

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

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BANK OF ENGLAND



Contents

What is the purpose of this document?	3
The UK payment schemes.....	4
How have non-bank payment service providers accessed the payment schemes previously?	4
Why does the Bank allow non-bank payment service providers to access payment schemes directly?.....	5
Which non-bank payment service providers are eligible for direct access?	6
How can a non-bank payment service provider become a direct settling participant in a payment scheme?	6
Scheme Criteria.....	6
Eligibility for Bank of England Settlement Accounts.....	6
Non-Bank Payment Service Providers Safeguarding Requirements and Prefunding Accounts	7
FCA’s Supervisory Assessment.....	9
What is the process to become a directly settling participant?	10
Discovery.....	10
Definition and Planning.....	11
Design, Test & Settlement and Regulatory work.....	11
Assurance and Go-live	11
Timelines.....	11
Glossary.....	12

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”) that would like to access the UK’s interbank payment schemes directly, as opposed to via a sponsor bank. It outlines the framework by which non-bank PSPs can apply to open a settlement account at the Bank of England (the “Bank”), in order to become a direct participant of a payment scheme.

The ability to gain direct access to a scheme means that non-bank PSPs no longer have to rely on a third party bank either to submit payments or settle payment obligations on their behalf.

This guide provides specific information for non-bank PSPs about direct access to the UK’s main payment schemes. It does not provide advice as to which payment scheme they may wish to join. The payment schemes have published [An Introduction to the UK Interbank Payment Schemes](#) which contains an overview of options for access to 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, non-bank PSPs may want to use one or more of the following schemes:

- **CHAPS** – the UK's same day payment system used for wholesale and time-sensitive retail payments.
- **Faster Payments (FPS)** – provides real time payments 24/7 and is used for standing orders, single immediate payments, forward dated payments, return payments, such as for internet and telephone banking payments as well as mobile payments (e.g. through Paym).
- **Bacs** – the 'automated clearing house', which processes Direct Debits and Bacs Direct Credits across a three working day cycle.
- **Image Clearing System** – Cheque imaging is the process that enables images of cheques to be exchanged between banks and building societies, through the Image Clearing System, for clearing and payment.

CHAPS is operated by the Bank, while FPS, Bacs and the Image Clearing System are operated by Pay.UK.

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 schemes.

CHAPS settles each transaction individually, in gross and in real-time across settlement accounts. In the Deferred Net Settlement (DNS) payment schemes (Bacs, FPS, and the Image Clearing System), end-users make payments during a 'clearing cycle' and payment settlement occurs at the end of this cycle. The payment scheme calculates the amount each participant owes/is owed as a result of transactions made during each cycle. This is sent to the Bank, which then simultaneously debits or credits each settlement account this amount.

Note: The Bank also provides net settlement services to the LINK ATM Scheme and Visa Europe. While LINK is covered in An Introduction to the UK Interbank Payment Schemes, neither it nor Visa are further covered in this guide for non-bank PSPs. The required supporting regulatory and legal arrangements are not currently in place to support settlement in these systems.

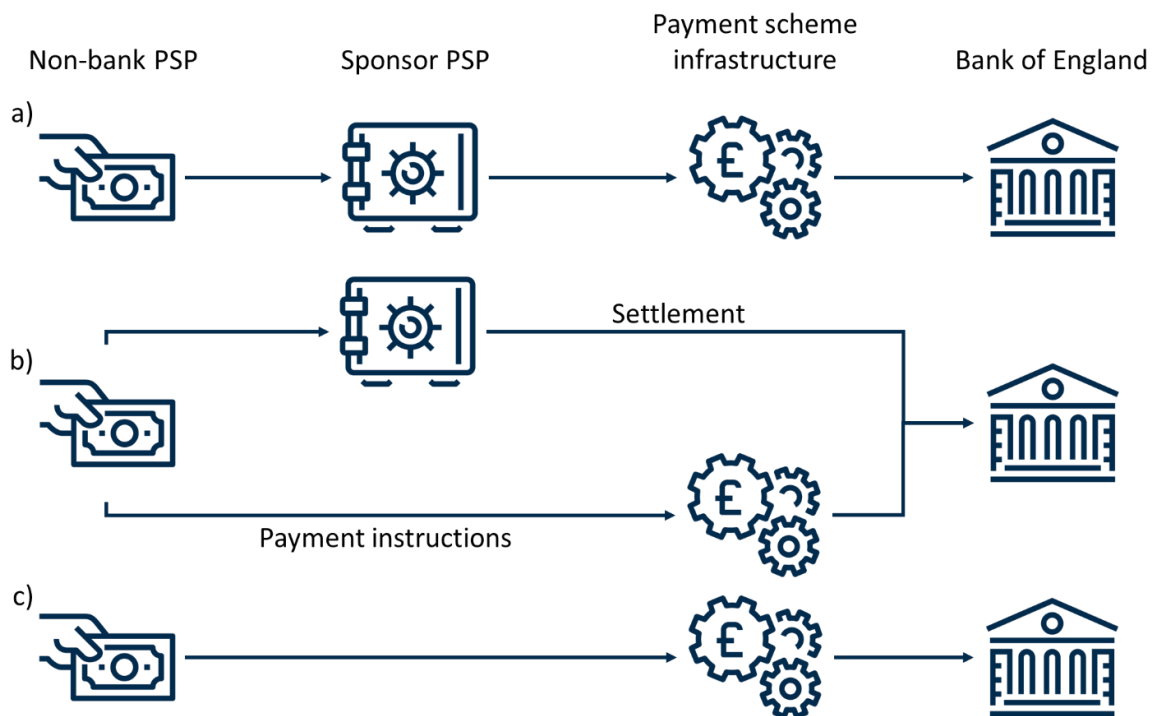
How have non-bank payment service providers accessed the payment schemes previously?

In the past, non-bank PSPs were only able to participate in these payment schemes as a directly connected non-settling participant or as an indirect participant. This type of indirect participation is still available to non-bank PSPs as a participation option.

Directly connected non-settling participants have a direct connection to the payment scheme's central infrastructure where they can submit and receive payment messages, 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. Directly connected non-settling participation is not available in CHAPS.

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.



- a) Indirect participation
- b) Directly connected non-settling participation
- c) Direct participation

Why does the Bank allow non-bank payment service providers 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 access to settlement accounts was extended, they were only able to access the UK payment schemes indirectly – through the very banks they are competing with.

The Bank allows 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.

Access to the UK's main payment schemes allows 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.

Longer term, the innovation stemming from 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 by HM Revenue and Customs (HMRC), for anti-money laundering purposes (depending on business model).

Only authorised 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 (as opposed to being authorised), cannot hold a settlement account at the Bank and consequently are not eligible for direct settlement access to the payment schemes.

How can a non-bank payment service provider 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 holding 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 (and in relevant cases also registered with HMRC). 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 Image Clearing System also require an additional prefunding account to be held (one per 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.
Legal documents	Required to sign all legal agreements as required by the payment scheme.
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. The behaviour of individual participants in these payment schemes can impact the stability of the whole financial system. It is vital that all rules and requirements are adhered to.

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

Bacs	Direct Participation Criteria
CHAPS	Access Requirements
FPS	Eligibility Criteria
Image Clearing System	Access Criteria

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 – although that is not to say direct participation in CHAPS would remove the need for a commercial bank relationship.

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 for intraday liquidity, as they do not undertake maturity transformation activities.

For non-bank PSPs, there are three key criteria for opening a settlement account.¹ These criteria help the Bank mitigate the risks that participants bring to payment schemes and RTGS, and financial crime risks. They provide an equivalent 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 9 on the FCA's process).^{2,3}
- The non-bank PSP has the operational capacity to participate in and efficiently settle transactions in RTGS. This involves having a connection to SWIFT, the messaging network for the Bank, which enables access to the RTGS **Enquiry Link** service. This allows a non-bank PSP to fund, defund (to/from a nominated commercial bank account) and monitor their settlement account and, if applicable, prefunding account(s).⁴ They must also undertake testing before the account can go-live and participate in other routine testing exercises.
- There are legal documents with the Bank which an account holder must sign up to. These are:
 - The RTGS Account Mandate Terms & Conditions; and
 - An annex to this Mandate, for each relevant payment scheme.

In addition, if a non-bank PSP wishes to join a *prefunded* scheme (Bacs, FPS and the Image Clearing Scheme) it will also require a prefunding account at the Bank. This prefunding account is used to hold a balance to cover the participant's largest net debit position, in order to ensure their obligations could be settled in the event of default. The prefunding requirement can be difficult for some firms that hold client funds for a short time only, or firms with large one way flows that do not benefit from netting. Prospective participants should carefully consider how they will meet prefunding requirements.

Participants must place funds in this prefunding 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 a prefunding account, but there are additional legal agreements.

Non-Bank Payment Service Providers Safeguarding Requirements and Accounts

Non-Bank PSPs are required to safeguard any 'relevant funds' in accordance with the Payment Services Regulations 2017. Legislation allows for this to be done in a number of ways, including by placing the

¹ Access to a settlement account remains at the sole discretion of the Bank.

² Information on becoming an authorised payment institution or electronic money institution can be found [here](#).

³ If the demand emerges, the Bank would be willing to work with regulators in other countries on an equivalent to the FCA assessment.

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

⁵ Note that the funds in the prefunding account are not the funds used in the normal course of settlement, which must be provided separately in the settlement account ahead of payment scheme settlement.

funds in an account with an authorised credit institution or the Bank of England.⁶ Relevant funds safeguarded in this way must be segregated from any ‘own funds’ the firm possesses.

The Bank and payment schemes have designed account arrangements which allow non-bank PSPs to meet these safeguarding requirements, though responsibility for ensuring that ‘client funds’ (i.e. ‘relevant funds’) are adequately safeguarded, and all relevant regulations are complied with, remains with the non-bank PSP. Non-bank PSPs can choose to operate using ‘client funds’ or ‘own funds’. Some non-bank PSPs may choose to offer both, but importantly the funds cannot be comingled, as per the legislative framework.

Account name	Comments
Own funds settlement account	<ul style="list-style-type: none"> • All non-bank PSPs will be given an own funds settlement account, as the Bank pays interest and charges fees to this account only.
Client funds settlement account	<ul style="list-style-type: none"> • A designated safeguarding account for client funds. • Provided when a non-bank PSP joins a payment scheme to settle in client funds.
Common to settlement accounts	<ul style="list-style-type: none"> • The only account(s) required for CHAPS participation. • Interest is not paid on balances held in settlement accounts.
Settlement collateralisation account (SCA)	<ul style="list-style-type: none"> • Prefunding account for own funds.
Completion funds account (CFA)	<ul style="list-style-type: none"> • Prefunding account for client funds.
Common to prefunding accounts	<ul style="list-style-type: none"> • One is provided per DNS payment scheme joined – netting cannot be spread across multiple schemes. • Funds are used only in a contingency situation. • Interest is paid on balances held in prefunding accounts. • The prefunding requirement can be difficult for some firms with large one way flows, or firms that hold client funds for a short time only.
Common to all accounts	<ul style="list-style-type: none"> • Accounts should only hold the type of funds they are designated for. • Accounts should only hold enough funds as are required for settlement and prefunding – excess funds should be held in a commercial bank account. • Both of these requirements are the responsibility of the non-bank PSP.

⁶ See regulation 23 of the [Payment Services Regulations 2017](#) and chapter 10 of [Payment Services and Electronic Money – Our Approach](#).

FCA's Supervisory Assessment

The FCA's supervisory assessment will assess compliance with existing regulatory requirements for PSPs⁷ (as laid out in the Payment Services Regulations 2017⁸, the E-Money Regulations 2011, the Money Laundering Regulations 2007 and other relevant legislation).

This assessment will include the following areas:

- governance and risk management arrangements;
- safeguarding of customer funds;
- financial crime (this will usually be a separate assessment).⁹

The FCA will engage with the non-bank PSP before starting the supervisory assessment, to explain the process in more detail and what will be covered under the separate general and AML assessments. Each supervisory assessment will normally include an information request and a subsequent visit to the non-bank PSP. The visits will include interviews with relevant staff and file reviews for the AML assessment.

The assessment process should take around nine months in total. Following the completion of its initial assessment (i.e. after the firm visit), 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 will typically include monitoring the completion of any outstanding areas of feedback, which were not required to be completed prior to the non-bank PSP gaining direct access. And taking steps to understand how the non-bank PSP's business model and strategy is evolving, including identifying where new risks of harm may be forming. This is likely to include requiring the non-bank PSP periodically to commission independent audits covering key risk areas.

⁷ Or, in the case of non-bank PSPs applying for authorisation in tandem with applying to gain access to RTGS, they will assess whether you meet these requirements.

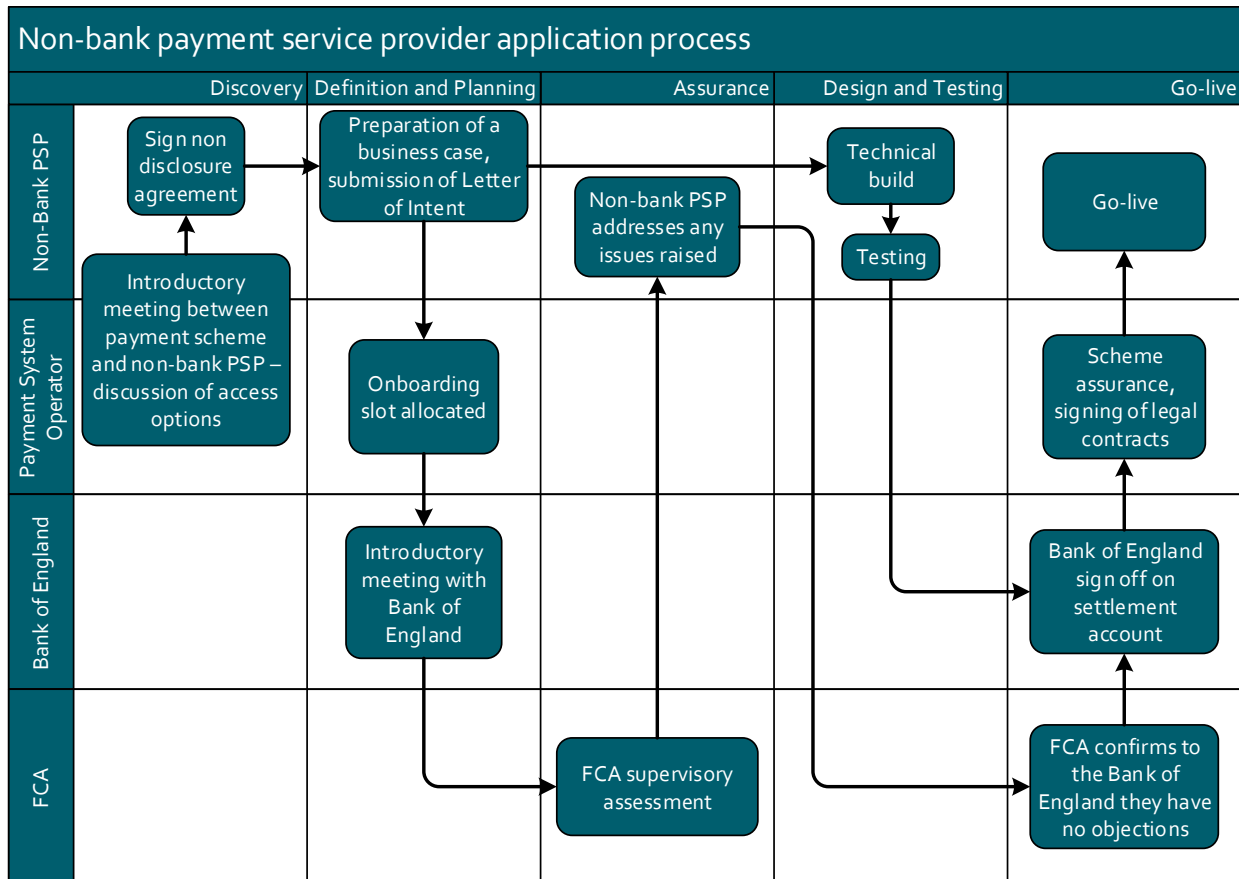
⁸ Further information on the FCA's [approach to supervision](#) can be found on their website.

⁹ 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 directly settling participant?

Non-bank PSPs interested in accessing the UK payment systems should first contact the relevant payment scheme to discuss access options and project scope, as well as viability of holding a settlement account for their business model.

The diagram below summarises the process to become a directly 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. 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 allocate a provisional on-boarding slot (working with the Bank).¹⁰ A predetermined number of these slots are made available by the Bank to the payment schemes each year. Payment schemes will work on a best efforts basis to work to a non-bank PSP's preferred timeframe, but demand from other institutions may limit their ability to do so.

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 meet with the non-bank PSP to understand more about their business model and how they intend to use their settlement account in RTGS. At the appropriate point, the Bank will inform the FCA that the non-bank PSP is ready to undergo the supervisory assessment.

Design, Test & Settlement and Regulatory work

At this stage, the non-bank PSP will have four concurrent but independent 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:

- If the firm is [eligible for a settlement account](#);
- If all required testing has been successfully completed;
- 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;
- Once the payment scheme provides notification that it has conducted all of its own assurance work and is also content for go-live.

Timelines

There are a number of constraints on the speed with which a non-bank PSP can be on-boarded to a payment scheme. This includes the availability of on-boarding slots at the Bank, and the FCA resourcing for taking the non-bank PSPs through the supervisory assessment.

We have found that it takes around 12 months from submission of a 'Letter of Intent' from a non-bank PSP to go-live. Precise timelines have been 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.

¹⁰ The Bank, as the CHAPS System Operator, does not allocate provisional on-boarding slots. Prior to provision of a slot, the Bank will undertake an 'On-boarding Readiness and Risk Assessment' further to a completed Gap Analysis being provided by the potential on-boarder. For further information, please contact the Bank directly. Contact details can be found on the Bank's [website](#).

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 2017. 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, a single amount is paid or received by each direct participant, such that their net position is zero for the next cycle.
Prefunding account	An account used to hold funds which underwrites a participant's largest intraday net debit position in a prefunded scheme (such as Bacs and FPS). The money held in this account guarantees settlement, and is only used in the event of default.
Completion Funds Account (CFA)	A prefunding account held at the Bank by a non-bank PSP containing <i>own funds</i> (corporate funds) only.
Settlement Collateralisation Account (SCA)	A prefunding account held at the Bank by a non-bank PSP containing <i>client funds</i> (relevant funds as defined in the Payment Services Regulations 2017) only.
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 2017.
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 2017 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 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 that are not related to the issuance of e-money) as long as the average monthly turnover does not exceed €3m. SEMIs are not 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 are not 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.