

Minutes



7 October 2009

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To Payments Council Board

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CC Non Board Contacts

From Hilary Plattern
Director of Strategy

MINUTES OF THE MEETING OF THE PAYMENTS COUNCIL BOARD HELD ON 5TH OCTOBER 2009

Present:

Brian Pomeroy	Chairman
Moira Black	Independent Director
Martin Cave	Independent Director
Stephen Locke	Independent Director
Michael Alexander	Independent Director
Industry Directors (Nominated by Members with over 5% of UK Clearing Volumes)	
Colin Klipin	Barclays
Colin Painter	HSBC
Juan Olaizola	Abbey
Russell Saunders	Lloyds Banking Group
Ron Kalifa	Royal Bank of Scotland
Industry Directors (Nominated by Members with over 1% but less than 5% of UK Clearing Volumes)	
Neil Lover	Nationwide
Industry Directors (Nominated by Members with less than 1% of UK Clearing Volumes)	
Maurice Cleaves	Deutsche Bank
Dermot Nolan	Bank of Ireland
Carl Scheible	PayPal (Observer)
Joanna Place	Bank of England (Observer)
Paul Smee	Chief Executive, Payments Council
Hilary Plattern	Payments Council

Peter Finlayson	Payments Council
Marcus Treacher	Chairman of SWIFT UK Ltd Board (for item 6)
David McFarlane	CHAPS Company Manager (for item 7)
Apologies	
John Hughes	Co-operative Bank
Brent Bellm	PayPal
Kevin Page	Clydesdale
Andrew Bailey	Bank of England
Anita Heaviside	Payments Council (Board Secretary)

1. WELCOME AND MINUTES

ACTION

The Chairman welcomed Ron Kalifa and Colin Painter to their first Board meeting. He also recorded the Board's thanks to Jim Large of HSBC and Richard Hemsley of RBSG for their valuable contributions. The Chairman welcomed Joanna Place as an observer from the Bank of England.

Apologies noted were:

Brent Bellm (PayPal) Nominated Proxy Dermot Nolan

John Hughes (Co-operative Bank) Nominated Proxy Neil Lover

Kevin Page (Clydesdale) Nominated Proxy Neil Lover

Andrew Bailey, Bank of England.

The minutes of the meeting of 17 June 2009 were APPROVED and will be posted to the website.

The actions from the previous meeting have been completed. Letters have been sent by the Chairman to some members of the Faster Payments Service and additional information will shortly be posted to the website.

All Directors were asked to declare any relevant conflicts of interest. Colin Painter and Ron Kalifa declared that they were members of the VISA UK Board for the purposes of item 3)c.

2. PAYMENTS COUNCIL BUDGET 2010

The Board APPROVED the budget for 2010. The Chief Executive

recorded his thanks to the Budget Working Group for their input. He confirmed that the budget reflected the changing workload of the Council. Whilst it was a challenging budget for 2010, he expected to have sufficient resource to maintain momentum on the Council's priorities. Much of the resource is internal which allows the Council to be adaptive to changing demand. It was noted that a Conference in 2010 might be an option but did not warrant an increase in the budget at this stage. The Board also AGREED to defer the survey on cross border payments to 2011.

The Board APPROVED the proposed fee allocation for 2010. It was further AGREED that the Budget Working Group should reconvene early in 2010 to consider fee allocation principles for 2011.

Paul Smee

3 NATIONAL PAYMENTS PLAN

a) NPP Summary and Status Overview

The Board noted the NPP Update and Status Overview Paper. They also APPROVED the PID and Terms of Reference for the Credit Clearing Review.

It was agreed that a paper would be prepared for the December Board meeting summarising the impact of key European developments on the UK, with particular reference to SEPA and the PSD.

Paul Smee

b) Cheques Phase 2

Peter Finlayson introduced a paper from the Cheque Replacement Steering Group setting out interim conclusions and recommendations on the Cheques Phase 2 project. He explained that cheque replacement is at the heart of the NPP. Two joint meetings of the User Forums were held in September and attendees were broadly supportive of the draft Roadmap. Education and communication on alternatives to cheques are key themes of the Roadmap and Payments Council will need to work hard to maintain momentum and to demonstrate leadership.

Moira Black reported on the first joint User Forum meeting which she had chaired. The meeting included consumer, SME and large

corporate representatives. Views expressed included the fact that those who wished to keep using cheques should bear the cost, that the decline of cheques could lead to increased cash usage, that alternatives to cheques should be designed in consultation with users, that communication should be handled centrally, and that mobile payments were not the only answer to cheque replacement.

Stephen Locke reported on the second joint User Forum meeting which he had chaired. Views expressed included a question as to precisely what was meant by closure of the cheque clearing and whether this could lead to the end of cheques, that the role of the Payments Council will be key and that the Council should be aware of developments in the competitive space and promote the benefits of moving away from cheques. The DWP had provided very helpful input.

The Board were asked for their comments and guidance. The following points were made in discussion:

- The Payments Council needs to clarify how the move away from cheques will happen and also the Payments Council's role in this.
- The Roadmap will set the direction of travel and will not therefore be a detailed document.
- Tracking progress against targets will be key as there may be step changes as announcements are made.
- The Council should seek to clarify plans of government departments on cheque replacement which will be a key driver.
- There is a need for strong collective leadership on innovation from members of the Payments Council.
- There is uncertainty as to precisely the level of residual cheque activity expected in 2018 at this stage but volumes are expected to be very low.
- There is little industry appetite to make major investment in cheques even to deliver added processing efficiencies.
- The industry should seek to leverage its investment in the existing payment systems, particularly FPS.
- There will be initiatives that can be undertaken collectively but also competitive developments and Payments Council should

look to find a way to factor in information about the impact of developments in the competitive space without breaching commercial confidentiality.

- The Council might also have a role in encouraging innovations even in the competitive space.
- Scenario planning will be essential, including goals and measures.
- The banks can demonstrate leadership themselves e.g. by not paying dividends by cheque and not accepting payment of credit card bills by cheque.

CRSG

The Chairman concluded by summarising actions for the December Board meeting as follows:

Paul Smees

- Preparation of the roadmap on the basis proposed by the Cheque Replacement Steering Group, specifying where payment innovations were needed to fill the gaps created by the removal of cheques.
- Preparation of a paper on the governance of the cheque replacement project
- Exploration of ways in which to solicit and receive commitment from members on developments in the competitive space without breaching confidentiality

**Chairman
with Paul
Smees**

c) Online Payments

Peter Finlayson introduced his paper reflecting a commitment in the NPP to review the suggestion for a new scheme using the Faster Payments Service to pay online retailers. The review will consider three questions:

- Is action needed to preserve the integrity of online banking and payments?
- Are online payment services an attractive proposition for the UK?
- What should Payments Council do, if anything, to facilitate or encourage the development and take up of online payment services?

The Board was asked to provide comments and guidance. The following points were made:

- E schemes will emerge across Europe so it is timely for the Payments Council to take a UK view.
- We can learn from other approaches taken by e.g. the card schemes.
- The review should take account of the benefits being delivered by existing payment methods, such as debit cards.
- Security concerns are key.
- There is a range of views about where the boundary between competitive and collaborative lies.

In conclusion, the Board AGREED to set up a member group reporting into the Member Strategy Group which will prioritise consideration of security/integrity concerns and will then pick up on the innovation agenda. The group should be asked to review its remit to ensure that it is sufficiently broad. It should make an early progress report to Board.

**Peter
Finlayson**

d) E invoicing

The Board noted the Report and AGREED to maintain a watching brief.

4 MOBILE PAYMENTS

The Chairman provided an oral update on progress since the last Board meeting. No consensus had emerged in support of a collaborative UK mobile payments scheme although there are developments expected in the competitive space. Similarly, no consensus had emerged in support of a central alias database. However he felt that the Payments Council nonetheless had a role to play in guarding against the proliferation of multiple standards in the competitive space and acknowledged mobile payments as a potential cheque replacement tool.

This led to a wider discussion about the role of the Payments Council in promoting innovation. It was noted that not all innovation will require collaboration. It was however felt that the Payments Council needed to

be able to collate evidence of developments in the competitive space in order to be able to champion innovation, particularly where there is an interaction between developments in the competitive and collaborative spaces.

The Chairman summarised the actions AGREED by the Board for the December meeting:

- Prepare a first draft of a public statement on mobile payments
- Explore a way of understanding the nature of developments in the competitive space in mobile payments and other channels
- Understand the implications of any decision on mobile payments for the cheque replacement roadmap and provide reassurance that competitive initiatives are in hand that will address the market gaps created by the removal of cheques.

Paul Smee

5 RETAIL BANKING REGULATION

Paul Smee introduced a paper on the changes to retail banking regulation coming into force from 1 November 2009. The Board AGREED that the Payments Council should be a sponsor of the BCOBS Industry Guidance as it relates to payments issues, largely cheques.

6 SWIFT UK

Marcus Treacher, HSBC and Chairman of SWIFT UK Limited joined the Board for this item. He explained the role and purpose of the SWIFT UK Board which acted as a lobby body and National Member Group representing UK views into SWIFT SC. SWIFT UK's Board had expressed a wish to work more closely with the Payments Council on issues of common interest e.g. secure messaging, remittance and digital identity. SWIFT UK could also provide an educational role for Payments Council. This approach was supported by the Board and it was AGREED that a way should be found of taking forward exploratory discussions with SWIFT UK on issues of mutual interest.

**Paul Sme
with Marcus
Treacher**

The Chairman thanked Marcus Treacher for attending.

7 CHAPS COMPANY

David McFarlane, CHAPS Company Manager joined the Board for this item. He made a presentation covering the member progressive implementation of the Faster Payments Service (FPS); payment growth and challenges; the RTGS system for CHAPS including FSA proposals on strengthening liquidity standards, and evolving the RTGS system to support member needs; and the strategic discussions on the future proposition for same day payments including a Strategy Conference planned for 12 November.

David said that the FPS ramp-up would remain their first priority and to that end they were having constructive meetings with participants. CHAPS Co Board had recently accepted novation of the FPS contract from UK Payments subject to due diligence conducted by internal audit and risk and Deloitte. The Strategy Day would provide a useful opportunity to review the reach of FPS, increase awareness of the Service and also clarify the respective roles of FPS and CHAPS £. A Policy Statement is expected shortly from the FSA on managing liquidity both in terms of intraday liquidity and managing future provision. This could impact on the cost of providing the RTGS system. The Payments Council has established groups to consider the implications with Bank of England of any changes to liquidity regulation and would be working closely with the FSA. The Scheme Co-ordination Committee was gaining traction and CHAPS Co would continue to support it.

The Chairman thanked David McFarlane for his presentation.

8 CONTRACTED SCHEMES

The Board noted the quarterly reports from the contracted schemes.

C&CCC Report: It was NOTED that C&CCC had completed its action on processing efficiency under the NPP. One of the Independent Directors expressed disappointment with the findings of the BCSB on bank staff awareness of 2-4-6. This has been picked up by C&CCC Board which has supported making leaflets available in branches and the exchange of best practice on staff training.

Bacs Report: It was NOTED that the Bacs Board supported best practice for balance transfers to be made electronically by all Payments Council Members.

LINK Report: The Chairman noted that delays in the Post Office including the Post Office Card Account in LINK meant that some financial inclusion objectives are not being achieved.

9 ANNUAL REPORTS

The Board NOTED Annual Reports from the Regulatory Consultative Group, Member Strategy Group and an update Report from the UK Domestic Cheque Card Scheme.

10 ANY OTHER BUSINESS

The next Board meeting date was noted as being Wednesday 16 December 2009 10-1 p.m. The dates for 2010 will be reconfirmed.