

Market review into the ownership and competitiveness of infrastructure provision

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What is a payment system?

Payment systems are a vital part of the UK's financial system. They enable funds to be transferred between people and businesses; allowing you to pay bills via direct debit, receive your salary or pension and transfer money between friends and family using your smartphone. Last year the UK payment systems processed some 21 billion transactions worth around £75 trillion. The main **payment systems** in the UK include Bacs, CHAPS, Cheque and Credit, the LINK ATM network, Faster Payments, Northern Ireland Cheque Clearing, MasterCard and Visa.

What is payments infrastructure?

Payments infrastructure helps customers to make and receive payments. It is the hardware, software, connections and operating environments used across all levels of a payment system. These range from the online banking website of a payment service provider (PSP), like a bank or credit union, to the central IT systems used to transfer payments between banks and other PSPs.

Clearing and settlement of payments

'Clearing' occurs at the centre of a payment system. It is the process that transmits, reconciles and confirms a payment instruction (or a 'promise' to pay someone). Once a payment transaction is cleared, the funds are settled.

'Settlement' is the exchange of funds between the PSPs – and ultimately between the consumers or businesses involved.

Why is payments infrastructure important?

Payments infrastructure is crucial to the operation and development of payment systems. It makes sure for

example, we can receive our salary when we expect. Therefore, it is important that infrastructure facilities:

- work well and meet the needs of the businesses and individuals that use payment systems
- encourage innovation
- provide users with value for money
- are resilient and secure

What are the issues?

Currently, a small number of banks jointly own both, the Bacs, Faster Payments Service and LINK payment systems **and** the central infrastructure for those systems (i.e. VocaLink). This means these banks make the decisions about infrastructure for these payment systems.

Whilst this ownership arrangement has resulted in payment systems that are relatively robust and resilient and has helped keep costs down, it may also:

- limit competition and in turn, limit innovation and/or
- allow these banks to influence developments in a way that may be in their own interests rather than in the interests of all PSPs and customers

What will our review cover?

We are examining how infrastructure is provided for certain payment systems in the UK. As part of this we will:

- investigate whether payments infrastructure works in the interests of users of the payment systems; and
- consider whether or not current infrastructure ownership arrangements and market structure restrict competition or innovation

Factsheet

This **review** will examine the provision of infrastructure used:

- in the clearing functions at the centre of a payment system
- at the boundary between the clearing functions and the banks (PSPs) typically provided by third parties

We will also consider how ownership arrangements and competitiveness of infrastructure provision affects downstream or adjacent markets e.g. software providers.

Which payment systems will the review cover?

The review will focus on the payments infrastructure of the following payment systems:

- **Bacs**, which processes Direct Debits and Direct Credits, e.g. payment of bills, salaries and benefits;
- **Faster Payments Service (FPS)**, which processes near-real time payments, e.g. online bank transfers and standing orders; and
- **LINK**, which processes cash withdrawals from ATMs

The review will **not** look at infrastructure related to settlement functions including in the Bank of England, or the internal IT systems within the banks, credit unions and other PSPs.

How long will it take?

We are launching this market review today with the publication of our draft terms of reference. Over the next four weeks, we will take comments on the scope of this review and finalise the terms of reference towards the end of **May**. At that stage we will publish a more detailed timetable.

We currently expect it will take about **12 months** to complete the review and report on our findings. If we decide there is a need to carry out actions to improve the market, we expect this will take a further **six months**.

How do I get involved?

You can find further information on our website: www.psr.org.uk. Please direct any queries you may have about this market review to infrastructurereview@psr.org.uk, or in writing to:

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