numeral

Becoming a Bacs and FPS indirect participant

For growing fintech companies
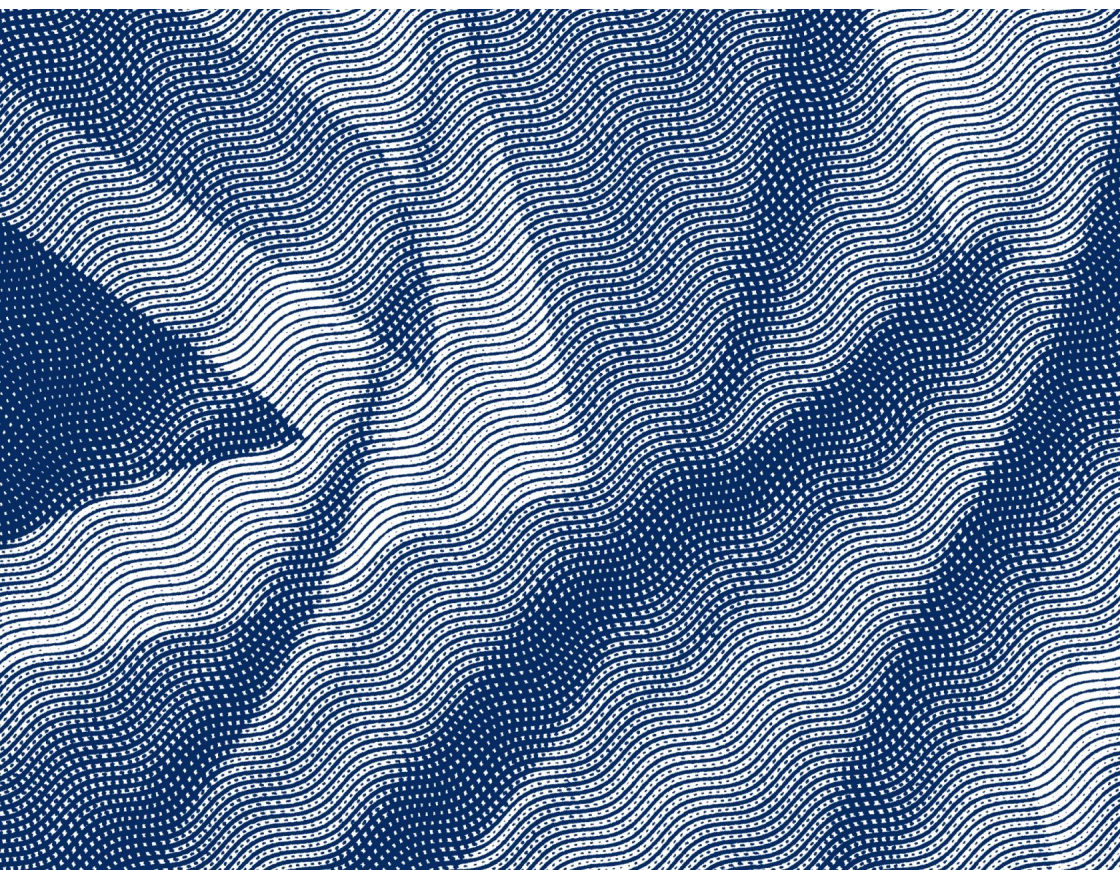
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Introduction

Payments are at the core of any fintech company. Whether its core product is lending, investments or payments themselves, fintech companies must offer their customers complete and seamless payment options. In the UK, it means supporting Bacs and FPS (Faster Payment System) payments.

There are different ways to access Bacs and FPS and send and receive Bacs and FPS payments on behalf of customers, depending on fintech companies' activities, maturity and strategy.

One of them is to become a Bacs and FPS indirect participant. This model, also called "agency banking", unlocks many benefits for fintech companies but still represents a significant investment. The lack of public documentation on Bacs and FPS access models makes an investment decision even more difficult.

This guide is brought to you by the team behind Numeral, the bank orchestration platform designed for fintechs and financial institutions building advanced payment flows on top of their banking partners.

Why read this guide?

We aim to provide readers with a thorough understanding of the different access models to UK payment systems Bacs and FPS, their benefits and requirements, focusing on the indirect participation model. We also provide an overview of the payment workflows Bacs and FPS participants are required to support and the technical stack required to do so.

By reading this guide, you will be better equipped to make the right decision for your company when it comes to accessing Bacs and FPS to send and receive Bacs and FPS payments on behalf of your customers.

Bacs, CHAPS, and FPS UK payment systems

This guide covers the UK's payment systems enabling account-to-account payments. Account-to-account payments move money from a payer's bank account to a payee's bank account, whether these payers and payees are individuals, businesses, governments or financial institutions.

The UK has three domestic payment systems facilitating account-to-account payments. These three systems have specific characteristics that make them relevant for specific use cases, and all enable account-to-account payments in British pound Sterling (GBP).

The UK is also part of SEPA (the Single Euro Payments Area), which uses four SEPA payment schemes for all euro payments in the area.

Bacs

Bacs is the UK's oldest and, by volume, is the most used payment system. It was launched in 1968 and is operated by Pay.UK, UK's recognised operator and standards body for UK's interbank payment systems.

Bacs enables two types of account-to-account payments: Direct Credits and Direct Debits. Both types of payments are processed over a three day clearing cycle.

Businesses and individuals widely use Bacs Direct Credits to execute planned or non-urgent payments such as salaries, supplier payments and dividend payments.

Bacs Direct Debits automate the collection of regular payments and are successful among utility companies, phone and internet providers and mortgage providers.

The maximum payment size is £20M for individuals and businesses but can be extended to £999M for banks and governments.

Faster Payment System

The Faster Payment System (or FPS) was officially launched in 2008 to meet the need for instant payment capabilities. Like Bacs, FPS is operated by Pay.UK.

FPS enables near real-time payments 24/24, 365 days per year. Upon receiving a Faster Payment, funds are immediately available in the payee's bank account.

FPS supports three types of credit transfers:

✓ Single Immediate Payments for one-off immediate payments

✓ Forward Dated Payments for planned one-off payments

✓ Standing Orders for regular payments

FPS can be used to process payments of up to £1M in under two hours, 24 / 7, usually between £0.5 and £2 per payment for business customers.

CHAPS

CHAPS, which stands for the Clearing House Automated Payment System, is the real-time gross settlement payment system for British pound Sterling transactions in the UK. CHAPS was founded in 1984 and is operated by the Bank of England.

CHAPS enables same-day execution of payments, with no payment size limit, for a typical cost of £20 to £35 per payment.

These characteristics make CHAPS especially valuable for financial institutions. Financial institutions that are direct participants to Bacs and FPS use CHAPS payments to fund and de-fund their Bank of England settlement accounts used to settle payments made via Bacs and FPS from their commercial bank accounts.

Corporations also use CHAPS for high-value and time-sensitive payments, such as to suppliers or for payment of taxes, and individuals use it for high-value transactions, such as car or house purchases.

UK payment systems statistics

Due to its characteristics and use cases, CHAPS accounted for the vast majority of payments by value in the UK in 2022, with 92% of the total, while representing only 0.5% of the total transactions in volume.

Bacs still represents the majority of account-to-account payments in volume, with 6.7 billion payments in 2022 compared to 3.9 billion payments for Faster Payments. However most Bacs payments are Direct Debits, with 4.7 billion payments in 2022.

Regarding credits, FPS represented the majority of payments in 2022, with 66% of the total, growing at 15% per year. It shows the undeniable success of FPS adoption since its introduction in 2008.

CHAPS pay.uk		Volume (000s)			Value (£millions)		
		2021	2022	Change 2022 on 2021	2021	2022	Change 2022 on 2021
Bacs	Direct Credits	1,919,881	1,975,869	55,988	3%	3,825,209	3,988,108	162,900	4%
	Direct Debits	4,602,562	4,711,709	109,147	2%	1,243,272	1,346,943	103,670	8%
	Total Bacs	**6,522,443**	**6,687,578**	**165,135**	**3%**	**5,068,481**	**5,335,051**	**266,570**	**5%**
CHAPS	Retail and Commercial (MT103)	36,612	38,719	2,107	6%	23,346,447	27,429,721	4,083,274	17%
	Wholesale Financial (MT202)	11,341	12,165	825	7%	62,969,790	71,213,386	8,243,596	13%
	Total CHAPS	**47,953**	**50,884**	**2,931**	**6%**	**86,316,237**	**98,643,107**	**12,326,870**	**14%**
Faster Payments	Standing Order Payments	390,232	393,571	3,339	1%	116,872	122,466	5,594	5%
	Single Immediate Payments	2,629,311	3,090,550	461,239	18%	1,715,586	2,191,309	475,723	28%
	Forward Dated Payments	395,206	446,269	51,064	13%	763,362	926,270	162,908	21%
	Return Payments	2,982	5,276	2,294	77%	1,488	2,745	1,257	84%
	Total Faster Payments	**3,417,730**	**3,935,666**	**517,935**	**15%**	**2,597,309**	**3,242,790**	**645,481**	**25%**

Looking at FPS statistics in more detail, a few points are interesting to highlight.

First, Standing Order payments, which could be seen as a "push", a faster alternative to the "pull" Bacs Direct Debits, remain at a relatively low volume with no increase. Companies and consumers alike are still favouring Bacs Direct Debits for regular payments. There are many reasons for this. Contrary to Standing Order payments, Direct Debits are flexible in date and amount, making them a great solution to bills that vary in amount each time they are collected. They also have a consumer guarantee.

While representing a relatively low volume of transactions, Faster Payment Forward Dated payments keep growing at a double-digit rate. Also interestingly, the average value of forward-dated payments is three times higher than single immediate payments at £2,076 per payment. Standard Forward Date payment use

cases can explain the difference, as they are often used to pay bills or rent, whereas Single Immediate Payments can be used for one-off payments to settle an invoice, pay friends or top-up a digital wallet. Finally, returned payments increased by 77% in volume between 2021 and 2022. Returned payments are usually used to return payments that have been made fraudulently or have failed anti-money laundering checks. This increase can mean a significant increase in payment fraud.

How UK payment systems work

UK account-to-account payments rely on one originator account holder and its PSP (payment service provider, in most cases, a bank) and one beneficiary account holder and its PSP. PSPs are not directly connected to each other but are interconnected through a CSM (clearing and settlement mechanism) for the clearing and settlement of their payments.

In the case of CHAPS, there is, in reality, no clearing mechanism, as each payment is individually settled.

As this guide is dedicated to payment and electronic money institutions considering the indirect access model, in which they won't need access to CHAPS, this payment system won't be covered further. For the same reason, while other entities such as corporates or building societies can participate in UK payment systems, we won't consider them in this guide.

Originators and beneficiaries are account holders and can be individuals, governmental or non-governmental organisations, companies, or any other entity that holds an account with a PSP.

Payment service providers can be banks, payment institutions, or electronic money institutions. A key role and responsibility of PSPs is to send and receive payments on behalf of their customers by holding customer accounts and connecting to the CSM.

Clearing and settlement mechanisms are responsible for executing the clearing process between PSPs. They aggregate all payment orders between two PSPs across a time frame. At a set point, the CSM then "nets" the payment orders, determining a "gross" payment amount – called the final position – which is then transferred from one PSP to another at the Central Bank in a final step called settlement.

Bacs and FPS both have their distinct clearing mechanisms, operated by Pay.UK on central infrastructures provided by Vocalink, a Mastercard company. Both payment systems settle their payments through Bank of England's CHAPS.

About NPA

The New Payment Architecture (NPA) is a major upcoming upgrade to the UK's payment systems aimed at future-proofing the UK's payment infrastructure, reinforcing real-time payment capabilities, lowering barriers to entry for new payment services providers and helping to fight fraud.

The NPA will gather into a single central infrastructure and standardise the rules and technical implementation of the future versions of FPS and Bacs payments.

Current Bacs and FPS participants will need to migrate their payment systems to support NPA.

NPA introduces the use of ISO20022 payment messaging standard, already used by major payment systems worldwide, including SEPA and, recently, Swift.

As of the publication of this guide, a precise timeline has yet to be disclosed for the launch of NPA and the expected migration of current Bacs and FPS participants.

By working with technology providers that provide bank and payment scheme integrations like Numeral, PSPs can abstract most of the specificities of current Bacs and FPS payment messages and flows and future NPA payment messages and flows, enabling them to go to market today while preventing significant migration projects when NPA will launch.

Types of UK payment systems access

Sending and receiving Bacs and FPS payments

We distinguish two cases of sending and receiving UK account to account payments.

The first case is an account holder sending and receiving these payments on their behalf. Examples of this case are an individual sending payments to pay for their rent and receiving payments corresponding to their salary or a company sending payments to pay bills from providers and receiving payments from their customers. In this case, the account holder will usually rely on their payment service provider to send and receive payments on their behalf.

The second case is a payment service provider sending and receiving payments on behalf of their customers, who will therefore be account holders. Examples of this case are a bank, a payment institution or an electronic money institution which received instructions to send a payment from their account holder or that received a payment from another financial institution intended for one of their account holders.

In this guide, we discuss ways for payment service providers to access Bacs and FPS payment systems to send and receive Bacs and FPS payments on behalf of their customers.

There are five types of solutions for companies to send and receive Bacs and FPS payments on behalf of customers, split in two categories: participant and non-participant.

Regulatory status and Bacs and FPS participation model

				CI	
License		PI/EMI			
	Unregulated				
Model	BaaS Agent	Bank corporate customer	Indirect participant	Directly connected non-setting participant	Direct participant

Non-participant access

In the non-participant access model, companies will send and receive payments as any individual or corporate customer would, using the services of a payment services provider or a bank. In this model, companies send payment orders to their PSP or bank and receive payments on their account by exchanging customer-grade messages or information with their bank or PSP. They do not have to process payments or exchange information with third-party financial institutions.

Payment services providers

Payment service providers include banks, payment institutions (PIs), and electronic money institutions (EMIs). In this section, we discuss payment institutions and electronic money institutions.

To send and receive UK account-to-account payments on behalf of their customers, companies can become agents of PIs/EMIs, meaning they can become themselves customers of PIs/EMIs, and be declared as "agents" to the regulator to:

- ✓ Benefit from the licence of a PI/EMI authorising them to, among other financial and payment services, send and receive payments on behalf of their customers
- ✓ Use a PI/EMI Bacs and FPS payment services, among other financial and payment services, in their own offering

It is the PI/EMI that will actually perform the Bacs and FPS payment operations on behalf of the company's customers.

PIs/EMIs that offer their services to agents in a white-label manner are usually referred to as banking-as-a-service (BaaS) providers.

Banks' cash management solutions

Companies can subscribe to banks' cash management offers as corporate customers.

Cash management offers include sending and receiving Bacs and FPS payments from and to the company's accounts. Companies can use the bank's virtual accounts to track and reconcile payments to the relevant customer accounts.

Banks hold the account and process payments on behalf of the companies.

Companies regulated as PIs or EMIs can send and receive Bacs and FPS payments on behalf of their customers via banks' cash management offers.

Participant access

In this model, fintech companies become participants in payment systems. They send and receive payments as if they were a bank, exchanging bank-grade messaging with third-party financial institutions.

Banks' Bacs and FPS indirect access solutions
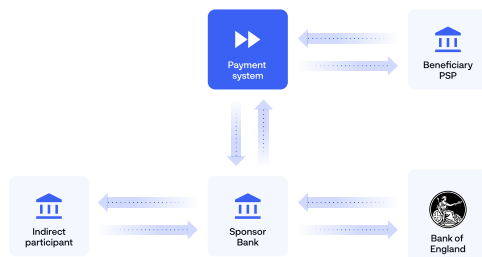
In this model, companies will connect to Bacs and FPS payment systems and settle payments via a "sponsor bank". The sponsor bank is itself a Bacs and FPS direct participant and holds Bank of England settlement accounts. The sponsor bank will forward messages from and to the Bacs and FPS indirect participants to Bacs and FPS payment systems and settle payments through its own Bank of England settlement accounts.

Directly connected non settling participation
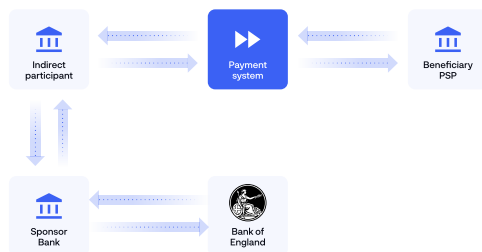
The directly connected non-settling participant (DCNSP) is restricted to PIs, EMIs and banks.

In this model, the company will directly connect to Bacs and FPS payment systems, but settle payments via a sponsor bank. The sponsor bank is itself a Bacs and FPS direct participant and holds Bank of England settlement accounts. The sponsor bank will settle its DCNSP payments through its own Bank of England settlement accounts.

Direct participation
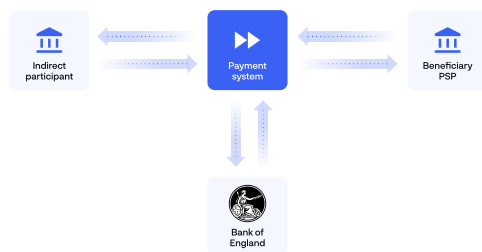
This direct participant model is restricted to PIs, EMIs and banks.

In this model, the company will directly connect to Bacs and FPS payment systems and settle payments via its own Bank of England settlement accounts.

About sort codes, account numbers, and IBANs

One key benefit for fintech companies to become Bacs and FPS participants is to obtain a sort code and issue their own account numbers.

What is a sort code

Sort codes identify PSPs across the UK and are used by payment systems for routing and settlement of payments. Sort codes are registered and managed by Pay.UK.

Sort codes take the form of six-digit numbers, usually written in a series of two numbers of two digits (e.g. 12-34-56). The first two digits are allocated to and controlled by a defined set of financial institutions that are direct participants in payment systems (e.g. all sort codes starting with 72 belong to Santander UK).

When becoming an indirect participant, a PSP will be allocated a sort code from its direct participant sponsor bank sort codes range. Indirect participants own their sort code and can use it even if they change sponsor banks.

Sort codes are registered in the Bank Reference Data (BRD) system and updated and made available via an extract file called the Industry Sorting Code Directory (EISCD / ISCD). Participants in payment systems use this file to route payments to the correct Bacs and FPS participants.

What is an account number

Account numbers are comprised of eight digits and used to uniquely identify accounts at a UK institution and branch.

Payment system participants use the sort code and account number to route incoming payments to the correct account.

Relationship between sort code and account number

Sort codes and account numbers are linked by the modulus checking rules. Modulus checking uses a mathematical algorithm to assess if an account number can legitimately be paired with a sort code.. UK payment system participants use Sort codes to route payments to the correct participant and use account numbers to attribute incoming payments to the correct account.

Sort codes and account numbers in the customer experience

In the case of Bacs and FPS payments, end customers will see sort codes and account numbers when sending Bacs and FPS payments. They must state the sort code and account number to send the payment to.

Using official sort code checker tools, end customers can know which institution the sort code belongs to.

Issuing account numbers

Issuing account numbers is a process entirely internal for the Bacs and FPS participants. They can issue whatever account number they want if it's eight digits long and respects modulus checking rules.

For a financial institution, issuing an account number means generating an 8-digit number and use it to:

- ✓ Create a new bank account, assign it the said account number, and use it to reconcile sent and received payments on this account and calculate its balance
- ✓ Assign it to an existing account as a virtual account
- ✓ Assign it to technical accounts, such as revenue, costs, or outstanding payments accounts

When a Bacs or FPS payment is sent to a sort code and account number, the payment is actually only routed to the PSP sort code. It is the PSP's role to ensure that the account number exists and to attribute the funds of the said payment to the account number. That's why it is possible to instantly create a bank account with an account number directly accessible through Bacs and FPS.

A note on UK IBANs

IBANs (for international bank account numbers) are used to normalise account numbers across more than 80 countries, including the 36 countries that form the SEPA zone and, therefore, the UK. However, several major countries, including the US, Canada, Australia, China, and Japan, are yet to adopt IBANs.

IBANs are unnecessary for UK domestic payments, including Bacs and FPS payments. But any account requires an associated IBAN to send and receive international payments.
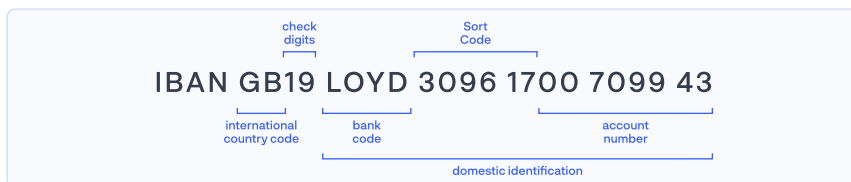
UK IBANs are 18 characters long. Like any other country's IBANs, UK IBANs start with a two character country code, followed by a two digits control key.

The 14 remaining characters constitute the Basic Bank Account Number, or BBAN, which itself consists of three parts:

✓ The bank code, which is the first four characters of the PSP's BIC code

✓ The sort code, as described previously

✓ The account number, as described previously

Bank identifier codes (or BICs) are used to identify PSPs across the SEPA zone and internationally. BICs are registered and managed by Swift, a global financial messaging network. Therefore, a UK PSP willing to assign IBANs to its held bank accounts needs to apply to Swift for its own BIC.

Why become a participant in Bacs and FPS?

As described later in this guide, becoming a Bacs and FPS participant is a significant project for a financial institution. Operating as a Bacs and FPS participant is also more complex than relying on a PSP to send and receive Bacs and FPS payments.

Financial institutions decide to go through such a project because being a Bacs and FPS indirect participant brings the following advantages.

Own account numbers and sort code

Bacs and FPS participants have their own sort code and issue their own account numbers, providing the following benefits.

Use a sort code associated to your company name

As Bacs and FPS participants, PIs and EMIs will issue account numbers in their name for held accounts. It means that when counterparties receive credit transfers or direct debits from PIs and EMIs or send them credit transfers, they will see the PIs and EMIs' sort codes with the payment. In other models, these counterparties would instead see the bank's sort code for corporate customers or PSP's sort code for PSP agents.

Using official sort code checker tools, end customers can know which institution the sort code belongs to. In an industry where trust is paramount, this can be a game changer regarding user experience and brand credibility.

Easier customers migration

Bacs and FPS participants have their own sort code. Their account numbers are tied to their sort code instead of their bank's in the corporate customer model. This enables them to change sponsor banks without migrating their customers' accounts and, therefore, without any impact on their customers.

Increased control over customer onboarding

PIs and EMIs relying on third-party PSPs to send and receive Bacs and FPS payments on behalf of their customers can only partially choose the customers they work with.

As PSP agents, companies will be tied to their PSP onboarding rules. These PSPs might refuse to onboard and deliver services to customers from entire industries. They might also refuse to onboard specific customers or execute certain payments for compliance reasons that might not be known to the fintech company.

PSPs offering their services to agents usually refuse specific types of end customers because they work with a wide variety of agents and cannot adapt their onboarding rules to each agent's specific use case.

By becoming a BACS and FPS participant, PIs and EMIs will be fully responsible for the onboarding of their customers and can define their own onboarding rules that fit their specific use case while complying with the regulation.

Increased control over payments

Becoming a Bacs and FPS participant gives PIs and EMIs extended controls and visibility on their Bacs and FPS payments. Indeed, it opens access to (and the obligation to support) additional payment flows, including error and exception flows.

Error and exception flows include the ability for participants to send and receive return and recall messages and associated reason codes that most banks don't transfer to their corporate customers and most PSPs don't notify their customers of. Error and exception flows enable PIs and EMIs to manage cases like direct debits sent to closed or blocked accounts, incorrect account numbers, or duplicate payments themselves. They can build their own fallback rules when such issues happen and decide their own policy regarding charging – or not – end users at the root of those cases.

Speed of payments

Bacs and FPS participants are at least one level closer to the payment systems than a bank corporate customer and possibly several levels closer than as a PSP customer.

They process their customers' payments on their own terms (while complying with the regulation and scheme, of course), only depending on:

- ✓ Their sponsor bank's cut-off time for Bacs indirect participants. This is an important topic to evaluate a potential sponsor bank. A sponsor bank offering more processing windows will offer more flexibility to indirect participants.
- ✓ The cut-off time of the Bacs payment system.

It means that outside of the cut-off times mentioned above, the time between when their customer sends them a payment order and when the Bacs and FPS participant sends their payment messages to the payment system depends solely on the Bacs and FPS participant and their processes, which can be more tailored to their specific use case than those of their bank or PSP.

Cost efficiency

Becoming a Bacs and FPS participant introduces cost reductions in at least two ways.

Cost of payments

Banks charge payments differently for corporate customers and Bacs and FPS indirect participants. While they vary from bank to bank, payment fees will often be 2 to 10 times lower for indirect participants, which can lead to significant savings for companies with high payment volumes.

In addition, as Bacs and FPS indirect participants process their own payments, they manage payment exceptions such as rejected payments themselves. While sponsor banks charge for the specific messages used to manage these exceptions (e.g. Bacs 'A' services), fees for these messages are orders of magnitude lower than PSP's fees on payment exceptions.

Cost of account numbers

Fintech companies working with the corporate customer model and managing many incoming payments might need virtual accounts to manage reconciliations at scale. Banks charge for this service. As Bacs and FPS participants manage their own account numbers, they can open new accounts with dedicated account numbers or issue their own virtual accounts for free. Moreover they can decide to monetise the virtual accounts they issue.

The differences between direct, directly connected non-settling, and indirect participation

There are three ways to become a Bacs and FPS participant: indirect, directly connected non-settling and direct.
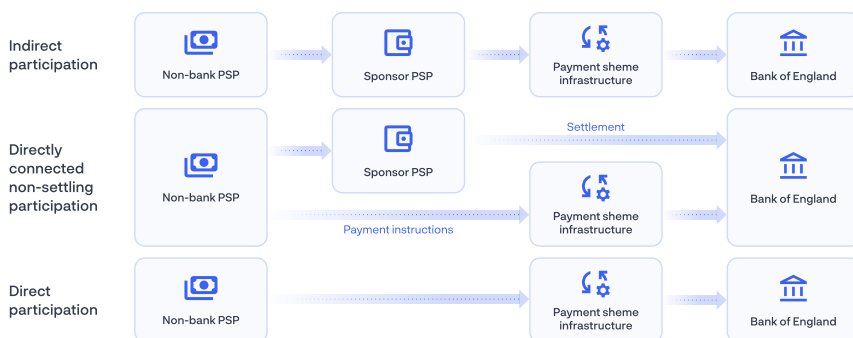
PIs and EMIs can apply to any of these three models, but advantages, responsibilities, implementation complexity, and cost varies between each model.

Direct participation

One specificity of the direct participation model is that it requires the PI or EMI to open a settlement account at the Bank of England. For non-bank PSPs, the conditions required by the Bank of England to open a settlement account include:

✓ Be authorised to do so by the FCA, which means successfully undergoing a supervisory assessment that usually takes around nine months

✓ Have the technical capacity to settle transactions via CHAPS, meaning building an integration to the system through Swifnet

✓ Most importantly immobilising the adequate level of liquidity on its Bank of England accounts to be able to settle its customers' payments at all times. For PIs and EMIs processing a large volume of transactions, it can require substantial capital.

Therefore, most PIs and EMIs will choose one of the indirect or directly connected non-settling participant models to access Bacs and FPS.

DCNSP vs. indirect access

As described previously, the main difference between the DCNSP and the indirect access models is that the DCNSP will directly exchange payment messages with the payment systems, while the indirect participant will have its sponsor bank forward the messages from and to the payment systems.

This difference has several implications that can decide a PI or EMI to choose one model over the other.

Technical connectivity

An indirect participant must connect to its sponsor bank to send and receive Bacs and FPS payments and manage its required operational accounts. While a sponsor bank might have different systems requiring different integrations for Bacs, FPS and accounts management, the integration project and following certifications will take place with one interlocutor.

In the case of DCNSP, the participant must connect to its sponsor bank, providing the settlement capabilities, and to each payment system if it is willing to offer its customers both Bacs and FPS. It means managing three different integration projects and certifications with three different interlocutors.

Because they connect directly to payment systems, DCNSP participants must also support Bacs and FPS Public Key Infrastructure (PKI) system used to secure the UK payment system's communications. In the indirect access model, the sponsor bank manages PKI for its indirect participants.

Technical and operational responsibility

Good operations of payment systems are critical for the UK's economy and financial stability. Bacs and FPS payment systems operator Pay.UK therefore enforces strict technical and operational service levels and rules for the systems' participants. These requirements might lead to significant technological and operational costs for payment systems' participants.

In the DCNSP model, the DCNSP is solely and entirely responsible for all payment and service messages exchanged with the payment systems and their related workflows. The DCNSP shares responsibility with its settlement sponsor bank for settlement flows.

In the indirect access model, the sponsor bank is responsible for all messages exchanged with the payment systems on behalf of its indirect participants. However, in most cases, sponsor banks will cascade down most payment systems requirements to their indirect participants and assess via thorough certification processes that indirect participants operate as required by the payment systems.

AML/CFT screening

Depending on various factors such as risk policy, compliance systems capabilities or specific use cases, two entities might not filter their transactions similarly to comply with anti-money laundering and countering the financing of terrorism (AML/CFT) regulations.

However, with most sponsor banks in the indirect access model, the indirect participant payments will go through the default sponsor bank's AML/CFT filters. Depending on the indirect participant's use case, this might generate a lot of false positives.

As the DCNSP is directly connected to the payment systems, it is solely responsible for its AML/CFT checks and can fine-tune them for its specific use cases and risk policy.

However, as DCNSPs still rely on their settlement sponsor bank to settle payments, and the money corresponding to these payments still goes through the sponsor bank's accounts and systems, the DCNSP will still be bound to its sponsor banks' compliance and risk management policy.

Payment volumes

A key criteria for a PI or EMI to choose between the indirect and DCNSP model usually is the volume of payments it processes.

As a sponsor bank manages more tasks and takes more responsibility on behalf of an indirect participant than a DCNSP, it will usually charge more per payment for an indirect participant than a DCNSP.

But becoming a DCNSP requires more initial capital to integrate with payment systems and operational expenses to comply with payment systems requirements.

The DCNSP model, therefore, becomes economically attractive above a certain number of payments per year as a step before the direct participant model.

Choice of sponsor bank

At the date of publication of this guide, Barclays is the only sponsor bank offering the DCNSP model for UK payment systems.

As we cover later in this guide, PIs and EMIs should consider various criteria to choose their sponsor bank, and the one offering DCNSP might not be the right one for them.

Therefore, PIs and EMIs looking to work with other sponsor banks will have to do so as indirect participants.

The state of UK payment systems participation

As of January 2022, there were only 38 direct participants and 4 directly connected non-settling participants in UK payment systems, for 1,513 indirect participants.

Most financial institutions choose to be indirect participants, including the vast majority of credit institutions.

In the table below, we summarise the main considerations when choosing a UK payment systems participation model:

Payment system participant model considerations

	Indirect participant	Directly connected non-settling participant	Direct participant
Indicative project length	3-9 months	1 year	1 - 2 years
Relative billed cost per transaction	High	Medium	Low
Technology build cost	Medium	High	Very high
Operational cost	Medium	High	Very high
Liquidity cost	Low	Low	Very high
Indicative number of payments	200,000 - 2M per year	2M - 20M per year	20M+ per year
Indicative scenarios	• Growing UK PI/EMI • Established foreign PI/EMI launching in the UK • Foreign cross-border payments company for UK collection and payouts • Launching UK bank • Established foreign bank launching in the UK	• Market leading UK PI/EMI • Market leading foreign PI/EMI addressing UK market • Growing bank	• Established bank • PI/EMI looking to obtain UK banking licence

Who can become a Bacs and FPS indirect participant

This section describes the common cases leading each type of Bacs and FPS indirect participant to become so.

Credit institutions

A credit institution is an entity that receives deposits or other repayable public funds and grants credit for its own account, i.e. a bank.

Two main cases exist where a bank might connect to Bacs and FPS as an indirect participant.

As a new, small bank

Indirect participation can offer new banks a shorter time to market and lower initial investments than direct or DCNSP participation.

Branches of non-UK banks

A non-UK bank can decide to launch its UK operations by opening a UK branch connecting to Bacs and FPS as an indirect participant.

Payment and electronic money institutions

There are three main cases where a fintech company might decide to become a Bacs and FPS indirect participant, regulated as PI or EMI.

From regulated PI/EMI corporate customer to PI/EMI Bacs and FPS indirect participant

An existing PI/EMI operating as a bank corporate customer can decide to make the investment and become a Bacs and FPS indirect participant to benefit from the advantages offered by being a Bacs and FPS indirect participant.

From PSP agent to regulated PI/EMI and Bacs and FPS indirect participant

By becoming PI/EMI, a fintech company gains control on its onboarding and compliance processes, as well as its product. Once regulated as PI/EMI, a fintech company can decide to access Bacs and FPS as a corporate customer or as an indirect participant. While more costly than becoming a corporate customer, becoming a Bacs and FPS indirect participant adds the benefits discussed above.

For these reasons, the PSP agent decides to invest in becoming regulated and chooses to become a Bacs and FPS indirect participant instead of a corporate customer directly.

New PI/EMI directly becoming a Bacs and FPS indirect participant

A new fintech or an existing company launching new services, which include sending and receiving Bacs and FPS payments on behalf of their customers, can invest in becoming regulated and becoming a Bacs and FPS indirect participant without intermediary steps.

EEA PI/EMI addressing the UK market

Fintechs licensed as PI or EMI in the European Economic Area are authorised to become Bacs and FPS indirect participants. They can choose this model to offer Bacs and FPS payments as well as UK accounts to their UK customers.

How to become an indirect participant

There are three main work streams to become a Bacs and FPS indirect participant, which can be run in parallel: regulatory and administrative tasks, selection of and commercial discussions with a sponsor bank, and technical integration with a sponsor bank.

Sort code

To be reachable from other Bacs and FPS participants, a Bacs and FPS indirect participant needs its own sort code.

In the case of indirect participants, the sponsor bank is responsible for allocating one of its owned sort codes to the indirect participant and registering it with Bacs and FPS payment systems as well as the Bank Reference Data.

A sort code should be registered for the Bacs scheme at least six weeks prior to any transaction from or to said sort code.

Sponsor bank

As discussed in this guide, the Bacs and FPS sponsor bank is the most critical partner for an indirect participant. As such, it is present at several steps of a Bacs and FPS indirect participant's project.

Choose a Bacs and FPS sponsor bank

As of the publication of this guide, known Bacs and FPS sponsor banks include:
- ✓ Barclays
- ✓ ClearBank
- ✓ HSBC
- ✓ LHV
- ✓ Lloyds Banking Group
- ✓ Modulr
- ✓ NatWest Group

- ✓ The Bank of London
- ✓ Starling Bank

Candidate Bacs and FPS indirect participants can evaluate potential sponsor banks through several factors.

All sponsor banks do not offer all payment methods. For instance, a bank may offer the emission and reception of Bacs credit transfers, but not FPS.

In addition to Bacs and FPS payment-related services, candidate indirect participants should evaluate sponsor banks' offers related to bank accounts.

As covered later in this guide, an indirect participant needs a safeguarding and a settlement account (different from a Bank of England's settlement account) to process Bacs and FPS payments. Sponsor banks can charge significant costs for the management of these accounts.

It is also critical that the sponsor bank allows intraday transfers between the settlement and safeguarding accounts, to comply with FCA's safeguarding requirements for PIs and EMIs, optimise treasury management between these accounts and avoid insufficient funds on the settlement account, which can lead to impossibility to process payments.

The ideal sponsor bank should also debit fees from a different account than the settlement or safeguarding accounts to ease the bookkeeping process for the indirect participant.

Other considerations when selecting a sponsor bank are the latter's experience with indirect participation, including how many underlying indirect participants it has and for how long it has been offering this model. In addition, companies should evaluate its support model and team and if it includes value-added services such as fraud detection and its Bacs and FPS payments pricing.

Discuss commercial terms

Indirect participation is a commercial offering from sponsor banks. So commercial discussions are part of the process, including the support model, settlement and safeguarding accounts pricing model, payments pricing model and actual total pricing.

Sponsor bank onboarding

After a sponsor bank is chosen and a contract is signed, the sponsor bank will start onboarding the future indirect participant. It includes designating the project team on the bank's side and giving access to technical integration documentation and a testing environment to ease the development of the integration.

Open settlement and safeguarding bank accounts

Indirect participants process payments of their customers themselves. To do so, the regulation requires them to use a settlement and a safeguarding account, which we will cover below. Note that financial institutions sending and receiving payments on behalf of their customers as bank corporate customers also need a settlement and a safeguarding account. The settlement account has to be opened at the sponsor bank. The safeguarding account can be opened at any bank, but most of the time is opened at the sponsor bank for simplicity reasons, and the sponsor bank will run their KYC checks on the indirect participant before opening the accounts.

Technical integration

To process Bacs and FPS payments on behalf of their customers, indirect participants need to technically integrate with their sponsor bank.

The Bacs and FPS indirect participant needs to connect with the sponsor bank's system that will forward Bacs and FPS messages from and to the payment systems. In some cases, the indirect participant must connect to a different system, the sponsor bank's cash management system, to manage their settlement and safeguarding accounts.

For both integrations, the indirect participant needs to:

✓ Obtain technical documentation from the bank

✓ Develop the connectivity between its systems and the bank's systems

✓ Develop the logic to translate the bank's file formats or API messages into its own systems' managed file formats or APIs, and vice-versa

- ✓ Run Bacs and FPS certification with the bank. The bank will make sure that:
  - All files or messages sent from the indirect participant are conform
  - All files or messages sent to the indirect participant are processed adequately and on time
- ✓ Run penny tests in production

When working with technology providers that provide bank integrations, like Numeral, the technical integration tasks of the Bacs and FPS indirect participant are cut down to:

- ✓ Integrating the technology provider's API into their systems
- ✓ Setting up the technology provider's solution, such as defining batching rules or notification settings

Operating as an indirect participant

A Bacs and FPS indirect participant must manage multiple workflows to send and receive Bacs and FPS payments in compliance with regulations and payment systems rules.

Processing payments

Processing outgoing Bacs and FPS payments

Sending a Bacs Direct Credit

When a Bacs indirect participant receives the instruction from a customer to send a Bacs Direct Credit (Bacs DC), it needs to:

- ✓ Ensure the instruction complies with its internal rules (e.g., amount, frequency, and destination country) and anti-money laundering (AML) / countering the financing of terrorism (CFT) checks
- ✓ Make sure the customer's account has sufficient funds
- ✓ Queue the payment and add it to the next payment batch, which takes the form of one or multiple `cleared credits` PSP to PSP messages
- ✓ Create the corresponding `credit contra` PSP to PSP message
- ✓ Package these messages in a file
- ✓ Send this file to the sponsor bank, which will, in turn, run its AML and CFT checks and forward it to the Bacs payment system
- ✓ After the payments have been processed by Bacs, receive the `credit contra` PSP to PSP message
- ✓ Reconcile this message with the sent payments
- ✓ Update the customer balance accordingly

Sending an FPS payment

When an FPS indirect participant receives the instruction from a customer to send an FPS immediate payment or standing order, it needs to:

- ✓ Ensure the instruction complies with its internal rules (e.g., amount, frequency, and destination country) and AML and CFT checks

- ✓ Make sure the customer's account has sufficient funds

- ✓ Reserve the funds in the customer's account

- ✓ Generate the payment request 9100 agency to member message and create a new file or API call

- ✓ Send this file or API call to the sponsor bank, which will forward it to the FPS payment system

- ✓ After the payments have been processed by FPS, receive the agency payment response 9110 member to agency message

- ✓ Reconcile this message with the sent payments

- ✓ Update the customer balance accordingly

Sending a Bacs Direct Debit

When a Bacs indirect participant receives the instruction from a customer to send a Bacs Direct Debit (Bacs DD), it needs to:

- ✓ Ensure the instruction complies with its internal rules (e.g., amount, frequency, destination country)

- ✓ Ensure a direct debit instruction (DDI) has previously successfully been lodged with the debtor bank

- ✓ Queue the collection and add it to the next collections' batch, which takes the form of one or multiple cleared debits PSP to PSP messages,

- ✓ Create the corresponding debit contract PSP to PSP message

- ✓ Package these messages in a file

- ✓ Send this file to the sponsor bank, which will, in turn, forward it to the Bacs payment system

- ✓ After the payments have been processed by Bacs and accepted by the debtor bank, the creditor Bacs indirect participant will receive the corresponding funds in its settlement account on the day of the execution of the Bacs DD and debit contra PSP to PSP message

- ✓ Reconcile the received message with the funds received on the settlement account

- ✓ Transfer corresponding funds from the settlement account to the safeguarding account

✓ Reconcile the transaction with the payment from the settlement account to the safeguarding account

Processing incoming Bacs and FPS payments

Receiving a Bacs Direct Credit

When a Bacs indirect participant receives a Bacs cleared credits PSP to PSP message from another financial institution, it needs to:

✓ Parse the received message to identify the customer account to credit

✓ Check if the payment complies with the Bacs indirect participant rules

✓ Make sure the customer account exists and is not blocked

✓ Reconcile the received message with the funds received on the settlement account

✓ Transfer corresponding funds from the settlement account to the safeguarding account

✓ Reconcile the transaction with the payment from the settlement account to the safeguarding account

Receiving an FPS payment

When an FPS indirect participant receives an FPS payment request 9100 member to agency from another financial institution via its sponsor bank, it needs to do the following "within a few seconds" in order to comply with FPS requirements:

✓ Parse the received message to identify the customer account to credit

✓ Check if the payment complies with the FPS indirect participant's rules

✓ Make sure the customer account exists and is not blocked

✓ Send back a payment response 9110 message

✓ Transfer funds from the settlement account to the safeguarding account

After these initial steps, the participant needs to:

✓ Reconcile the received message with the funds received on the settlement account

✓ Reconcile the transaction with the payment from the settlement account to the safeguarding account

Accepting a Bacs Direct Debit

When a Bacs indirect participant receives a Bacs Direct Debit (Bacs DD) cleared debits PSP to PSP message from another financial institution, it needs to:

- ✓ Parse the message to identify the customer's account to debit
- ✓ Make sure the customer's account exists, is not blocked, has sufficient funds and has not blocked the originator of the Bacs DD
- ✓ Make sure that the direct debit instruction (DDI) has been previously successfully lodged and is still valid
- ✓ If all checks are successful, the Bacs indirect participant does not have to send a message in return but needs to transfer the corresponding amount from the safeguarding account to the settlement account

Payment reports

In addition to Bacs and FPS payment messages themselves, indirect participants must be able to exchange payment report messages with both their sponsor bank and customers.

Payment report messages notify payment systems' participants and their users of the processing status of their payments.

For Bacs, these reports are called input reports. Consumer grade input reports are exchanged between a PSP and its customers while bank grade input reports are exchanged between PSPs.

Status	Description
Accepted	Payments have been accepted and processed by Bacs.
Amended	Payments contain certain exceptions cause an item to be amended. The destination and/or originating account details may be amended if they are invalid. For example, if the originating account details of a direct credit item are invalid, they are amended to be the service user's main account details.
Returned	Payments have been returned to the originating account.
Rejected	Payments have been rejected by the originating bank.

For FPS, these reports are called fate of payment. Sending Participants must inform their customer of the status of the payment after receiving a Qualified Accept, Unqualified Accept or Reject response from the Receiving Participant.

Processing payment errors and exceptions

Causes of such errors or exceptions might be:

- ✓ The beneficiary account of an incoming FPS payment does not exist or is blocked

- ✓ The debtor account of an incoming Bacs DD does not exist, is blocked, does not have sufficient funds, or cancelled the DDI

- ✓ The originator of an incoming Bacs direct credit must recall the payment because of a technical error that sent the payment by mistake or detected that the payment was fraudulent

When such cases happen, Bacs and FPS indirect participants must be able to:

- ✓ Receive and parse the incoming message from the payment system via the sponsor bank or generate and send the message to the payment system via the sponsor bank

- ✓ Process the message, for instance, accept a Recall and send a corresponding Return

- ✓ When the message involves a money movement, process the incoming or outgoing payment and reconcile settlement and safeguarding accounts accordingly

Bacs and FPS error and exception messages include:

Payment system	Message	Description
Bacs	Bank grade credit returns (ARUCS items)	Automated Return of Unapplied Credit Service items allows the receiving bank to return Bacs DC automatically to the originating bank
Bacs	Bank grade debit returns (ARUDD items)	Automated Return of Unapplied Credit Service items allows the receiving bank to return Bacs DD automatically to the originating bank
Bacs	Unapplied credit notifications (ARUCS report)	Automated Return of Unpaid Direct Debits Service reports allows the receiving bank to notify the originating bank that the payment has not been applied and providing reasons why
Bacs	Unapplied debit notifications (ARUDD report)	Automated Return of Unpaid Direct Debits Service reports allows the receiving bank to notify the originating bank that the payment has not been applied and provides reasons why
FPS	Bank Error Recover (BER)	If a participant sends a large number of payments in error, they may choose to make use of FPS Procedures to send a BER file to the Receiving Participant(s) that received the (BER) payments in error.

FPS	Credit Payment Recovery (CPR)	The CPR process may be used to attempt to recover payments sent to the wrong account due to customer error or bank error
FPS	Returns	If, following acceptance, it is not possible to make the funds available to the Beneficiary Customer (e.g. the payment is found to have been made fraudulently, or has failed an AML check), the funds should be returned. A 'Return Payment' may then be sent returning the funds - this is a new payment that references the original payment, and where possible should be sent via FPS

Confirmation of Payee

The UK's Payment System Regulator requires all directed FPS participants to provide Confirmation of Payee (CoP) to their customers by October 2024.

Confirmation of Payee is a name-checking service for UK-based payments launched by Pay.UK in 2020. It aims at reducing certain types of payment fraud and payment errors.

Confirmation of Payee allows a payer to check that the name (including a personal / business account indicator) they give for a new payee is the same as the account name/type held by the payee's PSP.

FPS participant PSPs can either build their own CoP solution following its specifications or use a third-party solution provider.

Managing settlement and safeguarding accounts

Safeguarding customer funds is not a requirement limited to Bacs and FPS participants. Any payment and electronic money institution sending or receiving payments on behalf of customers must either safeguard customer funds in a safeguarding account or contract insurance to cover customer funds. The latter option appears to be rarely chosen. Most PIs and EMIs work with a settlement and a safeguarding account.

We describe here how this process works for Bacs and FPS indirect participants.

The settlement account, sometimes called a payment account, is an account held by the sponsor bank for the Bacs and FPS indirect participant. It is separate from the settlement account a direct participant, including the sponsor bank, has at the Bank of England to settle its payments via the RTGS payment system CHAPS.

The settlement account is the account where:

- ✓ Funds will be debited by the Bacs and FPS sponsor bank to settle outgoing payments (sent FPS payments and Bacs DC, received Bacs DD)
- ✓ Funds will be credited to by the Bacs and FPS sponsor bank to settle incoming payments (incoming FPS payments and Bacs DC, and sent Bacs DD)
- ✓ Funds will be credited to or debited from by the Bacs and FPS sponsor bank to handle recalls and refunds.

The safeguarding account is usually held by the sponsor bank of the Bacs and FPS indirect participant for practical reasons, including intraday safeguarding movements, but can technically be held by any licenced credit institution. It is the account that holds the Bacs and FPS indirect participant's customers' funds.

When a payment arrives on the settlement account, it is allocated to the corresponding customer's account, and funds are then transferred to the safeguarding account.

For a Bacs and FPS indirect participant, managing settlement and safeguarding accounts mainly means two things:

- ✓ Being able to settle outgoing payments: Making sure there are enough funds on the settlement account that the sponsor bank can debit to settle outgoing payments at settlement time for sent Bacs DC and received Bacs DD or at any time for sent FPS payments.

- ✓ Regulatory compliance: Regulation requires that PIs and EMIs' customers' funds cannot be held on the settlement account after the end of the business day the funds have been received. They should be transferred to a safeguarding account held by an authorized credit institution (in our case, most often the sponsor bank) within that time frame. The indirect participant needs to make sure they transfer all funds received (incoming FPS payments and Bacs DC, and sent Bacs DD) from their settlement account to their safeguarding account in that timeframe

The required technical stack for processing Bacs and FPS payments

Manually managing the workflows described above is not realistic. However, building the systems that automate them can be a daunting project. In this section, we detail what those systems are and what types of solutions exist on the market.

Tech stack for processing Bacs and FPS payments
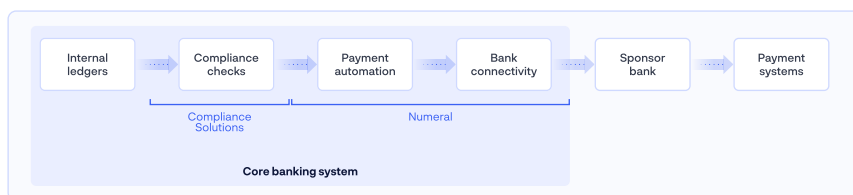
Core banking system

Core banking systems are the core technological platforms for many financial institutions. Gartner's definition of a Core Banking System (or CBS) is a back-end system that processes daily banking transactions and posts updates to accounts and other financial records. Core banking systems typically include deposit, loan and credit processing capabilities, with interfaces to general ledger systems and reporting tools.

In the scope of Bacs and FPS payments, a core banking system has several key roles.

First, it manages customer accounts, which includes:

✓ Operating the logical "split" of the safeguarding account into customer accounts

✓ Assigning account numbers to accounts

✓ Operating ledger tasks such as calculating balance for the customer accounts and assigning transactions to customer accounts

✓ Generating account statements

It also performs part of the payment processing. For both incoming and outgoing payments, the CBS will check that corresponding accounts have sufficient funds, exist, and are not blocked.

For incoming payments, the CBS will identify the customer account linked to the payment using the account number in the Bacs or FPS payment messages and assign the funds to the correct customer account when these funds are transferred from the settlement account to the safeguarding account.

For outgoing payments, the CBS will first run regulatory checks:

- ✓ It will perform Confirmation of Payee check
- ✓ It will check the payment destination against a list of sanctioned countries or entities, using solutions like Thomson Reuters or Comply advantage
- ✓ It will run anti-money laundering (AML), countering the financing of terrorism (CFT) and anti-bribery checks. Note that these checks can be performed by third-party solutions connected to the CBS, such as Hawk.ai, Salv, Feedzai, SaS, and Marble

It will then withdraw the funds from the correct customer account in the ledger when funds are transferred from the safeguarding account to the settlement account.

Also, sponsor banks can offer off-the-shelf solutions to indirect participants that do not have the teams and tools to handle these regulatory requirements in-house.

Finally, these compliance processes can be audited by the sponsor bank, which will ensure that transactions going through its systems are compliant.

Payment and bank connectivity

CBSs can have native payment solutions and native bank integrations with certain sponsor banks. Still, the Bacs and FPS indirect participant might want to work with unsupported sponsor banks or a CBS that doesn't have a native payment solution.

Bank connectivity and payment automation solutions like Numeral help Bacs and FPS indirect participants in three ways.

Connecting the Bacs and FPS indirect participant's systems to the sponsor bank

In order to send and receive Bacs and FPS payments, an indirect participant needs to be connected to Bacs and FPS payment systems. It does it through its sponsor bank, through which it will exchange Bacs and FPS messages with the Bacs and FPS payment systems.

Connecting to the sponsor bank means establishing a secure and stable connection with the sponsor bank interfaces (whether SFTP servers, APIs, or message brokers) and packaging Bacs and FPS messages into a format accepted by the bank (whether XML files or specific API calls).

For this connection to be robust, it must authenticate with the sponsor bank's server or APIs, have a retry logic when technical exchanges fail, and account for banks' and payment systems' cut-off time.

Note that often, connecting to the sponsor bank will actually require different integrations for Bacs, FPS and safeguarding and settlement accounts management.

On the Bacs and FPS indirect participants' side, Numeral connects with CBS via API, and also provides webhooks that Bacs and FPS indirect participants can subscribe to in order to receive notifications of any event happening in the platform.

Processing Bacs and FPS payments

That's the core of a solution like Numeral. While a CBS can perform a part of the payment processing, Bacs and FPS indirect participants need a solution to create and read the Bacs and FPS messages they will exchange with the payment systems.

In this section, we describe the technical workflows required to do so and that solutions like Numeral enable Bacs and FPS indirect participants to manage.

Managing outgoing payments

When a payment instruction is given, here are the steps Numeral performs to effectively send the Bacs and FPS payment in compliance with the payment systems rules and the regulation:

- ✓ Receive payment instructions, whether initially generated from an end-user interface or automatically from a third-party solution
- ✓ Turn the payment instructions into financial institution to financial institution Bacs or FPS messages that the sponsor bank will forward to the payment systems
- ✓ Package the Bacs or FPS messages into API calls or files supported by the sponsor bank
- ✓ Send API calls or files to the sponsor bank via the sponsor bank connectivity systems (API, SFTP server, message broker...)

Managing incoming payments

As a Bacs and FPS indirect participant, you must be able to process incoming payments, which are payments sent to your or your customers' accounts from other financial institutions. Here are the steps Numeral performs to do so:

- ✓ Download the payment files or receive the API calls from the sponsor bank via the sponsor bank connectivity system
- ✓ Parse the API calls or payment files to identify Bacs of FPS messages and related payments
- ✓ Turn the Bacs or FPS messages into instructions understood by the CBS
- ✓ Send the instructions to the CBS

Managing payment errors and exceptions

Payment errors and exceptions might happen for various reasons. These errors are managed via specific Bacs and FPS messages that indirect participants must be able to send and receive.

Solutions like Numeral help Bacs and FPS indirect participants manage these exceptions by both sending and receiving the related messages.

Sending error and exception messages

When Numeral receives exceptions from the CBS, it turns them into the relevant Bacs or FPS messages. These messages are then packaged into API calls or files supported by the sponsor bank, and sent to the sponsor bank.

When necessary, for instance in the case of a return, Numeral reconciles the settlement and safeguarding accounts transactions with the transfers related to the errors and exceptions.

Receiving and processing error and exception messages

When a Bacs and FPS indirect participant receives error and exception messages from payment systems through its sponsor bank, Numeral downloads the files containing these messages and parses them to identify the said messages.

Numeral then displays the messages in its dashboard to enable the Bacs and FPS indirect participant's compliance and banking teams to review and accept, deny or challenge them.

Numeral also turns error and exception messages into instructions understood by the CBS, before sending them to the CBS.

When necessary, similarly to when sending said messages, Numeral reconciles the settlement and safeguarding accounts accordingly.

Transactions monitoring and errors resolution

Other errors than the ones linked to error and exception messages can happen, and while Numeral usually automates most of the workflows described above, human intervention can still be required.

High level monitoring and reporting

Bacs and FPS indirect participants need a view of their payment operations to make sure their payments are processed correctly, in a timely manner and identify when repeated errors happen to optimize their operations.

Specific payment issues investigation

Bacs and FPS indirect participants need to identify payment issues when they happen and identify their root causes. To do so, they need access to all the linked information to such payments, including the linked creditor and debtor bank accounts, files related to the payment, or transfers between the settlement and safeguarding account linked to the payment.

Manual tasks to solve the issues

When the Bacs and FPS indirect participant's team has identified the root cause of a payment issue, they might need to perform manual tasks to resolve it, such as manually sending or approving a payment or performing a manual reconciliation.

That's why Numeral comes with a dashboard allowing finance and operations teams to have the required visibility and manually resolve the issues when necessary.

Managing settlement and safeguarding accounts

As described previously in this guide, operating as a Bacs and FPS indirect participant also implies the management of a safeguarding and a settlement account for regulatory and operational constraints.

Bacs and FPS indirect participants connect to these accounts through their bank's corporate cash management connectivity solutions.

To perform the necessary transfers between their settlement and safeguarding account, Numeral creates and sends corporate to financial institution Bacs or FPS messages to the Bacs and FPS indirect participant's sponsor bank and reconciles these payments with the corresponding transactions to ensure accurate tracking.

Bacs and FPS indirect participants can choose how often in the day they want to transfer funds between the two accounts depending on their needs while respecting the regulatory requirement to transfer customer funds received on their settlement account to their safeguarding account before the end of the business day.

How Numeral supports Bacs and FPS indirect participants

Numeral helps Bacs and FPS indirect participants connect with their sponsor bank and automate the workflows involved in Bacs and FPS payments processing.

Having already integrated with leading sponsor banks and supported financial institutions in their indirect participation project, Numeral's platform accelerates the technical side of such projects, virtually enabling fintech companies to be technically able to process Bacs and FPS payments by simply connecting to our API.

As highlighted in this guide, the chosen sponsor bank will become a key partner of the Bacs and FPS indirect participant. That's why we are building a growing number of relationships with the UK's leading sponsor banks. We believe that the success of a Bacs and FPS indirect participation relies on much more than technology. We want to ensure we offer our customers and prospects the correct guidance.

If you are a financial institution exploring a Bacs and FPS indirect participation or a bank looking at expanding its Bacs and FPS indirect participation offer, feel free to contact us.

Appendixes

Glossary

Term	Definition
AML	Anti-money laundering
Bacs	Bankers' automated clearing system
Bacs DC	Bacs direct credit
Bacs DD	Bacs direct debit
BIC	Bank identifier code
BRD	Bank reference data
CBS	Core banking system
CFT	Countering the financing of terrorism
CHAPS	Clearing house automated payment system
CI	Credit institution
CSM	Clearing and settlement mechanism
DCNSP	Directly connected non-settling participant
EEA	European Economic Area
EMI	Electronic money institution
FCA	Financial conduct authority
FPS	Faster Payment System
IBAN	International bank account number
ISCD	Industry sorting code directory
NPA	New payment architecture
PI	Payment institution
PKI	Public key infrastructure
PSP	Payment service provider, either bank or non-bank
RTGS	Real-time gross settlement system
SEPA	Single Euro Payments Area

Bacs messages

Category	Payment Method	Corporate Customer	Bacs Participant
Payments	Bacs direct credit	`Direct credits`	`Cleared credits`
	Bacs direct debit	`Direct debits`	`Cleared debits`
	Credit contras	`N/A`	`Credit contras`
	Debit contras	`N/A`	`Debit contras`
Errors and exceptions	Bacs DC reversal	`N/A`	`Sending: Payment Exception Management interface | Receiving: Cleared credit reversals`
	Bacs DD reversal	`N/A`	`Sending: Payment Exception Management interface | Receiving: Cleared debit reversals`
	Bacs DC recall	`N/A`	`Sending: Credit recalls Receiving: Cleared credit recall`
	Automated Return of Unapplied Credit Service items (ARUCS items)	`N/A`	`Bank grade credit returns`
	Automated Return of Unapplied Debit Service items (ARUDD items)	`N/A`	`Bank grade debit returns`

Category	Payment Method	Corporate Customer	Bacs Participant
Errors and exceptions	Bacs DC return	`N/A`	`Cleared credit returns`
	Bacs DD return	`N/A`	`Cleared debit returns`
Payment reports	Bacs input report	`Customer grade Input report`	`Bank grade Input report`
	Automated Return of Unpaid Direct Debits Service reports (ARUCS reports)	`Unapplied credit notifications`	`N/A`
	Automated Return of Unpaid Direct Debits Service reports (ARRUDD reports)	`Unapplied debit notifications`	`N/A`

FPS messages

Category	Payment Method	Bacs Participant
Payments	Single Immediate Payment	`Agency payment request 9100/10`
	Standing Order	`Agency payment request 9100/30`
	Forward Dated Payment	`Agency payment request 9100/40`
Payment responses	Single Immediate Payment	`Agency payment response 9110/10`
	Standing Order	`Agency payment response 9110/30`
	Forward Dated Payment	`Agency payment response 9110/40`
Payment errors and exceptions	Reversal request (Single Immediate Payment)	`Agency payment credit reversal request 9420/10`
	Reversal request (Standing Order reversal)	`Agency payment credit reversal request 9420/30`
	Reversal request (Forward Dated Payment)	`Agency payment credit reversal request 9420/40`
Payment errors and exceptions	Reversal response (Single Immediate Payment)	`Agency payment reversal response 9430/10`
	Reversal response (Single Immediate Payment)	`Agency payment reversal response 9430/30`
	Reversal response (Forward Dated Payment)	`Agency payment reversal response 9430/40`

Further readings

- Pay.UK, wearepay.uk
- Bank of England, bankofengland.co.uk
- Financial Conduct Authority, fca.org.uk
- Payment Systems Regulator, psr.org.uk
- Mike Chambers' Northey Point Limited blog, northeypoint.com

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