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Infrastructure Market Review Team

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MARKET REVIEW INTO OWNERSHIP AND COMPETITIVENESS OF INFRASTRUCTURE PROVISION: REMEDIES CONSULTATION

The Cheque and Credit Clearing Company (C&CCC) welcomes the opportunity to respond to the PSR's remedies consultation for their market review into the ownership and competitiveness of infrastructure provision.

Background

The Cheque and Credit Clearing Company (C&CCC) was established in 1985 and from that time until the present day, is proud of its record in providing members with the central payment system services for the exchange and settlement of cheques and credits.

Our objective is to ensure that cheques and credits remain a viable, secure and efficient choice of payment for all users. To achieve this we promote innovation and competition choice by driving improvements in processing, service and efficiency; and provide a trusted centre of excellence for anyone with an interest in cheques or credits.



In the evolving payments landscape, cheques and credits remain a preferred and trusted payment option among certain groups and for certain types of payment. For example, cheques remain a convenient way for businesses to pay a trade supplier and manage cash flow, and amongst consumers, are a popular way to pay utility bills, tradespeople and clubs or societies. In the past year, nearly three-quarters of UK charities and two-thirds of UK businesses both received and made payments by cheque over a monthly period. In total, 558 million cheques were written in 2015 with a total value of £624 billion.

C&CCC is working to deliver the Image Clearing System (ICS), which will bring the cheque into the digital age via the implementation of an image-based cheque clearing process in the UK.

A full account of our background and objectives can be found on our [website](#), as can more information on the [Image Clearing System](#).

The consultation focuses upon Bacs, FPS and Link. As a PSO, C&CCC is not a stakeholder of these PSOs and it would therefore be wrong for C&CCC to respond in detail to your consultation. However, we do offer some general comments on the issues raised.

Competitive Procurement

You asked the following questions:

1. Do you agree with the assessment of effectiveness of the potential remedies identified? If not, explain why.
2. Do you agree with the assessment of the costs of the remedies? If not, explain why.
3. Do you have any comments on the design of our proposed remedy, including but not limited to:
 - a. An additional requirement of a discovery phase is necessary to make Bacs competitive procurement effective?
 - b. Proposals for interaction with the Forum, possible temporary exemption periods, milestone timing and process for applications?

In general we believe that procurement by PSOs should be by competitive means. This would help in establishing effective competition in the payments market. However the length of contracts needs careful consideration, and we do not believe that there can be a 'one size fits all approach' for a number of reasons including:

- Systemically important payment systems are collaborative by their very nature, and there needs to be a critical mass prior to introduction for them to be effective.



Without this critical mass of PSPs and PSOs run the risk that investment, time and effort will be wasted.

- Payment markets are fast moving when a critical mass is reached, but can be slow and hard to predict when innovation is introduced. It would have been difficult to have predicted the rapid rise in FPS as well as the low take up of Paym.
- Payments once they become established have a long life, and it often takes regulatory change to initiate a move from another type of payment.

Therefore, we consider that ten years could be too long in an established payment scheme, and would suggest the ability to break any contract of that length after say five years. However, if companies are to invest in new markets, or for that matter support declining payments types, a ten year contract may be necessary if one off and migration costs are to be minimised.

C&CCC has recently managed a competitive tender. Due to the change from paper to image, the relatively small volumes of cheques and the declining market of cheques our costs are probably not typical of such procurement. However, the cost and complexity of managing such an exercise should not be underestimated for a relatively small PSO.

In general we would recommend the introduction of a 'discovery phase' in both new and existing payment systems to ensure that tenders meet and understand the PSOs requirements and incumbency advantage is minimised.

It is understandable that the PSR interact with the Forum's work, given that the PSOs may be consolidated by end of 2017. In the same way as the PSOs could be merged, it would also be possible to merge the infrastructure. However, this could result in resilience and robustness issues and a policy on this needs to be considered before competitive tendering results in such proposals especially with the introduction of ISO 20022..

Messaging Standards

You asked the following questions:

4. Do you agree with the assessment of effectiveness of the potential remedies identified? If not, explain why.
5. Do you agree with the assessment of the costs of the remedies? If not, explain why.
6. Do you have any comments on the design of our proposed remedy, including, but not limited to:
 - a. Using XML standard should be required for the remedy to be effective?



- b. The remedy should remain in place following completion of the next competitive procurement exercises for Bacs and FPS?
- c. Should the operators of Bacs and FPS make mapping information publicly available or are there reasons why it should be made available subject to certain conditions?

C&CCC believes in general that having a common messaging standard between all payment schemes would improve interoperability, resilience and contingency. The C&CCC is working towards making ICS ISO20022 compliant with a view to gaining the ISO standard once ICS is live. We believe that conversion services should only be a short term, and a possible chargeable solution. Once the decision is made to move to a new standard new participants should be able to use the new standard without attracting overheads for other participants conversion.

Ownership of VocaLink

You asked the following questions:

7. Do you agree with our assessment that the four largest PSPs retaining a shareholding of around 10% is likely to be effective at addressing:
 - a. The financial incentive to protect VocaLink
 - b. Alternative providers belief that they are at a disadvantage to VocaLink because of ownership and governance arrangements

Although the question raised concerns VocaLink, C&CCC considers that the response is true of any supplier to a PSO. Irrespective of the size of shareholding, so long as PSPs that own the PSOs have a share in any supplier to the PSOs there will always be a perception of unfair advantages. This perception could be to the advantage of the supplier (ie protect the supplier from retendering and competition), or to the advantage of the supplier's PSP minority owners (ie information, charging and preferential treatment).

Remedies Package

You asked the following questions:

8. Do you agree with the assessment of the effectiveness of the proposed remedies package?
9. Do you agree with the proportionality assessment of the proposed remedies package? If not, explain why.



We have nothing further to comment on.

Confidentiality

C&CCC is content for this letter to be made available to the public. We will be making it available through our website.

Conclusion

C&CCC considers that this consultation raises many issues which will affect the payments market and will be critical the successful delivery of a new payments strategy. We would, of course, be happy to meet with the PSR to discuss this response.

Yours faithfully,

James Radford
Chief Executive Officer