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## **CASS: AN APPLICATION FOR DESIGNATION UNDER THE PARs 2015**

**TO** Payment Systems Regulator  
**FROM** Director of Product & Strategy, Bacs  
**DATE** 9 June 2016

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**SUBJECT: CASS – Application for Designation (Regulation 15(2) Payment Accounts Regulations 2015)**

### **1 INTRODUCTION**

As required by Regulation 15(2) of the Payment Accounts Regulations 2015 (PARs) Bacs Payment Schemes Limited is applying for the Current Account Switch Service (CASS) to be designated as an alternative switching service.

CASS is a successful exemplar service of industry collaboration unique in banking across the world. The service was designed from the outset to serve the interests of consumers to make the process of switching current accounts simple and stress free, thereby reducing a perceived barrier to switching. In doing so it helps develop a more effective market. The service was also designed to provide established players, challenger banks, and new potential competitors with a highly automated set of central processes to enable them to deliver the switch Guarantee. In short, CASS has met the goal we were tasked to deliver by the ICB (Independent Commission of Banking), and it has been subject to a process of continuous improvement ever since.

### **2 SUMMARY**

In summary we believe that CASS meets the three tests for designation:

1. The service is clearly in the interests of consumers

CASS was designed from the outset around a consumer proposition that the process would be simple and stress free. Our tracking research shows that we consistently achieve over 90% consumer satisfaction with the service

2. The service imposes no additional burden on the consumer

By designing the service around that simple and stress free experience we have eliminated the need for the consumer to contact anyone other than their new bank who takes responsibility for completing all aspects of the switch. The additional features of the service beyond those required by PAR, such as transaction redirection, ensure that all parties have the simplest and most automated service to use.

3. Switches complete in a maximum of 12 working days

The service was designed from the outset to complete in seven working days, a goal that is consistently met across the industry.

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### 3 BACKGROUND

Bacs has a unique role within the banking industry through the provision of a range of managed services that are distinct from our core payment products and also include requirements necessary for the services provided by other payment scheme operators. This application is concerned with the Current Account Switch Service (CASS) that was launched in September 2013 which we operate as one of our managed services. It is built upon a number of our other managed services and consequently no other payment system operator based in the UK has similar reach or such extensive responsibilities.

CASS was developed with the objective of reducing a perceived barrier to switching current accounts, making the process simple and stress-free for consumers. As the company behind CASS, we want to understand what really drives consumer behaviour so we can find ways of increasing market engagement and thus help stimulate competition. In this regard we have a programme of independent research that helps us to decide future strategy and ensure value for money from further investment in the service. We work hard to strike the right balance between our commercial interests and the desire to publish data of value to stakeholders.

The attraction of the service is illustrated by our monthly tracker research (run since before launch) which consistently shows that over 90% of consumers using CASS are satisfied with the service, and the continued flow of new entrant payment service providers. The latter is a trend we actively encourage and we now include amongst our participants a pre-paid debit card provider with an e-money provider planning to join within the next year.

We are proud of the work that has been done to take the stress out of switching bank accounts. In operational terms, the data we see every day supports this. There has been clear appetite for the service – since launch, almost 3 million consumers have used the service, which is now offered by over 40 bank and building society brands, up from 33 at launch. In 2017 the total number of brands is expected to reach to 50.

The governance model for CASS provides every participant with an equal voice in decision making. The funding to implement a substantial, multi-year communications campaign to drive awareness and confidence in the service has been agreed within that governance model. That said, and notwithstanding the success of the existing governance model, we are nevertheless examining ways in which the governance model can be further strengthened and improved.

Despite the evident success of the service, we are not complacent and constantly seek out ways to promote and develop the service for the benefit of consumers. As part of our work to promote the service we launched a new multi-million pound advertising campaign for CASS earlier this year with the full backing and involvement of the industry. The design of this campaign is focused on raising both awareness and confidence in the service.

As well as working with the industry, Bacs has also sought to work collaboratively and openly with other key stakeholders and this is a fundamental part of our engagement strategy. We have also consistently

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engaged with the Payment Systems Regulator (PSR), Financial Conduct Authority (FCA), Competition and Markets Authority (CMA), HM Treasury and the Bank of England as well as influential third parties – including consumer champions like Which?, price comparison sites such as MoneySuperMarket, uSwitch and GoCompare, as well as trade associations. Latterly this has been extended to include the Department for Business, Innovation and Skills (BIS) where our experience with account switching has helped inform the work they are doing on switching in general. This engagement forms an essential part of our awareness and confidence activity, alongside our ongoing work to deliver a process of continuous improvement.

As part of our communication strategy for CASS we have been paying particular attention to the channels employed to deliver these messages by, for example, considering strategic partnerships with respected and trusted bodies, such as the Federation of Small Businesses (FSB) and the Forum of Private Business (FPB). This is because CASS embraces a wider stakeholder community than the PARs require.

A key service enhancement delivered as part of our process of continuous improvement is a change that allows payments inadvertently sent to a consumer's old account to be redirected to the new account for a longer period than the three years currently provided. We plan to modify the service so that this time limit is effectively removed. Our research indicates that the primary consumer concern is that payments do not go astray during the switching process. An extended specified period of redirection introduces doubt rather than building confidence in the service. Consequently we intend to strengthen the consumer proposition by removing reference to a specific redirection period in the Guarantee because it no longer applies.

In addition to CASS, Bacs also operates a partial switching service which gives consumers choice by allowing them to move payment instructions from one account provider to another without closing their old account. The partial switching service will be offered to consumers alongside CASS, and typically after it has been established that CASS does not meet their needs, as part of our commitment to deliver choice even although an option such as this is not required within the PARs.

The partial switching service helps a number of small but significant market segments for whom CASS is not suitable, and it also serves the needs of other customers not eligible to use CASS (e.g. corporate customers). We have no plans to apply to the PSR for designation in respect of the partial account switch service.

Bacs continues to work with all participants and interested parties to ensure that CASS is the best service possible and that the many benefits it provides are communicated and delivered effectively. The continued development of CASS is a journey that Bacs is fully committed to, in common with all the services we manage.

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#### **4 A SUMMARY OF CASS STRENGTHS**

In summary, the key strengths for CASS are:

- It is simple to use and delivers a stress-free outcome on a date that suits the consumer
- The new bank drives the switch process
- The consumer only has to deal with their new bank
- The service is automated
- There are strong controls in place to safeguard against possible fraud
- The Guarantee provides reassurance for the consumer
- The switch itself takes place in a single day without any interruption to banking services

#### **5 OUR RESEARCH WORK**

In order to understand how our promotion of the Service can be most effective we have developed a market dynamics model with the University of Bristol to investigate how consumers engage with and make choices in the market. The first of our three research papers, published in March 2016, provided an overview of our findings; in particular the existence of two key feedback loops which drive the market dynamics: Trust Loop and Inertia Loop. The second published in May 2016 focuses on our understanding of the 'Trust Loop'.

Both documents have been included as part of our application because they help to illustrate the extent of the work and commitment we have to ensure CASS provides the best outcomes for consumers. Neither document is considered commercially sensitive.

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## 6 OUR APPLICATION

Our application for CASS designation includes the latest versions of two documents that together form the controlling specification for CASS. They are:

1. The Account Switching Service Definition V5.0 (dated December 2015): This document describes the account switch services managed by Bacs in their entirety and is not therefore exclusive to CASS.
2. The CASS Guide & Rules V2.0 (dated December 2015)

Both the above documents are updated annually and are considered to be commercially sensitive, representing out IPR, and accordingly they must not be published.

In addition, we have provided a copy of the 2016 version of the CASS Code of Conduct. Participants complete this annually and also when they join the service. The CASS Code of Conduct is updated annually and it is managed by the Bacs Risk team as part of their wider responsibility for company risk. This document must not be published.

The following appendices that form part of our application describe how CASS meets the three criteria for designation outlined in the PARs, and also provides the information requested in the PSR's May 2016 Final Guidance document.

To conclude, we have arranged to pay the required application fee (£5,000) by credit transfer. This will be received by the PSR by 10 June 2016 and we would be grateful for an acknowledgement of receipt. We understand that the PSR's annual fee and set up costs will be invoiced separately.

I confirm that the information provided is accurate, up to date and not misleading.

Signed:.....

Date:.....

Director of Product and Strategy  
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## 7 APPENDIX 1 – PSR FINAL GUIDANCE SECTIONS 3.8 TO 3.13 (INCLUDING REQUESTED DATA)

### The Switching Service is clearly in the interest of the consumer

The information source for the data included within our application for CASS designation comes from our monthly tracker research that has run since before launch. This is independently produced for Bacs by a recognised market research company, and we actively manage how this data is used for the overall benefit of the service and consumers in particular.

There is a caveat for all data provided, and this is because CASS delivers a high quality, stress-free switch experience for market segments in addition to consumers (retail customers). CASS delivers a switch service that is much broader than the consumer based switch requirements outlined in the PARs and the challenges involved in switching business accounts are greater than they are for consumers. As a result we believe the awareness, confidence and satisfaction figures provided below are marginally lower than they would be if the measure could be confined to consumers alone.

Please note that it is not possible to segregate the data to provide an accurate split between personal and business customers. The data taken from our monthly tracker research is compiled using the following criteria:

- The fieldwork conducted with adults aged 18 years and over
- The sample is from GB and NI
- Approx. 2,000 online respondents + 200 booster for Northern Ireland is the baseline
- Quotas set based on gender/region/social grade/age and household income
- The data is combined and weighted to be UK nationally representative

The data specifically requested in the PSR Final Guidance section 3.11 is as follows:

CASS Volumes: in the 12 months preceding the date of this application (e.g. from May 2015 to end April 2016 the total volume of switches processed by CASS is: **1,012,657**)

A link to our website that contains the published data for CASS is noted below:

<https://www.bacs.co.uk/resources/pages/factsandfigures.aspx>

Awareness: The average percentage Awareness score over the period from May 2015 to April 2016 is: **72.3%**

Confidence: The average percentage Confidence score over the period from May 2015 to April 2016 is: **63.7%**

Satisfaction: The average percentage Satisfaction score over the period from May 2015 to April 2016 is: **91.3%**

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Complaints:

We maintain a separate folder within the central CASS directory and over the course of the service since launch we have logged a total four consumer complaints. Two are from the same person who has switched twice, each time finding fault with aspects of the outcome.

In addition to the above we maintain a CASS Query Log (that dates from before the service launch) where all participant questions are recorded. This is not a complaints process but serves to ensure that over time similar participant questions receive a consistent response. It is possible that answers we have provided will have been used by participants when responding to complaints / questions from consumers about CASS – but we do not know if, or when, that may be the case.

As noted in our response to the PSR consultation the complaints process for CASS is clearly set out in the Agreement signed by the consumer(s) requesting the switch. A copy of the latest version of this Agreement (and the account closure instruction) is included along with the other documents we have submitted in support of this application. These are the control versions, and as such should not be published.

One of the strengths of CASS is that it is driven by the new bank acting on behalf of the consumer, and this includes the new bank standing behind the CASS Guarantee (also attached in support of our application for CASS designation). As such complaints are handled by our participants.

Our May 2016 independent research reported that 9 in 10 (94%) of those who have switched were satisfied with the process of switching, compared to 6% who were dissatisfied. This is the same proportions observed over the last few months. We take this as a positive and whilst not complacent regard the levels of satisfaction observed with CASS as a sign that the service clearly works as intended.

System Outages:

We have interpreted this to mean the central system operated by our supplier where an outage may impact consumer switches on a wide scale. In none of the following events reported were consumers adversely affected.

The following system outages occurred during the year from May 2015 to end April 2016 when we observed a total of three issues affecting participants. Two were supplier related issues and both were resolved within a matter of hours. One of the events (the first) only affected participants submitting switch requests via the Payment Services Website (PSW) platform provided to support participants with smaller account switch volumes. The second event affecting participants involved an issue caused by the main telecoms supplier where file submission (e.g. for larger CASS participants) across the Bacs network was interrupted for a matter of hours. The final event was an issue that arose on the 29 February and was as a direct result of a process failure on that specific date. It was resolved within a matter of hours.

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The first of the three reported events happened in May 2015 and the other two occurred in February 2016. There was no noted impact on consumers for any of these events.

Throughout the reporting period the CASS service has seen various outages within individual participant operations. These have varied in nature, and in total between May 2015 and end April 2016 a total of 30 incidents were reported and managed as part of the robust CASS incident management processes. Each incident is managed by our central suppliers through a dedicated service desk and also within the Bacs operations team where every incident receives dedicated attention until it is resolved.

The table below shows (anonymously) the incidents by participant bank:

| <b>Participant</b> | <b>Number of incidents over the last 12 months</b> |
|--------------------|--|
| Bank 1             | 7  |
| Bank 2             | 5  |
| Bank 3             | 5  |
| Bank 4             | 4  |
| Bank 5             | 4  |
| Bank 6             | 2  |
| Bank 7             | 1  |
| Bank 8             | 1  |
| Bank 9             | 1  |

Bacs has extensive experience in successfully managing operational incidents whenever they arise. CASS benefits from the same rigours and operational excellence that applies in respect the payment schemes we manage. The Bacs operations team referred to covers our payment operations as well as CASS.

## 8 APPENDIX 2 – PSR FINAL GUIDANCE SECTIONS 3.15 TO 3.17

The switching service does not impose upon the consumer any burden additional to those imposed by paragraphs 2 to 6 of Schedule 3 of the PARs

In this section we will describe and demonstrate why CASS is no more burdensome [for consumers] than the requirements of paragraphs 2-6 of Schedule 3 of the PARs.

In summary a consumer using CASS is only required to contact their new bank on application. For a switch carried out in accordance with paragraphs 2-6 of Schedule 3 of the PARs this could be at least 2-3 times and will be split between the transferring and receiving PSPs. In this regard alone CASS meets the required test.

| Action  | CASS  | PARs – Schedule 3  | Observation  |
|---|---|--|--|
| Authorise the switch                                      | 2 Agreements. One to provide authorisation for the switch and one obtaining the consumers authority to close the old account. Both Agreements are finalised in a simple and single step when applying to switch. They can be dealt with in person or on-line and providing the account mandate held by both PSPs permits it, only one consumer need sign. | All parties to the account must independently authorise the switch and make choices in respect of the actions that the PSP must deliver and payments that will be transferred. This is likely to be a protracted affair with the actions taking time to complete across the different parties to an account. | CASS is simpler.   |
| New bank requests switch                                  | Automated central process with secure messaging protocols to protect and safeguard consumer data.   | Must be processed using post, email or fax. In other words consumer data may not be as well protected.   | CASS is more secure, quicker and simpler.  |
| Old bank responds after verifying the consumer's identity | Consumer identity and verification completed using a unique CASS process agreed with the banking anti-fraud working groups  | Verifying the consumer's identity is an issue with only a 'wet' signature to go on. To be certain old bank may consider it necessary to contact their consumer to confirm the switch request.  | CASS is more secure, less prone to fraud and is simpler from a consumer perspective. |

| Action  | CASS  | PARs – Schedule 3   | Observation   |
|---|---|---|---|
| Payment arrangements transferred  | CASS is a one-stop-shop with all payments (credits and debits), on-line payment instructions and future dated payments being transferred to the new bank.   | Consumer has to decide what payments will be transferred and the scope of the payment types that must be transferred are not as complete as CASS, leaving the consumer with a potential issue that they will have to resolve themselves.  | CASS is simpler and stress-free.  |
| The old bank must cancel payment instructions to avoid possible duplication.                            | For all the largest CASS participants this is an automated process that eliminates possible error.  | The old bank must diarise each payment cancellation date specified by the consumer (if different) and take action as required.  | CASS has been designed to simplify the account switch process reducing the risk of error. |
| All senders of debit and credit transactions to the old account must be advised the new account details | CASS automatically issues an advice to Direct Debit Originators and also informs the sender of any Direct Credits and Faster Payments. The latter as part of the real-time payment response sequence. CASS also has the added benefit of a 'safety net' in the form of the redirection service that eliminates error. | The consumer or the new bank will write individually as required to each payment originator, which takes time and cannot provide a guaranteed outcome for the consumer.<br><br>The same advice messages will be sent for Bacs payments (not Faster Payments) and there is no central redirection service to guarantee the receipt of payments in the new account. | CASS ensures all transactions are redirected to the new account without fail.             |

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| Action                 | CASS  | PARs – Schedule 3   | Observation   |
|------------------------|---|---|---|
| Account Switch Charges | CASS is free to use for all eligible users – and this includes businesses with an annual turnover of up to £6.5 million and less than 50 employees. | ???? This is not known at the time of our application for CASS designation. | CASS is provided free of charge to all consumers eligible to use it. We do not know what charges, if any, the PSPs may apply for the Schedule 3 switch process. |

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## 9 APPENDIX 3 – PSR FINAL GUIDANCE SECTIONS 3.18 AND 3.19

The switching service, provided by the scheme, ensures that the procedure for switching is completed at least within the same overall timeframe (12 business days) that applies in the case of a switching service that meets the requirements of paragraphs 2 to 6 of Schedule 3 of the PARs.

CASS is designed to complete the account switch process in a single day. This is a working day and is the consumer's switch date that they agree with their new payment account provider when requesting the switch. The CASS process takes a total of 7 working days to complete working back from the switch date agreed between the receiving payment service provider (the new bank) and the consumer.

The seven working days was selected during the programme design and delivery phase to ensure the total end-to-end account switch process would be completed without placing the consumers banking arrangements at risk.

The FCA made reference to the overall timeframe for account switching in their March 2015 report Making Account Switching Easier saying that a reduction from seven working days to five was unlikely to deliver significant benefits for consumers. They added:

*“Consumers also told us that knowing the switch will happen on a particular date was more important than it being completed more quickly. Evidence from a small number of large banks indicates that between 10% and 50% of consumers choose an alternative date rather than having the switch completed within seven days of account opening.”*

[The above quote may be found on Page 7, paragraph 1.16 of the FCA report referred to.]

A separate analysis to identify the percentage of 'switch complete' messages (the MSG07) issued on time by the new bank shows that in the period from May 2015 through until the end on April 2016 the average performance by our participants across the twelve months is calculated at **99.0%**. During the same 12 month period the average number of days this message was issued after the 7 working days by participants is **1.3**.

There are a number of reasons why the service cannot hit 100% all off the time for this measure, and many will be legitimate based on additional investigations by participants that are necessary to protect the consumer in the event of suspected fraud. We do not believe the position described represents a matter of priority for the service, and consequently we have not allocated resource to request detailed information from the participants to identify and investigate individual cases when the additional Management Information (MI) data obtained shows:

- That the participants issued the required MSG07 'switch complete' message within 12 working days in **99.998%** of all switches over the period between May 2015 and end April 2016.

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- The total number of switches where the MSG07 'switch complete message was issued after 12 working days (and as previously stated this could be for perfectly valid reasons) is 15 out of a total of 1,012,657 switches during the same 12 month period.

From our perspective as the scheme operator we are content that the service is being delivered as designed and comprehensively meets this test.

As part of our submission we have also included a copy of our monthly (MI) pack that is provided for the CASS Management Committee. This slide deck is confidential, commercially sensitive data that must not be published.

The downward spikes in the near 100% performance for participant issuance of MSG07 coincides with the bank performance issues referred to on page 8 of our application for CASS designation. In all cases the matter is resolved within a matter of days even although the consumer switch will, in most cases, have been satisfactorily completed in time (as far as they are concerned). This is explained further below.

Within the CASS service we manage participant performance in respect of the issue of MSG07 to ensure the switch:

- Completes within the stipulated 7 working days specified for the service; and,
- To ensure the switch is 'released' by the central infrastructure allowing the consumer to initiate another switch using CASS (or the partial switch service).

In the unlikely event that a participant does not issue the required MSG07 at all, the service will automatically release the switch 3 months after the consumer's selected switch date. We have not observed any instance where it has been necessary to deploy this 'safety net'.

It is also worth noting that the late issuance of MSG07 does not necessarily mean the consumer switch has been delayed. This is because at the end of the switch process, on the consumer's chosen switch date, the two single most important processes happen outside the centrally monitored service. These are the old account closure and balance transfer (assuming the old account was in credit) from the old to the new bank.

The balance transfer (from the old bank to the new bank) as noted above is made at the same time as the old bank issues MSG06 on the consumers chosen switch date, and is made using the UK Faster Payment service (FPS). If FPS is unavailable (or the balance is larger than is permitted through FPS) then participants must use the CHAPS payment service, without any charge to the consumer. The UK payment services operate outside CASS and as such there is no central monitoring to ensure the payment arrives at the new bank (in most cases before 9:00am – e.g. start of business) and we rely on the new bank to ensure any delay in sending the balance transfer is mitigated to ensure the consumer's banking arrangement are not impacted.