

UK NATIONAL PAYMENTS PLAN - RESPONSE FROM CHARLES BRYANT

This note offers a range of selective comments and suggestions relating to the draft National Plan for payments currently under consultation. Rather than table comments against the paragraphs of the Plan, comments have been grouped under topics, which often cut across the sections in the Plan.

The writer acts in a private capacity. He was the Secretary General of the European Payments Council from 2004 until mid-2007 and had a close involvement in the design and roll-out of SEPA. Prior to that he was at SWIFT and spent many years in the banking industry. At APACS in 1992-4 he coordinated the introduction of Real Time Gross Settlement into CHAPS.

The opportunity to provide comments is greatly appreciated.

SCOPE

The scope of the Plan appears comprehensive and should allow the capture of the key elements necessary for such an ambitious undertaking.

The Plan could benefit from a set of **guiding principles**, which might underlie its content and implementation.

In particular it would be helpful to see a more rigorous **definition of what falls into the cooperative and competitive spaces** respectively.

Another key principle which is implicit but could be comprehensively detailed is the **split between “scheme” and “infrastructure”**.

It would then be useful to see an explanation of the industry governance structure. In particular it is curious that this document does not describe the respective roles and responsibilities of APACS and the UK Payments Council.

There are no links to each other on the web-sites although there appear to be common management roles. This should all be spelt out in the interests of transparency and to allay any concerns about conflicting interests.

A Plan would normally set out **implementation aspects and timelines**. Even though the next steps will be mainly evaluation, there could be more about implementation, perhaps in a Roadmap.

CHEQUES AND CASH

It would seem sensible to have a pro-active approach to the demise of cheques.

The lack of an explicit giro-credit system, which in many European countries performs the role of the cheque, is an issue.

Products based on Faster Payments would seem to be the answer. This should include opportunities to instruct ones bank with a simple payment form, through self-service devices such as ATMs, as well as Internet and telephone banking. A paper form might be an essential element in the transition for some segments. The ATM as a payment initiation device seems an obvious requirement, especially in the in-branch environment. These options would help SMEs and consumers (P2P).

There is a major problem caused by the absence of bank account numbers on many invoices. Suppliers who don't do this invite cheques. This requires a campaign of persuasion.

The displacement of cash also needs an explicit strategy taking care to recognise the important value placed on the use of cash by society.

FASTER PAYMENTS

The Plan would benefit from a clear explanation of what Faster Payments actually is, including the question "Faster" than what? A reading of the Plan places emphasis on Faster Payments as a strategic development and given its novelty more information would be useful. The following further questions deserve explanation:

1. What is the customer proposition?
2. Is it an inter-bank scheme or a "collective service"?
3. What are the precise links between the finality of a payment in the account of a beneficiary and the cycle for settlements between banks?

The market is awaiting further details. It would seem sensible to treat Faster Payments as an express Credit Transfer Scheme, on which payment service providers then build products. This is an important distinction, which differentiates the cooperative and competitive dimensions.

It seems possible that the receipt of a payment in a customer account (seconds/minutes) and the cycle of inter-bank settlement may be asynchronous. Has all this been fully thought through from a risk point of view for customers and banks? Why not the RTGS principle? Will the system be able to handle all the safety checks (fraud, AML etc)?

Standards are covered below in a section, but it is appropriate here to question how Faster Payments based on cards standards (ISO 8583) fits into an overall strategy for payments standards. Europe in general is adopting the globally accepted UNIFI (ISO 20022 XML) standards for credit transfers and direct debits. The key platform for the UK's payment direction appears to be going in another direction. This at least requires a reflection, despite the regulatory push for results.

The key point, however, is that a good substitute for the three day BACS service is imminent. It is assumed that the BACS version will be phased out.

In addition to the new product being offered in the channels referred to above in the section on cheques, **Faster Payments should be a choice for Internet shopping**. Instead of the cards only option, Faster Payments should be an option displayed on merchant web-sites, with a built in URL taking the payer to their bank portal and back to the web-merchant on completion of the payment. Such an option is both convenient and would remove the need for card details to be delivered all the time over the Internet. To put this into practice will need an inter-bank arrangement worked out together with the merchants.

The handling of Remittance data is a key need for businesses and an essential area of focus to ensure its adequacy in terms of field length and preferably a standard for its content worked out with users.

CARDS

Cards issues are dominated by pricing questions, which are correctly ruled out of scope for the Plan. There are many innovative opportunities with cards, which perform a huge service to society. **The constant battle with competition authorities and between industry stakeholders is corrosive**. Surely a better way can be found to move forward.

The UK should continue to support the cards standards programme within SEPA.

PAYMENT SERVICES DIRECTIVE

The Payment Services Directive (PSD) is an important piece of imminent legislation that will spell out for the first time a set of rights and responsibilities for users and providers of payment services and defining a new class of provider, Payment Institutions. **It deserves own section in the Plan and not as part of the SEPA topic**. The present treatment is misleading for all but the most careful reader. The PSD affects all automated retail payments throughout Europe irrespective of currency. It is essential for SEPA but not confined to it.

The present description may underestimate the impact and the effort needed to implement its provisions in the UK including customer education and national roll-out. It would

seem an area requiring a plan. It is also critical that planning efforts are made to ensure that the UK legislative adoption does not create anomalies with the rest of Europe.

The section on **Direct Debit** discusses plans to review the operation of current scheme provisions, which is obviously sensible but makes no mention of the PSD. The PSD has a major impact here and this should be acknowledged as it may need to be in other areas.

STANDARDS

Standards are relegated to a rather general section near the end of the Plan. Standards would seem to be of the essence of a payments plan with a clear process to take decisions and then implement a strategic view. **The UK today has a plethora of payment standards and is potentially moving out of line with the rest of Europe and potentially the world.** Any such decisions should be explicit and transparent irrespective of the outcome: either keep the present rather tactical approach to standards or adopt a long term strategy, for example based on **UNIFI (ISO 20022 XML) standards.**

In addition to creating cost and complexity for banks by preserving distinctions between domestic and foreign payments (including SEPA), standards diversity impacts customers, especially as the standards vision must include an end to end dimension, especially if newer areas like e-invoicing are to be catered for. The corporate world is likely to move to XML standards. This customer to bank area is not covered comprehensively in the present draft.

It would be frustrating to customers to find different standards between payments denominated in different currencies.

SEPA

SEPA is a major development for euro payments, in which the UK payment industry is actively engaged. It is fully expected that the providers will offer SEPA-compliant and value for money SEPA payment services to the many UK users of the euro.

Given the importance of trade in Europe it would seem that payments originating in the UK using the new SEPA schemes should at the very least be competitively priced. Of course, pricing is in the competitive domain but the UK Payments Council may wish to look at the application of Regulation 2560/2001. Regulation 2560/2001 says that the price for a cross-border payment in euro should not exceed the price of the corresponding domestic instrument. There is a need for industry level clarity on this provision, especially with the arrival of Faster Payments, which could now be the best-fit corresponding instrument.

In general the UK should leverage the opportunity offered by SEPA. **There should be a debate as to whether the UK payment schemes should wherever possible use exactly the same scheme rules and standards as SEPA.** This would mean that apart from the currency, customers would have the same experience as throughout Europe. There really is no case for the UK being an exception. Of course this move would need careful planning, but it could be in the UK's long term economic interests.

INNOVATION

In the area of innovation there are opportunities, most of which are recognised in the draft Plan, in particular:

1. More payment choices for web-shopping
2. Mobile payments
3. XML standards in the customer to bank domain
4. Support for e-Invoicing and e-reconciliation
5. Banks supporting e-identity
6. Contact-less and prepaid cards
7. Electronic Direct Debit mandates (one-off and regular).

The main point here is that these cannot be left to market forces and individual competitors. **The important network effects that need to be created require collaborative activity with proper regard to cooperative and competitive domains.** Experience shows that without rulebooks and schemes these initiatives don't move forward.

MISCELLANEOUS

It is suggested that figures illustrating the market show figures for non-cash payments as a universe in its own right (without cash payments). The resultant percentages are more revealing than when combined with cash items.

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