

THE OFFICE OF FAIR TRADING'S RESPONSE TO THE PAYMENTS COUNCIL NATIONAL PAYMENTS PLAN CONSULTATION

We consider that the concept of a National Payments Plan will lead to real benefits to consumers and other users of payment systems in the UK. We also consider that the questions asked in the consultation cover most of the important issues. We have made specific comments on some of these questions below. However, we believe that the National Payments Plan should include some issues that are not directly covered in the consultation. These are:

- **Access:** Payment schemes are at their most effective when they can be accessed by the widest group of stakeholders without risking the safety and security of the schemes. Following the work of the Payment Systems Task Force we believe that the level of access to the payment schemes covered by the Payments Council is currently appropriate. However, we would expect that access restrictions and requirements will change over the years, and that procedures are in place to regularly assess whether the current arrangements are still appropriate. This consultation process would have provided a good starting point for asking advice on those procedures, and whether other stakeholders agree that current access arrangements are appropriate.
- **Governance:** Payment systems are at their most effective when they are governed in such a way as to reflect the views and the opinions of all stakeholders. Following the work of the Payment Systems Task Force we believe that the governance arrangements adopted by the schemes covered by the Payments Council are appropriate. But like access arrangements, governance arrangements will need to be reviewed and changed over the years. Again, this consultation process would have provided a good starting point for asking advice on procedures to check and amend governance procedures, and whether other stakeholders agree that current arrangements are appropriate.

Specific comments

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?

As discussed with you at our recent meeting of 4 December we understand that cheque usage is declining rapidly, and it is likely that there will come a time when cheque processing becomes prohibitively expensive. There remains a question as to whether a decision by the Payments Council to plan an end to cheque clearing could infringe competition law, and we strongly suggest that appropriate legal advice is sought before any decision is taken.

Q2 For which types of payment currently made by cheque do new alternatives need to be introduced?

We have no comprehensive list but suggest these broad groups as examples:

- Person to person payments where the bank details of the recipient are unknown to the sender
- Person to person payments where the cheque is a gift
- Paying tradesmen who come to the door, and deal in small value transactions, perhaps including window cleaners, etc
- Payments to schools, clubs, etc

Q4 What sort of education of users is needed to support the migration away from cheques?

As well as consumers needing to understand that there are alternative payment methods and how these alternatives work, we suggest that consumers are made aware of the cost of processing cheques, and that even though those cheques may not be charged for at point of use, consumers and businesses will end up paying for them through, for instance, higher interest rates on loans and mortgages, and lower rates on savings. We believe that making the costs of payments transparent to consumers is important.

Clearly, particular attention must be paid to disadvantaged consumers of cheques. As noted in the Payment Systems Task Force Cheques Working Group report¹, consumers aged 65 and over make more spontaneous payments by cheque than any other group. It is possible that this group will be amongst the most resistant to change. Education of users should be particularly mindful of this and other disadvantaged consumer groups.

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?

As with Q1, we would suggest that legal opinion on the application of competition law is sought about the possibility of an agreed withdrawal of the Cheque Guarantee Card Scheme. We think that there should be consideration of why there are still 174 million guaranteed cheques written in the UK, while many alternatives exist.

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

As with Q1 and Q5 we suggest that a legal opinion as to possible competition law infringement is sought here. We suggest that the National Payments Plan should consider what alternatives to paper credit clearing could be put in place and that it develops a strategy for ensuring that any alternatives are understood by consumers and businesses.

Q12 Would you support the introduction of a time-limited guarantee for direct debits in place of the current unlimited guarantee?

We have some concerns about the concept of a time-limited guarantee. Part of the reason for the success of direct debits is the knowledge that an erroneous direct debit may be corrected at any time in the future.

If a time limit was introduced, we are not clear as to how consumers would be reimbursed for any erroneous payments taken out of their account discovered after the guarantee period was over. Clearly if payments were removed wrongly from a customers account and were not reimbursed as soon as the mistake became apparent, the consumer might end up in financial difficulty through no fault of their own.

As with other collectively made decisions which may have an effect on competition, we strongly suggest legal advice is sought before any decision is taken. In this particular case we also consider that an assessment should be made of whether any benefit would appear to directly accrue to consumers because of the limiting of the guarantee designed to protect them.

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?

¹ Cheques Working Group report: www.oft.gov.uk/advice_and_resources/publications/reports/financial/oft868

The Payment Systems Task Force Link Access and Governance Working Group report² carried out a number of case studies looking at how ATMs were used in other countries. In Portugal the ATM system supports a wide variety of different functions, including buying tickets for travel and entertainment, bill and road toll payments, TV channel subscriptions etc. These would all appear to be possible uses for ATMs in the UK. There was some concern at the Link Access and Governance Working Group that by exploiting the Link infrastructure in this way, queues would develop at cash machines because consumers were undertaking longer and more complex transactions. However, we do not believe that would be the case, as the ATM industry has shown itself capable of reacting to additional demand by adding ATMs to the network.

We think that the National Payments Plan should concentrate on identifying functionality that consumers would value, and to try and incorporate that onto the ATM network. If there is not a clear demand from consumers for that kind of functionality, there is little point in introducing it.

Q23 Do you agree that at the present stage of market development the contactless and prepaid card sectors are best left to initiatives from individual payment service providers and the card schemes?

We do agree that the development of these card schemes should be left to the market at this stage. We suggest that schemes will develop to suit the needs of both customers and retailers in order to pick up market share as quickly as possible. However, once these schemes get to a critical mass the Payments Council may need to play a part in ensuring that, for instance, access to these schemes is as open as possible (assuming they are not proprietary 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?

We agree that it would be sensible for the Payments Council to offer to support contactless card operators by ensuring that the cards meet the needs of all users (including those that receive the cards for payment). The Payments Council may also want to ensure that when card schemes reach a certain size access to that card scheme is fair and open. Additionally, in the event that there are a number of contactless card schemes, the Payments Council may want to work with providers to ensure that common standards exist between card schemes so that retailers do not need to provide a different terminal for every card scheme. The Payments Council may also want to consider whether the functionality of contactless cards should be extended to cover other types of low value payment, including person to person.

Q25 What support, if any, can the National Payments Plan offer to the development of prepaid cards?

As with Q24, we believe that the Payments Council will have a role to play in ensuring equal access to card schemes, and in ensuring that standards are created that will allow different makes of card to be processed without the need for multiple reading machines.

Q26 What role should the Payments Council play in the development of mobile payment services, including setting the standards for mobile payments?

As with Q24, we believe that the Payments Council will have a role to play in ensuring equal access to schemes, especially important with mobile phones, which of course already have established networks.

² Link Access and Governance Working Group report: www.ofg.gov.uk/advice_and_resources/publications/reports/financial/ofg840

We believe that there is a role for the Payments Council in assisting operators to set standards which support interoperability.

Q27 In particular, do you agree that the National Payments Plan should support the development of mobile payment services between bank accounts?

We support any such initiative as long as there appears to be demand for the service.

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?

We agree this point. E-invoicing does have the potential to lead to very large efficiency savings.

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

While the OFT does not have any innovations to suggest itself, we are mindful that the final report of the Payment Systems Task Force³ stated that the Payments Council should 'ensure that the payment system as a whole meets the needs of payment service providers, users and the wider economy, including through....the identification and sponsorship of innovative solutions...'. This is particularly important where much of the innovation must be centrally sponsored because of the collaborative nature of the industry. We welcome the Payments Council's focus, and look forward to seeing how successfully the Payments Council identifies and sponsors such solutions.

Q35 What gaps are there in current financial educational initiatives in regard to payment matters?

Although OFT does not have a comprehensive answer to this question, we are aware that consumers have particular difficulty in choosing financial products, including payment products such as credit cards. A recent OFT survey found that 68 per cent of consumers who had taken out a credit card had not shopped around at all, and had in fact simply chosen the first card offered to them. OFT plans to address this, in part by contributing to a consumer education programme which will explain the benefits of, and the tools available for, shopping around for credit cards. One of the delivery methods for this will be at school level through the pfeg (personal finance education group). Education on payment matters at school level may be an efficient way to educate consumers at an early age.

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?

See above

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

The Payments Council can help to ensure that payment products are designed so that disadvantaged consumers feel confident in using them.

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

³ The final report of the Payment Systems Task Force: www.of.gov.uk/advice_and_resources/publications/reports/financial/of901

The OFT's vision is to make markets work well for consumers. Accordingly, we would be happy to work with the Payments Council where appropriate to make the payments market work well for consumers.

Q47 What should be the role of standards in the National Payments Plan? Are the current principles as agreed by the Board a suitable base from which to start? What role should the Payments Council play in influencing international standards developments?

We agree with the importance of the five high-level principles. We would also add that standards should be developed in such a way as to ensure that, as far as possible, they do not exclude classes of business (such as non-financial institutions), or make meeting those standards unnecessarily difficult. If standards were unnecessarily complex or burdensome to adopt, the ability of certain classes of business to play a part in the payment industry might be unfairly restricted.

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?

The OFT would support such an initiative, and is currently working on a market study into personal current accounts which is looking into the transparency of pricing of aspects of current accounts, including making and receiving payments. OFT considers that although many types of payment are not charged for at the point payment is made, the cost of making and receiving payments is borne by account holders in other ways, including through lower interest rates on saving and higher rates on borrowing.

We also think that such an initiative would help to persuade consumers to move away from less efficient means of payment.