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MARKET REVIEW INTO THE SUPPLY OF INDIRECT ACCESS TO PAYMENT SYSTEMS PSR MR15/1.1

The Cheque and Credit Clearing Company welcome the opportunity to respond to the Payment Systems Regulator's market review on "Indirect Access to Payment Systems MR15/1.1".

Background

The Cheque and Credit Clearing Company (C&CCC) was established in 1985 and from that time until the present day it is proud of its record in:

- Providing members with the central payment system services for the exchange and settlement of cheques and credits;
- Managing the operational processes of the central payment system services;
- Determining the rules, standards, and procedures required to maintain the integrity of the clearings, including the criteria for joining the clearings and ensuring compliance with those rules;
- Engaging with the full range of stakeholders which includes consumers and businesses that use cheques, banks that offer cheque clearing services, cheque processors, cheque printers and other suppliers, as well as regulators, trade associations and other payment schemes.



Our Objectives are to:

- ensure that cheques and credits remain a viable, secure and efficient choice of payment for all users, so we will:
- promote innovation and competition in payment choice by driving improvements in processing, service and efficiency
- provide a trusted centre of excellence for anyone with an interest in cheques or credits

Key questions to be Explored

In your market review you identify four key questions that you wish to explore within C&CCC in relation to the Future Clearing Model (FCM). These are regarding concerns about indirect access, and in particular the choice in Indirect Access Provider (IAP) and fees charged for such indirect access. The four questions you identify are as follows.

1. What prices, service and choice do indirect PSPs want and receive?
2. What factors may limit the number of IAPs in the market?
3. What is the state of competition in the provision of indirect access?
4. What options are there to improve indirect access to interbank payment systems?

The first three of these questions are properly answered by the IAPs and their PSPs directly. As a payment scheme we impose minimal rules on our Members that wish to be IAPs and none directly upon indirect PSPs. These rules relating to indirect access for our Members include:

- Members are not to be indirectly connected as an inclearer to a IAP for more than 2% of their incleared value – this is to reduce the risk of contagion in the event of a Member failure.
- Former Members that operated as an IAP and become indirect clearers themselves, may not accept any further indirect clearers, although they may continue their existing relationships.
- IAPs are responsible for all aspects of their indirect clearer's submissions and receipts including; quality, settlement, security, integrity etc.

C&CCC is in the process of implementing fundamental changes to move from paper to image-based processing. This will support provision of improved services to a wide range of service-users by reducing clearing times to just 2 days. It will also provide greater flexibility in the operation of direct and indirect participants.

The changes provided by the move to image-based clearing are summarised as follows:



	Paper Processing & Clearing	Image Processing & Clearing
Portability of Sort Codes	If an indirect PSP wishes to move to another IAP, it is required to change its sort code to one in the new provider's range. The indirect PSPs customers would need to be issued with new account stationery and details of the change	Sort codes used for cheque processing will be portable between banks in exactly the same manner as the electronic payment systems.
Participation	Required to participate in both processing and settlement	Can choose to become a processing and/or settlement participant. This could remove the risk to an indirect participant of its IAP failing to settle and causing its own secondary failure.
Credit Rating	Member is required to have a credit rating	If C&CCC's application to use Reserve Collateral Accounts at the Bank of England is successful, credit ratings will no longer be required as direct participants will bring no risk to the system and have no liquidity-raising requirement in the event of another bank's default. This enables indirect PSPs to move more easily to direct participation. RCAs could also be used by IAPs to remove the financial risk of offering processing services to indirect participants.
Use of Non-Core Services		Indirect PSPs will be able to use the image archive and back office functions of the central infrastructure. This will help indirect PSPs in migration from one IAP to another as they will not risk the loss of access to previous transactions processed by their former IAP.



	Paper Processing & Clearing	Image Processing & Clearing
Third Party Service Providers		The changes to cheque legislation enabled by the Small Business & Enterprise Act 2015 mean that it will now be possible for third party service providers to participate directly in cheque clearing. This will be supported by FCM, giving indirect participants a further choice in IAP.
Formats and API		The new central infrastructure will use published formats and APIs to enable its communication with participants. C&CCC recognises that many IAPs will enhance these formats and APIs to give their indirect participants an added value service. However C&CCC expects that all participants offering IAP services will offer the central infrastructure formats and APIs to their direct participants. This will help indirect participants in moving between IAPs and between indirect and direct participation in cheque clearing.
Joining Costs	New Members are required to reimburse the costs of existing members in changes necessary to their processing systems.	This will no longer be a requirement as changes will not be necessary. This may encourage existing indirect participants to move to direct participation and further encourage a marketplace between IAPs.



These are just some of the many advantages that the FCM will bring to indirect participants in cheque clearing. C&CCC sees its role as an enabler for others to provide access to indirect participation in cheque clearing and it is not its intention to interdict between IAPs and their indirect PSPs

While C&CCC as a scheme may enable these changes, it is ultimately up to the direct and indirect participants to make use of the opportunities that image processing enables. They will decide this based upon market, operational and financial considerations.

Confidentiality

C&CCC is content for this letter to be made available to the public. It will be published on our website.

We would, of course, be happy to meet with the PSR to discuss this response.

Yours faithfully

Angela Thomas
Managing Director of Cheque & Credit Clearing Company Ltd