

## Simplifying Access to Markets Working Group

### ***Sort Code availability***

## Solution Concept Assessment

### SOLUTION NAME: SORT CODE AVAILABILITY

#### PROBLEM STATEMENT:

New participants that wish to connect directly to a payment system currently have to arrange to use a sort code within the range of an existing Bacs direct participant. This means they have to approach an existing participant, who by definition may be a competitor. In addition, there are various restrictions to the use and transfer of sort codes that particularly constrain new participants.

Bacs is progressing this activity in its role as operator of the Bank Reference Data for the industry. Work underway will see the establishment of a 'utility bank' of sort codes which may be applied for by new participants.

Sort codes are a key routing mechanism for payments in the UK, whereas bank codes are a way of grouping sort codes together. Through the industry Sort Code Directory, a participant's status as direct or indirect in a payment scheme is recorded.

With regard to specific detriments this solution addresses elements of a number of detriments but is not the whole solution for each of these. The principal identified detriments are as follows:

- New types of PSPs may encounter difficulties in finding direct PSPs to sponsor them and get access to a payment system, due to having new models where current sponsor bank risk appetite will not support such entities;
- Small number of sponsor/commercial solutions for indirect PSPs;
- Third party users (end user PSPs) can't initiate real time payments and access data as they have difficulty gaining access.

#### SOLUTION DESCRIPTION

Work relating to this solution is already underway to reduce current restrictions on sort codes, and significant progress has already been made. The following are the key elements of the solution:

- Bacs in its role as operator of the Bank Reference Data for the industry will make available a new range (04) sort codes. This will be done by setting up a utility (pseudo) bank to hold 04 sort codes, which combined with the required Vocalink technical release will enable the enhancements to Bacs to support the changes to sort codes. Bacs has confirmed that these changes were successful and they can now allocate sort codes independently of other PSOs;
- New FPS/Bacs/CHAPS participants can be allocated one or more of these sort codes. The application process is being developed at present, with pilot usage underway from April 2016.

- Going forward the solution also needs to accommodate participants who want a sort code (for example to be able to issue a UK IBAN) but don't want to participate in any schemes. Technical changes are being considered to allow registration of a sort code in this way;
- C&CCC will continue to have some sort code constraints due to the use of the leading two digits of the sort code for cheque sorter configuration. This will be addressed in the planned 2017 launch of the Image Clearing Service (ICS). It would be expensive to reconfigure cheque sorters before that time;
- There will be potential transition risk for a new FPS participant with multiple indirect access sort codes, may short term require a new Bank Code for their direct access sort code;
- To improve the availability of information, on an independent and transparent basis, Bacs will develop a new website through which it is intended to publish the rules including eligibility criteria. Bacs will also aim to provide information on how to obtain a sort code based on intended use, where to go and who to talk to, along with FAQs. A budget is agreed and development is well underway. Go live date will be confirmed early June 2016;
- Bacs are leading a strategic review of the governance and operating model for the Bank Reference Database (BRD) which holds the master sort-codes, including developing the tactical solution described above on behalf of the industry (governance through the cross-Scheme Clearing Codes Management Group). This review has now concluded that Bacs should continue to operate this as managed service independent of the core Bacs service for the time being. Bacs is therefore novating the supply contract with Vocalink from UKPA to Bacs, and are agreeing MoUs with the other PSOs for the service to be provided;
- The Working Group recognises that in the longer term (within 5 years) it should be considered whether sort code governance should be run and governed transparently/ independently from Bacs. We may need to develop a new technical solution to support this as volumes increase.

The PSR has commented that tactical solutions should be a priority, with Bacs well placed to deliver these on behalf of the industry, while more strategic solutions can follow when practical.

## PEOPLE INVOLVEMENT AND ACTION

WHO	WHAT
<b>Bacs</b>	<ul style="list-style-type: none"> <li>- Implemented solution based around the 04 sort code range;</li> <li>- Making changes to the Bacs platform to support these changes via the Vocalink technical release delivered in April 2016;</li> <li>- Complete and share a strategy review relating to sort code oversight and management, focused on governance and processes;</li> </ul>
<b>PSOs</b>	<ul style="list-style-type: none"> <li>- Solution identified and being implemented - tactical solution now operational (first new direct FPS participant will use); technical (Vocalink) implementation delivered April 2016 ;</li> <li>- To develop clear application process and procedures and eligibility criteria.</li> </ul>

<b>Infrastructures</b>	- To assist the PSOs in the delivery of the technical solution to support the steady state solution.
<b>Payments Systems Regulator</b>	- Continue to oversee progress towards improvements in access to individual schemes.
<b>PSPs</b>	- Continue to engage the Industry via the Clearing Codes Operational Group and other PSO groups to keep them appraised and engaged.

#### **LEADERSHIP**

- BACS to fully engage and brief all PSOs and the wider stakeholder community as the review and proposals progress
- Schemes and industry bodies engaged with the Bank of England/PSR on participant options;
- Bacs has driven the availability of the 04 sort code range and associated technical changes;
- Monitor outputs of the Bacs sort code review to ensure it addresses access issues identified across a range of schemes;
- The related challenge of sort code issues specific to Cheque and Credit clearing, which constrict switching, will be removed by the 2017 implementation of ICS for cheques.

#### **COMMUNICATION**

- BACS to share short term progress and outputs of review with PSOs and wider stakeholder community
- In turn each payment scheme to keep existing and prospective members appraised of progress in this work;
- The co-ordinating Bacs scheme and each payment schemes to develop and publish clear and simple communications of the revised model and all relevant eligibility/technical/operational criteria;
- The delivery of the communication messages can be through the PSOs websites supported by relevant press releases.

#### **SYSTEMS AND PROCESSES**

- The systems and process changes (e.g. to Bacs and ICS in C&CCC) have already been planned and/or implemented, so no further work needs to be arranged.

#### **DEPENDENCIES**

- Capability of VocaLink to deliver technical change on time;
- Capability of Bacs to develop procedures/communications on a timely basis;
- Continue to track its application to C&CCC via delivery date for ICS;
- Building Societies and Credit Unions may wish to migrate to use sort code and account number for their accounts to allow acceptance of Direct Debits and to enable modulus checking, rather than using the reference field for their account number. The existing Bank Reference Data rules already allow for this facility for Building Societies and Credit Unions, but the view remains currently that such use should not be mandated;
- There is no shortage of sort codes; only 20,000 out of a theoretical 1 million are allocated. Once the leading pair issue is resolved, there should be no real constraint;

- Cheques will still be sort-code constrained until ICS is implemented, since the sorter machines that rely on the leading pair would be expensive to re-configure.

### **COST BENEFIT ANALYSIS**

<b>Cost</b>	<b>Benefit</b>
<b>Introduction of 04 sort code range budgeted, funded and delivered</b>	Additional sort code availability
<b>Amendment to sort code allocation processes will form part of PSO development budget</b>	Clearer, simpler processes for participants in payment schemes to obtain sort codes
<b>Collaborative effort will require commitment, resources and compromise to deliver</b>	Early delivery of a simple improvement to payment systems access which will benefit new participants.
	Potential for changes to governance of the Bank Reference Database will offer a more independent approach to sort code allocation.

### **SECURITY / RESILIENCE**

- No expected impacts on security or resilience. Availability of additional sort codes should reduce industry complexity and hence improve resilience.

### **EXISTING OR IN-DEVELOPMENT SOLUTIONS**

- Existing solution with work largely completed.

### **INTERNATIONAL INSIGHTS / BENCHMARKS / HORIZON SCANNING**

- No significant international insights, benchmarks or horizon scanning consequences.

### **COLLABORATIVE OR COMPETITIVE**

- The work here is already collaborative and will remain so.

### **QUICK WIN VS SUBSTANTIAL PROJECTS**

- This is an immediate Quick win for full delivery mid-2016 followed by ICS delivery in mid-2017.
- BACS review will identify any possible governance medium to longer term changes for oversight and management of the Bank Reference Database.

### **IMPLEMENTATION APPROACH AND TIMEFRAME (OVERALL)**

- Implementation by mid-2016, to be followed by ICS implementation for cheques during 2017.

### **IMPACT: SUCCESS METRICS**

- Availability of additional sort codes for new participants;
- Decoupling of sort codes from cheque sorting once ICS is implemented in mid-2017.