

# NATIONAL PAYMENTS PLAN

## CONSULTING ON CHANGE IN UK PAYMENTS

To facilitate collation of responses we have answered the questions as detailed in the consultation.

In addition to the answers given it is necessary to highlight critical differences between Northern Ireland and the rest of the UK.

Northern Ireland does not use all the same service providers e.g. the Belfast Paper Clearing Company rather than the Cheque and Credit Clearing Company in Britain.

The Banking environment in Northern Ireland is driven by major banks which operate in both Northern Ireland and the Republic of Ireland.

Not all financial institutions in Northern Ireland fall under the FSA e.g. Credit Unions fall under the Department of Trade and Industry. This in itself causes problems in credit unions taking on new services and products and may affect other cooperatives as well.

Northern Ireland and the Republic of Ireland operate effectively a dual currency environment especially in border areas. Cash is widely used in cross border transactions.

It is therefore of paramount importance to review differences in Northern Ireland versus the UK to ensure that solutions are available across all of the UK and to all financial services providers on an equal footing.

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### ISSUES FOR CONSULTATION

**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?***

**Response**

YES – However, it would be foolish to assume that all cheques can be removed from the system. New payment methods may further add to the reduction of cheques used but at this stage it cannot be said with total certainty that they will totally replace cheques.

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

**Response**

- **Person to person**  
e.g. buying a car, payment for washing machine repairs, birthday present etc. More secure than handing over cash if amount is fairly large.
- **Person to company**  
Large purchases e.g. buying a new car, purchase of a house etc.  
Ad hoc bills where you wouldn't set up a direct debit or standing order
- **Remote payment**  
Cheque is in the post – what are the alternatives?  
Person unable to gain access to credit or debit cards e.g. bad credit history, judgements etc. What do these people do?  
Payment such as club contributions – it is easy to give a child a cheque to pay for dancing school, you wouldn't give the child cash.  
Savings club disbursement e.g. Christmas clubs. Cheques are the easiest way to handle these at present, most people using these services are unlikely to have bank accounts.
- **Insurance Claims**  
How do you pay the person if you have no bank account details or person does not wish to share their bank account details?
- **Budgeting**  
Paying by cheque is favoured by a lot of people because it gives control of cashflow e.g. you can hold the cheque until funds are available.
- **Leverage on Supplier**  
You can withhold the cheque as a tool to negotiate with a supplier for price changes or improved service before you pay.

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**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)?***

**Response**

YES – assuming that acceptable alternatives are available. This could be a very large assumption.

Alternatives would also have to give the consumer a way of keeping a record of payments i.e. how do you replace the cheque stub for recording and budgeting activities?

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

**Response**

- How to make payments in the absence of cheques.
- Alternative payment methods – how does a consumer get them?
- How to transition yourself away from cash & cheques over the next few years
- Cost of alternative payment methods

**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?***

**Response**

YES – However, unsure as to when an “objective” review might be possible.

**Q6. *What other actions, if any, should there be in the National Payments Plan in relation to cheques?***

**Response**

There is a need to know the role of all players (existing and future) in tackling the challenges of removing cheques and delivering alternatives.

It is fairly easy to garner 80% success, however dealing with people who have limited access to financial services, not seen as “attractive” to financial institutions or who have no time for new technologies must be tackled properly and not dismissed.

To this end the whole area financial and social inclusion must be given a high priority.

People with disabilities e.g. visually impaired need to be catered for.

On the matter of phasing out cheques it may be helpful if cheque books were not distributed free of charge but had a pre-payment to be made. This would allow those who wished to hang on to the service to do so while appreciating that there were

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costs involved which would probably increase as the number of users of the service declined.

**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?**

### **Response**

NO – this should be tied in with the 100% success of removal of cheques. Changes to paper credit clearing services may appear fine for volumes but may not handle seasonal demands or other ad hoc peaks that may arise. This would lead to lack of confidence in the payments industry. Perhaps it can be tackled once volumes are known to be low and manageable.

However the future of paper clearing agencies in the UK and Northern Ireland should be looked at as it may not be viable to continue with the current infrastructure in Northern Ireland.

There may be economies of scale to look at an All Ireland infrastructure even though currencies may differ.

**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?**

### **Response**

YES – there is no real alternative to cash available now or even in the foreseeable future.

**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?**

### **Response**

NO – This a matter of supply and demand. There should be communication and coordination in respect of payment initiatives and likely impact on need for cash. However the supply of notes and coins should be left to other agencies.

**Q10. What other actions, if any, should there be in the National Payments Plan in regard to cash?**

### **Response**

Printing and distribution of notes in Northern Ireland should be looked at. If the quantity of notes in circulation decreases should Northern Ireland continue its existing practices.

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<p><b>Q11. <i>What improvements would lead to the greater take-up of direct debits by users?</i></b></p>
<p>Easier to set up and maintain direct debits SMS option to inform customer that a direct debit has been paid (or otherwise)</p>
<p><b>Q12. <i>Would you support the introduction of a time-limited guarantee for direct debits in place of the current unlimited guarantee?</i></b></p>
<p>We would be in support of further examination and consultation on the matter.</p>
<p><b>Q13. <i>If so, what time limit do you think would be appropriate?</i></b></p>
<p>Cannot set a time limit at present, this should follow on from the examination / consultation mentioned in Q12.</p>
<p><b>Q14. <i>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?</i></b></p>
<p>The use of a citizen identification number would help to ensure that even if the account number is wrong, ownership of the funds is protected. Perhaps set up a customer profile similar to PayPal operation.  Telephone banking as a channel for inputting reference numbers etc on a mobile or other phone is an easy activity.</p>
<p><b>Q15. <i>Are there any other enhancements you think should be made to direct credits?</i></b></p>
<p>Must be easily accessible, available and convenient</p>
<p><b>Q16. <i>What opportunities would you identify to exploit the ATM infrastructure for non-cash transactions? How should these be reflected in the National Payments Plan?</i></b></p>
<p>Use the ATM as an internet device to do online banking activities Allow for simple activities such as transfer of funds between accounts and bill payment.  Use the ATM to check balances on ANY debit card, prepaid or otherwise Topping up debit cards etc.</p>

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<p>This should be reflected in the plan under new / improved services and also access to new / existing channels</p>
<p><b>Q17. Which other, if any, actions should there be in the National Payments Plan in relation to credit and debit cards and cash machines?</b></p>
<p>Again accessibility and convenience are paramount – universal availability.</p> <p>All transactions should update balances etc in real time.</p> <p>The question of who picks up the tab when a payment goes astray would also need to be addressed as the current perception is that the consumer would nearly always lose out to the banks in any dispute.</p> <p>Access for credit unions to card payments systems and other technology solutions is a problem, particularly in Northern Ireland where credit unions are seen as different to credit unions in the rest of the UK by a number of service providers and even government departments.</p> <p>The cost of such services for both credit unions and members, existing solutions are already too costly for the majority of credit unions in Northern Ireland yet they are not included in a number of UK government grants available to other credit unions in the UK.</p> <p>Access to cashless / chequeless technology for the less financially aware in society could lead to a danger of pushing them into the hands of banks by forcing them to open card-based accounts?</p>
<p><b>Q18. What improvements should be made to the way in which payments in the wholesale markets are carried out?</b></p>
<p>No comment</p>
<p><b>Q19. What should the Payments Council do to ensure that users in the UK can take best advantage of SEPA?</b></p>
<p>Customers should be able to open SEPA / Euro accounts which will interface directly into the SEPA initiative.</p>
<p><b>Q20. What issues does SEPA raise for your use of payments?</b></p>
<p>There is a lot of cross border activity between Northern Ireland and the Republic of Ireland. This is significant in the border areas whereby some people live on one side of the border but work on the other side. There is also a large retail activity that takes place based on best price.</p>

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**Q21. *What improvements should be made to cross-border payments?***

Again any instrument of payment e.g. cards should be acceptable both in GB and Euro areas and more importantly all transaction charges etc are the same.

**Q22. *What measures to enhance users' efficiency should be considered by the Payments Council?***

Use of standardised account number formats with some form of self checking / correction algorithms built in. Again use of an additional consumer identification might help to facilitate movements of money at least to the individual even though the account details are incorrect. This might follow the route of PayPal where a person can register themselves and then use this mechanism for future transactions.

**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?***

As there is no single solution it is best to leave payment service providers to compete in delivering the "best" solution in terms of accessibility and cost. The Payments Council should monitor the marketplace and issue comments / support where appropriate.

**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?***

The National Payments Plan certainly should support the development of common standards. Also as the Council has representation across retailers, payments industry and consumers it is probably best placed to facilitate consultation on new developments. This should include cooperation with other payment council organisations in Europe.

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

Comments to Q24 are equally applicable to prepaid cards.

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

As there is no single solution it is best to leave payment service providers to compete in delivering the “best” solution in terms of accessibility and cost. The Payments Council should monitor the marketplace and issue comments / support where appropriate.

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

Yes. The National Payments Plan should support any development of mobile payment services to ascertain what the challenges are and how they might be overcome.

Mobile payment services between bank accounts could be a critical component for bill payment and other credit transfer facilities thereby reducing the reliance on cash or cheques.

The mobile phone itself has a number of issues to address particularly in the areas of user interface and security.

**Q28. *What principal characteristics would users find attractive in a mobile payment service?***

Convenience and penetration. Mobile phones are widely used as such would cover most of the population, therefore would lend itself as a major channel for payment transactions.

**Q29. *What role do mobile phone payments potentially play in providing alternatives to traditional forms of payment?***

Bill payment, account enquiry, transfer of funds between own accounts and transfer of funds to third parties. Contactless payments for small purchases.

**Q30. *What other actions, if any, should there be in the National Payments Plan in regard to mobile payments?***

In areas such as bill payments there needs to be some action on mobile invoicing that would allow payments to be made easily with ready filled reference details and bank account details.

Agree the delivery model - what part does the mobile operator provide and what service does the bank / payments supplier provide.

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<p><b>Q31. <i>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?</i></b></p>
<p>Yes</p> <p>The more internationally the standards are the better chance of universal acceptance and hopefully reduce costs.</p>
<p><b>Q32. <i>What role should the National Payments Plan play in moving this agenda forward?</i></b></p>
<p>Communicate that the work on e-invoicing and associated activity, including the development of international standards are a prerequisite to the successful deployment of electronic payments on new channels.</p>
<p><b>Q33. <i>What other actions should be included in the National Payments Plan?</i></b></p>
<p>The National Payments Plan should be shared internationally with other similar bodies to share experiences and ideas.</p> <p>Affordability (cost) and availability (no segment of consumers or business excluded) must be documented properly to determine success or otherwise of channels, processes etc.</p>
<p><b>Q34. <i>What other payment innovations requiring action at industry level should be considered by the Payments Council?</i></b></p>
<p>No comment</p>
<p><b>Q35. <i>What gaps are there in current financial educational initiatives in regard to payment matters?</i></b></p>
<p>Current activities are based more on younger age profiles that are comfortable with technology such as internet and mobile phone.</p> <p>In addition not enough effort is based on changing attitudes / practices that are ingrained into sectors of the population. There is also a belief that because it is technical it must be better.</p> <p>In terms of the future the education will be around change management, some technology but in the end working on building confidence in the new delivery of payment services.</p> <p>Without a clearer understanding of the future, rapid changes in technology and</p>

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<p>delivery of services only adds to current confusion rather than confidence in the solution.</p>
<p><b>Q36. <i>What role can the Payments Council play in promoting the education of consumers about the choice of payment methods available to them?</i></b></p>
<p>At present only educate consumers in areas of greatest reward to all parties. Embryonic solutions / pilots should be highlighted as “potential” solutions that are on trial.</p>
<p><b><i>What other bodies should it work with to deliver this role?</i></b></p>
<p>Consumer organisations, retail organisations and of course schools</p>
<p><b>Q37. <i>What role can the Payments Council play in promoting financial inclusion?</i></b></p>
<p>The Payments Council must highlight that the success of removal of cash and cheques is dependent upon universal availability and adoption of solutions. Otherwise the cost of providing cash and cheque services will become more expensive to all parties and banks etc may find themselves supporting the costs of new and old payment systems.</p>
<p><b>Q38. <i>What other bodies should it work with to deliver this role?</i></b></p>
<p>Consumer organisations, credit unions, post offices, government offices in the areas of local authorities and welfare.</p>
<p><b>Q39. <i>What are the main challenges to the integrity of payment systems that need to be addressed collaboratively?</i></b></p>
<p>Confidence in the payments industry.</p> <p>Business continuity - confidence that technology and operational support is always working.</p> <p>Disaster Recovery - Real time recovery</p> <p>Overseen by some examination / certification body that will ensure best practices etc and work to mitigate risks on an ongoing basis.</p>

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<p><b>Q40. <i>How should consideration of measures against fraud be included in the assessments which the Payments Council makes of proposals for innovation?</i></b></p>
<p>Consideration of measures against fraud is critical in assessing any solution. The solution should be dismissed unless the solution improves the current prevention / detection of fraud.</p>
<p><b>Q41. <i>How can the National Payments Plan assist with issues of customer authentication?</i></b></p>
<p>The whole area of security and authentication is paramount to consumer confidence. The council can only look for submissions from appropriate bodies or companies for solutions that address concerns in these areas. Standards need to be set and these should be international where possible.</p>
<p><b><i>To what extent do these need to be addressed across the payments sector?</i></b></p>
<p>Identity theft, card theft/ cloning, money laundering, fraud etc are all areas that are currently tackled. The whole payments sector is constantly probed for weaknesses. New solutions and technologies will present new risks. The council should set some objectives that existing and future solutions must address. This could entail embracing certain standards that are already published. The council should not get involved in checking adherence / compliance with these standards, this should be left to the appropriate accreditation agency.</p>
<p><b>Q42. <i>Should minimum standards be introduced for authentication of remote transactions?</i></b></p>
<p>YES</p>
<p><b><i>If so, should a common measure of authentication be recommended / mandated?</i></b></p>
<p>A common measure of authentication should be recommended on a regular basis based on current knowledge. This allows for change over time and as new solutions / technologies become available. Although a mandate may be desirable, it may be difficult to implement.</p>

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**Q43. *How should the National Payments Plan address new technologies, such as biometrics, which may contribute to customer security?***

This should be left to current activities such as the national identity card etc. Consumer fears in respect of freedom of information, personal privacy and citizen rights are all difficult areas that the Payments Council should not directly get involved in. This is a very emotive subject and difficult to see what the take up would be without governmental support and consumer acceptance. Recent articles in the press would not help the cause in regards to loss of personal data. Even getting a person's bank details are difficult at the moment.

Education of consumers and businesses in new technologies such as biometrics would help as there is a lot of unfounded fears in the marketplace. This would also help to focus on the real issues to be addressed. This may an area that the council can help in explaining the future role of new technologies and what is actually involved in the delivery and operation.

**Q44. *What actions, if any, should the National Payments Plan include in regard to data sharing?***

Sharing data for consumer protection is OK. Data sharing for business intelligence is not.

It is a fact of life that there will be more regulation and therefore compliance to combat criminal and terrorist activity. There will be less choice as to whether you adopt or not. As such data sharing will be needed and supported (maybe grudgingly). The National Payments Plan should outline what data sharing is available and whether it is optional or mandatory for which areas it is applicable.

**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?***

Fraud prevention needs to be the responsibility of all as well and the burden should be shared in an equitable manner. It should take into account the size of the institution and the frequency of payments. Those that provide the infrastructure should stand over their own assets / territory. In addition it should not be assumed that someone else will manage a particular risk.

Fraud prevention is a costly exercise and it must be accepted that SMEs cannot afford to put the same type of protection that larger organisations can do. To this end there needs to be some form of "external" service that SMEs can buy into an affordable cost. Cooperation benefits all.

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<p><b>Q46. <i>What role should the Payments Council play in raising the profile of fraud and security issues and in lobbying government and the public authorities?</i></b></p>
<p>The Payments Council should be a key player in lobbying the government. Confidence in the payments system is vital and the government should take its own responsibility in supporting the protection of the payments systems.</p>
<p><b>Q47. <i>What should be the role of standards in the National Payments Plan?</i></b></p>
<p>Standards are key to the delivery of payment services now and in the future. Without standards implementations will fail or cost of delivery will escalate.</p> <p>Standards are not optional they are mandatory.</p> <p>Standards should be set internationally by accredited bodies. The development should be as inclusive as possible with all stakeholders.</p>
<p><b><i>Are the current principles as agreed by the Board a suitable base from which to start?</i></b></p>
<p>The current principles are a good starting point.</p>
<p><b><i>What role should the Payments Council play in influencing international standards developments?</i></b></p>
<p>The Payments Council should act as a focus point for the UK to feed into the European and International Payments councils who in turn should influence development of international standards.</p>
<p><b>Q48. <i>What, in particular, should the National Payments Plan say about messaging standards?</i></b></p>
<p>The National Payments Plan should support developments already undertaken in Europe and elsewhere rather than reinventing the wheel.</p>
<p><b>Q49. <i>Would you support an initiative, led by the Payments Council, to establish a better understanding of the costs of UK payments?</i></b></p>
<p>YES</p> <p>The payments industry has gone a long way recently in becoming more open and transparent. The true costs of operating the payments system need to be known to assist in the assessment of alternative delivery mechanisms.</p>

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*If so, how do you think this should be taken forward?*

This is likely to be a sensitive area as it will lift the covers of costs and probably highlight questions in respect of pricing or offer sensitive information to competitors.

Initially the Payments Council should examine what level of costing can be gathered and how it might be shared. After this exercise it should be known whether it is worthwhile pursuing the matter any further.

*What supporting information do you think would be relevant for such an exercise?*

Industry costs showing average costs of various delivery mechanisms, also showing cost of “best of breed” based on quality and cost as opposed to simply the cheapest. This would aid research into how to achieve best of breed.

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