

Written submission for the Treasury Select Committee

Threat to the ability of Payment Institutions to support their customers' legitimate needs during the COVID-19 crisis, thanks to UK banks' unwillingness to allow Payment Institutions appropriate access to UK and international payment systems

Submitted by: Bob Lyddon, Chair, Association of UK Payment Institutions (Error! Hyperlink reference not valid.)

Date: 30th March 2020

What is the Association of UK Payment Institutions?

The trade body for the class of UK financial institution known as a Payment Institution. Our membership comprises, in broad terms, 50 Authorised PIs, 25 Small PIs and a handful of eMoney Institutions.

The focus of our members' business is Remittances, and usually from a specific community in the UK to its counterparts in other countries.

Why this evidence is being submitted:

Our members are substantially blocked from using the UK domestic and international payment systems, for reasons that have been recognised – but not resolved – by official and industry payment bodies over the last 5 years. Our trade body has followed the initiatives meant to address the issue, and these have all failed. We recently sent a summary to the Financial Conduct Authority and the Payment Systems Regulator, of which an extract is cited below.

COVID-19 presents the sector with a major challenge in terms of meeting the needs of the customers of our members. This need will inevitably rise in visibility as COVID-19 is overcome here in the UK, and it is the impact of COVID-19 elsewhere, in those countries where public healthcare and so on are not givens, these countries being exactly the ones with the counterpart communities of the ones our members serve here.

Once COVID-19 takes hold in those counterpart communities, people there will not be able to travel here for treatment, nor will family and friends here be able to travel there to lend assistance.

Instead there will be all the greater desire to send money. Any current drop remittances activity will prove misleading, because then the desire would be so great, and the need for support so urgent, that people here will pull out all the stops to send what they can.

Right now that money may not be able to get there at all, or could arrive too late to make any difference.

It would be appalling if the stance of the UK banks on supposed AML/CFT risk (their main stated reason for de-banking our members) were to stand in the way of this support being rendered, and we are putting this to you now in the hope that the issue can be given visibility at the Treasury Select Committee level, such that communities here are able provide vital support to family and friends as and when the need becomes urgent.

Extract from “Summary of the status of initiatives purporting to address the issue of the lack of access to bank accounts for the UK’s Payment Institutions”

Sent to:

Financial Conduct Authority (Lee Hooker, Charlotte Dewey)

Payment Systems Regulator (Ben Woodside, Fiona McLaren, Nick Davey)

March 2020

Background

We sent a paper at the end of November 2019 entitled “Appreciation of the causes and current status of the lack of access to bank accounts”.

It contained a list of initiatives purporting to address the issue. We have also had a meeting with each of your organisations in the meantime and we informed you that part of our current work was to go over these initiatives with their sponsors and find out the state-of-play, and in particular whether these initiatives would for certain solve the issue within a short period of time.

The answer is negative across the board, and you will find a summary below.

Status of initiatives

Initiative	Status and Trajectory
Financial Standards Board – Correspondent Banking	<ul style="list-style-type: none"> No specific actions in train to address the problem
Financial Standards Board – Remittances Taskforce	<ul style="list-style-type: none"> The UK arm called the Remittances Action Group is in abeyance
Bank of England – access to Settlement Accounts for non-bank PSPs	<ul style="list-style-type: none"> RTGS Renewal project may enable accounts for non-bank PSPs even when they are not payment system participants, but this will not be before 2023
Direct access to payment systems	<ul style="list-style-type: none"> The adoption of ISO20022 by New Payments Architecture may lower barriers somewhat, but NPA will not go live before 2026
Indirect access to payment systems – Faster Payments New Access Model	<ul style="list-style-type: none"> Only 3 users are live on Directly Connected Non-Settlement Participant (“DCNSP”) Pay.UK have promised – but have not yet done so – to confirm which of the three users have sponsors who have insisted that the traffic is copied to them, so they can filter it for AML/CFT/KYC. The first user – eBury through Barclays – was set up in this way Such a set-up results in an even more complex business model and high costs

Initiative	Status and Trajectory
Payment Strategy Forum – Simplifying Access to Markets	<ul style="list-style-type: none"> • Closed
UK Finance – Bank Account Access	<ul style="list-style-type: none"> • Review meeting for the “Good Practice Guidelines” is scheduled for March 2020 • As far as AUKPI is concerned, the guidelines might as well not exist, and our reasons for not endorsing them have been fully borne out
Payment Systems Regulator review of Directions for access to payment systems	<ul style="list-style-type: none"> • Review of SD1 will compel the banks who are defined as Indirect Access Providers to treat applications by PSPs for payment accounts (but not safeguarding accounts) in the same way as they treat applications for indirect access to payment systems • This is only five or six banks now, and the list may be added to, but it does not apply to the whole market • It will also be opaque to applicants if the bank they are applying to for payment accounts is bound by SD1 when the bank is not mentioned in the revised SD1 • AUKPI designed a webpage to address that problem and sent it to Pay.UK and the PSR but has had no feedback
Article 105 of the 2017 Payment Services Regulations	<ul style="list-style-type: none"> • This remains the only leverage for PIs and AUKPI’s own project is designed to exercise this leverage
New Payment Architecture or “NPA”	<ul style="list-style-type: none"> • Not live before 2026
National Economic Crime Centre MSB Public Private Threat Assessment	<ul style="list-style-type: none"> • The draft report confirms all of AUKPI’s worst fears about this process tarring all MSBs with the same brush, and offering banks the opportunity to hang their hat on the NECC’s verdict and “de-risk” our members in entirety