

2011

Updating the National Payments Plan

A consultation for the
2011 Review of the NPP

Foreward

Richard North, Chairman of the Payments Council Board

Payments are sometimes described as the plumbing behind the economy. They are an essential part of all our lives and are rightly regarded as a critical national infrastructure. It is the role of the Payments Council to ensure that this plumbing system works. Our aim is to ensure payments can move efficiently, innovatively and with a very high level of integrity, now and in the future. To do this we need to plan ahead. The National Payments Plan has been at the heart of our planning for the last three years.

It now needs updating to ensure that it still reflects the way in which the payments market is headed and that it caters for the needs of every type of user and the UK overall. We are issuing this consultation document to seek your views about what is happening in the payments market, what the most significant developments will be over the next few years and how the Payments Council can play its part in ensuring that this happens to the benefit of all, users and providers alike. We want this plan to help harness innovation so that it produces better payment services; we want to identify how efficiency in payments can bolster the overall efficiency of the economy; and we want users to feel confident and secure with whatever method they use to make payments.

This consultation is taking place against the backdrop of our far-reaching decision to set a conditional target end date of 31 October 2018 for closure of the central cheque clearings. Much of our work is a consequence of that decision. We have publicly committed that we will only confirm the target date in 2016 if we are satisfied that alternatives to cheques are available and acceptable to users; that users are aware of them and have actually adopted them. We have gained a wealth of information from businesses, consumers and other organisations through this project and this has given us a stronger understanding of what users want from different payment methods and of where there is room for improvement. We will feed this into the updated Plan.

Cheques have not been our only focus. The initial Plan included a broad programme of work in a wide range of areas and we report on all that we have achieved in the past three years.

I hope that replies to this consultation will be wide-ranging and come from many different quarters. We would like you to tell us what you think we should be doing and particularly how we can make payments work better for you. It is only with your input and insights that we will be able to update our plan in a way which really charts the way ahead for payments in the UK.

I look forward to reading your responses.



Richard North

About the Payments Council

The Payments Council is the organisation that sets the strategy for UK payments.

The Payments Council was set up by the payments industry in March 2007, with the support and encouragement of the OFT Payment Systems Task Force. Our job is to take a strategic role in the development of UK payments in a way that reflects the needs of the people who use them, be it individuals, businesses or other organisations. It is this emphasis on ensuring we deliver payment services for the wide range of different needs which makes our remit and activities so important. We are an industry-led strategic body and do not have a regulatory function.

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.

The Payments Council Board is chaired by an independent chairman, Richard North. Board membership comprises 11 directors from organisations that are members of the Payments Council, four independent directors and the Bank of England as an observer.

The independent directors together have the power of veto and produce an annual report each year which is published as part of the Payments Council Annual Review.

The Payments Council works closely with a number of schemes¹ – the bodies responsible for the common operating procedures, rules and technical standards of the UK's main domestic payment systems. 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;
- The UK Domestic Cheque Guarantee Card Scheme; and
- Belfast Bankers' Clearing Company.

The Payments Council's Cash Services Group provides strategic direction on co-operative (non-commercial) issues for cash.

The Payments Council has three User Forums, covering consumers, small and medium-sized enterprises (SMEs) and large corporates. 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 with the charity and voluntary sector has been set up to provide expertise on the third sector to the cheque replacement programme.

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.

¹ The Board is able to make decisions that are binding on scheme members in order to implement its strategy. Visa and MasterCard are international in scope and have no formal contractual link with the Payments Council. Neither they nor their members are obliged to implement decisions of the Payments Council Board.

What is the National Payments Plan?

The National Payments Plan is at the heart of payments strategy in the UK.

It is the document that sets out our strategic vision for the future development of co-operative payment services in the UK payments over a ten year horizon.

The first National Payments Plan was published in May 2008, just over a year after the Payments Council was set up. As a new organisation, we developed a Plan based on public consultation. It was an action-focussed plan, designed to set out the practical steps to deliver improved payment services, where these are required.

The 2008 National Payments Plan is available on our website:

http://www.paymentscouncil.org.uk/files/payments_files/national_payments_plan_may_2008.pdf

Hard copies are available on request.

A summary of our progress against the actions in the 2008 National Payments Plan is set out in the Annex at the end of this document.

Contents

Section 1

The 2011 Review of the National Payments Plan	5
1.1 Scope of the Review	6
1.2 The future of cheques	6
1.3 2008 National Payments Plan: What we have achieved	8
1.4 Process and timetable for consultation	9
1.5 How to respond	10
1.6 Confidentiality and data protection	10

Section 2

Updating the National Payments Plan: The wider context	11
2.1 Payment trends	12
2.2 Technological change	14
2.3 Fraud	15
2.4 Economic environment	16
2.5 Regulatory environment	16

Section 3

Updating the National Payments Plan: Questions for consultation	17
3.1 Introduction	18
3.2 Ensuring payments meet the needs of everyone	18
3.2.1 User needs	18
3.2.2 Information and education on payment options	18
3.3 Mainstream payment methods	19
3.3.1 Cash	19
3.3.2 Cheques	20
3.3.3 Credit and debit cards	20
3.3.4 Direct Debits	21
3.3.5 Automated credits	21
3.3.6 Payments made using internet banking	22
3.3.7 Payments made using telephone banking	23
3.3.8 Information associated with payments	23
3.4 Emerging payment methods	24
3.4.1 Mobile phone payments	24
3.4.2 Contactless functionality	25
3.4.3 Prepaid cards	26
3.4.4 Payments to online retailers from internet banking	26
3.4.5 A new pull payment scheme	27
3.4.6 Third party payment services	27
3.5 Ensuring the integrity and security of payments	28
3.5.1 Resilience and integrity	28
3.5.2 Customer and payment authentication	29
3.5.3 Fraud	29
3.6 Other action and priorities	30

Annexes

Annex A: List of consultation questions	32
Annex B: National Payments Plan 2008 – A progress report	34
Annex C: Glossary	47

Section 1

The 2011 Review of the
National Payments Plan

In the 2008 National Payments Plan, we committed to review our progress annually and to undertake a more fundamental review of the Plan every three years, of which this is the first. Updates have been published on our website and in the Payments Council's Annual Reviews.

The purpose of this review is to take a fresh look at the strategic direction of the Plan.

An updated National Payments Plan will be launched in autumn 2011. It will reflect the Payments Council's core objectives around efficiency, innovation, integrity and responsiveness to user requirements. It will be focussed on the future of payments and how we can positively shape its direction.

We are asking you to make your input by responding to the consultation questions set out in section 3.

There will also be:

- A conference on innovation in partnership with Intellect in May 2011; and
- A seminar with an invited audience reflecting on the consultation responses in September 2011.

1.1 Scope of the Review

Like the first National Payments Plan, this updated Plan will be about the areas where we believe collaboration by the payments sector will deliver benefits to users. This may be through taking forward innovation, addressing market inefficiencies or introducing common standards. We will get involved where industry collaboration is necessary, not where the best outcomes may be achieved through existing market developments.

Even though the prices charged to users by payment service providers will affect the levels of demand for different payment methods, pricing policies are not within the scope of the National Payments Plan or indeed the Payments Council. Interchange fees in the international card schemes are also not in scope.

Later this year, a separate assessment of how the Payments Council operates will be conducted. This review will reflect on how the Payments Council is performing against its objectives. Comments received as part of this consultation will be taken into account in that review which will include an element of independent assessment.

A separate piece of work is underway to develop a Payment Systems Roadmap. This work is looking at the technical and industry issues around the future infrastructure and network strategy for the next 10 years.

1.2 The future of cheques

The decision taken by the Payments Council in December 2009 to set a conditional target date of 31 October 2018 for closure of the cheque clearings in the UK has undoubtedly been the most contentious of our short life.

Our rationale for that decision, as we set out at the time of the announcement, is that cheque use has been in decline since 1990 and that we believe that long-term trend is irreversible. This is an international trend and we know of no counter examples.

Following extensive research and consultation, we concluded it would be in consumers' and organisations' best interests to manage this decline, and proactively identify and promote cheque alternatives, rather than just let the decline continue in an unmanaged way that could leave customers high and dry, or without clear alternatives.

We consider setting a conditional target end date to be the best approach to steering everyone through what we believe is an inevitable change, smoothly and with as little disruption as possible. In 2014 a major review of the programme will assess our progress and in 2016, a 'go/no-go' decision on the target end date will be taken. Closure of the clearings in 2018 will go ahead only if cheque alternatives are in place, are acceptable and are actually being used. The ultimate goal is to ensure that people gain from having alternatives that are more efficient, secure and convenient than a cheque.

The Payments Council and its members have signed up to a set of ten commitments to make sure that the Council's intentions are clear and in the public domain. The commitments include confirmation from our members that they will continue to make cheque facilities available to customers until either there are available, acceptable and widely adopted alternatives in place, or the closure of the cheque clearing itself. The commitments will be reviewed at two-yearly intervals to ensure that they remain appropriate and relevant for customers as work progresses.

We are currently engaged in an extensive programme of activity on the future of cheques which will continue as part of our National Payments Plan. We fully appreciate the degree of concern felt by some groups, especially older

people, charities and small businesses, at the prospect of closure, and are working with these groups to understand their requirements and identify potential solutions.

Although closure is not set in stone, the work which will be progressed over the coming years of the programme should deliver real benefits to customers on the payment options available.

In 2010 we conducted a series of workshops with over 200 charities, clubs and societies and in 2011, we embarked on a similar exercise with small and medium sized businesses. Multiple authorisations on payments, such as cheques which require two signatures, is a key requirement for charities, small businesses and other organisations. As a result, Payments Council members have agreed that where their customers have multiple authorisation cheques, alternative multiple authorisation functionality will be made available, e.g. through internet or telephone banking, by the end of 2013.

This review of the wider National Payments Plan is intended to complement our work on the future of cheques, particularly as it will explore how new payment methods or modifications to existing methods can improve the payment options available to users, including those who consider themselves to be the most affected. The views of those we have met and those who have written to us about our work on the future of cheques will be taken into account in this review.

Further information on our cheque replacement activity, including the Payments Council and members' commitments on this work, is available at: http://www.paymentscouncil.org.uk/cheque_replacement/

1.3 2008 National Payments Plan: What we have achieved

A detailed summary of our progress against the actions in the National Payments Plan is set out in Annex B at the end of this document.

The first National Payments Plan set out an ambitious programme of work across the entire payments landscape. Much of this work is ongoing but we have delivered against all the major objectives set for the three year period. We have set a provisional target end date for cheques – but have agreed clear conditions for the availability of alternatives, user awareness, acceptability and adoption which will need to be met before any final decision can be met. We have taken the decision to close the Cheque Guarantee Card Scheme from 30 June 2011. We have reviewed the Direct Debit guarantee and have agreed that it should be maintained in its present form without a time-limit. We have taken steps to influence the market in a range of areas by developing best practice guidelines, adopting tactical initiatives, facilitating stakeholder engagement with the market and conducting strategic reviews. A clear step-change in the strategic operation of the payments industry and in its approach to innovation is now clearly under way.

User needs have been a critical consideration running through all of our work. We have approached this through working closely with different groups of users and their representatives, building on the three forums set up when the Payments Council came into being – for consumers, small businesses and large corporate bodies – but also developing new links with organisations such as charities and vendors

of payment systems. We have also conducted extensive research. In all these areas, the work of the Payments Council in understanding the needs of stakeholders and sharing progress with them has been recognised as a model of its kind.

Our work on the future of cheques is integral to our over-arching objective to improve the efficiency of payments. The quest for alternatives and for new and innovative approaches is of the highest importance if the target date for the managed phase-out of cheques is to be achieved. We will now use the conditions attached to the target as a springboard to drive innovation: enhancing, developing and facilitating alternatives to cheques to meet user needs.

There have been further achievements since the first National Payments Plan was launched. In summary, we have:

- Published a Financial Inclusion Policy in 2009, developed in close liaison with HM Treasury and others (including the Financial Inclusion Task Force). This sets out guidelines on how to consider financial inclusion for major payment system changes and criteria to encourage inclusive development of collaborative payment innovations;
- Reviewed the problems attributed to account number formats and payment reference information and in 2010 developed and published best practice guidelines for account number formats and for the use of reference information with automated credits. These followed detailed work with billers and vendors;

- Developed a strategy in 2009 for payments education which has led to the launch of an online hub, with objective information for customers on a wide range of payment methods. For the first time consumers have clear information on different types of payments in one place. This will be a key resource that we will expand and develop. Material will also be available as hard copy;
- Agreed a roadmap for migrating the current messaging standards used in domestic electronic payments to newer, international standards. This is an area of work which underpins the entire payment system and is therefore important for our ability to make progress;
- Reviewed the contactless and prepaid card markets and implemented an action plan;
- Established a new strategic Payments Council group on fraud and security in 2009 linking payments industry fraud and security groups, public sector organisations and enforcement agencies;
- Published the first Annual Security and Fraud Review in 2010; and
- Established a Vendor Forum in 2010 to help increase the flow of innovative ideas into Payments Council discussions.

Annex B provides full details of these and other achievements.

As part of the Payments Council's commitment to deliver innovation in payments, an announcement will be made this spring about a collaborative project to deliver payments on mobile phones, which may provide a viable alternative to many cheque or cash payments.

In all our work, our actions are grounded in evidence from bespoke research, user surveys, interviews, meetings and workshops. We explain why we have reached our decisions and we publish our evidence. All this progress would not have been possible without the input of our User Forums and other stakeholders with whom we have worked, and we are very grateful to them. This approach lays firm foundations for further progress of the National Payments Plan.

1.4 Process and timetable for consultation

This public consultation is a crucial part of the process of updating the National Payments Plan.

The issues being consulted on draw heavily on the themes of discussions at our User Forums over the last three years and the issues raised outside those forums by other stakeholders in the public, private and third sector.

We welcome responses to this consultation to reflect on the wider influences driving change in the UK payments market. We are keen to understand whether the current direction of travel is going to meet user needs and how consumers and other users can best be helped to take advantage of the pace of change.

The paper covers a wide range of topics grouped under the following headings:

- Ensuring payments meet the needs of everyone;
- Mainstream payment methods;
- Emerging payment methods;
- Ensuring the integrity and security of payments; and
- Other actions and our priorities.

The questions capture what we regard as the main issues but are not exhaustive or restrictive. Feedback on other relevant issues is welcome and the final section seeks your views on other topics. We recognise that some topics may be of less interest or relevance to you and you may not wish to respond to all the questions asked. Where you make suggestions for change, please provide supporting information if available.

Who should respond to this consultation?

This consultation is particularly relevant to groups representing consumers, businesses and third sector organisations, public sector bodies, banks, building societies, other payment service providers, payment schemes and other industry groups. We welcome responses from any organisation or individual with an interest in the future development of payments in the UK.

Timetable

The deadline for responses to this consultation is Friday 1 July 2011.

It is planned to publish the updated National Payments Plan in autumn 2011. An analysis of the consultation responses will also be published, along with the individual responses where confidentiality has not been requested.

1.5 How to respond

Printed copies of this document are available on request, please phone 020 3217 8368.

Electronic responses are preferred. Please send them to consult@paymentscouncil.org.uk

Paper responses should be sent to:

National Payments Plan 2011 Review
Payments Council
2 Thomas More Square
London, E1W 1YN

Responding individuals and organisations are asked to complete a consultation submission form with contact and confidentiality information. This is available on our website or by calling the telephone number above.

1.6 Confidentiality and data protection

It is the Payments Council's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure. Please advise explicitly of any confidential material in your response.

In responding to this consultation you are taken to have consented to the use of your personal data for the purpose of assisting in the development of the National Payments Plan. Any personal information submitted with your response will be processed solely for this purpose.

Section 2

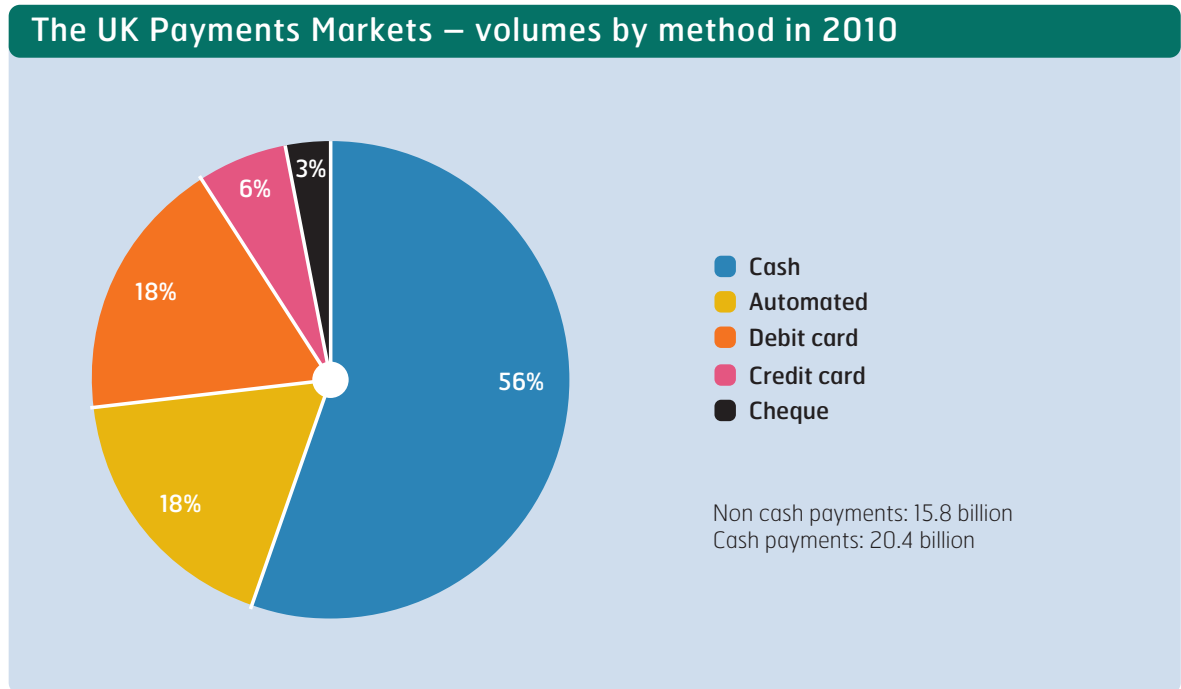
Updating the National
Payments Plan:
The wider context

2.1
Payment trends

The Payments Council has a major programme of regular and ad hoc market research which provides a comprehensive understanding of how different types of payments are used and change over time.

The main ways to pay in the UK are the traditional methods of cash and cheque, and electronic payment by plastic card or automated means. Automated methods include Direct Debits, Bacs Direct Credits, Faster Payments and the CHAPS real-time system.

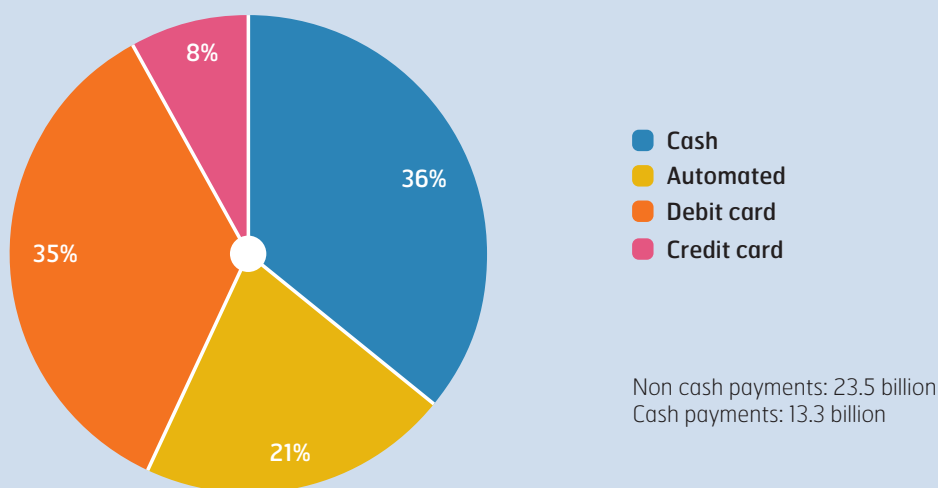
The UK has seen steady growth in the demand for electronic payment methods by individuals and businesses, a reduction in the volume of cash transactions and a continued decline in the use of cheques. Between 2000 and 2010, the volume of transactions made by plastic card or automated means rose by 86%, while cash transactions reduced by 27% and cheque transactions by 59%. Despite this, the volume of cash payments still outnumbers any other payment method, partly due to the volume of very low value payments still made by cash.



Although many consumers and smaller businesses continue to prefer to make payment by cash or cheque, a growing number perceive plastic cards and automated methods as more convenient or cost-effective, particularly for higher value transactions. This was brought home in August 2010 when the total value of debit card spending (£272 billion) over the previous twelve months overtook the cumulative amount of cash spent (£269 billion) over the same period, for the first time ever.

Over the next ten years, transactions are likely to become more rapid, with an increased requirement for straight-through-processing, automated reconciliation and audit trails. Innovations such as mobile payments, contactless cards and growth in e-commerce will exert a strong influence on the market. We also have to take into account trends in social networking and media which are increasingly supplementing face-to-face and telephone communication and may, in time, influence payment trends. New ways may also be found to initiate a payment which will then be transacted through one of the existing “backbone” payment schemes; in particular, innovative ways to use the relatively new Faster Payments Service are anticipated.

The UK Payment Market Forecasts – volumes by method in 2020



The forecast presented here has been developed on the assumption that the cheque replacement programme is successful and that by 2020 there will be no cheque payments, as acceptable alternatives to cheques will have been developed and adopted for all circumstances where cheques are currently used.

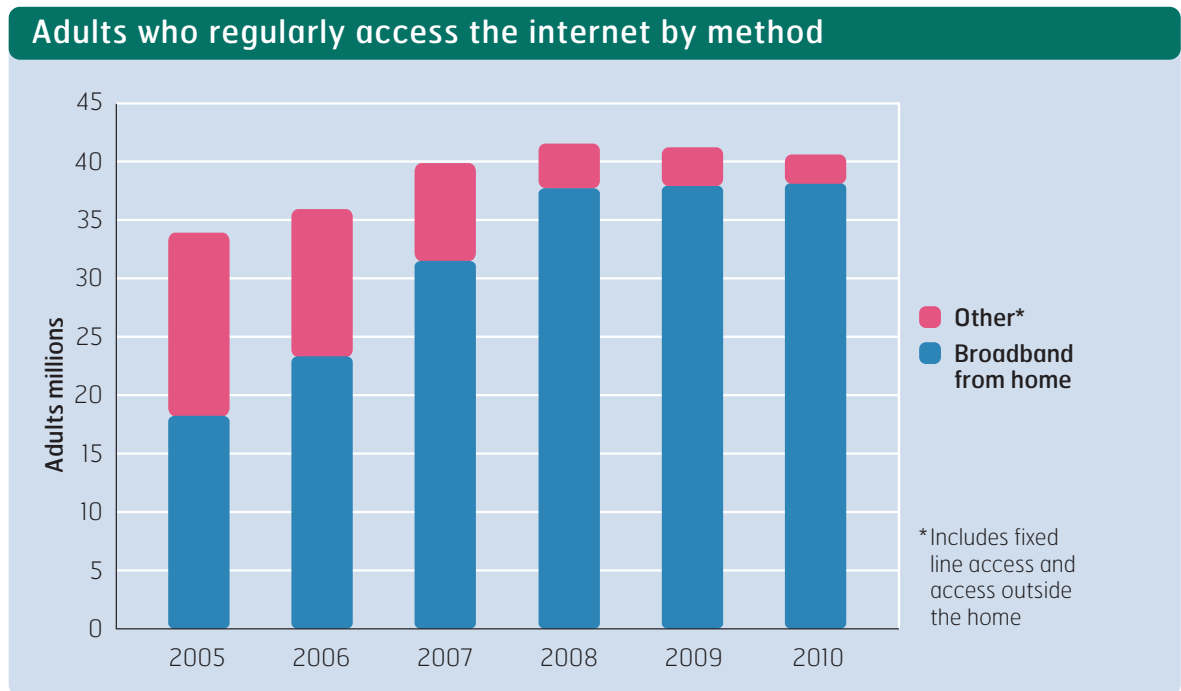
2.2
Technological change

Technology is a major influence on payments. Expansion in internet use is fuelling growth in online banking, which in turn is leading to a rapid increase in the volume and value of online payments. More recently, smartphones have been opening up new possibilities for face-to-face and remote mobile payments, showing how technology will diversify the channels for how we access existing payment methods. More payments will be made using contactless technology, which is likely to be built into a wider and more diverse range of devices from key fobs to tablets, such as the iPad.

The number of adults with regular access to the internet is on the increase. In 2010, there were 42.0 million adults in the UK with regular access to the internet compared with 34.5 million in 2005.

Likewise, smartphone ownership is on the rise. Data from Ofcom’s 2010 Communications Market Report revealed a huge increase in smartphone ownership – up 81% from 7.2 million users in May 2009 to 12.8 million in May 2010.

The demographics of technology users are also changing. For example, in 2010, 69% of adults in the UK aged 55 and over had regular access to the internet, compared with just 49% in 2005. Likewise, lower income and socio-economic groups are also increasingly able to access the internet on a regular basis.



These trends throw up a number of challenges and opportunities for the payments industry and the Payments Council.

There is a risk that certain sections of society will be disadvantaged by not having ready access to new payment mechanisms or the confidence to use them – how can we ensure user needs are at the centre of development, and the technology is readily accessible to a wide spectrum of users?

There are security challenges that need to be tackled, as new channels can be perceived as insecure, even if they are actually as, or more, secure than traditional mechanisms.

It will be particularly important to understand the features for which users are looking in payment instruments and channels, so that new services can take these fully into account.

2.3 Fraud

Fraud is a major factor influencing all methods of payment and delivery channels. The overall threat and security landscape facing the industry is complex and rapidly evolving. Threats are continuous, as criminals develop and employ new and advanced methods to attack banks, their customers and retailers. However, over the last year the level of recorded fraud – a major measure of the effectiveness of these attacks – has decreased significantly across a wide range of payment types. This positive development is an endorsement of the comprehensive and concerted action and investment, both at industry level and by individual institutions, to understand and contain the threat.

Some fraud will always be with us. Fraudsters are

constantly probing for possible weak links, while the payments industry is continuously attempting to make payment instruments and delivery channels as secure as possible. There are also trade-offs between security and convenience in some circumstances: there would be little point in developing payment methods that were highly secure but too difficult to use.

The Payments Council is actively working with a range of industry groups on fraud and security issues associated with payments. For example, our Information Security Advisory Group looks across the payment schemes and across the financial industry to assess consistency in security controls and technical developments. Our Strategic Fraud and Security Group brings together the payments industry with other industry groups on fraud, the public sector and law enforcement agencies.

To make life as difficult as possible for prospective fraudsters:

- Anti-fraud measures must be designed into new innovations at as early a stage as possible – this is likely to be far more effective than attempting to retrofit anti-fraud measures post-implementation;
- The parties involved in combating fraud should be joined up in their approach so that fraudsters are given a hard time. In particular, the public and private sectors need to work together and exchange information about attempts to defraud; and
- Accurate, comprehensive and timely data plays a crucial role in pinpointing fraud-prone areas and facilitating effective-counter measures to be taken.

In section 3.5.3 of this consultation we ask questions about how the Payments Council can play a stronger role in these areas.

2.4 Economic environment

In the banking crisis of late 2008, the UK payment systems continued to operate smoothly in the face of extreme market conditions. This emphasised the cardinal importance of ensuring that payment infrastructures are robust and stable. Had the systems failed to perform, the short-term consequences of the financial crisis would have been far worse. Future innovations and adaptations, however efficient or user-friendly, must never compromise the underlying integrity of payment systems.

The depressed rate of economic growth and the extensive programme of public expenditure can increase the incentive to cut costs by replacing traditional payment methods with cheaper electronic alternatives. However, financial constraints may limit the ability to invest in new electronic systems, irrespective of the likely financial payback in the medium to long-term. For the public sector, this is likely to pose particular difficulties and the payments industry will have to demonstrate strong business cases for investment in more efficient payment systems.

2.5 Regulatory environment

Regulation can play a significant role in facilitating integrity and innovation in payment systems as inappropriate regulation can impose additional costs and stifle innovation.

Much of the regulation affecting payments in the UK is initiated at European level. The Payment Services Directive and Payment Services Regulations are particularly significant. The requirement for a customer's account to be credited at the latest by the end of the next

business day, from 1 January 2012, is an example of how a regulation can have a direct bearing on the options available to users of payment services.

The E-Money Directive is a conscious attempt by regulators to provide a framework to open up innovative methods of payment while protecting the interests of people using the new facilities.

Since the 2008 banking crisis a number of regulatory initiatives have aimed to reduce the risk, and mitigate the consequences, of bank failure. While most of these developments have had a relatively limited impact on payment systems so far, several investigations are currently in progress which could have a relevance to payment systems. These include HM Treasury's consultation on a new approach to financial regulation, the Treasury Select Committee's inquiry into competition and choice in retail banking and the Independent Banking Commission's consideration of structural reforms to the UK banking sector to promote financial stability and competition.

Since the National Payments Plan was launched in 2008, the Bank of England has been given a statutory role to oversee inter-bank payment systems to ensure that their design and operation give sufficient weight to the management and reduction of risk.

The Payments Council takes an active interest in regulatory initiatives with a bearing on payment systems and users. When relevant, we respond to consultations and meet with regulators to ensure the requirements of payment systems and users are taken into account.

Section 3

Updating the National
Payments Plan:
Questions for consultation

Updating the National Payments Plan: Questions for consultation

3.1 Introduction

This consultation is being held to ensure that all stakeholders and people with an interest in the future of payments are able to help shape our work. We are interested in your views on how the Payments Council can make things happen and how we can most effectively build on the resources that already exist, such as the Faster Payments Service. Suggestions for how existing payment methods and delivery channels can be enhanced are welcome as well as ideas for more radical change.

3.2 Ensuring payments meet the needs of everyone

3.2.1 User needs

One of the principal challenges for the payments industry is how to ensure that no one is excluded from making or receiving payments. The Payments Council's aim is to ensure that the range of available payment methods caters for the needs of all sectors of society and for all types of business. This underpins our work on financial inclusion and education and was a major driver in our decision to put in place a plan to manage the decline in cheques. Across our work, we want to ensure that ways are found to enable all groups to benefit from improvements to our payment systems.

In October 2009, we issued a policy on our approach to financial inclusion setting out guidelines for how financial inclusion issues should be considered for a proposed major payment system change and criteria to encourage inclusive development of a collaborative payment innovation. http://www.paymentscouncil.org.uk/files/financial_inclusion_policy_october_2009.pdf

These guidelines are being used in our work on the future of cheques and in relation to activity on potential innovations including mobile payments.

We now want to understand more about where and how payments can be enhanced to work better for different groups of consumers and organisations.

Questions

- Q1** Where do current payment methods and delivery channels fail to meet the requirements of consumers that may be considered disadvantaged in terms of their access to and use of payment services? (e.g. rural consumers, disabled consumers and people without bank accounts)
- Q2** What action is needed to ensure that these requirements are adequately addressed?
- Q3** Is there any additional action the Payments Council should be taking to make payments work better for:
 - Charities and voluntary organisations?
 - Small and medium-sized businesses?
 - Large corporates, public sector bodies and government departments?

3.2.2 Information and education on payment options

The Payments Council is keen to provide clear and concise information on the various payment options available to users.

The Pay YOUR Way website was launched in February 2011: <http://www.payyourway.org.uk/>. This website aims to educate consumers on the different payment methods available to them in

Updating the National Payments Plan: Questions for consultation

an entertaining and accessible way. For the first time this draws together clear information on the different payment types available and what each has to offer in terms of security, convenience and cost. There are plans in place to develop this material to make it suitable for different audiences, such as older people and small businesses. As new payment methods come on stream and changes are made to existing ways to pay, the material will be updated.

Other initiatives we have undertaken include maintaining a sort code checker so that all customers can check what types of payments the account they're sending one to can receive, as well as whether their own account can accept Direct Debit instructions. A newsletter was launched in the autumn of 2010, to provide information to readers on the various payment methods that are available and to inform them of the initiatives that the industry is undertaking to make payments work better.

Questions

- Q4** What else, if anything, do you think we should be doing to inform users about current payment methods?
- Q5** What should the balance be between Payments Council led and bank-led educational initiatives on payment options?

3.3 Mainstream payment methods

3.3.1 Cash

In the consultation on the first National Payments Plan, the Payments Council stated that it viewed cash as a major payment method for the foreseeable future. Attitudes to cash divided respondents. Some people took the view that the volume of cash payments acts as a drag on the efficiency of the UK payments industry and should be actively managed down; others viewed cash as a familiar and trusted method of payment, stressing its convenience and efficiency for lower value payments, especially because of the issues of interchange fees for card payments, and the relative cost of cash for businesses and retailers.

The National Payments Plan was neutral on the subject and did not include an action to reduce the use of cash or promote its alternatives. Although the Payments Council continues to view cash as a major payment method for the foreseeable future, the cheque replacement programme has been clear that migration from cheques to cash is not desirable in most circumstances. This applies particularly to the requirements of voluntary organisations, individuals who have restricted access to cash (such as people who are housebound), and higher value transactions.

In 2010, the Payments Council published a strategic document looking at the future of cash. This report described the issues and developments that are likely to shape the future for cash in the UK, over a ten year horizon. It identifies a number of issues for further consideration regarding notes and coin.

Updating the National Payments Plan: Questions for consultation

From this year, the Payments Council will be monitoring public attitudes to each of the denominations of coin.

Work has also been done by the Payments Council and the LINK Scheme to help increase the number of cash machines dispensing £5 notes.

Questions

Q6 The Payments Council believes that the National Payments Plan should continue to assume that cash will remain a major payment method for the foreseeable future. Do you agree?

3.3.2 Cheques

Following the decision taken by the Payments Council in December 2009 to set a conditional target date of 31 October 2018 for closure of the cheque clearings in the UK, we are engaged in an extensive and dedicated programme of activity on the future of cheques. Progress will be reviewed in 2014 and a 'go/no go' decision made in 2016.

As we are already consulting widely and extensively with those concerned about this work, we have not focussed on our work on cheques in this consultation. Questions about issues, that have arisen in our work on alternatives to cheques, are raised where relevant. The views of those who have already talked or written to us on the future of cheques will be taken into account in this review of the National Payments Plan and in 2014, a public consultation will be conducted as part of our first major review of the programme.

Later this year, the Payments Council will perform a self assessment against its objectives and how we go about our consultation activities. This will include, amongst other things, an assessment of how well we have consulted on the future of cheques.

3.3.3 Credit and debit cards

Plastic cards are widely held and used for payments made face-to-face, over the internet and by telephone.

The increased availability of credit and debit cards has undoubtedly enabled growth of online business and trade. In the first half of 2010, seven in ten adults in the UK reported buying goods and services online in the last year. The growth in debit cards has been particularly striking, with debit cards now being held by 85% of the adult population.

Card acceptance is starting to grow in non-traditional sectors, including small retailers, market traders and mobile tradesmen. However, in our work on the future of cheques, we have also spoken to charities, clubs and societies for whom the cost of card acceptance is still proving a barrier to its use.

So, despite widespread use of plastic cards, they cannot be regarded as a universal payment method. Some people are reluctant to use them because of concerns about security or find them difficult to use in certain situations. When chip and PIN was introduced in 2004, chip and signature cards were made available to customers who were unable to use PINs, perhaps due to disability or memory difficulty. Other people may find plastic cards difficult to use because they cannot be given to someone else to draw cash or shop on their behalf without the PIN.

Updating the National Payments Plan: Questions for consultation

The consumer group Which? has recently issued a Super-Complaint to the Office of Fair Trading asking it to investigate the issue of credit and debit surcharges. The Payments Council is not able to influence the cost to companies for accepting card payments nor the charges passed on to people and organisations wishing to pay by card. As a result, the focus of our interest is on how the payment mechanism and its availability can be enhanced.

Questions

- Q7** What can be done to extend the acceptance of plastic cards, particularly in non-traditional sectors, such as mobile/sole traders?
- Q8** What other steps, if any, can be taken to make plastic cards more accessible and better able to meet consumer needs?

3.3.4 Direct Debits

A Direct Debit is an instruction from a customer to their bank or building society authorising an organisation to collect varying amounts from their account, as long as the customer has been given advance notice of the collection amounts and dates. This instruction can be made over the telephone, online or by completing a paper form.

Direct Debits are extensively used for most categories of regular commitment, such as the collection of bills by the major utilities or subscription payments. Many organisations offer a discount on bills paid by Direct Debit, reflecting the ease of administration and certainty of prompt payment provided. The Direct Debit Scheme protects consumers by means of the Direct Debit Guarantee. All banks and building societies that take part in the Direct Debit Scheme operate this Guarantee.

In the first National Payments Plan a number of questions were asked around Direct Debits and how they could be improved. As a result, a series of actions were agreed and work undertaken (see Annex B). This work included a review of the Direct Debit Guarantee which stayed unchanged following the review and consideration of innovation around a new pull payment system (see section 3.4.5).

Questions

- Q9** What challenges do you think users face in relation to Direct Debits and what changes, if any, do you think should be made as a result?
- Q10** Are there any innovations in Direct Debits which would benefit all users or particular groups of users?

3.3.5 Automated credits

Automated credits are either processed through Bacs or via the Faster Payments Service and can be accompanied by a reference or other supporting information. They include 'single immediate payments', forward dated payments and standing orders. The vast majority of automated credits are bulk payments, processed as Bacs Direct Credits, where one source sends many payments, such as when a company makes salary payments to its employees.

Individuals generally make automated credits through their internet or telephone banking although some can be initiated in a bank or building society branch. Since its launch in May 2008, the Faster Payments Service has grown rapidly; so much so that it is now already processing more single immediate payments than we anticipated being made by this method in 2017.

Updating the National Payments Plan: Questions for consultation

There is currently a maximum scheme limit of £100,000 per payment for the Faster Payments Service; however, banks impose different limits depending on factors such as how the payment was made, whether the payer is an individual or a corporate and whether the transaction is a single immediate payment or a standing order.

There is a service that enables businesses, such as those paying a large number of employee expenses, to submit files of payments directly into the Faster Payments system, in much the same way as they do through Bacs. This system is called 'Direct Corporate Access' and to date, is only offered by one bank. Other banks offer corporates indirect access to Faster Payments via their corporate online banking services.

To ensure that Faster Payments can be used by a wider range of banks and customers, all sort codes that can receive payments through Bacs will also be able to receive them through Faster Payments by the end of 2011².

Questions

- Q11** What enhancements to the Faster Payments Service would be of benefit to customers?
- Q12** What lessons can we learn from the introduction of the Faster Payment Service for how future collaborative payment services are introduced?
- Q13** What enhancements, if any, should be made to Bacs Direct Credits?

3.3.6

Payments made using internet banking

In the first half of 2010, around 24 million adults used internet banking to manage a main current account – equivalent to 54% of current account holders. This is an increase of almost 9 million adults on the first half of 2006³. Although internet banking is most commonly used for tasks such as checking account balances, many people also use it for paying bills, setting up standing orders and to pay other individuals. There has been a strong growth in the number of internet payments from a bank account.

However, a significant number of people with internet access are reluctant to bank online and make payments using internet banking, even if they are prepared to shop online using a debit or credit card, or PayPal.

A number of suggestions have been made as to how confidence in internet payments from a bank account might be enhanced. Potential ideas include ways to increase the confidence of users that a payment is being made to the correct payee and the introduction of a system to enable users to make payments between bank accounts without needing to share their bank account information. This would work by using an alternative 'address' which would act as a proxy for the account number and sort code.

Additional security and authentication procedures for internet payments are discussed in section 3.5.2.

² New EU regulation means that from 1 January 2012, all automated transactions need to be executed in a 'Deposit +1 timeframe' (meaning that the funds have to be with the recipient/payee's payment service provider by the end of the next business day after the payment was initiated). The Bacs service will continue as before and bulk Direct Credits will not be affected.

³ Payments Council Internet Monitor XVI, December 2010.

Updating the National Payments Plan: Questions for consultation

Questions

- Q14** What steps do you think might be taken to increase confidence in internet banking and in making payments by this route?
- Q15** What other action(s) might facilitate transactions made using internet banking?

3.3.7 Payments made using telephone banking

In the first half of 2010, 13 million adults used telephone banking to manage a main current account, although this service is typically used for simple tasks such as making enquiries and checking account balances.

Telephone banking can be a helpful means of initiating a payment for those who do not want to use internet banking to access their account. However, some people are reluctant to use this service either because they do not find the service convenient or have security concerns.

Questions

- Q16** What steps do you think might be taken to increase confidence in telephone banking and in making payments by this route?
- Q17** What, if anything, can be done to make telephone payments more accessible to users?

3.3.8 Information associated with payments

It is often important for recipients of payments to be able to match a transaction to other information, such as an invoice or a customer reference number. This can be very important for large businesses receiving thousands of payments (such as utility companies) but is also important for organisations like small businesses, clubs and societies to support their audit trail and make sure they know who has paid them and what for. More explicit and detailed information on payments received is particularly important in the context of migrating customers from cheques to automated credits.

The National Payments Plan included an action to review the problems caused by missing or inaccurate reference information for payments made by automated credit. This led to the development and publication of best practice guidelines in September 2010:

http://www.paymentscouncil.org.uk/current_projects/payment_reference_information/.

Further work is underway on three areas:

- Investigating the potential to develop a central database of biller reference information;
- Promoting the use of timely bank reference data; and
- Facilitating wider use of modulus checking, so that typing mistakes when entering account and sort code information are identified for correction at the earliest possible stage.

Updating the National Payments Plan: Questions for consultation

The Payments Council is also playing an active role on developing standards for e-Invoicing in European and international forums. Notwithstanding these initiatives, there do not yet appear to be adequate means of linking automated payments and supporting documentation that works in all circumstances (for example, linking an automated credit with an accompanying letter explaining the purpose of a charitable donation).

Questions

- Q18** What further steps should be taken to match payments and supporting information effectively?
- Q19** What level of information is needed for receivers of payments to identify who the payment is from and what it is for?

3.4 Emerging payment methods

3.4.1 Mobile phone payments

Mobile phone technology is rapidly changing. With this, a range of new and different ways of using mobile phones to initiate payments is emerging. Applications on smartphones can be used to access internet banking or make payments over the internet and near-field-communication (NFC) is being added to phones to enable contactless payments (see section 3.4.2).

Since the launch of the 2008 National Payments Plan, the Payments Council has done a considerable amount of work to explore whether there is potential for a new type of service that would enable payments to be sent from a bank account to another bank account, initiated by a mobile phone. The Payments Council has approached this development cautiously, taking care to wait until there is a clear case for industry collaboration.

There are several ways a mobile can potentially be used to make a payment. The Payments Council is looking at providing the central common platform to enable money to be moved from one bank account to another with the focus on person-to-person and person-to-business payments. The Payments Council will be looking at various scenarios that might enable customers to initiate a payment either by sending a text, using the internet browser on their phone or a smartphone application and without necessarily inputting the recipient's sort code and account number. Security will be a key consideration when assessing alternatives. Work at industry level will help ensure that any option pursued works for all customers so that potentially a customer of one bank will be able to use their phone to make a payment to a customer of another bank using the same shared platform. The Payments Council will announce more detail before the end of this year, about what this will mean for customers.

The Payments Council has already been involved internationally at ISO and the European Payments Council to define mobile payment/banking standards to facilitate as broadly as possible the development of underpinning collaborative solutions in this space.

Updating the National Payments Plan: Questions for consultation

Questions

- Q20** What issues should the Payments Council consider in relation to the use of an alternative address for bank account details within a mobile payments bank account to bank account service?
- Q21** What collaborative actions (if any) could be taken by the Payments Council to make a service by which payments can be made via a mobile phone more attractive to users?

3.4.2

Contactless functionality

A major recent innovation in payments is the introduction of 'contactless chips' using near-field-communication (NFC) technology. These can be enabled in a variety of devices such as plastic cards, mobile phones and even key fobs, to enable payment to be made by placing the device on or near the payment terminal. In London, Transport for London's Oyster Card has used this technology to revolutionise the way commuters pay for travel. Since 2008, some customers have seen this technology added to their credit, debit and prepaid cards.

The first National Payments Plan looked at developments in contactless functionality on plastic cards and considered whether the rollout of contactless functionality on plastic cards could be supported. There was broad agreement that, given the stage at which market development was at, the rollout was best left to the market to develop.

In 2010 a review of the contactless market was undertaken alongside the review of the prepaid card market. A more active role for the Council was agreed and the market will be looked at again in 2011 with a specific assessment of standards and interoperability issues on contactless plastic cards.

It is an exciting time for the contactless market. In February 2011, Transport for London (TfL) announced that by the end of 2012 card readers across the whole of the TfL network will have been upgraded so that a touch of a contactless debit or credit card will allow passengers to touch in and out for 'pay as you go' travel, in the same way as they use an Oyster Card now.

In addition, NFC is being added to mobile phones to enable contactless payments. A key enabler of growth in NFC payments is agreement over the collaborative aspects of this technology including a unified operating model for all parties. The international card schemes and The UK Cards Association are currently working on the details of how this might work.

Questions

- Q22** How would you like to see contactless mobile payments develop in the UK?
- Q23** What role do you think the Payments Council should play in respect of contactless mobile payments?
- Q24** How should the Payments Council review the success of work to address standards and interoperability on contactless cards and what role should it look to play in this area?

Updating the National Payments Plan: Questions for consultation

3.4.3

Prepaid cards

A variety of prepaid cards exist, targeting different sectors and with different pricing models. For example, some major retail chains sell branded prepaid gift cards. Visa and MasterCard badged cards have also been launched, many of which are aimed at those who do not hold a debit or credit card such as teenagers or the unbanked. Others are designed for cross-border payments as an alternative to travellers' cheques and foreign currency, or person-to-person remittances.

As with contactless payments, the first National Payments Plan agreed that, given the stage at which market development was at, most aspects of the prepaid card market were best left to the market to develop.

The 2010 review of the prepaid market identified a series of actions to support a more active role than a watching brief.

In September 2010, the Payments Council held a seminar with Visa, MasterCard, The UK Card Association and attendees from the Payments Council User Forums. The meeting identified issues around the level and complexity of charges on prepaid cards and the transparency of information on charging and using prepaid cards. This was considered an issue of concern, given the niche uses of prepaid cards, which includes payment to the unbanked as a substitute for a cheque.

The UK Cards Association worked with a number of prepaid card issuers to develop best practice guidelines, which are designed to safeguard the interests of consumers. A summary box for prepaid cards has also been developed, recognising the importance of clarity and transparency for the products provided to the end consumer.

During the course of consultation on alternatives to cheque payments, issues have also been raised about how easy it is for consumers to access money left on a prepaid card and the flexibility to pay money on a prepaid card into a bank account.

Questions

- Q25** Do you think that the transparency of information to consumers on prepaid cards is being adequately addressed?
- Q26** What changes need to be made to prepaid cards to make them more attractive to users?

3.4.4

Payments to online retailers from internet banking

In the last few years, a type of online payment service has been launched in a number of countries, including the Netherlands and Germany, to take advantage of the increasing number of people banking online.

To use this type of service, online merchants include a new payment option on their checkout page, alongside cards or other methods. Customers clicking on this option are asked to identify their bank from a list of participating institutions, and are then redirected to a specially adapted version of their bank's own internet banking site. They then use their normal internet banking procedures to log in, whereupon the payment data is automatically transferred to the bank. After the customer confirms the payment, the transaction is completed using an immediate account transfer service so that there is no credit risk (in the UK that would be Faster Payments).

Updating the National Payments Plan: Questions for consultation

The advantages of such a service are that customers do not have to pre-register to use it, the process is broadly similar to a card payment (in terms of complexity and speed), payments can be completed very quickly, are low cost and that payments are often guaranteed.

As part of the National Payments Plan, the Payments Council is currently assessing the business case for this service in the UK, including the need to develop common requirements, rules, standards or guidelines that would enhance interoperability and consumer protection. We have also conducted a review on the integrity and security risk issues arising from new online payment service operators entering the UK market to provide this type of service, and have developed and endorsed a set of integrity guidelines to that end.

Questions

- Q27** How would you like to see this type of online service develop in the UK?
- Q28** What role do you think the Payments Council should play in respect of this type of online service?
- Q29** What collaborative actions (if any) could be taken by the Payments Council to make such a service more attractive to users?

3.4.5

A new pull payment scheme

Electronic payments are often described as either 'push payments' or 'pull payments'. 'Push payments' are initiated by the payer (as is the case with Bacs Direct Credits and Faster Payments) and 'pull payments' – like Direct Debits – are initiated by the recipient under the authorisation of the payer.

Bacs is currently investigating the potential to develop a new type of pull payment scheme for business-to-business and consumer-to-business payments. This would enable payers to authorise payments on an individual basis, an approach which reflects the National Payments Plan assessment of the potential for one-off and business-to-business Direct Debits.

The proposition development will include a series of "use cases" based around potential stakeholder groups to help to assess demand and acceptability. Once this stage of the work is concluded Bacs will look to test the use cases with interested parties.

As this work is at an early stage and includes planned user engagement, we welcome comment on the development.

Questions

- Q30** Do you have any comments on the potential development of a new pull payment scheme?

3.4.6

Third party payment services

The Payments Council's focus is primarily on initiatives that lie in the collaborative space. However, increasingly developments are coming to the market, produced by third parties making use of existing payment facilities such as card payments or PayPal.

Examples include:

- Online charity giving websites such as JustGiving, VirginMoneyGiving and BT MyDonate facilitating fundraising activity and GiftAid collection through card payments;

Updating the National Payments Plan: Questions for consultation

- Payment collection services such as ParentPay which provides online payments, income management and dinner money administration for schools, authorities and caterers;
- 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.

These services make use of existing facilities, demonstrate clear benefits to users and encourage competition.

Questions

- Q31** What are the opportunities and barriers to growing third party services like those described above and what do users want from these type of services?
- Q32** How can the Payments Council best facilitate innovative developments by third party services that benefit users?
- Q33** What other payment services could be delivered through the ATM network that would be of benefit to users?

3.5 Ensuring the integrity and security of payments

3.5.1 Resilience and integrity

One of the Payments Council's three main objectives is to ensure the operational efficiency, effectiveness and integrity of payment services in the United Kingdom. The Payments Council addresses integrity issues that impact more than one Scheme, or are not addressed by any

Scheme. The Office of Fair Trading (OFT) 2009 review of the work of the Payments Council concluded that although the Payments Council has been largely successful in meeting two of the three objectives set for it, the Payments Council's work on the cross-scheme integrity of payment systems has not added value quickly enough, for instance by taking a dynamic lead in ensuring cross-scheme integrity.

In response to the OFT's recommendations, the Payments Council agreed a two year cross-scheme integrity work plan in consultation with members and the Bank of England. Ten areas of activity were agreed:

- Survey of current contingency arrangements;
- The financial authorities market wide contingency exercise in November 2009;
- Payments Council contingency exercise in November 2010;
- Improved telecoms management;
- Government banking – Industry Sorting Code Database enhancements;
- Cross-scheme testing of out of the box scenarios;
- Re-routing between Bacs, Faster Payments Scheme and CHAPS;
- Identify current best practice regarding payments integrity;
- Quarterly reports from the schemes; and
- Swine Flu pandemic.

Independent consultants were commissioned to conduct a review of the Payments Council's work against the ten areas of activity and have reported on their findings. The report confirmed broad support for our activities whilst suggesting we raise the profile of our work. The Payments Council has used this review to determine its work plan on cross-scheme integrity issues for the next 2 years. It will be an evolving programme of work which will react to other issues that may arise as required.

Updating the National Payments Plan: Questions for consultation

Questions

Q34 Are there other areas of cross-scheme integrity which we should be focussing on to maintain the integrity of payment services in the UK?

3.5.2

Customer and payment authentication

How users authenticate who they are when they are not physically present to make a payment is a key issue. The 2008 National Payments Plan consultation invited views on whether the Payments Council should play a role in the authentication of users of payment services over remote channels (such as the internet or telephone), including the introduction of minimum standards or mandatory practices. The concluding view was that the Payments Council could play a valuable role in sharing best practice and forecasting future trends in authentication.

The Cabinet Office is leading a collaborative project of central Government Departments that wish to engage with the private sector and the banks to remodel the identity and information assurance infrastructure for the digital age. It is the intention to do this collaboratively and equitably based on a transparent commercial model and understanding of value. The Payments Council will provide a forum for collective discussion and will facilitate the engagement between Cabinet Office and the payments sector.

Questions

- Q35** What further actions, if any, should the Payments Council now be considering with respect to customer authentication? To what extent do these need to be addressed across the payments sector?
- Q36** Should minimum standards be introduced for customer authentication of remote transactions? If so, should a common measure of authentication be recommended/mandated?

3.5.3

Fraud

New figures released in March 2011 show that fraud losses on UK cards, cheques and online banking fell in 2010 for the second year running. However, it is important to ensure that this is not used as a reason to divert attention and resources away from the issue, particularly as trends in fraud tend to be cyclical.

Collaborative work on fraud ensures that available prevention, detection and enforcement resources in and beyond the industry are deployed in the most effective manner. Information sharing across sectors ensures that fraudsters do not get the opportunity to exploit loopholes. This information sharing applies just as much to sharing of learning and experience as it does to sharing of intelligence.

Although the acquisition of funds is the ultimate target of the fraudster, it does not mean that the fraud issue remains solely within the power of the payments industry to tackle. There are other parties, who may not necessarily be losing money themselves, who may be able to play their part.

Updating the National Payments Plan: Questions for consultation

Questions

- Q37** How can fraud threats associated with new technology such as mobile devices and other innovation be identified at an early stage and planned for?
- Q38** What part should the Payments Council play in getting other parties beyond the payments industry to the table that may be able to assist in the fight against fraud?
- Q39** How can the Payments Council act as a catalyst for moving on the debate around sharing of information and intelligence between public and private sectors and encourage closer working?
- Q40** Is there anything that the Payments Council can do to ensure that policing of economic crime is dealt with consistently and at an appropriate level across the UK?

3.6 Other action and priorities

We welcome suggestions for any other action which you feel would improve the efficiency, integrity or convenience of payments. This includes areas we have not focussed on in this consultation such as CHAPS and the wholesale markets; the Single Euro Payments Area (SEPA) and European developments; micropayments; and the ATM network. We are also interested to hear about suggestions for further research to support our understanding of how payments are used and where there are potential issues we might be able to address.

We are also keen to establish the relative priority you place on the various actions in your answers to our previous questions.

The Payments Council has a wealth of information about personal financial holdings, payments and cash acquisition. Our main in-house data sources are the clearing and card payment statistics provided by Payments Council and The UK Cards Association members and the Consumer Payments Survey. The Consumer Payments Survey is a continuous research survey which has been commissioned on an ongoing basis since 1988. This information is supplemented by other regular and ad hoc market research to which we use to support our market analysis and forecasts.

Questions

- Q41** Are there any other areas where you feel collaborative action might be taken to improve the experience of making payments for users, or to promote integrity, innovation or efficiency?
- Q42** Is there any additional research or analysis the Payments Council should be undertaking to facilitate improvements?
- Q43** Is there anything further the Payments Council should be doing to catalyse innovation?
- Q44** Looking across the board, what do you think the three most important priorities are for the Payments Council over the next ten years?

Annexes

Annex A

List of consultation questions

Annex B

National Payments Plan
2008 – A progress report

Annex C

Glossary



Annex A: List of consultation questions

- Q1** Where do current payment methods and delivery channels fail to meet the requirements of consumers that may be considered disadvantaged in terms of their access to and use of payment services? (e.g. rural consumers, disabled consumers and people without bank accounts).
- Q2** What action is needed to ensure that these requirements are adequately addressed?
- Q3** Is there any additional action the Payments Council should be taking to make payments work better for:
- Charities and voluntary organisations?
 - Small and medium-sized businesses?
 - Large corporates, public sector bodies and government departments?
- Q4** What else, if anything, do you think we should be doing to inform users about current payment methods?
- Q5** What should the balance be between Payments Council led and bank-led educational initiatives on payment options?
- Q6** The Payments Council believes that the National Payments Plan should continue to assume that cash will remain a major payment method for the foreseeable future. Do you agree?
- Q7** What can be done to extend the acceptance of plastic cards, particularly in non-traditional sectors, such as mobile/sole traders?
- Q8** What other steps, if any, can be taken to make plastic cards more accessible and better able to meet consumer needs?
- Q9** What challenges do you think users face in relation to Direct Debits and what changes, if any, do you think should be made as a result?
- Q10** Are there any innovations in Direct Debits which would benefit all users or particular groups of users?
- Q11** What enhancements to the Faster Payments Service would be of benefit to customers?
- Q12** What lessons can we learn from the introduction of the Faster Payment Service for how future collaborative payment services are introduced?
- Q13** What enhancements, if any, should be made to Bacs Direct Credits?
- Q14** What steps do you think might be taken to increase confidence in internet banking and in making payments by this route?
- Q15** What other action(s) might facilitate transactions made using internet banking?
- Q16** What steps do you think might be taken to increase confidence in telephone banking and in making payments by this route?
- Q17** What, if anything, can be done to make telephone payments more accessible to users?
- Q18** What further steps should be taken to match payments and supporting information effectively?
- Q19** What level of information is needed for receivers of payments to identify who the payment is from and what it is for?
- Q20** What issues should the Payments Council consider in relation to the use of an alternative address for bank account details within a mobile payments bank account to bank account service?
- Q21** What collaborative actions (if any) could be taken by the Payments Council to make a service by which payments can be made via a mobile phone more attractive to users?
- Q22** How would you like to see contactless mobile payments develop in the UK?
- Q23** What role do you think the Payments Council should play in respect of contactless mobile payments?

Annex A: List of consultation questions

A

- Q24** How should the Payments Council review the success of work to address standards and interoperability on contactless cards and what role should it look to play in this area?
- Q25** Do you think that the transparency of information to consumers on prepaid cards is being adequately addressed?
- Q26** What changes need to be made to prepaid cards to make them more attractive to users?
- Q27** How would you like to see this type of online service develop in the UK?
- Q28** What role do you think the Payments Council should play in respect of this type of online service?
- Q29** What collaborative actions (if any) could be taken by the Payments Council to make such a service more attractive to users?
- Q30** Do you have any comments on the potential development of a new pull payment scheme?
- Q31** What are the opportunities and barriers to growing third party services like those described above and what do users want from these types of services?
- Q32** How can the Payments Council best facilitate innovative developments by third party services that benefit users?
- Q33** What other payment services could be delivered through the ATM network that would be of benefit?
- Q34** Are there other areas of cross-scheme integrity which we should be focussing on to maintain the integrity of payment services in the UK?
- Q35** What further actions, if any, should the Payments Council now be considering with respect to customer authentication? To what extent do these need to be addressed across the payments sector?
- Q36** Should minimum standards be introduced for customer authentication of remote transactions? If so, should a common measure of authentication be recommended/mandated?
- Q37** How can fraud threats associated with new technology such as mobile devices and other innovation be identified at an early stage and planned for?
- Q38** What part should the Payments Council play in getting other parties beyond the payments industry to the table that may be able to assist in the fight against fraud?
- Q39** How can the Payments Council act as a catalyst for moving on the debate around sharing of information and intelligence between public and private sectors and encourage closer working?
- Q40** Is there anything that the Payments Council can do to ensure that policing of economic crime is dealt with consistently and at an appropriate level across the UK?
- Q41** Are there any other areas where you feel collaborative action might be taken to improve the experience of making payments for users, or to promote integrity, innovation or efficiency?
- Q42** Is there any additional research or analysis the Payments Council should be undertaking to facilitate improvements?
- Q43** Is there anything further the Payments Council should be doing to catalyse innovation?
- Q44** Looking across the board, what do you think the three most important priorities are for the Payments Council over the next ten years?

Efficiency

Topic	2008 NPP Action	Progress
<p>Cheques</p>	<p>Phase One – Initial research, consultation with users and industry leadership</p> <p>In phase one, we said we would:</p> <ul style="list-style-type: none"> • Research barriers to cheque substitution; • Conduct gap analysis for acceptable alternatives to cheques and education on existing alternatives; • Work with users to understand assistance/support required to enable migration to alternative forms of payment and to identify appropriate targets for migration away from cheques. <p>Phase Two – Preparing a roadmap</p> <p>In phase two, we said we would work with key stakeholders to prepare a roadmap of future actions including agreed targets. Work included:</p> <ul style="list-style-type: none"> • An assessment of the potential alternatives to cheques identified in the phase one research, using cost benefit analysis where appropriate and working with users to consider their acceptability; • An industry initiative on marketing/ education directed at both users of cheques and those who issue them, setting out the advantages of alternatives to cheques and suggesting how alternatives to cheques can be promoted; and • Work with stakeholders to confirm whether a target end date for closure of the cheque clearing can be set and what that end date should be. <p>In addition, an action was set for the Cheque & Credit Clearing Company to review and report on actions that might be taken to maintain and enhance the efficiency of cheque processing options against the backcloth of declining volumes, while preserving the overall integrity of the clearing.</p>	<p>In the first six months of the Plan, the phase one actions were delivered.</p> <ul style="list-style-type: none"> • We conducted extensive research with consumers, SMEs, large corporates and financial institutions on cheque use and barriers to cheque migration. • Independent consumer and SME research, conducted by AIA Research, was published: http://www.paymentscouncil.org.uk/files/payments_files/payments_council_cheque_use_research_2008.pdf • The experience of other countries was studied to see what alternatives to cheques were in use there, including countries where cheques have been successfully reduced to very low levels of use. Examples include the Netherlands, Sweden, Norway and Denmark. • A workshop was held with Payments Council members on how they could lead by example in supporting and promoting alternatives to cheques and share ideas on how to drive change. <p>The phase two actions were completed by the end of 2009.</p> <p>Further research and consultation was undertaken with users, building on work in phase one. Specifically, we met with organisations representing consumers dependent upon cheques to understand how existing alternative payment methods are not meeting needs and how we can ensure this is reflected in the project to manage the decline of cheques. We also met with a range of large corporates, public sector bodies and financial institutions to understand the timescales for changes to systems and processes to migrate away from cheques.</p> <p>Other work included:</p> <ul style="list-style-type: none"> • An assessment of how to take forward marketing/ education on cheque migration; • Understanding the legal and regulatory issues of closing clearings; • An assessment of the business case for managing the decline in cheques; • Considering how paper may continue to be processed after the clearings close; • A report from C&CCC on their action; and • Confirming viability of a 2018 target end date with clearing companies in Great Britain and Northern Ireland. <p>In December 2009 Payments Council Board set a conditional target date of 31st October 2018 to close cheque clearings in Great Britain and Northern Ireland.</p>

Efficiency (continued)

Topic	2008 NPP Action	Progress
<p>Cheques cont</p>	<p>Phase three: Putting the Roadmap into practice In phase three, we said we would:</p> <ul style="list-style-type: none"> • develop the agreed alternatives to cheques; • enhance existing alternatives where necessary; and • start the marketing/education initiative. 	<p>A report on the work which led to the Payments Council's decision, setting out the roadmap for the future of cheques published: http://www.paymentscouncil.org.uk/files/payments_council/the_future_of_cheques_final_version.pdf</p> <p>Since 2010, this work has been underway as part of a full programme of activity, developed to progress these areas of work. As part of this, we have been:</p> <ul style="list-style-type: none"> • Engaging cheque users and keeping them informed; • Working with cheque users to understand their requirements for alternatives to cheques, particularly: <ul style="list-style-type: none"> – older people, – customers who depend on cheques, – small and medium sized businesses, – charities, clubs and societies; and – organisations that use large numbers of cheques. • Conducting research and analysis to evaluate the levels of awareness and acceptability of cheque alternatives amongst consumers and businesses. <p>At the end of 2010, we published a progress report, setting out the work conducted since the announcement and the key milestones from 2010 to 2018: http://www.paymentscouncil.org.uk/files/payments_council/new_website/cheque_replacement_report-final.pdf. Our second progress report will be published by the end of 2011.</p>
<p>Cheque Guarantee Card Scheme</p>	<p>In the NPP, we said we would conduct an objective review of the Cheque Guarantee Card Scheme including a cost benefit analysis of potential changes to the scheme (including closure and continuation of the present scheme) and research among the users of the scheme.</p>	<p>An objective review of the Cheque Guarantee Card Scheme was conducted in 2008-9.</p> <p>In March 2009 the findings from this review were reported to the Payments Council Board. This included a cost benefit analysis of potential changes and specially commissioned independent market research among users and acceptors of cheques.</p> <p>The Board considered the evidence in June 2009 and concluded that it was in all parties' interests to manage the Scheme's demise in a coordinated fashion and agreed that the Scheme should consider what closure date would be appropriate.</p> <p>In September 2009, the UK Domestic Cheque Guarantee Card Scheme confirmed a closure date of 30th June 2011. Since the decision, those banks and building societies who provide cheque guarantee services have begun work to ensure that businesses who still accept guaranteed</p>

Efficiency (continued)

Topic	2008 NPP Action	Progress
Cheque Guarantee Card Scheme cont		<p>cheques, and personal customers who still write them, are made aware of the closure date, and that they are given information about the alternatives. Customers can continue to use cheques and these can continue to be accepted although they will not be backed by the guarantee after June 2011.</p> <p>A full report of the review of the Cheque Guarantee Card Scheme can be found at: http://www.paymentscouncil.org.uk/files/payments_files/cheque_guarantee_report_june_2009.pdf</p>
Credit clearing	<p>In the NPP, we said we would conduct an objective review of options for the future of the credit clearing, including whether, and if so how, the clearing should be closed. This will:</p> <ul style="list-style-type: none"> include a detailed survey of the items passing through the clearing; establish all relevant costs, including fraud; ensure that acceptable alternatives exist for payments currently passing through the clearing, or that acceptable alternatives can be developed if they are not currently in place; and conduct a cost benefit analysis to assess the costs and benefits for all stakeholders that would arise from closure of the credit clearing or from other changes to the clearing. 	<p>This review was conducted in 2009. It was led by a steering group of Payments Council members, with extensive input from stakeholders and specially commissioned market research. It concluded the future of credit clearing is inextricably linked to cheque clearing and once that closes, the credit clearing (which handles less than 10% of the number of items of the cheque clearing) would not be viable as a standalone operation.</p> <p>The review emphasised there are a number of existing alternatives to credit clearing operated by the Post Office, PayPoint and other providers, which provide similar or better functionality for users. Market research showed that there is no demographic group significantly more reliant on the credit clearing than any other.</p> <p>However, the review felt it would be possible to replicate the functionality of the credit instrument in a way that will not impact on users' experience of using the credit clearing. As a result, CHAPS Co is undertaking a project to replace the paper credit clearing for cash payments with a Faster Payment. This will enable bill payments in cash to be cleared and settled on a same day basis.</p> <p>The Payments Council Board agreed the credit clearing would not continue beyond closure of the cheque clearing. However, the Board emphasised that the future of credit clearing should be subject to the same rigorous approach as the cheque clearing: and that any decision to close it requires the existence of acceptable alternatives. Progress targets and criteria measuring acceptability of alternatives will be developed with stakeholders in due course.</p>

Efficiency (continued)

Topic	2008 NPP Action	Progress
<p>Cash</p>	<p>In the NPP, we said we would:</p> <ul style="list-style-type: none"> • Explore with the Bank of England, Royal Mint and other relevant bodies where the Payments Council can play a strategic role in notes and coin developments; • Publish agreed responsibilities for cash issues and the timetable for updating progress to the Payments Council Board • Take full account of the impact on cash of the future collaborative initiatives we initiate. 	<p>In response to the first action, a Strategic Cash Group was set up. Chaired by the Bank of England, members include HM Treasury, the Payments Council Chief Executive and members of the Payments Council's Cash Services Group.</p> <p>The group has published the first of two reports looking at a wide range of issues regarding banknotes and coin, and the arrangements that ensure they circulate: http://www.paymentscouncil.org.uk/files/payments_council/future_of_cash2.pdf</p> <p>The first report describes the issues and developments that are likely to shape the future for cash in the UK over a ten-year horizon. It identifies a number of issues for further consideration and where the future for cash is impacted by other National Payments Plan activities.</p>
<p>Direct Debits</p>	<p>The NPP committed to complete a number of actions on Direct Debits.</p> <p>The first set of actions was conducted by Bacs. These were to:</p> <ul style="list-style-type: none"> • complete a review of the time limit with the Direct Debit guarantee; • review the barriers to SMEs becoming Direct Debit originators and identify what, if any, changes are required to the scheme to reduce these barriers; • progress a dialogue in the Bacs Affiliates Interest Group on options to improve customer control and flexibility with Direct Debits; and • examine the material and processes currently used for the education of bank staff on the Direct Debit scheme and identify potential improvements • review the processes for sign-up and management of Direct Debit mandates and identify any measures which might make these easier or less costly for payees and originators. 	<p>Bacs initiated an extensive project to take forward the first set of actions. Research and consultation was undertaken with various bodies including the Bacs Affiliates Interest Group, consumers, SMEs and unincorporated organisations. This work concluded:</p> <ul style="list-style-type: none"> • Although there was a case for changing the refund period under the Direct Debit Guarantee, it was not a compelling one and, on balance, recommended that no change was required to the existing customer proposition; • There were no significant barriers to SMEs becoming Direct Debit originators and that the existing sign up methods for Direct Debit mandates fully met the requirements for all stakeholders. • Offering payers a wider choice of payment dates, more frequent instalments/collections and appropriate advance notice periods would improve customer control and flexibility. <p>The Payments Council Board approved these conclusions.</p> <p>In addition, Bacs reported to the Payments Council that they have developed and rolled-out targeted education materials for bank staff and call centre staff such as e-learning courses, Direct Debit Guarantee 'prompt cards' and the 'Direct Debit for Dummies' guide.</p>

Efficiency (continued)

Topic	2008 NPP Action	Progress
Direct Debits cont	<p>Additionally, the NPP committed to look at two potential innovations in relation to Direct Debits. These were:</p> <ul style="list-style-type: none"> to develop a proposition for a business-to-business direct debit and assess the potential market; and to complete an initial assessment of one-off direct debits: including working with users to produce an agreed proposition, considering how the proposition might be delivered and what the main alternatives are, and assessing how it might be taken forward. 	<p>The potential innovation projects were progressed as one, by assessing the potential market for a new automated payment scheme that would enable business-to-business payments, including one-off payments in a similar way to Direct Debit.</p> <p>A proposition for how the payment system might work was developed and tested in market research with potential users. This research indicated limited demand. In 2010, the proposition was reviewed in a wider strategic review of the Direct Debit scheme, and work is now underway to develop this potential scheme further.</p>
Direct Credits	<p>In the NPP, we said we would:</p> <ul style="list-style-type: none"> Assess the potential measures identified by respondents to improve the accuracy of reference information, including technical solutions and customer education, and consider which, if any, require collaborative action and the costs and benefits of those actions; and Review the current situation in regard to the end-to-end delivery of payer and reference information and consider the costs and benefits of introducing a minimum standard. 	<p>In 2009, a review was undertaken to take forward these actions. This review identified considerable scope to reduce error rates and enhance efficiency by adopting best practice throughout the end-to-end payment process. Guidelines were published in September 2010: http://www.paymentscouncil.org.uk/resources_and_publications/publications/bpgs/. Separate documents were published for billers, for banks and for payers to ensure end-to-end coverage of the process. We will review the guidelines in summer 2011 and update them if necessary.</p> <p>Some new collaborative developments were identified. These are now being investigated in more detail by the clearing companies.</p> <p>Work is also underway to investigate the potential to develop a central database of biller reference information. The database will help banks advise customers of incorrectly formatted references entered on internet banking services before those payments are sent. The aim is a reduction in the number of incorrectly or inadequately referenced payments sent to billers and resources spent reconciling them.</p>
Credit cards, debit cards & cash machines	<p>In the NPP, we said we would keep the card and ATM markets under active review and intervene if the market is not delivering appropriate solutions.</p>	<p>With the exception of the work on contactless and prepaid cards, no action has been taken to review the card and ATM markets. The 2011 review provides an opportunity to do this.</p>

Efficiency (continued)

Topic	2008 NPP Action	Progress
<p>Credit cards, debit cards & cash machines cont</p>		<p>In response to the last consultation, on ATMs, there was a focus on accessibility issues and the mix of note denominations dispensed. The Bank of England has been working with the LINK Scheme, banks, building societies and independent ATM operators to increase the number of ATMs dispensing £5 notes. This work has now begun to have an impact, with the number of ATMs dispensing £5 notes more than doubling – to over 1,500 – since 2009. Further increases are expected in 2011 and into 2012, while the Payments Council and LINK are putting in place new tracking systems to monitor progress towards meeting Bank of England targets for £5 notes dispensing cash machines.</p>
<p>CHAPS and the wholesale market</p>	<p>In the NPP, we said we would:</p> <ul style="list-style-type: none"> • Put in place arrangements for regular liaison between users of the wholesale market and the Payments Council, building on contact already made. • Develop our relationship with SWIFT to contribute to the development of their strategy and use their understanding of their strategy in Payments Council dealings with the wholesale market; and • In work on payments integrity, work with the Bank of England in order to ensure that the level of integrity and resilience expected by wholesale market participants continues to be delivered. 	<p>In 2009 a new liaison group was established to create a forum for regular contact with the users of the wholesale market and the Payments Council. Matters discussed include:</p> <ul style="list-style-type: none"> • the possible impact of the FSA's (then) new liquidity proposals on wholesale payments, especially CHAPS; and • the potential usefulness of raising the system threshold for payments by FPS to £100,000 (this has since happened). <p>In 2009, SWIFT UK Ltd commenced an informal relationship with Payments Council to explore opportunities for both organisations to work together. Discussions have progressed on a variety of topics.</p> <p>In our work on integrity, a survey of contingency arrangements for each of the main payment systems was undertaken. This included an assessment of the integrity and resilience from the perspective of wholesale market participants.</p>
<p>SEPA and cross-border payments</p>	<p>In the NPP, we said we would:</p> <ul style="list-style-type: none"> • Examine the impact of European payments in general, and SEPA in particular, on UK payments. • Review how to provide useful information to payment users in the UK on SEPA and the PSD. • Review the cross-border payment services available in the UK and consider what changes, if any, may be required. 	<p>Although the UK is a non-euro country and the number of cross-border euro payments to and from the UK is comparatively small, the UK payment industry is committed to making SEPA (Single Euro Payments Area) a reality. A number of UK-based payment service providers, including many Payments Council members, currently offer SEPA credit transfer products to their customers and have joined the SEPA Direct Debit Scheme(s).</p> <p>The Payments Council is working with the European Payments Council to ensure that UK customers' needs are taken into account, meeting our National Payments Plan commitment to examine the impact of European payments and SEPA, on UK payments.</p>

Efficiency (continued)

Topic	2008 NPP Action	Progress
SEPA and cross-border payments cont		<p>As part of the work around the implementation of the Payment Services Directive (PSD) in 2009, best practice guidelines for financial institutions were launched by the Payments Council. Our website also provides information on SEPA and the PSD which is updated regularly with communication documents from the European Payments Council.</p> <p>It was agreed by the Payments Council Board in October 2009 that the review of cross-border payment services available in the UK be postponed to enable priority to be given to the cheque replacement programme, support for the disadvantaged, innovation, and fostering existing payment methods.</p>
Measures to enhance users' efficiency	<p>In the NPP, we said we would:</p> <ul style="list-style-type: none"> • Evaluate the problem that users perceive with payment formats and assess the potential solutions via a thorough analysis of the problems people encounter; an assessment of the underlying causes of these problems (with particular reference to, where relevant, the use of non-standardised account number formats) and an evaluation of the potential solutions. • Build consensus and report the analysis to User Forums and Members at a cross-stakeholder forum or workshop. • Publish the review and report on the way forward. 	<p>To meet these actions, an extensive consultation with stakeholders was undertaken. Broad consensus was reached on the scale of problems caused by non-standard format account numbers and on the way forward.</p> <p>The direct cost incurred across all electronic payment service users arising from non-standard account numbers was found to be between £2m and £8m per annum; both users and financial institutions agreed this cost does not warrant major investment to resolve the problems experienced by some users.</p> <p>The way forward included the development of industry good practice for account number formats, a number of tactical initiatives and a communication plan to support these steps: http://www.paymentscouncil.org.uk/files/payments_files/account_number_best_practice_guidelines_june_09.pdf</p> <p>As part of the 2011 review of the National Payments, we will be reviewing the effectiveness of the initiatives undertaken. This includes an assessment of whether the use of non-standard account number formats has changed. This will be presented to the Payments Council by the end of 2011.</p>

Innovation

Topic	2008 NPP Action	Progress
<p>Contactless & Prepaid Cards</p>	<p>In the NPP we said we would:</p> <ul style="list-style-type: none"> • Ask the card schemes to work together with other stakeholders, including transport authorities, to harmonise standards for contactless cards. • Provide reports on the contactless and prepaid card markets. • Actively monitor developments in contactless and prepaid cards to ensure that there is open access and interoperability. 	<p>In June 2008, we wrote to the respective schemes to request the card schemes to work together with other stakeholders, including transport authorities, to harmonise standards for contactless cards.</p> <p>A review of the contactless and (open-loop) prepaid markets was initiated in October 2009. Eighteen organisations submitted evidence, including payment service providers, a card scheme, retailers, transport operators and consumer organisations. The Review identified a number of areas in which the Payments Council might have a role, including:</p> <ul style="list-style-type: none"> • Development of generic consumer information; • Helping consumer organisations' engage with development of markets; • A request from the UK Mobile Contactless Forum to engage with the Payments Council; and • Standards and interoperability issues. <p>Following the review, the Payments Council Board agreed to play a more active role, focussed on these areas. A full report was published in May 2010: http://www.paymentscouncil.org.uk/files/payments_council_minutes_of_payments_council_board/contactless_and_prepaid_report_published_200510.pdf</p> <p>The actions were addressed in 2010, including a seminar with Visa, MasterCard and The UK Cards Association and the Payments Council User Forums. In 2011, the markets will be reviewed again. The review will include a specific assessment of standards and interoperability issues on contactless cards.</p>
<p>Mobile payments</p>	<p>In the NPP, we said we would:</p> <ul style="list-style-type: none"> • Consider whether to proceed in developing a mobile payments service depending on evidence from market research that a collaborative initiative is required to deliver benefits for users in excess of the costs; • Set a timetable for its development, with the Payments Council's role being explicitly confined to the necessarily collaborative aspects of the development; and • Make clear support for the adoption of European and global standards in any UK mobile payments initiatives, and work to ensure that solutions have open access and interoperability. 	<p>A proposition for a new industry-wide payments service to enable spontaneous account-to-account payments by mobile phone has been explored in detail since the National Payments Plan was launched. Market research with mobile phone users and small businesses confirmed demand for a service of this nature.</p> <p>Further work has been undertaken to develop an initial proposition for such a service and what security would be required. An open Request for Information was issued in mid-2008. Responses showed strong interest among a wide range of mobile payments experts, which has consequently helped the industry to further refine the business proposition.</p>

Innovation (continued)

Topic	2008 NPP Action	Progress
Mobile payments cont		<p>In 2009, the case for collaborative action by the Payments Council was explored further. However, it was evident a number of initiatives were progressing in the competitive space and an industry-wide collaborative approach might not be appropriate at that time. In December 2009 the Payments Council Board agreed that “due to the rapid evolution of the mobile market and competitive developments by individual institutions and others in the marketplace, the timing did not appear right for a collaborative project, which might be overtaken by events”.</p> <p>The Payments Council is now looking at providing the central common platform to enable money to be moved from one bank account to another using a mobile, with the focus on person-to-person and person-to-business payments.</p> <p>In addition to the above work, the Payments Council is engaging with ISO on development of a mobile payments/banking standard.</p>
Supply chain	<p>In the NPP, we said we would report on work with other stakeholders in the UK (including government, large corporates and SMEs) to identify opportunities for collaboration, for example on standards, and, where appropriate, influence the European Commission’s Expert Group on e-invoicing, and other global initiatives.</p>	<p>Work on e-Invoicing has been progressed through two areas of activity: consulting Government and other UK stakeholders on issues relevant to e-Invoicing; and establishing whether there is a business rationale for the payments industry to develop collaborative e-Invoicing services, based on the outputs from the European Commission.</p> <p>We remain involved in e-Invoicing activities at a European level in order to lobby and influence developments from a UK perspective. We have led the work internationally to develop an ISO standard for e-Invoicing which establishes an efficient integration link between the supply chain processes resulting in an invoice and the underlying payment.</p>
Other payment innovations	<p>In regard to other payment innovations, we said we would:</p> <ul style="list-style-type: none"> • Review the suggestion for a new scheme using the Faster Payments Service to pay online retailers under our normal procedure for assessing innovations; and • Continue to develop as an authoritative voice on payment system innovation. As part of this, monitor and consider innovations in the UK and other countries and evaluate their impact and usefulness. 	<p>In relation to the first action, work is underway to consider a new scheme for internet payments to retailers. This would work by directing customers straight to their online banking service to make a payment when making purchases on websites.</p> <p>This type of payment scheme exists in other countries and is emerging in the UK. A new Payments Council group was set up to review the development.</p>

Innovation (continued)

Topic	2008 NPP Action	Progress
Other payment innovations cont		<p>Work focussed initially on actions needed to maintain the integrity of online payment systems operating in the UK. Market research is now underway with retailers and consumers to understand the appetite for such a service to support the development of a business case for a new scheme.</p> <p>Separately, we have 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. The Forum helps to increase the flow of innovative ideas into discussions and to develop the Payments Council as an authoritative voice on payment system innovation. Domestic and international developments in payments are monitored continuously.</p>

Cross-cutting issues

Topic	2008 NPP Action	Progress
Education in payment matters	In the NPP, we said we would conduct a high-level review in 2008 of payment education work and update the review of education in payments periodically to identify continued gaps and opportunities.	<p>In 2008, the Payments Council conducted a review of the existing educational work on payments with a wide range of organisations involved in financial capability as well as those outside the financial sector.</p> <p>The review highlighted that the need for comprehensive and authoritative information on payments is becoming increasingly important as the complexity and range of payment options develop. As a result, the Payments Council Board developed a strategy for payments education which focuses on providing information to expert financial education and stakeholder organisations in addition to direct resources with targeted learning for those groups of users who will benefit from it most.</p> <p>To implement the strategy, the Pay YOUR Way website was launched in February 2011. http://www.payyourway.org.uk/. This aims to educate consumers on the different payment methods available in an entertaining and accessible way. There are plans to develop this material to make it suitable for different audiences, such as older people and small businesses and to work with our partners to broaden reach of the material. As new payment methods come on stream and changes are made to existing ways to pay, updates will be made to keep it current.</p>

Cross-cutting issues (continued)

Topic	2008 NPP Action	Progress
Financial inclusion	<p>In the NPP, we said we would:</p> <ul style="list-style-type: none"> • Support the financial inclusion objectives of the Government and others, particularly in relation to innovation and education. Where appropriate, consider any specific measures needed to address financial inclusion issues in particular geographical areas. Work with organisations which work with individuals on the fringe of financial inclusion, including credit unions. • Develop working relationships with the Financial Inclusion Task Force and the Treasury. Arrange meetings to discuss the financial inclusion implications of the National Payments Plan and the ongoing actions. • Evaluate the impact on financial inclusion in any major collaborative payment system changes. An independent Payments Council director will take responsibility for ensuring that the impact of such changes on financial inclusion issues is included in any relevant assessment. • Develop criteria to ensure financial inclusion is addressed against any payment innovations. • Report on how the impact on financial inclusion is being evaluated in any major collaborative payment system changes. 	<p>Shortly after the publication of the National Payments Plan, a working relationship with the Financial Inclusion Task Force and HM Treasury was established to discuss the financial inclusion aspects of the National Payments Plan and the ongoing actions.</p> <p>In 2009, a Financial Inclusion Policy was developed and publicised. The policy, developed through consultation with HMT and other organisations, sets out the Payments Council's principles for addressing financial inclusion requirements in our key projects. It includes guidelines for how to consider financial inclusion issues for a proposed major payment system change, and criteria to encourage inclusive development of a collaborative payment innovation.</p> <p>The Financial Inclusion Policy is available on the Payments Council website: http://www.paymentscouncil.org.uk/files/financial_inclusion_policy_october_2009.pdf</p> <p>One financial inclusion initiative in which the Financial Inclusion Task Force and HM Treasury took particular interest has been the LINK ATM Scheme programme to encourage deployment of free-to-use ATMs in low-income areas, where free of charge cash access was not previously available. Although this programme began before the National Payments Plan was published, in the period since May 2008 over 300 further free-to-use ATMs have been deployed in target areas agreed with the government. This has brought local free-of-charge cash access to an additional 850,000 people. As a result of this initiative, 96% of the areas in the bottom quartile of the UK's deprivation index now have a local free-to-use cash machine.</p>
Payment system integrity & contingency	<p>In the NPP, we said we would:</p> <ul style="list-style-type: none"> • Carry out a survey in 2008 of the contingency arrangements for each of the main payment systems in close liaison with the Bank of England; and • Assess cross-system risks and consider the scope for practical contingency measures in the event of major system failure. 	<p>In 2008, the survey of contingency arrangements was undertaken and shared with the Bank of England.</p> <p>In November 2010, a cross-scheme payments contingency exercise was undertaken, designed to allow participants to test contingency arrangements for incidents that cross two or more Schemes; to put into practice processes that had only been worked on in theory; and to identify areas for improvement. A report of this exercise has been published on the Payments Council website: http://www.paymentscouncil.org.uk/files/payments_council_new_website/pce10_review.pdf</p>

Cross-cutting issues (continued)

Topic	2008 NPP Action	Progress
<p>Payment system integrity & contingency cont</p>		<p>Additionally, the payments industry has been supportive of the financial authorities in their Market Wide Exercises for the UK financial sector. Progress in this area is routinely discussed with the Bank of England and has recently been subject to independent audit which will be published.</p>
<p>Fraud & security</p>	<p>Two specific initiatives were agreed in the National Payments Plan:</p> <ul style="list-style-type: none"> • Produce an annual assessment of key trends, emerging threats and counter measures in payments fraud and security, including new technology and review what additional action may be needed. • Investigate what, if any, further steps should be taken to facilitate data sharing. <p>In addition, two guiding principles were adopted to raise awareness of fraud and security risks in collaboration with other sectors and the public authorities; and to conduct a formal risk assessment against any new collaborative payment initiatives.</p>	<p>To progress these actions, the Payments Council Board agreed to establish a new strategic Payments Council group on fraud and security. This group has met a number of times and is seeking input from existing payments industry fraud and security groups and public sector organisations to define priorities, and in particular explore how payments industry and public sector activities may complement each other.</p> <p>The Payments Council Board has also confirmed that members of the Payments Council should be encouraged to participate in data sharing initiatives.</p> <p>In December 2010, the first Annual Security and Fraud Review was published on the Payments Council website: http://www.paymentscouncil.org.uk/files/payments_council_new_website/annual_fraud_review.pdf</p> <p>Fraud and security assessments have been conducted in relation to the work exploring mobile payments and internet banking to pay online retailers.</p>
<p>Standards</p>	<p>The National Payments Plan committed to:</p> <ul style="list-style-type: none"> • Scope establish a standards migration plan, presenting the rationale for the alignment of domestic message standards with those used in Europe, including standards used for SEPA (Single European Payments Area) and developed at international level through ISO. Key issues were to be detailed via industry consultation and a thorough analysis of the business rationales, or inhibitors, for standards alignment across the key payment schemes. • Conduct a further consultation to determine the suitability of migration and publish an overall timeline across the key payment schemes, highlighting critical decision points and strategic issues. 	<p>This task has been completed and agreement reached on a rationale for standards convergence, based on eventual migration to a common global message standard (ISO20022). A Standards Roadmap has been developed, establishing the long-term vision and business rationale for payment standards convergence and further work is now progressing to define and agree how best the vision can be achieved and by when.</p> <p>Standards remain a foundation for enabling the delivery of the Payment Systems Roadmap that will establish an agreed long-term vision for change across the UK Payment Systems.</p>

Cross-cutting issues (continued)

Topic	2008 NPP Action	Progress
Payment costs	In the National Payment Plan we said we would collect cost data when required to support specific initiatives such as the evaluation of an innovation or the review of an existing payment scheme and use this information to improve our understanding of payment costs.	This action has been taken forward as required. For example, Independent economic consultancy, Frontier Economics, is collecting cost data as part of its work establishing a framework for a cost-benefit analysis on the case for closing the cheque clearings in the UK.
NPP	In the NPP, we said we would: <ul style="list-style-type: none"> • Report on progress for each work area against the Plan annually and incorporate new actions agreed by the Payments Council Board; and • Undertake a more fundamental review of the Plan every three years. 	Annual progress updates on the National Payments Plan have been produced and published on our website. In addition, a summary of progress has been presented in the Payments Council's Annual Reviews. This consultation document forms part of a fundamental review of the Plan in 2011.

ATM (automated teller machine)

Also known as a cash machine or cash dispenser. A computerised self-service device which allows the holder of an appropriate card and personal identification number (PIN) to withdraw cash from their account and access other banking services.

Automated credit

Payments made between accounts processed through Bacs or via the Faster Payments Service. These include standing orders, which are regular payments initiated directly by the payer.

Bacs

The company that sets the business rules which govern the operation of Direct Debits and Bacs direct credits.

Card issuer

A payment service provider issuing payment cards or ATM cards to its customers. For payment and ATM cards, the card issuer undertakes the responsibility to settle transactions made with the card.

Card scheme(s)

Card schemes set the business rules that govern the issuing of payment cards that carry their logo. Typically, these rules apply throughout the world, to ensure wide acceptance of cards. In many countries, domestic schemes also operate. The schemes operate the clearing and settlement of payment card transactions. In the UK, payment service providers must be members of a scheme to issue its cards and acquire card transactions. Examples of international card schemes operating in the UK are Visa, MasterCard, American Express and Diners Club.

Cash machine

See ATM.

CHAPS Clearing Company

The company that operates schemes that process two systemically important and time-dependent payment schemes: CHAPS Sterling and Faster Payments.

Cheque & Credit Clearing Company

The Company that has responsibility for the bulk clearing of cheques and paper credits throughout Great Britain. Cheque and credit payments in Northern Ireland are processed locally.

Cheque clearing

An operational clearing system for presenting and exchanging cheques between settlement members and their branches, in order to transfer funds to named accounts.

Cheque guarantee card

Also known as a cheque card. A card issued by a bank or building society for the purpose of guaranteeing a payment by cheque up to a specified value (£50, £100 or £250). The Cheque Guarantee Card Scheme will close on 30 June 2011, after which it will no longer be possible to guarantee a cheque using a card.

Chip and PIN card

A payment card containing a chip that requires the use of a PIN to verify the cardholder at cash machines and point-of-sale.



Annex C: Glossary

Chip and signature card

A payment card containing a chip that requires a signature as the method of card holder verification at the point-of-sale. This provides an alternative to chip and PIN for those customers unable to use a PIN.

Contactless card

A payment card which enables the holders to pay for transactions of £15 or less by simply holding their card next to a secure reader in participating outlets and at vending machines. All contactless card holders have a symbol showing they are able to operate this way.

Credit card

A payment card enabling the holder to make purchases, transfer balances or withdraw cash up to a prearranged ceiling. The credit granted can be settled in full by the end of a specified period or can be settled in part, in which case interest is normally charged. In the case of cash withdrawals, interest is normally charged from the transaction date.

Credit clearing

An operational clearing to distribute paper credits between banks, in order to transfer funds to named accounts.

Current account

A bank or building society account, normally offering facilities such as a debit card, ATM-only card, cheque book, overdraft facility, standing orders and Direct Debits.

Debit card

A payment card linked to a bank or a building society account, used to pay for goods and services by debiting the holder's account; and which allows a customer to withdraw cash at a cash machine.

Direct credit

An electronic credit to a customer's account initiated directly by the payer. Most direct credits are business-to-individual payments for wages, salaries, pensions, state benefits and tax credits, payments initiated by businesses to pay their trading partners, or payments by individuals to pay bills.

Direct Debit

A pre-authorized debit of the payer's account, initiated by the payee (known as an originator). Direct Debits are typically used to make regular payments for debts such as utility bills and insurance payments, and amounts may be variable.

Direct Debit Guarantee

A guarantee offered by all banks and building societies that take part in the Direct Debit Scheme. If the amount to be paid or the payment date changes, the organisation collecting the Direct Debit will notify the paying customer, normally 10 working days in advance of the account being debited, or as otherwise agreed. If an error is made by the organisation or the customer's bank or building society, they receive a refund from their bank of the amount paid. The customer can cancel a Direct Debit at any time by writing to their bank or building society, but should also notify the company collecting the debit.

E-Money Directive

A European Commission law, the E-Money Directive aims to enable the design of new, innovative and secure electronic money services, help new providers access the e-money market, and support competition in e-money services across the European Union. EU member states must implement the directive by 30th April 2011.

Electronic payment

A general term to describe automated or card payments.

European Payments Council (EPC)

The European Payments Council (EPC) is the decision-making and co-ordination body of the European banking industry in relation to payments.

Faster Payments Service

A new system, launched in May 2008, which allows internet or phone banking payments to reach the recipient within two hours, at any hour and on any day of the week. The system also provides same-day delivery of standing orders on banking days.

Interchange fees

Interchange fees are paid between banks, when consumers make a payment using a credit or debit card.

Internet banking

A service enabling users to access banking facilities over the internet or other computer network. Also known as e-banking and online banking.

ISO

The International Organization for Standardization is a non-governmental organisation that sets standards for government, business and society in a broad range of areas. The Payments Council works with the ISO to set standards for payments systems and processes, such as the size of credit and debit cards to ensure compatibility with card terminals and ATMs, irrespective of the provider.

LINK

LINK is the UK's cash machine network. Virtually every cash machine in the UK is connected to LINK, and LINK provides the only route through which debit card and ATM card issuers can offer their customers reliable nationwide access to cash. All the UK's significant debit and ATM card issuers are LINK members.

Micropayment

A micropayment is a term typically used to describe low-value payments. These are usually payments made on a purchase-by-purchase basis, for digital goods such as access to news content, online music, TV shows and smartphone 'apps'. Micropayment services are also increasingly used to purchase physical goods, such as school meals, although these services tend to operate within relatively small user groups.

Messaging

The exchange of information between senders and receivers in the course of a business transaction.



Annex C: Glossary

Mobile payment

A payment involving the use of a mobile phone. There are a number of different payment scenarios involving a mobile phone handset: a transfer from a bank account to bank account; the phone network can be used solely as the channel to authenticate the customer; or the payment can involve debiting the account held by the customer with their mobile operator or other service provider.

Near-field-communication (NFC)

A technology that enables payment by waving an enabled device or card over an NFC reader. The technology is currently in use on some transport services, and it is being added to some new mobile phones to enable payments.

Paper credit

A paper instrument, addressed to a bank branch, instructing it to credit a specified sum of money to a named account at that branch. A paper credit cannot be used on its own and must be accompanied by cash or a cheque.

Payment Services Directive (PSD)

A major legislative initiative, intended to create a legal framework for the development of the Single Euro Payments Area (see SEPA), provide a structure for regulating payment providers other than banks, enhance consumer protection, and increase competition. The Directive came into force on 1st November 2009.

Payment Services Regulations (PSRs)

These EU rules replaced the Banking Code when they were introduced in November 2009. As well as changing the rules governing how banks deal with their customers, they passed responsibility for day-to-day relations between banks and customers from the Banking Code Standards Board to the Financial Services Authority.

Payment Service Provider

An institution providing payment services, including:

- services enabling cash to be paid into an account;
- services enabling cash withdrawals from an account;
- execution of payment transactions, including transfers of funds on an account;
- execution of payment transactions where the funds are covered by a credit line;
- issuing and acquiring of payment instruments; and
- money remittance.

OFT Payment Systems Task Force (PSTF)

A Task Force set up by the Chancellor of the Exchequer in March 2004 and run by the Office of Fair Trading (OFT). Its remit was to identify, consider and resolve competition, efficiency and incentive issues relating to payment systems. One of its working groups was the Cheques Working Group, which reported in November 2006. The PSTF was wound up at the end of 2006 with the announcement of the formation of the Payments Council and support of the OFT and HMT.

PIN (personal identification number)

A set of characters, usually a four-digit sequence, used by cardholders to verify their identity at point-of-sale or at a customer-activated device such as an ATM or device to verify customers when accessing online banking services. The number is generated by the card issuer when the card is first issued, and may be changed by the cardholder thereafter.

Prepaid card

Also known as an electronic purse. A stored-value payment card used to pay for goods and services. It is an alternative to cash. The card can be disposable, or can be topped up.

Remote transaction

An internet or telephone transaction where a payment card or other authentication device is not physically presented to the payee or bank involved in the transaction.

Single Euro Payments Area (SEPA)

The Single Euro Payments Area is where consumers and businesses can make and receive payments in euro within Europe, between or within national boundaries, with the same basic conditions, rights and obligations, regardless of their location. SEPA creates an integrated euro payments market, with a geographical scope that extends beyond the eurozone to encompass all EU Member States, as well as Norway, Iceland, Liechtenstein, Switzerland and Monaco.

Standing order

An instruction from customers to their bank or building society to make regular automated payments of a specified amount to a named payee.

Payments Council
2 Thomas More Square
London E1W 1YN

www.paymentscouncil.org.uk

www.paymentscouncil.org.uk