maximum duration for redirection of transactions to the new account provider using the old identifiers. In theory the redirection could continue indefinitely - Vocalink believe that processing and data storage would not limit the duration.

Here is a problem for the industry to resolve as evaluation continues:

Indefinite redirection could however cause the old account providers increased complexity in managing with finite ranges of sort codes and account numbers. Indefinite redirection could also increase complexity in resilience and recoverability, as well as for implementing future payments initiatives. A consumer or corporate repeatedly or serially switching accounts could create highly complex change scenarios and endanger in some way the quality of service provided by any ANP solution.

This raises another question mark against, or lens through which, to consider the cost-benefit and the consumer impact of ANP. Avoiding indefinite redirection or the complexity of serial switching logically requires (at some stage) porting away from the old account number. Logically this scenario is not ANP but switching deferring porting through use of temporary ANP. Questions could then be asked as to the erosion of perceived ANP benefits.

IMPACTS ON PSPS REGULATORS AND GOVERNMENT

We have considered impacts on three primary actors that would be involved in ANP:

- Account providing Banks and other Payment Service Providers (PSPs) that choose to participate
- Account providing Banks and other PSPs that choose not to participate (if participation was made optional)
- Regulators and Government

PARTICIPATING PSPS

PSPs that participate in the scheme would need to make changes to their systems to support holding the existing customer identifier as well as (most likely) an internal or “alias” account number that the PSP may have created. The key change for participating PSPs would be to ensure that the existing identifier is used in all communications, whether back office or customer-facing. In terms of the customer identifier it is recognised that each institution uses the account number and sort code in a different manner so the list below is not exhaustive but some examples of where changes would need to be made are:

- Paper communications with the customer, if applicable
- As the identifier printed on the customer’s debit card and other payment tokens including as applicable
- As part of existing IVR or telephony ID+V with the customer
- On online/mobile banking
- On relevant internal customer systems from the point of application through the product lifecycle.

In this way, the fact that there is an underlying “alias” account held within the PSP’s system is not visible to the customer as all of their touch points with the PSP make reference to their original or “retained” identifier.

No matter what solution might be selected, in preparing this report it was identified that the impact of these changes on the back office operations and technology is significant. The established back office architecture around sort code and account number is a major part of the reliability of the banking system and the cost base of banks. These changes represent significant drivers in operational and change complexity, and cost.

NON-PARTICIPATING PSPS

If PSPs could elect not to participate in ANP (as a donating PSP) our analysis indicates that it is not entirely possible to avoid impact. A cost/benefit analysis would need to consider further the financial impact on non-participating PSPs. A number of areas highlighted for further work are mentioned below.

It is assumed that non-participating PSPs would, during porting, not be permitted to veto the donation of their sort codes and account numbers in ANP. As a result, it is almost certain that some processes of non-participating PSPs will be impacted – for example to prevent re-use of donated account numbers (although CASS participating PSPs may already have these processes in place today for CASS, or to support Ring Fence initiatives).

1. One impact would be the need to advise front line teams of the changes in order to minimise complaints and queries where a customer has ported an account

2. Any hard coding that exists in systems around, for example, account number allocation may need to be removed
3. Payment Services Operators (P') may need to amend processes outside of the core redirection service

The implementation of ANP would not avoid new complexity for operations and technology in non-participating PSPs. Implementation, despite choosing to not participate fully, would require additional investment.

GOVERNMENT AND REGULATOR

As outlined in Appendix 6, there would likely be detailed discussion required with the various regulators, the Bank of England, and HM Treasury about any ANP proposal, especially with reference to the effect on the payment schemes which are considered critical national infrastructure. They are also provided through service contracts with third parties which may need to be revised to incorporate impacts from ANP.

It is understood that stability and resilience of the infrastructure are key concerns of the Bank of England. Implementing ANP could require engagement from the Bank in the consultation and implementation process, and impose more stringent requirements on the solution and PSP operations in order to meet required standards.

CONSUMER BEHAVIOURS AND BENEFITS

The UK current account consumer base holds a broad range of attitudes and intentions with regards current account switching and ANP. In the body of existing industry research there is a strong case presented for there being at the very least a small portion of consumers and more likely a significant number who would be encouraged by the implementation of ANP to move further through their journey (viz BACS report) towards leaving their current account provider or PSP to a new one.

BACS and the University of Bristol in their recent joint research report have identified a framework for analysing consumers' journeys towards account switching. Under usual circumstances consumers are in a good relationship with their account provider – the research says the consumer exists with the provider in a Trust Loop. In the Trust Loop there is a positive relationship between good consumer behaviour and the bank. Consumers and banks can take action to sustain and build mutual benefit and loyalty. However in some circumstances consumers may have reason to consider switching their account to another provider, at which point they enter into a cycle called the Inertia Loop. In the Inertia Loop the consumer moves between a state of Risk Perception where they are deterred from switching due to potential risks, and a state of Inertia where they are deterred from switching presumably due to a lack of compelling proposition elsewhere).

REDUCED RISK PERCEPTION

According to the Tooley Research 2015 report, 22% of people surveyed saw 'not having to change account number and sort code when switching banks' as one of the top three useful innovations (appendix 12). This simplicity for the customer suggests there is a potential marketplace for ANP which may drive an increase in overall account switches, or at the very least awareness of the 7 day switcher service. It would be unreasonable to extrapolate that all of those 22% would respond to ANP implementation by switching banks. 22% of the UK current accounts is approximately 13 million UK current accounts, but even a relatively small portion of those would make ANP look like a leading candidate for industry investment.

INERTIA TO UNDIFFERENTIATED CURRENT ACCOUNTS

The UK has not seen a sustained or large rise in current account switching since the implementation of CASS. The CMA Retail Banking Market Investigation report highlighted that 'nearly 60% of personal customers have stayed with the same bank for over 10 years'. Tooley Street Research stated

"... having account number and sort code portability is not a deciding factor when considering whether to switch current accounts. It is attractive for some people who have already decided to switch to the extent that it is perceived as making the process simpler ..."

ANP could increase consumer confidence in the process of leaving one bank or PSP and taking an account with another, but it does not have any bearing on what is portrayed as the consumer's perception of an undifferentiated current account market, and on the appetite of a new bank or PSP to provide the same finance facilities or have a sufficiently accepting risk appetite to accept all consumers who might consider switching (viz the CMA report). These factors have been addressed in recommendations from the CMA. The CMA's May 2016 report recommends changes to current accounts, and to overdraft management, in part to stimulate account switching.

Potentially then, confidence and differentiation could coincide with resulting sustained increased levels of account switching.

COMBINING ANP WITH OTHER PAYMENTS INITIATIVES

In preparing the report we have identified a further potential but intangible benefit of ANP which may accelerate more consumers through the Inertia Loop.

ANP could combine with other initiatives, innovations, interventions or market conditions to stimulate or facilitate a significant upturn in account switching. These disruptors could be directly aimed at account switching or not, for example the ease and value of comparability services offered through APIs which could more clearly demonstrate to consumers whether switching would make them better off, or likely to experience great service etc.

ENHANCING CASS AS AN ALTERNATIVE

Directly challenging investment in ANP, the CMA has proposed to strengthen the CASS proposition instead. They argue that in itself further investment in CASS could increase benefits for consumers – through information and comfort. The CMA also reported that investing in ANP would be costly and potentially introduce radical change.

The enhancements proposed are:

- (a) have CASS overseen by the PSR;
- (b) increase customer awareness of and confidence in CASS; and
- (c) improve specific aspects of the switching process, with a longer period of redirection of transactions from the old to the new account and with guaranteed provision of the transaction history on the old account.

Tooley Street Research has empirical evidence to support this proposal:

“... however (a) knowing more about the existing account redirection service may have the same effect and (b) if account number portability were seen as making the underlying system more complex it would be less attractive.”

It is however difficult to quantify the potential value of strengthening the CASS proposition and its relative impact on consumer (and business). The strength of this argument is in the avoidance of significant cost and change complexity now, when CASS could be strengthened and the UK's banks have other pressing initiatives and cost challenges.

POTENTIAL CONFLICT BETWEEN TWO COMPETING SOLUTIONS

A final note in this discussion of consumer benefits:

Although this report identified an ANP solution potentially built as an extension to CASS, ANP could be implemented as an entirely different and unrelated solution to CASS. This could lead to competition between the two, or consumer confusion, or even stagnation on one of the two systems. In this scenario it would be important to avoid a negative outcome.

BENEFITS FOR BANKS

ANP is intended primarily to offer benefits to consumers beyond benefits to the established banks. The dynamics of net gaining and losing banks would be potentially complex and unpredictable. It should be noted however that CASS and indeed ANP, together with the implementation of the CMA's recommendations, would equally stimulate customer movement, reducing the impact of inertia and risk perception, and there could be winners and losers amongst the banks if ANP does generate significant account switching.

On the list of benefits to the banks is an intangible benefit in the rebuilding of the established banks' reputation and brand which could be achieved in part through ANP.

The established banks could also attract new customers more easily (due to the increase in switching consumers) with enhanced, differentiated account propositions.

Emerging current account and business account providing banks could benefit from increased numbers of new customers due to their fresher brand and more focused consumer propositions.

The report identified one caveat for the banks. Once a consumer or a business switches to a new provider they could also continue to switch, potentially back to the original bank or to a third, fourth or xth provider. This could lead to significant additional complexity and cost for banks.

BENEFITS FOR BUSINESSES AND GOVERNMENT

The implementation of ANP has potential to deliver benefits for businesses and government.

SMEs including sole traders may behave in similar ways to consumers, and be subject to the same factors, considerations, inertia and risk perception. It could be assumed that the benefits of ANP and other initiatives would be applicable to SMEs.

For larger corporates ANP could be most impactful during major events, for instance during mergers and acquisitions which have typically led to complicated transitions for businesses e.g. with payables and receivables, and misdirection of payments.

On 30th May 2016 the UK press reported on HMRC's change in banking details affecting many businesses which were unable to pay their due taxes. An ANP process for managing large scale corporate account switching could be developed based on a bulk payments redirection service (see Appendix 9 for further details). Indirectly, this could also represent an additional benefit for consumers who could continue an uninterrupted positive connection with businesses and government.

ACCOUNT SWITCHING COMPARISONS

What can we learn from comparing bank account switching and ANP to similar use cases in other industries?

It is not straightforward to apply lessons from non-banking use cases, although we can piece together a point of view that consumers are more incentivised to switch other accounts, see current accounts as commodity, and are less afraid of leaving one utility supplier for another than one bank for another.

Making savings by switching non-banking accounts (such as energy or satellite television) can be more front of mind and triggered by a scheduled 'renewal', and be simpler to do – especially if there is an additional sweetener to the deal such as free months, or additional channels.

Switching current accounts is not without cash benefits. The CMA report into current account pricing calculates that many customers could save between £50 and £100 from switching current accounts, and some rare customers may save almost £1000 per year were they able and willing to switch to a specific other account holder's product.

In addition to the Inertia Loop identified by BACS and the University of Bristol we could argue that consumers believe they are financially prudent by switching to save in non-Banking accounts, or are unaware of the potential for cash benefits from switching current accounts, which in turn somehow contributes to their inertia with Bank account switching.

As stated previously the most recent CMA recommendations conclude that those consumers reliant on rotating overdrafts and with low credit scores may be unwilling to test their ability to switch to an alternative better value account provider.

With the rise of millenials, maturing of challenger banks, new entrants to the UK banking market, and fintech banks it remains unlikely but not impossible that there may be a change in consumer behaviour or in the perceived consumer current account proposition. A combination of different factors – new API powered services, differentiated consumer products and services - may help inspire new generations to switch current accounts – and ANP may be one of those factors.

A SIMPLE SENSITIVITY ANALYSIS

For the purpose of illustrating the possible range of ANP impacts and the combining impact of various factors we have attempted a simple sensitivity analysis.

Scenario & range of possible per annum switching volume	Discussion
Best Case – Comparison to Mortgage / ISA Account Switching @ 3-15%	<ul style="list-style-type: none"> • The perfect storm, where in combination with other UK Payments Regulator or private market innovations, significant marketing, and increased financial benefits, ANP could lead to very high levels of account switching. • It is nonetheless possible that an enhanced CASS would be equally effective.
Likely Case – Comparison to post CASS, short term increase of 1-2%	<ul style="list-style-type: none"> • The implementation of CASS led to a short 2-3 month period of increased switching activity of 1-2%. • A similar short term impact could be achieved from implementing ANP, assuming there remains pent up demand in the market for switching with increased perceived ease or benefits of ANP, and there are no other factors at play (see Best Case above).
Worst Case – 0% increase	<ul style="list-style-type: none"> • ANP might generate no sustained increase in account switching without combining with either differentiated products and services, or with other payments market initiatives.

IMPLEMENTATION ACTIVITY

It is not feasible to produce a detailed Gantt chart plan at this stage for ANP implementation, but we have listed what we expect the main activities to be, in the table below.

Industry Solution Consultation	Detailed definition of the changes required to bank and central systems outlining any changes to existing solutions and any new interfaces. This will include detailed documentation of required build standards and formats for messaging etc for the full solution. Separately there will be documentation of the changes required for those not participating.
Bank-side Implementation	Internal design, build and test of all changes. Either those required to participate or those necessary for all banks to undertake irrespective of participation.
Core ANP Build	Design build and test of all changes needed within the current CASS system.
Payments Systems Builds	Design build and test of any changes required within payments systems outside the core solution.
Industry Testing	A period of testing with different banks entering on a phased basis to allow for testing of the central solution and banks to test their own.
Customer Communication	Prior to launch the communication of the upcoming changes through Advertising and targeted Public Messaging via the media and other routes.
Launch	Launch to customers with associated media, marketing and publicity.

Key implementation risks that should be noted are:

- The solution and its design may be impacted by changes elsewhere in the UK payments landscape.
- Implementation may be elongated by concurrence with other changes in the UK payments landscape.
- Equally, implementing any large industry initiative (such as ANP) may cause delays to other UK payments and individual bank initiatives.

IMPLEMENTATION COSTS

The report has reviewed previous estimates of the cost to the UK of implementing ANP (using the extended CASS “retain identifier model” solution). We have been able to estimate the cost based on three inputs:

1. Confidential high level estimates from a number of banks for ANP implementation and participation.
2. Data provided in the CMA Retail Banking Market Investigation paper.
3. A summary of high level costs for the development of and implementation of ANP from the Moorhouse report.

A simple analysis of the costs for the industry of implementing ANP is shown in the table below.

A note on method - The cost ranges are extrapolated from high level inputs provided by three banks, and from Vocalink as central infrastructure supplier. The number of large medium and small banks has been extrapolated from a number of sources, and represent only an initial analysis. The cost ranges assume that banks would respond to ANP implementation with ‘Opt In’.

Body Type †	# Bodies †	Implementation Cost Range ‡	Average Implementation Cost	Total Cost Range
Large Bank	5*	£ 100 - £ 1,000 M	£ 300 M	£ 1,500 M
Medium Bank	10*	£ 50 - £ 500 M	£ 150 M	£ 1,500 M
Small Bank	2*	£ 25 - £ 100 M	£ 50 M	£ 100 M
Central Infrastructure	1	£ 100 - £ 200 M	£ 150 M	£ 150 M
Total	18	-		£ 3,250 M

† *Arbitrary categorisation – NB an alternative mechanism for providing a structure is being sought*

Does not include what BACS refers to as “Low Volume Participants”

‡ *Based on anonymised early inputs from a small number of banks*

Even with this level of analysis, it is clear that ANP represents an enormous industry investment. As a comparison, the total cost for implementing Faster Payments in the UK is believed to be no more than £ 1 Billion.

A separate and more sophisticated analysis carried out by the CMA published a range of £ 5–10 Billion for the industry to implement ANP.

No cost estimating work has been undertaken in this report on the cost of the alternative solutions outlined in the Moorhouse Report. According to our logic the alternative solutions do not build on existing infrastructure and would therefore we believe require potentially more investment than the ANP CASS solution.

ADDITIONAL CONSIDERATIONS AND CONCERNS RECORDED

In the course of producing this report seven significant concerns have been identified about ANP which further reduce the case for its implementation. If investigated further and shown to be real, and if they were not addressed by an implementation, they would impact the benefits of ANP.

1. **Security** - As highlighted by the CMA report some customers highlight their increased concerns about security in relation to ANP, it was felt it may increase the risk of account takeover (albeit switching and portability controls should prevent this).
2. **Inter Bank Communication** - PSPs that offer ANP will be required to ensure that their internal processes and overall quality do not impede customer interaction with regards to transferred account numbers. However, there are times when one PSP needs to contact another PSP regarding payment issues. It has been highlighted that there is potential for confusion where a payment that appears to have gone to PSP X has actually gone to PSP Z. The old bank will have access to a subset of the redirection table and therefore they will know where any ported accounts are actually held. But other banks may not be aware of the ported account number, detracting from the overall benefits and reducing the quality of the service provided.
3. **Customer Confusion** – The approach of allowing some Banks to opt out of the service while creating increased competition opportunities has been highlighted as having the potential to create customer confusion.
4. **Depletion of available intra-bank Account Number and Sort Code combinations** – Assuming even a 1-2% per annum rate of account number porting, would suggest that within a decade some banks could have lost a significant portion of their account number ranges to indefinite exile in the market. With no consideration to porting to a native account number of the new bank, or to managing dormant accounts, this would generate operational overheads and possible customer service issues and confusion in the future.
5. **Industry consultation, solution and service selection** – To progress ANP it is likely that a significant process of industry consultation and subsequently a solution and service selection would take place. There would not only be an associated cost but also (and possibly more significantly) potentially reduced focus and effort for the mandatory or higher value initiatives to be addressed by the UK's banks in the immediate years ahead.
6. **Longevity, future proofing** – Amongst the range of high value initiatives being considered by the PSF, and the Fintech initiatives appearing, emerging and maturing there is likely to be at least one which either negates the need for ANP, or changes the game with account numbers and identification. There is no guaranteed short, medium or long term life span for ANP. Equally there may develop new Fintech products and services which drive usage of ANP.
7. **Indefinite redirect** – As described in an earlier section, indefinite redirection could cause the old account providers increased complexity in managing finite ranges of sort codes and account numbers. Indefinite redirection could also increase complexity in resilience and recoverability, as well as for implementing future payments initiatives. A consumer or corporate repeatedly or serially switching accounts could create highly

complex change scenarios and endanger in some way the quality of service provided by any ANP solution.

CONCLUSIONS

This report has identified that:

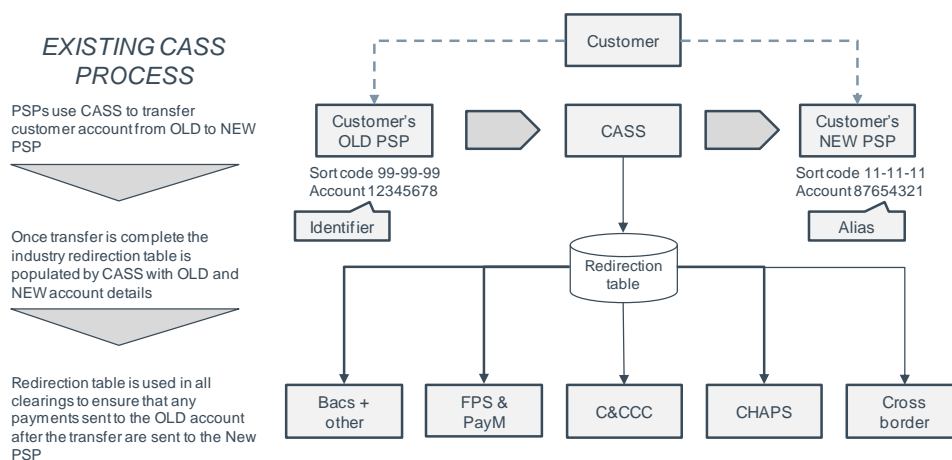
1. Implementing ANP would potentially increase rates of switching. (At the same time banks are working to enhance consumer propositions, products and services which may increase the numbers of consumers happily in the Trust Loop, and reduce rates of consumers keen to switch or port their numbers).
2. Implementing ANP in combination with other payments initiatives, current account differentiation and improvements, greater marketing of the potential cash benefits for current account switching, or the adoption of new Fintech in the mainstream to enhance comparability and possibly reduce friction may help consumers break through their inertia toward more current account switching.
3. ANP could benefit SMEs as well as consumers.
4. There are potentially numerous cases where B2C or B2B banking changes could be smoothly facilitated with the aid of ANP.
5. The longevity of ANP is uncertain – other innovations and initiatives could render it redundant.
6. The cost of implementing ANP would potentially be enormous in comparison to other similar initiatives (Faster Payments for example) and could be a visible headline item for banks' reports.

It is the role of the independent consultant to review and balance these against each other to reach a conclusion.

APPENDICES

APPENDIX 1: HIGH LEVEL ANP PROPOSAL FOR CASS QUALIFYING ACCOUNTS

CASS provides a mechanism to transfer a current account from one PSP to another. It is based on the principle that a new account number is assigned to transferring customers by their new PSP. Nevertheless, it includes a redirection mechanism that ensures that payments continue to be delivered to the correct PSP after the transfer has been completed. Rules are in place to ensure that this redirection process is effective across all account based payment systems i.e. Bacs, PayM, Cash ISA transfer, FPS, C&CCC and CHAPS. The relationship between CASS and the payment systems is summarised in the diagram below.

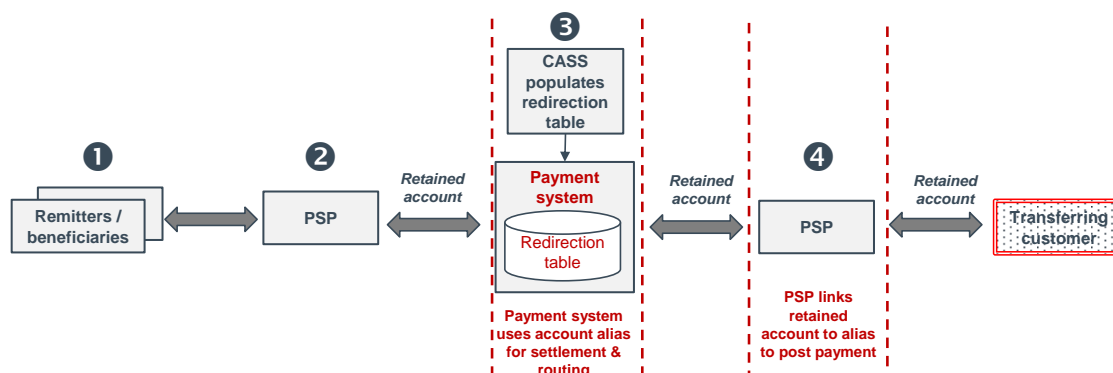


The CASS process could be adapted to deliver ANP. When a customer moves their account using CASS, they could elect to port their old account number to the new PSP. In the above example, the customer would retain 99-99-99 12345678, even though the account would now be held at a different PSP. All parties wishing to pay to, or collect from, the customer after the transfer would quote the retained account number. The new PSP would use it on-line, on the phone and in all correspondence etc.; payment originators would continue to pay to the retained account; direct debits would be collected from the retained account; etc. To summarise, the following principles would apply:

- A customer transferring his/ her account would be able to retain and continue to use their pre transfer sort code and account number (retained account number or "identifier").
- The new PSP would need to allocate a "hidden" sort code and account number ("account alias") to enable the payment systems to continue to operate. However, this would be hidden from the customer and the PSP would communicate with the customer using the retained account number.
- The payment scheme infrastructure would know about the retained account number and the account alias via the redirection table and would use the account alias to settle and route payments and messages to the correct PSP.
- All parties other than the new PSP and the payment schemes would use the retained account number.

In effect the redirection process is used to map the retained account number to the hidden, account number alias. There would be one slight difference. In CASS, a customer may move account several times. Moving account provider multiple times gives rise to several entries in

the redirection table, all of which point to the current location of the customer account. Such multiple entries would never occur in ANP. There would only be one entry: i.e. the retained account pointing to the current alias. This is illustrated in the diagram below.



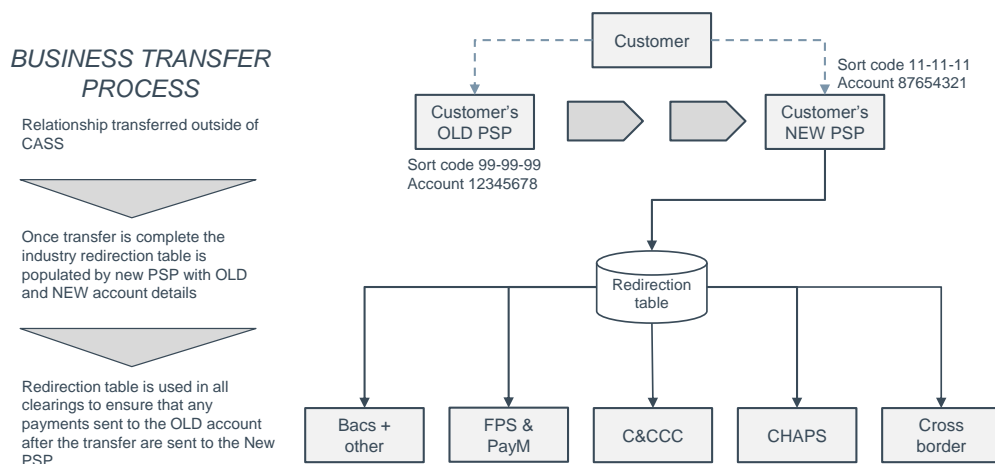
Although each payment system implementation is slightly different the process steps would be broadly similar (numbering as per above diagram) i.e.

1. Payer sends payment quoting retained account to their PSP
2. PSPs sends payment to the payment system quoting the retained account number
3. Payment system looks up beneficiary account in the redirection table and finds a match (existing functionality). Unlike standard CASS redirection, the payment system does NOT replace the beneficiary account (retained) with the alias from the redirection table or report the redirection to the originator. However, it would route and settle the payment on the basis of the alias account (changed functionality).
4. The beneficiary PSP receives the payment and is responsible for identifying the correct internal; account and processing accordingly.

Essentially this strategy means that CASS and the associated redirection process would continue to be used for account transfers; however, there would be an additional overlay that supports ANP as part of the process.

APPENDIX 2: HIGH LEVEL ANP SOLUTION FOR CORPORATE ACCOUNTS

For all customers, continuity of service is vital. For corporate entities, ensuring that their receivables continue to flow smoothly is especially important e.g. utilities and government departments collecting taxes. PSPs are increasingly considering using the new Bulk Payments Redirection Service (BPRS) (see appendix 9 for further details), which is a spin off from CASS, to ensure that when corporate accounts are transferred, payments continue to flow by means of central redirection. Although for corporate accounts using BPRS the transfer of accounts between PSPs would be outside CASS, there is no reason why corporates could not port their accounts to their new PSPs if they so wish and use BPRS to ensure continuity of payments. So instead of CASS triggering the redirection process as part of a transfer, the corporate's new PSP would set up the necessary retained and alias accounts in the redirection table.



The way in which payments to and from a ported account would be processed would be the same as already described for CASS qualifying accounts.

However, for corporate customers there is one further complexity as compared to personal customers, namely with regard to bulk payments. Corporates make and receive payments in bulk using direct credit, direct debit, and to a lesser extent, FPS DCA services. Broadly, we assume that the same four principles, mentioned above, would apply. For example, when a corporate sends a payment file to Bacs, the remitting account would be their retained account.

APPENDIX 3: IMPACTS ON PAYMENT SYSTEMS AND PSPS

This section reviews the impacts on the payment systems and PSPs. On the basis that PSPs could elect to offer portable accounts or not, the aim has been to identify an approach that confines impacts to the central infrastructure and the banks offering portable accounts. Each account based payment system is considered in turn. In all cases it is likely that scheme rules changes would also be required.

BACS

Function	Central impact	Account holding bank receiving ported acct
Payments to "ported account" and any related returns	<p>Functionality (already mentioned) to route and settle on the basis of the alias account while input and output from Bacs quotes the retained account.</p> <p>Where an ANP redirection occurs no feedback (in the form of an advice) is generated for the payment originator.</p>	<p>Ability to identify correct account for posting etc. even though all communication with the customer will quote the retained account details.</p> <p>Having received a payment for a ported account that needs to be returned, bank must create return specifying the retained account.</p>
Payments from a corporate that has ported their account to a new PSP	<p>Bacs reference data will quote the retained account details, the system will use the alias account for internal processing e.g. to determine which bank to contact for any PEM referrals.</p> <p>Note: this is a complex area of change within the Bacs system.</p>	<p>Bank staff must ensure that reference data set up to quotes the retained accounts.</p> <p>Ability to identify correct account for posting of contra.</p>
Bacs messaging including AUDIS	As for payments, functionality to route on the basis of the alias account	As for payments – no need for bulk DD transfer messaging as now
CASS and BPRS	<p>CASS and BPRS must distinguish between normal redirections/switches and ANP switches/redirection. This serves several purposes:</p> <ul style="list-style-type: none"> - It enables clearing and settlement mechanisms to treat ANP payments differently (for example not advising payment originators of the redirection). - It enables non-applicable CASS functionality, such as removing redirections, to be excluded from ANP redirections. - For serial CASS switches, redirections are chained. For an ANP switch the redirection entry is replaced. <p>CASS itself must be able to check the redirection table and route messages on the basis of the alias account, while the message contents will still be the retained account</p>	<p>As for payments.</p> <p>In addition, should the account be closed, then the bank must notify CASS/BPRS so that the redirection entry may be removed.</p>

Function	Central impact	Account holding bank receiving ported acct
Cash Transfer	<p>ISA Cash ISA messages are routed based on SUNs generated by participants obtained from the TISA database.</p> <p>Central system does not have access to the TISA database, therefore A redirection solution needs to be identified</p>	TBA – see issues

FPS

Function	Central impact	Account holding bank receiving ported acct
Payments to a “ported account” and any related returns	<p>Functionality to route and settle on the basis of the alias account while input and output from FPS quotes the retained account</p> <p>Where an ANP redirection occurs no feedback (in the response message) is generated for the payment originator.</p> <p>Note: we need to validate that PSPs use the receiving bank field in the response message to accrue settlement positions</p>	Ability to identify correct account for posting etc. even though all communication with the customer will quote the retained account details
Payments from a ported account	Functionality to route and settle on the basis of the alias account while input and output from FPS quotes the ported account	PSP needs to be able to remit quoting the retained account
DCA payments originated by corporate that has ported account	FPS reference data will quote the retained account details in a similar manner to Bacs	Bank staff must ensure that reference data set up to quotes the retained account.

PAYM

Function	Central impact	Account holding bank receiving ported acct
Registration	It must be possible for a bank to register a retained account number. This in fact, is already the case, as PAYM “trusts” a registering bank to specify correct account details.	None.
ANP Switch	As with a normal CASS switch, the old bank should de-register and the new bank register the account details (even though the sort code and account	None.

number are the same). This process has the effect of transferring maintenance responsibility for the PAYM database entry to the new bank.

C&CCC

When using cheques where a customer has switched an account, either the account on which a cheque is drawn or the account being credited may be transferred (or both). A typical scenario that might be considered would be where a cheque written before a switch, is not then presented for several weeks by the payee. By the time it is presented, the account on which the cheque was drawn has been transferred. Because paper and Bank Giro Credits (BGCs) are still exchanged, the CASS process is currently based on forwarding i.e. a cheque presented at the old bank is paid and then the bank collects the amount from the new bank. This paper-based redirection process will change as a result of the cheque imaging project expected to be delivered by the industry in 2017.

For the purposes of this paper, we assume the move to electronic image exchange in cheque imaging will mean that the ANP redirection table could be used to route and settle cheques and BGCs to the correct PSP, in line with the other UK systems. Specifically, use of this table should allow cheques drawn on the old bank to be forwarded to the new bank for clearance and any credits to a transferred account could be similarly redirected. Where a PSP has elected to offer ANP, their paying bank and collecting bank processes would need to take account of ported account numbers. The detail of the changes would need to be elaborated by C&CCC.

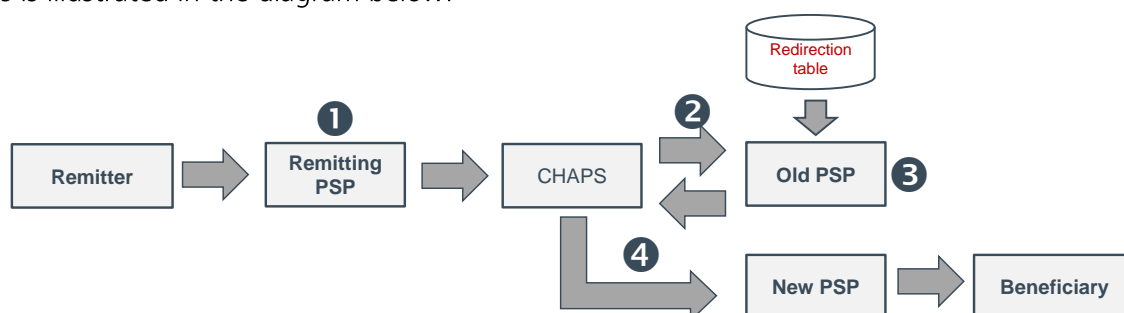
CHAPS

CHAPS uses the SWIFT network to carry messages and the Bank of England RTGS system effects the settlement of transactions. Nevertheless, it is essentially a bilateral exchange system and therefore there is no central hub where the redirection logic could be embedded. The routing of payments relies on the remitting bank determining the BIC for the beneficiary sort code and account (based on an ISCD sort code look up), creating the payment accordingly and then submitting it to CHAPS. The principle challenge relates to sending payments to a ported account, where this process will result in the payment being sent to the old PSP.

In CASS the issue is addressed by banks being issued with a subset of the redirection table (i.e. it contains only details of their customers who have transferred to another PSP). This table is used to forward any incoming payments which arrive at the old PSP. The process is as follows:

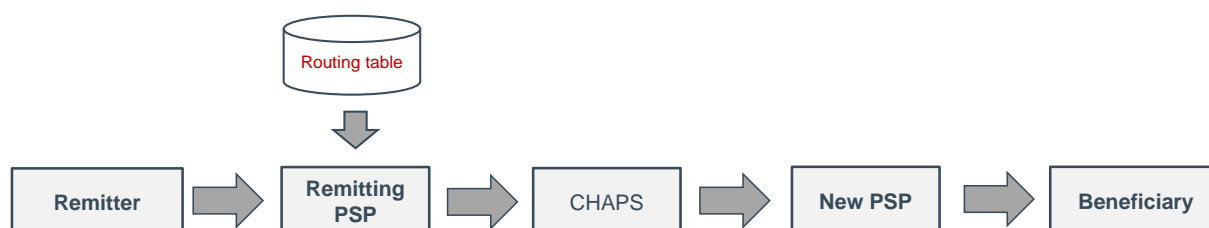
1. Remitter addresses payment to PSP based the retained sort code and account number.
2. Payment is made but it will be sent to the old PSP
3. The old PSP receives the payment and from the redirection table determines the true account holding PSP for the ported account.
4. The old PSP forwards the CHAPS payment to the new PSP.

This is illustrated in the diagram below.



This process works and could be used in ANP as well, although the old PSP would need to populate the beneficiary account in the forwarded message with the retained account not the alias.

In the longer term, a solution that allows the remitting PSP to determine the correct beneficiary PSP at the start of the process may need to be developed (i.e. at step1). For example, the PayM database could be used to hold the alias account as another proxy, or the IBAN-Only routing directory could be used to hold a list of exceptions (see Appendix 10 for further details).



The case for implementing such an enhancement could be made on account of rising switching volumes or because of concerns that the forwarding bank may fail before they have been able to forward a payment but such a process would likely not be needed for a day 1 implementation of ANP as such risks exist today already under CASS redirection and have been considered acceptable by the industry.

CROSS BORDER

Cross border payments are similar to CHAPS in the sense that there is no central UK system for processing them and we are chiefly concerned about incoming payments to ported accounts quoting the retained account. CASS specifies rules for forwarding cross border payments, which employs a similar process to CHAPS. PSPs have subset of the redirection table that contains only details of their customers who have transferred to another PSP. They use this table to forward payments to the correct PSP. This process would work for ANP as well, with the proviso that the old PSP would need to populate the beneficiary account in the forwarded message with the retained account, not the alias.

As for CHAPS, in the longer term, it may be necessary to develop a better process for remitting banks overseas to direct payment to the correct PSP. This could be based on the IBAN-Only routing directory operated by Payments UK and SWIFT (see Appendix 10 for further details). This table could contain a list of exceptional accounts where the correct BIC cannot be determined by inspecting the sort code. The drivers may be similar to CHAPS and the process would be similar with regulatory and industry consensus required to agree the changes.

APPENDIX 4: TECHNICAL AND OPERATIONAL ISSUES

There are a number of technical and operational issues that would need to be considered:

- IBAN: according to the ISO IBAN standard, the IBAN identifies the account holding institution, whereas the associated BIC identifies the institution to which payments should be sent. Where an account has been transferred the retained sort code and account does identify the account holding bank, but only in conjunction with a table of exceptions. There are a number of potential options to solve this issue which would need to be further investigated.
- Because the detailed definition of FCM is not available, it is assumed that the CASS process can be adapted. This would require discussion with C&CCC to develop the solution in detail but given cheque imaging is a new, digital scheme it would not be expected to be an issue.
- Long term use of forwarding at source: CHAPS and cross border payments would rely on a forwarding process. As already mentioned, there may be a need to find a solution that avoids the need for forwarding and therefore the reliance on the “old” PSP. Potential solutions for this issue have been outlined in this report.
- FPS settlement: remitting banks in FPS accrue settlement totals to support counterparty reconciliation at each settlement cycle. According to the FPS specification they are supposed to use the “receiving bank” field in the response to do this. We need to validate that PSPs are not using receiving sort code, which will identify the wrong PSP and hence could lead to reconciliation issues.
- Cash ISA Transfer: messages are routed based on SUNs generated by participants obtained from the TISA database. The central system does not have access to the TISA database, therefore a redirection solution needs to be developed.
- Re-use of accounts at “donor” PSPs: in CASS PSPs cannot reassign account numbers that are still subject to redirection and there is a mechanism in place to advise when redirection has ceased. ANP would use the same mechanism. Although CASS redirection may block reassignment for several years, in ANP the block would be permanent. Consequently, there could be a slight increase in the number of blocked accounts at donor banks. The impact of this would need to be confirmed.

APPENDIX 5: IMPACT ON PSPS NOT WISHING TO SUPPORT ANP

One option for the proposal for ANP is that PSPs may elect not to participate in ANP. A further assumption is that the impact on non-participants should be minimised. From the analysis undertaken it is however not entirely possible to avoid impacting non-participants. There are a number of areas already mentioned:

- A non-participating PSP would not allow a new incoming customer to import their current sort code and account from another PSP. One consideration for PSPs might be that they are worried about running out of account numbers. It is assumed that non-participating PSPs would not be permitted to veto the use of their sort codes and account numbers in ANP. As a result, it is almost certain that some processes of non-participating PSPs will be impacted.
- In general, the payment systems will manage the routing of payments etc. to the correct PSP. Nevertheless, CHAPS and cross border payments would rely on a forwarding process. Although this would be virtually the same as CASS, the population of the forwarded message would require some change.
- Query handling involving a ported account will need careful thought for all industry participants. There is likely to be an impact on any PSP handling queries that relate to payments to or from a ported account.
- FPS settlement reconciliation may have an impact

APPENDIX 6: REGULATORY, PSP AND SCHEME APPROVAL

It is assumed that any solution for ANP will require the agreement of the Payment System Operators, payment scheme participants as well as regulators.

Regulators and HM Treasury

Support for ANP from regulators and from Treasury would be required to implement it into required regulation or scheme rules.

This support would be expected because the proposed solution has built upon a wide range of previous work that has been completed and supports a number of themes currently high on the regulatory agenda. These include:

- Increased competition within the industry for existing PSPs and banks
- Enhanced consumer fairness that comes both through greater ability to move banking provider as well as reduced risk of error in making and receiving payments
- Potentially reduced costs for new entrants to the market for banking (for consumers, SMEs and corporates)
- An increased drive for product and process innovation through increased ability to capture customers
- Meeting the stability targets that switching can provide as outlined in the ICB report of 2010

The FCA highlighted in their March 2015 report Making Current Account Switching Easier that while the CASS service had made improvements to the process it was still missing the Treasury's confidence targets and consumer awareness was still low.

The report also highlighted, through consumer research, as previous reports have the potential benefits to consumers of being able to retain their account details. It was found that "ANP may increase confidence among retail consumers in a smoother, error-free switching process. SMEs and charities that receive a high proportion of their income electronically also saw obvious practical benefits from their customers not having to update records."

It was additionally highlighted that a significant minority of eligible customers would be more likely to switch if they could retain their account details.

Payment Schemes

Broadly the process proposed for ANP in this report is based on re-using CASS processes. However, it is recognised that there would be impacts across payment processes for multiple schemes. Consideration should be given to whether ANP would need be a scheme or service provided by a PSO in its own right or an extension to the existing CASS service. Consideration of this point would not be seen to be a blocker to introduction.

Items for Consideration

The following questions should be considered when introducing the ANP solution. Initial analysis does not suggest that analysis of these points would be blockers to progress and delivering the benefits outlined:

- Does the ANP process introduce acceptable levels of risk in terms of destabilising the current payment systems?
- Is the risk of customer confusion when resolving queries etc. acceptable?
- Does it matter that when a PSP makes a payment for its customer, while the ultimate beneficiary is the same person, the sort code and account number suggest one PSP but

under the proposed ANP solution, the payment will have been routed to a different PSP? While this re-routing of payments occurs today in Bacs under current CASS rules, in today's CASS the response message from Faster Payments scheme will provide the remitting bank with the redirected sort code and account; under the proposed ANP proposition the underlying beneficiary bank information would probably not be present. Therefore under the proposed ANP approach, would sufficient information be available regarding "line of sight" to the underlying customers to manage AML?

APPENDIX 7: CASS PARTICIPATING ACCOUNTS

Definition of CASS Participating Accounts (source: CASS) as follows:

“The accounts that are supported by the full seven working day guaranteed account switch service and the partial switch service include Sterling current accounts for customers that are either:

- A consumer (including basic and children’s accounts)
- An SME with an annual turnover and/or balance sheet total does not exceed £6.5 million and employs fewer than 50 people. This definition comes from the banking reform proposals for ring-fencing and it meets the 99% SME threshold requirement in the 2014 Chancellor’s Autumn Statement (as validated by government produced statistics)A small charity with an annual income of less than £6.5 million
- A small trust with a net asset value of less than £6.5 million
- A sterling current account is an account with sterling (GBP) as the account currency which provides the facility to hold deposits, receive and make payments using cheques, debit cards, Direct Debits and Standing Orders and use ATMs and make regular payments.

The partial switch service will support current accounts for larger corporate customers and other account types in addition to those defined above.

The service will support the full switch of a current account from one Payment Institution to another current account at another Payment Institution. It will support an account switch from:

- Sole account to sole account
- Sole account to joint account
- Joint account to joint account

For sole to sole, and joint to joint, switches of personal current accounts, the same account holder(s) must be named for both the old account and the new account. The rule is that for switches of personal current accounts, the account parties for the old account must be account parties for the new account. In a sole to joint switch, the new account will have an additional party.”

APPENDIX 8: CASS CURRENT FUNCTIONALITY AND SCOPE

Under CASS today, there are two account switching services available: a “full switch service”; and a “partial switch service”. Banks, building societies and or other payment account providers operating in the UK can offer one or both services to customers. However, under the following circumstances a paper based accountswitching process will continue to operate:

- For organisations that have chosen not to participate in the new Account Switching Services
- For customers that are not eligible for the full current account switch service or the partial switch service.

FULL SWITCH SERVICE (CURRENT ACCOUNT SWITCH SERVICE)

The full switch service, known as the Current Account Switch Service, applies where the customer wants a hassle-free service that automatically transfers all payment arrangements to their new bank and closes their existing account.

The full switch service may only be used for the transfer of personal, small business, charity and trust current accounts and it comes with a guarantee. It guarantees that all payments associated with the customer’s old account will be switched to the new account and ready for use with effect from a pre-agreed switch date. Any payments that continue to be made to, or collected from the old account will be automatically redirected to the customer’s new account for 36 months. The Current Account Switch Service is designed to deliver:

- Standardised switching service across all participating banks and building societies
- Reliable and hassle-free switch for the customer
- Guarantee that promotes confidence and credibility in the service.

PARTIAL SWITCH SERVICE

The partial switch service provides selected features of the Current Account Switch Service, but does not involve the customer closing their existing account or automatically transferring all of their payment arrangements. The service is not limited in terms of time and is not covered by the Current Account Switch Service Guarantee. It also enables a switch between account product types other than current accounts (where possible and when both service providers agree).

FUNCTIONS AVAILABLE UNDER A FULL AND PARTIAL SWITCH:

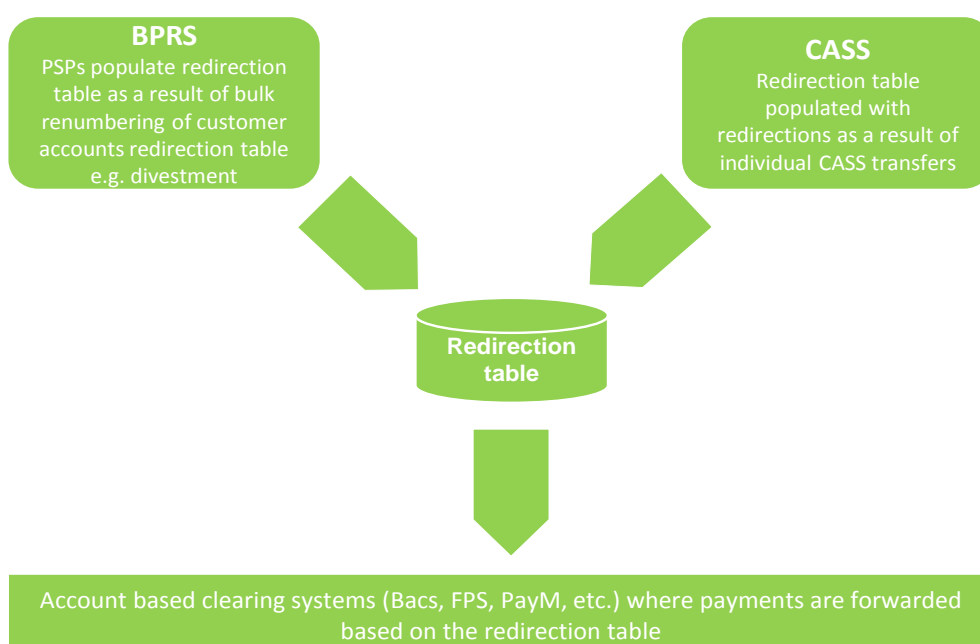
Service functionality	Full switch service (Current Account Switch service)	Partial switch service
The switch date can be selected in advance and agreed with the new bank	Yes	No
All payment arrangements are transferred automatically	Yes, all payment arrangements will be transferred	Yes, it is possible to transfer all payment arrangements, but customers can also choose which payment arrangements they want transferred
Transactions will be redirected to ensure all payments attempting to be collected from or being made to an old account will redirect to the new account	Yes, there is a 36 month automated redirection service	No
Closing balance transfers automatically	Yes	No
Old account will close automatically	Yes	No
Customers are protected by a service Guarantee	Yes	No
The switch will occur in 7 working days	Yes	No, not guaranteed

APPENDIX 9: BULK REDIRECTION PROCESS

The Bulk Payments Redirection Service (BPRS) is a new service administered by Bacs. As discussed elsewhere in this report, CASS includes facility that ensures that any payments sent to a customer's old bank account are redirected to the PSP where their account is now held.

Over the last couple of years, various scenarios have emerged where PSPs need to re-number large numbers of customer accounts e.g. branch divestments, ringfencing, etc. As a result, they need to ensure that their customers' payments will not go astray as a result of this renumbering, which after all, was not something their customer have elected to do. BPRS re-uses the redirection capability and rules developed for CASS to provide redirection services across the full range of payment systems. However, instead of redirection being set up as a result of individual accounts being transferred between CASS participants, PSPs provide details of the redirections they want set up by sending files of redirections to the BPRS service.

The relationship between BPRS, CASS and the redirection capability is summarised in the diagram below.



Under BPRS (unlike full ANP), although payments made to old account identifiers will be redirected, the customer is still asked to use their "new" account number and sort code to make and receive payments.

APPENDIX 10: POTENTIAL ENHANCED SOLUTIONS FOR CHAPS AND INTERNATIONAL PAYMENTS

BACKGROUND

Regulatory changes mean that from 1st February 2016 Eurozone banks and Payment Service Providers (PSPs) must process Single Euro Payments Area (SEPA) payments using only a customer's IBAN (International Bank Account Number). Previously customers were required to also provide the Business Identifier Code (BIC) of the PSP they were intending to pay, in order for their PSP to process the payment.

Payments UK, liaising with the Financial Conduct Authority (FCA) and the Bank of England, have developed SEPA IBAN-Only (SEPAIO) directory in conjunction with SWIFT. Contributing UK PSPs are responsible for maintaining their data in the directory. The directory provides PSPs across Europe with a utility for deriving the BIC. This mechanism is intended to ensure the change to IBAN only payments is made smooth and seamless for recipients of SEPA payments in the UK, and to make certain that all Eurozone PSPs (e.g. banks and large corporates initiating payments) are provided the necessary routing information to route a SEPA payment correctly to UK beneficiaries by providing a correct BIC for a customer's account identifier.

USING IBAN-ONLY DIRECTORY IN ANP

Essentially the directory enables PSPs to determine the correct BIC to which payments should be sent based on a given IBAN. A typical IBAN is illustrated below:



At the moment the directory operates on the bank code and sort code elements of an IBAN. The directory could be enhanced to include specific account numbers as well. As a result the table could include the general rule for a given bank / sort code plus a list of exceptional accounts where they have been ported to another PSP as a result of ANP. This could be used to avoid the need for payment forwarding in CHAPS and for cross border payments.

APPENDIX 11: ADDITIONAL BENEFITS BASED ON BRD

During the recent workshop, the benefits of BRD were also drawn as a point for comparison:

Market/ Consumer Type	Benefits	BRD
Consumers	<ul style="list-style-type: none"> • Simplicity for the consumer where there would be no need to change anything 	✓
Businesses	<ul style="list-style-type: none"> • Smoother process for payables and receivables and simpler process for misdirected payments (ANP benefits would be B2B) • Creates an easier merger and acquisition process for businesses 	✓ ✓ ✓
Government	<ul style="list-style-type: none"> • Smoother receivables and payables • Easier for people to access and use financial systems in line with the Treasury priorities 	✓ ✓
Banks/ Market	<ul style="list-style-type: none"> • Increased simplicity for inter-bank mergers and acquisitions through BRD • More entrants and potential to open competition • Innovation within the industry 	✓ ✓ ✓

