A guide to faster payout

It's estimated to cost almost £1 billion. It's going to change the way banks, building societies and credit unions collect, view, manage and process their customers' data. Potentially, it's going to fundamentally change the way deposit takers are structured and deliver their services. So what is 'it'?

In July 2009, following a formal consultation process, the FSA published new regulatory rules requiring authorised deposit takers such as banks, building societies and credit unions to develop a 'single customer view' (SCV) showing each customer's aggregate positive balances across all of their accounts at any given point in time. The requirements go beyond producing an SCV – they also require deposit takers to apply a specific set of 'faster payout rules' to help ensure compensation can be paid within a target of seven days should a deposit taker fail. The implementation deadline is 31st December 2010.

The demands this places on the financial services industry are significant – not only are there very real technology changes required, but the associated changes to processes and controls will affect many parts of an organisation. One question currently being considered is whether this regulatory requirement can be used to drive strategic changes, delivering competitive advantage through better customer services, improved cost management and ultimately increased revenue?

Key Single Customer View benefits
Gain real-time access to integrated customer information
Enhance data accuracy and reduce IT costs
Open new partnership channels, expand efficiencies and increase revenue levels

If a deposit taker fails, it will have 72 hours to provide the Financial Services Compensation Scheme (FSCS) with an SCV file with the faster payout rules applied to the data set. While a European Directive will require payment within working 20 days, the UK authorities are targeting compensation payout within seven days of receiving a request from the FSCS. What does this mean for both savers and deposit takers over the next 18 months?

What does it mean for savers?

Banks and building societies have long sought to develop a single consolidated view of their customers for commercial purposes. However, this new regulatory requirement is designed to promote consumer confidence by ensuring that if a deposit taker fails, savers will be able to get up to £50,000 compensation within seven days. Additionally, consumers will receive more comprehensive information (notifications) from their banks or building societies explaining how the FSCS compensation process works and how their deposits are protected.

What does it mean for deposit takers?

From a regulatory perspective, deposit takers need to ensure that they are able to produce an SCV file with the relevant faster payout rules applied by 31st December 2010. Specifically, the FSA requires them to have a 'reliable and consistent' view of aggregate deposits for each eligible customer per 'authorised deposit taker'. While some deposit takers' existing SCV implementations will provide a good starting point, new requirements like calculating term accounts at default, capturing in-flight transactions, allocating unique customer record numbers and building in flexibility to deal with changes to variables (e.g. limit and eligibility criteria) will all present very new challenges.

The FSA's policy statement due in the final quarter of 2009 will provide the final, albeit small, piece of the regulatory framework, but the majority of the requirements are already in place as outlined in this step-by-step guide to faster payout:

Step 1 – Size and strategise

Deposit takers should currently be sizing the problem and starting to develop a strategy which ensures that, as a minimum, they are able to meet the new regulatory requirements and produce a 'static', or point in time SCV file upon request. Some deposit takers are starting to think about how they can develop and maintain a 'real time' SCV that provides benefits beyond meeting regulatory objectives.

Step 2 – SCV data audit

Regardless of the longer term strategic objectives, deposit takers need to identify, analyse and cleanse their various data sets at an authorised entity level to ensure they have the building blocks in place to start producing the SCV file to be sent to the FSCS.

Step 3 – Faster payout impact analysis

In addition to being able to produce an SCV file for each customer, all deposit takers are required to introduce an additional set of faster payout rules to support the compensation process.

As well as allocating a unique customer reference number to every depositor, bank and building society systems will also need to be modified to ensure they can apply valuation faster payout rules (VFPR) and calculate an aggregate balance at a specific point in time. For example, off-setting negative balances (which are to be excluded from the SCV file) and calculating term accounts at default rather than at maturity are critical VFPR rules. Additionally, while the eligibility faster payout rules (EFPR) have been simplified, deposit takers are now required to flag and annually check the eligibility of savers.

Step 4 – Develop and implement faster payout and SCV compliance plan

Compliance plans that effectively and efficiently deliver the strategy outlined in step 1 will need to be developed. Specifically, the compliance plan will need to ensure that the June 2010 pre-implementation report (PIR), the December 2010 implementation report and the verification milestones are achieved.

Compliance plans will need to implement fundamental changes to most parts of the deposit takers' business as usual activities. Data cleansing, matching and faster payout rules aside, eligibility flagging (previously performed by the FSCS) is a complicated and resource intensive task to perform once, let alone annually as is now being required of deposit takers.

Step 5 – June 2010 SCV pre-implementation report

In June 2010, the majority of deposit takers will be required to submit a pre-implementation report to the FSA and the FSCS. While the exact requirements of the PIR will be published in an autumn FSA policy statement, it is likely to require updates on SCV readiness and a statement from 'Senior Management' regarding meeting the compliance deadline.

Step 6 – Verification, implementation report and FSCS sign off

With an implementation deadline of 31st December 2010, deposit takers have until 31st January 2011 to submit an SCV data file to the FSCS for verification to ensure it is 'fit for purpose'. Additionally, deposit takers are also to submit an SCV report indicating 'Senior Management' is content that SCV compliance has been achieved.

Step 7 – Material changes

If deposit takers materially change their systems, whether through migrations to a new platform or as a result of a merger, the verification and sign off process needs to be repeated.

The 'final' step

In the event of an institution defaulting and compensation payout being triggered, deposit takers will have 72 hours from the moment of FSCS request to provide a complete SCV file with the relevant faster payout rules applied. This is likely to be done via an SFTP link.

Ongoing verification

Current proposals require deposit takers to submit regular SCV reports to the FSA, signed by Senior Management, stating general SCV readiness. Similarly, thematic reviews aligned to ARROW visits are also being considered. Ongoing verification procedures are currently being consulted on by the FSA and an announcement is expected in the final quarter of 2009.

When is this all happening?

The faster payout clock has already started ticking. While the new regulatory rules set an implementation deadline of 31st December 2010, the first important deadline (as proposed in the FSA Consultation Paper 09/16) is June 2010, when deposit takers will be required to submit a pre-implementation report to the FSA regarding their progress with SCV readiness.

Market innovation

Some deposit takers will tightly follow the above steps to achieve regulatory compliance, essentially developing an ability to produce a static SCV with the necessary faster payout rules applied at any given point in time. However, others are being more innovative and aggressive in meeting their regulatory obligations and are considering how to develop and maintain a real time SCV to support the well rehearsed operational, risk and compliance benefits.

Some deposit takers are even considering how they can cross-sell FSCS protection within their own groups as a way of enhancing customer service and promoting confidence in their institutions. Others are considering more radical changes to their institutional structures and account opening procedures.

At a product level, the new regulatory requirements will potentially change the structure and types of products deposit takers offer, with some types of 'offset' mortgages no longer being covered by the compensation requirements.

New entrants to the financial sector who are building their IT systems are already looking at how they can use SCV as part of a wider strategy designed to promote consumer confidence in their marketing initiatives.

Date	Requirement	Actions
July 2009	Faster payout regulatory rules	FSA Banking and Compensation Reform (09/11) policy statement published Target – SCV to deliver seven day payout
November 2009	Verification regulatory rules	FSA publish verification policy statement Consultation deadline 4th September 2009
Jan 2010	Notification requirements commence	Deposit takers required to adhere to new information requirements in relation to the FSCS and compensation awareness.
June 2010	Pre-implementation report (PIR)	PIR to FSA – project plans, progress, management commitment and statement on SCV readiness
31st December 2010	Implementation deadline	Implementation report to FSA – how requirements have been met, method of data transfer, testing accuracy, maintenance plan
Jan-July 2011	Verification phase	Implementation report to FSA by 31st Jan 2011 Feb – July 2011 – FSCS to verify the minimum of either 10,000 or 10% of SCV records
2011+	Ongoing FSA verification	SCV sign off SCV report signed by 'Senior Management'

Glossary		
FP	–	Faster Payout – Policy framework designed to ensure deposit holders are compensated within 7 days
SCV	–	Single Customer View – Consolidated view of all eligible customer accounts
VFPR	–	Valuation Faster Payout Rules – Valuation rules used to produce the SCV file
EFPR	–	Eligibility Faster Payout Rules – Eligibility rules governing which deposit holders should be included in the SCV file
PIR	–	Pre-implementation report – June progress report to the FSA from every deposit taker
FSCS	–	Financial Services Compensation Scheme – The compensation scheme that will receive the SCV file and pay deposit holders

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