

CreDec Response

The Payments Strategy Forum – Being responsive to user needs
Draft strategy for consultation

Respondents basic details

Consultation title:	CreDec Response - PSF Draft Strategy Consultation
Name of respondent:	CreDec
Contact details/job title:	
Representing (self or organisation/s):	
Email:	
Address:	

Publication of Responses

In responding to this consultation, you are sharing your response with the members of the Payments Strategy Forum (Forum), evaluators appointed by the Forum and the Payment Systems Regulator Limited, ('the PSR' - which provides secretariat services to the Forum). The PSR accepts no liability or responsibility for the actions of the Forum members or evaluators in respect of the information supplied.

Unless you tell us otherwise the Forum will assume that you are happy for your response to be published and/or referred to in our Final Strategy Document. If you do not want parts of it to be published or referred to in this way you need to separate out those parts and mark them clearly 'Not for publication'.

Please check/tick this box if you do not want all or parts of your response to be published:

Declaration

"I confirm that our response supplied with this cover sheet is a formal consultation response that the Forum can publish, unless it is clearly marked 'Not for publication'.

The Payments Strategy Forum – Being responsive to user needs Draft strategy for consultation

Response template

This response template is intended to help stakeholders in responding to the questions set out in our Draft strategy for consultation and in its Supporting Papers.

If you do not want parts of or all of your response to be published you need to state clearly ('Not for Publication') over specific information included in your response, please be sure to clearly mark this by yellow highlighting it. We will assume that all other information is suitable for publication.

Responses should be emailed to us at Forum@psr.org.uk in Word and PDF formats by no later than **14 September 2016**. Any questions about our consultation can also be sent to Forum@psr.org.uk.

Thank you in advance for your feedback.

QUESTIONS IN RELATION TO SECTION | RESPONDING TO CONSUMER AND BUSINESS NEEDS

Question 1: Do you agree we have properly captured and articulated the needs of End Users? If not, what needs are missing?

See below

Question 2a: Do stakeholders agree with the financial capability principles?

Question 2b: How should these principles be implemented?

Please Note:

CreDec's Response relates generally to:

Questions 1, 3d, 3e, 4b, 13b, 19a, 19c,

but touches key issues of access, innovation and pricing transparency and therefore does not follow the response template, but is presented as a separate attachment.

For convenience it is submitted in both Word and PDF file formats.



CreDec Response

PSF Draft Strategy Consultation

Introduction

CreDec welcomes the opportunity to respond to the PSF's Draft Strategy.

We would like to congratulate the PSF on the quality and scope of the Draft Strategy and this consultation concluded in so short a time.

CreDec's view of the proposed UK payments strategy is overwhelmingly positive and supportive.

Our response is limited to consideration of two basic principles of critical importance to the implementation of the Simplified Delivery Mechanism/Simplified Payments Platform changes which need to be observed to ensure competition and the potential for innovation are not inadvertently undermined.

These principles relate first to the way **Service users**, that is customers, instruct third party **Service bureaux** / PSPs as their agents for their payments business and, secondly, the transparency of the resulting charges the customer incurs¹.

1. **Recognising the Service Bureau Indirect Access Model**
2. **Ensuring the Transparency of Charges to Service Users**

These definitions are the PSF's (PSR's) own and also overlap with the definition of a Payment Service Provider². For convenience this consultation response hereinafter uses "PSP" to refer to a Service bureau and the third party indirect access model of BACS.

1. Recognising the Service Bureau Indirect Access Model

Broadly, for PSPs to compete effectively for Service users/customers, they require the customer's authorisation to initiate and instruct payment instructions on their behalf to the customer's bank for settlement via a PSO.

A competitive payments market relies on PSPs which do not have direct ownership of the customer's bank account to be able to provide payment services to the customer regardless, by means of an indirect access arrangement. The PSF and PSR should remain mindful that while wider access to a generic range of bank Sort Code and Account Number range are helpful for some PSP delivery

¹ The consultation's glossary p51 defines **Service bureau**: "Provides an outsourced service for the submission and processing of payments on behalf of service-users. Service bureaux may also provide a range of value-added services (such as payroll processing)." and **Service-user**: "As under s.68 (1) FSBRA, service-user means those who use, or are likely to use, services provided by payment systems."

² The consultation's glossary p50 defines **PSP (Payment Service Provider)** As under s.42 (5) FSBRA, a PSP, in relation to a payment system, means any person who provides services to persons who are not participants in the system for the purposes of enabling the transfer of funds using the payment system. For the purposes of this Consultation Paper, this includes Direct PSPs and Indirect PSPs.

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models, they are not necessary for existing indirect access customer arrangements used by PSPs serving Service users in the (BACS) Service bureau market.

For example, in BACS, the customer is identified by means of a Service User Number (SUN) sponsored by its bank which hosts the customer's designated funding (or receiving) bank account. However the SUN is assignable, at its customer's discretion, by the sponsoring bank on its customers' instructions to any third party PSP thereby allowing the customer to decide who manages its payment services on its behalf. This is known as the BACS Indirect Access/Submitter model and utilises multiple accredited commercial and bank bureaux to submit systemically important volumes of BACS Direct Credit and Direct Debit payments.

In this, the BACS indirect access model, the PSP does not require its own bank Sort Code and Account Number range to deliver payment services. Here the PSP does not supply or otherwise control the bank account from or to which it is supplying payment services to its customer. Funds travel directly from, or to, the customer's designated principal bank account.

This three way relationship between the customer, its bank and (third party) PSP of the BACS Indirect Submitter Access model, by means of a SUN, ensures the customer is free to choose the payments solutions and partners that best serve its purpose. The BACS indirect access model facilitates (third party) PSP access to the customer's primary bank account so that it can provide payment services to Service users/customers without any requirement for the customer or PSP to operate a second bank account.

CreDec wishes to highlight the simplicity of this current indirect access model and ensure it is carried forward into other such payment schemes, such as FPS, potentially as part of the implementation of PSDII Access to Accounts.

2. Ensuring the Transparency of Charges to Service Users

In addition the BACS third party indirect access model also facilitates the separation of payment charges for the customer: the actual bank charges for the **settlement** of each payment item transaction in and out of the customer's funding or receiving bank account, imposed and debited directly by its bank and, separately, the charges applied indirectly to the customer by the PSP for the provision of the required payment **service**.

The **service** charge of the PSP for executing the payment transaction via the customer's primary bank account and the **settlement** charge imposed by the bank on the customer for clearing these same transactions are itemised individually.

The customer is responsible for both sets of charges but has the necessary pricing information to determine the total and true cost of its payment services and make appropriate supplier selections.

This separation of the associated costs for the customer of its payment's business ensures complete transparency for the customer of all associated charges and materially supports competition and price comparison.

It is noteworthy that the telecommunications market provides a significant comparable example of a recent regulatory intervention by Ofcom³ in order to facilitate pricing transparency.

³ <http://media.ofcom.org.uk/news/2015/phone-charges-made-simpler/>

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The PSF's draft strategy makes a number of highly appropriate comparisons with the telecommunications market.⁴


Accordingly, CreDec wishes to draw the PSF and PSR's attention to this and the fact that Ofcom judged such a regulatory intervention in July 2015 necessary to ensure the transparency of the respective charges of the underlying incumbent network provider and the third party service provider.

Such best practice on price transparency, which currently obtains in BACS should be recognised by the PSF/PSR and be carried forward into the new governance and operational model for the Simplified Delivery Mechanism/Simplified Payments Platform to ensure the competition value of the simple price comparison available now is not lost to Service users.

UK Telecommunications Pricing Transparency Changes

Case Study

Recent regulatory pricing changes in the UK telecommunications market have demonstrated the competition value of pricing individual service components transparently to inform Service user choice.



From 1 July 2015 Ofcom enforced the separation of the costs for calling specified numbers. This change created two distinct prices for the cost of calling service numbers whereas previously the service user had paid a single charge.

What Ofcom recognised was the importance of enforcing separate charges, for access and services, to allow *“consumers ... to understand the exact cost of making the call by adding the access and service charges together. They will [now] also be able to compare the prices of different service providers more easily, and also choose a provider with a competitive access charge when signing up to a new landline or mobile deal.”*

These developments in telecommunications regulation emphasise the importance of the transparency of each individual component of the service elements to allow customers to make a simple, informed determination about the total costs of their services.

<http://media.ofcom.org.uk/news/2015/phone-charges-made-simpler/>

⁴ **The Horizon for Payments:** Report from the Horizon Scanning Working Group, included in the Consultation's supporting Papers. Passim and anticipates "likely ... closer regulatory alignment between interrelated and corresponding financial and telecoms regulators."
<https://www.paymentsforum.uk/sites/default/files/documents/HSWG%20Report.pdf#page=40&zoom=auto,69,507>

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The comparison between the telecommunications and payments markets is identical.

In payments, the business customer or Service user currently pays a settlement charge, (the equivalent of the incumbent telecoms provider's 'access charge',) for every transaction they clear in and out of their business bank account in addition to the charges they pay a third party PSP or Service bureau for the actual payment service they have chosen to contract for.

This price transparency therefore already exists in the UK payments market in the Service bureau, BACS Indirect access model.

It is essential therefore that in the implementation of changes to UK payments infrastructure the separation of service and settlement charges remains and should be adopted more widely across the new Simplified Delivery Mechanism, Simplified Payments Platform so that, as with the UK telecoms market, price transparency between payments settlement and service costs becomes universal.

This pricing practice should apply even where the customer's incumbent bank is also the customer's PSP transacting its payments business so that, like UK telecoms providers, the bank PSP has to itemise the charges for settlement of transactions separately to the cost of the payment service that gave rise to the settlement charge, even where it delivers both elements.

Summary

CreDec is of the view that the preservation and development of these two fundamental principles, of efficient indirect access to customers' bank accounts – without the need for a separate customer payment bank account – and transparency of the separate charges of service and settlement, are fundamental to the development of the UK's payments infrastructure.

We believe these principles are understood and will be developed further in the implementation of the proposed changes but think them sufficiently important to wish to emphasise them in this response. Regardless, we would welcome explicit confirmation of the PSP Service bureau model in the PSF's final adopted strategy.

Its simple operational and delivery mechanisms allow the customer to continue to have a single primary bank account and still benefit from payment solutions from a competitive PSP market with full price transparency, without any requirement to change its primary bank relationship, represent a proven model widely used in UK payments in BACS.

These considerations are of real importance to the UK SME business payments market and would allow for new payments innovation without the need for customers to change the bank that provides their principal business and payments account, a factor which regulators recognise is a high barrier to payments competition.

The BACS third party access indirect access model for Service bureaux readily offers a template for the proposed Simplified Delivery Mechanism, Simplified Payments Platform, whether or not the BACS scheme itself can be adapted to provide it.

CreDec

12 September 2016

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About CreDec

CreDec is a UK Payment Service Provider and the RTI BACS payments partner of the UK's principal accountancy supervisory bodies, ICAEW, ACCA & ICAS providing payroll credit and accounts payable and accounts receivable payment services predominantly to the UK SME business market.

CreDec is therefore an "Indirect Participant", providing UK business payments as a Payment Service Provider or Service Bureau serving business Service users.

The principal payment network used by CreDec is direct BACS, in its capacity as a BACS bureau, originating both BACS 'Direct Credit' & 'Direct Debit' transactions using its customers' own Service User Numbers, assigned to CreDec, using what is known as the BACS Indirect Access service model.

CreDec is a trading name of Ardohr Limited and is authorised by the Financial Conduct Authority, Firm Reference Number 543196.