

BACS RESPONSE TO
CMA RETAIL BANKING
INVESTIGATION:

PROVISIONAL
DECISION ON
REMEDIES

VERSION 1 | 14 JULY 2016

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1 EXECUTIVE SUMMARY

As owners of the Current Account Switch Service (CASS), Bacs is pleased to provide this additional response in respect of the CMA's provisional decision on remedies following its Retail Banking Market Investigation. The paper is in addition to our initial response to the CMA's provisional decision on remedies on 7 June 2016.

The purpose of the paper is to offer wording that describes the undertakings that we are able to make in order to address the CMA's requirements, as outlined in the 17 May 2016 Retail Banking Market Investigation, provisional decision on remedies document.

We are extremely supportive of the CMA's investigation objectives, and value the regulator's active engagement with us throughout. We are keen to continue this level of engagement as we move forward during the next stages of the review.

Throughout the document we have used the terms 'consumer' and 'customer' at appropriate times to best describe the scenario in question. Typically the term consumer has been used when referring exclusively to the retail banking personal current account market.

In summary, and except with prior written consent of the CMA, the undertakings that we are able to offer are as follows:

1. Appoint a new independent director for Bacs with a specific responsibility to Chair the CASS Management Committee (CASS MC) by end 2016.
2. Consider how best to engage with relevant non-bank groups and reflect their views in the decision making processes. Publish the minutes of the CASS MC along with a summary of the decisions taken by other sub-groups reporting into it using the company Redaction Policy (agreed by Bacs Board in July 2015 to satisfy a Payment Systems Regulator requirement) by end 2016.
3. Work with participants to identify additional KPIs for testing by end 2016 and subsequent incorporation into the CASS quarterly Dashboard.
4. Publish the CASS MC Chair's annual report on CASS performance for 2016 by end January 2017 and annually thereafter.
5. To remove the redirection end-date for all customers who have ever used CASS to switch their payment account provider by mid-September 2016.
6. To introduce configurable dormancy assessment criteria that enables the effective management and control of the CASS redirection database; and maintains the overall integrity of payments by the end of July 2017. On the third anniversary following the customers switch date redirection of payments sent to the old account will only cease when a 13-month period has passed without any centrally redirected payments being actioned.

By the end of Q1 2017:

7. Deliver a plan for a long-term promotional campaign that aims to raise the profile of and confidence in CASS.

8. Identify a method and approach that enables us to meet, exceed and then sustain new and more effective awareness and confidence measures, whilst using best endeavours to continue driving up existing performance.
9. To ensure promotional campaigns are kept current and continue to advocate the benefits of using the service.
10. Using best endeavours, prompt the industry to ensure their marketing campaigns are compliant (per the CASS Brand Guidelines and measured by the CASS code of conduct); and, are aligned with ours where applicable, communicating to customers the security and convenience of using CASS to switch payment accounts.
11. Continue to target those customer groups that have low awareness of CASS and/or could benefit most from switching current account providers, notably SMEs, overdraft users, customers with high credit balances, the young and the financially disadvantaged.
12. Working with our University of Bristol partners, develop an understanding of consumer consideration, which we think is the most appropriate measure of an effectively functioning market. Using the outputs from this work and any revised KPIs identified in 3 above work with HM Treasury to review the success measures for CASS.

In section 7 we have described the additional measures we are working on with our participant community to facilitate market consideration and account switching including addressing the undertaking you propose in Figure 5.5 of your provisional decision on remedies. This activity is quite separate, and is in addition to, the undertakings described above. In summary we are:

- Working to deliver harmonised account opening commitments to assist customers with overdrafts who would like to switch.
- Conducting additional research into the size, needs and nature of the SME sub-segments that collectively make up this broad customer segment.
- Specifically targeting SME audiences in order to raise awareness and confidence in CASS as part of our September 2016 burst of comms activity.

It became clear during the participant workshops held for the above that the need for additional transaction history over and above that which is already available is not required. We intend conducting further research to support this statement.

Before Bacs will be able to commit to the final undertakings (e.g. the final form of words) we will need to obtain Bacs Board sign-off. We anticipate being able to carry out this required governance process when the CMA publishes the undertakings for consultation.

2 CONSUMER ENGAGEMENT IN THE CURRENT ACCOUNT MARKET

In order to understand how our promotion of the Service can be most effective we have undertaken a research programme with the University of Bristol to investigate how consumers engage with and make choices in the market. We have distilled this down to two key feedback loops which drive the market dynamics: Trust Loop and Inertia Loop.

The drivers that strengthen a consumer's relationship with their provider reinforce confidence and lead consumers into the 'Trust Loop'. Consumers in the 'Trust Loop' believe that their provider delivers the service that they expect and want, and their experiences reinforce this belief. These consumers are satisfied and, consequently, less likely to consider alternative providers.

The drivers that weaken consumer relationships reduce confidence or satisfaction. These can move a consumer along the learning journey, away from the Trust Loop and onwards toward decision points where they are more likely to actively consider switching. However, at this point consumers may find that alternative providers are unattractive, or consider the process to switch providers too complicated. If this is the case, they can enter an Inertia Loop; where they are dissatisfied with their current account but consider the alternative of switching unattractive.

Bacs' research programme with the University of Bristol is centred on identifying and understanding the drivers of consumer behaviour in considering their banking needs. This partnership with the University of Bristol has led to the development of a market dynamics model which can analyse the triggers that are likely to have the most impact on consumer behaviour and decisions to switch or stay with their current (account) provider.

We believe our fresh approach to analysing and identifying what motivates consumers (by producing more meaningful KPIs) will assist the industry to deliver better current account products for consumers and help us to develop and refine CASS. We hope and expect our research to help ensure CASS continues to stimulate competition across the sector whilst delivering the simple and stress-free process for consumers who want to switch their current accounts. By sponsoring this research into consumer behaviour we believe this innovative programme will provide us with the basis for effective measurement and best practice.

Bacs has briefed regulators including the Financial Conduct Authority on the research programme and is committed to continuing this dialogue, including the Bristol team wherever appropriate.

This independent activity allows us to work with the industry to promote and develop the account switching services. It will specifically enable us to develop solutions that deliver best value to:

- Deliver a long-term promotional campaign that aims to raise the profile of and confidence in CASS;
- Identify a method and approach that enables us to meet, exceed and then sustain new and more effective awareness and confidence measures, whilst continuing to drive up existing performance;
- Ensure promotional campaigns are kept current and continue to advocate the benefits of using the service; and,

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- Ensure consumer groups with low awareness of CASS and/or could benefit most from switching such as SMEs, overdraft users, the young and financially disadvantaged are specifically targeted.

3 REFORMS TO CASS GOVERNANCE

Bacs have been requested by the CMA to strengthen CASS corporate governance by:

- Appointing an independent Chair to the CASS Management Committee (CASS MC);
- Ensuring greater transparency in respect of CASS decision making by demonstrating the involvement that consumer groups and other intermediaries / stakeholders have had in influencing decisions taken. To assist with this aspect the minutes of CASS MC and other main sub-groups reporting into it should be published;
- Introducing greater transparency of CASS' performance against the service KPIs (as part of this work we will reassess the continuing validity and operational effectiveness of the existing CASS KPIs, which have been in place since launch);
- Publishing an annual CASS performance report from the (independent) CASS MC chair.

In response to the above, except with prior written consent of the CMA, Bacs shall provide an undertaking to the CMA that delivers the above noted remedy requirements. Specifically this will be to deliver the following by end December 2016 (with the exception of the fourth undertaking which will be end January 2017):

1. Appoint a new independent director for Bacs with a specific responsibility to Chair the CASS MC.
2. Consider how best to engage with relevant non-bank groups and reflect their views in the decision making processes. Publish the minutes of the CASS MC along with a summary of the decisions taken by other sub-groups reporting into it using the company Redaction Policy (agreed by Bacs Board in July 2015 to satisfy a Payment Systems Regulator requirement).
3. Work with participants to identify additional KPIs for testing and subsequent incorporation into the CASS quarterly Dashboard.
4. Publish the CASS MC Chair's annual report on CASS performance for 2016 by end January 2017 and annually thereafter.

Bacs notes the CMA's intention to recommend the introduction of regulatory oversight over the UK account switching services. We welcome this approach and would like the following points taken into consideration:

- From 18 September 2016 the Payment Systems Regulator's (PSRs) role will be to regulate the operators of designated alternative switching schemes.

We do not think the above role should be confused with a broader, and quite different, requirement to introduce regulatory oversight of consumer account switch outcomes, which are provided by individual payment service providers.

- We think a broader view is needed that aligns with existing regulatory powers across the banking market (not just payments) because the switch itself is only part of the journey a consumer takes when considering their banking arrangements.

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- In view of the above we think consideration should be given to appointing the FCA, who already has an account switching role under the terms of the Payment Accounts Regulations 2015.

4 EXTENDING THE CASS REDIRECTION PERIOD

The CMA has sought an undertaking from Bacs to extend the redirection period offered by CASS for all customers who need it. The objective, which we fully support, is to effectively remove the worry that may be caused by the current finite redirection period of 3 years. For example, where one outcome would have been that an unacceptably high number of customers (circa 1.2% of those that switched using CASS) suddenly experience the hassle of failed payments long after their switch date.

We share the concern over the possibility of this outcome, and together with the industry, except with prior written consent of the CMA, Bacs shall offer undertakings that:

5. Remove the redirection end-date for all customers who have ever used CASS to switch payment account provider by mid-September 2016.
6. Introduce a configurable dormancy assessment criterion that enables the effective management and control of the CASS redirection database; and maintains the overall integrity of payments by the end of July 2017. On the third anniversary following the customers switch date redirection of payments sent to the old account will only cease when a 13-month period has passed without any centrally redirected payments being actioned.

We have agreed with participants that the changes necessary to accommodate the second undertaking (No. 6) noted above across the industry will be implemented before the end of July 2017. All participant activity to deliver this requirement is tracked by the central service and will also be monitored through the CASS Operations and Governance participant meetings. A fuller explanation of our approach is given in Appendix 8.2.

Summary

All customers who have ever switched using CASS will benefit from redirection for a minimum of three years, after which customers who still require redirection will continue to be supported until such time as it is no longer required.

In addition to the above we are continuing to work with service users to improve service user compliance as part of the wider Scheme issue, which will have an added benefit to CASS of reducing the redirection concerns. This work forms part of our exciting new Knowledge Centre initiative that is being developed to enhance the broader understanding of our services.

Following consumer feedback we have worked with our legal advisors to deliver the required amendments to the customer facing documentation to strengthen the CASS Guarantee, providing greater clarity and reassurance to all users. These include changes to remove any reference to a specified time for redirection. We think this change will significantly strengthen the Guarantee in the eyes of the customer since it removes any concern over what happens when the redirection period ends and does not raise doubts that there may be some persistent long term problem with CASS.

Bacs has agreed with the Participants that all new customer documentation will be implemented across the industry in time for September 2016, at the three year anniversary of the service. This approach will help to avoid customer confusion around inconsistent messaging between Banks. Banks have also confirmed their commitment to address the effective forwarding and redirection of 'on us' transactions which do not currently flow through the schemes.

5 INCREASING AWARENESS OF AND CONFIDENCE IN CASS

This is a complex area and requires a deeper understanding of market dynamics and what constitutes success than we (as a payment scheme company) had previously considered (e.g. prior to the management and operation of CASS).

In section 3 we described the work we are doing with University of Bristol. We think this is relevant, and indeed integral, to the delivery of any undertakings we provide in this area.

In short, except with prior written consent of the CMA, Bacs shall offer an ongoing undertaking (e.g. without an end date) that embraces this ground breaking work where we are looking to understand the underlying factors that drive development. This can be stated as follows where we will:

7. Deliver a plan for a long-term promotional campaign that aims to raise the profile of and confidence in CASS;
8. Identify a method and approach that enables us to meet, exceed and then sustain new and more effective awareness and confidence measures, whilst using best endeavours to continue driving up existing performance;
9. To ensure promotional campaigns are kept current and continue to advocate the benefits of using the service;
10. Using best endeavours, prompt the industry to ensure their marketing campaigns are compliant (per the CASS Brand Guidelines and measured by the CASS code of conduct); and, are aligned with ours where applicable, communicating to customers the security and convenience of using CASS to switch payment accounts;
11. Continue to target those customer groups that have low awareness of CASS and/or could benefit most from switching current account providers, notably SMEs, overdraft users, customers with high credit balances, the young and the financially disadvantaged; and,
12. Working with our University of Bristol partners, develop an understanding of consumer consideration, which we think is the most appropriate measure of an effectively functioning market. Using the outputs from this work and any revised KPIs identified in 3 above work with HM Treasury to review the success measures for CASS.

We think the above will take us to a place by the end of Q1 2017 where we will be in a position to present an alternative measure to the existing targets for awareness and confidence that were set before the service launched.

By the end of Q1 2017 we think we will be in a position to consider the introduction of new metrics that will better measure consumer understanding of the switching process (e.g. their awareness of and confidence in the service). The undertaking includes a period of parallel running.

Supporting the above, Bacs, and participant banks and building societies, are committed to delivering a fully integrated communications campaign for CASS. This involves targeted communications activity directed at specific audiences with specific needs – particularly overdraft users (notably low income groups, younger people and students) and SMEs.

We think the above amply demonstrates that we are fully committed to ensuring the undertakings offered above will be delivered.

Overall the industry has already committed to a sustained increase in marketing activity ultimately designed to further raise switching awareness and confidence levels.

We have also commissioned further work, in support of our integrated campaign, from the Social Market Foundation (SMF) to assess the economic contribution of current accounts, and from Manifesto, a product development and innovation company, to consider the level of product innovation in the market.

The ongoing commitments for 2016 and beyond include a communications activity that is divided into three core areas that work together:

1. **Paid Media:** Campaign activity directly from CASS using paid advertising. This can include, but is not limited to, prominent promotional activity on TV, radio, digital and social media.
2. **Owned media:** Communications channels that are the property of CASS or the participant banks and building societies. This includes the CASS website, participant websites, apps and – vitally – existing current account acquisition and retention activity from participants.
3. **Earned media:** Campaign activity directly, and indirectly, from CASS to extend the reach and resonance of the campaign. This can include, but is not limited to, public relations, public affairs, stakeholder engagement, third-party influencer recruitment and strategic partnerships.

6 ADDITIONAL MEASURES TO FACILITATE MARKET CONSIDERATION AND ACCOUNT SWITCHING

6.1 ADDRESSING ADDITIONAL NEEDS NOT MET BY CASS

We are delighted to continue working with the CMA as we consider ways of meeting the requirements of customer segments which are currently not fully met by CASS, notably customers with overdrafts and SMEs.

We note the CMA is not intending to ask us for undertakings in this area with the exception of the undertaking noted in Figure 5.5 of your provisional decisions document. We agree with this approach because the issues are not fully developed / understood and as such it would be difficult for us to offer meaningful undertakings. However we are committed to tackling the requirements for these customer segments, and are actively engaged on a number of activities to mitigate the issues, which are described below.

Following two workshops with our participants we don't think this requirement can be satisfied by making changes to the "partial switch" service because it is much broader. It is our intention to address the identified need states through the delivery of process harmonisation in the lead up to the switch initiation.

With effective positioning, we think the following proposed remedies will help increase awareness of and confidence in CASS, thereby enhancing customer consideration and choice in the retail banking market.

6.1.1 ADDRESSING THE NEEDS OF OVERDRAFT USERS

We are conducting a research-based approach to ensure that any changes to the lead up to switching fulfils the specific needs of overdraft users and in particular, how these needs might be addressed through the promotion of harmonised account opening processes.

We believe that facilitating an on-boarding process that is aligned bank-to-bank (on a process level rather than at product level) is critical to ensuring customer confidence at this point of their switch journey. The aim is to promote transparency and clarity for overdraft users (enabling informed choices), whether that is just making an overdraft facility available or with an additional requirement to transfer a debit balance from the old bank to the new bank.

As agreed at the participant workshop mentioned above we will build harmonised account opening commitments across our CASS participant community. This translates into:

- A cross industry commitment to ensure that customer confidence in CASS will be boosted through harmonisation (rather than standardisation) of elements of the account opening process. Our aim is to build a process that ensures banks provide customers with a clear message about the process and the decision steps such as:
 - The initial overdraft approval (including the amount and terms of the overdraft) and reassurance that this will be confirmed to the customer before they agree to commence the CASS process;
 - As part of the above, whether an overdraft facility at the old bank can be matched;

- A commitment to repay some or all of a debit balance at the customer's old bank; and,
- The fees and charges applicable.

Finally it became clear during the participant workshops that the need for additional transaction history over and above that which is already available is not required. Further research will be conducted to support this assertion.

6.1.2 ADDRESSING THE SME NEEDS

We are conducting additional research into the size, needs and nature of the sub-segments that comprise this broad customer segment.

The collective agreement reached during the participant workshops is that to build an effective CASS proposition the industry will first require an in-depth understanding of the need state diversity within the SME market.

The research referred to above will break down the SME market into various segments to obtain data from participants on behavioural trends and perceived obstacles to switching. Following this research, we will evaluate changes required to the central CASS propositions, such as an enhanced partial proposition specifically aimed at complex / additional needs.

Additionally, as part of the September 2016 burst of comms activity, we are specifically targeting SMEs audiences in order to raise their awareness and confidence in CASS.

6.2 TRANSACTION HISTORY

Turning to the role envisaged by the CMA for Bacs in terms of facilitating an exchange of customer transaction history between the old and new banks as part of the account switch process. At the present time we have not found any evidence to support this requirement. Bacs is however well placed to discuss further what role we might play in any future developments in this area. Overall any proposals in this area should be aligned and coordinated with other industry initiatives currently on the table such as:

- Open Banking Standards;
- PSD2

In the meantime a simpler solution for customers requiring this information could be provided by individual banks propositions.

7 APPENDICES

7.1 BACS REDACTION POLICY

In respect of meeting minutes of Bacs Payment Schemes Ltd (company number 4961302) (the “Company”)
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1. ABOUT THIS POLICY

- 1.1 This policy deals with the redaction and publication of meeting minutes on the Company’s website.
- 1.2 This policy applies to all employees, directors, advisers, consultants and officers of the Company who may be involved in redacting Board meeting minutes of the Company.
- 1.3 This policy has been implemented with the approval of the Board following the requirement of the Payment Systems Regulator (the “PSR”) to publish Board minutes of the Company. The aim of this policy is to ensure that an open, transparent and clear policy is in place for the redaction of certain information contained in meeting minutes which would be inappropriate to disclose publically.
- 1.4 The Company may amend this policy from time to time subject to Board approval and it shall be reviewed on at least an annual basis.

2. PERSONNEL RESPONSIBLE FOR THIS POLICY

- 2.1 The Company’s Board of Directors has overall responsibility for the implementation and effective operation of this policy but has delegated day-to-day responsibility for overseeing its implementation to the Board Secretariat.
- 2.2 All managers have a specific responsibility to operate within the boundaries of this policy, to ensure that all staff understand the procedure they are required to follow and to take action when behaviour falls below its requirements.

3. REASONS FOR REDACTION

- 3.1 The Payment Systems Regulator has stated that minutes may be published in redacted form where this is necessary to protect commercial confidentiality, candid debate and the financial stability or integrity of the regulated payment system, and that any and all redactions must be limited to the extent necessary, reasonable and justifiable.
- 3.2 Any and all redactions must be (a) limited to the extent necessary (b) be reasonable and justifiable, (c) consistent with retaining the sense or meaning of the remaining text so that the matters referred to are capable of being understood by interested parties [i.e. readers who were not involved in the Board discussions], and (d) in accordance with the redaction policy.
- 3.3 Further detail on the information that may be redacted, and reasons for this, is set out below.

3.3.1 Commercial confidentiality or sensitivity

This is any information which:

- a) If disclosed to a competitor, would be liable to cause real (or significant) harm;
- b) May damage the reputation or the confidence that customers, suppliers or investors may have in the Company;
- c) Has a detrimental impact on commercial revenue or threaten the ability to obtain supplies or secure finance;
- d) Weakens the position in a competitive environment by revealing market-sensitive information or information of potential usefulness to competitors;
- e) Includes details of staff (including personal information), members, third-party contracts / suppliers;
- f) Impacts the integrity of the clearings and other payment schemes.

3.3.2 Candid debate

Directors of a company have an obligation to act in the best interests of the company. In this regard, Directors must be able to robustly and openly discuss matters that may impact the Company without constraint or impediment.

3.3.3 Request

Any attendee at the meeting (including the Chair) may proactively request for an item to be redacted due to sensitivity of matters under discussion and that any such request should also be noted in the minutes. Any request to redact a specific item shall be given due consideration as to its appropriateness.

3.3.4 Financial stability

Any information that may undermine financial stability, including any testing of procedures or risk metrics (e.g. settlement testing) and including any Security related sensitive matters.

3.3.5 Information provided in confidence

Where the Company has expressly agreed to keep information confidential there is a duty of confidence, provided that the information has the necessary quality of confidence. This would also apply where the nature of the information or the circumstances in which the information is obtained imply that the information should be kept confidential. This could include financial or marketing information obtained from a participant.

3.3.6 Legal Professional Privilege

This may include communications between the Company and (a) external lawyers in private practice (solicitors or counsel), and (b) salaried in-house legal advisers, provided that the information has been given either for the purpose of obtaining legal advice or there is a reasonable prospect of litigation or litigation is pending.

3.3.7 Prohibition

Publication of information may be prohibited for the following reasons:

- a) Where there is an existing statutory bar to disclosure
- b) Where disclosure would be incompatible with a European Community obligation
- c) Where disclosure is prevented by common law

4. PUBLICATION OF MINUTES

- 4.1 Minutes will be published within 5 working days after the following Board meeting, i.e. March minutes would be published following the June meeting if the June meeting was the next scheduled. This is to ensure that the Company's Board has signed off both full and redacted sets of minutes (in line with their obligations under clause 2.1 of this document).
- 4.2 Three sets of minutes will be held by the Company: (1) a full, un-redacted set for Board distribution only, (2) a set with redactions highlighted (but with the text still readable) with a note against each redaction stating the reason (in line with those found in Appendix 1) for audit purposes, and (3) a redacted set with the relevant text deleted and replaced with the notation [DELETED – COMMERCIALY SENSITIVE] or similar wording.
- 4.3 Only the fully redacted set will be published on the Company's website.

7.2 REDIRECTION AND FORWARDING – HIGH LEVEL DESCRIPTION

Redirection and forwarding are significant processes within the Current Account Switch Service (CASS). Redirection ensures that, following a full switch, any payments made by Bacs (i.e. Direct Debits and Bacs Direct Credits) and Faster Payments (this includes Standing Orders) that still use the old account details are automatically centrally redirected to the new account. Forwarding ensures that credits of other payment types (e.g. CHAPS, SEPA, cross-border, cheque, and on-us) to the old account are forwarded to the new account by the old bank.

As part of the full switch process, originators of a customer's regular payment arrangements (for example, payers of salaries and benefits, and direct debit originators) are notified of the customer's new account details. On receipt of notification, the payment originator should update the account details that they hold. The redirection and forwarding processes provide payment continuity where the payment originators do not update the account details that they hold in a timely manner. With each instance of either redirection or forwarding, the payment originator is notified again of the new account details.

For each full switch, the redirection and forwarding mechanism applies for a minimum of three years. After which, customers who still require redirection, because one or more of their payment originators is still using their old account details, will continue to be supported by redirection and forwarding until such time as it is no longer required. After three years, redirection and forwarding will cease only when a 13 month period has passed without any redirected payments.

Unlimited extension of redirection and forwarding for all switching customers was considered, but was not favoured because:

It would increasingly undermine the integrity of the payment schemes, in that the destination of redirected payments becomes permanently divorced from the customer's payment instruction.

An ever-growing volume of redirections would increase the payment schemes' risk of delivery on critical performance SLAs. Unmanaged exposure to this risk contravenes a (Bank of England) Payment Systems Oversight and Policy Directive.

The mechanism, described above, to support customers who still require redirection and forwarding beyond three years predominantly targets regular Bacs and Faster Payments. This is entirely appropriate as:

- Any non-regular payment that is addressed to the old bank details after more than three years should rightly be returned by the receiving bank as "account closed" as per the longstanding "Business As Usual" process for closed accounts. This prompts the payment originator to contact the beneficiary to obtain the correct account details.
- The negligible number of regular payments, that are neither Bacs nor Faster Payments, and that are still addressed to the old bank details after more than three years will need to be handled by the banks on a case by case basis using an exception process, if and where they exist.

In summary, robust redirection and forwarding processes and procedures have been developed and implemented both centrally and by CASS participants to guarantee switching customers a

simple, reliable and stress-free experience. This process also applies seamlessly to any account transferred as part of the banking reform ring-fencing requirements.