



# WHITE PAPER

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Faster Payments  
A Vision for a New Access Model

Opportunities for Payment Service  
Providers and Solution Vendors

8 December 2014

## FOREWORD

It is six years since Faster Payments was launched as a near real time, world-class payment clearing system. The service has been a great success; annualised growth of 20% has put us tantalisingly close to 100 million payments per month – and we recently saw the 4 billionth payment processed by the service.

Consumer expectation has changed dramatically over that time, thanks in no small part to smartphones. The proliferation of new payment propositions such as Paym and other digital and mobile payment services will increasingly require a ubiquitous real-time experience for customers, irrespective of the manner in which access to the Faster Payments infrastructure is provided. We live in an increasingly digital world where 'now' rather than 'soon' is the new norm.



Nick Caplan

We need to ensure our world-class service is available, on a level playing field, to all end users that need or want it. That is why we have been working to understand the access challenges of current or emerging Payment Service Providers of all shapes and sizes, whether banks or otherwise. The Payment Systems Regulator's consultation has recognised the need for broader access and it is a call that is fully supported by Faster Payments. Over the last few months we have identified the different challenges we believe these Payment Service Providers face and developed potential approaches to address these.

Now is the time to embark on the next phase of the evolution of the service by extending participation opportunities, developing more sophisticated risk principles, and reducing costs wherever possible. This white paper sets out proposals that aim to do all those things – helping to keep the UK at the centre of the Digital and FinTech revolution. We welcome your input to make sure they do.

Nick Caplan, Independent Chairman of Faster Payments



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## SECTION 1 : EXECUTIVE SUMMARY

Bilateral discussions between Faster Payments Scheme Limited ('the Scheme') and candidate Payment Service Providers (PSPs) have revealed clear demand for access to Faster Payments in two broad segments: those requiring Immediate/ Real Time payments for their customers, and those needing Same-Day (Value-Dated) payments for their customers.

The Scheme's aim is to enable a level playing field for PSPs that want to offer Immediate/Real Time payments.

The Scheme believes the challenges of accessing the service are best met through the facilitation of a competitive market in FinTech vendor operated technical aggregation services.

[This white paper sets out the next phase of the Faster Payments journey.](#)

It is intended for four key audiences:

- 'challenger' banks and non-bank PSPs considering participation;
- financial technology companies (fin-techs), who already provide, or wish to provide, payment 'aggregation' or bureau services to PSPs;
- Real Time Gross Settlement (RTGS) participants interested in providing settlement facilities to other PSPs; and
- existing Faster Payments participants who may be reviewing or considering a refresh of their current payments architecture.

[It will:](#)

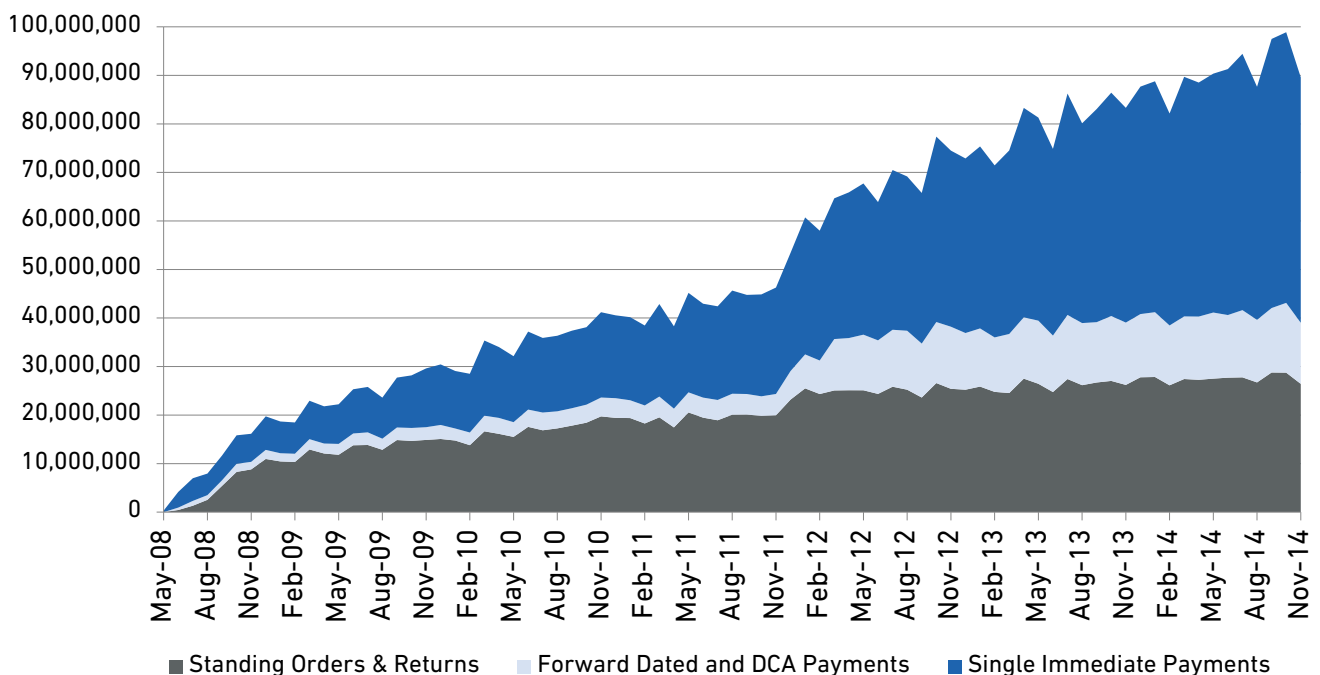
- recognise the growth and achievements to date of the Faster Payments Service;
- set out the rationale for change now;
- describe our proposals, as the starting point to a new journey;
- provide specific stakeholders with a rationale for further change and ensure they are aware of how they can take advantage of the proposed changes;
- set target dates; and
- invite feedback and broader engagement in the development of our plans.



## SECTION 2 : ABOUT FASTER PAYMENTS

- Launched in May 2008, the Faster Payments Service is a highly innovative immediate payment service, the first in a G10 country. Six years on it remains the only 24\*7 real time service in Western Europe, and is looked at with envy by many other countries.
- The development of the Faster Payments Service was one of three key outcomes from the Office of Fair Trading (OFT) Payments Systems Task Force in 2006-7.
- The Faster Payments Service is used daily, through internet, mobile and telephone banking, by millions of people to move money to friends and family, make bill payments (to utilities, credit cards etc.) and pay standing orders, immediately.
- The Service currently enables individual payments of up to £100,000, and has plans to see further step-change increases in this limit over the next 18 months.
- Growing customer confidence in the service, combined with the explosion in use of smartphones and tablets has driven rapid volume growth. 2014 looks likely to see 20% more payments than 2013 – breaking the 1bn annual transaction barrier for the first time.
- Societal and technological changes have driven a customer expectation of an “always connected” service, which places a requirement on participants to operate a highly available service, with virtually no tolerance for unavailability.
- This growth in demand and expectation has prompted the Scheme to develop plans to widen the reach of the Faster Payments Service.

### Growth of Faster Payments



## SECTION 3 : PURPOSE AND STRATEGIC OBJECTIVE

### Purpose:

- To bring together PSPs with vendors of technological solutions that can provide improved access to the Faster Payment Service;
- Set out a range of new technical and operational options for PSPs to connect to the Faster Payments Service;
- Explain proposals to make access criteria more proportionate to participant impact on the system by amending or removing certain joining conditions.
- Assist both the supply and demand sides in developing plans to widen access to the Faster Payments Service.

### Strategic objective:

The Scheme has set a new objective:

- “To drive a consistent and trusted experience for end customers across all directly and indirectly connected Payment Service Providers using the Faster Payments Service.”

The Scheme believes its objective is consistent with a key Payment Systems Regulator (PSR) objective, which has been set down as:

- “To review access to UK payment systems holistically, i.e. by referring to ‘Access’ as the ability of ALL payment service providers to use the services provided by payment systems to enable the transfer of funds.”

The PSRs objective and proposals are more fully described in its recent consultation

[A new regulatory framework for UK payments systems.](#)

As a designated payment system, the Scheme has also taken strategic guidance from the [Principles for Financial Market Infrastructures \(FMI's\) report](#), published in April 2012 by the Bank for International Settlements (BIS). These Principles are used by the Bank of England in their oversight of the UK's Sterling payment schemes.



## SECTION 4 : KEY PRINCIPLES FOR ACCESS TO FASTER PAYMENTS

As a designated Financial Market Infrastructure ('FMI'), the Scheme adheres to CPMI IOSCO Principles, with regard to Access (Principle 18):

**An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access. Key considerations:**

1. An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.
2. An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least-restrictive impact on access that circumstances permit.
3. An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

These Principles are in line with the PSR's Access rule proposals, set out in supporting paper 4 to their consultation, [Access to payment systems \(PSR CP14/1.4\)](#).

The Scheme sets out the following key principles for the Scheme and our stakeholders to meet these requirements:

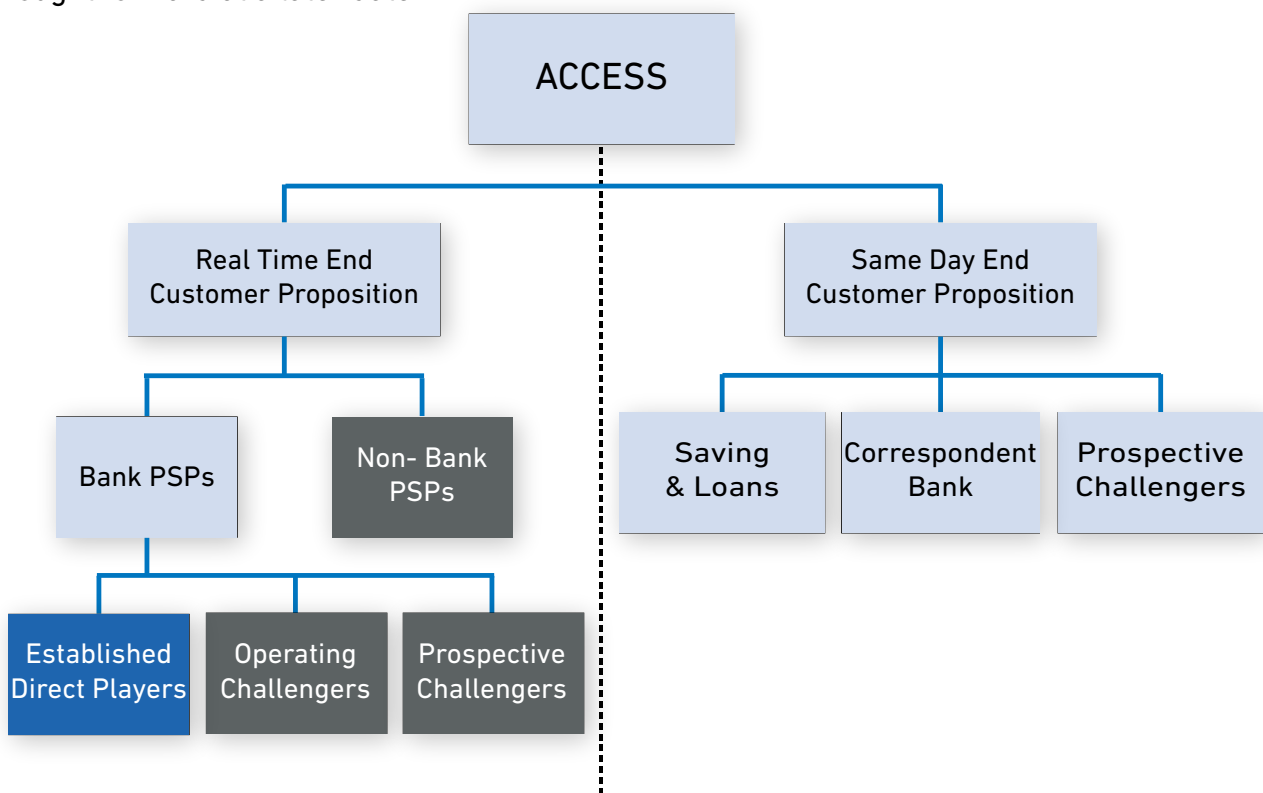
- The Scheme will facilitate competition by permitting "open and fair access" to participants or potential participants on reasonable commercial terms.
- Institutions will continue to invest in cost-effective access to real-time payment capabilities, enabling them to offer the Faster Payments Service and associated overlay services to their customer base – thereby increasing the ubiquity of such solutions.
- Customers of other institutions will see the benefits of better, faster connectivity, including the use of convenient overlay solutions, such as Paym.
- Customers with real-time access to the Faster Payments Service will continue to grow, and be able to leverage all future enhancements to the service.
- Technology vendors will receive 'accreditation' in return for relevant assurances of performance.
- The Faster Payments Service will remain stable and reliable.



## SECTION 5 : SEGMENTATION OF DEMAND FOR ACCESS

The many bilateral discussions held with candidate PSPs of all sizes during 2014 have revealed clear demand for access to the Faster Payments Service in two broad segments: To deliver Immediate/ Real Time payments to their customers, and to deliver Same-Day (Value-Dated) payments to their customers.

The Scheme's aim is to enable a level playing field for any firm that wants to offer Immediate/ Real Time payments. This White Paper puts forward proposals for the firms requiring Real Time payments. Proposals for PSPs requiring Same Day (Value Dated) payments will be brought forward at a later date.



Our focus is on the left-hand side of this diagram; where firms need to offer a real time payment proposition to their customers.

PSPs inside the dark grey boxes are those most likely to benefit from the proposals in this white paper.

Existing direct participants in the Scheme (indicated in the bright blue box) may find the proposals of interest, and may be able to benefit from them should they decide to re-architect their existing infrastructure in due course.





## Access issues for PSPs requiring Real Time Access

A number of issues emerged from our research amongst these potential users of the Faster Payment service:

- The fixed cost of communication links between PSPs and the Central Infrastructure, coupled with low volumes, has a significant impact on unit cost for smaller players.
- Some existing and prospective PSPs may not have the appropriate specialist IT resources available in-house to integrate the Faster Payment real time system into their platforms.
- The need to operate 24\*7 to deliver the end to end Faster Payment customer proposition can create technical and operational challenges for PSPs with legacy systems.
- Some PSPs highlighted issues with meeting the Scheme's assurance requirements designed to support payment integrity and financial stability.
- Some organisations highlighted challenges in obtaining a banking licence/ Reserves Account at the Bank of England in parallel with applying to join the Scheme.
- For those PSPs that do not meet the Bank of England's eligibility requirements for a Reserves Account, finding a sponsor bank can be difficult. Potential sponsor banks have a number of factors to consider, including anti-money laundering (AML) obligations when reviewing their appetite for engaging in a new relationship.
- The requirement for collateral to guarantee settlement, even when limited to cash post-implementation of Prefunding\*, was highlighted by some non-bank PSPs, as frequently they do not have access to sufficient cash/liquidity reserves.

\* Prefunded settlement, whereby each settling participant will deposit with the Bank of England a cash amount equal to the maximum debit position they can have in the Faster Payment system, will be introduced during 2015.



## SECTION 6 : OPPORTUNITIES FOR ENHANCEMENT

During the past year the Scheme has been actively engaging with key stakeholders, including direct participants, new candidate participants (existing challenger banks, new start-up banks, money remitters, and other PSPs), solution vendors, infrastructure providers, regulators and the scheme overseer.

As a result of these consultations, the Scheme has identified a wide range of opportunities to open access to more PSPs. At a high level, these can be summarised as:

- Supporting the latent demand for integrated technical solutions that can aggregate volume, so as to spread the fixed costs of direct participation, by working with FinTech vendors in this space.
- The need to introduce an accreditation scheme for technical solutions, to give confidence to PSPs that they are working with proven partners and improve assurance efficiencies.
- Moving the assurance model from a “one size fits all” to a risk-based, proportionate model, ensuring that the interests of financial stability are correctly balanced against the potential risks that each participant brings to the service.
- Introducing new settlement regimes that support the aspirations of non-banks, that may not have the depth of liquidity required to guarantee settlement and eliminate Scheme credit and liquidity risks today.



## SECTION 7 : A NEW ACCESS MODEL

The Scheme believes the challenges for accessing the service are best addressed through the facilitation of a competitive market in technology vendor operated aggregation services.

By aggregating demand from multiple PSPs seeking access, accredited suppliers would be able to share the fixed costs of build and operation over a larger volume of payments, and concentrate operational skills into 'critical mass' bundles.

It is anticipated that these competitive aggregation services could equally be exploited by PSPs that wish to settle directly at the Bank of England, as well as PSPs that either do not wish to, or cannot settle at the Bank. In these cases, settlement and the associated credit lines would be provided by one of the Scheme's direct participants.

In the medium term, the Scheme is planning to work with the Bank of England to identify new settlement models that could broaden participation for non-bank PSPs.

These new access solutions are not limited to new participants - over time they may well provide more cost effective participation models to existing direct participants, lowering overall system costs.

### The New Access Model in practice

The Scheme recognises that different participants will have different infrastructures. The gap between the Scheme's central interfaces and PSP's diverse capabilities and infrastructures needs to be bridged. It is for this reason that the Scheme does not envisage that a "single pipe" solution could address this issue. Rather, there is a need to share the unavoidable fixed costs of direct connectivity through a number of competitive aggregation points.

The Scheme's Assurance model will also need to be re-engineered:

- Where possible, at any point in time, assurance should be provided once and only once. This will extend to a technical accreditation process for aggregator solutions.
- Our approach will support a separation of technical access from settlement provision.
- The Scheme will explore the potential for a "Next generation settlement" process for non-bank PSPs, to take us beyond the use of cash as collateral.



## SECTION 8 : OUR TARGET OPERATING MODEL

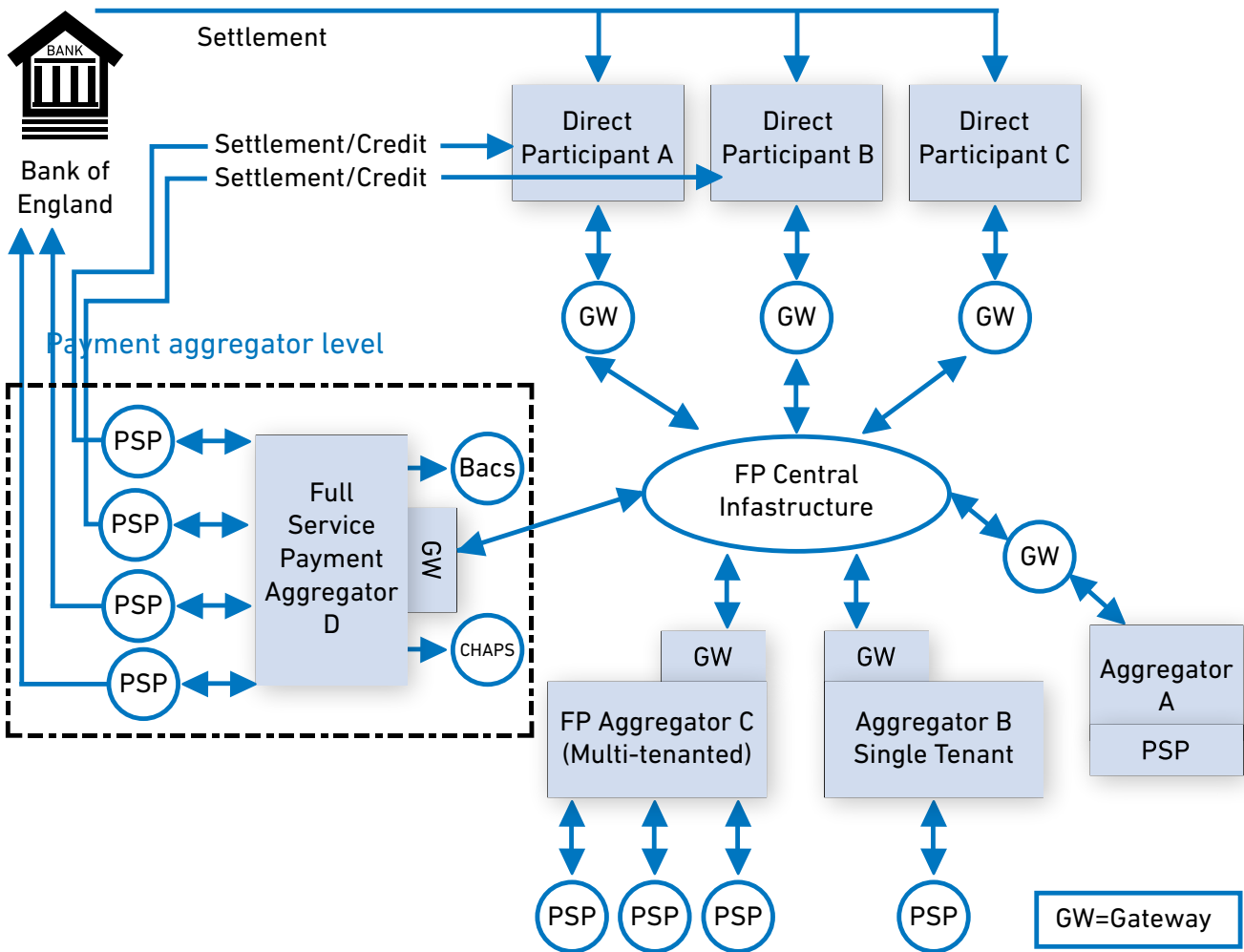
The Scheme plans to achieve the new model for access by implementing the following Target Operating Model.

This Target Operating Model is an illustration of how different flavours of solution could be brought to market over the next few years.

Direct Participants A to C represent the existing Members of the Scheme

The new elements are captured in the four Aggregator models shown in the Payment aggregator level model overleaf. These represent a range of vendor solutions; – either with single or multiple tenants. For each model, there should be the flexibility for PSPs to either settle via their own account with the Bank of England or to use the services of a sponsor bank to settle on their behalf.





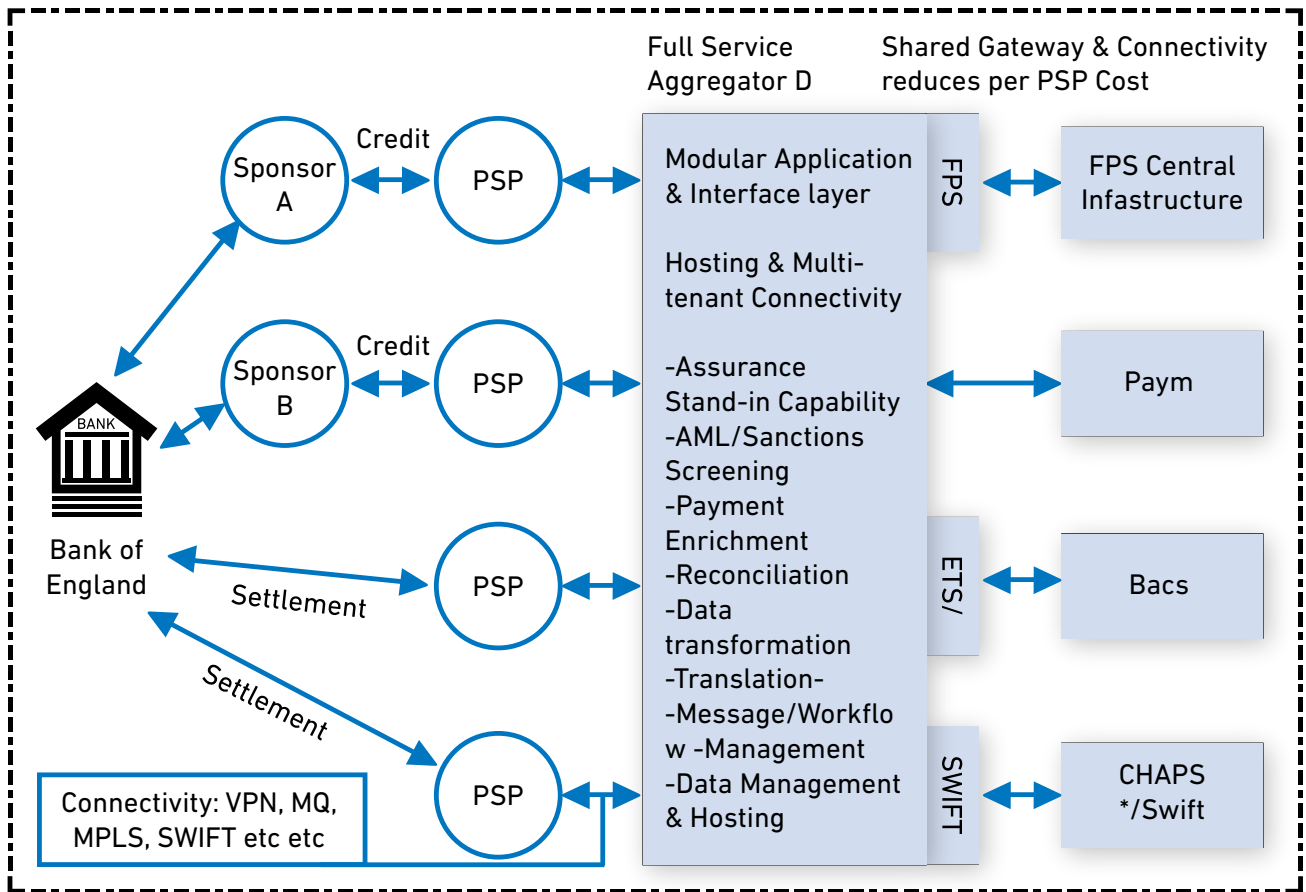
Aggregator A represents a “banking platform provider” adding Faster Payment functionality to their existing accounting platform technology, by either building or licensing a solution from another vendor

Aggregator B is a single tenant solution, where a vendor is providing a managed solution for a single provider. The Scheme recognises that some Participants may want their own instance of such a solution

Aggregator C is a multi-tenanted solution, focussed on delivery of Faster Payments to multiple PSP participants

Aggregator D is a multi-tenanted solution, supporting all payment types, for multiple PSP participants

Payment aggregator level



This schematic shows Aggregator D from the previous diagram in more detail. The methods of connectivity (both into and out from the Aggregator) are in the competitive space; but must be able to conform with the Scheme’s requirements regarding availability and speed of messaging.

Within the Aggregator, we would expect to see modular applications, allowing PSPs to pick and choose from a menu of options that best meet their needs.

## Who will the New Access Model appeal to?

The Scheme believes the New Access Model will appeal to infrastructure providers / vendors (for payments and/or banking services) and various types of PSPs.

### Benefits for infrastructure providers/ vendors

The New Access Model will:

- complement existing access models into other clearings (e.g. Bacs, CHAPS, SWIFT);
- support the aspirations of their existing clients, who otherwise may look elsewhere;
- provide opportunities to engage with new clients in the UK market;
- be a first step into all clearings, where no pre-existing access services are in place; and
- be leveraged in other non-UK markets, as they begin to adopt real-time services.

### Benefits for PSPs

The New Access Model will:

- meet increasing demand from the client base of smaller PSPs for immediate, real-time payment services that are already available to customers of existing Scheme members;
- be a more cost effective alternative to the current direct participation model;
- benefit existing members of the Scheme that are looking to re-architect their services, to take advantage of new generation solutions;
- benefit new market entrants by meeting their competitive need for access to a comprehensive range of payment services improve choice, drive innovation, and allow PSPs to utilise a model that best meets their commercial objectives by broadening the range of vendor offerings that are available.

## SECTION 9 : FURTHER ENGAGEMENT – PROCESS, TIMETABLE AND CONTACTS

Progress towards implementing the New Access Model will also involve work in a wide variety of other areas.

### Accreditation

- Vendor solutions will be able to obtain accreditation from the Scheme for their technical service; this will further reduce the assurance burden borne by participants, with vendor and participant assurance focussed on the appropriate areas.

### Assurance

- The current “one-size-fits-all” approach will migrate to a risk-based model, where requirements on participants will be proportionate to the systemic risk they bring to the service.

### General business

- Refresh the Faster Payments Scheme website ([www.fasterpayments.org.uk](http://www.fasterpayments.org.uk)) website with a comprehensive ‘decision-tree’ list of access options.
- Launch a Partner Programme Forum for vendors.
- Undertake extensive bilateral meetings with prospective vendors to assist with detailed design, development and testing.
- Launch a participation programme for PSPs.
- Conduct bilateral discussions with interested PSPs.
- Facilitate introductions between PSPs and multiple FinTech vendors, where appropriate.

### Governance

- Wider direct participation will require a change to how we govern the Scheme. We will work to ensure that appropriate representation is provided in Scheme governance so that all parties have a voice in the future of the Scheme.

### Settlement

- Development of two new concepts:
  - sub-caps, to simplify the technical relationship between sponsor banks and direct agencies.
  - new settlement model for non-bank PSPs.





## Engagement with PSPs and Vendors

Over the next 6-12 months, the Scheme will work with potential users (customers) of, and suppliers of services through the New Access Model, to validate and detail the Scheme's approach, and support implementation of the ideas outlined in this white paper.

**Potential Customers:** The Scheme already has a broad network of PSPs with which it has engaged on this approach. Approaches from other PSPs would be welcome to allow us to create solutions with the broadest appeal.

**Potential Vendors:** The Scheme also wishes to extend its contacts with potential vendors to allow it to deepen a collaborative approach to supplier accreditation and approval, as well as to gain further insight into potential solutions.

## Target Timeframe

Based on the proposals in this white paper, the Scheme has aspirations that by:

End-2015

- Some FinTech vendors poised to launch the New Access Model.
- Each vendor to have an 'anchor' tenant.
- Accreditation service for vendors launched.
- Pipeline of additional PSPs working with vendors, and by:

End-2016

- A competitive market of FinTech vendors fully connected and accredited into the Scheme.
- A dozen new PSPs (bank and non-bank) using existing and new settlement models.

## Contacts

Interested PSPs and vendors should contact [access@fasterpayments.org.uk](mailto:access@fasterpayments.org.uk).