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A Review of Governance and Ownership of UK Payment Systems

An Accenture report commissioned by the Payment Systems Regulator

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1. EXECUTIVE SUMMARY

This report is the output of Accenture's work for the Payment Systems Regulator (PSR) to gather evidence on the governance and ownership arrangements that currently apply to the operation of UK payment systems[i,ii]. This evidence includes factual information about the arrangements, case studies on how they work in practice, and the views of industry participants. It is based on interviews with 23 industry participants in June and July 2014, on feedback at a workshop event held in July 2014 with 90 individuals from the industry, on the PSR's Call for Inputs[1] and on desk research.

The objective of the report is to inform the PSR's formal consultation process scheduled for the autumn 2014. The report does not contain advice on policy setting, nor imply advice for the industry.

Governance and Ownership of UK Payment Systems

The UK payments systems in scope of this report include the card systems – American Express (Amex), MasterCard, Visa Europe- and the interbank systems - Bacs, C&CCC, CHAPS, FPS and LINK.

The governance of the card systems has remained largely unchanged and without significant issue in the UK for many years. There have been some significant changes to their ownership arrangements; MasterCard became a public company in 2006, and Visa Europe remains a mutual while the wider Visa organisation became a public company, Visa Inc., in 2008. However, in contrast, the governance and ownership of the interbank systems have been under frequent scrutiny and change since the Cruickshank Report in 2000.

The Cruickshank Report[2] on Competition in the UK Banking Industry concluded, inter alia, that there was limited competition within payment systems, resulting in high charges for retailers and customers. While the specific recommendation of the report for primary legislation to establish an independent payment systems commission (PayCom) was not implemented, there have been a series of important developments since – including the Office of Fair Trading's (OFT) Payment System Task Force[3] (2004 – 2007), the set-up of the Payments Council in 2007, the 2011 Treasury Select Committee investigation[4] into cheques that broadened into a review of the Payments Council; and the Banking Act 2009 which placed the Bank of England's oversight of payment systems onto a statutory basis.

The net result of these developments is a landscape today where the individual payment system operators generally exist as separate not-for-profit companies, with strategic oversight from the Payments Council, and with processing infrastructure supplied by the Bank of England (CHAPS), by VocaLink (Bacs, FPS) and by iPSL/others (for C&CCC). In addition, the Treasury has recognised Bacs, CHAPS and FPS for statutory oversight by the Bank of England. LINK's infrastructure is also supplied and owned by VocaLink but LINK itself does not operate as a separate not-for-profit organisation, instead being a contractual agreement between its members. MasterCard and Amex are publicly listed companies and Visa Europe is a mutual membership organisation.

Many elements of the individual payment systems including their governance are working well on an operational, day-to-day basis. There are few major operational issues, which highlights good levels of operational governance and control: in 2013[5] CHAPS and FPS had 100% availability*, Bacs 99.8%; each payments system functioned normally during the Lehman's collapse and its aftermath in 2008. The payments systems have evolved in an environment of significant structural change in payment usage, where: cheque transaction volumes have declined 71% between 2000 – 2013, Bacs has increased by 72%, CHAPS by 42%, and cards by 180%6; during the same period, the industry has introduced Faster Payments (running at almost double the average daily volume of cheques in 2013) and the Paym and Current Account Switching Service (CASS) overlay services.

However, today's governance and ownership arrangements of interbank systems are the result of a series of incremental changes over the past 14 years since the Cruickshank Report, and in aggregate, together with the card payment systems, a complex and fragmented picture emerges across the industry.

Key Findings

In this report, we have highlighted six key findings that contribute to the complexity and fragmentation of the governance and ownership arrangements within the industry:

1. **Governance Complexity** – In the interbank systems, the not-for-profit governance models and the potential for conflicts of interest in decision making do not serve to promote competition effectively, either between systems or between their service users; the imperative to innovate is complicated by multiple governance processes to navigate and by funding questions; and service users incur significant overheads of time and cost in engaging with each of the payment systems.

   In addition, a confusing set of governance arrangements exist in the resourcing of interbank payment systems. Interbank payment systems staff are provided by the UK Payments Administration (UKPA), which the interbank payment systems believe restricts their own ability to act independently.

2. **Ownership and Control Complexity** – Different combinations of the same set of banks and building societies own or control each of the interbank payment systems and VocaLink. Ownership and control arrangements give the same banks and building societies control or significant influence across the industry, including a strong influence in the Payments Council. It is not clear whether this web of control and influence has a positive impact on competition, innovation and service user interests.

3. **Service User Representation** – Payment system affiliate groups and Payments Council user forums give service users the opportunity to engage with the industry, and many find them useful. However, their feedback is that the engagement tends to be more one way communication than one seeking inputs, which suggests that opportunities to innovate and service user interests may not be considered fully.

4. **Payment Operator and Processor Separation** – Separation of the payment systems from infrastructure, in particular Bacs and FPS from VocaLink, was originally intended to enable competition in payments infrastructure. While VocaLink has developed into a successful and innovative company, some feedback suggests that its core Bacs, LINK and FPS services should be kept separate from its other commercial activities in the interests of stability and resilience.

5. **The Role of the Payments Council and Strategy Setting** – Whilst the Payments Council clearly has delivered successful programmes such as FPS, and has a number of useful functions, both in its strategy setting and wider roles, feedback has consistently highlighted the need for change. Issues exist with the Payments Council's breadth of coverage, service user representation and increasingly odd governance arrangements with the interbank payment systems. This affects innovation, in terms of progressing a vision for change and in terms of the pace of change. Innovation within the industry is seen as slow and often reliant on external pressure instead of on the Payments Council's leadership.

6. **Governance and Innovation** – Retail bankers and product managers, who are close to consumers, do not appear closely engaged in interbank payment system governance. Instead, operational and wholesale skills are widespread, resulting in a focus on operational stability, but with less focus on innovation and service user interests.

Overall, the governance and ownership arrangements in the interbank domain are oriented towards technical and operational excellence, efficiency, continuity and integrity of the payment systems. Representation of service users and the need to foster inclusive decision-making across the industry appears to be secondary.

The governance and ownership of the three card payment systems is more commercially focused. Service user representation is less of a concern, although the weak position of merchants to negotiate terms and prices set by Visa Europe and MasterCard is a significant issue for them.

* However, after this report was completed, the RTGS system used by CHAPS had a serious, widely reported outage on 20 October 2014.

i Note: Throughout this document, footnotes (Roman numerals) have been used to add additional clarity to the text, end notes (digits) have been used for external references

ii In line with the PSR's guidelines, throughout this report, the terminology "payment system" is used in place of the more traditional terminology, payment scheme

Implications of governance and ownership arrangements for the PSR

These findings have implications for the PSR and its objectives to promote **competition**, **innovation** and **service user interests**. The implications are mainly focused on the interbank systems as competition and innovation in the cards payments systems are strongly evident, and, with the exception of merchant negotiating power in using the four-party networks, their service user interests appear to be taken into account by the systems.

From a **competition perspective**, the governance of interbank payment systems is not configured to promote competition between them – for example:

- Each interbank payment system serves distinct needs with limited overlap in the payment products and services they each provide to service users.
- Payment systems are governed by individual payment system operators who focus on service integrity, leading to decision making which prioritises continuity of service and resilience over competition.
- Interbank payment system operators are not-for-profit organisations with no objectives to compete.
- Where interaction between payment systems occurs it tends to be collaborative rather than competitive.

From an **innovation perspective**, the technical and operational excellence of the payment systems in innovating, and the appetite of the industry to innovate and make large investments are evident from the creation of FPS, CASS and Paym (and further back, Chip and PIN[iii]). However, the slow pace of innovation is also evident. Possible factors contributing to this include:

- The uncertainty, practicality and frequent iteration of the Payment Council's strategy and roadmap.
- Multiple governance processes across the industry to initiate and progress innovation, and issues relating to who bears the financial burden.
- Difficulties experienced by some service users in getting innovation ideas considered and adopted in affiliate groups, Payments Council user forums and in direct dialogue with payment systems.

Additionally, innovation within the industry is often reliant on external pressure (political, Governmental and regulatory) instead of on the Payments Council's leadership. This poses a number of questions:

- Do current governance arrangements create the right conditions for innovation, or do they stifle it?
- Should product managers or executives with customer- facing responsibilities, in particular from retail banking business units (as opposed to operations directors and wholesale bankers) who are close to consumers and their needs, be represented more on interbank payment system boards?
- Are payment system boards willing, or able, to invest in innovation beyond integrity and resilience of payment systems without the application of external pressure (normally from Government)?
- Are service user suggestions reaching boards, and in a way the boards can make informed decisions on them?
- What is an effective way to set strategy for the industry?

From a **service user perspective**, in the interbank payment systems, service user representation exists in various forms within different governance models (e.g. affiliate groups, customer forums, or ad hoc workshops). However, evidence suggests that engagement between the payments system operators and service users is of varying quality and effectiveness. Additionally, public representation is largely missing – while CASS has been promoted widely by banks, building societies and the Payments Council, this has been an exception. Generally, there is little industry communication to the public to raise the profile of industry activities, capabilities and successes such as FPS.

iii Chip and PIN (http://www.chipandpin.co.uk/) is the brand name adopted by the banking industries in the United Kingdom and Ireland for the rollout of the EMV smart card payment system for credit, debit and ATM cards.

2. INTRODUCTION

2.1 Report Content

The content of this report covers the current governance and ownership in the payment systems landscape, how these arrangements evolved to where they are today, key findings from the evidence gathering and case studies.

2.2 Background

Following the Call for Inputs (CFI)[1] issued by the FCA in April 2014, the PSR has mobilised and entered into an initial period of evidence gathering and informal engagement with industry participants. Formal consultation on its proposed regulatory approach is scheduled for the autumn of 2014. A key area of focus for the PSR during this initial period is a review of governance and ownership arrangements that currently apply to UK payment systems. This review is aimed at helping the PSR advance its three core objectives:

- Promoting effective competition in payment systems and the services they provide to service users.
- Promoting payment system development and innovation.
- Ensuring that payment systems are operated and developed in a way that takes account of and promotes the interests of service users.

The PSR has engaged Accenture to gather facts, evidence and stakeholder views on these arrangements and to record them in this report. The aim of this report is to:

- Help the PSR understand governance and ownership arrangements and how they have evolved to date.
- Illustrate how governance and ownership arrangements operate in practice by documenting stakeholders' views and experiences.
- Provide the PSR with evidence and facts on payment system ownership and governance, highlighting key areas of interest to inform the PSR formal consultations and policy setting.

2.3 Scope

The Treasury will in due course designate which payment systems will come under the PSR's scope and regulatory remit. In the meantime, this report focuses on the following Payment Systems as instructed by the PSR:

- Bacs
- CHAPS
- Cheque and Credit Clearing Company (C&CCC)[iv]
- Faster Payments Service (FPS)
- LINK
- Amex
- MasterCard
- Visa Europe

Stakeholder organisations interviewed include each of the payment systems, a relevant sample of their users (bank and building society owners, challenger banks, other payment service providers and Government), infrastructure providers and payment industry bodies:

Payment systems	Payment system users	Infrastructure providers	Industry bodies
• Amex	• Barclays	• VocaLink	• British Banking Association
• Bacs	• Government Banking Service		• Payments Council
• CHAPS	• HSBC		• UK Cards Association
• C&CCC	• Lloyds Banking Group		
• FPS	• Metro Bank		
• LINK	• Nationwide		
• MasterCard	• PayPal		
• Visa Europe	• RBS/NatWest		
	• Sainsbury's Bank		
	• Tesco Bank		
	• TSB		

The interview and analysis approach is described in Appendix A. The following sections of this report document facts, views and stakeholder opinions[v] on each in-scope payment system.

Note: we did not interview the Bank of England for this report and have not covered the governance arrangements of the Bank of England RTGS system used by CHAPS. The Bank of England responded to the CFI and attended the governance workshop, and is engaging directly with the PSR. As such, references to the Bank of England in this report are limited to its statutory oversight role and the impact this has had on ownership and governance arrangements in the industry.

iv BBCCL, the Belfast Bankers' Clearing Company Ltd, C&CCC's equivalent in Northern Ireland, is out of scope for this report.

v For confidentiality reasons, we have not attributed views and opinions to individual stakeholders within this report.

3. UK PAYMENT SYSTEMS: GOVERNANCE AND OWNERSHIP IN PRACTICE

3.1 The Current Payment Systems Landscape

The detail of the governance and ownership arrangements for each of the key organisations within the UK payment landscape (including the eight payment systems) is described in Appendix B, covering:

- Recent changes
- Legal status
- Board governance (including structure and voting processes)
- Membership/participation
- Funding (ongoing operations, investments)
- Governance processes

It is clear that elements of the governance arrangements of each of the eight individual payment systems are functioning effectively on an operational, day-to-day basis. Individual governance arrangements are succeeding in maintaining payment system performance, despite the fact the systems operate in a complex and changing environment, where even the long established systems such as Bacs and C&CCC still have to address ongoing pipelines of change. However, it is also clear that governance of interbank systems does not focus on driving competition, while the way it addresses innovation and service user interests has room for improvement.

Not only does each system have its own slightly different governance arrangements but they also run different engagement and representation models (channels for engaging with payment system users on strategy, change, rules etc). Whilst this is in part due to the differences in core service offerings between the payment systems, this matters because service users, including the major banks, challenger banks, the Government and others, tend to use all, or the majority of the eight systems as a set, and navigating their way across them is complex. Figure 3.1 highlights this complexity by showing the volume and crossover of direct payment system participants across the industry.

In aggregate, the governance arrangements of the eight payment systems, in combination with arrangements of other relevant industry bodies such as the Payments Council, present a complex and fragmented picture.

This complexity and fragmentation also matters because payment industry changes and initiatives increasingly impact multiple payment systems. Whilst recent success such as Paym and CASS have shown that the industry is capable of collaborating to deliver change, the pace of change is slow and tends to require external impetus (such as Government or regulatory scrutiny). New initiatives and challenges on the horizon such as "richer data", ISO 20022, cybercrime and ring-fencing all cross multiple payment systems, and the current governance arrangements do not appear optimal to deliver them efficiently.

Each of the interbank payment system operators interact on day-to-day topics including central industry initiatives, seeing themselves as collaborative rather than competitive with other interbank payment systems (with the exception of LINK). Both LINK and the card payment systems however, are seen by stakeholders as competing not only against each other but also against the interbank systems. This can complicate cross-system collaboration and communication.

A further observation is that governance, in particular for interbank payment systems, is focused mainly on maintaining stable operations of UK payment systems, and not on innovation at the industry core. Instead, the impetus comes from external bodies or payment systems participants to provide the innovation push for the industry. Therefore, it is possible that there remains untapped potential within the interbank payment systems.

As an example of this focus on system stability, in 2012 Bacs, CHAPS and FPS were mandated by the Bank of England to seek to comply with the CPSS-IOSCO[7] Principles for Financial Market Infrastructures, now widely adopted by payment systems internationally. The payment systems operators have accordingly made changes to strengthen boards, adopting principles and best practice typically seen in publicly listed organisations, i.e. appointing independent chairs and directors (albeit with a specific public interest remit).

Continuity and integrity of payment systems is in the public interest, as any instance of payment system outage such as ATMs being unavailable immediately generates negative press and social media coverage. Recent high profile outages have been confined to individual bank systems (impacting only their customers) but, were there to be an outage in the interbank core, the impact would be magnified throughout the whole economy. This serves to highlight the importance of maintaining a stable core and reducing risk – although while the focus of payment system governance on integrity and stability is understandable, the focus on innovation is missing.

However, a consistent theme emerging from interviewee comments is a willingness and appetite within the payment systems and stakeholders to change. This mind-set will be beneficial to the PSR as it sets and consults on policies for the industry.

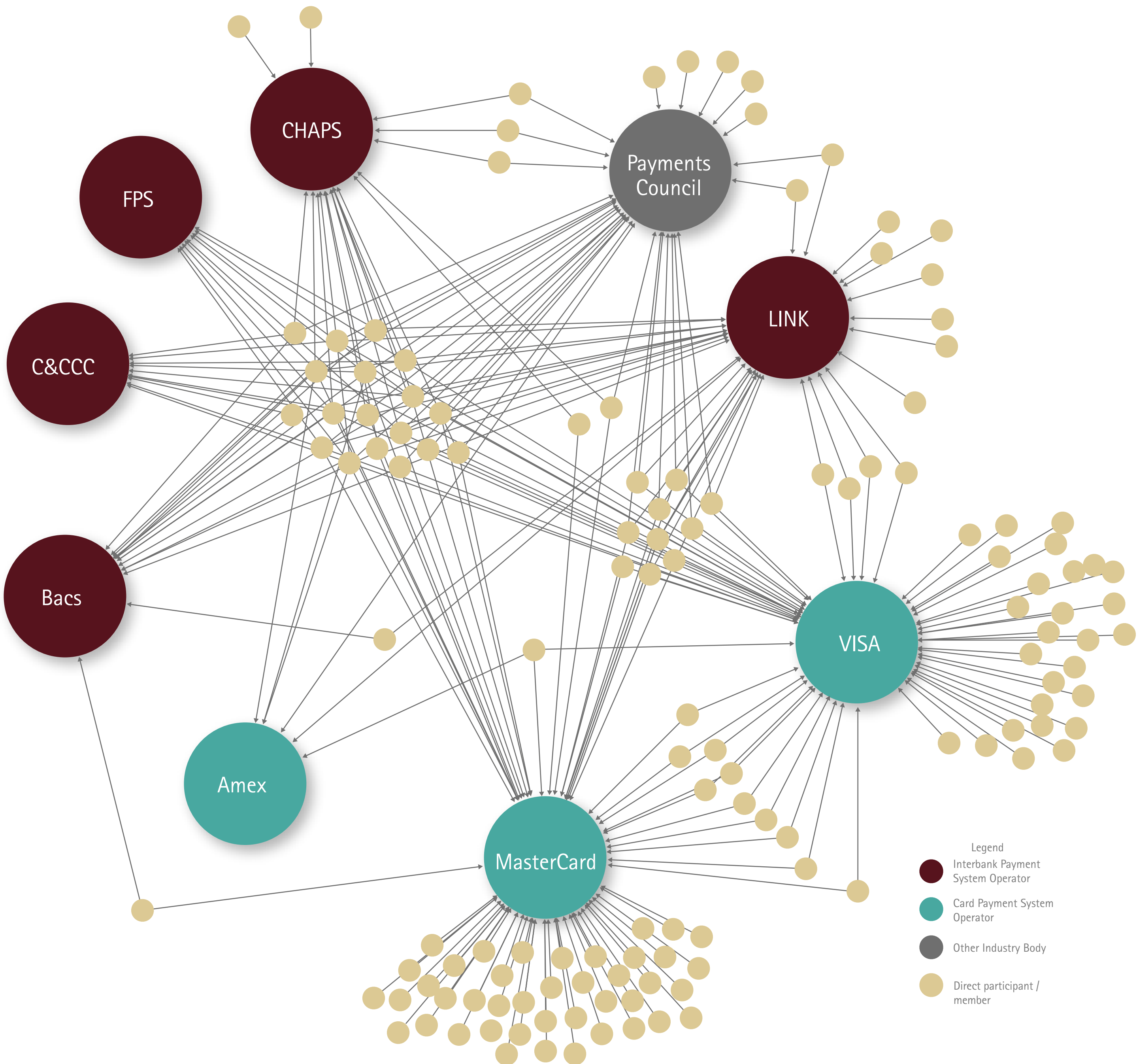


Figure 3.1 – Accenture mapping of direct payment system participants/licensees and Payments Council members across the payments landscape, created through analysis of data provided by each organisation. Each node represents a particular direct participant of the payment system (or full member in the instance of the Payments Council). Nodes with multiple links highlight organisations which are direct participants/members of more than one in scope organisation

3.2 Governance and Ownership Developments in UK Payments Systems

Looking back over the past 14 years, the governance and ownership of UK payments systems have evolved in response to regulatory and Government scrutiny and actions, in addition to the evolution of the economy and banking industry. Figure 3.2 shows the key influences on these arrangements over time.

3.2.1 Key regulatory and Government developments

The main regulatory and Government drivers for change have been:

1. The 2000 Cruickshank Report
2. The Office of Fair Trading and the Payment Systems Task Force
3. Bank of England Oversight
4. Acts of Parliament
5. The Parliamentary Treasury Select Committee and HM Treasury
6. CPSS-IOSCO Principles for Financial Market Infrastructures

There are other influences on payment system governance and ownership, such as the Independent Commission on Banking Standards and the Parliamentary Commission on Banking Standards, but this list identifies the key drivers.

The 2000 Cruickshank Report

The Cruickshank report was published in March 2000. It was commissioned by the Government in November 1998 to provide an independent review of the UK banking sector. The scope of the review included the examination of the levels of innovation, competition and efficiency both within the industry and in comparison to international standards.

Cruickshank reported that the major banks controlled the payment systems (ATMs, credit and debit card payment networks, cheques and direct debits, standing orders and high value payments) and these systems were unregulated. As a result, he concluded that there was limited competition within the payment systems resulting in high charges for retailers and customers.

Cruickshank recommended that the Government should introduce primary legislation to establish an independent payment systems commission ("PayCom") and that the Treasury should set up a licensing regime for the money transmission systems which would be monitored by PayCom.

In response, the Chancellor of the Exchequer announced in his budget speech on 21 March 2000 that legislation would be introduced if necessary to open the payment systems to increased competition. However, in practice, the Government consulted with the banking industry to take action, using the Office of Fair Trading (OFT) to monitor progress. The legislation envisaged by Cruickshank was not implemented, but the report started the process of Government scrutiny of UK payments systems which has continued since 2000 and which led eventually to the formation of the PSR in April 2014.

It has also prompted the banking industry to take a series of actions over the past 10 years on the governance of ownership payment systems (described in later sections).

The Office of Fair Trading and the Payment Systems Task Force

In May 2003, the OFT published the UK Payment Systems report[8] which indicated the industry was making progress since the Cruickshank report, but competition issues still remained, including issues involving governance arrangements. In December 2003, the Treasury tasked the OFT to take on an enhanced role for a four year period to resolve these outstanding competition issues. In March 2004, the OFT announced the Payments Systems Task Force (PSTF), a joint Government-industry body under its chairmanship.

The PSTF set up a number of working groups, including the Bacs Access and Governance Working Group, the Bacs Payment Schemes Limited (BPSL) Innovation Working Group, the LINK Access and Governance Working Group and the Cheque Working Group. These working groups initiated a number of changes including the creation of the Faster Payments Service.

Dissolved in 2007, the PSTF was replaced by the Payments Council, with strategic oversight for ensuring payment systems work in the UK.

To follow up on the PSTF, in 2009[9] the OFT conducted its final review of progress of the Payments Council against its objectives.

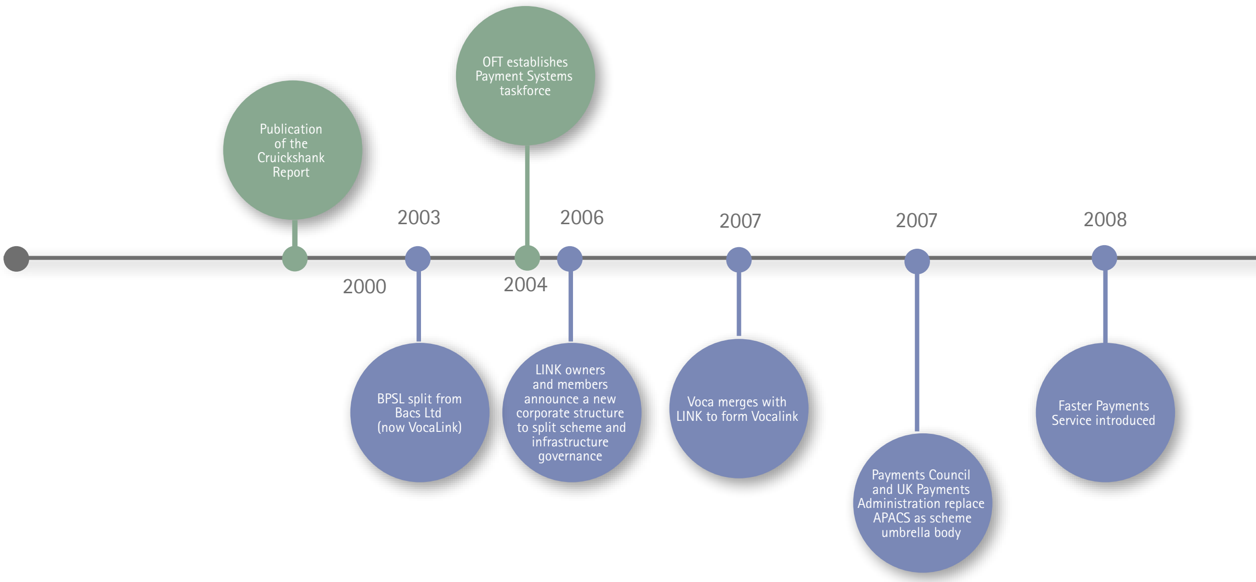


Figure 3.2 – Key influences in governance and ownership arrangements over time

The Bank of England Oversight

In common with many other central banks, the Bank of England has a long-standing role in the oversight of payment systems. For example, its role was set out in the 1997 "Tri-partite" memorandum of understanding between the Bank, the FSA and the Treasury. The Bank's oversight responsibility moved to a statutory basis following the Banking Act 2009. The Bank's oversight focuses on the traditional areas associated with financial stability and relates closely to the Bank's operational roles. This includes the Bank's role as settlement agent for central bank money and as the ultimate provider of liquidity to the banking system and the economy more widely. Formal oversight of the competitive environment for payment systems, their participants and their users is a matter it leaves to the competition authorities. Unlike the PSR's remit, the Bank's regime also encompasses the payment arrangements embedded within Securities Settlement Systems and Recognised Clearing Houses[10].

The Treasury has recognised Bacs, CHAPS and Faster Payments for statutory oversight by the Bank.

In November 2000, the Bank of England published "Oversight of Payment Systems[11]" aimed at clarifying its role in this area, in part due to the publication of the EU's Settlement Finality Directive in 1999[12] (see next section) when it became the UK designating authority for payment systems. Each year thereafter, it published an annual Payment Systems Oversight Report explaining status, progress and plans for its oversight role. In 2013, the Bank assumed new responsibilities for the supervision of central counterparties and central securities settlement systems and has started to report on these new responsibilities, together with the recognised payment systems, in the March 2014 Supervision of Financial Market Infrastructures annual report[13].

In April 2010, HM Treasury was given a reserve power under the Financial Services Act 2010 to extend the reach of the Bank's oversight powers to entities (e.g. VocaLink) that provide technology, communication or other services (service providers) to the operators of recognised payment systems. The reserve power can be activated by HM Treasury if it were decided that the Bank's oversight would be more effective if requirements were also imposed on service providers, rather than just on system operators. This reserve power has not been used so far[14].

Acts of Parliament

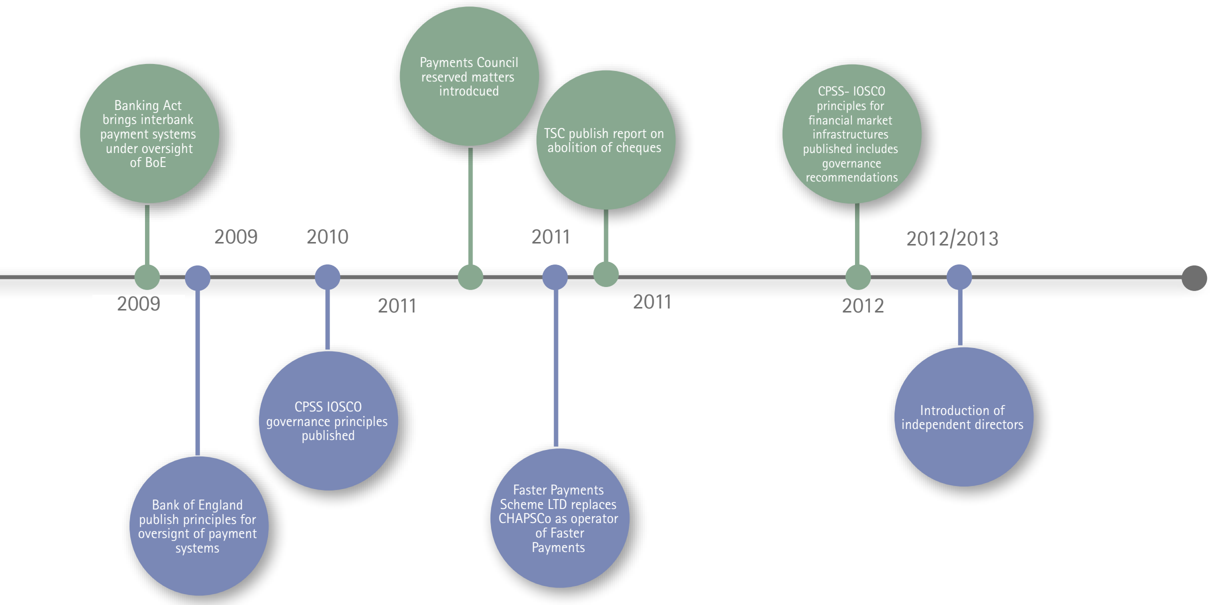
Acts of Parliament relevant to governance and ownership of UK payment systems include:

- Financial Markets and Insolvency (Settlement Finality) Regulations 1999 – gave the Bank of England statutory power to designate payment system arrangements to benefit from legal protection under the EU's Settlement Finality Directive. Bacs, CHAPS, C&CCC and Faster Payments are all designated under the regulations.
- The Banking Act 2009 (Part 5) gave the Bank of England formal statutory oversight of UK payment systems recognised by HM Treasury.
- The Financial Services (Banking Reform) Act 2013 establishing the Payments System Regulator from 1 April 2014. It also established a Special Administration Regime[15] for Payment Systems which ensures that essential payment services will continue to be provided in the event that an operator or the key service provider to the operator of a systemically important payment or settlement system becomes, or is likely to become, insolvent. The Act was also introduced with the aim of establishing a more resilient, stable, and competitive banking sector, to reduce the severity of a future financial crisis, and to protect taxpayers in the event of such a crisis. This includes ring-fencing of everyday retail banking deposit-taking activities from investment and wholesale banking, with implications for payment systems.

Parliamentary Treasury Select Committee and HM Treasury

The Payments Council came under the scrutiny of the Treasury Select Committee (TSC) through its publication of a report[16] on the use of cheques in August 2011. This forced the Payments Council to reverse its decision to close cheque clearing in 2018. The TSC also made recommendations to change the governance of the Payments Council to strengthen the voice of the consumer in its decisions.

Following the TSC report on cheques, HM Treasury published two consultations "Setting the strategy for UK payments"[17] in July 2012 and "Opening up UK payments"[18] in March 2013. These have led to the implementation of the PSR.



CPSS-IOSCO Principles for Financial Market Infrastructures (PFMIs)

The Committee on Payment and Settlement Systems (CPSS) established a Task Force in 1998 to consider what principles should govern the operation of payment systems. This led to the publication in 2000 of the "Core Principles for Systemically Important Payment Systems". More recently, these were updated and consolidated with similar standards for Settlement Systems and Clearing Houses. The updated PFMIs were published in April 2012 by the CPSS and the Technical Committee of the International Organization of Securities Commissions (CPSS-IOSCO)[19]. Prior to the update, the Bank of England had introduced four additional principles domestically to cover tiering (rules on direct and indirect participants), business risks, outsourcing and interdependencies with other systems.

The Bank of England adopted these updated PFMIs in 2012, in agreement with HM Treasury, replacing the original principles it had adopted under the Banking Reform Act 2009. The Bank of England obliges Bacs, CHAPS and FPS to seek to comply with these principles and assess themselves against the PFMIs annually.

3.2.2 Key economic and industry drivers

The economic and industry drivers influencing payment system governance and ownership have been:

1. Consolidation and Restructuring of the UK Banking Industry
2. Changing Mix of Payments and Growth of Electronic Transactions

Consolidation and Restructuring of the UK Banking Industry

The consolidation and restructuring of the banking industry since the banking crisis in 2007 have led to changes and consolidation of the ownership of payment systems. For example, LBG acquired HBOS, Virgin Money acquired Northern Rock, RBS has sold Worldpay (cards acquiring), new banks have entered (such as Metro Bank) and a number of divestments have also created new banks.

In addition, in payments infrastructure, VocaLink has been created from the merger of Voca and LINK and, back in 2000, iPSL was created by a number of the major banks seeking to consolidate cheque processing, initially as a joint venture between Lloyds, Barclays and Unisys, with HSBC joining in 2001.

Changing Mix of Payments and Growth of Electronic Transactions

Figure 3.3 shows the transaction volumes and values of UK payment systems in 2000 and 2013. The figures clearly show the enormous rise in usage of electronic, card payments and ATM (LINK) withdrawals over this period, the decline of cheques and the arrival and increasing importance of FPS.

These increases demonstrate the importance of the payment systems to the UK economy, and why, inter alia, their governance and ownership has been of key interest to the Government and to the banking industry since the Cruickshank report in 2000.

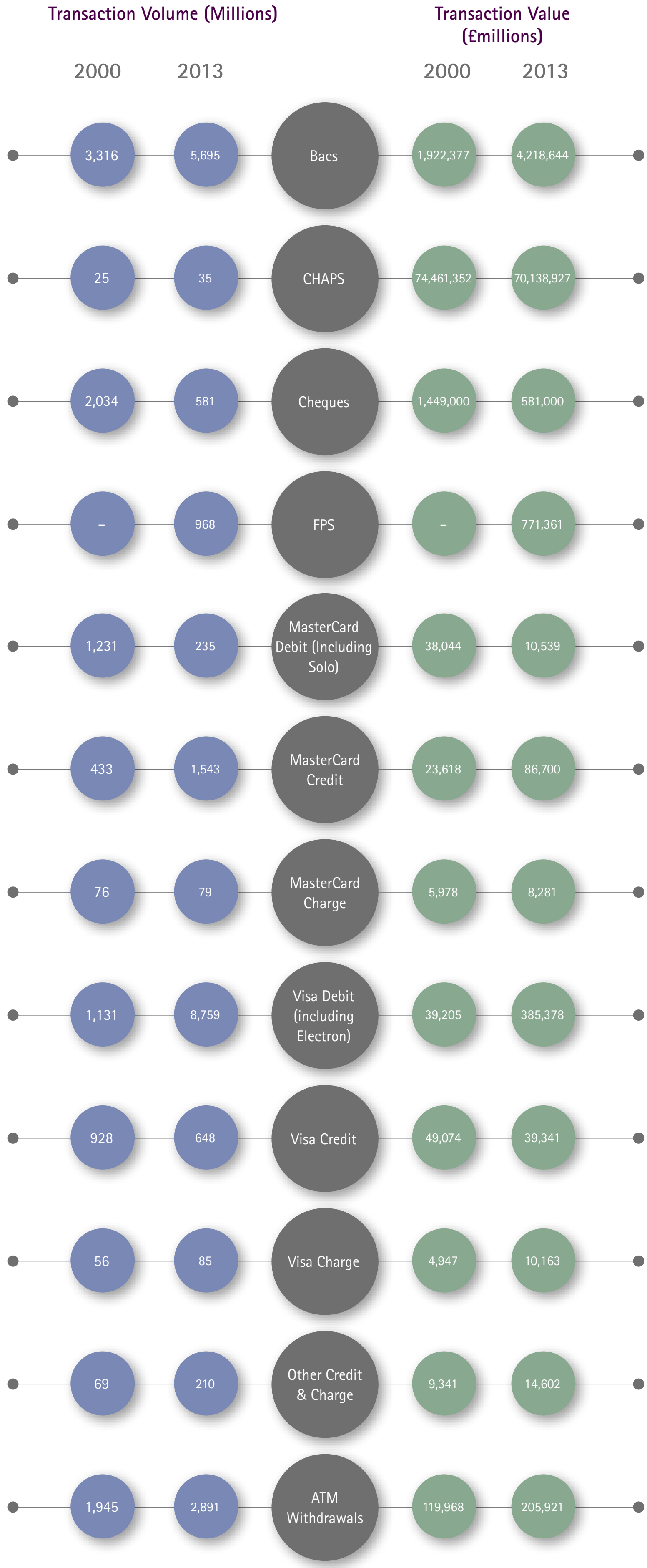


Figure 3.3 – Payment System Volumes and Values 2000 and 2013

Sources: UK Payment Statistics 2010 and 2014, Payments Council

3.2.3 Impacts of regulatory and Government change

Each of these regulatory, Government, economic and industry drivers has had an impact on the governance and ownership of the payment systems and on the Payments Council. The evolution of this impact since 2000 on each is as follows:

The Payments Council

The Payments Council was formed in 2007 based on a proposal from APACS, the trade body at the time for UK payments, to the OFT in discussion and with the support of the OFT Payment Systems Taskforce. In effect, it was created as a permanent body taking over from the OFT's Payments System Task Force which was dissolved the same year. Its board was set up with an independent chair and four independent directors, alongside 11 industry directors.

The Payments Council took over the majority of activities of APACS, which was wound up in 2009. APACS' remaining activities concerning payment cards and fraud were transferred to the UK Cards Association and Financial Fraud Action UK, while its service provider functions were transferred to UK Payments Administration Ltd.

In March 2009 the OFT undertook a planned review of the Payments Council. It recommended that the Payments Council create a new class of membership for bodies that are not payment service providers, and assign two board directors from this membership. An Associate Membership class was introduced, but the board structure remained unchanged. The OFT also noted the slow pace of adoption of the new Faster Payments service and urged the Payments Council to demonstrate leadership in encouraging fuller adoption among its members, and to publish metrics showing industry performance on key issues.

Following these concerns raised by the OFT, and a review[26] in 2010/11 of the governance of Bacs, CHAPS and Faster Payments (which included a proposal for an overarching board to sit above the electronic payment system operators), the Bank of England raised concerns that there was a 'strategic gap' in the way the Payments Council operated. Subsequent to this report and as part of its own broader review on strategic leadership and governance of the payment systems, the Payments Council board did not support the creation of an additional overarching body, but, after consultation with the payment systems and the Bank of England, in 2011, it agreed a list of reserved matters for the Payments Council board concerning Bacs, CHAPS and Faster Payments and a series of key performance indicators to monitor was drawn up. The purpose of these "reserved matters" was to strengthen the Payments Council's ability to mandate strategic change. The matters were drawn up as an alternative to making the payment systems direct subsidiaries of the Payments Council, which might have resulted in the Payments Council itself falling within the scope of the Bank of England's oversight regime.

VocaLink

After a governance review in response to the industry consultation after the Cruickshank report, the UK banks and building societies who owned Bacs Ltd, split out Bacs Payment Schemes Limited (BPSL) in December 2003 from Bacs Ltd. Bacs Ltd became a commercial infrastructure services company, still owned by the UK banks and building societies who were members of Bacs, to provide payment processing and related services. Bacs Ltd was renamed Voca Ltd in October 2004.

Subsequently, in July 2007, Voca merged with LINK to become VocaLink as a result of their successful joint bid to set up and run the Faster Payments system. VocaLink remains wholly owned by a number of UK banks and building societies.

VocaLink has periodically investigated merger opportunities with peers in the payments industry, but these opportunities have not proceeded for a variety of commercial, regulatory and political reasons.

Bacs Payment Schemes Limited

BPSL has been separate from Bacs Ltd, now VocaLink, since 2003, and is run as a not-for-profit body with members from the banking industry who exchange Bacs payments. It promotes the use of automated payment systems and governs the rules of the Bacs payment system.

In September 2004, the PSTF set up the Bacs Access and Governance Working Group to consider issues involving access restrictions to the Bacs payment system and the governance of BPSL. In March 2006 this PSTF Working Group recommended that BPSL establish an Affiliates Interest Group to allow users to raise issues directly with the BPSL board. This included introducing a formal consultation process for major potential changes with the objective of promoting continued development of the payment system, ensuring it provides an efficient and effective service for the future.

BPSL was recognised for statutory oversight by the Bank of England under the Banking Act 2009. In 2012, the Bank of England raised observations on BPSL governance to ensure sufficient priority and accountability for systemic risk management. This led (amongst other things) to the appointment of an independent chair and two independent directors on the board in 2013.

BPSL is obliged by the Bank of England to seek to comply with the CPSS-IOSCO PFMIs, and to conduct a self-assessment against them annually.

In addition to its core service, Bacs has acquired additional responsibilities for CASS, CISA and the Electronic Sort Code Directory (called the Extended Industry Sort Code Directory - EISCD).

CHAPS

CHAPS is the real time sterling settlement mechanism and sees itself as an enabler of London's competitiveness in international financial services. It was recognised for statutory oversight by the Bank of England under the Banking Act 2009.

In 2012 the Bank of England had the same governance concerns for CHAPS as it had for Bacs, and applied the same remedy which led to the appointment of an independent chair and two independent directors to the board. CHAPS is also obliged by the Bank of England to seek to comply with the CPSS-IOSCO PMFIs, and to conduct a self-assessment against them annually.

In February 2012, in response to the Bank of England, the CHAPS board agreed amendments to the CHAPS Rules to ensure that systemically important banks should become direct participants rather than participate indirectly[20]. The CHAPS board monitors these tiering rules and requests indirect participants who exceed rolling annual value thresholds to become direct participants, to reduce their payment value or otherwise mitigate the risk.

Cheque and Credit Clearing Company (C&CCC)

C&CCC has largely been unaffected by the Government focus on payments systems over the past 14 years aside from the introduction of "2-4-6"[vi] processing rules. The PSTF Cheque Working Group issued its report in November 2006 and concluded there was not a strong case to completely rebuild the cheque clearing system. The decision to close cheque clearing in 2018, subject to alternatives being available was made by the Payments Council[21], and subsequently reversed by them following TSC and HM Treasury intervention - C&CCC had limited involvement in this process.

In response to this reversal, in December 2013, the C&CCC board reached a decision to adopt, as its strategy, a new Future Clearing Model which would deliver its overall objectives to speed up clearing, utilising an image based processing system, replacing the current, largely paper based processing approach.

C&CCC is currently undertaking the next stage of this work to design and agree a specification for the Future Clearing Model which will enable it to give a better idea as to how it would introduce an image based solution in the UK and begin to determine implications and timescales required to build it.

vi Two days after the beneficiary bank account is credited with the cheque, interest starts accruing, or a debit balance is reduced; four days after, the funds can be withdrawn; six days after, the transaction is irrevocable and cannot be debited because the cheque is returned unpaid (unless the beneficiary is a knowing party to a fraud). For savings accounts '2-6-6' applies.

Faster Payments Service (FPS)

In May 2005, the PSTF BPSL Innovation Working Group announced an agreement with the Bacs member banks and building societies to set up the Faster Payments Service[22]. APACS then set up an implementation group to determine the requirements and solution for the new service, and ran a tender process to select a contractor to design, build and operate the new service.

Voca and LINK joined forces to respond to the tender and won. Subsequently, this led to their merger to form VocaLink. FPS went live in May 2008, six months later than planned originally. The Payments Council managed the delivery process, working with VocaLink to deliver it and across the industry with the FPS members to connect with it.

Originally, CHAPS was selected by APACS to manage FPS. A subsequent review by PwC on governance[23], recommended that FPS be set up as a separate payment system company with its own board, a recommendation that was supported by the Bank of England and the Payments Council. The Payments Council and CHAPS Co set up the new FPS payment system company in August 2011.

In 2012 the Bank of England asked for the same governance improvements to FPS as it did for CHAPS and Bacs - the appointment of an independent chair and independent directors to the board. FPS is also obliged by the Bank of England to seek to comply with the CPSS-IOSCO PMFIs, and to conduct a self-assessment against them annually.

FPS continues to grow, with a number of organisations considering becoming direct participants. There is also an ongoing collaboration between FPS and CHAPS to investigate how to support migration of CHAPS low value payments to FPS (a process which has been slow to happen for a range of reasons).

LINK

The PSTF set up a LINK Access and Governance Working Group to look at the ability of organisations to access the LINK ATM payment system, the governance arrangements of LINK, the potential impact of increasing the separation between the LINK ATM payment system and the supporting infrastructure, and the representation of users (including consumers).

In April 2006 this PSTF Working Group recommended[24] that the LINK processing company should open up ownership to bodies that were not currently owners (i.e. not be limited to banks and building societies, matching the rules for payment system membership adopted in 2000), introduce independent directors to its board and make the new board structure more efficient and streamlined. It also recommended that the degree of separation between the LINK payment system and LINK processing company be increased and formalised through a service level agreement between the two, with separate reporting lines to the LINK chief executive.

LINK has opened up its membership which has supported the growth of independent ATM operators, and it also set up a standing committee on consumer issues to engage more with consumers. LINK established the Network Member Council (NMC) to manage the LINK payment system, but the other governance recommendations put forward by the PSTF were superseded in July 2007 when LINK merged[25] with Voca. Today, LINK infrastructure is part of VocaLink with the LINK payment system itself accountable to its members.

Card Payment System Operators

Amex, MasterCard and Visa Europe's governance and ownership arrangements have been largely unaffected by the regulatory, Government, economic and industry drivers described in this section.

Visa Europe is a mutual, owned by financial institutions across Europe (including UK banks and building societies) and Visa UK is a mutual owned by Visa Europe's UK members, created to give the UK market specific focus and decision making powers. The rest of the global Visa organisation demutualised in 2004. MasterCard, originally a mutual owned by its member banks and building societies, became a public company in 2006 when the original members became "customers" or licensees of MasterCard. Amex has always been a public listed company.

Visa Europe

Visa Europe, unlike the interbank payment systems, participates in its own settlement through a relationship with a commercial bank; however, in 2013 Visa Europe changed the settlement of its UK domestic transactions, moving from its provider to the Bank of England. Its UK National Net Settlement Service is now settled directly via the Bank of England's Real Time Gross Settlement (RTGS) system.

The move was initiated by Visa Europe internal decisions, aimed at reducing the intraday settlement risk and to manage its liquidity more effectively to benefit both Visa Europe and its members. Visa Europe Members in the UK are not required to participate directly in the Bank of England's RTGS solution even if they hold a Bank of England settlement account. Instead, members, including those without a Bank of England account may use alternate settlement arrangements.

Visa Europe is currently restructuring its governance in an attempt to simplify it across three areas: Board and Committee Governance, Local Market Organisation and Internal Governance. This action follows a review of the board governance models currently in place where, due to the historic size of the UK market, Visa Europe have held a separate UK specific board and governance model in addition to the Visa Europe board. Visa Europe believes this country-specific board model has worked well to drive the payment system to better serve the needs of the UK environment. As part of its governance review, Visa Europe is planning to replicate this country specific model in a number of its other sub-regions (within Europe), in addition to the existing overall Visa Europe board and governance model.

3.3 Key Findings

In the previous sections we have explained how the governance arrangements of UK payments systems have developed to where they are today since the Cruickshank report in 2000 (details of the current governance of each payment system can be found in Appendix B).

The remaining chapters of this report explain the key findings we have identified during our analysis which highlight the complexities and fragmentation of these governance arrangements and the governance landscape. We have grouped these insights into six findings of governance and ownership arrangements of UK payment systems:

1. Governance Complexity
2. Ownership and Control Complexity
3. Service User Representation
4. Payment Operator and Processor Separation
5. The Role of the Payments Council and Strategy Setting
6. Governance and Innovation

Descriptions of each of these findings follow, including stakeholder viewpoints relevant to them.

4. GOVERNANCE COMPLEXITY

Our analysis has shown that governance arrangements across the payment systems landscape are complex and challenging (to even the most experienced industry stakeholder). Key areas that demonstrate this complexity are:

1. Different governance models are used by different payment system operators.
2. Governance arrangements within each payment system can vary, even for those employing the same governance model.
3. Potential conflicts of interest exist between organisations and individuals in the governance and ownership arrangements of UK payment systems.
4. Current governance arrangements add a significant overhead to organisations who participate.

This complexity creates issues in service user representation, innovation delivery and conflicts of interest.

4.1 Governance Models

Within the eight in-scope payment systems, three distinct models are in operation:

(1) Operator Model

In use by FPS, CHAPS, Bacs, C&CCC and Visa Europe/UK[vii], this is the most commonly used governance model. Each system is managed as a separate company owned (or guaranteed/controlled) by the direct participants of the payment system. As owner, each organisation is provided with a nominal share (except Bacs and FPS where direct participants are members of a company limited by guarantee).

The payment systems employing this model are not-for-profit/cost recovery companies with any fees generated by participation used to fund central management of the system and overheads. Some payment systems manage a central contract with the infrastructure provider (e.g. FPS with VocaLink) and contract directly with their members; others additionally require a member to contract directly with the infrastructure/VocaLink (e.g. Bacs, where members pay fees directly to VocaLink as well as to BPSL).

Visa Europe offers its own authorisation and settlement infrastructure which its members are obliged to use for cross border transactions. Visa Europe members can also use their own processing arrangements, so, for example, while the UK members tend to use Visa Europe infrastructure for domestic transactions, the French banks choose to use their own processor in France such as Cartes Bancaires.

Any surplus revenue made by the payment system is held in reserve or put back into the business to help drive specific central change agendas such as system upgrades. Should this revenue surplus be insufficient to cover investment requirements, the payment system calls on its direct participants to provide additional funds.

The board of each payment system under this governance model is mainly made up of directors who are individuals from each of the direct participants or members using the payment system. In addition, the boards also contain independent chairs/directors and in some cases, e.g. FPS, an executive director.

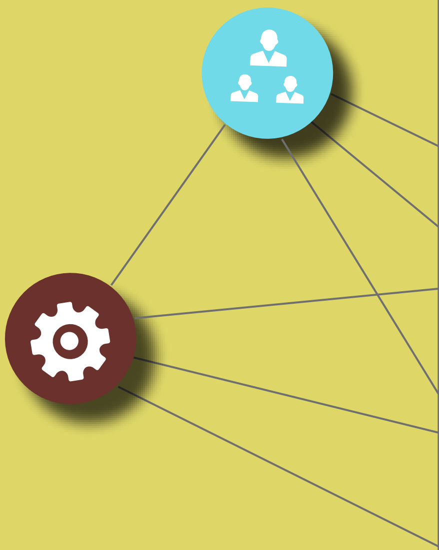
One key feature of this governance model is that each of the board directors has fiduciary duties towards the payment system company. In practice this means that, whilst participants of the payment system have employees on the board, these board directors have a responsibility to make decisions for the good of the overall payment system, even when this does not align to their employer's objectives. It also means that the board contains directors who may work for competing institutions who use the payment system to provide competing services, e.g. using CHAPS to compete on the provision of sterling clearing services for end users.

(2) Members Council

In contrast to the Operator model of governance, a Members Council payment system is not a company in its own right either limited by shareholding or guarantee. LINK is the only payment system of the eight to operate under this model, and is created through a contractual arrangement between its Network Members and VocaLink.

The key feature of this governance model is that each of the (currently 37) members of LINK holds a seat on the LINK Network Members Council (NMC). Individuals are placed on the NMC to represent the needs and wishes of their employers (a LINK member) and have no fiduciary duties towards the payment system itself. There is no requirement on the NMC to make decisions for the benefit of LINK as a whole and there is no constraint on members voting for decisions in their own self-interest. Council voting on decisions is allocated based on volume, weighting the voting power in favour of the major issuers, and requiring an 80% majority to pass the most significant motions.

In addition to differences with its structure and its representation arrangements, the other key feature of this governance model is the ownership of payment system assets. In the example of LINK, VocaLink provide the infrastructure and also owns the rights to the LINK brand and its IPR. VocaLink has no voting power on the NMC, but has formal veto rights on any changes to the payment system that would affect its interests.



(3) Other Models

Neither MasterCard nor Amex utilise an Operator or Members Council model. Both are global organisations, publicly owned by shareholders internationally, and governed by boards of independent directors for decision making. Both organisations employ fiduciary duties at board level and are focused on driving company performance for the benefit of their shareholders.

Each organisation employs a very different business model - MasterCard (like Visa Europe) a four-party model, and Amex a three-party model.

Whilst MasterCard has transitioned from a mutual, member-owned organisation into a publicly listed company, and listed, originally with different classes of share ownership (with some reserved for its original members) with different voting rights, American Express is a long established publicly listed company with no history of being a mutual. Licensees and customers of Amex are not involved in the governance arrangements of the payment system.

Both payment systems have relationship management processes and communication channels in place for their licensees and customers.

vii Visa Europe and Visa UK are mutual organisations wholly independent of Visa Inc. which provides them with an exclusive, irrevocable perpetual licence to operate within Europe utilising the Visa brand

4.2 Differences in Governance Arrangements

In addition to employing different governance models, there are key differences between the governance processes of the different payment system operators.

4.2.1 Alternate non-executive directors

Most payment system boards use the concept of alternate directors to provide cover for board directors when they are unable to attend a board meeting. An alternate is nominated by the board director from their own organisation and, whilst some are formally listed as a board director at Companies House, they all will take on all the responsibilities of their "sponsor" director.

Recently, however, CHAPS has decided to remove the concept of alternates from its board structure. This means that if a board director is unable to attend a meeting, their seat remains unused (exceptions to this rule are in calling an emergency CHAPS board meeting where an emergency director is allowed to be nominated and stand in for directors unable to attend, or in a general meeting where the absent director can proxy their shareholder's vote with the Chairman).

Stakeholder Viewpoint

During the stakeholder workshop on the 11 July 2014, we found the subject of alternate directors prompted differing views from individuals. Whilst CHAPS believe that alternates devalued their board decision making processes due to a lack of continuity and certainty around board structure, this was not the viewpoint of other industry stakeholders.

In particular, a representative from a major clearing bank said the abolition of alternates was the wrong decision in the case of CHAPS, and was supportive of the viewpoint that as long as the directors are responsible for their alternates, this creates a robust process. In addition, a representative from one of the other payment system operators disagreed that alternates devalue the decision making process as instead, they provide a level of continuity, ensuring the board is always at full strength with empowered and informed individuals; and they have a useful role in managing actual or perceived conflicts of interest.

Whilst this is a clear decision taken by CHAPS to benefit their payment system, it is important to note that industry stakeholders do not believe a "one size fits all" set of governance processes works within the industry and the governance processes in place in each payment system reflect what is felt to be right for each payment system.

4.2.2 Differences in voting arrangements

Appendix B (Current Governance Arrangements of Key Organisations) shows there are different methods employed in making board decisions. Whilst some payment system operators employ a "one director/one vote" method, others use votes weighted based on volumes. However, in all interbank payment systems voting is in practice rarely used, with the boards preferring to reach consensus between board directors to approve a motion.

Some organisations, including BPSL, are able to fall back on votes based on volume if they are unable to make a consensus decision. Independent directors on the FPS and other boards also have a veto in decisions they believe to be against the public interest. This veto, however has never been exercised.

Where voting is used, payment systems operate different levels of approval to pass a motion. For example Bacs requires a 100% vote for any motion related to settlement in order for it to pass; LINK however needs 80% to pass a motion, irrespective of the topic.

A recent example where voting was used was on debit caps within Bacs, where board directors had different and strong opinions. Voting put on record the different positions and relied on the Bacs volume based voting criteria to determine the outcome.

In most boards, decisions at board meetings are final; however, LINK has a specific escalation route for members who disagree strongly with an outcome in decisions on interchange costs. If 20% of the Network Members Council has voted against a specific motion on interchange calculation, the motion decision can be escalated to an external adjudicator who reviews the facts and decides whether the calculation has been correctly applied before making a final and binding decision.

Stakeholder Viewpoint

Payment system operators and their directors believe that decision-making by consensus generally works well. If a motion is unlikely to reach a consensus across directors then the belief is that there may be a problem with the motion itself (and, in the instance of Faster Payments, they send a motion back to lower member committees for re-assessment should consensus not be reached). However, at least one stakeholder outside of these boards contradicts this view and believes fiduciary duties are not working if there are few conflicts or disagreements at board level (i.e. if disagreements existed, there would be wider use of voting).

Where weighted voting takes place, however, some stakeholders, particularly the smaller challenger banks see this as a potentially unfair mechanism, favouring the larger players and greatly reducing their voice. In particular within the LINK payment system (which has members, not directors), this voting arrangement has often meant small independent entrepreneurs see their opinions rejected by large banks. This is seen by some as a barrier to innovation and change within the industry.

Whilst this opinion is true for smaller players, larger stakeholders view this as a fair method given the split of likely costs of potential change (with higher cost for higher volume).

4.2.3 Constituency board arrangements

Due to the size of membership of a number of organisations (such as the Payments Council and Visa Europe), a "constituency" model is used to select a subset of board directors. Whilst a number of higher volume participants hold non-executive directorships as of right, the remaining non-executive directors are elected from the remaining direct participants/members. These individuals are elected on their ability to perform on the board but may also take on the responsibility of representation of the non-elected members (on elements not bound by fiduciary duties), e.g. JP Morgan on the Payments Council board currently represents the smaller Payments Council members.

Stakeholder Viewpoint

At first glance, this governance process is a sensible way of ensuring a full board with a mix of representatives. However, some of the smaller/challenger banks are not comfortable with the level of representation. For example, some non-traditional payment institutions have found themselves represented on the Payments Council Board by more traditional building societies or corporate banks. In this instance, the payment organisation can often feel underrepresented as they do not believe their elected representative can always fully understand their business goals and viewpoint.

4.2.4 Board capabilities

The vetting process for board members varies by payment system operator. For example, CHAPS employs a full vetting process before acceptance on the board. Other operators do not appear to have similar formal processes to apply additional checks, instead accepting proposals from nominating organisations. However, FPS and CHAPS have initiated a board effectiveness review and their vetting processes may change as a result.

Inspection of the list of director names and their backgrounds for each interbank payment system shows that the majority tend to have an operational, wholesale or technical background rather than a retail product or customer facing one.

Stakeholder Viewpoint

Some issues that stakeholders have raised include tenure of board membership (too long), differences in seniority (some directors potentially being too junior to make decisions - the Payments Council for example normally attracts more senior directors than Bacs or C&CCC) and skillset (insufficiently diverse). However, one stakeholder observed that these boards collectively hold an accumulated knowledge base that serves the industry well.

Stakeholders have also highlighted that whilst the operational focus of board individuals aids in maintaining a stable and efficient payment system, it can potentially act as an inhibitor to innovation.

4.3 Conflicts of Interest

Stakeholders have highlighted concerns with the number of potential conflicts of interest across the industry. In particular:

1. Potential conflicts between payment system boards.
2. Potential conflicts between owning institution and payment system boards.
3. Potential conflicts between infrastructure and payment system boards.

Conflicts can be avoided or mitigated through the use of independent directors (something which the payment systems have now implemented), but the view has also been raised as to whether payments system boards should be fully independent.

Figure 4.1 shows a network mapping of board directors across each of the main organisations within the payment systems landscape (as at July 2014):

4.3.1 Potential conflicts between board membership

This risk occurs where an individual sits on two or more boards, in particular if one of the boards is the Payments Council or VocaLink (who have influence or contractual relationships with payment systems). It also occurs potentially where an individual has a close colleague from their employer, or direct report who is a director on another board.

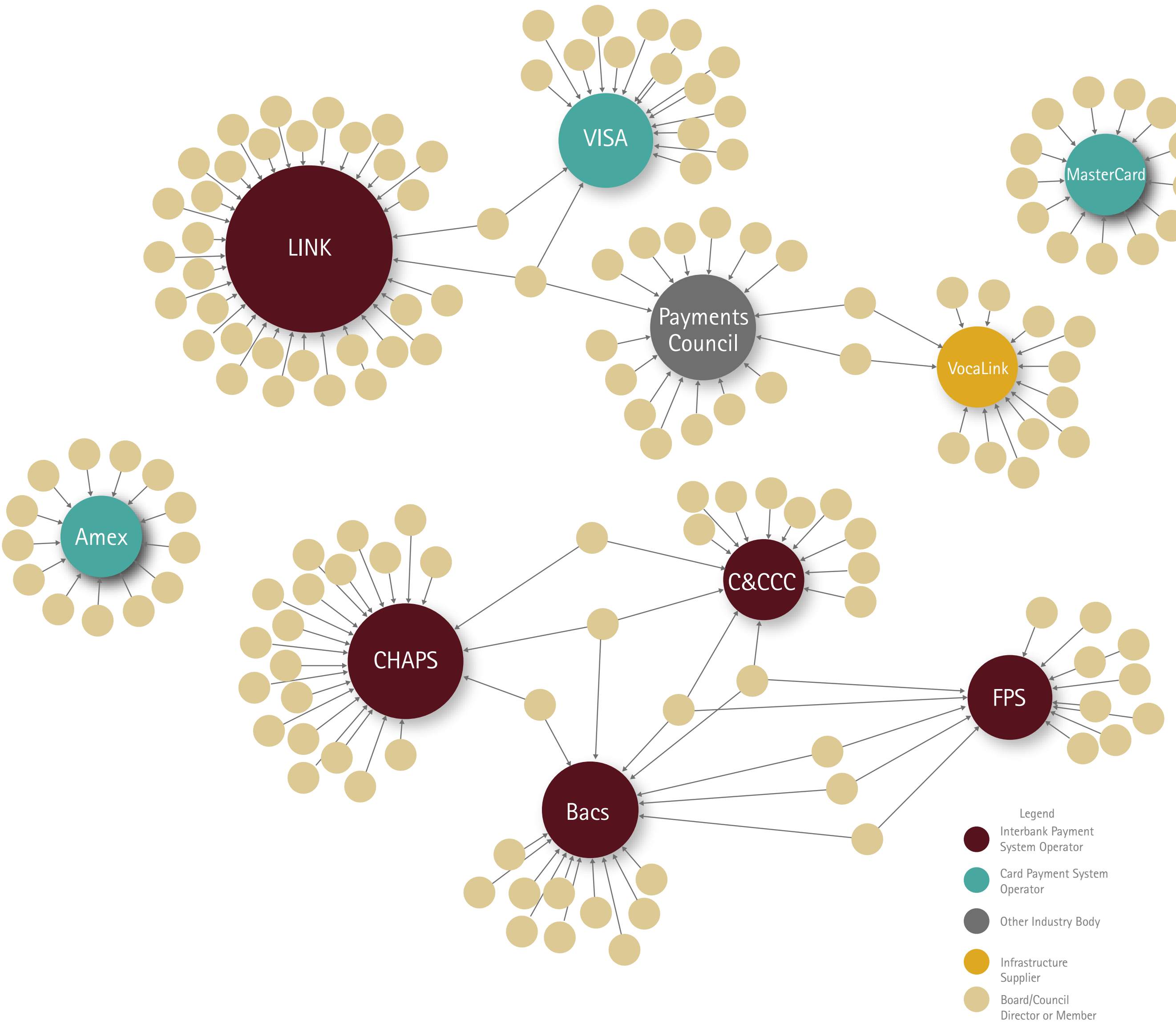
However, the size of the risk posed by these potential conflicts appears to be minimal. As can be seen from Figure 4.1, even when directors across each payment system are mapped alongside directors from other key organisations, there are only a handful who are present on more than one payment system board.

Stakeholder Viewpoint

Each of the payment systems interviewed believe they are taking steps to remove (or at least reduce) any cross-overs and conflicts. Several also expressed intentions to widen the functional expertise across board, council and committee members (by including risk and finance professionals, for example, instead of just payments professionals) and to insist on appropriate levels of seniority and experience. Many stakeholders also pointed out that the payment systems serve complementary segments and are not competing entities, reducing the impact of any overlap.

When interviewed, board directors present on more than one payment system board gave a positive picture of their role and the steps they take to remove any conflict, indicating that decisions on the different boards rarely conflict.

Figure 4.1 – Accenture mapping of individual directors' board/council involvement created through analysis of governance arrangements of each organisation. Each small node of this matrix represents an individual director who participates in an organisation's board or council. Nodes with more than one link indicate presence on multiple boards or councils



4.3.2 Potential conflicts between owning institution and payment system boards

The incorporation of the majority of payment system operators as organisations in their own right has meant the creation of a board structure whose directors have fiduciary duties towards the payment system organisation itself, rather than their employer. Each payment system stresses this to board directors, with some running training courses to remind board directors of their duties. This includes the provision of external legal counsel and assistance where necessary.

Stakeholder Viewpoint

Feedback from the interviews with both payment systems and major banks highlighted that these fiduciary duties appear to be well versed and understood by the impacted individuals. There are a number of examples where the individual has supported a board resolution which their employer opposed. This supports the view that potential conflicts of interest in individuals are not material. The decisions being taken by payment system boards appear to benefit the payment system first and foremost.

Generally, where a conflict of interest for an individual does exist, directors are encouraged to state them based on the board agenda or required decisions, at which point, the board will make a decision as to whether the conflict compromises the individual's ability to maintain their fiduciary duties towards the payment system.

There are also examples where board directors have cited conflicts and removed themselves from discussions and voting. Although this shows that board directors are acting appropriately and that procedures to avoid conflict are working, these examples also demonstrate that potential conflicts of interest are inherent in those boards where directors belong to both shareholding and participant/service user organisations.

4.3.3 Potential conflicts between infrastructure and payment system/industry organisation boards

A further area of concern is the cross-over of board and committee members between the payment systems themselves and the payment system infrastructure provider (such as iPSL and VocaLink). Whilst no conflict currently exists between the payment system and infrastructure boards directly, there are a number of other cross-overs in lower sub-committees.

One particular cross-over is where directors sit on both the Payments Council and VocaLink boards. With the Payments Council retaining a sign-off on any changes to interbank system providers, this potentially gives rise to conflicts of interest.

Stakeholder Viewpoint

We identified a number of scenarios where this conflict has played out, including one which is described in the case study on VocaLink (case study one). Interviews have highlighted mixed feelings across the industry as to how big an issue this creates, with some stakeholders not believing this to be a significant issue whilst others actively try to prevent the conflict from occurring.

Even with the mandate for directors to abide by their fiduciary duties, some stakeholders believe it is difficult to understand how this conflict can truly be removed when an individual has a duty of care to a not-for-profit payment system and a duty of care to an infrastructure company (that profits from processing the payment system's transactions).

Case Study 1	VocaLink and FPS Contract Negotiations
Key Finding	• Governance Complexity - Conflicts of Interest.
Background	• The Faster Payments contract was recently due for renewal and needed to be renegotiated with VocaLink. • Multiple organisations are represented through their nominated directors on both the FPS and the VocaLink boards. • Two individuals sit on both the Payments Council and VocaLink boards. • One Faster Payments director participates in subcommittee groups within VocaLink, but with only a limited commercial focus. • Under the historical reserved matters, FPS must seek approval from the Payments Council board for any change of contract with an infrastructure provider.
Timeline/ Key Activity	• Renewed FPS contract signed with VocaLink in February 2014.
Actors	Executives and directors of VocaLink, Faster Payments and the Payments Council.
Outcome	FPSL follows the following process for cases of conflicts of interest: • Specific conflicts are declared by FPSL board members and either: – Board directors are excused from the decision-making process as conflict is deemed to exist or a director is uncomfortable being involved in the decision-making process. – Potential conflict is acknowledged but the individual director is allowed to continue to participate in the decision-making process, having flagged the potential conflict and in compliance with any Companies Act provisions. In the specific case of contract renewal, FPSL also undertook the following: • FPSL established an Infrastructure Commissioning board subcommittee containing only directors free of any actual or potential conflict of interest to make a recommendation on renewing the VocaLink contract. • The Infrastructure Commissioning committee took independent legal advice on the contract, not using any member legal resources. • The Infrastructure Commissioning committee recommended to the FPSL board a decision, reviewed by the board with alternate directors replacing any main director who considered they might have a conflict. The board directors reviewed the recommendations without sharing any material within their parent organisation – this was a formal undertaking given by each director. • FPSL sought approval from the Payments Council, in particular to confirm the timing and the stability requirements of Payments Council had been met. No contract details were shared with the Payments Council, and the conflicted directors were excused from the Payments Council board for this decision.
Relevance to PSR	This case study is an example of how conflicts of interest are inherent in the payments landscape, causing, in particular, external parties to mistrust governance processes and decisions. In this case, the same organisations were represented on the boards of the payment system, the infrastructure provider and the Payments Council (acting in its role as the decision-approving body under its reserved matters). With care, conflicts can be eliminated through reliance on the fiduciary duties of directors, but this needs to be formally and rigorously managed to be effective.

4.3.4 Impact of requirements for independent directors

Independent chairs and directors have reduced the potential impact of conflict on the various payment system boards with a specific remit to bring independence and a "public interest" view to board decision making. Introduced recently by some payment system operators following the adoption of CPSS-IOSCO principles of good practice and priorities set by the Bank of England, independents now sit on each of the member-owned payment system operator boards. Others, such as C&CCC, introduced an independent chair a number of years ago.

In particular, the role of independent directors to represent public interest adds an extra dimension to the board decision making process, allowing independent directors to veto a motion/decision if they (or a majority of independents in some instances) declare it is against the "public interest". Whilst the criteria are not clearly defined for deciding whether a matter is a public interest issue, the boards recognise that independent directors are experienced and senior enough to make these decisions themselves.

Stakeholder Viewpoint

The introduction of independents within payment system boards is generally accepted by stakeholders to be a positive step, although more time is probably needed to assess their impact fully. In particular, a number of board directors commented that the introduction brought valued external knowledge and experience to the board, something that had previously been lacking. Overall, this has improved the efficiency and quality of the decision-making processes.

One clearing bank believes that, whilst the introduction of independent directors has been positive and has helped validate decisions, it hasn't changed their outcome.

Another clearing bank did however question whether payment systems should try to ensure that independent directors have at least some industry knowledge in order to improve their contribution to debates. Specifically, they would like to see increased cross-payment system knowledge and interaction between independents to increase overall effectiveness.

One central industry stakeholder also acknowledges that the introduction of independent directors has strengthened the independence of payment system operators, but also believes the independent nature of these directors may hinder industry collaboration and lead to siloed decision making.

4.3.5 Payment system resourcing

One area of complexity within the interbank payment system landscape is the staffing arrangements of the Payments Council and the payment system operators of CHAPS, Bacs, C&CCC and Faster Payments. Each of these organisations relies on a service level agreement with UK Payments Administration Ltd (UKPA) for the provision of staff, facilities and other shared services such as HR, finance and internal audit. UKPA employs around 170 people and historically, the CEO of the Payments Council has also been the CEO of the UKPA.

Stakeholder Viewpoint

This arrangement provides some benefits such as the efficient sharing of centralised pension provision, HR services and an environment with variety and critical mass for employees to develop their careers and skills. However, a number of stakeholders interviewed appeared concerned that personnel running the payment system are not directly employed by the payment system operator itself.

Part of the issue with this service provision is the informal nature of this arrangement with payment systems. Whilst the payment system operators "rent" resource under a number of service level agreements, there is no formal contractual arrangement in place with UKPA.

Stakeholders have suggested that the minimum improvement they want to see would be a move to a formal outsourcing arrangement and contract set-up. Others however have suggested that the appropriate resources should leave UKPA and be employed directly by the payment system itself. Were this to happen, it would still be viewed as appropriate for the payment systems to procure central services such as HR from UKPA as part of a services contract. This topic is one of particular debate at present within the industry.

4.3.6 Board independence

Given the potential for conflict within payment systems, one area we probed on conflicts of interest is why each board is made up of individuals from owner and/or member organisations in the first place. If the payment systems wish to operate as an independent organisation, like other public organisations, should they not employ a board made up fully of independent directors?

Stakeholder Viewpoint

In responses from stakeholders (payment system operators in particular), part of the argument against this suggestion is the view that payment systems in their own right are complex and specialist in nature, meaning a board of directors drawn entirely from outside of the participating banks and building societies is believed to be unsuitable for efficient and effective decision making.

Given the number of payment professionals within the UK, however, it may be possible to create boards composed of directors with sufficient industry knowledge outside of the member/participating banks and building societies of the payment systems, thus bringing additional skills and experiences. This could include both product and technical delivery knowledge as required by the payment system.

4.4 Engagement Overhead of Governance Within UK Payments System

Whilst many stakeholders understand the rationale for the current governance arrangements, the multiple payment systems and boards in place present an engagement challenge for them. Stakeholders have told us if they were to participate in each major payment system forum, they would need to be represented at around 190 industry meetings each year.

This highlights the complexity generated by multiple payments systems, each governed and operated separately. For smaller banks or building societies, this overhead alone can be an issue due to the pressures this puts on small teams. Further, governance of payment system working groups and affiliates groups can lack rigour, with service users often uncertain of the purpose, decision powers and make-up of meetings they attend.

Stakeholder Viewpoint

One service user gave feedback that they would much prefer to have a small number of key meetings, with clear proposals and decisions to make, and advance knowledge of who is attending, rather than a large number of meetings where, for them, the reverse tends to be true.

In addition to a resourcing challenge, smaller new entrants and challengers also may struggle to support the full range of industry sessions due to a lack of payments system knowledge, which they may still be developing as an internal competence. This complexity has led some to become indirect participants who feel they do not have the necessary skills to be a direct participant, and has even caused internal issues for some experienced stakeholders.

Some established and challenger banks believe that a review is needed to look at the overhead required to manage and engage with each of the payment systems, and to identify potential options for streamlining and reducing it. They suggest this review should also examine the purpose and necessity of the various meetings, committees, affiliate groups and other forums that are organised by the payment systems, and identify where duplication may occur.

A number of stakeholders have highlighted the large costs involved in maintaining ongoing participation in each of the payment systems. The overhead for smaller banks is also highlighted in the Payment System Overhead case study (case study two) which describes how the amount of overhead became uneconomic for a smaller bank.

A number of different stakeholders (clearers, agencies and industry bodies) also raised the suggestion of merging the payment system operators themselves. This would be in contrast to recent governance changes such as the creation of FPS as a separate organisation from CHAPS (described in case study three). Whilst they see some benefit in the current segregated arrangement (in creating specific individual payment system focused boards and committees), they also see this segregation as the main cause for the overhead burden.

In particular, stakeholders (both in their CFI response and interview) believe a merger of payment system operators could create a more efficient, stronger payment system operator. A merger of payment system operators may also eliminate other key issues such as conflicts of interests. In addition, certain stakeholders believe this suggestion could facilitate simpler access to payment systems by centralising contact points and reducing overheads for service users.

Case Study 2	Payment System Overhead
Key Finding	• Governance Complexity – Engagement Overhead of Governance within UK Payment Systems
Background	In becoming an acquiring member (i.e. a provider of cash through ATMs) of the LINK payment system, a member accepts a number of responsibilities and overheads in order to connect their ATMs to the LINK network. In particular, this involves a number of strict compliance criteria that must be implemented and monitored on an ongoing basis (such as security and encryption).
Timeline/ Key Activity	• 2013
Actors	• LINK • New entrant bank • ATM operator
Outcome	Due to the relatively small number of ATMs held by the new entrant bank, the new entrant management team found that implementing, maintaining and validating the compliance of the network began to present a serious challenge and overhead for their organisation. As a direct result, the new entrant made a business decision to exit ATM acquiring, but remaining as an issuer of LINK cards. In doing so, they were able to procure a managed service through one of the other direct LINK members (an ATM operator) who would take on the risk and compliance aspects of acquiring on behalf of the new entrant.
Relevance to PSR	This scenario highlights the difficulty some stakeholders (particularly new, smaller challengers) have in both gaining and maintaining direct access to payment systems at a reasonable cost. Also worth noting from this case study are the alternative access and governance arrangements that allowed the new entrant to retain a service but reduce their overheads. Whilst this is an option available within LINK, it is not as simple for other payment systems who do not offer managed services.

Case Study 3	Separation of Faster Payments from CHAPS
Key finding	• Governance Complexity - Differences in Governance Arrangements • Governance Complexity - Engagement Overhead of Governance within UK Payment Systems
Background	In order to strengthen the governance arrangements of UK payment systems, Faster Payments was split out from CHAPS in 2011. This was in response to a PwC review of governance arrangements.
Timeline/ Key Activity	• October 2005 – the contract to provide the central Faster Payments infrastructure was awarded by APACS to Immediate Payments Limited, the JV vehicle for Voca and LINK, subsequently a wholly owned subsidiary of VocaLink. • May 2008 – day-to-day operations and management of the Faster Payments Service was transferred to the CHAPS Clearing Company. • February 2011 – presentation was made to the boards of CHAPS and BPSL by PwC following the commissioning of a review on governance arrangements for FPS (strongly encouraged by the Bank of England). • May 2011 – The Payments Council considered the PwC proposals in detail over a number of months. The Payment Council rejected the creation of EPSL (electronic processing schemes limited) as an alternative arrangement[26], but agreed to the creation of a new payment system company for FPS. • August 2011 – Faster Payments Scheme Limited (a member-based organisation) was set up to separate out the operations and strategic management of the FPS service from CHAPS.
Actors	• BPSL • CHAPS Co • Faster Payments Scheme Limited • Payments Council • Bank of England
Outcome	A new independent payment system organisation was created with its own board and structure to manage the Faster Payments Service – Faster Payments Scheme Limited.
Relevance to PSR	Whilst creation of Faster Payments was seen as an improvement to the governance arrangements, it created additional governance overheads and issues for members of the payment system by replicating the governance models in place at other payment systems. This added to the overall governance complexity across the payments landscape.

4.5 Funding Industry Initiatives

Most recent industry-wide payment system developments have been managed by the Payments Council, which has governance procedures in place to secure initial and ongoing funding for them. However, as evidenced by the CASS case study (case study four), funding decisions are open to challenge.

The Payments Council board approves the initiation and funding of payment system developments. These are submitted to it after they have been considered and proposed by the Strategy Committee and the Change Committee. The five core banks on the Payments Council board (the 4 largest sponsor banks and the largest challenger by volume) are mandated to fund a new development under the terms of their membership of the Payments Council. Other banks are obliged to contribute only if they opt in to use the new capability (not all do, for example, only the nine banks currently using Paym have funded it). Those banks that opt-in contribute to the costs in proportion to their payment transaction volumes.

However, as CASS shows, once a new capability is built, who pays the ongoing running costs and to what extent the initial investment can be recovered through pricing still need to be agreed. We did not investigate this, but the key consideration appears to be the different objectives of new entrants and established banks and building societies. The five core banks are obliged (under Payment Council rules) to fund the initiative, regardless of whether they have a business case to do so, and want pricing to be set to achieve at least some return on their investment; new entrants want prices set so they can achieve and maximise their business cases and compete effectively.

Potential new initiatives being debated in the Payments Council such as richer data, ISO 20022 and cybercrime may generate new funding challenges in the future. Not only do they cross different payment systems, but much of the demand for them could be driven by non-bank service users. For example, the Government Banking Service is a major user of payment systems: in 2011, 51% of all automated payments were made by the state to individuals for benefits and pensions[29]. In the past, the Government has also funded developments to meet their own infrastructure requirements e.g. Real Time Information (RTI), which VocaLink implemented, paid for by HMRC (RTI allows UK employers to report PAYE - pay as you earn, tax information to HMRC at the same time as making payroll payments).

Case Study 4	CASS Funding Decision
Key finding	• Governance Complexity – Funding Industry Initiatives • The Role of the Payments Council
Background	Launched in 2013, the Current Account Switching Service (CASS) was an industry programme led by the Payments Council to deliver seven day current account switching and transaction redirection. One of the key decisions for the programme was how the service itself should be funded. Following the publication of the Independent Commission on Banking's final report in September 2011, the Payments Council and its members who were active in the current account market committed to deliver the new account switching service. In late 2011 and early 2012, an extensive exercise was undertaken to communicate and reach out to the many banks and building societies across the UK who have current account products to invite them to participate; this resulted in a number of participants who were not Payments Council members indicating that they would participate in CASS, though not necessarily from launch. An Account Switching Programme Board (ASPB) was established to oversee the programme, reporting to the Payments Council board. The ASPB was made up of representatives of all 17 organisations that committed to participate in the service at launch (and one that joined subsequently), the payment system operator companies, and a Payments Council independent director.
Timeline/ Key Activity	The ASPB needed to make decisions on how the service was to be funded: • A detailed analysis of potential switching costs predicted a range of costs per switch (dependent upon volume), and an estimate of the likely per switch cost was produced based on expected switching rates. • It had already been agreed that the design and implementation costs would be borne by the established banks and building societies; the switch fee was intended to cover the build and launch costs of the shared central components of the service, and the on-going "business as usual" costs of live operation, over a period of five years. • The ASPB agreed to a funding arrangement where the build and operational costs of the CASS service were to be funded by switching fees payable by the receiving bank (in line with standard practice in payments). The ASPB reached general consensus on this funding model, including a number of smaller agency banks and challengers, and the independent director. Only one ASPB participant raised issues with the decision. • This ASPB participant was a new challenger bank. This bank was unhappy with this charging model which they believed raised the cost of acquiring new customers, hence was a barrier to entry for new competitors (and thus contradictory to CASS's role in enabling competition). The challenger bank concerned commissioned their own research into the potential costs and charging models. • February 2013 – The challenger's report was presented to the ASPB. • Following a debate on the findings presented by the challenger bank, no consensus could be reached, so the Payments Council commissioned its own independent investigation into proposed costs. The independent review looked at two aspects: what costs should constitute a "per switch" fee; and who should pay it. No assumptions were made regarding the conclusions of the review, including whether it would ultimately recommend any use of a "per switch" fee. • The review concluded that there were three different options for addressing this issue; these were presented back to the Payments Council board and also discussed with the OFT, HMT and the CASS participants. • The Payments Council board considered the report's conclusions and the views of all stakeholders and unanimously agreed the option whereby all set-up costs for the service were paid by the incumbents and the remaining operational service costs recovered through "per switch" charges paid by the acquiring bank.[27]

Case Study 4	CASS Funding Decision
Timeline/ Key Activity	• The challenger bank also challenged this decision and asked OFT and HMT to assess on the basis they believed switch costs were a barrier to entry (based on the higher estimate figure). • HMT subsequently asked the Payments Council and ASPB to look at an alternative funding method[28] to split the switch fee equally between the ceding and acquiring banks. This was agreed and based on the indicative volumes, resulted in a fee less than half that estimated for the Payment Council's revised pricing option.
Actors	• Account Switching Programme Board • Payments Council board • HMT • OFT • Challenger Bank
Outcome	New funding method implemented which splits all ongoing costs 50/50 between two parties but also meant that upfront programme delivery costs were covered by incumbents only.
Relevance to PSR	Whilst agreed governance processes had been followed to gain agreement on the funding arrangement, the challenger bank challenged the governance process to bring external pressure on the Account Switching Programme Board. This led to one incumbent paying a third of the total up-front cost when they were predicted to be one of the biggest ongoing "losers" of accounts to challengers. In particular, one large incumbent financial institution commented that this appeared to be a politically motivated decision that did not take into account the full range of industry views. This case study highlights multiple issues with the governance process from decision making to escalation routes that were employed. Issues resulted in a longer than initially expected process to agree a funding mechanism and whilst, importantly, this did not cause a delay to the programme delivery (as it was not on the critical path), it does highlight general governance issues with organisations able to step outside of standard escalation routes and change outcomes. This case study still polarises views within the industry more than a year after the decisions were made. The challenger involved saw this as a move by existing incumbents to create a barrier to entry. Existing incumbent banks, however believed the funding model originally employed was the "fairest" for all involved on the basis that the acquiring bank would be receiving the future economic benefit - especially since there was originally a consensus vote on it, with the exception of the challenger bank. The case study illustrates that the governance arrangements for change funding within the industry are not clear and are open to challenge even when agreed, and no overarching principle exists that covers initial investment, on-going running costs and cost-recovery mechanisms. Instead, funding appears to be customised for new initiatives, requiring a level of debate to agree and implement.

5. OWNERSHIP AND CONTROL COMPLEXITY

Table 5.1 shows the difference in ownership and control arrangements across payment system operators:

In general, the interbank systems are owned or controlled by different combinations of the same set of UK banks and building societies. Amex and MasterCard are public companies with shareholders, LINK is a contractual arrangement between members, and Visa Europe is a mutual owned by several thousand banks in 37 countries, with the UK subsidiary, Visa UK owned by UK banks and building societies. Figure 5.2 shows the cross-overs of the ownership and control arrangements (as at July 2014) of each of the key organisations across the payments landscape, highlighting the ownership/control complexity.

A further complexity can be seen in the current arrangements for LINK further described in the case study - Merger of VocaLink and LINK (case study five).

Operation	No of different owners or guarantors	Status of Incorporation
Bacs	16 (three non-UK) banks and building societies	Limited by guarantee
CHAPS	18 (10 non-UK) banks	Nominal equal share
Cheques	Nine UK banks and building societies	Nominal equal share
FPS	10 (two non-UK) banks and building societies	Limited by guarantee
LINK	37 members	Contractual Agreement
VocaLink	18 UK banks and building societies	Volume based shareholding
Payments Council	11 (three non-UK) banks and building societies	Limited by guarantee
American Express	Publicly listed	Multiple shareholders
Visa UK ltd	117 banks and building societies	Nominal equal share
MasterCard	Publicly listed	Multiple shareholders

Table 5.1 – Summary of ownership arrangements within UK Payment systems

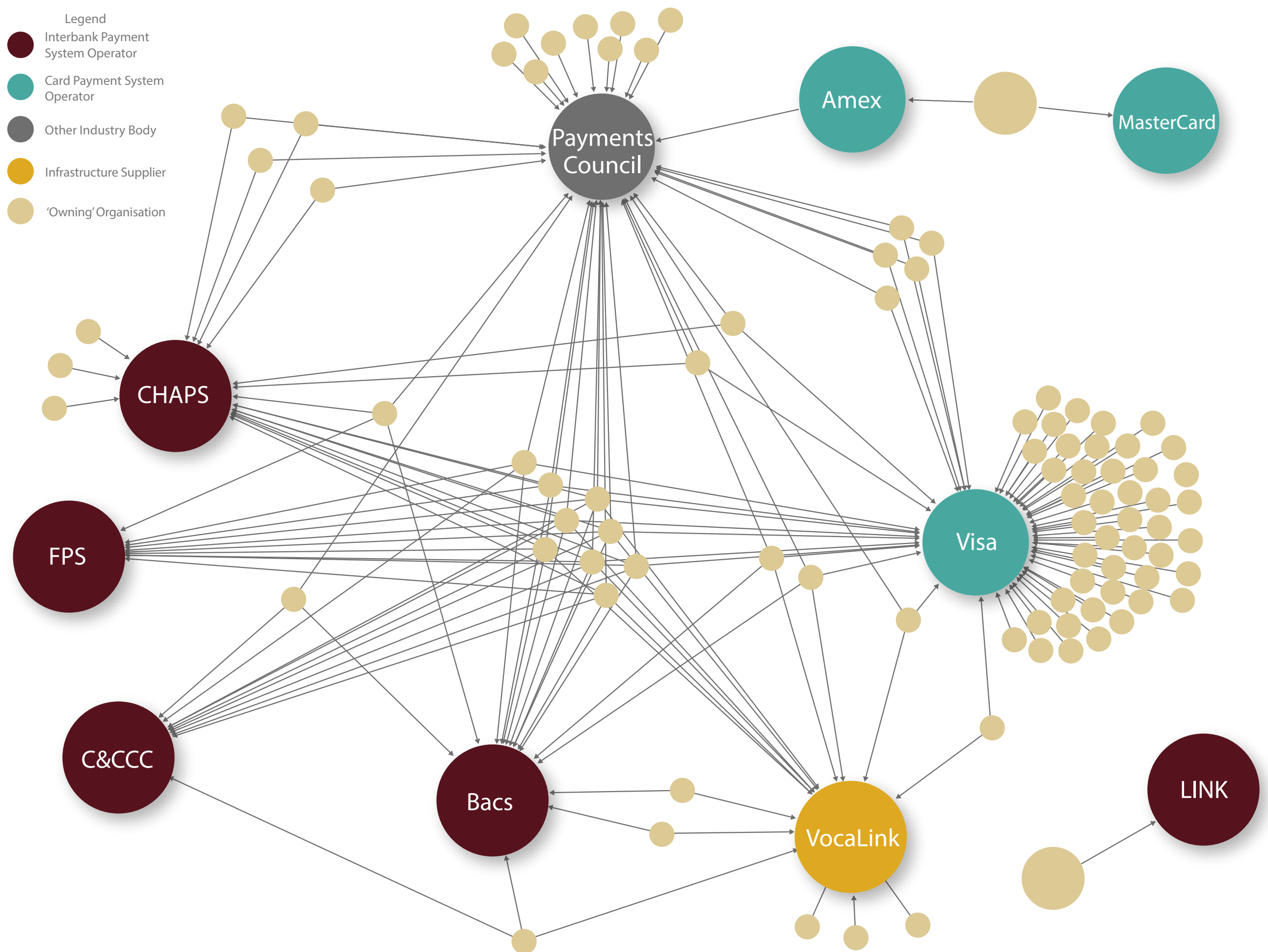


Figure 5.2 – Accenture mapping of the "ownership" network of key payments landscape organisations (including organisations limited by guarantee or who operate under a contractual relationship). This diagram has been created following analysis of the governance and ownership arrangements of each key organisation.

The diagram shows Amex and MasterCard are owned by shareholders; LINK has an agreement between its NMC and the other organisations owned by their direct participants (either limited by shares or guarantee).

Case Study 5	Merger of Voca and LINK
Key finding	• Payment Operator and Processor Separation • Governance Complexity - Conflicts of Interest • Ownership and Control Complexity
Background	In 2007 Voca and LINK merged to form VocaLink, a company now processing over 10 billion transactions with a value of £5 trillion each year. The merger brought together the Bacs infrastructure provider with the operator of the UK cash machine network, but resulted in the new organisation additionally providing management of a payment system, LINK, as well as running infrastructure for multiple payment systems.
Timeline/ Key Activity	• 2003 – Bacs Payment Schemes Limited (BPSL) split out from Bacs Ltd. • 2004 – Bacs Ltd became Voca Limited. • 2005 – Voca Limited and LINK bid together for Faster Payments infrastructure. • 2007 – Voca and LINK merged.
Actors	• VocaLink • LINK
Outcome	The merger subsumed LINK into the larger VocaLink company. This meant: • VocaLink controls all LINK assets such as the brand and IPR. Investment in commercial innovation is VocaLink's responsibility. VocaLink has responsibility for trade-offs between investment in LINK, Bacs, FPS, and its other businesses at its complete discretion. • The LINK payment system CEO and LINK management team have duties towards their employers, VocaLink, as well to the LINK payment system itself. • Payment system rules are part of a contractual arrangement between LINK members and VocaLink. • VocaLink is owned by major clearing banks and building societies who also have a majority vote on the NMC. • Examples exist where representatives on the NMC report into their organisation's own director of VocaLink.
Relevance to PSR	In merging LINK into a commercial organisation, it would appear to stakeholders that insufficient consideration or protection was given to the residual payments system in the context of its relationship with the, now merged, processing company. As a result, conflicts of interest seem to have been created that could cause issues in the LINK NMC decision-making process. This means that it is not clear that innovation and competition across the LINK payment system and VocaLink's LINK processing business is optimised. Some LINK members believe that the majority bank vote on the NMC and VocaLink's ownership by the same banks and building societies create conflicts of interest.

Stakeholder Viewpoint

Figure 5.2 shows how from the outside (including to new entrants) the ownership and control arrangements appear to create a closed network with the same banks and building societies owning or controlling each of the major organisations within the payments landscape.

However, general feedback from interviews indicates that payment system ownership and/or control is less of a concern than access to the board and representation within each of the UK payment systems. Ownership and direct participation are currently one and the same, but the emphasis is on direct participation rather than ownership. This is due to the not-for-profit nature of many of the payment systems where owners benefit from little economic value or influence over and above that of their role as a direct participant or contracted party.

One view highlighted that allowing banks and building societies to own the payment systems helps protect customers from risk, as the banks and building societies have a commercial interest in the success of the payment system.

Some stakeholders did, however, express concern with the ownership arrangements of VocaLink combined with the nomination rights and membership rights some organisations have to the Payments Council. They believe this has led to conflicts of interest as the banks and building societies that own VocaLink, also:

- *own (or are guarantors of) the payment systems (Bacs, FPS) that contract with VocaLink; and*
- *are the majority users of these payment systems.*

Given that ownership rights over the payment system providers are largely nominal, stakeholders believe it is not strictly necessary for the banks and building societies to own them. For example, where a major change is required, a payment system is not restricted to asking their owners for funding but often looks to their wider participants (including indirect members) to contribute to funding arrangements either as a one-off investment or by recovering via transaction charges over time.

However, board representation on the interbank systems using the operator model is dependent on ownership, with owners (or guarantors) being given the right to nominate a board director[viii]. This gives rise to potential conflicts of interest, as described in section 4.3, where a board director has a fiduciary duty to the act in the interests of the payment system, which may not necessarily align with their employer's interests.

viii Note: Where an owner of a payment system undergoes a takeover by another owner of the system, the new combined organisation retains the ownership share of both organisations but only retains the right to nominate a single board director.

6. SERVICE USER REPRESENTATION

6.1 Who Are Service Users?

The PSR has an objective to promote the interests of service users, and we investigated the payment system governance to look after service user needs. The term "service user" covers:

- Direct participants (payment service providers[ix]) who connect directly to utilise payment systems
- Indirect participants (agencies)[9] who use the services of direct participants (sponsor banks)
- The Government Banking Service which uses payment systems on behalf of Government departments such as HMRC, DVLA and NHS
- Local authorities
- Corporate users
- Retail consumers
- Gateway providers such as Bacs service bureaux and internet payment gateways

6.2 Industry Forums

6.2.1 Affiliates Groups

An Affiliates Group is a forum for indirect users of the payment systems and interested parties to contribute and propose change to drive new ideas for products and services provided by the payment system operators.

There are two Affiliate Groups in the interbank payments systems - the Electronic Payments Affiliates Group and the CHAPS Affiliate Group (recently introduced).

The Affiliate Groups are open to a wide range of stakeholders although the individual make up of Affiliate Groups differs according to target audience. This can be seen in the Electronic Payments Affiliates Group, composed largely of current account providers, direct debit and credit originators and software suppliers, in contrast to the CHAPS Affiliate Group's target audience of directors and senior managers of treasury, regulatory, strategy and payment specialists.

Bacs established an Affiliate Group after the PSTF Bacs Access and Governance Working Group recommended creating one in 2006. Faster Payments had attended the Bacs Affiliates Group for some time; and that arrangement has now been formalised as the "Electronic Payments Affiliates Group". C&CCC also attend the group from time to time. The first CHAPS Affiliate Group meeting was held in July 2014.

In the Electronic Payments Affiliates Group, attendees are invited to submit items for discussion at regular group meetings and they have the opportunity to raise issues which can, if applicable, be raised to the relevant board. CHAPS are adopting a similar mechanism. In addition, the payment systems meet individually with indirect participants to seek input.

C&CCC do not offer an Affiliate Group to its service users. C&CCC has considered one in the past but discounted it on the basis of cost, particularly since it could exclude smaller participants if costs were prohibitive. Instead C&CCC runs a series of free Cheque User Forums and Industry update seminars for its stakeholders, plus more recently, Agency Bank workshops on specific subjects. C&CCC also engages with the Electronic Payments Affiliates Group, the Payments Council User Forums (see next section) and they hold regular stakeholder workshops.

Though the operational focus of each Affiliate Group is different, their overall aims and objectives are consistent, with both intending to drive change, seek engagement to shape strategy and importantly, to provide focus to industry issues and developments such as cybercrime and regulatory change.

Stakeholder Viewpoint

Stakeholders presented a wide range of views on the effectiveness of Affiliate Groups with feedback focussing on the content and agenda of Affiliate Group meetings as well as the receptiveness to change and the ease in proposing it.

Generally, stakeholders believe these sessions to be useful in bringing the industry together on a range of topics. However one agency bank described the Electronic Payments Affiliate Group to be more a "Tell Day" than a discussion forum, with the payment system tending to focus on providing pre-determined updates as opposed to providing an open forum of dialogue. Interestingly this view was countered by one large user describing the group as informative and acknowledging that issues (e.g. agreements on misdirected payments) were worked through collaboratively. Both these observations suggest that more focus may be needed to align payment system and affiliate agendas.

A theme that was reiterated across participant interviews was the difficulty in gaining consensus within the groups which could reduce the collective voice of the indirect participants that attend. Despite this, new entrants still recognise the value of Affiliate Groups and a number of agency banks expressed their intention to join Affiliate Groups.

6.2.2 Payments Council Customer Forums

One other area for service user representation is the Payments Council Customer Forums; there are three Forums - business, consumer, and charity/voluntary sector. To ensure balance and impartiality, each Forum is chaired by one of the Payment Council's independent directors, who also report the Forums' views at the Payments Council Board. The forums hold two to four meetings per year, and are typically held quarterly, shortly before a board meeting. Forum members are invited to put forward agenda items. The payment systems contracted to the Payments Council may also raise issues of their own with the Forum. Forum members are invited to take part in workshops and one-to-one discussions on issues where more in-depth input or discussion is required.

The objective of the Forums is similar to that of the Affiliate Groups in that they discuss key issues and developments and offer specialist advice to the Payments Council board on a variety of payment related topics. The main purpose of each Forum is to take a view on the interests of the customer group – consumer, business or the charity/voluntary sector - in the Payments Council's work.

A summary of the Customer Forums' discussions is sent to the board meeting that follows; and a written or verbal report is provided back to the Customer Forums with feedback on the outcome of board discussions on those issues where the Forums have expressed an interest.

The Payments Council Business Forum contains a number of organisations who send or receive a high volume of payments including Government departments, insurance companies, telecommunications, large retailers, utilities and transport companies. In addition, businesses are represented by established associations such as the British Shops and Stores Association, Federation of Small Businesses, Association of British Travel Agents, Interactive Media in Retail Group, Association of Independent Tour Operators and the Forum of Private Business.

The Consumer Forum membership consists of a diverse range of organisations including Age UK, Citizens Advice, Which?, Financial Services Consumer Panel, Consumer Council for Northern Ireland, Association of British Credit Unions Ltd, Consumer Focus, Toynbee Hall, Money Advice Trust, Runnymede Trust, National Pensioners Convention, SCOPE, the Townswomen's Guild and the National Federation of Women's Institutes.

Charity and voluntary groups are also represented by a number of organisations on the Charity & Voluntary Sector Forum including the Institute of Fundraising, Charity Finance Group, Association of Charitable Foundations, Sport and Recreation Alliance, The Churches Legislation Advisory Service, and the Small Charities Coalition.

ix Payment service providers (PSP) – see glossary for definition of PSPs. Typically direct participants are the major banks and building societies; indirect participants are sponsored by a direct participant (sponsor bank) to use the service of a payment system.

6.2.3 Payments Council Industry Forums

The Payments Council runs two industry Forums: the Technology Forum and the Access to Payment Systems Forum.

The Payment Council's Technology Forum is a joint initiative with Tech UK (which is the UK trade association for the IT, telecommunications and electronics industry). Participation is open to any organisation with expertise in the technology industry and is aimed at supporting the technology industry's input into the Payments Council strategy and increasing the flow of innovative ideas.

The Access to Payment Systems Forum is targeted towards indirect payment service providers and provides a forum for information sharing, networking and the discussion of shared issues to enable their input and feedback into the Payments Council. Membership to the Payments Council is not required to attend the Forum.

Stakeholder Viewpoint
Whilst overall feedback on the Payments Council user Forums has been limited across the organisations involved in this review, it was noted by a large payments provider that these Forums provided a good insight into the industry and helped to connect the organisation with others with similar challenges. They did however believe that the Forum's agendas are set by the Payments Council, reflecting its vision and knowledge, rather than being driven by industry viewpoints as a whole.

6.3 Service User Representation

One of the key areas of interest for the PSR is the representation of service users throughout each part of the value chain, from large banks through to agencies, corporate customers and the general public.

In addition to the industry forums described in the previous section, there are two further methods for service users of interbank systems to have their viewpoint heard:

- Sponsor representation within a payment system. Sponsor banks often also run dedicated relationship management processes to ensure the views of their large customers are understood by the sponsor.
- Direct service user access to the payment system operator – normally only employed for larger users such as the Government Banking Service, this can provide a good level of access to understand issues or resolve problems.

Whilst stakeholder viewpoints are communicated to boards through these routes, the board directors are unable to represent the views of their own organisations as direct/indirect participants due to their fiduciary duties. Whilst participant views are used by non-executive directors to understand issues, the non-executive is expected to act entirely independently in board decision making processes. They are however able to represent the views of their indirect participants at a number of lower level forums and committees that are used to put forward recommendations to the board.

The Payments Council also undertakes a wide range of both regular and ad hoc market research and data analysis. This provides an industry-wide picture of the current and future profile of the UK payments market with wider insight on customer requirements and use of payments. Covering a range of different types of users of payment services, this research (e.g. market research on Access to Cash conducted in 2012, research on Barriers to Using Online Banking conducted in 2013) helps the Payment Council and its members to define new developments or changes that may be required to provide customers with the right choice of payments available to them.

In particular, the Payments Council publish the Consumer Payments Survey[30] which is a continuous research survey of UK consumers commissioned annually since 1988. This research provides in-depth information about personal financial holdings, payments and cash acquisition.

The Payments Council, the UK Cards Association, Financial Fraud Action UK and the inter-bank payment systems also collect industry data for reporting and management purposes using a consistent set of processes and methodologies. The analysis helps the industry and wider stakeholders to identify key issues and understand how different payment methods are used, how they fit within the wider national economic and financial environment, and how they change over time.

Stakeholder Viewpoint
This topic generates a wide range of views across the industry. Whilst some indirect participants and other service users felt satisfied with the level of voice they have within the industry, others, including some large end-users, believe themselves to be significantly under-represented within areas of the payments landscape.

There appears to be a clear desire to make payment systems inclusive and to ensure that views are fully appreciated from all stakeholders within the value chain; the key question in the new era of the PSR however will be how to make this happen. Whilst a number of payment systems operators have already set up feedback groups and research programmes, stakeholders believe these are more focused on gathering opinion on predefined subjects directed by the payment systems rather than using them to truly understand service user needs.

A key example of this is in the proposal to abolish central cheque clearing announced by the Payments Council in 2009. Although they consulted extensively with service users, they had not fully appreciated the implications of their decision and the response of service user representatives such as Age UK. This was clearly recognised in the subsequent discussions, debates and lobbying on behalf of a number of key end user groups which eventually led to the decision being reversed in 2011[31].

For card payment systems, one large merchant service user expressed some dissatisfaction with the four-party model used by Visa Europe and MasterCard. Specifically, merchants usually have no contractual or other relationship with Visa Europe or MasterCard, but they are subject to their rules, regulations and prices, with few means to negotiate – instead, the merchant's relationship is with a merchant acquirer who passes on the Visa Europe and MasterCard conditions (note – this does not apply to American Express who manage merchants directly using the three-party model). As a result, merchants have a large category of costs (e.g. interchange, PCI compliance, rules compliance, fines) over which they have no control, and are subject to compliance with Visa Europe and MasterCard rules, despite having no direct relationship with them.

Another example of end user frustration can be found when emergency changes are needed and are rolled out to indirect participants (particularly card scheme merchants) with little notice or consultation with the end user. One large merchant, for example, was given only seven days' notice to use a new identifier in relation to card authorisations which resulted in significant system changes. They risked incurring a fine per transaction if they did not comply.

The relationship between payment systems and indirect participants is of interest. Whilst most indirect participants we engaged with believed they received a good level of service and communication from their sponsor bank, there are a number of examples where agencies felt removed from the payment system they use as an indirect user, for example not receiving regular service updates or communications.

Examples that highlight issues with representation of indirect participants and other service users, with both sponsor banks and payment systems are:

- **System information** – *Some stakeholders believe that general information about joining the payment systems can be very hard to find in the public domain for organisations wishing to join them. Whilst elements of information are available, those stakeholders have commented that even sponsor banks do not always seem to know exactly how to navigate the payments landscape.*
- **Sponsor power** – *An agency bank (challenger bank) setting up its current account service described how they are currently having difficulty in getting get sight of the contingency plans of their sponsor, something that they believe is essential to understand the service provided by that sponsor and to meet their own contingency planning standards. In another instance, an agency bank is subject to the risk management processes of its sponsor bank for Faster Payments, which are different from its own risk management processes, creating service issues.*
- **Substandard service** – *Often indirect participants are not able to provide the same service levels as their sponsors. However, this may be due to limitations on the agency rather than the sponsor not providing a sufficient service e.g. the agency may only operate 9-to-5 access, or have significant downtime windows over the weekend, limiting its ability to offer FPS 24x7.*
- **Outages** – *Unless passed on by their sponsor bank, indirect participants often do not know about operational issues within the payment system. For example, a recent problem with a direct Faster Payment participant resulted in each direct participant receiving notification of the outage which was passed onto their retail customers. The same message was not passed down to an agency bank which meant their customers were unaware of issues.*

Each of the examples given here highlights some of the frustrations agency and indirect users have with the UK payment system governance arrangements. In particular, agency banks report that the "closed" nature of UK payment systems acts as a barrier to progress. The general feeling from the industry is that a wider range of voices should be heard by the payment systems.

7. PAYMENT OPERATOR AND PROCESSOR SEPARATION

There are different organisation models for infrastructure provision and support for payment system operators. Some payment system operators are separate from their infrastructure – Bacs and FPS use VocaLink, CHAPS uses the Bank of England RTGS system (which CHAPS and CREST members fund jointly) and C&CCC members largely select their own processors. Others operate an integrated model that combines payment system operations and infrastructure – Amex, MasterCard, Visa Europe, Visa UK and LINK/VocaLink.

We have not investigated the benefits of each approach, but the advantage of one over the other is not immediately obvious. We note that, on the one hand, the Bank of England suggests revisiting the separation of payment system operators from a financial stability, competition and innovation perspective[32]. On the other hand, the European Central Bank generally advocates[33] such separation as a mechanism to boost competition and business opportunities for infrastructure providers (for card payment systems, as well as for SEPA payments which are processed by a number of infrastructure operators across Europe).

VocaLink was created in 2003 in response to the Cruickshank report which had concerns with the degree of vertical ownership of payment systems. In particular, having to own a stake of the central infrastructure could be a barrier to entry to smaller banks; and it was felt that there could be benefits from increased competition at the infrastructure layer. The separation of the infrastructure sought to address these points.

The separation of the Bacs scheme in BPSL from the VocaLink infrastructure in theory gives BPSL options to use alternative infrastructure providers. In reality, Bacs (and FPS) have little option but to use VocaLink. Stakeholders believe the cost and risk of migrating banks and service users to connect to an alternative to VocaLink would be significant and impractical.

VocaLink itself is now operating successfully as a commercial company, processing not just Bacs, but also FPS and LINK, as well as overlay services such as Paym and CASS. To expand its business, VocaLink competed successfully for FPS, and it has also competed for business outside of the UK, most notably, the Swedish domestic direct debit payment service (which it runs from a separate infrastructure in the UK) and the Singapore immediate payments service. VocaLink also has plans to launch Zapp in the UK, an initiative to enable FPS payments for mobile commerce, designed to compete against the card payment systems. An example of VocaLink's expansion into other regions is given in the case study on VocaLink's Immediate Payments Service (**case study six**).

Whilst LINK is part of the VocaLink corporate structure, the LINK payment system activities and management are governed separately within it and are separate from VocaLink's wider business. Whilst all direct participants currently contract with VocaLink for LINK payment services, individually they are free to move suppliers (such as to Visa Europe or MasterCard).

Contractual arrangements with VocaLink differ depending on the payment system. For Faster Payments, VocaLink contracts directly with the payment system who in turn contract directly with their members. For Bacs, VocaLink contracts directly with BPSL and also directly with direct participants through a member services contract. The direct participants also contract with BPSL. For LINK, VocaLink contracts directly with the LINK members.

Stakeholder Viewpoint

A number of key stakeholders expressed concern with VocaLink running critical systems as a commercial for-profit organisation, believing it creates risk. They are also concerned there is little pricing information to benchmark VocaLink against, although for FPS, an audit company have in the past conducted a review which we understand found pricing to be reasonable.

A significant part of recent UK infrastructure change has been built and managed by VocaLink leading to additional concerns. For example, during the November 2011 Payments Council board[34], in the instance of Paym, several directors raised concerns on the strategic implications of continuing to choose an infrastructure supplier that would "further consolidate infrastructure". One independent director also confirmed he did not support the preferred supplier, because he would have preferred a diversification of the supplier base.

Whilst there is no evidence to suggest VocaLink is failing to meet its obligations or is putting services at risk, some stakeholders have raised concerns around VocaLink's expansion into wider markets, including the commercial implementation of Zapp in the UK and the immediate payments service in Singapore. Whilst, as a profit generating company overall, VocaLink has the right to pursue new opportunities using its knowledge and expertise, these stakeholders felt that this expansion and provision of other services could potentially put the core UK service at risk due to shifts in resources or asset usage, or due to increased resilience risk.

Proposals for change put forward by stakeholders centre on the desire to segregate the infrastructure from any other ventures, thereby maintaining ultimate protection of that service. Whilst there are no issues with the potential for VocaLink continuing to run infrastructure, suggestions were made to bring the infrastructure back under the ultimate control of the payment systems (although this would reverse the response to the original Cruickshank Report). Alternatively, a number of stakeholders believe the infrastructure could be put into a separate not-for-profit organisation.

Both of these stakeholder suggestions could pave the way for potentially re-opening the infrastructure provision to competition, i.e. by allowing service providers to bid for the right to run the infrastructure (but not to own or provide it).

Case Study 6	VocaLink's Immediate Payments Service
Key Finding	• The Role of the Payments Council and Strategy Setting - Strategy and Innovation • Payment Operator and Processor Separation
Background	• Following the successful launch of FPS in the UK, a number of other countries looked to implement similar solutions within their regions.
Timeline/ Key Activity	• Following the launch of Faster Payments, VocaLink looked to expand into new areas. • Bankgirocentralen (BGC), Sweden's domestic payments system, approached VocaLink under an existing contract, asking them to quote for an FPS-style service for the Swedish banks. • VocaLink effectively offered to clone and implement the UK FPS service for the Swedish banks. The request was prior to VocaLink's development of IPS. • BGC rejected the proposed solution from VocaLink • BGC then kicked off a formal procurement process, which ultimately was won by Fundtech. (VocaLink did not bid for the work as they only were able to offer the UK FPS-clone solution at the time).
Actors	• VocaLink • Bankgirocentralen (BGC)
Outcome	BGC were not interested in VocaLink's proposed solution because: • it was too expensive – mainly due to hardware configuration and the cost of the back office. • it was not ISO20022 compliant. • it did not support SWIFT or MQ (which the Swedish banks all use). • it was too UK-specific (e.g. standing orders). This event prompted VocaLink to develop Immediate Payments Service (IPS), a solution that was specifically ISO 20022 native and that could be run at a much lower scale than UK FPS. VocaLink did talk to BGC once the proposition was fleshed out, but by that time they had already opted to go with Fundtech. IPS has now been launched successfully in Singapore and a number of other countries are interested in similar implementations.
Relevance to PSR	This case study highlights the complex and UK-centric nature of some of the payment systems in scope. Whilst the payment systems clearly achieve their core requirements (as can be seen by their operational statistics), this UK-centric nature serves to highlight complexity in attempting to implement innovation. In addition, this is an ongoing example of VocaLink's continued expansion into areas other than the core UK systems that it supports. This is a concern to some stakeholders who want VocaLink to focus on delivering stable and efficient core payment processing; but it also highlights VocaLink's leading role globally in developing and exporting payments innovation.

8. THE ROLE OF THE PAYMENTS COUNCIL AND STRATEGY SETTING

8.1 Role of the Payments Council

The Payments Council is the body with responsibility for ensuring that payment services work for all those that use them in the UK, and ensuring that individuals and businesses have access to payments for their current and future needs.

The core objectives of the Payments Council are:

- To have a strategic vision for payments and lead the future development of co-operative payment services in the UK;
- To ensure payment systems are open, accountable and transparent; and
- To ensure the operational efficiency, effectiveness and integrity of payment services in the UK.

The functions of the Payments Council are to:

- set the payment strategy for UK Payments
- design and implement new cross-industry collaborative services
- set policy and implement payment industry change and innovation
- maintain the integrity and security of UK payments
- promote collaboration between industry participants
- undertake research, collect and analysis industry statistics
- collect industry and stakeholder views.

This is a diverse range of functions, some quasi-regulatory, some relating to trade association matters, some relating to strategy and some relating to industry change.

The Payments Council is perhaps best recognised for its role in implementing industry change and innovation. Since its formation in 2007, the Payments Council has been at the heart of a number of key changes in both payment services and the governance arrangement of the UK payment system landscape. In particular, it has led the delivery of key initiatives such as Faster Payments, CASS and Paym.

However, the Payments Council also has an unusual and ambiguous relationship with the interbank payment systems. It has a formal arrangement with Bacs, CHAPS, C&CCC, FPS, LINK and BBCCL (Northern Ireland's cheque clearing). Under the contracts, the operators provide regular reports to the Payments Council board. In the case of Bacs, CHAPS, C&CCC and FPS, the Payments Council board is able to make decisions that are binding on members in order to implement the strategy agreed by the Payments Council. However none of the payment system operators have representation on the Payments Council board. LINK, Amex, Visa and MasterCard do not come under any form of Payments Council control (although, Amex is a voluntary member due to its issuing and acquiring status). LINK, Visa Europe and MasterCard are unable to become full members of the Payments Council because they do not directly generate or receive payments.

Running alongside the evolution in the Payment Council's relationship with the operators, the Bank of England received statutory powers from the Banking Reform Act 2009 to formalise its historic oversight role. The Treasury recognised Bacs, CHAPS and Faster Payments for statutory oversight by the Bank of England in early 2010.

A key issue with the Payments Council is that it is an industry-wide body but it only has 36 full members and 27 associate members. This is in contrast to the British Bankers Association (BBA) which represents the UK banking industry with 170 members, and in contrast to the large number of services users in the industry such as the 450 Bacs indirect members/agencies. In addition, the Payments Council does not fully represent the cards industry.

Stakeholder Viewpoint

Through our interviews with different types of stakeholder across the industry, we established that there is a general consensus relating to the need for change in both the Payment Council's role within the industry and the activities they undertake. Many elements of the Payment Council's activity are valued as both successful and necessary by the industry. For example its research, representation within Europe, focus on consumer and financial inclusion issues and its role co-ordinating central projects (details can be found in the Paym delivery case study, case study seven) are all seen as adding value within the industry.

However, stakeholders believe other functions (such as reserved matters still with the Payments Council) are no longer required or do not fulfil a purpose in the current payments landscape. Both the change in payment system oversight and the introduction of independent directors have reduced the Payments Council's role in the activities of the payment systems that now operate as wholly independent organisations; and there is some ambiguity on whether the CHAPS, Bacs and FPS interbank payment systems are accountable to the Payments Council in addition to the their accountability to the Bank of England.

Feedback from payment system operators in particular has highlighted the confused nature of current arrangements, with some level of oversight perceived to be resting with the Payments Council and full formal oversight lying with the Bank of England. This creates uncertainty in governance arrangements and in their processes for decision making, escalation and direction setting.

Concerns were raised by stakeholders around the lack of breadth of payments coverage that falls into the Payments Council remit and in particular the lack of card payment coverage. As we move into a digital environment, the lack of thought leadership on new digital currencies and other industry-external innovations may also be a handicap.

In addition to the lack of payments industry coverage, a large clearing bank also commented on the lack of wider service user representation within any decision-making forum of the Payments Council. Supporting this viewpoint, a particular end service user expressed frustration at the bank level of control within the Payments Council.

Stakeholders also expressed views on the Payment Council's role in central projects. They believe the Payments Council role in coordinating central projects has been useful, but feel that this role only came about through external pressure to initiate projects rather than through the Payment Council taking the lead proactively. In addition, whilst most stakeholders recognise the useful role which the Payments Council plays in initiating and gaining funding for change, they believe that this alone is not a reason for the Payments Council to continue as it is. For example, the Payments Council does not have to be the vehicle to deliver change, instead an individual payment system or "pop up" programme team could be used to manage the change. One clearing bank also commented that the Payments Council needs to go beyond horizon scanning and maintain a prioritised and specific list of change which banks and building societies can include on their own change agendas.

One advantage the Payments Council has over the payment systems themselves is the relative seniority of board directors who are empowered to make decisions for their organisation where required.

Overall, there is a general view that whilst elements of its functions benefit the industry, the Payments Council should not continue in its current form. It has a diverse mix of functions and it has evolved into an organisation with piecemeal responsibilities. While the role and powers of the Bank of England in its oversight of Bacs, CHAPS and FPS are clear, the role of the Payment Council through reserved matters and the reporting lines to it by these same payment systems are increasingly odd. The creation of the PSR is seen by many as an opportunity to reconfigure or replace the Payments Council.

Case Study 7	Paym Delivery
Key Finding	• The Role of the Payments Council and Strategy Setting
Background	• The original National Payments Plan issued by the Payments Council in 2008 identified mobile payments as an area of innovation. The Payments Council formed the Mobile Payments Group (MPG) to develop a proposition for a standards-based mobile payment service, and issued an RFI for the service in July 2008 – the Mobile Payment Common Infrastructure Platform (MPCIP), a proxy database linking mobile phone numbers to bank accounts. • Subsequently, the Payments Council ran a competitive tender process and issued an RFP for the MPCIP in September 2011. VocaLink won the tender and was awarded the contract to build the MPCIP in late 2011. • The Payments Council announced in February 2012 that the mobile payments database would be available for banks and building societies to use by the end of 2012[35]. Initially, eight committed to use the database[36], and to launch their own mobile payments services using the database by spring 2014. • The Payments Council, VocaLink, payment system operators and participants worked together to deliver the project successfully. The mobile payments service went live to the UK public on 29 April 2014, under the Paym brand. • Paym is available to all participants in the FPS and LINK payment systems, but is being rolled out in waves of participants joining the service. This was designed to create a critical mass of consumers with access to Paym from the beginning, but without creating barriers to entry for participants who preferred to join the service at a later date.
Timeline/ Key Activity	• Launched April 2014
Actors	**Central Delivery** • Payments Council • VocaLink • LINK • Faster Payments **First Wave** • Bank of Scotland • Barclays • Cumberland Building Society • Danske Bank • Halifax • HSBC • Lloyds Bank • Santander • TSB **Second Wave** • Clydesdale Bank • first direct • Isle of Man Bank • NatWest • RBS International trading as NatWest • The Royal Bank of Scotland • Ulster Bank • Yorkshire Bank **Third Wave** • Nationwide Building Society • Metro Bank
Outcome	Paym was delivered in spring 2014 with nine banks and building societies giving access to 30 million customers. One million had signed up to Paym by August 2014, sending £6.5m in the first three months of operation[37].
Relevance to PSR	• Six years elapsed between the Payments Council's original National Payments Plan in 2008 which first identified mobile payments as an area to innovate, and the eventual launch of Paym in 2014. • Paym was devised, planned and implemented using the existing Payments Council delivery function to run the programme, with contract support used where it was required for certain roles. • The solution was delivered and went live as a collaborative industry solution, allowing banks and building societies to participate in different timescales, thus preventing a programme dependency on the slowest participant. • Key learnings from CASS were brought forward into Paym. • A New Programme board was set up to provide a governance structure for managing implementation and decision making. • A new holding company (MPS Co) was setup to manage the ongoing service once sufficiently established. Unlike CASS (which is run by Bacs), MPS Co is independent of the existing payment systems.

8.2 Strategy and Innovation

Shortly after the Payments Council was set up, a public consultation was undertaken to inform the development of the National Payments Plan (NPP), published in 2008, which was the Payments Council's main strategic vehicle at the time. Following a second consultation, the NPP was refreshed in 2011 with a focus on inclusion, innovation and integrity projects to enhance payment services for users. In 2012, work began on the Payments Council's Roadmap[38], to complement the end user activities of the NPP with a more ambitious strategy for shared payments infrastructure in the UK.

In addition to the central roadmap, each payment system produces its own strategy, which sets out the payment systems vision for its members. The central roadmap uses both internal/external viewpoints and research to produce a central strategy which covers the main areas of the payments industry. In particular, for Bacs, CHAPS and FPS, the Payments Council acts as ultimate sign off for their payment system operator level strategies under the "matters reserved" to the Payments Council board (albeit questioned by the payment systems as to how detailed and formal this approval is).

One element not covered, or only given limited coverage by the current roadmap is the card payment systems. Whilst partly due to the Payments Council's traditional links to interbank payment systems and its membership arrangements, it is also because the card payment systems are competing entities who do not typically publish detailed strategies and roadmaps, in order to retain competitive advantage (except for scenarios of large scale central industry change such as Chip and PIN implementation).

The UK is not alone in having a formal vehicle for setting payments strategy, and national payment strategies are used in other countries. We have not analysed what makes an effective national payments strategy, but have described some examples in section 13.3 of Appendix B.

Stakeholder Viewpoint

Across the industry, stakeholders have identified significant concerns with the current payments strategy and roadmap activity. **Case study eight** *discusses the Payments Council role in strategy setting.*

It is apparent from stakeholders (including payment systems and direct/indirect participants) that there are concerns as to the current strategy's breadth (only including certain payment systems), its lengthy review/publication process and any "teeth" and commitment from the industry to achieve its goals. One major bank commented that the roadmap is not practical and it is unclear how proposals will be developed and how the industry will collaborate around them.

A range of payment system participants agree that the industry needs a centralised planning roadmap body covering all payment systems in order to prevent siloed, duplicated or conflicted innovation. The general feeling from stakeholders is that any centralised body however could only look firmly at cross industry planning in the short term (two to three years). Anything post this period would only be a general "direction of travel" for the industry.

Whilst there have been good examples in recent years of successfully delivered collaborative innovation such as CASS and Paym, the general feeling from the industry is that innovation is often slow and long in the planning. Whilst this is sometimes a necessity due to the low risk approach of the payment system operators, stakeholders (particularly operators) recognise that this could be a barrier to entry for new innovative ideas and organisations. Stakeholders also felt any new initiative would not gain enough industry support to drive delivery without a single vehicle to channel and mandate a cross-payment system delivery roadmap.

Stakeholders have also noted the positive move to pass day-to-day running of Paym to a separate company. By maintaining this separation from payment system operators, stakeholders believe it is able to maintain its role as a cross industry initiative.

Case Study 8	Payments Council Strategy Setting
Key Finding	• The Role of the Payments Council and Strategy Setting • Governance and Innovation
Background	• The Payments Council own and publish the National Payments Plan (NPP) and the Payments Roadmap. The NPP has been published twice, once in 2008 and again in 2011. • An initial version of the Payments Roadmap was published in June 2013. Version One of the Payments Roadmap was scheduled for Q1 2014, but is overdue (as of July 2014). • Individual payment systems set their own strategies with some subject to Payment Council sign off.
Timeline/ Key Activity	• The NPP is updated on a three year cycle. • Versions One and Two of the Payments Roadmap are due in 2014[39]
Actors	• Payments Council • Interbank payment systems
Outcome	• Published industry strategy
Relevance to PSR	There is no clear owner of strategy across the full range of UK payment systems. There is both a National Payments Plan and a Payments Roadmap, and both are related to strategy in UK payments. However, the time horizon for strategy setting is unclear (three years? 10 years?), and the scope and governance of the Payments Council limits its ability to set an industry wide strategy and develop a complete roadmap for UK payment systems. In particular, the Payments Council strategy setting: • does not include all payment systems such as Visa/MasterCard/Amex. • is not agreed with the interbank payment systems themselves. • does not include member-specific innovation. • does not include external/non-member-generated innovation (despite offering a submission route to raise ideas for the NPP[40]). In addition, the current strategy production process is seen as lengthy and without teeth by stakeholders. As a central strategy and roadmap are often the first insight the public has into the industry, it is important the PSR takes time to assess the issues identified.

9. GOVERNANCE AND INNOVATION

Governance of the interbank payment systems is strongly focused on operational stability, integrity and resilience. For example, there are various board sub-committees in interbank payment systems for risk, operations, rules, security etc, but there are no innovation sub-committees (although FPS has a sub-committee for development), in contrast, for example, to American Express which has a standing committee on innovation and technology.

This operational focus is also reflected in the boards themselves, where many directors have operational, wholesale banking or industry backgrounds. However, few member-nominated directors on these boards have retail customer facing, online banking, or retail product management responsibilities in their financial institutions.

For example, of the 10 participant-nominated members on the Faster Payment board, none has a current role in the retail product or customer-facing area of their bank/building society, and only three appear to have had that type of role previously. The situation is similar in Bacs (and CHAPS, but less relevant, as CHAPS is primarily a wholesale payments system for financial institutions and corporates).

Therefore, there are few clear champions for consumer innovation on payment system boards to bring ideas directly from their experience within retail/consumer-facing business units of banks or building societies.

Examples where this may be having an impact include:

- FPS has been in operation since 2008, but there has been little innovation in consumer propositions that use it, and most FPS payments are still the same internet bank, call centre and standing order credit transfer payments targeted when FPS was first launched (single immediate payments and forward dated payments). For example, no near real-time direct debits have been implemented (which could expand the use of direct debits in innovative ways outside of traditional utility collections). Case study six, VocaLink's Immediate Payments Service (IPS), illustrated how FPS did not meet Sweden's requirements for a modern real-time payment system, leading VocaLink to develop IPS independently for world markets.
- Six years elapsed between the Payments Council's original National Payments Plan in 2008 which first identified mobile payments as an area to innovate, and the eventual launch of Paym in 2014 (enabling mobile payments using the LINK and FPS payment systems - see case study seven, Paym Delivery).
- Consumer propositions using Paym are confined to a mobile payment function within a mobile banking app (except Barclays who have the Pingit app), and non-banks cannot access Paym to innovate using it.
- VocaLink is planning to launch Zapp in early 2015; Zapp is an innovative consumer proposition designed as an alternative to cards, which uses FPS. Five banks have signed up to it so far, but as of July 2014, only one Tier 1 bank has done so: HSBC.

This is in contrast to the cards payments systems which have been driving innovation and change for many years, as illustrated by the relative size and growth of cards and interbank payments. In 2013, excluding LINK, there were 11bn card transactions vs 7bn interbank transactions (Bacs, FPS and cheques). Card transactions have grown 180% since 2000, the interbank transactions by 40% - this may indicate that banks and building societies are focused on developing cards rather than interbank payments (a different approach to risk and liability management in interbank payment systems and card payment systems is also a possible reason for their different growth rates – something not investigated in this report).

Stakeholder Viewpoint

An executive from a challenger bank explained how working in a smaller bank has opened his eyes to the importance of customer service in payments. Previously he worked in the central payments function of a major bank and had been an alternate director on a payments system board – but he had not had to deal with customers before and did not appreciate the implications of payment systems on them. He now sees this to be a weakness bigger banks have in understanding and responding to customer payment needs.

One large payments organisation also commented that the pace of change is often difficult within payment systems if the change differs to how the system is traditionally used. This was seen as a symptom of current governance arrangements being too focused on maintaining the status quo and on stability.

One non-bank emphasised the difficulty in proposing change within the Electronic Payments Affiliate Group, particularly change that resulted in using the Bacs payment system in any "non – traditional" way. This participant has developed a new business model for payments and their concern highlights resistance in payment systems to innovate.

The LINK NMC has a mixture of members, including entrepreneurial small members and large banks – some stakeholders suggest tensions between the two are common, as ideas of the smaller members are often voted down.

10. CONCLUSION

In conclusion, the governance arrangements of the payment system landscape in the UK are complex and fragmented, and are the result of organic and incremental changes over time, particularly in the interbank systems.

There is a clear difference in the governance of the interbank payment systems which are operated on a not-for-profit basis, and the card systems which are run as commercial organisations (except for Visa Europe/UK, which operates as a not-for-profit, but remains motivated by the commercial interests of members).

Overall, the governance and ownership of the interbank payment systems are oriented towards technical and operational excellence and efficiency. Governance to drive competition is minimal, and seeking to address the needs of service users and to foster inclusive innovation and decision-making across the industry appears secondary.

The governance and ownership of the three card payment systems is more commercially focused. Service user representation is less of a concern, although the inability of merchants to interact directly with the card payment system operators in the four-party systems can present challenges.

Each of the key findings within this report has implications for the PSR and its objectives to promote **competition**, **innovation** and **service user interests**. In particular:

1. **Governance Complexity** – In the interbank systems, the not-for-profit governance models and the potential for conflicts of interest in interbank systems do not serve to promote competition effectively, either between systems or between their service users; the imperative to innovate is complicated by multiple governance processes to navigate and by funding questions; and service users incur significant overheads of time and cost in engaging with each of the payment systems.

   In addition, a confusing set of governance arrangements exist in the staffing of interbank payment systems. Interbank payment systems staff are under the control of UKPA with interbank payment systems believing their lack of control of staff restricts their ability to act independently.

2. **Ownership and Control Complexity** – Different combinations of the same set of banks and building societies own or control each of the interbank payment systems and VocaLink. Ownership and control arrangements give the same banks and building societies control or significant influence across the industry, including a strong influence in the Payments Council. It is not clear whether this web of control and influence has a positive impact on competition, innovation and service user interest.

3. **Service User Representation** – Payment system Affiliate Groups and Payments Council User Forums give service users the opportunity to engage with the industry, and many find them useful. However, their feedback is that the engagement tends to be more one-way communication than one seeking inputs, suggesting that opportunities to innovate and service user interests are not considered fully.

4. **Payment Operator and Processor Separation** – Separation of the payment systems from infrastructure, in particular Bacs and FPS from VocaLink, was intended originally to enable competition in payments infrastructure. While VocaLink has developed into a successful and innovative company, some feel that its core Bacs, LINK and FPS services should be kept separate from its other commercial activities in the interests of stability and resilience.

5. **The Role of the Payments Council and Strategy Setting** – Whilst the Payments Council clearly has delivered successful programmes such as FPS, and has a number of useful functions, both in its strategy setting and wider roles, feedback has consistently highlighted the need for change. Issues exist with the Payments Council's breadth of coverage, service user representation and increasingly odd governance arrangements with the interbank payment systems. This affects innovation, in terms of progressing a vision for change and in terms of the pace of change. Innovation within the industry is seen as slow and often reliant on external pressure instead of on the Payments Council's leadership.

6. **Governance and Innovation** – Retail bankers and product managers, who are close to consumers, do not appear closely engaged in interbank payment system governance. Instead, operational and wholesale skills are widespread, resulting in a focus on operational stability, but with less focus on innovation and service user interests.

APPENDIX A: DETAILED ANALYSIS APPROACH

1. Interviews

In gathering the information required to produce this report, we undertook the following activities:

- **Stakeholder Identification** – identification of interview candidates from across the UK payment landscape.
- **Questionnaire Creation** – development of targeted questionnaires to gather data from each stakeholder organisation.
- **Interviews** – detailed interview and information gathering sessions with 23 different stakeholder organisations.

Stakeholder organisations interviewed include each of the payment systems, a relevant sample of their users (bank and building society owners, challenger banks, payment providers and Government), infrastructure and payment industry bodies:

Payment systems

- Amex
- Bacs
- CHAPS
- C&CCC
- FPS
- LINK
- MasterCard
- Visa Europe

Payment system users

- Barclays
- Government Banking Service
- HSBC
- Lloyds Banking Group
- Metro Bank
- Nationwide
- PayPal
- RBS/NatWest
- Sainsbury's Bank
- Tesco Bank
- TSB

Infrastructure providers

- VocaLink

Industry bodies

- British Banking Association
- Payments Council
- UK Cards Association

A tailored questionnaire was sent to each organisation in advance, and formed the basis for the interviews. The questions asked were targeted to understand each organisations role and governance arrangements within the payments landscape. In addition, we asked for specific viewpoints and opinion on both successes and issues with the current governance arrangements. This analysis has included documenting a number of relevant case studies to highlight how governance arrangements work in practice.

2. Workshop

The governance workstream held a wider stakeholder workshop session as part of this analysis phase with 90 individuals from across the industry on 11 July 2014. This workshop focused on presenting and validating the initial findings from the interview sessions and allowed the team to facilitate additional group discussions on the key topics and themes.

3. Report

This report consolidates the information and viewpoints gathered from the interviews and workshop. It is aimed at providing the PSR with information on the current state of the payment systems landscape to inform their development of a regulatory approach, formal consultation and policy definition process. The report contains anecdotes and viewpoints from individuals within the industry to provide colour to the facts presented. This report is designed to inform the PSR, and not to advise on policy nor to suggest solutions.

APPENDIX B: CURRENT GOVERNANCE ARRANGEMENTS OF KEY ORGANISATIONS

1. Bacs Payment Schemes Ltd (BPSL)

1. Recent Changes

- Following a Bank of England priority for BPSL to introduce independent directors, the first independent appointments to the board took place in 2013 selected by the board on the recommendation of an Appointment Committee including the MD, the board Chair and an independent director from the Payments Council. The appointments were approved by the Payments Council while the Bank of England confirmed that it would not object to the appointments. All other recent changes to the board have been as a result of members changing their nominated representation.
- In addition, the payment system commissioned an external assessment of the board and its supporting committees following an observation from the Bank of England and as a response to CPSS-IOSCO principles.

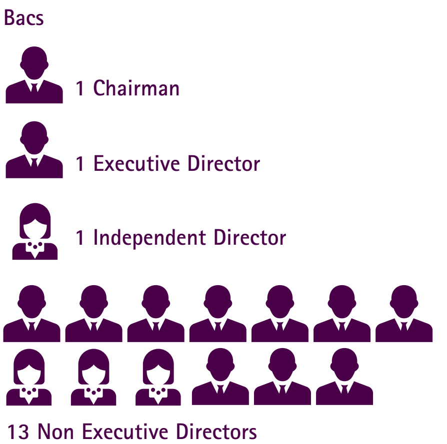
1.2 Legal status

- BPSL is a company limited by guaranteed and does not have shareholders. Each member guarantees the company to the amount of £10. It is "owned" by 16 banks and building societies from the US, UK and Europe.

1.3 Board

1.3.1 Structure

- The BPSL board includes two independent directors (including the Chair) and an executive director. There are 13 non-executive directors, each appointed by their member organisation. In addition, each member may appoint a suitable alternate director.



BPSL Board Directors (as at August 2014)	Organisation	
Chair	Independent	
Executive Director	BPSL	
Independent Director	Independent	
Directors nominated by/members	Allied Irish Bank	Lloyds Banking Group
	Bank of England	Clydesdale
	Barclays	Nationwide
	Citibank	Royal Bank of Scotland Group
	Co-operative	Santander
	Northern Bank	Virgin Money
	HSBC	

1.3.2 Voting processes

- Votes are allocated to each director on the basis of their member organisation's transaction volumes which are calculated annually and published by the company secretary by the end of January each year.
- Voting is governed by the Articles of Association. A quorum requires one independent director and a sufficient number of member nominated directors (or their alternates) so as to have not less than half the eligible votes.
- If a member is the subject of a vote then the votes of that director nominated by that member (or the corporate group of that member) are excluded from determining the total eligible votes required for the quorum.
- On occasion, votes can be decided by a show of hands on the basis of one director/one vote; in a number of defined matters (defined as those relating the public interest), 75% of the eligible votes are required for a motion to be passed. This includes the eligible votes of any independent director present but excludes any eligible vote allocated to a director appointed by the member who is subject to the discussion or to any director within the same corporate group as the member subject to discussion.
- The maximum allocation of votes cast by one director is 22.5%. Should a director hold more than 22.5% any excess must be reallocated to other directors in proportion to their eligible votes. Should this result in any other director holding more than 22.5% of the vote, the process will be repeated until no directors hold more than 22.5%.

1.3.3 Board governance processes

- The board's role is to provide leadership of the company within a framework of "prudent and effective" control.
- The board is responsible for a number of decisions including: appointment of directors, remuneration, financial performance, contracts for infrastructure supply, service performance objectives, strategic objectives, audit processes, and risk management.
- Activities within the payment system are delegated from the board to a number of committees. Sub-committees of the board include Audit and Risk and other Member Committees (chaired by a director) including Rules & Governance, Operations & Compliance, and Development.
- Board sub-committees each have a different make up of stakeholders. For example:
  - Audit: Directors of the company
  - Operations: Participant representation (and some directors)
  - Security: Directors and Subject Matter Experts
  - Affiliates: Affiliate members (i.e. no direct participants or directors)
  - Management Committee: Participants in a particular element of the payment system (e.g. Current Account Switch Service).
- The board meets quarterly and holds an annual strategy day.
- All directors must exercise fiduciary duties under company law. Independent directors maintain power of veto should they believe a decision to be within the public interest.

1.4 Payment System Membership

1.4.1 Membership types

- Bacs has 16 direct members and uses the following definitions for non-members participating within the Bacs payment system.

1.4.2 Members

- BPSL is controlled by 16 banks and building societies within the US, Europe and the UK. Members are not shareholders of the company although each member is a guarantor of the company.

1.4.3 Payment system funding

- Bacs operates on a not-for-profit, cost recovery basis. Costs are recovered from members based on a budget agreed by the Bacs board.
- Operating costs of BPSL are recovered through a combination of a fixed membership fee, membership calls based on volume and additional Bacs services such as the Bacs Approved Bureaux scheme.
- Separate budgets are maintained for CASS and Cash ISA switching (CISA) which are approved by their respective management committees and managed on their behalf by BPSL. Funds are received through switching fees collected from participants.
- Bacs charges a fixed transactional payment system fee and infrastructure fee.
- The payment system also applies membership fees per direct member. These fixed membership fees account for approximately 15% of the Bacs annual operating costs.
- There is an additional RTGS fee for each direct member.
- A small projects fund is managed by BPSL to cover enhancements/development of the central infrastructure. Should a more substantial change be required, a call for funding amongst all members will be issued which will be based on volume. Should a development be proposed that cannot be utilised equally among members, an alternative funding mechanism will be developed.
- The individual transaction fee is identical for all members i.e. each member will pay the same price per item and there are no volume discounts.

Bacs Non Member Definitions

Direct Submitters	An organisation that can create and submit transactions, messages and files directly into the Bacs infrastructure.
Indirect Submitters	Any person on whose behalf a Bank Bureau, a Commercial Computer Bureau or an In-House Bureau submits an instruction, message, file or other communication to Bacs
Service Users	An entity sponsored by a member or bureau authorised by a member
Agency Banks	Any credit institution which provides member services to service users under the sponsorship of a direct member

1.5 Governance Processes

1.5.1 Change of membership

- To become a member, a number of publicly available criteria must be met including:

Bacs Membership Criteria
Have a settlement account with the Bank of England
Be based in the European Economic Area
Meet agreed technical and operational requirements including having an agreement with VocaLink
Be a bank or building society
Have a minimum credit rating, held by either Moody's S&P or Fitch
Sign a legal document in respect of Bacs membership and settlement arrangements
Pay a share of Bacs costs.

- Potential members are assessed by BPSL's Admissions Official against the membership criteria in order to ensure commercial confidentiality. Neither directors nor members influence the application although they are informed of the outcome.

1.5.2 Appointment of directors

- Non-executive directors are appointed at the discretion of their organisation on the basis of previous experience and suitability. Each member may also appoint an alternate director.
- Independent directors are appointed on the recommendation of the Appointment Committee and approved by the Payments Council board. The Bank of England confirmed it did not object to the current appointments.

1.5.3 Oversight

- BPSL maintains a contractual relationship with the Payments Council; under this contract the payment system is required to report to the board of the Payments Council on certain matters.
- The Bacs payment system is recognised by HM Treasury for statutory oversight by the Bank of England.
- The payment system measures itself against the CPSS-IOSCO principles.

2. CHAPS Co

2.1 Recent Changes

Recent changes to the CHAPS Co board include:

- Introduction of independent directors and independent Chair. In addition to board responsibilities, the independent directors chair several committees within the payment system including Governance and Discipline, Audit and Finance and Risk committees. CHAPS Co also recruited a qualified company secretary to support the board.
- Removal of alternates to streamline and improve board effectiveness.
- 1:1 meetings implemented between all directors and Chair.
- Split of board papers into "online"' and "offline" agendas to increase the focus and effectiveness of board discussion.
- Board effectiveness training has taken place for all directors.

2.2 Legal Status

- CHAPS is a company limited by shares. The 21 direct participants of the CHAPS payment system own the limited company which owns and operates the running of the payment system. The authorised share capital of the Company is £10,000 divided into 100,000 shares of ten pence each with each participant being allocated one share.

2.3 Board

2.3.1 Structure

- The board consists of three independent directors (including the Chair) and 18 non-executive directors who are nominated by each of the direct participants. In addition the Bank of England attends the CHAPS Co board as an observer.
- The board recently ratified the appointment of the CHAPS Managing Director as a board director (July 2014).

CHAPS

CHAPSCo Board Directors (as at July 2014)	Organisation	
Independent Chair	Independent	
Independent Directors	Independent	
	Independent	
Bank of England (observer)	Bank of England	
Non-Executive Directors nominated by direct participants	Bank of America	HSBC
	Barclays	J.P Morgan Chase
	BNY Mellon	Lloyds Banking Group
	Citibank	Royal Bank of Scotland Group
	CLS Bank International	Santander
	Clydesdale	Standard Chartered
	Co-operative	State Street Bank
	Northern Bank	Svenska Handelsbanken
	Deutsche Bank	UBS

2.3.2 Voting processes

- All directors have one vote. Volume has no bearing or influence and is not reflected in voting arrangements.
- On relatively straightforward votes a show of hands is sufficient. For more complex or contentious motions the vote may be taken to poll.
- Independent directors have the power to veto decisions should they believe it to be against the public interest.
- Separate legal entities belonging to the same group are only entitled to nominate one director and hence have one vote e.g. Lloyds Banking Group and RBS Group.
- Voting with regards to funding requires 100% board consensus with all decisions first going to the company's Audit and Finance Committees for approval.

2.3.3 Board governance processes

- The board's role is to provide guidance, support and, where applicable, challenge to the Senior Management Team which comprises the CHAPS Managing Director, Director of Business Operations, Heads of Risk and Head of Legal and Regulatory Affairs.
- All direct participants are represented at the board and on at least one board committee.
- There are a total of six board reporting committees all of which maintain their own terms of reference with various working groups including: Governance & Discipline, Business & Strategy, Audit & Finance, Risk, Appointments & Remuneration and Technical & Operations.
- The board meets on a quarterly basis and holds an annual strategy day.

2.4 Payment System Membership

2.4.1 Membership types

- CHAPS maintain two levels of participation through indirect and direct participants. Those that are direct are contractually bound to the CHAPS Payment System Rules. Indirect participants are customers of direct participants wishing to settle CHAPS payments and enter into commercial terms with their direct participant to which CHAPS is not a party.
- CHAPS differentiate direct participants on the basis of their systemic risk importance, dividing participants between Class 1 high systemic importance (six), Class 2 moderate systemic importance (12) and Class 3 low systemic importance (three) based on an objective set of criteria.

2.4.2 Members

- CHAPS has 21 direct participants; recent joiners include Svenska Handelsbanken (November 2013) and BNY Mellon (May 2014). There are a further six participants expected to join within the next two years.
- Whilst listed as a direct participant, the Bank of England is represented on the board as an observer and not as a non-executive director.
- National Westminster Bank and Bank of Scotland whilst listed separately as members are represented at board level under their respective banking groups (Royal Bank of Scotland and Lloyds Banking Group).

2.4.3 Payment system funding

- The payment system is funded on a not-for-profit, cost recovery basis. Historically, costs have been allocated to direct participants based on volume usage of the payment system, with a 2% minimum charge. In July 2014, the CHAPS board approved a new funding model which reflected both fixed and variable scaled costs. This will be implemented from January 2015.
- CHAPS 2014 operating costs include maintenance of a six month regulatory reserve (plus a 15% contingency) and a £500k operational reserve.
- CHAPS have removed its joining fee. Only new international participant members incur the cost of providing a satisfactory legal opinion to CHAPS and the Bank of England for the country in which the prospective members are incorporated.
- Costs are currently funded by direct participants including costs associated with regulatory and operating reserves, payment system management, infrastructure management, and SWIFT messaging.
- Any changes to the underlying technical functionality are provided by the Bank of England.

2.5 Governance Processes

2.5.1 Change of membership

- Admission to the payment system is granted on the basis of fulfilling publicly available criteria noted right:

CHAPS Membership Criteria

- Have a settlement account with the Bank of England
- Be a participant which falls within the definition of participant in Financial Markets and Insolvency Regulations 1999
- Meet agreed technical and operational requirements
- If required, provide a legal opinion issued by an independent legal advisor
- Enter into a separate agreement with the current settlement Participants
- Be a shareholder of the company
- Complete an audit and certification process
- Pay external costs incurred as part of the participant on boarding process

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- Any changes to the terms of the direct participation are governed by the CHAPS Payment System Rules and are subject to annual review. All changes must be formally approved by the board after being subject to committee review.
- As more organisations become direct participants, it is expected that the board composition will need to be reviewed to ensure it remains effective.

2.5.2 Appointment of directors

- Direct participants are entitled to nominate a board director from their organisation.
- All appointments are considered by the Appointments and Remuneration Committee for subsequent endorsement from the board based upon criteria including seniority, strategic thinking, expertise and independence.
- The Bank of England may interview proposed directors.
- Independent directors are chosen on the basis of criteria set out in the Appointments & Remuneration committee terms of reference, having first met independent criteria first set out in the company's Memorandum and Articles of Association.

2.5.3 Oversight

- CHAPS are a contracted payment system of the Payments Council where the Payments Council have a series of "reserved matters" which CHAPS must refer to the Payments Council board.
- In addition, the Senior Management team ensures that primary contacts are available to key regulatory bodies such as the Bank of England (including the Prudential Regulation Authority). The Legal & Regulatory affairs unit acts as the first point of contact for regulators and industry bodies.
- The CHAPS payment system seeks to comply with the CPSS-IOSCO Principles for Financial Market Infrastructures that apply to payment systems.

3. Cheque & Credit Clearing Company (C&CCC)

3.1 Recent Changes

- Cheque & Credit Clearing have recently introduced two additional independent directors; the Chair has been independent since 2004. Voting is no longer based on volumes; it has been replaced by one director, one vote.
- Cheque & Credit Clearing have recently changed their Articles of Association to support the appointment of the Chairman and Managing Director as statutory directors as well as introducing the two new independent directors.

3.2 Legal Status

- Cheque and Credit Clearing is a company limited by shares and is wholly owned by its 11 member banks. The authorised share capital of the Company is £10,000 divided into 100,000 shares of ten pence each, with each member owning one share.

3.3 Board

3.3.1 Structure

- The board consists of two independent directors, the Chairman and the Managing Director. In addition, each settlement bank may nominate a non-executive director of which there are nine from the 11 members as each banking group will only be permitted to nominate one director. Each director is also able to nominate an alternate.

Cheque and Credit


1 Chairman


1 Managing Director


2 Independent Non Executive Directors


9 Non Executive Directors

Cheque & Credit Board Directors (as at August 2014)	Organisation	
Chairman	Independent	
Non-Executive Directors	Independent Independent	
Managing Director	Cheque & Credit	
Non-Executive Directors nominated by members	Bank of England Barclays Clydesdale Co-operative HSBC	Lloyds Banking Group Nationwide Royal Bank of Scotland Group Santander

3.3.2 Voting processes

- Each director is allocated one vote. A total of 75% of the eligible vote including a minimum of one independent director must vote in favour to carry a resolution.
- Both independent directors have the power to veto should they believe an issue to be within the public interest.
- In the event of a merger or divestment of a member, each group will only be permitted to nominate one director.
- Voting with regards to funding also requires 75% of the eligible vote to be in favour in order to affect agreement.

3.3.3 Board governance processes

- Decisions and issues raised at the sub-committee level are referred up to the board should they be deemed relevant.
- Sub-committees operating within the payment system include: Governance & Stakeholder Management Committee, Audit, Risk & Compliance Committee, Future Clearing Model Steering Committee, Programme Development Committee and Operations Management Committee.
- Within this, the members of the Chairman's Committee are responsible for providing high level oversight of the effectiveness of the sub-committees they Chair and to act as an advisory committee for the Managing Director.

3.4 Payment System Membership

3.4.1 Membership types

- Cheque and Credit Clearing offers both a direct and an indirect/agency service. All direct members of the payment system are responsible for interbank settlement.
- A large number of agencies have settlement completed on their behalf under an indirect model. The payment system has no visibility of these commercial arrangements.

3.4.2 Members

- Cheque and Credit Clearing has 11 members including all major high street banks and the Bank of England.
- Approximately 250 banks, building societies and payment service providers choose to access cheque clearing through an agency arrangement with one of the settlement members.

3.4.3 Payment system funding

- The payment system is almost entirely funded by its 11 members. Small contributions are also received from the Belfast Bankers' Clearing Company Ltd and the Cheque Printer Accreditation Scheme.
- Payment system operating costs are covered by the Company Call which is allocated on volume sent and volumes received basis. There is a minimum charge of 2% of the Company Call.
- Payment system costs are allocated across the Company Call to meet payment system operating costs, and directly cross-charged by usage for the Inter Bank Data Exchange (IBDE) infrastructure costs and unpaid courier charges.
- Cheque and Credit Clearing charges an initial joining charge determined on a cost-recovery basis, taking into account the costs that the company and all other members expect to incur in admitting the member into the clearing system. Any specific legal fees incurred by the company in assessing the prospective member are paid by that member. IBDE charges are applied annually whilst unpaid courier charges are applied quarterly and are based on the number of collections and deliveries.

3.5 Governance Processes

3.5.1 Change of member

- In practice, membership is static with the last member to join being Nationwide Building Society in 1991. Some changes in representation take place following merger activity e.g. Halifax/Bank of Scotland, HBOS/Lloyds.
- Direct members must fulfil a number of criteria as stated below:

Cheque and Credit Membership Criteria

- Be an authorised credit institution, a public authority or publicly-guaranteed undertaking;
- Hold a settlement account at the relevant Settlement Service Provider for the relevant currency and/or the agreement of the relevant Settlement Service Provider to allow access to the settlement arrangements operated by that Settlement Service Provider;
- Carry out business and operate an office within the European Economic Area
- Provide a cheque and/or credit clearing service (for sterling cheques and/or sterling credits and/or euro cheques) to its customers through the clearing systems operated by the Cheque & Credit Clearing Company
- Have the ability to comply on a continuous basis with the technical and operational requirements
- Pay the membership charges
- Sign legal agreements in respect of membership and of the settlement arrangements
- If required by the Cheque & Credit Clearing Company, provide a legal opinion
- Have a minimum prime short-term credit rating and an investment grade long-term credit rating.
- Become a shareholder of the Cheque & Credit Clearing Company Limited.

- To be eligible to be an agency with indirect access to the GB cheque clearings through one of the settlement members, an entity must be a payment service provider under the Payment Services Regulations. An entity wishing to become an "indirect clearer" makes the necessary contractual arrangements directly with the member concerned. The C&CCC does not get involved with these commercial arrangements. An agency is required to comply on a continuous basis with the technical and operational requirements (rules, procedures and standards) of each clearing system in which it participates; its settlement member is responsible for ensuring that it does.

3.5.2 Appointment of directors

- Non-executive directors appointed to the board are nominated by their respective banks. All appointments are subject to the terms set in the payment system's Articles of Association.

3.5.3 Oversight

- Cheque & Credit Clearing is not recognised by HM Treasury for statutory oversight by the Bank of England despite this, the payment system seeks to comply with the CPSS-IOSCO Principles for Financial Market Infrastructure.
- While Cheque & Credit are a payment system contracted to the Payments Council, it is not subject to the "reserved matters" that apply to BPSL, CHAPS Co and FPSL. Cheque & Credit Clearing does not have any "reserved matters" as they were only introduced for payment systems recognised by the Bank of England.
- Cheque and Credit Clearing is a designated system under the Financial Markets & Insolvency (Settlement Finality) Regulations 1999.
- Additionally the payment system monitors and engages with industry oversight bodies, examples of which include the payment system's recent responses to the HM Treasury's Consultation –"Speeding up Cheque Payments: legislation for cheque imaging".

4. Faster Payments Scheme Limited (FPSL)

4.1 Recent Changes

- Voting used to be based around member volume with additional votes for directors representing more than 10% of volume. This has been replaced by one director/one vote.
- FPSL has removed its minimum contribution, previously from 2% to reduce barriers to entry for new entrants.

4.2 Legal Status

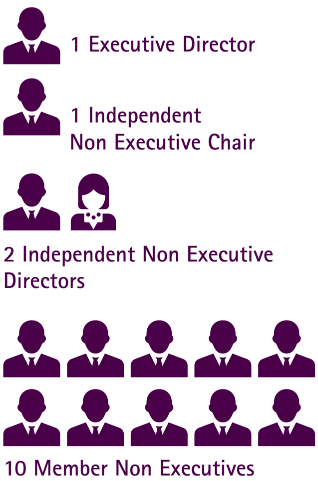
- FPSL is a company limited by guarantee and does not have shareholders. The liability of each member is £1. The payment systems membership is comprised of 10 leading UK, US and European Banks.

4.3 Board

4.3.1 Structure

- The board consists of 10 member-nominated non-executives, three independent non-executives (including the Chair) chair and the managing director.

Faster Payments



Faster Payments Board Directors (as at August 2014)	Organisation	
Independent Non-Executive Chair	Independent	
Independent Non-Executives	Independent Independent	
Executive Director	Faster Payments Scheme Limited	
Non-Executives Directors nominated by members	Barclays Citibank Clydesdale Co-operative Northern Bank	HSBC Lloyds Banking Group Nationwide Royal Bank of Scotland Group Santander

4.3.2 Voting processes

- Voting is based upon one director/one vote with veto rights, based on public interest matters for the independent directors.
- In certain circumstances the Chair or directors may demand a poll although, in practice, the majority of votes pass without the need for a show of hands.
- In the event that a vote proves contentious, the motion will passed through the committees again for further review.
- Decisions from any general meeting will be determined by a 75% majority of direct members i.e. members of the company and where that 75% is not less than 50% of the total clearing volume of the payment system.
- Decisions at board meetings require at least 75% of directors to approve, plus votes from member appointed directors covering at least 50% of clearing volume, plus the majority of independent non-executive directors to approve.

4.3.3 Board governance processes

- Recommendations are passed up to board meetings for consideration from sub-committees including: Rules & Governance, Audit & Finance, Risk, Settlement Risk, Development, Operational, Infrastructure & Appointment.
- The committees report on a quarterly basis.

4.4 Payment System Membership

4.4.1 Membership types

- There are three levels of membership within the payment system:
- Direct Settling Participants: Participants who maintain direct access to the infrastructure and hold a settlement account with the Bank of England, of which there are 10.
- Direct Non Settling Participants: Participants who also maintain direct access to the infrastructure but do not hold a Bank of England settlement account. Settlement is completed by a sponsor bank in the form of an agency relationship, of which there is one.
- Indirect Participants: Participants holding neither a Bank of England settlement account nor direct access to the Faster Payments infrastructure. Access to the payment system is provided by direct members although the payment system has no visibility of the contractual relationship between sponsor and agency, of which there are around 260+.

4.4.2 Members

- The Faster Payments payment system has one direct non-settling participant, 10 direct settling participants and 260 indirect participants. Notably the payment system has received significant interest from participants in response to Paym as well as interest from maturing challengers reviewing their customer payment propositions.
- Members are obliged to sign an agreement setting out the terms of the membership and the subsequent operational and procedural rules they need to follow.

4.4.3 Payment system funding

- The majority of funding is provided from the payment system's direct participants, although any change initiatives are priced relative to the proportion of benefit a participant may receive. The payment system has, however, expressed an openness to funding through the alternative sources should it be appropriate.
- Faster Payments costs are divided between infrastructure costs and payment system operating costs.
- Infrastructure costs are divided across an annual, fixed connection fee, monthly fees, minimum volume fees and additional volume fees. Additional costs are charged for direct corporate access (DCA) or file input module (FIM) facilities.
- The allocation of fees per member is based on their share of the total volume of transactions for the previous year.

4.5 Governance Processes

4.5.1 Change of members

- Changes to payment system membership are driven by industry demand. All potential members wishing to join the payment system are subject to tests designed to assess procedural, operational and implementation capabilities as well as publically available criteria listed below.

Faster Payments Membership Criteria

- Be an authorised credit institution
- Hold a reserve account at the Bank of England or be able to use a reserve account held by a group member at the Bank of England
- Be able to comply on a continuous basis with operational and technical requirements
- Commit to pay any additional legal costs
- Validly execute and remain party to all FPSL legal agreements
- Provide a legal opinion confirming that payment system agreements are legally binding and enforceable

4.5.2 Appointment of directors

- All direct members are entitled to nominate one non-executive director to the board. Independent directors are nominated for a period of three years which can on recommendation from the appointments committee be extended for a further three years. All directors, however appointed, have a fiduciary duty to the payment system, and must operate in the best interests of the payment system.

4.5.3 Oversight

- Whilst there is a historical contract with the Payments Council which includes reserved matters, the Payments Council itself does not hold any influence over the internal governance processes of the payment system.
- Faster Payments is recognised by HM Treasury under the Banking Act 2009 for statutory oversight by the Bank of England.
- The Payment system makes an annual public disclosure of its CPSS-IOSCO FPFMI Self-Assessment, which is published on its web site for public scrutiny.

5. LINK

5.1 Recent Changes

- None

5.2 Legal Status

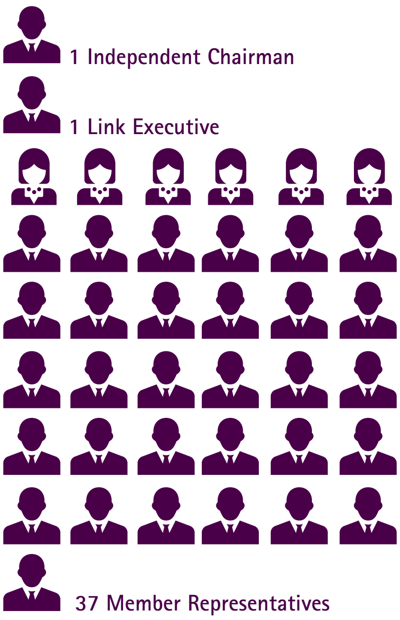
- The pre-merger LINK Interchange Network Limited is a VocaLink company and is therefore owned by VocaLink; however, it does not trade. LINK payment system itself is a contractual agreement between its members and VocaLink. Neither the LINK Payment system nor the Network Members Council (NMC – described in following section) is incorporated as a company in its own right. All payment system assets are controlled and owned by VocaLink.

5.3 Board

5.3.1 Structure

- The LINK payment system is not incorporated and as such does not have a board of directors. Governance is administered by a council of all members known as the Network Members Council (NMC) which has a current membership of 37.
- The Network Members Agreement (NMA) is a contractual agreement between VocaLink and the members.

LINK



LINK Council Representatives (as at July 2014)	Organisation	
Independent Chair	LINK	
LINK Executive	LINK	
Representatives	Royal Bank of Scotland	Cardtronics UK ltd
	Money Corp ltd	G4S Cash Solutions (UK) ltd
	Nationwide	AIB
	Raphaels Bank	Citi Group
	Airdrie Savings Bank	Lloyds Banking Group
	Coventry Building Society	Note Machine
	Virgin Money	Metro Bank
	Co-operative Bank	Santander
	Northern Bank	Change Group ATMS ltd
	HSBC	Bank of Ireland
	Creation	American Express Europe ltd
	Travelex	Paypoint
	Sainsbury's Bank	Cumberland Building Society
	TSB	Tesco Bank
	Yorkshire Building Society	National Australia Group
	Credit Mutuel	Barclays Bank
	Your Cash	DC Payments UK ltd

5.3.2 Voting processes

- Voting rights are primarily determined by volumes within the payment system. In addition, a 15% cap is imposed on larger institutions (Lloyds and RBS are currently capped in this way).
- Vote volumes are split 50/50 between issuers and acquirers with one transaction counting for both the issuer and acquirer.
- Currently the largest five banks hold an approximate 54% share of the vote whilst acquirer-only votes (mainly independent deployers) are approximately 16%.
- Any changes to the NMA require an 80% majority as well as VocaLink agreement whilst all decisions relating to operations require typically a 50-60% majority of votes for a motion to pass.
- Interchange issues require an 80% vote. Should 20% of members request it, a lost decision on interchange can be referred to a professional adjudicator for a formal decision. The issuers pay all interchange to the acquirers in return for the service provided by acquirers to issuers' customers. This amounts to some £650m per annum.

5.3.3 Council governance processes

- The NMC meets quarterly and oversees the governance of all decisions except for those on membership entry; these are decided by the payment system executive.
- The main subcommittee within the payment system is the Governance & Performance Committee (G&PC) which plays an advisory role relating to risk and finance. Other subcommittees include the NMC Review Group and the Consumer Council.

5.4 Payment System Membership

5.4.1 Membership types

- All members of the LINK payment system are direct and all membership terms are equal across members, whilst members are direct they are able to provide a managed service to other organisations.

5.4.2 Members

- The NMC comprises 37 members including card issuers and ATM operators. Most recently Change Group International plc, a global currency specialist joined the payment system in July 2014, along with TSB Bank.
- The NMC oversees a range of contractual obligations on members, including compliance.

5.4.3 Funding

- All members are required to pay an annual membership fee whilst issuers are required to pay a per transaction fee. These fees are budgeted on a cost recovery basis.
- Fees are split between annual payment system fees and infrastructure costs.
- Infrastructure costs cover operating, maintenance, telecoms and customer support.
- Annual payment system fees cover both a monthly membership fee across the 37 members and a set transaction fee (payable only by issuers).
- Fees are set annually through a budgeting process.
- VocaLink has a schedule of fees covering both processing and settlement activities that are set at in a rate card within the NMA.
- Any changes to or investments in the payments system are historically negotiated directly with VocaLink. This will be carried out by the individual members.

5.5 Governance Processes

5.5.1 Change of members

- Entry to the payment system is governed by the payment system executive although all entry criteria are set by the NMC.
- Potential members typically approach the payment system executive.

5.5.2 Appointment of directors

- The appointment of an Independent Chairman is decided by a majority vote within the NMC.

5.5.3 Oversight

- LINK is not regulated by the Bank of England or any other regulator. It does, however, maintain a close relationship with the area of the Bank responsible of the issuance of bank notes given LINK's role in the distribution and circulation of cash.
- LINK also meets regularly with other regulators including HMT and CMA.
- The Payments Council does not have a role or formal relationship with the LINK payment system's governance. LINK does have a collaboration agreement with the Payments Council that may be terminated at no notice by either party.

6. American Express

6.1 Recent Changes

- None.

6.2 Legal Status

- The American Express group of companies ("American Express" or "Amex") is owned and controlled by the American Express Company ("AXP"), a publicly-traded company which is incorporated under the laws of the State of New York, USA. AXP's headquarters are located in New York City and its shares are listed on the New York Stock Exchange ("NYSE").
- In the UK, Amex's proprietary issuing activities are carried out by American Express Services Europe Limited ("AESEL"), whilst its proprietary acquiring activities are carried out by American Express Payment Services Limited ("AEPSL"). Both of these Amex subsidiaries are incorporated in the UK and regulated as payment institutions by the FCA. The Amex network (both for Amex's own proprietary business and for the small number of licensees it partners with), is operated by American Express Limited ("AEL"), which is incorporated under the laws of Delaware and is the designated licensor of American Express® and related trademarks outside the US.

6.3 Board

6.3.1 Structure

- The American Express board comprises of 12 independent directors, a Chair and a CEO.
- Independent directors consist of non-executives meeting the criteria for independence as set out by the NYSE as well as possessing significant experience within areas deemed necessary to the running of the company such as general management, finance, marketing, technology, international business or public sector activity.

6.3.2 Voting processes

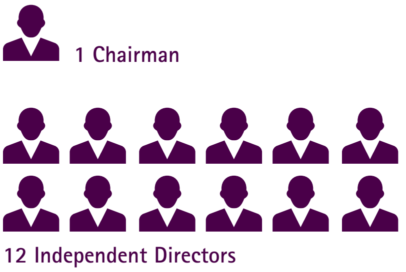
- Licensees of American Express have no role in the management or operation of the company, nor do they hold influence within any governance body of American Express.

6.3.3 Board governance processes

- The board of directors has in place the "Corporate Governance Principles" which provide the basis for the governance of the company. These principles cover aspects such as the composition and size of the board, director qualifications, and the independence of directors, director responsibilities and frequency of board meetings.
- American Express has six standing committees including: Audit & Compliance, Compensation & Benefit, Innovation & Technology, Nominating & Governance, Public Responsibility and Risk.

6.4 Board Structure

American Express



American Express Board members are not listed due to American Express being a publically traded company, not member owned.

6.5 Payment System Licences

6.5.1 Recent changes

- Recently negotiated an agreement with Barclays as an issuer licensee.

6.5.2 Licence types

- There is no concept of licensee "membership" in the American Express network, and the decision whether and to whom to license American Express' assets (most importantly, the intellectual property in the American Express brand) is taken solely by American Express in its complete discretion, without any direct or indirect involvement by any licensee.
- Licensees play no role in the management of American Express and are not represented, directly or indirectly, in any governance bodies of American Express. American Express is a fully, publicly traded company, and no shares or decision-making roles are reserved for any licensees. Relationships between American Express and licensees are carried out strictly at arm's length. Thus, even where American Express partners with a licensee, this does not make the network an open four-party interbank card payment system, either in economic terms or under competition law, for all the reasons cited above.

6.5.3 Licensees

- Generally, and in order to increase market relevance and geographic coverage, American Express licenses a small number of carefully selected financial institutions to either issue American Express cards and/or acquire merchants on its network.

6.5.4 Funding

- All fees and transactions are negotiated and agreed bilaterally and independently between American Express and each license and to the exclusion of any other licensee.

6.6 Governance Processes

6.6.1 Change of licensee

- The decision to extend and licence American Express assets to new licensees is solely at the discretion of American Express. American Express licenses a small number of financial service institutions focusing on premium high value customers.

6.6.2 Appointment of directors

- The appointment of directors is covered under the company's Corporate Governance principles ensuring a "significant majority" of board directors consist of independent non-management directors meeting the criteria for independence as laid out by the NYSE.
- For non-contested elections, the vote needed for the election of a director must be a majority of votes cast. In a contested election, the director will be elected based on a first past the post system.

6.6.3 Oversight

- AESEL and AEPSL are payment institutions regulated and supervised by the FCA.
- American Express is subject to European Central Bank oversight and competition law both at a national and European level.

6.6.4 Payments Council membership

- American Express Services Europe Ltd is a full member of the Payments Council due to its issuer and acquirer status under the three-party model; it is represented at the Payments Council board by a constituency director.

7. MasterCard

7.1 Recent Changes

- None.

7.2 Legal Status

- MasterCard is a publicly listed company owned by its shareholders.

7.3 Board

7.3.1 Structure

- The MasterCard board comprises of 12 independent directors and President and CEO. At any one time the board cannot consist of less than three or more than 15 directors.

7.3.2 Voting processes

- All internal governance decisions are entirely at the discretion of MasterCard.

7.3.3 Board governance processes

- At present the board has three standing committees, each of which is required to comply with the responsibilities as required by the rules of the NYSE.

7.4 Board Structure

MasterCard

1 President

12 Independent Directors

MasterCard Board members are not listed here due to MasterCard being a publicly traded company.

7.5 Payment System membership

7.5.1 Licence types

- As a commercial organisation, the MasterCard payment system does not have "members" but instead has licensed and unlicensed "customers".
- MasterCard has three levels of licensee in "Principals", "Affiliates" and "Association". A Principal licence is normally sought by larger volume organisations and financial institutions. Affiliate licenses account for the majority of licences granted.

7.5.2 Licensees

- As of 8 January 2014, there were 19,855 customer financial institutions around the world who are Licensees of MasterCard.

7.5.3 Funding

- Licensees pay a fee based on whether they have a Principal, Affiliate or Association license. Additional fees are then payable dependent upon which MasterCard services the licensee chooses to procure.

7.6 Governance Processes

7.6.1 Change of licence

- MasterCard ensure all potential Licensees are properly regulated (e.g. as a credit institution or as a payment institution). Recent licensees include Metro Bank and TSB.
- Applicants must have submitted business plans acceptable to MasterCard in accordance to MasterCard standards.
- Applicants must be regulated and supervised by one or more Governmental authorities or agencies and provide evidence that they conform to MasterCard AML standards.
- A legal entity that is controlled by financial institutions approved to be a Customer and that proposes to engage in MasterCard Activity on behalf of one or more of those Customers can apply for an Association licence.
- These entities must have the "requisite right, power, and authority, corporate and otherwise", to be a Customer of MasterCard, and have submitted business plans acceptable to MasterCard. All decisions to admit an entity as an Association are made at the sole discretion of MasterCard.

7.6.2 Appointment of directors

- Independent directors to the MasterCard board are appointed internally. Candidates are selected by the Nominating and Corporate Governance committee and are recommended to the board on the basis of fulfilling guidelines set by the committee.

7.6.3 Oversight

- MasterCard is not a member of the Payments Council nor is it contracted to the Payments Council. MasterCard is not subject to statutory oversight by the Bank of England (but instead is subject to the Oversight exercised by the National Bank of Belgium, on behalf of the Eurosystem, which ensures MasterCard's compliance with the Standards for payment systems adopted by the European Central Bank).

8. Visa Europe

8.1 Recent Changes

- Visa Europe is presently restructuring its governance in an attempt to simplify it on three fronts: Board and Committee Governance, Local Market Organisation and Internal Governance.
- The intention of the internal restructure is to create four functional groups within the Visa Europe organisation responsible for completing the implementation and ensuring ongoing compliance of the change. These four groups will comprise committees, advisory, steering and taskforce groups.

8.2 Legal Status

- Visa Europe is an open membership organisation, owned and operated by over 3000 banks, financial institutions and payment providers. Each member owns a share with a nominal value of €10. Visa UK ltd is owned by Visa Europe members in the UK. Within this arrangement, Visa Europe holds a special share entitling it to appoint up to three directors to the board of Visa UK Ltd.

8.3 Board

8.3.1 Structure

- Visa operates two distinct governance structures involving both Visa Europe and Visa UK Limited (UK).

Visa Europe

- The Visa Europe board comprises representatives either appointed or elected from the Visa Europe membership, independent directors (one of which is chairman) and one executive director acting as President and CEO of Visa Europe. There are 20 members of the Visa Europe board, composed of:
  - Representatives appointed and elected from amongst the Visa Europe membership
  - An independent director, who is the Chairman
  - A second independent director; and
  - One executive director from Visa Europe management
- The directors of the Visa Europe board are appointed and elected from amongst members of Visa Europe. These are members from across Visa Europe's territory of 37 countries. Countries in the Visa Europe territory are divided into sub-regions to ensure that the Visa Europe board is representative of the membership across the Visa Europe territory:
  - **Sub-regions:** Sub-regions are typically determined by geography. However if Visa Europe members operating in any country account for 5% or more of the total voting fees (these are calculated on the basis of Visa transaction volumes and services fees paid to Visa Europe) of all members, than that country becomes a sub-region on its own.
  - **Number of directors per sub-region:** The number of directors per sub-region depends of the total voting fees for that sub-region. Each sub-region is entitled to one director per 7.5% (or fraction thereof) of voting fees. This means that each sub-region is entitled to at least one director. The maximum number of directors per sub-region is five (including both appointed and elected directors).
  - **Selection of directors per sub-region – appointments:** Members of Visa Europe who have 5% or more of total voting fees for the whole of Visa Europe territory of 37 countries are each entitled to appoint a director. These directors are included in the total number of directors for their sub-region.
  - **Selection of directors per sub-region – election:** Directors for each sub-region are elected from amongst members of Visa Europe belonging to each sub-region. Voting is based either on voting fees or if there are more than two directors to be elected then the final director would be elected in the second round of elections on the basis of one vote per member.
- Visa Europe has a specific governance arrangement within the UK headed by the Visa UK board which has delegated authority from Visa Europe for the development and operation of the Visa UK business.

Visa UK

- Visa UK limited (UK) is owned by Visa Europe members in the Visa Europe's "sub-region 1" (covering the UK, Ireland and Gibraltar). Visa Europe owns a special share enabling it to appoint up to three directors to the Visa UK board.
- The Visa UK board itself consists of representatives appointed and elected from amongst the Visa UK membership, an independent director who is also the Chair and directors appointed by Visa Europe.
- The eight Visa UK members with the highest transaction volumes are each entitled to appoint a director with the remaining elected from the remaining members of Visa UK. The number of elected directors is either four or five, according to whether certain conditions are satisfied. The Visa UK board currently has four elected directors.

Visa UK Board Directors (as at 22 July 2014)	Organisation
Directors	AIB Group (UK)
	Santander UK
	Barclays Bank
	The Co-operative Bank
	Worldpay (UK) Limited
	Citibank International
	Lloyds Bank
	HSBC Bank
	Elavon Financial Services Limited
	MBNA Limited
	Nationwide Building Society
	Royal Bank of Scotland
	Visa Europe
	Visa Europe
	Visa Europe
	Independent
	Independent

8.3.2 Voting Processes

- Voting rights on the UK board are allocated on a weighted basis. The three Visa Europe directors have two votes between them, after which the two largest Visa Europe members based on volume have two votes each, those members also holding in excess of 10% of volume also have two votes whilst all other directors have one. No director has a right of veto.

8.3.3 Board governance processes

- Visa Europe is currently restructuring its internal governance in an attempt to simplify it into three work streams; board and committee governance, local market organisation and internal governance.
- The intention of the restructure will be to create four functional groups within the Visa Europe organisation responsible for completing the implementation and ensuring ongoing compliance of the change. These four groups will comprise committees, advisory, steering and taskforce groups.

8.4 Board Structure

Visa UK

2 Independent Director/Chairman

3 Visa Europe

12 Members

8.5 Payment System Membership

8.5.1 Membership types

- Visa Europe has three categories of membership in the UK; Principal, Associate and Participant. Within these categories of membership, settlement and liability differs depending on membership type. Associate and Participant Members are sponsored into the payment system by Principal Members, usually belonging to the same banking group.

8.5.2 Members

- Visa Europe has 117 UK members (as of May 2014), of which 63 are Principal members including large banks, building societies and financial service companies.

8.5.3 Payment system funding

- Visa Europe charges a one-off membership fee upon joining; ongoing fees are charged on an annual or quarterly basis.

8.6 Governance Processes

8.6.1 Change of members

- Visa Europe has sole discretion over new membership. Incumbent members have no influence on potential new members. Membership applications are reviewed and approved by a Visa Europe internal risk committee.

8.6.2 Appointment of directors

- Representatives to the UK board are appointed or elected from amongst the Visa UK membership and three directors are appointed by Visa Europe.

8.6.3 Oversight

- Visa Europe is not a member of the Payments Council nor is it contracted to it. Visa Europe is not subject to statutory oversight by the Bank of England. The European Central Bank does have oversight of Visa Europe.

8.6.4 Compliance

- Each month, Visa Europe's compliance committee sits to discuss and assess member non-compliance. This often results in a number of fines being levied on its members or members being warned of the potential for fines should their non-compliance continue.

9. Payments Council

9.1 Recent Changes

- The Payments Council has recently appointed a further three independent directors following the end of contract term for two of the independent directors and the third taking on the role as independent chair.
- Since the beginning of 2014, it has added an additional six new full members in Coventry Building Society, Leeds Building Society, Think Money, TSB, Metro Bank and Investec.
- The Payments Council has recently announced the appointment of a new interim CEO who will take up the role in November 2014.

9.2 Legal Status

- The Payments Council is a company limited by guarantee and does not have shareholders.

9.3 Board

9.3.1 Structure

- The Payments Council board comprises 15 directors, one independent Chair, a Bank of England observer, a challenger bank observer, and the CEO of the Payments Council as an observer.
- The directors are spilt into 11 industry directors and four independent directors.
- The 11 industry directors are made up of:
  - The four large sponsor banks by volume (Barclays, Lloyds, HSBC, and RBS) and the largest challenger bank by volume (Santander) who each have a seat by right but are also mandated to deliver any projects agreed by the board.
  - Six directors from PSPs with smaller qualifying volumes. These come from two constituencies of members (those with between 1% and less than 5% volumes and those with less than 1% of volumes) who each elect three representative directors at board – the views of the constituencies are collected through the member engagement group and sessions are arranged to facilitate this.

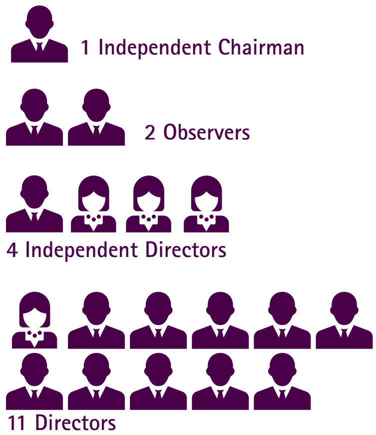
Payments Council Board Members (as at August 2014)	Organisation
Chairman	Independent
Independent Director	Independent Independent Independent Independent
Directors	HSBC Santander Nationwide J.P Morgan Chase National Australia Group Lloyds Barclays Co-operative Coventry Building Society Bank of Ireland Royal Bank of Scotland
Observers	Bank of England Payments Council Virgin Money

9.3.2 Voting processes

- All directors have one vote each at board meetings, alongside the one vote for the independent Chair.
- Any two of the independent directors can vote together to block a decision that they do not believe is in the best interests of the UK.
- Payment Council projects are initiated as a result of different drivers, e.g. from regulators/policy makers, customers or the industry itself. All projects feed into a standard project methodology, and the case has to be made to board including cost benefit analysis and research findings.
- For General Meetings, voting rights are allocated based on a percentage share of payment volumes.

9.4 Board Structure

Payments Council



9.5 Payment System membership

9.5.1 Membership types

- The Payments Council has full members and associate members.

9.5.2 Members

- The Payments Council currently has 36 full members and a further 27 associate members.

9.5.3 Funding

- The majority of the Payments Council budget is funded through a "call" to members. For those projects which require additional funding, a separate call to relevant participants is made.
- Funding is split between members based on qualifying UK payment volumes.

9.6 Governance Processes

9.6.1 Change of members

- Payment service providers with qualifying payment volumes in the UK are eligible to join as full members.

9.6.2 Appointment of directors

- An open recruitment process is maintained for independent directors. They are recruited to bring additional perspectives to the board and for their breadth of skills and experience. They have a duty to act in the interests of the payments sector as a whole.
- Industry directors are nominated by their institution.
- Board members are also appointed on a constituency basis with some board directors elected from the smaller volume membership community (compared to larger volume members automatically have the right to nominate a director).

9.6.3 Oversight

The Payments Council has engagement with authorities including the Bank of England, HM Treasury, The Payment Systems Regulator, the Financial Conduct Authority and the Competition and Markets Authority. There is no official oversight body.

10. VocaLink

10.1 Recent Changes

- Zapp has been created under a separate company in its own right to deliver a commercial service, wholly owned by VocaLink.

10.2 Legal Status

- VocaLink is a company limited by shares that has 18 institutional shareholders comprising leading UK clearing and agency banks and building societies with a variety of stockholding volumes. The company is not publicly listed.

10.3 Board

10.3.1 Structure

- VocaLink has four Independent non-executive directors, six shareholder-nominated non-executive directors, two executive directors and a company secretary.
- Each shareholder is entitled to nominate a candidate; voting is based on shareholdings. In practice, this means the five largest shareholders hold a sufficient number of votes to ensure their nominated candidate is appointed as a director.
- The remaining sixth shareholder director acts as a representative for smaller institutions. This structure seeks to balance the board through the use of independent non-executive directors.

VocaLink Board Directors (as at August 2014)	Organisation
Independent Non-Executive	Independent
	Independent
	Independent
	Independent
Shareholder Non-Executive	Royal Bank of Scotland
	HSBC
	Barclays
	Lloyds
	Nationwide
	Santander
	National Australia Group
Executive	VocaLink
Executive	VocaLink
Company Secretary	VocaLink

10.3.2 Voting processes

At shareholder level voting rights are capped which limits any shareholder holding more than 24.99% of shares exercising only up to 24.99% of the votes. At board level, the board includes four independent non-executive directors. Voting at board is conducted on a one director/one vote basis.

10.3.3 Board governance

All directors (including shareholder-appointed and independent non-executive directors) are subject to directors duties as set out in the Companies Act. This is reinforced through a directors' handbook and periodic external audit on the effectiveness of the board.

10.4 Board Structure

VocaLink

10.5 Shareholders

10.5.1 Shareholders

- VocaLink has 18 shareholders comprised of banks and building societies. Currently the five largest banks hold 85 percent of all shares.

10.5.2 Funding

- Changes are either directly funded by VocaLink (from retained earnings, debt facility or via a call on shareholders), or funded by payment systems and their members in some specific cases to deliver changes requested by the relevant payment system company.

10.6 Governance Processes

10.6.1 Appointment of directors

- Each shareholder is entitled to nominate a director. Nominations are reviewed by the Nominations Committee which is continually reviewing the skills, experience and overall board composition.

10.6.2 Oversight

VocaLink is an infrastructure provider rather than a Financial Market Infrastructure (FMI) or payment system operator. It has not been recognised by HM Treasury under the Banking Act 2009 and is not subject to oversight as an FMI by the Bank of England.

11. UK Payments Administration

11.1 Overview

- The UK Payments Administration Ltd (UKPA) is a service company providing employees, facilities and resources to the UK Payments industry. The organisation employs over 170 people.

11.2 Remit

- The company works with a number of companies, payment systems and brands including Bacs, Belfast Bankers Clearing Company Ltd, Bank Safe Online, CHAPS Co, Cheque and Credit Clearing, Dedicated Cheque and Plastic Crime Unit, Faster Payments, Financial Fraud Action UK, LINK, Payments Council, Pay Your Way, SWIFT (UK) and the UK Cards Association.
- UKPA provides shared services at Thomas More Square to the payment system operators – Bacs, CHAPS, FPS, C&CCC, UK CARDS Association and Payments Council.
- Shared services included:
  - Facilities (the shared office space at 2 Thomas More Square),
  - IT services, Finance,
  - Shared legal services (although some payment systems also have their own legal advisors e.g. CHAPS),
  - Human resources,
  - Internal audit; and
  - Corporate services such as information management.
- With regards to the payment systems operators they provide resource, facilities and other shared services to Bacs, CHAPS, Cheque & Credit Clearing, Faster Payments and Payments Council. In the case of LINK only facilities are provided. LINKS employees are provided by VocaLink.

11.3 Board & Committee Governance

- The board consists of three executive directors and two industry directors. There is a remuneration committee under the UKPA board.

12. Other Relevant Organisations including regulators, trade bodies and standard setters

12.1 Bank of England

- The Bank of England has responsibility for oversight of those payment systems that HM Treasury have recognised under the Banking Act 2009; this includes Bacs, CHAPS and Faster Payments.
- The Bank does not oversee VocaLink. It does, however, maintain a relationship with VocaLink to discuss relevant issues. As an infrastructure provider rather than a payment system operator, VocaLink does not fall within the scope of Part 5 of the Banking Act 2009. The Banking Act was, however, amended in 2010 to enable the Treasury to bring a service provider, such as VocaLink, into the scope of Part 5.
- The Bank of England has responsibility for statutory oversight of payment system operators (the scheme companies), for payment systems that the Treasury has recognised under Part 5 of the Banking Act 2009. This includes Bacs, CHAPS and FPS. These payment systems and Cheque & Credit Clearing are designated by the Bank under the Settlement Finality Directive.
- Under the Banking Act, the operators of recognised payment systems are required to have regard to Principles published by the Bank. The Bank has adopted the internationally agreed Principles for Financial Market Infrastructures (PFMIs) published in April 2010 by CPSS-IOSCO. Each year, the Bank identifies a number of priority areas for each operator to address. In recent years, this has included the introduction of independent directors, the reduction of tiering in CHAPS on financial stability grounds and the elimination of settlement risk for Bacs and FPS (with the pre-funding solution due to go live later this year).

12.2 UK Cards Association

- UK Cards Association is the trade association for card payments in the UK counting all major debit, credit, charge issuers and payment acquirers amongst its members. The objectives of the organisation are to provide a consistent message regarding card payments to the UK public as well as promoting and developing industry standards and best practices. In addition the UK Cards Association provides a forum for its members to collaborate on non-competitive issues.
- Membership of the UK Cards Association is open to any organisation that issues payment cards in the UK under the American Express, LINK, MasterCard or Visa payment systems or that acts as a merchant acquirer in the UK for these payment systems. For members that issue in excess of a million cards under these payment systems (of which half must be debit, credit or charge cards) and/or acquire at least 2.5% of total UK card purchase transactions are entitled to a seat on the board.
- Members that do not meet the above criteria are eligible to join the Association and receive agenda papers; minutes and reports circulated to board members and may also be represented collectively on the board.

12.3 PCI

- PCI is an open global forum responsible for the development, management and ongoing education of cards payment standards, most notably the Data Security Standards (PCI DSS), Payment Application Data Security Standards (PA DSS) and PIN Transaction security (PTS).
- The council has five founding brands including American Express, Discovery Financial Services, JCB International, MasterCard, and Visa Inc. who each implement the PCI DSS standards into their own security compliance programmes.

12.4 EMVCo

- EMVCo aims to assist the worldwide interoperability and acceptance of payments activities, card terminal evaluations and security evaluation.
- EMVCo has six member organisations including Amex, JCB, Union Pay, Discover, MasterCard and Visa.

13. Strategy Setting – International Comparisons

Over the last decade, several countries around the world have launched wide reviews of their payments systems in order to identify gaps and set up various strategic objectives to create a safer, more efficient and innovative payments system. Local Governments have been the main lead actors to promote a renewal of their countries' payment systems with different approaches reflecting differences at national level. There have been a number of new plans and roadmaps for national payment systems such as Canada, South Africa, Australia and Ireland each of which have taken steps down this path.

In 2010, the Canadian Minister of Finance announced the Task Force for the Payments System Review with the mandate to provide concrete, actionable advice and recommendations to help guide the evolution of the payment systems. The South African Reserve Bank's National Payment System Department published a new vision documents (Vision 2015) in 2010, the third in 15 years (following publication of earlier vision documents in 1995 and 2006) and in 2011 the Irish Minister for Finance asked the Central Bank of Ireland to take a lead role in preparing a National Payments Plan. More recently, in June 2012 the Australian New Payments Platform (NPP) Program was launched responding to strategic objectives for Australian payment systems set by the Reserve Bank's Payments System board.

Despite strategic objectives varying from country to country, a common focus on efficiency, innovation, payment system architecture and governance emerge across all countries. Displacement of cash and cheque usage, real time processing, improvements of interoperability and implementation of international standards and formats (e.g. SEPA, ISO 20022 XML) are all in the scope of the national payments strategies.

Strategic objectives are commonly identified by task forces of payments experts and industry participants. They are then approved by local authorities (Governments or central banks). Payments industry associations (e.g. in Australia and Canada), central banks (e.g. in South Africa) or diversified steering committee involving public authorities, banks and central banks (e.g. in Ireland) are in charge of the implementation phase.

In Australia, for instance, the execution of the National Payments Platform Program, which will provide the new infrastructure for Australia's low-value payments, is being developed collaboratively by authorised deposit-taking institutions. An industry steering committee is overseeing development of the NPP. The New Payments Platform Steering Committee comprises senior representatives from the Australian banking and mutual sector, an alternative payments provider and the Australian Payments Clearing Association's (APCA) CEO. The plan is expected to be completed in 2016.

Other countries such as Sweden, United Arab Emirates, Italy and Nigeria are not implementing specific strategies or plans, but using different policies they are supporting the modernisation of their payments systems and the migration towards a cashless society.

APPENDIX C: GLOSSARY OF TERMS

Term	Definition
Acquirer	See merchant acquirer
Affiliate	Indirect users and other interested parties of payment systems who pay to be an affiliate with that payment system. They also may participate in appropriate groups such as the Electronic Payment or CHAPS Affiliate Groups.
Agency bank	A credit institution which is a payment service provider (see definition of 'Indirect participant) but which is not a direct member/participant in a payment system.
Alternate director	A board director appointed by a payment system member to stand in place of the "main" member-nominated directors. Alternate Directors are typically subject to the same fiduciary duties as the "main" director.
APACS	Association for Payment and Clearing Services, the old UK trade association for payments, dissolved in 2009.
ASPB	Account Switching Programme Board formed by the Payments Council to govern the current account switching programme.
Authorised payments institution	A payment institution that is not a small payment institution. It needs to register and be authorised by the FCA, and have a minimum amount of capital required by the FCA. It has passporting rights to operate in other EEA countries, without registering with further competent authorities.
Bacs	Originally the Bankers' Automated Clearing System, the UK mass domestic payment system for direct debits, standing orders and direct credits.
Bacs approved bureaux scheme	A scheme for commercial computer bureaux that submit transactions through the Bacs service on behalf of third party organisations.
BBA	British Banking Association, representing the interests of member organisations across the UK banking sector.
BBCCL	Belfast Bankers' Clearing Company Ltd, payment system operator of cheque clearing in Northern Ireland.
BIN	Bank identification number - typically the first four to six digits of a credit, debit, charge or prepaid card. The bank identification number identifies the institution issuing the card.
BoE	Bank of England
BPSL	Bacs Payment Schemes Ltd, payment system operator for the Bacs payment system.
CASS	Current Account Switching Service, a free-to-use service for consumers, small charities, small businesses and small trusts, designed to make switching current accounts from one bank or building society to another, quick (7 days), reliable and easy.
CHAPS	Clearing House Automated Payment System - the UK high value payment system providing real-time finality of sterling payments cleared through the Bank of England's RTGS (real time gross settlement system).
Chip and Pin	Chip and PIN is the brand name adopted by the banking industries in the United Kingdom and Ireland for the rollout of the EMV smart card payment system for credit, debit and ATM cards. The word "chip" refers to a computer chip embedded in the smartcard; the acronym PIN refers to a personal identification number that must be supplied by the customer. "Chip and PIN" is also used in a generic sense to mean any EMV smart card technology which relies on an embedded chip and a PIN. APACS oversaw and guided the transition of debit cards to Chip and PIN in the UK with the APACS Card Payments Group and its members instrumental in the development of Chip and PIN, making the UK the first country in the world to complete the rollout of this global standard. The APACS Card Payments Group has been replaced by the UK Cards Association.
CISA	Cash ISA (Transfer Service).
CPAS	Cheque Printer Accreditation Scheme.
CPSS	Committee on Payment and Settlement Systems, a forum for central banks from 24 countries that monitors and analyses developments in payment and settlement infrastructures and set standards for them.

Term	Definition
CREST	An electronic trade confirmation system for securities settlement.
Cruickshank report	Report on competition in the UK banking industry, published in March 2000. Reviewed levels of innovation, competition and efficiency within the industry drawing comparisons to international standards.
Direct member/participant	A payment services provider that accesses the payment systems directly through membership of a Payment System Operator.
ECB	European Central Bank.
EISCD	Extended Industry Sort Code Directory (EISCD) is the new version of the Industry Sort Code Directory (ISCD) - a downloadable database containing information about all banks and building societies that are connected to the UK clearing systems. These include Bacs, Faster Payments, CHAPS Sterling and Cheque and Credit Clearing.
Electronic money institution	An issuer of e-money (defined as monetary value represented by a claim on the issuer that is stored electronically).
EMV	"Europay, MasterCard and Visa", a global standard for inter-operation of integrated circuit cards (IC cards or "chip cards") and IC card capable point of sale (POS) terminals and automated teller machines (ATMs), for authenticating credit and debit card transactions.
EPSL	Electronic Payment Scheme Company. A proposed umbrella company for UK payment systems that was not adopted.
Euro CSM	A discontinued VocaLink service for cross-European payment service providing domestic and international transactions.
Fiduciary duties	A legal duty to act solely in another party's interests. Parties owing this duty are called fiduciaries.
Four party model	In a four-party card payment model the four parties are the payer, payee, issuer (card, account) and acquirer, where the issuer and acquirer are different entities. The payment system in this model does not directly issue cards or acquire transactions.
HMT	Her Majesty's Treasury.
Independent directors	A board director appointed from outside the company's executive and, in the case of the governance for payment systems, from outside the payment service providers who own and use the payment systems.
Indirect member/ participant	A payment services provider that accesses the payment system though another payment services provider e.g. where, through an agency agreement, a bank is sponsored by a sponsor bank with direct membership of an interbank payment system.
Interbank system	Payment Systems used for the processing of financial transactions between member banks (including cheque transactions and ATM).
Interchange fee	A transaction fee payable in the context of a payment network by one participating financial institution to another, for example fees charged by a cardholder's bank (the "issuing bank") to a merchant's bank (the "acquiring bank") for each sales transaction made at a merchant outlet with a payment card. For ATMs, interchange is typically paid by the issuing bank to the ATM provider (ATM acquiring bank).
IOSCO	International Organization of Securities Commissions, an international policy forum for securities regulators, whose membership regulates more than 95% of the world's securities markets in over 100 jurisdictions.
ISO 20022	ISO 20022 is the ISO Standard for Financial Services Messaging. It describes a Metadata Repository containing descriptions of messages and business processes, and a maintenance process for the Repository Content. ISO20022 is adopted for XML messages by many financial systems e.g. SEPA payments in the Eurozone.
Issuer	Bank or other provider that offers card association branded payment cards directly to consumers. Sometimes can be used generically for the bank providing bank accounts.
Limited by guarantee	An alternative type of corporation used primarily for non-profit organisations that require legal personality. A company limited by guarantee does not have share capital or shareholders, but instead has members who act as guarantors.

Term	Definition
Merchant acquirer	Bank or other provider that provides merchants with services (terminals, card/payment processing, internet gateway etc) that allow them to accept payments - at point-of-sale, ecommerce, mail order, telephone. Typically, they support credit or debit card payments, but increasingly non-card alternatives payments.
Mobile Payments Scheme	The organisation set up by the Payments Concil to run the Paym mobile payments service.
MPS	see Mobile Payments Scheme
OFT	Office of Fair Trading. A Government agency that was responsible for protecting UK consumer interests. It closed on 01 April 2014, with its responsibilities passing to a number of different organisations including the Competition and Markets Authority (CMA) and the Financial Conduct Authority.
Overlay services	Services available to consumers that make use of payment systems, providing a new way of triggering or receiving transactions.
Participant	Generally, a party that uses a payment system, either directly or indirectly. Specifically for card payment systems, a Participant is a party that can issue cards on behalf of a Principal, but cannot issue and/or acquire in their own right (i.e. cannot contract directly with a cardholder/merchant).
Payee	Party who receives a payment and can include individuals, corporates, financial institutions or public administrations.
Payer	Party who send a payment and can include individuals, corporates, financial institutions or public administrations.
Paym	Paym is an interbank service (database) that allows customers of participating banks/building societies to make secure payments to account holders of other participating banks or building societies using their mobile phone number (which becomes a substitute for account details).
Payment institution	Defined in the Payment Services Directive as a legal person (i.e. must be incorporated, no private individuals or sole traders) that has been granted authorisation in accordance with Regulation 18 of the European Communities Regulation 2009 to provide and execute payment services throughout the European Community. Payment Institutions must register with the FCA. Examples include: three-party card schemes, acquirers, money transfer operators/remitters, foreign exchange payment providers, mobile payment operators, payment processing service providers, card issuers, third party providers, internet payment providers.
Payment service provider	A payment service provider is an entity that provides services to enable the transfer of funds using a payment system to stakeholders who are not participants of that payment system. For example, banks and building societies provide payment services to customers. Payment service providers include both firms with direct access to payment systems and those with indirect access. They can be: an authorised payment institution, a small payment institution, an EEA authorised payment institution, a full credit institution, an electronic money institution, the Post Office Limited, the Bank of England, the Government and public authorities.
Payment Services Directive	A directive in 2007 from the European Commission (Directorate General Internal Market) to regulate payment services and payment service providers throughout the European Union and European Economic Area (EEA). Implemented in the UK as the Payment Services Regulations. The next version of the directive is known as PSD 2.
Payment system	A system operated by one or more entities to enable the transfer of funds between participants – also known as a payment scheme. Typically consists of a brand, rules and standards used by all participants.
Payment systems operator	An entity responsible for managing and operating a payment system (e.g. payment scheme). Often the infrastructure (technology, communication networks) is run separately by an infrastructure provider.
PCI compliance	Payments Card Industry compliance covering data security standards, payment application standards and PIN transaction security.
Principal	Direct participant in a card payment system that can issue cards and service merchants. Principals can sponsor other financial institutions for membership to a card system.
PSP	see payment services provider
PSTF	Payment Systems Task Force, a body set up by the Chancellor of the Exchequer in 2004, overseen by the OFT, to identify and seek to resolve competition, efficiency and incentive issues relating to payment systems.

Term	Definition
Reserved matters	Matters that are reserved to the Payments Council board in the context of Bacs, CHAPS and FPS i.e. a list of points where the payment system boards have agreed in contract to defer to the Payments Council board.
Richer data	A term used by the Payments Council for facilitating the use of additional data with a payment instruction, utilising current payments infrastructure.
RTGS system	Real Time Gross Settlement system. A system to transfer funds where transfer of money or securities takes place from one bank to another in real time for the full amount (gross means without offsetting incoming funds against outgoing funds).
Scheme	The set of rules, standards and branding that make up a payment system. Although the term is frequently used in the industry, in line with PSR guidance, the term "scheme" is avoided in this document, and is substituted by "payment system" or "payment system operator".
Service bureau	A third party offering an outsourced service for a fee. Often used in the context of Bacs where companies submit payment files into Bacs on behalf of other companies e.g. for payroll, and in the context of SWIFT giving corporates access to the SWIFT network.
Service user	A user of payment systems including direct, indirect participants and end users (consumers, corporates, small businesses etc)
Small payments institution	A form of payment institution with projected average monthly payment transactions not exceeding €3million who must register with the FCA. The registration process for a small PI is cheaper and simpler than for an authorised payments institution. There are no ongoing capital requirements, but there are no passporting rights for small PIs to operate in the EEA. The FCA's conduct of business requirements still apply, as does access for small PIs' eligible customers to the Financial Ombudsman's Service.
Sponsor bank	A bank with direct access to a payment system which provides services to enable the transfer of funds using the payment system to other banks (agencies) who are not direct participants of that payment system.
SWIFT	Society for Worldwide Interbank Financial Telecommunication which operates an interbank messaging network for messages that facilitate the transfer of financial transactions (e.g. payments, securities).
Three party model	In a three-party payment system for card payments, the company operating the network interfaces directly with merchants and consumers, in addition to processing transactions, issuing cards and enlisting merchants to accept those cards.

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