



National Payments Plan

Setting the strategic vision for UK payments

May 2008

Foreword

The Payments Council has been set up by the payments sector, with the support and encouragement of HM Treasury and the Office of Fair Trading (OFT), to undertake a strategic role in the development of payments in the UK. Our existence and role reflect the central significance of the payments system to all aspects of economic life in the UK and its relevance to every business and every individual.

This document contains our first plan, charting a way forward over the next decade.

The remit of the Payments Council covers three key objectives for payments – efficiency, innovation and integrity. Our plan reflects them and proposes ways in which the Council can promote efficiency, encourage innovation and maintain the integrity and reliability of the payments system.

We have a clear picture of what types of payment systems are needed:

- We recognise the crucial role which payments play in everyday life and our plan acknowledges that the needs of all users, including the disadvantaged, are understood and reflected in our work. We will ensure that we stay abreast of these needs as they evolve and adapt over time.
- The traditional integrity, reliability and security of the UK payments system must be preserved. This must not be compromised as we bring on new innovations and improvements to efficiency.
- Opportunities for encouraging efficient means of making payments and for moving away from the less efficient and more costly ones should be identified. In particular, we see a move to electronic payment systems, away from paper-based forms of payment, bringing a benefit to the economy as a whole.
- Opportunities to innovate should be positively encouraged. We have an open process for assessing proposals for new developments and ensuring that their potential is appropriately realised. This is a time when there is much potential for innovation, as new channels are opened up. We see our role both as ensuring that proposals are properly considered and as facilitating collaboration across the payments sector where this is needed to ensure that new ideas are taken up.
- We appreciate the need to act only after proper consultation; this approach has underpinned our actions to date.
- We will continue to play an active role in the development of payment standards, in the UK and internationally, which we view as of crucial importance in driving interoperability and efficiency and ensuring a consistent user experience.

We are confident that this vision will strike a chord with both the payments sector and its users. It has been developed after an extensive consultation with the industry and users; our published consultation paper (issued in November last year) attracted 82 responses – a gratifyingly good result. We intend to proceed in the same open and consultative way as we tackle the various actions which we set out in the following pages.

We are also pleased with the degree of consensus which the Consultation revealed. Of course, there were differences in emphasis and these are brought out in our discussion of the responses. However, there was broad endorsement of the themes which form part of our overall vision. We accordingly believe that it will command support from both users and providers. The Plan is largely devoted to practical steps to put the vision into practice. Reflecting the fact that this is the first time that a UK payments plan has been produced, these steps necessarily include undertaking further research and consultation where this is needed before firm decisions can be made.

Our agenda is ambitious and will take several years to complete. While the primary emphasis is on domestic payments within the UK and on cross-border payments made into or out of the UK, the agenda also takes account of the Payment Services Directive¹ and external developments, such as the Single Euro Payments Area (SEPA), that have a direct bearing on the UK.

I expect that much attention will focus on our treatment of the cheque. It was the subject which attracted the most comment from respondents. Our diagnosis that use of the cheque is in irreversible decline went almost unchallenged. Our proposal that a managed decline was preferable to an unruly exit was also widely supported. But there were concerns from some quarters about the setting of an end date for the cheque clearing, even an end date some ten years distant. I want to reiterate that alternative ways of making all the types of payments which are currently made by cheque have to be available before closure of the cheque clearing can be seriously contemplated. We hope that our plan will be a catalyst for the fresh ideas necessary to fill the gaps which exist.

As for innovation, this will include considering whether there is a role for the Council in encouraging the development of mobile payments. However, a major current innovation in the sector, the Faster Payments Service, is not covered by the Plan because its development is already in progress. This will introduce near real-time internet and telephone banking and will be a huge step forward for both the sector and its users. Its full impact will only become apparent with time, but it could provide the means by which other new and valuable developments can be introduced. It has been a major project across the industry and an indication of what can be achieved through collaborative effort.

¹ The Payment Services Directive, which will be implemented in legislation by November 2009, will establish a comprehensive set of rules for payments in the European Union and will provide the legal foundation for SEPA.

Our plan also recognises the need to educate users in how to make best use of the payment services available to them.

As we take the Plan forward, we will be very conscious of two points:

- i) First, we must only take any action when we can add value by encouraging the industry to work together. We will not interfere in those areas where competition delivers the best outcome.
- ii) Second, we have to live up to our promise of transparency. There has been widespread enthusiasm for our open approach. The fact that the payments sector is talking directly to its users is seen as a positive and welcome development. In particular, I should acknowledge the significant part which our user forums have played and will continue to play. We will use both research and continued contact with users to ensure that our actions are, and are seen to be, consistent with our remit.

This is an important document and an important staging post in the development of the Payments Council and of our national payment systems.



A handwritten signature in black ink that reads "Brian Pomeroy".

Brian Pomeroy,
Chairman of the Payments
Council Board
May 2008

Executive Summary



Background

This summary sets out the results of the Payments Council's inaugural Consultation on the creation of a National Payments Plan for the UK. The Executive Summary's primary focus is on the actions that we will be taking. There is more detail on the responses to the Consultation and on the detailed action points in the main body of the report. There is also a summary Gantt chart of action points at the end of the Executive Summary.

There were 82 responses to the Consultation from a broad cross section of users and providers of payment services and other stakeholders. Most respondents welcomed the consultation exercise; several also highlighted the potential for future collaboration between the Payments Council and other stakeholders. Overall, there was a reasonable degree of consensus over the course which the Council should be setting and the areas where the Council can make a contribution.

We have classified respondents into the eight categories shown on the right. Full details of the respondents are given in Annex B. These categories are referred to at various points in the report.

Category	Number of respondents
Public/regulatory	8
Consumers	12
SMEs	5
Large corporates	9
Banks and other payment service providers	15
Schemes and Groups	14
Providers of payment infrastructure and services	15
Payment experts and consultants	4

We are particularly appreciative of the Payments Council's Consumer, SME and Large Corporate User Forums which have each met three times to assist in preparing the consultation document and advising on the actions to take following the Consultation. The three Forums will play an active role in supporting the implementation of the Plan.

In the light of the responses, we have decided to prioritise the areas listed in the next section. Other areas where we will be taking action at a later stage are listed in the following section.

We recognise the crucial role which payments play in every-day life and our plan acknowledges that the needs of all users, including the disadvantaged, are understood and reflected in our work.

Priority areas

Cheques (Section 4.1.1)

There is broad agreement from all categories of respondent that cheques are in long-term decline; that the decline needs to be actively managed and that, while viable alternatives already exist for cheques in many areas, there remain “gaps”, where adequate alternatives to cheques are not yet available for some or all categories of users. It is also apparent that some users are unaware of the alternatives to cheques that already exist.

There is less agreement over when or whether a target date for the closure of the cheque clearing should be set. In the Consultation, we canvassed a closure date of 2018 – subject always to alternative forms of payment being developed and accessible to all types of cheque user. We have received no evidence which causes us to doubt that this target is attainable but we realise that there is need for further work before we can firm up on any date.

We will now embark on this work with a sense of urgency as we are confident that substantial economic benefits will flow from a programme of activity to manage down the volume of cheques. But we reiterate that the cheque clearing will only be closed once acceptable alternatives to cheques have been developed.

Our work over the next eighteen months will entail:

- Work with cheque users and other key stakeholders to understand the barriers to their ceasing to use cheques and the new developments which must be put in place to facilitate this.
- Market research, to understand the views and needs of individual consumers and businesses, both as payers and as recipients of cheques.

- Discussion within the payments sector and with its technical suppliers to identify how the necessary alternatives to cheques can be developed and brought on-stream.
- An education campaign which informs consumers about alternatives to cheques.

Cheque Guarantee Card Scheme (Section 4.1.2)

There is strong support for reviewing the future of the Cheque Guarantee Card Scheme. It is felt that the rapid fall in cheque volumes in the high street makes a review a matter of urgency.

We share this view and will initiate an objective review of the Scheme in early summer 2008. The scope of the review will include analysis of the impact on users of closure and other changes to the Scheme, and of the costs and benefits of the different options. We will aim to complete the review by March 2009.

Direct Debits (Section 4.1.5)

While Direct Debits are widely seen as an important and valuable payment method, many respondents suggested ways in which they might be further improved.

We will be assessing a number of the suggested changes, including the introduction of a one-off direct debit; a possible limit on the length of the guarantee and the development of a business-to-business direct debit product. There is considerable sensitivity around the possible introduction of a limit on the length of the Direct Debit Guarantee, with sharply polarised views, primarily between consumers and businesses (both large corporates and SMEs). We have asked Bacs to work with us in establishing a better understanding of the impact that a limit would have on users and of how their interests might be safeguarded. It is likely that, if a sufficiently lengthy period of guarantee is chosen, the impact on consumers will be limited and more than offset by the benefits to both payers and recipients of

The traditional integrity, reliability and security of the UK payment systems must be preserved. This must not be compromised as we bring on new innovations and improvements to efficiency.

Direct Debits of an increased number of originators. But only a proper review can establish this.

The reviews of potential improvements to Direct Debits will be completed between September 2008 and March 2009.

Account Number Formats (Section 4.1.10)

Views differ on whether action is needed to promote greater standardisation in the format of account numbers. This is an issue that the Office of Fair Trading has asked us to monitor.

We will review the problems which users attribute to account number formats; once these have been identified, we will consider the costs and benefits of the range of potential solutions. We will aim to agree a way forward by March 2009.

Mobile Payments (Section 4.2.2)

Mobile payments are viewed by respondents as an important innovation, with potential to help in a number of areas, including financial inclusion and the move away from cheques.

We will aim to ensure that mobile payments initiatives are based on international standards and that solutions are open and interoperable. More specifically, we will continue to investigate the potential to develop a collaborative bank account to bank account mobile payment service. By June 2008, we expect to be in a position to decide whether to proceed with developing an account-to-account service.

There are several areas where there was a general belief that the Payments Council should be active, either on its own account or in conjunction with others, even though there was no specific action identified. These areas are more in the nature of underlying themes which need to be kept in mind by the Council in all areas of its work.

Supply Chain (Section 4.2.3)

It is generally recognised that automation of the supply chain has the potential to deliver very substantial savings to businesses. There is strong support for the Payments Council's involvement in e-invoicing, with e-invoicing standards seen as an area of particular importance.

We intend to play an active role in the European Commission's Expert Group on e-invoicing and other global initiatives and collaborate with other UK stakeholders on standards and allied issues.

Education (Section 4.3.1)

Respondents feel that the Payments Council should play a key co-ordinating role in education on payment issues. We will ensure that the need for education is considered, where appropriate, in relation to other National Payments Plan actions.

In order to maximise our impact, we will collaborate closely with other organisations that are engaged in financial education. As a first step, we will conduct a high-level review of existing educational initiatives to identify gaps and ensure that any subsequent work does not duplicate the work of other organisations.

Financial Inclusion (Section 4.3.2)

Respondents gave strong backing to the promotion of financial inclusion in all areas of the National Payments Plan.

As with education, we intend to work closely with leading organisations already involved in this area, such as the Financial Inclusion Task Force, consumer bodies, credit unions, trade associations and charities and voluntary groups. We will ensure that the impact on financial inclusion is included as an integral part of the evaluation of major collaborative changes to payment systems.

...we see a move to electronic payment systems, away from paper-based forms of payment, bringing a benefit to the economy as a whole.

Standards (Sections 4.3.5 and 4.1.10)

Standards are of critical importance in many areas of the payments market. Respondents endorsed a number of high-level principles governing the Payments Council's work on standards, including playing an active role in standards development and, where possible, adopting international rather than domestic or proprietary standards.

More specifically, there was strong support for the domestic Direct Debit and Direct Credit Schemes migrating to international standards. We will develop a roadmap by June 2009 for the alignment of domestic message standards with those used in Europe.

An important standards issue also arose in relation to contactless cards, and the need for harmonisation of standards, so that contactless payment card standards are able to meet the need of merchants who require high transaction speeds. We will ask the card schemes to work together with other stakeholders, including transport authorities, to harmonise standards for contactless cards.

Other Areas

Credit Clearing (Section 4.1.3)

There is support for reviewing the credit clearing. We will undertake a comprehensive objective review of options for the future of the credit clearing in 2009.

Cash (Section 4.1.4)

Almost all respondents agree that the National Payments Plan should be based on the assumption that cash will remain a major payment method for the foreseeable future.

There are divided views on whether the supply and quality of notes and coin in circulation should form part of the Plan. We will review this issue with the Bank of England, Royal Mint and other relevant bodies and publish our conclusions by the end of the year.

Direct Credits (Section 4.1.6)

A number of suggestions were made by respondents for improving the accuracy and reliability of reference information accompanying Direct Credits. This is an important area, with potential to lead to significant improvements in efficiency for recipients of payments by Direct Credit and assist the development of alternatives to cheques.

We will assess the potential measures that may be taken to improve efficiency and decide how to move forward by June 2009.

Credit Cards, Debit Cards and Cash Machines (Section 4.1.7)

We do not believe there is a need to intervene in the card and ATM markets at present. We will, however, keep the markets under continuing review and stand ready to intervene if we consider the market is not delivering appropriate solutions because of a lack of collaborative action.

CHAPS and Wholesale Payments (Section 4.1.8)

Our meetings with market participants and responses to the Consultation revealed that there is scope for improving liaison with wholesale payment users.

We believe we are well placed to assist in this and will put in place arrangements for regular liaison between wholesale payment users and the Payments Council.

Opportunities to innovate should be positively encouraged. We have an open process for assessing proposals for new developments and ensuring that their potential is appropriately realised.

SEPA and Cross-border Payments (Section 4.1.9)

International payment developments in general, and SEPA in particular, may have a significant impact on payment systems in the UK. We will keep international developments under active review and consider how best to provide information to payment users in the UK. We will also assess whether changes are needed in cross-border payment systems.

Contactless and Prepaid Cards (Section 4.2.1)

Respondents gave a broad welcome to developments in contactless and prepaid cards which they see as positive, although still at a very early stage.

We will actively monitor progress and produce reports on the state of the contactless and prepaid markets, with recommendations, by September 2009.

Proposed Innovations (Section 4.2.4)

Several respondents suggested that a new scheme to pay online retailers should be established, leveraging the new Faster Payments Service that will be launched in late May 2008. We will examine the case for this in 2009, using the Payments Council's procedure for evaluating innovations.

Payment Systems Integrity and Contingency (Section 4.3.3)

The Payments Council has a particular interest in integrity and contingency matters that cut across individual payment schemes. We will work closely with the Bank of England to review the scope for practical contingency measures in the event of a major systems failure, and put in place any actions that may be needed.

Fraud and Security (Section 4.3.4)

Effective methods of combating fraud and maintaining security underpin the integrity of UK payment systems, a core objective of the Payments Council. A number of

helpful suggestions were made by respondents on action that the Payments Council might take. While we recognise that much good work is already in hand, and have no desire to duplicate this or to stray into competitive territory, we believe that further action is needed in some areas.

We will ensure that all new collaborative payment initiatives include a formal risk assessment. We will produce an annual assessment of threats and counter measures and review what additional measures may be needed. We will also assess whether any further steps are needed to facilitate data sharing. More broadly, we will work in collaboration with other sectors and the public authorities to raise awareness of payments fraud and security risks.

Costs (Section 4.3.6)

A number of respondents emphasised the importance of building a shared understanding of the cost structure of UK payments.

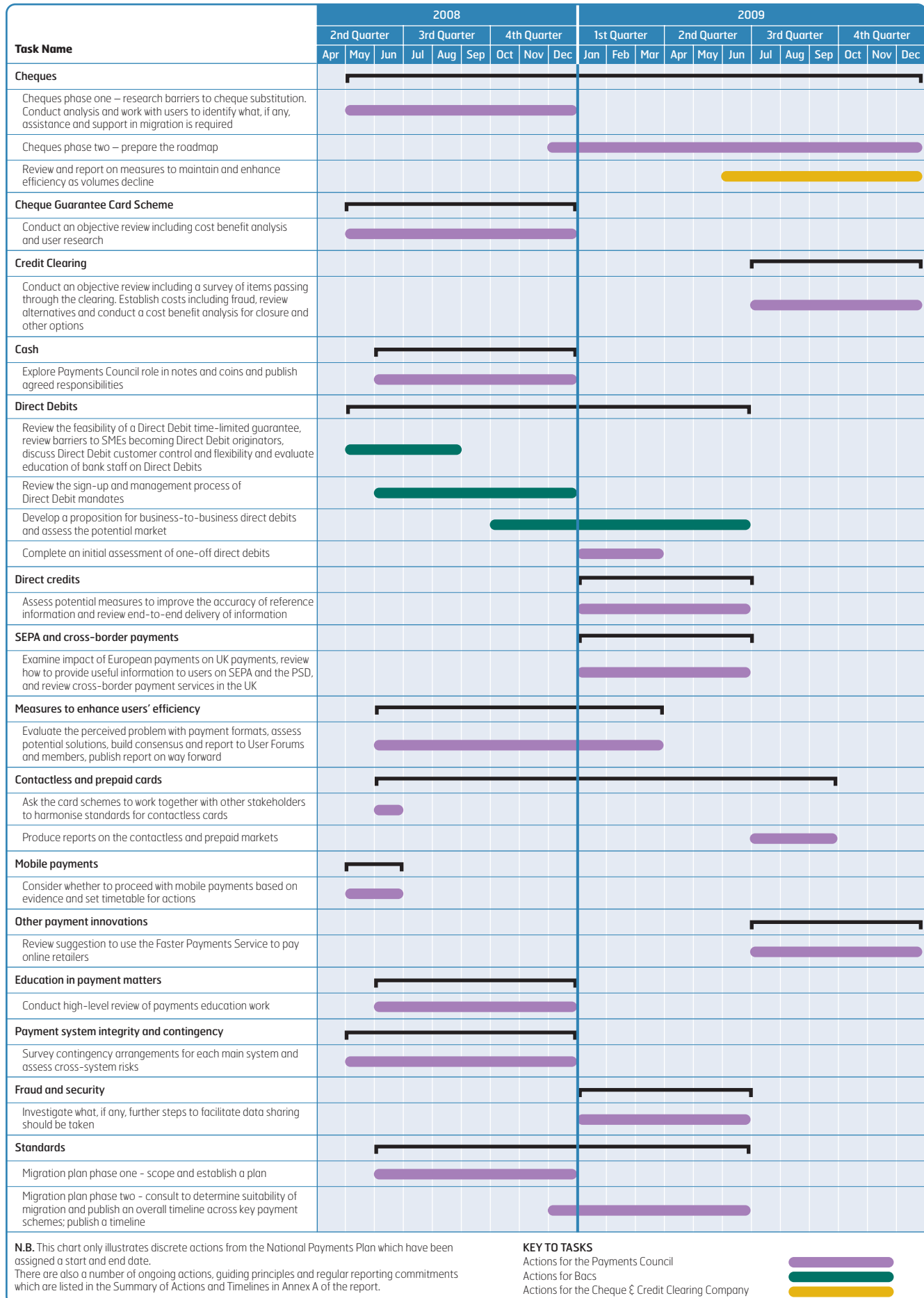
We believe this is best achieved by collating the cost data that will be gathered in the course of evaluations of proposed new initiatives and/or reviews of existing payment schemes. We will keep in mind the possibility of a more overarching study, but only if a clear need for it can be established.

Reviewing and updating the plan

Many of the actions detailed above are likely to lead to further work. We will report on progress for each work area and the new actions agreed by the Board of the Payments Council.

Progress against the Plan will be reported on an annual basis with a more fundamental review of the Plan undertaken every three years.

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1 | Introduction



The Payments Council

The Payments Council is the organisation which sets strategy for UK payments. It was created in March 2007 to lead the future development of co-operative payment services in the UK in order to ensure:

- Payment systems and services meet the needs of users, payment service providers and the wider economy;
- The operational efficiency, effectiveness and integrity of payment systems in the UK; and
- Payment systems are open, accountable and transparent.

The National Payments Plan

On 26 November 2007, the Payments Council initiated a public consultation on a national plan for UK payments. The consultation document, National Payments Plan – Consulting on change in UK payments, focussed on the collaborative action necessary to take forward our core objectives of innovation, efficiency and integrity over the next five to ten years and drew heavily on meetings of the three User Forums set up as part of the Payments Council structure.² In addition to the core consultation, a parallel investigation was undertaken into the needs of the wholesale markets, and conferences on the National Payments Plan were held in London on 23 January 2008 and in Belfast on 25 January 2008.

The purpose of the Plan is to provide a framework for payments innovation and change, building on the Payments Council's core objectives. Our vision is to promote the development of modern and efficient payment services that are responsive to user needs and that operate with a high degree of integrity.

More specifically, the Plan aims to:

- identify gaps in the services offered by UK payment service providers and assess how they can be filled;
- facilitate an environment that supports innovation and competition;
- move the UK to more efficient methods of payment and more efficient delivery channels;
- ensure that current and emerging payment methods continue to operate securely and that effective methods of fraud control are adopted; and
- identify and respond to the needs of all categories of payment service users, ensuring that the payment requirements of financially disadvantaged sections of society are adequately met.

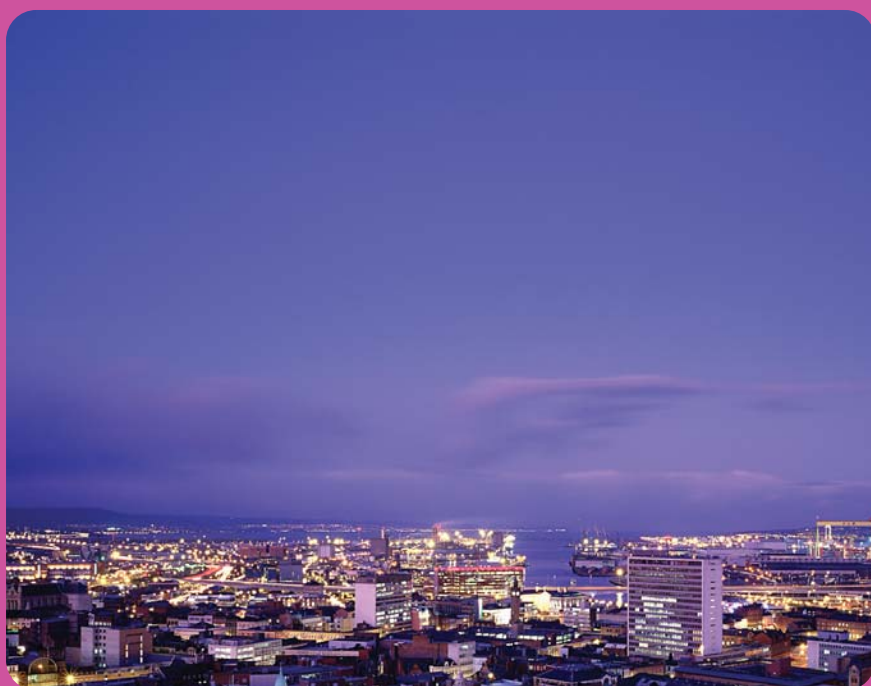
The Plan will evolve over time. At this stage, the Plan includes statements of principle, specific actions, and a number of tightly focussed reviews of key issues. The reviews are consistent with our commitment to move forward on the basis of an objective evaluation of the facts and full consultation. Over time, we will “block in” firm objectives identified once reviews are complete.

We are committed to keeping stakeholders informed of progress as the Plan evolves – including through the User Forums, the Payments Council's website and future versions of the Plan.

This document reports the main points that have been made to us in the course of the Consultation, sets out the Payments Council's response to the input we have received, outlines the practical steps that we will now take, and explains how the Plan will be reviewed and updated in future.

² Copies of the consultation document and non-confidential responses are available through the Payments Council website: www.paymentscouncil.org.uk

2 | Scope



The Plan sets out a number of principles and action points that underpin the Payments Council's objectives, of:

- promoting the efficiency and effectiveness of UK payment systems;
- fostering the development of new payment systems and other innovations; and
- safeguarding and enhancing the integrity of UK payment systems.

It addresses areas where a broad measure of collaboration is needed to deliver benefits to users. It acknowledges that much is already happening in the collaborative space and seeks to complement and build on existing initiatives.

The primary emphasis of the Plan is on domestic payments within the UK, and on cross-border payments made into or out of the UK. It reflects external developments, such as SEPA, that have a direct bearing on the UK.

The main focus is on retail payments³, as this is the area that matters most to the majority of consumers and businesses. However, it also addresses a number of wholesale payment issues identified in the course of the Consultation.

Throughout the Plan, heavy emphasis is placed on the needs of users of payment services. The aim is to ensure that the requirements of all sectors of society, and particularly those who are economically disadvantaged or financially excluded, are adequately addressed.

The action points will be taken forward in one of two ways: either as discrete tasks (as is generally the case in the efficiency and innovation sections), or by embedding them in the processes and procedures of the Payments Council (as applies to a number of the cross-cutting issues). Many of the initial actions involve a review of some description, with subsequent actions

depending, at least in part, on the outcome of the review. Consequently, while some aspects of the Plan span the next 5 to 10 years, it is more precise about the initial actions than about what may follow in a few years' time. Where possible, reviews will draw upon existing data and experience.

In some instances we have asked payment schemes to undertake work on our behalf. Where we have done so, we will ensure that the process they use for consulting users is equivalent to that used by the Payments Council. All decisions on the way forward that fall within the scope of the Plan will be taken by the Payments Council.

Exclusions

The Plan excludes initiatives that can be taken forward by individual financial institutions or groups of institutions. Nor does it cover:

- competitive issues, such as those affecting the price charged to end users either directly or indirectly (e.g. through the effect of interchange fees); or
- areas that are only tangentially related to payments, such as the structure of the branch network or money laundering regulations.

The Plan does not address certain areas of collaborative action that are primarily of interest to payment providers. These include the governance structure of contracted payment schemes, where a review is currently in hand, and the structure of central payment infrastructures, where a review is likely to be undertaken in due course.

Competition Law

In a number of areas the Office of Fair Trading emphasised the need to take legal advice on actions that might be affected by competition law. We have done so and believe the proposed actions are fully compliant with competition law.

³ The term "retail payments" includes all payments made by consumers, businesses and other users, other than those made for wholesale purposes such as corporate treasury transactions.

3 | Consultation Process



Conduct of the consultation process

The public consultation was held to ensure that all stakeholders and people with an interest in the future of payments were able to help form the National Payments Plan. The consultation document was available from the Council's website and on telephone/email request in paper format. A press release was issued at the launch, and two very well attended conferences were held in London and Belfast in January 2008. The Consultation ended on 4 February 2008.

Regulators and other key stakeholders, members of the Payments Council and its three User Forums (for consumers, SMEs and large corporates) were consulted at an early stage in planning the topics for consultation. Members and the User Forums were also closely involved in drawing up the consultation document.

The consultation document was circulated to over 200 stakeholders in the following categories:

- regulators and public bodies;
- consumer groups and charities;
- SMEs and their trade bodies;
- large corporates and their trade bodies;
- Payments Council members and other payment service providers;
- payment schemes and groups; and
- providers of payment infrastructure services.

Analysis of responses

We mapped the range of issues raised on each question by category of respondent and considered the reasons underpinning viewpoints. In order to do this, each of the 82 respondents was placed in one of the categories above according to the primary viewpoint taken in the response⁴. The full categorisation is set out in Annex B. A few experts answered in a personal capacity and a further category was added for these responses. Each response was then analysed on an issue-by-issue basis, considering the answers to each question asked and other issues raised. This approach allowed us to compare the responses for each issue by, and within, the respondent categories.

Approach to reporting

A summary of the responses on each question is included at the start of each topic in Section 4.

Some points raised by respondents were out of scope of the National Payments Plan (see Section 2 for the scope). These have generally not been reported in this document.

Reviews and updates

Many of the initial actions are likely to lead to further work in due course. We will report on progress for each work area against the Plan annually and incorporate new actions agreed by the Payments Council Board. We will undertake a more fundamental review of the Plan every three years. Additionally, we will consider new issues as and when they arise, and where appropriate, incorporate them within the Plan.

4 E.g. credit unions are payment providers but largely responded from the perspective of their consumer members.

4 | Issues and Actions

What you said to us and our response



Section 4 is the core of this document.

Topics are structured in the same way as in the Consultation, with three broad areas covering efficiency, innovation and other cross-cutting issues.

Efficiency relates primarily to existing payment methods and services. Topics covered under this heading comprise: cheques; the Cheque Guarantee Card Scheme; the credit clearing; cash; Direct Debits; direct credits; credit cards, debit cards and cash machines; CHAPS and the wholesale market; SEPA and cross-border payments and an open-ended section on other efficiency-enhancing measures.

Innovation relates to new or emerging payment methods and services. Topics covered under this heading comprise: contactless and prepaid cards; mobile payments; the supply chain and an open-ended section on other innovations. In addition to the innovations covered in this report, the Payments Council has a continuing process for innovations.⁵

Other issues are typically cross-cutting in nature and cannot readily be classified under the heading of efficiency or innovation. Topics covered under this heading comprise: education; financial inclusion; payment system integrity and contingency; fraud and security; standards; and costs. These issues are key to the remit of the Payments Council. Typically they are complex and multi-faceted, sometimes closely linked to wider concerns that fall outside the remit of the Payments Council.

Each topic is structured in four parts.

- (i) the questions asked in the consultation;
- (ii) a summary of the responses made by the respondents;
- (iii) our assessment of these responses; and
- (iv) the action that we will be taking.

A summary chart of actions and timelines is set out in Annex A.

⁵ The process for proposing innovations is set out on the Payments Council website at http://www.paymentscouncil.org.uk/resources/how_propose_innovation_0

4.1 Efficiency

4.1.1 Cheques

Questions asked

- Q1** The Payments Council is minded to develop a proactive industry plan to manage what it sees as the irreversible decline in cheques. Do you agree that a plan for cheques should be developed?
- Q2** For which types of payment currently made by cheque do new alternatives need to be introduced?
- Q3** Would it be acceptable for the National Payments Plan to include a target date of 2018 for the closure of the cheque clearing (on the assumption that acceptable alternatives to cheques have been developed)?
- Q4** What sort of education of users is needed to support the migration away from cheques?
- Q5** See next section.
- Q6** What other actions, if any, should there be in the National Payments Plan in relation to cheques?

Responses

There was more comment on cheques than on any other area of the Consultation. As well as answering the questions set out above, many of the responses to other sections of the Consultation, such as innovation, education, financial inclusion etc. were framed in relation to cheques. There was a broad measure of agreement on the questions asked, with the notable exception of setting an end date for the cheque clearing.

An industry plan

There was wide, but not unanimous support, for an industry plan to manage the decline in cheques. The three main reasons advanced in favour of a plan were:

- (i) to ensure that acceptable alternatives are developed and made available so that users are not disadvantaged;
- (ii) more specifically, to address the risk of vulnerable consumers being trapped in a declining payment instrument (and potentially, directly or indirectly, picking up the cost of cheque clearing); and
- (iii) to preserve the integrity of the cheque clearing, by enabling the decline in the volume of cheques to take place in an orderly manner.

It was stressed that the Plan would need to involve all key stakeholders and cover all items passing through the sterling and euro clearings.⁶

The minority of respondents who opposed a plan generally felt that developments could be left to market forces. There was little disagreement with the presumption that further decline in cheque volumes was inevitable.

⁶ The Euro Debit Clearing is operated by the Cheque & Credit Clearing Company, separately from the Sterling Debit Clearing. Volumes are comparatively low (circa 2,300 items per day in 2006) and declining.

There was wide, but not unanimous support, for an industry plan to manage the decline in cheques.

Gaps in alternative payment instruments

There was general agreement that there are currently significant gaps in the alternatives to cheques that are currently available. Examples given included:

- payments made to mobile tradesmen;
- payments to or from SMEs, particularly micro businesses;
- person-to-person payments;
- payments made by (or on behalf of) the housebound, or those with physical impairments that made the use of alternative payment mechanisms or delivery channels difficult;
- payments to individuals without a bank account (for example, large numbers of credit unions have arrangements with local post offices or banks which cash cheques for their members at no cost);
- postal payments, such as gifts to individuals or charities;
- subscriptions and other payments to clubs, societies, schools, etc. (where a large number of payments are often made for identical amounts);
- payments where the payee does not know the beneficiary's account details, including instances where the beneficiary is unwilling to reveal them; and
- single high-value payments.

Research and analysis

There was widespread agreement on the need for authoritative research to identify how cheques are being used (both for payment and receipt) and on perceptions of where there are, or are not, adequate alternatives in place. A number of respondents suggested that there should be a particular focus on potentially vulnerable groups, such as older people and the disabled. There was also interest in understanding the alternatives that exist in countries that have largely or wholly eliminated cheque use.

A target end date for the cheque clearing

Respondents were divided on whether it was appropriate to set a target date for the closure of the cheque clearing at this stage. In broad terms, large businesses, financial institutions, payment schemes and payment infrastructure and service suppliers supported an end date, while government and regulators, consumers and SMEs opposed setting an end date.

It was widely stressed that the cheque clearing should only be closed if the alternatives were in place and consumers and SMEs were confident using them.

The main argument against setting a date was that it was premature until adequate alternatives had been developed, or, at least, were at an advanced stage of planning. Some respondents were opposed to setting a target date **per se**, arguing that the decline of cheques should be left to market forces. The OFT emphasised the need to obtain legal advice on whether it was possible to set a target end date for closure of the cheque clearing.

Those who supported an end date generally argued that it would help galvanise action to inform people of existing alternatives and develop new alternatives, where required. It was widely stressed that the cheque clearing should only be closed if the alternatives were in place and consumers and SMEs were confident using them. Most of those supporting an end date felt that ten years was about right. A minority felt that the target date should be earlier.

Education

A strong emphasis was placed on the importance of educating consumers about the alternatives available to replace cheques. This was felt to be a continuing task, rather than a one-off campaign. Specific suggestions included:

- training bank staff and corporate recipients of cheques and producing accessible guides, with advice tailored to the needs of particular groups of cheque users;
- working closely with government and community and other third sector groups; and
- drawing on research to help direct and inform the work on education.

Other issues

The consultation included an open-ended question on what other actions, if any, should be in the National Payments Plan in relation to cheques.

Each of the following proposals was made by a number of respondents:

- make the cost of cheques more transparent to users, by pricing or other means;
- ask the Cheque & Credit Clearing Company to look for opportunities to improve the efficiency of cheque processing operations, even though volumes are in decline;
- ensure that the agreed limits on maximum timescales for earning interest, withdrawal of funds and certainty that items are cleared (commonly known as 2-4-6 and 2-6-6) are adhered to; and
- obtain comprehensive statistical information (including, for example, information on cheque volumes in Northern Ireland).

US dollar clearing

In addition to the sterling and euro paper clearing operated by the Cheque & Credit Clearing Company, the Currency Clearings Committee operates a paper US dollar clearing. The Currency Clearings Committee noted in their response that a full review of the currency clearing operation will be conducted during 2008, including an investigation into why some customers continue to make payments by US dollar cheque and what their attitude would be if the currency clearing was no longer available for clearance of such cheques.

Assessment

On most points there was broad agreement that the actions set out in the Consultation should be taken forward.

The one area of significant disagreement was whether it is acceptable for the National Payments Plan to include a target date of 2018 for the closure of the cheque clearing (on the assumption that acceptable alternatives to cheques have been developed). Even here, though, disagreements are not as stark as they might first appear. A number of respondents who would like a target end date acknowledged that it is only viable if it commands broad support. Conversely, a number of respondents who oppose setting an end date believe that it may well be appropriate, after further work has been undertaken on alternatives to cheques. We support the principle of setting a target date for closing the Cheque Clearing and did not receive any indication that 2018 was an unrealistic aspiration, provided acceptable alternatives are shown to be available. However, we recognise that further work is required on gaps and alternatives before a firm date can be set.

We believe that education has a central role to play in informing users of alternatives to cheques and will ensure that it is given due prominence.

Oversight of compliance with “2-4-6 and 2-6-6” commitments on maximum timescales for interest, withdrawal and fate rests primarily with the Banking Code Standards Board (BCSB), so is not addressed in the actions below⁷.

In view of the specialist nature of the US dollar clearing and its different stakeholders from the sterling clearing, we do not believe that any specific actions on the clearing need to be incorporated into the National Payments Plan at this stage.

⁷ We understand that the BCSB intends to complete a review of compliance with 2-4-6 and 2-6-6 in 2008.

Actions

Phase One: Initial Research, Consultation with Users and Industry Leadership

In phase one we will:

- (i) commission and undertake research on the barriers to cheque substitution;
- (ii) use the results of this research to complete a gap analysis by sector/user grouping and to identify the areas where work needs to be taken forward on acceptable alternatives to cheques and where more education is needed on existing alternatives. This work will draw on existing data and experience in the UK and other countries; and
- (iii) work in partnership with users to see what, if any, assistance/support they would like from the Payments Council in enabling migration to alternative forms of payment and to identify appropriate targets for migration away from cheques.

Payments Council members that use cheques are being asked to commit to change their own processes and policies to promote alternative payment mechanisms (e.g. in relation to credit card repayments; payments made to account holders when savings or investment accounts are closed; and cheques they issue in their own right as large corporates).

This phase of work will be completed by no later than the end of 2008.

Phase Two: Preparing a Roadmap

In phase two we will work with key stakeholders to prepare a roadmap of future actions including targets that have been agreed with users and Payments Council members. This will provide a clear direction for managing the decline in cheques and ensure that momentum is maintained.

In building the Roadmap we will assess the potential alternatives to cheques identified in the phase one research, using cost-benefit analysis where appropriate and working with users to consider their acceptability. We will then decide whether or not, and how, they will be developed.

We will also put together an industry initiative on marketing/education directed at both users of cheques and those who issue them, setting out the advantages of alternatives to cheques, with practical examples of steps that have been taken to reduce cheque use (especially by utilities, insurance companies, banks and government departments/agencies) and suggesting how alternatives to cheques can be promoted.

...we will work with key stakeholders to prepare a roadmap of future actions...

Working with all stakeholders, we will then confirm that a target end date for closure of the cheque clearing can be set and what that end date should be.

The Cheque & Credit Clearing Company will review and report on the actions that might be taken to maintain and enhance the efficiency of cheque processing operations against the backdrop of declining volumes, while preserving the overall integrity of the cheque clearing.

The roadmap will include:

- (i) a target end date for closure of the cheque clearing, and agreed intermediate targets for reductions in cheque use;
- (ii) the education/marketing plan;
- (iii) a timetable for the development of alternatives to cheques; and
- (iv) actions arising from the Cheque & Credit Clearing Company's review of efficiency and integrity.

We will specify how each of the actions in the Roadmap will be undertaken, e.g. by payment schemes or individual banks working with their staff and customers.

This phase of work will be completed by no later than the end of 2009.

Phase Three: Putting the Roadmap into Practice

In phase three we will put the roadmap into action. This will include:

- (i) developing the agreed alternatives to cheques;
- (ii) enhancing existing alternatives where necessary; and
- (iii) starting the marketing/education initiative.

This phase of work will begin no later than 2010.

4.1.2 **Cheque Guarantee Card Scheme**

Questions asked

Q5 Do you agree, that as part of the National Payments Plan, there should be an objective review of the future of the Cheque Guarantee Card Scheme?

Responses

There was widespread support for an objective review of the Cheque Guarantee Card Scheme...

There was widespread support for an objective review of the Cheque Guarantee Card Scheme, as suggested by the Cheque Card Management Committee (CCMC) and supported by the Payments Council in the consultation document. Only a couple of responses argued that there should be no change to the scheme while cheques continue to exist. The CCMC, together with most financial institutions and large corporates, would welcome an orderly withdrawal of the scheme within the next few years. In contrast, a number of responses from consumer groups and SMEs indicated that further development of alternatives was required before any withdrawal could be considered. Several respondents stressed the need for the review to be objective.

Assessment

The responses support the Payments Council’s view that there should be an objective review of the future of the Cheque Guarantee Card Scheme. The Payments Council will ensure that the review’s terms of reference are clear and that there are objective criteria to determine its outcome.

Actions

We will initiate an objective review of the Cheque Guarantee Card Scheme. The review will include:

- A cost-benefit analysis of potential changes to the scheme (including closure and continuation of the present scheme). This will take into account the perspective of all stakeholders. Fraud costs associated with the scheme will be assessed as part of this analysis. Existing data will be utilised where appropriate.
- Research among the users of the scheme (e.g. consumers who write guaranteed cheques and SMEs who accept them).

The Payments Council User Forums will be consulted as part of the review, and it will report progress quarterly to the Payments Council Board. Inputs by cheque guarantee card issuers into the review will be steered by CCMC.

The review will be completed by the end of March 2009.

4.1.3 Credit clearing

Questions asked

Q7 Do you agree that, as part of the National Payments Plan, there should be an objective review of the future of the credit clearing?

Responses

There was widespread support for a review of the paper credit clearing, including from the Cheque & Credit Clearing Company. They pointed out that the interbank credit clearing largely processed bill payments, for which a number of alternatives already exist, and that these alternatives would be further enhanced with the launch of the Faster Payments Service in May 2008. They also noted that not all of their settlement members offer a credit clearing service. A few respondents suggested that the capture and electronic transmission of the details of paper credits submitted at bank branches should be investigated.

The few respondents that did not believe that there should be a review of the credit clearing had concerns about the impact on the ability to pay bills at bank branches. There was also a concern about paying bills at Post Offices; however, such items are not processed through the interbank credit clearing, so would not be affected by any changes to the credit clearing that might be agreed.

Assessment

The responses support the Payments Council's view that there should be an objective review of the future of the paper credit clearing. This review needs to consider whether alternatives need to be developed to enable bills still to be paid at bank branches.

Actions

We will initiate a full objective review of options for the future of the credit clearing, including whether, and if so how, the clearing should be closed. The timing of this review will allow for an assessment of the impact that the Faster Payments Service may have on the credit clearing. The review will consult the Payments Council User Forums, as well as other representative groups with an interest.

The review will consult the Payments Council User Forums, as well as other representative groups with an interest.

Specific tasks will include:

- a detailed survey of the items passing through the clearing;
- establishing all relevant costs, including fraud;
- ensuring that acceptable alternatives exist for payments currently passing through the clearing, or that acceptable alternatives can be developed if they are not currently in place; and
- a cost benefit analysis to assess the costs and benefits for all stakeholders that would arise from closure of the credit clearing, or from other changes to the clearing, using any existing data and studies where appropriate.

The clearing will only be closed if acceptable alternatives exist or can be developed and if the benefits of closure clearly exceed the costs incurred in continuing to run the clearing.

The review will be undertaken in 2009, by which time the impact of the Faster Payments Service on the credit clearing should be apparent.

4.1.4 Cash

Questions asked

- Q8** The Payments Council believes that the National Payments Plan should be developed on the assumption that cash will remain a major payment method for the foreseeable future. Do you agree?
- Q9** Should the issues of the supply and quality of notes and coin in circulation be within the scope of the National Payments Plan? If so, how should they be addressed?
- Q10** What other actions if any should there be in the National Payments Plan in regard to cash?

Responses

Almost all respondents agreed that the National Payments Plan should be based on the assumption that cash will remain a major payment method for the foreseeable future...

Almost all respondents agreed that the National Payments Plan should be based on the assumption that cash will remain a major payment method for the foreseeable future, although a number thought that this should not preclude the Plan supporting migration from cash to what they regarded as more secure and cost-effective payment methods.

There were very divided views within the main stakeholder groups about whether issues around the supply and quality of notes and coin in circulation should be within the scope of the National Payments Plan. Around half of those responding on this topic felt that these matters should be left to the Bank of England, the Royal Mint and other relevant agencies, and that there was no need for them to be addressed by the Plan. The other half of respondents considered that there could be benefit from the Payments Council providing an opportunity for strategic consideration of cash issues, including the supply and quality of notes and coin.

A number of other actions were suggested for inclusion in the Plan. These included having a plan for consumers’ access to cash, requirements for note and coin design, cash handling efficiency, and anti-counterfeiting strategy. Several respondents suggested that the Payments Council should oversee a study of the full costs of cash in comparison with other payment methods.

Assessment

In light of the divided views received, the Payments Council must be careful not to duplicate activity which is already the responsibility of other bodies, and only take action itself where there is a clear benefit from doing so.

Actions

We will explore with the Bank of England, Royal Mint and other relevant bodies where the Payments Council can play a strategic role in notes and coin developments.

We will publish, by the end of 2008, agreed responsibilities for cash issues, and a timetable for updating progress to the Payments Council Board.

We will take full account of the impact on cash of the future collaborative initiatives we initiate.

(The need for a study of the full costs of cash is considered in Section 4.3.6 on payment costs.)

4.1.5 Direct Debits

Questions asked

- Q11** What improvements would lead to greater take-up of Direct Debits by users?
- Q12** Would you support the introduction of a time-limited guarantee for Direct Debits in place of the current unlimited guarantee?
- Q13** If so, what time limit do you think would be appropriate?

Responses

Many respondents commented that education... about Direct Debits could lead to greater use...

Greater uptake

Many respondents commented that education to ensure that consumers and businesses are better informed about Direct Debits could lead to greater use and some added that there was a need for the education of bank staff to be improved. Increased efficiency of set-up and management of Direct Debit mandates was also raised by many respondents, with specific suggestions including electronic sign-up, time-limited mandates and verification of customer names. A number of consumer groups reported that in market research with consumers, lack of control and transparency had been cited as barriers to uptake by those who are reluctant to use Direct Debits. Providing consumers with greater flexibility over the timing and the amount of the payment may help to overcome these barriers. This view was supported by other respondents.

Several respondents supported the suggestions made in the Large Corporate and SME User Forums that fast one-off direct debits were a possible innovation that should be investigated and that the barriers to origination for SMEs should be examined. Some raised the possibility of a business-to-business direct debit.

Some users also commented that consideration should be given to aligning the Direct Debit scheme with the SEPA scheme.

Time limit

On the possible introduction of a time limit to the Direct Debit Guarantee there were mixed views in the responses. Most business and payment industry respondents supported a time limit, commenting that this balanced the needs of originators and payers and may encourage more SMEs to become originators. A wide variety of time limits was suggested, ranging from 6 weeks to 5 years, with 12 or 13 months being the most common. It was also commented that the Payment Services Directive establishes an 8-week period within which a refund for a correctly authorised direct debit must be received, and a 13-month period within which a user can complain about an incorrectly authorised direct debit. Some respondents felt that the UK should align its guarantee with that in the SEPA direct debit scheme.

The consumer groups that responded on this question were mainly opposed to the introduction of a time limit on the grounds that it would reduce the level of consumer protection, and that this would also impact upon financial inclusion as it may make Direct Debits less attractive. This view was shared by public and regulatory bodies, for similar reasons, and it was also pointed out that the Payment Services Directive allows for providers to do better for their customers than the standards prescribed in the Directive.

Several respondents stated that further analysis was required of the costs and benefits of different time limits to justify any changes to the scheme rules. One response strongly cautioned that a time limit may threaten the integrity of the scheme as it reduces the risks to careless or potentially fraudulent originators.

Assessment

Ensuring that users are better educated is a key theme across many of the topics on which we consulted, and, where appropriate, a co-ordinated approach needs to be taken within the Plan.

A time-limited guarantee provides benefits to originators from reduced risk and cost, and to consumers and business payers from more opportunities to pay that way, as it may encourage more businesses to become originators. We believe that if a sufficiently lengthy period is chosen, the impact on consumers will be limited and is likely to be more than offset by the benefits to current and prospective originators and consumers. Further research is required of users’ experiences and concerns, and of the time profile for revocation of Direct Debit payments to confirm the facts.

The topic of alignment with the SEPA direct debit scheme is considered in Section 4.1.9.

Some of the measures that were suggested to improve uptake such as greater flexibility over payment dates are not within the direct remit of the Payments Council or the payment schemes. However, we would encourage banks and originators to maintain a dialogue on these matters, taking on board the comments and suggestions made by respondents.

Actions

...we will be concerned, in particular, that the needs of all users have been taken into consideration...

As Bacs is the operator of the Direct Debit Scheme, we have asked it to take forward a number of actions arising from the responses to the Consultation. With all of these actions we will be concerned, in particular, that the needs of all users have been taken into consideration and that any changes do not compromise the integrity of the Bacs system. Some of these issues have been addressed previously, for instance through the Payment Systems Task Force or the Bacs Affiliates Interest Group, and their assessments will also need to be taken into consideration. Bacs will report on these actions and make its recommendations to the Payments Council Board.

Actions that potentially affect more than one scheme, such as a review of one-off direct debits, will be taken forward by the Payments Council.

The actions are as follows:

(i) Actions for Bacs

By September 2008

- complete a review of the time limit with the Direct Debit Guarantee. We expect this review to include an assessment of how many Direct Debits would be affected by any given time limit, and how the interests of the users affected might be safeguarded, by, for example, differentiating between types of claim and/or customer. Any changes to the current unlimited guarantee will be accompanied by an information campaign for users and bank staff. The Banking Code will be amended if appropriate;
- review the barriers to SMEs becoming Direct Debit originators and identify what, if any, changes are required to the scheme to reduce these barriers;
- progress a dialogue in the Bacs Affiliates Interest Group on options to improve customer control and flexibility with Direct Debits; and
- examine the material and processes currently used for the education of bank staff on the Direct Debit Scheme and identify potential improvements.

By December 2008

- review the processes for sign-up and management of Direct Debit mandates and identify any measures which might make these easier or less costly for payers and originators.

By June 2009

- develop a proposition for a business-to-business direct debit and assess the potential market.

(ii) Actions for the Payments Council

By March 2009

- complete an initial assessment of one-off direct debits; this will include working with users to produce an agreed customer proposition, considering how the proposition might be delivered and what the main alternatives are, and assessing how it might be taken forward.

On completion of each of the reviews outlined above, the Payments Council Board will decide how to proceed.

4.1.6 Direct credits

Questions asked

- Q14** What measures to improve the accuracy and end-to-end delivery of reference information with internet and telephone banking payments, and with other direct credits, could usefully be introduced?
- Q15** Are there any other enhancements you think should be made to direct credits?

Responses

Several respondents commented on the significant efficiency benefits for users and payment service providers which would come from improved accuracy and delivery of reference information. It was recognised that this is an issue for Bacs Direct Credits, the Faster Payments Service, and CHAPS. However, one respondent commented on the practical difficulties of achieving this and mentioned that electronic billing and e-invoicing may be the only way to achieve 100% accuracy and reliability.

A number of specific suggestions were made in the responses which included:

- mandatory completion of the reference field;
- verification of customer names;
- validation of reference information;
- consistent presentation of payer and reference data to beneficiaries on bank statements;
- cross-industry agreement on standardising reference information;
- education and support for users in completing reference fields;
- education to reassure payers over the security of direct credits; and
- extending the current 18 character reference field with Bacs Direct Credits and, more generally, alignment or migration of the Bacs standard to modern messaging standards.

Assessment

There was recognition that this is an important area. Several of the suggestions made by respondents are relevant to other actions in this Plan; others merit further investigation.

Actions

We will assess, by June 2009, the potential measures identified by respondents to improve the accuracy of reference information...

We will assess, by June 2009, the potential measures identified by respondents to improve the accuracy of reference information, including technical solutions and customer education, and consider which, if any, require collaborative action, and the costs and benefits of those actions. Some of these issues have been considered by the Payment Systems Task Force or the Bacs Affiliates Interest Group, and their assessments will be taken into consideration. In parallel, we will review the current situation in regard to the end-to-end delivery of payer and reference information and consider the costs and benefits of introducing a minimum standard. If there is a case for change, then the CHAPS, Bacs and Faster Payments schemes will be asked to support development of solutions or to amend scheme rules and procedures as appropriate.

4.1.7 Credit cards, debit cards and cash machines

Questions asked

- Q16** What opportunities would you identify to exploit the ATM infrastructure for non-cash transactions? How should these be reflected in the National Payments Plan?
- Q17** Which other, if any, actions should there be in the National Payments Plan in relation to credit and debit cards and cash machines?

Responses

ATMs

Many respondents made specific suggestions about other uses for ATMs, apart from just dispensing cash. These included the ability to initiate payments, top-ups for prepaid cards, and purchasing lottery tickets. However, there were divided views on how these should be reflected in the Plan. A number of respondents across several categories argued that these are essentially competitive matters, and should not be pursued by the Payments Council. A similar number, again across several categories, argued that some new services should be included in the Plan, for instance on the grounds that a collaborative approach was needed to generate the critical mass required for commercial viability.

Some groups representing consumers also commented on accessibility issues with ATMs for certain individuals. There were also comments about the mix of note denominations dispensed and users' ability to choose the denominations they would prefer to receive.

Credit and debit cards

There were fairly few comments on debit and credit cards generally – some related to pricing issues, such as interchange fees and cost-apportionment models. Pricing is, however, outside the Payments Council's remit. Some respondents commented on the role that cards could play in encouraging migration away from cheques.

Assessment

We consider that competition appears to be driving the ATM market forward and that intervention is not needed at this stage.

There was no consensus on the role of the Payments Council in encouraging exploitation of the ATM infrastructure. However, our preference is towards leaving innovation to the marketplace and only intervening if it becomes apparent that the market is not evolving to meet users' needs because of a lack of collaborative activity. We consider that competition appears to be driving the ATM market forward and that intervention is not needed at this stage.

Responses received in respect of debit and credit cards do not suggest opportunities for collaborative action that would fall within our remit.

Actions

We will keep the card and ATM markets under active review and will intervene if the market is not delivering appropriate collaborative solutions.

4.1.8 CHAPS and wholesale markets

Questions asked

Q18 What improvements should be made to the way in which payments in the wholesale markets are carried out?

In addition to this question, a series of meetings were held with bodies representative of users in the wholesale payments market. With so much of the paper devoted to retail issues, it was felt that these participants might overlook the relevance of the Consultation. Supplementary meetings would help identify any possible innovations or efficiencies, which could help the competitiveness of participants, and London’s overall efficiency and attractiveness as a global financial centre.

Responses

Taken together, the meetings and responses revealed several subjects for consideration but no evidence that drastic change was desired. Several respondents made clear that a focus on the maintenance of Real-Time Gross Settlement (RTGS) and the overall integrity of the wholesale market system was key. Others expressed an interest in commonality of standards and in standardisation work which took account of UK retail, European and global developments. The strategic future of the CHAPS architecture, particularly in the context of the regeneration of the RTGS settlement system and the Faster Payments Service, were also mentioned.

...overall integrity of the wholesale market system was key.

One subject which came across in many discussions concerned the contact between the wholesale payments market and its participants. Several respondents indicated that there was at times inadequate warning of changes in payment operations. Examples were given which related both to European as well as UK practice; it was said that there had been inadequate – and at times no – advance consultation with wholesale market users. Respondents welcomed the fact that this consultation was taking place and expressed the wish that it be followed up by better and more timely communication between market and users. The Payments Council was seen as being able to play a useful role.

Several respondents also commented that Payments Council had to be well aware of global trends and especially the work which SWIFT was undertaking.

Assessment

There is scope for improving liaison with wholesale payments users, and the Payments Council is well placed to provide a structure for this. We have an existing relationship with SWIFT and standards bodies, which would benefit from extension to the wholesale arena, in the pursuit of commonality of standards and mutual understanding.

The CHAPS Clearing Company is already assessing strategic options for the evolution and development of CHAPS RTGS payments and the Faster Payment Service. This includes an assessment of the technical feasibility of future convergence of CHAPS and Faster Payment Service payments and potentially a view on the scope to rationalise standards further.

Resilience and integrity of the settlement and wholesale payments infrastructure is a key requirement of the rest of the UK payments system. The Payments Council has a strong interest here.

Actions

We will... develop our relationship with SWIFT...

We will:

- put in place arrangements for regular liaison between users of the wholesale market and the Payments Council; this will build on contact already made in the course of this consultation;
- in particular, develop our relationship with SWIFT so that we can contribute to the development of their strategy and can use their understanding of their strategy in our dealings with the wholesale market; and
- in our work on payments integrity, work with the Bank of England in order to ensure that the level of integrity and resilience expected by wholesale market participants continues to be delivered.

4.1.9 SEPA and cross-border payments

Questions asked

- Q19 What should the Payments Council do to ensure that users in the UK can take best advantage of SEPA?
- Q20 What issues does SEPA raise for your use of payments?
- Q21 What improvements should be made to cross-border payments?

Responses

...raise awareness of SEPA and its implications for end users.

SEPA

The most consistent thread running through the responses on SEPA was the need for an information campaign to raise awareness of SEPA and its implications for end users. This was thought to be particularly important in Northern Ireland given the significant number of cross-border payments with the Republic of Ireland.

A number of respondents stressed the importance of the Payments Council representing the interests of the UK payments industry in Europe.

The potential alignment of the domestic direct debit and credit schemes with the SEPA schemes was also suggested by a number of respondents. There are two aspects to this: alignment of scheme standards and alignment of scheme rules. While there was broad support for alignment of standards⁸, views on alignment of rules were more mixed, with concern being expressed that this might lead to a loss of functionality in the domestic schemes.

Several respondents mentioned the Payment Services Directive (PSD) in connection with SEPA⁹, and the need for clarity on the PSD's coverage and its implementation in the UK¹⁰.

Cross-border payments

The main points raised on cross-border payments referred to the need for clear information on the available options for the international transfer of money and the associated costs and conditions of use, and the need for common standards to facilitate greater interoperability and faster and more efficient money transfer.

A number of respondents referred to the specific requirements of ethnic groups resident in the UK. The UK Remittances Task Force has developed a Remittances Customer Charter aimed at promoting competition and transparency in the remittance market, which it would like the Payments Council to mandate on its members.

8 This is covered in greater depth in Section 4.3.5.

9 The Payment Services Directive (PSD) aims to establish a harmonised legal framework by removing legal and technical obstacles to the creation of a single market for payments in the EU, with a strong emphasis on consumer protection. The PSD's scope is wider than SEPA, since it applies to all Member States' currencies. It must be implemented into national law in the UK and other Member States by November 2009.

10 HM Treasury has recently held a consultation on the implementation of the PSD in the UK.

Assessment

...international developments...
may have a major bearing on
payment systems in the UK.

The Payments Council is already heavily involved in working with a wide variety of stakeholders in the UK and in Europe on the development and implementation of SEPA and the PSD. There is a need to review how this can be leveraged to provide clearer information to payment users in the UK.

More broadly, it is important to keep track of international developments, as they may have a major bearing on payment systems in the UK.

The Payments Council will consider the Remittances Customer Charter as an exercise separate from the Plan.

Actions

We will:

- (i) examine the impact of European payments in general, and SEPA in particular, on UK payments;
- (ii) review how to provide useful information to payment users in the UK on SEPA and the PSD; and
- (iii) review the cross-border payment services available in the UK and consider what changes, if any, may be required.

We will complete these actions by June 2009.

4.1.10 Measures to enhance users’ efficiency

Questions asked

Q22 What measures to enhance users’ efficiency should be considered by the Payments Council?

Responses

Views whether account number formats should follow the standardised form were divided...

Measures relating to non-standard account number formats

The consultation document raised the issue of promoting standardisation in the format of account numbers in the context of user efficiency, observing that the Payment Systems Task Force had concluded that “indicative analysis suggested that universal standardisation was not a cost-effective solution”. Several respondents answered this aspect of the question, or proposed measures that would improve efficiency for payments to/from accounts with non-standard format numbers. Views whether account number formats should follow the standardised form were divided across all the categories that responded. Those supporting it cited the difficulty of reaching accounts with non-standard format numbers from outside the UK, and the long-term benefits to consumers. Those against said that it was probably not cost-effective and it would be better to adopt other measures. Measures suggested included:

- non-standard format account-issuers supplying information to improve validation to authorised organisations;
- “masking” the true account number with another number in standard format;
- ways to reduce the need to enter account numbers manually, such as cards or tokens;
- online entry and real-time validation of account numbers; and
- verification of payee identity¹¹, for instance when the payment instruction is entered.

Portable account numbers

A few respondents raised the issue of portable account numbers, i.e. allowing users to keep their account numbers when they change banks, though they were not universally in support of it.

Other measures

The other suggestions for improving users’ efficiency fell into categories covered elsewhere in this paper: mainly customer education (Section 4.3.1), improving the promotion and development of standards (Section 4.3.5), and use of and improvement to the reference information carried (Section 4.1.6). These suggestions have been assessed in the relevant section and actions proposed accordingly.

¹¹ Or payer identity, in the case of direct debits. It was suggested that a customer ID, such as email address, could be used for verification.

Assessment

Before contemplating radical change it is necessary to be clear what the problem is and what potential solutions exist.

On the topic of non-standard account number formats, a shared understanding needs to be created on whether cost-effective measures could be introduced to improve efficiency. Where banks and other credit institutions have considered standardising account numbers in the past, they have concluded, on the evidence available, that the costs would be large and would outweigh the benefits. Several of the alternative measures proposed for addressing the problems of non-standard formats would have additional benefits, such as efficiency improvements for standard account formats. Account masking could encourage migration from cheques by allaying security fears over revealing the true account details, which may prove to be more important than the efficiency benefits.

The issue of portable account numbers has been investigated a number of times by the authorities at the UK and European level, most recently by the Competition Commission in its enquiry into the personal current account market in Northern Ireland which was completed in 2007. In all cases, portable account numbers have been ruled out as not being a cost-effective solution for enhancing customer mobility. We do not believe there is a need to reopen this issue again at this time.

Actions

...a thorough analysis of the problems users encounter...

We will evaluate the problem that users perceive with payment formats and assess the potential solutions. This will build upon previous research undertaken for the Payment Systems Task Force and involve a thorough analysis of the problems users encounter; an assessment of the underlying causes of these problems (with particular reference to, where relevant, the use of non-standardised account number formats) and an evaluation of the potential solutions.

We will then aim to build consensus, reporting the analysis to User Forums and Payments Council members at a cross-stakeholder forum or workshop.

Following this we will publish the review and report on the way forward by no later than March 2009.

The research into the barriers to cheque migration and electronic alternatives will also consider the potential for account masking solutions.

4.2 Innovation

4.2.1 Contactless and prepaid cards

Questions asked

- Q23** Do you agree that at the present stage of market developments the contactless and prepaid card sectors are best left to initiatives from individual payment service providers and the card schemes?
- Q24** What support, if any, could the National Payments Plan offer to the development of contactless cards? In particular, is further action needed to ensure that the standards for contactless cards meet the needs of all sectors of users?
- Q25** What support, if any, can the National Payments Plan offer to the development of prepaid cards?

Responses

There is broad agreement that, at the present stage of market development, most aspects of contactless and prepaid cards are best left to the market to develop. Respondents felt that the Payments Council should play a role in ensuring that standards development in these areas facilitates open access and interoperability. Transport for London stressed the need for harmonization of standards so that merchants for whom high contactless transaction speeds are important can invest in new payment systems with confidence that most potential consumers will have compatible devices. In addition, a number of organisations representing consumer interests suggested that the Payments Council should have a role in ensuring that these developments do not create financial exclusion, and that consumers’ interests are protected.

Assessment

Prepaid and contactless cards are welcome developments. Prepaid cards, in particular, have a significant potential to enhance financial inclusion. We will play an active role reviewing developments in contactless and prepaid cards, including, in particular, the impact of prepaid cards on the financially excluded. We will take action if there is evidence that developments are not supporting open access and interoperability.

Actions

We will ask the card schemes to work together with other stakeholders, including transport authorities, to harmonise standards for contactless cards.

More broadly, we will actively monitor developments in contactless and prepaid cards to ensure that there is open access and interoperability.

We will produce reports on the contactless and prepaid card markets, with recommendations by September 2009.

We will produce reports on the contactless and prepaid card markets, with recommendations by September 2009. At that time we will:

- consider whether any issues of financial exclusion have arisen and will refer any issues of consumer protection to the appropriate regulator; and
- review whether there is a need for us to provide targeted generic information to consumers.

4.2.2 Mobile payments

Questions asked

- Q26** What role should the Payments Council play in the development of mobile payment services, including setting the standards for mobile payments?
- Q27** In particular, do you agree that the National Payments Plan should support the development of mobile payment services between bank accounts?
- Q28** What principal characteristics would users find attractive in a mobile payment service?
- Q29** What role do mobile phone payments potentially play in providing alternatives to traditional forms of payment?
- Q30** What other actions, if any, should there be in the National Payments Plan in regard to mobile payments?

Responses

A wide range of views was expressed about the development of mobile payments. There was general agreement that mobile payments could be a useful innovation, adding to the existing range of payment options. However, a number of respondents cautioned that mobile payments should not be seen as a replacement for all uses of cheques.

A wide range of views was expressed about the development of mobile payments.

The role of the Payments Council

There was general, but not unanimous, support across all stakeholder groups for the Payments Council, at a minimum, ensuring the standards for mobile payments adopted in the UK supported interoperability and security. Some respondents wanted the Payments Council to go further and play a lead role in the development of mobile payments. Conversely, a small number of respondents felt that the Payments Council should have no role, as global standards were already developed, and mobile payment solutions would emerge competitively.

Support for the development of mobile payment services between bank accounts

Most respondents believed that enabling mobile payments between bank accounts would meet a user need.

Some respondents pointed out that payments between bank accounts was only one option for mobile payments. Some consumer groups and regulatory bodies expressed concern that the ability of mobiles to offer a potential opportunity to enfranchise the unbanked may be lost if it was too closely linked with bank accounts.

Useful characteristics of a mobile payments service

Most responses focussed on the need for the solution to be easy to use, combined with security, broad reach and interoperability.

Mobiles as an alternative to traditional forms of payment

Many respondents believed that mobile payments could replace some uses of cheques and cash, particularly for person-to-person payments. However, it was also stressed that they would not provide an alternative for all types of payments or be suitable for all users.

Other actions required in the National Payments Plan

A number of respondents emphasised the need for security to be built into any solutions that are developed, with some suggesting that the Plan should cover the education of consumers about security and consider the consumer protection offered to the users of such services.

Assessment

There is broad support for the development of mobile payment services, including those providing payments between bank accounts. We will seek to support this development, but only in those areas where there is a demonstrable need for collaboration.

Actions

Due to the importance of mobile payments, we have already initiated some preparatory work on the potential to develop a collaborative mobile payments service for making payments between bank accounts. In light of the responses received from the Consultation, the Payments Council Board will in June 2008 consider whether to proceed in developing this service. This will depend on supporting evidence from market research, among mobile phone users (including those who currently primarily use cash for payments) and recipients of payments, that a collaborative initiative is required to deliver benefits for users in excess of the costs.

...we will make clear our support for the adoption of European and global standards in any UK mobile payments initiatives...

In the light of the assessment made of this mobile proposition, we will set a timetable for its development, with the Payments Council’s role being explicitly confined to the necessarily collaborative aspects of the development. This timetable will be published by the end of 2008.

In addition, we will make clear our support for the adoption of European and global standards in any UK mobile payments initiatives, and work to ensure that solutions have open access and interoperability.

4.2.3 Supply chain

Questions asked

- Q31** Do you agree that the Payments Council should indicate support for the work of the European Commission Steering Committee on e-invoicing and associated activity, including the development of international standards that facilitate supply chain efficiency?
- Q32** What role should the National Payments Plan play in moving this agenda forward?
- Q33** What other actions should be included in the National Payments Plan?

Responses

...the Payments Council was felt to have an important facilitation and communication role.

There was strong support across all categories of respondent for the Payments Council playing an active role in e-invoicing. Several respondents emphasised the huge potential for cost saving. Particular emphasis was placed on the need for uniform standards at domestic and international levels. There was broad backing for the work of the European Commission Expert Group on e-invoicing and other international initiatives. More generally, the need to collaborate with other industry sectors was widely stressed – an area where the Payments Council was felt to have an important facilitation and communication role. Other points raised included the need to address legal impediments to e-invoicing and the importance of public sector adoption.

A small minority of respondents felt that work on e-invoicing should be left entirely to market forces, or restricted to work on standards.

Assessment

The responses give backing for the Payments Council playing an active role in facilitating collaboration in issues such as e-invoicing. More particularly, there is support for the work of the European Commission Expert Committee on e-invoicing, which has recently begun and is the most significant current initiative at European level.

Actions

We will work with other stakeholders in the UK (including government, large corporates and SMEs) to identify opportunities for collaboration, for example on standards, and, where appropriate, influence the European Commission’s Expert Group on e-invoicing, and other global initiatives.

We will report annually on the progress that is being made.

4.2.4 Other payment innovations

Questions asked

Q34 What other payment innovations requiring action at industry level should be considered by the Payments Council?

Responses

There was emphasis on the need for industry level innovations to be fair, open and accountable...

Approximately a third of respondents commented on other payment innovations. Within these responses, a disparate range of suggestions were made which could be broadly split into responses on the role of the Payments Council in relation to innovations, and practical suggestions for payment system innovations.

Innovations in payments were regarded as important for a number of reasons including financial inclusion and the competitiveness of the UK market. There was emphasis on the need for industry level innovations to be fair, open and accountable and to meet the needs of payment service providers, users and the economy as a whole.

The role of the Payments Council

There was a general view that the Payments Council should monitor innovations to ensure they meet stakeholders’ needs and consider the requirement for any action at industry level. It was also suggested the Payments Council should use their role to:

- champion innovation and influence factors which may inhibit it;
- engage with stakeholders;
- research, monitor and review innovations in the UK and beyond; and
- communicate changes to the public.

Suggested innovations

A range of suggestions were made for payment innovations. Those ideas put forward, which already exist, or are currently in development, are not reported here. Some proposals related to topics considered elsewhere in this document, such as ATMs, mobile payments, contactless cards, fraud, standards, Direct Debits and SEPA.

One suggestion was for a new scheme using the Faster Payments Service for internet payments to retailers, which could work by linking customers straight to their online banking to make a payment when purchasing on a website.

Assessment

The rules of the Payments Council state that the Board shall look to promote innovation and change in the payments sector where these will deliver demonstrable and proportionate benefits to stakeholders. The responses indicate support for such a role through research, review and support for payments innovation, and taking collaborative action where industry co-operation is required.

The Payments Council already welcomes suggested innovations which can be submitted via the website or as a written submission. The Board formally considers all suggestions.

Actions

We will review the suggestion for a new scheme using the Faster Payments Service to pay online retailers under our existing procedure for assessing innovations. We will undertake the evaluation in 2009, to allow sufficient time for the Faster Payments Service to bed in.

We will continue to develop as an authoritative voice on payment system innovation.

We will continue to develop as an authoritative voice on payment systems innovation. As part of this, we will monitor and consider innovations in the UK and other countries and evaluate their impact and usefulness.

4.3 Cross-cutting issues

4.3.1 Education in payments matters

Questions asked

- Q35** What gaps are there in current financial education initiatives in regard to payments matters?
- Q36** What role can the Payments Council play in promoting the education of consumers about the choice of payment methods available to them? What other bodies should it work with to deliver this role?

Responses

Gaps in current financial education initiatives in regard to payments matters

A number of gaps were identified in consumer knowledge and understanding about payments. It was felt consumers, SMEs and some branch level bank staff might benefit from education on the range and user benefits of different payment methods.

Gaps identified included:

- the movement of money and how payment systems work;
- how to use different payment systems, in particular cards;
- the underlying cost of different payment systems;
- fraud and identity protection when making payments;
- cross-border and SEPA payments; and
- differing liability/risk of payment methods.

Education for those vulnerable to, or experiencing, financial exclusion was also deemed important.

Particular groups were also identified as a gap in the delivery of financial education. For example, it was suggested that existing initiatives targeted at young people could be extended so all young people receive such training. Education for those vulnerable to, or experiencing, financial exclusion was also deemed important.

Supporting the consultation document, a heavy emphasis was placed on the importance of education regarding changes to payment systems, including innovations or in the event that an existing payment method was withdrawn.

The role of the Payments Council

There was a general view that the Payments Council should work with other bodies who address the issue of financial capability more widely as well as those who work with consumers directly. The Payments Council should be proactive and emphasise education in payments matters and input to it. Other responses highlighted ongoing education work in payments matters and suggested that the Payments Council should not overlap with this work.

A range of organisations were suggested which the Payments Council should work with in order to support education in payments matters. Collaboration with government, the Financial Services Authority, banking associations and payment schemes were seen as strategically important. Several responses emphasised the need to work with consumer organisations, advice bodies, charities and existing financial education organisations to ensure education is effective and delivered in a meaningful way to those who need it.

Assessment

A wide range of suggestions was made about potential gaps in education in payment matters. There was broad support for the Payments Council to work proactively with bodies which deliver education to consumers. Regardless of issue, there was a strong emphasis on the need for education to be effective and not to overlap existing work.

We will be putting in place a number of education initiatives as part of the actions described elsewhere in the National Payments Plan.

Actions

In light of existing financial education initiatives, we will conduct a high-level review in 2008 of payment education work before agreeing subsequent action. Where relevant, we will take account of the Thoresen review of generic financial advice. We will update our review periodically to identify continued gaps and opportunities.

Care will be taken to complement and enhance – not duplicate – ongoing work.

As part of the review we will contact key organisations in order to discuss how the Payments Council may work with them to support effective education in payments matters, including organisations outside the financial sector, such as job centres, the Department for Work and Pensions (DWP) 'Now Let's Talk Money' campaign and the DWP Financial Champions. Care will be taken to complement and enhance – not duplicate – ongoing work.

4.3.2 Financial inclusion

Questions asked

Q37 What role can the Payments Council play in promoting financial inclusion?

Q38 What other bodies should it work with to deliver this role?

Responses

The role of the Payments Council

There was broad support across all categories of respondent for the Payments Council to address and promote financial inclusion in all areas of the National Payments Plan. For example, with regard to new payment systems, it was suggested the Payments Council should investigate, consider and monitor the impact of any such system on financial inclusion. A couple of responses stated that financial inclusion was a government issue and beyond the remit of the Payments Council.

Respondents highlighted particular groups regarded as on the fringes of, or vulnerable to, financial exclusion. It was felt the Payments Council should address the needs of these groups in addition to those deemed to be excluded. Examples included individuals with a disability, on low income, older people, those not IT competent and those who have a low level of financial capability or engagement. Additionally, it was highlighted that Northern Ireland has higher levels of financial exclusion compared to the rest of the UK and therefore may require a separate focus.

Specific suggestions for work which the Payments Council could undertake to promote financial inclusion included:

- promoting Basic Bank Accounts;
- supporting ongoing work to expand free-to-use ATMs;
- introducing changes to Direct Debits to address inclusion issues;
- considering the potential benefits of alternative payment methods for unbanked individuals; and
- improving financial capability amongst the financially excluded or those on the fringes of financial exclusion.

Collaboration with other bodies to deliver promotion of financial inclusion

A range of organisations were suggested which it was felt the Payments Council should work with in order to promote financial inclusion. Collaboration with the Financial Inclusion Task Force and HM Treasury was regarded as essential, and indeed the responses from these bodies supported partnership with the Payments Council. Other bodies suggested included:

- Office of Fair Trading;
- Financial Services Authority;
- the Post Office;
- consumer bodies (e.g. National Consumer Council, Consumer Council of Northern Ireland);

Collaboration with the Financial Inclusion Task Force and the Treasury was regarded as essential...

- advice bodies (e.g. Citizens Advice Bureau);
- credit unions;
- trade associations;
- relevant charities;
- banking associations; and
- local community/voluntary organisations working to combat financial exclusion.

Assessment

There is a strong level of support for us to work in partnership with the Financial Inclusion Task Force and HM Treasury to ensure that financial inclusion is taken into consideration at every step in the development of the National Payments Plan.

There was a general level of agreement that the needs of disadvantaged and excluded consumers should be carefully considered in the National Payments Plan, especially in terms of new payment systems, access to services and education.

Financial inclusion was also an important aspect of the responses on cheques. This is covered in section (4.1.1).

Actions

We will aim to support the financial inclusion objectives of the Government and others through the National Payments Plan, particularly in relation to innovation and education. Where appropriate, we will consider any specific measures needed to address financial inclusion issues in particular geographical areas, such as Northern Ireland, which may differ from the rest of the UK. We will work with organisations which work with individuals on the fringe of financial inclusion, including credit unions and other third sector organisations.

Working relationships with the Financial Inclusion Task Force and HM Treasury will be developed. Meetings will be arranged in order to discuss the financial inclusion implications of the National Payments Plan and the ongoing actions.

The impact on financial inclusion will be evaluated in any major collaborative payment system changes.

The impact on financial inclusion will be evaluated in any major collaborative payment system changes. Criteria will be developed to ensure financial inclusion is addressed against any payment innovations. Our Annual Report will contain a section on how this is being achieved.

4.3.3 Payment system integrity and contingency

Questions asked

Q39 What are the main challenges to the integrity of payment systems that need to be addressed collaboratively?

Responses

Respondents identified a number of challenges to the integrity of payment systems, including:

- ensuring payment system security, and prevention and detection of fraud;
- ensuring business continuity and effective disaster recovery;
- maintaining full end-to-end reliability and availability;
- managing change; and
- managing liquidity and settlement risk.

It was also commented that the public’s reaction to an event can be key in determining its outcome and threats to public confidence should also be included among the risks to cross-system payments integrity.

The requirements for thorough risk assessments and system testing were brought up by some respondents...

There were also a number of suggestions for how the integrity of payment systems could be maintained. The requirements for thorough risk assessments and system testing were brought up by some respondents, others referred to the need for effective planning and co-ordination, interoperability of standards, and the opportunity for reuse of existing infrastructures in contingency situations.

Assessment

It is one of the Payments Council’s main objectives to ensure the integrity of payment services in the UK, through a primary focus on issues which cross payment schemes. Several of the issues identified are within the remit of the contracted schemes as it is the schemes which are responsible for the maintenance of the efficient and effective day-to-day operation of the payments system, including contingency. One issue that is not addressed under other actions in this Plan is that of the co-ordination of contingency arrangements across schemes, including both the contracted schemes and the card schemes.

Actions

We will carry out a survey in 2008 of the contingency arrangements for each of the main payment systems in close liaison with the Bank of England. Cross-system risks will be assessed and the scope for practical contingency measures in the event of major system failure considered. The impact of the Faster Payment Service will be an important aspect of the survey. If the survey identifies the need for enhanced contingency arrangements then we will put in place the actions to ensure that these are implemented.

4.3.4 Fraud and security

Questions asked

- Q40** How should consideration of measures against fraud be included in the assessments which the Payments Council makes of proposals for innovation?
- Q41** How can the National Payments Plan assist with issues of customer authentication? To what extent do these need to be addressed across the payments sector?
- Q42** Should minimum standards be introduced for authentication of remote transactions? If so, should a common measure of authentication be recommended/mandated?
- Q43** How should the National Payments Plan address new technologies, such as biometrics, which may contribute to customer security?
- Q44** What actions, if any, should the National Payments Plan include in regard to data sharing?
- Q45** How can the National Payments Plan help ensure that the burden of fraud prevention is shared equitably across payment service providers and users, including SMEs?
- Q46** What role should the Payments Council play in raising the profile of fraud and security issues and in lobbying government and the public authorities?

Responses

A large number of comments were made on the fraud and security section of the Consultation. The summary of responses below follows the same structure as the questions in the Consultation.

Assessment of proposals for payments innovation

A high degree of security is seen as an integral element of any successful innovation. Many respondents stressed the need to “design in” security from the earliest planning stage.

A number of respondents stated that effective security measures needed to be easy to understand and use. This was seen as being particularly important in relation to less financially sophisticated users and those who were disabled.

Several respondents stressed the need for a joined-up approach to security, which was commonly viewed as a shared responsibility.

Customer authentication

Many respondents saw authentication as being of critical importance in preserving the integrity of payment systems, with stress being laid on the need for robust and resilient forms of authentication.

At the same time, it was widely felt that there was a need to be pragmatic, taking account of the risk profile of the underlying transaction and the needs of different categories of users, particularly those who were disadvantaged in some way, such as the housebound and the physically impaired.

A number of respondents felt that the Payments Council could perform a valuable role by sharing best practice and forecasting how it thought future trends in authentication would evolve.

...effective security measures needed to be easy to understand and use.

Authentication of remote transactions

The Consultation asked whether minimum standards should be adopted for authentication of remote transactions and, if so, whether a common measure of authentication should be recommended/mandated.

Most respondents, across all categories, supported minimum standards of authentication. Most favoured mandatory standards, with a minority preferring voluntary guidelines. A couple of respondents suggested that a well-fashioned compensation/liability regime would drive appropriate behaviour. Many respondents suggested that a risk-based approach should be taken, rather than attempting a one-size fits all solution. So, for example, two-factor authentication might be required for high value transactions, or inherently risky transactions, such as setting up new beneficiaries online.

A number of respondents warned against mandating specific technical solutions which might be rendered obsolete in a comparatively short space of time. The importance of taking account of the needs of disadvantaged users was again emphasised by several respondents.

New technologies

There was a significant degree of support, from financial institutions in particular, for the Payments Council analysing and sharing information on emerging technological developments, building on work by expert groups where appropriate.

Some respondents went further, seeing a role for the Payments Council in setting common standards for the deployment of new technology, potentially reducing the costs for users that arise from the adoption of incompatible systems, and making it easier for users to move from one payment services provider to another. Other respondents took the opposite tack, seeing this as a competitive area, or cautioning that a remit to research new technology would be difficult to keep within manageable bounds.

Data sharing

Most respondents viewed data sharing as positive, provided that an appropriate balance was struck between privacy and risk, and that the needs of users of payment systems were safeguarded. It was suggested that clear guidelines might help in this regard.

The role of the Payments Council was generally seen as facilitative, encouraging and supporting collaborative activity, particularly between the public and private sectors.

The role of the Payments Council was generally seen as facilitative, encouraging and supporting collaborative activity...

Sharing the fraud burden

A wide variety of points were raised on this aspect of the Consultation.

They included:

- stressing the need for full transparency in the distribution of the fraud burden;
- emphasising that combating fraud should be a shared responsibility;
- highlighting the need to take account of indirect costs (such as taxi journeys required by physically immobile consumers) as well as direct costs;
- suggesting that action at government level was needed to establish appropriate ground rules for the allocation of liability, to prevent payment service providers externalising fraud risks by transferring them to their customers; and
- suggesting that it was not always possible to achieve an equitable solution.

Raising the profile of payments fraud

There was broad support for the Payments Council playing an active role to raise the awareness of payments fraud and security issues with government and with the public at large, with a number of respondents seeing this as particularly important. Several respondents stressed that the primary focus of awareness-raising should be on issues where education or lobbying was necessary to protect the integrity of payment systems or to safeguard the interests of consumers and other groups of users. The importance of collaborating with other stakeholders, and building on existing initiatives, was also mentioned by respondents.

Assessment

Most respondents saw payments fraud and security as core issues on which the Payments Council could and should play a constructive role.

We note that payment service providers are addressing transaction security in a variety of different ways and do not, at this stage, believe that it is necessary to develop a minimum standard for high-risk remote transactions.

The action points below address both principles governing future work by the Payments Council on fraud prevention and security, and specific initiatives.

Actions

The Payments Council will work to raise awareness of payments fraud and security risks...

Guiding principles

The following principles will be adopted:

- (i) The Payments Council will work to raise awareness of payments fraud and security risks, in collaboration with other sectors and the public authorities. The primary focus of this work will be on the integrity of payment systems and the impact on users of payment systems.
- (ii) All new collaborative payment initiatives under the auspices of the Payments Council will be subject to a formal risk assessment at the start of the design stage and explicitly build in counter-fraud measures. These measures will take account of the needs of all sectors of society, including those who are physically or otherwise disadvantaged.

Specific initiatives

We will:

- (i) Produce an annual assessment of key trends, emerging threats and counter measures in payments fraud and security, including new technology¹² and review what additional action may be needed. Where possible, this will build on the activity being undertaken by payment industry groups and other bodies.
- (ii) We will investigate what, if any, further steps should be taken to facilitate data sharing, including between the public and private sector and the necessary safeguards that should apply. This review will be completed by June 2009.

In taking these actions forward, we will work with the National Fraud Strategic Authority, the Information Commissioner's Office and other stakeholders as appropriate.

¹² Some aspects of this report may need to remain confidential to avoid facilitating fraud.

4.3.5 Standards

Questions asked

- Q47** Do you agree that as part of the National Payments Plan, that there should be an objective review of the future of the credit clearing?
- Q48** What, in particular, should the National Payments Plan say about messaging standards?

Responses

Standards were seen to drive interoperability and efficiency and to help ensure a consistent user experience.

Role of standards in the National Payments Plan

Standards were one of the major strands running through the responses to the Consultation, with wide-ranging support for standardisation as a collaborative activity and a key function of the Payments Council. Standards were seen to drive interoperability and efficiency and to help ensure a consistent user experience. Specific suggestions on standards were made in many of the individual sections of the Consultation and have been reported under the relevant heading.

Current principles

The Payments Council supports a number of high-level principles:

- Wherever possible, to adopt global, European, or domestic standards, in that order, over proprietary standards.
- The UK should seek to play an active role in developing new global/European standards relevant to the banking and payment industry, and where appropriate engage with corporate representative bodies.
- Standards should be designed to cover the complete end-to-end payment transaction chain, including customer initiation and notification/reconciliation, as well as identification and authentication.
- Convergence between different standards organisations should be encouraged as part of a wider consolidation process.
- Standards development must result in practical solutions that seek to minimise business impact on the adopters, with due consideration given to legacy migration issues.

There was broad backing for these principles.

The role of the Payments Council in relation to standards

There was a general view that the Payments Council should be directly involved in global standards bodies, to exert influence and where necessary provide leadership. Some respondents suggested that this role should be delivered in the context of a clear strategic agenda for standards, commonly seeing alignment with the International Organization for Standardization (ISO) and SEPA standards as being integral to this strategy. There was emphasis on the need for the activity on standards to derive from a clear business rationale and for standards to be developed with user input. At least one respondent felt that the Payments Council should not undertake, or have responsibility for, detailed standards developments.

Messaging Standards in the National Payments Plan

Messaging standards were thought to be of particular importance. A number of respondents suggested that the Payments Council should be looking to align the standards on which the domestic direct credit and direct debit schemes are based with the standards used for the SEPA direct debit and direct credit schemes. This was seen to facilitate interoperability based on common global standards and (in the case of direct credits) allow for the use of refined standards, particularly in relation to remittance data that could be carried with the payment message. Several respondents emphasised the need to establish a clear migration plan and timeline for standards in a domestic context.

Assessment

There was strong support for the role of standards as an integral part of the National Payments Plan and equally strong support for the principles established by the Board. Critically, the Payments Council is viewed as an entity that can, and should, drive and influence global standards. However, the challenge will be to integrate standards leadership within the broader strategic direction for payments, enabling it to fit coherently within this agenda.

Actions

We will work with industry experts and users...

We will work with industry experts and users to develop a standards migration plan, presenting the rationale, and where possible timelines, for the alignment of domestic message standards with those used in Europe, including standards used for SEPA and developed at ISO.

This plan will establish the decision points and key milestones towards full migration, and in doing so establish a coherent direction for domestic messaging standards and a firm basis from which to influence European and international standards.

In establishing the migration plan we will take the following steps, which fall into two phases:

Phase One: Scope and Establish the Plan

We will detail key issues via industry consultation and assess these to complete a thorough analysis of the business rationales, or inhibitors, for standards alignment across the key payment schemes. This phase will be completed by the end of 2008.

Phase Two: Further Consultation

In phase two we will conduct a further consultation to determine the suitability of migration and will publish an overall timeline across the key payment schemes, highlighting critical decision points and strategic issues. We will aim to complete this phase by mid 2009.

4.3.6 Payment costs

Questions asked

Q49 Would you support an initiative, led by the Payments Council, to establish a better understanding of the costs of UK payments? If so, how do you think this should be taken forward? What supporting information do you think would be relevant for such an exercise?

Responses

...draw on existing information where possible...

There was broad support from all categories of respondent for an initiative to assess the relative costs of different payment methods. Several respondents stated that a shared understanding of the costs of payments could benefit users in making informed choices between payment methods and the Payments Council in meeting its objectives in regard to transparency and efficiency. It was commented that the analysis should look at the costs to all parties and assess the end-to-end societal costs of payments, including fraud and related costs. The need to draw on existing information where possible, and for any review to be independent, was also stressed.

Some payment industry respondents, including individual banks and industry groups, raised concerns regarding a separate initiative on the costs of payments. It was felt that there was already an acceptance that automated and card-based methods are more efficient, and that there is a risk of duplication of effort with the collection of data within any cost benefit analyses carried out by the Payments Council as part of the Plan. The complexity of evaluating the economic costs of all payment methods across all sectors of the economy, and the potential difficulties in collecting consistent data from a wide variety of users and payment service providers, were also stressed.

Assessment

The responses indicate that there is a wide demand for a better and shared understanding of the costs of payments. The Payments Council will be collecting and publishing information on costs and benefits in the normal course of its work assessing innovations and reviewing existing payment schemes. We believe it will be more effective to use this information to inform our understanding of the structure of UK payment costs, rather than undertake an all embracing stand-alone exercise on costs.

Actions

We will collect cost data when required to support specific initiatives such as the evaluation of an innovation or the review of an existing payment scheme and use this information to improve our understanding of payment costs.

Annexes



Annex A: Summary of actions and timelines

- Unless otherwise stated, actions are for the Payments Council to complete.
- Actions are in order of completion date.

Start and completion date	Action	Section reference
May 2008	Ask the card schemes to work together with other stakeholders, including transport authorities, to harmonise standards for contactless cards.	Contactless and prepaid cards 4.2.1
January 2008 – June 2008	<p>Consider whether to proceed in developing a mobile payments service depending on evidence from market research that a collaborative initiative is required to deliver benefits for users in excess of the costs.</p> <p>Set a timetable for its development, with the Payments Council's role being explicitly confined to the necessarily collaborative aspects of the development.</p>	Mobile payments 4.2.2
May 2008 – September 2008	<p>Actions for Bacs:</p> <ul style="list-style-type: none"> ■ complete a review of the time limit with the Direct Debit Guarantee; ■ review the barriers to SMEs becoming Direct Debit originators and identify what, if any, changes are required to the scheme to reduce these barriers; ■ progress a dialogue in the Bacs Affiliates Interest Group on options to improve customer control and flexibility with Direct Debits; and ■ examine the material and processes currently used for the education of bank staff on the Direct Debit Scheme and identify potential improvements. 	Direct Debits 4.1.5
May 2008 – December 2008	<p>Cheque actions – phase one:</p> <ul style="list-style-type: none"> ■ research barriers to cheque substitution; ■ conduct gap analysis for acceptable alternatives to cheques and education on existing alternatives; and ■ work with users to understand assistance/support required to enable migration to alternative forms of payment and to identify appropriate targets for migration away from cheques. 	Cheques 4.1.1
June 2008 – December 2008	Explore with the Bank of England, Royal Mint and other relevant bodies where the Payments Council can play a strategic role in notes and coin developments. Publish agreed responsibilities for cash issues and the timetable for updating progress to the Payments Council Board.	Cash 4.1.4

Start and completion date	Action	Section reference
June 2008 – December 2008	Action for Bacs: Review the processes for sign-up and management of Direct Debit mandates and identify any measures which might make these easier or less costly for payees and originators.	Direct Debits 4.1.5
June 2008 – December 2008	Conduct a high-level review in 2008 of payment education work. Where relevant, take account of the Thoresen review of generic financial advice.	Education in payments matters 4.3.1
May 2008 – December 2008	Carry out a survey in 2008 of the contingency arrangements for each of the main payment systems in close liaison with the Bank of England. Assess cross-system risks and consider the scope for practical contingency measures in the event of major system failure.	Payment system integrity and contingency 4.3.3
June 2008 – December 2008	Standards migration plan – phase one: Scope and establish the Plan. Detail key issues via industry consultation and assess these to complete a thorough analysis of the business rationales, or inhibitors, for standards alignment across the key payment schemes.	Standards 4.3.5
May 2008 – March 2009	Conduct an objective review of the Cheque Guarantee Card Scheme including cost benefit analysis of potential changes to the scheme (including closure and continuation of the present scheme) and research among the users of the scheme.	Cheque Guarantee Card Scheme 4.1.2
June 2008 – March 2009	<ul style="list-style-type: none"> ■ Evaluate the problem that users perceive with payment formats and assess the potential solutions via a thorough analysis of the problems people encounter; an assessment of the underlying causes of these problems (with particular reference to, where relevant, the use of non-standardised account number formats) and an evaluation of the potential solutions. ■ Build consensus and report the analysis to User Forums and Members at a cross-stakeholder forum or workshop. ■ Publish the review and report on the way forward. 	Measures to enhance users' efficiency 4.1.10
October 2008 – June 2009	Action for Bacs: Develop a proposition for a business-to-business direct debit and assess the potential market.	Direct Debits 4.1.5

Start and completion date	Action	Section reference
January 2009 – March 2009	Complete an initial assessment of one-off direct debits: this will include working with users to produce an agreed proposition, considering how the proposition might be delivered and what the main alternatives are, and assessing how it might be taken forward.	Direct Debits 4.1.5
December 2008 – June 2009	Standards migration plan – phase two: Conduct a further consultation to determine the suitability of migration and publish an overall timeline across the key payment schemes, highlighting critical decision points and strategic issues.	Standards 4.3.5
July 2009 – December 2009	Review the suggestion for a new scheme using the Faster Payments Service to pay online retailers under our normal procedure for assessing innovations.	Other Payment Innovations 4.2.4
January 2009 – June 2009	<ul style="list-style-type: none"> Assess the potential measures identified by respondents to improve the accuracy of reference information, including technical solutions and customer education, and consider which, if any, require collaborative action and the costs and benefits of those actions. Review the current situation in regard to the end-to-end delivery of payer and reference information and consider the costs and benefits of introducing a minimum standard. 	Direct Credits 4.1.6
January 2009 – June 2009	<ul style="list-style-type: none"> Examine the impact of European payments in general, and SEPA in particular, on UK payments. Review how to provide useful information to payment users in the UK on SEPA and the PSD. Review the cross-border payment services available in the UK and consider what changes, if any, may be required. 	SEPA and cross-border payments 4.1.9
January 2009 – June 2009	Investigate what, if any, further steps should be taken to facilitate data sharing, including between the public and private sector and the necessary safeguards that should apply.	Fraud and security 4.3.4
July 2009 – September 2009	Provide reports on the contactless and prepaid card markets.	Contactless and prepaid cards 4.2.1

Start and completion date	Action	Section reference
December 2008 – December 2009	<p>Cheques actions – phase two:</p> <p>Work with key stakeholders to prepare a roadmap of future actions including agreed targets. This will:</p> <ul style="list-style-type: none"> ■ assess the potential alternatives to cheques identified in the phase one research, using cost-benefit analysis where appropriate and working with users to consider their acceptability; ■ put together an industry initiative on marketing/education directed at both users of cheques and those who issue them, setting out the advantages of alternatives to cheques and suggesting how alternatives to cheques can be promoted; and ■ work with all stakeholders to confirm whether a target end date for closure of the cheque clearing can be set and what that end date should be. 	Cheques 4.1.1
June 2009 – December 2009	<p>Action for Cheque & Credit Clearing Company:</p> <p>Review and report on the actions that might be taken to maintain and enhance the efficiency of cheque processing operations against the backdrop of declining volumes, while preserving the overall integrity of the cheque clearing.</p>	Cheques 4.1.1
July 2009 – December 2009	<p>Conduct an objective review of options for the future of the credit clearing, including whether, and if so how, the clearing should be closed. This will:</p> <ul style="list-style-type: none"> ■ include a detailed survey of the items passing through the clearing; ■ establish all relevant costs, including fraud; ■ ensure that acceptable alternatives exist for payments currently passing through the clearing, or that acceptable alternatives can be developed if they are not currently in place; and ■ conduct a cost-benefit analysis to assess the costs and benefits for all stakeholders that would arise from closure of the credit clearing, or from other changes to the clearing. 	Credit clearing 4.1.3
2010 onwards	<p>Cheque actions – phase three:</p> <ul style="list-style-type: none"> ■ develop the agreed alternatives to cheques; ■ enhance existing alternatives where necessary; and ■ start the marketing/education initiative. 	Cheques 4.1.1

Ongoing actions

Start and completion date	Action	Section reference
Ongoing	Take full account of the impact on cash of the future collaborative initiatives we initiate.	Cash 4.1.4
Ongoing	Keep the card and ATM markets under active review and intervene if the market is not delivering appropriate solutions.	Credit cards, debit cards and cash machines 4.1.7
Ongoing	<ul style="list-style-type: none"> Put in place arrangements for regular liaison between users of the wholesale market and the Payments Council, building on contact already made. Develop relationship with SWIFT to contribute to the development of their strategy and use their understanding of their strategy in Payments Council dealings with the wholesale market. In work on payments integrity, work with the Bank of England in order to ensure that the level of integrity and resilience expected by wholesale market participants continues to be delivered. 	CHAPS and the wholesale market 4.1.8
Ongoing	Actively monitor developments in contactless and prepaid cards to ensure that there is open access and interoperability.	Contactless and prepaid cards 4.2.1
Ongoing	Make clear support for the adoption of European and global standards in any UK mobile payments initiatives, and work to ensure that solutions have open access and interoperability.	Mobile payments 4.2.2
Ongoing	Continue to develop as an authoritative voice on payment system innovation. As part of this, monitor and consider innovations in the UK and other countries and evaluate their impact and usefulness.	Other payment innovations 4.2.4
Ongoing	Update the review of education in payments periodically to identify continued gaps and opportunities.	Education in payments matters 4.3.1

Start and completion date	Action	Section reference
Ongoing	<ul style="list-style-type: none"> Support the financial inclusion objectives of the Government and others, particularly in relation to innovation and education. Where appropriate, consider any specific measures needed to address financial inclusion issues in particular geographical areas. Work with organisations which work with individuals on the fringe of financial inclusion, including credit unions. Develop working relationships with the Financial Inclusion Task Force and the Treasury. Arrange meetings to discuss the financial inclusion implications of the National Payments Plan and the ongoing actions. Evaluate the impact on financial inclusion in any major collaborative payment system changes. An independent Payments Council director will take responsibility for ensuring that the impact of such changes on financial inclusion issues is included in any relevant assessment. Develop criteria to ensure financial inclusion is addressed against any payment innovations. 	Financial inclusion 4.3.2
Ongoing	Collect cost data when required to support specific initiatives such as the evaluation of an innovation or the review of an existing payment scheme and use this information to improve our understanding of payment costs.	Payment costs 4.3.6
Ongoing (Guiding principles)	<ul style="list-style-type: none"> Work to raise awareness of payments fraud and security risks, in collaboration with other sectors and the public authorities. The primary focus of this work will be on the integrity of payment systems and the impact on users of payment systems. Subject all new collaborative payment initiatives under the auspices of the Payments Council to a formal risk assessment at the start of the design stage and explicitly build in counter-fraud measures. These measures will take account of the needs of all sectors of society, including those who are physically or otherwise disadvantaged. 	Fraud and security 4.3.4

Actions which require reporting on an annual basis

Start and completion date	Action	Section reference
Report annually	Report on work with other stakeholders in the UK (including government, large corporates and SMEs) to identify opportunities for collaboration, for example on standards, and, where appropriate, influence the European Commission's Expert Group on e-invoicing, and other global initiatives.	Supply chain 4.2.3
Report annually	Report on how the impact on financial inclusion is being evaluated in any major collaborative payment system changes.	Financial Inclusion 4.3.2
Report annually	Produce an annual assessment of key trends, emerging threats and counter measures in payments fraud and security, including new technology and review what additional action may be needed. Where possible, this will build on the activity being undertaken by payment industry groups and other bodies.	Fraud and security 4.3.4
Report annually	Report on progress for each work area against the Plan annually and incorporate new actions agreed by the Payments Council Board. Undertake a more fundamental review of the Plan every three years.	NPP

Annex B: List of respondents

Public/regulatory

ACPOS (Association of Chief Police Officers in Scotland)
Bank of England
FITF (Financial Inclusion Taskforce)
HM Treasury
HMRC (Her Majesty's Revenue & Customs)
OFT (Office of Fair Trading)
Royal Mint
UK Remittances Taskforce

Consumers

Advice NI
Age Concern
ABCUL (Association of British Credit Unions)
Cheshire County Council Older Peoples' Network (2 responses)
CAB (Citizens Advice Bureau)
The Consumer Council for Northern Ireland
Financial Services Consumer Panel
Irish League of Credit Unions
pfeg (Personal Finance Education Group)
K J Tyrrell
Which?

Small & Medium Enterprises

ABTA (The Travel Association)
BII (British Institute of Innkeepers)
BWF (British Woodworking Federation)
Cornwall Multiple Sclerosis Therapy Centre (The Merlin Project)
FPB (Forum of Private Business)

Large Corporates

AEGON Scottish Equitable

ACT (The Association of Corporate Treasurers)
BRC (British Retail Consortium)¹³
ICM (Institute of Credit Management)
IFDS (International Financial Data Services)
Investment Management Association
Standard Life
Transport for London
Zurich Financial Services

Banks and other Payment Service Providers

ACMO (Association of Cash Machine Operators)
Bank of Ireland
Barclays Bank
BACB (British Arab Commercial Bank)
The Co-operative Bank
Danske Bank Group (including Northern Bank)
Deutsche Bank
HBOS
HSBC Bank
Lloyds TSB Group
National Australia Group Europe
Nationwide Building Society
Royal Bank of Scotland Group
Post Office
Société Générale

Payment Schemes and Groups

APACS Card Payments Group
APACS Cash Services Group
APACS Currency Clearings Committee
APACS Fraud Control Steering Group
Bacs Payment Schemes
Belfast Bankers' Clearing Company

CHAPS Clearing Company
C&CCC (Cheque & Credit Clearing Company)
Electronic Money Association
LINK ATM Scheme
MasterCard Europe
SWIFT (UK)
UK Domestic Cheque Guarantee Card Scheme
Visa Europe

Providers of Payments Infrastructure and Service

Albany Software
BCCA (British Cheque Cashers' Association)
CIFAS (The UK's Fraud Prevention Service)
Dollar Financial UK
Experian
Fidelity National Information Services
G4S Cash Services
IBM United Kingdom
LogicaCMG
MONILINK
Premium Credit
The TALL Group of Companies (including TALL Security Print, Checkprint)
Telsecure (Consulting Services)
VETT UK
VocaLink

Payments Experts and Consultants

Charles Bryant
Foundation for Information Policy Research
Mike Hendry
Professor J K Macleod

This list is of the respondents from whom the Payments Council received formal written responses, by email or post, and does not cover those who made verbal comments in the wholesale consultation or the payments conferences in January, or who wrote to say they had no formal comments. Formal indicators of legal status (plc, Limited etc.) have been omitted.

¹³ The BRC also represent medium-sized and small retailers.

Annex C: Glossary

3D Secure

A method of authenticating online remote card payments which requires the cardholder to enter a password at the time of purchase.

ATM (automated teller machine)

Also known as a cash machine or cash dispenser. A computerised self-service device permitting the holders of an appropriate card and personal identification number (PIN) to withdraw cash from their account and access other banking services.

ATM card

Any plastic card with ATM functionality.

Automated payment

Payments made between accounts by Direct Credit, Direct Debit, standing order, CHAPS or the new Faster Payments Service.

Bacs

The Company that sets the business rules that govern the operation of the Direct Debit and direct credit payment schemes and standing orders.

Basic bank account

An account designed for those who may not meet a bank's criteria for opening a standard current account and/or who need to ensure that they cannot go overdrawn. Features typically include the ability for payments, e.g. pensions and benefits, to be credited direct to the account, withdrawals by plastic card through cash machines and the facility to pay bills by Direct Debit. It does not provide overdraft or cheque book facilities.

Card issuer

A bank or building society issuing payment cards, ATM cards or cheque guarantee cards to its customers. For payment and ATM cards, the card issuer undertakes responsibility to settle transactions made with the card (except in some cases where fraud is present).

Card scheme(s)

Card schemes set the business rules that govern the issue of the payment cards that carry their logo. Typically, these rules apply throughout the world to ensure interoperability of cards. In many countries, domestic schemes also operate. The schemes operate the clearing and settlement of payment card transactions. In the UK, banks and building societies must be members of the appropriate scheme to issue cards and acquire card transactions. Examples of international card schemes in the UK are Visa, MasterCard, American Express and Diners Club.

Cash machine

See ATM.

CHAPS Clearing Company

The Company that has responsibility for the operation of an electronic transfer system for sending Real-Time Gross Settlement same-day payments for CHAPS Sterling and CHAPS Euro.

Charge card

A payment card, enabling holders to make purchases and to draw cash up to a prearranged ceiling, the terms of which include the obligation to settle the account in full at the end of a specified period. Cardholders are normally charged an annual fee.

Cheque & Credit Clearing Company

The Company that has responsibility for the bulk clearing of cheques and paper credits throughout Great Britain. Cheque and credit payments in Northern Ireland are processed locally.

Cheque clearing

An operational clearing for presenting and exchanging cheques between settlement members and their branches in order to transfer funds to named accounts.

Cheque guarantee card

Also known as a cheque card. A card issued by a bank or building society for the purpose of guaranteeing payment by, or supporting the encashment of, a cheque up to a specified value (£50, £100 or £250). All cheque guarantee cards in the UK Domestic Cheque Guarantee Card Scheme depict the bust of William Shakespeare in either the cheque guarantee hologram or logo on the card. The Cheque Guarantee Card Scheme is administered by the Cheque Card Management Committee (CCMC).

Chip card

Also known as an integrated circuit card (ICC) or smart card. A chip card holds details on a secure computer chip that can store and process information; chip cards usually also have a magnetic stripe.

Chip and PIN card

A payment card containing a chip that requires the use of a PIN as the preferred method of cardholder verification at point-of-sale (not only at ATMs).

Contactless card

An upgraded payment cards which enables the holders to pay for transactions of £10 or under by simply holding their card next to a secure reader in participating outlets and vending machines.

Credit card

A payment card enabling the holder to make purchases and to withdraw cash up to a prearranged ceiling. The credit granted can be settled in full by the end of a specified period or can be settled in part, in which case interest is normally charged. In the case of cash withdrawals, interest is normally charged from the transaction date. Cardholders may be charged an annual fee.

Credit clearing

An operational clearing to distribute paper credits between banks in order to transfer funds to named accounts.

Current account

A bank or building society account normally offering facilities such as a debit/multifunction card, ATM-only card, cheque book, overdraft facility, standing orders and Direct Debits. Such accounts may pay interest.

Debit card

A payment card linked to a bank or a building society account, used to pay for goods and services by debiting the holder's account; usually also combined with other facilities such as ATM and cheque guarantee functions.

Direct credit

An electronic credit to a customer's account initiated directly by the payer. Direct credits consist primarily of business-to-individual payments for wages, salaries, pensions, state benefits and tax credits, and payments initiated by businesses to pay their trading partners or by individuals to pay bills.

Direct Debit

A pre-authorised debit on the payer's account initiated by the payee (known as an originator). Direct Debits are typically used to make regular payments for debts such as utility bills and insurance payments, and amounts may be variable.

Direct Debit Guarantee

A guarantee offered by all banks and building societies that take part in the Direct Debit Scheme. If the amount to be paid or the payment dates change the organisation collecting the Direct Debit will notify the paying customer, normally 10 working days in advance of the account being debited or as otherwise agreed. If an error is made by the organisation or the customer's bank or building society, they receive a refund from their bank of the amount paid. The customer can cancel a Direct Debit at any time by writing to their bank or building society.

Electronic payment

A general term to describe automated or card payments.

European Economic Area (EEA)

The grouping of 30 countries, comprising the 27 EU member states plus Iceland, Norway and Liechtenstein.

European Payments Council (EPC)

The European Payments Council (EPC) is the decision-making and co-ordination body of the European banking industry in relation to payments.

Faster Payments Service

A new system, launched in May 2008, which will allow internet or phone banking payments to reach the recipient within two hours at any time and on any day of the week. The system will also be used to provide same-day delivery of standing orders on banking days.

LINK

LINK Interchange Network Ltd is a company limited by shares that is wholly-owned by 22 of the UK's largest banks and building societies. LINK has two constituent parts: the Operating Company provides the services (including settlement) that make ATM sharing possible throughout the UK; the Card Scheme determines the operating rules that define the terms of trade between members. LINK-enabled cards are issued by all UK card issuers, and the cards can be used in virtually all ATMs in the UK except for a very small number of privately-owned cash dispensers.

Messaging

The exchange of structured information between senders and receivers in the course of a business transaction.

Mobile payment

A payment involving the use of a mobile phone. The phone network can be used solely as the channel to authenticate the customer, or the payment can involve a debit from an account held by the customer with the mobile operator or other service provider.

Online banking

A service enabling users to access banking facilities over the internet or other computer network. Also known as e-banking and, when the internet is used, internet banking (see also remote banking).

Paper credit

A paper instrument addressed to a bank branch instructing it to credit a specified sum of money to a named account at that branch. A paper credit cannot be used on its own to make a payment but must be accompanied by cash or cheque.

Payment card

A generic term for any plastic card (credit, debit, charge, etc.) used on its own to pay for goods and services.

Payment Services Directive (PSD)

A major legislative initiative intended to create a legal framework to: facilitate the development of the Single Euro Payments Area (SEPA); provide a structure for the regulation of payment institutions (i.e. those institutions providing payment services which are not banks and are not currently regulated); enhance consumer protection; and increase competition. The Directive has been agreed at European level and is due to be transposed into national legislation by 1st November 2009.

Payment industry respondents

Respondents that are one or more of: banks or other payment service providers, payment schemes or groups, or providers of payment infrastructure and services.

Payment Service Provider

An institution providing payment services, including the following:

- services enabling cash to be placed on a payment account;
- services enabling cash withdrawals from a payment account;
- execution of payment transactions, including transfers of funds on a payment account;
- execution of payment transactions where the funds are covered by a credit line;
- issuing and/or acquiring of payment instruments; and
- money remittance.

Payment Systems Task Force (PSTF)

A Task Force set up by the Chancellor of the Exchequer in March 2004 and run by the Office of Fair Trading (OFT). Its remit was to identify, consider and seek to resolve competition, efficiency and incentive issues relating to payment systems, particularly looking at network effects of the existing payment mechanisms. One of various working groups was the Cheques Working Group, which reported in November 2006. The PSTF was wound up at the end of 2006 with the announcement of the formation of the Payments Council.

PIN (personal identification number)

A set of characters, usually a four-digit sequence, used by cardholders to verify their identity at point-of-sale or at a customer-activated device such as an ATM. The number is generated by the card issuer when the card is first issued and may be changed by the cardholder thereafter.

POS (point-of-sale)

A physical location where a customer makes a purchase.

Prepaid card

Also known as an electronic purse. A stored-value payment card used to pay for goods and services. It is an alternative to cash. The card can be disposable or re-loadable. The stored value is reduced as payments are made.

Purchasing card

A payment card issued to businesses, companies or government departments to make supplier and/or trade payments. Also known as a procurement card.

Remote banking

A generic description for any type of service enabling users to access banking facilities remotely, e.g. by phone, internet or mobile phone.

Remote transaction

Internet and telephone transactions where a payment card or other authentication device is not physically presented to the payee or bank involved in the transaction.

Single Euro Payments Area (SEPA)

The Single Euro Payments Area (SEPA) envisages consumers and businesses being able to make and receive payments in euro within Europe, between or within national boundaries, under the same basic conditions, rights and obligations, regardless of their location. SEPA is the largest payments initiative ever undertaken within Europe. It has been championed by the European Commission and the European Central Bank, with the support of the European Payments Council (EPC).

Standing order

An instruction from customers to their bank or building society to make regular automated payments of a specified amount to a named creditor. The term is also used to refer to individual payments arising from the instruction.

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