

Simplifying Access to Markets Working Group

Aggregator Solutions

Solution Concept Assessment

SOLUTION NAME: ENABLING AGGREGATOR MODELS AND CONNECTIVITY

PROBLEM STATEMENT:

Collectively to ensure that a broader range of connectivity options for direct and indirect PSPs exist in the market, by encouraging the development of commercial aggregator solutions, capable of supporting both direct and indirect access to any PSO through a single gateway.

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.

SOLUTION DESCRIPTION

The proposed solution addresses key elements of the above detriments and is a range of commercially developed, competitive access solutions, accredited for use by, or on behalf of the payment systems operators (PSOs) and forming an integral part of the future payment system community. Such solutions exist already or are in course of development to support the ambitions of a growing number and type of PSPs to participate directly in the payment systems.

Through the PSOs, the Working Group supports the development of commercial aggregator models, recognising that there is additional work to do to provide both aggregation and simplification across PSOs:

- Improved aggregator connectivity solutions are already being assessed and under development for Faster Payments and Bacs. This process will be supported by aggregator accreditation with the names of the participating providers published on the PSOs' websites;
- It should be noted that LINK already supports aggregators and currently has 8 providers connected to the scheme, offering services to prospective and member PSPs;
- Other PSOs will provide similar access to these aggregator services and to develop a framework model to support this. The proposed solution envisages that all retail focused PSOs will accept and encourage input and output from an aggregator, including the Card Schemes and LINK;
- Whilst most work will be completed by individual PSOs the collaborative work to deliver common participation models and rules (see separate solution) will seek to ensure a common approach to connectivity and requirements for aggregator services as far as possible and to ensure these services can be accessed in a simple, cost effective, efficient and speedy manner;
- The PSR has regulatory oversight of the PSOs to direct the co-ordinated approach needed to build on the models that FPS has created and that Bacs are investigating. LINK has operated a successful aggregator model for some time;

- Once enabled services can be further developed in the competitive marketplace and a variety of services such as format mapping and translation for new standards or other payment types could be offered through these portals in addition to the core technical connection capability;
- It should be emphasised that the solution proposed focuses on development of aggregator services in the competitive market space and creating the conditions to allow this competition to flourish. It does not envisage a single common aggregator or even a single aggregator provider for an individual scheme either of which would be unlikely to have positive competition effects;
- Given the unique and largely wholesale nature of CHAPS, it is less likely aggregator services will emerge in the commercial space. This should not preclude CHAPS from examining its rules to ensure there are no barriers or onerous conditions on connections to its service and in particular for aggregator models. It is worth noting that CHAPS utilises SWIFT messaging, so an aggregator offering SWIFT connectivity (which is generally a core competency) could form part of an access solution to CHAPS;
- The Working Group recognises that supporting commercial development of aggregators is a useful tactical solution but it is important that rules and requirements for Direct and Indirect participants are reviewed to ensure that barriers to entry and complexity are minimised and commensurate with the size and business model of prospective entrants. This is covered in a separate solution document;
- The Working Group also considers that this solution is complementary and supportive to the findings of the recently published PSR Interim Report: Market review in to the supply of indirect access to payment systems.

It is important to build on the experience of LINK and the progress being made with respect to FPS, BACS and C&CCC aggregator solutions and to engage and understand the approach of Visa and MasterCard in these areas.

It is important to point out that the term “aggregator solutions” used here refers to commercial services for a PSP to gain access to one scheme or for these services to allow a PSP to access multiple schemes.

PEOPLE INVOLVEMENT AND ACTION

WHO	WHAT
Faster Payments Scheme	- Continue to develop the innovative simplified connection environment for aggregator solutions for Faster Payment Access and communicate availability to potential PSP users. Work with other PSOs to develop a collaborative approach to terminology and connection requirements across PSOs as part of work on Common Participation Models;
Other PSOs	- BACS – currently seeking input through a white paper; - C&CCC - ICS will deliver direct connection including via aggregators; - LINK – Existing aggregator service in place - Card Schemes - Visa and MasterCard to be engaged;
InterBank Scheme Coordination Committee (ISOCC)	- As part of wider work on Common Participation Models and Rules work with other PSOs to agree common terminology and requirements for aggregators and reduce differences in practice and approach between schemes.

Payment Systems Regulator	- Ensure PSOs engage collaboratively to make aggregator connection, direct and indirect access simpler, quicker and easier to understand for PSPs and other new entrants across all principal UK retail focused PSOs – Bacs, FPS, C&CCC, LINK, Visa and MasterCard.
Aggregators and Settlement Providers	- Develop solutions in the competitive market place and utilising the improvements in connectivity offered by each of the PSOs. These to provide technical connections (aggregator) and settlement provider where needed.
Trade associations and other representative bodies	- Help promote wider awareness of aggregator services amongst PSPs, new entrants and prospective aggregator providers.

LEADERSHIP

- **PSOs** will work both individually and collaboratively to improve connectivity for direct and indirect participants. **PSOs** will simplify and speed up connectivity for aggregators specifically, while reviewing indirect and direct access requirements. **PSOs** will actively encourage aggregator models and communicate their availability to PSPs;
- **PSR** to oversee progress and ensure that the above initiatives are implemented across all 6 retail focused PSOs - Bacs, FPS, C&CCC, LINK, Visa and MasterCard.

COMMUNICATION

- PSOs – will communicate the improvements in connectivity to existing and potential PSPs, both direct and indirect participants. The expectation is that this would be done in a proactive way;
- Aggregators – will communicate their commercial offerings to prospective PSPs;
- Sponsoring PSPs – will provide an objective assessment of connection options to prospective indirect PSPs, outlining the availability of direct connection and aggregator solutions as alternatives.
- Trade associations and other representative bodies to communicate and promote awareness of these services amongst PSPs, new entrants and prospective aggregator providers.

SYSTEMS AND PROCESSES

- Designated PSOs and C&CCC are expected to follow an approach similar to the initiative taken by Faster Payments to ensure their rules, processes and systems interfaces enable simplified, efficient and speedy connection for aggregator providers;
- The 6 principal PSOs will work together (assuming Card PSO engagement) to ensure that their scheme is able to participate fully in aggregator services and to agree as a community, common requirements, terminology and processes which will encourage aggregator services and adoption by PSPs. The Working Group recognises the importance of this collaborative process not becoming protracted;
- Where barriers/challenges are identified, individual PSOs will address these and propose solutions to enable aggregator services in a timely manner;

DEPENDENCIES

- Individual PSOs making the necessary changes to allow cost effective, efficient and speedy connection for aggregators;
- Willingness and ability of individual PSOs to work collaboratively (recognising that the Card Systems and LINK operate in a competitive environment);
- Consider the difficulties in accessing the Card Schemes, which have distinctly different models to inter-bank PSOs. Aggregator requirements for Card Schemes may be different.
- Individual PSOs may choose not to participate;
- Resolution of differences of approach to aggregator access across different PSOs;
- Ability to deliver system and process changes by PSOs;
- Having adequate settlement capabilities alongside technical aggregator services to meet new entrants needs;
- Confirmation in the market that a sustainable business model exists to encourage aggregators to offer these services. Faster Payments research identified that a sustainable market is likely;
- Sufficient aggregators enter the market to make the service priced competitively;
- Ensuring liability positions for aggregators and their customers are clear and understood;
- The commercials/economics for aggregator solutions – the aggregators need to be able to make money;

COST BENEFIT ANALYSIS

Cost	Benefit
Investment by PSOs to facilitate aggregator access. Much of the change is expected to be removing complexity and ensuring commonality across schemes so direct costs are expected to be minimal.	Broadening of connection options for PSPs and other new entrants. This directly addresses access issues but provides a service to those who prefer to have the convenience of this type of model.
Promotion of the service by PSOs. This is likely to be the communication of the changes to rules made to facilitate these services to the industry and potential suppliers. Costs expected to be modest with delivery through own websites, industry bodies and the trade media.	Development of multiple payment scheme access through aggregators further simplifying connection. This will be in the competitive space once the environment has been created to allow aggregators to offer these services.
Collaborative effort to deliver change in all affected PSOs. This will have resource implications for schemes but these are not considered substantial with financial implications minimal.	Increased competition between aggregators and sponsors and gives a real alternative to indirect sponsorship models.
	Reduced costs of access expected for lower volume challenger banks, innovative new providers and existing PSPs. The quantitative impact will be determined by the level of multi scheme services offered by aggregators in the competitive space.
	When combined with a settlement bank provider alongside a technical aggregator provides an integrated solution for connection needs
	Encourages innovation as resources and time can be focused on product development rather than on the need to satisfy multiple connection models
	Interoperability is encouraged as aggregators

	would be better placed to support revised future standards when compared to indirect sponsorship models
	Aggregators can broaden services to include translation capabilities and mapping
	Aggregators themselves can support innovation to develop products to compete and more directly meet the needs of PSPs and their end users

SECURITY / RESILIENCE

- PSOs will enable aggregators to connect effectively and efficiently but will maintain the level of assurance needed to protect the operation of the system and its participants;
- PSOs will need to focus on simplification and streamlining of processes, requirements, rules, costs, assurance/certification and approval mechanisms to enable the aggregator environment. In addressing these issues it remains critical that this does not impact the security and resilience of the scheme;
- Liability models for users of aggregator services and their providers will benefit from clarification of responsibilities for AML and KYC issues as identified for sponsoring banks and their indirect PSP customers. This may extend to requirements for validation and verification of beneficiary account details. This issue is covered in a separate solution document.

EXISTING OR IN-DEVELOPMENT SOLUTIONS

- LINK already provides an aggregator service with eight providers currently connected to the scheme.
- Faster Payments has been working on an effective aggregator model over the past 2 years and its proposed approach is set out in their report: Faster Payments New Access Model published in May 2015 and researched by Accenture;
- The Faster Payments model focuses on all the goals that this solution seeks to achieve with regard to broadening access options while specifically addressing the needs of a scheme offering real time payments, where indirect options often do not deliver this capability;
- Faster Payments has encouraged vendors to provide aggregator solutions;
- In February 2016 Bacs published a consultative white paper: Payment Service Provider Access, Widening Access and Choice. This sought views on Bacs desire to broaden access to its services and to improve access for aggregator and bureaux services. This includes a single connection for access to other Bacs services such as the current account switching and Cash ISA transfer services;
- The PSR Interim Report: Market review in to the supply of indirect access to payment systems, has now been published and will further strengthen the aims of this solution to broaden and simplify access to payment schemes;
- There are a range of FinTech businesses and aggregators in the market wanting to offer a range of propositions (e.g. fully managed service, SaaS etc.).

INTERNATIONAL INSIGHTS / BENCHMARKS / HORIZON SCANNING

- Within Europe the SEPA model has enabled focus on a common approach for access 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 planned 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;
- Looking forward payment systems, PSPs, regulators and FinTech companies in the wider market will be looking at the opportunities for payments created by distributed ledger models. Access requirements from various schemes for aggregators should not restrict the future development and deployment of these solutions. As noted it is likely that aggregators will be better placed to respond to these new developments given likely economies of scale and access to multiple payment schemes.

COLLABORATIVE OR COMPETITIVE

- The delivery of an effective aggregator solution requires action both in the collaborative and the competitive space;
- In the collaborative space action is needed in each PSO to enable the environment to deliver effective and efficient connection for aggregators and PSPs;
- Collaboration is further needed between the PSOs to reduce differences between connection requirements for aggregators and seek to agree common terminology and approach. Much of this work will be delivered by work to deliver Common Participation Models and Rules coordinated by ISOCC of which this forms a part;
- Once the connection capabilities for aggregators are enabled in all schemes then the solution enters the competitive space with various aggregators connecting efficiently to multiple schemes and then competing for business in the open market.

QUICK WIN VS SUBSTANTIAL PROJECTS

- With a desire to enable aggregator services and broaden access in general across all schemes then these changes could be delivered in a 6-24 month window. Individual PSO changes would be likely to be achieved more quickly than the collaborative effort needed to get common approaches and simplification.

IMPLEMENTATION APPROACH AND TIMEFRAME (OVERALL)

- LINK solution already in place;
- Initial focus on the effectiveness and the sustainability of the environment created by Faster Payments for aggregator services connecting to that PSO – immediate;
- Individual PSOs to identify actions they will take themselves to allow simple, efficient and cost effective connection for aggregator services, while reviewing processes for direct and indirect access – within 6 months;
- There is overlap with the work ISOCC are delivering on Common Participation Models and Rules, which will support the review of rules and the environment across the schemes to allow aggregator services to develop in the competitive space. This activity will be the key driver to creating the commonality of rules and practices which would permit aggregators to offer multi scheme services if they identify demand to do so;
- Delivery of solutions to improve connectivity in individual PSOs, can be delivered alongside the collaborative effort required to harmonise terminology and approach. It is

expected that the collaborative work will deliver the required changes to the aggregator environment within 12 months;

- Trade associations and other representative bodies will support the implementation process with appropriate awareness communication to their memberships;
- Levels of complexity of changes will vary by PSO. As noted earlier it is likely that the collaborative effort is likely to prove more challenging than the work done in individual PSOs although coordination through ISOCC will significantly ease this process

IMPACT: SUCCESS METRICS

- Emergence of aggregator solutions accessing one or more PSOs in the competitive market place;
- Increased numbers of challenger banks, new entrants and non-bank PSPs accessing payment schemes either directly or through aggregator services;
- Evidence of reduced complexity for new PSPs accessing payment schemes; and
- Evidence of reduced costs of access to payment schemes for new entrants