

Simplifying Access to Markets Working Group

Common PSO Participation Model and Rules

Solution Concept Assessment

SOLUTION NAME: COMMON PSO PARTICIPATION MODELS AND RULES

PROBLEM STATEMENT:

The key detriments identified are that:

- Multiple PSOs (including card schemes) are expensive, complex and time-consuming to join for PSPs, to connect to by retailers and commercial companies and confusing for end users;
- There are no clear or transparent on-boarding processes or requirements for Participants to join a Scheme, and the process for joining can be lengthy and costly for participants; and
- PSO requirements and rules are too complex, therefore making them expensive to join and/or comply with.

The Working Group recognises that participants may want to join more than one PSO. However, at the moment:

- there are different application processes;
- there is no common entry point into the PSOs;
- there are significant costs involved in replicating work across the PSOs;
- each PSO uses different terminology, which may describe the same activity.

The objective of all parties will be to minimise non-essential differences. There are areas of commonality, but over time different procedures and terminology have developed, going well beyond the different rule sets for individual payment instruments.

SOLUTION DESCRIPTION

This solution specifically excludes governance of PSOs, which is covered by a separate solution.

Ten areas for collaboration between PSOs have been identified to form the basis for the solution, which aims to deliver a common approach unless there is a justifiable reason to retain differences:

1. Common terminology

- *Terminology should be the same across the PSOs unless there is good reason for variance to enhance user understanding, including technology and infrastructure terminology*

2. Common eligibility criteria

- *Eligibility criteria and baseline requirements for every PSO should be made common where possible (those with additional regulatory obligations may have different requirements)*

3. Categorisation of Participants

- *At present, each PSO categorises participants in a different way (e.g. by volume/ value, etc.). It is important to understand why there are differences between participants*

4. Articulation of payment products common by PSO

- *There is a need for commonality between the way products are referred to and the way their features and core characteristics are defined*

5. Engagement with indirect participants prospective entrants and providers

- *Improving awareness, involvement, communication and the PSPs and interested parties voice to PSOs*

6. Rules, Procedures and Participant Agreements

- *Consider how rules are different and if they should be different*

7. Technical Accreditation process

- *Some PSOs have technical requirements. Clarity is needed on the differences between PSOs' requirements and why they exist*

8. Assurance process

- *Managing the risk that a new or existing participant brings to the PSO (assurance models are currently managed by individual PSOs)*

9. On-boarding process and migration to common connectivity models

- *Common project plans, standard engagement models, sharing expertise between PSOs, providing budget and cost estimates for participants (will vary widely)*
- *At present each PSO has different connectivity model. Consider how a more common approach could reduce cost and complexity.*

10. Access to information and documentation

- *Information is currently tightly controlled e.g. access to essential documentation via PSO websites, making it difficult for PSPs and advisors to develop solutions or provide advice. There are currently a number of NDAs in place which may act as a barrier to communication and transparency, although it is acknowledged that a PSP and PSO may enter into an NDA for mutual protection.*

Key steps in the solution:

- Each PSO's participation model to be reviewed to identify short term solutions to improve the ten areas for collaboration described above;
- From these, identify areas for alignment across the PSOs and consider how best to deliver a common model to improve access and increase competition. Where different, a justification for the difference will be provided;
- This work will be taken forward by the Interbank System Operators' Coordination Committee (ISOCC) supplemented by other key stakeholders. The group will summarise and augment the 10 areas to create a complete list and bring together commonalities across these issues;
- ISOCC has delivered a Project Initiation Document to progress these work areas and has highlighted some areas for improvement, clarification and optimising the approach. It has now identified work items which can form relatively "quick wins" and those areas that will require more substantive work. Once the PID is approved by ISOCC a more definitive plan will be shared with the Simplifying Access to Markets Working Group for endorsement.
- Collaboration by PSOs could lead to each one having only essential differences in rules to reflect its own specific product set. The objective should be to seek to extend this across each of the retail-focused PSOs: Bacs, Faster Payments, C&CCC, LINK, Visa and MasterCard. The card based schemes (LINK, Visa and MasterCard) will have a range of competitive, systemic and operational differences, which make creating a fully common participation model difficult. There will however be elements of each of the identified work areas which can be harmonised with a collaborative approach. It should be noted that Visa and MasterCard are not currently engaged in this process. Dialogue with these PSOs will be needed to secure and agree their engagement and where they can support this common goal.

Outline Plan to be presented by ISOCC

- It has been identified that 3 of the 10 areas for collaboration can be progressed in the short term. These have been termed category 1 items.
- For the remaining category 2 items, engagement with industry experts will take place and for each a review will be completed and a way forward defined. This will identify the scale and scope of what can be achieved, which will allow timescales and deliverables to be agreed for each area.
- An outline plan will be produced while the detailed assessment of category 2 items will be available by end October 2016. In the meantime Appendix 1 at the end of this paper is an extract from the ISOCC Project Initiation Document that sets out expected approach and those items likely to be achievable in the short, medium and longer terms.
- A key stakeholder group will be established to aid understanding of the issues including representation from the SAM WG.

Other points to note:

- The ISOCC membership comprises FPS, Bacs, CHAPS, C&CCC (but not LINK). The proposal is that these PSOs should work together. ISOCC's role is to co-ordinate between the separate PSOs. Link is participating in this work;
- The working principle should be that PSOs will do things in a common way, unless there is a good reason to work differently. The rationale for doing this will be made clear to participants and service users. The aim is to have a declaration of intent towards this unified approach;
- Where it is not possible to standardise, reasons will be given. Simplification will be the sort term objective with a longer term plan to be put in place;
- Costs need to be clearly set out;
- This work needs to have clear delivery dates, recognising that some activities such as changing the Assurance models will be a multi-year engagement;
- ISOCC and individual PSOs, in conjunction with their key stakeholders should work together to develop tactical solutions, which allow short-term changes to mitigate challenges encompassed and make user experience more straightforward;
- Developing a common engagement model needs the right stakeholders to address issues. Key stakeholders who have experienced the matters encountered should be identified to provide feedback, not just PSOs;
- There is a need to avoid raising the baseline standard unnecessarily, but with a commitment to implementing progressive tactical changes;
- There is scope for this work to be undertaken alongside activity to streamline and simplify connectivity for PSPs and aggregators. Those planning to provide aggregation services should have full access to the documentation e.g. scheme rules and paying bank guidelines for Direct Debit to be able to design and build;
- If progressed, a consolidated and simplified governance model for retail PSO's (Solution C) may help to deliver this initiative, with potential to make the cross scheme collaboration simpler. Both solutions can be progressed in parallel and are complementary;
- Settlement is currently a distinguishing feature of direct participants in some schemes. Some schemes require direct participants to settle, others do not;

- PSO Eligibility Criteria. Some analysis of these has already been performed by Payments UK and can be found on their Access to Payments web-page;
- Language and the need to use 'plain English' should be considered throughout as clarity in language is critical;
- The PSOs will still own responsibility for assessing what risks participants bring to their operations;
- Where the PSR has used terminology in its Market Review of Indirect Access (for example "Indirect Access Provider" in lieu of "sponsor", the PSOs should look to be consistent with the PSR documentation.

PEOPLE INVOLVEMENT AND ACTION

WHO	WHAT
Interbank System Operators Coordination Committee (ISOCC) plus other stakeholders including user representatives. LINK has also offered to participate in this area of work.	<ul style="list-style-type: none"> - Provide a collaborative structure to bring individual PSOs together to agree approach, Clarification/expansion of the 10 themes to a more detailed structure and propose next steps; - Share a list of current PSO participation documentation, including documents that are restricted access under NDA; - Identify stakeholders who need to participate in this (not just the PSOs); - Processes need to be simplified with PSPs and aggregators in mind: to make it less expensive, complex and time-consuming for both these parties. This work needs clear delivery deadlines and where it is not possible to complete it in these timescales, there needs to be an explanation why; - Develop an outline plan to address agreed activities, outlining resource plan, timescales for execution, deliverables and governance;
Trade associations and other representative bodies	<ul style="list-style-type: none"> - To be engaged by PSOs to communicate common approaches to payment scheme users once these are agreed through the collaborative work that ISOCC is leading.
PSOs	<ul style="list-style-type: none"> - Identify and deliver changes. Report on progress to the PSR via existing relevant compliance reporting processes and mechanisms.

LEADERSHIP

- **PSOs (via ISOCC)** - Identify short term solutions within their own schemes to improve on-boarding, access, rules, costs and participation requirements for each PSO. Work collaboratively with other PSOs to identify a more common participation model and look for areas for alignment;
- **PSOs** - Work collaboratively through ISOCC to identify solutions in the 10 areas identified to include a common minimum set of rules, security levels and compliance processes could apply across a range of PSO's with the objective that this common approach covers all 6 retail focused PSOs - BACS, Faster Payments, C&CCC, LINK, Visa and MasterCard. LINK, Visa and MasterCard to be contacted separately to try to secure appropriate engagement. LINK has already offered to engage in this area of work;

- **ISOCC** – To facilitate collaboration and seek to drive the process forward with the community of PSOs.
- **Payment Systems Regulator** – Continue to monitor progress and intervene if it sees it as necessary.

COMMUNICATION

- Each PSO to keep existing and prospective members apprised of progress in their reviews and communicate the main features of a simplified participation model and what it will mean to new entrants, non-bank PSPs and existing PSPs;
- Wider communication will be needed when a common participation model is delivered so that it can be made clear what has been changed and how the new approach will improve access. This communication can be managed to be complementary to the work required to enable aggregator connectivity in a simple and efficient way across multiple PSOs.

SYSTEMS AND PROCESSES

- All of the work to improve on boarding, access, rules, fees and participation requirements will fall to the PSOs, with limited impact expected on PSP's systems. For both new entrants and existing users if the approach is successful it should mean a reduction in complexity for on-boarding and internal processes;
- The work will naturally link to the assurance and certification processes used for all participants and this will be a core part of both the individual PSO's review and work to define a common participation model across PSOs;
- It will need to be clear to new entrants what the common set of rules, security levels and compliance processes are and to which PSOs these apply. This may mean that these will need to be published and available to potential new participants in payment schemes in a common way on PSO websites, or via a shared portal. Individual PSOs should make clear the variances that will apply to their scheme in addition to the common requirements;
- Systems and processes agreed should align with enhancements made to improve connectivity for aggregators and PSPs.

DEPENDENCIES

- Commitment of all inter-bank PSOs to deliver simpler access and a common participation model
- Individual PSOs will need to gain agreement from their Bank of England Financial Stability Supervisor, bearing in mind that the Bank of England response will largely be driven by statutory considerations and its approach is to "not object to" rather than "approve" proposals. Bank of England may need to 'agree' what can be 'common';
- Three of the seven HMT designated PSOs, Bacs, CHAPS and Faster Payments, are supervised by the Bank of England as systemically important Financial Market Infrastructures based on their volumes, values and risk to the economy. For these PSOs, the Bank of England applies the CPMI-IOSCO FMI principles overlaid with additional (but differing) requirements based on its view of the systemic risk of each PSO. These are embedded into the respective PSO rulebooks. This means there may be inherent inconsistency between these PSOs as a consequence ;

- Effectiveness of collaboration to deliver a common participation model
- Capability to deliver system and process changes;
- Other regulatory and industry initiatives may impact ability of PSOs to deliver e.g. C&CCC delivery of the Image Clearing Service.

COST BENEFIT ANALYSIS

Cost	Benefit
Amendment to current processes and systems in PSO's will require resources and time to deliver across multiple schemes.	Clearer, simpler processes for participation in payment schemes will enable easier direct connection.
Collaborative effort will require commitment, resources and compromise to deliver.	Creation of a common minimum set of rules, security levels and a clear compliance process across schemes will speed up joining times when access to multiple schemes is required.
Existing PSPs will need to make changes to current practices and procedures as changes are made across different schemes to align processes.	Time, resource and cost in new entrants businesses will be saved rather than having to meet different requirements for multiple schemes.
ISOCC will need to continue to be resourced over coming years to drive this process given that some of the changes proposed will be longer term.	Similar savings in time, resource and cost will be made by existing PSP's in dealing with common requirements across multiple schemes e.g. dispute resolution, reporting, compliance requirements, etc.
	With a simpler and common approach to participation models, costs of entry should be reduced to reflect the new environment.
	Innovation will be stimulated as new entrants and non-bank PSP's can gain easier access and develop payment products to support new business models.
	Will be complementary to improved connectivity for aggregators and PSPs across multiple schemes and further simplify this connectivity option.

SECURITY / RESILIENCE

- Having a common participation model should ensure that best practices from the schemes are identified to develop the model. With careful management this should lead to enhanced security;
- Variances to protect critical and unique requirements for individual payment schemes will still be possible;
- Breaches of security requirements by PSP's may be easier to identify and therefore quicker to address and resolve; and
- Bringing rules in to a more common structure will make external oversight of scheme practices and compliance by participants more straightforward.

EXISTING OR IN-DEVELOPMENT SOLUTIONS

- PSR General Directive 2 already requires PSOs to have assessed their access requirements. Much work is underway in individual PSOs to identify ways in which access can be improved

and participation models simplified. Some collaborative work between PSOs has already started (e.g. sortcode allocations, PKI solutions, FPS aggregator approach, BACS Access Strategy);

- Collaborative activity through ISOCC to define plan and actions to commence in April, 2016.

INTERNATIONAL INSIGHTS / BENCHMARKS / HORIZON SCANNING.

- Within Europe the SEPA model has enabled focus on a common approach for access and rules to direct credit and direct debit models. Whilst the UK payment systems are more diverse and offer real time payments which the EU solutions currently do not, the principles of clear and efficient access are worthy of note as access solutions are developed;
- Real time payments solutions in markets other than the UK are already deployed or in plan in markets such as Singapore, Australia, USA and India amongst others. This real time capability and the digital products that PSPs offer based on it, need rapid and efficient access models to deliver these products to market. We expect these markets to look closely at the access models they use to participate in their payment systems; and
- Looking forward payment systems, PSPs, regulators and fin tech companies in the wider market will be looking at the opportunities for payments created by distributed ledger models. Access requirements from various payment schemes should not restrict the future development and deployment of these solutions. A common approach to participation models and rules is likely to facilitate new innovative approaches to managing payments and make the changes that would be required simpler to deliver.
- The Lipis report on Payment System Ownership and Access Models, published by the PSR in February 2016 provides a useful fact based comparison of payment system ownership and access models between the UK and 12 other countries.

COLLABORATIVE OR COMPETITIVE

- The work required here is collaborative. Whilst individual PSOs will review and act in relation to their own practices, considerable collaborative working would be needed to deliver common participation models and rules across multiple PSOs;
- ISOCC will coordinate the work;
- Collaboration will be needed between BACS, Faster Payments, C&CCC through ISOCC and separate engagement with LINK, Visa and MasterCard. LINK has offered to participate with this area of ISOCC work. It should be noted that Visa and Mastercard are not currently engaged in this initiative.

QUICK WIN VS SUBSTANTIAL PROJECTS

- Quick wins can be achieved, and are already being delivered, where individual PSOs review participation models for their own scheme and identify areas where change can be made quickly to simplify and ease access;
- The bulk of the work will be more substantive. Changes to more complex rules and requirements arising from individual scheme reviews will require consultation with participants and proposals approved by the PSOs governance structure and Regulators.

IMPLEMENTATION APPROACH AND TIMEFRAME (OVERALL)

- Following the production and agreement of the outline plan proposed by ISOCC this will drive the timeline for the changes proposed. The key deliverables and dates to note are as follows:
 - Completed – Project Initiation Document agreed by ISOCC;
 - July 2016 – First meeting of Stakeholder User Group takes place;
 - June to October 2016 – Further meetings of ISOCC to refine approach;
 - June to October 2016 – Reviews of Category 2 items delivered;
 - October 2016 – Detailed delivery plan in place.
- Identified category 1 items (common eligibility criteria, categorisation of participants and articulation of payment products across PSOs) for improvement and streamlining can be undertaken relatively quickly, with any identified changes progressed via ISOCC and then through the payment schemes governance structures. Lead time 3-12 months;
- Work through ISOCC until October will identify the work needed to progress the remaining category 2 items. It is likely that some of these can be progressed relatively quickly while others will be substantive work items. Lead times 12 – 24 months.
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IMPACT: SUCCESS METRICS

- Evidence of an effective set of more common rules across multiple PSOs, which simplify access and participation arrangements;
- Evidence of individual PSO requirements having been reviewed to identify changes, which can be made in the short term to improve participation models
- Number of PSPs joining PSOs, and their feedback on the process.

APPENDIX 1: See separate document: Participation Models and Rules of Approach – Extract from ISOCC Project Initiation Document.