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29 August 2007

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**EXPERT GROUP REPORT ON CUSTOMER MOBILITY IN RELATION TO BANK ACCOUNTS  
RESPONSE FROM THE PAYMENTS COUNCIL**

Please find attached the Payments Council response to the Commission's Expert Group Report on Customer Mobility in Relation to Bank Accounts. We are happy for our response to be published on the Commission's website.

**Name of Organisation:**

Payments Council

**Type of Organisation:**

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

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## **1 INTRODUCTION**

The Payments Council is pleased to provide this input to the consultation on the Report of the Expert Group on customer mobility in relation to bank accounts. The Payments Council was established by the UK payments industry in March 2007 with the backing of the UK Government and the Office of Fair Trading, and is the organisation that sets strategy for UK payments. More details on the Payments Council are given in Annex A.

Much of the discussion in the Expert Group's Report is not of direct relevance to payment systems and we have restricted our response to the one issue that is, namely that of the administrative burden of changing current account provider. Section 2 gives a summary and our main conclusions. Section 3 provides some more detail on the topic of switching services and portable account numbers, together with our other comments on the analysis and recommendations presented in the report. In response to a recommendation from the UK's Competition Commission, Bacs (the UK's automated payments scheme company) has initiated a review of the UK's account switching process. Section 4 provides some more details on the switching service and the review.

## **2 SUMMARY AND CONCLUSIONS**

We endorse the Commission's view that customer mobility is an important factor to boost competition in retail financial services markets. The Payments Council has as one of its core objectives the facilitation of competition within the payments sector and has an aim to move the UK to more efficient methods of payment. Customer mobility enhances the competitive pressures upon the providers of payment services to cost-effectively deliver services that better meet the needs of users.

In broad terms, there are two main ways in which the administrative burden on the customer of changing current account provider may be reduced: portable account numbers and the facilitation of switching by financial institutions via the production of switching guides or the operation of switching services. We note that in its recommendations, the Expert Group makes reference to both portable account numbers and facilitation of switching. In the Commission's assessment of the impact of the Group's recommendations it is crucial that these options are subject to a rigorous analysis which considers the costs and benefits to all parties. A high-level summary of the direct impact of portable account numbers and switching facilitation is given in the table below.

*Table 1: Comparison of Switching Facilitation with Portable Account Numbers*

<b>Stakeholder</b>	<b>Switching Facilitation</b>	<b>Portable Account Numbers</b>
<b>Account holders</b>	Need to inform third parties of new payment arrangements. Switching services handle the mechanics of this process	No action required when changing account
<b>Third parties, e.g. utility companies</b>	Need to update customer payment details. Switching services improve the efficiency of this process	No action required when customers change account
<b>Financial institutions</b>	Can provide switching services for the transfer of payment details. No changes required to payment systems	Major changes required to payment systems to re-direct payments to correct account, with substantial ongoing costs and risks

In the UK, the competition authorities have reviewed customer mobility three times in recent years. In all cases it was concluded that the costs and risks of implementing and operating portable account numbers significantly outweighed the benefits. It was also recognised that the UK's switching service delivers many of the benefits of portable account numbers in minimising the administrative burden for consumers and third parties, as it handles the transfer of regular transactions to the new current account on behalf of the consumer. Switching services can be implemented and operated at a substantially lower social cost than portable account numbers. **We therefore support the recommendation given in 3.1.3 (4) that customer mobility is facilitated through switching services in member states.** We will keep the topic of portable account numbers under review, to identify if there have been any material changes to the costs of their introduction and operation.

**At the cross-border level, the case for the introduction of a switching service is less clear-cut and we would suggest that further work by the Commission, working with the banking industry and other stakeholders, is required on the demands for, and the costs and benefits of, services to facilitate account switching.**

**In regard to the implementation and operation of switching services, our position is that this is a matter for self-regulation (recommendations 3.1.3 (4) and 3.1.3 (8)).**

Effective self-regulation by financial institutions delivers benefits to the users of their services at a much lower cost than the statutory alternative and with less risk of unintended consequences. In the UK, the banking industry introduced a switching service on a co-operative basis and standards for account switching are set out in the UK's Banking Code<sup>1</sup>. In its review of the UK's switching service, Bacs will look to establish whether existing processes and rules are being properly adhered to (and are effective) and to identify any issues encountered in relation to switching personal current accounts. The review will make recommendations to the Bacs Board for improvements to the switching processes.

### **3 THE ADMINISTRATIVE BURDEN OF CHANGING CURRENT ACCOUNT PROVIDER**

#### **3.1 Switching Services and Portable Account Numbers**

Customer mobility is enhanced if the costs of switching current account are reduced. These costs include those of transferring payment arrangements such as direct debits and other regular payment instructions. The Report correctly identifies two main ways in which those transfers could be effected:

- portable account numbers. There are two variants of this solution:
  - portable bank account numbers. The customer has the option of taking their bank account number with them, in which case no action is required from the customer and payments are routed to the new account;
  - portable customer account numbers. The customer has an account number that is linked to their underlying bank account number to enable payments to be routed to the correct destination. When moving account, the link is switched from the old bank account number to the new bank account number. The customer account number is what is given to third parties such as employers and utility companies when setting up payment arrangements. The Swedish Bankgiro number is an example of a customer account number used for crediting purposes;

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<sup>1</sup> The UK Banking Code, which is voluntary, sets minimum standards for the way in which banks, building societies and other banking service providers treat their customers. Compliance with the Code is monitored and enforced by a Board with a majority of independent directors and the Code is subject to a regular independent review.

- informing third parties such as employers and utility companies of the new account number. Current account providers may facilitate this process, and the aids they provide consumers can range from the provision of a guide setting out the steps they need to take, to switching services that arrange for regular transactions on a customer's current account to be transferred to a new current account on the customer's behalf. Switching services to effect the transfer of payment information may be delivered by banks on a purely competitive basis or they may include an element of co-operation such as a shared infrastructure. A switching service has been in operation in the UK since 2001 (see Section 4).

From the perspective of consumers and third parties such as utility companies, portable account numbers deliver the benefit that payment arrangements do not have to be changed, although some current account payment services such as debit cards and cheque books have to be re-issued. The costs to consumers include the inability to keep the old account, as might be required for instance if opening a new account with a partner for household budgeting purposes (our research indicates that in the UK around 40% of current account holders have more than one current account).

Switching guides and switching services require some action from both the consumer and third parties, but may provide choice to the consumer as to the arrangements to be transferred. Switching services also deliver savings to consumers in reducing the administrative burden and efficiency gains to third parties in that they may receive bulk advice of changes rather than having to deal with individual notifications from their customers.

For banks, portable account numbers require the use of re-direction services which route payments to ensure that debits and credits are made to the correct current account. To our knowledge, there is no EU country that has implemented portable account numbers for all customers and across all payment systems. In the UK, the introduction of portable account numbers would require the development of a re-direction database and major changes to the automated, plastic card and paper clearing systems. Maintaining the integrity of the database would be paramount, and would be a major ongoing cost for financial institutions. The database would be used across all payment systems and so would constitute a single point of failure and hence increase systemic risk, any failures would have a major impact upon banks and the users of all payment systems.

There will be set-up and ongoing costs associated with any switching services which the banking industry may operate, but introducing such services does not require changes to payment systems themselves and so the costs are substantially lower.

In the UK, the issue of customer mobility and portable account numbers has been reviewed three times in recent years (see Annex B for details): by the UK's Competition Commission in 2001, in the context of potential remedies to enhance competition in the provision of retail banking services for small and medium-sized enterprises; for the Office of Fair Trading's Payment Systems Task Force in 2005, as a potential payment innovation for business users; by the Competition Commission in 2006, in the context of potential remedies to enhance competition in the provision of current account banking services in Northern Ireland. In all cases, it was concluded that the costs of introducing portable account numbers outweighed the benefits. In addition, the UK's switching service delivers many of the benefits of portable account numbers at a substantially lower social cost. As they arrange for regular payment arrangements to be transferred to a new current account on the customer's behalf, switching services significantly reduce the administrative burden for both customers and third parties. **We therefore support the recommendation given in 3.1.3 (4) that customer mobility is facilitated through switching services in member states rather than through portable account numbers.** We will keep portable account numbers under review, to identify if there have been any material changes to the costs of their introduction and operation.

There is a further question of whether switching is facilitated at the cross-border level. Whether there is a case for a switching service is less clear-cut than at the domestic level. The implementation of the SEPA Direct Debit and Credit Transfer schemes will mean that consumers can make euro payments cross-border as easily as they can domestically. However the costs and benefits of services to facilitate switching, including the levels of demand to transfer payment arrangements cross-border, remain to be established. **At the cross-border level, we would suggest that further work by the Commission, working with the banking industry and other stakeholders, is required on the demands for, and the costs and benefits of, services to facilitate account switching.**

### **3.2 Other Comments**

We have a number of other comments that we wish to make on the analysis and recommendations in the Expert Group Report:

- *a survey on search and choice processes for bank accounts.* It is important that services for switching accounts are receptive to the needs of the users of those services and so **we endorse the recommendation in 3.1.1 (1) that the Commission consider commissioning a pan-European study to determine in detail how the actual search and choice process for bank accounts occurs in practice in different Member States.**

- *account number portability and unbundling of current account services.* As regards the payment services provided with a current account such as debit cards, the issues of account number portability and unbundling of those services are independent. Portability neither supports nor hinders unbundling. For instance, a consumer could in theory obtain their debit card and current account from different providers. The portability of their current account number has no material impact upon the consumer's choice of debit card provider; that choice would be made on the basis of the services provided by competing suppliers (e.g. domestic and international reach, cashback, fraud protection) and on the costs of those services. One example of such an unbundled service is that Capital One issues MasterCard debit cards in the USA that can be linked to current accounts at any bank.
- *BIC and IBAN.* **We endorse the analysis presented in the Report that account number portability is not compatible with the BIC and IBAN standards** as these standards include country or bank codes which are used for payment routing purposes. The banking industry across the EU is making major investments in payment systems which are based around these ISO standards. A number of EU countries utilise IBAN or BIC in their domestic payment systems and the SEPA Direct Debit and Credit Transfer schemes use BIC and IBAN. The BIC and IBAN standards are also used in a number of non-EU countries in accordance with their international status. **We agree with the Commission's impact assessment of the Payment Services Directive quoted in the Expert Group report that '*It would not be appropriate at this stage to impose a modification of the system*'.**
- *self-regulation.* **We support the recommendation in 3.1.3 (4) that the introduction of switching services is best left to self-regulation.** Self-regulation by the UK payments industry has delivered real consumer benefit, has helped ensure that the industry is responsive to changing market conditions and has been more cost-effective than the statutory alternative. Self-regulation also reduces the risk of unintended consequences. The UK's current account switching service was introduced by the banking industry on a co-operative basis and voluntary standards for account switching are set out in the UK's Banking Code. Similarly, **we support the recommendations in 3.1.3 (8) that banks provide their consumers wishing to switch with summary of recurrent banking operations, such as direct debits and that pricing for this service is left to self-regulation.** This is covered in the UK Banking Code.

#### **4 THE UK CURRENT ACCOUNT SWITCHING SYSTEM**

The UK banking industry has introduced a number of measures which have cut the costs of switching current account, most importantly the 'ToDDaSO' service for the **T**ransfer **o**f **D**irect **D**ebits and **S**tanding **O**rders and bill payment information. ToDDaSO was set up by the UK banking industry in conjunction with Bacs in 2001 and has been available as an automated service since August 2004. Once a customer has decided to transfer their current account to a new financial institution, the latter will make all the necessary arrangements to transfer direct debit and standing order instructions from the old to the new account, if this is requested by the customer.

The UK's Banking Code states that:

- If a consumer decides to move their current account to another financial institution, the old financial institution will give the new financial institution information on their standing orders and direct debits within three working days of receiving their request to do this.
- The old financial institution and new financial institution as appropriate will close or move the current account, without charge, when asked to do so.
- The new financial institution will inform the consumer seeking to move their account:
  - how the process for transferring the account will work and who is responsible for each step in the process;
  - what information the old financial institution will pass to the new financial institution;
  - what features will be offered with the new account so that the new account can be compared with features on the old account; and
  - how long the transfer is likely to take.
- The new financial institution will give the consumer what they need to operate the account within 10 working days of approving the application.
- The new and old financial institutions will cancel any bank charges the consumer may have to pay as a result of any mistake or unnecessary delay by those financial institutions when the current account is transferred.

These requirements have been in place since March 2005. All of the main providers of current account services in the UK are subscribers to the Banking Code.

There is an additional provision within the ToDDaSO service that the new financial institution, at the request of the customer, notifies Direct Debit originators of the new account details on a timely basis and that originators process these changes immediately or within 3 working days of receiving the transfer advice.

In its recent investigation into personal current account services in Northern Ireland the UK's Competition Commission recommended that Bacs review the switching process. The objectives agreed by Bacs are to conduct a review amongst Bacs Members, other banks and building societies, Direct Debit originators and consumers in order to:

- a) establish whether existing processes and rules are being properly adhered to (and are effective);
- b) identify issues encountered in relation to switching personal current accounts in the UK;
- c) categorise issues in order to identify those most prevalent and/or which create the most difficulty for consumers; and
- d) make recommendations for the improvement of switching processes used by UK financial institutions and Direct Debit originators.

The scope of the review includes all sterling UK personal current accounts, current accounts for businesses with less than £1 million turnover or income per annum, and simple/instant access savings accounts. The final report of the review will be made to the Bacs Board in February 2008. The Payments Council or Bacs would be happy to provide the Commission with status updates on the review if requested.

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## **ANNEX A: THE PAYMENTS COUNCIL**

The Payments Council is the new body which sets strategic direction for the UK payments industry. Membership is open to all payment service providers in the UK. It is governed by a Board which has an independent Chairman, and includes four independent directors in addition to payment industry representatives. There are 28 Members of the Payments Council, which are listed at the end of this Annex.

The objectives of the Payments Council are:

1. **Strategic vision:** to lead the future development of co-operative payment services in the UK in order to ensure that the payment system as a whole meets the needs of payment service providers, users and the wider economy, including through:
  - facilitating competition, development and innovation within the sector; and
  - the identification and sponsorship of innovative solutions, including where appropriate new clearing schemes, to meet the current and future needs of consumers, businesses and other users promptly and efficiently.
2. **Openness and accountability:** to ensure that the payment system is open and accountable and that:
  - any restrictions on access to payment schemes are fair, reasonable and non-discriminatory;
  - the governance of payment systems is transparent and open to public scrutiny; and
  - any proposals for innovation and major changes in the conduct of payment schemes are subject to rigorous and transparent evaluation, weighing up the costs and benefits to the banking industry and to society as a whole.
3. **Integrity:** to ensure the operational efficiency, effectiveness and integrity of payment services in the UK, through a focus on issues which cross schemes

The Payments Council works closely with a number of UK payment schemes, for the benefit of the UK payments industry. These include BACS Payments Schemes Limited, CHAPS Clearing Company Limited, Cheque & Credit Clearing Company Limited, and LINK ATM Scheme.

More details on the Payments Council can be found at our web site

[www.paymentscouncil.org.uk](http://www.paymentscouncil.org.uk)

**Payments Council Members (as of August 2007)**

Abbey National plc  
ABN-AMRO Bank N.V.  
Alliance & Leicester plc  
American Express Services Europe Ltd  
Bank Machine Limited  
Bank of America N.A.  
Bank of England  
Bank of Ireland  
Bank of Scotland  
Bank of Tokyo-Mitsubishi UFJ, Ltd.  
Barclays Bank plc  
Cardpoint Services Limited  
Citibank NA  
Clydesdale Bank plc  
Co-operative Bank plc (The)  
Deutsche Bank AG  
DNB NOR Bank  
HSBC Bank plc  
JPMorgan Chase Bank N.A.  
Lloyds TSB Bank plc  
Morgan Stanley  
Nationwide Building Society  
Northern Rock plc  
PayPal (Europe) Limited  
Post Office Limited  
Royal Bank of Scotland plc  
Standard Chartered Bank  
Wachovia

## **ANNEX B: Evidence from UK Studies**

In the UK, the issue of account mobility has been reviewed three times in recent years. These analyses have touched on several of the issues discussed by the Expert Group, and the key points and the conclusions from these analyses are summarised in this Annex.

### *Competition Commission Enquiry into the supply of Banking Services by Clearing Banks to SMEs*

In March 2001 the Competition Commission issued a *Statement of Hypothetical Remedies* as part of its enquiry into the supply of banking services by clearing banks to SMEs. In that statement it was suggested that one remedy to the competition failures it had identified was to ‘*require the clearing banks ... to develop portable account numbers to assist transfer of accounts between banks*’. This was amongst a number of points then raised directly with APACS<sup>2</sup> by the Commission.

APACS conducted a detailed analysis of the implications for the banking industry of the implementation of an account portability scheme with business customers retaining their existing sort code and account number. The main conclusions were:

- the total development cost for the payment systems changes required across the payments industry would be substantial. The systems changes required were as follows:
  - to make account portability possible an industry-wide re-direction database would have to be built. As the database would be used for routing purposes across a number of payment systems, either a central service would need to be developed which communicated with each of the systems and/or their members, or copies of the database would need to be held by the system processors and/or their members;
  - both BACS and CHAPS use account number routing and so would need to interface to the re-direction database;
  - cheques have the customer account number printed on the code line at the bottom of the front of the cheque. These are read by collecting bank systems which use the first two digits from the sort code to route the paper items and the extracted payment data to the paying bank. When the cheques are received by the paying bank, the code line is read again to identify the account to be debited. If code lines include the portable account number, then a major and costly re-engineering of the cheque clearing would be required as the system was designed and built around the use of sort codes for routing purposes.

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<sup>2</sup> APACS, the Association for Payment Clearing Services, is the UK trade association for payments and for those institutions that deliver payment services to customers.

- a similar conclusion applies to paper credits, which was also built around the use of sort codes for routing of items. The paper credit clearing is predominantly used for the payment of bills with pre-printed giro credits, including the account numbers which are used by banks' credit clearing systems to route items. If these were the portable account number then major changes to credit clearing processes would be required.
- some card issuers use the sort code and account number with their debit cards as part of the card number (PAN). Although these are not used by the card networks to route payments, they are used by the issuer to identify the customer account when receiving authorisation requests and making debits to that account. With portable account numbers on the card, these issuers would need to make systems changes, which could be major, to re-direct payments to the true account.
- maintaining the integrity of the database would be paramount to avoid the costs of exception processing for mis-routed items and would be a major ongoing cost for all banks and building societies. There are several million business bank accounts in the UK;
- the introduction of a database which would be used for routing payments in a number of different payment systems would constitute a single point of failure and hence increase systemic risk. There would be costs associated with the management of that risk over and above those for maintaining the integrity of the data;
- there would be other costs for banks including promotion, staff training and development of customer-facing and internal systems, for instance to communicate and maintain customer identification numbers and update the database. All bank business customer literature, including contracts, would have to be reviewed and updated as appropriate;
- APACS members were introducing other measures which contribute towards improving account portability.

In the report of the enquiry published in March 2002 the Competition Commission stated that (paragraph 2.530):

*'We also mentioned in the Hypothetical Remedies Letter the possibility of introducing portable account numbers. Having discussed this with the parties, we believe it likely that this would require major investment and significant changes to the operation of the current clearing system. As the inconvenience of changing account numbers is only one of the many constraints on switching, the costs of such a development are very likely to exceed the benefit.'*

*Office of Fair Trading Payment Systems Task Force*

In its first annual report published in May 2005, the Payment Systems Task Force identified a number of potential innovations to the Bacs system for further investigation, including the introduction of portable account numbers for businesses. The Task Force recommended that this innovation should be considered by APACS. APACS reported back to the Task Force in May 2006.

In its assessment of this innovation, APACS reviewed the analysis produced for the Competition Commission in 2001, taking into account developments over the intervening years to existing payment systems. It concluded that none of these developments materially affected the conclusion that the costs of introducing portability for account numbers would be substantial. In addition, the industry had committed to the Payment Systems Task Force to introduce a faster payments service in the UK. This service will also route payments on the basis of account number, and so further increase the inter-system complexities, risks and costs of developing and maintaining a re-direction database. The need to access the re-direction database would also introduce a performance penalty into the operation of the service.

APACS also reviewed two other solutions to customer mobility, the Bankgiro number system in Sweden and the UPIC system in the United States of America. Both systems are based around corporate customers obtaining an identification number, which can then be used to route credits received to their bank accounts. APACS concluded that a credit-only system had little benefits to the UK in terms of encouraging businesses to migrate to electronic payment methods, and it does not deliver full account portability as it cannot be used with direct debits (for payers) or cheques.

*Competition Commission Investigation into Personal Current Account Services in Northern Ireland*

In May 2007, the Competition Commission published its market investigation into personal current account ('PCA') services in Northern Ireland. As part of this investigation the Commission consulted on portable account numbers as a potential remedy to the competition issues which it identified with the market for personal current accounts in Northern Ireland. Those responding to the consultation included consumer groups, banking industry representatives and individual banks.

The Commission reported that (paragraph 6.214):

*'All parties viewed a 'number portability' remedy as very expensive, cumbersome to implement, and disproportionate. Most parties pointed out that PCA number portability could not be implemented on the current UK clearing infrastructure. The current infrastructure operates on the basis of a unique bank/branch identifier number (sort code) which is part of the PCA number. The remedy, therefore, would require changing the use of sort code and account number across the whole of the UK clearing system. It might also increase the risk of fraud.'*

and concluded that (paragraph 6.215):

*'We decided that the introduction of bank account number portability in Northern Ireland would not be practicable. We also noted that when number portability had been introduced in the Netherlands, it had been as part of a fundamental redesign of the clearing system as a whole. We therefore decided not to pursue further the idea of improving the switching process by introducing number portability.'*