

Access and governance report on payment systems: update on progress

March 2018



Contents

1	Executive summary	3
	Access	4
	Governance	6
	Developments in 2018	6
2	Introduction	8
3	Access and developments over 2017	9
	Our work to date on access	9
	How do PSPs access payment systems?	10
	Improvements in choice over 2017	11
	Shorter joining times	18
	Improvements in value	18
	Improvements in quality	19
	Improvements in engagement	20
	Applications and matters under FSBRA related to indirect access services	21
	Our conclusion	21
4	Progress against 2017 focus areas for access	22
	Work for the operators	22
	Work for IAPs	26
	Review of General Directions 1 to 5 and Specific Direction 1	27
	Our conclusion	28
5	Changes in payments and their potential impact	29
	Bank of England Direct Delivery of CHAPS	29
	Formation of the NPSO	30
	PSD2	31
	Our conclusion	33
6	Developments in governance requirements Over 2017	34
	Background	34
	Progress and new developments	37
	Our conclusion	39
	Glossary	40

1 Executive summary

This report sets out the work that the payment system operators, indirect access providers (IAPs) and the Payment Systems Regulator (PSR) have done to improve access to payment systems, focusing on the developments over 2017.

It also sets out how interbank payment system operators have taken service-users' views into account in making their decisions over the course of 2017.

These areas are critical in promoting competition and innovation, and the benefits they bring to everyone who uses payment systems. Since our last report, we have seen a number of improvements in the provision of access and the governance of payment systems:

Access

In 2017 we saw:

- a record number of new direct participants joining the interbank systems
- the first banks joining multiple payment systems in parallel
- new players offering indirect access to payment service providers (PSPs)

There is now more choice of access options for PSPs, the time it takes to join a payment system continues to reduce, and payment system operators have improved the way they engage with prospective participants.

We expect the trend in the number of new direct participants to continue through 2018. We also expect to see:

- the first new non-bank PSP joining one of the interbank systems
- the first new participants connecting directly to Faster Payments but using a sponsor bank for settlement

Governance

Our General Directions require operators to consider service-users' needs in their governance arrangements. In 2017 operators continued to engage with service-users on aspects of their existing service offerings and plans for new services. Some operators carried out research and surveys of particular groups of users to understand their needs better.

Having monitored the effectiveness of our Directions, we are considering whether they are working as well as they could. This is part of an overall review of our Directions, which we are publishing alongside this report.

Access

1.1 Since the PSR was established, one of our key areas of focus has been improving the choice, quality and timeliness of access to payment systems, particularly interbank payment systems. Effective access to interbank payment systems is critical for promoting competition in payment services and retail banking. Over the last year we have seen further evidence that our work and the work of the payments industry to open up access has benefitted service-users, and improved competition across payment services.

This is our third access and governance report following previous reports published in December 2015 and March 2017. Since we published our 2017 report we have seen several very positive developments:

- 2017 was a record year for new participants in the interbank payment systems: CHAPS, Faster Payments (FPS) and Bacs. Seven new participants have joined one or more of those systems directly. This trend is set to continue in 2018 (see Figure 1).
- In addition, when the new cheque Image Clearing System (ICS) went live at the end of 2017, direct participation increased from 11 to 17 participants.
- New indirect access providers (IAPs) also commenced operation in 2017. ClearBank has launched a service designed to provide indirect access to all the UK payment systems, and Starling Bank is an IAP for FPS and Bacs. This means payment service providers (PSPs) can now choose from more IAPs.
- The Bank of England changed its settlement account access policy in July 2017 to allow certain non-bank PSPs (authorised e-money institutions and authorised payment institutions) to hold settlement accounts. This means that non-bank PSPs can now be direct participants in the interbank payment systems, giving them a choice between direct and indirect access.

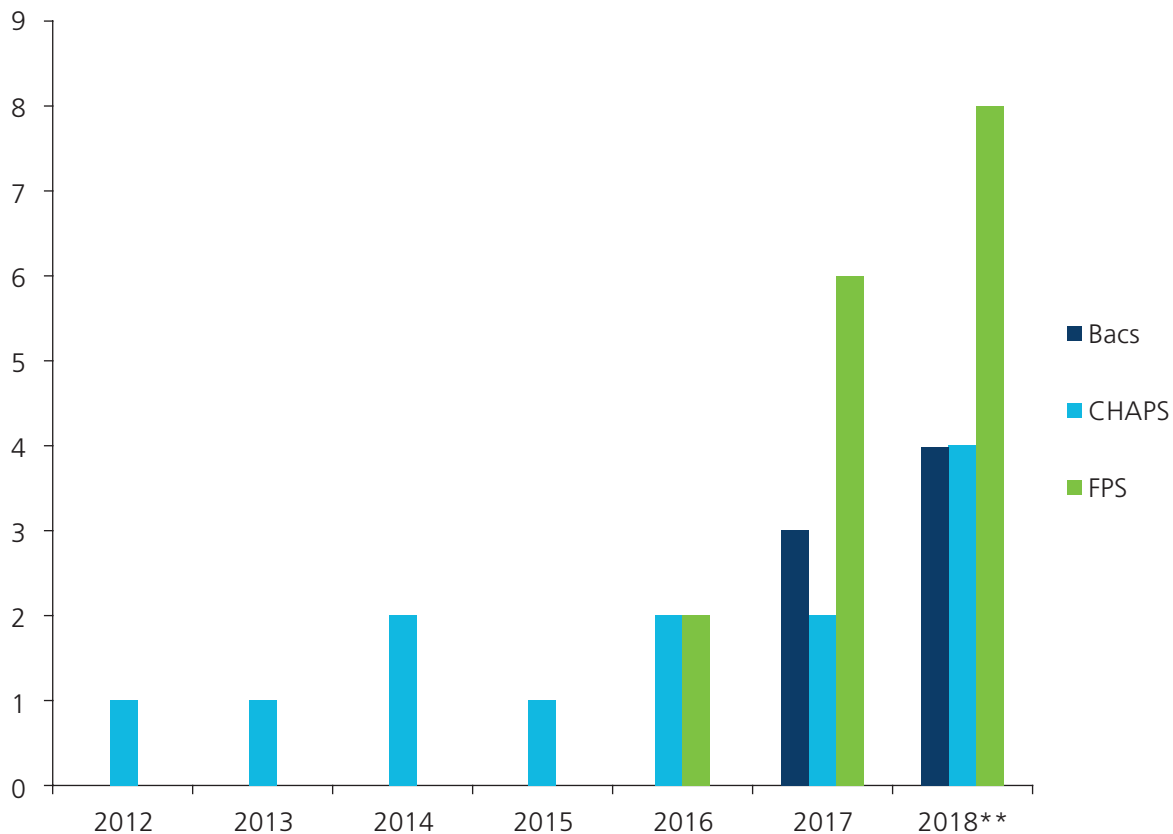
1.2 We have seen other improvements in time, cost, engagement and quality of service:

- The first PSPs have joined FPS and CHAPS through their aggregator models, and Bacs has had more interest from PSPs wanting to use its new simplified access model. These new models have helped PSPs become direct participants faster than they previously could, and at a lower cost. The new ICS also provides an aggregator model.
- We have seen improvements in choice, with ClearBank and Starling Bank developing access propositions that are fundamentally different to the existing models.¹ This should improve the experience of prospective Indirect Payment Service Providers (IPSPs).
- FPS has also developed its model for Directly Connected Non-Settling Participants (DCNSPs). From 2018 Q1 PSPs can get direct technical access to FPS using an IAP for settlement. This also provides flexibility to PSPs who want the technical service and do not have, or do not want, an account at the Bank of England.
- The operators have also refined their engagement with prospective PSPs, having learned from the experience of PSPs joining in 2017. For example, FPS has recruited additional staff to work on its engagement with prospective new direct participants.

¹ These IAPs utilise application programming interfaces (APIs) so clients can connect to them and get a virtual near-real time experience 24 hours a day, 365 days a year. ClearBank customers use their API as a single connection to multiple payment systems. This differs from other IAPs, who are more likely to provide batch services at discrete intervals during a day, or services that are not operational 24 hours a day 365 days a week. For further information on the APIs that Starling and ClearBank offer, see: www.starlingbank.com/paymentservices/ and www.clear.bank/infrastructure

Figure 1: History and projection of new participants in the interbank payment systems*

**Figures for 2018 are projected



	New participants 2016*	New participants 2017*	Expected new participants 2018**
Bacs	0	3	4
CHAPS	2	2	4
FPS	2	6	8
Total	4	11	16
Of which 'unique' users	4	7	11

* Excludes ring-fenced participants gaining a second participation in that system (See Box 1)

Governance

- 1.3** One of our three statutory objectives is to promote the interests of those who use, or are likely to use, services provided by the regulated payment systems. In order to help achieve this, our General Directions require the operators² of Bacs, C&C, FPS and LINK to have appropriate representation of service-users in the decision-making processes of their governing bodies and to publish minutes of the meetings of those governing bodies.
- 1.4** Over 2017 we have found that:
- operators have continued to engage with service-users on aspects of their existing service offerings and plans for new services
 - operators have actively engaged with the work of the Payments Strategy Forum (the Forum), providing significant resource which included a user-needs workstream
 - some operators have carried out research and surveys of particular groups of users to understand their needs better
- 1.5** Building on the monitoring of the effectiveness of our governance directions, we are considering whether they are working as well as they could. In some instances we question how well operators are taking account of service-users' needs, interests and views in their decision-making, and whether they could do more to promote a culture of being oriented toward and responsive to their service-users. We are launching a review of our Directions alongside this report.³
- 1.6** We also took our first enforcement action on governance in 2017, when we issued a public censure against C&C for a breach of General Direction 6.1 for failing to publish its board minutes as soon as reasonably practicable for a number of different meetings during 2016, and for failing to provide us with a link to relevant board minutes on its website.

Developments in 2018

- 1.7** We expect operators to continue to deliver previous workstreams on non-bank PSP access, and to continue to develop their models to lower complexity and cost of direct participation. Beyond this, we are not specifying any new focus areas for the operators in 2018. This is because we have seen good progress by operators, onboarding new participants has become a business-as-usual activity, and many barriers to direct and indirect access have been brought down due to our work and that of the operators.

² In addition, we directed CHAPS Co as the operator of CHAPS until the Bank of England became responsible for operating CHAPS in November 2017.

³ www.psr.org.uk/psr-publications/consultations/review-PSR-directions-March-2018

1.8 In addition, the context of the interbank payment systems has changed:

- Bacs, FPS and C&C will consolidate into the New Payment System Operator (NPSO) during the first half of 2018. The NPSO will automatically need to meet the range of requirements that apply to the operators of the existing systems. It will be required to comply with our existing directions at the point it takes on operation of the various payment systems.
- The second EU Payment Services Directive (PSD2) came into effect on 13 January 2018 and has given us an even greater compliance focus on ensuring access rules and conditions are objective, non-discriminatory and proportionate.
- CHAPS was acquired by the Bank of England (the Bank) in November 2017. The Bank now directly delivers CHAPS and continues to provide the infrastructure. This took CHAPS out of the direct control of its direct participants. This has changed how we regulate CHAPS, as the Bank of England is not considered a participant under the Financial Services (Banking Reform) Act 2013. We continue to have regulatory powers over direct participants in the CHAPS system.
- Finally, as we noted in our 2017 report, we are currently reviewing our Directions. We have published a consultation on proposed changes alongside this report. This takes account of the changes listed above and separately addresses the effectiveness of the Directions in furthering the outcomes we want.

2 Introduction

2.1 Effective access and well governed payment systems are critical to promoting competition and innovation in payments, and also promoting more competition in retail banking. Since we became operational in 2015, our access and governance programme of work has realised benefits for PSPs and service-users.

2.2 We are publishing this report to update stakeholders on the progress of our programme over the last 12 months. This is our third access and governance report following previous reports published in December 2015 and March 2017.

2.3 This report focuses on the interbank payment systems: Bacs, C&C, FPS, and CHAPS.

These systems are regulated under our access General Direction 2.⁴ The operators of those payment systems are set out in Table 1.

The operators of the other regulated systems (LINK, Visa and Mastercard) have shown good progress on access, which is described in each operator's compliance report.

Access to the LINK, Visa and Mastercard systems is regulated according to the requirements set out in General Direction 3 and the Payment Services Regulations 2017.

Table 1: The interbank payment systems and their operators

Payment system	Operator
Bacs	Bacs Payment Schemes Ltd (BPSL)
Cheque and Credit (C&C)	Cheque and Credit Clearing Company Ltd (C&CCCL)
CHAPS	CHAPS Clearing Company Limited (CHAPS Co) until November 2017 ⁵
Faster Payments (FPS)	Faster Payments Scheme Ltd (FPSL)

2.4 The rest of this report is structured as follows

- **Chapter 3** focuses on the changes to the provision of access over 2017.
- **Chapter 4** focuses on the expectations that we had in our 2017 report for the operators, IAPs and the PSR.
- **Chapter 5** looks at the changes happening in the payments landscape that could affect our access work.
- **Chapter 6** gives some background about our governance requirements.
- **Chapter 7** focuses on the developments in governance over 2017.

2.5 We will be publishing the compliance reports that the operators submitted to us separately. These compliance reports are in accordance with our requirements under General Directions 2, 3 and 4. These provide the detail on how each operator has complied with our relevant access and governance directions, and highlight key areas of progress for each over the last 12 months.

⁴ CHAPS was regulated under General Direction 2 until 13 November 2017.

⁵ Responsibility for operating the CHAPS system transferred to the Bank of England from 13 November 2017. See Chapter 5 for further information.

3 Access and developments over 2017

Since we published our last access and governance report in March 2017, we have seen the following improvements in the provision of access:

- **Choice:** There has been a significant improvement in the choice of access options available to PSPs. New models exist for direct participation – Bacs’ simplified access model gives a new way to connect to the Bacs system, and FPS’ Directly Connected Non-Settling Participant (DCNSP) model allows participants to get the same technical proposition while using a sponsor bank for settlement services. Direct participation has increased considerably, and new direct participants PSPs ranged from established and challenger banks, through to new start-up digital banks. We have seen two new entrants into the market for providing indirect access to payment systems – ClearBank and Starling Bank. This gives PSPs that choose indirect access a greater choice of Indirect Access Providers (IAPs).
- **Time:** New PSPs joining as direct participants benefit from the reduced time and complexity of joining. We saw Monzo join FPS in around seven months, the quickest onboarding to date. We now expect that a PSP can join a payment system within 12 months.⁶ In addition, we saw the first banks joining multiple payment systems in parallel:⁷
 - Turkish Bank joined FPS and Bacs in around 13 months.
 - TSB joined Bacs and FPS simultaneously within 14 months.
 - ClearBank joined all of the sterling payment systems. It took around two and a half years to gain a banking license, join all of the payment systems and onboard their first customers.
- **Value:** In our 2017 report, evidence suggested costs to join a payment system had reduced from between £2.5 million and £4 million in December 2015, to around £1.2 million to £2.5 million, as reported by new participants in 2016. Surveys of new participants who joined systems over 2017 suggest that costs were broadly in the same range though operators have told us that costs have been reducing further for newer participants and we are starting to see evidence of this. We also expect the introduction of the new IAPs to increase competition in the provision of indirect access, which could lead to lower like-for-like prices.
- **Quality:** New IAPs have developed different access propositions, such as access using application programming interfaces (APIs), as well as additional services that PSPs can use. Other models such as DCNSP have been developed to improve access to Faster Payments.⁸
- **Engagement:** The operators and IAPs have taken steps to increase transparency of information and to engage with service-users. For example, the operators have produced additional leaflets and guides intended to help organisations consider their access options for the interbank payment systems. Operators have also increased their resources to engage with prospective new direct participants.

Our work to date on access

- 3.1** We started our work on access in 2014, before the PSR became fully operational. Stakeholders were concerned that operators’ access requirements were not clear or fair, and may have made direct access difficult or impossible for some organisations. For indirect access, stakeholders raised a number of concerns including lack of choice of access provider, difficulties accessing and assessing information about different indirect access options, and the risk that providers may discontinue the supply of indirect access without a reasonable notice period.

⁶ Subject to the PSP committing sufficient resources, and having undertaken the pre-requisite authorisations and regulatory processes in advance.

⁷ In addition, a number of participants joined the new cheque imaging system upon launch, including Turkish Bank and TSB

⁸ This is an enhanced re-development of the existing Direct Agency model that allows PSPs to connect to the FPS central infrastructure directly, but with a sponsor PSP carrying out the settling element of the process.

- 3.2** In response to these concerns, we have taken a number of steps to examine direct and indirect access and to remove, or encourage the removal of, barriers to PSPs getting access to payment systems. Over the last year we have seen further evidence that our work, and the work of the payments industry to open up access, has benefitted service-users.

How do PSPs access payment systems?

- 3.3** PSPs can access payment systems in different ways. The interbank operators have produced a guide which gives an overview of the options currently available for each system.⁹ While models differ across systems, there are generally two fundamental forms of access to the interbank payment systems – direct or indirect.
- 3.4** PSPs with direct access have a contractual arrangement with an operator – these are called Direct Participants (DPs). DPs process payments through a direct technical connection to the payment system’s central infrastructure, either through a bespoke connection or through an aggregation service.
- 3.5** PSPs with indirect access can be ‘agency’ or ‘non-agency’ participants – these are called Indirect Participants (IPs). Agency IPs are provided with one or more unique sort codes.¹⁰ Non-agency IPs are not provided with a unique sort code and generally provide payment services using the same account number and sort code. For example, a non-agency building society may use roll numbers to differentiate between their customers, but may use the same account number and sort code for sending and receiving transactions on behalf of multiple customers. There are also models that give IPs direct technical access to connect to the payment system’s central infrastructure but use an IAP to settle outstanding obligations.
- 3.6** Only PSPs that have Settlement Accounts at the Bank of England (the Bank) can become DPs in Bacs, FPS, CHAPS and C&C. Until recently this was limited to banks. Non-bank PSPs, such as e-money institutions and payment institutions needed an indirect relationship as they could not get access to settlement accounts. In July 2017 the Bank announced changes to its settlement account policy, allowing certain authorised non-bank PSPs to apply for settlement accounts at the Bank so they can gain direct access to payment systems.
- 3.7** Whether a PSP chooses to access payment systems directly or indirectly will depend on a number of factors, including:
- **Volume of transactions:** At lower transaction volumes, direct access can be less cost effective than indirect access. This is due to the upfront fixed costs and ongoing costs of complying with payment system requirements. Research carried out by Accenture on behalf of FPSL indicates that PSPs who process more than 1.4 million transactions per year would generally benefit from direct access to FPS.¹¹
 - **Business model:** The specific services a particular PSP provides, and the complexity and scale of its payment requirements, all have a bearing on what is economically the most appropriate type of access for them. For example, a payment account provider with a large retail customer base expecting real-time 24/7 payments may find direct access is the right option – but this may not be the case for a small money remitter that makes infrequent sterling payments. However, there are a number of new PSPs and smaller PSPs who have decided to pursue direct access for other strategic reasons such as product strategy.

⁹ www.bacs.co.uk/DocumentLibrary/An_Introduction_to_the_UKs_Interbank_Payment_Schemes.pdf

¹⁰ Agency IPs are given sort codes by their IAP. Agency IPs are usually able to retain their sort code if they switch IAPs.

¹¹ www.fasterpayments.org.uk/sites/default/files/Faster%20Payments%20Access%20Programme%20Economics%20Report%20-%20Online%20Version.pdf

Improvements in choice over 2017

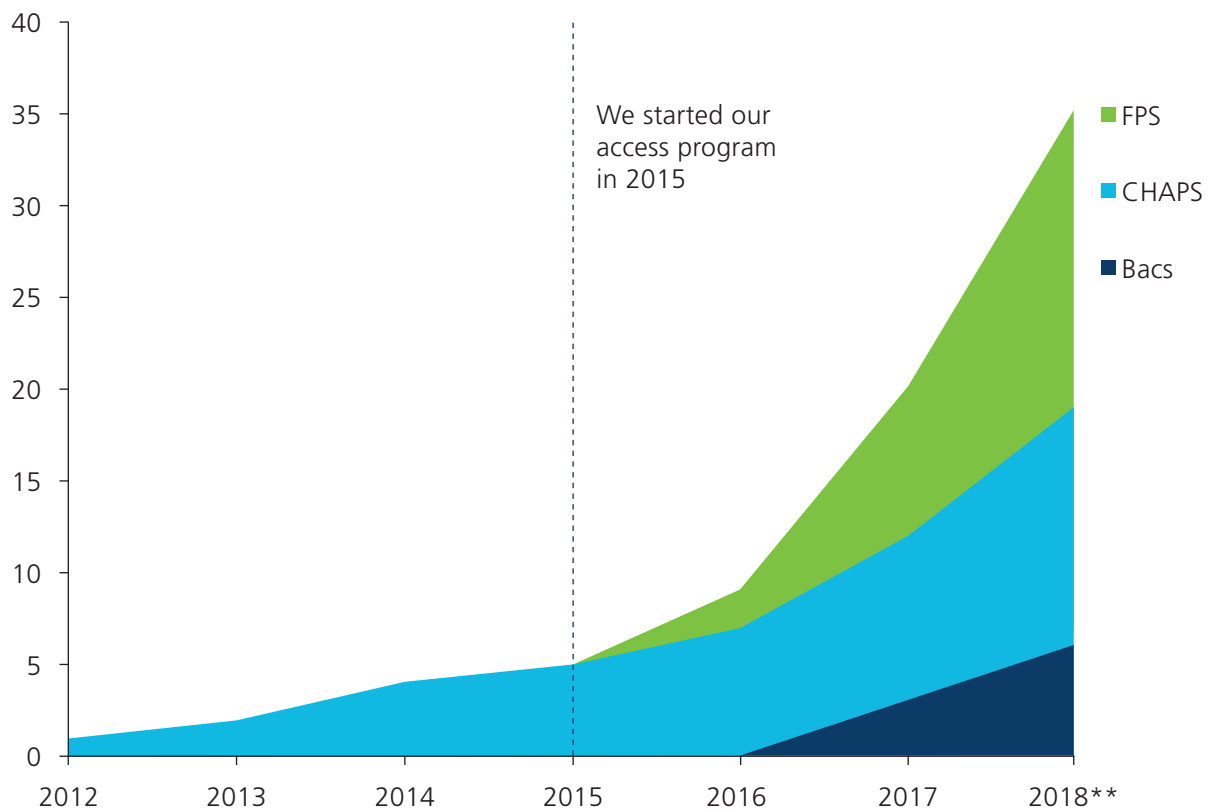
3.8 There has been a significant improvement in the choice of access options available to PSPs in 2017. This applies to direct participation and new IAPs and indirect access models.

Direct access

3.9 Direct participation in the interbank payment systems increased considerably in 2017. Figure 2 shows the number of PSPs that became direct members of FPS, CHAPS and Bacs to the end of 2017. It also provides an estimate of the number of new participants for 2018.

Figure 2: Cumulative new participants in the interbank payment systems (including projections for 2018)*

**Figures for 2018 are projected



*Excludes ring-fenced participants gaining a second participation in that system (See Box 1)

3.10 A number of banks joined one or more of FPS, CHAPS and Bacs in 2017. They include:

- ClearBank
- Monzo
- Starling Bank
- Atom Bank
- TSB
- Turkish Bank
- Bank of China

In total 7 PSPs joined one or more of the payment systems. In addition, three further PSPs have joined payment systems so far in 2018:

- BFC Bank joined FPS
- Elavon joined CHAPS
- Starling Bank joined Bacs

As Figures 1 and 2 show, this is a record number of new participants.

3.11 The operators have told us there is a strong line-up of PSPs expected to become direct participants in 2018. The projections suggest that 2018 will see a continuing trend of the number of new participants year on year, as the market is continuing to react to the reduced complexities and costs of direct participation.¹²

3.12 We have excluded the effect of existing participants that, as a result of ring-fencing, have also joined payment systems for a second time. Under Part 1 of FSBRA, certain banking groups are required to ring-fence by 1 January 2019. As part of this change, two banks gained a second operational membership to FPS, Bacs and CHAPS in 2017. We have removed the effects of these second operational memberships from Figures 1 and 2 as they do not directly affect our competition, innovation or service-users' objectives. See Box 1 on ring-fencing (page 17) for more information.

Aggregators and direct technical access

3.13 The complexity of joining payment systems directly has been reduced through the role of technical aggregators – firms who provide a technically accredited product or managed service that allows PSPs to connect to the system. Aggregators are organisations that provide technical access to a payment system's central infrastructure through a shared gateway. Before the introduction of aggregators PSPs would have had to build a bespoke gateway and link to the central infrastructure.

3.14 There is a strong business case for some PSPs to gain direct access through an aggregator because of technical benefits and reduced costs. The aggregators are able to offer a service based on sharing the costs of the technical infrastructure required for direct participation – therefore reducing the overall cost of direct access for PSPs. This improves choice for smaller and mid-sized PSPs, as the cost-benefit trade-off between indirect and direct access has changed. It is notable that the majority of new direct participants in FPS have opted to join through an aggregator.

¹² Our figures for 2018 are based on the operators' views of anticipated new joiners and are subject to change.

- 3.15** In our 2017 report we expected operators to complete work on their aggregator models. We discuss this further in Chapter 4. In 2017 three additional aggregators were technically accredited to provide direct access to FPS, taking the total to eight. Of the eight accredited aggregators, three are already providing services to PSPs with others expecting to provide services to PSPs in 2018. CHAPS has allowed aggregators to provide services to some PSPs from 2018 but does not provide accreditation. In Bacs the aggregator model has not yet attracted the same level of interest; Bacs has a comparable aggregator model to FPS but has yet to be approached by any firms that want to provide aggregator services. We have considered further the reasons for this in Chapter 4.
- 3.16** A model that we have yet to see come to fruition is individual aggregators providing direct technical access to multiple payment systems simultaneously.¹³ In this way they can provide multiple services to a PSP at once, so that the PSP become a direct participant in many systems with reduced complexity and cost. We are not aware of any barriers to such a model being developed if there is demand for it.
- 3.17** As well as giving PSPs cheaper and simpler ways to gain direct access, the introduction of aggregators has an impact on indirect access options. There is reduced cost and complexity in connecting to the payment system's central infrastructure through an aggregator, while using an IAP to provide settlement. This model gives the same technical proposition as a direct participant, but without the need to hold an account at the Bank of England for settlement. This is the DCNSP model.
- 3.18** From 2018 Q1, PSPs have been able to join FPS under its DCNSP model. In order to serve demand from those potential indirect PSPs, ClearBank and Starling bank have entered the market to provide sponsorship services including DCNSP services alongside incumbent IAPs. A comparable model to DCNSP is available in Bacs in the form of the Bureaux model.¹⁴ Approved Bureaux provide technical solutions for PSPs (and others such as corporates) to be able to submit files directly into the central infrastructure, with settlement undertaken by a direct participant on their behalf. We show the basic structure of the access models in Figure 3.

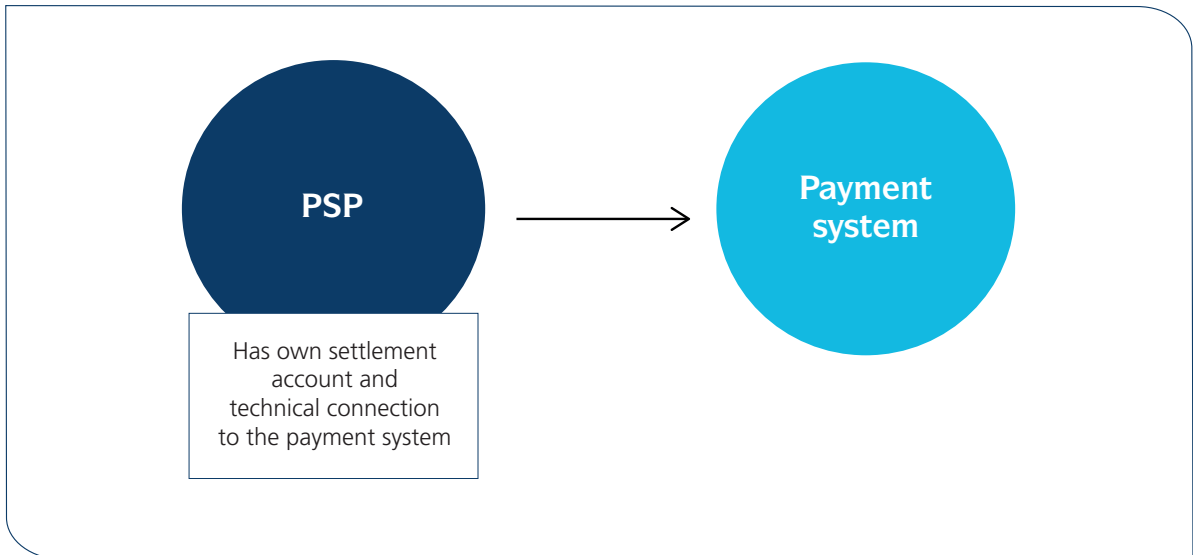
¹³ Some aggregators provide a combination of aggregation and bureaux services, which offers a form of cross system direct technical access (see Figure 3).

¹⁴ See www.bacs.co.uk/Services/Bacsapprovedservices/Pages/ApprovedBureaux.aspx

Figure 3: The different ways that PSPs can access payment systems

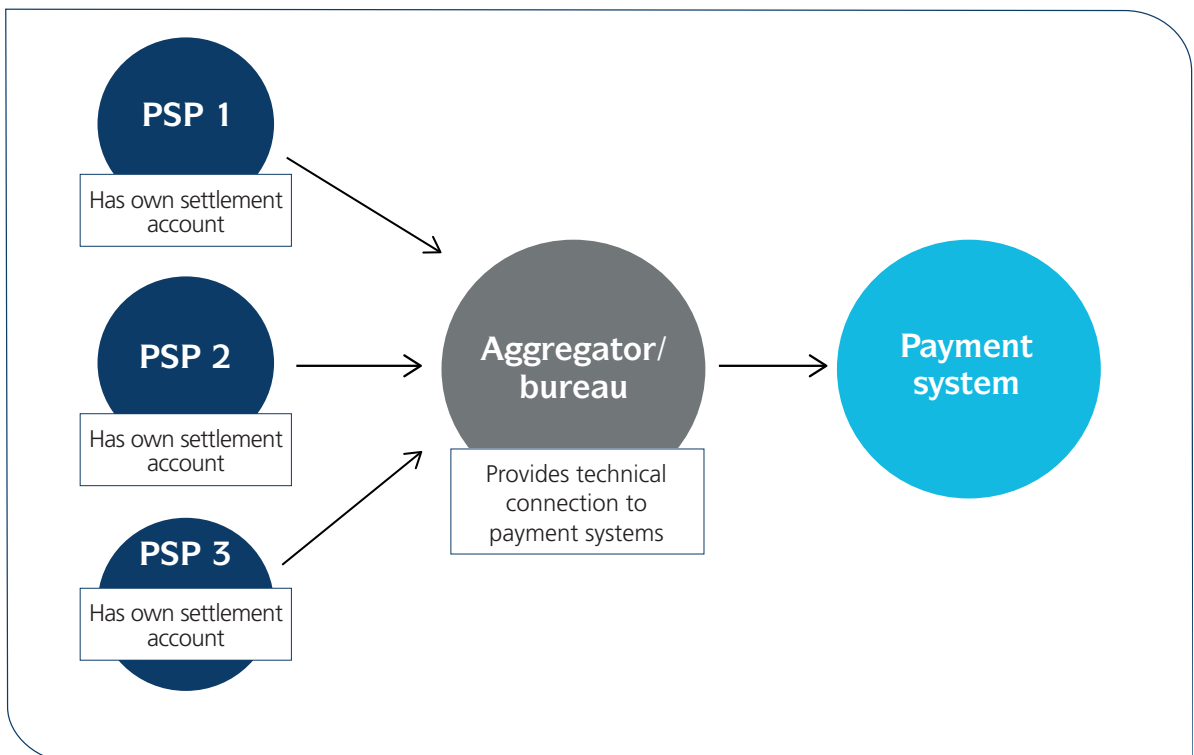
Direct access

A PSP has a settlement account and its own facility to connect directly to the payment system



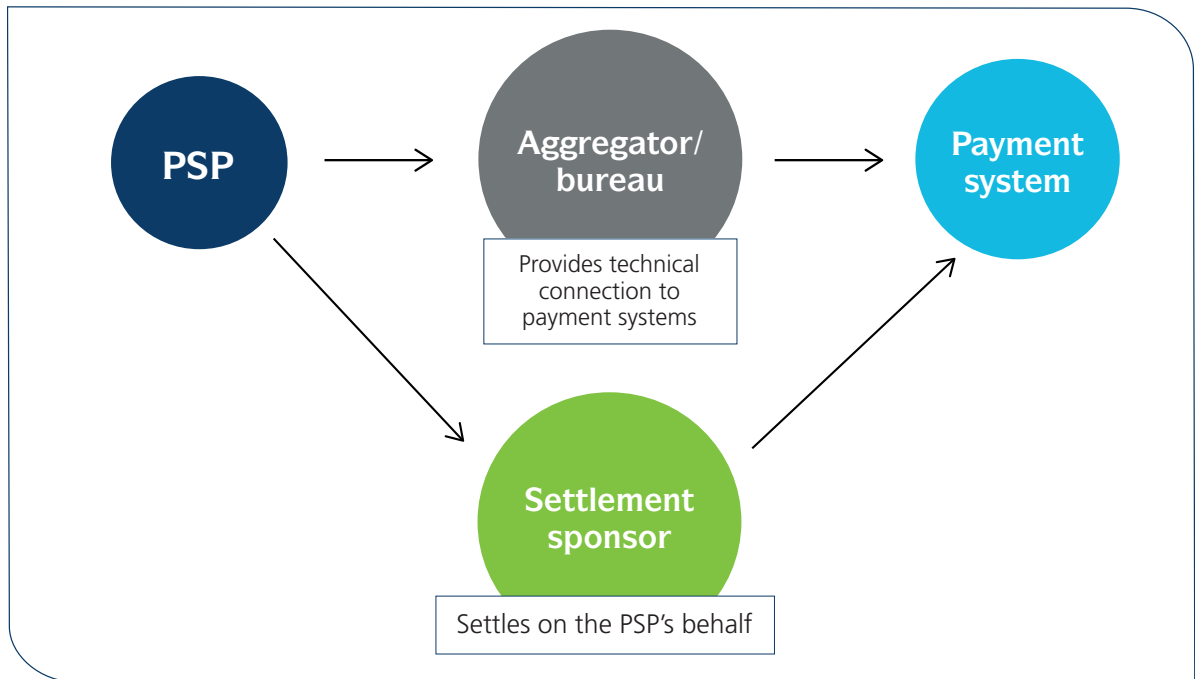
Direct technical access – directly connected settling participants (DCSPs)

A PSP has a settlement account and connects directly to the payment system through an aggregator or bureau



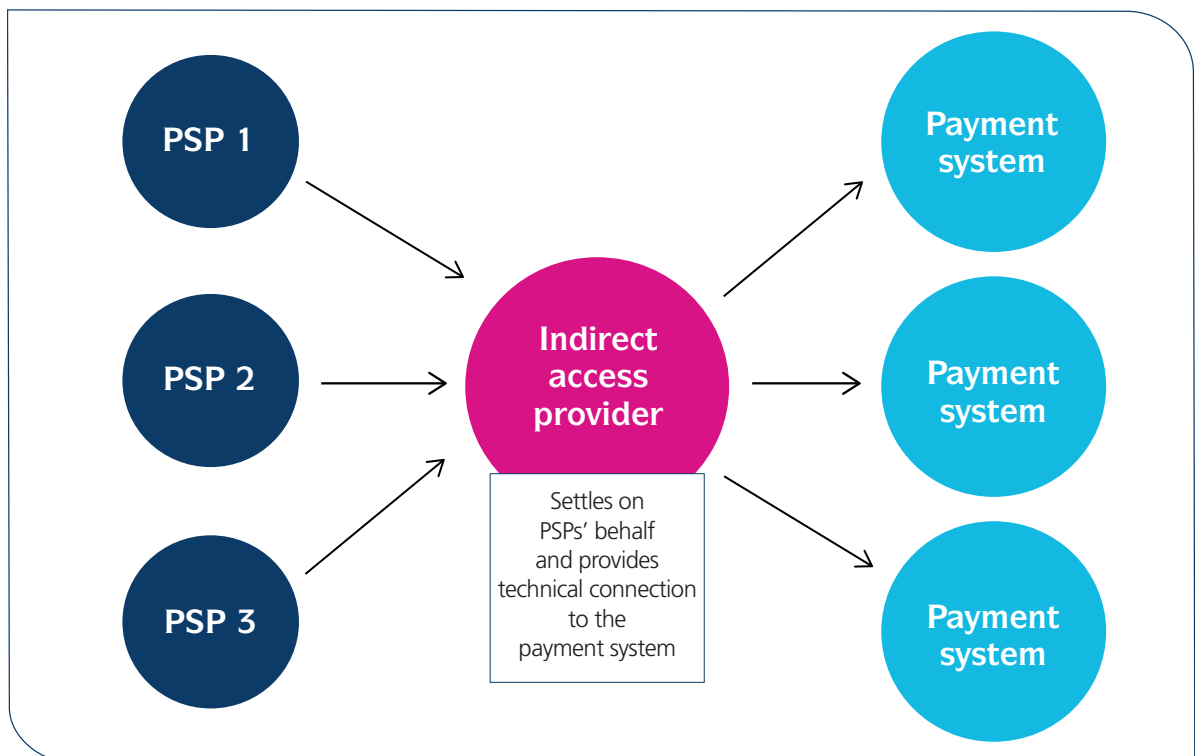
Direct technical access – directly connected non-settling participants (DCNSPs)

A PSP uses a sponsor bank for settlement and connects directly to the payment system through an aggregator or bureau



Indirect access

A PSP uses a sponsor for settlement and indirect access to the payment system



Indirect access

- 3.19** We have seen new entrants into the market for providing indirect access to payment systems. ClearBank and Starling Bank have entered the market, which was previously only served by the four large UK banks: Lloyds, Barclays, HSBC and the Royal Bank of Scotland (RBS). This gives PSPs that choose indirect access a greater choice of IAPs.
- 3.20** ClearBank is dedicated to the provision of indirect access to regulated payment systems. Traditional IAPs have a broader range of products, including corporate and retail banking and other financial services. The relationship that each of these IAPs has with its customers may be based on a range of other services that the bank can offer. ClearBank provides an alternative for PSPs who are focused on providing payment products and services, and who do not need access to advanced corporate banking services (e.g. access to securities markets, buying and selling of equities and asset servicing).
- 3.21** Starling Bank launched its indirect access offering in May 2017. This mobile-only UK retail challenger bank offers indirect access to Bacs and FPS. Like ClearBank, it provides a different technical proposition compared to the solutions presented by other incumbent IAPs, by building an explicit payment product for indirect PSPs incorporating modern API technology.

Box 1

Ring-fencing

The largest UK banks are required by UK law to separate core retail banking services from their investment and international banking activities by 1 January 2019. This is known as ring-fencing.¹⁵

The aim of ring-fencing is to protect the core retail banking services on which customers rely from risks associated with activities outside the ring-fence. Ring-fencing is intended to improve the resilience of the largest UK banks. It also seeks to ensure that if a large bank was to fail, there would be minimal disruption to banking services used by individuals and small businesses in the United Kingdom.

To implement ring-fencing, banks have needed to significantly restructure their activities during 2017 and 2018, with implications for their customers, counterparties and suppliers.

Some of the bigger high street banks in the UK have announced that they are splitting into a ring-fenced bank (RFB) and a non-ring-fenced bank (NRFB) within the same group. In some cases, banking groups already have a number of different bank licences and brands within them and are able to split their activities between their pre-existing banks.

Why does this matter for payments and access?

The legislation requires that a RFB has direct access to the payment systems it uses, unless it has been granted permission by the Prudential Regulatory Authority (PRA) to access a certain payment system via an intermediary due to exceptional circumstances. This has meant that, in some cases, existing members of payment systems joined those payment systems for a second time in 2017. This has allowed the RFB and NRFB to have two separate memberships, and be operationally distinct, after they have ring-fenced. Operators have had to give some of the onboarding spaces available for new participants to these newly separate entities. The data in Figures 1 and 2 excludes any ring-fencing onboarding where the ring-fencing organisation joined for a second time. This reflects legislative changes to pre-existing transactions, rather than affecting competition and innovation.

Some smaller institutions are ring-fencing and gaining a completely new direct participation to a payment system. We have included these figures in Figures 1 and 2 as these are institutions that are moving from indirect to direct access, resulting in new direct transactions.

The current main IAPs for regulated payment systems are affected by the ring-fencing requirements. These banks are currently implementing their ring-fencing plans, which include their IAP services. We do not expect any change to the way in which indirect clients are serviced, or the standards that they are held to, as a result of the ring-fencing changes.

¹⁵ See the Bank of England article on ring-fencing, what it is and how it will affect banks and their customers: www.bankofengland.co.uk/quarterly-bulletin/2016/q4/ring-fencing-what-is-it-and-how-will-it-affect-banks-and-their-customers

Shorter joining times

- 3.22** The operators have continued to improve their processes reducing the time and complexity of joining. Recent joiners in 2017 have reported positive experiences relating to the joining times for FPS and Bacs, and the duration of the process for these two schemes continues to reduce. In 2017 we saw Monzo join FPS in around seven months, which is the quickest onboarding to date, that we are aware of. We now expect that a PSP can join a payment system within 12 months.¹⁶ In 2017 we saw the first banks that joined multiple payment systems in parallel. In part these quicker onboarding times have been driven by the work of the operators to simplify and standardise the joining process for PSPs that want direct access. This can be seen in a guide¹⁷ summarising the steps for PSPs to follow to join any of their payment systems.
- 3.23** We welcome the operators' work to simplify and standardise their onboarding processes. Feedback we received from new direct participants, after our access work was first started, suggested there was scope for improvement in terms of engagement, documentation and processes. More recent feedback from new participants has been more complimentary about engagement. We have seen developments among operators such as providing guides, focused documentation and document libraries. It is also clear that some operators invest significant resources in upfront discussions with prospective PSPs, giving them clear guidance about the steps involved and effort required to join their system.
- 3.24** Bacs has also introduced a new direct technical access solution called the 'simplified access option'. This solution caters to low-volume prospective direct participants. It significantly reduces the time and complexity of joining Bacs for small- and medium-sized participants. Turkish Bank was the first PSP to use this new service. It has reported a positive experience of the duration of the process (which took around 13 months).

Improvements in value

- 3.25** Data gathered for new joiners over 2017 has validated our previous finding that costs of directly joining payment systems are around £1.2 to £2.5 million.
- 3.26** In our March 2017 report we noted that evidence suggested costs had reduced, from between £2.5 million and £4 million in December 2015 to around £1.2 million to £2.5 million in 2016. This was based on previous expectations of the costs of joining each system, and the actual costs of joining reported by PSPs after they have gained direct access. Surveys of new joiners in 2017 suggested that costs broadly remain in this range. Operators have told us that costs have been reducing further for newer participants and we have started to see evidence that new access models have reduced the cost of direct participation.
- 3.27** Bacs' simplified access solution significantly reduces the cost of joining Bacs for low-volume participants. Turkish Bank has reported costs of attaining access to Bacs that are materially below the previous lowest cost estimate of £1.2 million. The simplified access option is generating interest from new participants. Two prospective PSPs have expressed an interest in using this option in 2018. This option can address the concerns raised by some small- and medium-sized PSPs who might find it challenging to attain indirect access to Bacs through a sponsor bank. The significant reduction in upfront costs makes the simplified access option a credible alternative to indirect access to Bacs.
- 3.28** The direct technical access solutions offered by aggregators appear to have reduced the costs of joining FPS. We referred to the reductions in costs in our March 2017 report. There continues to be a difference between the cost of joining FPS through an aggregator and joining directly via bespoke arrangements, as would be expected. We welcome this as evidence of the benefits of the aggregator model to reduce the cost and complexity of joining FPS.

¹⁶ Subject to the PSP committing sufficient resources, and having undertaken the pre-requisite authorisations and regulatory processes in advance.

¹⁷ www.fasterpayments.org.uk/sites/default/files/downloads/articles/on_board_to_interbanking_uk_payment.pdf

- 3.29** One of the most significant costs of direct access was the security associated with connecting to the central infrastructure of a system – for example, public key infrastructure (PKI) is required to encrypt the files to and from the central infrastructure in Bacs. PKI is also used in FPS in order to gain important information. There is a commercial market in PKI supply, but costs appear to be relatively high – so for a small PSP joining a payment system, the costs could appear disproportionate and deter PSPs from seeking direct access.
- 3.30** PKI supports the distribution and identification of public encryption keys, enabling users and computers to both securely exchange data over networks such as the internet and verify the identity of the other party. Participants need to use PKI to securely access customer-sensitive data in FPS. In discussion with prospective joiners, FPS discovered that the PKI solutions offered in the market did not meet their needs and effectively represented an additional barrier to entry.¹⁸
- 3.31** FPS has now invested in, and built, a PKI Service within the scope of its wider access programme of work. FPS announced the availability of this service on 21 June 2017.¹⁹ It has a significant number of live participants. As Bacs and FPS use the same security model, this service also supports participants joining Bacs. The three PSPs that joined Bacs in 2017 also used this service.
- 3.32** FPS's effort to deliver a PKI solution has contributed to lowering the costs of joining FPS and Bacs. Our engagement with PSPs recently joining payment systems suggests that, prior to the FPS PKI service, PKI costs formed a significant share of the overall cost of joining the Bacs and FPS payment systems.
- 3.33** In addition, ICS implemented a security solution with the driver to reduce costs: their solution is similar to PKI. The reduced cost makes joining more cost effective for smaller institutions, and is being used by new ICS participants.

Improvements in quality

- 3.34** One of the areas that we have been focused on in our access work is the quality and variety of different access options. For direct access we have already seen that changes such as aggregator models have led to changes in the way that PSPs gain direct access. Aggregators are also able to provide add-on services to their PSP clients, such as stand-in services. For indirect access two new IAPs, ClearBank and Starling Bank, have developed new access propositions which may improve the experience of prospective IPSPs.
- 3.35** FPS is implementing two key changes to its existing scheme rules that have the potential of changing PSPs' experience of FPS: a significant increase to the transaction value limit which could benefit corporate users, and relaxing the requirement for live 24/7 operations for very small participants, which could lower a further barrier to direct participation.
- 3.36** **Transaction value limit:** Throughout its engagement with existing and potential business and corporate users in 2016, FPS discovered that many of those would be more likely to their service if the transaction limit for FPS payments was increased. FPS' transaction limit was last increased in November 2015, from £100,000 to £250,000. On 11 July 2017, FPS completed a successful live-proving exercise with the 16 direct participants with a payment of £20 million. Following this, FPS consulted on the details of the scheme limit increase – for example, the exact limit, direct PSPs' readiness to receive the higher limit and support for the increase. FPS expects to implement the increased transaction limits during 2018. This will be subject to an enhanced risk and stress test assessment in order to maintain the safety and resilience of the system.

¹⁸ See: www.fasterpayments.org.uk/sites/default/files/10448-FPS%20Access%20Brochure.pdf

¹⁹ See: www.fasterpayments.org.uk/press-release/faster-payments-launches-trust-service-make-access-uk%E2%80%99s-payments-systems-more-cost

- 3.37 24/7 availability:** Currently, one of the requirements to become a DP in FPS (either a Directly Connected Settling Participant (DCSP) or a DCNSP) is the ability to comply with the technical and operational requirements of the systems on a continuous basis (i.e. 24 hours a day and 7 days a week). This is necessary because the FPS proposition is to provide 24/7 real-time irrevocable transfer of funds with the effective management of settlement risk. Interruptions to this pattern for systemic participants could create harm for service-users and damage confidence in the stability and resilience of payment systems.
- 3.38** Following engagement with its service-users, FPS discovered that the 24/7 availability represented another barrier to entry for a number of non-systemic smaller PSPs who do not operate a 24/7 service for their customers. As a result, the operator considered the possibility of relaxing this requirement and issued a consultation on business hours in late 2016.
- 3.39** Feedback indicated that launching a dedicated business hours service to serve the need of PSPs that do not operate on a 24/7 basis could be confusing to service-users (who may have to wait more than the standard two-hour requirement for funds to be credited). Instead, FPS has taken the approach of relaxing the 24/7 live operations requirement for very small participant PSPs as long as these smaller PSPs have a 'stand-in' service to accept payments during non-core hours. These PSPs are also required to inform the sender of the likely timescale before the beneficiary will receive the funds. Typically aggregators are able to provide these stand-in services to prospective PSPs. This approach has been used to support the onboarding of a PSP in 2017. Most of the very small PSPs that cannot support 24/7 availability would normally join FPS through aggregators. We encourage these PSPs to continue to work closely with aggregators to develop solutions that eliminate the full 24/7 requirement. This should ensure that there are commercial solutions available and this will not represent a barrier to entry.

Improvements in engagement

- 3.40** The operators and IAPs have taken steps to increase transparency of information and to engage with service-users.
- 3.41** FPS increased the number of staff dedicated to engaging with PSPs and onboarding to meet growing demand for participation. In the last 12 months, FPS's onboarding team has doubled to support the growing interest from prospective participants in joining FPS. There are high numbers of PSPs engaging with the operators to understand what form of participation is right for them. FPS has signed a total of 150 non-disclosure agreements (NDAs) with PSPs and aggregators. After the NDAs are signed, PSPs get access to more detailed documentation allowing them to gain more information about the overall process of joining.
- 3.42** In addition, C&C has employed a new Participant Manager to facilitate onboarding new participants into ICS. ICS has a number of interested parties looking to join as direct participants.
- 3.43** Operators have also done work to improve and streamline the onboarding process for joining PSPs. Bacs has developed a new formal onboarding process. It was structured using the experience from the successful onboarding of three direct participants in the 2016/2017 reporting period. It will make the revised onboarding process available to all prospective new onboarders on the Bacs website during Q1 2018.

- 3.44** CHAPS Co conducted a review of the onboarding journey to ensure interested participants can join more quickly. CHAPS direct participants provide 'shepherding/buddying' assistance to support joining PSPs with testing and operations advice. In May 2017, it launched a short CHAPS onboarding video which aims to inform interested parties about joining the scheme. The video is now available on the Bank of England's website and was presented to the CHAPS Service User Group in June 2017. It also developed an 'onboarding toolkit' – a secure web portal which contains all its onboarding requirements. The portal contains live plans, testing requirements, guides and scheme documents to assist onboarding PSPs. It can be accessed by the Bank of England and the new joiner's allocated shepherd bank. Therefore, the joiner can see all the events throughout the process. The portal has been welcomed by the 2017 onboarders as it increased efficiency and made the CHAPS onboarding process transparent.
- 3.45** We welcome operators' work in this area, because providing a clear joining process has been beneficial for recent new participants. We expect that, now the process for onboarding is business-as-usual, operators will refine their engagement over time based on feedback from new joiners. Operators will need to be reactive to any changes to prospective participant business models (for example, the move to cloud computing (see Box 2)), and continue to be flexible in their engagement approach where it is required.

Applications and matters under FSBRA related to indirect access services

- 3.46** During 2017 we received our first application under section 57 of FSBRA, which gives us the power to vary the terms of agreements relating to access to payment systems. In its application, a PSP asked us to use our powers to vary the agreement it has with its IAP. The IAP decided to terminate its access agreement with the PSP.
- 3.47** We took the decision to proceed to a detailed assessment of the application, during which we collected and analysed evidence and information from both parties. Prior to the need for a determination both parties reached a commercial agreement and the application was withdrawn. On this basis we closed our case on the matter.²⁰
- 3.48** Over 2017 we have had a number of interactions with PSPs and IAPs. We have become aware that there may be scope for improvements in IAP's processes in relation to existing and prospective clients.

Our conclusion

- 3.49** The operators and IAPs have continued to make good progress in lowering the barriers to obtaining good quality direct and indirect access to the interbank payment systems. In turn, this has led to a greater choice of ways to access payment systems than ever before.
- 3.50** We have seen ClearBank enter the IAP market with a new and innovative model, and Starling Bank provide indirect access services for FPS and Bacs. However, we will do more over 2018/19 to understand whether the issues we highlighted in our indirect access market review have been resolved, or whether more could be done.
- 3.51** We also note that there may be scope for improvements in IAP's processes for dealing with existing and prospective clients.

²⁰ See: www.psr.org.uk/psr-publications/news-announcements/psr-receives-first-application-section-57-fsbra

4 Progress against specific 2017 focus areas for access

In our 2017 report we outlined the focus areas for the operators and the IAPs. We review progress against these areas.

Operators

We expected the operators to finish their work in developing access models and solutions supporting aggregators.

We also expected them to be ready to progress applications for direct access for non-bank PSPs. We expected this work to be completed by the end of 2017.

The operators have largely completed their work on their aggregator models.

- Faster Payments has eight technically accredited aggregators, of which three are providing services to direct participants.
- CHAPS has recently gone live with its first direct participant using an aggregator.
- Bacs has introduced an aggregator model but has undertaken further developments that give smaller PSPs a simple and cost effective direct access solution.

All systems are progressing work to enable non-bank PSPs to become direct participants. The first non-bank PSP is expected to go live as a direct participant in 2018.

IAPs

We expected IAPs to progress work to improve the visibility of the voluntary Code of Conduct for indirect access.

The Code administrator, along with the IAPs, has reviewed the code in light of changes such as the implementation of PSD2. In addition, we have seen the Code administrator talk to a number of organisations at conferences and seminars to promote awareness of the Code.

In our 2017 report we noted that there will be a number of changes in the market over 2107 and we may need to review our general and specific directions to take account of these changes. Accordingly, in 2017 we began reviewing General Directions 1 to 6 and Specific Direction 1. We have published a consultation on potential changes to our directions alongside this report.

- 4.1** In our 2017 report we outlined work that operators and IAPs needed to do during 2017. In this chapter, we review the progress against those objectives.

Work for the operators

- 4.2** We expected the operators to finish their work in developing access models and solutions supporting aggregators. We also expected them to be ready to progress applications for direct access for non-bank PSPs, if the Bank of England amended its settlement account policy and necessary legislative changes were made. We expected this work to be completed by the end of 2017. We review below how the operators addressed these issues over 2017.

Aggregators

- 4.3** We have seen take-up on aggregators for onboarding in FPS, and the Bureaux and simplified access models in Bacs. In addition, aggregator models have been used for the first time in CHAPS. This shows that smaller PSPs are now able to choose to directly participate in payment systems using these new methods, which provides greater choice, lower cost and easier access.
- 4.4** We saw the following progress in 2017, but in some cases we expect some operators to continue work over 2018 to ensure that their access requirements enable open access.

Faster Payments

- 4.5** FPS's aggregator arrangements and associated technical accreditation programme have continued to deliver benefits during 2017. This is shown by the number of new participants utilising aggregators to become direct participants, and those expected to join in 2018. In addition, new DCNSP participants are expecting to use aggregators. The number of technically accredited aggregators actively providing services to PSPs is expected to grow over 2018.

Bacs

- 4.6** Bacs launched its accredited aggregator service in January 2017. Under this arrangement, firms can apply to become a Bacs Accredited Aggregator, which enables them to provide their PSP customers with direct technical access to all Bacs services.²¹ We expected to see Bacs start accrediting aggregators in 2017.
- 4.7** Since the launch of its Accredited Aggregator service Bacs has remained ready to take aggregators through accreditation. However, to date no aggregator has produced an aggregator solution. One explanation for this may be that, with the backdrop of Bacs' pre-existing Bacs Approved Bureaux (BAB) model and its new simplified access solution, the aggregator model is less attractive to prospective developers than it is in other systems.
- 4.8** Bacs allows approved third-party suppliers to provide a solution to organisations to allow them to submit their payment instructions directly into the Bacs system. These are the approved bureaux suppliers in the BAB. Over half of the organisations using Bacs make their payments through approved bureaux suppliers. There are hundreds of approved bureaux suppliers. Some of the approved bureaux suppliers also provide aggregator services in FPS.
- 4.9** Organisations submitting payment files through bureaux suppliers will still need sponsorship from a settlement participant. The BAB model is therefore a pre-existing model similar to DCNSPs using a third-party provider for settlement. Given the buoyant market in bureaux suppliers it may be less likely that a supplier would seek to develop a Bacs aggregator product.
- 4.10** Bacs has also recently launched a new simplified access model. The new offering is a more cost-effective direct technical solution for smaller-sized institutions that have relatively low transaction volumes. This solution allows these smaller participants to collect their output through the Payment Services Website (PSW), which can be accessed over the internet at a much lower cost than Bacs's other payment channels. So far one new participant has joined this service, but we understand that there is significant demand from new prospective participants.
- 4.11** Due to Bacs' new simplified access model enabling direct participation – which is lower cost and easier to access – aggregators may be less likely to provide additional solutions that can compete on cost or ease of use. Bacs may see demand in the future if an aggregator wants to provide a full suite of services to its clients, including direct participation in multiple payment systems. Such an aggregator would benefit from being technically accredited and provide services in each payment system.

²¹ www.bacs.co.uk/documentlibrary/bacsaggregatorproposition.pdf

- 4.12** Bacs has agreed that it will ensure the aggregator product remains available for use over 2018. At the end of 2018, Bacs will review the interest it has had in its aggregator model and determine the next steps. We consider offering both the aggregator model at the same time as the new simplified access model to be a positive step forward, providing choice for PSPs. We may consider whether to require Bacs to continue to resource any aggregator products where there is no user demand.

Cheque and credit

- 4.13** C&C is developing a model that will enable aggregators to provide technical access to its new cheque Image Clearing System (ICS).²² We wanted work to continue on implementing the ICS, and to ensure that direct technical access and the use of aggregators is possible in the new system. The ICS now allows for aggregators known as Providers of Participant Services (PPS).
- 4.14** ICS allows two different types of access – direct settlement participation and ‘switch’ participation (for DCNSPs). Both direct and switch participants can join using their own bespoke solutions or through a PPS. The ICS was launched in October 2017. The migration from the paper clearing system to the new ICS system started to be phased from the end of 2017.

CHAPS

- 4.15** As part of the Bank of England’s consultation on the re-development of its real-time gross settlement (RTGS) service, it considered enabling aggregators to provide technical connectivity services to institutions wanting to make CHAPS payments.
- 4.16** CHAPS Co and the Bank engaged with aggregators to discuss their models.²³ The CHAPS rulebook now permits the use of aggregators by smaller direct participants on the basis that they remain fully accountable for the outsourced arrangement and meet the required standards.

Non-Bank PSP Access

- 4.17** Alongside the operators, we have done significant work with the Bank and the FCA to support the work to open up settlement account access for non-bank PSPs. In addition, the operators have reviewed their access requirements and are preparing to onboard non-bank PSPs.
- 4.18** To ensure open access under General Direction 2, we wanted the operators to be ready to progress applications from non-bank PSPs once the Bank had announced settlement account access and the legislative changes were passed. We wanted the operators to make any necessary changes to their rules and processes so they are ready to progress applications without undue delay.
- 4.19** On 19 July 2017, the Bank announced it was extending access to settlement accounts in its RTGS system to non-bank PSPs. In anticipation of this change the Bank, the FCA and the PSR collectively worked with the operators to produce an information guide for those PSPs that are thinking of joining payment systems or extending their existing payment services to their customers.²⁴ The Treasury has also progressed legislation changes to safeguard customers funds appropriately once a non-bank PSP becomes a direct participant in a payment system.
- 4.20** The operators have made varying levels of progress in preparation for non-bank access.

Faster Payments

- 4.21** FPS confirmed that there are no changes needed to its access requirements within its system rules to support non-bank PSPs. FPS is currently drafting the necessary legal documentation to enable it to accept non-bank PSPs as direct participants. FPS was not legally able to onboard non-bank PSPs at the end of 2017, as necessary changes to the law only took effect in the Payment Service Regulations, 2017²⁵, and amendments to the Settlement Finality Regulations.²⁶

²² C&CCCL 2016 compliance report – GD2 section A [Update]

²³ CHAPS Co 2016 compliance report – GD2 section D [Update]

²⁴ See: www.bankofengland.co.uk/-/media/boe/files/markets/other-market-operations/accessfornonbankpaymentserviceproviders.pdf?la=en&hash=19DEFEB783364B8B79245628043B69FC1DB8B0FE

²⁵ See: www.legislation.gov.uk/uksi/2017/752/pdfs/ukxi_20170752_en.pdf

²⁶ See: www.legislation.gov.uk/uksi/2017/1173/pdfs/ukxi_20171173_en.pdf

4.22 FPS has split its work on the legal documentation into two streams – the first will complete the work required for non-bank PSP participants to prefund settlement with ‘own funds’ ahead of the first 2018 onboarding. The second will do the work required for non-bank PSPs to prefund settlement using ‘client funds’ which should be completed by autumn 2018. FPS is working through changes to those agreements, ahead of onboarding its first non-bank PSPs in 2018. FPS is in close dialogue with the RTGS area of the Bank on this work.

4.23 Two onboarding slots have been allocated to non-bank PSPs in 2018 so far. While FPS has yet to fully meet the expectation we placed on it, onboarding of non-bank PSPs remains a clear priority and none of the delay has impacted the timeline for the first onboarder.

Bacs

4.24 Similar to the progress made in FPS, Bacs has continued discussions with the RTGS area of the Bank. It is reviewing all its legal documentation to ensure that any required changes will be in place before the first non-bank PSP onboarding, currently expected to be in 2018. Bacs is also splitting its work on legal documentation into two streams, focusing separately on PSP participants using ‘own funds’ to prefund settlement and those using ‘client funds’ to prefund settlement.

4.25 Bacs was not fully ready to onboard non-bank PSPs at the end of 2017, so it also has yet to fully meet the expectation we placed on it. We again expect it to prioritise the remaining work for early 2018, so that it is ready to onboard any non-bank PSP that meets its and the Bank’s criteria.

4.26 One onboarding slot has been allocated to a non-bank PSP in 2018 so far. None of the delay has impacted the timeline for the first onboarder.

Cheque and Credit

4.27 C&C has been developing the new ICS which provides a platform for flexible, fair and open access. Its access criteria have been developed with regard to the future structure of the payments industry. With this in mind the ICS enables access by non-bank PSPs. Currently we understand that no non-bank PSP has issued a letter of intent to join the ICS system.

CHAPS

4.28 In May 2017, CHAPS Co launched a project to review access criteria to CHAPS to ensure it is ready to include non-bank PSPs. This included a review of the onboarding process, risk operations and legal requirements. Subsequently, it amended its access criteria to reflect the Bank’s change to account access. CHAPS Co also enhanced its risk assessment process to factor in risks relating to non-bank PSPs’ anticipated profiles (including, for example, new technology and safeguarding).

4.29 CHAPS Co also engaged with several non-banks PSPs that have expressed an interest in direct participation in CHAPS.

Summary

4.30 It has been good to see progress made on non-bank PSP work. The Bank opening up access to settlement accounts, with supporting legislation, has allowed operators to open up access to allow non-bank PSPs to become direct participants. The work that the authorities and operators have undertaken in preparing guidance for non-bank PSPs has also been very positive and sits well alongside the other cross-system guides on access.

4.31 While the operators have not fully met our expectations of them, for various reasons including the changes implemented in legislation, none of the delays have impacted on the timelines for PSPs onboarding in the relevant systems. We still expect the operators to prioritise the outstanding prefunding changes in 2018. This will mean that they can give PSPs certainty that they are eligible for direct participation, and can share all the relevant updated prefunding documentation, with prospective participants so they can make an informed choice about which form of access is right for them.

- 4.32** Operators need to be flexible in their approach to the different cohorts of prospective participants, through different legal agreements and assurance processes appropriate to the regulatory status of the PSP. Our expectation is that developments in the market such as PSPs’ business models will be reflected in changes to rules, legal documents and processes. For example the assurance practices and risk tolerances around cloud computing (see Box 2), the changes to rules and legal documents associated with non-bank PSP access, and changes in participation through ring-fencing (see Box 1).

Box 2
Cloud computing

PSPs that have recently entered the payments market have often looked at innovative ways of launching their product while minimising the associated costs. One way is utilising cloud computing. We understand that many newly authorised banks that have recently become participants in payment systems are using cloud computing.

Cloud computing is the delivery of computing services over the internet, including data storage, software, networks and more. Many consumers in the UK already use cloud services – for example, smartphones are often backed up in the cloud, and when replacing handsets the applications and data stored in the cloud are automatically downloaded to the new phone.

Cloud computing has lowered the cost and complexity that new PSPs face when designing, building and launching their products. PSPs can concentrate on their products without the additional burden of running the infrastructure that sits behind those products, instead outsourcing this to a cloud computing provider. It is similar to a company designing and operating its web site and paying a fee for a company to host that website.

Cloud computing involves using third-party providers who host a number of different services and products for other firms. The operators, as risk managers of their systems, need to understand the risk that new direct participants using cloud computing would present to their system. Each operator has reviewed the risks and where necessary, has changed its processes accordingly, mostly based on the assurance that the PSPs manage the risks associated with the cloud. If PSPs can satisfy the operators that they understand and manage these risks, then they are eligible for direct participation.

We expect the operators to continually review and understand the different business models and technologies used by PSPs wanting to be direct participants, and to evolve their access requirements, if necessary so there are no unforeseen barriers to new, innovative PSPs getting access.

Work for IAPs

- 4.33** We expected the IAPs to reflect on feedback about the visibility and impact of the voluntary Code of Conduct (the Code) that they developed, and to consider what work they could do to improve PSPs’ awareness of and confidence in the Code. We also expected the IAPs to address a number of quality-related issues affecting PSPs who choose indirect access.

4.34 In order to address these focus areas over 2017:

- The Code administrators promoted the Code among many PSP constituencies – for example, giving a presentation at the Association of Foreign Banks and attending many payments conferences.
- The Code administrators and IAPs who subscribe to the Code reviewed and made changes to the Code, which will be implemented shortly. These changes reflect the introduction of PSD2, clarify some lessons learned, and also add ClearBank as a Code subscriber.

4.35 We are therefore content that progress has been made in promoting the Code and building confidence in it.

4.36 When we concluded our market review into indirect access in July 2016²⁷, we found that:

- Large indirect PSPs (IPSPs) had a number of options to access payment systems.
- There was a reasonable level of satisfaction with the quality of access.
- There was not an overall concern with the price of indirect access.
- There appeared to be innovation and investment in new and improved service offerings.

4.37 However, we also had concerns that smaller IPSPs may have a more limited choice and could find it difficult to get alternative supply. As a result, they may be less satisfied with their indirect access supply.

4.38 IPSPs experienced a number of quality-related issues with indirect access at the time. The issues mainly related to the quality and availability of technical access to FPS. IPSPs in all categories faced barriers to switching.

4.39 We expected that the market would find solutions to these issues. We have seen new IAPs setting up with differentiated indirect access products. In addition, the Code was set up and has been reviewed regularly. Progress has been made but it is not yet apparent whether some issues remain.

4.40 We have been told informally that there are still a number of issues with the way in which some IAPs deal with prospective indirect customers and, in some cases, existing customers. We have also been made aware that switching providers can be a difficult and costly exercise.

4.41 As a result of our role as a competent authority under PSD2 we may in practice get access to more information and data relating to the supply of indirect access. Using this information in part, we hope to understand better whether there are any remaining issues with indirect supply.

Review of General Directions 1 to 6 and Specific Direction 1

4.42 In our 2017 report we noted that we expected there to be a number of changes in the market, including from the implementation of PSD2. There has also subsequently been the formation of the NPSO and CHAPS being delivered by the Bank of England.²⁸ We noted that we may need to review our general and specific directions to take account of these changes.

4.43 In 2017 we began reviewing General Directions 1 to 6 and Specific Direction 1. We have seen real benefits flow from our directions and we do not think we need to revise our approach radically. However, we want to ensure that our directions remain relevant and proportionate, and tailor our requirements to market realities and expected future developments. We have published a consultation on potential changes to our directions alongside this report.

²⁷ www.psr.org.uk/sites/default/files/media/PDF/MR1513-indirect-access-market-review-final-report.pdf

²⁸ Payments Strategy Forum, *A Payments Strategy for the 21st Century* (November 2016): www.consultation.paymentsforum.uk/final-strategy

Our conclusion

- 4.44** We expect the operators to prioritise the changes they need to make to onboard non-bank PSPs. We expect to see the first non-bank PSP obtaining direct access in 2018. We also expect to see the first new DCNSPs joining the systems over 2018.
- 4.45** We expect the operators to continue their work on onboarding new direct participants. The operators should also look to enhance models where required in order to lower barriers to direct access and to provide PSPs with cost-effective methods to become direct participants in a timely manner.
- 4.46** We expect IAPs to continue to work to improve the visibility and impact of their Code of Conduct, to consider what could improve PSPs' awareness of, and confidence in, the Code. We also expect the IAPs to continue to address quality-related issues affecting PSPs who choose indirect access.

5 Changes in payments and their potential impact

Over 2017 and 2018 a number of changes have been or are being made to the payments landscape. These can affect our work on access and governance.

On 13 November 2017, the Bank of England acquired CHAPS Co and took over as the operator of the CHAPS system. We have no powers to regulate the Bank of England in relation to the operation of a payment system, as an infrastructure provider, or as a participant PSP in any system. Therefore the operator of CHAPS is no longer within our regulatory scope. However, we still have a regulatory remit including the PSPs who are CHAPS participants, and this remains important for our work in relation to the provision of indirect access.

Over 2018 the consolidation of the operators of Faster Payments, Bacs and C&C (including ICS) will take place. This follows publication of the Payments Strategy Forum's (the Forum's) strategy for collaborative innovation in payments, including the simplification of access in order to promote competition. The Forum proposed creating the New Payment System Operator (NPSO) which will consolidate the operators of the three main UK retail payment systems.

The second EU payment services directive (PSD2) entered into force in the UK on 13 January 2018 by way of the Payment Services Regulations 2017 (PSRs 2017). The PSRs 2017 sets out the role, powers and competences of the competent authorities in the UK (the PSR and the FCA). The introduction of this new legislation gives us powers that broadly replace certain powers we previously held under FSBRA, particularly in relation to indirect access.

- 5.1** There are various structural changes happening within the payments industry that will affect the work we and the operators do on access and governance. The biggest impacts are expected to come from the change to the delivery of CHAPS, the formation of the NPSO, and the implementation of PSD2 in January of this year. Our work will also be affected by our own review of our Directions, which we are consulting on alongside this report. For this reason we are not setting new focus areas over 2018, but instead expect operators to continue the work that they have been doing. We provide a high level outline of the changes and the impact they have on our access and governance work below.

Bank of England direct delivery of CHAPS

- 5.2** On 13 November 2017, the Bank of England acquired CHAPS Co and took over as the operator of the CHAPS system. The basis for this decision was the improved financial stability of having the system operator and infrastructure provider within the same organisation. It is common internationally for the central bank to run the national high value payment system.
- 5.3** We have no regulatory powers in relation to the Bank as the operator of a payment system, as an infrastructure provider, or as a participant (PSP) in any system.²⁹ Therefore the operator of CHAPS is no longer within our regulatory scope. However, we still regulate the PSPs who are CHAPS participants, and this remains important for our work in relation to the provision of indirect access.
- 5.4** While the Bank is outside our remit, we have agreed to work together on areas of common interest. We have worked well on previous projects such as access for non-bank PSPs, and our continued close working relationship benefits payment system service-users as a whole.
- 5.5** One area of focus for the Bank has been to reduce the time and complexity of gaining access to CHAPS when the Bank launches its new RTGS service. We welcome this work, as there is a limit to the number of new direct participants that can be onboarded at any one time. A faster process will reduce delays if there is a backlog of participants waiting to join, and will reduce the burden on existing direct participants when a new participant joins.

²⁹ s.42(8) FSBRA

Formation of the NPSO

- 5.6** Over 2018 the payments landscape will change through the consolidation of the operators of FPS, Bacs and C&C (including ICS). This follows publication of the Payments Strategy Forum's (the Forum's) strategy for collaborative innovation in payments, including the simplification of access in order to promote competition.
- 5.7** Through engagement with the payments community, the Forum concluded that gaining and maintaining access to multiple payment systems is unnecessarily convoluted and costly for PSPs. To address this, and in order to support the delivery of other aspects of its strategy, the Forum proposed creating the NPSO, which would consolidate the operators of the three main UK retail payment systems.
- 5.8** Following this, working with the Bank we decided to set up a PSO Delivery Group (PSODG) to make recommendations on key characteristics of the NPSO. As part of this the PSODG identified six strategic objectives that the NPSO should adhere to in all of its actions.³⁰ One of these focuses on access, specifically 'promoting competition by supporting new entrants through comprehensive and consistent application and onboarding processes'. In order to achieve this, the PSODG recommended that the NPSO should:
- Manage well-defined and easy-to-understand standards and rules for access to the payment systems for which it is responsible.
 - Ensure its participation criteria, technology requirements, rules and procedures and assurance requirements achieve the right balance between:
 - making access simple enough to encourage competition and new entrants
 - maintaining its underlying financial stability duties, and the integrity and rigour of access controls and management in place for existing participants
 - Provide effective support to those considering and/or progressing new participant status.
 - Collaborate with all in the payments ecosystem who are seeking to innovate and develop payments services and businesses in the UK.
 - Ensure its systems are designed to facilitate interoperability with global payment and currency exchange systems.
- 5.9** At the time of writing this report, the NPSO is in the process of completing the consolidation. Successful formation of the NPSO should help to address the problems with access that the Forum originally identified.
- 5.10** In January 2018 the PSR published an open letter³¹ to the NPSO, setting out our initial priorities for the NPSO. This included asking it to consider how it will implement these strategic objectives through its governance and decision-making processes. A key access-related area for consideration is how it will embed its objective for accessibility into the payment system rulebooks, and how it will refer back to its full range of strategic objectives when developing and amending rules. This applies both for the existing payments systems, but also for the development of the New Payments Architecture (NPA).
- 5.11** The NPSO will automatically need to meet the range of requirements that apply to the operators of the existing systems. It will be required to comply with our existing directions at the point it takes on operation of the various payment systems, including General Direction 2 on access to interbank payment systems.

³⁰ www.psr.org.uk/sites/default/files/media/PDF/PSODG-Report-2017.pdf

³¹ See: www.psr.org.uk/psr-publications/news-announcements/PSR-open-letter-NPSO

PSD2

- 5.12** The second EU payment services directive (PSD2) entered into force in the UK on 13 January 2018 by way of the Payment Services Regulations 2017 (PSRs 2017). The PSRs 2017 set out the role, powers and competences of the competent authorities in the UK (the PSR and the FCA). The introduction of this new legislation gives us powers that broadly replace certain powers we previously held under FSBRA, particularly in relation to indirect access. We have published new guidance on our approach to monitoring compliance with, and enforcing PSD2.³²

Box 3 The scope of our powers under PSD2

We are now responsible for monitoring compliance with Part 8 (Access to payment systems and bank accounts) of the PSRs 2017, and for taking enforcement action where appropriate.

Part 8 comprises Regulations 102 to 105. Both the PSR and the FCA have been appointed as competent authorities for monitoring and enforcing compliance with Regulation 105 (Access to payment account services).

Regulation 103 concerns the rules or conditions that payment system operators set for PSPs to access their systems. Regulation 103 contains five essential requirements for relevant systems' access rules or conditions:

- They must be proportionate, objective and non-discriminatory (POND).
- They must not prevent, restrict or inhibit access more than is necessary to safeguard against specific risks or protect the stability of the payment system.
- They must not restrict effective participation in other payment systems.
- They must not discriminate (directly or indirectly) between different authorised or different registered PSPs in relation to the rights, obligations or entitlements of participants in the payment systems.
- They must not impose restrictions on the basis of institutional status

Regulation 104 covers the way in which participants in the EU Settlement Finality Directive (SFD) designated payment systems treat requests for indirect access from other authorised or registered PSPs.³³ Under this regulation, requests for access include new applications and decisions on existing service provision (i.e. variation and withdrawal of access). Participants are also required to provide full reasons to a PSP if they refuse or withdraw indirect access.

Regulation 104 contains three essential requirements concerning relevant systems' indirect access rules or conditions:

- They must be POND. If an IAP decides not to grant access when requested, or to withdraw access, it must provide full reasons to the indirect PSP (IPSP).³⁴
- They must not prevent, restrict or inhibit access to or participation in the system more than is necessary to safeguard against specific risks or to protect the financial and operational stability of their business or the payment system.
- They must not discriminate, whether directly or indirectly, between different authorised PSPs or different registered PSPs in relation to their rights, obligations or entitlements in relation to access or participation in the system, or impose any restrictions on the basis of the institutional status of a PSP.

³² www.psr.org.uk/psr-publications/policy-statements/Payment-Services-Regs-2017-our-final-approach

³³ Please see definition of PSPs to which this provision applies in paragraph 2.42.

³⁴ Regulation 104(3)

Regulation 105 concerns access to payment account services by PSPs (bank accounts).

Regulation 105 contains four essential requirements for relevant credit institutions to apply when considering whether to provide a PSP with payment account services:

- They must grant PSPs access to payment account services on a POND basis.
- They must provide PSPs that enquire about access to payment account services with the criteria that the credit institution applies when considering requests for such access.
- They must ensure that, where access is provided, it is sufficiently extensive to allow the PSP to provide payment services in an unhindered and efficient manner.
- They must notify the FCA of the reasons where access is refused or withdrawn.

Under Regulation 105(3) PSRs 2017, the FCA will share such notifications with us. There is no requirement under Regulation 105 for credit institutions to provide the reasons to the PSP or prospective PSP. However, we expect that in practice credit institutions will tell the PSP or prospective PSP their decision unless it is unlawful to do so.

As co-competent authorities, decision on whether the PSR, FCA or both regulators should investigate and take action in relation to potential 105 infringements will be made on a case-by-case basis.

Schedule 8, paragraph 5 of the PSRs 2017 amends section 108 of FSBRA. The amended section 108 prohibits us from exercising our FSBRA powers³⁵ to enable a person to get or maintain access to a payment system if Regulation 103 or 104 of the PSRs 2017 apply to that person's access arrangements. Consequently, if a payment system is covered by the PSRs 2017 we will use our powers under those regulations to monitor and enforce its compliance with their access provisions.

We have powers under section 56 of FSBRA to grant PSPs access to certain regulated payment systems. We also have powers under section 57 FSBRA to vary the terms of agreements for access to certain regulated payment systems. We may use our FSBRA powers to consider applications for access to FSBRA regulated systems that are not in scope of the PSRs 2017.

5.13 Therefore:

- We will use our PSRs 2017 powers to monitor and enforce compliance by LINK, Visa, Mastercard, JCB, Diners, CUP and Amex with the access obligations set out in Regulation 103 of the PSRs 2017.
- We will use our PSRs 2017 powers to monitor and enforce compliance by direct participants offering indirect access (sponsorship services) to Bacs, FPS and CHAPS as set out in Regulation 104 of the PSRs 2017.
- We will use our FSBRA powers to consider applications for direct access to payment systems designated under both FSBRA and the EU Settlement Finality Directive (SFD), which are Bacs, C&C, FPS and Northern Ireland Cheque Clearing (NICC) (FSBRA designated systems).

5.14 Credit unions are not regulated under the PSRs 2017. Likewise C&C is not regulated under the PSRs 2017. Therefore we will consider any access application or requirement related to a credit union or to C&C under the FSBRA access regime.

35 We have powers under section 56 of FSBRA to grant PSPs access to certain regulated payment systems. We also have powers under section 57 FSBRA to vary the terms of agreements for access to certain regulated payment systems. See our consultation paper CP16/4, *Our approach to handling applications under sections 56 and 57 FSBRA* (July 2016): www.psr.org.uk/psr-publications/consultations/PSR-CP164-handling-applications-under-s56-s57

5.15 Table 1 summarises which payment systems are covered by which powers for direct and indirect access:

Table 1: Our access powers over payment systems

	PSRs 2017	FSBRA sections 56 and 57
Direct access	Regulation 103: Visa, Mastercard, LINK, JCB, Diners, CUP, Amex	Bacs, FPS, C&C, NICC
Indirect access	Regulation 103: Visa, Mastercard, LINK, JCB, Diners, CUP, Amex Regulation 104: Bacs, FPS, CHAPS	C&C, NICC

Our conclusion

5.16 Changes have happened, and are happening, in the payments market, such as the formation of the NPSO, the direct delivery of CHAPS by the Bank of England, and the implementation of PSD2. We are consulting on changes to our Directions in light of these changes and our experiences over the last three years. The changes to these directions may shape the way we communicate on developments with access and governance in the future, including the format of this annual report.

6 Developments in governance requirements over 2017

One of our statutory objectives is to promote the interests of those who use, or are likely to use, services provided by payment systems. Therefore taking into account the views of service-users in the governance of payment system operators is a key priority for us.

The operators of Bacs, CHAPS, C&C, Faster Payments and LINK must ensure there is appropriate representation of service-users in the decision-making processes of their governing bodies (General Direction 4).

Operators are also subject to requirements regarding the publication of minutes of their governing bodies (General Direction 6).

We want operators to ensure that their governance structure supports engagement with service-users and appropriate representation of service-users' interests and views in decision-making.

Over 2017 we have seen positive developments in engaging service-users being taken forward.

We found that:

- Operators have continued to engage with service-users on aspects of their existing service offerings and plans for new services.
- Operators have engaged with the work of the Payments Strategy Forum (the Forum), which included a user-needs work stream.
- Some operators have carried out research and surveys of particular groups of users to understand their needs better.

Some operators have carried out research and surveys of particular groups of users to understand their needs better.

However, through our ongoing monitoring of the effectiveness of General Direction 4, we have identified that we may need to consider whether this is working as well as it could. In some instances we question how well operators are taking account of service-users' needs, interests and views in their decision-making, and whether they could do more to promote a culture of being oriented toward and responsive to their service-users.

We also took our first enforcement action on governance in 2017, when we issued a public censure against C&C for breaches of General Direction 6.

Background

- 6.1** One of our statutory objectives is to promote the interests of those who use, or are likely to use, services provided by payment systems. Therefore taking into account the views of service-users in the governance of payment system operators is a key priority for us.
- 6.2** To achieve our objective, in 2015 we issued General Direction 4. This directs the interbank payment systems (Bacs, CHAPS, C&C, FPS and LINK) to ensure they represent service-users appropriately in their decision-making processes.

- 6.3 We define service-users as including both PSPs and customers of PSPs, including (but not exclusively) government departments, businesses (of all sizes), charities and individual consumers. Each payment system will have a variety of users that use its products and services. It is important that the operators research and understand the composition of their cohorts of users in order to be able to structure user engagement and consultations appropriately.
- 6.4 We want operators to ensure that their governance structure supports engagement with service-users and appropriate representation of service-users’ interests and views in decision-making – through the setup of governing bodies and internal processes, and through every stage of decision-making processes (before, during and after a decision is made). This is illustrated in Figure 4.
- 6.5 In the case of a change led by an operator, this means it should consult service-users before making a decision; consider their views when making the decision; and report decisions made and reasons for those decisions.
- 6.6 Similarly, in the case of service-user requests for change, the process should cover the logging of these requests, their internal handling and consideration, and then appropriately reporting back whether the request has been granted or rejected and the reasons for this decision. Figure 5 presents channels for incorporating service-users’ voices in decision-making.
- 6.7 General Direction 6 further contributes to our service-user objective. By requiring the interbank payment systems to publish the minutes of their governing bodies as soon as reasonably practicable, service-users are able to monitor and understand the decisions that have been taken in relation to the payment systems they rely on.

Figure 4: Incorporating service-users’ voices in decision-making

Representing service-users' views

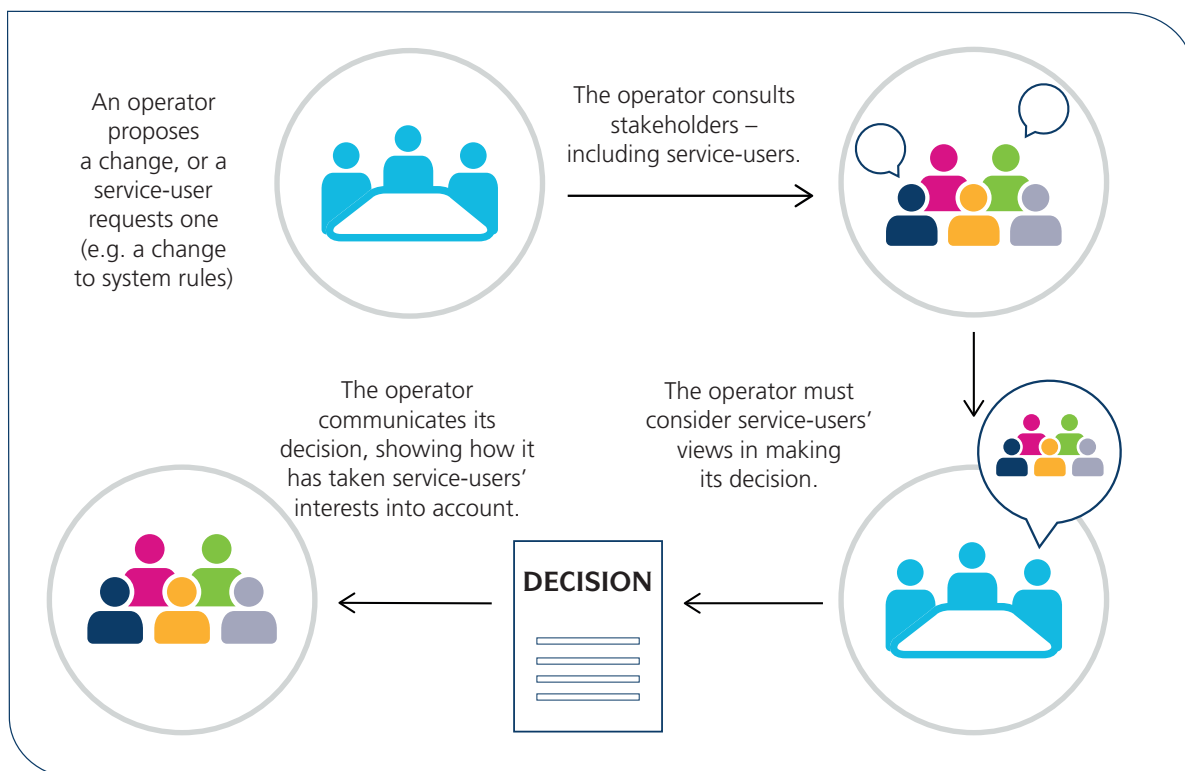
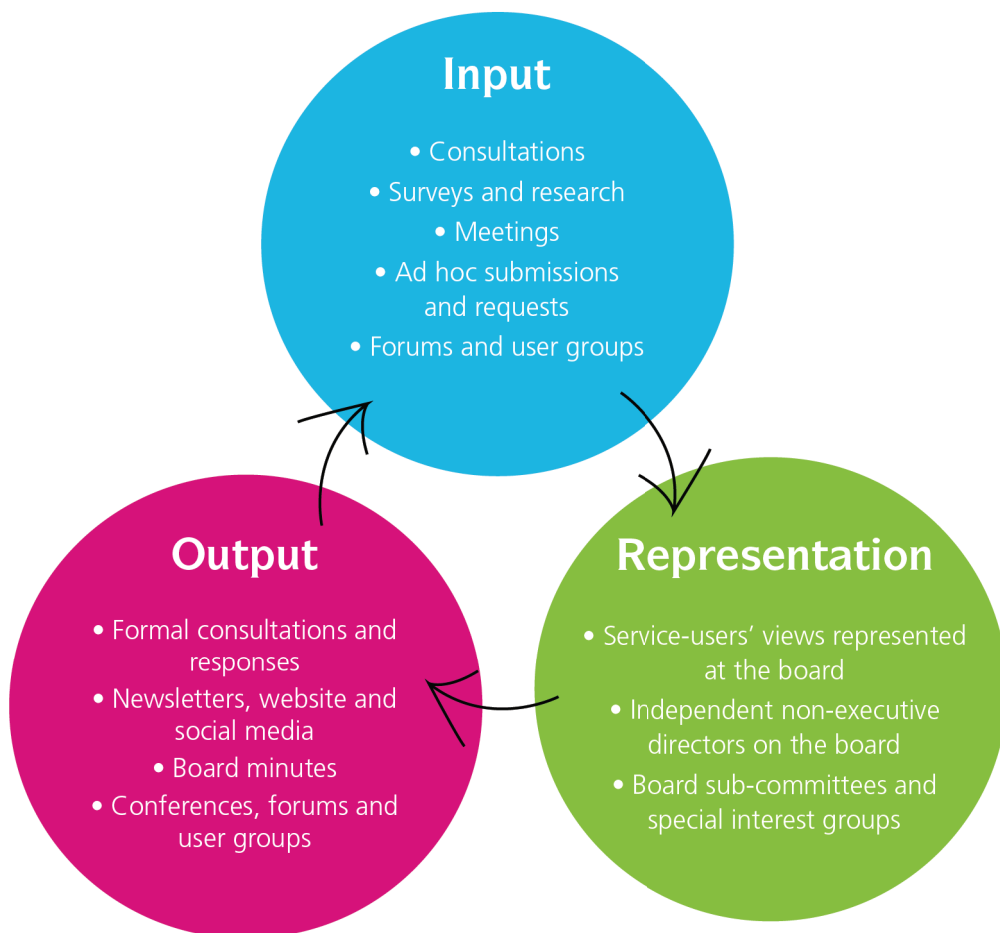


Figure 5: Channels for incorporating service-users' voices in decision-making



Progress and new developments

6.8 Over 2017, operators have been engaging with their service-users in order to understand their opinions and views, and incorporating them in their decision making. Some operators have made changes to their governance structure to better reflect recent changes, such as the implementation of ICS for cheques. Other operators, such as Bacs have undertaken consultations with service-users on the future of their products, and others have undertaken specific research. We look at these developments below.

The Payments Strategy Forum

6.9 Some operators have engaged with the Forum's work on service-users and their views, in particular the work on three end-user needs solutions: Request to Pay³⁶, Assurance Data and Enhanced Data. The Forum identified these after extensive interaction with the wider payments community. The ownership of these initiatives, including their rules and requirements, has been transferred to the NPSO, which is also responsible for developing the technical specifications.

6.10 When BPSL, FPSL and C&CCCL consolidate into the NPSO in 2018, changes to existing governance arrangements will occur. We have outlined in our open letter to the NPSO that we want the NPSO to ensure they have effective stakeholder engagement and that transparency and accountability will be vital to the NPSO's success.

6.11 The NPSO has set up two user forums in order to advise and make recommendations to the NPSO board.

- The End User Advisory Council (EUAC) will advise the board on end user matters and the public good in payments. The EUAC is expected to build on the good work achieved by the Forum's wide engagement with the users of payments.
- The Participant council, a second independent Council to represent all the groups of participants in the systems, by advising, commenting and making recommendations to the board on matters which are non-competitive, collaborative, and of current and future significance to participants in relation to NPSO activities.

Changes to governance structure

6.12 Some operators made changes to their governance structure to better reflect their areas of business.

- In light of the implementation of the ICS, C&CCCL has set up an interim governance model that supports both paper cheque clearing and ICS. This will be effective until the NPSO assumes control.
- Following the outcome of the Competition and Markets Authority's (CMA's) retail banking market investigation, BPSL has made some structural changes to the governance of the Current Account Switch Service (CASS). These include creating a new CASS Executive Committee that comprises three independent members, including the chair.
- Responsibility for the CHAPS service transferred from CHAPS Co to the Bank of England in November 2017. This saw the shareholding requirement removed for direct participants, and direct participants no longer nominate directors to the governing body. The Bank has committed to continuing to give an appropriate voice to users.

³⁶ FPS had previously conducted work on request to pay and shared this work with the Forum. Their publications on request to pay and the economics of request to pay are available at: www.fasterpayments.org.uk/industry-news/request-payment

Process for service-user engagement

- 6.13** We have seen some changes in the way that operators deal with information gained from service-users. Examples include changes that FPS implemented in 2017, and at C&C during the ICS project.
- 6.14** After formalising its service-user strategy in 2016, FPS set up a team within the organisation to be the first point of contact for service-users. It uses the feedback it receives in its product and service development. The feedback will be taken to the appropriate committee and board meetings.
- 6.15** In November 2017 FPS published a paper on how it engages with service-users, *Putting principle into action – harnessing engagement to deliver for Service-Users*.³⁷ In the paper, case studies of its service-user engagement processes in three recent projects are presented. FPS has announced that this will become an annual review of its engagement with service-users.
- 6.16** C&C undertook a series of user forum meetings around the country to inform stakeholders of the development and changes arising from the move to the ICS. C&C also increased their tracking amongst consumers, businesses and charities from half-yearly to quarterly from the end of 2016.

Call for input on changes to services

- 6.17** In August 2017, Bacs issued a second call for input on Direct Debit, asking the public for thoughts on four concepts that were based on input from its 2016 consultation. Bacs reports that the findings were presented to the Bacs Board and used to inform product development decisions.
- 6.18** C&C has also conducted consultations this year on various issues, including the ICS participant documentation and manual. Following the conclusion of the consultation, C&C considered each response and amended documents, or responded where no changes were made. The C&C board approved the documentation and manual in June 2017.
- 6.19** For CHAPS, the revised CHAPS Reference Manual and participant assurance framework was launched after extensive consultation with direct participants. More broadly, the Bank of England's RTGS renewal programme consulted on the long term strategy for the RTGS infrastructure which underpins CHAPS settlement and key aspects of the CHAPS offering such as the future messaging standard.
- 6.20** We encourage the use of public consultations and calls for input, as it is a transparent way of consulting existing and potential service-users on changes to services. Transparent feedback on the results of the consultation, final decisions and the reasons for them is also important. We have seen some evidence of this, (for example Bacs published its Direct Debit consultation outcomes in May 2017). However, there are some occasions, where the results of public consultations are less transparent – for example, the consulting body has not published response summaries, or any detail on changes stemming from the consultation. Where consultations are discussed by decision-making bodies, minutes of those meetings can be heavily redacted, which again lacks some transparency. This could be improved.

³⁷ See www.fasterpayments.org.uk/service-users

Research on service-users

- 6.21** Some operators have actively taken steps to understand their users' needs through research and surveys of particular user groups.
- 6.22** Bacs has conducted market research to ensure it understands the needs of its service-users, and can reflect those needs in its product development. More specifically, it has:
- researched consumers' attitude to and use of Direct Debit
 - conducted a survey focusing on Small and Medium Sized Enterprises (SME's) use of Direct Debit
 - researched perceptions of and problems related to the use of CASS
- 6.23** In June 2017, the poverty charity Toynbee Hall published the findings of a research project commissioned by C&C.³⁸ The aim of the project was to explore the ICS's impact on low income, excluded and vulnerable consumers and sole traders. We would like to see further initiatives and enhancements intended to improve operators' understanding and knowledge of their service-users and their needs.

Consistency and Culture

- 6.24** While we have seen positive evidence of operators engaging with service-users, examples such as the research C&C carried out and the consultation Bacs undertook do not yet appear to be embedded as business-as-usual activities, nor are these examples consistent across the systems. Broadly, we question how well operators are taking account of service-users' needs, interests and views in their decision-making, and whether they could do more to promote a culture of being oriented around and responsive to their service-users.

General Direction 6 compliance failure

- 6.25** On 10 August 2017 we published our decision notice setting out the details of a General Direction 6 compliance failure by C&C. C&C breached General Direction 6.1 by failing to publish its board minutes for a number of different meetings during 2016 as soon as reasonably practicable after each relevant meeting. It also breached General Direction 6.3(b) by failing to provide us with a link to relevant board minutes on C&C's website.
- 6.26** We concluded that issuing a public censure against C&C was a suitable sanction in this particular case and did not impose any additional penalty. Further details are set out in our Decision Notice.³⁹ We will continue to monitor operators' compliance with our Directions around both access and governance.

Our conclusion

- 6.27** Operators have continued to engage with service-users on aspects of their existing service offerings and plans for new services. Some operators, however, could have done more to take into account the views of service-users.
- 6.28** We think initiatives that increase transparency and inform service-users on how to engage are contributing to improving service-user engagement. However, we also question how well operators are taking account of service-users' needs, interests and views in their decision-making.

³⁸ See www.toynbeehall.org.uk/data/files/Research_and_Evaluation/Cheques_and_Balances_Report_full_report_FINAL.pdf

³⁹ www.psr.org.uk/how-psr-regulates/decision-making-committees-decision-notice-c-and-ccc

Glossary

Term or acronym	Description
agency IPSP	An indirect PSP which has its own sort code provided by its Indirect Access Provider.
aggregator	An organisation providing technical access to a payment system's central infrastructure through a shared gateway.
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).
the Bank	The Bank of England.
Bank of England settlement account	A settlement account in central bank money.
Bureaux model (also Bacs Accredited Bureaux Scheme)	A model where Bacs accredits technical suppliers that can provide services to submit payment files directly into the central infrastructure, rather than through a sponsor bank.
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).
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 the Bank of England (previously CHAPS Co).
Current Account Switching Service (CASS)	The service that switches existing payment arrangements such as direct debits and standing orders between current accounts in order to facilitate customers being able to more easily switch between current account providers.
direct access	A PSP has direct access to a payment system if the PSP is able to provide services for the purposes of enabling the transfer of funds using the payment system as a result of arrangements made between the PSP and the operator.
Direct Debit	The Bacs scheme for collecting pre-authorised debits on the payer's account, which are initiated by the payee.
Directly Connected Non-Settling Participant (DCNSP)	A PSP who is directly connected to the payment clearing infrastructure but who settles its obligations via a sponsor PSP or IAP that holds an account at the Bank of England.
Direct Participant (also Directly Connected Settling Participant (DCSP))	A PSP who is directly connected to the payment clearing infrastructure and who also settles its obligations from its account held at the Bank of England.

Term or acronym	Description
direct technical access	A technical solution that directly connects a PSP (or other authorised user) with the central infrastructure of a payment system.
e-money institutions	A PSP authorised under the E-Money Regulations 2011.
FCA	Financial Conduct Authority.
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.
General Directions	The general directions issued by the PSR under section 54 FSBRA, and www.psr.org.uk/how-psr-regulates/regulatory-framework-and-approach/general-directions , as amended from time to time.
Image Clearing System (ICS)	The new system developed by C&CCCL that requires cheques to be imaged prior to clearing and settlement. This replaces the paper clearing system where paper cheques are exchanged.
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.
LINK	The regulated payment system which enables end users to take cash out of their accounts (among other activities) using the network of ATMs in the UK. It is operated by LINK Scheme.
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.
Mastercard	The regulated payment system supporting payments made by cards and operated by Mastercard Inc.
non-agency IPSP	An indirect PSP which does not have its own unique sort code.

Term or acronym	Description
non-bank PSP	A PSP that does not hold a banking licence, typically either a e-money institution or a payment institution.
non-ring-fenced bank (NRFB)	A bank that is part of a banking group which is subject to ring-fencing but does not itself accept core deposits and so is not a ring-fenced bank.
New Payment System Operator (NPSO)	The entity set up to consolidate BPSL (Bacs); FPSL (Faster Payments) and C&CCCL (Cheque and credit).
operator (payment system operator)	In relation to a payment system, any person with responsibility under a payment system for managing or operating it; any reference to the operation of a payment system includes a reference to its management.
payment institutions	A PSP authorised under the Payment Service Regulations (PSRs) 2017.
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 (also known as 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.
Payment Services Regulations 2017 (also known as PSRs 2017)	The Payment Services Regulations 2017 which implements the Second Payment Services Directive, PSD2.
PRA	Prudential Regulation Authority.
PSD2 (Second EU Payment Services Directive)	Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC, published in the Official Journal of the EU on 23 December 2015.
ring-fenced bank (RFB)	A bank, that is a ring-fenced body under section 142A of the Financial Services and Markets Act 2000, that accepts core deposits and is subject to the requirements of ring-fencing legislation as a result of being part of a banking group with more than £25bn of core deposits.
Simplified Access Option	A Bacs direct access model for small and medium sized PSPs that allows them to access the system utilising a web service rather than a direct technical connection.
Specific Direction 1 (also referred to as the 'Sponsor Bank Information Direction')	'Specific Direction 1 (Access: sponsor Banks)' – a direction published by the PSR on 25 March 2015, in force from 30 June 2015, and accessible at www.psr.org.uk/psr-specific-direction-1 .

Term or acronym	Description
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.
Visa	The regulated payment systems supporting payments made by cards and operated by Visa Europe.

