

7 July 2010

PAYMENTS COUNCIL RESPONSE TO THE OFT REVIEW OF BARRIERS TO ENTRY, EXPANSION AND EXIT IN RETAIL BANKING

The Payments Council is the organisation that sets strategy for UK payments. It was established in March 2007 to ensure that UK payment systems and services meet the needs of users, payment service providers and the wider economy. The Payments Council has three core objectives:

- to have a strategic vision for payments and lead the future development of cooperative payment services in the UK;
- to ensure that the payment system is open, accountable and transparent; and
- to ensure the operational efficiency, effectiveness and integrity of payment services in the UK.

The Payments Council is a Membership organisation funded by its Members, with an independent chairman.

The Payments Council works closely with its contracted schemes, for the benefit of the UK payments industry. These include:

- Bacs Payment Schemes Limited;
- CHAPS Clearing Company Limited (covering two schemes: the CHAPS Sterling and Faster Payments);
- LINK ATM Scheme;
- Cheque & Credit Clearing Company Limited;
- Currency Clearings Committee;
- Belfast Bankers' Clearing Company Limited; and
- UK Domestic Cheque Guarantee Card Scheme.

The clearing schemes are run by their respective Boards which are responsible for setting the work of the schemes and their entry criteria. This response covers the contracted schemes with the exception of the UK Domestic Cheque Guarantee Card Scheme as it has been agreed this scheme will close on 30 June 2011.



The Payments Council welcomes the opportunity to respond to the OFT Review of Barriers to Entry, Expansion and Exit in Retail Banking. We fully recognise the importance of payments in access to retail banking and were pleased to see the paper acknowledge the improvements to competition and payment services made by the creation of the Payments Council. This is a high level response focussed on overarching issues around access to payment systems, rather than responses to each individual question in the review.

More information on the Payments Council and a full list of our Members can be found on our website: www.paymentscouncil.org.uk

COMMENTS

Our belief is that the entry criteria set by the clearing schemes are reasonable and proportionate, given their economic importance. It is important to remember that the payment systems worked very well during the extreme market convulsions in late 2008.

Entry criteria to payment schemes are in place to ensure that payment systems are robust and can withstand changing economic environments. As systemically important infrastructure, it is critical that payment systems are not made unstable by the failure (financial or technical) of a scheme member. Criteria which restrict or inhibit access to the clearing schemes are therefore only in place insofar as is necessary to protect the systems against specific risks, or to protect the financial and operational stability of the system.

We have seen no evidence that the entry criteria for the clearing schemes impede competition; the Payments Council and schemes believe in encouraging new Members. Information on the benefits of Membership and on gaining Membership to schemes is freely available on the respective scheme websites and each payment scheme welcomes enquiries regarding new Members.

To support this, information on successful, ongoing and rejected Membership applications within the last five years is set out in the table below. In summary, there have been 12 applications for scheme membership, of which all have been approved.



Scheme membership applications 2005-2010

Scheme	No. of applications for Membership in the last 5 years	Of which were successful	Of which were unsuccessful	Pending Membership/other information
BACS	2	1	0	1 Membership approved and expected on stream by Q4 2010
CHAPS Sterling	6	5	0	1 Membership approved and expected on stream by Q4 2010
Faster Payments	0	n/a	n/a	Faster Payments launched in May 2008 with 13 full Members participating. No applicants were turned down. The Scheme has received two applications for Direct Agency status that are currently under consideration.
LINK	4	4	0	LINK have also included foreign cards in the Scheme, including those from the US, Germany and China under a form of partnership
C&CCC including Currency Clearings	0	n/a	n/a	
BBCCL	0	n/a	n/a	

Further information on each scheme, Membership application and enquiries is set out in the annex below. Although it is not a payment scheme, information on Payments Council membership is also provided.

We do not cover agency bank relationships with clearing Members but have no reason to believe that these are causing problems. Indeed, the ratio of agency arrangements to scheme Membership suggests that the agency market is competitive and thriving. If issues arose in this arena, we would expect to be aware of such problems via applications to become direct Members, complaints about the rules of scheme Membership and wider



market comment. The payment schemes are happy to respond to enquiries from Agency Banks regarding direct Membership.

For questions regarding this response, please contact Helen Doyle:

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ANNEX

FURTHER INFORMATION ON MEMBERSHIP OF THE PAYMENTS COUNCIL AND THE PAYMENTS COUNCIL CONTRACTED SCHEMES

1 THE PAYMENTS COUNCIL

The Payments Council is a voluntary membership organisation governed by published Rules. A Full Member must be a payment service provider in the UK and have qualifying payment volumes. The benefits of Full Membership include the right to nominate or vote for a Board representative, the right to attend, speak and vote at general meetings, the provision of information, and early consultation.

In joining the Payments Council, Full Members are obliged to comply with relevant decisions of the Board unless granted a formal waiver. Membership fees for all Full Members are charged in proportion to qualifying UK payment volumes using bands determined annually by the Board. There are currently 28 Full Members, with one application pending.

The Payments Council also offers an Associate Membership. This offers any organisation with an interest in the payments industry access to a variety of payments-related information and research, as well as the opportunity to work with the key players in the industry. There are currently 13 Associate Members with one application pending.

A section Payments Council membership is available on the Payments Council website:

<http://www.paymentscouncil.org.uk/membership/>



2 BACS PAYMENT SCHEMES LIMITED

Gaining Membership to the Bacs scheme takes approximately six to nine months from the point of the application being formally accepted. There is a period of consultation between a prospective Member and the Scheme before they formally apply but this time-frame can vary depending on the needs / current status of the institution. Should an institution decide to formally apply they will be measured against a set of established and objective criteria by the Bacs admissions official who will determine if the application should be approved or not. Any decision cannot be determined by existing Board Members.

In the last five years Bacs has had two successful applications. Danske Bank joined in March 2006 and Allied Irish Bank had their application approved in May 2010 and is on schedule to become a Member in November 2010. No applications in this period have been turned down.

A section on how to become a Bacs Member is included on the Bacs website at <http://www.bacs.co.uk/Bacs/Banks/BecomeABacsMember/Pages/BecomeABacsMember.aspx>

A number of enquiries have been received from Agency Banks about becoming Bacs Members in recent years. These have all been treated objectively but in the majority of cases the applicant has determined that it is more appropriate for them to remain as an Agency Bank. The Bacs Affiliates Interest Group (AIG) provides a mechanism for a variety of organisations to engage directly with the Scheme and includes a number of agency banks.

3 CHAPS SCHEME

Gaining Membership of the CHAPS Scheme takes approximately nine to twelve months from the point of the application before going live in the clearing. There is a period of consultation between a prospective Member and the CHAPS Scheme before they formally apply but this time-frame can vary depending on the needs, business strategy or current status of the prospective Member. Should an institution decide to formally apply they will be measured against a set of established and objective criteria which will determine if the application should be approved or not.



Information about the CHAPS Company and the CHAPS Scheme, including the criteria for Membership is available on the CHAPS Company website:

http://www.chapsco.co.uk/chaps_company/-/page/337/

In the last five years, the CHAPS Scheme has had five new Members as follows:

- CLS - 2005
- Abbey (now Santander) - 2005
- UBS - 2007
- Danske - 2009
- J.P.Morgan - 2010

Additionally Bank of America is in the process of becoming a Member and is expected to go live Q4 2010. No applicant has been turned down for Membership in this period.

Membership enquiries and applications are welcomed and treated by their appropriateness against the Membership criteria. There is a regular stream of enquiries about joining the Scheme. For example some institutions assess the business and strategic benefits of Membership of the CHAPS Scheme on an annual basis.

To help new Members, the Scheme operates a 'buddy scheme' where a new member is allocated a 'Shepherd'. The 'Shepherd' is an existing Settlement Bank and is usually the Member who currently provides the New Member with CHAPS facilities. Notwithstanding the competitive environment, the "shepherd bank" is expected to assist and to an extent "hand-hold" the new Member, instilling within that institution an acknowledgement of the wider operational benefits that can accrue within the co-operative space.

4 FASTER PAYMENTS SERVICE

Faster Payments launched in May 2008 with 13 full Members participating. No application for Membership was turned down. Since the launch, there has been a regular stream of enquiries about joining the Scheme but as yet these enquiries have not translated into applications. Given the relative immaturity of the scheme, we are happy that there are continuing enquiries about membership and will expect these to translate into positive applications in time.

Information about the Faster Payments Scheme and membership is available on the CHAPS company website http://www.chapsco.co.uk/chaps_company/-/page/337/



Gaining Membership of Faster Payment schemes takes approximately nine to twelve months from the point of the application to going live on the Scheme. As with the CHAPS Scheme, there is a period of consultation between a prospective Member and the Scheme before they formally apply which will vary depending on the prospective Member's requirements. Formal applications for membership are measured against objective criteria which will determine if the application should be approved or not.

The scheme and its infrastructure have been designed to facilitate participation in a variety of ways. In addition to Scheme membership, there are two types of agency bank relationship in Faster Payments: Direct and Indirect.

Direct Agencies send and receive payments in a similar fashion to Members, but have a sponsoring Member that settles their obligations in the clearing and represents their interests at the Scheme. Should an institution decide to formally apply, their sponsoring Member makes an application on their behalf and they will be measured against a set of established and objective criteria which will determine if the application should be approved or not. The Scheme has received two applications for Direct Agency status that are currently under consideration. Members have had a number of other clients enquire about joining as Direct Agencies.

Indirect Agencies are treated as customers of a Member. The Faster Payments Scheme has received a number of enquiries from banks that are indirect agencies about becoming Members, but no applications for Membership have been received as a result.

In addition, the Scheme has a membership option for Third Party Beneficiaries. These are organisations such as credit card companies or utilities that receive payment requests in a similar fashion to Direct Agencies and have a sponsoring Member that receives funds into the Third Party Beneficiary's account. This removes the need for the Member to pass on payment requests. The Scheme has not received any applications from prospective Third Party Beneficiaries to date but are expected as the Scheme matures.

5 LINK ATM SCHEME

The LINK Scheme allows Membership as a card issuer, ATM operator or both. For LINK, concluding legal agreements for Membership can be rapid. In practice, it is establishing the technical connection that takes the most time.



In the past five years, joiners to the LINK scheme have included Raphaels Bank (an ATM operator), Metrobank (a card issuer and ATM operator), Credit Mutuel (Arkea) (the French financial institution) and Cash plc (an ATM operator). No applicant has been turned down in the past 5 years. LINK have also included foreign cards in the Scheme, including those from the US, Germany and China under a form of partnership.

LINK work proactively with infrastructure companies, foreign schemes and potential Members to encourage their participation. Information on how to become a Member and the benefits of doing so is available on the LINK website:

<http://www.link.co.uk/AboutLINK/Joining/Pages/Overview.aspx>

6 CHEQUE AND CREDIT CLEARING COMPANY AND THE CURRENCY CLEARINGS

6.1 C&CCC

C&CCC's eligibility criteria are published on the website at www.chequeandcredit.co.uk, together with information on how to apply. Applicants may join any one, or all, of the cheque, credit and euro debit clearing systems.

To complete the admissions process takes about nine months. Much of this time is taken up by the other Members making system changes to accommodate the new cheque sorting patterns and changes to the central settlement system. However, there have been no new Members to C&CCC since 1998. No applicants have been turned down.

Any entity wishing to become a Member of the C&CCC has to submit an application in writing to the Managing Director. The MD must be satisfied that the prospective Member complies, and can be expected to continue to comply, with the Eligibility Criteria. The MD, on behalf of the Board, would consult with all Members as to whether to approve an application, and would also seek the opinion of such independent persons as he/she thinks fit but is ultimately responsible for accepting an application to join. If an application is declined, the prospective Member has the right of appeal through the company's appeals and independent disputes procedures.

Enquiries via the website are welcomed. Approximately three per year are received. If an enquirer wishes to meet to discuss the possibility of being a Member, C&CCC are happy to do this; and present to a couple of enquirers per year to answer their questions.



The fact that there are some 350 to 400 agency arrangements and only 12 Members indicates that the agency market is competitive and thriving. Agency banks are able to offer the same level of service to their customers (they comply with the 2-4-6 timescales).

C&CCC have reported that there have been a small number of enquiries from agency banks that feel the need to explore Membership in the current economic and regulatory climate. However these enquiries have not translated into applications.

The cheque clearing is a costly and labour intensive industry and volumes have been declining for a generation. The lack of applications is unlikely to be related to barriers to entry, especially now that the Payments Council has announced a target end date of 2018 for closure of the clearing.

6.2 The Currency Clearings Committee

C&CCC assumed responsibility for managing the operations of the Currency Clearings at the start of 2010. To be eligible to become and remain a Member of the Currency Clearings, an entity must:

- be a bank or building society
- have the ability to comply on a continuous basis with the technical and operational requirements of the Currency Clearings;
- have a minimum credit rating, as defined for the C&CCC clearing systems.
- pay its full share of the Currency Clearings annual costs

The Currency Clearings operate in a niche market, mainly for business customers. There are 5 Members who are the largest clearers. Entry criteria are not posted on the website but C&CCC would make the criteria available in response to an enquiry. This reflects demand. There have been no recent enquiries to join the Currency Clearings and no applicants have been turned down.

7 BELFAST BANKERS' CLEARING COMPANY LIMITED (BBCCL)

The Company welcomes applications for membership and has developed admission criteria that prospective applicants are required to meet. In addition the obligations on members are clearly documented. In both cases the primary aim is to preserve the integrity and stability of the arrangements for clearing cheques and paper credits in Northern Ireland



and the Board strongly believes that these scheme requirements are prudent, fair and reasonable. BBCCL does not have a website but the admission criteria and membership rules are freely available to interested parties on request and a copy has already been forwarded to the Office of Fair Trading in respect of the current review.

BBCCL was formed in May 2007, the clearing arrangements having previously been monitored on a less formal basis by the Belfast Bankers' Clearing Committee. To date no applications for membership have been received and we are not aware of any applications having been made in the past ten years, encompassing the previous monitoring arrangements.

In the event of an application being received it would be given the highest priority and the current rules stipulate that within 30 days the Company will determine whether an applicant should be approved. It may, of course, entail a longer period before any applicant could actively participate in the arrangements, given that some changes may be necessary to existing members' systems to accommodate the new applicant.

An alternative route for access to the Northern Ireland clearing arrangements, other than membership of BBCCL, is for banks to establish an Agency agreement directly with one of the NI Clearing Banks. The main GB clearing banks all have such Agency agreements in place.

The Company is very happy to meet with representatives from the Office of Fair Trading to discuss matters relevant to the current review.

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