



## CHAPS Strategic Advisory Forum

Friday 25 January 2019

The fourth CHAPS Strategic Advisory Forum was held on 25 January 2019. A summary of the meeting is provided below.

Attendees: Kevin Brown (Chair) – Independent member on the RTGS/CHAPS Board  
Michael Jones – Head of Market Services, the area that operates CHAPS

### External members<sup>1</sup>

Angus Scott (CLS)  
John Lyons (TSB)  
Jo Oxley (ex-officio: Head of Government Banking Service)  
Jo Towers (HSBC)  
Julian Richings (JP Morgan Chase)  
Julian Sawyer (Starling)  
Scott Johnson (Chas Smith)  
Simon Eacott (Royal Bank of Scotland)  
Sriram Iyer (Deutsche)  
Thair Hanif (Al Rayan Bank (UK))  
Thom Wilkinson (Monro Wright & Wasbrough LLP)

### Secretariat, presenters and other Bank attendees

Apologies: Chirag Patel (Rabobank)  
Douglas Peel (Goldman Sachs)  
Graeme Middleton (corporate treasurer)

### Item 1: Introductions

1. The Chair welcomed members to the fourth CHAPS Strategic Advisory Forum meeting (the Forum). The Chair confirmed that the action taken at the last meeting were closed – for Members to inform the Bank of any other future external change events to factor into planning for RTGS Renewal.

### Item 2: Update on RTGS renewal programme

2. The Bank shared indicative timelines for the RTGS renewal programme based on four transition states: foundation; participant data channels; core RTGS ledger replacement; and further enhancements. As well as outlining these states in more detail, the Bank noted that the first transition state would not include significant technical change – some changes were already underway (such as streamlining testing for CHAPS Direct Participants) or primarily inward looking such as a revised billing/charging system.
3. In parallel with the foundation transition state, the Bank will run a procurement to appoint a Technology Delivery Partner to work with the Bank to create the renewed RTGS infrastructure. The Bank would be following a public procurement process (OJEU) with a competitive dialogue procedure. The procurement would formally commence in Q1 2019, with a Technology Delivery Partner appointed by mid-2020.

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<sup>1</sup> External members, with the exception of Jo Oxley, are appointed on an individual basis. Their respective organisations are shown for information. A number also have links to trade associations such as the Association of Corporate Treasurers, Association of Foreign Banks, London Money Market Association, and the Law Society of England and Wales.

4. The Forum discussed the potential for concentration risk given the similar procurement timeframe for Pay.UK's New Payments Architecture. The Bank noted that it was conscious of this risk, as where the relevant regulators, however at this stage of the process the Bank was more focussed on making sure we attract the best suppliers. The Bank also noted that the services being sought differed.
5. Members also discussed the level of awareness amongst indirect participants and end-users. It was felt that Authorised Push Payment scams as well as the continuing migration to the Image Clearing System were the dominant topics for these stakeholders still. Beyond that, the wider population would likely engage more as topics became increasingly practical – Open Banking, further PSD2 security changes and then turning to ISO 20022. The Bank confirmed that it could provide speakers on the Renewal programme for client forums if there was demand.
6. The Bank also provided a short update on the new Standards Advisory Panel for the transition to ISO 20022. The Panel would be jointly run with Pay.UK and have an external chair. The composition of the Panel would include end-users and software vendors as well as direct and indirect CHAPS participants. An important part of the Panel's role will be to provide advice on increasing awareness of ISO 20022 across a wider number of stakeholders.

### **Item 3: Retail fraud in relation to CHAPS**

7. The Bank highlighted wider industry work that it was engaged, particularly Confirmation of Payee and the Contingent Reimbursement Model. Both approaches are 'scheme-agnostic' and so would apply for CHAPS payments for in-scope payment service providers and customers. The Bank had raised awareness with CHAPS Direct Participants of the Payment Systems Regulator's consultation for Confirmation of Payee. The Bank was also seeking to understand the wider range of tools that payment service providers use to help detect fraud; for example, VocaLink's Mule Insights Tactical Solution and SWIFT's Payment Controls tool.
8. The Bank invited views from the Forum on a number of topics, focussing on what role the Bank could play. For its part, the Bank felt it was important that the 'right' CHAPS payments were captured in retail fraud initiatives but careful thought was required about where to draw the boundaries given the use of CHAPS for high value money market and financial market infrastructure obligations.
  - Members supported the Bank's view about targeting the appropriate level of controls (and hence friction) for retail CHAPS payments. Different controls existed for certain financial market payments settled using 'standard settlement instructions', and there were challenges in the retail space with balancing fast payments and a smooth user experience against controls intended to detect and prevent fraud. This was further complicated as any CHAPS payment is likely to be 'out of character' for consumers.
  - Members agreed that it was important for retail CHAPS payments to be in-scope of fraud controls to avoid fraudsters disproportionately targeting CHAPS as fraud controls are applied to other retail payments. Members also highlighted the importance of continuing to work with Pay.UK.
  - Members felt the Bank and payment service providers should further consider the type of payments that could present risks: those originated through open banking; Faster Payments; mobile; and those to/from overseas. This could be done collectively to understand the full end to end chain and clarify the role of different organisations.
  - Members highlighted the benefits of joining up data across the multiple payment systems to enhance detection of fraudulent networks and accounts.

### **Item 4: Horizon scanning**

9. The Bank briefly summarised its horizon scanning process to identify development relevant to CHAPS (and/or RTGS) for the Bank to consider in its strategy design and strategy

implementation. In its first round, in Autumn 2018, the Bank looked at a shortlist that included retail fraud and economic crime, data analytics and the New Payments Architecture – with a focus on the next two years. For the second horizon scanning round, in Spring 2019, the Bank was looking at a time horizon of three to five years. Topics under consideration included emerging payment methods, technological change, and external factors.

10. The Bank also provided an update on a report it had jointly published with the Bank of Canada, and the Monetary Authority of Singapore, working with a number of commercial banks led by HSBC.<sup>2</sup> The report assesses alternative models that could enhance cross-border payments through the use of technology to address various processing issues such as speed, cost and transparency. Members expressed interest in the benefits that such changes could bring, including to end-users and willingness to engage with the Bank. Members also considered that there was further work to do on the governance necessary to support such changes as well as considering the implications the whole eco-system.
11. Members also called out liquidity management as a key area. In particular, further incremental improvements were possible for how banks manage, and report on, intraday liquidity. More broadly, with technological changes to cross-border payments combined with potentially longer operating hours what would the implications be for how cross-border liquidity is managed – is more coordination needed and what data modelling would be necessary?

#### **Item 5: Update on engagement with CHAPS Direct Participants**

12. The Bank provided a number of brief updates on engagement with CHAPS Direct Participants.
  - Mike Jones had met with the majority of Direct Participants over the last year to discuss transformation, renewal, performance and changes across the industry. One repeating theme was for a reduction in weekend testing required when a new CHAPS Direct Participant joined. Measures to safely reduce testing through greater automation and front-loading of technical changes had been identified and were being progressed by the Bank.
  - The Bank had reviewed the CHAPS Technical & Operations Committee. While this would continue, increasing emphasis would be placed on its smaller working groups to support an effective dialogue in light of the increasing number of CHAPS Direct Participants.
  - The Bank had also held a pilot CHAPS Security Forum. The first meeting focussed on the theme of how to enhance the sharing of relevant cyber/security information to help reduce the impact and likelihood of cyber threats.
  - The Bank also noted that it had recently enhanced and streamlined the process for following up with CHAPS Direct Participants following an incident to better identify and understand the root cause of Direct Participant incidents.

#### *Role of CHAPS - contingency*

13. The Bank provided an update on a working group held earlier in January on the potential use of CHAPS and Pay.UK's retail systems as contingency for each other (see annex for workshop summary). The Bank is working closely with Pay.UK to consider what capacity and capabilities should be built into the renewed RTGS infrastructure as well as Pay.UK's New Payments Architecture. Members endorsed the importance of considering what should be built given the upcoming activities to design, invest and build across the Bank, Pay.UK, and other organisations in the eco-system.
  - The Bank was developing a number of end-to-end outage scenarios alongside contingency options, and would seek input from the working group on the role of CHAPS. Given the order of magnitude difference between wholesale and retail volumes, options such as single

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<sup>2</sup> <http://www.mas.gov.sg/News-and-Publications/Media-Releases/2018/Assessment-on-emerging-opportunities-for-digital-transformation-in-cross-border-payments.aspx>

RTGS/CHAPS transfer representing an underlying batch of retail payments were being considered.

- Members highlighted that building the right architecture and capacity was important to design appropriate contingency options. The interoperability enabled by the ISO 20022 Common Credit Message would be a significant technical improvement against what is often a manual approach to pushing payments through a different system. But it then raises questions as to whether payment service providers can re-route payments from one payment system to another, and whether the system(s) have the capacity to cope.
- Further expanding on the ability to execute certain contingency options, members highlighted the importance of customer communications and a set of 'rules' for how contingency would be used. For example, scenarios and timing for when re-routing might be turned to and whether critical payments would need to be identified and prioritised would be useful. Not only did the sender need to be able to re-route payments, but the receiving financial institution and their customers would need to be able to handle the incoming volume and data.
- One member also queried the feasibility of an 'operational lifeboat' where an indirect participant could switch to a different direct/sponsoring participant.

**Action: Any Member who would like to contribute to the work on contingency to contact the Bank.**

**Item 6: Any other business**

14. The Chair thanked members for their contributions. The RTGS/CHAPS Board was meeting the following week and the Forum's discussion would provide input to a number of the agenda items for Board meetings ahead of the summer.
15. In December 2018, the Bank had published its self-assessment of RTGS and CHAPS against the CPMI-IOSCO Principles for Financial Market Infrastructures, with a point of assessment as of end-June 2018. Of the 24 principles, 17 were relevant to RTGS and/or CHAPS. The Bank had self-assessed as observing 15 of the 17 principles, unchanged from 2017. The Bank had self-assessed as 'broadly observing' Principle 2: Governance and Principle 3: Framework for the comprehensive management of risks. The Bank judged that while the new governance and risk management arrangements put in place following the transfer of responsibility for CHAPS into the Bank, more time is, however, needed to reach a more set of combined arrangements operating over a number of governance cycles.
16. The Chair noted that this year the Bank would review the case for, and against, bringing the Forum together with the RTGS Renewal Programme's External Advisory Body and consider what a combined group would look like. The Chair also highlighted the useful input that the Forum provided to the Board and that input was welcome on shaping the Board's agenda and any suggestions for improvement to how the Bank is engaging with external stakeholders.

**Log of actions agreed in the meeting**

| No. | Date    | Action agreed   | Action Owner | Date due     | Status | Update |
|-----|---------|---|--------------|--------------|--------|--------|
| 1   | 25/1/19 | Any Member who would like to contribute to the work on contingency to contact the Bank. | Members      | End-February | Open   |        |

## **Annex – Summary of Working Group on the role of CHAPS in the payments landscape**

On 9 January 2019, the Bank and Pay.UK held the second meeting of the working group on the role of CHAPS in the payments landscape. The working group is designed to inform the Bank's future strategy for CHAPS as a payment system. The second meeting focused on the potential use of RTGS/CHAPS as a contingency alternative for retail payments, and the use of New Payments Architecture (NPA) as a potential contingency alternative for CHAPS payments. The list of attendees is provided in the annex. A summary of the meeting is provided below.

### **Update on NPA structure and impact tolerance work (Pay.UK)**

Pay.UK gave an update on NPA. Pay.UK is currently looking at two major topics – substitution and network connectivity. On substitution, Pay.UK is considering to what extent an alternative rail would be feasible within NPA itself and will consult the industry on this. Pay.UK is going to explore technology that would provide flexibility to process multiple types of payments with appropriate level of resilience even if there is one common push rail in NPA. Pay.UK is looking at failure scenarios based on the supervisory authorities' joint discussion paper on operational resilience<sup>3</sup> published in July 2018.

On network connectivity, Pay.UK is looking at how participants would connect to NPA. Pay.UK is considering risk-based models for connectivity. Under the blueprint, there could be multiple connections to the core NPA infrastructure. Private network would allow peer-to-peer connections, and flexibility needs to be built in to allow this. As part of this work, Pay.UK is also looking at future models for corporate connectivity.

Pay.UK is aiming to consider these questions by mid-February, driven by NPA procurement timelines, and will ask for the feedback on this as part of Request for Information (RFI).

### **Current use of CHAPS as retail contingency**

Attendees noted that CHAPS is currently used as retail contingency infrequently and on a case-by-case basis. The use of CHAPS depends on where the failure is (participant's connectivity or infrastructure), the value and volume of payments affected (especially the volume of any urgent payments), channels available to the payment service providers (PSPs) and how PSPs are set up (e.g. some international entities do not implement Bacs as it is considered too cumbersome and FPS' real-time expectations disproportionate for payments originating from overseas).

FPS is sometimes used as contingency for payments that normally go through Bacs, such as payroll. Attendees also noted that payroll payments are more time-sensitive and difficult to manage compared with e.g. customer payments.

Attendees identified the main difficulty to re-routing payments as the need to re-format payment messages and add the information that is required for CHAPS but not retail schemes. Some attendees however noted that some institutions gather that additional information anyway, so it might be easily available, if the appropriate internal channels to be able to readily populate that information were built.

Other obstacles mentioned included different payment system memberships, retail scheme transaction limits, and different screening requirements for different types of transactions. Data confidentiality concerns could also present a barrier to rerouting from Bacs to FPS (Bacs supports batches with single balancing debit entries, and re-routing payments individually via FPS could disclose sensitive details, for example, if a corporate has to manually input salary payments one by one, staff salaries could be exposed to a wider number of staff within different areas of the organisation). Different cut-off dates for payments in different schemes could also prevent timely re-routing. However, some attendees suggested that this obstacle might disappear over time if CHAPS adopted longer operating hours.

It was also noted that the service proposition in a contingency scenario might be different, and the clients are not aware of re-routing. There could also be a number of operational processes that might break in a re-routing scenario (e.g. where real-time information could be required as part of Open Banking).

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<sup>3</sup> <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/discussion-paper/2018/dp118.pdf>

## **Potential need for CHAPS to act as a contingency alternative for retail payments**

Some PSPs were not sure to what extent CHAPS needed to play a role as a retail contingency alternative. They thought that this would depend on the future NPA design and the contingency routes it would provide. It would also depend on to what extent overlay services were mandated for retail payments (e.g. Confirmation of Payee, Open Banking / TPPs) and the extent to which these could be supported for CHAPS payments. Another factor is the degree of true commonality between the CHAPS Common Credit Message (CCM) under ISO 20022 (at least for payments flagged as retail contingency payments) and the retail CCM. If CHAPS is used as a retail contingency, it should not happen very frequently.

The Working Group was also of the view that the potential role of CHAPS as a retail contingency should not disrupt the time-critical payments that normally go through CHAPS. This was not only in the context of the vastly larger volumes for retail payments and the ability of CHAPS end-to-end processes to be able to handle these, but also in the fact that rerouting payments via CHAPS may trigger unusual / 'out-of-character' alerts within fraud monitoring / AML systems and then require manual intervention at unmanageable levels. That said, there were examples in other jurisdictions where some participants were able to re-route payments relatively easily e.g. moving payments between TARGET2 and Euro1.

Pay.UK said that its view on the role of CHAPS in retail contingency was not clear at the present time. The role of CHAPS might also depend on the type of failure i.e. where in the end-to-end process the failure had occurred. Pay.UK is working on NPA impact tolerances with the assumption there would be a system fail and is considering economic and social impact in addition to the technical impact of failure.

One factor that could increase the likelihood of re-routing retail payments to CHAPS is NPA participants' potentially lower impact tolerances than NPA itself for certain types of payments. Some attendees noted that it was reasonable for market to accept and address tolerance levels that are potentially different from NPA services. Pay.UK will be defining impact tolerance levels at a service level following a consultation with the market. Pay.UK said that clearing and settlement services might each have different tolerance levels, given the different impact on both risks to participants, and impact on end users.

One attendee suggested that the Bank could take a policy decision on the extent, scale and type of activities for which CHAPS could act as retail contingency, based on financial stability and other societal benefits. The rest of activity could be left for the market to deal with.

## **Potential options for CHAPS to act as a retail contingency alternative**

The Chair briefly presented various potential options for CHAPS to act as a retail contingency alternative. They ranged from allowing retail payments to be re-routed to CHAPS individually to file-based solutions that would allow PSPs or NPA Overlay Service Providers (OSPs) to batch payments and send them to RTGS or CHAPS for settlement.

The Working Group suggested that it would be useful to discuss contingency options by setting out different failure scenarios, such as PSP outage, network outage and NPA outage. One attendee suggested that it would expect CHAPS to be able to act as a contingency alternative in the case of a single participant outage. Currently, PSPs often need to work with each other and their clients to decide what to do in a contingency, and it is not easy to define what their contingency solutions are.

Some attendees thought that the option of overlay service providers netting payments and sending MT298 (a balanced batch) messages to RTGS for settlement was similar to CHAPS bypass or the retail scheme deferred net settlement model. They also questioned whether this option was likely on the basis that it would require OSPs to replicate the role of NPA clearing and settlement layer.

In the case of PSP-specific outages, some corporates may also have in place alternative banking and payment service providers.

One attendee suggested that the option of OSPs aggregating batches of payments between pairs of participants on bilateral basis and sending them as one CHAPS payment did not seem very likely. The

main drawback of this option is that CHAPS participants would need to have third parties send payments on their behalf which implies some outsourcing of control over their liquidity management.

It was also noted that the feasibility of options will be affected by what direct corporate access model would look like in NPA.

### **Potential use of NPA as a contingency alternative for CHAPS payments**

The Working Group noted that PSPs rarely, if ever, use FPS/Bacs as a contingency alternative for CHAPS payments. It is more likely for PSPs to wait for recovery first. Some PSPs have routed smaller CHAPS payments to FPS in the evening as a measure of last-resort – reflecting the current degree of manual input and running out of time within the RTGS/CHAPS day.

Liquidity and the need to pre-fund payments obligations were mentioned as one of the main barriers to using retail schemes as contingency for CHAPS. Pay.UK said it was looking at how to improve the flexibility of caps, but that will also be contingent on the renewed RTGS service.

Some attendees suggested that a single participant's failure to connect to CHAPS could be left for PSP's discretion. The bigger question was the scenario of a CHAPS outage, where PSPs would likely start re-routing payments at once. The Working Group suggested that it would be useful to have some coordination in that scenario and to know whether PSPs would be expected to use NPA at least for some payments such as house purchases.

One attendee noted that the use of retail schemes as a contingency alternative for CHAPS depended on how long it would take to activate MIRS. In the unlikely event that it takes significantly more time than expected to activate MIRS, it might be useful to consider other contingency measures in the interim for time-sensitive, low value payments.

### **Next steps**

The Chair suggested that the Bank and Pay.UK could do further work on setting out various contingency scenarios and possible contingency frameworks for each. The Working Group agreed to contribute to this work and will be engaged in due course.

### **Annex – Attendees**

- **Association of Corporate Treasurers**
- **Bank of England**
- **Barclays**
- **Citi**
- **CLS**
- **Deutsche**
- **Goldman Sachs**
- **JP Morgan**
- **Lloyds**
- **Pay.UK**
- **RBS**
- **Santander**
- **Standard Chartered**
- **TSB**

The working group was chaired by Kevin Brown, in his capacity as an independent member of the RTGS/CHAPS Board.

Pay.UK (formerly NPSO) kindly hosted the meeting at their offices in London.