



14th April 2014

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Our Reference FB 037/14

To The Financial Conduct Authority
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From Craig Tillotson
Managing Director
Faster Payments Scheme Limited

PAYMENTS SYSTEMS REGULATION – CALL FOR INPUTS

Faster Payments Scheme Limited (FPSL) is the Financial Markets Infrastructure (FMI) responsible for operating the Faster Payments Service (FPS) launched in May 2008. It is a Recognised System under the 2009 Banking Act and is therefore overseen by the Bank of England in its statutory Payment System Oversight capacity.

FPSL welcomes the opportunity to respond to the FCA's call for inputs as a payments system operator that is expecting to be designated for regulation by the Payments Systems Regulator (PSR).

FPSL is centrally involved in many of the areas covered by the PSR's objectives. The scheme has played, and continues to play, an important role in supporting innovation in the UK payments sector, for example in our current work underpinning Paym, the new mobile payments service. We are also very aware of the challenges of working to minimise the costs and complexity of participation in the scheme, while also delivering a ubiquitous, high integrity, and continuously available service for all end customers.

Given our position in the sector, we believe we have relevant perspectives on very many of the questions you have raised, and have answered accordingly. We will, of course, be very happy to discuss these perspectives further with you in wave two of your consultation exercise.

Please find attached our question by question responses and covering sheet.

Basic information	
Consultation title:	Payment Systems Regulation – Call For Inputs (5 March 2014)
Name of respondent:	Faster Payments Scheme Limited
Contact at respondent:	Name: Craig Tillotson, Managing Director
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Nature of organisation (select as appropriate)	
Infrastructure provider (e.g. Vocalink)	
Payment system operator	X
Direct member of payment system(s)	
Indirect participant in payment system(s)	
Service-user	
Other payment provider (e.g. ZAPP)	
Third-party service provider (e.g. ATM distribution)	
Trade / Government / Regulatory body	
Other Please specify:	

Confidentiality	Yes	No
Do you wish any part of your response to remain confidential?		X
If 'Yes', please submit both confidential and non-confidential responses.		

<p>Question 1:</p>	<p>Do you have any views on which payment systems should be considered for designation? If this includes parties other than the UK payment systems listed above, please explain why.</p>	<p>1.1 The schemes indicated by HMT should be designated.</p> <p>1.2 Given the position of VocaLink as the, currently, sole critical infrastructure provider for the Faster Payments Service (FPS), the PSR may wish to consider whether designation of VocaLink might be required to ensure that it is fully included in the new regulatory regime, albeit that VocaLink is not formally a payments system, service or scheme. This may not be necessary if the PSR’s influence can be delivered through an alternative approach.</p> <p>1.3 The PSR should build working relationships with smaller payments related services ahead of any designation.</p>
<p>Question 2:</p>	<p>Where do you believe competition is effective or ineffective within UK payment systems?</p>	<p>2.1 Proper market definitions need to be developed. There is not a well-defined payments system or payments market; or rather there are a number of possible markets that might be being referred to.</p> <p>2.2 The most important market to consider is the retail banking market, as payments are part of that service offering, and it is in this market that the most significant benefits can be delivered to consumers, businesses and the economy through the effective operation of competition. This is where availability of competitive payments products will benefit consumers most. Hence, ensuring access to payments infrastructure by all banks, whether directly or through some form of agency, is also a key issue. The PSR should primarily consider how the interventions it can make in the ‘payments industry’ can promote competition in the retail banking market, amongst existing players, and by enabling the entry of new players. This is the main prize for consumers, businesses and the economy in general.</p> <p>2.3 A robust assessment of the effectiveness, or otherwise, of competition can only properly be made once these clear market definitions have been developed.</p>
<p>Question 3:</p>	<p>At which level(s) is there potential for competition to drive benefits for service-users, in terms of costs, quality or</p>	<p>3.1 There is a growing opportunity for the quality and capability of the overall payment experience to be used by financial institutions as a competitive weapon in acquiring and retaining their customers. As payments schemes, like Faster Payments Scheme Limited (FPSL), and Paym, the cross-industry mobile payments service, deliver services that are increasingly visible to end customers, there is the potential for financial institutions to differentiate in the Service delivery models they provide to their customers e.g.</p>

	innovation?	<p>accessing these services via their individual mobile banking and payment apps.</p> <p>3.2 There is future potential for more competition to develop between the interbank systems and the payment card networks, for example in the provision of underlying account to account payments for retail and online purchases.</p> <p>3.3 Incremental benefits to service users and the support of further innovation are less likely to come from FPSL, Bacs, CHAPS and C&CCC independently contesting the same sub-markets, as the payment services these schemes provide are broadly complimentary and have, to date, focussed on different customer requirements. Future innovation is more likely to come in this area from coordinated development activities and planned substitution.</p> <p>3.4 There is a strong emerging market space coming from interbank systems developing equal access Application Programming Interfaces (APIs) for third party add on services, e.g. SEQR, ZAPP etc. to promote innovation in meeting current and latent needs of end customers.</p> <p>3.5 At infrastructure provision level, competitive supply should be promoted, but there is a need to analyse the benefits this can bring against the costs and risks to resilience and security of infrastructure change, bearing in mind the relatively small share of cost in the <u>central</u> infrastructure versus the complete ecosystem costs which will include direct and potentially indirect participant's systems. The transitional costs of regression testing new systems, and almost certainly constructing and testing parallel running capability also need to be considered in this equation.</p> <p>3.6 Given that the costs and risks of transitioning from one infrastructure to another may mitigate against a time-based competitive supply model, could concurrent supply of multiple directly competing infrastructures (or schemes for that matter) serving the same payments needs make sense? If the costs of delivering payments were highly variable with transaction volume, then the incremental system cost of multiple infrastructures might well be offset by efficiencies derived from on-going competition. However, the nature of electronic payments systems (at the centre) is that they are broadly fixed cost. While adding participant connections adds some cost due to the physical nature of add-ons (more gateways, telecommunications etc.). Adding transactions from existing participants normally makes only a marginal difference due to the growing processing power of the core IT systems that can simply handle</p>
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		<p>more-of-the-same.</p> <p>3.7 If regular market testing or multiple directly competing infrastructures cannot be economically used, then non-market mechanisms will need to be applied to establish good value and quality from suppliers.</p>
Question 4:	<p>What are the main factors impeding more effective competition at each level?</p>	<p>4.1 For Faster Payments, minimising costs of participation by reviewing the membership requirements and criteria to facilitate access needs to be balanced against the need to provide ubiquitous, high integrity and continuous service for all end customers. The real time requirements of a system that must also operate 24/7, where linkage of the end-to-end capability and high interdependence creates a need for capable and auditable systems and processes also places essential technical and operational requirements on direct participants. In addition, the Bank of England requires all direct participants to have a settlement account. Some potential direct participants we have talked to have indicated that they do not meet the current requirements laid down by the Bank of England. These are all factors that potential new entrants have to consider when weighing up the options/benefits of direct or indirect participation.</p> <p>4.2 FPSL has seen a recent growth in the number of enquiries about direct participation in the Scheme which is extremely positive. We are actively engaging with all applicants to assist them in understanding the requirements and participation options available to them. We have recently conducted a thorough review of our Rules and Membership criteria and are confident that they are fair and reasonable. We are also proactively reviewing the indirect proposition to see what improvement can be made – see further detail below in answer to question 13.</p>
Question 5:	<p>What functions do you think need to be performed collaboratively in the industry? How best can this be achieved?</p>	<p>5.1 <u>Some</u> collaboration between <u>some</u> interbank payment systems can be highly beneficial to consumers, businesses and the economy. This can include collaboration to substitute products, buy infrastructure services and enhance capability that enables better competition by the direct suppliers of services to consumers higher up the value chain. It can also include intelligence sharing in fraud and cyber security and the use of common routing and addressing protocols. Services where customers benefit from reach and ubiquity, such as the recently launched Paym, cross industry mobile payments service and the Current Account Switching Service (CASS) are good examples of the benefits of collaboration.</p> <p>5.2 Investment funding, a key issue for the further development of innovative capabilities, is also an area</p>

		<p>where a collaborative approach should continue to be considered.</p> <p>5.3 Where there is a concern that a particular collaboration might be considered anti-competitive, then industry players should be able to make the case to the PSR to continue in the best interests of customers, provided that the evidence supports such a conclusion.</p> <p>5.4 The interbank payment schemes are currently working on a number of joint projects which have common attributes i.e. where it makes sense to collaborate to tackle common issues. A current example of this approach is the development of the customer credit payment recovery process between FPSL, Bacs and CHAPS Co. We think this approach to bilateral or multilateral collaboration between schemes and other industry players makes sense and should continue to be supported by the PSR.</p> <p>5.5 For interbank schemes, efficiencies, which can be ultimately passed on to customers, can be gained by continuing to source common facilities from a service company, e.g. HR, physical facilities, Finance, IT, Security, Internal Audit, Communications. This needs to be provided as a service to the interbank schemes, should have no conflicting regulatory or quasi-regulatory oversight role and could be provided by any competent outsource provider. It might make sense from an economic and security of supply basis for these shared services to be provided to schemes by a company controlled by the schemes and operated on the same not-for-profit basis as the schemes themselves. The UK Payments Administration does much of this for FPSL, Bacs, CHAPS and C&CCC today, although is not owned or controlled by the schemes directly, see 8.3.</p> <p>5.6 Operational services that could or must be shared, like Sort Code database management, or credit recovery processes, can be managed by the most involved scheme on behalf of other scheme users, on a cost recovery basis, with clear MoUs and SLAs between provider and user schemes, as is current practice. Clearly, these could equally be provided by any competent outsource provider, but probably not on a not-for-profit basis, adding costs to the eco system and, ultimately, end customers.</p> <p>5.7 A small industry coordination working group, with <u>payment schemes</u>, industry participant and other stakeholder representation, should focus on the broader cross-industry issues on behalf of the PSR and the industry, working to eliminate any gaps or inconsistencies in strategy between individual schemes and other participants.</p>
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<p>Question 6:</p>	<p>Q6: Do you think the current ownership structure creates problems? If so, please explain your concerns with the current structure.</p>	<p>6.1 <i>What is FPSL (The Faster Payments Scheme Limited)?</i> The scheme is <u>not</u> a membership body designed simply to agree rules that facilitate interoperability and reach of its payment system. It is an internationally recognised Financial Markets Infrastructure company responsible for the payments system behind the clearing and settlement of real time automated payments in the UK. The company, as an FMI, plays a significant role in ensuring the smooth day-to-day operation of the payments system it controls, ensuring the continued integrity of the system, managing the systemic risks involved and contributing to the financial stability of the UK. Its board is structured to ensure that, while it retains the support of its direct participants, it both protects the public interest and supports the development of innovation in payments. It does this both directly, through industry-wide changes it supports and delivers, as well as indirectly, through the open access to innovative third parties it promotes. Whilst</p>

		<p>FPSL outsources its technology operations, currently, to its main supplier, VocaLink, FPSL retains full accountability for the quality and integrity of those operations.</p> <p>6.2 <i>What is the ownership structure of FPSL?</i> FPSL is a company limited by guarantee from its, currently, ten directly connected, settling participants, known in company law terms as members. These direct settling participants have agreed to become members of the company and abide by its rules. The company does not issue any shares or pay any dividends, members hold no capital stakes in the company, and have no mechanism for trading any part of the company. While it is ultimately controlled by its members, it is essentially a freestanding corporate entity. It is managed by a board of directors consisting of an Independent Chair, a Chief Executive/Managing Director, two Independent Non-Executive Directors, and ten individual non-executive directors appointed by each of the company’s members.</p> <p>6.3 <i>Does the current ownership structure of FPSL prevent any appropriately qualified organisation becoming a member?</i> No. No requests to join the scheme have ever been rejected. A number of challenger banks have recently entered the joining process. Approval to join the Scheme is only in the hands of the Chief Executive and independent directors. Criteria for approval to join are clear, proportionate to the risks new participants bring to the system, objectively justifiable, and publically available. Member appointed non-executive directors are not permitted to be involved in this approval process. The independent directors both generally, and specifically in their governance role in this process, look out for the interests of potential new members.</p> <p>6.4 <i>Does the current ownership structure distort the running of FPSL?</i> No. All members, and independent directors and executive directors have equal say in the running of the company as board directors – one director, one vote. The public interest is protected by 3 independent directors, including the independent chair, each of whom has a right of veto in the public interest. Even though the non-independent, non-executive directors are appointed by their member organisations, they have an overriding fiduciary duty, just like the independent and executive directors, to act in the interests of the scheme under company law and are required to declare any situational or transactional conflicts of interest that may arise from their position as employees of members in addition to their directorships. In some circumstances, if, for particular decisions of the board, these conflicts are not manageable, they</p>
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		<p>will, and have, excluded themselves from participation in such decisions.</p> <p>6.5 <i>Does the current ownership prevent the company developing its services to meet the public interest?</i> No. Independent directors provide protection and one director one vote prevents over representation by members with larger payments volumes.</p> <p>6.6 <i>Does the current ownership structure limit the funding available to invest in the development of the scheme to better serve its direct, indirect, and end customers?</i> Not to date. Because the current investment model assumes funding is provided in proportion to use of the system, board decisions have to be agreed by both 75 per cent of all directors, and directors appointed by direct participants covering at least 50 per cent of volumes and therefore likely to provide at least 50 per cent of funding. The current direct member funding model has proved effective to date, however there is no reason why alternative sources of funding might not be considered in the future as long as they do not introduce incentives that might put at risk the key payments systems objectives of integrity and availability. In considering future ownership models, the benefits of removing potential conflicts arising due to the key users participating in the operation of the board of the company must be weighed against the benefits of having access to the considerable knowledge and funding capabilities they provide together with important considerations around continuity of service, certainty, reliability, and economic and financial stability.</p> <p>6.7 <i>Does the current direct user based ownership deliver benefits that might be lost in a different model?</i> Yes, possibly. The current direct user membership model, supplemented by executive and independent non-executive directors has the benefit of ensuring a common interest in the reliable and cost effective operation of the payment system.</p> <p>6.8 The overlapping ownership of VocaLink with the membership of FPSL does have some advantages in terms of providing long term confidence that the infrastructure company will always be fully funded. These advantages might be lost if the ownership of VocaLink changed. VocaLink, as the critical infrastructure supplier to FPSL needs to continue to maintain effective internal ‘Chinese walls’ between the work it does in this area, and its operations in adjacent technology markets, for example as one of a number of competing suppliers of FPS gateways, to ensure that it is not seen to be leveraging its position</p>
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		as scheme supplier to unfairly improve its competitive position elsewhere.
Question 7:	How might the regulator address any issues with the current ownership structure? Please explain how any remedy, including any alternate model, might address any or all of the issues you have identified and also highlight any potential concerns associated with such alternate ownership models.	<p>7.1 The ownership question needs to be broadened to include governance and funding if it is to be properly considered. How and by whom decisions are made within schemes, and how and from whom are financial resources provided? The operating model of the scheme company, as described in 6.1 and 6.2 need to be factored into this debate.</p> <p>7.2 The PSR needs to satisfy itself that payments schemes have in place the appropriate governance to make broad based decisions that appropriately consider the interests of all relevant stakeholders. The CPSS IOSCO Principles for Financial Markets Infrastructures self-assessments completed by the FPSL, Bacs and CHAPS will be of value here and should take priority.</p> <p>7.3 FPSL has proactively reviewed its governance structure in the last eighteen months and we are confident that it is fair and reasonable e.g. through initiatives such as the introduction of Independent Directors and changes to member voting rights.</p> <p>7.4 Alternatives to member/user based funding models, such as the introduction of alternative providers of financial resources, may bring with them the need to introduce a for-profit objective into payment schemes. This might not be in the public interest, in that it introduces competing corporate objectives for the schemes and may potentially drive up costs for end users.</p> <p>7.5 Any change should be subject to a full review of the issues such a change is trying to resolve, and confidence gained that such action actually solves the purported problems.</p> <p>7.6 In the event that, for good economic reasons, Vocalink became the longer term sole supplier of infrastructure to the scheme, potentially on a regulated basis, then consideration of whether further separation of this service to FPSL from the fully competitive offerings from Vocalink to other Payments Service Providers would be required.</p>
Question 8:	Do you have any concerns about the current governance of UK payment systems?	<p>8.1 FPSL has been working over the last 18 months to ensure that its governance and board decision making processes fully represent the needs of <u>all</u> participants. Modifications to the board voting system to move away from larger direct participants having greater influence than smaller participants has recently been completed. Today, the four largest participants (who represent around three quarters of the current account market) only have 4 votes out of 14 on the board – 10 member appointed directors, 3</p>

		<p>independent directors and 1 executive director. Over the last year, the recruitment of three independent directors, with a specific public interest responsibility and focus on the broader needs of new entrants has continued to enhance the situation. The collective influence of smaller members, under one-director-one-vote, and the responsibilities and veto power of the independent directors has given smaller members and other potential participants a much clearer voice in decision making.</p> <p>8.2 The current governance arrangements between FPSL and the Payments Council (PCL), specifically the relationship agreement and reserved matters between PCL and FPSL may overlap and/or conflict, with the newer arrangements and will be reviewed by FPSL in the context of the new regulatory environment. FPSL now has a number of independent directors, including an independent chair, with an explicit public interest role and veto, is formally overseen from a financial stability perspective provided by the BoE in its duty to oversee systemically important payments systems, and will come under the economic regulation of the PSR.</p> <p>8.3 Likewise, the relationship with UK Payments Administration Limited (UKPA), the company providing services to FPSL and other interbank schemes, including facilities and staff, shares leadership and direction with the Payments Council, and this will be reviewed by FPSL and the other interbank schemes. UKPA needs to be able to focus solely on providing quality services to its scheme and other customers, where it can add significant value and drive efficiency.</p>
<p>Question 9:</p>	<p>What do you believe is the appropriate governance structure for UK payment systems?</p>	<p>9.1 The electronic schemes (BACS, CHAPS and FPSL), with their independent chairs and directors are standalone Financial Markets Infrastructures (FMIs), accountable for their own services and conduct.</p> <p>9.2 The schemes will remain accountable under the Banking Act 2009 to the BoE in matters of financial stability, and to their members for the efficient operation of their services.</p> <p>9.3 FPSL expects to be additionally accountable to the PSR in matters relating to the enabling of competition, enabling of innovation, and consideration of the interests of current and future end users of its payments services.</p> <p>9.4 FPSL would also expect, alongside the other schemes, to contribute to the thinking and outputs of an industry coordination working group, acting under the guidance of the PSR, as mentioned in 5.7.</p> <p>9.5 Consideration should be given to the definition of “payments industry” to ensure that any representative</p>

		<p>body or bodies are providing input from across the board to a coordination working group. This might consider input from mobile operators or substitutes such as Bitcoin.</p>
<p>Question 10:</p>	<p>How do you access UK payment systems? Please provide details (e.g. direct or indirect, the conditions, fees and requirements for access etc.) for each payment system you have access to and any concerns you may have with your current arrangements. If you do not currently have access to UK payment systems, please provide details on how you participate within the UK payment industry, and detail any concerns or constraints you may have in this regard.</p>	<p>10.1 FPSL provides direct access to Payments Service Providers (PSPs) that can obtain a settlement account at the BoE and meet the Scheme’s rules for technical availability and security etc.</p> <p>10.2 As potential direct participants are required to have a settlement account at the BoE, the scheme imposes no additional credit worthiness requirements on members. Until the implementation of settlement cash prefunding at the end of this year, members do have to lodge specific high quality collateral to support the Scheme’s current Liquidity and Loss Sharing Agreement.</p> <p>10.3 Potential new members are taken through a joining process, and reviewed for compliance with the joining requirements by the Scheme Managing Director and an independent director. Existing scheme members have no visibility of the take on of new members until the decision to accept has been taken.</p> <p>10.4 From November 2014, with the advent of settlement cash prefunding, members will no longer have to accept any shared liability or losses for settlement default with other members, simply provide cash from their existing liquidity pool at the Bank of England to act as collateral for any credit positions they need to hold with other scheme members.</p> <p>10.5 All scheme operating costs, and transaction processing costs are divided amongst all members in direct proportion to their use of the service, i.e. all members have the same variable costs per transaction. There are no minimum costs or discounts for volume to particular participants. Unit cost reductions resulting from increasing transaction volume are shared evenly across all participants through reductions in the per transaction tariff.</p> <p>10.6 Each member technologically connected to the central infrastructure has to pay the same fixed costs of connection, although the scheme is currently planning to undertake a systemic risk review to consider whether the smallest members represent a sufficiently reduced systemic risk, that the current dual high availability connectivity can be relaxed, reducing this fixed cost further.</p> <p>10.7 Each member has to undertake an annual code of conduct review to assure the scheme that it has sufficient security measures and systems reliability in place to ensure that it does not pose a systemic risk to the Faster Payments central infrastructure, the other members or their end customers. For the</p>

		<p>system to operate effectively, not only does the sending bank and central infrastructure need to be fully operational, but the receiving bank as well. It is the particular risks that the member places on other participants as a receiver of payments that is the focus of the scheme.</p> <p>10.8 Half of the scheme’s members choose to provide various forms of direct agency and indirect agency propositions to around 250 financial institutions in the UK.</p> <p>10.9 The scheme has one large PSP that gains direct technical access to the central infrastructure using a direct agency proposition from a member who settles on their behalf.</p> <p>10.10 The indirect agencies vary in size, and buy a variety of different connectivity and service propositions from their sponsoring directly connected members, depending upon their needs and sophistication. Some of these agencies have a single relationship with one sponsor across a number of different payments systems; others pick and choose different propositions from different providers for different systems.</p> <p>10.11 These arrangements are commercially negotiated, both in technical and financial terms between the agency and their sponsor. Some of these arrangements have been created as a result of competitive tendering, while others may have arisen as incremental offerings added to existing agency relationships.</p> <p>10.12 The nature of these commercial relationships means that FPSL has no visibility of their terms and conditions.</p>
<p>Question 11:</p>	<p>For the access you described above (in question 10), are the access terms and conditions (including fees) fair and reasonable? If not, please provide details.</p>	<p>11.1 We have reviewed the terms and conditions of <u>direct access</u>, including how costs are apportioned and recovered, extensively over the last 18 months and are confident that they are fair and reasonable. With the exception of the fixed costs of connectivity, and settlement at the Bank of England, which are identical for each member, all charges are entirely variable with actual usage. FPSL operates on a cost recovery model and makes no profit. The transaction charges to members generated under the scheme’s contract with its infrastructure provider (i.e. the provider’s underlying costs and margin) have recently been extensively reviewed by an independent professional services firm to ensure that they are fair and reasonable.</p> <p>11.2 As stated above, we have no visibility of the terms and conditions of indirect access.</p>
<p>Question 12:</p>	<p>Does the access</p>	<p>N/A</p>

	arrangement you currently have limit your ability to compete or impact on the service-users' experience in any way?	
Question 13:	If you access payment systems indirectly through a sponsoring agreement with a direct member bank, do you have sufficient choice in sponsoring banks? Would you prefer to access payment systems directly? What do you see as the benefits and risks of doing so?	<p>13.1 Faster Payments is a relatively new, but growing payments scheme. Significant numbers of agency banks have only opted for indirect access in the last three years or so as a result of the consequences of the Payments Services Directive and D+1 requirements coming into force. Many of these decisions were made on short timescales, quite close to the enactment of the regulations for a variety of reasons.</p> <p>13.2 As stated above five of the Scheme's 10 direct current members currently offer indirect agency access products, although one member, for its own business reasons, has recently decided to exit this market. . FPSL does not have a direct view of the operation of this market, as it is within the competitive space; however we would encourage the PSR to engage directly with the providers of these services to understand the fundamental economics of provision. Such analysis might point to other structures, such as demand aggregation or bureaux services that might deliver a better outcome for all. We would like to work with the PSR to see if there are additional steps the scheme can take, for example, in the provision of information to agencies, to help make this indirect market work as effectively as possible for all participants</p> <p>13.3 FPSL's aim is to minimise the fixed costs of direct participation to allow as many institutions as possible to participate directly, however, it is also seeking to identify ways to help its members improve the forms of indirect access so that all participants, and their end customers, can benefit from the full Faster Payments near real time experience, irrespective of their volume. However, it will always be a balance between delivering ubiquity of near real time, 24 x 7 experience to end customers and minimising participation costs.</p>
Question 14:	Do you act as a sponsoring bank,	N/A

	<p>providing indirect access to any payment system participant in the UK (please provide details for each payment system you provide access to)? If yes:</p> <ul style="list-style-type: none"> • To whom do you provide indirect access? • What are the major risks and costs associated with providing such indirect access? On what basis do you choose whether to provide indirect access? • Are there any barriers to becoming a sponsoring bank? 	
<p>Question 15:</p>	<p>What changes to access rules and conditions would you like to see? Are there any alternative routes to gain access to payment systems that you believe should be developed (e.g. a second tier membership to payment system operators)?</p>	<p>15.1 We are starting to explore new routes for providing cost effective access to Faster Payments, including the development of bureau/demand aggregation services with third parties, or as part of a scheme service, and would welcome further discussions with interested parties about new forms of participation.</p>

<p>Question 16:</p>	<p>Do you have any other comments regarding access?</p>	<p>16.1 No</p>
<p>Question 17:</p>	<p>What improvements or changes do you believe are required in the provision and use of infrastructure in the UK? We would also be interested in your views on the cost of such changes, for you or for the industry as a whole. What considerations, if any, need to be considered regarding the impact of any changes or improvements on the resilience and reliability of payments systems?</p>	<p>17.1 Those payments systems providing, essentially, store and forward or asynchronous payments services should technically, be relatively straight forward to connect to, albeit there are always necessary obligations on the connecting party to maintain overall system security. The Faster Payments Service provides service users with a near real time 24 x 7 service that will confirm, at the point of initiation, that a payment has been received by the destination bank and will be credited to the destination account, normally within seconds of submission. This essential feature of the end-customer proposition, which is almost unique internationally, requires the Faster Payments Service, and all directly connected institutions, to operate in a tightly coupled, synchronous mode of operation. Specifically, this proposition can only be delivered to the customer if the sending institution, the central infrastructure and the receiving institution are on line and fully available. This means that compared to more mature batch based payment systems, the technical requirements for availability and response are very much higher, and at one level, unavoidably more complex. This is an unavoidable consequence of the service being offered to end customers. For challenger institutions, participating in a real time payments service requires real time bank side capability – this is a cost of doing business.</p> <p>17.2 As use of Faster Payments continues to grow and the service becomes even more systemically important and visible to end customers, the importance of directly connected institutions (certainly the larger ones), maintaining very high levels of technical availability and operational discipline also grows. While there are always opportunities to optimise the technical requirements, this may well be unavoidable if the heart of the financial system is to remain stable and reliable.</p> <p>17.3 Against this back drop, Faster Payments are working on a number of projects that will, wherever possible, loosen the tight technical and operational coupling between participants without introducing additional risk into the system. These projects include increased provision of stand-in capability to insulate other users from temporary unavailability of a direct participant, and some early stage thinking on techniques that can further protect the bulk of the payment system from any untoward events</p>

		<p>coming from any individual participant. Both of these protections, while working for the common good, may well increase the technical requirements on direct participation.</p> <p>17.4 The Payments Council’s roadmap consultations and work are developing some interesting models in this area. We are keen to participate in the further development of this thinking, possibly through an industry coordination working group. However, any benefits resulting from significant change to the architecture of payments systems, and potentially bank account management systems, for example to some form of central utility, will need to be carefully balanced with the costs and risks of developing a new architecture, the costs and risks of migration, any concentration risks inherent, and the risk that ultimately, more common platforms, especially bank side, would, in the long term, diminish the prospects for differentiation between banks and consequent competition.</p>
<p>Question 18:</p>	<p>What changes, if any, are needed regarding messaging standards in the UK? For example, would the adoption of ISO20022 standards alleviate any concerns or improve any constraints you experience? What timeframe and considerations would need to be taken into account in adopting new standards?</p>	<p>18.1 In the bank to central infrastructure space, FPSL has deployed the ISO 8583 global standard. This international standard was developed in the cards space and specifically supports the synchronous, highly choreographed, near real time payments propositions that are at the heart of Faster Payments, and centrally important to our end customers. The ISO 20022 standard, which is essentially an asynchronous standard, is unlikely to be able to act as a comprehensive alternative to ISO 8583, requiring extra, potentially non-standard elements that would undermine any general standardisation benefits.</p> <p>18.2 FPSL can see a benefit in the customer-to-bank space of having common interfaces and standards, including the use of ISO 20022, specifically to support richer data with payments. FPSL has developed a high level model for the delivery of richer data between end customers, which is scheme-agnostic. This would entail the development of data repositories (probably vertical market or supply chain specific) in to which the initiators of payments, or their banks would place the “richer data” and then include a unique link to that data within the body of the payment message. This would allow the receiver to collect the data from the data repository when they receive payment. We have prepared a paper on this, and would be glad to discuss with the PSR in due course.</p> <p>18.3 The Direct Corporate Access (DCA) service, allowing batch input of payment instructions to the central infrastructure by corporate customers is based upon Bacs Standard 18. This is to ensure compatibility, and ease of migration for the many thousands of current Bacs direct submitters. Standard 18 is a mature</p>

		<p>standard, but has the benefit of very wide adoption in the UK corporate banking market. The cost and change impact on these service users would have to be considered when planning a move to a different standard such as ISO 20022. Lessons from the, not quite complete, SEPA migration in the Eurozone are likely to be informative.</p> <p>18.4 A key element in the end-to-end payment flow is the ability of the receiver to handle the information sent to them. As with the use of Bacs Standard 18 on the send side, the UK corporate banking market has receivables reconciliation systems and processes broadly based on Bacs Standard 18. The cost and change impact in this space would have to be considered.</p>
<p>Question 19:</p>	<p>What solutions can be developed to increase competition in the provision of infrastructure and/or managed services to support the technical and operational functions of agency banks participating in UK payment systems? How can this be achieved, and what will the impact and benefits of this be to your business?</p>	<p>19.1 To directly connect to the Faster Payments Central Infrastructure, a gateway is required. There are currently three different third party gateway solutions in operation, and one participant developed solution. Assuming prospective new members do not choose to develop their gateway in-house, they have a choice of three third party providers today. The Faster Payments Scheme is keen to promote a similar breadth of choice in the agency indirect connection market whether through a variety of solutions provided by direct participants on a wholesale basis, or via third party demand aggregation/ bureaux solutions. However, at some point, real time connections into the agencies' bank account management systems are required if agencies are to deliver the end to end proposition to their and others end customers.</p> <p>19.2 Alternatively, direct participants could look to utilise a “managed service” solution which provides richer functionality than a pure gateway. To date there is no effective market for the supply of such services, with FPSL being aware of one commercially available solution. FPSL is discussing the provision of such with a number of technology companies who operate in similar spaces; however they need to be confident that there is sufficient demand for such services before committing resource. A clear articulation of what is required of PSPs offering retail banking services may support the development of a healthy competitive market in this space. This could reduce the cost of accessing the technology needed to participate directly in Faster Payments, opening direct participation to a wider range of organisations.</p>
<p>Question 20:</p>	<p>Are incentives to</p>	<p>20.1 The OFT has suggested that the development of the UK payments systems is slow. However, the UK is at</p>

	<p>innovate clear under current arrangements? Please also include any concerns you may have regarding fee arrangements and the impact of changing fee structures (such as changes to interchange fees).</p>	<p>the forefront of the deployment of near real time systems like Faster Payments, and is one of the first countries internationally to launch, this month, a near ubiquitous mobile payment system using mobile phone numbers as proxies for account details (Paym). In the last 12 months, FPSL has met with representatives of the central banks of a number of countries (Australia, Brazil, India, Indonesia, Japan, Saudi Arabia, Singapore and USA), all of whom are keen to understand how to best introduce a real-time payment solution, like Faster Payments, in their own country.</p> <p>20.2 FPSL would observe that the principal constraint on the deployment of innovative new services in the UK at the moment is not lack of incentive, but lack of capacity for change. Payments do benefit from, indeed really require, ubiquity and reach to be effective. The bulk of participants in the market do need to cooperate for new payment services to be effective, indeed, not allowing for the inclusion of all players in some form or other, may undermine retail competition. The delivery of ubiquitous payments services with reach across all industry players requires full coordination, and extensive testing and interworking to be effective. This takes time, and always risks moving, not at the pace of the least interested, but at the pace of the least capable, or otherwise busiest player. Balancing speed of innovation against extent of inclusion is a perennial challenge.</p> <p>20.3 Fees for the use of FPSL services are transaction based and calculated to cover costs, not deliver a profit. Please see earlier comments on the costs of access. How these are passed on to consumers is a part of the competitive provision of services from the banks and should be viewed in that context by the PSR and CMA. FPSL is not aware of any provider requiring payment of transaction fees by consumers for this service particularly when initiated through the principle telephone and internet banking channels.</p>
<p>Question 21:</p>	<p>Do any factors limit your ability or incentives, either collectively or unilaterally, to innovate within UK payment systems?</p>	<p>21.1 FPSL’s ability to innovate is constrained by the capacity of industry participants, both large and small, to manage change volume while containing systemic risk and ensuring continuity of service.</p> <p>21.2 As eco system wide capacity for change is not unlimited, every change, whether customer-need led, or driven by regulatory requirements has an opportunity-cost.</p> <p>21.3 There is additionally a potential constraint on the development and deployment of innovation imposed by access to investment funds.</p>
<p>Question 22:</p>	<p>What changes, if any, are</p>	<p>22.1 Given the very real opportunity-cost of change, from whatever driver, the optimum portfolio of change</p>

	<p>needed to facilitate a greater pace of innovation in UK banking and payments? Please refer to your previous answers where relevant.</p>	<p>for the payments eco system will need to consider the amount of benefit delivered for each unit of constrained resource required to achieve that change. Regulators (and politicians) need to be aware of the full costs of any change they might wish the payments ecosystem to undertake, not so much in direct costs terms, but more in opportunity- cost terms. The question always needs to be asked: <i>‘How confident am I in the value of the benefits this change could deliver, given the other changes and innovations that will not be able to be made at the same time, and the benefits from those changes that will be lost.’</i> Reviewing not only the ‘bang for buck’ question, but the degree of certainty associated with both the ‘bang’ and ‘buck’ is essential.</p> <p>22.2 However, against this backdrop of constraints to integrated change, wherever possible, with due regard to security and resilience, FPSL would like to promote a layered technical and operational architecture that creates equal access APIs (Application Programming Interfaces) that allows a wide variety of players to freely and independently innovate on top of the existing highly integrated infrastructures such as FPS.</p>
<p>Question 23:</p>	<p>What do you believe are the benefits and limitations of collectively driven innovation vs. unilateral innovation?</p>	<p>23.1 The most impactful innovations in payments require, in simple terms, capability for both sender and receiver. Faster Payments works, because any customer can send a Faster Payment to any other customer. Paym, the mobile payments service, will only really reach its full potential when sending customers are confident that most of the other people they try to send money to are also registered to receive. Given these dynamics, collaborative approaches will sometimes be essential to deliver substantial innovation for consumers, and other service users. However, once these core, ubiquitously interconnected, services with reach are in place, innovation at the customer interface (for example in the mobile banking apps that use Paym), can, and should, happen completely independently. Collectively developed core services can be the enabler of competitively driven and delivered innovations for customers and a critical lever for positive differentiation between financial institutions.</p> <p>23.2 Collaboration between schemes can provide the potential to enhance current services and improve choice for example through innovation in current account switching services and cheque handling.</p>
<p>Question 24:</p>	<p>Do you have any other comments or concerns you would like to</p>	<p>24.1 No.</p>

	highlight?	
<p>Question 25:</p>	<p>What, if any, are the significant benefits you see regulation bringing?</p>	<p>25.1 Payments is a complex area with the potential to deliver huge economic good, and, if not properly managed, create huge economic risk and damage. There are strong network effects in payments systems, meaning it may be economically rational to operate a shared central infrastructure in some situations. The critical national role of these infrastructures and the relatively high risks of change due to the high level of interconnection they have with industry players may limit the potential for regular competitive tendering to drive the optimal results for customers or the economy. If this is the case, the oversight the PSR could provide may be valuable. The operation of this oversight by an economic regulator, deploying the principles of economic regulation will allow the delivery of optimal solutions in key areas that properly balance the needs of customers and the economic realities of sustainable delivery.</p> <p>25.2 The PSR, as an economic regulator, should also be able to clarify and codify output based customer and economic objectives that government policy, as enshrined in legislation, requires from the payments systems, and then agree and track the delivery of the practical, low risk, benefit focussed change plans that can deliver those outputs. The PSR can also play a critical role in fully considering the opportunity costs of change.</p> <p>25.3 The PSR can review, as part of the economic regulatory considerations, how funding of specific initiatives can be determined to promote their rapid and effective deployment.</p> <p>25.4 Finally, the introduction of formal regulation may catalyse the development of clearer and more transparent relationships between all parties involved in payments and help build even stronger customer confidence in the payments system.</p>
<p>Question 26:</p>	<p>What, if any, are the risks arising from regulation of payment systems?</p>	<p>26.1 The PSR must have the capability and independence of action to truly adopt a rigorous, evidence based, and proportionate approach to making interventions only where there is clear evidence of customer detriment. Payments systems are part of our critical national infrastructure, they must evolve, but they must do so in a risk aware, rational way. In spite of political pressures to reach conclusions quickly, and to adopt particular solutions or apply specific remedies, the discipline of properly defining markets,</p>

		identifying any failures, and considering the minimum interventions required to deliver the maximum net benefits to customers and the economy must be safeguarded.
Question 27:	How do you think regulation might affect your business and your participation in UK payment systems?	<p>27.1 It is our hope that the advent of the Payments Systems Regulator will further enhance the effectiveness and impact on the economy of the Faster Payments Scheme, and Paym, the mobile payments service it will also be operating in due course. The introduction of the PSR provides an opportunity to deliver absolute clarity in the regulatory framework with a clear singular economic regulator. FPSL believes it has the responsibility and capability to play a leadership role in the continued deployment and take up of real time payments services in this country, and welcomes the support to this objective that a well-structured PSR could provide.</p> <p>27.2 At a practical level, it is important that the PSR, BoE and Competition and Markets Authority (CMA) develop clear protocols for working with regulated parties such as FPSL, to ensure that the direction they provide is consistent, and that interactions with the various regulators are coordinated to minimise the costs, and maximise the effectiveness, of this new regulatory regime.</p>