

MR15/1.2: Annexes

Interim report: market review into the supply of indirect access to payment systems

March 2016

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Annex 1

How payment systems are regulated

The PSR's regulatory and competition powers

Regulatory powers

1.1 To support our functions and pursue our objectives, we have a range of regulatory and competition powers:

- **Directions:** We may give specific or general directions in writing to participants in regulated payment systems:
 - requiring or prohibiting the taking of specified action in relation to a system
 - setting standards to be met in relation to a system¹
- **System rules:** We may require the operator of a regulated payment system to establish rules for its system or to change existing rules. We may also require operators to notify us of any proposed change to their rules or require them not to change their rules without our approval.² Requirements to notify changes to rules and to prohibit changes without prior approval may be general or relate to specific systems or categories of systems.
- **Access to payment systems:** If a person applies to us for access to a regulated payment system, we may require:
 - the operator of that system to enable the applicant to be a payment service provider (PSP) in relation to the system
 - any PSP with direct access to that system to enter into agreement with the applicant to enable the applicant to become a PSP in relation to that system³
- **Variation of agreements relating to payment systems:** On application of one of the parties to the agreement, we have the power to vary the terms and conditions in existing agreements. For example, we may change the fees, charges, or terms of access that operators or PSPs impose on their customers.⁴
- **Disposal of interest in payment systems:** With the Treasury's consent, we may require a person who has an interest in the operator of a regulated payment system, or an infrastructure provider in relation to such a system, to dispose of all or part of that interest. We can exercise this power only if we are satisfied that, if it does not do so, there is likely to be a restriction or distortion of competition in the market for payment systems, or a market for services provided by payment systems.⁵

¹ S. 54, Financial Services (Banking Reform) Act 2013 (FSBRA).

² S. 55, FSBRA.

³ S. 56, FSBRA.

⁴ S. 57, FSBRA.

⁵ S. 58 FSBRA.

- **Concurrent competition powers:** We have enforcement powers under Chapters I and II of the Competition Act 1998 and Articles 101 and 102 of the Treaty on the Functioning of the European Union. We also have market study and market investigation reference powers under Part 4 of the Enterprise Act 2002. This means that when we conclude that a market is not working well, we have the option to refer this market to the Competition and Markets Authority (CMA) for more detailed investigation. These concurrent competition powers will be exercised concurrently with the CMA.

The PSR's interaction with other authorities

- 1.2** Other regulatory authorities in the UK also have powers over payment systems and relevant participants. These are the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the Bank of England.

Financial authorities

Financial Conduct Authority (FCA)

- 1.3** The FCA is a conduct regulator, focusing on the regulation of both retail and wholesale financial firms providing services to consumers. It is responsible for the prudential regulation of PSPs not regulated by the PRA, and for the conduct regulation of all PSPs.

The Bank of England

- 1.4** The Bank of England performs a variety of roles in relation to payment systems, and supervises certain interbank payment systems 'recognised' by the Treasury.⁶ It has a number of powers over recognised payment systems. The Bank of England supervises payment systems where relevant to its financial stability objective.

Prudential Regulation Authority (PRA)

- 1.5** The PRA is responsible for the prudential regulation of banks, building societies, credit unions, insurers and major investment firms, to ensure that they are run in a safe and sound manner.^{7,8} In particular, it is responsible for authorising firms seeking to become banks, building societies, credit unions, insurers and major investment banks. Firms need to fulfil a number of criteria in order to be authorised, such as having a viable business model, suitable governance arrangements, appropriate capital and liquidity levels, and good risk management.⁹ Authorised firms are also subject to the continuous supervision of the PRA to ensure that they continue to meet the Threshold Conditions. All PRA-authorised firms must comply with the PRA Rulebook¹⁰ and with the FCA Rulebook.¹¹

⁶ The payment systems currently recognised by the Treasury for statutory oversight by the Bank of England are Bacs, CHAPS, CLS, CREST, LCH, Clearnet Ltd, FPS, ICE Clear Europe and Visa Europe. www.bankofengland.co.uk/financialstability/Pages/fmis/supervised_sys/rps.aspx

⁷ CMA Retail banking market investigation: Regulatory framework applicable to the retail banking industry in the UK, paragraph 17: https://assets.digital.cabinet-office.gov.uk/media/5548cde8e5274a1575000047/Regulatory_framework_working_paper.pdf

⁸ Financial Services and Markets Act 2000 (FSMA) (as amended by the Financial Services Act 2012).

⁹ FSMA, Part 4A.

¹⁰ www.prulebook.co.uk

¹¹ PRA-authorised firms are sometimes referred to as 'dual-regulated' because they are subject to regulation from the PRA and the FCA: the PRA for prudential purposes and the FCA for conduct purposes. The FCA maintains an online register, the Financial Services Register, that lists all the firms that are regulated by the FCA and the PRA.

The PSR's interaction with other financial authorities

- 1.6** Sections 98 to 99 of the Financial Services (Banking Reform) Act 2013 (FSBRA) regulate the relationship between us and the Bank of England, the PRA and the FCA. FSBRA provides a general obligation on these four authorities to coordinate the exercise of their relevant functions.^{12,13} As part of this obligation these regulators must consult each other if they propose to exercise a function in a way that may have a material adverse effect on another regulator's objectives.
- 1.7** Sections 100 to 102 of FSBRA provide the Bank of England, the PRA and the FCA with a limited right of veto over our actions. This can only be exercised subject to certain conditions that are specific to the objectives of each authority.¹⁴
- 1.8** In March 2015 the PSR agreed a Memorandum of Understanding (MoU) with the Bank of England, FCA and PRA, which set out how the authorities intend to work together and how they expect to apply the statutory duty to coordinate.¹⁵

Other authorities

The Treasury

- 1.9** The Treasury has broad oversight of the regulatory landscape covering payment systems and their participants. It has been the main driver for legislative changes in financial services regulation.
- 1.10** The Treasury has a number of specific statutory functions relating to the market for payment systems and their participants. It is responsible for designations and recognitions across a range of statutes.^{16,17,18} We must consult the Treasury when we propose to take certain actions, and the Treasury has a right of veto over certain actions.¹⁹

¹² FSBRA, s. 98.

¹³ Relevant functions are: (in relation to the PSR) its functions under Part 5 of FSBRA; (in relation to Bank of England) its functions under Part 5 of the Banking Act 2009, (in relation to the FCA and PRA) their respective functions under Financial Services and Markets Act 2000.

¹⁴ FSBRA, s.100 to 102.

¹⁵ See MoU between the Bank of England, FCA, PSR and PRA: <http://www.bankofengland.co.uk/about/Pages/mous/default.aspx>

¹⁶ FSBRA, s. 43.

¹⁷ Banking Act 2009, s. 184.

¹⁸ FSBRA, s. 68, and FSMA, s. 234C(1).

¹⁹ For example, if the PSR proposes to appoint or dismiss the Chair of the Panel (FSBRA, s. 103(5)).

Annex 2

Analysis of results of IPSP survey

Summary

This Annex presents the results of the PSR's survey of indirect payment service providers (IPSPs). The survey analysis is based on the responses of 68 respondents. We have excluded a number of additional responses from respondents who did not provide enough information to allow for robust analysis.

Profile of respondents

The survey was answered by a wide range of indirect PSPs, with revenues mainly in the range of £1 million to £100 million. Over half of respondents were banks. The most common payment services provided by respondents were payment account provision and money remittance, followed by card issuing.

68% of respondents were agency IPSPs, with one or more sort codes that are unique to their organisation. 48% of those without a unique sort code said they would like one. The most widely cited reason for this was greater flexibility when issuing account numbers and when changing suppliers.

The most widely used payment system by respondents was FPS, with 64 respondents having access directly or indirectly. 62 reported having access to CHAPS, 59 to Bacs and 53 to C&C. Only 12 had access to LINK.

Switching indirect access provider

On average, respondents had been with their indirect access provider (IAP) for over ten years. 58% said they have not sought tenders for indirect access since 2000, and 76% have never switched providers.

56% of those that have switched did so because their previous provider terminated their access to payment systems. Other reasons for switching included inability to continue to satisfy the security requirements of their existing IAP, strategic reasons, and streamlined technology integration requirements. Only two respondents said price played a role in their switching decision.

Over half of those who switched, and answered the question regarding the quality of the new service, said the service was better under the new provider.

Almost half of those who switched had difficulty managing payment issues during the transition.

21% (12 out of 68 respondents) said their IAP had terminated their access in the past. Four respondents said they had received no formal reason for this termination.

Quality of indirect access

Respondents were asked to rate the quality of their indirect access to payment systems on a scale of one to five, with five being the highest quality. Overall, the average quality rating across all payment systems and all IAPs was 3.8, with the average across agency IPSPs (4.0) higher than for non-agency IPSPs (3.4). By system, Bacs had the highest average rating (4.0), while FPS had the lowest average rating (3.6).

Almost half of respondents (33 out of 67) said that the way they access payment systems hinders their customer offering or ability to innovate. 18 said it limited their ability to offer other services and functionalities to their customers. In particular, seven respondents said the lack of real-time access to Faster Payments prevented them from developing new products. Six raised concerns about the cost of indirect access.

37 respondents said direct access to Faster Payments would suit their business needs better than their current arrangements (compared to 18 for Bacs, 13 for CHAPS and eight for C&C). The most commonly cited reason for wanting direct access to FPS was to improve the quality of their offering to their customers. Five respondents said that they would prefer direct access to all four payment systems.

An improved service offering was the main perceived benefit of direct access, followed by lower cost of access and better risk management.

Other issues

Respondents raised several other areas of concern. These included the perceived lack of competition in indirect access provision. Some of the factors that respondents attributed this to are: a lack of providers of indirect access; a lack of appetite among existing IAPs to provide such services; and a lack of transparency in service offerings among IAPs.

Introduction

- 2.1** To inform our indirect access and infrastructure market reviews, we carried out a survey of indirect PSPs (IPSPs). The survey questions on indirect access focused on:
 - understanding how IPSPs get access to payment systems, and who provides them with it
 - identifying potential issues with that indirect access
- 2.2** You can find a full copy of the survey in Annex 3.
- 2.3** The survey was conducted online in August and September 2015 and was open for any IPSP to complete. We invited all the IPSPs in our stakeholder database to participate, as well as trade bodies representing IPSPs. We also listed details of the survey on our website.
- 2.4** We received 68 responses that contained sufficient information for us to use in our analysis. We excluded a number of further responses that were only partially completed.
- 2.5** Not all questions in the survey were compulsory, so not all respondents responded to each question. Where we refer to a percentage of respondents, we are referring to the percentage of respondents to the question under discussion.
- 2.6** We note that the views received through this survey are not necessarily representative of the industry as a whole, and the data from respondents does not necessarily extrapolate or scale to give an industry-wide view.

Characteristics of the respondents

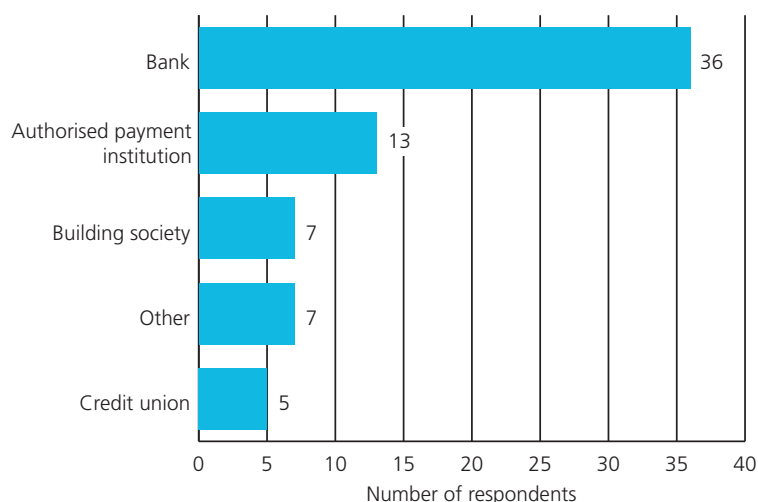
2.7 In this section we present the main characteristics of the IPSPs that responded to our survey, including:

- the type of organisation
- the kind of payment services they provide
- their size (in revenue terms)
- whether they have a unique sort code and/or a Bank of England reserve account

Types of organisation

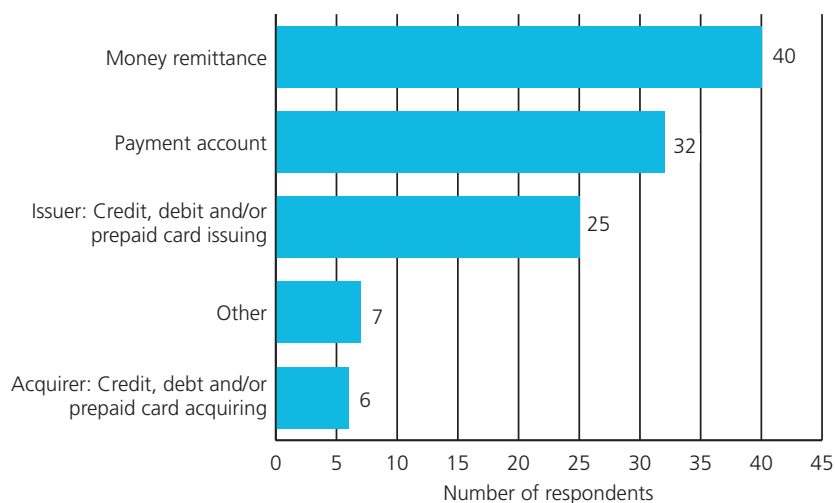
2.8 Respondents were primarily banks and authorised payment institutions. Together these organisations accounted for over 70% of total responses (49 out of 68 respondents).

Figure 1. Which of the following best describes your organisation?



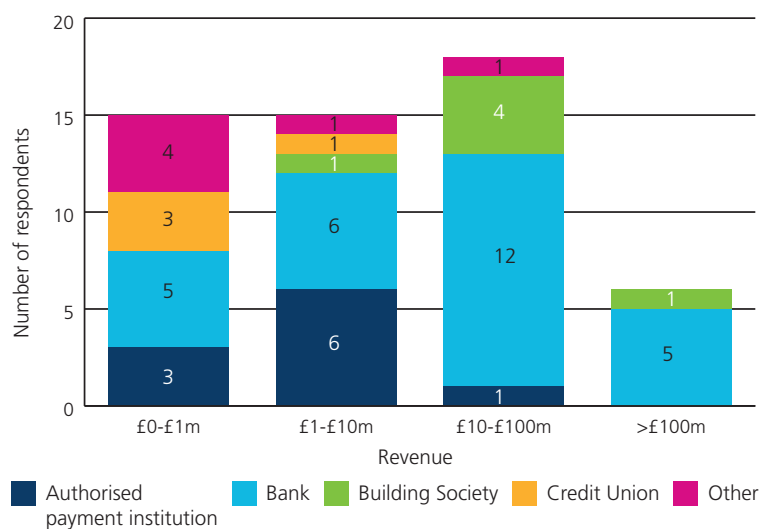
Types of payment services provided

2.9 The most common payment service provided by respondents is money remittance (59% – 40 out of 68 respondents). Offering payment accounts is the second largest service (47% – 32 out of 68 respondents), while 37% (25 out of 68 respondents) issue credit, debit or prepaid cards.

Figure 2. Which of the following payment services does your firm provide?

Size of respondents

2.10 Respondents' sizes varied widely. Banks were the largest on average, with 17 out of 28 reporting revenue of more than £10 million. Building society respondents also reported relatively high revenues, with 83% (5 out of 6 respondents) generating over £10 million.

Figure 3: Revenue per type of respondent

Unique sort codes

2.11 68% of respondents (45 out of 66) reported having one or more sort codes that are unique to their organisation. Of the 21 respondents without a unique sort code, 48% (10 out of 21) said they would like one.

Figure 4. Does your organisation have one or more sort codes that are unique to your organisation?

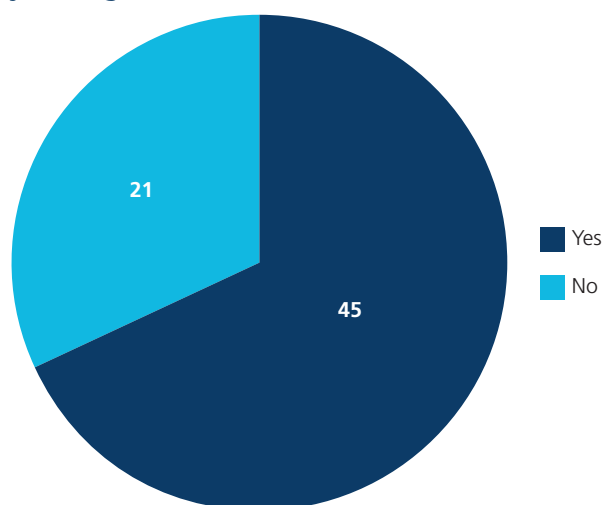
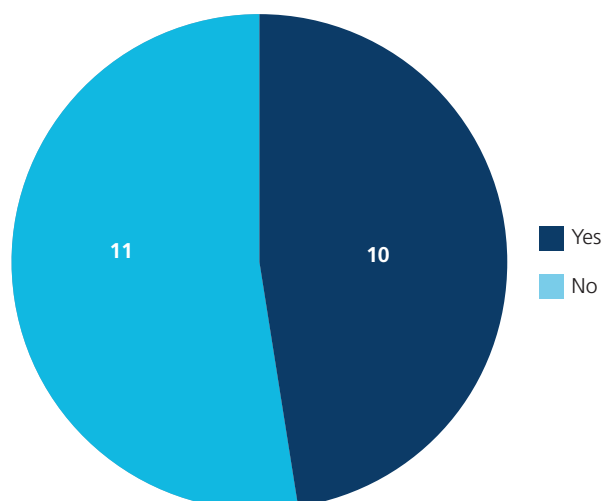


Figure 5. Would you prefer to have a unique sort code?



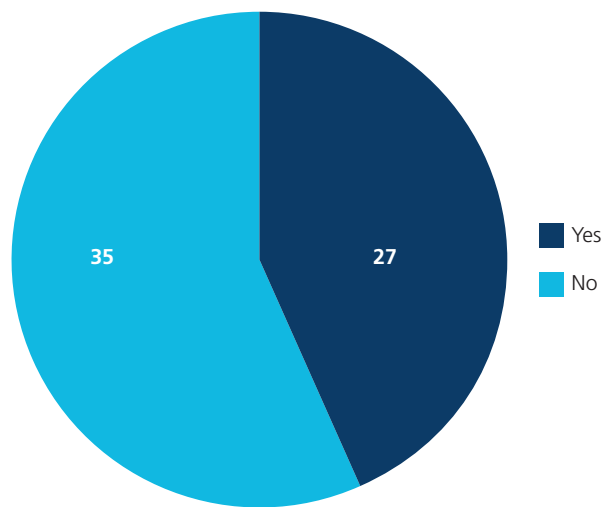
- 2.12** The most widely cited reason for wanting a unique sort code was that it would allow IPSPs more flexibility in changing suppliers and/or issuing account numbers without third party approval. Gaining full agency bank status was also a widely quoted reason.

Bank of England reserve account

- 2.13** 44% of respondents (27 out of 62) said they did not have a Bank of England reserve account but would like to have one. The main reasons for having an account included being able to:

- become a direct participant in payment systems
- facilitate settlement in payment systems – some IPSPs said this would address the problem of banks withdrawing services from them
- manage surplus cash balances in a way that minimises credit and capital risk

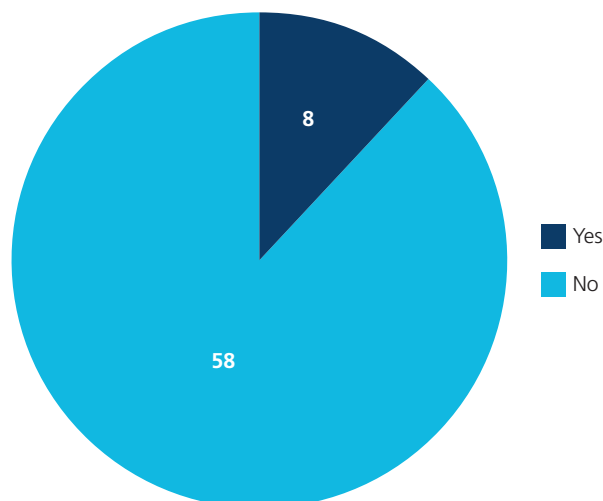
Figure 6. Do you want a Bank of England reserve account?



Provision of indirect access

2.14 We also asked if respondents provided indirect payment system access to any other authorised or registered PSPs. Eight IPSPs said that they did. Five of these were banks, one was an authorised payment institution, and the other two classified themselves as 'other'.

Figure 7. Do you provide indirect access to payment systems to any other authorised or registered PSPs?



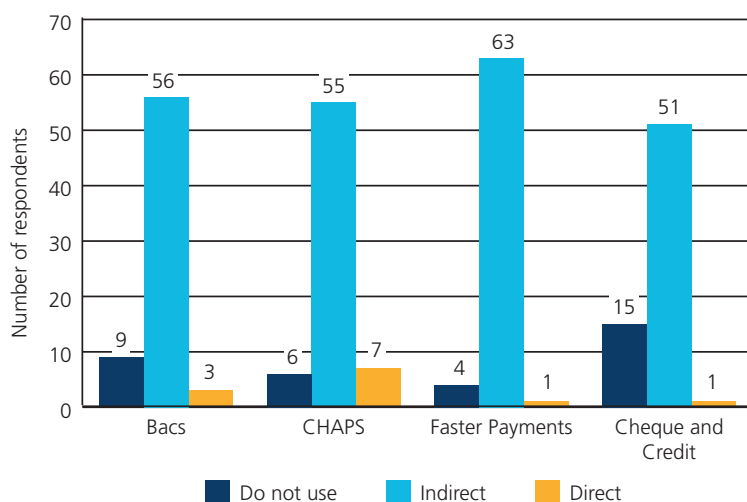
System-specific questions

- 2.15** This section presents responses to questions about the characteristics of specific payment systems. This includes which payment systems the respondents have access to, the volume of payments made, which PSPs provide indirect access, and the average price paid for indirect access.

Payment system usage

- 2.16** The majority of the respondents to this survey gain access to payment systems indirectly. The payment system most widely used by respondents is Faster Payments (FPS). 93% (64 out of 68) said they have access to FPS (either directly or indirectly). 62 have access to Chaps, 59 to Bacs and 52 to Cheque and Credit (C&C).²⁰

Figure 8. Do you use any of the following payment systems to provide payment services to your customers, and if so, how do you access them?



- 2.17** Our survey respondents carried out over 475m transactions through Bacs over the past year, the highest number for any of the payment systems. CHAPS had the lowest total. The heaviest users of each system were generally banks.

²⁰ It is not possible to have indirect technical access to LINK. See Chapter 2 of the main interim findings report for further explanation.

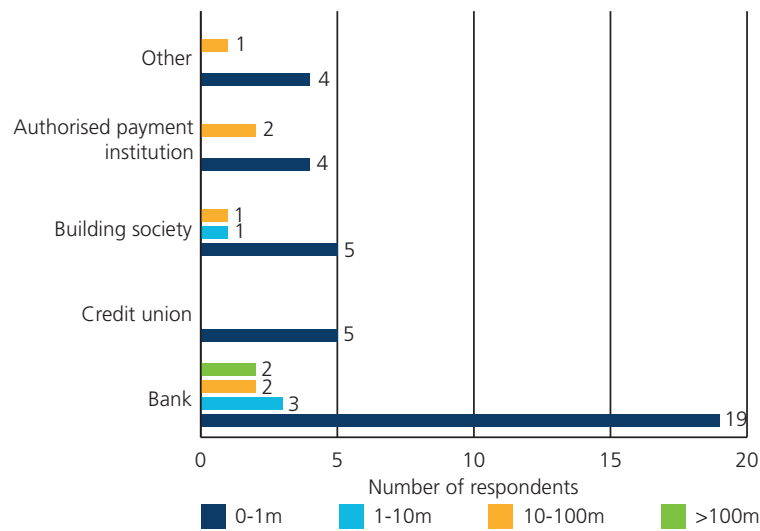
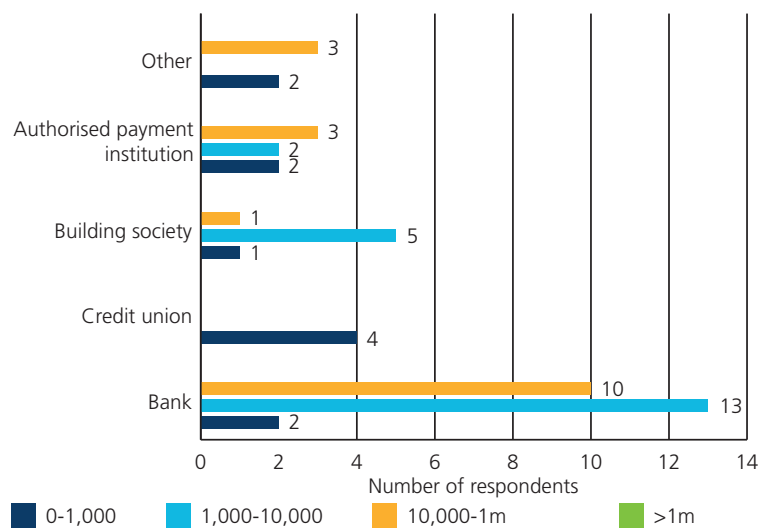
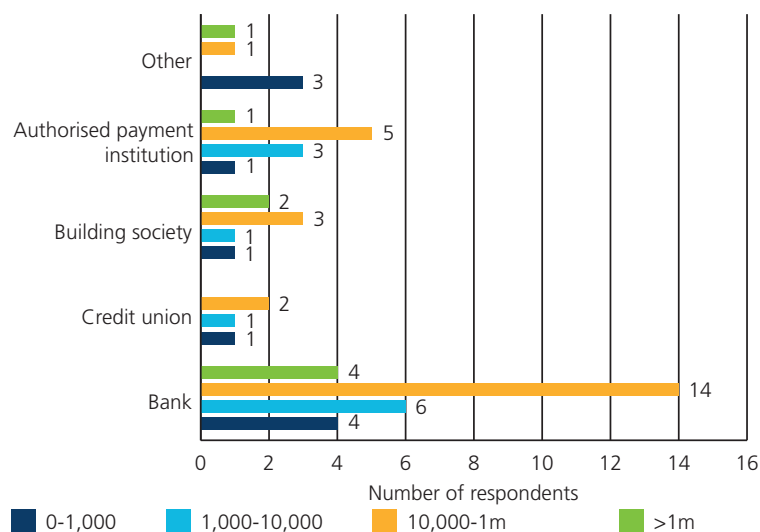
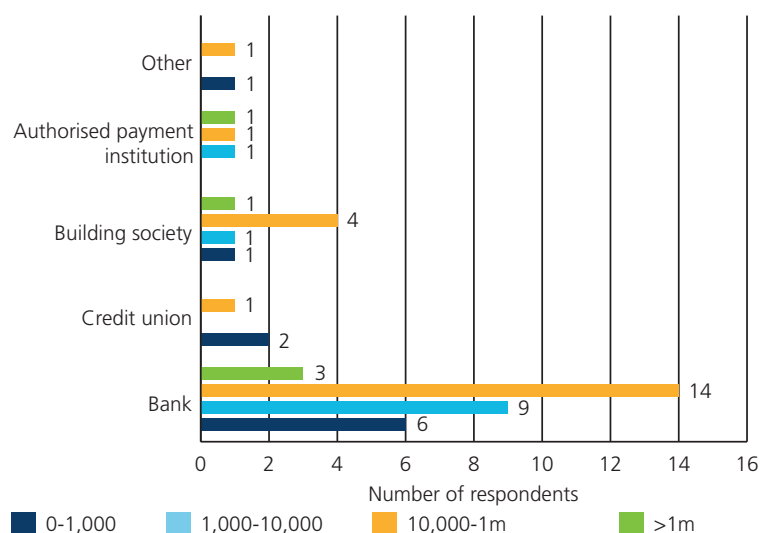
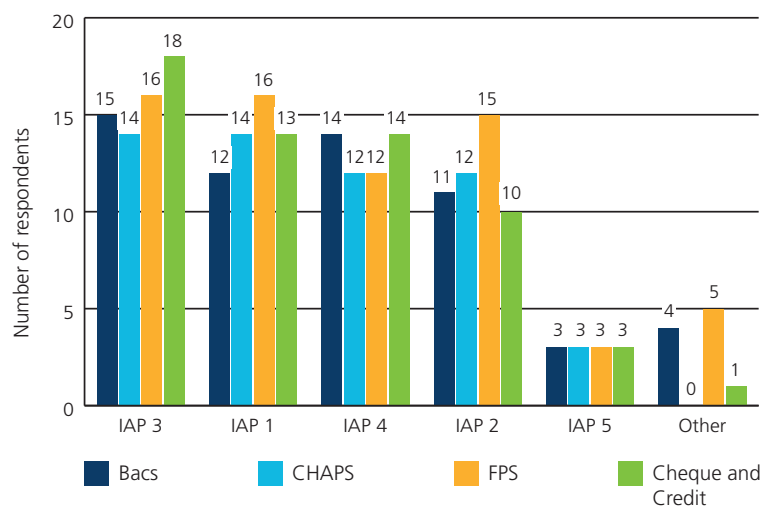
Figure 9. Bacs: Tell us about the number of transactions you make**Figure 10. CHAPS: Tell us about the number of transactions you make**

Figure 11. Faster Payments: Tell us about the number of transactions you make**Figure 12. Cheque and Credit: Tell us about the number of transactions you make**

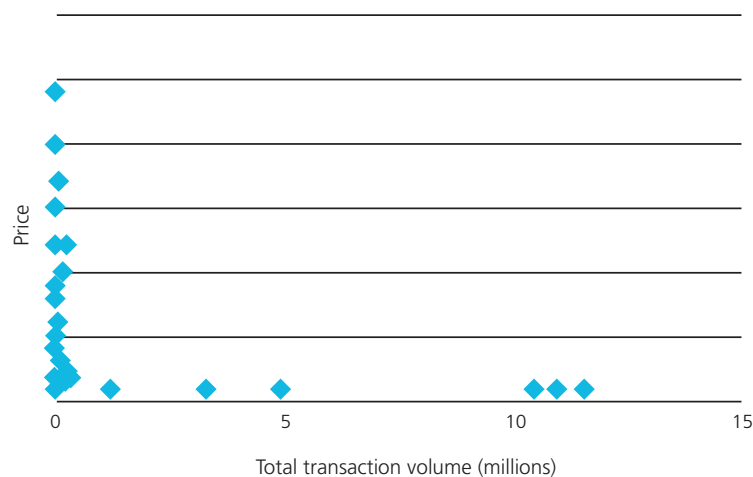
Indirect access providers

- 2.18** The responses indicate that there are four primary providers of indirect access to payment systems – Barclays, HSBC, LBG and RBS. There are also a number of smaller indirect access providers offering access to payment systems. These include [redacted].

Figure 13. Who provides you with indirect access?

The price of indirect access

2.19 We asked respondents to tell us how much they paid on average per transaction for indirect access to each system and the total volume of transactions per system. They reported a wide range in per-transaction charges for all systems. Respondents with relatively high transaction volumes generally appear to pay lower prices.²¹

Figure 14. Bacs: price v volume

²¹ For confidentiality reasons we do not display the price labels in the price v volume graphs.

Figure 15. CHAPS: price v volume

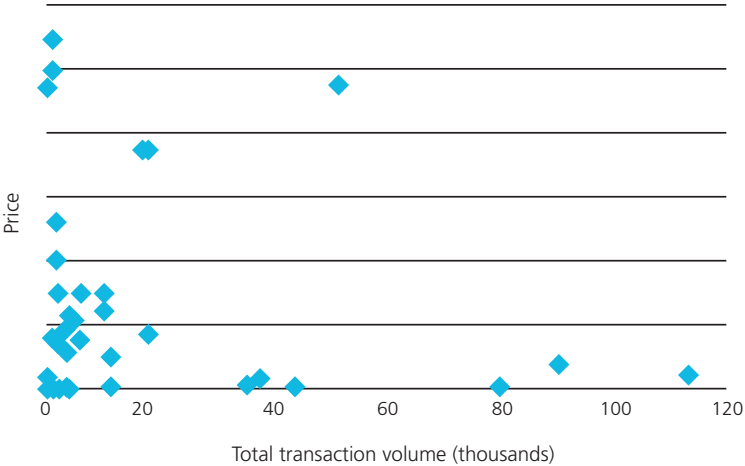


Figure 16. Faster Payments: price v volume

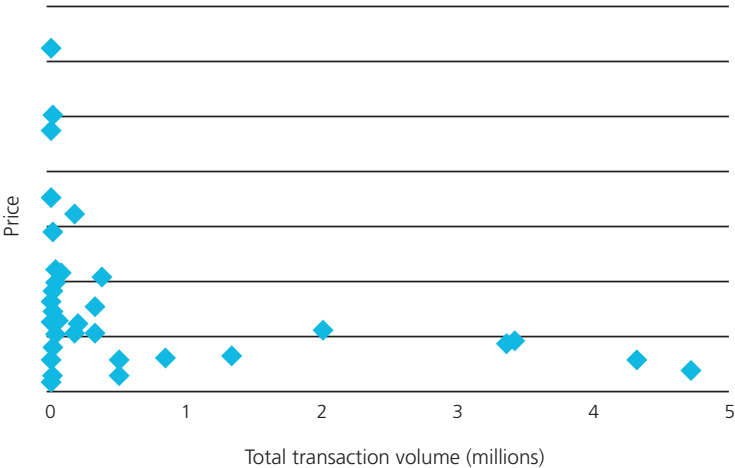
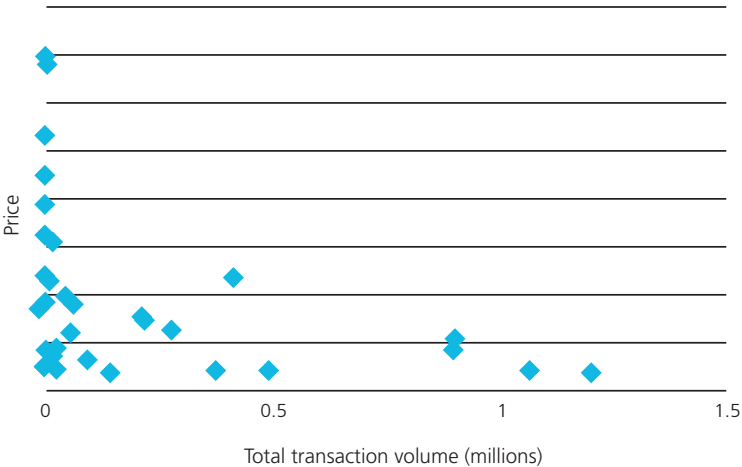


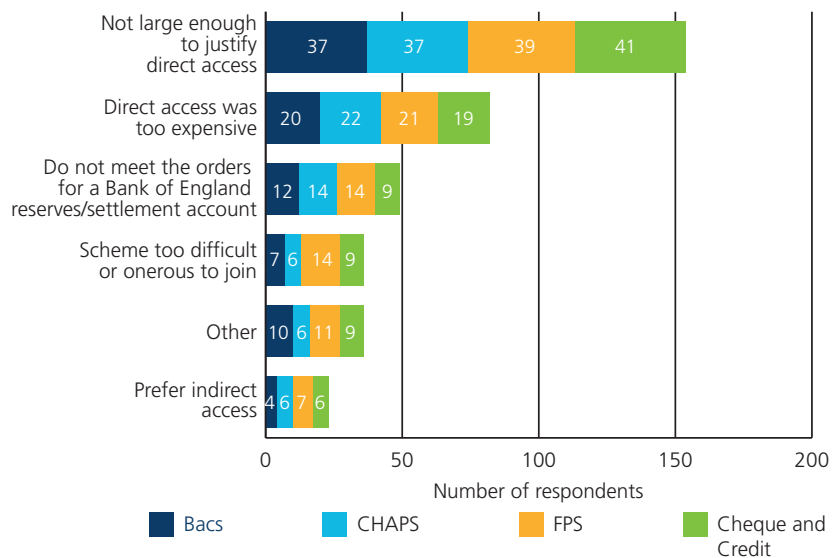
Figure 17. Cheque and Credit: price v volume



Reasons for accessing payment systems indirectly

2.20 We asked respondents with indirect access to payment systems for the main reasons why they chose this route of access. The most common reasons are that the organisation is not large enough to justify the cost of direct access, and that direct access is too expensive. A significant number of respondents said they were unable to meet the criteria for direct access. These reasons were generally consistent across payment systems.

Figure 18. What are the reasons you chose indirect access?



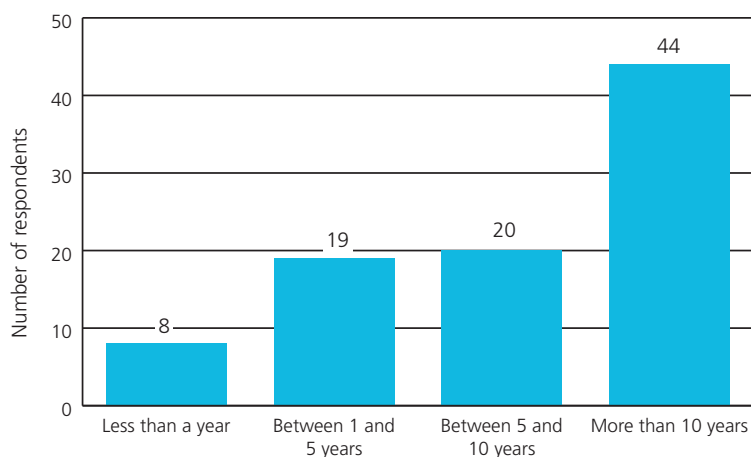
Switching and choice of indirect access provider

- 2.21** We asked respondents a series of questions relating to choice of indirect access provider (IAP) and their past switching behaviours. This section presents their responses.

The length of the relationship with the IAP

- 2.22** We asked respondents how long they have been provided with indirect access by their current IAP. We found that close to 50% of indirect access relationships have lasted for more than ten years. Our results indicate that [X] have been able to keep their customers for the longest: the majority of their customers have stayed with them for over five years. On the other hand, the average [X] customer has stayed with them for between one and five years. The responses aggregated across all IAPs are summarised in the chart below.

Figure 19. How long has 'x' provided you with indirect access? (total across all IAPs)?



Switching providers

- 2.23** We asked whether respondents have sought tenders for indirect access services since 2000, and whether they have switched IAP since 2000. 42% of respondents (28 out of 66) said they have sought tenders, and 24% (16 out of 66) said they have switched IAP.

Figure 20. Have you sought tenders for indirect access services since 2000?

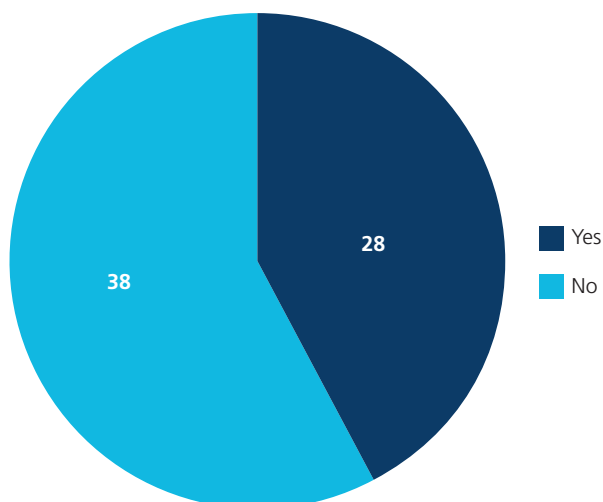


Figure 21. Have you switched indirect access provider since 2000?

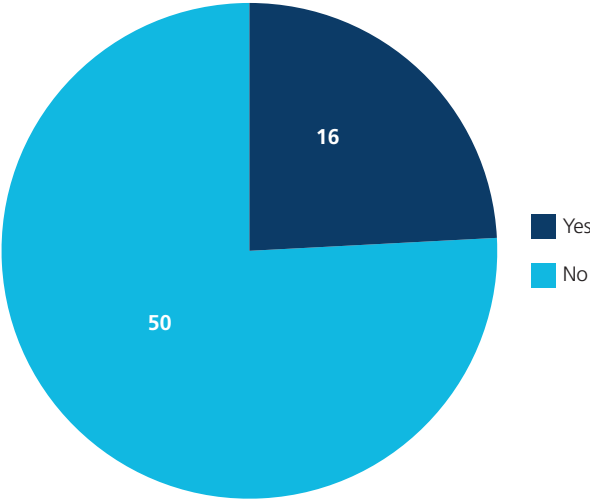


Figure 22. Have you switched indirect access provider since 2000? (Agency IPSPs only)

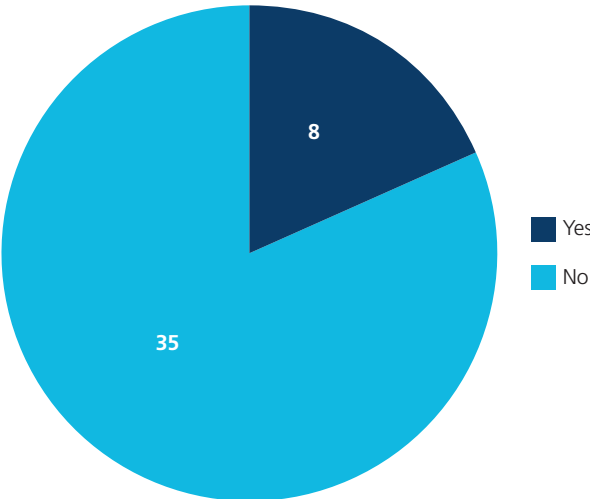
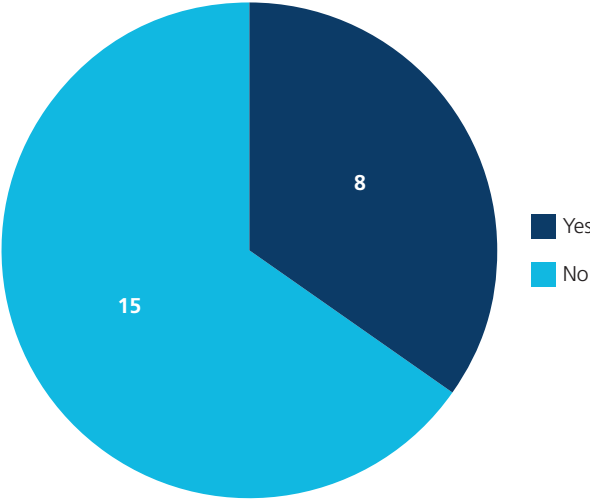


Figure 23. Have you switched indirect access provider since 2000? (Non-agency IPSPs only)



2.24 For those respondents that actively sought tenders for indirect access, we asked how many IAPs they approached and how many responses they received. 16 respondents answered this question. On average each participant approached three providers and received two responses.²²

2.25 IPSPs that have switched since 2000 approached three IAPs and got two responses, on average.

Figure 24. How many providers did you approach?

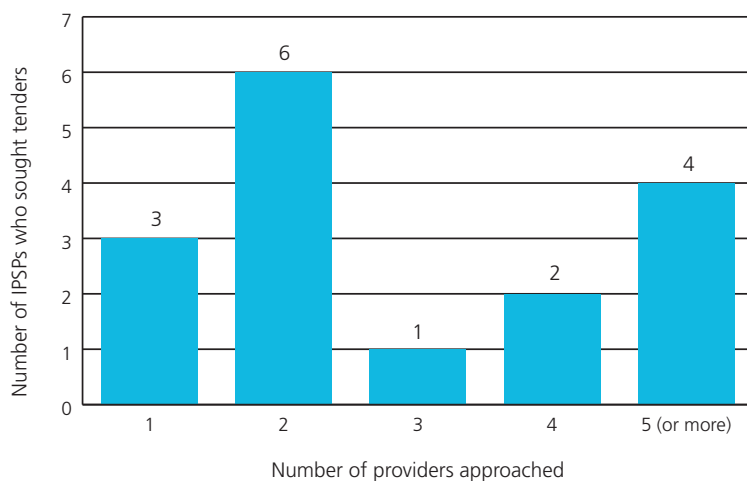
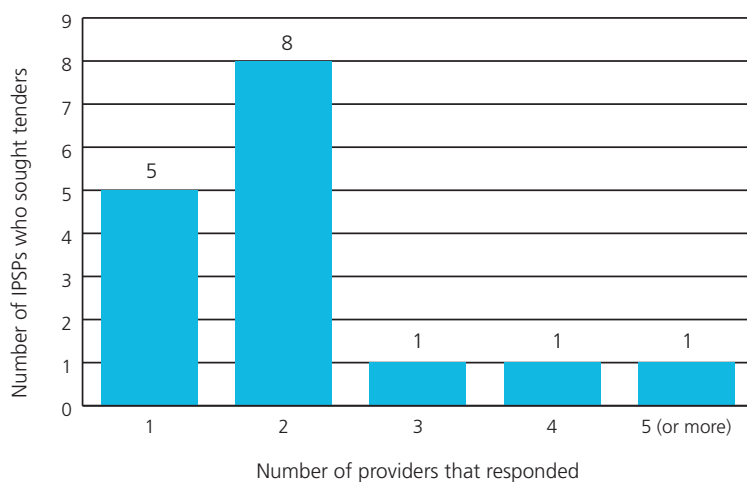


Figure 25. How many providers responded?



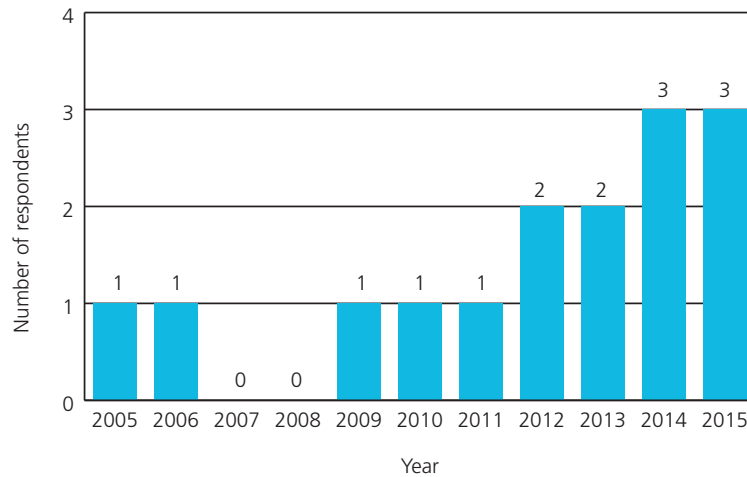
2.26 For those respondents that sought tenders for indirect access but ultimately did not end up switching, the main reasons provided for not switching were:

- the operational cost of switching
- the inability to satisfy the new providers' criteria
- a lack of interest from IAPs in supplying indirect access

²² This is based on the simplifying assumption of answers of '5 or more' all being 5.

- 2.27** The respondents that reporting having switched IAP since 2000 did so between 2005 and 2015. 10 of the 15 switches happened in the last four years.

Figure 26. In which year did you last switch indirect access provider?



- 2.28** We asked respondents which IAP they switched from and which IAP they switched to.

Figure 27. Who did you switch from?

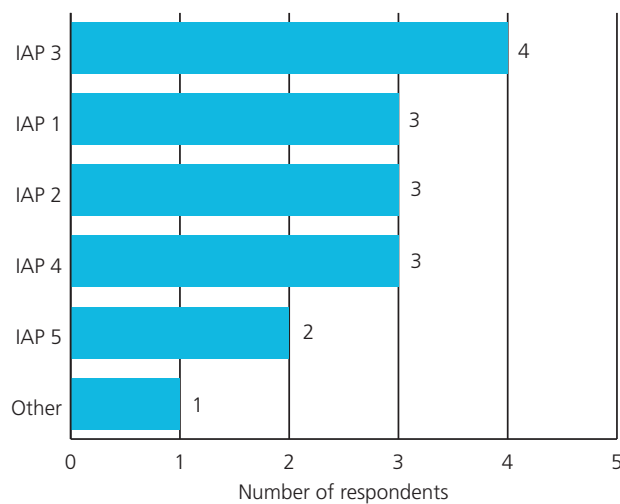
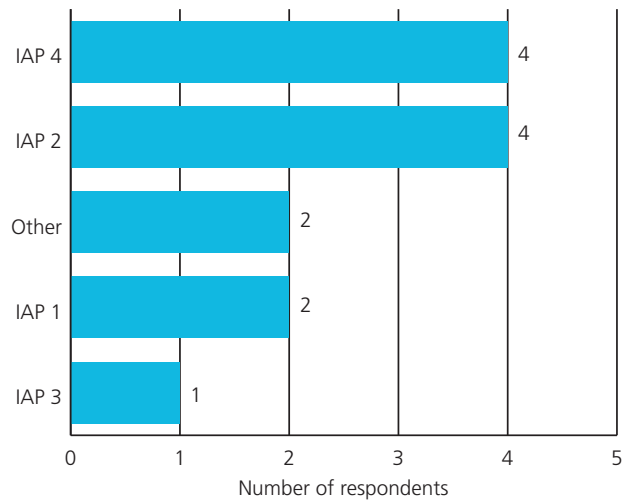
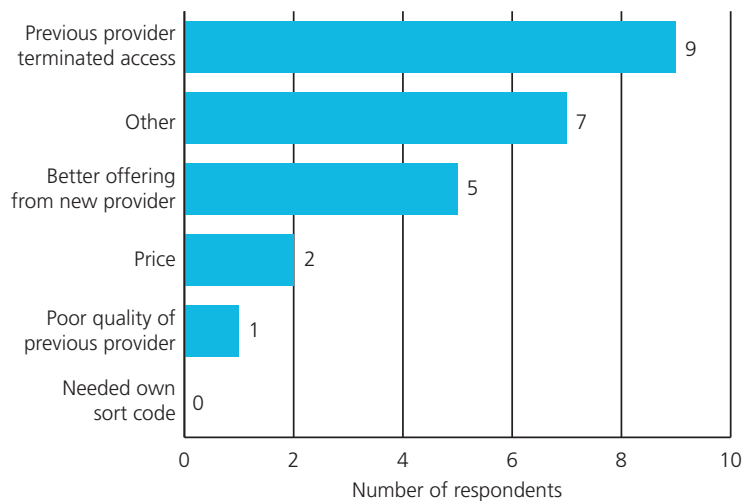


Figure 28. Who did you switch to?

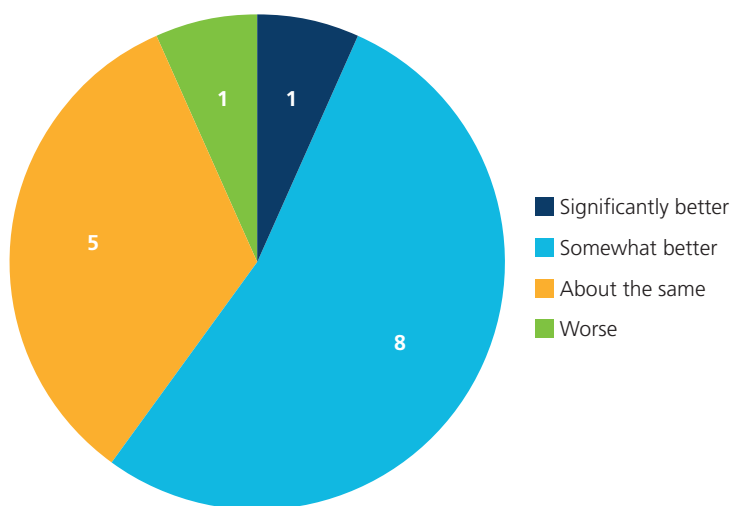
2.29 For those respondents that have switched IAP, we asked what the main reasons for switching were. 56% of respondents (9 out of 16) said they had to switch because their previous provider terminated their access to payment systems. 'Other' reported reasons included:

- inability to continue to satisfy the security requirements of the IAP
- strategic reasons
- price

Figure 29. Why did you switch?

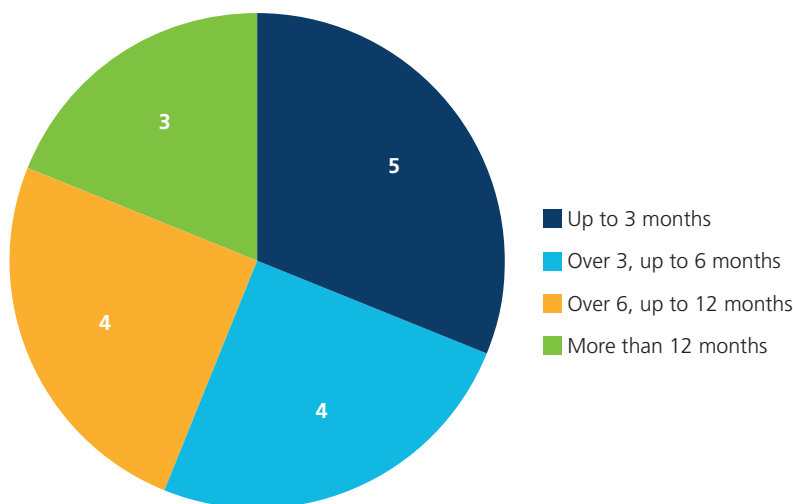
- 2.30** Respondents that switched IAP were asked to rate the service they received from their new provider compared to the previous one. More than half (9 out of 15) said the service from their new provider was (either somewhat or significantly) better than the previous one. One respondent thought that the service they received following the switch was worse.

Figure 30. How would you rate the service that you receive from your new provider against that of the previous provider?

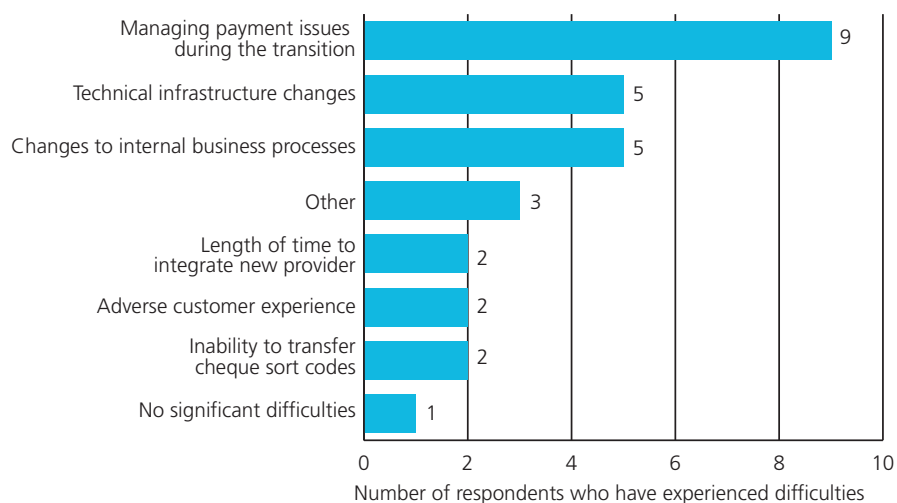


- 2.31** Respondents that switched were asked how long the process took. 56% (9 out of 16 respondents) said it took less than six months, but for 19% (3 out of 16) it took over a year.

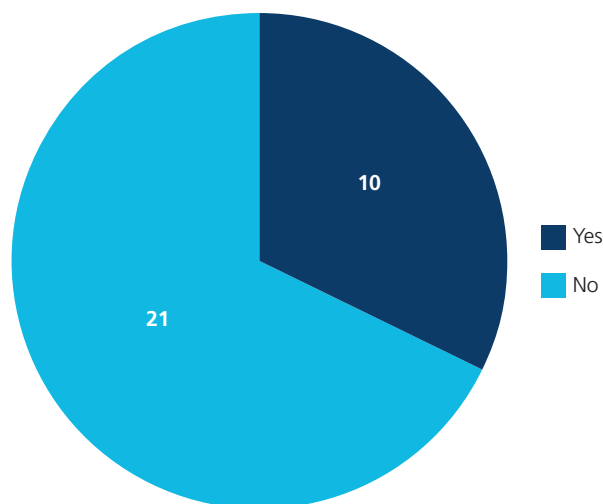
Figure 31. How long did it take to complete the switch?



- 2.32** During the switching process, respondents' main difficulties were in managing payment issues during the transition – 56% (9 out of 16 respondents) raised this issue. The next most common problems were changes to technical infrastructure and internal business processes, both of which 31% of respondents (5 out of 16) reported experiencing. One respondent reported no significant difficulties.
- 2.33** Of those who raised 'other' significant difficulties, one respondent said that they had problems negotiating a tailored contract when switching, as IAPs tended to offer standardised contracts.

Figure 32. What, if any, significant difficulties did you experience in this process?

2.34 For those respondents that had not switched IAPs or invited tenders for their indirect access provision, about two-thirds (21 out of 31) said they had never considered switching.

Figure 33. Have you ever considered switching provider?

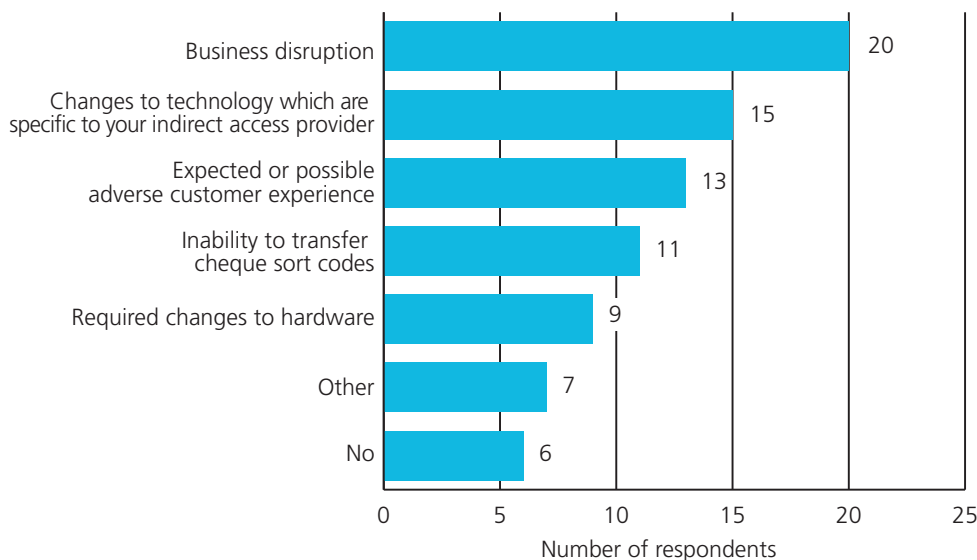
2.35 We asked if respondents thought they faced any barriers to switching. 19% (6 out of 32) thought they did not. The most common barrier cited among the others was the business disruption that switching provider would cause. 63% of respondents (20 out of 32) mentioned this. The next most frequent reasons were changes to technology (47% – 15 out of 32 respondents) and the possibility of a negative impact on customer experience (41% – 13 out of 32 respondents).

2.36 'Other' barriers raised included:

- not being able to secure a bank account with any of the other IAPs
- the limited competition and difficulty in finding another provider
- the potential cost savings of switching not being clear, meaning there is little incentive to investigate it in greater depth

- the incompatibility of some file formats for payments and statements between different providers
- the general business costs of switching

Figure 34. Do you think you face any barriers to switching?



Termination of indirect access

2.37 18% of respondents (12 out of 66) said their IAP had terminated their access to a payment system. The respondents gave various reasons for this, including:

- low business volumes meaning it was not commercially viable for the provider
- due diligence and anti-money laundering concerns
- the respondent having the wrong risk profile for the bank
- IAP no longer wanting to provide indirect access as a service
- the provider not wanting to provide indirect access to money service businesses

2.38 Four respondents said the provider did not give a formal reason for terminating their access.

Figure 35. Have you ever had your payment system access terminated by your provider?

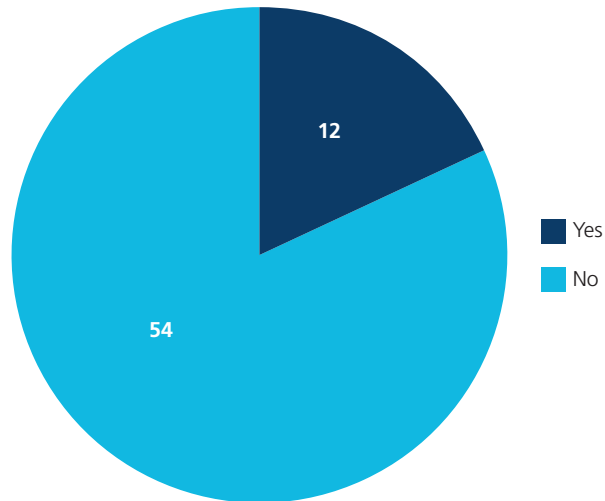


Figure 36. Have you ever had your payment system access terminated by your provider? (Agency IPSPs only)

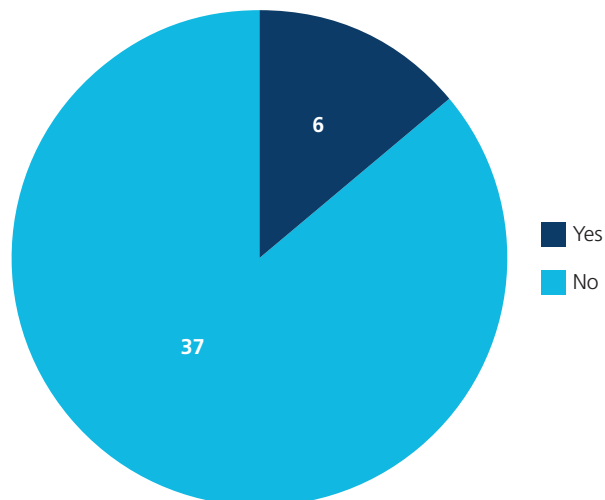
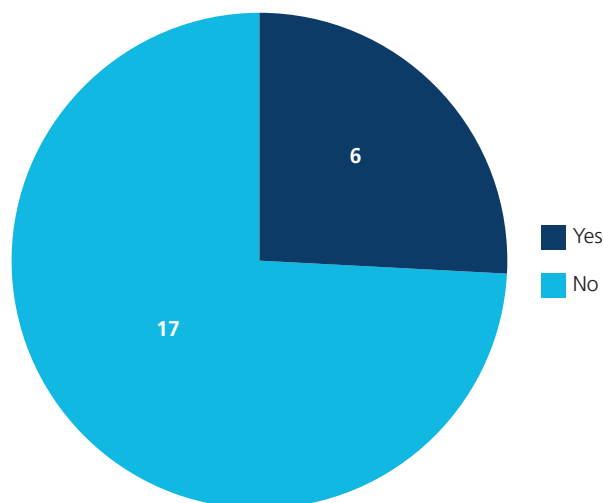


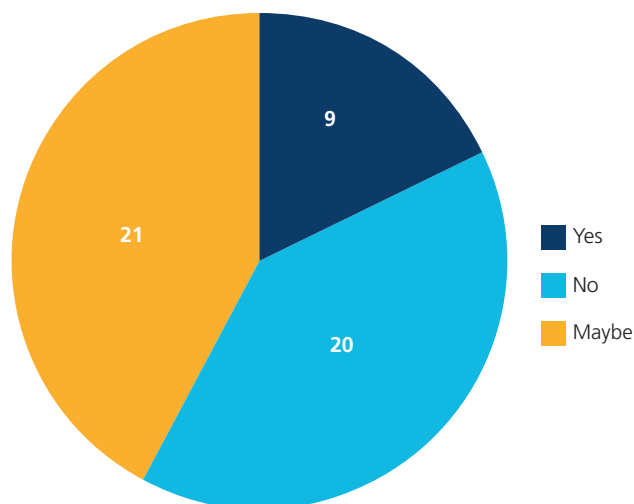
Figure 37. Have you ever had your payment system access terminated by your provider? (Non-agency IPSPs only)



The impact of cheque imaging

- 2.39** We asked respondents if they would reconsider switching their IAP for cheques following the introduction of a cheque imaging solution. 18% (9 out of 50 respondents) said they would, while 42% (21 out of 50) said they would not.

Figure 38. If the new cheque imaging solution resolves concerns around switching cheque sort codes, would you reconsider your provider of indirect access to cheques?



Quality of indirect access services

- 2.40** We asked respondents:

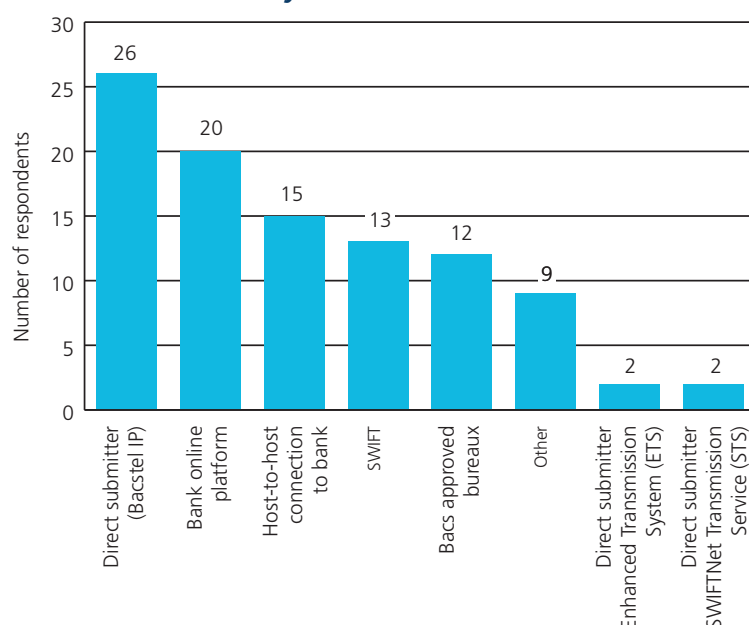
- which channels they use to indirectly access payment systems through their IAP
- how they rate the quality of their indirect access services on a scale of 1 to 5 (with 5 being the highest quality)

2.41 The responses to these questions are presented by payment system.

Bacs

2.42 The most common channel used to send and receive Bacs payments and reporting information is direct submission using Bacstel-IP software. 26 of the 55 respondents to this question (47%) used this method. The next most common channels were bank online platforms (36% – 20 of 55 respondents) and host-to-host connections to a bank (27% – 15 of 55 respondents).

Figure 39. Bacs: What channels do you use to send and receive payments and reporting information for this system?



2.43 Based on 59 responses, the mean quality rating for indirect access to Bacs across all IAPs was 4.0. [3] had the highest average rating, with only one of 12 respondents rating the quality of access lower than 4. [4] had the next highest rating, while [2] had the lowest (2.7, based on 3 respondents).

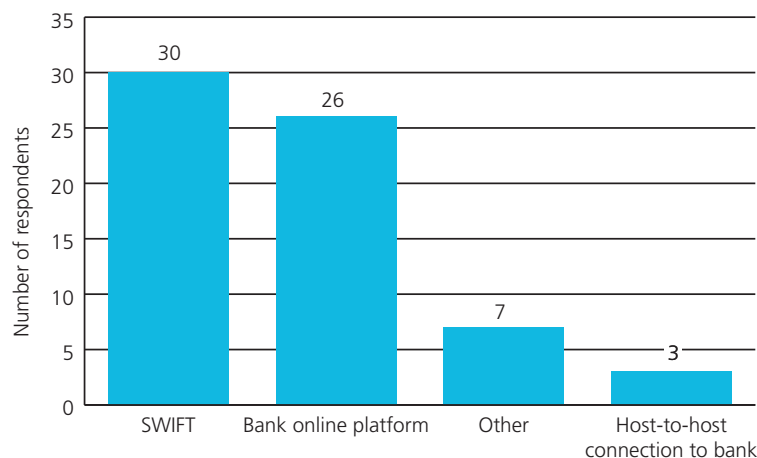
Table 1. Bacs: Overall, how do you rate the indirect access offering for this system? (1-5, with 5 being the highest quality)

IAP	IAP 1	IAP 2	IAP 3	IAP 4	IAP 5	Other providers	All
Mean response	4.5	4.4	3.9	3.9	2.7	3.7	4.0
Number of responses	12	10	14	14	3	6	59

CHAPS

2.44 The most common channels for indirect access to CHAPS are bank online platforms and SWIFT. 56% (30 of 54 respondents) said they use SWIFT and 48% (26 of 54) use bank online platforms. 19% (10 of 54) use both. Other channels included in-person at a branch (raised by three respondents), and a third party host-to-host connection (raised by one respondent).

Figure 40. CHAPS: What channels do you use to send and receive payments and reporting information for this system?



2.45 Based on 58 responses, the mean quality rating for indirect access to CHAPs across all IAPs was 3.8. [X] and [Y] received the highest average quality rating (4.2), and [Z] the lowest (3.0). [X] had the lowest average rating of the four main IAPs (3.6), with three respondents rating their CHAPS service at 2 or lower.

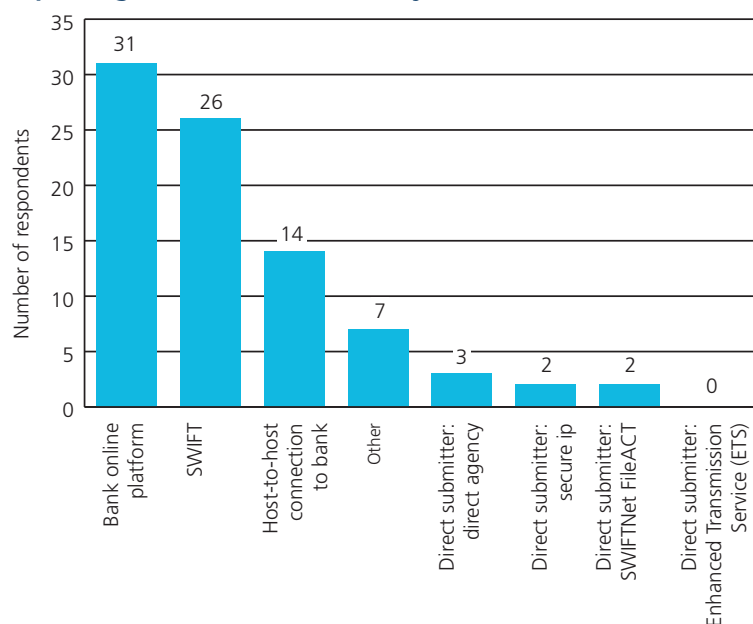
Table 2. CHAPS: Overall, how do you rate the indirect access offering for this system? (1-5, with 5 being the highest quality)

IAP	IAP 1	IAP 2	IAP 3	IAP 4	IAP 5	Other providers	All
Mean response	4.2	4.2	3.7	3.6	3.0	3.8	3.8
Number of responses	13	11	13	12	3	6	58

Faster Payments

2.46 The most common channel used by respondents for indirect access to Faster Payments is a bank online platform (51% – 31 of 61 respondents), followed by SWIFT (43% – 26 of 61 respondents) and then host-to-host connection to a bank (23% – 14 of 61 respondents). Other channels include a third party host-to-host connection (one respondent), and direct corporate access (DCA) by a bureau on behalf of a corporate (one respondent).

Figure 41. Faster Payments: What channels do you use to send and receive payments and reporting information for this system?



2.47 Based on 64 responses, the average quality rating of indirect access to Faster Payments across all IAPs was 3.6. Among the four main IAPs, [X] had the highest rating (3.9), and [X] the lowest (3.4). [X] received the lowest rating overall (2.7).

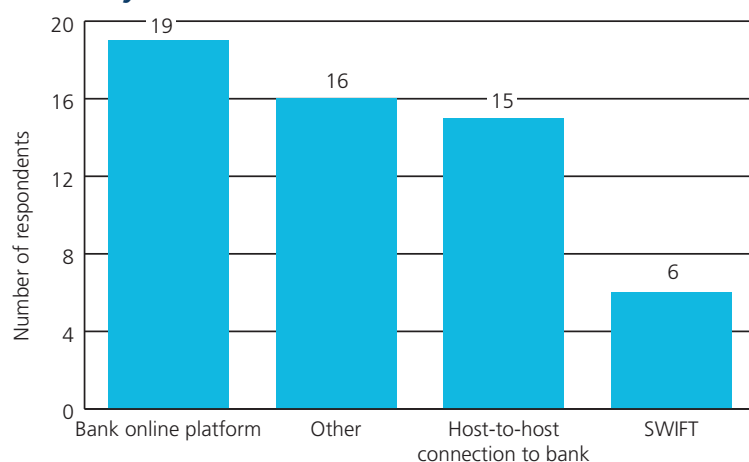
Table 3. Faster Payments: Overall, how do you rate the indirect access offering for this system? (1-5, 5 being the highest quality)

IAP	IAP 1	IAP 2	IAP 3	IAP 4	IAP 5	Other providers	All
Mean response	3.9	3.4	3.5	3.6	2.7	3.8	3.6
Number of responses	15	14	14	12	3	6	64

Cheque and Credit (C&C)

2.48 Respondents receive reporting information about C&C indirect access primarily through bank online platforms (40% – 19 of 48 respondents) or host-to-host connections to a bank (31% – 15 of 48). A small proportion also use SWIFT (13% – 6 of 48). For those using other channels (16 respondents), paper-based reporting is the most common (used by six respondents).

Figure 42. Cheque and Credit: What channels do you use to receive reporting information for this system?



2.49 Across 53 responses, the mean quality rating for indirect access to C&C across all IAPs was 3.9. [3] had the highest average rating (4.1), with no respondents rating it below 3. There is less variation in the quality ratings for this system, with the main four IAPs all receiving average ratings from 3.9 to 4.1. [3] had the lowest average rating (3.3).

Table 4. Cheque and Credit: Overall, how do you rate the indirect access offering for this system? (1-5, 5 being the highest quality)

IAP	IAP 1	IAP 2	IAP 3	IAP 4	IAP 5	Other providers	All
Mean response	4.1	3.9	3.9	3.9	3.3	4.0	3.9
Number of responses	12	8	15	14	3	1	53

2.50 The table below shows the average ratings for each payment system by agency and non-agency IPSPs, as well the corresponding sample sizes on which the means are based. Agency IPSPs generally appear to be more satisfied with the service they receive than non-agency IPSPs.

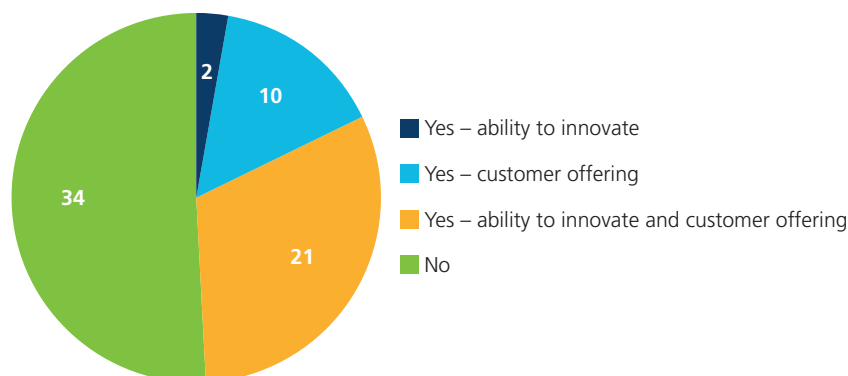
Table 5. Summary of quality ratings by payment system

	Bacs	CHAPS	Faster Payments	Cheque and Credit
Agency mean	4.2	4.1	3.7	4.0
Sample size	42	40	44	45
Non-agency mean	3.5	3.3	3.4	3.5
Sample size	17	18	20	8

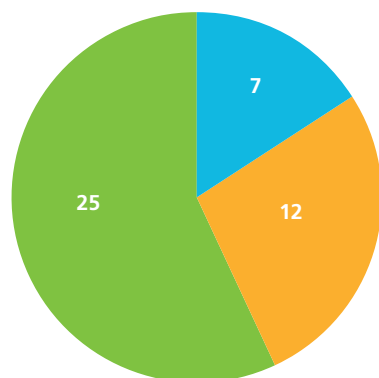
The impact of indirect access on customer offerings and ability to innovate

2.51 We asked respondents with indirect access if the way they access payment systems hinders their customer offering or their ability to innovate. 33 respondents said it did, with 22 (64%) saying it hindered both. 30% (10 of 33) said it only affected their customer offering, and 6% (2 of 33) said it only affected their ability to innovate. 34 respondents said there was no impact in these areas.

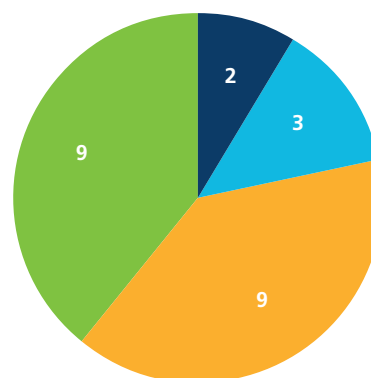
Figure 43. Does the way you access payment systems through your provider hinder your customer offering or your ability to innovate?



Agency



Non-Agency



2.52 A greater proportion of non-agency IPSPs than agency IPSPs said the way they access payment systems has an adverse effect on their customer offering or ability to innovate.

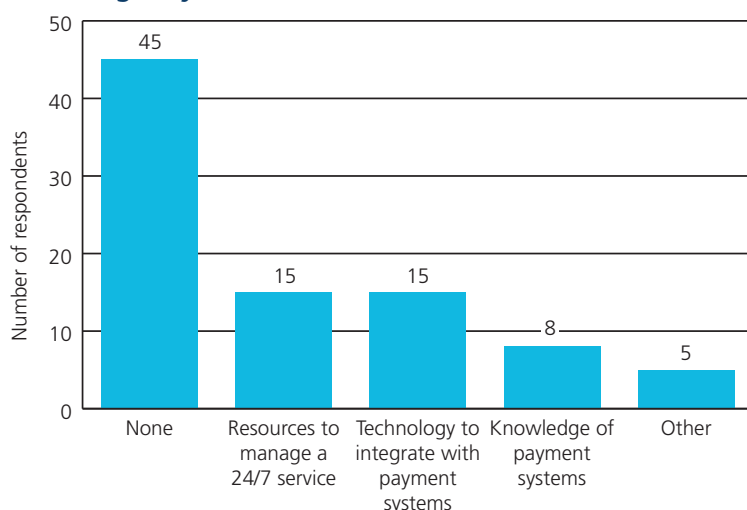
2.53 We asked respondents to explain how their customer offering and ability to innovate was hindered. The most common concern was that indirect access limited users' ability to offer other services and functionality to their customers (18 respondents). Respondents said that this was because they are constrained by the offerings and compliance rules of their IAP, which in turn inhibits their own innovation. One respondent also argued that, as IPSPs, they do not have a say in the governance of the payment system. As a result, this respondent argued that system decisions about strategy and innovation often do not reflect the views of smaller payment service providers who rely on indirect access.

2.54 The most common issue constraining customer service offerings was that users with indirect access cannot provide a 24/7 real-time service for Faster Payments. Eight respondents raised this. Relatedly:

- One respondent said it cannot provide real-time payments because there is a SWIFT outage from 2pm on Saturday to 6am on Sunday, during which payments cannot be sent or received.
- Another respondent said it was limited to two payment windows each day due to the time it takes to upload payments via an online portal.
- Seven respondents said that such restrictions prevent IPSPs from developing innovative new products which rely on real-time capability, such as Zapp and Paym. Two respondents explicitly linked this to IPSPs' competitive disadvantage compared to those with direct access.

- 2.55** Two respondents raised concerns about having earlier cut-off times for CHAPS payments than their IAPs. While one respondent recognised that these are necessary lags for processing, it said that it effectively reduces the service time available to IPSPs and their customers. The other respondent said that as an IPSP its customers cannot receive CHAPS payments automatically into their accounts. Instead, the IPSP has to manually transfer the payments from its settlement account with its IAP. This introduces a time lag which places the IPSP at a competitive disadvantage.
- 2.56** Six respondents raised the cost of indirect access as a concern. Two of these said their ability to lower costs to their customers was constrained by the prices charged by the IAPs, while one of the respondents argued that the IAPs' prices are not competitive.
- 2.57** One respondent made the point that a lack of efficiency can in turn damage innovation and customer offering, by eating up the funds available for investment. This respondent went on to say that with direct access it could save around 10% in operating costs each year through a reduction in manual processing.
- 2.58** Other issues included one respondent's concern that delays and errors made by their IAP can cause the IPSP itself to suffer reputational damage. Another respondent said that indirect access has the inherent disadvantage that the IPSP, which is dependent on an IAP for access to central infrastructure, is also a direct competitor of that IAP.
- 2.59** We asked if respondents had the internal resources, knowledge and technical capability to provide the customer offerings they would like to. 67% (45 of the 67 respondents) said they did, and the rest said they did not. Of the 22 who did not, 68% (15 respondents) said they did not have the resources to manage a 24/7 service. 68% (15 respondents) said they did not have technology to integrate with payment systems. 50% (11 respondents) lacked both of these requirements. In addition, 36% (8 respondents) said they did not have the necessary knowledge of payment systems. 23% (5 respondents) said they were lacking in all three of these areas.

Figure 44. With regard to providing the customer offering you would like, which of the following do you lack?

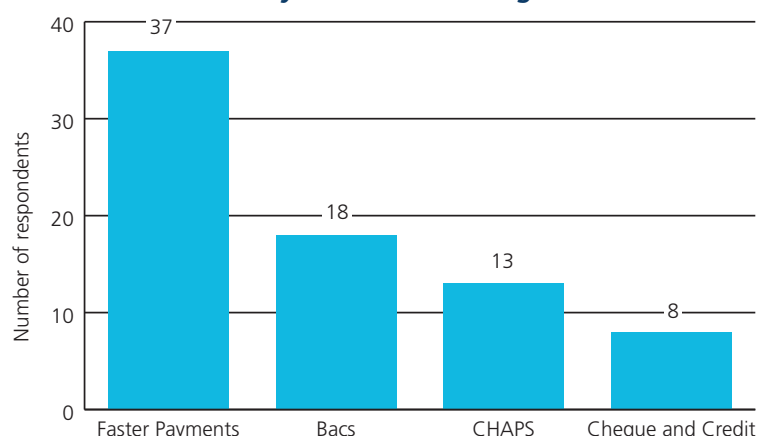


- 2.60** For respondents who reported having the internal resources, knowledge and technical capability to provide the customer offering they would like, we also asked if respondents have the capability to offer near real-time, 24/7 payments to their customers. 13 of 45 respondents (29%) said they did.

Direct access

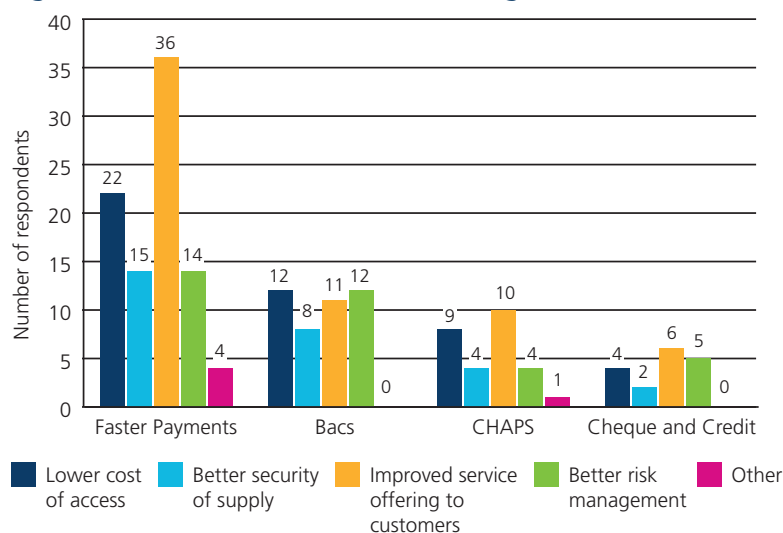
- 2.61** We asked respondents if direct access to any of the payment systems would better suit the needs of their business than their current arrangements. 37 said that direct access to Faster Payments would better suit their business needs. The corresponding figures for Bacs, CHAPS and Cheque and Credit were 18, 13 and eight respondents, respectively. Five said that direct access to all four payment systems would be beneficial.

Figure 45. Would direct access to any of these payment systems suit the needs of your business better than your current arrangements?



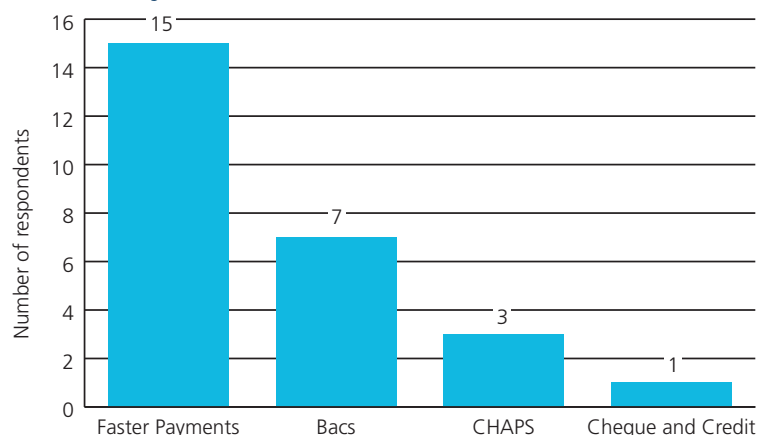
- 2.62** Those who said that direct access would be preferable were asked what benefits this would provide. The most common response was that direct access to Faster Payments would enable PSPs to improve their service offering to customers (36 respondents).

Figure 46. What would be the advantages of direct access to the payment systems?



- 2.63** We asked respondents if they planned to become a direct member of any of these systems in the next three years. There is clear variation in intentions across the payment systems. One respondent said it plans to become a direct member of Cheque and Credit, compared with seven for Bacs and 15 for Faster Payments.

Figure 47. Do you plan to become a direct member of any of the payment systems in the next three years?



2.64 Respondents who do not plan to become direct members were asked why not. Of these:

- eight said direct access was too costly
- five said they were not large enough to have direct access
- four said the entry costs or requirements were too high
- two said direct access would be too complex
- one said they lacked knowledge of the costs and requirements

Extension of CHAPS settlement day

2.65 We asked respondents if they knew that the CHAPS settlement day will be extended from 4.20pm to 6pm from summer 2016. 72% (48 of 67 respondents) said they did.

2.66 We also asked whether they thought the extended settlement day for CHAPS would benefit customers. 52% (34 of 66) believed that it would, while 24% (16 of 66) did not. The rest were unsure.

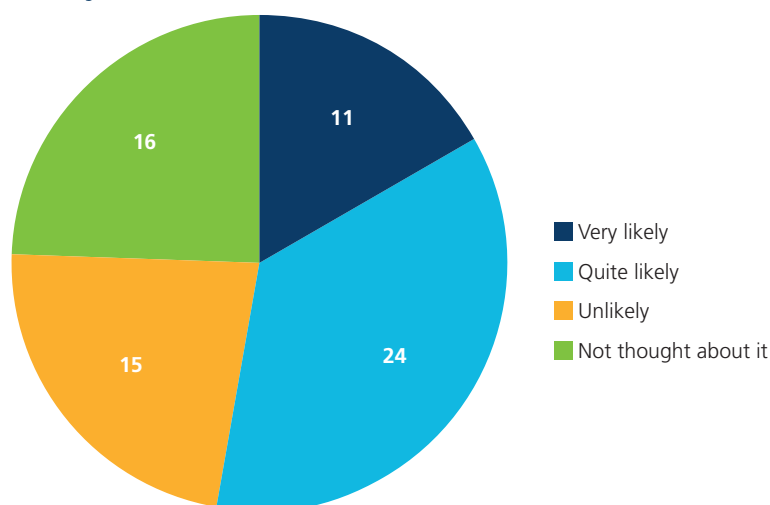
Direct technical access to FPS

2.67 The survey asked respondents if direct technical access to FPS through an aggregator would improve their offerings to customers. 52% (35 of 67) said it would, and 25% (17 of 67) did not. The rest did not know.

2.68 For those who thought it would not, the key reason was the low volume of their payments through FPS, which meant they could not justify the complications of direct technical access (five respondents). One respondent said that indirect access was efficient enough, while another said the change would generate no benefits for customers as they already have real-time connectivity to their IAP through SWIFT.

2.69 We asked whether respondents would be likely to use the service in the next three years if it were to become available. 35 of 66 respondents (53%) were either quite or very likely to do so, while 16 (24%) said they were unlikely to.

Figure 48. If this service became available, how likely would you be to use it in the next three years?



Other issues

- 2.70** We asked respondents if there was anything not covered in the survey that they would like to bring to our attention regarding indirect access to interbank payment systems. Several themes emerged from the responses.
- 2.71** The key issue raised was a lack of competition in indirect access provision (eight respondents). Respondents gave three main reasons for the lack of competition:
- There are an insufficient number of IAPs, and some of those are relatively uninterested in providing indirect access. This means there is little pressure to provide commercially attractive services and prices (two respondents).
 - There is a lack of transparency in service offerings and prices. The IAPs do not always offer the same technical solutions, and the lack of transparency makes comparisons difficult (two respondents).
 - There is some suggestion that IAPs may request/require an indirect access participant to undertake all their payment and banking services through them – ‘a full banking relationship’. This means it is difficult for IPSPs to switch providers for specific services (two respondents).

- Three respondents said the cost of indirect access is an issue, which could be partly due to the lack of competition in indirect access provision. One respondent said the combination of SWIFT system costs (for sending payments messages to their IAP) and per-transaction IAP costs represent significant costs for IPSPs wanting to provide a free Faster Payments service to their end customers.

2.72 One respondent described how the competitive situation may get worse, as IAPs have little appetite for providing indirect access to smaller banks and other payment specialists, and are in some cases ending these relationships. The respondent argues that, if this trend continues in the longer term, security of supply could become a serious concern.

2.73 Another respondent said that, at present, credit unions are finding it particularly difficult to gain even indirect access due to their size. However, this respondent said that it is in the process of developing an innovative aggregation model (for which no further details were provided) to help credit unions compete on a more level playing field with other payment system providers.

Proposed solutions

2.74 Individual respondents proposed several solutions to the lack of competition among IAPs:

- Require any direct member of a payment system to provide indirect access to that system, which should expand the market.
- Ensure information on service offerings and prices is freely and easily available, to improve transparency.
- Provide indirect technical access, akin to that proposed for FPS, to other payment schemes if relevant, or even a single technical access solution to multiple payment systems (given the complexity in joining each independently).
- Give IPSPs access to settlement accounts so they are not reliant on a DPSP for settlement.
- Force IAPs to commit to minimum service offerings when providing indirect access, as this will create more certainty for indirect participants. In particular, it will provide a benchmark to assess IAPs' performance against, which may be particularly useful to new entrants who have no prior relationship with the IAPs.
- Using a standard file format (for example, ISO20022) across all payment systems, so that multiple instructions across different systems could be sent as a single file.

2.75 Four respondents stated that indirect access to payments is only part of the problem, as concerns over indirect access are redundant if the IAPs are unwilling to operate bank accounts on behalf of PSPs. Two respondents said IAPs are reluctant to do this because of the risks of money laundering and terrorist financing, perhaps especially for MSBs.

Demand for other services not currently provided

2.76 We asked whether there are any other indirect access services that are not currently provided, but that IPSPs would benefit from. The following responses were received from individual respondents, unless stated otherwise:

- The provision of true real-time access to Faster Payments through the indirect access providers.
- The provision of indirect access to mobile payments, including Paym and Zapp (two respondents).
- The electronic provision of the payer's bank account number and sort code for incoming payments, and the ability to reject payments without a reference number.
- The ability to access previous Bacs (or other scheme) payments online – for example, payments for the last six months – so that customer queries can be resolved.
- The provision of indirect access solutions to cheque imaging, to access the central switch (which is being developed to receive images).
- Improved indirect access to help customers who prefer more traditional payment methods of cash and cheque.
- Improved reporting and documentation in general.

Annex 3

Questionnaire for Payment Service Providers

The questionnaire in this Annex was run between 18 August 2015 and 30 September 2015.

Questions 21 and 84 – 94 refer exclusively to IPSPs that have had direct interaction with VocaLink or gateway services and the responses were used for *MR15/2.2 – Interim Report: market review into the ownership and competitiveness of infrastructure provision*.

1. Please tell us about yourself and your organisation:

What is your company name?

What is your phone number?

What is your email address?

What was the total UK revenue of your organisation in your last financial year?

What is your role within your organisation?

2. Which of the following best describes your organisation?

☐ Authorised electronic money institution

☐ Authorised payment institution

☐ Bank

☐ Building society

☐ Credit union

☐ Independent ATM deployer

☐ Small electronic money institution

☐ Small payment institution

☐ Other (please specify) _____

3. Which of the following payment services does your firm provide? (Tick all that apply)

☐ Acquirer

☐ Issuer

☐ Money Remittance

☐ Payment account

☐ Other (please specify) _____

4. Do you use any of the following payment systems to provide payment services to your customers, and if so, how do you access them?

System	Direct access	Indirect access	Do not use
Bacs			
CHAPS			
Faster Payments			
Cheque and Credit			
LINK			

If you do not use any of these services you don't need to answer any more questions.

If you have direct access to all these services, just answer questions **63 to 65**.

5. Who provides you with indirect access to Bacs? (if applicable)

<input type="checkbox"/> Barclays	<input type="checkbox"/> Co-op	<input type="checkbox"/> HSBC
<input type="checkbox"/> Lloyds	<input type="checkbox"/> RBS/NatWest	<input type="checkbox"/> Santander
<input type="checkbox"/> Other (please specify) _____		

6. Tell us about the number of transactions you make and the price that you pay:

Provider	Number of transactions in this system per year	Average price in pence per transaction (including fixed fees)
Barclays		
Co-op		
HSBC		
Lloyds		
RBS/NatWest		
Santander		
Other		

7. What are the reasons you chose indirect access to Bacs?

<input type="checkbox"/> Direct access was too expensive
<input type="checkbox"/> Not large enough to justify direct access
<input type="checkbox"/> Prefer indirect access
<input type="checkbox"/> Do not meet the criteria for a Bank of England reserves/settlement account
<input type="checkbox"/> Scheme too difficult or onerous to join
<input type="checkbox"/> Other (please specify) _____

8. Who provides you with indirect access to CHAPS? (if applicable)

<input type="checkbox"/> Barclays	<input type="checkbox"/> Co-op	<input type="checkbox"/> HSBC
<input type="checkbox"/> Lloyds	<input type="checkbox"/> RBS/NatWest	<input type="checkbox"/> Santander
<input type="checkbox"/> Other (please specify) _____		

9. Tell us about the number of transactions you make and the price that you pay:

Provider	Number of transactions in this system per year	Average price in pence per transaction (including fixed fees)
Barclays		
Co-op		
HSBC		
Lloyds		
RBS/NatWest		
Santander		
Other		

10. What are the reasons you chose indirect access to CHAPS?

☐ Direct access was too expensive

☐ Not large enough to justify direct access

☐ Prefer indirect access

☐ Do not meet the criteria for a Bank of England reserves/settlement account

☐ Scheme too difficult or onerous to join

☐ Other (please specify) _____

11. Who provides you with indirect access to Faster Payments? (if applicable)

<input type="checkbox"/> Barclays	<input type="checkbox"/> Co-op	<input type="checkbox"/> HSBC
<input type="checkbox"/> Lloyds	<input type="checkbox"/> RBS/NatWest	<input type="checkbox"/> Santander
<input type="checkbox"/> Other (please specify) _____		

12. Tell us about the number of transactions you make and the price that you pay:

Provider	Number of transactions in this system per year	Average price in pence per transaction (including fixed fees)
Barclays		
Co-op		
HSBC		
Lloyds		
RBS/NatWest		
Santander		
Other		

13. What are the reasons you chose indirect access to Faster Payments?

- ☐ Direct access was too expensive
- ☐ Not large enough to justify direct access
- ☐ Prefer indirect access
- ☐ Do not meet the criteria for a Bank of England reserves/settlement account
- ☐ Scheme too difficult or onerous to join
- ☐ Other (please specify) _____

14. Who provides you with indirect access to Cheque & Credit? (if applicable)

- ☐ Barclays ☐ Co-op ☐ HSBC
- ☐ Lloyds ☐ RBS/NatWest ☐ Santander
- ☐ Other (please specify) _____

15. Tell us about the number of transactions you make and the price that you pay:

Provider	Number of transactions in this system per year	Average price in pence per transaction (including fixed fees)
Barclays		
Co-op		
HSBC		
Lloyds		
RBS/NatWest		
Santander		
Other		

16. What are the reasons you chose indirect access to Cheque & Credit?

- ☐ Direct access was too expensive
- ☐ Not large enough to justify direct access
- ☐ Prefer indirect access
- ☐ Do not meet the criteria for a Bank of England reserves/settlement account
- ☐ Scheme too difficult or onerous to join
- ☐ Other (please specify) _____

17. Who provides you with indirect access to LINK? (if applicable)

- ☐ Barclays ☐ Co-op ☐ HSBC
- ☐ Lloyds ☐ RBS/NatWest ☐ Santander
- ☐ Other (please specify) _____

18. Tell us about the number of transactions you make and the price that you pay:

Provider	Number of transactions in this system per year	Average price in pence per transaction (including fixed fees)
Barclays		
Co-op		
HSBC		
Lloyds		
RBS/NatWest		
Santander		
Other		

19. What are the reasons you chose indirect access to LINK?

- ☐ Direct access was too expensive
☐ Not large enough to justify direct access
☐ Prefer indirect access
☐ Do not meet the criteria for a Bank of England reserves/settlement account
☐ Scheme too difficult or onerous to join
☐ Other (please specify) _____

20. To what extent do you think CHAPS, FPS, Bacs and Cheque & Credit compete for different types of payment?

21. Have you had any direct interaction with or do you have any knowledge of Vocalink (the central infrastructure provider for Bacs, FPS and LINK)?

- ☐ Yes ☐ No

If yes, please list the types of interactions (e.g. service-related, error-reporting or just general enquiries) you have had with Vocalink.

22. (If you access any systems indirectly) Does your organisation have one or more sort codes that are unique to your organisation?

- ☐ Yes ☐ No

23. (If **no** to 22) Would you prefer to have a unique sort code?

- ☐ Yes ☐ No

24. (If **yes** to 23) Why would you like a unique sort code?

25. (If you do not meet the criteria for a Bank of England reserves/settlement account for any system) Do you want a Bank of England reserve account?

- ☐ Yes ☐ No

26. (If **yes** to **25**) Why do you want a Bank of England reserve account?

27. (If you access any systems indirectly) Do you provide indirect access to payment systems to any other authorised or registered PSPs?

☐ Yes

☐ No

Switching and choice of providers

How long have the following provided your indirect access?

	Provider	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years
28.	Barclays				
29.	Co-op				
30.	HSBC				
31.	Lloyds				
32.	RBS/NatWest				
33.	Santander				
	Other				

34. Have you sought tenders for indirect access services since 2000?

☐ Yes

☐ No

35. Have you switched indirect access provider since 2000?

☐ Yes

☐ No

If you've answered **no** to **34** and **35**, go to question **46**.

36. (If you've answered **yes** to **34** and no to **35**) Why did you seek tenders and ultimately not switch provider?

If you've answered **yes** to **35**, please answer questions **37** to **45**.

37. In which year did you last switch indirect access provider?

38. How many providers did you approach?

39. How many providers responded?

40. Who did you switch from?

☐ Barclays

☐ Co-op

☐ HSBC

☐ Lloyds

☐ RBS/NatWest

☐ Santander

☐ Other (please specify) _____

41. Who did you switch to?☐ Barclays☐ Co-op☐ HSBC☐ Lloyds☐ RBS/NatWest☐ Santander☐ Other (please specify) _____**42.** Why did you switch?☐ Price☐ Poor quality of previous provider☐ Better offering from new provider☐ Needed own sort code☐ Previous provider terminated access☐ Other (please specify) _____**43.** Do you receive a better service from your new provider?☐ Yes☐ No**44.** How long did it take to complete the switch?☐ 0-3 months☐ 4-6 months☐ 7-12 months☐ more than 12 months**45.** What, if any, significant difficulties did you experience in this process? (Tick all that apply)☐ No significant difficulties☐ Inability to transfer cheque sort codes☐ Changes to internal business processes☐ Technical infrastructure changes☐ Adverse customer experience☐ Length of time to integrate new provider☐ Managing payment issues during the transition☐ Other (please specify) _____**46.** (If you've answered **no** to **34** and **35**) Have you ever considered switching provider?☐ Yes☐ No

47. Do you think you face any barriers to switching? (Tick all that apply)

- ☐ No
- ☐ Inability to transfer cheque sort codes
- ☐ Changes to technology which are specific to your indirect access provider
- ☐ Business disruption
- ☐ Required changes to hardware
- ☐ Expected or possible adverse customer experience
- ☐ Other (please specify) _____

48. Have you ever had your payment system access terminated by your provider?

- ☐ Yes ☐ No

49. (If **yes** to **48**) What reason did your provider give for terminating your access services?

50. (If you access Cheque & Credit indirectly AND have identified an inability to transfer cheque sort codes as a barrier to switching) If the new cheque imaging solution resolves concerns around switching cheque sort codes, would you reconsider your provider of indirect access to cheques?

- ☐ Yes ☐ No ☐ Maybe

Quality of indirect access services

Tell us how you rate the indirect access services of your provider for each service you access indirectly.

Bacs

51. What channels do you use to send and receive payments and reporting information? (Tick all that apply)

- ☐ Bank online platform
- ☐ Host-to-host connection to bank
- ☐ SWIFT
- ☐ Direct submitter (Bacstel-IP)
- ☐ Direct Submitter – Enhanced Transmission Service (ETS)
- ☐ Direct Submitter – SWIFTNet Transmission Service (STS)
- ☐ Bacs – Approved Bureaux
- ☐ Other (please specify) _____

52. Overall, how do you rate the indirect access offering for this system?

(1-5, 5 being highest) _____

53. Please give a reason for your rating.

CHAPS

54. What channels do you use to send and receive payments and reporting information?

(Tick all that apply)

☐

Bank online platform

☐

Host-to-host connection to bank

☐

SWIFT

☐

Other (please specify) _____

55. Overall, how do you rate the indirect access offering for this system?

(1-5, 5 being highest)

56. Please give a reason for your rating:

Faster Payments

57. What channels do you use to send and receive payments and reporting information? (Tick all that apply)

☐

Bank online platform

☐

Host-to-host connection to bank

☐

SWIFT

☐

Direct submitter – direct agency

☐

Direct submitter – Secure IP

☐

Direct submitter – Enhanced transmission Service (ETS)

☐

Direct submitter – SWIFTNet FileACT

☐

Other (please specify) _____

58. Overall, how do you rate the indirect access offering for this system?

(1-5, 5 being highest)

59. Please give a reason for your rating.

Cheque & Credit

60. What channels do you use to receive reporting information? (Tick all that apply)

- ☐ Bank online platform
- ☐ Host-to-host connection to bank
- ☐ SWIFT
- ☐ Other (please specify) _____

61. Overall, how do you rate the indirect access offering for this system?

(1-5, 5 being highest)

62. Please give a reason for your rating.

LINK

63. (If you access LINK directly) How do you connect to LINK?

64. How do you rate this service?

(1-5, 5 being highest)

65. Please give a reason for your rating

66. Does the way you access payment systems through your provider hinder your customer offering or your ability to innovate?

- | | |
|--|--|
| <input type="checkbox"/> Yes – ability to innovate | <input type="checkbox"/> Yes – customer offering |
| <input type="checkbox"/> Yes – ability to innovate and customer offering | <input type="checkbox"/> No |

67. If you've answered **Yes**, please explain why.

68. Do you consider that you have all the internal resources, knowledge and technical capability to provide the customer offering you would like?

- ☐ Yes ☐ No

69. If **no**, which of the following do you lack:

- ☐ Resources to manage a 24/7 service
- ☐ Technology to integrate with payment systems
- ☐ Knowledge of payment systems
- ☐ Other (please specify) _____

70. If **yes**, do you have the capability to offer near-real-time payments to your customers 24 hours a day?

☐ Yes

☐ No

71. Would direct access to any of these payment systems suit the needs of your business better than your current arrangements? Please tick any that apply.

☐ Bacs

☐ CHAPS

☐ Faster Payments

☐ Cheque & Credit

72. If you ticked Bacs, what would the advantage of direct access be?

☐ Lower cost of access

☐ Better security of supply

☐ Improved service offering to customers

☐ Better risk management

☐ Other (please specify) _____

73. If you ticked CHAPS, what would the advantage of direct access be?

☐ Lower cost of access

☐ Better security of supply

☐ Improved service offering to customers

☐ Better risk management

☐ Other (please specify) _____

74. If you ticked Faster Payments, what would the advantage of direct access be?

☐ Lower cost of access

☐ Better security of supply

☐ Improved service offering to customers

☐ Better risk management

☐ Other (please specify) _____

75. If you ticked Cheque & Credit, what would the advantage of direct access be?

☐ Lower cost of access

☐ Better security of supply

☐ Improved service offering to customers

☐ Better risk management

☐ Other (please specify) _____

- 76.** (For systems selected in Q71 where direct access would suit the needs of your business better than your current arrangements) Do you plan to become a direct member of any of the systems below in the next 3 years?

System	Yes	No	If no, why not?
Bacs			
CHAPS			
Faster Payments			
Cheque & Credit			

- 77.** Are you aware that CHAPS settlement will be extended from 16:20 to 18:00 in summer 2016?

☐ Yes ☐ No

- 78.** Do you think the recently announced extended settlement day for CHAPS will benefit your customers?

☐ Yes ☐ No ☐ Don't know

- 79.** FPS is developing a new direct technical access model²³, which would offer PSPs access through an aggregator. Do you think direct technical access to FPS would improve your offering to customers?

☐ Yes ☐ No

- 80.** (If no) Why do you think direct technical access to FPS would not improve your offering to customers?

- 81.** If this service became available, how likely would you be to use it in the next 3 years?

☐ Very likely ☐ Quite likely
☐ Unlikely ☐ Not thought about it

²³ FPS Direct Technical Access.

Other issues

- 82.** In relation to indirect access to interbank payment systems, is there anything not covered in the previous questions which you would like to bring to our attention?
- 83.** Are there any indirect access services that you would like to receive from your provider that are not currently available to you? If so, please describe them here.

VocaLink

Answer questions 84-95 if you have had direct interaction with or knowledge of VocaLink (Q21). Otherwise, please go to question 96.

The following questions are related to services provided by VocaLink with regard to its payment **central clearing functions**. VocaLink is owned by some banks. It provides the payment central infrastructure for Bacs, FPS and LINK.

We would like to understand:

- if the quality of service you receive from VocaLink is satisfactory and meets your requirements.
- if your ability to operate and innovate has ever been affected by the limitations of VocaLink's services. By innovation, we mean your ability to offer new products or services to your customers in the retail market or improve your existing service. For example, this may include developing mobile and other applications to make payments.

Please answer the following question considering only your interaction with VocaLink or gateway services (i.e. not in relation to the interaction you have with your Indirect Access Providers):

- **How do you rate the following aspects of service provided by VocaLink? Please base your answers on your understanding of VocaLink's central clearing services only, not on your experience with your Indirect Access Provider (IAP) or gateway providers.**

84. Bacs

	Very satisfied	Fairly satisfied	Neither satisfied nor dissatisfied	Fairly dissatisfied	Very Dissatisfied	Don't know/ Not Applicable
Range of service provided						
Quality of service provided						
Amount of innovation (i.e. new functionalities such as transaction monitoring)						
Responsiveness towards request change/upgrade requests						

85. Faster Payments

	Very satisfied	Fairly satisfied	Neither satisfied nor dissatisfied	Fairly dissatisfied	Very Dissatisfied	Don't know/Not Applicable
Range of service provided						
Quality of service provided						
Amount of innovation (i.e. new functionalities such as transaction monitoring)						
Responsiveness towards request change/upgrade requests						

86. LINK

	Very satisfied	Fairly satisfied	Neither satisfied nor dissatisfied	Fairly dissatisfied	Very Dissatisfied	Don't know/Not Applicable
Range of service provided						
Quality of service provided						
Amount of innovation (i.e. new functionalities such as transaction monitoring)						
Responsiveness towards request change/upgrade requests						

87. Please provide any comments you have with regard to your answers above.

88. Have you ever encountered a case where your ability to innovate (e.g. developing mobile applications and new applications to make payments) is hampered by the limitations of Vocalink? This should **NOT** include any limitations caused by your IAP (e.g. lack of real-time access or lack of technical support from the IAP).

	Yes	No	Not applicable
Bacs			
FPS			
LINK			

89. If you've answered **yes**, please explain your innovation and elaborate on what features of the infrastructure constrained your ability to innovate.

90. If there was more than one central infrastructure provider providing **different elements of the same service**, do you think the following aspects would improve or deteriorate?

	Improve significantly	Improve slightly	No change	Deteriorate slightly	Deteriorate significantly	Don't know
Range of services						
Price						
Your choice in the selection of IAPs						
Service quality (e.g. Service Level Agreements, IT security, transaction monitoring)						
Innovation by Vocalink (e.g. development of mobile payments)						
Innovation at indirect participant level (e.g. development of mobile apps, new application to make payments, improved use of data)						

91. If there was more than one central infrastructure provider providing **differentiated services**, do you think the following aspects would improve or deteriorate?

	Improve significantly	Improve slightly	No change	Deteriorate slightly	Deteriorate significantly	Don't know
Range of services						
Price						
Your choice in the selection of IAPs						
Service quality (e.g. Service Level Agreements, IT security, transaction monitoring)						
Innovation by Vocalink (e.g. development of mobile payments)						
Innovation at indirect participant level (e.g. development of mobile apps, new application to make payments, improved use of data)						

92. To what extent do you agree with the following statement: There is more scope for competition outside of central infrastructure provision (e.g. gateways)?

- ☐ Strongly agree
☐ agree
☐ Neither agree nor disagree
☐ Disagree
☐ Strongly disagree
☐ Don't know

93. Currently, VocaLink is owned by some banks, but delivers services to operators who are required to work in the interests of their service users. Do you think that there have been instances in the past where some banks influenced decisions taken by VocaLink to their own advantage rather than to the advantage of the service users?

☐ Yes ☐ No ☐ Don't know

94. If yes, please provide any evidence/give examples of where this happens.

95. In your opinion, what are the key factors that may limit the **competition outside** of the central infrastructure provided by VocaLink (e.g. gateways)?

☐ Technical requirements

☐ Incumbent advantage (e.g. due to upfront investment/economies of scale/network effect)

☐ Central infrastructure ownership arrangements

☐ Other (please specify) _____

96. Please rank the following parties according to their importance in affecting the level of service you received and your ability to innovate.

Please rank in order of importance, with the most important first.

	1st	2nd	3rd	4th
Central Infrastructure Provider (e.g. VocaLink)				
Scheme operators				
Indirect Access Providers				
Gateway providers/third party provider software				

97. Please provide any other comments that you think would be relevant for the Infrastructure Market Review.

Annex 4

Questions sent to indirect access providers (IAPs) and selected organisations who are not currently IAPs (July 2015)

Screening question

Q1: Do you consider your organisation to be an indirect access provider (IAP) (as per the definition set out in the glossary in our final terms of reference for the indirect access market review)?

The glossary to the terms of reference defines an IAP as a payment service provider (PSP) that provides indirect access to a payment system to other PSPs for the purpose of enabling the transfer of funds within the United Kingdom. This is the case whether the IAP does or does not provide the indirect PSP with a unique sort code (i.e. whether or not the indirect PSP is listed as the 'owning bank' for a sort code in the Extended Industry Sort Code Directory, with the sponsor bank listed as the 'settlement bank').²⁴ Please note that where some indirect PSPs do not access payment systems through the use of a unique sort code, you may provide the customer with no more than a corporate account.

We consider you to be an IAP if you provide indirect access services to one or more of Bacs, CHAPS, C&C, FPS or LINK to any PSPs, including banks and non-banks such as payment institutions (PIs) and electronic money institutions (EMIs).

IF YES, GO TO PART A (Questions for IAPs) and please respond to the data request

IF NO, GO TO PART B (Questions for organisations which are not currently IAPs)

Part A – Questions for indirect access providers (IAPs)

Off-the-shelf information

- Please provide an organisation chart (by business division rather than legal entity) which shows how the part of your UK business that provides indirect access services fits within your UK banking business. If the provision of indirect access services (including the management of indirect PSP customer relationships) sits across a number of business divisions, please provide an organisation chart for each relevant part of the business.
- Please provide a copy of any internal board papers produced in your last three financial years that relate to your provision of indirect access services (e.g. papers presented to your relevant board or divisional decision-making authority).

²⁴ Sort codes are not applicable for indirect access to LINK, which does not operate on sort codes.

- Please provide copies of any management accounts or information you maintain regarding the indirect access services you provided in your last three financial years. Where indirect access services sit across a number of business divisions, please provide information for the most relevant business division(s).
- Please provide a copy of any strategy papers or analysis produced in the last three financial years covering the case for you providing indirect access services (e.g. papers presented to your relevant board or divisional decision-making authority). This should include any documents covering expectations about market conditions which were relevant to your considerations.
- Please provide a copy of any indirect access service promotional materials which you provide to potential customers.
- Please provide us with a copy of standard terms and conditions (both overall and specific to your indirect access products) for each category of indirect PSP (as per your answer to Q2 below) to enable them to access one (or more) of the designated payment systems.
- Please provide a copy of a recent reply you have sent in response to an indirect PSP's tender process.

Types of customers for indirect access services

- Q2:** How do you categorise (if at all) the different types of indirect PSPs that you provide indirect access services to (e.g. based on sort codes, number of transactions, sector, risk appetite, regulatory authorisation)? Please describe the reasons for this categorisation.
- Q3:** What are your eligibility requirements, or any other criteria, for indirect PSPs to secure indirect access services? Please describe any differences in your requirements that apply depending on the categories of indirect PSPs (as per your categorisation in your response to Q2).
- Q4:** How do you assess a request for indirect access services from an indirect PSP? Do you apply a standard assessment framework (e.g. to assess potential profit) or is each case assessed on its own merits?
- Q5:** Which types of risk do you take into account when assessing indirect PSP applications and how do you evaluate and record each of these risks (in particular the potential anti-money laundering (AML) risk of new indirect PSPs)?
- Q6:** How do you estimate potential revenue or other benefits to your firm generated by taking on a new indirect PSP customer? Do you apply any revenue thresholds when evaluating a new customer applying to become an indirect PSP?

Indirect access service offering

- Q7:** In what year did you start providing indirect access services? Please answer for each payment system to which you provide indirect access. (For any year before 2000, please just respond 'pre-2000').

- Q8:** Please provide a description of the indirect access offering your bank provides. In your answer please describe any differences in the indirect access services provided to the different categories of indirect PSPs listed in response to Q2.
- Q9:** Do you consider yourself to be a sponsor bank (as per the definition set out in our final terms of reference)? If not, would you consider becoming a sponsor bank? Please explain why/why not.
- Q10:** Please provide a complete list (and accompanying brief descriptions) of all the separate services that make up the indirect access service offering described in response to Q8 (e.g. processing services, reporting services). Please describe where these vary by payment system and by category of indirect PSP (as described in response to Q2).
- Q11:** Do you issue unique sort codes to your indirect PSP customers? What is the process for obtaining and issuing a sort code to an indirect PSP?
- Q12:** Please list and explain the main factors determining the prices that you charge indirect PSPs for IAP services?
- Q13:** Are the indirect access services described in response to Q10 priced separately as distinct product/services or are they priced together as a package? Where services are priced together as a package, please describe the purpose and benefits of doing so.
- Q14:** Do you package non-payment related services (e.g. treasury services, foreign exchange services, lending products) together with indirect access services as a single offering? If so, please list and briefly describe the other services that are packaged together with indirect access services.
- Q15:** Are there any factors, which are not captured by the categorisation of indirect PSPs described in response to Q2, that determine which products/services you provide to which indirect PSPs (for example the indirect PSP's risk profile or expected profitability)?
- Q16:** What are your main commercial objectives in providing indirect access services and what constrains the expansion of the provision of these services (e.g. commercial or regulatory considerations)? Please describe if these objectives or constraints vary across the categories of indirect PSPs you described in response to Q2.
- Q17:** Is it possible to provide any indirect access services to an indirect PSP if they do not have a bank account with you? If so, do you do this, and to how many indirect PSPs?

Requirements to supply indirect access services

- Q18:** Relative to a direct payment system member that does not provide indirect access services to PSPs, what are the additional requirements to become an IAP (e.g. IT systems, conformance with regulations, knowledge, customer base, experience etc.)? What is the approximate cost of these additional requirements?

Q19: Do these requirements listed in your response to Q18 above differ according to:

- (a) Payment systems
- (b) Category of customer (with reference to the customer categories you have described in response to Q2)?

Q20: What are the main risks to your organisation in supplying indirect access to PSPs? How do you consider these risks could be mitigated or resolved?

Q21: What impact does the regulatory framework have on the provision of indirect access, including:

- (a) Existing regulation of payment services
- (b) Forthcoming regulation of payment services
- (c) Domestic and international regulation of banks' relationship with clients and other counterparties, e.g. AML, terrorist financing, sanctions and online gambling regulation
- (d) Any prudential capital and liquidity requirements (including ring-fencing)?

Suppliers of indirect access services

Q22: Who do you view as your main competitors in the provision of indirect access services? Does this vary across the different categories of indirect PSP identified in response to Q2?

Q23: What are the key parameters on which you compete with the other providers of indirect access services (e.g. price, product offering, service quality etc.)?

Q24: Are you aware of any of your indirect access customers themselves providing indirect access services (e.g. indirect access services they may provide to Authorised Payment Institutions or e-Money Institutions)? Please describe how many and what type of services they provide.

Financial impact of supplying indirect access services

Q25: Please provide an explanation and breakdown (if possible in relation to your answer in Q10) of the different fees that you charge for the provision of indirect access services (including any payment services which may not be part of your core indirect access service offering, but which are available to indirect PSPs e.g. AML screening). Please describe where these vary by payment system and by category of indirect PSP (as described in response to Q2).

- Q26:** How do you assess the profitability of the indirect access services you provide? Please provide any relevant off-the-shelf information – setting out profits, revenues, operating expenditure and capital expenditure for the last five financial years. Where indirect access services sit across a number of business divisions, please provide information for the most relevant business division(s).
- Q27:** With references to your answer in Q12 and Q14, please explain how any packaging (bundling) of services/products affects fees, and the profitability of the indirect access services you provide, compared to providing separate indirect access services/products.
- Q28:** Please describe any material changes in costs, revenues and profits related to your provision of indirect access services over the last five financial years.
- Q29:** Please describe any recent or planned future investment in your indirect access offering (including the amount of actual/planned investment).
- Q30:** By how much could you expand your customer base (in terms of number of customers and/or number of transactions) without significant additional capital investment?
- Q31:** How much additional operating expenditure and investment would be required if you were to see an increase in volume of transactions, from your indirect access customers, of (a) 10% and (b) 50%? How would this vary depending on the payment system experiencing the volume increase?

Changes in the supply of indirect access services

- Q32:** Please describe any changes in the demand for indirect access services (in terms of volumes and the nature of the product/service demanded) and the characteristics of your indirect access customers over the last five years.
- Q33:** In your opinion, how has the supply of indirect access changed over the past five to ten years? Consider, for example:
- (a) The number and type of indirect access providers
 - (b) The nature of the products/services offered, including products that compete with your offering
 - (c) Any technological changes that have impacted the indirect access services supplied and demanded
- Q34:** In your opinion, how has the indirect access product/service you offer changed over the last five financial years? What have been the main changes and the drivers of those changes (with reference to Q32 where relevant)? Where possible, please provide the costs associated with making any changes.

Q35: In your opinion, how do you expect the supply of indirect access to PSPs to evolve over the next five to ten years? Consider, for example:

- (a) The growth or contraction of the overall market for these services
- (b) The number and type of IAPs
- (c) The number and type of users
- (d) The nature of the product/service offered
- (e) Any technological changes
- (f) Any regulatory changes

If relevant, please refer to off-the-shelf material provided in response to Part A above.

Q36: What is your strategy for providing indirect access services over the next five years? For example do you envisage expanding or enhancing your services? Where available please cross reference to any relevant strategy paper or analysis provided as part of the off-the-shelf information.

Q37: How do you expect any change at operator level to on-board more direct PSPs (including, for example, direct technical access to FPS) to impact your indirect access business?

Q38: We note that the latest version of the compromise text of the Payment Services Directive 2 (published on 5 May 2015) includes Article 29a which proposes to introduce access requirements for accounts maintained with a credit institution (the text is still subject to formal approval by both the EU Parliament and Council). Please provide any initial views you may have on this Article and how, if at all, you believe this might impact on the indirect access services you provide?

Q39: With reference to the services you described in your response to Q8, how would these change to accommodate an indirect PSP wishing to use a third-party provider of technical access solutions?

Contracts and negotiation

Q40: Do you have written contractual agreements with all your indirect PSP customers? If not, please describe the reasons.

Q41: What is the most common length of contract you enter into with an indirect PSP customer (e.g. 12 months, 3 years, rolling)? What is the longest and shortest term of contract you currently hold with an indirect PSP customer?

Q42: Please describe any differences in contract terms between different categories of PSPs (as per your answer to Q2 above). For example:

- (a) Length of contract
- (b) Termination clauses or notice periods

(c) Liability clauses

(d) Differences per payment system

(e) Requirement for collateral, guarantee or indemnities

- Q43:** What is the most common length of notice period you enter into with an indirect PSP customer (e.g. 3 months, 12 months)? What is the longest and shortest notice period you currently hold with an indirect PSP customer?
- Q44:** Are the terms and conditions (including notice periods) of contractual agreements open for negotiation? If so, at what stage do negotiations begin (e.g. before or after the indirect PSP has selected you as its IAP)? Does this vary by category of indirect PSP (as described in your response to Q2)?
- Q45:** If bespoke contracts (where standard terms are individually negotiated) are offered, what percentage of your indirect PSP customers have a bespoke agreement and what percentage is on standard terms? In instances where bespoke contracts are provided, on which terms do indirect PSPs typically look to negotiate? Please provide details of the number of bespoke contracts by customer type (e.g. agency banks and other indirect PSPs).
- Q46:** Can indirect PSPs negotiate a change in the terms of an agreement during the term of the agreement? Is there a charge for changing services/fees/support during the term of the agreement?
- Q47:** What factors do you take into account when negotiating fees for the provision of indirect access services? Please describe where these vary by payment system and by category of indirect PSP (as described in response to Q2).
- Q48:** How would you describe the sophistication of the commercial negotiating skills between the different categories of indirect PSPs you described in your response to Q2?
- Q49:** Please describe your process for reviewing and terminating your relationships with indirect PSPs. For example, do you monitor particular types or categories of customer more actively than others? Please provide us with any lists you maintain on high risk and/or low value customers?
- Q50:** Have you ever ceased to provide any particular types of indirect access services (as per Q10) or indirect access offerings (as per Q8), or ceased to offer them to new customers? If so, what were those services and what were the reasons for this decision? Do you have any threshold conditions you consider in such decisions?
- Q51:** How many indirect PSPs have you ceased supplying indirect access services to over the past five financial years? Please describe the reason(s) why you exited those relationships.
- Q52:** Are there any categories of indirect PSPs to which you will not provide indirect access services? If so, please explain why.

Q53: How do you manage sensitive or confidential information provided by indirect PSPs in relation to the supply of indirect access services?

Winning new business

Q54: What processes do you go through to win new indirect PSP customers? Please describe the nature of any engagements/discussions, tender processes etc.

Q55: What are the factors you need to consider when deciding whether to compete for the business of a new indirect access customer? For example do you consider capacity constraints, data centres and infrastructure, data limits, human resources etc.?

Q56: How many indirect PSPs have approached you for indirect access services in each of the last five financial years? Of these:

(a) How many have you chosen not to engage with?

(b) How many approached you through an open tender?

(c) How many open tenders did you respond to?

(d) What were your reasons for not participating in an open tender or responding to a request for access?

Q57: How is the on-boarding decision for a new indirect PSP made? At what level of the organisation is the decision to on-board a new PSP taken?

Q58: Please describe the process for on-boarding a new indirect PSP. Does this process differ depending on whether the indirect PSP is switching from another IAP or entering into its first indirect access relationship?

Switching supplier of indirect access services

Q59: How many indirect PSPs have switched to you from another IAP per year over the past five financial years? Please provide a breakdown by category of indirect PSP.

Q60: How many indirect PSPs have switched from you to another IAP per year over the past five financial years? Please provide a breakdown by category of indirect PSP.

Q61: How long does it typically take an indirect PSP to switch IAPs once they have given or received notice of termination? Is this consistent with the notice periods in contractual terms and conditions described in Q41 and Q42 above?

Q62: What transitioning support do you provide to PSPs that switch to, or away from, you?

Q63: Would you support, or have you in the past supported, indirect PSPs to become direct PSPs of a payment system?

Q64: In your view, what are the key constraints or difficulties indirect PSPs experience in switching IAP?

Other

Q65: Do you have any general comments about the supply of indirect access which are not covered by the above questions?

Part B – Questions for organisations which are not currently indirect access providers (IAPs)

Off-the-shelf information

- Please provide a copy of any strategy papers or analysis produced in the last three financial years covering the case for you providing indirect access services (e.g. papers presented to your relevant board or divisional decision-making authority). This should include any documents covering expectations about market conditions which were relevant to your considerations.

Providing indirect access services

Q66: In the last five years have you considered offering indirect access (as an IAP or sponsor bank) to PSPs for any UK interbank payment system? If so, please explain why you decided against entering?

- (a) What changes (if any) would need to occur in order to make providing indirect access services a commercially attractive, viable option for your business?

Q67: Do you provide any other services relating to indirect access (e.g. settlement services only)? Please describe these services.

Barriers to providing indirect access services

Q68: Please list and explain the main barriers to your firm becoming an indirect access provider, including any:

- (a) Regulatory barriers
- (b) Structural barriers
- (c) Commercial barriers
- (d) Other barriers

Q69: How do the barriers listed above differ by payment system (if at all)?

Q70: Do you consider it necessary to be a direct member of every interbank payment system in order to make it commercially viable to offer indirect access services to PSPs? Or could you just offer indirect access services for e.g. one interbank payment system?

Q71: Are there any other considerations that you feel inhibit or prevent you from becoming an IAP?

The indirect access services market

Q72: How do you expect the market for the supply of indirect access to payment systems to evolve over the next five to ten years? Consider, for example:

- (a) The number and type of indirect access providers
- (b) The nature of the products/services offered
- (c) Any technological changes (including, for example, direct technical access to FPS)
- (d) Any forthcoming regulatory changes

Other

Q73: Do you have any general comments about the supply of indirect access which are not covered by the above questions?

Annex 5

Glossary

This table includes the glossary and abbreviations used for the purposes of this interim report.

Expression or abbreviation	Definition
Administrative Priority Framework (APF)	A document published on 25 March 2015 and accessible at: https://www.psr.org.uk/administrative-priority-framework .
agency IPSP	An indirect PSP which has its own sort code provided by its indirect access provider (sponsor bank).
aggregator	An organisation providing technical access to the FPS central infrastructure for multiple PSPs through a shared gateway.
anti-money laundering (AML)	The package of initiatives and regulations directed at preventing money laundering, including the Money Laundering Regulations 2007.
Bacs	The regulated payment system which processes payments through two principal electronic payment schemes: Direct Debit and Bacs Direct Credit. The payment system is operated by Bacs Payment Schemes Limited (BPSL).
Bank of England settlement account	A settlement account in central bank money.
C&C (Cheque and Credit)	The regulated payment system in England, Scotland and Wales that processes cheques and other paper instruments. It is operated by Cheque and Credit Clearing Company Limited (C&CCCL).
CASS (Current Account Switch Service)	A 7-day switch service that makes it easier for customers to switch their current account. It is described at http://www.simplerworld.co.uk .
CHAPS (Clearing House Automated Payment System)	The UK's real-time, high-value sterling regulated payment system, where payments are settled over the Bank of England's Real time Gross Settlement (RTGS) system. It is operated by CHAPS Co.
CMA	Competition and Markets Authority.
CMA Retail banking market investigation	A market investigation into the supply of retail banking services to personal current account customers and small and medium-sized enterprises in the United Kingdom, available at: https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk .
Code of Conduct ('Code of Conduct for Indirect Access Providers')	A voluntary code of conduct that indirect access providers can sign up to and that sets out standards of best practice for key elements of the commercial arrangements between indirect access providers and indirect PSPs. Following the PSR's indication that a code of conduct should be developed, Payments UK undertook this task on behalf of the payments industry. An interim version of the Code was published by Payments UK in September 2015. It can be accessed here: http://www.accesstopaymentsystems.co.uk/code-of-conduct . Between November 2015 and February 2016, Payments UK undertook a consultation to invite views on the effectiveness of the interim Code and how it may be further improved. These views are currently being considered.
counter terrorist financing (CTF)	The package of initiatives and regulations directed at preventing terrorist financing, including the Terrorism Act 2000.

Expression or abbreviation	Definition
customer due diligence (CDD)	Also referred to as 'know your customer' (KYC) requirements. Certain regulated firms are required to carry out customer due diligence measures, which involve: <ol style="list-style-type: none"> identifying the customer and verifying the customer's identity on the basis of documents, data or information obtained from a reliable and independent source identifying, where there is a beneficial owner who is not the customer, the beneficial owner and taking adequate measures, on a risk-sensitive basis, to verify his identity so that the relevant person is satisfied that he knows who the beneficial owner is, including, in the case of a legal person, trust or similar legal arrangement, measures to understand the ownership and control structure of the person, trust or arrangement obtaining information on the purpose and intended nature of the business relationship
de-tiering	A policy of increasing the ratio of direct to indirect participants in a payment system. This may be done by requiring indirect PSPs that meet certain thresholds to become direct PSPs in a payment system.
direct agency access	This describes the specific situation where an Indirect PSP has direct technical access arrangements for FPS, by securing direct technical access through a third-party provider, without becoming a direct PSP of FPS. In this scenario the indirect PSP uses an indirect access provider for the provision of settlement services.
direct payment service provider (DPSP)	A payment service provider with direct access to a payment system.
direct technical access	A technical solution that directly connects a PSP (or other authorised user) with the central infrastructure of a payment system.
electric money institution (EMI)	A legal person that has been granted authorisation in accordance with the requirements in the Electronic Money Directive to issue electronic money. This includes: <ol style="list-style-type: none"> an authorised electronic money institution: <ol style="list-style-type: none"> a person included by the FCA in the register as an authorised electronic money institution pursuant to Regulation 4(1)(a) of the EMRs 2011, or a person deemed to have been granted authorisation by the FCA by virtue of Regulation 74 of the EMRs 2011 a small electronic money institution: a person included by the FCA in the register pursuant to Regulation 4(1)(b) EMRs
Electronic Money Regulations 2011 (EMRs 2011)	The Electronic Money Regulations 2011 (SI 2011/99), which implements the second EU Directive on Electronic Money Institutions (Directive 2009/110/EC) in the UK, as amended from time to time.
FCA	Financial Conduct Authority.
Financial Action Task Force (FATF)	An inter-governmental body which develops and promotes policies to combat money laundering and terrorist financing. Its website is: http://www.fatf-gafi.org/about/ .
Financial Services Register (FSR)	The FCA's Financial Services Register, a public record of firms, individuals and other bodies that are or have been regulated by the PRA and/or FCA. See www.fca.org.uk/register .

Expression or abbreviation	Definition
FPS (Faster Payments Scheme)	The regulated payment system that provides near real-time payments as well as standing orders. It is operated by Faster Payments Scheme Limited (FPSL).
FSBRA	Financial Services (Banking Reform) Act 2013.
host-to-host connections	In the context of banking and payment services, host-to-host connections enable secure high-volume data transfer between PSPs and their (typically corporate or institutional) clients. Host-to-host connections typically offer high availability and resilience, and may give PSPs the flexibility to exchange information in their clients' preferred file formats, network protocols, and security standards.
Image Clearing System	The programme to implement a cheque imaging model, which would mean that images of cheques are exchanged between the relevant banks, removing the need for the actual paper cheque to be transported physically.
indirect access	A PSP has indirect access to a payment system if it has a contractual arrangement with an indirect access provider to enable it to provide payment services (for the purposes of enabling the transfer of funds using that payment system) to its customers.
indirect access provider (IAP)	A PSP that provides indirect access to a payment system to other PSPs for the purpose of enabling the transfer of funds within the United Kingdom. This is the case irrespective of whether the IAP provides the indirect PSP with a unique sort code (i.e. whether or not the indirect PSP is listed as the 'owning bank' for a sort code in the Industry Sort Code Directory, with the IAP listed as the 'settlement bank') or not.
indirect payment service provider (IPSP)	A payment service provider that has indirect access to a payment system.
infrastructure provider	Any person who provides or controls any part of the infrastructure used for the purposes of operating a payment system (see also FSBRA s.42(4)).
interbank (payment) system	The regulated Bacs, C&C, CHAPS, FPS, LINK and NICC payment systems (i.e. it does not include card payment systems).
LINK	The regulated payment system which enables end users to take cash out of their accounts (amongst other activities) using the network of ATMs in the UK. It is operated by Link Scheme.
Money Laundering Regulations 2007 (also known as MLRs 2007)	The Money Laundering Regulations 2007 (SI 2007/2157), which implements the third EU Money Laundering Directive (Directive 2005/60/EC) in the UK, as amended from time to time.
money remittance	A payment service where funds are received from a payer, without any payment accounts being created in the name of the payer or the payee, for the sole purpose of transferring a corresponding amount to a payee or to another payment service provider acting on behalf of the payee, and/or where such funds are received on behalf of and made available to the payee.
money service businesses	Under Regulation 2 of the Money Laundering Regulations 2007, 'money service business' means an undertaking which by way of business operates a currency exchange office, transmits money (or any representations of monetary value) by any means or cashes cheques which are made payable to customers.
nesting	Where an indirect PSP provides indirect access to a payment system to another indirect PSP.
FPS New Access Model	FPS's New Access Model, first published in December 2014, sets out proposals to enable technology vendors to offer technical access to PSPs by adding to their existing accounting platform technology, or providing a managed solution to either a single or multiple PSPs.

Expression or abbreviation	Definition
NICC (Northern Ireland Cheque Clearing)	The regulated payment system in Northern Ireland that processes cheques and other paper instruments. It is operated by Belfast Bankers' Clearing Company Ltd.
non-agency IPSP	An indirect PSP which does not have its own unique sort code.
payment service provider (PSP)	A PSP, in relation to a payment system, means any person who provides services to consumers or businesses who are not participants in the system, for the purposes of enabling the transfer of funds using that payment system. This includes direct PSPs and indirect PSPs.
Payment Services Regulations 2009 (PSRs 2009)	The Payment Services Regulations 2009 (SI 2009/209), which implements the Payment Services Directive (Directive 2007/64/EC) in the UK, as amended from time to time.
Payments Strategy Forum (the Forum)	The Payments Strategy Forum was announced by the PSR in its Policy Statement published in March 2015. The Forum is leading on a process that identifies, prioritises and develops strategic, collaborative initiatives that promote innovation for the benefit of those who use payment systems. The Forum has a chair independent of industry and 22 members, including consumers, charities, government, businesses and payment service providers. The Forum has also created a number of working groups to inform its work and help achieve its goals. More information on the Forum may be found on www.paymentsforum.uk .
PRA	Prudential Regulation Authority.
service-user	Those who use, or are likely to use, services provided by regulated payment systems.
sort code	A six-digit number, usually written as three pairs of two digits, used for the purpose of routing payments in certain UK interbank payment systems.
Specific Direction 1 (also referred to as the sponsor bank information Direction)	'Specific Direction 1 (Access: sponsor banks)' – a direction published on 25 March 2015, in force from 30 June 2015, and accessible at: https://www.psr.org.uk/psr-specific-direction-1 .
sponsor bank	The term commonly used to refer to an indirect access provider that provides indirect access to agency indirect PSPs.
SWIFT	Society for Worldwide Interbank Financial Telecommunication, a global provider of secure financial message services.
technical access	The manner in which a PSP technically connects with either a payment system infrastructure provider, an operator, a provider of indirect access, or a third-party service provider in order to enable the transfer of funds.
tiering	Tiered participation in a payment system occurs when PSPs provide payment services to other PSPs to allow them to access the system indirectly.

Annex 6

Consultation questions

- Q1:** Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.
- Q2:** Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.
- Q3:** Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?
- Q4:** What other steps could the PSR take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs or any further steps the PSR could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which the PSR could seek to address?
- Q5:** Are there any important developments that are likely to impact the supply of indirect access that we have not identified in this interim report? If so please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.
- Q6:** If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should we take at that point? What would be the advantages and disadvantages of such action?
- Q7:** Is there any regulatory or other action that you consider the PSR should take now? What would be the advantages and disadvantages of such action?

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