

**COMMENTS OF THE
INSTITUTE OF CREDIT MANAGEMENT
ON THE PAYMENTS COUNCIL CONSULTATION PAPER:
NATIONAL PAYMENTS PLAN CONSULTING ON CHANGE IN UK PAYMENTS**

The Institute of Credit Management is the largest professional credit management organisation in Europe. Its 8,500 members hold important, credit related appointments throughout industry and commerce including activities such as collections, credit reporting, credit insurance and insolvency practice. The Institute's detailed comments are given below.

General

In principle, the Institute is in agreement with many of the innovations that are suggested within the consultation paper. However, Members are concerned that the fundamental problem of people and processes has not been sufficiently considered. The majority of the population embrace technology that makes their lives easier, but, there is a substantial number who are anxious and feel overwhelmed by it. This is due mainly to unsympathetic promotion rather than the cognitive ability of the would be users. In the Institute's view, the Payments Council needs to consider qualitative as well as quantitative issues.

Members were surprised that only limited reference has been made to the volume of indebtedness now seen as a national crisis. The depersonalization of financial transactions carries the social consequences on those using these services. In addition, insufficient consideration has been given to the major concerns people have about fraud and market stability. Our Members consider that the Payments Council could usefully add its voice to the regulatory bodies to increase consumer confidence.

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?

The majority of Members agree that a plan for cheques should be developed. However, in the Institute's view, the issue of cheques cannot be permitted to '*wither on the vine*' over a protracted period with some banks issuing them and some not, and with a varying amount of acceptability as a payment method. If cheques are to be dispensed with, then it must be done on a proactive, controlled and uniform basis.

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

In the Institute's view there are, and will continue to be, circumstances where cheques provide a convenient method of transferring funds. While these may be low in number and value, consideration needs to be given to providing a viable alternative before withdrawal. Cheques are still used extensively in payments to (and between) small businesses; in making payments to non-business entities/organisations; in making payments to friends and family (gifts); and in making ad hoc donations to charities and similar bodies, where giving cash is not as secure. In addition, cheques provide an alternative in the event of system failure.

Members of the Institute consider that the Payments Council should bear in mind that while the UK may do away with cheques, not every other country may do so in the same time frame or, indeed, at all. The banking system, therefore, must still be able to deal with overseas and travellers cheques, or find a suitable alternative. Similarly the system must be able to cope with Bills of Exchange which are still widely used, not only for import/export transactions, but also some UK inland transactions. Again, if not, a viable alternative must be found.

One senior Member of the Institute made the following comment:

“At present, some of the supplying dealers to whom we make payments under finance deals, still prefer to receive a cheque rather than a BACS credit. This is because they can physically see a means of payment (albeit one that needs clearing) whereas the BACS credit will not appear on their bank statements for three working days at least. If the dealer parts with the goods on receipt of the cheque, at least they know that they have an instrument on which they can sue if it is dishonoured, whereas if they release goods on the promise of a BACS payment and it doesn't come through it is much more difficult to recover the money due.”

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)?

2018 is acceptable to our Members but only if there are viable alternatives in place, and users have been educated and reassured about the use of those alternatives.

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

Users must be able to see that the alternatives are easier to use than cheques, and secure. After recent events it would be difficult not to be concerned about the security aspects of other possible (electronic) forms of payment bearing in mind data security issues and the amount of impersonation fraud being perpetrated.

Banks could play a part in educating their customers, together with television/media along the lines of a direct debit campaign.

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?

The Institute agrees that any proactive plan to end cheques should include a review of the Cheque Guarantee Card Scheme.

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

Members of the Institute consider that if cheques are to be abandoned then further development needs to put into electronic purse/wallet arrangements, whereby a device (which could include a personal access device, at present mobile phone) would be credited with a finite amount of money which could then be transferred easily to other similar personal devices as well as retail terminals. Such electronic purses are more secure than debit/credit cards in that exposure to loss/fraud can be limited. This could be taken a stage further for those without bank accounts where, say, supermarkets could accept cash to top-up the electronic purse.

In addition, Members believe that if the Banks wish to abandon cheques they must make the cost of automated payments more attractive than issuing cheques. At present, if our Members use CHAPS, not only do they have a treasury loss compared with cheques because of the clearance time of cheques, but also they are charged significantly more to use this service.

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?

The Institute agrees that there should be an objective review of the future of the paper credit clearing. Education, together with a cost effective alternative for consumers is the key.

The Payments Council must bear in mind that not everyone is 'banked', and in spite of the Government's vision that everyone should be, it will not happen. Nor will everyone have access to a computer or the desire to use telephone banking. In this case there must be a payment method for utility and similar bills that enables the 'unbanked' to make payments. At present, paying a bill in cash over a bank counter is a safe, secure, provable and convenient way for these people to make payments. Any consideration to doing away with paper credit clearing needs to bear this in mind.

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?

The Institute agrees that the National Payments Plan should be developed on the assumption that cash will remain a major payment method for the foreseeable future. Indeed, if cheques are abandoned, in our view cash will have an even greater role.

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?

Some Members consider that the issues of the supply and quality of notes and coin in circulation should be within the scope of the National Payments Plan, though some saw little benefit in such an operational issue being included. All notes should be made much stronger in order to make them more durable. The Institute believes that other countries use a form of plasticised linen to extend the notes' useful life.

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

The Institute would like to see the introduction of new technology to replace cash transactions. In addition, please see the Institute's response to question 9 above.

Q11 What improvements would lead to the greater take-up of direct debits by users?

The Institute considers that most non-user customers still have concerns about their ability to recoup incorrectly paid direct debits. More publicity is required around this aspect, although the potential time-limited guarantee may be seen as taking something away.

Another difficulty for customers is the inflexibility of budgeting with direct debits. Cheque payments can be timed to coincide with the availability of funds. As with all automated systems it is extremely difficult to build in any flexibility, unfortunately. If some flexibility could be built into direct debit payment dates (say no more than 3 working days) it would save time and costs for the customer, the bank and the originator in handling and re-calling for direct debits.

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

The majority of Institute members would be in favour of the direct debit guarantee being time-limited although they recognise the potential impact on take-up levels. One senior Member made the following comment:

"One of the major concerns we have is that we can receive, say, all 36 payments on an hire purchase account by direct debit, discharge title to the goods to the customer, and then a year later be forced to disgorge all the payments received."

Q13 If so, what time limit do you think would be appropriate?

Members of the Institute would prefer a time limit of 6 months, but 12 months would be acceptable.

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?

With the general public inputting data via the Internet or telephone, the potential for error is high. Systems, therefore, must be put in place to recognise manifest errors. Moreover, there is the issue that while the reference data may make sense to a sender it may not to the recipient. In our view, it would be helpful if there was a range of standard abbreviations and/or a range of standard options built into the systems for a sender to choose from. An alternative may simply be that the potential recipient provides a numerical set of data that must be sent with the direct credit which can then be read and understood by the recipient. A further alternative would be the use of barcodes that can be sent back with the direct credit.

Q15 Are there any other enhancements you think should be made to direct credits?

The Payments Council rightly highlights the education of potential users of direct credits. The Institute considers that it would be helpful to raise the profile of direct credits. In addition, reassurances on security is an issue that must be addressed.

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?

In the Institute's view, it should be possible to use the ATM as a dumb terminal to access a bank account and to process transactions as though using a home computer although there could be issues with the time taken for such transactions, and also using the ATM in inclement weather. A solution would be to make more ATMs/terminals available both in the banks, Post Offices, shops, public libraries and similar areas. For out of hours use the ATMs could be put in a lobby area in banks and shops which should improve security and comfort.

In addition, the ATM could be used as a top up for a 'cash card' and a means to transfer funds to other accounts for individuals. However, one senior Member made the following comment:

"I have no confidence that the integrity of systems will be able to match the volume of workload that would accompany expansion on these lines, and at these levels, and also not suffer increasingly from fraud."

Q17 Which other, if any, actions should there be in the National Payments Plan in relation to credit and debit cards and cash machines?

The Institute considers that there should be fraud prevention and security initiatives in the National Payments Plan in relation to credit and debit cards and cash machines.

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

Many Members of the Institute use CHAPS as a fast method of payment. However, in these days of global trading 24 hours a day, seven days a week, having a finite cut-off point each day presents difficulties. We understand that banks need to have a fixed period in time to arrange settlements between one another, but surely with global trading CHAPS should be available to be sent 24 hours a day, seven days a week, and received very shortly thereafter, not deferred to the next day after a certain time in the afternoon.

Q19 What should the Payments Council do to ensure that users in the UK can take best advantage of SEPA?

The Institute considers that education ranging from handouts/leaflets to media advertising would help to ensure that users in the UK are more aware of, and can take best advantage of SEPA.

Q20 What issues does SEPA raise for your use of payments?

One senior Member of the Institute made the following comment:

“Their compatibility with current non-Euro bank accounts and what the creation of new Euro bank accounts would entail for domestic consumers.”

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

The Institute considers that cross-border payments should be kept as simple and cheap as possible to operate, and barriers that restrict cross-border payments usage should be removed.

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

Members consider that anything that reduces the possibility of transmission errors such as the standardization of account number formats and beneficiary/remitter details would all assist.

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?

Members of the Institute would prefer the Payments Council not to stand back. Their concerns would be the uncontrolled development of different systems. The Institute considers that it would be better if an over-seeing body (not necessarily the Payments Council) were in overall control of the developments.

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 Institute considers that the National Payments Plan could make available unbiased advice. They should drive initiatives and explore technologies, especially in security.

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

The National Payments Council should increase awareness among businesses and the public and take the lead in providing advice and ensuring that the development is cost effective for users.

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

In the Institute’s view, the Payments Council should be supportive and ensure availability and security. There should also be a watching brief against overly rapid, unsustainable development. Please also see our response to question 23 above.

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

The Institute agrees subject to security issues being fully satisfied.

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

In the Institute's view, a mobile payment service would be convenient and easy to use, and develop into a single multi-function access device.

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

The Institute considers that mobile phone payments could be a potential alternative to cash or cheques, and could provide the medium for an electronic purse/wallet as outlined in question 6 above. Moreover they could reduce bottlenecks in traditional banking systems.

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

In the Institute's view, security is paramount if mobile phones are to be used in this way. Education of users in this regard will also be required. Members believe that mobile phones (particularly those using Bluetooth) are not secure enough at present.

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?

The Institute would support and endorse a move to e-invoicing, and agrees that the Payments Council should support the work of the European Commission Steering Committee.

Q32 What role should the National Payments Plan play in moving this agenda forward?

The National Payments Plan should play a role in agreeing standards and the integration of e-invoicing with electronic payments. It should also be involved with promotion and sponsorship, and ensure that all reforms are thoroughly researched, tried and tested.

Q33 What other actions should be included in the National Payments Plan?

Please see our response to question 32 above.

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

Members of the Institute had no specific proposals.

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

Members of the Institute consider that there are many gaps and some of these are difficult to quantify. A couple of examples would be training/education and providing the reassurance older generations need to use new systems. Also, there is a requirement for younger people to better recognise the security risks posed by new systems.

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?

The Institute considers that the key to the uptake and success of any new payment method is security. Not only does the method need to be very secure, but there then needs to be a balanced assessment of the security risk. All this needs to be well publicised with the support of authoritative and trusted bodies.

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

The Payments Council could provide a co-ordinating link between interested parties including banks and specialist consumer groups. However, Members consider that the Payments Council is there to manage the introduction of a new payment facilities/standards and the smooth running of existing ones, and that financial inclusion is more appropriately addressed by Central Government.

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

Members suggested Government bodies or charities.

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

In the Institute's view, one of the main challenges that we envisage is the degree of redundancy that is built in to the systems to allow them to function normally in spite of significant hardware or software failures. The cost of such built-in redundancy is likely to be huge and too costly for a single organisation. Possibly this is something all the banks, APACS, BACS etc should be not only prepared to contribute to, but also offer to other organisations on a cooperative basis as contingency support.

Q40 How should consideration of measures against fraud be included in the assessments which the Payments Council makes of proposals for innovation?

One of the first tests for any proposed new payment system should be 'how easy is it to use fraudulently'. Every effort should be made to break the system (in a fraud sense) using '*poachers turned gamekeepers*', and system design discussions should be held with CIFAS.

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?

Members consider that the Payments Council should ensure a consistent approach across the payment sector providers in terms of authentication. Most users will accept the easiest method of authentication which may not always be in their best interests in the long term. Authentication of payments should have a consistent approach for all methods and an identical level for similar payment methods. This could include photo ID.

Q42 Should minimum standards be introduced for authentication of remote transactions? If so, should a common measure of authentication be recommended/mandated?

In the Institute's view minimum standards should be introduced for authentication of remote transactions, with a common measure of authentication.

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

First, the Payments Council should establish that there is a desire on the part of **all** the relevant institutions to use a particular new technology. Then it should sponsor the development work and, once standards are agreed, ensure consistency of application across the relevant payment methods.

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

The National Payments Plan should ensure that the interest of consumers are safeguarded under clear and simple criteria, and conform to the Data Protection Act.

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?

Members of the Institute consider that, as legislation stands, the originators of the payment systems will always bear the major burden. However, one suggestion was that those that benefit most from the savings, for example Banks, should pay the largest percentage. This may encourage further innovation.

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?

The Institute sees this as a role mainly for the British Bankers' Association, the Finance and Leasing Association, CIFAS etc. Other than supporting the lobbying of these institutions, the main role the Payments Council could play is in the design of systems, authentication methods, and the education of users in order to prevent fraud.

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?

Members of the Institute agree with the aim of the standards, and that these should be part of the initial brief to any developer of new systems. In our view, the Payments Council Board's current principles appear to be a suitable base. The Payments Council should be part of any international standard setting organisation and, in view of the UK's significant role in banking, the Payments Council should be a major contributor and influencer.

Q48 What, in particular, should the National Payments Plan say about messaging standards?

The Institute considers that messaging standards should be encouraged as it will be of benefit to all in the supply chain, reducing costs. However, this is potentially more difficult if there is any element of freeform (rather than a pre-determined range of fixed options) allowed. Please also see our response to question 14 above.

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 Institute would support an initiative, led by the Payments Council, to establish a better understanding of the costs of UK payments. This should be taken forward by a committee of all the relevant financial institutions overseeing a compilation of bank and retail statistics, and provide more transparent menus of charges from the relevant institutions.

Members suggested supporting information such as the relationship/ratio of the costs of providing a particular payment facility against another. This would then enable users to be aware of the relative

costs while allowing the institutions to continue to compete on pricing against one another, and also provide the competition of product against product.

The Institute would be happy and keen to engage in any such initiative.