

Access to UK Payment Schemes for Non-Bank Payment Service Providers

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BANK OF ENGLAND



CHAPS Co



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What is the purpose of this document?

This information pack is a guide for **authorised payment and e-money institution** payment service providers (“non-bank PSPs”) which would like to access the UK’s interbank payment schemes directly. It outlines changes announced by the Bank of England (the Bank) which mean that non-bank PSPs can now apply to open a settlement account at the Bank.

Having a settlement account allows a non-bank PSP to become a direct settling participant in the payment schemes which settle at the Bank. Getting direct access to a scheme means non-bank PSPs do not have to rely on a third party bank either to submit payments or settle on their behalf.

This guide complements [An Introduction to the UK Interbank Payment Schemes](#), published by the payment schemes, which contains an overview of options for access to payment schemes. This guide provides more specific information for non-bank PSPs about direct access to the UK’s payment schemes.

The UK Payment Schemes

Information on the UK's Payment Schemes can be found in [An Introduction to the UK Interbank Payment Schemes](#).

In summary, the schemes which non-bank PSPs may want to use are:

- **Faster Payments (FPS)** – provides real time payments 24/7 and is used for standing orders, internet and telephone banking payments as well as mobile payments (e.g. through Paym).
- **Bacs** – the 'automated clearing house', which processes Direct Debits and Direct Credits across a three day cycle.
- **CHAPS** – the UK's same day high value payment system for both wholesale and retail payments. CHAPS payments are settled individually intraday in central bank funds.
- **Cheque & Credit** – manages the processing and settlement of cheques and other paper payment instruments. A new Image Clearing System is due to go-live at end-October 2017.
- **LINK** – facilitates end users' access to cash via the UK's largest ATM network.

Payment schemes require a settlement service provider (SSP) to provide final settlement of the various payment flows between the direct participants of a payment scheme. For these payment schemes, the Bank is the SSP, providing settlement via a transfer of funds between settlement accounts held by participants in the Bank's Real Time Gross Settlement (RTGS) system. The Bank offers settlement services in order to promote both monetary and financial stability, as settlement at a central bank mitigates credit and disruption risk for the participants as well as end-users of the payment system.

CHAPS settles each transaction individually and in real-time across settlement accounts. In the Deferred Net Settlement (DNS) payment schemes (Bacs, FPS, LINK, Cheque & Credit), the exchange of payments takes place during a 'clearing cycle' and settlement occurs at the end of this cycle. The payment scheme will calculate the multilateral net obligations between participants resulting from each cycle and send this to the Bank. An account entry (debit or credit) will then be simultaneously posted across each of the direct participants' settlement accounts held within the Bank's RTGS system, which extinguishes the inter-participant obligations built up during the last cycle.

How have non-bank PSPs accessed the Payment Schemes to date?

Before these changes, non-bank PSPs have only been able to participate in these payment schemes as a direct non-settling participant or as an indirect participant.

Direct non-settling participants have a direct connection to the payment scheme's central infrastructure where they can submit and receive payments, scheme messages and transaction reports. However, they use a sponsor bank (an existing direct settling participant) to settle on their behalf, using the sponsor's settlement account at the Bank.

Indirect participants send their payment instructions via a direct participant. The direct participant's settlement account at the Bank is used for settlement on behalf of the indirect participant.

Information on these two access options can be found in [An Introduction to the UK Interbank Payment Schemes](#), or by contacting the relevant payment scheme.

Why have changes been made to allow non-bank PSPs to access payment schemes directly?

The UK is a world leader in payments innovation, which is reflected in the dramatic growth in the number of UK-authorized non-bank PSPs. These institutions are competing with banks to provide payment services. However, until now, they have only been able to access the UK payment schemes indirectly - through the very banks they are competing with.

The Bank is now allowing non-bank PSPs to open settlement accounts, subject to appropriate safeguards. This means they can meet one of the key entry criteria to become a direct settling participant in UK payment schemes that settle at the Bank.

Opening up access to the UK's payment schemes will allow non-bank PSPs to compete on a more level playing field. They will be less dependent on competitors and will be able to offer a wider range of payment services. These factors all help to increase competition and innovation in the market for payments.

In the longer term, the innovation which stems from this expanded access should promote financial stability by:

- creating more diverse payment arrangements with fewer single points of failure
- identifying and developing new risk-reducing technologies
- expanding the range of transactions that can take place electronically and be settled in central bank money

Which non-bank payment service providers are eligible for direct access?

There are two types of non-bank PSPs eligible for direct access – [e-money institutions](#) and [payment institutions](#). E-money institutions are regulated by the Financial Conduct Authority (FCA); payment institutions are regulated by the FCA and also in some cases (depending on business model) by HM Revenue and Customs (HMRC), for anti-money laundering purposes.

Only authorized e-money and payment institutions are eligible to hold settlement accounts at the Bank (see page 7). This means that small e-money institutions and small payment institutions, that are registered only, cannot get direct access.

How can a non-bank PSP become a direct settling participant in a Payment Scheme?

In order to become a direct settling participant of a payment scheme, a non-bank PSP must be authorised by the FCA to provide payment services and meet the following core requirements:

- the eligibility criteria as set by the relevant payment scheme
- the eligibility criteria for a settlement account at the Bank
- completion of a supervisory assessment by the FCA (and HMRC, where appropriate)

Scheme Criteria

Each of the payment schemes has its own eligibility criteria for direct settling participants which can be found on the relevant websites. The common criteria for each payment scheme are summarised below.

Participant status	Must be authorised by the FCA to provide payment services. ¹ Individual payment schemes will also have specific criteria relating to their particular system.
Settlement arrangements	Must hold a settlement account at the Bank. Bacs, FPS and the future Cheque & Credit Image Clearing Scheme also require an additional settlement collateralisation account per scheme.
Legal documents	Required to sign all legal agreements as required by the payment scheme.
Legal opinion	May be required to provide an independent legal opinion to confirm that the contract between the non-bank PSP and the payment scheme will be legally binding and enforceable.
Member/shareholder	Some payment schemes require participants to become a member/shareholder or guarantor of the organisation.
Costs	Must agree to pay all relevant payment scheme costs, as requested.
Compliance	Must agree to comply with the payment scheme rules and technical requirements and be prepared to undertake assurance activity as required by the payment scheme or regulators, before and after go live.

This is a guide to access criteria; specific criteria can be found on the payment schemes' websites.

Bacs	Direct Membership Criteria
CHAPS	Access Requirements
Cheque & Credit	Access Criteria
FPS	Eligibility Criteria
LINK	Joining LINK

¹ And in specific cases also registered with HMRC

Eligibility for Bank of England Settlement Accounts

In order to become a direct settling participant in a payment scheme which settles at the Bank, non-bank PSPs must hold a settlement account in the Bank's RTGS system.

A settlement account is not a traditional commercial account. A settlement account is only used to settle the payment obligations arising from payment schemes which settle at the Bank. A non-bank PSP will still require commercial bank relationships in order to undertake its commercial banking needs including making other types of payments, financing and investments. In particular, participants in DNS schemes will need a relationship with a CHAPS direct participant to fund and de-fund their settlement account from their commercial bank account.

Non-bank PSPs are not eligible to participate in the Bank of England's [Sterling Monetary Framework](#) (i.e. the operationalisation of the Bank's monetary policy and liquidity insurance facilities) or eligible for IDL, as they do not undertake maturity transformation activities.

For non-bank PSPs, there are three key criteria for opening a settlement account.² These criteria help the Bank mitigate the risks that participants bring to payment schemes and RTGS, and financial crime risks. They provide the same level of assurance as banks are required to meet.

- The non-bank PSP must be either an e-money or a payment institution **authorised** in the UK by the FCA. Any non-bank PSP applying for a settlement account at the Bank will undergo a supervisory assessment by the FCA (see section on page 8 on the FCA's process).³
- The non-bank PSP has the operational capacity to participate in and efficiently settle transactions in RTGS. This involves having access to the RTGS **Enquiry Link** service, which allows a non-bank PSP to fund, defund (to/from a nominated commercial bank account) and monitor their settlement account and, if applicable, settlement collateralisation account(s).⁴
- There are a number of **legal** documents which an account holder must sign up to. These are:
 - The RTGS Account Mandate Terms & Conditions; and
 - An annex to this Mandate, for the relevant payment scheme.

In addition, if a non-bank PSP wishes to join a *pre-funded* scheme (Bacs, FPS and the future Cheque & Credit Image Clearing Scheme) it will also require a **Settlement Collateralisation Account (SCA)** at the Bank. This account is used to hold a balance to cover the participant's largest intraday net debit position.

Participants must place funds in this account which would only be accessed by the payment scheme in a contingency scenario, to ensure that settlement of its position in a payment scheme can still take place.⁵ Further information can be found [here](#). There is no separate application process or additional eligibility requirements for an SCA, but there are additional legal agreements.

² Access to a settlement account remains at the sole discretion of the Bank.

³ Information on becoming an authorised payment institution can be found [here](#); information on becoming an authorised electronic money institution can be found [here](#).

⁴ Further information can be found on the Bank's [website](#).

⁵ Note that the funds in the SCA are not the funds actually used for settlement, which must be provided separately in the settlement account ahead of payment scheme settlement.

FCA's Supervisory Assessment

The FCA's supervisory assessment will assess compliance with existing regulatory requirements for PSPs⁶ (as laid out primarily in the Payment Services Regulations 2009⁷, the E-Money Regulations 2011 and the Money Laundering Regulations 2017 as applicable).

This assessment will include the following areas:

- governance arrangements;
- safeguarding of customer funds;
- financial crime.⁸

The FCA will engage with the non-bank PSP prior to commencing the supervisory assessment, to explain the process in more detail. The supervisory assessment will include an information request and a subsequent visit to the non-bank PSP. The visit may include interviews with relevant staff and file reviews.

The assessment should take around three months and once completed the FCA will give the non-bank PSP feedback. This feedback may include specific areas the non-bank PSP will need to address. The FCA will need to confirm to the Bank that it is satisfied that these areas have been addressed before the Bank and payment scheme can agree access to a settlement account and the relevant payment scheme, respectively.

Non-bank PSPs holding a settlement account at the Bank will be subject to on-going strengthened supervisory oversight to assess their continuing compliance with the regulatory requirements. This is likely to include requiring the non-bank PSP periodically to commission independent audits covering key risk areas.

⁶ Or, in the case of non-bank PSPs applying for authorisation in tandem with applying to gain access to RTGS, the FCA will assess whether you meet these requirements.

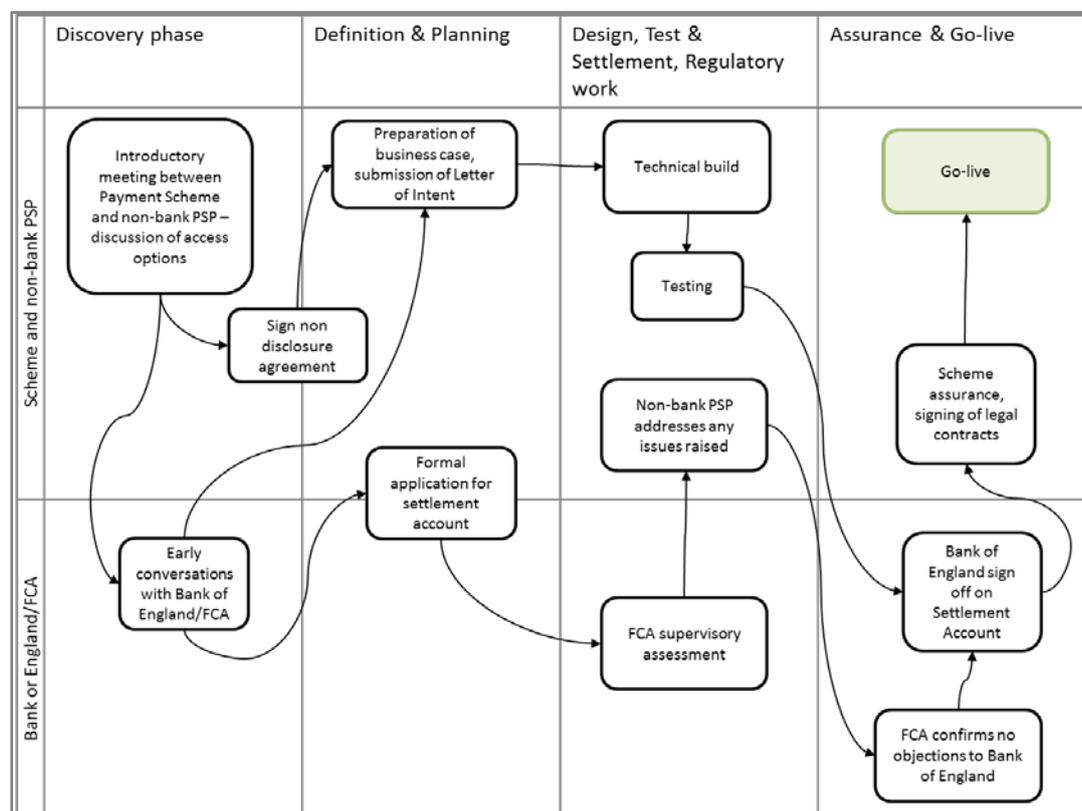
⁷ Shortly to be superseded by the Payment Services Regulations 2017. Further information on the FCA's [approach to supervision](#) can be found on their website.

⁸ The assessment will be led by the appropriate supervisor for that non-bank PSP under the Money Laundering Regulations. For non-bank PSPs who are EMIs this will be the FCA, for PIs it will be either HMRC or the FCA depending on business model. The FCA and HMRC will work together on these assessments as appropriate.

What is the process to become a direct settling participant?

Non-bank PSPs interested in accessing the UK payment systems should first contact the relevant payment scheme.

The diagram below summarises the process to become a direct settling participant in a payment scheme. There may be some changes to this process depending on the scheme being joined. The payment schemes will be able to give more specific and detailed information.



Discovery

The non-bank PSP should share initial information documents with the payment scheme and discuss the best option for access. Direct access may not be the best option for all interested non-bank PSPs. If this is the case, the payment scheme will be able to advise on alternative access models.

If the non-bank PSP decides to pursue direct settling access, it will be asked to sign a non-disclosure agreement. This agreement provides protection to both the payment scheme and the non-bank PSP and enables more detailed discussions to take place, with supporting documentation. At this stage, the non-bank PSP can set up its project plan.

Definition and Planning

Once a non-bank PSP has agreed its project plan it will submit a 'Letter of Intent' to the payment scheme and an application to the Bank for a settlement account. At this point, the payment scheme will review the non-bank PSP's plans and carry out its own risk assessments. If the payment scheme is happy to progress the non-bank PSP's application, it will (working with the Bank) allocate a provisional on-boarding slot.⁹ A predetermined number of these slots are made available by the Bank to the payment schemes each year. Depending on the level of demand from other institutions to on-board, a

⁹ CHAPS Co do not allocate provisional on-boarding slots. Prior to provision of a slot, CHAPS Co will undertake an 'On-boarding Readiness and Risk Assessment'. For further information, please contact CHAPS Co directly.

slot may not be available in the non-bank PSP's desired timeframe. The availability of the next available slot may affect the non-bank PSP's overall on-boarding timeline.

A non-bank PSP will also need to have testing slots allocated with both the payment scheme and the Bank. The relevant payment scheme will coordinate this.

There is not a separate application to the FCA for the supervisory assessment. The Bank will refer the non-bank PSP to the FCA at the appropriate point.

Design, Test & Settlement and Regulatory work

At this stage, the non-bank PSP will have four parallel work streams:

- Technical preparation for operating the settlement account, with the Bank;
- Technical build to ensure that the non-bank PSP has the technical capability for direct access, with the payment scheme;
- The FCA's supervisory assessment;
- Progressing membership/participation requirements, with the payment scheme.

Assurance and Go-live

The Bank will only allow the settlement account to go live once it has received:

- Confirmation from the FCA (and, where relevant, HMRC) that it has no objections to the non-bank PSP opening a settlement account;
- Notification that the payment scheme has conducted all of its own assurance work and is also content for go-live.

Timelines

While the framework for non-bank PSP access to settlement accounts is complete, there is still work to be completed before any non-bank PSP can go-live. In particular, the final necessary legislative changes are not expected to come into force until January 2018. The payment schemes, Bank and FCA are ready to receive and process applications in the interim.

On-boarding non-bank PSPs as direct settling participants in the payment schemes is a new process, and there are a number of constraints, including the availability of on-boarding slots at the Bank and the FCA resourcing for taking the non-bank PSPs through the supervisory assessment. Given this, we do not expect the first non-bank PSPs will go-live before the second half of 2018, unless the non-bank PSP has already made progress towards meeting the key requirements.

In steady state we anticipate that it will take around 12 months from submission of a Letter of Intent to go-live. Precise timelines will be determined by the non-bank PSP's technical readiness at the point of application, the availability of on-boarding slots, and how long the non-bank PSP takes to complete any actions arising from the FCA's supervisory assessment.

Glossary

Authorised E-Money Institution (AEMI)	The FCA authorises E-Money Institutions in accordance with the Electronic Money Regulations 2011. If an institution generates average outstanding e-money of more than €5m, or has a monthly average of over €3m in relevant payment transactions, it must be an Authorised E-Money Institution (as opposed to a Small E-Money Institution). There is no minimum turnover threshold to become an AEMI.
Authorised Payment Institution (API)	The FCA authorises Payment Institutions in accordance with the Payment Services Regulations 2009.* If an institution's average monthly turnover in payment transactions exceeds €3m, it must be an Authorised Payment Institution (as opposed to a Small Payment Institution). There is no minimum turnover threshold to become an API.
Clearing	The process of transmitting, reconciling and confirming transfer orders prior to settlement. For DNS systems, this will include a netting process and the establishment of final positions for settlement.
Deferred Net Settlement (DNS)	Payment Schemes operating a DNS model process the clearing and exchange of payments between participants during a clearing cycle. At the end of this cycle, the net position of each of the direct participants is extinguished on a multilateral net settlement basis – i.e. a single amount is paid or received by each direct participant.
PSP	A Payment Services Provider – i.e. an institution which offers payment services to customers, whether they are businesses or retail consumers. Includes banks, building societies, e-money institutions and payment institutions. As defined in the Payment Services Regulations 2009.*
Non-Bank PSP	The only non-bank PSPs eligible for Bank of England Settlement accounts are Authorised Electronic Money Institutions or Authorised Payment Institutions (as defined in the Electronic Money Regulations 2011 and the Payment Services Regulations 2009* respectively). Firms registered as small payment institutions are not eligible. For more details about registration and authorisation please see the FCA website .
Real Time Gross Settlement (RTGS) System	The RTGS system is an accounting platform which holds accounts for financial institutions which allows them to settle sterling obligations arising from their participation in payment systems.
Real-time gross settlement (RTGS)	A model for settlement whereby each transaction is settled individually and in real time. CHAPS is the only interbank payment scheme to use this settlement model in the UK.
Settlement	The discharge of obligations in respect of funds owing between participants in a payment system.
Settlement Account	An account held within the Bank of England's RTGS system which can be used to settle obligations arising from participation in the payment systems which settle at the Bank.
Settlement Collateralisation Account (SCA)	An account used to hold cash which underwrites a participant's largest intraday net debit position in a prefunded scheme (currently Bacs and FPS). The money held in this account guarantees settlement, and is only used in the event of default.
Settlement Services	The services provided by the Bank of England to allow accounts held in RTGS to be used to settle obligations arising from participation in the payment schemes which settle at the Bank.
Small E-Money Institution (SEMI)	An e-money institution may register to be a small EMI if its business does not exceed average outstanding e-money of €5m, or a monthly average of over €3m in relevant payment transactions. These institutions can provide unrelated payment services (i.e. payment services are not related to the issuance of e-money) as long as the average monthly turnover does not exceed €3m. SEMIs will not be eligible for Bank of England Settlement Accounts.
Small Payment Institution (SPI)	A payment institution may register to be a small PI if its average monthly turnover of payment transactions does not exceed €3m. SPIs will not be eligible for Bank of England Settlement Accounts.
Sterling Monetary Framework	The framework for the Bank of England's operations in sterling money markets. This includes the implementation of the Monetary Policy Committee's decisions about Bank Rate and the provision of liquidity to the financial system where necessary.

*The Payment Services Regulations 2009 will be superseded by the Payment Services Regulations 2017