FORM3

Access to settlement models within the NPA

Webinar wrap-up

Introduction

Overview

This payments industry change will deliver the next generation of payments for the UK, but key to its' success is the ability for all to access it.

The UK's New Payments Architecture (NPA) is intended to provide a new way of managing the clearing and settlement of interbank payments. As such, banks and fintechs are looking to understand the impact of the NPA and the types of access and settlement models that it will support. This was the focus of a recent webinar on the topic of 'Evaluating access to settlement models within the New Payments Architecture'.

During the webinar, experts from UK Finance, Pay.UK, Fire.com, the Bank of England and Form3 shared their views on what future access models could look like for new and emerging players. They also discussed the services and functionalities customers are looking for, the importance of overcoming barriers to entry, and the role that industry engagement should play when defining the way forward.

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In with the new

With the introduction of third-party providers and new technologies, we are at the cusp of another step change for access to payment systems in the UK

Opening the discussion, Jana Mackintosh, Managing Director for Payments and Innovation at UK Finance, observed that access to payment systems has long been an important topic.

She noted that while efforts had previously focused on achieving this through traditional financial service providers and banks, the introduction of the PSD prompted the arrival of many new entrants from non-banks and fintechs.

Today, she said, "We're at the cusp of yet another step change with the introduction of third-party providers, payment initiation service providers and account initiation service providers through PSD2." Meanwhile, new developments and challenges such as crypto, Central Bank Digital Currencies (CBDCs) and the importance of international payments in light of the current Ukraine crisis are all continuing to challenge the debate around access to payment systems.

New participants

The panellists began by focusing on new entrants to the market and the implications in terms of new business models.

Matthew Hunt, Deputy CEO and Chief Strategy Officer at Pay.UK, explained that the organisation is responsible for "delivering the critical national infrastructure that will underpin the NPA." He noted that a key goal was to make barriers to entry of the new system as low as possible, "so anyone who wants to join the direct infrastructure should, in principle, be able to." He added, "We don't think everyone will want to join, but I would expect the direct membership to be more diverse, and more numerous, than is the case today."

Colm Lyon, CEO and Founder of Fire.com, noted that the New Payments Architecture (NPA) is not just an upgrade, but will prompt the creation of a new ecosystem. "With that new ecosystem, I believe we're likely to see participant types and different parties looking to access that system in ways we haven't dreamed up just yet – there will be people who will come to market, create products and services, and layer innovation and competitive services around the core of what Pay.UK is building." He added that the resulting ecosystem will include different participant types looking to access the system, including direct settling members, directly connected non-settling members, and indirect non-settling participants.

Greater choice

In this new world, said Lyon, it will be important to provide choice and enable people to participate in the way that they want to. In particular, he flagged up the potential for overlay services, whereby new companies will be able to come in and provide services both to participants, and to those participants' customers.

John Jackson, Policy and Product Lead for the Real-Time Gross Settlement (RTGS) Renewal programme, Bank of England, expanded on the need to reduce barriers to access. He noted that when RTGS was built, there was a strong sense that clearing banks were the appropriate parties to be carrying out direct settling in the system. "We are very much in this different world now, for very good reasons, where there's a real desire for choice and competition – so we need to make sure we can facilitate that," he explained.

Where participants are concerned, he noted the growth in challengers and non-banks on the retail payments side – and on the wholesale side, "a gradual expansion of international banks who overtime have decided it makes sense [...] for them to be self-clearing, and interestingly some of them getting more into the retail systems as well." Alongside the banks are enabler firms which are seeking not to self-clear their own business, but to provide clearing services to a second tier and act as a facilitation agent.

> *"We're still in the middle of redevelopment, and so that's put some limits on us in the short-term on how many people we can onboard, but hopefully we can get through into clear space where we've got a much easier system to work with, and we can respond to all these trends very dynamically."*
>
> **John Jackson, Policy and Product Lead for RTGS Renewal programme, Bank of England**

Services and functionalities

The discussion turned to the types of services and functionalities that customers are looking for in this shifting landscape.

Lyon said there is "huge interest" in account-to-account based payments and open banking payments. "When we work with businesses, the principle they always come back with is that they just want to get paid quickly, easily and cheaply," he said. But with the continuing focus on digitalisation, businesses are also looking for API access, greater integration between systems, and better reconciliation. "A lot of these organisations are beyond the payment in terms of the way that they're thinking," he observed.

Overlay services were also in the spotlight. Joss Wilbraham, Form3's Head of Networks and Infrastructure, noted that there is significant demand for enhanced data services and analytics, which is being driven by two main factors. For one thing, growth in faster payments and digital payments has led to a greater need for effective real-time collateral management. At the same time, app fraud is rising "quite significantly" – and while measures such as confirmation of payee are being adopted, the access to richer datasets afforded by the NPA will enable organisations to mitigate the risk of app fraud. "We're working with some best-in-class solutions in that area, looking at ways to use AI and predictive learning to reduce fraud," he added.

Continuing the focus on fraud, Hunt spoke about an initiative being carried out by Pay.UK: "I think this is a really good example of an overlay where we are looking to enable analytics providers to help participants in the payment system spot fraudulent transactions, and stop the end users becoming victims before the crime actually happens." Likewise, when looking at the potential use of the interbank schemes for retail transactions, Hunt noted: "we need to ensure that there's an overlay structure in place that puts appropriate consumer protection in place for end users."

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>
> **Matthew Hunt, Deputy CEO and Chief Strategy Officer, Pay.UK**

Future access models

The implications of direct and indirect access models can have a huge impact on processes and efficiency.

Turning to the future of access models, Jackson spoke about developments in access for both intermediaries and Financial Market Infrastructures (FMIs). Where intermediaries are concerned, he noted that opening up to non-banks has been a success, with many firms reporting that it has made their processes more efficient.

However, some challenges remain – and more needs to be done to facilitate the maturing of the market. "The bigger challenge for non-bank access is that it makes a lot more sense if you get these economies of scale because you can do it in multiple countries, multiple currencies, multiple jurisdictions – and that's been fairly slow," he noted.

On the infrastructure side, Jackson cited the importance of putting in interfaces such as the omnibus account, which provides a lighter touch when it comes to interacting with RTGS. "But there are some real barriers to entry for FMIs in terms of getting recognised – it's one of those processes that to be authorised in every country is its own big effort," he observed.

Other areas of focus include making sure that FMIs can get authorised in mobilisation, which Jackson said is an important step for challenger banks.

In addition, he noted that market engagement is being carried out on a synchronisation interface: "We think that might offer a really light-touch way of being an FMI, where you're just inputting information about payments that happen between accounts – you're never taking anything onto your balance sheet."

Focusing on the implications of indirect access, Lyon explained that early-stage businesses have two decisions to make about connectivity and about the settlement process. "And I think these are becoming more uncoupled as time goes on. You'll make decisions about your settlement, which could be direct, or could be using a credit institution – but your connectivity I think is a separate issue." As such, he argued that the directly connected non-settling participant model "is the model where a lot of firms would like to end up: it gives them the benefit of real-time connectivity into the scheme, and it gives them the benefit of having that technical connection in a way that maybe they can't get today, or it's clunky to get today."

Barriers to entry

The panel returned to the topic of overcoming barriers to entry. Focusing on technical connectivity, Wilbraham explained that Form3 provides a number of access models:

1. **Direct access**
   organisations connect directly to the central infrastructure through a single API
2. **Direct non-settling**
   Organisations leverage a sponsor bank's settlement account, while also getting the benefits of real-time connectivity to the Faster Payments service.
3. **Indirect access**
   Organisations go indirectly through a sponsor.

Underpinning these models, he said, is a full-service support model, which enables organisations to join the service and understand the testing and associated process, as well as providing ongoing service support including processing functions, orchestration services, account validation and operational metrics.

Where technical access is concerned, Wilbraham said APIs have reduced the overall cost and burden of access associated with joining a faster payments service, and indeed other schemes – a cost which could run to seven figures. With APIs, however, organisations can benefit from economies of scale through a single API that "allows them to access not just one scheme, but potentially multiple schemes through the same interface." As such, APIs also provide greater choice, and the ability to migrate between different services.

Turning to the question of opening hours, Jackson noted that the G20 roadmap anticipates that systems like RTGS will increasingly move towards a 24/7 model – and as such, the Bank of England is launching a consultation on the future product roadmap, and whether RTGS needs to be enhanced beyond the current set of changes. "One of the big areas of focus there is about whether we should be expanding operating hours – we're seeing a lot of other central banks doing that. I think that's the direction the world is going in." While a path needs to be plotted for the UK to get services like CHAPS towards 24/7, he noted this should be done "without introducing undue new barriers that go against our access aims."

Consumer protection and resilience

Not all barriers need to be removed, however.

While much progress is being made in overcoming technical barriers to entry, Hunt noted that while the speakers on the webinar had talked about reducing barriers to entry, none of them had spoken about eliminating barriers – "and I won't use that phrase". He added: "Our responsibility as an FMI is to run a robust and resilient payment scheme that protects end users. Inevitably, that will mean we put some obligations on people who participate in that payment system – both around their technical resilience and, potentially, the reassurances and confidence they offer to their end users."

Emphasising the importance of consumer protection, he added: "I don't think we should be apologetic that that might be seen as a barrier to entry. Because while we want to reduce barriers to entry, we also need to be operating robust and resilient payment systems that protect end users. And that puts obligations on all of us."

The importance of industry engagement

Finally, the speakers looked at the importance of engagement with the industry and regulators, and how different players are working to achieve this.

Hunt said that now Pay.UK is an independent company, the way that it engages with the industry is very different than when it was owned by the banks.

Recent developments include an announcement that the participant advisory council will be replaced by a new industry advisory council that will allow participants to represent their institutions more overtly. In addition, said Hunt, Pay.UK plans to do more to reach out to the end users of payment systems, including corporates and chambers of commerce, "because we want to understand what end users want from the payment systems."

For Jackson, likewise, the importance of engagement was paramount. "It's really key for us to hear from people about how they're thinking about the next five years, where they are wanting to develop and improve their services, and what we might need to do to respond to that," he concluded.

We would love to hear about your business,
and where you're headed

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