

Horizon Scanning Working Group | Account Number Portability Update

Executive Summary

At the Second Meeting of the Forum on 15 December 2015, the Horizon Scanning Working Group was requested to assess Account Number Portability (ANP).

Annex 1 is attached for information only and summarises the work of the Group to date.

Recommendation:

The Horizon Scanning Working Group will undertake the study of ANP starting by determining its various definitions and their potential benefits and implementation costs. Any recommendation of implementation will require real evidence of its benefits and also must not raise any further the existing entry barrier to payment systems by challenger banks and new entrants.

Members of the Forum are requested to take note of progress to date and agree that the Group undertake the proposed study.

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1. INTRODUCTION

Account Number Portability (ANP) is the possibility given to users of keeping the same bank account number when changing banks.

The concept of Account Number Portability originated in the telecoms industry where users get the benefit of keeping the same phone number even changing homes (for landlines) or telco (for mobile telephony). In the telecoms industry ANP is seen as a key feature facilitating competition.

The reason for discussing ANP in the banking industry is the founding idea that such feature would deliver the same benefit to banking users as telephony users get in the telecoms industry. However the concept of ANP within the banking industry is far from simple since a bank account is not like a phone number neither does it represent a service that could be compared in its structure or nature.

This note has the following objectives:

1. Identify the difficulties of implementing ANP in the banking industry, these revolve around definition and scoping plus the technical and legal requirements and limitations to implement it.
2. Review the founding idea of derived market benefits, taking into consideration existing substitutes and market context.
3. Propose a methodology to identify various possible sets of definition/implementation/costs/benefits.

The work of the Horizon Scanning Working Group up to July will include a specific workstream on Account Number Portability.

N.B: The Forum has received as input from Payments Community engagement and from its own members a long list of detriments that represent the issues of the payments industry in the UK. The need for a simple bank account switching service or alternatively the detriment of insufficient guarantees or continuity of service in the case of bank account provider change was raised by the Payments Community, albeit as a low priority.

2. ANP IMPLEMENTATION DIFFICULTIES

2.1 ANP definition and scope

While in the telecoms industry a phone number identifies a line to call and be called, in banking a bank account represents or could represent a much wider set of services than the bank account self. A bank account number includes elements such as:

- the bank account as a facility to store money
- identification of the bank account so that payments can be routed to and from the account
- cards are attached to bank accounts
- chequebooks are attached to bank accounts
- identifies credit facilities such as overdrafts enabled in the account
- all the historic data related to the financial activity of the user for that particular account

Then there is the issue of ownership. While a phone number is simply a line that could be used by anyone and the only consideration for the telco is the owner that will settle the bill for its usage. A bank account represents a relationship with its beneficiaries, which can be one person or various and such relationship cannot be transferred with the same ease. A person should never use his/her bank account to facilitate payments of financial transactions on behalf of another person unless it is an authorized person.

In this context the definition of what needs to be portable is also linked to the benefits it will bring. The possibility of transferring everything would simplify the switching of banking provider but may be so technically and legally difficult to achieve that any pursued benefit would be far from enough to outweigh its cost.

STUDY ITEM: It is therefore necessary to scope ANP, what is meant to include, as a minimum to deliver the intended benefit and what scoping options exist.

2.2 Jurisdiction

The potential implementation of ANP in the banking industry in the UK needs to first consider what a bank account is and how it is represented.

Bank accounts in the UK are described, jointly, by:

- Account Number (8 digits)
- Sort Code Number (6 digits)

This representation is used for domestic (UK) transactions only.

The same bank account requires a different representation if used in an international context. In an international transfer the account is represented as an IBAN (the BIC is no longer required):

- IBAN (2+2+4+6+8)

In the domestic representation the account number is not enough to actually represent the account, it would be necessary to include the sort code in the definition of what needs to be ported as well. So, as in the case of domestic transactions, Account Number should include also the sort code.

In both international and domestic representation of bank accounts, information is included that is required for the routing of the payment and that identifies the bank that is providing the account. In addition, in the UK the account number is subject to a modulus check, which requires the sort code for its calculation and actual account number generation.

So the first consideration is to understand what it is that we want to make portable:

- the UK representation of the bank account (14 digits of sort code + account number): in this case ANP implementation on the current payment system would require the Account Number to be hidden from the user and instead replaced by a new number, that would become the new account number that could be made portable. However, the IBAN number required for international transactions would have to be communicated to the user. If the user changes banks in the UK, he could keep the account number but the user still needs to receive a new IBAN.
- both the UK and international representations. In this case the change would affect the banking conventions worldwide since all banks in all countries should be able to know how to route the payment. This is out of scope of the jurisdiction and possibilities of the UK alone.

STUDY ITEM: The scope in which the ANP needs to work requires definition. Should it go beyond the UK borders, and at least within the EU, similar initiatives or existing models in other EU countries should be included.

2.3 Industry Context

We are at a moment of the banking and payments industry where competition in the UK is deemed to be insufficient. Real industry issues have resulted in an unhealthy concentration of users around a few major banks and also are making very difficult for new payment services providers to deploy their services and access existing payments market infrastructure.

In parallel, new technologies and models, such as distributed ledgers and in general a more distributed approach to building and operating infrastructure is being born (and has been the object of a government report: “Distributed ledger technology: beyond block chain” published in January 2016). These new developments are being seen as the answer to truly modernize the payments industry in the UK and beyond, and would significantly help to solve the current access barriers to central payment systems.

The implementation of ANP as a central service to which PSPs would need to adhere, following the steps of CASS and Paym, would result in a new entry barrier being raised, since any new PSP would need to join each of the schemes plus CASS, then Paym then ANP individually, each with their own integration process, policies and timings.

The parallel deployment of an ANP project alongside the review the entire system in the context of these new technologies and models would not be possible or would divert attention and budget from efforts to solve more fundamental issues.

2.4 Technical choices

Five options were identified in the FCA report “Making current account switching easier” published in March 2015. The five options to consider are:

- Retain identifier model-where the customers take their original sort code and account numbers with them when they switch bank accounts.
- New identifier model- where an alternative identifier such as a mobile phone number is used as a proxy to a sort code and account number.
- Central utility model- which requires a new central shared operations platform centrally managed for current accounts and payment accounts where all the customer data is stored in a single database and ANP is provided by the use of an existing or new identifier.

- CASS perpetual model- the continuation of the current switching service with rerouting of incoming payments for an indefinite amount of time.

Bacs already has plans in hand to deliver the last option as part of our 2016 Service development plan. Their analysis on the three other options is in the bellow table:

STUDY ITEM: evaluate the difference in benefits between the various forms of ANP identified above against the CASS perpetual model being deployed in 2016.

FCA proposed model	Deliverable	Drivers	Outcome (Benefit)
Model 1- Retain Identifier Model	central identifier repository	to hold records of all identifiers and corresponding internal account numbers	lower data management cost
	central payment mandates	to facilitate transfer of payment mandates	new bank can amend the payment mandate directly after acquiring access to the database
	Internal database	act as an interface for banks to access and modify the central identifier database	lower data management cost
Model 2- New Identifier Model	central identifier repository	to hold records of all identifiers and corresponding internal account numbers	lower data management cost
	central payment mandates	to facilitate transfer of payment mandates	new bank can amend the payment mandate directly after acquiring access to the database
	Internal database	act as an interface for banks to access and modify the central identifier database	lower data management cost
	Identify and mandate new identifier	ensure adequate usage to achieve appropriate level of network effect	higher model effectiveness
Model 3- Central Utility Model	centrally-managed core banking platform	to provide operational services centrally	lower operation cost for banks
			reduce bank cost on database management
			lower barrier to entry for challenging banks
	central repository	to hold record of the customer's current account provider	customer can keep their account number permanently
			quicker switch process as only need to change bank access to the account number
	central payment mandates	to facilitate transfer of payment mandates	new bank can amend the payment mandate directly after acquiring access to the database
	central KYC database	to hold KYC information centrally to facilitate account opening process	faster account opening process
			reduce bank cost of acquiring new customers

3. OPPORTUNITIES

3.1 Unexpected benefits

Other than the difficulties and the existence of CASS, it is difficult to predict how the different possible versions of ANP could be used innovatively, were any of them to be successfully introduced. However, the concept of a unique identifier code which consumers take with them whichever company they bank with does have appeal. Under certain definition of ANP it could potentially add value to end-users were it to facilitate the transfer of other information, such as personal data linked to account usage. This would allow consumers the possibility of 'taking their data with them' when they leave one company and 'plugging it in' to another company. This could facilitate the development of innovative non-bank-led data services for consumers, as well as giving consumers control over who has their data. Linking ANP to personal data would make the ANP more valuable and also offer manipulation for AML purposes or KYC. However, with the increased value comes increased risk to the consumer and security measures would need to be in place to ensure the ANP and associated data cannot be easily stolen and that there are mechanisms for individuals who get 'locked out' of the system to be brought back in.

In this sense the various definitions of ANP require review with the intention of not only derive direct cost benefits but also to assess whether it can enable innovation elsewhere.

STUDY ITEM: Review the links that ANP could have with other identified detriments. Study as well whether ANP would generate other detriments and their impact.

4. OTHER CONSIDERATIONS

4.1 The real need for ANP

It is necessary to review the actual premise of the need for ANP from existing market information and surveys. Types of users or behaviours may have an impact on the real benefit that can be derived from ANP:

- For users owning joint accounts
- Also, there is an increasing number of migrants across countries in the EU of which the UK is both one of the major receivers and also one of the countries of origin providing more migrants towards other EU countries. All these individuals would not benefit from a national only ANP implementation.

- Businesses should also be part of the analysis since business from small to large corporations are the biggest users of banking services, for them changing bank accounts may result in temporary cash flow problems and even defaults of credit reimbursements, or other.
- Finally the report published by Tooley Street mentioned above highlights the following finding: “Portability is not a deciding factor when considering whether to switch. It mainly appealed if people were already minded to make a change in current account provision. It is attractive for some people who have already decided to switch because it is seen as making the process simpler but (i) knowing more about CASS may have the same effect (ii) the appeal of portability evaporated if they thought it would make the overall system more complex or risky”. In this sense Tooley St also asked those who were considering switching what would make them more reassured about switching the most popular answer was a guarantee on all direct debits/Standing Orders/money paid in and the second was the ease of switching. CASS offers both of these features.

Given what was explained previously and the second bullet point above it is obvious that not all customers would benefit. Also, depending on how the ANP feature is implemented, other needs could be also jeopardised or if included, would make ANP as very complex, costly and potentially risky exercise. Users may want to migrate two different accounts into a single one, or actually split one account into two new accounts with two new banking providers, etc.

STUDY ITEM: map all sorts of users types and how ANP could or could not be used by each type depending on the ANP definition.

5. ANALYSIS PLAN

The Horizon Scanning Working Group will undertake the study of ANP starting by determining its various definitions and their potential benefits and implementation costs. Any recommendation of implementation will require real evidence of its benefits and also must not raise any further the existing entry barrier to payment systems by challenger banks and new entrants.