Submit date: May 7, 2024

Reviewing access to RTGS accounts for settlement

To continue to support the evolving payments landscape, the Bank of England is reviewing its policies around access to the sterling Real Time Gross Settlement Service (RTGS). The **discussion paper** presents the initial findings of our analysis and seeks feedback to inform further policy development.

Please submit answers by close of business on **Tuesday, 30 April 2024**. Please answer as many questions as possible, but where questions are not relevant to your organisation you can click next to skip. It is possible to Save answers and complete on a later date, but if you do so please ensure to click **Submit** once you have finalised your response.

If you have any questions about this consultation, please email **RTGSRoadmap@bankofengland.co.uk**.

Privacy notice

Personal information we collect and use about you

This survey will collect personal data in the form of your name, email address and feedback on the RTGS Operating hours/ Settlement accounts and services. For some questions, a free text box is provided for your comments. If you choose to provide comments, we ask that you refrain from including any information that may identify a third-party.

Why we need your personal data

The survey responses will help the Bank to prioritise and progress continued work on RTGS access policies that support innovation while preserving resilience. Aggregated results of the survey will be shared with business areas in the Bank responsible for collecting this feedback.

The Bank uses a third-party provider, WorldAPP Inc, based in the United States, to provide the KeySurvey online tool that captures responses to the survey. Where personal data is transferred to the United States, a mechanism recognised by UK data protection law is used to ensure appropriate safeguards are in place (standard contractual clauses or international data transfer agreement).

More information

Please see **RCEP's privacy notice** which set out how we handle personal data in the performance of our functions. For more information about how the Bank uses your personal data, your privacy rights and how to contact the Bank's Data Protection Officer, please see our website Privacy and the Bank of England (**www.bankofengland.co.uk/legal/privacy**).

Are you an Individual or an Organisation?

- ( ) Individual
- (•) Organisation

What is the name of your organisation?

Electronic Money Association

What is your email address?

judith.crawford@e-ma.org

Are you an RTGS and/or CHAPS participant?

- ( ) Yes
- (•) No

Please select the category that best describes your institution

- ( ) Academia
- ( ) Think-tank/consultant
- (•) Trade association
- ( ) International organisation
- ( ) Public institution
- ( ) Private institution (financial services)
- ( ) Private institution (non-financial)
- ( ) Other (please specify)

If you do not currently use RTGS or CHAPS, would you be interested in the future?

- ( ) Yes
- ( ) No
- ( ) Unsure at this time
- (•) Not relevant

THE FOUR PRIORITY AREAS

Q1) Do you agree with the four priority areas the Bank has identified as part of its access review? Are there any further priority areas that the Bank should consider in the future? And if so which ones?

The EMA supports the BoE's vision for RTGS to act as an open platform for change and innovation, supporting its financial stability and monetary policy objectives.

However, we strongly believe that Priority 1 should also focus on widening RTGS access to Non-Bank Payment Service Providers (NBPSPs), by alternative ways of fostering innovation and competition in payments between Banks and NBPSPs.

We note that the regulatory expectations on non-bank payment service providers NBPSPs, i.e. Electronic Money Institutions (EMIs) and Payment Institutions (PIs) have increased over recent years, and therefore, the EMA welcomes the Bank's review of current access arrangements for NBPSPs.

We consider that the Bank's proposals will increase, rather than decrease, the barrier for entry, and they do not reflect these recent regulatory developments that have strengthened the regime for NBPSPs in the UK.

The Bank should consider opening up Reserves Account access to NBPSPs, and particularly where firms already have RTGS and Settlement Account access. Reserves Account access has to date been the purview of deposit taking institutions only. This means that NBPSPs are not able to hold funds with the Bank overnight, and this creates a competitive disadvantage as NBPSSPs are therefore not able to safeguard customer funds with the Bank, but have to rely on Tier 1 banks – often competitors - instead.

We invite the Bank to reassess upgrading the Settlement Account functionality to allow EMIs and PIs access to overnight reserves to establish a level-playing field between different PSPs to promote innovation and competition. (Please see response to Q2).

Q2) Are there any barriers that your firm faces for which any other types of services or access to RTGS accounts for settlement would be helpful/beneficial in mitigating? Please share additional quantitative evidence to support your response.

Yes. EMIs and PIs in the UK face significant barriers to establish and run their businesses when trying to open and maintain accounts with Credit Institutions. These can include safeguarding and operational accounts as well as accounts for other purposes. The reasons for this reticence vary from a perception of regulatory obligations that extend to the customers of these client firms (rather than the firms themselves), or to a wish to see significant revenue before extending such services. This has impacted a large proportion of firms in the sector - both start-ups as well as long established players. There are to our knowledge a limited pool of 5 or 6 banks that are willing to provide such a service and at significant cost. This introduces risk within the payments industry, as a large proportion of the sector is reliant on a handful of banks to continue to operate, and significantly higher fees as the choice of banks is very limited. We would like to request the Bank consider taking action to address this situation. Two suggestions are set out at the end of this section.

In 2019 the Bank of England consulted on opening up access to its balance sheet. In its response (Box K: Access to Balance Sheet Review), it recognised the competition and risk reduction benefits of allowing EMIs to safeguard at the Bank.

It also recognised the risk associated with a potential disorderly failure of a non-bank payments firm, and set out a number of conditions to be in place in order for the risk to be mitigated and for the Bank to be comfortable with directly holding customer funds:

(1) Customer funds to not only be 1-for-1 backed at all times, but for appropriate buffers and/or capital requirements to be in place to absorb unexpected losses.
(2) Protections for customers to be in place to guarantee that all funds are returned promptly to customers in the event of a firm's failure.
(3) Formal wind-down plans should be maintained to reduce the risk of disorderly failure.
We note that the regulatory framework for NBPSPs has since developed, thus addressing most - if not all - of the areas of concern highlighted above.

In relation to condition (1) individual firms may indeed be able to provide such a capital buffer as long as the buffers address specific risks associated with the EMI's business model, instead of containing oversimplified ratios. Prudential risk management and assessment of capital adequacy has since been addressed in the FCA's guidance in 2020 (Coronavirus Guidance) and now updated Payment Services and Electronic Money Approach Document (Approach Document). Further guidance on assessment of adequacy of financial resources has also been set out in the FCA's Finalised Guidance FG 20/1 of June 2020.

With regards to condition (2), the Payment and Electronic Money Institution Insolvency Regulations 2021 came into force in July 2021, and now improve the process and experience of customers in the event of the insolvency of an EMI or a PI. The Bank of England has also taken steps to amend the rules to make Financial Services Compensation Scheme (FSCS) depositor protection available to eligible customers of an EMI/PI in respect of their relevant proportion of safeguarded funds should the credit institution holding the safeguarded deposits fail.

Finally, condition (3) is now addressed, as the FCA issued guidance in July 2020 (now incorporated into the Approach Document – see 3.73 to 3.76) clarifying their expectation that all EMIs and PIs should maintain wind-down plans that should include clear triggers to commence an orderly, solvent winding down of the business in certain circumstances.

We invite the Bank to revisit the conclusions of the 2019 consultation and take steps towards either of the following:
(1) The Bank of England could upgrade the Settlement Account functionality allowing NBPSPs to upgrade the status of the Settlement Account to have overnight reserves access, and allowing the Account to hold two pots: one for settlement of funds between financial institutions (as it is currently designed), and a new second pot of funds within the Settlement Account in which NBPSPs can safeguard customer funds, or
(2) Create a new account type: The Bank of England could create a new Safeguarding Account that NBPSPs could have access to, allowing PSPs to hold funds with the Bank beyond those needed for pure settlement purposes. This account should be interest bearing, so that PSPs are not put at a competitive disadvantage relative to the banks receiving interest on their deposits with the Bank, and would remove the systemic risk currently associated with NBPSPs having to safeguard funds with credit institutions.

We would expect the Bank and the FCA to prohibit firms from marketing to their customers that their funds are held in this way, to prevent any potential bank-run from consumers who may perceive safeguarded funds at the Bank of England to be 'safer' than a traditional bank. Instead it should develop a new, branded hallmark akin to FSCS that would be shown to customers. Alternatively, such safeguarded funds could fall under the FSCS brand. This would help aid consumer understanding, as 'safeguarding' is not currently a concept well understood by consumers and puts EMIs at a competitive disadvantage.

PRIORITY 1: ENHANCING THE BANK/ FCA PROCESS FOR CONSIDERATION OF NBPSPs SEEKING ACCESS TO RTGS

Q3) Are there any further benefits, risks, or challenges with regard to this new approach to NBPSP's assessment that the Bank needs to consider? And if so which are these?

The EMA welcomes the Bank of England's review of the BoE/FCA process for consideration of NBPSPs seeking access to RTGS.
However, we consider that the proposed criteria is likely to raise barriers, rather than remove them. It is unclear why the Bank considers a need to raise the bar for entry in this way. There are likely to be several potentially unintended consequences, including the reduction of access and reduction in competition.

For large NBPSPs who safeguard billions in customer funds, the current regime is no longer fit for purpose and needs urgent reform in order to enable large NBPSPs to effectively enter their next phase of growth in the UK.

Regulated activities required at least for 9 months:
The requirement for the firm to have actively undertaken regulated activities for a period of at least nine months before the FCA will begin the full assessment to support access to RTGS will not be attainable by small or newly authorised market players. It is likely to be met only by large, established NBPSPs that may be seeking to move from indirect payment scheme access to direct participation. It is unclear on what basis the Bank is proposing this as a new condition of access.

Newly authorised or applicant NBPSPs for which the use of FPS might be a core part of their proposition, would require them to find, and then set up (including any required commercial agreements, technological integration etc.) access via a banking partner first, i.e. setting up an indirect participation model. Only after having operated for nine months could they even begin to apply for direct participation or an RTGS Settlement Account; this will then result in them incurring the additional cost associated with switching models. This, therefore, is a barrier to entry and may act as a disincentive for small and newly authorised firms to participate in the RTGS scheme. As a result, NBPSPs will become increasingly reliant on "gatekeeper" banks for payment system access.

Meeting the FCA access system and controls requirements for authorisation and then duplicating these requirements after the nine months for the RTGS review appears to be inefficient and will increase onboarding time.

The EMA suggests instead that the BoE consider the possibility for firms that are going through the authorization process to indicate their intent to join the RTGS scheme, which will trigger the assessment process at the outset of authorisation. Alternatively, to prove operational stability and mitigate the Banks' risk, the EMA recommends the Bank considers a "mobilisation phase '' for NBPSPs, where they are onboarded to RTGS, but operate within the BoE set parameters for a limited time.

Enhanced supervision of rapidly growing firms:
The EMA welcomes further clarification regarding the proposed strengthening of the FCA assessment process by way of enhancing supervision of rapidly growing firms. In particular we would welcome further clarity around the risk criteria that will be taken into account, and how this enhanced supervision will operate for firms that are already subject to high-growth enhanced monitoring.

If indeed the Bank wishes to introduce further barriers to entry for NBPSPs, perhaps the Bank could consider instead our proposals under Question 2 for those NBPSPs who do manage to meet the criteria: to open reserve accounts for NBPSPs.

Remuneration of safeguarded funds:
There remains the question of whether safeguarded customer funds at the Bank will be eligible for remuneration at the Bank's base interest rate. Currently, those who have Reserves access and meet its regulatory requirements are included as part of the Sterling Monetary Framework (SMF), and are subsequently permitted to receive remuneration. This should continue to hold true if an NBPSP with a Settlement Account is granted Reserves access.

Having Reserves access also currently requires firms to have Operational Standing Facilities (OSFs), in order to manage the liquidity in the banking system and to steer short-term interest rates towards the target set by the Monetary Policy Committee. This should not apply to EMIs: EMIs typically neither lend out funds nor take deposits, instead issuing electronic money and providing payment services to enable customers to store funds electronically and make cashless payments efficiently. This means they have minimal direct effect on the liquidity of the broader banking system. EMI activities do not directly impact the volume of money circulating within the traditional interbank lending markets, which are the primary target of OSFs. In light of this, it also means that EMIs' direct influence on the setting or steering of short-term interest rates is limited.

Including EMIs in the group that earns interest on reserve balances can help in the broader transmission of monetary policy. Even though EMIs may not directly affect the lending and borrowing markets regulated by OSFs, they are integral to payment systems. Their responsiveness to changes in the interest rate on reserves can help the Central Bank exert influence over more parts of the financial sector. By paying interest on reserves to EMIs, the Bank of England directly involves a wider range of financial institutions in the process of monetary policy transmission.

If EMIs earn interest on their reserve balances, this would likely make holding reserves more attractive. This decision would certainly encourage EMIs to maintain higher balances at the Bank of England, thereby influencing the aggregate level of reserves in the banking system. By holding higher reserves, EMIs could help cushion the system against liquidity fluctuations. Their reserve balances could act as a stabilising factor, especially under volatile market conditions.

PRIORITY 2: UNDERSTANDING DEMAND OF FOREIGN BANKS FOR ACCESS TO RTGS TO SUPPORT PAYMENT SYSTEM SETTLEMENT

PRIORITY 3: CLARIFYING REQUIREMENTS FOR FMIs

PRIORITY 4: REVIEW OF THE CHAPS VALUE THRESHOLD

Q10) Are there any further benefits, risks, or barriers to lowering the CHAPS value threshold that the Bank needs to consider?

The Bank may wish to consider the impact of lowering the CHAPS threshold on NBPSPs and their banking partners. NBPSPs that pass the threshold will be required to participate in CHAPS, but as they don't have access to a Reserves Account with the BoE they will be reliant on their banking partner for access. Some banking partners may not already be direct participants in CHAPS, and may not wish to apply for such status. This will likely have an impact on their arrangement with their NBPSP customer.

Q12) Any other feedback or comments?

NBPSPs, i.e. Electronic Money Institutions (EMIs) and Payment Institutions (PIs), have to safeguard customer funds by one of the permitted methods prescribed in the relevant regulations. By and large, EMIs and PIs use the segregation method, whereby funds are held in a segregated bank account with a credit institution. There are several barriers that NBPSPs face from existing safeguarding rules.

There are significant benefits to be gained by the payment services industry by allowing NBPSPs to safeguard funds with the Bank of England by allowing them an overnight reserves account, considering the following reasons.

(1) De-risking/de-banking. Opening and maintaining safeguarding accounts with banks NSPSPs remain a significant challenge. The number of banks with an appetite for offering safeguarding accounts is limited; the risk that a particular bank might decide to withdraw their banking services from a particular NBPSP or an entire section of the market (the so-called de-risking) is ongoing. Even with established relationships, banks are reluctant to hold significant amounts of safeguarded funds, increasing the risk of de-banking, thus penalising NBPSPs as their business grows. Where access to safeguarding accounts is withdrawn or disrupted, this can leave millions of NBPSPs' customers unable to access their funds or use their services.

(2) Systemic risk. The unavoidable reliance on banks for safeguarding customer funds poses systemic risks, including concentration risks in the event of bank failure This issue has become particularly acute in the context of the recent failure of Silicon Valley Bank. As NBPSPs grow, there are fewer providers with a risk appetite, expertise and appropriate systems to hold large amounts of safeguarded funds. This means that NBPSPs are forced to rely on a small number of safeguarding partners for their needs, which concentrates systemic risk in the event of bank partner failure.

(3) Credit risk: This will occur in the event of a safeguarding bank partner's failure. New Bank of England rules mean that should a partner bank at which an NBPSP safeguards customer funds fail, those funds will now be protected under FSCS. However for larger providers, this framework has its limitations in practice, as it requires NBPSPs to distinctly identify each customer's funds being safeguarded with each individual safeguarding partner. This is not how large NBPSPs operate: they safeguard on a macro level - i.e. on the total customer balances held, rather than safeguarding per customer - given the various product offerings consumers have (holding cash deposits, earning interest, or investing into indexed funds). This also allows NBPSPs to spread their safeguarding concentration risk across Tier 1 institutions and across safeguarding options. This means there still remains a serious credit risk in the event of a safeguarding partner bank's failure.

(4) Level-playing field, innovation and competition. Gaining further independence from the banking sector will foster growth, innovation and competition in the sector.

Enabling access to the Bank of England on terms similar to those available to banks, including as regards earning interest on funds held with the Bank, would create a level playing field across the industry and further the ability to compete with the banking sector.

Providing NBPSPs with a viable option to safeguard customer funds with the Bank of England would go some way towards addressing all of these challenges.

(5) Passthrough interest: EMIs currently rely on direct competitors in the traditional banking sector to safeguard customer funds. These funds earn our safeguarding partners' base interest rate, from which they take a margin, and the rest is passed on to EMIs. In order to fully enable competition between fintechs and the traditional banking sector, customers should be able to realise the full benefit of the Bank's base interest rates to drive further customer benefit.