

payments
strategy
forum

Simplifying Access to Promote Competition

Payments Strategy Forum | Second Payments Community Event



Introduction to Access Detriments

SAM WG – the who and the what!

- 30 people from across the payments community
 - Chair Marion King (RBS) and Deputy Becky Clements (Metro Bank)
 - 4 large banks, 5 smaller/challenger banks and 2 APIs
 - 7 PSOs and 2 infrastructure providers
 - 3 representative trade associations
 - 3 technical providers
 - 3 independent payment consultants
 - 1 large corporate user
- Progressed through detriment analysis, solution development and write up
- Experts drawn in from the represented organisations
- Worked closely through the phase 2 sub-groups to shape the strategic solution proposals for:
 - the simplified payments platform framework
 - messaging standard development
 - payment system operator consolidation
 - liability models for indirect access

How the Access Detriments were Defined

- Community events helped identify the long list of detriments for the Forum, which approved them in December 2015;
- Each working group analysed and grouped their detriments to ensure all were addressed;
- From these groupings, the solutions emerged to address the important issues and concerns; and
- The Access detriments are summarised in the next two slides and further information can be found in the strategy document and the PSF website.

Choice and Competition

- Small number of sponsor/commercial solutions for indirect PSPs;
- Indirect PSPs are reliant on their sponsor bank's solution and this may affect what an indirect PSP can offer their customer; and
- A sponsor bank's solution may be proprietary, which can make it difficult to switch indirect access provider

Messaging Standards

- The absence of common standards in the UK payments infrastructure:-
 - may limit future UK innovation;
 - may limit infrastructure competition;
 - makes substitutability between payment systems difficult for PSPs in the event of outages

Scheme Governance / Rules

- A non-credit institution PSP cannot obtain a Bank of England settlement account or become a direct scheme participant;
- Multiple payment schemes are expensive, complex, time consuming to join for PSPs and confusing for end-users;
- Lack of transparency about schemes' on-boarding requirements and what being a participant entails;
- Indirect PSPs don't consider they have an effective voice into Schemes, particularly for new developments

Short Term Initiatives To Enable Access

Initiatives already planned or underway that reduce barriers to entry for new participants in the payments system.

- Sort codes are a key routing mechanism for UK payments.
- New participants were required to gain access to a sort code through an existing participant who may be a competitor.
- Bacs manages Bank Reference Data of which this is a part, on behalf of the industry.
- Initiatives are in place to deliver a new utility sort code range to address this issue.
- A solution has been piloted and is now available.
- In parallel a strategic review of governance for Bank Reference Data is underway.

- Certain payment systems (Bacs, CHAPS, Cheque and Credit and FPS) require direct participants to hold a settlement account at the Bank of England.
- Currently only a bank or building society that holds a reserve account at the Bank can obtain a settlement account.
- Bank of England has announced plans to extend direct access to settlement accounts to non-bank Payment Service Providers.
- Progress is linked to the review and development of the BofE's Real Time Gross Settlement system (RTGS).
- Resilience and regulatory oversight will be developed to support the new structure while Government has committed to legislative changes to facilitate new entrant access to the RTGS system.

- Aggregators provide a service connecting PSPs to PSOs removing the need for PSPs to have specific technology solutions for each PSO.
- The Forum wants to encourage competitive access solutions such as those offered by aggregators.
- Individual schemes will review their requirements to accept and encourage aggregator services.
- Through work on common participation models and rules, differences between PSOs requirements will be reduced to encourage aggregators to offer competitive services to connect to multiple PSOs.
- Link and Faster Payments already have initiatives in place while Bacs is consulting on possible approaches.

Common PSO Participation Models and Rules (2)

- There is currently no common entry point for PSOs and differing application processes for each. Rules and terminology differ significantly between PSOs.
- This creates cost and complexity for new and existing participants.
- Ten areas for collaboration between PSOs have been identified with the aim to deliver a common approach unless there are exceptional circumstances.
- Some can be addressed quickly others will take considerable time and effort.
- The collaboration will be led by the PSOs and include the inter-bank schemes and Link as well as a range of stakeholder representatives.

Common PSO Participation Models and Rules (2)

The 10 areas for collaboration are:

- Common terminology
- Common eligibility criteria
- Approach to categorisation of participants
- Common payment product descriptions
- Engagement with indirect participants, new entrants and providers
- Rules, procedures and participant agreements
- Technical accreditation process
- Assurance processes
- On boarding and migration to common connectivity models
- Access to information and documentation

Strategic Simplification of Access

The strategy proposes three strategic solutions that align with the Forum's vision for the future of UK payments.

Establishing a Single Entity

- The payments community identified that multiple payment systems are overly complex, time consuming, costly to join and participate in.
- Rather than dealing with one governance structure a new entrant has to interact with multiple structures duplicating effort and resource.
- The Forum recommends consolidating the governance structures for three of the inter-bank PSOs – Bacs, Cheque and Credit and Faster Payments.
- Collaborative solutions proposed by the Forum are likely to benefit from a single governance structure
- Further analysis of the costs and benefits involved is proposed.
- To progress, PSOs will work with other stakeholders including the PSR and Bank of England to agree the best way forward.

Moving to a Modern Payment Messaging Standard

- Each UK PSO operates using various payment messaging standards that stem from the historic domestic nature of the inter-bank schemes.
- This variety of standards restricts competition, increases complexity and stifles innovation.
- The Forum proposed that the UK adopts the ISO20022 messaging standard.
- Work has already been done to simplify and map these varying standards.
- It is likely that this initiative will be progressed as an enabler to support proposals for a new payments architecture.

- PSPs that do not wish to participate directly in PSOs must gain access to a bank account via an indirect access provider.
- Relatively few providers offer this service with only four banks participating but at least one new provider has entered the market.
- A major constraint on existing and potential providers is uncertainty over how liability and accountability is apportioned between providers and indirect PSPs.
- Providers believe they are over exposed to risk, which constrains development of the service and therefore access.
- The solution seeks to provide clarity on accountability in indirect access models.
- Any amendments to existing liabilities will not be a simple fix and are likely to require close collaboration between industry and regulators both in the UK and overseas

Progressing the Strategy

How the Strategy will move from draft to final

- **Phase 1:**
13th July - to draft strategy publication – this sets out the Forum’s view that the UK payment systems need to modernise and change to stay fit for purpose and meet changing end users need;
- **Phase 2:**
14 September – end of Consultation Period – develop high-level quantitative cost/benefit analyses for each relevant solution; review responses to enhance the CBA
- **Phase 3:**
November 2016 – publish strategy document
- **Phase 4:**
November and beyond – potential for detailed design phase for solutions to be progressed

Next Steps

What we'd like from everyone in the Payments Community

Our request to you

Please:

- Read the Strategy and think about what it means for you and those you represent;
- Respond to the questions it asks – as many or as few as you wish;
- Get more engaged if you can to help ensure its success; and
- Ask us your questions!