

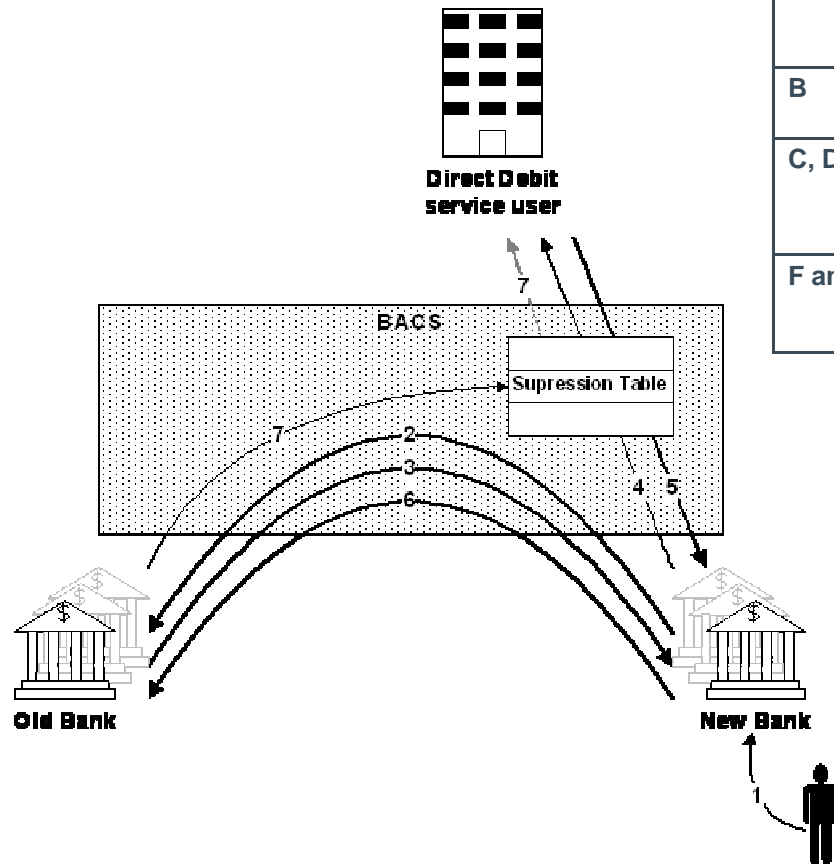
Change of supplier process in the banking sector

Lessons from recent reforms

ToDDaSO - where it all started ...

- ToDDaSO - non mandatory way for personal and business customers to transfer Direct Debit, Standing Order and Bill Payment information between financial institutions
- Evolved over several years
 - Oct 1999 – paper based pilot based on New Bank sending paper transfer advices to service users
 - Nov 2000 – Pilot group of New Banks sending automated transfer advices to pilot group of service users
 - Nov 2001 – full scheme with all financial institutions and service users participating. Known as the ‘paper based process’ but supported by automated elements of Bacs
 - 2004 – automated exchanges between New Bank and Old Bank with service now known as the ‘automated service’
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New bank initiated



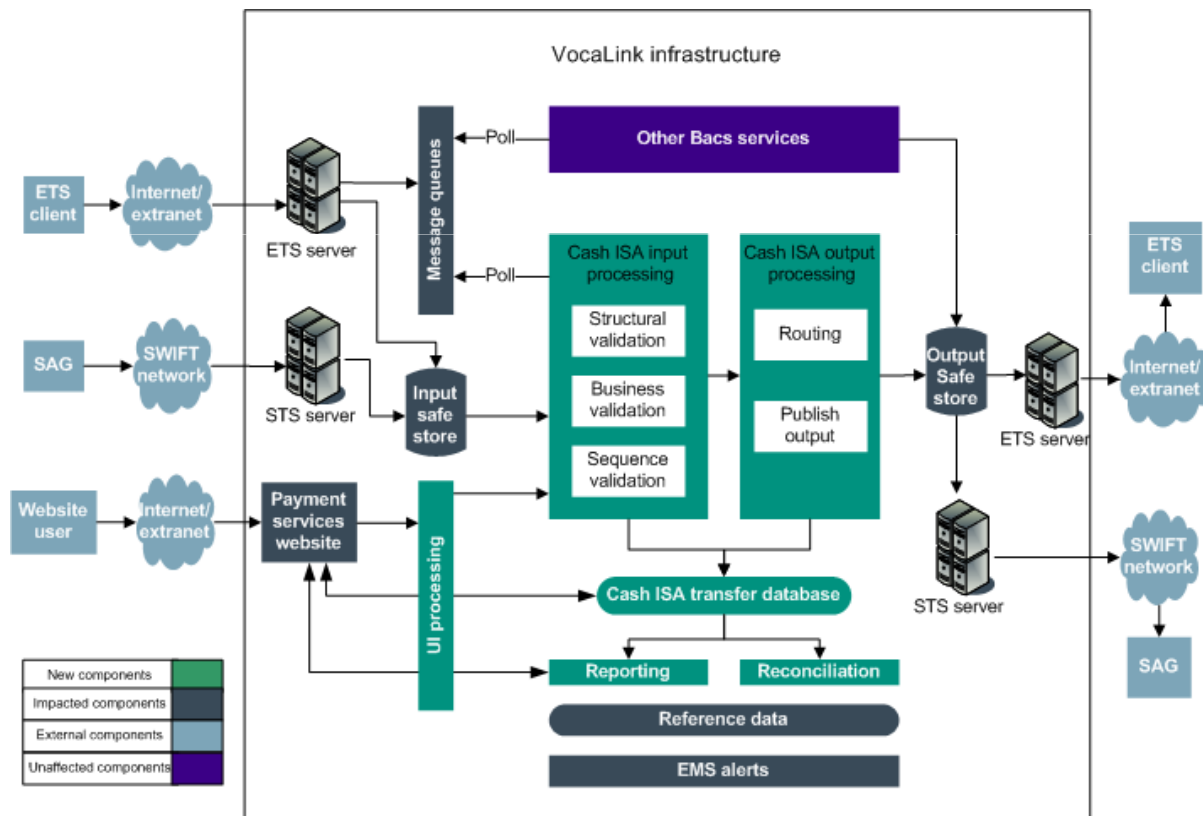
Message	Describes ...
A	the Request for Information message sent by the New Bank to the Old Bank
B	the Reminder message
C, D and E	the way the Old Bank provides the Direct Debit and standing order information to the New Bank
F and G	the Request to Cancel standing order and Direct Debit messages sent by the New Bank

Another change of supplier process ...

- March 2010: Consumer Focus submit super-complaint. OFT 90-day Cash ISA market investigation: strong competition to win new customers but transfer taking too long and not enough transparency over interest rates
- Only mandatory for Bacs member banks who offer a Cash ISA product (about 85% of transfer volume)
- BBA/Bacs member banks initiated reuse of Bacs service to support use of automated messages
- October 2012: VocaLink Bacs messaging system (uses ISO20022 format) live to enable old to new provider transfer within 15 days of the consumer's request with final balance transfer from the old provider to the new provider transferred via Faster Payments, CHAPS or Bacs
- Over ½ million Cash ISA transfers since launch

New bank initiated

- Automated version of the paper based process (rules and requirements haven't changed) with automated messaging using Bacs where both ISA providers use the Bacs service



CASS - Regulatory Background

- Need to create a more stable and competitive basis for UK banking in the longer term
- Basic banking services need to be more effective and efficient with vigorous competition among banks to deliver the services required by well-informed customers
 - Long-standing competition issues in UK retail banking need to be addressed.
 - Core markets are concentrated – the largest four banks account for 77% of personal current accounts and 85% of SME current accounts
 - Competition between banks on current accounts is muted by difficulties of switching between providers and by lack of transparency about banking services on offer
 - Consumers are often not well placed to make informed choices between effectively competing suppliers of banking services



Source: <http://webarchive.nationalarchives.gov.uk/+/bankingcommission.independent.gov.uk>

Regulatory Background – The Result



- Payments Council led programme
 - Aug 11 – Apr 12: Business process and industry requirements specification
 - Jan 12: Service development by VocaLink and Banks commences
 - Dec 12: Development and Internal Testing completes
 - Jan 13: Industry Testing for Wave1 banks starts (12 Bacs Members, 9 Agency Banks)
 - Aug 13: Pilot moving to Live Sept 13

THE ACTORS



New Bank (NB)

- Establishes contract with customer for account switch
- Sets up transferred payment arrangements
- Requests the service to set up transaction redirection
- Initiate notification of account switch to payment originators



DC Service User (SU)

- Updates direct credit details



Card Scheme (CS) Visa and MasterCard

- Maintains card update tables



FPS Central Infrastructure (FP)

- Redirects FPS payment requests
- Access to database for redirection to latest NB in a chain of switches
- Reports redirected payments



Bacs (BS)

- Generates pseudo AUDDIS ON
- Route ADDACS reason code 3
- Redirects Bacs transactions
- Suppresses ADDACS C3 from old bank
- Generate ADDACS and AWACS advices for redirected transactions



FPS Recipient (FR)

- Validates FPS payment request



Customer (CU) Individual, Micro-enterprise, Small Charity or Trust

- Agrees to switch current account
- Agrees to account switch date
- May send credit redirect letters and change of debit card details



Account Switch Service (SS)

- Validates & routes interbank account switch messages
- Updates Redirection Service database
- Switch Audit
- Provision of MI and operational reports



FPS Originator (FO)

- Updates beneficiary details



Old Bank (OB)

- Validates information request
- Verifies account parties
- Provides details of payment arrangements to be transferred
- Transfers closing balance
- Closes old account
- Forwards debits and credits received after closure of the old account



Merchant (ME)

- Updates card details it holds using information from update tables maintained by the card schemes



Credit Originator (CO)

- Updates account details it holds



Collecting Bank (CB)

- Forwards cheque returned because "account switched" to new bank on interbank memo



FPS Sending Member (FS) Including Direct Agency

- Submits FPS payment requests
- Updates beneficiary details it holds
- Notify agency submitter of any redirection



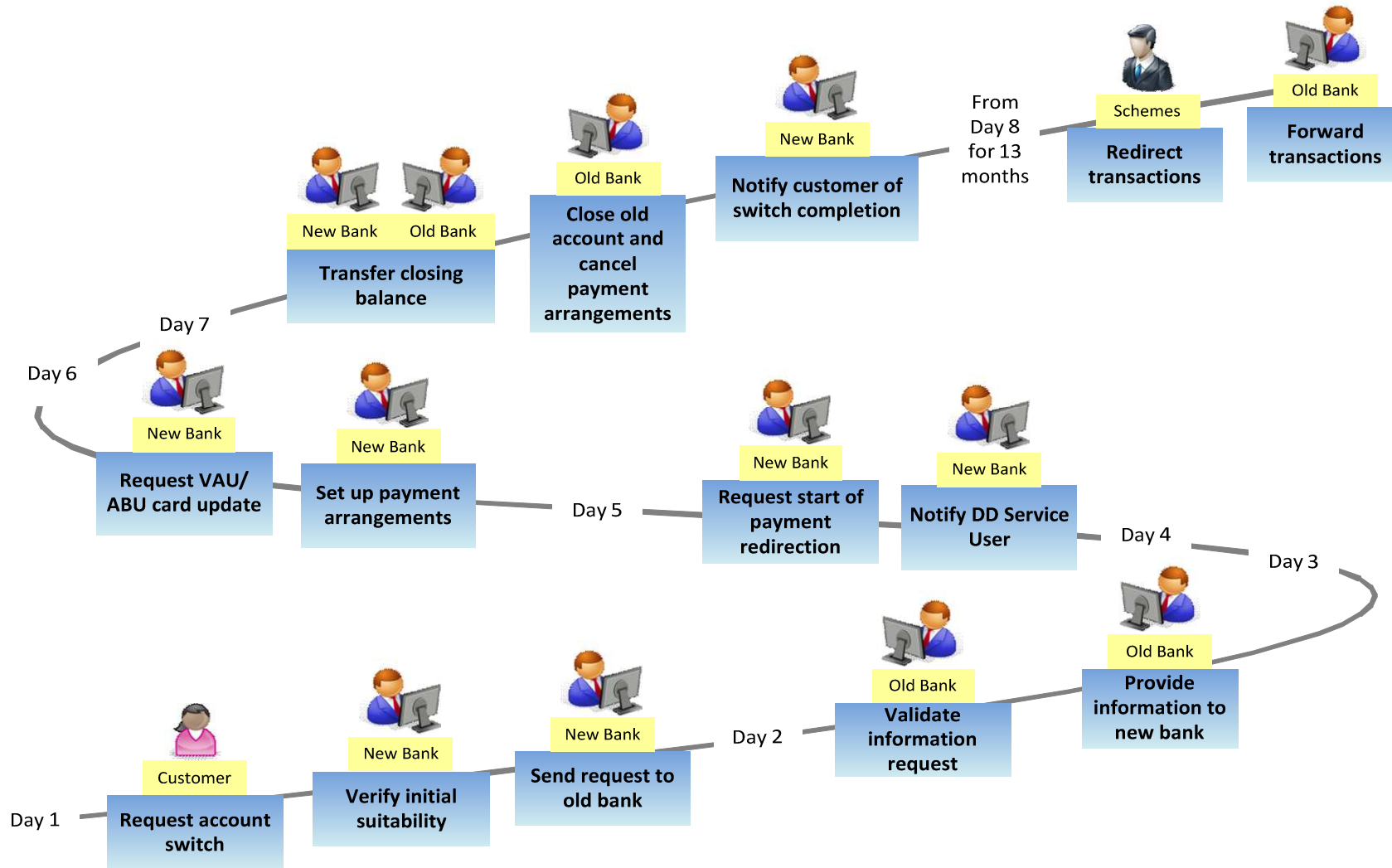
DD Service User (SU)

- Updates payers details it holds
- Sends AUDDIS ON (AUDDIS SU)

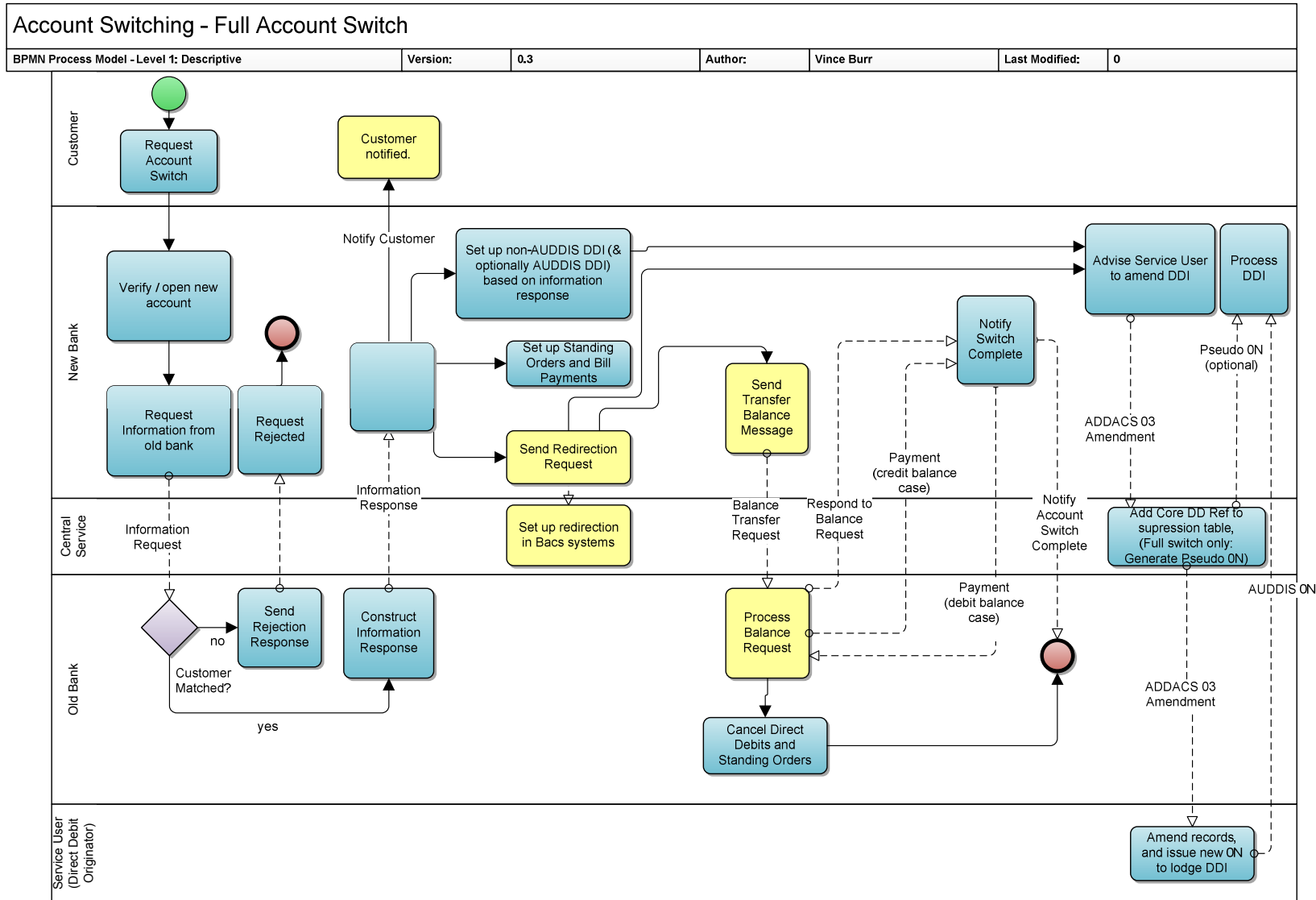
Liability Model

- Liability is enshrined in the Service Rules that banks must sign up to if they wish to participate.
- Principles are:
 - New Bank has liability for the Switch being valid and by an authorised party.
 - To avoid acquiring liability, Old Bank must:
 - Fully validate Information Request message as per the Account Switching Service Definition. This allows some level of partial matching, and recognises that the old Bank may not hold all of the data.
 - Fully report all detected Rejection and Warning conditions.

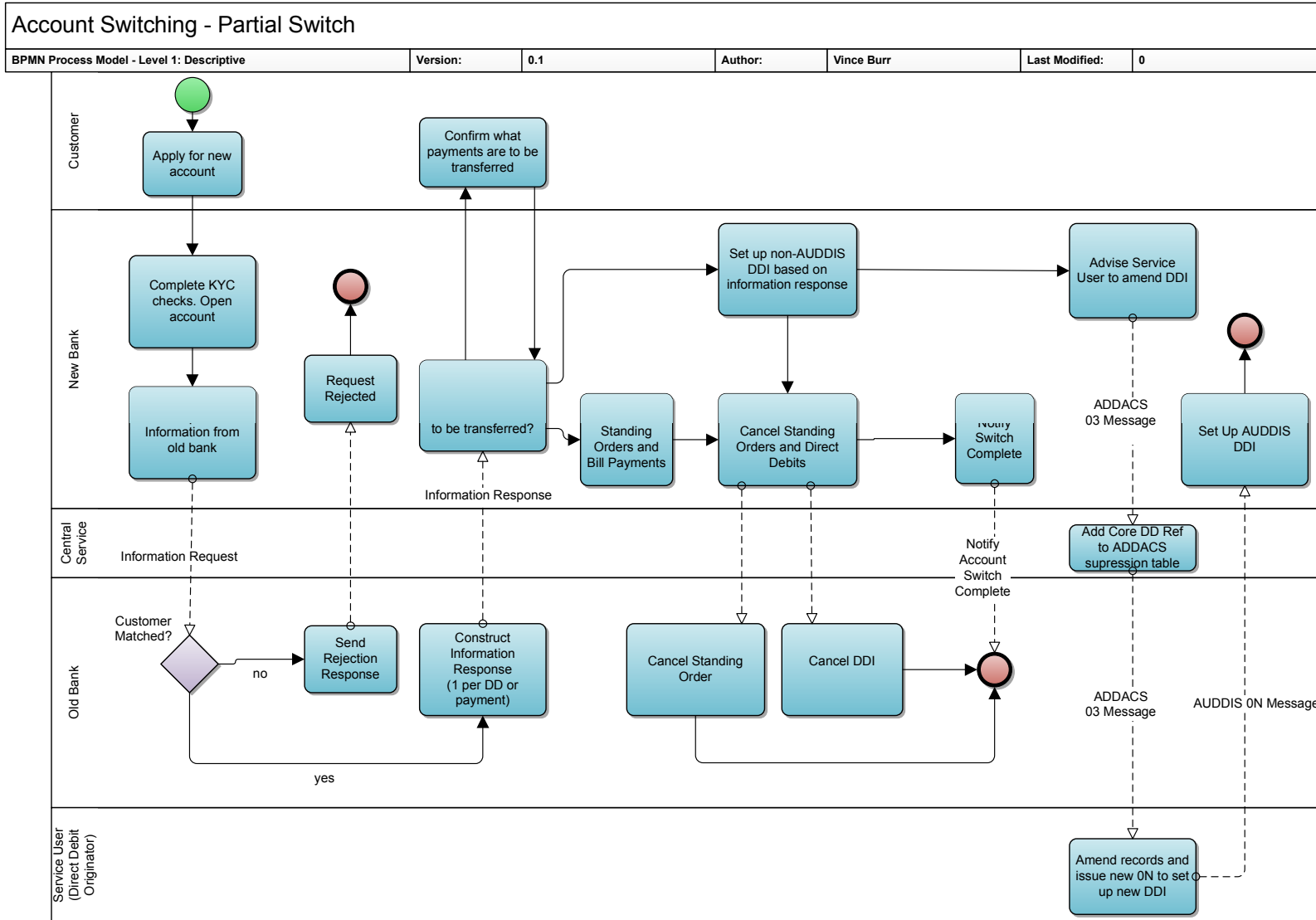
Full Account Switch Process (1)



Full Account Switch Process (2)



Partial Account Switch Process



Account Switching – day by day

	Pre Day 1	Day 1	Day 2	Day 3	Day 4	Day 5	Day 6	Day 7	Day 8 +	
Inter-Bank Messaging	SA0 Complete KYC and open new account									
		SA1.2 Request Information (send Information Request message)	SA1.3 Provide Information Response		SA2 Set-up Payment Arrangements	SA3 Set-up Redirection (send Request Redirection message)		SA4.1 Request Closing Balance Transfer	SA4.2 Send Bal. Tran. Response	SA4.3 Make Bal. Tran. Payment
Advices					SA2.1.2.1 Send ADDACS 3 for AUDDIS DDI	SA3.3.1 Send Card Details to Card Schemes		SA2.1.3.2 Send ADDACS 3 for non-AUDDIS DDI		
Redirections		AUDDIS Instructions sent to new bank						AUDDIS Instructions copied to and redirected to new bank		
								Direct Debit and Bacs credits redirected to new bank		
									FPS redirected to new bank	

Where next ...

- Account Number Portability
 - In parallel with enabling challenger bank access to clearings
 - Regulator view that having to set up a new bank account with new sort code and account number is a barrier
 - Comparison to mobile portability will be progressed by regulator in parallel with CASS
- Mobile Payments
 - Continual change
 - New mobile payment database (Payments Council)
 - New mobile payment use cases (Zapp)
 - Changes consumer interactions for banking and payments