



connecting the future

RTGS – CHAPS Tariff Consultation

Bank of England

April 2022

Response from The Payments Association

Introduction

The Payments Association welcomes the opportunity to contribute to the BoE “*RTGS – CHAPS Tariff Consultation*”.

The community’s response contained in this paper reflects views expressed by our members and industry experts recommended by them who have been interviewed and who are referenced below. As The Payment Association’s membership includes a wide range of companies from across the payments value chain, and diverse viewpoints across all job roles, this response cannot and does not claim to fully represent the views of all members.

We are grateful to the contributors to this response, which has been drafted by Riccardo Tordera, our Head of Policy & Government Relations. We would also like to express our thanks to the BoE for their continuing openness in these discussions. We hope it advances our collective efforts to ensure that the UK’s payments industry continues to be progressive, world-leading and secure, and effective at serving the needs of everyone who pays and gets paid.

With special thanks to:

- Araminta Russell, Strategic Program Director, Starling Bank
- Daniel, Payments, Nationwide
- Pavel Guzmanov, CEO, Digidoe
- Rhys Thomas, Payments, Nationwide

Tony Craddock
Director General

The Payments Association

Contents

The section numbering below corresponds to the numbering of the Survey published on the Bank's website:

Section 1 – General Questions

Type of organisation: Trade association

Section 2 – RTGS Renewal Costs

- What are your views on the relative merits of the proposed cost recovery periods (14 / 20 / 25 years)? What are the key factors driving your response?

A recovery period of 20/25 years feels more acceptable because it brings the benefit of lowering the annual costs while allowing for some flexibility. Costs still, however, remain extremely high.

Section 3 – RTGS Cost Allocation

3.a General feedback on Cost Allocation approach

- How well do you think the proposals for RTGS cost allocation meet the tariff principles?

Very well **Well** Neutral Poorly Very Poorly

Please explain your answer in the box below: The cost allocation is proportional to the ratio of the tariff principles.

- Are there any elements of the approach that incentivise behaviours that conflict with the tariff principles?

We do not believe there are any such elements.

3.b Payment Services Operators (PSOs) setting fees

- Do you agree that Payment System Operators (PSOs) should determine their own fee structures for allocating their share of RTGS costs to settlement participants? What are the key factors driving your response?

Yes No Don't know

Please specify further details below:

This will allow the PSOs some degree of flexibility on the tariff structure for their services, which is likely to result in stimulating innovation.

- Do you see any areas are of concern with PSOs determining their own fee structures?

We cannot see any areas of concern.

- Do you agree with the proposed approach of allocating costs to payment systems in line with gross value processed? What are the key factors driving your response?

Strongly agree **Agree** Neutral Disagree Strongly disagree

Please specify further details below:

The proposal is well detailed and contains a proper business model, which demonstrate adherence to the tariff Principle 1 (Proportionate) in particular.

3.c Charging for additional settlement services

- Do you agree with the proposal to apply an increase to the basic cost allocation for those payment systems in tranches 3–5 which opt to use additional settlement services? What are the key factors driving your response?

Strongly agree Agree Neutral **Disagree** Strongly Disagree

Please specify further details below:

We believe it's unfair to add costs for the use of the Reserves Collateralisation Account (RCA), particularly for Faster Payments, given its multiple settlement cycles per day, which may result in costs.

- Are the proposed levels of charges for additional settlement services likely to affect decisions on whether or not to use the services?

Very often people use “optional” services because of the regulatory requirements. We do not believe that these proposed level of charges will affect decisions on whether or not to use the services.

Section 4: CHAPS Fee Structure

4.a General feedback on CHAPS fee structure

- How well do you think the proposals for the CHAPS fee structure meet the tariff principles?

Very well **Well** Neutral Poorly Very poorly

Please explain your answer in the box below: The proposal seems well detailed and meets all the tariff principles.

- Are there any elements of this approach that incentivises behaviours that conflict with the tariff principles?

We cannot see any elements that appear to incentivise behaviours conflicting with the principles. However, some of our members have pointed out that, while the increase of the fixed portion of the fee meets the proportionate principle, it potentially clashes with the principle of supporting competition and access. To avoid unintended consequences, a balance between the two principles is recommended.

4.b Increase in share of cost recovery from fixed fees

- Do you agree that the Bank should recover a larger share of its CHAPS settlement costs through fixed fees (we currently recover 6% via fixed fees)? What are the key factors driving your response?

Strongly agree Agree **Neutral** Disagree Strongly disagree

Please explain your answer in the box below:

Responses to us varied depending on whether they were by a company is a direct participant or an indirect CHAPS user. Some of our members (EMIs) have highlighted how variable costs could allow a bigger number of transactions. Some small fixed costs are acceptable (0.x%) and some variable capped costs seems to be their preferred model.

- Would you prefer the proportion of fixed fee to be closer to our lower-end option of 20% or our upper-end option of 40%?

Our members showed consensus with the lower of these options, at around 20%.

4.c Tiered vs. Standard fixed fee

- Do you agree with the introduction of a tiered fixed fee? What are the key factors driving your response?

Strongly agree Agree **Neutral** Disagree Strongly Disagree

Please explain your answer in the box below:

Again, the answer may vary depending on whether a company is a direct participant or an indirect CHAPS user. However, fixed fees are considered fairer than fixed costs.

4.d Value based charged

- Do you agree with the introduction of a value based charge? What are the key factors driving your response?

Strongly agree Agree **Neutral** Disagree Strongly disagree

Please explain your answer in the box below:

Given the wholesale nature of Treasury payments, indirect participants are concerned about increased costs potentially being passed on from their sponsor bank and they would prefer to understand how changes to the fee structure will affect them first. Other members, however, tend to see this as a reasonable opportunity because it allows for compensation of expenses on a fairer base.

- With proposed fees now reflecting both volume and value of usage, what are your views on the relative merits of the following volume/value ratios (75:25 volume/value ratio; 50:50 volume/value ratio; 25:75 volume/value ratio; any other)? Please also rank your preferences for the ratios suggested where one is the most preferable and three the least.

Participants with lower volumes may suggest an even higher ratio of volume to value while larger direct participants may favour value over volume. However, there is no consensus across industry participants enabling the ranking the most preferred option, hence we must abstain from taking a position on this.

- Do you agree with the proposal to offer reduced initial fees in the first full year of joining to new CHAPS participants joining in Category 3? What are the key factors driving your response?

Strongly agree **Agree** Neutral Disagree Strongly disagree

Please explain your answer in the box below:

Any reduction in fees is welcome, as it widens access, encourages more companies to participate, and increases competition.

- What is the minimum notice that you would need to reflect any new CHAPS fee level within your pricing structure?

2 months 4 months **8 months**

Please explain your answer in the box below

Most members have indicated at least 6 months would be required.

Section 5: Other

5.a Fees for additional services

- Do you agree with the proposal to introduce an on-boarding fee?
What are the key factors driving your response?

Strongly agree Agree **Neutral** Disagree Strongly disagree

Please use the box below to specify any views on the case for or against on-boarding fees:

From a client's perspective it would be preferable not to have an on-boarding fee, which is perceived as an additional barrier for entry, even if this could help compensate the costs.

- Do you agree that the proposed charges for alternative forms of real-time transfers appropriately reflect the value received by the user of these services? What are the key factors driving your response?

Strongly agree Agree **Neutral** Disagree Strongly disagree

Please use the box below to specify any further comments: Most of our members' opinion is neutral on this question. However, there are some who favour low fixed costs as they believe they work better.

5.b Invoicing

- Do you have a preference (eg for budget planning purposes) for the Bank's tariff year to run on a calendar year basis, ie 1 January to 31 December as opposed to 1 April to 31 March each year currently?

Strongly agree Agree **Neutral** Disagree Strongly disagree

Please use the box below to specify any further comments:

We have no preference regarding this.

Section 6: General

- Please specify if any of the proposals have any equality impacts?

We believe there is an equality impact on the proposal relating to party to party transfers.

- Is there anything tariff related not covered in the consultation that you wish to provide feedback on?

No we have no additional feedback.

About The Payments Association

The Payments Association (previously the Emerging Payments Association or EPA) is for payments institutions, big & small. We help our members navigate a complex regulatory environment and facilitate profitable business partnerships.

Our purpose is to empower the most influential community in payments, where the connections, collaboration and learning shape an industry that works for all.

We operate as an independent representative for the industry and its interests, and drive collaboration within the payments sector in order to bring about meaningful change and innovation. We work closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

Through our comprehensive programme of activities for members and with guidance from an independent Advisory Board of leading payments CEOs, we facilitate the connections and build the bridges that join the ecosystem together and make it stronger.

These activities include a programme of monthly digital and face-to-face events including our annual conference PAY360 and awards dinner, CEO round tables and training activities.

We run six stakeholder working Project groups: Inclusion, Regulator, Financial Crime, International Trade and Open Banking. The volunteers within these groups represent the collective view of The Payments Association members at industry-critical moments and work together to drive innovation in these areas.

We also conduct exclusive industry research which is made available to our members through our Insights knowledge base. These include monthly whitepapers, insightful interviews and tips from the industry's most successful CEOs.

See www.thepaymentsassociation.org for more information. Contact malik.smith@thepaymentsassociation.org for assistance.