FINANCIAL CONDUCT AUTHORITY
PAYMENT SYSTEMS REGULATOR

Market review into the supply of indirect access to payment systems

Responses to Interim Report

July 2016

Contents

Al Rayan Bank

FAO: PSR: Indirect Access Market Review Team

Al Rayan Bank PLC stakeholder response to the PSR's 'Market review into the supply of indirect access to payment systems' MR15/1.2 - Interim report March 2016

Contact:

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All Non-Confidential responses in red text immediately after each consultation question.

Q1: Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

Yes we feel that the interim report findings have managed to pin point the key areas of focus and have balanced the relative priorities well.

As an agency IPSP at the small to medium end of the spectrum it was useful to compare the anonymised volumetric and relative pricing data operating across the IAPs for the same peer group within the various interbank payment systems.

Q2: Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.

Yes we believe that the supply of indirect access to interbank payment systems is a function of a transparent and competitive marketplace. By the PSR identifying and illustrating in its interim report such key concerns as quality of technical access to FPS and its availability; that IAPs to an extent rely on the wider commercial relationship value adds to support business models; behavioural market linked sentiment can have a bearing on an IAP's outlook and action i.e. disproportionate/adverse reactions to financial crime regulation being a poignant case in kind that resonates across the industry as a key concern and possible inhibitor in the supply of indirect access to interbank payment systems for certain categories of PSP /service users and ultimately impacts end users/consumers.

Q3: Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?

Yes we believe that the report findings and the anticipated industry developments coupled with the initial PSR s 'watch and see' approach will ensure the industry has an opportunity to re-balance in many of the areas of concern. The work initiated over last years by the PSR has been the catalyst in many a IAPs internal re-prioritisation on transparency, scope and the provision of such services. It has additionally we believe through its Direct Payment Systems Access review and Directions also given the wider payments and IT infrastructure market new confidence to consider technical aggregator solutions. IPSPs and IAPs are all able to consider new and improved service propositions.

Q4: What other steps could the PSR take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs or any further steps the PSR could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which the PSR could seek to address?

If feasible the industry may benefit from an interim/mid-term review by the PSR and/or Payment UK of the IAP Code of Conduct's adherence by the IAPs. It will advise if performance measures and commitments to improve indirect access to interbank payment systems is actually following a consistent approach on the ground and whether early feedback to IAPs may benefit the overall actual application/roll out.

Q5: Are there any important developments that are likely to impact the supply of indirect access that we have not identified in this interim report? If so please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.

None known at this stage.

Q6: If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should we take at that point? What would be the advantages and disadvantages of such action?

We would guard against at this stage for any future remedy that may consider issuing a direction which requires all PSPs who are able to (or subsets of PSPs such as banks) to become direct participants of specified interbank payment systems. Whilst this aims to expand the choice of IAPs available to IPSPs it could inevitably lead to great cost burdens on small to medium IPSP /PSPs and consequently lead to unsustainable business models for some/a contraction in the market.

Q7: Is there any regulatory or other action that you consider the PSR should take now? What would be the advantages and disadvantages of such action?

None to consider at this stage.

Association of British Credit Unions Limited (ABCUL)

Association of British Credit Unions Limited

Indirect access market review team
Payment Systems Regulator
25 The North Colonnade
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London E14 5HS

05 May 2016

Dear market review team,

Payment Systems Regulator – MR 15 / 1.1 - Final terms of reference: market review into the supply of indirect access to payment systems

We appreciate the opportunity to respond to this inquiry. The Association of British Credit Unions Limited (ABCUL) is the main trade association for credit unions in England, Scotland and Wales. Out of the 329 credit unions which choose to be a member of a trade association, approximately 68% choose to be a member of ABCUL.

Credit unions are not-for-profit, financial co-operatives owned and controlled by their members. They provide safe savings and affordable loans. Some credit unions offer more sophisticated products such as current accounts, ISAs and mortgages.

At 31 December 2015, credit unions in Great Britain were providing financial services to 1,269,345 people, including 136,461 junior savers. The sector held more than £1.37 billion in assets with more than £769 million out on loan to members and £1.66 billion in deposits.[1]

Credit unions work to provide inclusive financial services has been valued by successive Governments. Credit unions' participation in the Growth Fund from 2006 – 2011 saw over 400,000 affordable loans made with funding from the Financial Inclusion Fund. Loans made under the fund saved recipients between £119 million and £135 million in interest payments that otherwise would have been made to high-cost lenders. The DWP has contracted ABCUL to lead a consortium of credit unions under the Credit Union Expansion Project, which will invest up to £38 million in the sector and aims to make significant steps towards sustainability.

Response to the consultation

We welcome the PSR's Market Review and wider initiatives to support improved indirect access to payment systems for IPSPs. Credit unions, as small IPSPs, are acutely affected by the market failures which have prompted the need for this review, namely: a limited choice of IAPs, a poor

[1] Figures from unaudited quarterly returns provided to the Prudential Regulation Authority

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Industrial and Provident Societies Act Reg No. 23136R

quality service experience with limited ability to negotiate on price or demand better service and an inability to switch in order to drive competition.

These issues place credit unions in a disadvantageous position vis-a-vis their PSP competitors and leave them vulnerable to changing external circumstances which are outside of their control. Examples of this are the recent withdrawal of a major IAP to agency IPSPs within the credit union sector or the overnight ramping up of prices by another IAP to non-agency IPSPs in the sector.

Notwithstanding these concerns we also accept and support the PSR’s provisional conclusion that there are a number of market developments underway – partly prompted by the activities of the PSR and partly prompted by the increased pressure by various different PSP sectors – which hold promise for improvements in access conditions for IPSPs over the medium term. This includes work by the Payments Strategy Forum on access for IPSPs; various projects to review access requirements by the payment schemes; the advent of new IAPs seeking to widen access; urgent domestic and international reviews of the twin phenomena of financial crime regulation and de-risking; and new FinTech solutions to aggregate technical access to payment schemes.

We are encouraged by the potential of these developments to address the challenges of access for smaller agency and non-agency IPSPs such as credit unions. This feeds into work we are leading within the sector to re-establish agency access for credit unions via an aggregator model for credit unions under the government-sponsored Credit Union Expansion Project as well as other similar initiatives and products being developed for the benefit of credit union members.

One area within this which we believe the review may want to consider further is that of pricing. The huge variety of prices paid by IPSPs to access the different payment schemes coupled with the opacity of pricing demonstrated by the difficulty even the PSR has had in gaining a clear picture of the market demonstrates that that price mechanism is not operating as it should. It is disappointing therefore that the review demotes price to a secondary issue to be dealt with by increased competition and switching. We urge the PSR to look again at this question and to consider whether remedies around price transparency might have a role in improving the market’s functioning.

Beyond this we are satisfied that in the near term positive market developments should be allowed to run their course naturally at this stage before any market intervention is considered. The PSR should remain vigilant and vocal in its expectations and criteria for success, however, as the PSR’s activity to date is without doubt a key driver behind these positive developments and were this pressure to relent it may reduce the likelihood of the full benefits of market developments being felt. We hope that the PSR will keep the market under continual review and be ready to intervene if the early promise of the outlined market developments ultimately proves to be unfounded.

We would be happy to discuss this further should you wish to.

Yours sincerely

M. Bland

Matt Bland - Head of Policy & Communications

Association of Foreign Banks (AFB)

2. **Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.**

Our concerns are centred on the findings in 7.9 where indirect access is typically provided as part of a wider banking services relationship between the IPSP and IAP. The key issue is that it is provided as part of the wider banking service rather than a standalone offering. In other words, agency IPSPs have to have a bank account relationship in the first place before they can be considered for indirect access. Currently, there is no method of just having an agency indirect contract. The agency contract is subject to the banking contract.

This situation presents agency IPSPs with a number of problems as IAPs, as is well known, can be reluctant to enter into a banking relationship with agency IPSPs and hence restrict access to payments systems.

We have suggested that the indirect model should mirror the direct model namely that as with the direct model there should be a specific contract between the IPSP and the IAP and the provision of a settlement account (not a bank account) for transactions to pass over. In this situation agency IPSPs then have the choice of which IAP they use for which payment system. There is a clear contract which defines the contractual obligations on both sides and it is only the breach of the contractual terms which can cause the service to be terminated/ended.

These issues have already been partly addressed with the voluntary Code of Conduct for Indirect Access Providers.

A F B

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Association of UK Payment Institutions (AUKPI)

16th May 2016

Comments from Association of UK Payment Institutions on market review into the supply of indirect access to payment systems MR15/1.2 Interim report by Dominic Thorncroft (Chairman) and Jawwad Riaz (Vice Chairman)

Question 1. Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

Unfortunately, we do not agree with the PSR's conclusions as they relate to the Payment Institution (PI) sector, which we represent. The PSR admits 450 bank accounts of IPSPs have been closed and all of the four main banks have terminated relationships with IPSPs (in the context of the PSR report, IPSPs are PI's). This is an astonishing figure and in some categories e.g. money remittance firms that accept cash/online payments, our recent survey (see below) shows only 20% of firms have the bank accounts in UK banks that they require to operate. Worse still is that over a third of these firms are already on notice that their banks are closing their accounts.

Also, 93% of PIs believe that currently banks are failing to provide the 'unhindered access to payment accounts' which they are obliged to offer under article 36 of PSD2. We do not think the PSR has sufficiently considered the impact of bank account closures and the denial of bank accounts, and therefore payment systems, on PIs and their customers and has not intervened to effectively contain or address the problem. Nor do we accept that the conditions are in place for any substantial improvement to this situation.

To assist a better understanding and prompt action by the PSR, the AUKPI carried out a telephone survey of 95 PIs in the Spring of 2016, and the comments below are based on the findings of this survey, which are included in Appendix A).

Appendix B) is a description of the services and features of bank accounts required by PIs to operate

Appendix C) are Recommendations to the PSR which it should implement to assist the PI sector to retain / obtain bank accounts and therefore access to payment systems.

Payment Systems Regulator - Remit and objective

The Payment Systems Regulator (PSR) has a responsibility to promote competition and innovation in payment systems, and ensure they work in the interests of the organisations and people that use them.

The PSR states on its website: '*For banks, building societies, and other payment service providers (PSPs) to operate, they need to be able to move money between accounts. To do this they need access to a payment system. Access to payment systems is therefore essential to enabling effective competition and innovation in payments…., (The PSR) … are committed to supporting entry of PSPs by fostering an environment that enables them to choose the access that best suits their needs*.'

Even before the PSR became fully operational on 1st April 2015, the AUKPI had repeatedly made it clear that the closure and lack of access to bank accounts means that regulated PIs (which are PSPs) are being excluded from payment systems. We also made these comments as part of our response to the PSR 'Indirect access review', interim findings of which the PSR has recently published.

The PSR have confirmed that there is the possibility of service denial decisions by sponsor banks potentially being subject to a complaint procedure to the PSR (after a first stage with the actual bank is concluded), where, in effect, the PSR would have the power to order the opening of an account. Nevertheless, the operation of their complaints procedure as set down by the PSR is cumbersome and difficult to apply. It seems unlikely that it could be successfully used by a PI without significant cost and lengthy delays.

We are not aware of any case where the PSR has successfully intervened to ensure that a PI retains or obtains a bank account, which is a prerequisite to having adequate access to the major UK payment systems (Faster Payments, BACS, CHAPs, etc.).

In June 2015, the PSR obliged all the national clearing banks to publish their policies for allowing indirect access to the payment schemes, which they operate in the UK. In broad terms, the information which the banks need to publish are contact details, a description of their sponsor bank services and high level descriptions of their sponsor bank eligibility criteria.

Whilst, at the request of the PSR, the four sponsor banks have published this information, this has not in any way changed their appetite for banking PIs. In practice, it has changed nothing, as the banks continue to shun PI accounts without explanation.

Findings of PSR Interim Access Review (March 2016) – and response of AUKPI

The PSR published their interim review on indirect access to payment schemes on 10th March 2016. The summary of their findings was: '*Our interim conclusion is that work to open up access to payment systems is generating increasingly positive results. Although there are some specific concerns about choice, service quality and the ability of indirect payment service providers (PSPs) to switch providers, the industry is making changes that we expect will address these issues.'*

The PSR report confirms that the four main banks have closed 450 accounts in recent years. The PSR assumes that if a PI loses an account that*: 'they can get another one although not necessarily on the same terms as their initial access arrangements'*. The PSR does not comment further on what are the commercial implications (and impact on service to consumers) of PIs having a less effective banking service. In our judgement, even this goes too far, because PIs have overwhelmingly not been able to obtain any alternative banking.

This all tends to support the Association's view 60% of the API sector has lost at least one account, and between 85% and 90% of money remittance firms have lost accounts, often the only accounts they had.

In our view, the PSR hardly seemed to acknowledge the concerns, which had been expressed during the consultation by the AUKPI and by payment firms themselves related to the lack of adequate banking services.

We do not agree with the conclusions in the interim access report, which do not do justice to the legitimate concerns we have expressed on behalf of so many of our members.

It rather misses the point for the PSR to highlight choice, service quality and issues around switching providers if so many PI firms (which with 1150 firms, are, incidentally the largest group of PSP's mentioned in the report) are unable even to access the payment schemes in the first place because of the lack of a bank account. Issues such as service quality and the ability to switch providers are irrelevant to them.

Based on our recent research, 62% of PI firms offering money remittance services do not have and can not obtain a UK bank account in their own name. A further 11% have access only to an office account, limiting their business. Only around 27% of PI firms have access to both a UK payments account and an office account, however in practice these are often restricted and therefore so are the PI's services.

But frequently, even these firms are subject to 'bank capture' - only have one banking partner, and can not find another – so they do not have total freedom to set the rates/fees as they would wish, or to move their business away if the bank service proves unsatisfactory.

Any PI without its own bank account is forced to close down or find alternative ways of banking customers money. In practice this has meant that PI's have been forced to either become Agents of large PIs or use an intermediary provider.

Any PI which is obliged to become an Agent or use any kind of intermediary providers will inevitably have to bear the extra costs/fees involved making the PI uncompetitive. Many smaller money remittance firms are surviving, nothing more. Because of the lack of a level playing field and the concentration of business into a small number of firms, consumers are denied choice on a range of sending corridors and many are turning to the unregulated market to send funds.

Nor is the situation much better for PIs who do have bank accounts. In many cases, they are not able to get accounts with UK banks. For example, only 50% of the PI firms in our survey, which offer FX services have accounts with a UK BANK, the rest, are obliged to use accounts with banks elsewhere in the EU. This inevitably restricts their access to UK payment systems and increases their cost of doing business, making the firms unable to provide services and potentially be uncompetitive to UK consumers.

The major UK banks remain closed to new account applications for many types of PI applicant, not just remittance type providers, but they are also closed to many FX providers.

In seeking to justify their decision to refuse accounts to PIs, the banks have stated to the PSR that financial crime risks are a factor in their willingness to offer indirect access (and by extension, bank accounts) to PIs. In itself, this admission is revealing, because the banks have rarely directly confirmed to the PI firms themselves why they are closing their accounts – still less have they allowed the firms to demonstrate how they comply with the law and to demonstrate that the concerns of the banks in this area are unfounded. The PSR has so far done nothing to make further enquiries from the banks on the risk appetite, or how the PIs can put in place a level of controls so that these concerns are addressed.

AUKPI is trying to initiate a dialogue with the banking sector on the factors which are preventing PI's getting accounts – including financial crime controls and potentially other factors also (e.g. levels of capital). Despite the best efforts of the British Bankers Association (BBA), only three meetings have been organised with the banking sector in last 12 months. No progress has been made yet on the substantive issues.

As we have discussed above, at a corporate level, the banks have been unwilling to meet with PI industry representatives in recent years to discuss and agree collective common standards around AML/CTF compliance with regulation, and if necessary, standards which go beyond what is required in law.

The AUKPI accepts that the PSR is not responsible for supervising systems which the banks put in place to monitor the financial crime risk of potential clients such as PIs. However, in our view, it is not unreasonable for the PSR to monitor to what extent financial crime risk has been a factor in closing a PI account or refusing to open one in the first place. The PSR should ask the bank to make a report which explains why they are justified in closing or declining an account, with enough information to allow the regulator to determine whether the bank has acted fairly.

We likewise accept that, on the presumably, relatively few occasions, where the bank has identified an actual financial crime and has submitted a suspicious activity report to the National Crime Agency that the bank may have a concern, justifiable or not, that to reveal anything about its decision making process may constitute 'tipping off' under the Proceeds of Crime Act.

The PSR needs to discuss with the Home Office, NCA and others the 'tipping off' issue so that 'financial crime risk' ceases to be a cover all category which prevents the regulator from properly scrutinising the decision making processes of the bank in relation in access to bank accounts and access to payment schemes.

It should be noted that the FATF has recently stated in its Guidance for a risk-based approach for money or value transfer services that 'Consideration of the engagement in customer relationships with MVTS providers: Through the implementation of the RBA, financial institutions should identify, assess and understand their ML/TF risks, and manage the risk by taking commensurate action to mitigate the identified risks. This does not imply that institutions should seek to avoid risk entirely, for example through wholesale termination of customer relationships for certain sectors.'

The AUKPI were almost amused by the assertion made by the PSR of the banks that 'most of the four main IAP's (i.e. the four high street clearers) are now considering, or intend to consider, each individual IPSP (i.e. PI) on a case by case basis'. There is absolutely no evidence that any of the banks have adopted this approach. There has been no material change at all in the attitude of the banks to PI's in the last three years.

The banks also state that there are significant costs in monitoring the financial crime risk posed by PIs, particularly money remittance firms operating on corridors which they define as 'higher risk'. The PI sector accepts that a higher level of monitoring by the banks on some kinds of PI activity may be appropriate. They further accept that this may be reflected, to some extent, in the fees, which the banks choose to charge. However, PIs do find it hard to accept that the costs of monitoring are so great as to preclude the bank from establishing a business relationship at all with the relevant PIs.

The banks state that the potential for civil and criminal penalties on the bank associated with non-compliance by a PI firm with AML/CTF to which they may have provide banking is a significant deterrent to them in terms of providing such accounts. However, the report does not identify any cases where a UK bank has been fined for criminal non-compliance of a UK PI in relation to AML/CTF obligations.

Nor do financial penalties in themselves for civil non-compliance seem to be a universal reason why a UK bank might choose to close a business relationship with a PI operating in the UK. The AUKPI is aware of several instances where larger PIs operating both in the UK and in other countries have been fined for civil non-compliance breaches outside the UK. They did not lose their UK accounts as a result. In our view, the bank's decision making in this area is less than transparent, and whilst regulatory breaches may be the justification used to close some PI firm accounts, in other cases, the banks choose to ignore this, and allow firms to continue operating.

The problem appears to be that this is an area where rumour and conjecture have been allowed to flourish. Financial crime is a threat for all kinds of financial business – as far, as we are aware, there is no published evidence that financial crime is disproportionately concentrated in the PI sector. But banks feel justified to act as if it were, thereby deciding to de-bank whole categories of PI, rather than seeking, jointly with the PIs concerned, to manage the risks.

As the FCA have previously stated, banks need to evolve better risk controls to manage the risk, and not seek to avoid the risks by wholesale de-banking.

Regulators need to consider what further reassurance can be provided so banks do not develop unjustified fears of potential regulatory penalties associated with banking PIs, individually and collectively.

The PSR report also refers to the expectations of banks that PI's should deliver a minimum financial return to the bank, and that the costs of compliance may be so great that it is impossible for the PI to deliver this return, even if there is no specific financial crime risk so the account of the PI is closed. Once again, these decisions are often taken without any reference to the firm concerned, who remain unaware of what level of financial return the bank expects them to deliver.

The regulator should consider how the bank should make explicit their revenue expectations, both in advance of the start of the business relationship and over the course of the business relationship. The regulator may then like to consider whether expectations around revenue are effectively acting as a 'brake' both to existing players and to new entrants to the market.

The methodology the PSR have used to determine the impact of bank account closures, which mainly seems to rely on establishing whether a payment firm is still registered as trading at Companies House, does not seem to us to be in anyway an accurate and robust means to quantify what the harmful impact loss of a bank account has meant to the business.

Though many PI's continue to file company house accounts, they are struggling to survive. Most of them have signed up to be agents of a handful of the larger money remittance providers. Net to net, the overall financial crime risk to the system continues to remain but in a different shape. It has also led to a lack of competition to the largest money remittance providers, particularly in the cash to cash segment. This is not a desirable development for the consumer and prices on some corridors have already increased.

We strongly exhort the PSR to systematically review just how so many PI’s have suffered business loss in the last three years as a result of not having adequate banking to run their business commercially and to include this information in the finalised interim access report, along with proposals to address this problem.

The PSR needs to do more to encourage competition in the market. That means there must be more independent access providers willing to service independent, non-agency PIs, which is where the majority of PIs are positioned. The PSR states that there are only three players planning to provide services over the next three years to non-agency IPSP. This is a real problem in terms of encouraging competition and choice for consumers.

In practice, it is only the four well known high street banks (Barclays, HSBC, Lloyds and RBS/NatWest) which are able to offer all these capabilities. Yet, it is precisely these banks that have turned their backs on PIs in recent years, and have closed their accounts and/or denied them new accounts.

By their own admission in the PSR report (March 2016), the high street clearers have closed the accounts of 450 payment firms in recent years – but they, and just as importantly, the regulators, profess ignorance as to the negative operational impact on firms, which have had their accounts, closed.

However, notwithstanding the closure decisions of the big banks, PIs are currently also equally unable (based on the findings in this report) to establish banking relationships of any kind with any other kind of UK bank (e.g. challenger banks, secondary banks, agency banks, foreign banks trading in the UK, etc.).

Worryingly, there is some anecdotal evidence that, even if a second tier bank might consider offering service to a PI, they are prevented from doing so by one or other of the four big clearing banks which offer a correspondent banking servicing to the second tier banks, and which, by extension, define, explicitly or not, who they can offer a service to. The AUKPI has been made aware recently of a number of second tier banks that have actively decided to exit the PI sector.

The one small, second tier bank, which has, discretely indicated that it is ‘open for business’ has been flooded with enquiries from PI’s. As it is, this second tier bank is only willing to cater for 25 payment firms, and it will not deal with cash firms, start-ups or firms operating on what it calls ‘risky corridors’ effectively, anywhere outside the EU. This automatically means that most UK PI’s are excluded from even applying for an account.

Nor is it the case that new ‘challenger’ banks have yet to have any impact in terms of their ability to open accounts for PI’s. The AUKPI knows of two new embryo banks which are in the process of getting a licence with FCA and PRA. Neither has given any date by which they will be trading. And even when they do start trading, they will not be able, in any significant way, to meet the need of the number of UK PI’s looking for banking facilities.

In the opinion of the AUKPI, for the banking problem to be addressed, we need the high street clearing banks to open once again for significant numbers of PI accounts.

Of course, any UK bank may say now, if directly asked, that it remains ‘open for business’ to the PI sector – that is, it does not have a written policy which excludes applications from the PI sector. However, whatever the banks may state publicly, they have a ‘defacto’ refusal policy, which makes it impossible for the vast majority of PI’s to open a bank accounts our survey results confirm.

And, at present, no bank is obliged by the regulator to keep a record of the bank account applications it has received from the PI sector, nor to share this with the regulator so that there is an up to date picture of the availability of accounts for PI’s. Nor, it should be noted, do the banks publish their policies for banking PI’s, nor do they have a single point of contact within the bank which PI firms can speak with prior to submitting any application for an account. It appears as if the banks prefer to deliberately leave their policy in this area opaque and undefined.

We believe that this must change so that PI firms, government, regulators, policy makers and others have an accurate overview of just what is going on in terms of availability of UK bank accounts for PIs.

What are the alternatives for PI firms which can not obtain their own UK bank account?

There are some alternatives, but none of them are attractive to a UK PI, which although regulated in law, is still unable to obtain their own banking in the UK.

Options include:

- Some UK firms have managed to open bank accounts elsewhere in the EU
- Some firms are operating a sub-MSB model, where they open a sub account with another payment firm,

Of course, both of these options introduce another layer of cost to business models – firms which do not have their own accounts may see the above solutions as a means of staying in business until a better solution emerges – however, it is unlikely they can maintain profitability in the long term.

The only other alternatives are:

- Become an agent of another, larger, principal firm, thus giving up independence and being obliged to work according to the business model and pricing of the larger firm. Turnover and income generated as an agent is unlikely to be anywhere near that achieved when operating as an independent principal.
- Remain on the FCA register but stop offering payment services pending a change in the market
- Cease to doing business altogether and close down,

In summary, our response to the PSR interim report is as follows:

- This problem around access to bank accounts, and by extension, to UK payment schemes, is decisive and not solved as of now

- De-risking of banking, particularly on the basis of alleged AML/CFT concerns, has gone too far in relation to the PI sector, and has long since started to interfere with legitimate business – there is no sign that the PSR is doing anything either to collate information on the extent to which de-risking is impacting the PI sector, or to propose, (if necessary, jointly with other regulators), appropriate remedies

- The PSR's interim report offers no short-term, mandated solution deriving from an exercise of their legal powers

- The PSR interim report proposes some nice-to-haves such as better information from the banks, points of contact, and it is not the Association's intention to refuse those

- But the specific processes around this issue that the interim report outlines offer no certainty of a solution (and certainly not within a one year period):
    - Whilst recognising that one bank has indicated that it intends to become a direct member of Faster Payments, there is, as yet, no indication as to when this will happen, and they have so far not indicated any policy towards serving the PI sector
    - We are not aware of any other second tier bank which may be willing to offer indirect access to the PI sector
    - Other newly-constituted banks that do not have their licences yet
    - There is no evidence of how new technical (indirect) access models to the payment systems will work for PI's, even if compliance challenges are overcome
- The Association will still communicate into the PSR process to try and correct some of their misapprehensions about the state-of-play and about the damage done to PIs' customer value propositions by not having UK-domiciled bank accounts

- The Association is considering alternative strategies to working with the PSR and will communicate with members on that subject very shortly

Appendix A) Telephone survey results (Spring 2016)

In order to assist the PSR to understand what is the current perspective of UK PIs on access to bank accounts and whether the banks are complying with their PSD2 obligation now, the AUKPI carried out a telephone survey with PIs in March/April 2016. Unfortunately, 93% of firms said their banks do not currently comply with Article 36 of PSD2.

We believe it is likely that the UK Government will make the PSR responsible for the supervision of Article 36 of the second payment services directive (PSD2) which is due to be implemented in the UK from January 2018. This states:

'Member States shall ensure that payment institutions have access to credit institutions' payment accounts services on an objective, non-discriminatory and proportionate basis. Such access shall be sufficiently extensive as to allow payment institutions to provide payment services in an unhindered and efficient manner. The credit institution shall provide the competent authority with duly motivated reasons for any rejection'.

The results of the survey are provided below:

The Association contacted 95 PI firms by telephone, including both AUKPI members and non-members.

Summary of firms contacted:

FX Firms (online only)	16 (17%)
Money remittance firms (online and cash based)	78 (82%)
E-Money firms	1 (1%)

(The FX firms contacted were API's only. The money remittance firms were both API and SPI)

Key findings

a) Bank accounts held

Firms with a client funds safeguarding (CFS)

payment account held in in own name in UK bank	26 (27%)
Firms with an office account	10 (11%)
Firms with no bank account	59 (62%)

b) Access to bank accounts in accordance with article 36 of PSD2

Article 36 of PSD 2 (in force in UK from Jan 2018) states*: 'Member States shall ensure that payment institutions have access to credit institutions' payment accounts services on an objective, non-discriminatory and proportionate basis. Such access shall be sufficiently extensive as to allow payment institutions to provide payment services in an unhindered and efficient manner'.*

Firms saying their bank complies:	7 (7%)
Firms saying their bank does not comply:	88 (93%)

Inevitably, many of those in the second category do not have any bank account.

c) Analysis by type of service the PI offers

FX Firms - 16 in total

Number of FX firms having a CFS payment account in a UK bank 8 (50%)
(n.b. one firm has already received notice to close its account)

Number of FX firms having a payment account elsewhere in EU 8 (50%)

Money remittance firms – 78 in total

Cash/online remittance firms – 71

Cash/online money remittance firms with a CFS payment account in UK bank (n.b. five firms have already received notice to close their accounts)	14 (20%)
Cash/online money remittance firms without a CFS in a UK bank	57 (80%)

Online only remittance firms - 7

Online remittances firms with a CFS payment account in UK	3 (40%)
(n.b. two firms have already received notice to close their accounts)	
Online remittance firms with a CFS payment account outside the UK	4 (60%)

Appendix B) Description of the services and features of bank accounts required by PIs to operate

To be able to offer payment services efficiently to their customers, UK PI’s need their bank to provide an account or accounts which combine the following features:

- an account in the name of the PI firm itself (that is, not a third party account)
- an account which is designated as a client funds safeguarding account
- an account which allows access to UK payment systems such as Faster Payments
- an account which allows the firm to purchase online FX cost effectively
- an account which is linked to significant branch networks which make it possible for clients of smaller PI’s (wherever they are in the UK) to deposit funds into the account of the PI (thus removing need for the PI to maintain costly agent networks)
- an office account to allow for paying salaries, rents, etc.
- an account which allows access to international payment systems such as SWIFT
- the ability to move money between accounts

Appendix C) Recommendations to Payment Systems Regulator

The Payment System Regulator has recently published its interim review into indirect access to payment systems. We think the review offers little by way of encouragement to PI firms or that the PSR fully understands their concerns and will take steps to oblige the banking sector to offer the bank arrangements which will facilitate indirect access to payment schemes. The PSR could do more now to help PI's (and by extension, their consumers) by doing the following:

1. Require the main four banks to immediately suspend closing accounts and denying access to payment systems of all FCA Authorised firms.
2. Conduct a review into why the big four banks are closing accounts
3. Develop and implement a model where the role of a sponsor bank to payment systems be limited to settlement only i.e. credit risk but not AML/CTF
4. Issuing legal guidance on what a correct application to a clearing bank for access to a payment scheme looks like.
5. Requiring that the single point of contact in each bank has all information on the bank's policy towards PIs, so the bank is able to give a response to a new account access request within 14 days, with a properly documented explanation of why the PI does or does not meet the standards of the bank for account opening purposes (if the response is negative)
6. In the event that a bank takes a decision to close a PI account, then the justification for the account closure needs to be properly and comprehensively made available to the PI firm concerned, and, before closure the PI firm should have a reasonable time period in which to address these concerns. Excepting in situations where there is a justifiable suspicion by the bank of illegality on the part of the PI, in which case summary bank account closure is required and should be expected by the PI.
7. Requiring the banks to provide to the PSR with a summary of the legal applications from PI's, with an explanation of which firms they provided service to, which not, and a

detailed explanation of their reasoning in both cases (this anticipates the requirements in Article 36a of PSD2, with which you will be familiar).

8. Carrying out a survey of the UK banks to establish whether they are regulated to provide client fund safeguarding accounts. And then to seek to establish which of those able to offer CFS accounts has a policy to provide a service to PI's.

9. If the policies of the banks around bank account access don't change within a 12 month period (particularly the high street clearers) the PSR should set down clearly the basis on which it will oblige the banks to open accounts for PI's, using powers it already possesses under existing legislation.

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5 May 2016

PSR MR15/1.2/SGH/final

Bacs response to PSR MR15/1.2:
Market Review into the supply of indirect access to payment systems.

Introduction

Bacs is pleased to respond to the Payment Systems Regulator's (PSR) Interim Review 'Market Review into the supply of indirect access to payment systems' (MR15/1.2). We note that the Market Review consultation summary document acknowledges the work on access that Bacs and other regulated bodies are doing and confirms that this work will help deliver the Regulator's objectives.

We support the PSR's proposal to monitor the market activity in relation to the direct and indirect access proposals that Payment System Operators (PSOs) are progressing. In our response we make some general comments on some of the elements in the Interim Review. We also provide a short update on our PSP access consultation before providing brief responses to the review questions. Bacs is committed to working with and keeping the PSR fully informed of our work to enhance access to Bacs services and we look forward to continuing our discussions with the Regulator in the future.

Bacs general comments on the Interim Review

We note that the Interim Review provides reassurance that the current situation regarding indirect access to interbank payment systems is competitive, of good quality and reasonably priced. The report also acknowledges that the PSR has found evidence of innovation and investment by PSOs to develop access options. We also recognise the specific concerns the Market Review has identified that could limit competition and innovation. We are pleased that the Report concludes that the identified deficiencies are expected to be mitigated by current work underway within each PSO and collectively between the UK interbank PSOs.

We welcome the comprehensive assessment that this Market Review provides into the supply of indirect access to payment systems. We agree that an efficient competitive market should provide end users of payment systems a choice of high quality providers that meet their needs at a fair price. We agree that this choice must deliver the correct levels of service quality and richness of proposition, to end users as well as competitive pricing. We also note that the PSR refers to work with other Regulators and the responsibilities that all Regulators have to ensure their regulatory activity supports and enhances resilience, integrity, and financial stability in UK payment systems.

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Bacs is currently pursuing a number of activities to review, assess and improve access to its services. These include our recent consultation on PSP access and in this response we provide a short update on our progress. We have also continued our collaborative work with other PSOs under the auspices of Interbank System Operators Coordination Committee (ISOCC) to progress work to develop, where possible, better access coordination to interbank payment systems. In addition, Bacs has recently developed functionality to allow sort codes to be allocated to new Direct Payment Service Providers (DPSP) without the need to involve an existing (DPSP) as was previously the case.

The PSR's Interim Review mentions that a number of large IPSPs may be preparing to become Direct PSPs and we agree that the increased activity focussing on access may have encouraged this. It is our opinion that this activity and the growth of DPSPs can only be good for the industry and something that we would continue to encourage by working closely with those IPSPs who are reviewing and considering options for direct access. We agree that it is important that choice exists between direct and indirect access and we believe it is important a balanced choice of access exists for all PSPs with equitable service levels.

We believe that it is important that there are different access options in the market so that there can be some tailoring to different access needs. For example, in some cases, indirect access may provide opportunities for a PSP to leverage the functionality of an indirect access provider to ensure speed to market and benefit from the investment and value propositions offered.

We note the Review comments on quality of access and its relationship to the satisfaction scores in the PSR survey and acknowledge that the top satisfaction scores achieved by Bacs are due to our high quality of technical access, something that we are determined to preserve as we extend and improve access to our services.

We recognise the comments made in the Interim Review regarding IAP switching and driving competition and acknowledge the references to the success of the Current Account Switch Service in helping smaller IPSPs concerns with regard to switching. We believe that there is some merit to considering what potential lessons and best practices could be developed from CASS.

Bacs approach to PSP access and an update on our consultation

In February 2016, as part of our broader strategy, we published our consultation into PSP access. Our aim was to enable an aggregator model to assist with indirect access and to develop our participation models for both direct and indirect access to deliver greater choice and flexibility. Our consultation invited comments on a number of wide-ranging areas for change, including:

- Reviewing and simplifying the eligibility criteria for PSPs without affecting scheme integrity.
- Revising the liability framework for the new access model.
- Speeding up and simplifying take on and accreditation.
- Exploring PKI security solutions.
- Consulting with the Bank of England to understand any proposals for change that it may have in relation to settlement and reserves accounts.
- Risk assessing potential new settlement solutions.
- Assurance and the management of operational risk
- Reviewing our governance structure to align with any new access and participation model we develop.

We received a number of written consultation responses and have engaged with PSPs and fintechs during the consultation period.

Our proposals for change have been broadly welcomed and we are continuing to engage with the market to understand and develop our proposals to improve access to Bacs services. We plan to update the market with our progress to enhance access through service aggregators and other changes later in the summer. Alongside this work, and in response to work emerging from the Payment Strategy Forum, we are working closely with other Interbank Payment Service Operators to develop greater consistency between schemes to assist with access.

Bacs comments on the Interim report and responses to the consultation questions

We have provided short relevant responses to the consultation questions. We shall, of course, continue to engage with the PSR Indirect Access team during our continued work to develop our own access propositions.

1. **Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.**

   Bacs agrees with the assessment made by the PSR in its Market Review Interim Report. We note the Regulator's acknowledgement of our work to consult upon and develop PSP access to Bacs services and look forward to sharing our emerging findings later in the year.

2. **Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.**

   We agree that, from a Bacs perspective, the Market Review interim findings identify the current key concerns with indirect access to Bacs services and accurately reflects the activities we are taking to propose, consult and take action to develop remedies to improve PSP access to Bacs services.

3. **Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?**

   We think that the summary outlined in the Market Review interim report would appear to address the concerns identified. We look forward to sharing our consultation findings with the PSR Indirect Access team and discussing our proposed solutions later this year.

4. **What other steps could we take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs, or any further steps we could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which we could seek to address?**

   Not responded

5. **Are there any important developments that are likely to affect the supply of indirect access that we have not identified in this interim report? If so, please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.**

   Not responded

6. **If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should take at that point? What would be the advantages and disadvantages of such action?**

   Not responded

7. **Is there any regulatory or other action that you consider we should take now? What would be the advantages and disadvantages of such action?**

   Not responded

Yours sincerely

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Chief Executive

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Barclays Bank

Payment Systems Regulator (PSR)

Market review into the supply of indirect access to payment systems.

Interim report, March 2016

Response to email questions on behalf of Barclays Bank PLC

May 2016

Introductory remarks

Barclays welcomes the opportunity to comment on the PSR's interim report into the supply of indirect access to payment systems.

As previously expressed, Barclays has provided indirect access services for a number of years to a broad range of IPSP clients. We work with our clients to understand their needs so that we can offer a range of services to meet both their technical capability and commercial requirements. We are supportive of developments in the provision of indirect access including:

- IPSPs, including our own clients, becoming direct members of the payment schemes;
- The widening of technical access to provide different solutions and providers of access to the payment schemes;
- Greater uniformity in the interfaces of the payment schemes; and
- An increase in the number and range of commercial providers of sponsorship arrangements for agency IPSPs.

As a preliminary point, the PSR has conducted an extensive market review, including a detailed data request. The PSR, having completed this activity, does not appear to have found any significant evidence of concerns in the supply of indirect access services. Against this evidential background, we question the need to "extend" this market review for at least a further 12 months beyond the "final" report in July 2016.

If the PSR intends to continue to review indirect access for 12 months post-any "final" report in July 2016, as a matter of due process we would appreciate it if the PSR would set out how it will measure the success of the developments listed in 1.09 pp 6-7, what *"clear evidence"* (1.11 pp 8) would prompt a continued review and how it intends to continue the review. We would request that the PSR also set out what it means as "*clear evidence*" that would lead to it needing to intervene. This is particularly important in the context of a process that is anticipated <u>outside</u> of any statutory framework.

In general, Barclays supports many elements of the PSR's interim report.

However, there are areas where we believe that the evidence be revisited prior to the final report being published.

In summary:

- Choice (both for IPSPs and IAPs) is critical in the provision of indirect access services. IAPs must retain the ability to choose who to do business with and on what commercial terms. IPSPs must be provided with sufficient information to choose the right product and provider for their services. But IAPs should not be held to account if an IPSP has to invest in its own payment systems. This point is particularly pertinent when the PSR explores the quality of technical access to FPS – Barclays considers that a key reason why IPSPs may not be able to provide near real-time payments is due to their own technical capabilities (see paragraphs 6.100-6.101 pp 82 in the Interim Report).

- The PSR refers to the perception of risk in particular for small IPSPs throughout the interim report. Barclays disagrees that it acts on perceptions. Barclays follows a rigorous and transparent due diligence process aimed at enabling informed decisions on financial crime risks. See our comments referring to paragraphs 4.17 pp 30, and 4.109 pp 49.

- Barclays does not agree with how the PSR has represented results from the comparator surveys and the IPSP survey. In particular, the PSR states that quality satisfaction of indirect access is at the lower end of the comparator surveys, yet reviewing the data points it is shown to be at the mid-point. Also, results from the IPSP survey have been positioned negatively when the PSR could have chosen to position them positively (i.e. 40% say yes there was an issue, as opposed to 60% say no there was not an issue). See paragraphs from 4.23 onwards in the Interim Report, in particular our comments to paragraphs 4.43 pp 35 and 4.56 pp 37.

- Where the PSR has found no evidence to support claims made by IPSPs it should be careful relying on such statements. See our comments on paragraphs 4.83-4.85 pp 43-45, and Box B pp 44.

- The PSR has undertaken a detailed market review into the provision of indirect access services, including the detailed data request. In light of this, Barclays believes the PSR should be more definitive in its conclusions on pricing – it has recognised that this is a low margin business and as it has not uncovered any evidence of pricing concerns. See our comments relating to paragraphs 4.83-4.85 pp 43-45, 4.109 pp 49, 6.71 pp 77 and 8.30 pp 98.

- Given the high satisfaction levels the PSR has identified as part of its surveys, Barclays does not consider the focus the PSR has placed on switching to be warranted. The PSR states that IPSPs are generally satisfied with the services they receive for indirect access, and that IAPs wish to build long-term relationships with their clients. As such, a focus with IPSPs switching IAPs does not appear to recognise the fact that IPSPs are in general satisfied with their IAP and therefore may not wish to move. See our comments to paragraph 6.44 pp74.

In light of the above, we consider that a number of the proposed remedies are likely to be disproportionate to the concern identified:

- Compelling DPSPs to offer access should be a last resort. At a time when there are aggregators looking to offer new forms of technical access and new IAPs looking to offer indirect access, a remedy compelling supply would seem disproportionate.

- The PSR is considering a direction to standardise service quality through specific quality standards. The PSR has found that IPSPs are "*reasonably satisfied with the level of service that they receive in accessing payment systems*" 4.56 pp 37. The IAP Code of Conduct already sets out "*a range of measures and commitments to improve indirect access to interbank payment systems*" 1.9 pp 6-7. We believe that only minimum service quality standards should be mandated which are currently identified in the IAP Code of Conduct. Further standardisation will reduce the ability for providers to compete on the services that they offer.

- The PSR is also considering compelling IAPs to offer the same level of service (i.e. technical access to FPS) to IPSPs as is available to their own end-customers. There may be technical reasons why IAPs cannot offer this to their IPSP clients, and equally there are products already on the market that provide this level of service to IPSPs (such as direct agency). We do not consider it a proportionate remedy to compel all IAPs to offer a quality of access to IPSPs that prevents IAPs from differentiating their own product, that duplicates what is already available today (i.e. direct agency) and that IPSPs themselves may not be able to take advantage of due to their own technical capabilities, see 6.100-6.101 pp 82 in the Interim Report.

- The PSR has not found evidence to show wrongdoing in relation to pricing. While Barclays remains supportive of transparent pricing, we do not believe a fixed pricing structure to be proportionate as it will restrict the choices available to IPSPs who have and want bespoke pricing arrangements.

- The PSR has found that there is not a high level of switching by IPSPs, but that IPSPs are generally satisfied with the levels of service they receive. In that light, the proposed remedy of a CASS type solution would be disproportionate. A CASS type solution would be a significant undertaking for a limited number of clients (unlike the current CASS solution for the current account market) and would likely be costly and complicated. The latter point is important considering that indirect access services can involve bespoke arrangements between the IPSP and its IAP.

We provide below our specific comments on the PSR's interim report.

Paragraph 1.9, pp 6-7
We recognise that there are a number of developments that should address any issues that the PSR has identified in its Interim Findings and welcome the PSR's interim finding that "*these developments* [will] *improve choice, quality and price outcomes for service-users*" (paragraph 1.10). As we have previously stated, we are a strong advocate and supporters of more direct access and will continue to support more technical access. We continue to consider that this is the viable alternative to indirect access. (See our previous submissions).
Paragraph 1.13, pp 8-9
We believe that the consultation into how the PSR handles applications under sections 56 and 57 of FSBRA should be a separate process to this market review. This will enable a proper and fair consultation process which would not be limited by inclusion in the timetable for this market review, which is due to conclude with final findings in July.
Paragraph 2.3, pp 10
Barclays agrees with the PSR's principle that "*those who use the payments systems…* [are] *able to choose the form of access that best suits them*". Both direct and indirect PSPs need to be able to choose which is the best form of access available to them. These decisions could include a number of factors such as cost, technical capability and product capability, based on each PSP's individual requirements. Through the PSR's Information Direction it is now simpler for IPSPs to understand the various indirect access products and requirements across the four primary IAPs. We would not support any move which may reduce choice.
Paragraph 3.18, pp 20
To clarify, as previously mentioned for Barclays an IPSP is only categorised as an Agency client for the payment schemes that it has sort codes which Barclays sponsors.
Paragraph 4.17, pp 30
The PSR states that small IPSPs face a more limited choice. It says that this is particularly relevant for these with a perceived high crime risk. We disagree: as shared in our earlier submissions, Barclays carries out robust and transparent due diligence processes, which enable it to make informed (rather than "perceived") decisions on financial crime risk. Where an IPSP (large or small) meets our criteria (both commercial and regulatory), we can discuss

providing indirect access. Furthermore, on the PSR's own evidence, almost all PSPs who have had services withdrawn by a provider are still in business.
Paragraph 4.28, pp 33
The PSR states that "*Higher satisfaction levels with Bacs may in part relate to the fact that more PSPs have direct technical access…*[and] *that most DPSPs and IPSPs receive an equivalent level of service*". The higher satisfaction rating for Bacs could be due to the lower IPSP and end-user expectation of the payment system when compared to FPS. The PSR makes no further comment in relation to Bacs later in this section, but continues to provide comments from IPSPs in relation to FPS. Direct connectivity is only one factor which might lead to higher satisfaction levels.
Paragraph 4.29, pp 33
The PSR states that "*only ten large PSPs have direct access to FPS*". This is not correct: other PSPs (at least one) may also access FPS directly via the direct agency product and therefore, we consider, have "direct access" to FPS.
Paragraph 4.31, pp 33
"*IPSPs may face further potential restrictions on competing in retail markets where they are less able to offer overlay services such as Paym, which rely on this capacity.*" We do not agree with this statement. The Paym overlay service is not only operated via FPS: an IPSP can choose to offer it via Link as well. This may not be commonplace (we know of one IPSP that offers Paym via Link), but the fact that it is possible shows that IPSPs have an option. It is wrong to imply that the IAPs are placing restrictions on IPSPs to compete in retail markets based on how access to FPS was built. Reviewing 2.47 in MR15/1.2: Annexes the question the PSR asked is "*Faster Payments: Overall, how do you rate the indirect access offering for this system? (1-5, 5 being the highest quality)*". This question does not explicitly ask for an IPSP to consider in their response their end-user expectations. It is unclear therefore on what basis the PSR claims end-user expectations of the system functionality have an impact on IPSP satisfaction levels. Barclays would also like to draw attention to 6.100-6.101 (pp 82) where "*Around 70% of respondents* [to the PSR's IPSP survey] *said that they did not currently have the capability to offer near real-time payments 24/7… Even if a superior quality of service (such as 24/7 access to FPS) were offered… a number of IPSPs would not have the capability to support this at this time and so would not be able to benefit from these developments.*" From the PSR's own observations, the inability of an IPSP to compete in retail markets for 24/7

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payments and overlay services such as PayM is as much down to the IPSP's technical limitation as to the services the IPSP has chosen to use to access FPS.
Paragraph 4.32, pp 33
"*One agency IPSP told* [the PSR] *that its ability to compete and attract business in retail markets was restricted because it was unable to access real-time payments, and it was also subject to a service that had regular weekend outages*." While Barclays is unable to comment on the specifics relating to this IPSP, we believe it is important to note that there are products available which allow an IPSP to access real-time payments without regular weekend outages. It is a matter of choice for an IPSP to identify the best product that meets their requirements and their selection criteria could include factors such as functionality, uptime, and cost. We also question whether the IPSP is one of the 70% of survey respondents that does not "*currently have the capability to offer near real-time payments 24/7*" (6.100, pp 82). If so, the weekend outages may not be the cause of its inability to access real-time payments – the IPSP's own capabilities may be a contributing factor. There are a number of factors that may contribute to scheduled service outages. At Barclays we take careful consideration of the impacts of any service outage on our clients and look to minimise these wherever possible, or schedule them when they will have the least operational and customer-facing impact for our IPSP clients. Unfortunately it is not always possible, and this may lead to downtime for a client.
Paragraph 4.33, pp 33
"*Some of these quality issues relating to FPS could be due to the availability of services from VocaLink*." Equally, some of these quality issues could relate to the fact that "*Around 70% of respondents* [to the PSR's IPSP survey] *said that they did not currently have the capability to offer near real-time payments 24/7*" (6.100, pp 82). The PSR appears to attribute quality issues to Vocalink on the basis of one statement from one IPSP when the majority of IPSPs have their own limitations. As commented above, IPSPs are able to select from different products from different IAPs when accessing FPS, and these products will have different characteristics. Availability of services may be one such differentiator between products and between IAPs.
Paragraph 4.34, pp 34

"*Other FPS concerns relate more directly to IAP capabilities. Another agency IPSP told us that during much of 2015 they experienced some form of service interruption on their FPS access. It said that this happened during half of the weekends in 2015*."

We observe that the PSR has used two examples of IPSPs that have suffered from service outages in this section. We note that there are no balancing statements referring to the service received or commented on by the remaining 66 IPSP survey respondents (2.26 pp 13), or a more general observation on the availability of services from the remaining estimated 300 agency IPSPs. The PSR itself states in 2.26 pp 13 that "*The views recorded through the survey are not necessarily representative of the industry as a whole, and the data from the questionnaire respondents does not necessarily extrapolate or scale to give an industry-wide view*". The PSR could be giving too great a significance to the statements of a statistical minority of respondents.

We believe that not explicitly stating the view of other IPSPs or if unavailable highlighting that these opinions are of only 3% of survey respondents could create the wrong impression of the service levels seen by the remainder of IPSPs, especially considering the satisfaction levels confirmed in 4.36 pp 34.

Paragraph 4.38, pp 35

"*One of the trends we identified from our survey is that the channel through which IPSPs connect to their IAP appears to influence their satisfaction levels and the quality of service they receive… Several IPSPs noted their inability to offer their customers a 24/7 real-time service for FPS*."

Barclays believes that this extract supports the points raised above – IPSPs have a number of options when connecting to FPS (which will only increase in the future with additional IAPs and aggregators offering indirect access services). The type of connectivity, functionality and availability of the service will be linked to the product that the IPSP has chosen to use.

As stated in earlier comments, was the inability of several IPSPs to offer "*their customers a 24/7 real-time service for FPS*" the result of the IPSP's own technical capabilities or "*the channel through which ISPS connect to their IAP*".

Paragraph 4.43, pp 35

Barclays observes that the question in Figure 9, "*Does the way you access payment systems through your provider hinder your customer offering and/or your ability to innovate?*" is framed negatively and invites a specific response, as the respondent is given three reasons to say yes versus one to say no. We also note that the summary of the results are also framed in the negative ("*over 40%…*") when the majority of respondents replied 'no' to this

question. A more objective and balanced presentation of this evidence would say that nearly 60% of respondents told the PSR that their indirect access arrangements did not hinder their customer offering or ability to innovate.
Paragraph 4.56, pp 37
Barclays welcomes the assessment from the PSR that satisfaction levels are reasonable. However we question the positioning from the PSR that the satisfaction levels are "*toward the lower end of satisfaction when compared with other essential business services*", as the satisfaction level is at the mid-point of the comparative survey results. Reviewing the table in Figure 7 (4.25 pp 32), we note that the PSR survey of IPSPs scores 69% satisfaction – this is 19 percentage points below the satisfaction with landlines ("*Overall 88% were satisfied*" http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/sme_research_report.pdf pp 43) and 19 percentage points above SME satisfaction with business banking at 50%.
Paragraph 4.83-4.85, pp 43-45 and Box B, pp 44
Barclays welcomes the PSR's finding that "*some large IPSPs do not appear to pay significantly more for indirect access compared to the fees they could expect to pay to the operator for direct access to FPS*". In light of this we would welcome the PSR stating that there is no evidence for the following statement which they reproduce: "*Metro Bank and Tesco Bank told the CMA that they were paying a premium for accessing certain payment systems through IAPs as compared to direct access*".
Paragraph 4.97-4.98, pp 47
Barclays welcome the PSR's confirmation that "*indirect access on its own does not generate significant revenues*" is corroborated by its "*analysis of the financial information provided by the four main IAPs*".
Paragraph 4.102, pp 48
The PSR correctly identifies a number of the costs associated with the provision of indirect access. However, the interim report makes no reference to the CAPEX costs which are referred to in our meeting in September. There can be significant CAPEX required to provide indirect access to PSPs. CAPEX includes upfront IT costs, but those can change each time there is a change in regulation or due to market dynamics. There are IT build costs that are

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specific to the provision of Agency services. […]

We believe that the PSR should include reference to these additional costs borne by IAPs to support their IPSP clients as they provide a more accurate representation. These are costs that an IPSP would have to fund itself if it was a direct member of the payment scheme.

Paragraph 4.109, pp 49

Barclays has some observations on the PSR's interim findings:

- Finding 1: "*perceived to be a higher risk*". Risk appetites are set by each institution providing indirect access services. As such, for Barclays these IPSPs are not perceived to be a higher risk, they are a higher risk than agency IPSPs and other types of commercial relationships. This is because as mentioned in comments to 4.17 pp 30, Barclays has a robust and transparent due diligence process, previously discussed with the PSR, to inform us of the client risks. We do not agree with this qualification of "*perceived to be a higher risk*" as presented by the PSR.
- Finding 2: as mentioned above, it is for IPSPs to choose the most appropriate product and IAP for their access to FPS. Technical capability of a product / IAP will be one of a number of selection criteria which may also include factors such as speed and cost. However, meeting an increasing customer demand for services may also require an increase in investment in providing those services by the IPSP. As the PSR found in its own survey (6.100-6.101 pp 82), even if IPSPs had improved technical access to FPS then the majority of IPSPs would not be able to pass this benefit on to their customers due to their own technical capabilities. Barclays believes this should be reflected in the findings as without it, there is an inference that the problem with quality is to do with access to FPS rather than the IPSPs own capability.
- Finding 3: as the "*overall evidence on pricing is inconclusive*". Given the volume of data the PSR has reviewed, and the assessments it has undertaken Barclays believes it would be more appropriate to conclude that the PSR has found no evidence of concerns with pricing

Paragraph 5.30, pp 55

"*Becoming a DPSP for one payment system might affect a PSP's relationship with their IAP for other payment systems, which in extreme cases might lead to those IAPs to terminate their indirect access to other payment systems.*" The PSR continues to mention concerns from IPSPs, but offers no evidence to support the second hypothetical part of this statement.

Without any evidence to support the claim that "*in extreme cases*" an IAP might terminate their indirect access to other payment systems, we do not consider it appropriate for the

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statement to be made in the final report.
Paragraph 5.51, pp 58
We do not recognise the following statement to be true: "*One IPSP told us that there was a need for nested IAPs to service newer and more innovative PSPs – particularly those in direct competition with the four main IAPs at the retail level, but which have not yet reached a scale to justify the costs of direct access.*" We do not recognise the point that newer PSPs need to be nested and that they are unable to access a PSO via a DPSP. As an IAP, Barclays has a number of IPSP clients (both agency and non-agency) that we compete with at a retail level. And we support a number of newer and more innovative PSPs to access PSOs […].
Paragraph 5.58, pp 59
It is not particularly clear how an IAP is taking credit risk on an IPSP accessing through an agency IPSP. The IAP's credit risk relationship will always be against the agency IPSP – i.e. the agency IPSP will always be the one which is liable for any debit balance on an account. We believe that the PSR requires further information from this IAP to support this comment, or if none is forthcoming then it should be removed from the interim findings.
Paragraph 5.66, pp 61
Barclays has always supported an increase in the number of IAPs and welcomes the news that other institutions are progressing plans to offer these services. Even one new IAP will make a difference in the provision of these services.
Table 10, pp 62
To clarify, 24/7 access to FPS already exists via the direct agency product for IPSPs that choose to select this. The PSR should make reference to this, even if as a footnote.
Paragraph 5.70, pp 63
It is notable that all PSPs have very similar issues when considering providing indirect access services. It is these legitimate concerns, i.e. risk appetite, financial crime and compliance considerations that mean there are a limited number of IAPs, not any untoward action by the current parties. It would be welcome if this could be more clearly expressed in the final report.
Box C, pp 71-72
The PSR notes that in a few cases companies "*had been wound up as a result of criminal*

activity". Barclays wishes to note that even if only one IPSP engages in criminal activity this can have significant consequences for the IAP.
Paragraph 6.42, pp 73
Barclays welcomes the fact that the PSR has not identified "*any substantive evidence… to support the hypothesis that IAPs are restricting access in order to restrict or influence downstream competition.*"
Paragraph 6.44, pp 74
We note the high satisfaction levels the PSR has identified (see paragraphs 4.25 pp 32, 4.27 pp 33 and 4.36 pp 34) and the PSR's own comment in 6.84 pp 80 that "*agency IPSPs generally consider the quality of service to be good, so we would not expect this to be a significant motivation for switching*". If IPSPs are generally satisfied, and have built long-term relationships with their IAPs (see 6.76 pp 78), Barclays questions the PSR's focus on switching.
Paragraph 6.50, pp 75
As per paragraph 1.13 pp 8-9, we believe that the consultation into how the PSR handles applications under sections 56 and 57 of FSBRA should be informed by the findings of the market review but run as a separate process.
Paragraph 6.63, pp 76
To note, it is not just tipping off risk that inhibits Barclays from providing detailed reasons for exit. We also do not wish to disclose commercially sensitive information, such as the details of our risk appetite. Furthermore it is not clear how it would help to inform a PSP that we have concerns about their approach to AML and financial crime. Doing so may make it harder for the PSP to then find an alternative IAP.
Paragraph 6.71, pp 77
We agree with the PSR that this is a low-margin business. Barclays wishes to emphasise that this is an important factor as it assesses providing services to clients in high risk sectors.
Paragraph 7.14, pp 86
The PSR mentions the concerns around the quality of technical access to FPS and its availability in Finding 2. Barclays reiterates that in 6.100-6.101 pp 82, 70% of the PSR's survey respondents said that they did not have the technical capability to offer near real-time payments, and that "*Even if a superior quality of service (such as 24/7 access to FPS) were*

offered… a number of IPSPs would not have the capability to support this at this time and so would not be able to benefit from these developments.”
Paragraph 7.15, pp 86
As mentioned in our comment to paragraph 4.109 pp 49, the PSR has reviewed a significant amount of data and held extensive conversations across the industry as part of this market review, and it has not uncovered any evidence of concerns in relation to pricing.
Table 12, pp 93-94
We note that Figure 24 in the Annex indicates that even one more IAP would increase the competitive process for when IPSPs tender for new IAPs.
Paragraph 8.27, pp 98
As stated above, Barclays has been and remains supportive of more providers of indirect access services and more choice for IPSPs. Barclays believes that all PSPs should be allowed to make commercial decisions and choose what is in their own and their customers' best interests.
Paragraph 8.28-8.29, pp 98
We believe that the Code of Conduct should lead to improvements for IPSPs. However, commercial contractual terms should be part of the negotiations between IPSP and IAP and the Codes should only address minimum standards. Careful consideration needs to be given to the unintended consequences of mandating minimum contract standards or quality criteria. There may be technical reasons why the points raised by the PSR are not feasible for all IAPs, and equally there may be products on the market (such as direct agency) that already provide these services for IPSPs. We would caution against a move that would restrict the ability of any service provider to differentiate their product in terms of service, technical capability or cost. If all IAPs were to offer a standard service, this may have an undue effect on IPSP behaviour when it comes to switching (as in all providers are the same) and impact the ability of aggregators and new IAPs to win IPSP clients. We would question the impact of compelling IAPs to provide 24/7 capability for FPS if 70% of the PSR's IPSP survey respondents state that their customers will not benefit due to their own technical capabilities.
Paragraph 8.30, pp 98

We do not consider a price cap would be appropriate. The PSR has found no evidence of pricing concerns. The PSR's findings indicate this is a low margin business (which is not indicative of excessive prices). We remain supportive of pricing transparency in principle, and in fact publish tariffs for non-agency IPSPs as previously discussed with the PSR. However, we would not support any move towards fixed pricing structures. Requiring "*IAPs to publish and adhere to price lists*" would reduce choice and remove negotiating options for IPSPs. As discussed with the PSR, some agency IPSPs, including challenger banks, ask for specific and bespoke pricing arrangements. Barclays does not support any move to reduce choices available to IPSPs.
Paragraph 8.31, pp 98
Switching for indirect access services can be very different to just switching a current account, particularly when there are bespoke arrangements involved (technical, servicing, pricing etc). Building a CASS type solution for an estimated 2,300 institutions would be a significant undertaking. In "*firming up of existing switching guarantees to all IPSPs to mitigate concerns about business continuity*" the PSR must remain mindful that this does not bind IAPs into continuing to provide services where there is a regulatory risk (i.e. AML) or it is no longer commercially viable to do so.

CHAPS Co

By Email: iamr@psr.org.uk

CHAPS Co

05 May 2016

Enquiries regarding this document can be sent to: chapscoenquiries@chapsco.co.uk

To Indirect Access Review Team
Payment Systems Regulator
25 The North Colonnade
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London E14 5HS

From CHAPS Co, Legal & Regulatory Affairs

PSR MR15/1.2: MARKET REVIEW INTO THE SUPPLY OF INDIRECT ACCESS TO PAYMENT SYSTEMS – INTERIM REPORT

CHAPS Clearing Company Ltd (hereinafter "CHAPS Co" or "the Company") welcomes the opportunity to respond to the above PSR Interim Report.

CHAPS Co is the UK electronic Payment System for high value and systemically important transactions which settle across the Bank of England's Real Time Gross Settlement (RTGS) system, thereby achieving irrevocable finality at the point of settlement.[1] Daily average settlement values exceed £280 billion with a direct participant base of twenty-one major financial institutions whom, in turn, service over 5,000 other financial institutions on an indirect basis (primarily via international Correspondent Banking relationships).

The CHAPS System is a central bank money settlement system and wholesale payments system. As such it processes 93% of the value of all Sterling payments, but only 0.04% of the volume of all Sterling payments. Whilst the major volumes of Sterling payments are predominantly processed by the retail payment and bulk payment clearing systems, there are no prohibitions to CHAPS Co being used for retail transactions. Additionally, because it removes settlement risk from payments, it is the preferred mechanism within the house conveyancing market.

[1] Finality of settlement is underpinned by CHAPS' designation as a "system" by the Bank of England, as the relevant designating authority under the Financial Markets and Insolvency (Settlement Finality) Regulations 1999 (the "SFRs"), which implement the EU Settlement Finality Directive 98/26/EC in the United Kingdom.

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www.chapsco.co.uk
A Company incorporated in England No 1962902
Registered Office as shown
Payment system operators for:
CHAPS

CHAPS Co

CHAPS Co is a Recognised System under the 2009 Banking Act[2] and is thereby supervised by the Bank of England in its statutory supervision capacity.

Since 1 April 2015, CHAPS Co is also supervised by the Payment Systems Regulator (PSR) by virtue of HMT's Designation Order of 19 March 2015.

At a governance level, CHAPS Co operates as a standalone company which is limited by shares. These are issued on an equal basis to each of the financial institutions which directly participate in the CHAPS system. CHAPS Co's Board is currently comprised of an Independent Chairman, two Independent Directors and Participant Directors nominated by their respective shareholding institution (having first been considered by the Appointments and Remuneration Committee which is Chaired by an Independent Director).

Response to Questions raised in the Market Review.

Q1: Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

CHAPS Co broadly agrees with PSR's interim conclusions, as stated in paragraphs 7.27-7.32 of the report. As previously mentioned in our response to the Terms of Reference Consultation, CHAPS Co supports the fact that the main focus of this review should be on the services provided by the Sponsor Banks to Indirect PSPs (and, in particular, the terms under which they provide those services).

Furthermore, the Company supports the PSR's approach in this review to closely (both formally and informally) liaise with market participants and offer them the opportunity to voice their respective concerns.

We also agree with the PSR that the anticipated and/or ongoing market developments highlighted in this review are likely to address the concerns identified and that it would therefore be disruptive for the market should the PSR impose any additional remedies now before the implementation of those anticipated and/or ongoing developments.

Q2: Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.

We broadly agree with PSR's identified concerns. As an open and transparent payments system, CHAPS CO already has in place mechanisms to facilitate and address any access concerns that parties who are not already Direct Participants in the CHAPS Scheme may have. For example and as reported to the PSR, we have established the CHAPS Co Service Users Group which already has a broad membership base and which includes among its objectives, understanding how

[2] Recognition Order issued by HM Treasury on 5th January 2010.

efficiencies, risk reduction, further transparency and innovative improvements can be achieved and identifying the impact that the new regulatory framework may have on indirect PSPs and how best to support them on the challenges that they may be facing. The Service Users Group's feedback is provided directly to Board via the Independent Director who chairs the Group.

Furthermore, and as acknowledged by the CMA in its retail banking market investigation, regulatory complexity constitutes one of the main barriers to entry in the financial services market. Apart from the fact that market participants have to comply with a large number of requirements, the market is being regulated by a number of bodies often responsible for similar or overlapping parts of it. As the PSR quite rightly has identified, the market is currently operating during a time where a number of significant and critical regulatory measures with long term effects are expected to be implemented by different regulators (i.e. BoE RTGS Review, PSD2, banking recovery and resolution, ring fencing, payment accounts framework, access obligations for payment systems, data protection regulation). We therefore believe that it is essential for the all involved regulators to closely collaborate and demonstrate clearly to the market that they do not underestimate the potential economic impacts or legal uncertainties that can arise from an uncoordinated approach. For this reason, we welcome PSR's approach in this market review not to currently intervene while critical changes are taking place.

Q3: Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?

We agree with PSR's view. In particular, we await the outcome of the Bank of England's RTGS review with interest.

Q4: What other steps could we take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs, or any further steps we could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which we could seek to address?

As we have suggested in the past, we believe that any measures that may be adopted as a result of this market review must be future-proofed in order to avoid market interventions that may:

- Impose unnecessary regulatory burdens on the market;
- Be superseded by or disincentivise market developments and innovation; and/or
- Need to be replaced within a very short period of time and as such generate market uncertainty and instability.

We therefore repeat that we believe that the PSR should currently refrain from imposing any additional remedies and instead allow for the identified market developments to occur and the market respectively to respond to them.

Q5: Are there any important developments that are likely to affect the supply of indirect access that we have not identified in this interim report? If so, please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.

As we have mentioned in our response to the Terms of Reference Consultation, we believe that PSR needs to take into account the effects that are expected to derive from the implementation of ring-fencing/structural reform regulation and the complications that this will raise for the payments industry (in particular with regard to the technical implementations that the affected entities will have to make).

Our understanding is that according to Article 13 of the SI 2014/2080 Order (Excluded Activities), "a ring-fenced bank ("RFB") is prohibited from using services provided through a recognised inter-bank payment system indirectly by an intermediary, unless the RFB in question is a direct participant in the payment system". The article provides for an exemption for which specific conditions must be satisfied. However, both the exemption and the respective conditions have been subjected to a number of (sometimes conflicting) interpretations, which have generated the urgent need for clarification in order to provide the market with certainty to proceed to implementation solutions. Additionally, the relevant regulatory authorities have not yet fully clarified the types of agreements that RFBs would be allowed to form (both with regard to intra-group and third parties). Such clarification would greatly assist the market in understanding when (under what conditions)/if an RFB would be able to provide indirect access services to intragroup NRFBs/other third parties and in general what type of agreements a RFB would be allowed to form both with intragroup NRFBs as well as other third parties.

Q6: If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should we take at that point? What would be the advantages and disadvantages of such action?

As per our response to Q4 above, we believe that the PSR should allow for adequate time before considering intervening in the indirect access market, as most of the developments identified would have not been implemented within the next 12 months and in any case their effects to the market would not be measurable for some time. We strongly believe that the PSR should allow for at least 3 years before considering additional remedies.

Q7: Is there any regulatory or other action that you consider we should take now? What would be the advantages and disadvantages of such action?

Please see our responses to Q4 and Q7.

Cheque & Credit Clearing Company

Cheque & Credit Clearing Company

26 April 2016

iamr@psr.org.uk

Payment Systems Regulator
Indirect Access Market Review Team
25 The North Colonnade
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London
E14 5HS

Dear Sirs

PSR MARKET REVIEW INTO THE SUPPLY OF INDIRECT ACCESS TO PAYMENT SYSTEMS

The Cheque and Credit Clearing Company welcome the opportunity to respond to the Payment Systems Regulator's interim report on "Market review into the supply of indirect access to payment systems".

Background

The Cheque and Credit Clearing Company (C&CCC) was established in 1985 and from that time until the present day it is proud of its record in:

- providing members with the central payment system services for the exchange and settlement of cheques and credits;
- managing the operational processes of the central payment system services;
- delivering innovation, such as the current Future Clearing Model (FCM) programme, which will bring the cheque into the digital age via the implementation of an image-based cheque clearing process in the UK;
- determining the rules, standards, and procedures required to maintain the integrity of the clearings, including the criteria for joining the clearings and ensuring compliance with those rules;
- engaging with the full range of stakeholders which includes consumers and businesses that use cheques, banks that offer cheque clearing services, cheque processors, cheque printers and other suppliers, as well as regulators, trade associations and other payment schemes;
- managing the cheque printer accreditation scheme (CPAS).

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Our Objectives are to:

- ensure that cheques and credits remain a viable, secure and efficient choice of payment for all users, so we will;
- promote innovation and competition in payment choice by driving improvements in processing, service and efficiency;
- provide a trusted centre of excellence for anyone with an interest in cheques or credits.

C&CCC Response

C&CCC would like to respond to this consultation in a broad manner. We are committed to enabling as much open access to the cheque clearing system as is possible within the legal and regulatory framework. As you say in your interim findings, the Image Clearing System (ICS) will improvise the ability of IPSPs to change their IAP, but it will also enable:

- Sort-code portability allowing IPSPs to change IAPs without incurring the cost and operational difficulties of changing their sort code to their new provider;
- Set a minimum level for service provision allowing IAPs to set their own service offering to IPSPs thereby encouraging competition and innovation between IAPs;
- Offering different types of participation so that PSPs may participate as processing and or settlement participants enabling choice based upon capabilities;
- Within the legal and regulatory framework, where possible enable non-banks to participate in the ICS;
- Increasing scheme transparency by publishing the processing costs for items through the ICS which are common to all participants irrespective of volumes processed;
- Enabling any PSP to use some central functions (image archive and fraud detection) to reduce to cost of development of their own, and enable IPSPs to change IAP without the loss of their historic data;
- Hosting 15 IPSP workshops to enable IPSP to have the same knowledge of the ICS as their IAPs; and
- Developing the ICS that is ISO20022 compliant enabling greater commonality of messaging in all PSPs.

If you require any further clarification on the points above then please do let us know.

Yours faithfully

Steve Grigg
Interim Chief Executive Officer

Clydesdale Bank

Clydesdale Bank PLC
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Telephone 0141 242 4730

Jamie Martin
Head of Payments and Cash Services

Our ref JM/JP
Your ref
Date 25 April 2016

Indirect Access Market review Team
Payments Systems Regulator (15th floor)
25 The North Colonnade
Canary Warf
London E14 5HS

Dear Sir

Response to the Interim report on the Market review into the supply of indirect access to payment systems

We thank you for inviting us to respond to the *Interim report on the Market review into the supply of indirect access to payment systems.*

Clydesdale Bank notes that this review was prompted by concerns raised during the Financial Conduct Authority's (FCA) call for Inputs and the Payment Systems Regulator's (PSR) evidence gathering process.

We note that the key areas of concern are around choice, service quality and the ability of indirect payment service providers (PSPs) to switch providers.

As a small, ambitious challenger bank, we continue to be supportive of the overall aims and objectives of the market review to promote effective competition, development, and innovation in payment systems in the interests of service-users and users of the payment services. We welcome the aim of ensuring that payment systems are operated and developed in a way that takes account of, and promotes, the interests of service-users of payments services.

It is also noted that you believe significant recent, current and likely developments should address your concerns and we are supportive of the recommended approach of supporting developments and monitoring their impact.

Clydesdale Bank is also supportive of the work done to date by the payment operators as detailed in the Interim report and previous reports.

We agree that the operators should continue to focus on access models, streamlining the onboarding processes while ensuring that they are considering all their stakeholders' views.

We note that the PSR acknowledges the work that has already been done by the operators to address concerns around governance and cross scheme resilience and we are supportive of the operators' plans to further enhance governance.

Finally, we would re-iterate that in implementing any change it is important that the PSR remain cognizant of the risk of penalising smaller, challenger banks or imposing unnecessary demands or disproportionate costs on them.

Recent reforms have helped to ensure that smaller banks have a greater involvement in the governance and we would wish this continued in any changes that result from this review.

Yours sincerely,

Jamie Martin

CUSOP (Payments)

CUSOP welcomes the Market review into the supply of indirect access to payment systems Interim Report March 2016. CUSOP regards this as a progressive step on behalf of the Payment Systems Regulator.

CUSOP has below addressed the consultation questions as outlined by the PSR. In this context we are addressing the questions from our experience of enabling Credit Unions to deliver the SEPA SCT & SDD European Payment system through EBA Clearing and in addition, from the UK payment system perspective enabling NI Credit Unions to deliver Credit Transfers & Direct Debits through Faster Payments and BACS.

1. Question 1. Do you agree with our interim findings?

CUSOP agrees with the key findings as outlined by the PSR. CUSOP believes that the findings are very important and will generate a willingness by the key members of the UK payment systems to be more supportive in allowing access to the UK payment systems. We regard this clear directional message from the PSR as fundamental in moving to a more open Indirect Access environment.

2. Questions 2-7. Have we identified the key concerns with the supply of indirect access to interbank payment systems?

CUSOP believes that the publication of the Interim Report in itself is a major milestone and in this context the key concerns have been raised in indicating that the PSR is committed to fostering more Indirect Access and recognises the complex payment systems which have naturally evolved over time in the UK. CUSOP believes that in creating large scale indirect access to the UK Payments system a number of elements might be considered further, these should not be viewed as critical of the UK Payments systems as CUSOP believe there is genuine support from all parties to enable easier Indirect Access – instead they should be viewed as suggestions to improve the on-boarding process. Some suggestions from CUSOP are:

- In the UK NSCs are allocated from a sponsoring Bank NSC range and this can make the Indirect Access dependent on the sponsoring bank. In turn, this can make switching sponsor for an Indirect Access Provider more complex as these NSCs require to be retained by the Indirect Access provider. In the Republic of Ireland, CUSOP acquires NSCs from BPFI (Banking and Payments Federation) who are independent of Bank Sponsorship

- Once an Indirect Access Provider acquires an NSC, the rules for generating 8 digit account numbers are complex and a number of exceptions/variations exist. The process is detailed in a 56 page document entitled 'Validating Account Numbers – UK Modulus Checking' - VocaLink. In contrast, the creation of a SEPA 22 digit IBAN (ISO Standard 13616-1 2007), uses a simple Modulus 97 check. Generating account numbers for new indirect access providers who wish to use NSCs should be made simpler.

- The rules, file formats, file types governing the UK payment systems have evolved over a number of years and have developed on an incremental basis. This has led to the evolution of more complex messaging formats. Faster Payments has a number of documents which define the scheme requirements – ref: http://www.fasterpayments.org.uk/membership/access-options/direct-membership/scheme-documentation. In order to reduce the complexity we would suggest the documentation be consolidated into a select number of core documents similar to the European Payment systems e.g. a standard scheme rulebook and a standard interface specification.

- The implementation of a uniform file standard would reduce the complexity in the current UK Payment Schemes. For example, there are 2 different file formats for BACS and for Faster Payments when originating a Credit Transfer i.e. Standard18 for BACS and ISO8583 for Faster Payments.

- In European Payments, XML is the standard for payment file processing. Migration to XML as a standard should be considered as it enables more modern programming integration.

- The development of a full parallel end to end test environment (similar to EBA Clearing) by the UK Payments system providers (similar to EBA Clearing) would reduce the complexity of testing for new Indirect Access participants and mitigate potential risks.

Diarmuid Hanrahan & Fiona Lawlor
CUSOP (Payments) DAC
33-41 Lower Mount Street
Dublin 2

Fast Encash Money Transfer Services

Comments on

Market review into the supply of indirect access to payment systems MR15/1.2 Interim report

Question 1. Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

Broadly yes **except** in respect of the survey findings and the inferences drawn on the issue of current status of Payment Institutions consequent to closure of Bank accounts in 2013. The survey conducted does not appear to have revealed the background details with right perspective and also the inferences drawn does not appear to be appropriate. particularly the following and the inferences. Being one of the affected business owner I am in a position to provide authentic details on the issue as under:

A.Background details

1.The action of closure of accounts was not based on any firm specific risk assessment. The development following closure of accounts en-masse (by one high street Banks) subsequently led to all banks closing any new account on boarding from the segment. Besides most of the banks also started closing MSB accounts. Despite all out efforts and requests the position continues unchanged. All the banks operating in UK have practically shut the doors the sector. Even for maintaining accounts for office expenses (salary and other expenses) were not allowed.

2.No transparent methodology seems to have been followed to classify risk and a risk based approach. As a result, small institutions focussing on safe FATF compliant geographies were also affected. Despite the fact that my firm was only focussing on India (an FATF compliant and relatively safe geography) remittances by way of Bank transfers, the account was closed.

3.Money transfer companies whose accounts are closed are no longer able to offer their proprietary remittances service (for which they are licensed) for want of bank account. They are all struggling to survive by becoming agents of MNC providers and using some FX providers by carrying additional cost burden

4.Remitting customers were left with the only option of MNC agents These agents are mainly corner shops with no/ limited capability to apply subjective rules for identifying any suspicious activities in comparison to Authorized Payment Institutions whose accounts have been closed. In short the AML/CTF related risks continued in the same measure if not more.

B. Comments on the Inferences drawn in the report

1.It is true that MSBs (including MNC MSBs) do carry a higher degree of risk in respect of the transactions they undertake. The degree of risk is relatively higher in respect of MNCs with predominantly agent based model in comparison to Branch based APIs due to obvious reasons.

2.While conceding the argument we must mindful of the fact that the intensity of risk became high on account of the regulatory environment governing remittances. While any transaction through a bank is subject to tight on boarding norms (including of late the right to stay to check illegal immigration) MSBs up to a threshold amount of Euro 1000 are allowed to remit without insisting any ID of KYC documents. This is probably the most important component of risk that an MSB carries. In comparison I note that several geographies have prescribed some basic KYC documentation for all remittances. This aspect has led money transfer institutions being vulnerable as without ID remittances facility continues to be an important risk embedded activity

3. Basic AML surveillance is not as complex as it is made out to be. Most of the money transfer companies have invested in systems and processes to screen customer details while on boarding and also on an ongoing basis at transaction level as and when it happens. The issue has more to do with the quality of data on sanctions which even banks to face.

The statement that money transfer companies do not have the resources to oversee AML and financial crime prevention requirements. Many Money transfer companies have qualified and trained staff to effectively process transactions in compliance with the applicable provisions.

4. Incidents of regulatory penalties imposed on few banks cannot be directly attributable to any MSB accounts and their capability to monitor such accounts. Most of the cases have other dimensions and reasons that have led to regulatory penalties.

5.The issue of Revenue/cost considerations is not realistic. Banks have been pricing the services adequately to cover the surveillance requirement required to maintain such accounts

C. Solution suggested

1.. It is necessary at least at this stage to flag off the open ended risk that MSBs are allowed to carry as of now. The issue cannot be addressed by shutting down main stream banking facilities to MSBs which will only aggravate the situation going forward.

2.Instead I would suggest that let all financial transaction be carried out after a due process of on boarding. It can be with acceptable KYC documents. Such minimum KYC documents can be designed by the PSR without losing sight of the sulci political and humanitarian issues involved. Though it comes within the scope of conduct, it still makes sense as it addresses a significant amount of customer assurance going forward.

Harshan Kollara
Director. Fast Encash Money Transfer Services Ltd
144 High street North, London E6 2HT
April 2016

Faster Payments Scheme Limited

4 May 2016

To Indirect Access Market Review Team
Payment Systems Regulator
25 The North Colonnade
Canary Wharf London
E14 5HS

From Craig Tillotson, Chief Executive

INTERIM REPORT: MARKET REVIEW INTO THE SUPPLY OF INDIRECT ACCESS TO PAYMENT SYSTEMS

FPSL welcomes the opportunity to respond to the Payment Systems Regulator's Market Review into the supply of indirect access to payment systems.

Faster Payments Scheme Limited (FPSL) is a Financial Market Infrastructure (FMI) designated under the Banking Act 2009 as a payment system systematically important to the financial stability of the UK. FPSL is a not-for-profit, limited by Guarantee Company which facilitates the capability, for its participants, to provide, a world-class real time, sterling payments clearing and settlement service; this service is provided to the whole of the UK 24 hours a day, 7 days per week.

Since 2014, FPSL has been actively developing its New Access Model to meet the needs of Payment Service Providers (PSPs) that require direct technical access to the real-time, 24*7 service that their customers are increasingly expecting to be available. Wherever possible, the New Access Model has encouraged a market-led, competitive supply of services, such as FinTech's offering technical aggregation services. Where a single provider (for example to provide FPSL with software accreditation services) has been required, we have competitively tendered, selecting on a combination of functionality and price. Our New Access Model now has a strong pipeline of PSPs and FinTech aggregators that will result in a substantial increase in the number of Direct Participants in Faster Payments.

In this letter, FPSL has provided its response to the consultation questions as set out in Annex 6 of the report.

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Faster Payments Scheme Limited

Question 1

Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

FPSL agrees with the PSR's interim findings and welcomes the PSR 's decision to leave further development to the market at this stage given the encouraging progress in the last two years. FPSL is in discussions with a large number of PSPs over the last two years, has heard similar concerns from Indirect Payment Systems Providers (IPSPs) to those described in the report. FPSL are not aware of there being four potential entrants planning to become Indirect Access Provider (IAP), and would welcome the opportunity to meet with them all to explore how FPSL can assist them in achieving their aims and to further address the concerns within the report.

FPSL supports the developments listed in point 8.5 of the report, all of which we expect to be embedded in the next 12 months. For those IPSPs that wish to remain as IPSPs, then the developments listed will deliver benefits and reduce the impact of the concerns identified. FPSL has long-recognised that IPSP access may not be appropriate for all IPSPs in the medium-term and through our Access Programme have sought to expand the reach of direct participation.

Question 2

Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.

Based on FPSL's understanding, we agree with the key concerns identified as described in the report.

Question 3

Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?

For those IPSPs that wish to remain as IPSPs, then the developments listed will deliver benefits and reduce the impact of the concerns identified. FPSL has long-recognised that IPSP access may not be appropriate for all IPSPs in the medium-term. FPSL's New Access Model will broaden participation in the Faster Payments system. The New Access Model is complementary to the developments identified and will support the ambitions of IPSPs that want to become direct PSPs (DPSPs) in the future as well as enabling the development of more Indirect Access Providers.

Question 4

What other steps could the PSR take to promote or support the developments; in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs or any further steps the PSR could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which the PSR could seek to address?

FPSL considers that one of the major perceived issues for IAPs is that of the risk / liability that IAPs may incur from providing payment processing, clearing and settlement to IPSPs.

The encouragement of a regulatory framework that categorically states what an IAP is or is not liable for would remove some of the legal uncertainty that has historically led to IAPs withdrawing from individual relationships or not extending services into certain sectors. There are challenges in this area, due to the global nature of some IAPs and their need to comply with the regulatory environment in each jurisdiction in which they operate, but a set of principles developed by the appropriate regulatory authority in this area would help to promote and / or support developments of new IAP entrants.

Question 5

Are there any important developments that are likely to impact the supply of indirect access that we have not identified in this interim report? If so please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.

FPSL has not identified any additional developments not already referenced in the report.

Question 6

If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should we take at that point? What would be the advantages and disadvantages of such action?

FPSL consider it to be too soon to predict which developments will or will not address the concerns as identified in the report. FPSL would suggest continued active monitoring by the PSR of the environment through an engagement strategy such as roundtable discussions with small and large IPSPs to identify and address if any developments are either delayed or are failing to meet their intended needs.

Question 7

Is there any regulatory or other action that you consider the PSR should take now? What would be the advantages and disadvantages of such action?

FPSL does not consider any additional action is required at this stage.

HSBC Bank

HSBC BANK PLC

MARKET REVIEW INTO THE SUPPLY OF INDIRECT ACCESS TO PAYMENT SYSTEMS

RESPONSE TO INTERIM REPORT CONSULTATION

DATED MARCH 2016

PSR Market Review into the supply of indirect access to payment systems

HSBC response to the PSR's Interim Report

1) HSBC welcomes the opportunity to comment on the PSR's interim report.

1. Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

2) We agree with the broad thrust of the PSR's findings, and agree with the PSR on its next steps.

3) Indirect access to payment systems in the UK is undergoing a period of dynamic change. This is evident in an increase in the number of providers of indirect access, improvements in the quality of the access being provided, and also in the broadening of the range of access models available to PSPs.

4) This process of change originates in part from changes in the downstream market for payment systems (such as the demand for instant payments through Faster Payments), and in part from the role played by the PSR, which so far has been effective in facilitating and initiating positive market developments. Looking ahead, we encourage the PSR to continue to have regard to the distinct features of the market for indirect access to payment systems when formulating is regulatory approach.[1]

The unique features of the market for indirect access to payment systems

5) First, the market is very dynamic:

   a) There are multiple providers of indirect access. While there are limited barriers to entry and expansion, and switching providers may take time, none of the IAPs have significant market power (in contrast to the providers of fixed telecoms, electricity, or gas networks, for example).

   b) As evidence of the limited barriers to entry, the number of IAPs is expanding, with new IAPs entering the market (the PSR notes that four IAPs are entering the market).

   c) There is an expanding range of access models available to PSPS. In addition to the standard model of indirect access via a sponsor bank, it is possible to obtain indirect technical access, with settlement arranged through a direct PSP, in respect of certain payments (for Faster Payments and Bacs). Direct access is a feasible option for an increasing number of PSPs, and should therefore be considered as a substitute for indirect access.

   d) Existing IAPs are enhancing their access services, to meet the demands of customers: in particular the development of real time 24/7 Faster Payments technology.

6) Secondly, the nature of supply is unusual for a regulated industry:

   a) The provision of indirect access to payments is not in itself a significant generator of revenue for HSBC and we would expect the other sponsor banks to be in a similar position.

[1] We draw extensively from the paper prepared for the PSR by Dr Christopher Decker in July 2015: Indirect Access to Payment Systems: insights from access theory and practice.

b) The fixed cost investments are significant, but low compared to the fixed costs required in other industries (for example gas pipelines or broadband networks). The variable costs are high, relative to those required in other industries: in particular, the costs of initial and ongoing customer due diligence are significant, relative to the revenues generated from the provision of access.

c) Access to payment systems is unique in that it involves the management of financial crime risks which have increased dramatically over the past 10 years, and which are very difficult to measure and quantify. These risks are viewed by larger clearing banks as being exponential in nature. Such risks – which when managed effectively, may be relatively low probability, but extremely high impact - are very difficult to price in to the provision of indirect access services.

7) These supply side factors mean that existing IAPs face much lower barriers to exit than incumbents in most regulated markets, as well as risk factors which lower the incentives (especially for larger clearing banks) to remain in the market.

The implications of these unique features for the PSR's approach to the market

8) Given the dynamic change taking place, and the unusual nature of supply, this market requires a very careful and considered regulatory approach. More so than in other regulated markets, the PSR needs to consider the broader implications of each individual intervention. Regulation which seeks to control outcomes is likely to run contrary to the PSR's statutory objectives, as it may freeze innovation, and discourage market entry and expansion. IAPs will be far less likely to take on new customers if they perceive a risk of controls being put in place over how they engage with those customers. We are glad that the PSR recognises these issues in its report.

9) We encourage the PSR to remain focused on a light touch approach, which we believe is best suited to the achievement of its statutory objectives to promote competition and innovation. It is competition and innovation which will ultimately bring benefits to service users.

2. Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any concerns you have and to the extent possible provide evidence to support your comments.

10) We acknowledge that the PSR has identified specific concerns around choice for smaller PSPs, quality-related issues (around Faster Payments, notice periods, and relationship management) and switching related issues. The PSR identifies three market characteristics as being the drivers for these concerns:

a) Industry response to financial crime regulation, which may hinder the availability of supply for smaller PSPs;

b) Lack of market entry, which may have restricted choice, and the amount of competitive pressure placed on incumbents;

c) An increase in demand for real-time payments, which has led some PSPs to demand better quality Faster Payments services.

11) In assessing these issues, we consider that the PSR should also have regard to the market characteristics we have identified above in our response to question one. In particular, the cost structure for the supply of indirect access (especially the high variable costs), works in combination with IAPs' responses to financial crime regulation (the risks of which cannot easily be reflected in a price), and means that the provision of indirect access to smaller PSPs will not always be logical or attractive from a commercial standpoint. Further, the fact that IAPs face low exit barriers (combined with the financial crime risk pressures which tend towards exit decisions) should be relevant in any assessment of possible market interventions.

3. Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?

12) We agree with the PSR that the most effective means by which to address the concerns identified is through sponsoring and supporting market based solutions, rather than intervening in a way which seeks to control outcomes in individual cases more directly. We consider switching costs, then quality, then choice.

13) **Switching costs** are likely to reduce significantly. The move to cheque imaging will significantly reduce the costs of switching in respect of Cheque and Credit Clearing (which may then encourage switching across all payment schemes). The PSR's work on direct access, in combination with the technical access solutions offered by aggregators and some IAPs, mean that PSPs will be able to obtain multi-source access from a range of providers, in a range of different ways. The CMA's work and the proposed further development of the Current Account Switch Service (CASS) promises to transform switching for smaller PSPs.

14) For Agency PSPs, it is inevitable that a switch will take a number of months to implement, and the PSR should treat this as an intrinsic feature of the market. It is therefore useful that notice periods are becoming aligned to the length of time it takes for a PSP to switch IAP (driven in part through the Code of Conduct for IAPs).

15) **As regards quality**, from the perspective of HSBC, changes to Faster Payments services are developing as fast as the demand for the service materialises.

16) We are fully engaged with developments to overcome the technical barriers which inhibit us from offering 24*7 access to Faster Payments. It was our own strategic discussions with key "challenger bank" clients, who were looking to develop more competitive retail banking solutions, that led us to pursue this. Together with a fintech provider, we are developing a hosted, multi-tenanted, aggregation gateway into Faster Payments which is fully consistent with the "New Access Model" adopted by the scheme.

17) As regards the new cheque and credit Image Clearing System, HSBC has kept the PSR fully up to date. Our customers have responded positively to our indirect access proposition, and the support we provide to them as we transform the processing of cheques and credits in the UK.

18) We consider that the code of conduct, in combination with the work being undertaken by the CMA, will be effective in addressing the other concerns identified around service quality.

19) **As regards choice for smaller PSPs**, we consider that the driver behind this is not financial crime risk in isolation. As we explain above, IAPs reasonably need to take account of the nature of financial crime risk, in combination with the variable costs an IAP faces in managing a relationship with each individual PSP, as compared to the revenue from providing indirect access services.

20) Financial crime risk is increasingly on a “strict liability” basis. Once effective risk management controls are put in place, the risk involves a range of relatively low probability, but extremely high – even existential - impact potential outcomes. These characteristics make financial crime risk very difficult to factor in to a price for the provision of indirect access. The risk of financial crime does not decrease with the size of the PSP. Indeed, HSBC’s experience is that, depending on the business model, some types of small PSPs can pose greater financial crime risks for IAPs than larger providers.

21) At HSBC, our client selection processes have evolved considerably over the previous two – three years. We continue to review our PSP customer base, to assess whether the costs and risks of managing the relationship with the PSP are sufficiently offset by the revenues we obtain from the customer. We assess each customer on its individual merits. Where we make an exit decision in respect of Agency PSP customers who may have more complex requirements, we work with the customer to provide sufficient time (often a number of months, or sometimes over a year), wherever possible, for the customer to find alternative access arrangements. Where an Agency PSP customer is unable to find an alternative provider, we work to ensure that any impact on end users is minimised.

22) The variable costs and unquantifiable financial crime risks involved in managing a relationship with a PSP should be viewed by the PSR as a further intrinsic feature of the market which cannot be fully mitigated. This does not mean that the PSR should seek to resolve its concerns through more direct intervention, in particular because– such an action would likely undermine the other positive changes already taking place in the market and therefore be more damaging than beneficial in net terms.

23) The PSR can seek to mitigate the impact of these features through market based remedies, such as encouraging expansion of the number and *types* of IAP, and the provision of direct access (either to the payment system directly or via aggregators). In particular, IAPs who are not large global financial institutions may take a different approach to the costs and risks of providing indirect access. The PSR can also seek to ensure that its agenda to promote competition and innovation is taken into account by other authorities, as they seek to clarify the interpretation and application of financial crime regulations.

4. What other steps could the PSR take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs, or any further steps we could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which we could seek to address?

24) We believe that the PSR’s existing programme of work has already yielded positive results, and expect its continued engagement with industry, through forums such as the PSF, will continue to influence market developments in a positive manner.

5. Are there any important developments that are likely to affect the supply of indirect access that we have not identified in this interim report? If so, please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.

25) We have nothing further to add to the developments and market characteristics we have identified above.

6. If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should take at this point? What would be the advantages and disadvantages of such action?

26) The PSR is right to note that even identifying potential remedies may stifle innovation and change in the market. We consider that the remedies identified are, in general, likely to generate adverse impacts on the market, and run contrary to the PSR's statutory objectives. We set out our initial views in respect of each of the PSR's headings.

27) **Choice**: any requirement for all Direct PSPs to become IAPs will undoubtedly undermine the PSR's work to encourage more PSPs to apply for direct access to payment systems (as Decker notes in his research, interventions at one level of the access chain may have an impact on other levels). Applying thresholds (such as size of Direct PSP) or categories (for example the provision of access to non-Agency PSPs only) will not address this fundamental issue.

28) Further, it is difficult to envisage how a requirement for all Direct PSPs to provide access would be consistent with the intention of Parliament: during the parliamentary debates over the FSBRA, it was stated that "*the regulator will not exercise this power in any way that results in banks having to take on undue operational or compliance risks*…" Any requirement for access to be provided by all Direct PSPs would spawn a requirement for the PSR to lay down specific guidance on the types of risks IAPs would be expected to take in respect of individual PSPs. This is very unlikely to be an area in which the PSR will have the necessary expertise, and could lead to a situation where the PSR requires a Direct PSP to do something which is economically inefficient and/or leads to breaches of financial crime regulations.

29) **Quality**: the specification of minimum quality standards in respect of any of: speed, availability, prices, and processes is likely to dampen innovation in the market. It could encourage existing IAPs to consider exiting the market and/or will discourage existing and new IAPs from taking on new customers and/or distort competition by encouraging standards to coalesce around the minimum. The PSR would likely need to undertake a considerable amount of work to define what it considers to be appropriate levels of quality, which would likely become obsolete over time, unless continually updated. Such a level of regulatory scrutiny of individual IAPs' process and controls would be intrusive and potentially could drive up costs.

30) With regard to contract terms and notice periods, we agree with the PSR that is important for PSPs to be provided with enough time to be able to switch to an alternative provider, whenever their existing IAP wishes to terminate their contract. However, we do not see a need for the PSR to adopt a prescriptive approach: the code of conduct already requires the four largest IAPs to work with PSPs to ensure a "managed transition" of their services, which ensures continuity and safeguards their services. We urge the PSR not to intervene further, beyond its consideration of individual cases. A broader based intervention would achieve little, and could dampen incentives for new market entry.

31) **Price**. The PSR notes that the feedback it has received to date does not indicate a widespread level of concern with price. Consistent with this, we do not consider that it would be justified for the PSR to take forward consideration of potential remedies in respect of price.

32) Any intervention on pricing would have a significant negative impact on the market, and would very likely conflict with the PSR's statutory objectives. Any type of price control (from price caps to adherence to price lists) would significantly reduce incentives to enter or expand in the market. It would be (in practical terms) impossible to determine price levels which reflected the different risk levels of different types of customer, and the different categories of costs which IAPs face.

33) **Switching**. We discuss above the wide range of developments underway in respect of switching in our response to question three. The remedies emerging from the CMA market investigation are likely to make comparisons and switching much easier for smaller PSPs. Larger PSPs are better placed to ascertain potential quality and pricing through direct engagement with their IAP. Developments in respect of notice periods and contract terms are likely to address the PSR's concerns around continuity of service. We do not see a need for the PSR to take any further action on top of all this.

7. Is there any regulatory or other action which you consider we should take now? What would be the advantages and disadvantages of such action?

34) We agree with the PSR's general forbearance strategy, and do not consider that further intervention is warranted at this time.

JPMorgan Chase Bank, London Branch

Consultation questions

1. Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

JPMorgan Chase Bank, N.A. London Branch (JPMorgan) does agree with the findings posed in the interim report however, would highlight that if JPMorgan were to choose to become a direct participant with BACS , the statistics would change significantly in regard to how ready the market is to provide access to payments systems.

JPMorgan is the largest IPSP for BACS, processing 300Mn items in 2015 and may impact a number of elements of the report which may require re-analysing in the event we become a direct participant.

2. Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.

JPMorgan recognizes the regulatory comments which reflect the level of compliance / KYC / AML expectations of the both the UK and US regulators. This impacts our payment solution design as a provider to nested PSPs, as well as the business case for providing IAP services should we become direct members.

3. Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?

JPMorgan as an IPSP is of the opinion that not being able to provide IAP services / sorting codes is restrictive. This is not so much an issue of restriction imposed by our IAP, than the technical infrastructure not allowing a 2 tier agency arrangement. Many PSPs don't really need an IPSP level service; a nested solution provides sufficient transparency.
Whilst there are currently 4 main IAPs, the report hails the anticipated entry of the new providers coming to the market. This will undoubtedly help but there could be a challenge to new IAPs if the growth in payment volume and collective value from the new IPSP entrants create pressure on the IAP's processing capacity or liquidity.

4. What other steps could we take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs, or any further steps we could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which we could seek to address?

As previously stated, the report welcomes the entry of the new providers coming to the market. This will undoubtedly help but there could be a challenge to new IAPs if the growth in payment volume and collective value from the new IPSP entrants create pressure on the IAP's processing capacity or liquidity.
JPMorgan recognizes the cost of setting up and supporting payment services, although we suspect much will still be required if the PSP, direct or indirect is to provide a 24x7 service.
Due to our volume, rather than switch providers we are more likely to become direct as the access becomes easier and the sort code restraint (cheques) is removed.

The cheque reform update will allow transferability of sorting codes between IAPs, making switching easier.

5. Are there any important developments that are likely to affect the supply of indirect access that we have not identified in this interim report? If so, please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.

Demand wise, JPMorgan sees that the industry changes are encouraging more providers to seek direct access, thus reducing the more attractive size of indirects available to IAPs. With the associated risk challenges this may reduce the number of major IAP providers.

The PSD 2 will further encourage new providers who may seek indirect services but these will be new market players and thus not necessarily immediately suitable for IPSP services due to the risk involved.

JPMorgan recognizes the cost incurred by IAPs for providing services to small PSPs due to KYC, account provision and support/ service costs. This can be substantial and the reason for smaller players not gaining inexpensive access. Payment processing is a low margin business, so providers will look at other sources of revenue. KYC and other regulatory controls are required on a more regular basis for these high risk clients especially as regulations expand to incorporate the changing environment where the PSP may change / evolve their business model.

6. If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should we take at that point? What would be the advantages and disadvantages of such action?

It is difficult to speculate on what actions should be taken if the concerns are not sufficiently addressed due to the fast changing pace of the industry currently. JPMorgan would encourage continued monitoring of how the concerns are being addressed as new IAPs provide the additional choice and quality to the market that drives switching and pricing.

7. Is there any regulatory or other action that you consider we should take now? What would be the advantages and disadvantages of such action?

No, not at this time.

Lloyds Banking Group

LLOYDS BANKING GROUP PLC

PSR Market Review into the Supply of Indirect Access to Payment Systems

Response to Interim Report

5 May 2016

This response contains business secrets. The information contained in this response is provided to the Payment Systems Regulator (PSR) in relation to the PSR's market review into the supply of indirect access to payment systems. Publication or disclosure to any other person of such information would harm the legitimate business interests of Lloyds Banking Group (LBG). Accordingly, no such information should be published or disclosed to any third party without giving LBG the opportunity to redact such information.

Introductory Remarks

1. Lloyds Banking Group (LBG) welcomes the PSR's interim report on its market review into the supply of indirect access to payment systems (Interim Report), and the opportunity to comment on the PSR's findings.

2. LBG is committed to its core purpose of Helping Britain Prosper, and its vision of being the best bank for customers. In recent years, LBG has succeeded in simplifying and reshaping itself to become a low cost, low risk, customer focused, retail and commercial bank. LBG has invested significantly in its infrastructure, customer service and growth initiatives. This has included enhancing the products and services it offers and communicating transparently with its indirect access customers. LBG recognises the importance of the indirect access market, and therefore the PSR's work in this regard. LBG is looking to expand its indirect access market share, and intends to continue to invest and improve its service offering going forward. LBG is pleased that the PSR has recognised the benefits that this should bring to indirect access customers.

3. LBG agrees with many aspects of the Interim Report, and in particular, the conclusion that current and planned market and regulatory developments should increase competition in the indirect access market, and address the PSR's concerns.[1] LBG also agrees that, in view of those developments, it would not be appropriate for the PSR to put forward remedies to address such concerns at this time. As the Interim Report recognises, there is a significant risk that further regulatory intervention would stifle some of those likely market developments and hinder progress towards greater competition.

4. However, LBG has some reservations about certain elements of the Interim Report's findings and the potential remedies outlined in paragraphs 8.24-8.31. LBG considers it important to set these out at this stage, in order to assist the PSR with its ongoing review and future monitoring, and to maximise the value of any future consultation processes.

Proposal to monitor developments

5. LBG notes that the PSR appears minded to allow only 12 months (seemingly from the date of the Interim Report) to determine whether sufficient progress has been made towards alleviating its concerns before deciding whether to impose further regulation. However, as set out in more detail in response to Consultation Question 6 below, many of the developments will not have been fully implemented by March 2017, and even for those that have been, it is likely that additional time will be required for the effects of those developments to be observed and analysed.

6. Accordingly, whilst LBG agrees that the PSR should monitor progress towards satisfaction of its concerns over the coming year, it believes that customers will see the full benefits of the developments over a longer period. 12 months is likely to be too short a period to assess their impact or consider whether the developments have delivered the desired outcomes.

7. It is also important for the PSR to identify clearly how it will measure progress in this context, and more precisely what it will be expecting to see when it considers whether the extent of progress is sufficient at the relevant time. LBG recognises that it may not be appropriate to outline specific metrics in advance, but the principles which would guide the PSR's assessment should be set out more clearly to help the market to respond.

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[1] LBG notes that the PSR's 2016/2017 Annual Budget and Business Plan (https://www.psr.org.uk/sites/default/files/media/PDF/PSR-Annual-Plan-Budget-2016-17_0.pdf) also recognises the fast moving nature of the payment systems market and the range of developments which are expected to improve customer outcomes.

8. LBG's views on the PSR's specific findings and potential remedies are explained in more detail in the responses to the Consultation Questions which follow, however some general points are highlighted below.

The Interim Findings

Market entry and expansion

9. LBG agrees that new entry and expansion, and other industry developments, should lead to an increase in competition in the market and address many of the PSR's concerns, particularly in relation to choice and quality. This includes the plans of a number of businesses to become IAPs and 15 IPSPs to become DPSPs, as well as the steps being taken by FPS to improve technical access, and the recent FPS accreditation of two fintech companies to supply access. LBG is also pleased that the PSR has recognised that the four main IAPs are not the only options for non-agency IPSPs.

10. As the PSR is aware, LBG is undertaking a programme of incremental investment in its core infrastructure to benefit clients of its Commercial Banking business. These investments will enhance LBG's indirect access offering. Further details of this investment programme are set out in response to Consultation Question 1 (see paragraphs 1.5 to 1.6). Through this investment, it is LBG's aim to serve a larger proportion of the IPSP market than it does today. The emergence of new entrants and investment plans of other IAPs demonstrate that the market is also currently attractive to others. The PSR must ensure that any proposed regulatory intervention would not discourage investment and innovation in indirect access services.

Risk and customer assessment

11. LBG notes the PSR's findings that there is limited choice for some non-agency IPSPs, "*particularly for small IPSPs, and those perceived to be higher risk*" (Finding 1). **[REDACTED]**.

12. LBG also notes the PSR's comments relating to financial crime regulation, and its influence on the market (Finding 6). LBG would be very concerned if the PSR was implying that the risk management measures LBG takes are somehow unjustified. LBG has a zero-risk appetite for regulatory breaches, and takes its obligations in this area extremely seriously. It makes no apology for that given the very significant adverse consequences of "getting it wrong" and the vital public policy objectives which underlie the rules.

13. Nevertheless, given its desire for greater clarity and consistency in relation to the interpretation of financial crime legislation, LBG welcomes the Payment Strategy Forum's (PSF) working group aimed (in part) at reducing the cost of compliance with AML/fraud regulation and the various other financial crime reviews to which the PSR refers. LBG agrees that this work may reduce the operational impact of AML/fraud regulatory compliance and thereby make the provision of indirect access to a wider pool of IPSPs more attractive for other IAPs.

Pricing

14. LBG is not surprised by the PSR's conclusion that there are no significant concerns regarding pricing (Finding 3), and the PSR's recognition of LBG's previous submissions explaining that pricing is a function of many factors,**[REDACTED]**, which are difficult to assess on a standalone basis. LBG would therefore query how the PSR would propose meaningfully to assess whether there have been "*improvements in price outcomes for those IPSPs who are currently not satisfied with the price of indirect access*".[2] LBG also

[2] Interim Report, paragraph 8.30.

has concerns regarding the PSR's suggestions of potential pricing-related remedies, as discussed below.

Switching

15. In relation to the PSR's comments on switching, LBG agrees that industry developments (such as the Image Clearing System for cheque payments) and new entry/expansion of indirect access options (including by LBG) will enhance IPSPs' incentives and ability to switch.

16. In addition, as the PSR recognises, those smaller IPSPs which operate using a standard business current account already benefit from the CASS regime. LBG also notes that the benefits and awareness of this regime are likely to increase as a result of Bacs' work following the FCA's review of CASS, and the CMA's proposed CASS-related remedies in its retail banking market investigation.

17. For larger customers and those with more complex services, there are inevitably some costs involved with switching, as recognised in Finding 7. LBG already provides support for customers seeking to switch to direct access or to another IAP. LBG notes that the Code of Conduct for Indirect Access Providers (the Code of Conduct) also includes commitments relating to transitioning support which should also assist in addressing the PSR's concerns. This commitment is currently provided on an interim basis by the four sponsor banks which the PSR asked to develop the interim Code of Conduct. LBG considers that IPSP customers would benefit from wider support for this commitment from the other IAPs that the PSR has identified during the course of its review, and by new IAPs entering the market. LBG therefore believes that the PSR could deliver improved outcomes for IPSPs by:

    (i) continuing to engage with the ongoing consultation process on the Code of Conduct;

    (ii) formally approving the final Code of Conduct, in order to incentivise IAPs to support the Code; and

    (iii) publicly encouraging such support by other IAPs.

    This would ensure the maximum possible coverage of the Code of Conduct and ensure that IPSPs benefit from the commitments in the Code irrespective of the IAPs which are involved in any particular switch.

Potential remedies

18. The Interim Report identifies potential remedies that the PSR intends to consider in the event that it believes its concerns have not been alleviated within 12 months. LBG acknowledges that the PSR will consult on any potential remedies in due course if it proposes to take any forward. As the PSR recognises, it will be important that it applies a proper assessment of the effectiveness and proportionality of any proposed remedies in light of the market context, a full cost/benefit analysis and an understanding of the risk of unintended consequences. The PSR's Finding 4 that indirect access does not generate significant revenues on a standalone basis is relevant to the proportionality assessment.

19. LBG's initial views on the potential remedies outlined are discussed in response to Consultation Question 6 below. In summary:

    (a) ***Choice***: LBG is concerned that requiring DPSPs to become IAPs would decrease incentives for IPSPs to become DPSPs, and thereby adversely affect competition by narrowing the choices available to IPSPs. It is also highly improbable that DPSPs which were forced to provide indirect access would compete actively innovate or provide good quality service. Given the significant costs associated with becoming a direct member, LBG believes that it would also be both disproportionate and unrealistic to force PSPs to become direct members in the hope that they would then become IAPs.

(b) ***Quality and price***: LBG is concerned that if the PSR were to mandate minimum service standards or maximum prices, this could increase barriers to entry and reduce the scope for competitive differentiation among providers. Such remedies would also require a careful assessment of proportionality.

(i) The costs of providing indirect access services are influenced, among other things, by the type of service offered, the clients to which they are offered, and the provider's existing capabilities. If the PSR were to mandate minimum standards or maximum prices, this would constrain what strategies a new entrant or existing provider could deploy to enter the market or develop an innovative service, and limit customer choice, competition and innovation over the long term. In industries such as passenger air transport and groceries, alternative service models have transformed the market. LBG believes that given the diverse needs of indirect access customers, and the different competitive strengths and existing capabilities of current IAPs, it is crucial not to constrain such differentiation in the indirect access market.

(ii) It is very important that a proportionate approach is taken in relation to any potential quality-related remedies. This is to ensure that providers are not disincentivised from remaining in the market or expanding their services, and that any quality-related remedies would not have a materially negative impact on prices, due to disproportionate implementation costs. This is particularly relevant in light of the PSR's comments on the limited indirect access revenues generated from IPSPs, particularly smaller ones.[3]

(iii) LBG considers that a price-related remedy would not be proportionate, given that: IPSPs already have several choices of IAP; their choices are expected to increase further; and the results of the PSR's survey suggest there is not a widespread level of concern around pricing.[4] Furthermore, as recognised in the Interim Report, assessing prices on a stand-alone basis is very difficult given the variety of factors which are taken into account in setting prices. It is therefore difficult to see how fixed or maximum prices could be set or why this would be an appropriate action for the PSR to take.

(iv) In respect of quality-related remedies, LBG notes that the interim Code of Conduct sets out a range of measures aimed at improving the provision of indirect access, including provisions relating to transition support, notice periods and service performance levels. LBG expects the finalised Code of Conduct to have a positive impact on service quality, and believes that the PSR can help to support wider adoption of the Code as set out above.

(c) ***Switching***: LBG is unclear what the PSR means when it refers to "*firming up existing switching guarantees to all PSPs*". If the PSR is intending to refer to CASS, LBG notes that this relates to a bank account switch (specifically, a current account switch), a much narrower process than that involved in switching an agency IPSP or large non-agency IPSP which require a different range of services. Nevertheless, LBG would encourage and be supportive of the PSR working with IAPs to investigate whether at least some of the principles enshrined in the CASS Guarantee should be extended to IPSPs that are not included in the current scope of CASS. LBG notes that any such guarantees may need to be tailored, for example

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[3] For example, Interim Report, paragraph 4.98.

[4] Interim Report, paragraph 4.109.

depending on the products that are being switched. If relevant principles can be agreed, they could be included in the relevant section in the Code of Conduct.

However, LBG would emphasise that there is a key distinction between introducing certain switching-related guarantees based on the CASS Guarantee and standardising the switching service itself. In particular, while many smaller IPSPs (in particular those that operate using a standard business current account) are already able to benefit from CASS, agency IPSPs and large non-agency IPSPs typically operate using bespoke services. These services are tailored to their specific needs and the capabilities of their current IAP. Any switch has to be planned and implemented on a case-by-case basis to meet the customers' needs. Accordingly, LBG does not believe that a standardised switching process would be in the best interests of these customers, or that it could be implemented without leading to disproportionate cost and operational complexity. LBG would also be concerned that the costs and difficulties associated with introducing a standardised switching process for all IPSPs would disincentivise DPSPs from providing indirect access. This would run counter to the PSR's objective of increasing choice for IPSPs.

LBG believes that the best approach to facilitate switching is for the existing and new provider to cooperate with the customer to facilitate the switch, as LBG does today. Therefore, LBG believes that the PSR can best facilitate switching by encouraging wider adoption of the existing commitments under the interim Code of Conduct and considering the possibility of expanding the principles in the CASS Guarantee, as noted above.

20. These points are discussed in further detail in response to the Consultation Questions below, and LBG would be happy to provide further details on any of the points raised in this response to the PSR.

PSR Consultation Questions

1. **DO YOU AGREE WITH OUR INTERIM FINDINGS? PLEASE PROVIDE EVIDENCE TO SUPPORT YOUR RESPONSE, IN PARTICULAR IF YOU DISAGREE WITH OUR FINDINGS.**

1.1 As set out in the Introductory Remarks above, overall, LBG welcomes the PSR's Interim Report, and in particular, its conclusion that remedies are not appropriate at this time. However, LBG does have some comments regarding some of the interim findings set out in paragraphs 7.11 - 7.26 of the Interim Report. LBG hopes that these will assist the PSR with its ongoing review, and would be happy to discuss these points further. Taking these in turn:[5]

Finding 1

"The four main IAPs (Barclays, HSBC, LBG and RBS) all provide services to agency IPSPs and non-agency IPSPs. A number of other IAPs also provide non-agency indirect access services. However, ***the choice available to some non-agency IPSPs appears to be limited, particularly for small IPSPs, and those perceived to be higher risk****.*

If these IPSPs are not satisfied with the services they receive from their IAP they will have little or no power to negotiate with their IAP and little or no choice in finding an alternative IAP. Large IPSPs tend to have a wider choice of access options, and many are exercising that choice, including through alternative options such as direct access and aggregators. Work to date by the PSR has helped to make these alternative options available to a wider number of IPSPs."

1.2 LBG considers that there are already a number of choices available in the market, even for smaller IPSPs. LBG is pleased that the PSR has recognised that indirect access services for non-agency IPSPs are provided by a wider range of providers than the four main IAPs.[6]

1.3 The current and planned developments in the sector should provide a significant increase in the options available for all payment systems users. In particular, LBG agrees that concerns regarding limited choice should be addressed by:

(a) the expected new entry into the market (for example, Raphaels Bank);

(b) enhancement of existing IAP offerings (including by LBG);

(c) the on-going work to facilitate direct access, which should make direct access an easier option for IPSPs and may indirectly lead to an increase in IAPs;

(d) the development of alternative direct technical access solutions, such as technical access through an aggregator;

(e) the PSF's ongoing programme of work on financial crime regulation, and the other financial crime reviews. These could potentially reduce operational requirements and thereby make the supply of indirect access more attractive to other IAPs by helping them to mitigate financial crime risks; and

(f) various policy developments which will have the potential to open up new ways for PSPs to access payment systems in the future. For example, PSD2 will allow for

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5 Please note, the text setting out the *Findings* in this section is copied directly from the Interim Report, and therefore the bold emphasis has been added by the PSR rather than LBG.

6 For example, Interim Report, paragraphs 3.36, 3.39 and 3.41.

increased use of APIs between banks and third parties, opening up the payments market to new entrants. Under PSD2, banks must allow authorised parties to access customer account information and/or initiate payments from customer accounts (where customer consent is obtained).

1.4 The Interim Report indicates that at least four businesses are planning to become IAPs,[7] which will increase the number of providers, and therefore the options available for IPSPs. Similarly, the PSR has identified at least 15 IPSPs which intend to become DPSPs in the next three years.[8] LBG also understands that VocaLink and FIS have recently gained accreditation from FPS to supply technical access, with four more fintechs expected to follow shortly.[9] LBG welcomes increased commercial entry as a means of increasing choice for customers.

1.5 **[REDACTED]** However, as the PSR is aware, LBG is undertaking a programme of incremental investment in core infrastructure to benefit clients of its Commercial Banking business, which amongst other things, will increase choice for indirect access customers.

1.6 This programme has already seen significant investment made to enhance processing controls, resilience and security across LBG's core payments infrastructure. **[REDACTED]** Access solutions which LBG aims to bring to the market in the short term include its agency IPSP Cheque Imaging solution **[REDACTED]**[10] LBG believes both will meet clients' needs and, as a result, make LBG's service more attractive, thereby promoting switching. In this regard, LBG was one of the first providers to actively embrace the opportunities presented by the planned cheque image clearing system,**[REDACTED]** which will come into effect when the Image Clearing System is implemented in 2017.

1.7 **[REDACTED]**.

Finding 2

*"**Overall there is a reasonable level of satisfaction with the quality of indirect access offering that IPSPs receive. However, we have identified some service quality issues for each of the different categories of IPSPs.***

Large agency and medium agency IPSPs have concerns about the quality of technical access to FPS and its availability. This is a particular issue for banks and building societies given their customers' increased demand for real-time payments. Small non-agency IPSPs have raised concerns about notice periods for the termination of indirect access agreements and the relationship management provided by IAPs."

1.8 In relation to Finding 2 and quality of service generally, LBG puts its clients at the centre of its business model, and therefore seeks to compete strongly on service quality.**[REDACTED]**

1.9 LBG welcomes FPS' review of its access model and agrees that improvements to technical access models will increase the choice available to IPSPs. These developments, **[REDACTED]**, will provide a range of different direct and indirect access options with higher quality service. LBG anticipates that many of the new access options will begin to be used within the next 12 months.

1.10 In relation to the concerns raised by non-agency IPSPs, LBG notes that the survey results at paragraph 4.53 of the Interim Report are based on a very small sample of only 23 non-

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7 Interim Report, paragraph 5.66.

8 Interim Report, paragraph 5.61.

9 https://www.psr.org.uk/psr-publications/speeches/a-tale-of-two-market-reviews

10 **[REDACTED]**

agency IPSPs. The PSR should therefore treat this result with caution – particularly given the risk of self-selection bias in favour of dissatisfied customers.[11]

1.11 In relation to the concerns surrounding access to relationship managers, as explained in previous submissions, LBG's clients are at the centre of its business model, alongside relationship managers, and when clients have raised relationship management concerns in the past, LBG has taken appropriate action to liaise with the customer, and address these concerns. LBG would be happy to discuss with clients any particular concerns they may have regarding the management of their relationship on a case-by-case basis.

1.12 However, the relationship management model should reflect customer needs and the most effective model to meet those needs. For example, LBG serves those smaller business customers allocated to its RBB business unit using a multi-channel approach which meets their requirements and delivers simple and low cost banking products. LBG believes that a similar approach is likely to be appropriate for some smaller IPSPs which operate using a standard business current account. Additionally, for a business model to be sustainable, service providers must be able to cover the costs of providing their relationship management and other services to customers, some of which may generate very low revenue (LBG notes from paragraph 4.100 of the Interim Report that the median annual income from non-agency IPSPs is only £800).

1.13 **[REDACTED]**.

1.14 LBG agrees that the concerns regarding quality of service for smaller IPSPs should be significantly reduced by the roll-out of the Code of Conduct. As the PSR has highlighted in paragraph 8.5 of the Interim Report, the interim Code of Conduct sets out a range of measures and commitments to improve indirect access to interbank payment systems. In particular, the interim Code of Conduct requires that a transition plan is agreed with customers that wish to switch provider (or switch to being a direct member). As noted in its previous submissions, LBG also supports customers during the transition period. The Code also entitles IPSPs to a written contract with specified notice periods and clear service performance levels.

1.15 The implementation of the second EU Payment Services Directive (PSD2) should provide further assurance in relation to quality concerns, because it contains provisions requiring objective, non-discriminatory and proportionate access to payment systems and full reasons for any rejection to be provided.[12]

Finding 3

"The evidence on pricing is inconclusive. Analysis of different pricing indicators shows a wide spread in the prices paid by IPSPs for indirect access to each of the interbank payment systems. ***Some IPSPs have expressed concern about prices, although the overall feedback we have received to date does not indicate a widespread level of concern with price. Large IPSPs tend to pay relatively lower prices and some do not appear to pay more for indirect access compared to the fees they could expect to pay if they were direct PSPs (DPSPs).***

The differences in price appear to be down to a number of factors, including: the level of the IAP's revenues from the wider commercial relationship with the IPSP; an IPSP's individual ability to negotiate and influence prices; tariff structures; volume of transactions; and how transactions are processed (e.g. batch or individual transaction processing).

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11 LBG notes the PSR's comment in paragraph 4.26 of the Interim Report regarding the limitations of the sample size, in particular with the smaller subset of non-agency IPSPs within the sample. However, in light of this very small sample size, LBG would question whether these findings could even be considered indicative.

12 For example, see Interim Report, paragraph 8.12.

Given that the pricing of indirect access services appears to be determined as part of a broader relationship between IAPs and their customers, we consider that some caution needs to be shown in drawing stronger conclusions based on the pricing information for indirect access only."

1.16 LBG broadly agrees with the PSR's findings in relation to indirect access prices, and as explained above, is not surprised that the overall feedback the PSR has received to date does not indicate a widespread level of concern with price.

1.17 As noted in its previous submissions, LBG strongly agrees that, as a result of the difficulty in assessing and comparing revenues on a standalone basis, in particular due to the importance of the wider banking relationship,**[REDACTED]**. On this basis, it is not clear how the PSR would assess whether the relevant IPSPs' pricing-related concerns have been satisfied. For example, the PSR would need to consider the impact of any investment which may lead to an increase in customer service, rather than a decrease in price.

1.18 LBG notes that only a minority of customers have expressed dissatisfaction on price. The PSR should therefore be cautious about taking regulatory action based on a minority of respondents. In this respect, LBG was surprised by a few of the references in the PSR's public commentary on the indirect access review, for example, the implication that the PSR's findings had concluded that for smaller players, indirect access "*charges are too high*"[13]. The Interim Report suggests that the evidence on pricing was inconclusive[14] and that overall feedback does not indicate a widespread level of concern.[15] LBG would therefore welcome clarification as to whether the subsequent statements were intentionally different.

1.19 LBG would have significant concerns regarding the potential price-related remedies the PSR has put forward in paragraph 8.30 of the Interim Report (see further Consultation Question 6 below).

Finding 4

*"**IPSPs receive indirect access services alongside other banking services as part of a wider commercial relationship. The provision of indirect access services does not appear to generate significant revenues for IAPs on a standalone basis.***

In addition, the majority of IAP revenues from indirect access are derived from a small number of relationships with large IPSPs. The combination of low revenues and significant ongoing monitoring and compliance costs suggests that the commercial incentives for some IAPs to provide indirect access on a standalone basis to some IPSPs are limited."

1.20 LBG provides indirect access services alongside other banking services, and **[REDACTED]** in annual indirect access revenue from IPSPs. From its perspective , **[REDACTED** and also that there are significant ongoing monitoring and compliance costs involved in the provision of indirect access services.

1.21 Notwithstanding this finding, LBG's vision is to be the best bank for customers, and this includes in the provision of its indirect access services. LBG currently views the indirect access market as an attractive one in which to invest, **[REDACTED** As noted previously,[16] it is crucial that the PSR market review supports and encourages investment and innovation by LBG and others, and does not make it commercially less attractive for those looking to invest and improve existing and new access models.

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13 https://www.psr.org.uk/psr-publications/speeches/a-tale-of-two-market-reviews

14 Interim Report, paragraph 4.87.

15 Interim Report, paragraph 7.28.

16 IA Questionnaire Response, Introductory Remarks, paragraph 17.

Finding 5

*"**While levels of entry and expansion into the supply of indirect access have historically been low, this appears to be changing. We are aware of four potential entrants planning to become IAPs.** They are responding to various commercial, technological, market and regulatory changes, and are all pursuing different business strategies."*

1.22 As discussed above, LBG considers that the indirect access market is attractive, and LBG plans to make investments to enhance its proposition with the objective of increasing its market share. It is therefore unsurprised that other potential entrants would be reaching similar conclusions. LBG welcomes increased commercial entry as a means of providing enhanced choices to customers.

Finding 6

*"**Financial crime regulation is a market characteristic that has an important influence on IAP behaviour.** Some IAPs apply minimum revenue thresholds for new IPSP customers and have introduced de-risking policies for existing IPSPs – where they terminate access for customers perceived to be higher risk – in order to mitigate the perceived risks and costs associated with financial crime (chiefly money laundering and terrorist financing). This has particularly affected small non-agency IPSPs.*

IAPs also have different commercial appetites for attracting new (and retaining existing) IPSP business. Some want to expand their IPSP activities, while others are more selective about which IPSPs they serve. Generally speaking, large agency IPSPs and medium (agency or non-agency) IPSPs are seen as most attractive, while many IAPs have only limited interest in smaller non-agency IPSPs."

1.23 LBG agrees that financial crime regulation is a market characteristic that has an important influence on IAP behaviour. However, as noted above, and in a previous response to the PSR's draft Interim Report extracts, LBG would be very concerned if the PSR was implying that LBG's risk management measures are somehow unjustified or over-extensive (LBG notes the repeated references to "*perceived risk*" in this context, and the PSR's public commentary that IAPs may be "*overcautious about doing business with a third party*"[17]). LBG has a zero risk appetite for regulatory breaches, and takes its obligations in this regard extremely seriously. LBG considers this approach is necessary and expected by Government, its regulators and other stakeholders (including customers), given the important public policy objectives which underlie these regulations, and the significant adverse consequences of any infringements. LBG also notes that financial crime regulation directly affects all financial institutions, including the main IAPs.[18]

1.24 However, as noted in LBG's IA Questionnaire Response, greater clarity and consistency from UK and international regulators as to their expectations regarding compliance with financial crime legislation would be helpful. In that respect, LBG welcomes the PSF's working group aimed (in part) at reducing the cost of compliance with AML/fraud regulation, and the various other financial crime reviews to which the PSR refers.

In relation to Finding 6, LBG agrees that its conduct is significantly (and appropriately) influenced by financial crime regulation.**[REDACTED]**. In terms of attracting new business, LBG would repeat that it is looking to expand in the indirect access market, and to build long-term relationships with clients. **[REDACTED]**

17 See https://www.psr.org.uk/psr-publications/speeches/a-tale-of-two-market-reviews

18 **[REDACTED]**.

Finding 7

*"**The rate of switching between IAPs is low for all categories of IPSPs.** All IPSPs are concerned about potential service disruption if they do switch. Due to the complexity of agency relationships, for large agency and medium agency IPSPs this can be attributed to the cost, time and resources required.*

The transferability of sort codes currently also limits switching for agency IPSPs. However, the new Image Clearing System for cheque payments will address this concern. For small non-agency IPSPs, lack of choice of IAPs is a key factor that makes switching difficult."

1.25 LBG notes that customers may choose to remain with their current provider because they are satisfied with their existing service, rather than because they face barriers to switching. Accordingly, while LBG would support measures that will help customers to exercise choice and reduce any identified barriers to switching, LBG does not believe that increasing switching rates should be an objective in itself, or that it is possible to identify what is a "good" rate of switching.

1.26 LBG agrees that in assessing the extent of barriers to switching, it is necessary to understand the differences between IPSPs. For smaller IPSPs which operate using a standard current account, LBG considers that CASS provides a world-leading switching service and significantly reduces any barriers to switching. LBG also notes that, as LBG suggested at the outset of the review, there is a much wider pool of IAPs who can provide services to non-agency IPSPs using standard commercial banking arrangements.

1.27 In relation to larger agency IPSPs, LBG agrees that there will always be costs involved with switching, due to the technical complexities involved. As explained previously,[19] switching IAPs typically takes time due to the importance of maintaining accuracy, integrity and resilience. It involves coordination between the current and new IAPs, the switching IPSP and third party service providers. For these customers, transition is typically managed as a bespoke project, reflecting the existing services used by the customer, how these will be delivered by the new provider, and the customer's preferred approach to managing the transition process. However, these are not insuperable barriers to switching. LBG fully supports its customers throughout the switching process, whether they are migrating to direct access or to another IAP.

1.28 Moreover, LBG agrees that concerns regarding barriers to switching should be addressed by several ongoing initiatives including:

(a) the implementation of the Image Clearing System for cheques, which will address issues associated with the non-transferability of sort codes;

(b) the ongoing initiatives relating to CASS, including the implementation by Bacs of the FCA's recommendations following its review of CASS,[20] and the development of the CMA's proposed CASS-related remedies;

(c) the PSR's Sponsor Bank Information Direction;

(d) the PSF's simplification work;

(e) the CMA's other measures to improve switching at the retail banking level; and

(f) the interim Code of Conduct's commitments regarding transitioning from an IPSP to a DPSP and between IAPs.

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[19] IA Questionnaire Response, paragraph 64.2.

[20] https://www.bacs.co.uk/documentlibrary/cass_making_account_switching_easier.pdf

1.29 LBG also notes that incentives to switch will increase with new entry and expansion of services offered by existing IAPs (including LBG).

1.30 LBG comments on the PSR's potential switching remedies below.

2. **HAVE WE IDENTIFIED THE KEY CONCERNS WITH THE SUPPLY OF INDIRECT ACCESS TO INTERBANK PAYMENT SYSTEMS? IF NOT, PLEASE IDENTIFY ANY OTHER KEY CONCERNS YOU HAVE AND TO THE EXTENT POSSIBLE PROVIDE EVIDENCE TO SUPPORT YOUR COMMENTS.**

2.1 The PSR's key concerns are set out in paragraph 7.29 of the Interim Report, and can be summarised as follows:

(a) limited choice of IAPs, particularly for smaller non-agency IPSPs;

(b) specific quality-related issues with indirect access (i.e. quality and availability of technical access to FPS, termination periods of indirect access contracts and relationship management services provided by IAPs); and

(c) barriers to switching IAPs faced by IPSPs.

2.2 The extent to which LBG agrees with these findings is explained in response to Consultation Question 1 above.

2.3 LBG does not consider that there are any additional concerns with the supply of indirect access to interbank payment systems.

3. **DO YOU THINK THAT THE CURRENT AND ANTICIPATED DEVELOPMENTS WE HAVE LISTED ARE LIKELY TO ADDRESS THE CONCERNS WE HAVE IDENTIFIED?**

3.1 LBG agrees that the list of current and anticipated developments in paragraph 8.5 of the Interim Report are likely to address the PSR's concerns and improve outcomes for service-users, as set out in Table 12 of the Interim Report.

3.2 Please see further details in response to Consultation Question 1, and also Consultation Question 5, which includes additional developments which LBG considers should be taken into account.

4. **WHAT OTHER STEPS COULD WE TAKE TO PROMOTE OR SUPPORT THE DEVELOPMENTS, IN PARTICULAR THE ENTRY OF NEW IAPS AND/OR EXPANSION OF EXISTING IAPS/DIRECT PSPS, OR ANY FURTHER STEPS WE COULD TAKE TO MAKE THE PROCESS OF SWITCHING EASIER/MORE TRANSPARENT? IN PARTICULAR, ARE THERE ANY TECHNICAL OR REGULATORY MATTERS THAT ARE ACTING AS BARRIERS TO SWITCHING, WHICH WE COULD SEEK TO ADDRESS?**

4.1 As noted above, LBG welcomes the PSR's interim conclusion that specific remedies are not appropriate at this time, and therefore does not consider that any additional steps are required by the PSR at this stage.

4.2 LBG supports the PSR's proposal to monitor the market going forward (subject to its concern regarding the proposed length of time over which this monitoring will occur, and the current lack of clarity on what outcomes the PSR expects, discussed below). LBG believes that the current and anticipated developments the PSR has identified are likely to address the concerns set out in the Interim Report and should not require additional measures from the PSR. However, LBG considers that the PSR could facilitate these developments by supporting wider support for the Code of Conduct, as explained in more detail in paragraph 17 above. Moreover, LBG refers to its comments in paragraph 19(c) above regarding the potential extension of at least some of the CASS switching guarantees to other IPSPs.

4.3 Please also see the response to Consultation Question 6, which includes points on which LBG considers it will be important for the PSR to focus in drafting its final report, and in considering any potential remedies.

5. **ARE THERE ANY IMPORTANT DEVELOPMENTS THAT ARE LIKELY TO AFFECT THE SUPPLY OF INDIRECT ACCESS THAT WE HAVE NOT IDENTIFIED IN THIS INTERIM REPORT? IF SO, PLEASE ALSO SET OUT THE TIMELINES FOR THESE DEVELOPMENTS, AND ANY FACTORS THAT MIGHT IMPACT ON THE LIKELIHOOD OF THEM OCCURRING. PLEASE ALSO INDICATE HOW YOU THINK THESE DEVELOPMENTS MIGHT ADDRESS THE CONCERNS WE HAVE IDENTIFIED.**

5.1 In addition to the developments the PSR has identified and set out in paragraph 8.5 of the Interim Report, there are a number of other future developments which will have the potential to significantly affect the indirect access market. It is therefore important that the PSR takes these into account when drafting the final report, and considering any potential remedies. In particular:

(a) ***PSD2***: while the Interim Report refers briefly to further regulatory developments which are expected to be implemented into UK law in accordance with Articles 35 and 36 of PSD2[21], the overall impact of PSD2 will be significant. In particular, PSD2 will lead to additional regulatory requirements on IAPs, and to significant market changes associated with the entry of third party providers. These developments are likely to be facilitated by the Government's Open Banking initiative, which will provide for API-based access to customer data for third party providers.

(b) ***Changes in payment systems infrastructure***: it is important that the PSR takes into account the impact of potential changes in infrastructure provision on the indirect access market. For example, mandatory migration to a common standard, such as ISO20022, could lead to migration costs for direct members of payment schemes and affect entry into the indirect access market.

(c) ***Ring-fencing***: the changes resulting from the ring-fencing obligations are likely to cause IPSPs to consider their position in advance of the changes coming into effect in 2019. For example, IPSPs may consider switching to other providers before the changes come into effect. Current IPSPs may also be required to obtain direct access (for example, overseas banks that may be required to clear in sterling).

(d) ***Technology***: given the speed at which technology is developing and the fairly recent rise to prominence of fintech companies, it is feasible that a new technology like Blockchain could have a significant and very rapid impact on traditional services, such as payments, that is not easy to predict. Blockchain/Distributed Ledger, specifically, may have the ability to make the current centralised payment systems redundant, the current access models obsolete, and open up completely new payment services from new service providers. LBG understands the Bank of England may provide further insight into this development as part of its RTGS Strategic Review.

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21 For example, see paragraphs 8.12 and 8.22 of the Interim Report.

6. **IF THE DEVELOPMENTS DO NOT SUFFICIENTLY ADDRESS THE CONCERNS WE HAVE IDENTIFIED IN THE NEXT 12 MONTHS, WHAT ACTION, IF ANY, DO YOU CONSIDER WE SHOULD WE TAKE AT THAT POINT? WHAT WOULD BE THE ADVANTAGES AND DISADVANTAGES OF SUCH ACTION?**

The proposal to monitor developments

6.1 LBG notes paragraph 9.1 of the Interim Report, which states that the PSR's "*interim proposal is that [it] will monitor [the] developments and … consider taking further regulatory action either as part of this review, or if [its] concerns are not sufficiently addressed within 12 months*". While LBG supports the PSR's proposal to continue to monitor the developments in the market, as noted above, LBG believes that 12 months is unlikely to be sufficient for the PSR to assess whether its concerns have been addressed. In particular:

(a) whilst some developments may have come to fruition by March 2017, such as the PSF's strategy recommendations, the CMA's remedies in its Retail Banking market investigation, an increased awareness of CASS, the Bank of England's Strategic Review of its RTGS infrastructure and some of the financial crime regulation reviews, many will be ongoing. For example, in relation to new entry/expansion, the Interim Report states that 15 IPSPs said they plan to become DPSPs "*within the next three years*"[22] (LBG also notes that at least four of the 15 also plan to become IAPs) and two of the four main IAPs which plan to expand and improve their indirect access offering **[REDACTED]** intend to do so over "*the next 1-2 years*"[23]. LBG's own plans envisage an investment programme over more than 12 months and PSD2 will also only begin to have significant effects during 2018. Moreover, the Bacs access review may not have been fully implemented within this 12 month time period; and

(b) it will then take additional time for the effects of these developments to be observed and analysed. For example, many customers may not have an obvious window to switch IAP within the next 12 months, given existing contracts with their current IAPs or their competing business priorities. Similarly, the Future Clearing Model (FCM) is not expected to be launched and commence roll-out until 2017, and therefore it would seem unlikely that the PSR would be able to assess the impact of FCM within the proposed 12-month timeframe.

6.2 As noted in the Introductory Remarks, it will also be important for the PSR to identify clearly how it will measure progress in the industry, and provide further details on the principles which will guide this assessment. In this respect, LBG notes that while it welcomes the generally positive results of the PSR's service satisfaction survey,[24] LBG agrees with the PSR's acknowledgment in paragraph 4.20 that survey results do not provide a perfect proxy for the quality of service, and believes that this is compounded by the attempt to compare responses to different survey questions across different industries. LBG would therefore caution against using this methodology to assess whether there are improvements to service in future.

The early thinking on remedial options

6.3 As noted in its Introductory Remarks, LBG acknowledges that the PSR will consult as appropriate on any potential remedies, to the extent it believes they are required. It will be important that it applies a proper assessment of the effectiveness and proportionality of any proposed remedies in light of the market context, a full cost/benefit analysis and

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22 Interim Report, paragraph 5.61.

23 Interim Report, paragraph 8.5.

24 Which suggests, for example, that there is an overall satisfaction rating of 70 per cent (Interim Report, paragraph 4.23).

an understanding of the risk of unintended consequences. However, LBG has concerns about the potential remedies listed in paragraphs 8.24 - 8.31. In particular, in respect of each of the PSR's key concerns, the following remedies have been suggested:

Choice

Requiring all DPSPs (or, for example, those above a certain size) to act as IAPs (or to act as IAPs in relation to, for example, non-agency IPSPs).

6.4 As a current IAP, this proposed remedy would not have a direct effect on LBG. However, the PSR should consider very carefully whether such a remedy would have an adverse effect on competition, by disincentivising IPSPs to become DPSPs. This risk is particularly pertinent in light of the relatively low revenues generated by indirect access provision (see PSR Finding 4). It is also highly improbable that DPSPs which were forced to provide indirect access would compete actively, innovate or provide good quality service. Moreover, as noted in paragraph 5.35 of the Interim Report, some DPSPs in CHAPS became direct participants mainly as a result of the "de-tiering" work by the Bank of England, rather than as part of a plan to become an IAP. It is likely that such DPSPs would have to significantly adjust their business models in order to become IAPs.

Requiring PSPs who are able to (or subsets of such PSPs) to become direct participants of specified interbank payment systems.

6.5 LBG considers that the PSR's work in the direct access space is likely to have a positive impact on the number of direct access participants, and indeed the PSR has noted that at least 15 IPSPs have said they are planning to become DPSPs within the next three years.[25] LBG also considers that choice for IPSPs is likely to significantly increase as a result of the current and expected improvements in direct technical access and development of aggregator arrangements. In this respect, LBG understands that VocaLink and FIS have recently received accreditation from FPS to supply access, with four others soon to follow.[26] Given these likely developments it would seem unnecessary to mandate this remedy.

6.6 As the PSR acknowledges, there are also significant upfront costs involved in becoming a DPSP (currently in the order of £2.5m to £4m according to the PSR's interim report),[27] and doing so would not necessarily lead to any increase in the number of IAPs. In addition to the upfront costs, there are many other ongoing costs relating to, amongst others, product management, risk, regulatory compliance and operations. Paragraph 5.33 of the Interim Report notes that there could be in principle at least seven IAPs who could provide indirect access to all interbank payment systems, and 25 IAPs who could supply indirect access to at least one individual interbank payment system (LBG notes that a wider pool of IAPs may be able to offer "nested" indirect access services).[28] However, not all DPSPs are interested in becoming IAPs (for example, this is unlikely for those who were required to become direct members as part of the Bank of England's de-tiering work).

6.7 In light of this, and the new entry referred to above, it would seem disproportionate to force PSPs to become direct members, in the hope that this would then lead to an increase in the number of indirect access providers.

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25 Interim Report, paragraph 5.61.

26 https://www.psr.org.uk/psr-publications/speeches/a-tale-of-two-market-reviews

27 Interim Report, paragraph 5.28.

28 Interim Report, paragraph 5.33.

Quality

Requiring IAPs to satisfy minimum quality standards and termination notice periods.

6.8 It is unclear what the PSR has in mind as regards "*specific minimum quality standards*" and it is therefore difficult for LBG to comment on this potential remedy at this stage. However, LBG does not believe that such a remedy would be justified given the PSR's assessment that overall, IPSPs appear to be reasonably satisfied with the level of service they receive,[29] and the expected entry which should improve service quality further. It is also not clear how the PSR would ascertain what a reasonable and satisfactory minimum service level should be in this context.

6.9 As noted above, in general, LBG considers that mandating a minimum service standard could increase barriers to entry, reduce competitive differentiation, and have an adverse effect on competition and innovation. Imposing such a standard would be likely to increase providers' costs. This could lead to an increase in prices and may also result in a reduction in choice for certain customers. For example, many smaller PSPs are likely to have relatively simple needs and may therefore prefer to pay a lower price in exchange for a simple multi-channel service proposition.

6.10 Notwithstanding the above, LBG notes the issues raised by some small non-agency IPSPs around relationship management. LBG would need to have a more precise understanding of what the PSR might envisage on this issue in order to comment further, however, as explained above, LBG is happy to engage with customers on a case-by-case basis in relation to any such concerns.

6.11 As explained in paragraph 1.14, LBG also considers that the finalised Code of Conduct should have a positive impact on service quality. LBG therefore believes the PSR should support the wider adoption of the Code of Conduct and then wait to consider the impact of this development before imposing any remedies, including minimum quality standards, which would be difficult to set, may discourage innovation or lead to price increases, and would likely involve material ongoing enforcement costs.

6.12 In addition, in relation to all quality-related concerns, the proportionality of any remedies is crucial, and it is important that any measures imposed by the PSR do not disincentivise providers to remain in the market or to expand their services.

6.13 The PSR has acknowledged that the revenue generated from the provision of indirect access services is relatively low (for example, the median non-agency IPSP generated only £800 in revenue in 2014 and a quarter of non-agency IPSPs across the four main IAPs generated less than £200[30]). In this respect, it is entirely normal for smaller clients with more straightforward needs to be served in a way which reflects these needs. For instance, within LBG, such clients are supported by its RBB business unit, which provides clients with low cost and simple to use banking products. Larger customers with more complex needs are supported through LBG's coverage teams within its Commercial Banking division.

Requiring all FPS DPSPs to provide an equivalent quality of service to the IPSPs they serve as they provide to their own downstream retail activities.

6.14 LBG notes that those non-agency IPSPs which operate using a standard business current account by definition receive the same service as LBG's other business customers.

6.15 **[REDACTED]**

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29 Interim Report, paragraph 4.56.

30 Interim Report, paragraph 4.100.

6.16 It is also likely that this potential remedy would constitute a barrier to entry into the market by (i) increasing the costs of service; and (ii) preventing IAPs from adopting a phased entry strategy, in which they build capability on an incremental basis allowing them to phase their investment plans and build an IPSP customer base before developing more complex products.

Price

Set a specific, or maximum, price for indirect access, or introduce charge controls.

6.17 LBG strongly agrees with the PSR's findings that, due to the focus on the wider customer relationship, it is difficult to assess and compare the revenues for indirect access provision, as this forms only part of the revenues that are received from IPSPs.[31] Therefore, as explained in the Introductory Remarks, it is difficult to see how a fair specific or maximum price, which takes into account this wider relationship, could be set. Additionally, in light of the expected new entrants into the market going forward, and the generally positive results from the PSR's pricing survey, LBG considers that such a remedy would be disproportionate.

6.18 As explained at paragraph 19(b) above, there is also a risk that imposing price controls would have an adverse impact on differentiation, innovation and entry into the market, particularly as the revenues generated from providing indirect access services are already low relative to other banking services and to the costs of providing the service.

Require IAPs to introduce measures to improve transparency of prices (e.g. requiring IAPs to publish and adhere to price lists).

6.19 In relation to this proposal, LBG considers that it already facilitates price transparency for customers. In particular, smaller non-agency IPSPs can benefit from LBG's published standard tariffs. Larger customers typically undertake a structured tender process to enable them to compare terms (including a full price breakdown) across competing suppliers.

6.20 In addition, as explained above, requiring IAPs to publish price lists could limit customers' ability to negotiate or to request bespoke pricing that reflects their wider banking relationship and needs.

6.21 Moreover, given that the PSR only envisages such a remedy in the event that the number of IAPs is considered insufficient to deliver competitive outcomes, the PSR would need to consider whether enhanced transparency of pricing would in fact have anti-competitive effects.

Switching

Firming up of existing switching guarantees to all IPSPs.

6.22 As noted above, LBG is unclear what the PSR means when it refers to "*firming up existing switching guarantees to all PSPs*". The only existing switching guarantee relates to the CASS regime, which concerns a switch of bank account, which is a much narrower switch than an agency IPSP or large non-agency IPSP customer requires. LBG notes that IPSPs falling within its RBB business unit and many of its SME customers will already be able to benefit from the CASS service, the benefits of which are likely to be increased as a result of the FCA's review of CASS and the CMA's proposed CASS-related remedies in the retail banking market investigation. Nevertheless, LBG refers to its comments in paragraph 19(c) above regarding the possibility of extending some of the principles enshrined in the CASS Guarantee to other IPSPs.

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31 For example, Interim Report, paragraph 4.91.

Examining how the switching process could be further standardised or made easier.

6.23 LBG does not object to the PSR considering methods of making the switching process easier, and would welcome the opportunity to comment on any suggestions. However, LBG is unclear what the PSR might have in mind as regards standardising this process. There are inherent complexities in switching provider,[32] particularly given the differing requirements of various IPSP customers (especially agency IPSPs and large non-agency IPSPs). LBG would therefore caution that the switching process will always differ from case to case, and LBG does not consider it would be appropriate to attempt to create a standardised switching service for all customers.

Extending a CASS-like switching process to a wider category of smaller IPSPs.

6.24 LBG notes that steps are in train to increase the benefits and awareness of the CASS service. To the extent that this proposal relates to a standardised switching process for IPSPs which do not operate using a standard bank account, LBG does not consider that this would be appropriate for the reasons set out in paragraph 19(c) above.

Imposing requirements on IAPs to provide more regular and transparent information to enable IPSPs to make meaningful comparisons of different IAP offers.

6.25 As explained above in relation to pricing, LBG already aims to provide transparent information (for example, through the provision of its standard tariff structure for smaller customers). LBG takes steps to inform customers of new developments and to ensure they understand new offerings. For example, as noted above, LBG was one of the first providers to embrace the opportunities presented by the planned cheque image clearing developments. LBG contacted customers at the outset with explanations of the new scheme and LBG's new indirect access proposition. It has also run regular customer fora, attended by Cheque & Clearing representatives. LBG has made sure that customers are aware of the implications and actions required by indirect participants. This has allowed customers readily to compare LBG's offering with alternative options from other IAPs (as well as the direct access option). LBG has also published further information in accordance with the PSR's Sponsor Bank information direction, again enabling a comparison of LBG's services with other IAPs' offerings.

6.26 The interim Code of Conduct also includes commitments relating to the communication of important information.[33] LBG would be happy to engage further with clients and the PSR if there is an identified demand from clients for further information that they do not currently receive (recognising that, depending on the requirements, this might require an assessment of the costs of provision).

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[32] For example, as set out in paragraph 1.27 above.

[33] http://www.accesstopaymentsystems.co.uk/sites/default/files/documents/Code%20of%20Conduct%20for%20Indirect%20Access%20Providers%20%28Interim%29.pdf

7. IS THERE ANY REGULATORY OR OTHER ACTION THAT YOU CONSIDER WE SHOULD TAKE NOW? WHAT WOULD BE THE ADVANTAGES AND DISADVANTAGES OF SUCH ACTION?

7.1 LBG agrees with the PSR's interim conclusions that no remedies are required at this time. However, LBG refers to its comments in paragraph 17 in relation to the Code of Conduct.

Lyddon Consulting

LYDDON CONSULTING SERVICES LIMITED

PSR MARKET REVIEW ON INDIRECT ACCESS TO PAYMENT SYSTEMS – RESPONSE TO CONSULTATION QUESTIONS ON INTERIM REPORT

Introduction

Lyddon Consulting is a specialist consultancy company and advises clients in this space.

This response, for the purposes of the consultation on the PSR's Interim Report on indirect access to payment systems, concentrates on the lack of efficacy of the measures taken by the PSR so far, and suggests a minimum service scope that should be available from the complex IAPs/Vocalink/PSOs for there to be considered to exist a market for indirect access at all.

1. Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

No – the measures ordained by the PSR have had very little effect so far. They are nice-to-haves but do little to enable progress on the main problems:

- IAPs not accepting IPSPs either as agency or non-agency banks;
- Service gaps/the service configuration as a whole, that either:
    - Mismatch the business requirements of IPSPs
    - Represent no effective choice between IAPs
    - Require significant investment by the IPSP
    - Create lock-in due to IT considerations and need for reinvestment

The measures ordained by the PSR are:

- IAP Code of Practice:
    - All process, reporting, websites…
    - No substance about what products and services an IAP must offer as a minimum
- A website on access to payment systems http://www.accesstopaymentsystems.co.uk/:
    - Circular and superficial
    - Concentrates on what the applicant ought to think about
    - Click-through to Lloyds Bank information just goes to their Business Banking home page for customers of £25mil annual sales or more
    - Only three IAPs exist really, not seven, as the appearance of RBS, Ulster and NatWest infers, and discounting Lloyds which does not show an offering
- Information on individual IAPs' websites about the IA service offering:
    - The main problem is the service configuration – the IPSPs have to transact through an IAP
    - This imposes limitations and leaves too much to the IAP's discretion
    - Direct Technical Access to FPS and BACS should be the default but not done through IT companies in the way that FPS Direct Technical Access has been configured, unless IPSPs wish to opt for that for their own reasons
    - There needs to be a much lower-cost, lower-effort default option to gain initial access
    - See analysis below

Problem 1 – IPSPs not being accepted by IAPs for either agency or non-agency
This issue is not solved; the PSR is well aware of this so there seems no point in repeating the issues here. Suffice it to say that the underlying issue is witnessed by the section in NatWest's IAP pages on its website about availability of banking services:

QUOTE

Operational procedures and policies

You must have a strong Anti Money Laundering (AML) Policy in place that would also include Terrorist Financing and Anti-Bribery and Corruption. Documented proof of such policy existing may be required in order to verify the existence of at least the following:

- Robust processes in place to identify and verify your customers and the transactions they will be undertaking;
- Policy and procedures in place to comply with UK and EU Payment law regulations;
- Policy and procedures in place for Financial Sanctions and Terrorist Financing (FS&TF) list checking including United Nations, European Union and UK HM Treasury
- Controls in place if cash of more than €10,000 is moved into or out of the EU;
- Policy and procedures in place to report suspicious activity to the National Crime Agency;
- Security procedures in place to maintain the security of your customers' personal information;
- Records management procedures in place to retain customer information for the appropriate period;
- Appropriate screening and monitoring of new and existing staff on a periodic basis;
- Staff training in place on Financial Sanctions and Terrorist Financing, AML, suspicious activity reporting, identifying customers, record keeping requirements;
- Policy and procedures in place for identifying Politically Exposed Persons;
- Audit trail of how money is transmitted/received (i.e. the route the money takes in order to get to its destination);
- Physical security in place to ensure the safety of employees and customers;
- Procedures to ensure that NatWest is provided with the outcome of any Money Laundering Audits;

Your procedures for and demonstration of your compliance with all other relevant regulatory requirements e.g. Consumer Credit (CCA) licence, Tax, FCA.

UNQUOTE

Note the phrase "at least the following". Within this area the IAPs have adequate latitude to turn down any or all IPSPs, and, according to our information, they are doing so. This applies not just to NatWest but to all IAPs, whose policies are similar and which are cut from the same cloth as NatWest's. NatWest has simply provided a very helpful specification.

Problem 2 – Service gaps
The basic problem is that the IAP offerings of the three banks that have put up information are inadequate to the business requirements of IPSPs. Since these three banks are the market, it means there is no market.

The three IAPs are the "market" because direct access to payment systems is precluded by barriers around:
- Sort codes
- BoE settlement account
- Mechanism for intraday liquidity on a settlement account

Sort codes are not available to IPSPs as of right: they have to be sponsored by an IAP. They are controlled by BACS and there is apparently a shortage:
- For IT reasons
- Because the IAPs have a right of refusal on them

Authorised PSPs cannot have a **settlement account** at the Bank of England, and an account balance at the Bank of England in any form of central bank money in GBP (cash, gilts, note&coin) is not explicitly allowed as fulfilling the requirements of safeguarding customer monies.

Even if an authorised PSP were able to have a settlement account, the manner of **accessing intraday liquidity** is operationally complex and therefore militates against smaller players. The current method is not user-friendly: no overdraft is allowed on a settlement account. Instead, "liquidity" (i.e. the creation of a cash balance) has to be generated by repurchase agreements with the BoE on gilts that have to be settled in CREST and then with cash movements both in CREST and in CHAPS. The US system at the New York Fed is far superior: the Fed is the custodian for the securities that are eligible as collateral for an overdraft on a settlement account. The account-holder can overdraw their account up to the full value of the securities in their custody account. It is operationally far simpler, and efficient: the UK system results in banks over-collateralising their intraday needs by entering into repos for far larger amounts than they actually need.

Direct access being precluded to the vast mass of PSPs, their only option is indirect access:
- If IAPs allow it;
- If the IAP services themselves do not result in there being (at best) only one game in town for each PSP i.e. the IAP offering of only one IAP even distantly meets the IPSP's own criteria.

2. Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.

There has been no attempt to define a service scope and level that should be the basic one available to all IPSPs and which meets the business requirements of IPSPs. Since a payment system process consists of the data format, a communications channel, a communication protocol and a security methodology – as well as a business process – the essence is to ensure that these components are neither:
- IAP-specific
- Payment system-specific
- Interdependent – meaning that the choice of one demands the choice of others, in the worst case building up to a series of business models running in parallel, each one devoted to a particular payment system

A key advantage of ISO20022 XML in this respect is not its ability to act as the format used **within** a payment system, but its suitability as a **universal interface format**. In other words all of BACS, CHAPS and FPS payments can be instructed in ISO20022 XML, whilst within those systems Standard18, SWIFT MT and ISO8583 are used.

The IAPs do say they accept instructions for BACS, CHAPS and FPS payments in different formats but this is in itself bank-specific and not part of a standard, default offering.

It is also not adequate that individual Payment System Operators ("PSOs") devise Direct Technical Access solutions which may be:

- Specific to their own payment system;
- Made available through organisations that will want to make a business out of it, raising the all-in cost.

Lyddon Consulting has compiled below a definition of what it believes should be the minimum service scope and service level for an IAP market to work. Please note that the actors that need to collaborate on this are all of the IAPs, Vocalink and the PSOs. At present they are working with too great a degree of autonomy from one another to solve these issues. This disintegration is the result of the PSR's moves to reduce the influence of the Payments Council, and it is frustrating to observe that there was felt to be a need for the creation of a Payment System Operator Consultative Group so soon after the Payments Council – which fulfilled that role – was disbanded.

The basic IAP offering should consist firstly of a Direct Technical Access offering for FPS and BACS, supported by all IAPs:

- The main contract for this service to be between the IPSP and Vocalink, and not with the PSO;
- This contract to have a box to tick to indicate the IPSP's IAP, i.e. their settlement agent, but the T&Cs between the IPSP and their IAP for Direct Technical Access to BACS and FPS would be in the Account Opening contract between the IAP and the IPSP, since Direct Technical Access for FPS and BACS would be the default option.

Vocalink, on behalf of both BACS and FPS, would then support the following connectivity and formats for both payment systems, with an IPSP's choice of which option to go for in each box being independent of the other choices i.e. each choice is interoperable with any of the choices in the other boxes:

Communications	**Payment Instruction Format**	**Report Format**
• BACSTel-IP • Host-to-host • SWIFTNet FileAct	• Standard18 • ISO20022 XML • ISO8583 (FPS only)	• System proprietary • ISO20022 XML camt

These options would be:

- interoperable;
- available at the same price;
- have the same opening hours;
- not be subject to the discretion of any market actor.

CHAPS cannot be available to an IPSP via Direct Technical Access so the options for the instruction of CHAPS payments to be available from the IAP to the IPSP would be:

Communications	Payment Instruction Format
• SWIFTNet FIN	• SWIFT MT
• SWIFTNet InterAct	• ISO20022 XML
• SWIFTNet FileAct	• SWIFT MT • ISO20022 XML
• IAP eBanking	• IAP-proprietary

These options are not interoperable: only a SWIFT MT message can be sent over SWIFTNetFin and only an ISO20022 XML messages over SWIFTNet InterAct.

The current Reporting offering out of CHAPs for IPSPs is completely inadequate. It needs to be built out with at least the following SWIFT MT messages, to be available from the IAP to the IPSP:

Operation	Message/Communications
• BACS/FPS/LINK settlement payment	• MT900 or MT204/ SWIFT MT • ISO20022 XML camt or pacs/SWIFTNet InterAct • SWIFTNet FileAct for all the messages, MT or ISO
• BACS/FPS/LINK settlement credit	• MT910 or MT202/ SWIFT MT • ISO20022 XML camt or pacs/SWIFTNet InterAct • SWIFTNet FileAct for all the messages, MT or ISO
• Individual CHAPS receipt	• MT910, as well as instruction by 103/202/ SWIFT MT • ISO20022 XML camt/pain/pacs/SWIFTNet InterAct • SWIFTNet FileAct for all the messages, MT or ISO
• Individual CHAPS payment	• MT900, as well as instruction by 103/202/ SWIFT MT • ISO20022 XML camt/pain/pacs/SWIFTNet InterAct • SWIFTNet FileAct for all the messages, MT or ISO

These facilities should then be replicated in the proprietary eBanking systems of the IAPs if they wish to offer that as an alternative channel.

With the above as the offering from the side of the combination of the IAPs/PSOs/Vocalink, an IPSP would be able to have a choice of IAPs without needing to install technology from any third-party and then experience a lock-in i.e. major barriers to switching.

It is vital that any IPSP have available to it a messaging option that is low-cost, with a light client-side implementation, and which can be used for:

- All UK payment systems
- International payment systems

The IPSP must also have available to it the option of issuing IBANs, and of upgrading, without excessive cost, to diversifying out of one initial, ubiquitous data format into ones that are payment-system specific or simply closer to the ones used within a particular payment system, but then at a time of their own choosing and at acceptable cost.

This is the configuration at an IPSP that would fulfil all of those criteria, based on the access to the UK's payment systems being re-geared as proposed above:

Operation	Message/Communications
• Obtaining own Sort Code	• This is not a luxury but an absolute basic of being able to operate • Without a Sort Code the IPSP cannot issue IBANs • A sort code should come with the PSP licence and not be at the discretion of an IAP
• Basic SWIFT membership using Alliance Lite 2	• SWIFTNet FIN, FileAct and InterAct • Own BIC
• Issuing own IBANs	• With a Sort Code and a BIC, the IPSP can now issue IBANs and do SEPA payments
• Gearing up own IT systems for ISO20022…	• All instructions issued in ISO20022 • All advices and reports received in ISO20022 • ISO does not have to be used within IPSP's applications, nor within the payment system • ISO20022 is open-source and the IPSP only needs an adaptor, not the kind of Service Bureau that is offering FPS direct technical access
• SWIFTNet FileAct Store-and-Forward on Alliance Lite 2, the base option through which to access…	• IAP's CHAPS service • BACS and FPS • SEPA • International banks that are FileAct-enabled
• Adopting FIN at its own election for…	• IAP's CHAPS service • International banks that do not have FileAct
• Adopting Standard18 and/or ISO8583	• As and when the IPSP's own volumes justify it, without it being forced on them

In all of this, the IAP's role is to:

- Make and receive CHAPS payments;
- Settle balances in FPS and BACS owed by the IPSP;
- Receive balances in FPS and BACS owed to the IPSP;
- Receive proceeds of any cheques owed to the IPSP: they do not issue chequebooks to their customers.

3. Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?

No, for reasons explained above.

4. What other steps could we take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs, or any further steps we could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which we could seek to address?

Revert to the beginning, solve the sort code, settlement account and intraday liquidity issues, and then issue a minimum service scope and level.

5. Are there any important developments that are likely to affect the supply of indirect access that we have not identified in this interim report? If so, please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.

Yes:

- "Panamanian papers" – liable to male AML/CFT issues worse and to result in even fewer IPSPs being taken on by the IAPs;
- Basel III, PSD2 and ring-fencing – higher cost of credit lines for IPSPs.

6. If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should we take at that point? What would be the advantages and disadvantages of such action?

We do not accept the premise of the question. The actions taken by the PSR, which it considers justification for not acting now, have been ineffective, so action is needed now, not in 12 months.

7. Is there any regulatory or other action that you consider we should take now? What would be the advantages and disadvantages of such action?

No further comment.

BL/2.5.16

MBNA

PSR Market Review into the Supply of Indirect Access to Payment Systems: Interim Report MR 15/1.2

MBNA is one of the largest credit card lenders in the UK, serving approximately 2.7 million customers.

The business provides both MBNA branded credit cards and branded cards for affinity partners with hundreds of diverse organisations, covering sectors such as travel, sport and charity.

MBNA's vision is to make life easier for its customers by offering the opportunity to purchase today with money they will repay in the future, working with a company they can trust. MBNA's mission is to grow the value of its business by creating value for all its customers by:

- Meeting the payment and borrowing needs of UK customers.
- Making their life easier through the value, speed and convenience of MBNA's products and services.

The submission from MBNA, below, is in response to the PSR Interim Report MR15/1.2: Market Review into the supply of indirect access to payment systems. MBNA is an Authorized Payment Institution receiving IAP services on an agency basis.

MBNA supports the PSR's vision of promoting innovation and competition whilst ensuring that payment systems are operated and developed in a way that promotes the interests of all the businesses and consumers that use them.

We welcome the PSR market review of indirect access to payment services and the opportunity to provide a response.

Consultation Questions

1. Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

We are generally in agreement with the PSR findings**.**

MBNA did not consider there to be a wide choice of access options available when seeking a new IAP. MBNA considered each of the four main IAP's and found significant divergence in the scope of services available which further narrowed the choice available. MBNA's selection of a new IAP was underpinned by our commitment to making life easier for our customers. In selecting a new IAP our core criteria was to obtain services which would allow us to deliver innovative payment solutions. The ability of each IAP to provide services to support innovation on an ongoing basis was a determining factor which ultimately limited our IAP selection.

The quality of technical access to FPS and its availability is a significant concern.. We are wholly dependent upon the service provided by our IAP and this is impacted by IAP system down time as well as the limitations the PSR have identified in respect of the use of swift messaging.

2. **Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments?**

We would agree that the PSR have identified the key concerns which currently impact the supply of indirect access to interbank payment services.

The PSR have identified that an IPSP must choose from one of the four main IAP's if agency access is required. The main IAP's usually provide IPSP's with services through their business banking or commercial and corporate banking businesses. This is understandable as the IAP is providing the IPSP with a business to business banking service but it can create challenges for an IPSP who provides regulated payment services to consumers. The IPSP acting as a bank or API is required to comply with consumer regulatory obligations but may often be wholly dependent upon the quality of service provided by the IAP to meet these obligations. For example, the API is required to execute transactions on its customer payment accounts in accordance with the timescales required within the Payment Services Regulations and terms and conditions.

3. **Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?**

We support the work the PSR has carried out to date and anticipate that the developments outlined will deliver improvements in some areas. We note that some of the current or anticipated developments are at a very early stage. Whilst the indicators are positive, ongoing engagement from the PSR will be important to drive change and improvements.

4. **What other steps could we take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs, or any further steps we could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which we could seek to address?**

We would suggest that technical standards for IAP's should be considered, this could significantly improve the switching process. This could also help to underpin a common minimum standard for the provision of services creating a baseline from which IAP's should be seeking to compete in terms of service standards and enhanced service provision.

A common technical messaging standard when switching would allow IPSP's to rely upon the same data formats for core access to payment systems. In effect the standard messaging could be "plugged into" the new provider. This may help to encourage IAP's to establish a core service offering for providing access payment systems. This would increase transparency and could also potentially assist the development of new direct access models and encourage new entrants. There is an increasing demand from consumers for innovative payment solutions which also provide mobile access to payment accounts. The PSR is uniquely positioned to help existing IPSP's improve access to payment systems so these increasing consumer demands can be met.

Transferring to a new IAP is a significant undertaking, a core service standard would have made the transfer of services quicker and more efficient.

5. **Are there any important developments that are likely to affect the supply of indirect access that we have not identified in the interim report? If so, please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified?**

It is currently unclear whether the implementation of PSD2 will have an impact on the supply of indirect access services. Will the secure authentication requirements extend to IPSP's receipt of services from IAP's? Will PSD2 enable Payment Initiation Service Providers to initiate transactions directly with an IAP on behalf of a customer of an IPSP? It would be helpful if the PSR could clarify whether its role as an economic regulator will extend beyond Articles 35 and 36 of PSD2.

6. **If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should take at that point? What would be the advantages and disadvantages of such action?**

We do not have any comment on this question.

7. **Is there any regulatory or other action that you consider we should take now? What would be the advantages and disadvantages of such action?**

We do not have any comment on this question.

UK. Freedom of Information Act 2000 MBNA has highlighted that some of the information contained in this communication (including any attachments) constitutes confidential information (which may include personal data) and/or trade secrets, the disclosure of which would, or would be likely to, prejudice MBNA's commercial interests. Accordingly, in the event that the Prudential Regulation Authority / Financial Conduct Authority/Payment Systems Regulator receives a request for disclosure of this information under the Freedom of Information Act 2000, we respectfully ask that MBNA is contacted promptly prior to making any final decision as to whether or not to make the disclosure, thereby providing MBNA with the opportunity to make representations as to the grounds on which such request for disclosure may legitimately be declined.

Metro Bank

Metro Bank's Consultation Answers to the Indirect Access Market Review Interim Report

Q1: Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

We generally concur with the interim report findings. As a large Indirect Service Provider (IPSP) there are other access options available, including direct access using an aggregator, however the proposed option condoned by this paper seems to suggest that the PSR direct access programme is making this an easier option. As a Payment Service Provider (PSP) going through on-boarding to the Faster Payment Scheme, the process remains complex and time consuming. The schemes have failed to consider sufficiently the aggregator model and its technical design is misleading, causing us additional cost and delay. The self- accreditation process is also still not I fit for smaller players and new entrants. These frustrations should be highlighted in the report.

This process of scheme memberships to be replicated for all schemes. A simpler governance model would significantly reduce the associated overhead costs.

The Simplifying Access to Markets Working Group has the ability to reduce the governance process, but requires the support of the PSR to make this a reality.

Q2: Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.

Apart from the concerns stated above I am pleased that the report has captured all key concerns for Metro Bank.

Q3: Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?

We believe that as long as these current and future developments are followed through, they will address the concerns of the IPSPs. These should be independently audited, particularly the PSR and Payment System Operators Direct Access Programmes, to ensure that they are fit for purpose, as they are currently incomplete, lacking detail and not up to date.

Q4: What other steps could the PSR take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs or any further steps the PSR could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which the PSR could seek to address?

PSPs are mainly reluctant to become Indirect Access Providers (IAPs) due to anti-money laundering legislation, sanctions and financial crime risks. We appreciate that there are several financial crime reviews currently being undertaken, however continue to be concerned that they fail to remove the liability from IAP to the remitting PSP.

We understand that the PSR does not currently regulate AML, however the PSR should look to open dialogue with the responsible regulatory body.

The barriers to switching IAPs greatly reduces with the development of the image clearing system which allows sort codes to be portable.

Q5: Are there any important developments that are likely to impact the supply of indirect access that we have not identified in this interim report? If so please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.

All key developments have been covered.

Q6: If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should we take at that point? What would be the advantages and disadvantages of such action?

If the concerns identified are not fully addressed the PSR will need to regulate to support the progression of the payments industry. The key disadvantages are firstly that it demonstrates that the payments industry cannot collaborate for the good of UK Payments PLC and secondly its outcome may not be to the advantage of consumers.

Q7: Is there any regulatory or other action that you consider the PSR should take now? What would be the advantages and disadvantages of such action?

As stated above, we believe that the PSR should open dialogue with the relevant AML regulators, to ensure that AML, sanctions and financial crime risks move from the IAP, to the remitting PSP.

Nationwide Building Society

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Payment Systems Regulator
Indirect Access Market Review Team
25 The North Colonnade
Canary Wharf
London E14 5HS

(N.B. this response has been sent by email to: iamr@psr.org.uk)

Dear Sir / Madam,

5 May 2016

Nationwide's response to the interim report on the PSR's market review into the supply of indirect access to payment systems (MR15/1.2)

Thank you for giving Nationwide the opportunity to respond to this market review.

Nationwide is a member owned PSP which is competing successfully in the market through service and innovation, we support the review and our strategy aligns with the PSR's aspirations for the market. In our view, the PSR is right to monitor and measure the progress of relevant activity to improve indirect access provision over the coming year rather than taking more directive action. This will enable ongoing and planned developments to take effect and allow a later evaluation in a more strategic context, considering the many relevant solutions that will emerge from the work of the Payments Strategy Forum (PSF).

In our responses to the consultation questions, we draw on our perspectives as a customer centric leader in our field, fully engaged in the payments ecosystem and operating with the dual perspectives being both a direct and indirect member of payment systems. We aim to add value to the consultation process drawing on our own experience and, where relevant, calling out additional elements that can support the desired outcome.

Given the ongoing dynamics of the market, and the many positive developments being stimulated through the PSF, we make a particular call on the importance of taking a strategic view on access provision which in turn will influence our approach to prioritisation, sequencing and the governance arrangements we need to ensure delivery.

Yours faithfully

PAUL HORLOCK
Head of Payments

Q1: Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

Nationwide broadly agrees with the findings outlined in Chapter 7. Our perspective is as a retail focused, UK centric PSP that primarily benefits from direct access for our payment services. However, we operate our CHAPS and SWIFT customer payments via an indirect route through agency arrangements.

The PSR will be aware that we have previously undertaken a series of mergers and acquisitions of smaller building societies and we have migrated payment services from their legacy indirect access models. Such integrations are usually technically and operationally challenging and we agree these factors could have created a degree of inertia in the market. Historically, there have been relatively few IAPs and the technical dimensions of the supply chain have sometimes created service differentials, for example around the overall timing of near real time payments.

We can understand that financial crime trends and regulation may influence the risk profile and commercial viability of access provision by IAPs. We note the report's outline of ongoing activities that will help address this. On the supply side, we agree there are risks of providing services to IPSPs that potentially trade with sensitive destinations and counterparties. On the demand side, it is important to note that all PSPs, whether direct or indirect participants, have end to end responsibility for the integrity of their services and this includes the relevant investment in the detection and prevention of financial crime.

Q2: Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.

Nationwide feels the interim report does identify the key concerns and aligns to feedback derived from the wider payments community. There is parallel activity responding to similar concerns within the work of the PSF and the trade association, Payments UK, has a clear aim to contribute to more open access as part of its World Class Payments initiative.

Q3: Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?

The developments outlined in the interim report, notably in chapter 8, are all relevant and beneficial activities towards the goal of more choice, quality and dynamism in the market. However, there are some additional considerations. For example, over time the PSR will need to not only monitor these developments but also measure their effectiveness to gauge success. Some further effort may therefore be needed between the interim and final report on objective success criteria.

Another aspect to consider is the varying scale of the current or anticipated developments noted in Chapter 8. Some are relatively short term and tactical in nature, indeed in some cases they are already underway such as the IAP Code of Conduct which we support. There are also helpful products and access services emerging in the market, such as VocaLink's PayPort managed service gateway. Others are of a different magnitude and present a strategically different future for the market. Of particular interest will be the solutions defined through the PSF's work on Simplifying Access to Markets and the associated enablement via common message standards and reform at the Payment Service Operator level.

A key to success will be the careful prioritisation, sequencing and governance around delivery of solutions so we ensure short term fixes do not compromise better solutions for the long term. This echoes feedback we have given in response to MR15/2.2, the PSR's market review on infrastructure provision.

Q4: What other steps could the PSR take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs or any further steps the PSR could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which the PSR could seek to address?

The interim report identifies many causal factors behind the perceived inertia in the market and calls out some of the friction which may impede switching. It is notable that stakeholders have reported a marked contrast in the speed of abrupt termination of indirect access provision compared to the slowness and complexity of onboarding. This, and other detriments relating to switching, are being targeted in the ongoing work being delivered by the market, influenced and supported by the PSR, and we feel it sensible to allow the work to develop over the coming year.

On the basis of historic operating models, and considering the financial crime factors, the interim report has rightly identified there can be commercial uncertainty for IAPs. However, there are encouraging signs that more IAPs may emerge. Again, this is likely to be enabled and encouraged as new solutions emerge from developments in the market, such as direct access services, and from the PSF's solutions in the long term.

Q5: Are there any important developments that are likely to impact the supply of indirect access that we have not identified in this interim report? If so please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.

As noted in previous answers, there are many developments across the market which will impact the supply of indirect access. Some are emerging organically, some are enabled by the positive influence of trade associations such as Payments UK or stimulated by the regulator, such as the new IAP Code of Conduct.

Other developments require a strategic direction and commitment to collaboration to enable the flow of downstream competition and innovation. The relevant solutions currently being refined and evaluated within the PSF work are particularly important. At this stage it isn't possible to clearly prioritise and sequence the work and therefore create an accurate delivery plan. However, Nationwide and others are committed to the PSF process and other related work supporting the principle of more open access and we expect, quite soon, to have more clarity on the specific deliverables, their potential timescales and how we make them come to life.

On that last point, and echoing earlier comments, it will be important to ensure we have a capability to make collaborative and cross industry changes in an effective way. With this in mind, Nationwide is keen to support the PSR in formulating good governance for a successful implementation.

Q6: If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should we take at that point? What would be the advantages and disadvantages of such action?

Some of the developments referenced by the interim report will be strategic and long term in their deployment, payment message standards being an example where there are benefits not only in terms of opening access but also in greatly enriched transactions. As such, sufficient time should be given to allow the development of solutions that make a real and enduring difference to end users.

Similarly, we need to formulate the optimal approach to driving these developments forward, and many others in the payments market. There is ongoing reform of trade associations at a time of significant potential transformation that needs a coordinated approach – so it will be important to work with our peers and others, including the PSR, on ensuring we have good development and delivery mechanisms.

It is understandable that where appropriate the PSR may be minded to influence more directly, especially on shorter term developments. Our suggestion would be that there is monitoring and measurement in place which allows and recommendations made by the PSR to be based on evidence.

Q7: Is there any regulatory or other action that you consider the PSR should take now? What would be the advantages and disadvantages of such action?

Nationwide feels the PSR is taking the correct position in supporting ongoing developments in the market and we will continue to contribute fully to the work of the PSF, including those elements specifically influencing the supply of indirect access and longer term changes in the market which will create the accessible ecosystem for more competition and innovation.

Orwell Group

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One Aldgate
London EC3N 1RE - UK

London
26thst April 2016

Payment Services Regulator
25 The North Colonnade
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London E14 5HS

Dear Sir or Madam,

Re: Comments to the PSR' s interim report: "Market review into the supply of indirect access to payment systems"

Having read your interim report on the provision on indirect access, I write to you to provide feedback concerning it.

The report identified the key issues for indirect participants and also for direct participants willing to offer indirect access. I will not comment any further on this as the report is correct, even if the report focuses too much on Faster Payments (FPS), which may well be because in reality there is not much change yet and the steps taken by FPS is the only tangible good news so far.

Beyond this first assessment, I include here my observations of the situation with the industry and the dangers I see in some of the initiatives that I am aware of.

Firstly, my general observation is that as of today nothing has really changed in the industry and indirect access remains as difficult and costly today as it was in the past. The real change is an adjustment in attitude by almost all of the stakeholders in this industry. There is now a clear momentum in the industry to change the status quo and that is very positive.

Having said that, FPS is on the verge of introducing indirect technical access (this year we should see it go live) which is a great step forward in allowing a high quality and cost efficient access to FPS for indirect participants. This new development has prompted the desire in at least two new direct participants to FPS to offer indirect access to FPS and they are in discussion with a few non-bank PSPs to receive the service. This is a very positive development.

In the midst of this good news there are however some considerations:

- Firstly, the initiative of FPS has sparked a similar initiative by BACS and possibly also by C&CC for check imaging. While these two initiatives - if correctly implemented - could have the same beneficial effect that we are seeing in the case of FPS, the lack of coordination among initiatives would fail to deliver the benefit of simplification of access to all schemes under a single access. The situation today, in which each scheme has a different access mechanism, messaging, accreditation process, etc. is one of the key barriers to access. Let' s remember that clients of two different participants, each connected exclusively to a different scheme cannot pay each other, which means competition among PSPs will only be effective if PSPs can connect and their clients be reachable without limitation.

- Secondly, I have not observed any change in the position of existing direct participants regarding the provision of indirect access. The liability that direct participants have when providing access to indirect participants remains in force which will maintain the blockage and continue to limit the choice of provider of indirect access.

- Finally, although the Bank of England is reviewing its policy regarding eligibility criteria for operating a settlement account, no change can be reported at this point in time.

In summary, we agree with the report and share its optimistic tone, but mostly because of the momentum created that gives hope, rather than because of the change observed in the market, which as of today is very small and still largely insufficient.

As a final comment, I would say that a positive outcome for indirect access would be a market where indirect access is a consequence of choice, where PSPs taking into account their real needs along with financial, technical and operational capabilities

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choose the best way for them to access payment systems rather than a consequence of being the only option available.

For this to happen three things must improve in parallel:

- The liability placed on direct participants should be removed to a great extent.
- The BoE should be able to provide settlement accounts to PSPs other than deposit takers.
- Access to schemes directly or indirectly should be proportional and simplified with a common messaging standard, single technical access in the form of a single gateway and the application and on boarding process proportionate and common to all of them.

Yours sincerely,

Carlos Sanchez

CEO of Orwell Group

Payments UK

To: Payment Systems Regulator

From: Payments UK

5th May 2016

PAYMENTS UK RESPONSE TO PSR's interim report "market review into the supply of indirect access to payment systems"

1 INTRODUCTION

We welcome the opportunity to comment on the PSR's Interim Report: market review into the supply of indirect access to payment systems

Payments UK is the trade association launched in June 2015 to support the rapidly evolving payments industry. Payments UK brings its members and wider stakeholders together to make the UK's payment services better for customers and to ensure UK payment services remain world-class.

Payments UK's main roles:

- To be the payments industry's representative body: providing an authoritative voice in the UK, Europe and globally, and working with stakeholders to share payments knowledge and expertise.
- To be a centre for excellence: supporting the UK payments industry to provide world-class payments, building on the experience, thought-leadership and project delivery expertise behind award-winning initiatives such as Paym, the Current Account Switch Service and Faster Payments.
- To deliver collaborative change and innovation: working on behalf of our members to benefit customers and UK plc, ensuring their needs are understood and met, both now and in the future.

2 OUR RESPONSE

We support the PSR's aim to open up access to the payments infrastructure to enable effective competition and innovation in payments. In our World Class Payments report we identified access to the payments infrastructure as a priority to ensure payments in the UK remain world class. We identified open access as "*the most important core deliverable as*

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Registered Office as above

it will provide the best platform on which to deliver further improvements for customers and deliver a world class payments experience[1]."

We are pleased that the PSR's report recognises the work underway, including the work both they and the Payments Strategy Forum are leading, to improve access for indirect payment service providers (IPSPs). Payments UK is also pleased to see its own work with the PSR and the main Indirect Access Providers (IAPs) on the IAP Code of Conduct recognised.

We note the PSR's position that whilst competition in the supply of indirect access is producing some good outcomes for IPSPs, there are concerns about choice, service quality and the ability of IPSPs to switch providers. We agree that developments in the market from new IAPs, new forms of access arrangement and the existing regulatory work on access have the potential to improve indirect access. The difficulty is reaching an objective judgement on the degree to which the current arrangements are sub-optimal (for example, on switching rates), the extent to which they will improve and the impact of other structural change taking place in the industry. Against that background, taking no action now and reviewing in twelve months time to see how the position develops is a sensible approach and one which we support.

The interim report makes it clear however that if these concerns are not sufficiently addressed over the next 12 months, regulatory action will be necessary. The three concerns identified are: limited choice of IAPs; quality-related issues and; barriers to switching resulting from the industry response to financial crime regulation, lack of entry of IAPs and increasing demand for real-time payments. The report sets out the developments that should address these concerns, including action it is taking and action by other regulators, such as the Bank of England.

We would emphasise three points.

Firstly, the report does not however provide clarity on what the regulator sees as successful progress in each of these developments over the next 12 months, or the metrics that would provide the basis for regulatory action.

Secondly, we welcome the regulator setting out its early thinking on potential remedies – and the contextual factors that condition the supply of indirect access. In the event that the regulator does propose regulatory action, the industry will expect to see a strong evidential case and analysis of the costs and benefits, along with a risk assessment that considers any unintended consequences and further consultation on any proposals for

[1] World class payments in the UK: enhancing the payments experience; Payments UK; August 2015

change, for example on the response to financial crime regulation which is identified as a strong influence on IAPs' behaviour.

Finally, it is clear that standards are likely to play a significant role enabling greater access to infrastructure for IPSP's as it is probable there will be a desire to submit payments in one format to reduce cost and complexity in their interfaces. A central, neutral standards body should facilitate any mapping guidance between formats to ensure a level of ubiquity and consistency. Whilst standards will have a vital role to play, other key areas such as consistency of rules should also be considered.

Raphaels Bank

Raphaels Bank
Bankers since 1787

Indirect Access Market Review Team
Payment Systems Regulator (15th Floor)
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Canary Wharf
London
E14 5HS

5th May 2016

Dear Sir / Madam,

RE: Market review into indirect access to payment systems

Raphaels Bank welcomes the publication of the PSR's Interim Report, following the market review into indirect access to payment systems. Please find the Bank's response to the consultation questions, set out in Chapter 9 of the report, attached to this letter.

Raphaels Bank looks forward to playing a significant role in opening up access to UK payment systems. The Bank has demonstrated its commitment to doing so through its announcement of its intention to join the Faster Payments scheme, initially as a Direct Payment Service Provider, but with firm plans in place to act as an Indirect Access Provider from 2017.

We welcome this opportunity to consult on the PSR's findings, and look forward to seeing further improvements realised over the next twelve months.

Yours sincerely,

Janet Johnston
Head of Payment Services
Raphaels Bank

Head Office 19-21 Shaftesbury Avenue, London, W1D 7ED T: 020 3751 1600 W: raphaelsbank.com

Consultation questions

1. Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

Raphaels agrees with the interim findings presented by the PSR. In particular we agree that:

There is limited choice of IAPs for PSPs to choose from, and the Bank looks forward to playing a lead role, as a new IAP, in developing an expanded market of IAPs.

There are quality issues regarding the service currently offered by IAPs.

The supply of indirect access has historically been low but there are now new entrants planning to become IAPs – Raphaels was pleased to be named as a new entrant currently on-boarding as a DPSP of FPS.

The Bank has seen positive impacts of the IAP Code of Conduct. The IAP currently sponsoring the Bank has provided appropriate support throughout the Bank's project to on-board as a member of FPS. However, we are aware of anecdotal evidence of other IAPs being less supportive to other PSPs that are on-boarding to the scheme.

The Bank agrees that Financial Crime regulation has influenced IAPs' risk appetite and we are aware of cases of IAPs 'de-risking' and ceasing to offer sponsorship services to IPSPs at short notice within the industry.

2. Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.

We agree with the key concerns identified. However, through our experience of on-boarding as a Direct Member (DPSP) of FPSL, we have additional concerns regarding the scheme's capacity to on-boarding new DPSPs and / or IPSPs in any significant volume. There are also concerns that the scheme do not yet have on-boarding processes confirmed for directly connected IPSPs.

The concern is that the Bank's ability to offer sponsorship services will be inhibited by the scheme's capacity to on-board IPSPs.

The Bank has also found it very difficult to engage with Bacs. It is confirmed in the Interim Report that Bacs aimed to have an open access programme, similar to FPSL's, in place by Q1 2016. We have not seen any details of this, and have been unable to schedule a meeting with Bacs to discuss our intention to on board as an IAP of the scheme.

The Indirect Report states that the PSR are aware of six reviews into Financial Crime. In order that these reviews have the most positive impacts, the Bank believes the various competent authorities overseeing the reviews should ensure a joined-up approach. There is a risk that if the reviews are carried out in isolation, the outcomes / conclusions could contradict each other.

The Bank is keen to stress that many of the new entrants, either DPSPs or IPSPs, are much smaller organisations than the incumbents. There is an issue of proportionality that should be addressed, both from a regulatory and scheme assurance point of view. The Bank understands that all PSPs accessing payment schemes must play a role in safeguarding the system and ensuring regulatory compliance. However, it might have a negative impact on the expansion of the market if any PSR

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action is applied unilaterally to IAPs in the future, regardless of size. An incumbent IAP may well have several hundred IPSP clients under the current model. The Bank is only intending on offering sponsorship service to a small number of IPSPs initially.

3. Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?

Raphaels agree with the PSRs proposed approach and agrees that the current developments, such as FPSL's open access initiative and new IAPs on boarding, should address the concerns of IPSPs.

However, the Interim Report assumes that the access programmes being implemented by the schemes (FPS and Bacs) will deliver improvements within the next twelve months. Raphaels is concerned that there is currently no on-boarding process for Faster Payments (accreditation and assurance) for sponsoring DPSPs or directly-connected IPSPs (Direct Agencies). Failure to deliver these processes will inhibit our ability to offer sponsorship services by March 2017, as planned.

The Bank recommends that the PSR agree measurable targets for FPS to meet, in terms of improving its capacity to on board new DPSPs and IPSPs.

4. What other steps could we take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs, or any further steps we could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which we could seek to address?

Test capacity at VocaLink is likely to affect the number of new IAPs accredited and live within the next 12 – 24 months. This will also affect the ability for directly connected IPSPs to on board.

The Bank recommends the PSR opens dialogue with Bacs / FPSL / VocaLink to identify ways to improve the on boarding process and increase on boarding capacities.

5. Are there any important developments that are likely to affect the supply of indirect access that we have not identified in this interim report? If so, please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.

The Bank are not aware of any further developments that will impact supply, however it looks forward to the publication of the BoE's review of the Real Time Gross Settlement system, as this could have significant implications for the supply of sponsorship services.

6. If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should we take at that point? What would be the advantages and disadvantages of such action?

The Bank suggests that the PSR opens further dialogue with Bacs / FPSL / VocaLink in order to identify ways to improve the on boarding process and increase the schemes' on boarding capacity.

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The Bank is also unclear how the PSR will measure improvements within the Indirect Access market over the next 12 months. The Bank suggests some Key Performance Indicators are agreed. These could include:

- Number of new IAPs
- Number of new DPSPs
- Number of new IPSPs
- Number of new technical access vendors accredited
- Level of satisfaction with Schemes
- Level of satisfaction with IAPs
- Level of satisfaction with Vendors

7. Is there any regulatory or other action that you consider we should take now? What would be the advantages and disadvantages of such action?

As above, the Bank strongly recommends that KPIs are set either at an industry level, or at the level of individual Scheme / IAP to ensure it can measure the success of outcomes.

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Royal Bank of Scotland (RBS)

PSR Interim Report – Market Review into the Supply of Indirect Access to Payment Systems

This paper provides the RBS response to the seven consultation questions posed in the PSR's Interim Report published on 10 March 2016.

We would be happy to meet with the PSR to discuss any element of our response.

Consultation questions

The PSR has set out seven consultation questions, which are set out below – responses to these, and/or other comments on the Interim Report, are sought by 5 May 2016.

1. Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.

RBS is in broad agreement with the PSR's interim findings. Notwithstanding that there is currently a relatively small number of IAPs (albeit that this seems likely to grow in the near future), RBS believes that it is possible for IPSPs to obtain an Indirect Access proposition which is competitive in terms of both price and service. As one of the four IAPs involved in its development, we believe that the new Code of Conduct for IAPs provides helpful clarity to existing/prospective IPSPs.

2. Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.

There are no additional concerns that RBS has identified.

3. Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?

RBS believes that the developments listed, together with the work already underway under the auspices of the PSF (and specifically the Simplifying Access to Markets Working Group), will progressively address the concerns identified.

4. What other steps could we take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs, or any further steps we could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which we could seek to address?

There are no specific steps that RBS wishes to highlight at this stage, although it remains possible that potential candidates for PSR support/action will emerge from the ongoing work of the PSF Working Groups.

We would, however, emphasise the importance of ensuring that, as implementation plans are drawn up, full consideration is given to the number/scale of initiatives to be delivered, and how best to co-ordinate these with the other regulatory/strategic developments already on the payments agenda, or arising from the other PSF workstreams.

5. Are there any important developments that are likely to affect the supply of indirect access that we have not identified in this interim report? If so, please also set out the timelines for these developments, and any

factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.

There are currently no additional developments to which we would wish to draw the PSR's attention.

6. If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should we take at that point? What would be the advantages and disadvantages of such action?

As indicated above, RBS considers that the current/anticipated developments listed by the PSR, together with the ongoing work of the PSF, has every prospect of addressing the issues identified by the PSR. Should the PSR have further concerns over the coming months, we would encourage them to raise these as soon as possible, in order that they might be addressed appropriately (e.g. via the PSF, or the Code of Conduct for IAPs).

In the event that, in 12 months time, the PSR has remaining concerns which it considers should potentially be addressed via some of the approaches listed (e.g. introducing price controls, or requiring all DPSPs to act as IAPs), we would strongly encourage the PSR to engage in a further consultation process – not least to ensure that, for example, any potential unintended consequences can be identified/discussed.

7. Is there any regulatory or other action that you consider we should take now? What would be the advantages and disadvantages of such action?

RBS does not believe that there is any regulatory action that the PSR should consider taking now.

Document_Classification - Confidential

Santander UK

Santander UK plc: Response to Interim Report on MR15/1.2 – Market review into the supply of indirect access to payment systems May 2016

Executive Summary

1. Santander UK plc (Santander) welcomes the PSR's market review into the supply of indirect access to payment systems (the Market Review). This review is important to ensure that the right balance is struck within the UK payments model; increasing the access available to a broader group of PSPs, whilst maintaining its integrity and stability.

2. In general, Santander is supportive of the Interim Report (the Report) findings, and in particular agrees with the interim conclusion that competition already exists and is producing good outcomes for indirect PSPs. We also agree that the progress being made in the market is positive and intervention to encourage further action is not currently required.

3. We understand that the Payment Strategy Forum (PSF) is developing ideas to bring additional opportunity and controls to support the direct and indirect access models, particularly in the areas of financial crime and simplification of access. A clear strategy will be required to ensure the overall delivery impacts are considered to maximise the opportunities, whilst minimising the risks and scale of change in light of multiple other regulatory and change programmes.

4. As noted in previous responses, we believe the industry needs supportive clarity on the financial crime model and the implications of opening access, in particular to more indirect PSPs. The work being carried out by the PSF and the PSR will reduce risks and resolve some complexities associated with this area of the business. We highlight that collaboration with other regulators is also important.

5. [✂].

6. This response contains two sections:

   Section A: 'Consultation Responses' - sets out Santander's feedback to the Report's consultation questions; and
   Section B: 'Santander Engagement' - contains Santander's responses to additional questions posed at the 1:1 meeting with the PSR on 13 April 2016.

Section A: Consultation questions

Summary answers to the consultation questions posed in the Report are noted below:

1) *Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.*

We accept the interim findings.

2) *Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.*

We recognise the key concerns have been addressed within the report, but below are some discussion points we would emphasise as important considerations.

<u>PSO Simplification</u>

1. As a scale challenger, we welcome increased competition in the markets in which we operate, and fully support the need for change where it is necessary. Santander is a direct participant in each of the Payment System Operators (PSOs) referred to and has been an active supporter of the need for change in the schemes.

2. Santander has consistently highlighted that one of the obvious barriers to entry is the multiple PSOs operating in the retail space – namely Bacs, Cheques, Faster Payments and Link. A need for a consistent operational and strategic approach is required between the PSOs, with common goals and objectives, such as the need to widen access, simplify rules and thinking about future/long-term models that can inter-operate under common international standards. Creating a single PSO entity to engage with will ensure: a lighter-touch application approach for interested Direct and Indirect PSPs; a consistent view on rule-book simplification; and ensure that a longer-term strategy of technical consolidation is possible.

3. We welcome the fact the PSF has taken this as one of the key workstream tasks to tackle and look forward to future engagement to support this review in detail.

<u>Financial Crime</u>

4. Whist there may be a perceived risk of compliance failures under financial crime regulation, the reality is potential fines being imposed by various local and overseas regulators for inadequate controls. The risks associated with this type of business need to be carefully considered. In the instance where, for example, Money Service Business (MSB) customers are on-boarded, confidence in the clear end-to-end view of the control model is essential for the recipients.

3) *Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?*

The current and potential developments listed will work towards addressing concerns expressed. We highlight below however, the impacts that any delays in the Cheque Image project will have on the sort code portability benefits:

At the time of writing, the Cheque Image project is flagged as red by the industry as a whole and in a re-plan phase; the current revised plan noting a 15 month delay. Santander are particularly concerned about the effect such delays will have on a number of key factors - including opening of access, agency bank portability and banking reform.

[✂].

4) *What other steps could we take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs, or any further steps we could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which we could seek to address?*

Continued engagement between the PSR and the PSPs is important to ensure that the market remains on track to deliver against commitments. Additionally, working with the PSOs and ensuring their focus remains on the core objectives will be of importance to the changes discussed. At this time we do not believe any additional focus from the PSR is required.

Once the PSF findings are issued and a plan is engaged, we feel this may be the appropriate time for the PSR to take more of a leadership role in the engagement and delivery with relevant parties.

5) *Are there any important developments that are likely to affect the supply of indirect access that we have not identified in this interim report? If so, please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.*

In broad terms there are no additional developments to note. There are a number of key regulatory changes which will have a significant impact on the access model – direct or otherwise – in the near future, in particular we would highlight banking reform (which will introduce a [small] number of new banks to the market); PSD2 (which will widen the access model to bank systems for both information and payment services); and Cheque Image (which may create a more straight forward technical interface for challenger banks and new PSPs to access the services). These programmes of activity all have the potential to influence and steer the direction of focus and attention, and the opportunities that come from these changes will empower more banks and PSPs to offer indirect access services.

6) *If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should we take at that point? What would be the advantages and disadvantages of such action?*

At this time we would not propose any actions; we suggest these concerns should be considered again in 12 months' time when a rounded view of the issues and causes can be reviewed.

> *7) Is there any regulatory or other action that you consider we should take now? What would be the advantages and disadvantages of such action?*

We do not believe there is any need for action of any sort at this time, regulatory or otherwise.

Section B: Santander Engagement

1. During our 1:1 meeting on 13 April 2016 to discuss the Report, the PSR posed a number of questions on which to provide clarification. Below is a summary to support those discussions.

   <u>Indirect Access Provider</u>

2. Santander does not operate as an IAP. We do offer payments to our customers as part of their banking services, so they can send and receive payments through their accounts. The make-up of our customer base is fairly diverse and does include FCA regulated entities [✂].

   <u>Santander's onboarding process and due diligence</u>

3. [✂].

4. [✂].

5. Santander complies with international laws and regulations relating to the onboarding of clients, including comprehensive consideration of risk factors including financial crime risk. Risk assessment, customer screening and identification and verification are key elements of the onboarding process.

6. [✂].

7. Santander also participates in a range of Government and industry groups on financial crime. This includes the Serious and Organised Crime Financial Services Forum and the Joint Money Laundering Intelligence Task Force. This interaction with Government and industry peers ensures Santander can implement the most up to date and proportionate financial crime compliance controls.

   <u>How regulators could support with the onboarding process</u>

8. The FCA Financial Crime Guide (and recent HMRC guidance) do provide some useful materials. However, we believe more detailed guidance and dialogue is needed

between the regulators and banking industry on how to adopt a risk based approach to financial crime compliance whilst adhering to new requirements such as those relating to access to banking.

9. To support the onboarding of clients, we would recommend that the FCA, PRA and PSR consider whether more information could be provided to banks to support financial crime compliance decisions. Details of HMRC audits of MSBs could be usefully provided, as well as high quality company ownership information. Government bodies should also be encouraged to share intelligence with banks to identify MSBs that are being abused by criminals.

<u>Provision of safeguarding accounts</u>

10. Santander does not offer safeguarding accounts to PSPs although it does provide general and designated client accounts to sectors including solicitors, accountants and investment companies.

    [✂]

11. [✂].

12. [✂].

<u>Entering the market as an IAP</u>

13. We recognise the PSR is keen to see an expanded number of IAPs, and we accept a scale challenger of Santander's size would potentially benefit the market; as previously highlighted there have been blandiloquent requests from agency banks and other PSPs for Santander to join the market to bring energy to the space.

14. This engagement has included a number of smaller agency banks, e-money license holders and credit institutions. In some cases, these queries have expressed demands for services that, in our opinion are too excessive. For example, [✂]. This illustrates the need for support and education for PSPs that want to use payments.

15. As with other business propositions however, the opportunities have to be carefully weighed against the risks and costs. As regularly highlighted, the burden of regulatory and mandatory change is already significant, and any other changes have to be carefully considered and delivered within those constraints.

16. [✂].

17. [✂].

18. [✂].

19. It should also be recognised that the landscape will change in the coming months, particularly driven by the PSD2 requirements. Whilst this will encourage more competition, it will in turn potentially change the focus of activity from cards to interbank and international payment activity.

Santander UK plc
9 May 2016

Virgin Money

Virgin money

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5th May 2016

Dear Sir/Madam

PSR Interim report MR15/1.2
Market review into the supply of indirect access to payment systems

Virgin Money welcomes the opportunity to respond to the PSR's Interim Report on its Market Review into the supply of indirect access to payment systems.

As a bank that has grown strongly by competing effectively, we welcome measures that seem likely to create a more competitive market for UK retail banking. We support the developments that are summarised in the Interim Report and believe that they will encourage competition in the provision of payments services and improvements in the quality of indirect access leading to greater innovation for consumers.

We support the position of the PSR and agree with its interim findings that, while there are concerns about the ability of agency IPSPs to switch between sponsoring providers, there are initiatives that are already underway and should further improve the choice, quality and price of indirect access.

We agree with the key concerns identified by the PSR – in particular with Finding 2, regarding the quality of technical access for agency IPSPs, particularly for access to Faster Payments, and Findings 1 and 7, which relate to the limited number of sponsoring banks and low levels of switching between sponsoring banks by IPSPs.

Bearing in mind the industry developments outlined in the Interim Report and the need to maintain the resilience and stability of the UK payments infrastructure, we support the approach of non-intervention at this stage. We are concerned, however, that if the proposed industry developments on cheque imaging do not proceed to plan, there will remain issues in the portability of sort codes for cheque processing which will continue to make it difficult for agency IPSPs to switch providers and to compete effectively in the market for current accounts.

I am pleased to attach our responses to the consultation questions in the Interim Report. Should you wish more input from us on any matter relating to this Interim Report, please let me know and we shall be happy to provide it.

Yours faithfully,

Richard Hemsley
Chief Operating Officer
Virgin Money

PSR Interim report MR15/1.2
Market review into the supply of indirect access to payment systems

We support the positive tone of the Interim Report, given the rapid progress made on improving access since the PSR was established in April 2014. We include below responses to the seven consultation questions set on pages 99-100 of the Interim Report.

Questions 1, 2 and 3:

1. Do you agree with our interim findings? Please provide evidence to support your response, in particular if you disagree with our findings.
2. Have we identified the key concerns with the supply of indirect access to interbank payment systems? If not, please identify any other key concerns you have and to the extent possible provide evidence to support your comments.
3. Do you think that the current and anticipated developments we have listed are likely to address the concerns we have identified?

We appreciate the comprehensive nature of the Interim Report and agree with the interim findings that are set out in paragraphs 7.10 to 7.26. We think that the PSR has correctly identified two key concerns - 24/7 access to FPS (if indirect) and matters relating to switching between IAPs - and we believe that it is appropriate for the PSR to focus on these two key concerns. We believe that the developments that are summarised in paragraph 8.5 should address the two key concerns through the mechanisms set out, for different types of IPSP, in the final column of Table 12.

Our confidence that the PSR's approach will be successful in addressing the key concerns is supported by its consistency with the approach favoured by Lord Currie, Chairman of the CMA: "There is no substitute for deep, considered analysis so that remedies are based on a sound understanding of how a market operates and focused on the features that need adjusting". We agree with the concept of limited and effective intervention, when intervention in markets is considered necessary.

Question 4:

4. What other steps could we take to promote or support the developments, in particular the entry of new IAPs and/or expansion of existing IAPs/direct PSPs, or any further steps we could take to make the process of switching easier/more transparent? In particular, are there any technical or regulatory matters that are acting as barriers to switching, which we could seek to address?

We consider it desirable that the good progress on improving access should not be impeded or delayed by regulatory matters. In particular, we think that firms wishing to get direct access should not find it unduly difficult to open a Bank of England settlement account. Also, we think that firms wishing to get indirect access should not find it unreasonably difficult to do so because of IAPs' concerns about the UK's anti-money laundering and counter terrorist financing framework. We recognise that both matters are among the developments summarised in paragraph 8.5 and that the Payment Strategy Form is looking at how more data sharing might improve the anti-money laundering framework.

Question 5:

5. Are there any important developments that are likely to affect the supply of indirect access that we have not identified in this interim report? If so, please also set out the timelines for these developments, and any factors that might impact on the likelihood of them occurring. Please also indicate how you think these developments might address the concerns we have identified.

In the PSR's other recently-published Interim Report, MR 15/2.2 *Market Review into the ownership and competitiveness of infrastructure provision*, the PSR proposed, in paragraph 8.17, that FPS, Bacs and LINK should adopt a common international message standard. We strongly support this proposal: we believe that it will lead to greater competition in payments by encouraging more firms to become active in the provision of infrastructure for these systems and by encouraging firms including FinTech companies to develop-added value services using payments data. Such developments would be consistent with the PSR's statement, in paragraph 8.7 of this Interim Report, that creating an environment for effective competition is its "preferred means to deliver good outcomes to service-users".

We believe moving to adoption of a common international messaging standard will assist PSPs which are both direct and indirect participants in payments schemes. However, we suggest that consideration be given to possible short- and long-term impacts of this important proposal:

- Despite the availability of message translation services, mentioned in paragraph 8.19 of MR 15/2.2, it is likely to be disproportionately expensive for smaller banks to update their own internal payment systems. We suggest that, in determining the plan for transition to a common message standard, consideration be given to ensuring that the transition does not put smaller banks at a disadvantage relative to the large banks, as happened with Faster Payments and could happen with cheque imaging (see below).

- Over the longer-term, as recognised in paragraphs 8.29 and 8.30 of MR 15/2.2, the adoption of a common message standard may lead to the emergence of alternative models. For example, FPS, Bacs and LINK might combine in some way, or there might be a move to bilateral contracts between PSPs and infrastructure providers instead of the current collective purchasing model. We do not have a preference for any particular alternative model, but we strongly agree with the observation made by the PSR, in paragraph 8.30 of MR 15/2.2, that the remedies it is proposing should "be effective in any structure that may develop in future". In relation to the possibility that FPS, Bacs and LINK might combine in some way, we suggest that technical access solutions that are now being developed should not create new legacy problems: they should be compatible with the common message standard and able to switch easily to multiple access if required to do so. In relation to the possible emergence of alternative models, we suggest that the plan for moving to a common message standard should as far as possible create optionality and seek to limit the cost and complexity of subsequent moves to alternative models, if they do emerge.

Questions 6 and 7:

6. If the developments do not sufficiently address the concerns we have identified in the next 12 months, what action, if any, do you consider we should we take at that point? What would be the advantages and disadvantages of such action?
7. Is there any regulatory or other action that you consider we should take now? What would be the advantages and disadvantages of such action?

We note the questions about whether the PSR should take further action, either now or after a period of 12 months. In general, we agree with paragraph 7.5 that it is better to deliver good outcomes for consumers (in this case, for IPSPs) through effective market competition rather than through additional regulatory measures. In this case, we believe that it was appropriate for the PSR to focus on the two key concerns relating to access and that, except for one matter discussed below, it is now appropriate to apply the forbearance approach described in section 6.1 of *Indirect access to payment systems: insights from access theory and practice.* We think that the three preconditions mentioned in section 6.1 are met:

- "First, the expected entry, or development of alternative supply methods, is credible and likely to be of significant scale and scope to address the problems identified": It is encouraging that, according to paragraph 8.5, at least 15 IPSPs have said that they plan to become direct PSPs in the next three years, at least four businesses are planning to become IAPs and two of the four main IAPs are seeking to expand or improve their indirect access service over the next one to two years.

- "Second, the expected market changes are expected to occur within a reasonable time-frame": Many of the developments summarised in paragraph 8.5 have already happened or are very likely to happen in the next one or two years. More broadly, we think that the PSR has created positive momentum for real change in access to payment systems in the UK.

- "Third, the possibility of imposing mandated regulatory remedies to address any problems identified could have the perverse effect of reducing the incentives for investment by new entrants": We think that the remedial options set out in paragraphs 8.24 to 8.31 could well have the unintended consequence of limiting competition and innovation and that they might even undermine the good progress being made on addressing the two key concerns.

The one area where we suggest that the PSR should consider taking action is in relation to cheque clearing, following the announcement that the implementation of the cheque imaging initiative has been delayed. We understand that some industry participants now wish the initiative to be phased in, starting with the large banks, or to be deferred or even abandoned. The former option would give advantage to the large banks, as happened with Faster Payments; the latter option would mean that, as at present, agency IPSPs would not be able to switch their sponsor bank without having to change their sort codes - leading to unwelcome inconvenience to customers as well as to additional costs. We encourage the PSR to ensure that access to cheque clearing is open and fair and that switching is made easier by sort codes being portable, whether through cheque imaging or otherwise.

VocaLink

Vocalink provided a combined response to both our market review into the supply of indirect access and our market review into the ownership and competitiveness of infrastructure provision in payment systems ('the infrastructure market review').

We have published Vocalink's combined response along with the other responses we received to the infrastructure market review. These responses can be found at www.psr.org.uk/psr-publications/market-reviews/MR1522-responses-to-interim-report.

Worldpay

worldpay

PSR: Interim Report on Indirect Access to UK Payment Systems

Worldpay welcomes the opportunity to provide feedback on the Payment Systems Regulator's Interim Report on its Market Review into the Supply of Indirect Access to Payment Systems. We support this as part as part of its wider programme of work to promote better choice in access services and to improve service quality so that banks, building societies and other PSPs have a real choice between direct and indirect access.

Worldpay is a UK company that is a leader in global payments. We provide a broad range of technology-led solutions to our merchant customers to allow them to accept payments of almost any type, across multiple payment channels, nearly anywhere in the world. Worldpay is one of the few global businesses able to offer functionality in most aspects of payment acceptance, whether in-store, online or on a mobile device, by providing access to a global payments network through an agile, integrated, secure, reliable and highly scalable proprietary global payments platform.

On an average day, Worldpay processes approximately 31 million mobile, online and in-store transactions worldwide, offering 300 payment methods in 126 transaction currencies across 146 countries, while supporting around 400,000 customers, including large enterprises and domestic corporates and approximately 369,000 small and medium sized enterprises.

Our comments on the Interim Report are set out below.

1. Interim Conclusions and Proposed Approach

The market characteristics of the supply of indirect access to payment systems identified in the Interim Report correspond to those we have seen:

- Perceived risk of compliance failures under financial crime regulation
- Lack of entry of indirect access providers
- Increase in demand for real-time payments

The conclusion reached in the Interim Report that work to open up access to payment systems is generating increasingly positive results accords with developments and trends in the market. In addition to this, the approach of monitoring those developments over the next twelve months is welcome in the context of a significant level of regulatory change at both a national and supra-national level.

2. Findings of the Interim Report and identification of key concerns with the supply of indirect access to interbank payment systems

The issues which Worldpay has experienced in the UK payments market are recognised in the Findings of the Interim Report.

These issues are set out below and referenced to the Findings in the Interim Report.

Our Current Access Model

As Worldpay is authorised as a Payment Institution and is not a bank, we have indirect access to the UK payment systems, in our case, BACS, CHAPS and FPS.

In the standard card acquiring model, it is important to note that there is a distinct difference between Visa/MasterCard and all other systems in that the card schemes essentially represent the distribution of data rather than money. They rely on the other payment systems for the execution of the Visa/Mastercard propositions. This means that the money that a Visa or Mastercard transaction represents has to be sent to us from the card schemes via CHAPS or Bank of England direct into our bank accounts. We then settle monies to our customers via CHAPS, FPS and BACS.

In respect of debiting, we use BACS direct debits or invoice settlement (which of course requires our customers to use one of CHAPS, FPS or BACS to get the money to us).

Access Issue: Indirect Access is provided by a small number of banks

As noted in Finding 1 of the Interim Report, the choice of indirect access providers is limited.

Direct access to UK payment systems is limited to a small number of direct participants which are all credit institutions. Non-bank payment service providers, in contrast, are required to use a permission arrangement with a bank to gain access in order to operate within any of these payment systems. The choice of such banks is limited to an even smaller subset of banks.

Access Issue: Commercial exposure - termination of access by the member bank

In line with Finding 2, notice periods for the termination of indirect access arrangements are a concern. These are currently shorter than the time it would take to negotiate with a new access provider.

Experience suggests that finalising a new agreement with an access provider would easily take closer to 6 months elapsed time (assuming we are able to negotiate for such licences and we are in a willing buyer/willing seller scenario).

Access Issue: An added layer of scrutiny – financial crime regulation influences IAP behaviour

Finding 6 of the Interim Report recognises a core issue for Worldpay; our access providers apply their own risk appetite to our (different) business model.

Worldpay is accountable to its regulators and to its shareholders; not only is this additional layer of scrutiny superfluous, our experience has shown that this scrutiny is coupled with a lack of understanding of our business model and its risk profile.

Banks are continuing to restrict access to bank accounts to PSPs in order to de-risk their portfolios in line with their perception of anti -money laundering exposure and other regulations.

Access Issue: Barriers to entry and to innovation/switching rate

Finding 7 is that the rate of switching between indirect access providers is low. The reasons for this that we recognise are that many such arrangements are very burdensome in terms of timing, costs and changes required to IT infrastructure and often, policies of payment institutions. Related to this, access to infrastructure, the cost of operating, maintaining and upgrading infrastructure is too high for smaller payment service providers which simply to do not have the same level of resource available. Lack of flexibility in terms of the requirements set by the infrastructure providers also pose technical barriers to access for smaller payment service providers.

3. Other developments not identified that may affect the supply of indirect access to UK payment systems.

Worldpay operates in a payments market which is complex and dynamic. There are multiple parallel and incompatible interbank payment networks in each domestic market and globally. There are many established players (many of them banks) and many start-ups seeking to innovate in the movement of money.

PSD 1 allowed for non-bank payments institutions, such as Worldpay, to emerge as new competitors in the payments space that was previously the domain of banks. Worldpay supports the aspects of PSD2 aimed at further increasing access to of payments institutions to the European market with the provisions around PI access to: bank accounts; relevant account information and payment systems.

With the introduction of PSD 2 and other initiatives, there is a significant amount of regulatory change at a national and supra-national level in the payments sector to which Payment Institutions must respond. The tensions between the drive for competition and innovation on the one hand and some aspects of regulatory change and existing market requirements, on the other, are complex and include:

- enhanced security and technical standards (PSD2)
- more fully harmonised AML regulations (4^{th} MLD) and global AML developments
- additional data requirements with each payment (Fund Transfer Regs)
- faster settlement times (PSD2 and ERPB instant payments)
- bank provider risk appetite and related direct access requirements

Developments related to these have been recognised in the Interim Report as initiatives which have the potential to address the Findings, including the Bank of England review of direct access to settlement accounts and the FCA review of financial crime regulation. The impact on market structures and on indirect access of some of the regulatory initiatives listed above, such as the developments around instant payments, is not yet clear.

May 2016