

Simplifying Access to Markets Working Group – Phase 1 Report: Triage and Prioritisation Analysis

1. Executive Summary

The Working Group phased its activity, as follows:

- Understanding the impacts of the allocated detriments and assessing them against its PSF priority themes;
- Refining them into clearer impacts from which to develop solutions, through well-supported WG workshops - 22 original detriments combined into 19, with one identified as better fitting another working group;
- Reviewing what was already in course, including regulator, operator and industry activity, and how together these would address, wholly or in part, aspects of multiple detriments. We found that the good work underway largely addresses technical access and simpler participation models.

The Group has not undertaken formal consideration of the structure and governance of the UK payments eco-system. It believes it is essential to do so and also to consider how capable any proposals will be of accommodating anticipated future change in the payments environment, with greater variety of participant types, device/provider-led payment developments and regulatory change e.g. PSD2.

The Group's thinking on emerging new technologies, such as Distributed Ledger and the recent report on the Open Banking Standard led to clear agreement that the industry needs also to develop its strategy on future technical standards and rules for payment messages.

The Group's conclusions are therefore that current activity should continue, but that critical challenges remain to be addressed:

- a. Much activity is focused on new/challenger banks, and less on other types of PSP. Whilst acknowledging that some PSPs will continue to prefer indirect access through a direct participant – a revised focus on simplifying access is essential as the market opens further;
- b. The overall UK payments eco-system remains complex and complicated, making collective change slow and challenging to deliver – we recommend a review of the structure and governance of, as a minimum, the three retail operators (Bacs, C&C and FPS);
- c. The development of a UK payments strategy for modernisation and upgrade of technical standards/rules, taking learnings from markets such as the EU and Australia

We are to consider at SAMWG's meeting on 8th March how to organise our resource to support these work programmes.

2. Call to action

The Forum is asked to **consider** this update and **agree** with our conclusions

3. Triage and prioritisation analysis

As per the high level work programme and evaluation framework discussed and agreed at the December Forum, **The Simplifying Access to Markets Working Group** has been through an exercise of assessing its long list of detriments. This section provides our high level analysis for Forum consideration before we progress to the detailed assessment.

3a. Detriment grouping and definition

Original detriment(s) for Choice and Competition *(taken from foundation document agreed at the December Forum):*

1. Not enough direct PSPs
2. Lack of commercially viable offers for indirect PSP's
3. Consumers have little choice if they require a PSP with real-time FPS
4. Existing sponsor banks can limit competition

Grouped / Refined / Defined *(agreed by the SAM Working Group)*

New Detriment 1. **Small number of sponsor/commercial solutions for indirect PSPs** – Original detriments 1&2

New Detriment 2. **Consumers have little choice if they require a PSP with real-time FPS. There are 10 members of the Faster Payment Scheme and only these Banks offer real-time FPS to their customers. If customers want real-time payments they need to bank with one of the 10 members** – Original detriment 3

New Detriment 3. **Existing Sponsor Banks can limit competition as there are only a few that offer indirect access. Indirect PSPs are reliant on the Sponsor Bank solution and innovation** – Original detriment 4

Original detriment(s) for Choice and Competition *continued*

- 5. Lack of competition between Schemes
- 6. No clear / transparent on-boarding process or requirements
- 7. Difficult for PSPs to switch indirect access provider
- 8. PSP's find it difficult to get access to direct PSP's in the UK and therefore access to payment systems

Grouped / Refined / Defined *(agreed by Working Group)*

New Detriment 5. **It's difficult for PSPs to switch indirect access providers as Sponsor Banks' solutions may make it difficult to switch to another provider.** – Original detriment 7

New Detriment 6. **New types of PSPs may encounter difficulties in finding direct PSPs to sponsor them and get access to a payment system, due to having new models where current sponsor bank risk appetites will not support such entities.** – Original detriment 8

New Detriment 8. **Lack of competition between Schemes** – Original detriment 5

New Detriment 17. **Lack of interoperability and common standards in the payments infrastructure reduces the ability for PSPs to innovate and of businesses to benefit from new payment options** – No original detriment

New Detriment 18. **There is no level playing field for PSPs that are not a credit institution. Difficulty in obtaining a BoE settlement account as a new direct participant.** – Original detriment 20 (Scheme Governance)

Original detriment(s) for Common Standards and Rules

- 9. Too many standards and too much complexity reducing front end simplicity and stifles innovation.
- 10. Different rules and standards within EU to the UK
- 11. Range of standards could limit infrastructure competition
- 12. Difficulty in entering the market because of complex rules.
- 13. No real substitutability between payment systems in the event of system failure
- 15. Scheme Rules are too complex, therefore expensive to join and/or comply with.

Grouped / Refined / Defined *(agreed by Working Group)*

New Detriment 13: **Too many standards and too much complexity reducing front end simplicity and stifles innovation, unlike the EU where SEPA has aligned rules for DC/DD.** – Original detriment 9

New Detriment 14: **Different rules and standards within EU to the UK. SEPA has largely aligned EU standards/rules for DC/DD & should do for instant payments. Still in country variances.** – Original detriment 10

New Detriment 15: **Range of standards could limit infrastructure competition. If Operators set the rules, there could be multiple infrastructure providers, provided they are all aligned to an ISO standard** – Original detriment 11

New Detriment 16: **No real substitutability between payment systems in the event of system failure.** – Original detriment 13

Original detriment(s) for Scheme Rules and Governance

- 16. Indirect PSPs don't own the schemes so change and governance of schemes is driven by the big banks
- 17. Multiple schemes cause overheads for users /PSP's / Retailers
- 18. Cheque Imaging is an added scheme, risk this is reinforcing the multiple operator model.
- 19. Inability of non-Direct members to influence rules
- 20. Difficulty in obtaining a BoE settlement account as a new direct participant

Grouped / Refined / Defined *(agreed by Working Group)*

New Detriment 4. **Indirect PSPs don't own the schemes so change and governance of schemes is driven by the big banks. There is no effective voice for indirect participants view to be taken into consideration by the Schemes.** – Original detriments 16 & 19

New Detriment 9 **There is no clear/transparent onboarding process or requirements for PSPs to join a Scheme and the process can be lengthy and costly for participants to join. Scheme rules are too complex, therefore expensive to join and/or comply with.** – Original detriments 6 (Choice and Competition), 12 & 15 (Common Standards and Rules)

New Detriment 10. **Expensive for card issuer/acquirers to be direct members of card schemes** – Original detriment 14

New Detriment 11. **Multiple payment schemes are expensive, complex, time consuming to join for PSP's and confusing for end users. Cheque Imaging is an added scheme, risk this is reinforcing multiple operator model.** – Original detriments 17 & 18

New Detriment 12: **Card scheme governance does not adequately represent merchants and can be inflexible when translating USA-based rules into rules for E.U. firms. Need to engage with End User WG as merchants are end users.**

Original detriment(s) for Third Party

21. Third party providers (end users PSPs) can't initiate real time payments and access data as they have difficulty gaining access



Grouped / Refined / Defined *(agreed by Working Group)*

New Detriment 7. **Third party providers (end users PSPs) can't initiate real time payments and access data as they have difficulty gaining access**

3b. Orphan detriments

Original Detriment 22:

Banks not good at innovating – external market should innovate we propose to be moved to the Horizon Scanning Working Group.

3c. Triage and prioritisation

This page contains observations for the SAMWG's ratings where these were not immediately clear.

Grouped detriment	Potential Solution(s)			High level CBA (+ / -)	Priority (HML)
	Solution already available or under development (Y/N)	New <i>(Capture the solution at a high level, please note this doesn't have to be a technical solution, could be education; rules changes etc.)</i>	Potentially Requires collaboration (Y/N)		
Detriment text Detriments covered				Too early to undertake CBA so a high level estimate of the cost/benefit of change using the symbols: +++ / ++ / + = - / - - / - - -	

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	Solution already available or under development (Y/N)	New (Capture the solution at a high level, please note this doesn't have to be a technical solution, could be education; rules changes etc.)	Potentially Requires collaboration (Y/N)		
Small number of sponsor/commercial solutions for indirect PSPs (Detriment 1, also covers 2, 3 & 5)	Y	<p><u>Collectively to ensure that a broader range of connectivity options for indirect, and direct PSPs exist in the market, by encouraging the development of commercial Aggregator solutions capable of supporting both direct or indirect access to any Payment scheme through a single gateway.</u></p> <ul style="list-style-type: none"> - Already under development/consideration for Faster Payments and Bacs, which should be supported by Aggregator accreditation / names published e.g. via PSO websites - Other PSOs to be encouraged to consider if access via these aggregator services is possible and to develop a framework model to support this. Ideally all schemes to accept input and output from an aggregator including card schemes and Link. - PSF to encourage a co-ordinated approach to building on the models that FPS and Bacs are creating. - Once enabled solutions can be further developed in the competitive marketplace and a variety of services e.g. format mapping/ translation for new standards/other payments types could be offered through these portals. 	Y	++	H

Grouped detriment	Potential Solution(s)			High level CBA (+ / -) +++ to --	Priority (HML)
	Solution already available or under development (Y/N)	New (Capture the solution at a high level, please note this doesn't have to be a technical solution, could be education; rules changes etc.)	Potentially Requires collaboration (Y/N)		
<p>There is no clear or transparent on-boarding process or requirements for Participants to join a Scheme, and the process can be lengthy and costly for participants to join.</p> <p>Scheme rules are too complex, therefore expensive to join and/or comply with.</p> <p>(Detriment 9, also covers 6, 8,10,11 & 16)</p>	Y	<p><u>Payment System Operators (PSOs) should have simplified and common participation models and rules</u></p> <ul style="list-style-type: none"> - Review each PSO's model to identify short term solutions to improve on-boarding, access, rules, costs and participation requirements for each scheme. - From these, identify areas for alignment across the PSOs and consider how best to deliver a common model to improve access and increase competition. - Specifics could include a common minimum set of rules, security levels and compliance processes that would apply to each PSO. Collaboration by schemes could lead to each PSO having only essential variances in rules etc. This could extend to wholesale payments. - Share more widely information on schemes models for indirect participant or service user engagement. This should occur regularly and specifically when significant change is proposed. - Define and agree common terminology across PSOs for all participant types. 	Y	++	H

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<p>Multiple payment schemes are expensive, complex, time consuming to join for PSP's, <i>retailers and commercial companies</i> and confusing for end users.</p> <p>Cheque Imaging is an added scheme, risk this is reinforcing multiple operator model.</p> <p>(Detriment 11, also covers 8,9,10 & 16.)</p> <p>Note: <i>text in italics – potential to pass to EUNWG to determine user needs of these customer groups. Benefits of simplification will flow through to these users particularly on rules, connectivity and engagement.</i></p>	N	<p><i>Simplification of PSO Structures & Governance</i></p> <p>Strategic changes to deliver a simplified governance and access model for retail payment schemes will address most of the identified scheme governance detriments:</p> <ul style="list-style-type: none"> - Examine whether changes to the structure of the PSOs, including their governance models would improve access and competition more efficiently and quickly than by incremental individual PSO developments. - Simplification and consolidation of the PSO structures in to a single entity to govern and provide a simple access portal to each of the retail payment types may significantly reduce complexity. Through this structure PSPs would be able to access all payment schemes as rule books are harmonised over time. The KPMG/ PA Consulting/London Economics reports to Payments UK to be evaluated and progressed once released, along with other relevant documents e.g. Vocalink/Oxera reviews - Deliver simplified and common participant assurance processes (certification requirements in card based schemes) to make this easier to understand and comply with for new entrants. There are currently individual requirements across different schemes. - Through this deliver mechanisms that allow parallel on-boarding models so that it is easier for new entrants to join multiple schemes at the same time. 	Y	+++	H

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	Solution already available or under development (Y/N)	New (Capture the solution at a high level, please note this doesn't have to be a technical solution, could be education; rules changes etc.)	Potentially Requires collaboration (Y/N)		
<p>There is no level playing field for PSPs that are not a credit institution.</p> <p>Difficulty in obtaining a BoE settlement account as a new direct participant.</p> <p>(Detriment 18, also covers 1,2 & 3)</p>	Y	<p><u>Bank of England blueprint for RTGS and the Bank's settlement infrastructure which may lead to wider access to settlement accounts</u></p> <ul style="list-style-type: none"> - The review will cover policy, functionality, access and the Bank's own role in delivering payments and settlement services; WG's focus will be on monitoring and reacting to the Bank's review to understand timescales, emerging policy and deliverables to give wider access to settlement options. - Ahead of this, to determine what the optimum access requirements for all participant types would be to ensure the needs of non-bank PSPs are addressed by the outputs of the review - Liaise with appropriate industry bodies to ensure that the needs of all stakeholders are being reflected in feedback and consultation processes offered by the Bank of England. 	Y	+++	H

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Too many standards and too much complexity reducing front end simplicity and stifles innovation, unlike the EU where SEPA has aligned rules for DC/DD (Detriment 13, also covers 17)	N	<u>Develop a clear standards strategy for UK Payments</u> - Create a clear standards strategy for the UK and consider in relation to European and Global requirements. - Investigate whether translation services and aggregators provide the best way forward. - Assess whether there is a case to move to an alternative standard (ISO 20022) and monitor industry and Bank of England work on Blockchain technology to assess whether it will offer new solutions in the longer term. Consider also any work within the Horizon Scanning WG. - Consider whether a standards body for UK payments is needed to own, simplify and maintain standards for payment messaging across multiple schemes. The international card schemes currently have this model globally with the separate constituted EMV company setting standards across the card schemes. - Develop awareness of standards translation software. At PSP level the software is available either individually or through an aggregator. There are opportunities to improve current products and the access to these services. - At the infrastructure level providers can use translation services to create more competition between infrastructure companies, to provide better processing options and more innovative services for UK based payments schemes as foreign suppliers can bid for UK schemes business.	Y	++	H

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	Solution already available or under development (Y/N)	New <i>(Capture the solution at a high level, please note this doesn't have to be a technical solution, could be education; rules changes etc.)</i>	Potentially Requires collaboration (Y/N)		
It's difficult for PSPs to switch indirect access providers as Sponsor Banks' solutions may make it difficult to switch to another provider. (Detriment 5, also covers 7)	Y	<p><u>Make sort codes more readily available to provide improved allocation, transfer and ownership</u></p> <ul style="list-style-type: none"> - Build on the work already underway through the Clearing Codes Operational Group to address sort code allocation, transfer and ownership. This will deliver a solution in Q3 2016. - Schemes and industry bodies are already consulting with the Bank of England on participant options and short term tactical solutions have been prepared. - Monitor outputs of the review to ensure it addresses access issues identified. - Current sort code issues specific to Cheque and Credit clearing which constrict switching will be removed by the implementation of the Future Clearing Model for cheques. 	Y	+	M

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Small number of sponsor/commercial solutions for indirect PSPs (Detriment 1, also covers 2 & 3)	Y	<p><u>Liability models, sanctions risk, know your customer and anti-money laundering responsibilities to be clarified for indirect participants.</u></p> <ul style="list-style-type: none"> - The liability model and sanctions risk for sponsors is unclear. - Although the Indirect participant is regulated, there remains a concern that the sponsoring participant may be liable for the indirect participant's shortcomings in meeting these responsibilities. - Clarity is however needed so that when an infraction of rules/procedures occurs by an indirect participant, the risk and liabilities are not excessive for sponsors so that more are encouraged to offer this service and to a wider range of new entrants. - WG to work closely with Financial Crime WG on this 	N/A	+	M