



Horizon Scanning Working Group

Account Number Portability Report

Draft for discussion 07/04/2016

EXECUTIVE SUMMARY

An effective and dynamic current account market is one in which customers have clear, transparent information and a choice of differentiated products. It should be easy for customers to compare providers and switch with confidence. The wider debate around competition in the current account market continues to evolve, and is the subject of a Competition and Markets Authority investigation due to conclude in summer 2016.

This paper focuses on one aspect of this broader topic - the switching process. It answers a specific question, which is how account number portability (ANP) could be enabled based on the current payment infrastructure, in response to a request from the PSF (which in turn was requested to examine ANP further by the PSR which was requested to consider ANP by the FCA).

It is important to note (in line with the request for this paper from the PSF) that this current paper does not seek to address whether account number portability should be introduced, or assess all potential merits and drawbacks of it as a solution, which would still require additional careful in depth consideration. We propose that this analysis should be undertaken as part of a further stage of review carried out by an independent party.

The Current Account Switch Service (CASS) was launched in 2013 and significantly enhanced the switching experience for customers (for example, a customer guarantee) and the service continues to evolve (for example, enhanced redirection). While CASS delivers many positive outcomes, account number portability remains of interest to stakeholders, some of whom believe it could enhance the market.

The HSWG has considered how account number portability could technically be enacted, if it were seen as a desirable outcome. The approach outlined would enable a customer or business to port their existing identifier (based on a sort code and account number) to a new institution, and use it for all payment purposes and communications. In the course of its work, the HSWG suggests a number of principles that would minimise disruption.

It should be noted that the approach outlined in this report, based on the FCA/Moorhouse report is one option for delivering account number portability, but it is not the only option. It is important to consider that this exercise has been carried out 'as at' the status quo and due to the limited time available has not yet received wider industry review.

Technology will evolve, and the solutions taken forward as part of the broader payments strategy may address some outcomes account number portability seeks to achieve or supersede it as a concept. As such, any independent review should assess feasibility of delivering account number portability in view of an evolving landscape (such as PSD2 and APIs).

In terms of next steps, the recommendations are that:

- **An independent economic review is undertaken of the solution option proposed to understand both the costs and benefits**
- **Further work is undertaken to examine other potential models for account number portability (as referenced by the FCA/Moorhouse) and also consideration given to how any new scheme proposals could change the ANP requirement.**

Table of Contents

EXECUTIVE SUMMARY	2
Proposal.....	5
1. Background	5
2. The Purpose of this Report.....	5
3. Key Principles.....	6
4. The fca/moorhouse report – applicability to options and future possibilities.....	6
5. Solution Summary.....	7
6. Impacts.....	9
6.1 Impacts on participating psps	9
6.2 Impacts on Non Participating PSPs	9
6.3 Impacts on GOVERNMENT and regulator	9
7. Conclusions	10
Appendices	11
8. Appendix 1: High Level ANP Proposal for CASS qualifying accounts.....	11
9. Appendix 2: High Level ANP Solution for corporate accounts.....	13
10. Appendix 3: Impacts on payment systems and PSPs.....	14
Bacs.....	14
FPS	15
PayM	15
C&CCC.....	16
CHAPS.....	16
Cross border	17
11. Appendix 4: Technical and operational issues.....	18
12. Appendix 5: Impact on PSPs not wishing to support ANP.....	19
13. Appendix 6: Regulatory, PSP and scheme approval.....	20
14. Appendix 7: CASS participating accounts.....	22
15. Appendix 8: CASS Current Functionality and scope.....	23
Full Switch Service (Current Account Switch Service).....	23
Partial Switch Service.....	23
functions available under a full and partial switch:.....	24
16. Appendix 9 – bulk redirection process.....	25
17. Appendix 10 – potential ENHANCED solutions for CHAPS and international payments	26

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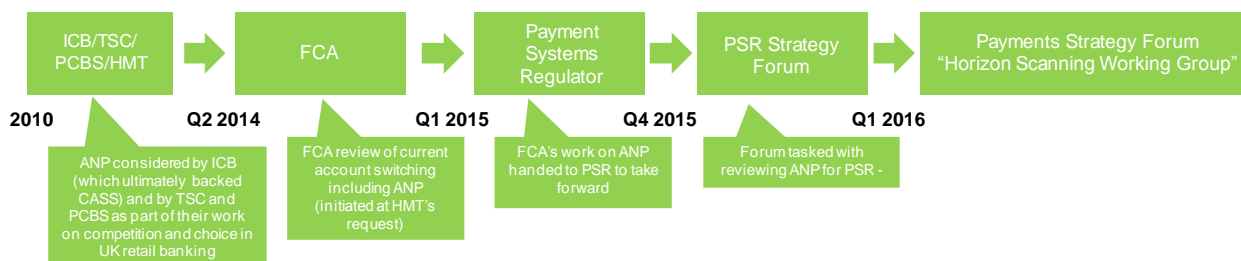
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Account Number Portability	FCA/Moorhouse	March 2015
Making Current Account Switching Easier	FCA	March 2015
Briefing to PSF – PSF25022016 –(5i) Horizon Scanning Working Group ANP Update	HSWG	February 2016
PSR Policy Statement – PS 15/1	PSR	March 2015

PROPOSAL

1. BACKGROUND

ANP has been a topic in UK banking for a number of years but came to prominence during the Independent Commission on Banking in 2010:



Account number portability has been widely discussed since 2010 when the independent commission on banking considered it as part of their recommendations (which ultimately resulted in CASS).

Subsequently, in September 2014 the FCA undertook a review into 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 that ANP was attractive to a "significant minority" and for the minority it would increase confidence in a smooth, error-free switch.

Subsequent to those reports, the FCA committed to pass the work on ANP to the PSR. In response to this, also in March 2015, the PSR policy statement which outlined the responsibilities of the PSR stated that a solution for ANP will be considered as part of the payments strategy forum. The chair of the forum has subsequently asked the HSWG to produce a paper outlining potential solutions for ANP.

The reviews that have been commissioned previously have highlighted the benefits, shortcomings and a range of solution options associated with ANP. These reports have considered inputs from stakeholders across the financial services industry in coming to their conclusions. 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.

2. THE PURPOSE OF THIS REPORT

As per the paper presented to PSF's third meeting on 25/2/1206, further analysis on ANP was requested from the HSWG, focussing on the possible solution elements for ANP that would enable an economic analysis.

The purpose of this report is therefore to explain how account number portability could be enabled, building on previous work on this topic (in particular the Moorhouse/FCA report and Vocalink analysis). The intention is that the approach outlined in this report forms the basis of an independent review of costs and benefits, as explained in the Executive Summary.

3. KEY PRINCIPLES

The HSWG has taken into account some issues raised by the industry to set out key principles with the aim of reducing industry impact and cost of ANP while delivering a full ANP experience to consumers and business users.

Using option 1 “retain identifier model” from the Moorhouse report (p16) we have defined the following key principles:

1. The unique account identifier remains the combination of UK sort code and account number and this identifier will be portable on customer demand
2. All institutions (including direct scheme participants and agency banks) will be required to donate existing customer account numbers and sort codes. This is required to ensure competition is not restricted.
3. ANP will be optional for customers completing an account switch (CASS will remain operational)
4. The investment in CASS and bulk account transfer services already made by the industry will be leveraged wherever possible to minimise overall cost
5. ANP should apply to retail and business customers (of all categories)
6. The ability to move to more radical options e.g. “utility based” service should not be restricted by this proposal and ideally the migration path to these services should be enabled by this proposal

In addition, we would recommend that the independent analysis considers if participation in the scheme is considered optional or mandatory and analyses the impacts on financial institutions, consumers and businesses. If ANP were optional then the following additional principles would apply:

1. Institutions will have the choice to “opt-in” and accept the inbound transfer of any institutions account numbers + sort codes (the identifier)
2. The impact and implications for organisations that do not “opt-in” will be kept to a minimum

4. THE FCA/MOORHOUSE REPORT – APPLICABILITY TO OPTIONS AND FUTURE POSSIBILITIES

This paper refers to two of the 4 models suggested by the FCA companion paper, drafted by Moorhouse in March 2015:

- building it within the existing market structure and then running the additional infrastructure centrally, as is the case with CASS;
- or, a new central utility model based on a shared platform.

The option proposed in this report is an expansion and elaboration of the option 1 – “retain identifier”.

That is not to say, however, that the option proposed could not support some of the other options proposed – such as option 4 – “utility model”. The model proposed could be evolved to allow a number of utility providers to offer services to existing or new PSPs – still making use

of the process to port the existing customer identifier but offering the core services outlined in the FCA/Moorhouse report.

If that approach were taken, it would allow for a gradual migration of accounts onto utility providers without the need for the “big bang” approach that would bring with it significant costs and technical challenges.

Modelling has not yet been carried out on other approaches – for example, an approach based on putting in place an alternative alias for an account identifier (a phone number, email address or other personal identifier) – an approach based around the FCA/Moorhouse option 2 “new identifier model” on account of the limited time available, and also because that model did not exhibit full adherence to the principle of a customer being able to retain their current account identifier. However, such an approach might provide some additional benefits to users, and may leverage other industry investments, such as Paym, to provide users with an alternative permanent account identifier that could be carried with them in the event of a switch in banking services, with some of the benefits of full ANP.

Further analysis may be undertaken on the benefits or otherwise of the current model set out in this paper against alternatives, and the validity of the proposed solution against other elements of the overall payments strategy, with regard to the extent to which they lessen or eliminate perceived detriments in the payments industry.

5. SOLUTION SUMMARY

There are a number of solutions to ANP that are represented in the Moorhouse report but the solution in this paper focuses on option 1 “retain identifier model”.

Aligned to the principles, this proposal for ANP is based on utilising the existing industry investment in account switching services to provide the mechanism to transfer accounts from one PSP to another. Today’s switching services are based on two principles i.e.

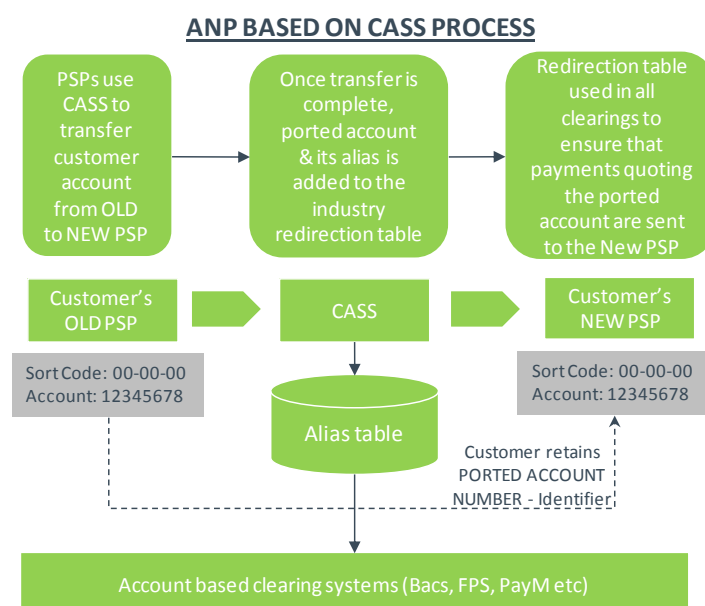
- The Current Account Switching Service (CASS) is only available for certain types of account, broadly retail and small business current accounts
- A new account number is always generated by the new bank for the customer.

In this proposal, these principles would be modified. The customer’s account identifier could be ported between PSPs and the service would support CASS qualifying accounts and other business accounts. This would provide the key difference from the customer perspective in that their existing payments (BACS, CHAPS, FPS, cheques, international) would continue to refer to the old account number across the industry.

The key component of account switching that would be used to provide ANP is the redirection mechanism which ensures that even if the customer’s old account number is used all account based payments will be delivered to their new bank. This ANP proposal would make the redirection permanent and allow the customer to continue to use their “old” account number with their new bank 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 being that customer 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 BACS:



It is acknowledged that the transfer of corporate / business relationships is often more complex and may not be suited to a CASS like 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.

It is therefore proposed that a process for corporate / business relationships could be developed based on the new Bulk Payments Redirection Service (BPRS) (see appendix 9 for further details), to ensure that when corporate accounts are transferred, payments continue to flow. Although the transfer of accounts between PSPs would be outside of CASS, there is no reason why they could not port their accounts to their new PSPs if they so wish and use BPRS to ensure continuity of payments. Instead of CASS triggering the redirection process as part of a transfer, the corporate's new PSP would set up payment redirection based on their old account identifier. Further details of a this potential solution for these more complex customers is outlined in appendix 9

As part of this analysis a number of common customer use cases have been considered and the solution will function correctly for each of them. Those considered 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

A fuller analysis would need to consider what additional use cases exist and would need to be addressed by the model.

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.

6. IMPACTS

We have considered impacts on 3 primary actors that would be involved in the proposed solution:

- PSPs that choose to participate
- PSPs that choose not to participate (if participation was made optional)
- Regulators and Government.

It is implicit in the solution summary that the PSOs would need to make changes to support ANP as stated.

6.1 IMPACTS ON 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 with the customer. 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, if applicable
- As part of existing IVR or telephony ID+V with the customer
- On online/mobile banking.

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.

6.2 IMPACTS ON NON PARTICIPATING PSPS

One potential option is that PSPs can elect not to participate in ANP. The analysis has shown that it is not entirely possible to avoid impacting non participants. The cost/benefit analysis would need to consider further the financial impact on non-participating PSPs. A number of areas have been highlighted for further work mentioned

- 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 fencing)
- Front line teams will need to be informed of the changes in order to minimise complaints and queries where a customer has ported an account and they are the old bank
- Any hard coding that exists in systems around, for example, account number allocation may need to be removed
- PSOs may need to amend processes outside of the core redirection service

6.3 IMPACTS ON GOVERNMENT AND REGULATOR

As outlined in Appendix 6, there would likely be detailed discussion required with the various regulators and HM Treasury about any ANP proposal, especially with reference to the effect on

the payment schemes which are considered critical national infrastructure. Stability and resilience of the infrastructure are key concerns of the Bank of England, and therefore analysis would need to be undertaken to ensure that a proposed ANP would not detract from the expected standards.

7. CONCLUSIONS

While further work is required the approach outlined clearly shows that there is a feasible approach to achieving ANP on the current UK payments infrastructure. Delivery of this solution will not only deliver ANP to consumers but also corporate switching.

If this proposal is implemented, further work will be required to be undertaken by all parties across the industry in a similar manner as when CASS was implemented. The primary burden of change to implement ANP will fall to those banks that wish to “opt-in” (if the scheme was considered non mandatory) and the payment schemes. If the scheme was considered mandatory then the burden would fall to all institutions to implement the larger change.

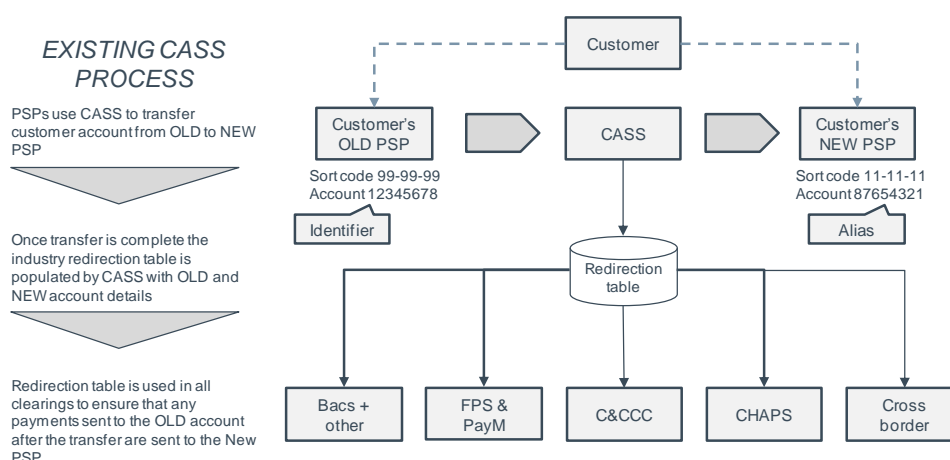
In order to progress this proposal, it is recommended that an independent, detailed cost/benefit analysis will need to be undertaken based on the content of the proposal to help the PSR establish next steps.

In addition, given the limited time available to complete this report, further work to consider alternative options for ANP outside of those recommended in the Moorhouse/FCA report should be undertaken and any additional options (if agreed) presented back to the PSF for consideration.

APPENDICES

8. 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.

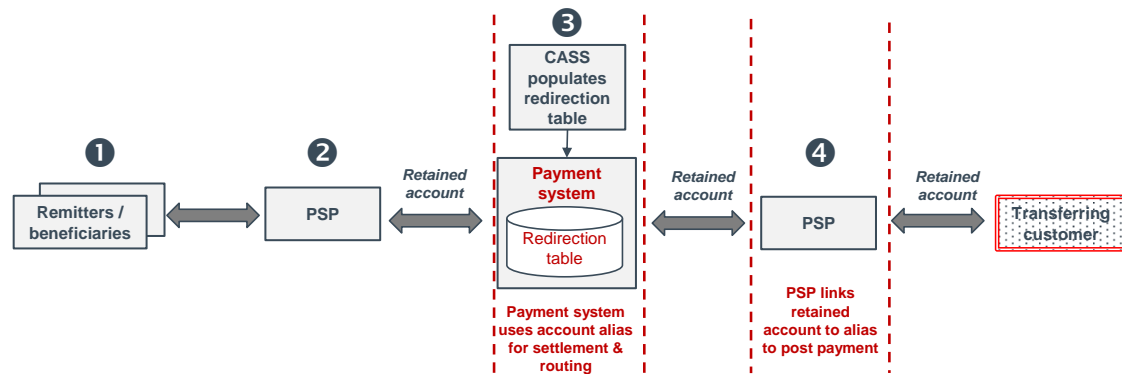


The CASS process could be adapted to deliver ANP. When a customer moves their account using CASS, they could elect to port their old account number to the new PSP. In the above example, the customer would retain 99-99-99 12345678, even though the account would now be held at a different PSP. All parties 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.



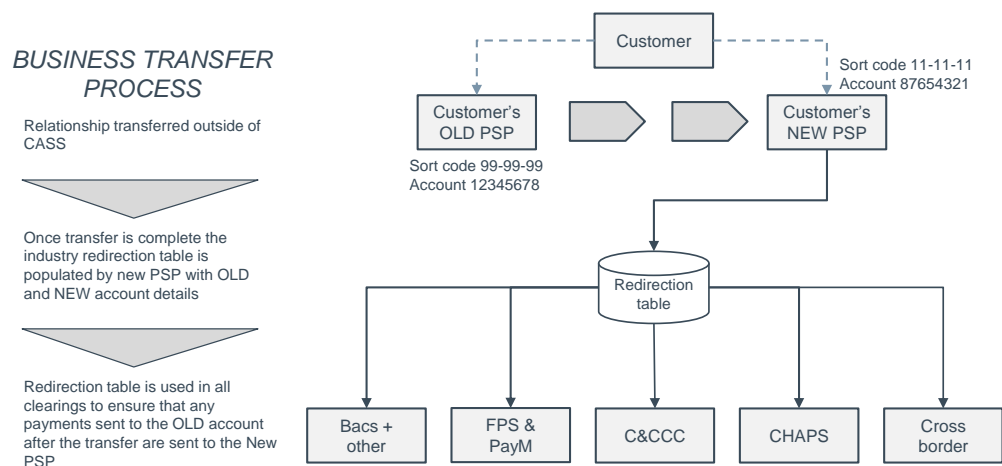
Although each payment system implementation is slightly different the process steps would be broadly similar (numbering as per above diagram) i.e.

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.

9. 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.

10. 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 ISA Transfer	<p>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	None.

bank register the account details (even though the sort code and account 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.

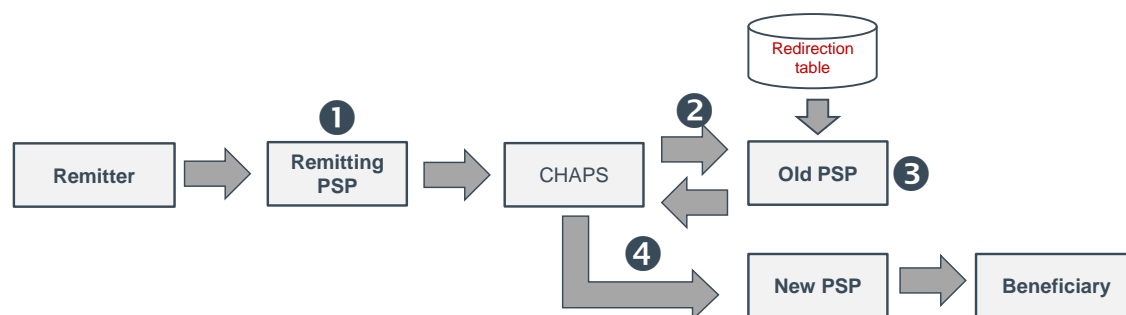
CHAPS

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.

11. 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.
- Confusion factor: we assume that PSPs that offer ANP will ensure that their internal processes and staff are never confused by a transferred account number. However, there are times when one PSP needs to contact another PSP regarding payment issues. 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. Further discussion will be required on this point and existing industry guidance further elaborated.
- 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.

12. 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

13. APPENDIX 6: REGULATORY, PSP AND SCHEME APPROVAL

Any solution for ANP will require the agreement of the schemes, 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?

14. 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.”

15. 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:

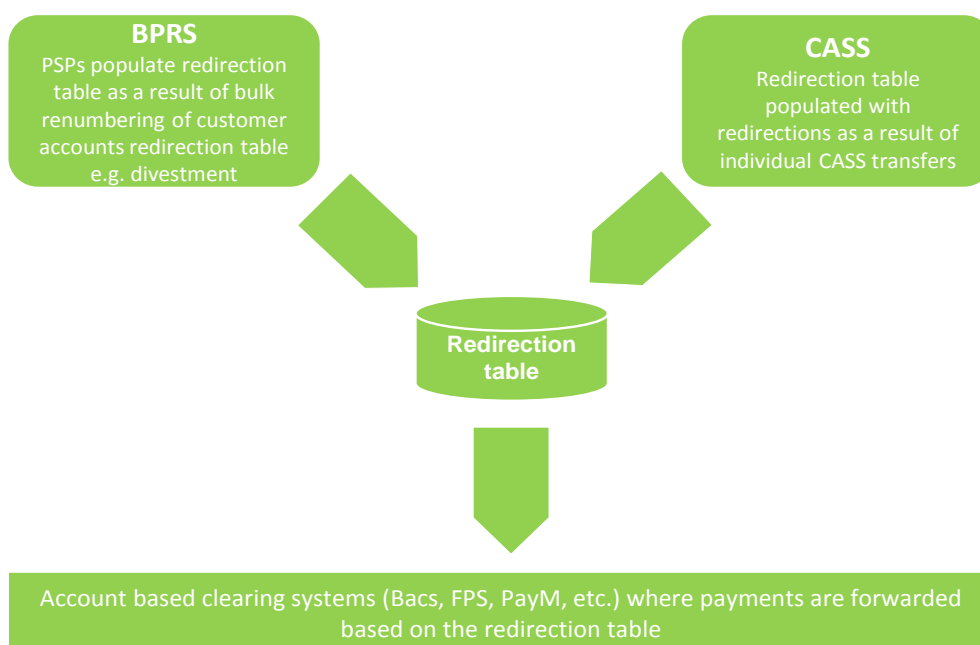
Service functionality	Full switch service (Current Account Switch service)	Partial switch service
The switch date can be selected in advance and agreed with the new bank	Yes	No
All payment arrangements are transferred automatically	Yes, all payment arrangements will be transferred	Yes, it is possible 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

16. APPENDIX 9 – BULK REDIRECTION PROCESS

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.

17. 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.