

4 February 2008

* BY E-MAIL*

National Payments Plan Consultation Response
Payments Council
5th Floor, Mercury House
Triton Court
14 Finsbury Square
London EC2A 1LQ

Dear Sir

National Payments Plan

The IMA is the trade body that represents the UK asset management industry. Our members include independent asset managers, the asset management arms of retail banks, life insurers, investment banks and occupational pension scheme managers. They are responsible for the management of approximately £3 trillion of funds (based in the UK, Europe and elsewhere), including institutional funds (for example, pensions and life funds), private client accounts and a wide range of pooled investment vehicles. Our members also manage 99% by value of UK authorised investment funds (unit trusts and open-ended investment companies).

Managers of authorised funds in particular are extensive users of the payments system, both in receiving subscriptions for shares in their funds and in returning the proceeds of those shares when they are redeemed. We are grateful, therefore, for the opportunity to comment on the National Payments Plan.

Cheques continue to represent a large proportion of the payments flowing to and from fund managers, especially when dealing with retail investors. This creates inefficiencies for both the industry and investors. In recent years, the IMA has been working with the industry to identify and address barriers to improving efficiency; one such barrier being a reluctance to move away from cheques as the preferred payment method. We therefore welcome the indication that the Payment Council is minded to take a more proactive approach to encouraging the migration away from cheques.

The most obvious direction to move, insofar as IMA members are concerned, is towards methods such as direct debit/credit and electronic funds transfer, for which most if not all of them have a current capability. Indeed, the IMA is encouraging its members to plan for a future in which the direct debit and direct credit mechanisms will replace cheques when dealing with retail customers. Historically there have been a variety of real and perceived barriers to such a migration, most of which have now been removed. However, one final concern remains, which does not appear to have been considered in the consultation - identification of the source and destination of funds. This, we would suggest, should be a key issue for all financial institutions, including non-banks, from the perspectives of both anti-money laundering and fraud prevention.

Section 5.4 of the consultation document discusses fraud and security, but only in connection with access to the payments system itself. Like banks, however, fund managers (and other financial product providers) have to guard against fraudsters who target their customers' accounts. While the threat "account takeover" fraud has emerged in the fund management sector over the last two years, the incidence has remained relatively low compared to fraud affecting other sectors. That most fund managers insist on making payment by cheque to the registered investor, thus requiring the fraudster to open an account in the name of the victim to receive it, is we believe a key factor that limits the attraction of the sector to fraudsters. In contrast, the automated payment systems available currently provide no means of ensuring that the account to which payment is being made is in the name of the investor, even if the detail is provided by the payer as part of the payment instruction. This deficiency is a major concern to fund managers and consequently a deterrent to increased automation of their settlement processes with retail customers.

Concerns also arise in an anti-money laundering context. Payments made to the fund manager by cheque (displaying the name of account holder) provide a degree of comfort that the funds are being provided by the investor, rather than by a third party for whom they may be acting. No such comfort is provided in the case of funds received electronically. While firms are not normally required to investigate the source of an electronic payment unless they have reason to suspect it may be from a third party, we believe the lack of originator information attached to such payments represents a flaw in the UK's defences against money laundering and terrorist financing. Unless it is addressed, this flaw would become more significant as more payments become automated.

In the light of these concerns, while the IMA supports the Payment Council's proposal to plan proactively for the decline of cheques, we believe it is vital that the plan encompasses the development of appropriate and efficient (ie. automated) mechanisms, for financial institutions in particular, to identify both the payers and recipients of funds that would instead be transferred electronically.

I should be very happy to discuss these concerns further if that would be of assistance.

Yours faithfully

David Broadway
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