New Banks seminar

New Bank Start-up Unit

19th February 2018
Welcome and opening remarks

Martin Stewart – Director, Banks, Building Societies and Credit Unions, PRA
# New Bank Seminar | Agenda

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<tr>
<th>Timing</th>
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<th>Presenter</th>
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<tr>
<td>09.30 – 9:40</td>
<td>Welcome &amp; opening remarks</td>
<td>Martin Stewart – Director, Banks, Building Societies and Credit Unions, PRA</td>
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| 09:40 – 10:30| How to become a bank Q&A     | Arran Salmon – Head of New Banks, PRA  
Duncan Thistleton – Manager, Authorisations, FCA |
Ben Woodside – Payment Systems Regulator  
Andy Hollingdale – UK Interbank Payment Schemes |
<p>| 11:10 – 11:40| Break                        |           |</p>
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<tr>
<th>Timing</th>
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<tr>
<td>11.40 – 12.05</td>
<td>Becoming a bank in the UK</td>
<td>Nick Ogden – Chair, ClearBank</td>
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<td>12.05 – 12.45</td>
<td>After authorisation</td>
<td>Mustafa Naveed – Manager, New Banks, PRA</td>
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<td>12.05 – 12.45</td>
<td>Q&amp;A</td>
<td>Steve Riding – Manager, Cross Retail Banking Sector Supervision, FCA</td>
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<td>12.45 – 12.50</td>
<td>Closing remarks</td>
<td>Arran Salmon – Head of New Banks, PRA</td>
</tr>
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<td>12.50 – 14.00</td>
<td>Lunch</td>
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</table>
How to become a bank

**Arran Salmon** – Head of New Banks, PRA

**Duncan Thistlethwaite** – Manager, Authorisations, FCA
Key stages to becoming a bank with particular focus on:

• what you should think about before you contact us;
• the key factors we will look at, including the evolution of your Business Plan and mobilisation; and
• what we expect from you and what you can expect from us.
Five key stages | The end-to-end process

- Thinking about becoming a bank?
- Early stages

- What do you need to do to get started?
- Pre-application

- What happens when you apply to become a bank?
- Application

- What’s life like as a new bank in the United Kingdom?
- After authorisation

- How can you build out your bank with confidence?
- Mobilisation
Thinking about becoming a bank?

Early stages
Is it for you?

• Before you contact us think about whether you really need to become a bank.

• There are other simpler and less costly alternatives (e.g. non-bank specialist lender) which might be more suitable.

If it is for you, ask yourself:

• What will your bank do and how will it do it?

• Do you need to undertake any other regulated activities?
The word ‘bank’

• You cannot call yourself a bank unless you are one.
• You can begin the process as Example Ltd but only when you are authorised can you use Example Bank Ltd.

Payment systems:

• Banks must have access to payments systems.
• Consider the options for accessing payment systems (direct/indirect/technical) as early as possible.
Business models

• We are always interested in new and innovative business models.

FinTech

• We are open to firms leveraging the benefits of new technology.
• We monitor developments in fintech, and liaise closely with other fintech areas within the Bank of England/FCA.

Regardless of business model or technology platform, firms must demonstrate their viability and sustainability.
What do you need to do to get started?

Pre-application
Pre-application | The evolution of your Business Model

• Understanding your business model is key for us in the pre-application phase.

• We need clarity on how you will make money and be confident of the viability and sustainability of your business.

• This is an evolutionary process, where you set the pace.

• Other factors (governance, controllers, IT) remain important.
Pre-application | From your business model...

We would expect you to be able to explain, at a high-level:

• how your bank will make money;
• what products you will offer and how and who you will offer them to;
• who will run the bank and how they will do it;
• how the bank will be funded;
• what systems your bank will need and who will operate them; and
• what you will do in-house and what you will outsource.
The information relevant to your application should be set out in your Regulatory Business Plan (RBP) which should include:

- business model;
- governance arrangements;
- customer journey;
- risk management framework;
- capital and liquidity requirements; and
- IT and operational arrangements.

Initially this may be fairly high-level, but the detail will need to be developed as the pre-application phase progresses.
Pre-application | What do you need to do to get started?

Our experience tells us:
• that meeting prospective new banks before they submit their application are highly beneficial for both parties.

Structured formal meetings will help you:
• understand the process and what happens at each stage;
• understand our expectations and Threshold Conditions;
• set out your business proposition;
• identify any concerns early on so that you can decide if you want to take your application further; and
• submit as complete an application as possible.
Pre-application meetings

- **Initial meeting**: The first formal meeting. It provides an opportunity for you to discuss your plan and ask us questions about the authorisation process. We will provide written feedback which you should incorporate as you develop your RBP.

- **Feedback meeting**: Held after you have submitted your RBP. We will again provide feedback which you will be expected to address in your RBP.

- **Challenge session**: The last formal meetings held just before you submit your application where we will provide detailed challenge on the content of your near-final Business Plan, and a technical discussion on your capital and liquidity plans. You will be expected to incorporate feedback from the Challenge session into your application.

- **Mobilisation and operational risk meetings (Optional)**: We may arrange other meetings, e.g. if you are going to take the mobilisation route and/or your proposed business is particularly dependent on IT or outsourcing arrangements.
What happens when you apply?

Application
Submit your application to the PRA:

- Two printed copies of all of the application documents;
- Two electronic copies;
- Application fee of £25,000.

We will then:

- review your application including whether it is complete or not;
- write to you within eight weeks with the results of this initial assessment;
- arrange a formal monthly catch-up call with you; and
- arrange any interviews or visits.
Application

What is completeness?

• Have you provided all of the required application forms, fully and correctly completed?
• Is the information provided of sufficient quality and detail, incorporating our feedback, to allow us to complete our assessment?

Why does it matter?

• **Complete** applications – six month statutory deadline.
• **Incomplete** applications – twelve month statutory deadline.
• At present, for all applications – six month **voluntary** deadline.
Viability and sustainability
• How does the firm make money?
• Where will the firm be in five years?
• How does the firm achieve growth; what are the implications of that?
• When will the firm no longer require capital injections?

Products
• What will be offered?
• How will they be offered?

Market
• Who will be your customers and your competitors?
What do we look for? Risks and compliance

<table>
<thead>
<tr>
<th>Risks</th>
<th>Controls</th>
<th>IT &amp; Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are the key risks for your firm?</td>
<td>How do you seek to control your risks?</td>
<td>How will you build your systems?</td>
</tr>
<tr>
<td>➢  Credit</td>
<td>What will your Compliance and Audit functions look like?</td>
<td>What will be outsourced?</td>
</tr>
<tr>
<td>➢  Market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>➢  Conduct</td>
<td></td>
<td></td>
</tr>
<tr>
<td>➢  IT &amp; Operations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Application | What do we look for? Governance

Board and executive
- Skills – relevant banking experience and independence;
- Background and suitability for roles;
- Balance; between executive and non-executive, independent and non-independent.

Structure
- Committees and reporting lines.

Senior Managers Regime and interviews
- We will interview key individuals from the board and executive.

Owners and controllers
- We need to see through the layers to the ultimate controller;
- Influence on the firm.
The PRA will make a decision on the minimum regulatory requirement for capital and liquidity.

**Capital**
- Firms will need to raise adequate capital in advance of being authorised.
- Firms should look carefully at their Pillar 2A add-ons.
- In most circumstances wind-down costs are used to set Pillar 2B.

**Liquidity**
- Overall Liquidity Adequacy Requirement (OLAR), not just the Liquidity Coverage Ratio (LCR).
- Possible outflows of deposits.
- Composition of High Quality Liquid Asset buffer.
Before authorising a firm, the PRA will set out the Total Capital Requirement (TCR) for a prospective bank.

TCR captures all of the Pillar 1 and Pillar 2A requirements and is expressed as a percentage of risk-weighted assets (RWAs).

Irrespective of the TCR set all banks must hold a minimum level of capital - the Base Capital Requirement (BCR).

BCR is a fixed figure (usually €5 million) not dependent on the balance sheet and is superseded when the bank’s RWAs rise beyond a very low level.

We will also confirm the Pillar 2B buffer capital expectations including Wind Down Costs.
For SSBs, the BCR is reduced from €5 million to £1 million – in practice this is only likely to apply during mobilisation.

A SSB is defined as a bank with less than €5 million of capital which does at least one of the following:

- provides current and savings accounts;
- lends to SMEs;
- offers residential mortgages.

When a bank no longer meets the above definition, it ceases to be a SSB and cannot subsequently become an SSB again.

Firms exiting mobilisation will almost always need to hold more than €5 million of capital, which will mean they are no longer SSBs.
Recovery plan

- A firm’s recovery planning forms a key part of our assessment of a firm’s risk management procedures.
- Early warning indicators and triggers.
- Management actions.
- Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) will cover stresses and recovery plans.
- Reverse stress test – identify how severe a stress would be required to overwhelm any identified management actions and ‘break the bank’.

Resolvability

- To authorise a bank we must consider it resolvable.
- Business continuity plans that limit the impact on customers.
Application | What happens when you apply?

How long will it take?

- At present we try to assess all applications within six months but this is not guaranteed if your application is incomplete (and could change).
- You can help by responding promptly and comprehensively to our queries.

The decision

- Both regulators will make a decision independently.
- The PRA will make the final decision but it may only authorise a new bank with the FCA’s consent.
- If the FCA does not provide its consent, the bank will not be authorised.
Application | Common issues (1)

• “It will take longer than you think and cost more.”
• Are forecasts plausible? Have they been stress tested?
• Appropriate level of banking knowledge on the Board and executive.
• It’s fine to use consultants, but their knowledge is a complement for firm knowledge, not a substitute.
• Consolidation.
• Consider the benefits of a phased product roll-out.
• Do you really have a liquidity risk appetite, or just LCR restated?
• Be careful of conflicts of interest – particularly if the same entities own the bank and its IT provider.
• Group structures, particularly independence of the bank within the group and any shared staff.
• Good help is hard to find.
• Capital must be in place before authorisation, and have been agreed by the PRA as CET1 compliant.
• There is a long lead time to getting a reserve account – start early!
• **Capital structure** – are all Common Equity Tier 1 (CET1) shares equal?
Application | Timescales and success rates

- Average time between first meeting and authorisation into mobilisation of **19 months** (shortest 14 months, longest 40 months).
- Average time of **8 months** in mobilisation.
- Of firms who have had an initial meeting, **24%** have been authorised, **28%** have withdrawn and **48%** are still in progress.
- Of firms who have had a Challenge Session, **63%** have been authorised, **7%** have withdrawn and **30%** are still in progress.

Figures calculated only from UK-based applicants; exclude overseas branches and subsidiaries.
Build your bank with confidence

Mobilisation

Duncan Thistleton, FCA
What is mobilisation?

• Mobilisation, sometimes referred to as Authorisation with Restriction (AWR), is a separate, initial stage of authorisation. During mobilisation a firm is an authorised bank, but restricted in its activities.

• The new bank is **authorised** which may help secure further capital, recruit staff, invest in IT systems, commit to third-party suppliers, etc.

• But we **limit** the amount of business the new bank can undertake until it is fully operational.

• Mobilisation is **not** mandatory, nor is it necessarily suitable for all banks, and we cap the mobilisation period at twelve months.
How is this different?

• The key difference is that the new bank is *authorised* at an earlier stage and will appear on the Financial Services Register.

• You will be an *authorised bank*, *but* with a limit on the business you can undertake until you are fully operational.

• The regulatory requirements for banks that take the mobilisation route are *not lower*. The same standards will need to be met before you become fully operational regardless of the route taken.
## Mobilisation | What do you need to have done before?

<table>
<thead>
<tr>
<th>Assessment area</th>
<th>Fully operational at authorisation</th>
<th>Mobilisation route</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business plan/viability</td>
<td>Fully developed</td>
<td>Fully developed</td>
</tr>
<tr>
<td>Financial resources</td>
<td>Fully developed</td>
<td>Fully developed</td>
</tr>
<tr>
<td>Sources of funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICAAP &amp; ILAAP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate governance</td>
<td>Substantially in place</td>
<td>High-level structure</td>
</tr>
<tr>
<td>Structure</td>
<td>All key senior management identified</td>
<td>Key ‘guiding minds’ in place with senior roles critical to mobilisation identified and ready to be recruited</td>
</tr>
<tr>
<td>Board</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer journey including details of products, pricing, and on-boarding arrangements</td>
<td>Fully developed</td>
<td>Near final</td>
</tr>
<tr>
<td>Recovery Plan</td>
<td>Fully developed</td>
<td>Draft</td>
</tr>
<tr>
<td>Business Continuity Plan</td>
<td>Fully developed</td>
<td>Draft</td>
</tr>
<tr>
<td>Risk management and control structures</td>
<td>Fully developed</td>
<td>High-level outline</td>
</tr>
<tr>
<td>IT infrastructure and systems</td>
<td>Fully developed</td>
<td>High-level outline</td>
</tr>
<tr>
<td>Material outsourcing arrangements</td>
<td>Fully developed</td>
<td>High-level outline</td>
</tr>
<tr>
<td>Policies and procedures</td>
<td>Fully developed</td>
<td>Not required but development should be planned</td>
</tr>
<tr>
<td>Mobilisation plan</td>
<td>n/a</td>
<td>Fully developed and signed off by the board</td>
</tr>
</tbody>
</table>
What you and we do while you mobilise:

• You continue to build-out your bank – remember the twelve month time limit.

• You tell us how you are doing, submit what we ask to see and let us know if there are changes, issues or problems.

• We will monitor your progress and continue our assessment against Threshold Conditions.

• You must adhere to the requirement limiting the business you can undertake.

• Some regulatory reporting is required (e.g. COREP).

Remember you are an authorised firm and you must continue to meet our regulatory standards.
What you need to have done to exit mobilisation:

• Finished building the bank and have **everything** in place, tested and ready with board sign off.

• Submit a Variation of Permission (VoP) application to respond to the points raised by the regulators at authorisation.

• We will conduct a final review and then (if all is well) approve your VoP application to remove the requirement that restricts your business.

• Please allow time in your plans for us to finalise our review (c. six weeks) and reach a decision.

• As with authorisation the application to exit mobilisation requires approval from both regulators.
Mobilisation | What have we seen?

Over the last few years, we have seen some consistent themes:

- **Time** – firms’ mobilisation plans are consistently optimistic.
- **IT systems** – cost more than expected and take longer to implement than expected.
- **Raising capital** is crucial and can be very time-consuming.
- **Change in Control** – CiC transactions triggered by investors increasing their stakes take time to process.
- **Post-mobilisation** – proposals to delay material mobilisation activities until *after* mobilisation; this is not an option.
## Expectations

### What you can expect from us and us from you?

<table>
<thead>
<tr>
<th>You</th>
<th>We</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will address or incorporate any feedback provided by us into your Business Plan before moving to the next stage.</td>
<td>Will aim to have the minimum number of meetings with you during the pre-application stage.</td>
</tr>
<tr>
<td>Will develop your plans, complete the necessary work, prepare and send materials in good time for meetings with us.</td>
<td>Will assess the material you submit in a timely manner.</td>
</tr>
<tr>
<td>Will be open, honest and co-operate with us.</td>
<td>Will be open, honest and give clear feedback on your proposals.</td>
</tr>
<tr>
<td>Will provide all information that you think we should be aware of.</td>
<td>Will <strong>not</strong> provide a consultancy service. You should engage others if you need this.</td>
</tr>
<tr>
<td>Will ensure key individuals at your firm who will drive the proposition forward are involved throughout the process and attend the pre-application meetings.</td>
<td>Both regulators will be involved in the pre-application process and will ensure it is as seamless as possible.</td>
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</tbody>
</table>
How to become a bank - Q&A
Accessing Payment Systems
Markets, Payment Systems and Interbank Payment Schemes
Markets

Arshadur Rahman – Sterling Markets Division, Bank of England
Aims and objectives of the SMF

1. Implement the Monetary Policy Committee's decisions in order to meet the inflation target.
   - by paying Bank Rate on reserves balances held at the Bank.

2. Reduce the cost of disruption to the critical financial services, including liquidity and payment services, supplied by SMF participants to the UK economy.
   - by allowing firms to hold reserves at the Bank as a high quality liquid asset, and by standing ready to provide a liquidity upgrade to solvent and viable firms.

Eligibility for banks and building societies

• Authorised person under FSMA and an eligible institution (as defined in paragraph 1 of Schedule 2 to the Bank of England Act 1998).
<table>
<thead>
<tr>
<th>Facility</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Reserves account**             | • ‘Instant savings account’ at the Bank  
• Safe liquid asset (eg for LAB)  
• Remunerated at Bank Rate                                                                 |
| **Operational Standing Facilities (OSFs)** | • On-demand overnight borrowing (and deposit) facility  
• To manage unexpected payment shocks  
• Borrowing secured against Level A collateral.                                                                 |
| **Discount Window Facility (DWF)** | • On-demand bilateral liquidity facility, providing gilts or cash  
• Manage firm-specific/idiosyncratic liquidity shock  
• All eligible collateral accepted; fee varies by collateral band                                                                 |
| **Open Market Operations (OMO): Indexed Long Term Repo (ILTR)** | • Competitive auction, currently conducted monthly  
• Six month lending  
• Supports regular/predictable liquidity need  
• All eligible collateral accepted; min. bid varies by collateral band                                                                 |
| **Contingent Term Repo Facility (CTRF)** | • Auction to provide liquidity in the event of market-wide stress  
• Not currently active, but can be activated at short notice  
• Bank will tailor terms of lending to nature of stressed situation                                                                 |
<table>
<thead>
<tr>
<th>Collateral level</th>
<th>Examples of collateral within the level</th>
<th>OSF</th>
<th>ILTR</th>
<th>DWF</th>
</tr>
</thead>
</table>
| Level A securities | • Gilts and sterling T-bills  
• Sovereign debt issued by Canada, France, Germany, the Netherlands and US | Yes | Yes | Yes |
| Level B securities | • Sovereign debt of Austria, Belgium, Denmark, Finland, Ireland, Italy, Japan, Luxembourg, New Zealand, Norway, Portugal, Spain, Sweden and Switzerland.  
• FHLMC, FNMC and FHLB securities. UK and Dutch prime RMBS  
• UK, FR, DE, ES regulated covered bonds  
• UK, US, EEA auto / credit card ABS | No | Yes | Yes |
| Level C securities | • Other UK/EEA senior RMBS, covered bonds, ABS  
• UK, US, EEA ABCP | No | Yes | Yes |
| Level C loan | • Pool of loans (residential mortgages, consumer loans, CRE or corporate loans to non-banks)  
• Residual maturity of 3m to 40y. Governed by E&W, Scots, NI law.  
• **Loan pools need to be assessed by Bank in advance** | No | Yes | Yes |
Contact details

- Arshadur Rahman, Manager Operational Policy: Arshadur.Rahman@bankofengland.co.uk
- Applications team: Arshadur Rahman, Kieran O’Donoghue, Grace Clark applications@bankofengland.co.uk

Links

- The Bank’s ‘Red Book’ is a useful summary: https://www.bankofengland.co.uk/-/media/boe/files/markets/sterling-monetary-framework/red-book.pdf?la=en&hash=307B77F74A02B0A469CF44BD5DD7FF405849517F
Payment Systems Regulator

Ben Woodside – Payment Systems Regulator
Payment Systems | Access to payment systems

- For banks and other payment service providers to operate, they need to be able to move money between accounts. To do this all banks need access to a payment system.
- The way in which you choose to access the system is likely to be a decision linked to your business strategy.

<table>
<thead>
<tr>
<th>Cost and complexity of access</th>
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</thead>
<tbody>
<tr>
<td>Quality of access</td>
</tr>
<tr>
<td>Control of your access arrangements</td>
</tr>
<tr>
<td>Business model</td>
</tr>
</tbody>
</table>
Payment Systems | When to consider access to payment systems

Consider access options

- Thinking about becoming a bank?
  - Early stages

- What do you need to do to get started?
  - Pre-application

Confirm what systems your bank will need

- What happens when you apply to become a bank?
  - Application

How will you build your systems?

Becoming a direct/indirect participant

- What’s life like as a new bank in the United Kingdom?
  - After authorisation

Investing in IT systems

- How can you build out your bank with confidence?
  - Mobilisation
## Payment Systems

Consider your access options

<table>
<thead>
<tr>
<th>Settlement access</th>
<th>You</th>
<th>Indirect Access Provider</th>
<th>Aggregator</th>
</tr>
</thead>
<tbody>
<tr>
<td>You</td>
<td>Direct access</td>
<td>n/a</td>
<td>Direct access</td>
</tr>
<tr>
<td>Indirect Access Provider</td>
<td>Direct technical access</td>
<td>Indirect access</td>
<td>Direct technical access</td>
</tr>
</tbody>
</table>

**New options!**
## Payment Systems | Direct access

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>You have a direct relationship with the payment system operators</td>
<td>You need to gain access to a Bank of England settlement account</td>
</tr>
<tr>
<td>You are not dependent on another bank for access</td>
<td>It is relatively complex and costly</td>
</tr>
<tr>
<td>The time and cost for direct access is reducing</td>
<td>You may need multiple relationships for access to multiple systems</td>
</tr>
</tbody>
</table>
## Payment Systems | Indirect access

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Likely to be easier, less costly and less complex to gain indirect access (particularly if you have low volumes).</td>
<td>You need to secure a customer relationship with an indirect access provider.</td>
</tr>
<tr>
<td>You do not need to be involved in the operations of the payment system operators (e.g. out of hours testing).</td>
<td>Quality of access - you are dependent on the systems of your indirect access provider.</td>
</tr>
<tr>
<td>You benefit from the support and experience of your indirect access provider.</td>
<td>Resilience and control - you are dependent on the systems of your indirect access provider.</td>
</tr>
<tr>
<td>In most instances you only need one relationship for access to multiple systems.</td>
<td></td>
</tr>
</tbody>
</table>
### Payment Systems

**Direct technical access**

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>You gain the benefit of direct access without being a full direct participant in the payment system</td>
<td>You still need to secure a customer relationship with an indirect access provider for settlement purposes</td>
</tr>
<tr>
<td>You have greater control over resilience and the quality of access</td>
<td>Only currently available for Bacs and FPS</td>
</tr>
<tr>
<td>You don’t need to secure a Bank of England settlement account</td>
<td>If you choose to work with an aggregator, you will need to manage a third party supplier</td>
</tr>
</tbody>
</table>

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[Images of logos and text related to payment systems, including ACI, Bottomline Technologies, Compass Plus, CORVID PayGate, dovetail, FIS, InfraxisX, PAYPORT, Bank of England Regulation Authority, and Financial Conduct Authority logos.]
Payment Systems | Other considerations

- Sort codes
- www.accesstopaymentsystems.co.uk
- PSR - directions; complaints; powers
- Indirect Access Provider Code of Conduct
- PSD2 access requirements on operators and indirect access providers
- PSO consolidation
Interbank Payment Schemes

Andy Hollingdale – Representing the UK Interbank Payment Schemes
**bacs**

**Bacs** is the scheme for regular bulk, file-based credit transfers and Direct Debits.

**Faster Payments** enable real-time credits: on-line, telephone, and mobile applications.

**CHAPS**

**CHAPS** is the UK’s same day high value payment system for both wholesale and retail payments. CHAPS Payments are settled individually intraday in central bank funds.

**LINK**

**LINK** facilitates end-users’ access to cash via the UK’s largest ATM network.

**Paym**

**Paym** is the UK’s mobile payment service, offering a centralised mobile phone (and other proxies) to account lookup service to participating Financial Institutions.

**C&CCC**

**C&CCC** is responsible for managing the processing and settlement of cheques and other paper payment instruments in the United Kingdom.
## General Access Criteria for a PSP to join a PSO

<table>
<thead>
<tr>
<th>Topic</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Participant Status</strong></td>
<td>Be a PSP authorised or registered with the FCA (Financial Conduct Authority) to provide payment services under the Payment Services Regulations (2009), or if exempt from above; Provide evidence of the current FCA Part 4A permission under the Financial Services and Markets Act 2000. For LINK the Participant should be either an ATM operator or a Card Issuer. Card Issuers must be regulated in a manner accepted by the Bank of England. For CHAPS the Participant must be within the definition as set out in the Financial Markets and Insolvency Regulations 1999.</td>
</tr>
<tr>
<td><strong>Settlement Arrangements</strong></td>
<td>Must meet the PSO (Payment Systems Operator) requirements for settlement by either: - Holding a Settlement Account at the Bank of England, or - Have access to a Settlement Account through a settlement Participant.</td>
</tr>
<tr>
<td><strong>Legal Opinion</strong></td>
<td>Where the Participant is domiciled outside the UK, you may be asked to provide independent council / legal opinion confirming that the PSO agreements are legally binding and enforceable.</td>
</tr>
<tr>
<td><strong>Legal Documents</strong></td>
<td>Must sign all legal agreements as required by the PSO.</td>
</tr>
<tr>
<td><strong>Member/Shareholder</strong></td>
<td>Depending upon PSO you want to join, you may be required to become a member / shareholder / Guarantor.</td>
</tr>
<tr>
<td><strong>Costs</strong></td>
<td>Must agree to pay your share of the PSO costs, as required.</td>
</tr>
<tr>
<td><strong>Compliance</strong></td>
<td>Must agree to comply to the PSO rules and technical requirements and be prepared to undertake assurance activity as required by the PSO or regulators, before go live and then on-going per the PSO rules.</td>
</tr>
</tbody>
</table>

### This is a guide to access criteria, specific criteria are published per PSO

The alternative to joining a PSO is to buy the services from a Scheme Participant which, depending on your circumstance, might be the most cost effective solution. Should you wish to explore this you should contact the corporate banking division of your chosen PSP.
**Interbank Payment Schemes** | Discovery (engagement) process

**Sources**
- Direct Enquiry
- Referral From Existing Member
- Existing Indirect Member looking to “upgrade”
- Bank of England
- Regulatory Request
- Payment Systems Regulator
- Referral From VocaLink
- Referral From Aggregator

**Establish Contact with Scheme**
- Share Initial Information Documents
- Introduction & Overview Meeting

**Further Support Meetings & Calls**

**Sign Non Disclosure Agreement**

**Transition to On-boarding**
**Interbank Payment Scheme**

**On-boarding process**

### Become an Authorised PSP (“Banking Licence”)

Two routes available:

- **Standard** – 6 months duration
- **Mobilisation Route (Authorised with Restrictions)** – 3 – 12 months duration

### Technical Solution

- **Direct Connection to Infrastructure**
  - Develop own capability or Aggregator approach
- **Indirect Participation**
  - Identify who to use as your sponsor
  - Design connection to sponsor

### Design, Build, Test & Settlement

- Gain access to detail documents to allow Participant to design create & prove their solution
- Co-ordinate settlement arrangements with the Bank of England or alternative arrangement

### Application Approval

- Complete and assess assurance and sign legal contracts

### Pre Go Live

- Prepare to Go Live

### Go Live

- Go Live & close project

### Initial contact to be made to Payment Schemes

### Discovery

- Determine which Schemes to join

### Definition & Planning

- Access given to documents to allow Participant to prepare business case & plans

### Settlement Arrangement

#### RTGS

- **Settlement Account** – used to settle all interbank payment schemes
- **RCA** – one account per prefunded scheme (currently Bacs, FPS & ICS C&CCC)

#### Sponsor Bank (Bacs, C&CCC & Faster Payments only)

- **Direct Non-Settling Participant**
  - Arrange for another Direct Participant to settle for transactions you have submitted to the Scheme

#### Indirect Participant

- **Commercial Arrangement (LINK only)**
  - To allow PSPs to have access to another parties RTGS account.
Further details of Schemes and how you might use them to support your proposition can be found in this publication.
“The pre-eminent body that will drive best in class payment infrastructure in the UK for the benefit of everyone.”

- Respond to End-User needs
- Improve trust in payments
- Simplify access to promote competition
- Build a new architecture for payments
Markets, Payment Systems and Interbank Payment Scheme - Q&A
Break

30 minutes
Welcome back

Arran Salmon – Head of New Banks, PRA
# New Bank Seminar  
## Agenda

<table>
<thead>
<tr>
<th>Timing</th>
<th>Session</th>
<th>Presenter</th>
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<tbody>
<tr>
<td>11.40 – 12.05</td>
<td>Becoming a bank in the UK</td>
<td>Nick Ogden – Chair, ClearBank</td>
</tr>
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</table>
| 12.05 – 12.45| After authorisation Q&A          | Mustafa Naveed – Manager, New Banks, PRA  
Steve Riding – Manager, Cross Retail Banking Sector Supervision, FCA |
| 12.45 – 12.50| Closing remarks                  | Arran Salmon – Head of New Banks, PRA                                    |
| 12.50 – 14.00| Lunch                            |                                                                           |
ClearBank

By Nick Ogden - Chair
“All the things I know now about being authorised as a bank which I wish I’d known then*”

*An ode to Nick Parish
Our journey started over a coffee
In 2014 we started building a new bank

With no legacy technology, no customers and a clean sheet of paper
Regulators

Detailed, deep open discussions with the PRA, FCA and PSR
We were ALL learning
Real interest in the economics
Cautious, progressive acceptance on IT
Pre Authorisation Phase ends
13Kg per copy
Mobilisation Phase

(yes you’re a bank)
Governance, Governance and more Governance, and then, Testing, Testing and more Testing whilst Completing the mobilisation list
Out Of Mobilisation

Applying the learning
Regular communication essential
You really cannot be more of a pest that I was!
3 months out

Be ready for your first SREP
It is a very hard balancing act
Regulators remain there to help, and don't be afraid to ask
After authorisation

Mustafa Naveed – Manager, New Banks, PRA
Steve Riding – Manager, Cross Retail Banking Sector Supervision, FCA
The main topics for discussion:

- Being supervised by the PRA
- Being supervised by the FCA
Being supervised by the PRA

After authorisation

Mustafa Naveed, PRA
In considering the viability and suitability of the business model, the PRA will look at six key areas:

1. Capital
2. Liquidity
3. Operational risk and resilience
4. Credit
5. Governance
6. Recovery

The order of priority will be determined by the business model of the individual firm. Capital is always looked at annually after the first capital assessment.
How do we supervise?

- Review regulatory returns and management information (MI)
- Monthly phone calls
- Regular on-site visits
- Annual business model analysis
- Deep dives and thematic peer analysis
- Internal panels such as the Periodic Summary Meeting (PSM)
- Supervisory colleges (JRAD, FCA)
We are committed to reviewing capital (C-SREP) on an annual basis for the first five years. This will entail:

• Firm visit (the first of which may be more than a year after exiting mobilisation);
• ICAAP review;
• Capital-setting panel (often the PSM); and
• Formal communication of findings.
Capital stack

- Pillar 1, 2A and 2B
- New bank approach to setting buffers: wind-down costs, which incorporate the PRA Buffer and Capital Conservation Buffer
- Countercyclical Buffer

Other considerations

- Deduct intangibles as appropriate
- Leverage ratio
- Minimum requirement for own funds and eligible liabilities (MREL) (not set by the PRA)
Capital framework

After authorisation

Reference: ‘The Bank of England’s approach to stress testing the UK banking system’ October 2015
Capital – CET1

- Many new banks give initial shares to their founders or other early investors. These sometimes have different features to those subsequently offered to external investors.

- In this or a similar situation CRD IV may prevent one type of share from being classified as CET1 if other shares have rights which are more limited.

- Formal Permission must be obtained from the PRA for all capital injections after authorisation to ensure that the shares qualify as the tier of capital claimed, unless the shares are of an identical type to shares previously approved.
Many of the issues faced by firms during the financial crisis can be traced back to failures in governance.

• The Senior Managers Regime

The PRA will assess several aspects of a firm’s governance:

• How does the board operate and how effective are the committees?
• What is the balance of the firm’s Board?
• Diversity of thought
• What does the MI look like?
• Design vs. effectiveness
• **Board size and structure** – Does the Board have the capacity to explore key business issues rigorously?

• **Independence** – Is your AuditCo Chair independent?

• **Board balance** – Have you got the executive/non-executive, and the independent/non-independent ratio, correct?

• **Board experience and expertise** – Do you have a mix and balance of skills to collectively understand the business? Do you have succession plans in place?

• **Tenure** – Can you satisfy yourself that individuals remain independent after a long tenure?

• **Diversity** – How diverse is your Board? How does this influence decision making processes and effectiveness of actions?
How you manage the bank as it grows is a key consideration. We will want to understand the impact rapid growth could have on the bank and we expect appropriate resources to be in place before growth:

- **Governance and risk management:**
  - Staffing levels and governance structure should reflect the size of the firm, its business model and risks.

- **Implications for financial stability:**
  - Are you developing a large market share in one particular product or region?
  - Critical economic functions.
As the bank grows, its risk management and controls should grow at the same rate.

We will want to understand the impact rapid growth could have on the bank and we expect appropriate resources to be in place before growth.

Staffing levels and governance structure should reflect the size of the firm, its business model and risks.

In extremis, growth may have implications for financial stability:
- Are you developing a large market share in one particular product or region?
- Critical economic functions.
After authorisation | Firm information and reporting

- Full regulatory reporting requirements apply (GABRIEL)
- Frequency and proportionality
- Importance of quality – used by FPC, MPC and firm supervisors
- MI, annual reports and Pillar 3 disclosures are included in our analysis
- The NBSU helpline is available
After authorisation  Common challenges

- Inadequate growth
- Difficulty launching new products
- Radical or unexpected changes to the business plan
- Further capital injections, and new controllers as a result
- Accuracy of regulatory reporting
Being supervised by the FCA

After authorisation

Steve Riding, FCA
After authorisation | Being a new small bank within the FCA

• Once a new bank leaves the mobilisation phase, you will be supervised as a flexible firm by the New Banks Start-up Unit.

• At this stage you will be allocated to either:
  • Wholesale Banking Supervision (Susana Garcia-Cervero) or
  • Retail Banking Supervision (Steve Riding).

• This allocation is determined by factors such as: business model, type of customers and products.

• Where there is a mix we consider the predominant type of business.

• Since January 2016, nine new Retail Banks and four new Wholesale Banks have joined our portfolio of firms within the New Banks Unit.

• Our early proactive engagement with these firms has informed our view on what life after authorisation will look and feel like.
After authorisation Being a new small bank within the FCA

• Our supervisory approach recognises that newly authorised banks may require more support in the early years.

• From 20 January 2016, newly authorised retail and wholesale banks moving from Authorisation to Supervision are part of the NBSU for the first two years.

• Our supervisory approach for new banks includes:

Access to the NBSU telephone line who will act as your day-to-day contact on process and Handbook / Rulebook queries.

An introductory proactive meeting with an experienced Supervision team, followed by subsequent touch points.

Little or limited involvement in cross-firm work in the early years while you reach critical mass.

NBSU telephone line: 0203 461 8100
After authorisation | Being a new small bank within the FCA

What does this mean in practice for a new bank?

• **One or two** meetings a year with the Senior Managers in your bank to explain the FCA supervisory approach and help us understand:
  • Progress made against strategy
  • Plans for the future, new products, business lines, areas of development
  • Challenges such as funding challenges, difficulty in recruiting staff with the appropriate level of skills/knowledge, readiness for regulatory change.

• **FCA NBSU supervisors should be contacted to:**
  • **Report crystallising/crystallised risks** e.g. IT outages, data breaches, financial crime and AML issues, any issues requiring remediation or redress
  • Inform us of business model / strategic matters, key personnel changes
  • Raise any particularly sensitive matters
  • We may engage with specialist supervisory areas (e.g. concerning financial crime, cyber and technology matters) as appropriate

**All firms have a responsibility to meet their obligations under Principle 11.**
### FCA Business Plan 2017/18 key cross sector priorities

<table>
<thead>
<tr>
<th>Category</th>
<th>Priorities</th>
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<tr>
<td><strong>Firms’ Culture and Governance</strong></td>
<td>• Consult on the accountability regime of all FSMA firms</td>
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<td></td>
<td>• Continue to review our regulatory framework that governs remuneration</td>
</tr>
<tr>
<td><strong>Financial Crime and AML</strong></td>
<td>• Prepare to take on responsibility for reviewing the quality of professional bodies AML supervision</td>
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<td></td>
<td>• Investigate how new technology can improve the efficiency of the AML processes</td>
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<td>• Roll out a further scamsmart campaign warning of investment fraud</td>
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<tr>
<td><strong>Promoting competition &amp; innovation</strong></td>
<td>• Publish resources to help firms developing ‘robo-advice’ services</td>
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<td></td>
<td>• Engage with regional and Scottish FinTech hubs</td>
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<td></td>
<td>• Investigate how near and real time compliance monitoring can reduce the regulatory burden</td>
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<tr>
<td><strong>Technological change and resilience</strong></td>
<td>• Establish cyber co-ordination group across sectors to share experiences and foster innovation</td>
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<td></td>
<td>• Undertake technology and cyber capability assessment on all firms considered ‘high impact’</td>
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<td></td>
<td>• Analyse resilience risks in major initiatives, including ring-fencing and the PSDII</td>
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<tr>
<td><strong>Treatment of existing customers</strong></td>
<td>• Analyse the effect of wake up packs on consumers decisions at the point of retirement</td>
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<td></td>
<td>• Look at how firms treat borrowers whose interest-only mortgages are approaching maturity</td>
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<tr>
<td><strong>Consumer vulnerability and access to financial services</strong></td>
<td>• Publish our ‘Consumer Approach’ to define our overarching approach to addressing UK customers’ needs.</td>
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<td></td>
<td>• Continue our work in the consumer credit sector, including our continued focus on high-cost credit and overdrafts</td>
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Engagement with the Sector

- Multi-firm work:
  - Product governance & product lifecycle management
  - frameworks for reporting and escalation of conduct risks
  - financial incentives & performance management
  - Cost Efficiencies programmes
  - Outsourcing
- Proactive monitoring & identification of issues
- Meetings with new banks and larger banks in the sector
- Specialist Supervision focus:
  - SMR regime
  - Financial Crime

Strategic Priorities

- Business Models: Strategic Review of Retail Banking Business Models
- Competition: Revised EU Payment Services Directive – PSD II, Open Banking, Follow up to CMA Work on Overdrafts
- IT Stability and Security: Technology and Cyber Resilience Work
We expect **Payment Service Providers (PSPs)** to be focusing on:

- **Culture & Governance** – effective conduct risk management and governance arrangements, including appropriate oversight of outsourced activities.
- **Compliance with Regulations** e.g. PSD2 & IFR
- **Consumer Protection**: conduct, complaints handling
- **IT Stability and Security**: Technology & Cyber Resilience, Data Security
- **Fraud and Financial Crime controls**
- **Customer understanding** – e.g. clear and not misleading marketing, consent to third parties

**PSD2 implementation (13 January 2018):**

**Key changes** impacting banks:

- Provision of access to payment accounts
- Provision of statements
- New notifications such as ‘denial of access to AISP/PISPs’
- Major IT and security incident reporting
- Fraud reporting, operational and security risk assessments reporting
- Complaints handling – timescales reduced to 15 days (35 days for complex cases)
- Liability and framework for Unauthorised Payments

The FCA has set up a **new Payments Department** within Retail Banking Supervision.

The department carries out proactive supervision and thematic work, manages IT incidents impacting payments and firm specific risks, monitors firms adherence to PSD2 requirements, considers sector wide risks & strategy and provides support to other FCA sectors.
After authorisation | FCA Wholesale Banking priorities for 2017/18

Wholesale Financial Markets

- Ensure the new MiFID II regime is implemented effectively
- Continue to implement remedies to improve competition in investment and corporate banking
- Introduce changes to improve the effectiveness of primary markets
- Work with the PRA, Bank of England, the Treasury and the larger banks to support the implementation of ring-fencing
The Mission:

• Our aim is to regulate in a way that adds the most benefit to those who use financial services.

• This Mission is a high-level document. It sets out the framework for the strategic decisions we make, the reasoning behind our work and the way we choose the tools to do it.

• Much of what the Mission describes is current practice within the FCA; other aspects will be given greater emphasis and focus in the future.
The FCA’s commitment in the mission was to publish a range of documents that would explain our approach to regulation in more depth. Three documents have been published so far:

- **Approach to Consumers**
- **Approach to Authorisations**
- **Approach to Competition**
After authorisation – Q&A
Closing remarks

Arran Salmon – Head of New Banks, PRA
Useful resources
Useful resources

New Bank Start-up Unit
www.bankofengland.co.uk/pra/nbsu/Pages/default.aspx
NewBankStartupUnit@bankofengland.co.uk
020 3461 8100

Downloadable Guide
Review of requirements for firms entering into or expanding in the banking sector (Barriers to Entry review)

PRA
www.bankofengland.co.uk/pra/Pages/default.aspx

FCA
www.fca.org.uk
Useful resources

Financial Services Register
https://register.fca.org.uk

Payment Systems Regulator
www.bankofengland.co.uk/about/Pages/complaints/default.aspx

PRA Rulebook
www.prarulebook.co.uk

FCA Handbook
www.fca.org.uk/handbook
Useful resources

Sterling Monetary Framework
applications@bankofengland.co.uk
https://www.bankofengland.co.uk/markets/the-sterling-monetary-framework

Payment Systems
www.accesstopaymentsystems.co.uk
www.accesstopaymentsystems.co.uk/sites/default/files/An-Introduction-to-the-UKs-Interbank-Payment-Schemes_February 2017.pdf