

PAYMENTS COUNCIL

**Governance Review and
Assessment of Performance**
A Consultation Paper

November 2011

Introduction

About the Payments Council

The Payments Council is the body with responsibility for ensuring that payment services work for all those that use them in the UK. This unique role ensures that we listen to a wide range of stakeholders to drive innovation in payments and implement change so that individuals and businesses have access to payments for their current and future needs. We are, by nature, a collaborative body so we work with the financial institutions in the payments industry as well as listening to the voices of our external stakeholders.

We have three main objectives:

- to have a strategic vision for payments and lead the future development of co-operative payment services in the UK;
- to ensure payment systems are open, accountable and transparent; and
- to ensure the operational efficiency, effectiveness and integrity of payment services in the UK.

We are a membership body with an independent non-voting Chairman. Our Board has four independent directors, who can collectively block any decision that they believe is not in the best interests of those using payment services. They produce a report each year, which is published as part of the Payments Council Annual Review. Eleven industry directors representing the members also sit on the Board and the Bank of England has a seat as an observer. We are funded by our industry members, which means rightly that we do not place any financial onus on our external stakeholders. We work hard to ensure that the right balance is maintained between all those bodies that we speak to, including the industry members, when reaching any decision that impacts the people who use and rely on payment services.

The creation of the Payments Council

The Payments Council was created in March 2007 to provide a new governance structure to address issues of transparency, access and innovation in payments and resulted in the closing down of the Office of Fair Trading's Payment Systems Task Force. The Task Force comprised representative bodies of consumers, businesses and retailers and members of the financial services industry. HM Treasury was also involved in discussions over the future governance of the payments industry and the new structure, which led to the Payments Council being set up, was formally backed by the Chancellor of the Exchequer in November 2006.

Working with stakeholders and the payment schemes

The Payments Council has three User Forums, made up of a wide range of representative bodies ensuring that the views of consumers, small and medium-sized enterprises (SMEs) and large corporates are effectively taken into account. These Forums consider and discuss proposals and offer advice to the Board. Each Forum is chaired by an independent director. In addition, a special liaison group represents the charity and voluntary sector.

During 2010 we formed a partnership with Intellect to launch a Vendor Forum. Intellect is the UK trade association for IT, telecommunications and electronics industries and its members account for over 80% of these markets. The Vendor Forum provides advice and guidance to the Payments Council Board and helps to increase the flow of innovative ideas into discussions.

The Payments Council has a formal working relationship with a number of the payment schemes in the UK. Most of the schemes are run as separate companies and are responsible for the day-to-day operating procedures and rules which mean that millions of payments are made seamlessly each day.

These are:

- Bacs (incorporating Direct Debit and Bacs Direct Credit schemes);
- CHAPS Clearing Company (incorporating CHAPS sterling and Faster Payments schemes);
- Cheque and Credit Clearing Company (including currency clearings);
- The LINK ATM Scheme; and
- Belfast Bankers' Clearing Company.

Reviewing the governance and performance of the Payments Council

The Office of Fair Trading (OFT) reviewed the Payments Council after its first two years of operation. The conclusions of that review were published in March 2009 and the report, along with our response to it, are available on our website at http://www.paymentscouncil.org.uk/resources_and_publications/publications/oft_review_of_payments_council/.

One of the conclusions of the OFT's report was that the Payments Council should conduct its own review in 2011, providing a self-assessment against progress on:

- its strategic vision and openness and accountability objectives;
- recommendations of the Task Force where these had not been met in the OFT's 2009 review;
- specific recommendations from the OFT's 2009 review; and
- after an assessment on progress against the integrity objective by an accountancy firm, a self-assessment against integrity should also form part of this process.

This consultation paper is part of the review that we have been asked to carry out by the OFT. Whilst it is considered to be a self-assessment, we are taking steps to ensure that all our stakeholders are able to contribute frankly and openly. The review is therefore being led by Professor Martin Cave, who has been an independent director of the Payments Council since its inception and whose term on the Board comes to an end in December. Professor Cave has agreed to see this review through to the conclusion when we publish the final report in February.

How to respond

We recognise that for many individuals and organisations responding to this consultation, not all of the questions will be relevant. We therefore ask that you only answer those questions where you feel it appropriate to do so.

Electronic responses would be preferred and should be sent to consult@paymentscouncil.org.uk

Alternatively, paper responses can be posted to:
Governance Review and Assessment of Performance
c/o Jessica Tong
Payments Council
2 Thomas More Square
London
E1W 1YN

Please respond by **30 November 2011**.

To help us analyse responses, please can you indicate in your response which of the following categories you consider yourself or your organisation to fall into:

- Consumer
- SME
- Large Corporate
- Charity and voluntary sector
- Financial services industry
- Infrastructure provider
- Parliamentarian
- Regulator or government department
- Other (please specify)

Consultation Questions

Driving innovation

One of the key actions taken by the Payments Council is the development of the National Payments Plan – a revised version of which was launched on 25 October 2011. The Plan is a programme of activity for the development of co-operative payment services in the UK and was shaped by consultation with those that use payment services. Its purpose is to enhance and improve payments so that all types of customers have access to a broad range of payment methods that meet their needs, and are confident in using them. The actions in the Plan include:

- a number of steps to improve confidence in making electronic payments, including mandatory minimum standards to enhance the service level provided by faster payments;
- an exploration of mechanisms to delegate payments - to address the needs of people who are housebound;
- a major communications initiative to enable people to choose the payment service that best suits their needs; and
- a targeted campaign to raise awareness of chip and signature.

1.

How effective has the Payments Council been in providing strategic direction for the payments industry, for example in encouraging and developing innovation, and identifying gaps in payment services that could be addressed by developing new services or products?

2.

Has the Payments Council been effective in using its influence to drive change in the industry?

3.

Does the Payments Council provide effective leadership through its governance structure? Do you consider the structure to provide sufficient authority and independence to enable the Payments Council to carry out its role effectively?

The Payments Council's mandate is:

- to have a strategic vision for payments and lead the future development of co-operative payment services in the UK; continued...

- to ensure payment systems are open, accountable and transparent; and
- to ensure the operational efficiency, effectiveness and integrity of payment services in the UK.

4.

Does the Payments Council have sufficient powers to deliver its mandate? How could the powers be changed to make the Payments Council more effective in its delivery?

5.

Does the Payments Council have an appropriate relationship with HM Treasury, the OFT, the FSA and the Bank of England and is it held accountable?

Independent directors are appointed taking into account their past and current experience to ensure that the Payments Council can benefit from their expertise. The current four independent directors have, between them, knowledge and experience of consumer, small business and large corporate issues.

6.

Do the independent directors have a strong enough voice on Board; for example, should consideration be given to increasing their power to set the agenda or veto Board decisions (currently this requires all four voting together)?

7.

Should the independent directors be more allied to particular stakeholder groups, acting as their voice on the Board?

Working with the industry and stakeholders

Part of the remit of the Payments Council is to meet the needs of the people and businesses that use payment systems. To do this we operate three User Forums covering large corporate users, small and medium sized businesses, and consumer organisations. We also have a Charity and Voluntary Sector Liaison Group and have recently set up a Vendor Forum, in partnership with Intellect.

To ensure transparency and a balanced debate each of the User Forums is chaired by one of the Payments Council's independent directors. The User Forums meet at least twice a year, in advance of Board meetings, to discuss key issues and developments and offer specialist advice to the Payments Council on a variety of payment-related topics.

Whilst the independent director chairing each Forum does not act as that sector's representative on the Board, they do report back the views expressed by the Forum members to the Board when discussing those agenda items.

continued...

- **Consumer User Forum**

The Consumer User Forum is open to organisations that represent consumers.

- **Small & Medium Sized Enterprises (SME) User Forum**

The SME User Forum covers a diverse range of organisations, including those that represent different business sectors.

- **Large Corporate User Forum**

The Large Corporate User Forum is geared towards heavy volume payment users such as insurance companies, government departments, telecommunications firms, international companies, large retailers, utilities and transport companies.

The Charity and Voluntary Sector Liaison Group meets around 3 times a year and membership comprises the sector's umbrella organisations. It operates in a similar way to the User Forums in that it discusses key issues of relevance and offers specialist advice to the Payments Council; allowing for a two-way communication between the charity and voluntary sector and the Payments Council.

8.

Does the Payments Council conduct its business with a broad enough base of stakeholders, for example consumers, corporates, smaller businesses, charities and the voluntary sector?

9.

Do the User Forums provide an effective mechanism to provide stakeholder input into debates at Payments Council Board? How can they be enhanced, for example to enable them to raise new issues proactively?

The Payments Council offers two categories of membership:

Full membership

To qualify to be a full member an organisation must be a payment service provider in the UK and have qualifying payment volumes. This membership definition is wide enough to reflect the increasing diverse range of payment service providers. There are currently 31 full members.

Associate membership

The Payments Council offers associate membership for any organisation with an interest in the payments industry. There are currently 23 associate members.

More information on membership and the list of current members can be found on the Payments Council website at http://www.paymentscouncil.org.uk/our_members/.

10.

Does the Payments Council have the right balance of membership categories?

'Agencies' are those banks and building societies that access the payment schemes through other banks, known as 'clearing banks' or 'direct members' of a scheme. This is a competitive area where agencies can negotiate their requirements with the different scheme members to find a service relationship and associated cost that is suitable for them. Agencies are not bound by the rules of a scheme – only scheme members must ensure compliance with these – but the contract between them and their clearing member will contain provisions similar to the scheme rules. All banks and building societies, regardless of whether they are direct scheme members or agencies, are obliged to follow any requirements set out in legislation relating to the processing of payments, such as in the Payment Services Regulations.

11.

What role and relationship should the Payments Council have with agency banks and building societies?

12.

What role and relationship should the Payments Council have with the cards industry, including such organisations such as The UK Cards Association, Visa, MasterCard and issuers of pre-paid cards?

Third-party payment providers are companies that enable small businesses or individuals to take payments directly, or to take card payments. Examples of such providers are:

- online charity giving websites such as JustGiving, VirginMoneyGiving and BT MyDonate facilitating fundraising activity and GiftAid collection through card payments;
- payment collection services such as ParentPay, which provides online payments, income management and dinner money administration for schools, authorities and caterers;
- online services to accept card payments, such as Datacash;
- technology that allows customers paying by credit or debit card to 'round the pound' to give to charity such as that used by the Pennies Foundation; and
- mobile phone top-up services offered through the ATM network.

13.

Does the Payments Council conduct its business with a broad enough base of payment service providers, such as third party providers? Should the Payments Council do more in this area?

14.

Does the Payments Council strike the right balance between spending time building consensus and consulting stakeholders on the one hand, and getting things done in a timely manner on the other?

Ensuring transparency

All Board meeting dates, agendas and minutes are published on the Payments Council website. We also publish the business case for our policy decisions and the results of any independent market research that is commissioned as part of our work.

The National Payments Plan (NPP) is the Payments Council's roadmap setting out the vision for UK payments, together with the actions for putting the vision into practice. A new NPP was launched in October 2011 following a public consultation asking what is needed to enhance and improve payments and to ensure that the public and organisations can be confident in using them. It sets out publicly the agenda for much of the Payments Council's work.

The Payments Council issues a quarterly newsletter, *Communiqué*, that is circulated widely and is available online. This aims to communicate and explain the work that Payments Council is undertaking, particularly to those outside of the industry including members of the public.

Other regular publicly-available publications include the annual review, statistical updates, press releases, digi-guides and responses to other organisations' consultations.

15.

Is the Payments Council effective at communicating with the industry and the wider stakeholder community on its policy decisions and business case? How could this be improved?

16.

Does the Payments Council have the right level of transparency in the way it operates and the way it takes decisions?

Ensuring efficiency and integrity in the UK's payment systems

By "integrity of the payment systems" we mean those risks which may affect the operational reliability or resilience of the payment systems. The Payments Council has delegated the day-to-day operation of the payment schemes to the relevant Scheme Company Board. However, the Payments Council has an overriding objective to ensure the operational efficiency, effectiveness and integrity of payment services in the UK with a particular focus on risks which may affect more than one scheme.

17.

Does the Payments Council give sufficient priority and resource to its objective in ensuring the integrity of the payment systems by focusing on cross-scheme risks?

The Payments Council has an Incident Management Process which applies to all incidents that affect one or more of the payment schemes contracted to the Payments Council. It will be followed where the incident is:

- likely to impact another contracted payment scheme (e.g. because they may, for example, be affected by the re-routing of business); or
- there is likely to be a significant effect on customers and become publicly visible.

In the case of an incident, the contracted Scheme Companies concerned have a responsibility to notify the Chief Executive of the Payments Council at the earliest possible opportunity. In addition, any full member of the Payments Council or member of the Payments Council Executive who is aware of an incident may notify the Chief Executive.

The Payments Council Chief Executive shall brief the other contracted schemes, so that an assessment can be made of the extent to which they are impacted.

The Chief Executive, in discussion with the representative(s) of the impacted scheme(s), will decide:

- whether any existing bilateral contacts between the affected scheme and other schemes are sufficient or whether a meeting should be called with the other contracted schemes; and
- whether a public statement is needed, explaining what is happening and giving advice to customers and the public (usually through the media) about what they should do.

18.

Does the Payments Council have adequate processes in place for managing cross-scheme risks and cross-scheme incidents?

19.

Are there any concerns with access to payment schemes that Payments Council could help resolve, for example in regard to the agency bank model (please see explanation under question 8)?

Progress made against recommendations within ‘OFT Review of Operations of the Payments Council – 2009’

A summary of the progress that has been made following the 2009 report from the OFT is provided in the annex.

20.

How well do you think that we have performed against the recommendations that were made by the OFT?

21.

Do you have concerns about access to clearing membership of schemes?

22.

Do you have any concerns about the tendering of the infrastructure and the processing business of the schemes?

The following sets of questions are targeted at particular groups

Consumer groups

23.

How would you describe your level of awareness of the work of the Payments Council?

24.

Do you feel that the Payments Council makes a sufficient effort to consult consumers and consumer groups?

25.

In what ways do you believe the Payments Council could better communicate and engage with consumers and consumer groups?

Large corporates

26.

Do you feel that non-payments industry businesses (such as utility companies and retailers) have sufficient representation in the governance structure of the Payments Council?

27.

Are you aware of the current strategic direction for payments being set by the Payments Council? If so, what are your feelings on this direction?

28.

Do you feel the Payments Council succeeds in innovating in payments in a way that benefits your sphere of business? What more do you feel could be done?

29.

In what ways do you feel the relationship between the Payments Council and businesses with a strong interest in payment issues could be enhanced?

Small & Medium Sized Businesses (SMEs)

30.

Do you feel that the Payments Council pays sufficient attention to the interests of SMEs in considering issues around payment systems?

31.

Does the Payments Council strike the right balance between the interests of SMEs and larger businesses?

32.

What changes do you feel could be made to the governance structure of the Payments Council that would be of benefit to SMEs?

33.

What steps do you feel could be taken to improve the dialogue between the Payments Council and SMEs?

Charity and voluntary sector

34.

In what ways has the work of the Payments Council impacted the charitable and voluntary sector?

35.

Do you feel that the interests of charities and voluntary organisations are adequately represented in the governance structure of the Payments Council?

36.

Do you feel that the Payments Council spends enough time consulting this sector?

Parliamentarians

37.

How would you assess the performance of the Payments Council?

38.

Do you feel that the Payments Council reflects the views of all its stakeholders, including consumers, corporate, smaller businesses, charities and the voluntary sector?

39.

Do you feel that the Payments Council engages sufficiently with parliamentarians and policymakers? What more could be done in this regard?

Annex

The following table sets out the recommendations made by the OFT in its 2009 review of the Payments Council, with a summary of progress made against each of them.

| OFT recommendations | Summary of progress |
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| <p>The OFT recommends that the Payments Council provides a self-assessment against progress every two years on:</p> <ul style="list-style-type: none"> its strategic vision and openness and accountability objectives; recommendations of the Task Force where these have not been met ; and specific recommendations from the OFT review. | <p>The Payment Council were very pleased that the OFT did not believe that a future full-scale review of the Payments Council was necessary. We support this recommendation and see this as a good governance approach. In November 2011 we commenced our first governance review and performance evaluation and plan to consult with a wide range of stakeholders through an open consultation process. We will be publishing the results of this in early 2012.</p> |
| <p>The OFT recommends that issues of integrity are given a higher priority by the Payments Council than has been the case. In order to ensure progress against this objective, the Payments Council should commission an accountancy firm to report in two years on how well it has performed.</p> | <p>An independent review of the work on cross-scheme integrity was undertaken by KPMG during 2011. As a result an action plan has been drawn up and incorporated into the Payment Council's workplan. A summary of the review was published as part of the Payments Council Annual Review 2011.</p> |
| <p>The Payments Council should introduce a class of full membership for bodies other than payment service providers. This would allow other bodies that can demonstrate an interest in payments a seat or two on the Payments Council Board.</p> | <p>The Payments Council has two categories of membership: full membership, open to payment service providers; and associate membership, a category specifically for those organisations who have an interest in payments. Over the last 2 years we have seen a steady interest in our associate membership and currently have 23 associates.</p> <p>Our view remains that the presence on the Board of vendors and those who essentially supply the payments industry rather than are part of it would create the potential for conflicts of interest. Instead we have always taken the view that we would investigate the creation of a dedicated forum for vendors and infrastructure providers.</p> <p>To help us achieve this we set up a strategic partnership with Intellect, the trade body for technology solution providers, to establish a Vendor Forum. This helps us achieve an effective mechanism to reach out to the vendor community.</p> <p>In May 2011 we held our first joint conference with Intellect on <i>'Driving Change in Payments Conference'</i>. The event was very well attended with a broad range of stakeholders, including technology companies, schemes, infrastructure providers, banks and regulators. We plan to repeat this during 2012.</p> |

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| <p>The Faster Payments Scheme should introduce a specific mechanism for taking into account the views of non-member users, such as businesses or consumers. This could be based on the Bacs Affiliates Interest Group, or could take some other form.</p> | <p>Regular updates have been provided by Faster Payments to the Payments Council User Forums, in particular the Consumer User Forum. In addition, Bacs Affiliates agreed to include Faster Payments issues within their remit in 2011. Bacs Affiliates provides a forum for corporate users, including current and potential users of the service. From 2012 both the name and the remit of the Bacs Affiliates group will be expanded to formally include Faster Payments.</p> |
| <p>Bacs should introduce a mechanism to perform a periodic check for demand for clearing membership, and commit to offering under open tender its processing business. It should show how it has gone about actively carrying out both.</p> | <p>In June 2009 Bacs responded to the OFT stating that Bacs was committed to addressing the recommendation and will measure the effectiveness of how well it has done, through the Payments Council's governance review and assessment of performance. In the last two years two new financial institutions have become members of the Bacs scheme. The press release announcing Citibank's membership stated Bacs' openness for new membership applications.</p> |
| <p>The Cheque and Credit Clearing Company should renew its efforts to educate consumers, and particularly bank staff, about the timings surrounding cheque clearing. It should publish metrics to show that consumer and bank staff understanding has increased.</p> | <p>The Cheque and Credit Clearing Company publishes annual market research on awareness around 2-4-6 cheque clearing rules and ensures that the 2-4-6 guidelines are regularly revised as appropriate, shared with members and available on the Cheque & Credit website. An enhanced 'cheque checker' facility has been added to the website helping customers know when day 6 will be, based on when a cheque is paid in to their account.</p> |
| <p>The Payments Council should demonstrate enhanced leadership over its members by encouraging those members of the Faster Payments Scheme to introduce Faster Payments fully, and in the case of Alliance and Leicester the clearing of cheques for value by day T+2. It should ensure it has published metrics that show industry performance on these and future key issues.</p> | <p>The Payments Council publishes information on the value limits Faster Payments members apply to customers. These have continued to increase since 2009. The newly-published National Payments Plan shows that there is stakeholder support for Payments Council developing mandatory minimum standards on Faster Payments and this will be progressed in 2012.</p> <p>The latest statistics confirm that the number and combined value of both online and phone banking transactions as well as standing order payments processed through Faster Payments has continued to increase during 2011. Volumes have grown by 32% and values by 40% during Q2 2011. During that quarter, there were 57.5 million standing order payments (average value standing at £190) and 69 million phone and online banking payments (at an average value of £600) were processed.</p> <p>In line with forthcoming regulation to ensure that customers get value for payments the day after initiating that payment, CHAPS Clearing Company requires all Bacs addressable sort codes for credits be made FPS addressable by 1 January 2012. A strict programme is being undertaken by CHAPS Co to ensure that customers are able to make Faster Payments to the widest number of accounts possible.</p> <p>Alliance and Leicester branches were successfully migrated onto the main Santander platform, and now process cheques in line with the industry standard.</p> |