



# Progress Report

## Delivering the National Payments Plan

The National Payments Plan was a landmark publication for the Payments Council. Launched in May 2008, the Plan set out a 10-year vision for UK payments together with the practical steps needed to put the vision into practice. We committed to an ambitious timetable, with a number of actions to be completed by the end of 2008.

This update reports on this work and the key decisions taken in December 2008 by the Board of the Payments Council. This marks the end of the first phase of work, and identifies this year's work programme.

We are encouraged by what has been achieved so far, particularly as the climate for industry co-operation has been tested by external circumstances over the last six months. This is a clear demonstration of the commitment of the payments industry and stakeholders to the National Payments Plan. We aim to maintain this momentum in 2009.

## The Role of the Payments Council

The Payments Council is the organisation that sets strategy for UK payments. It has been established to ensure that UK payment systems and services meet the needs of users, payment service providers and the wider economy.

We have three core objectives:

- 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 payments service user provides, users and the wider economy;
- to ensure that the payment system is open, accountable and transparent;
- and to ensure the operational efficiency, effectiveness and integrity of payment services in the UK.

The Payments Council is a membership organisation funded by its members, with an independent chairman.

For more information about us, go to: [www.paymentscouncil.org.uk](http://www.paymentscouncil.org.uk)

## Cheques

In the National Payments Plan, we committed to conducting research and analysis by the end of 2008. This set out to:

- understand the barriers to cheque substitution;
- identify the areas where work is needed on acceptable alternatives to cheques; and
- clarify where more education is needed on existing alternatives.

We also said that we would:

- draw on existing data and experience in the UK and other countries;
- work in partnership with those businesses who use cheques to see what, if any, support they would like from the Payments Council to enable migration to alternative forms of payment; and

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## Cheques (Cont.)

“I think I’m in a comfort zone with cheques. I’ve grown up with them. I’m used to them... it’s like a pair of old slippers.”

(A micro business, speaking in the market research)

“A lot of places aren’t accepting [cheques anymore]... there’s a few places that are starting to say no.”

(A consumer, speaking in the market research)

“It’s just how things have gone with our clients. Even the ones who were, [still paying by cheque a year ago] suddenly the money has started appearing in our bank account.”

(A small business, speaking in the market research)

- ask Payments Council members that use cheques to commit to change their own processes and policies to promote alternative payment mechanisms (e.g. in relation to payments made to account holders when savings or investments are closed; and cheques they issue in their own right as large corporates).

Over the last six months we have delivered on these commitments. Extensive research has been conducted with consumers, SMEs, large corporates and financial institutions on cheque use and barriers to cheque migration. This confirmed that all major stakeholder groups now see cheques as being in a state of permanent decline and that users are amenable to their replacement by electronic payment methods, provided these methods meet their needs.

The independent consumer and SME research, conducted by Andrew Irving Associates, has been published on the Payments Council website. This research specifically targeted those businesses and consumers who may be reliant on cheques for particular applications, including small locally-run clubs and charities, individuals who are housebound, and individuals who have power of attorney on behalf of someone else.

The independent research showed that the key drivers behind the continued use of cheques were habit, tradition and inertia, combined with a lack of awareness and confidence in other payment methods. Consumers, SMEs and other organisations recognised that cheques were in decline and there was a general expectation that cheques will be phased out at some time in the future. The research highlighted those cheque users who might experience genuine practical difficulties making payments without cheques, such as some housebound individuals, and for whom existing alternatives – cash and electronic – do not meet their needs. As a result, a specific project has been set up to look in more detail at the needs of those individuals who are dependent on cheques and to work with stakeholder groups to find acceptable solutions.

Extensive consultation was also undertaken with large corporates and public sector bodies to understand where they make and receive payment by cheque and their future plans for cheque migration. The majority of corporates and public bodies interviewed have already done much to reduce their cheque usage and were supportive of a cheque migration plan, seeing that this would deliver significant economic benefits. For some corporates, the cheque clearing could be closed tomorrow with little or no impact upon their business. For others it would have major implications, either in terms of the systems or process changes required, or in terms of the need to collect account details on substantial numbers of payees. A number of gaps and other issues were identified which will be addressed by the Payments Council.

The experience of other countries has been closely 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, such as the Netherlands, Sweden, Norway and Denmark. This was particularly helpful to see what people do when they need to make a payment in situations where cheques are still used in the UK. For example, in the Netherlands, even small clubs and societies collect subscriptions by direct debits.

Payments Council members will lead by example in supporting and promoting alternatives to cheques. Work was undertaken to explore key issues and a workshop was held to share ideas on how to drive change.

The key task in 2009 will be to develop a roadmap for the managed decline of cheques, including an agreed end date for the cheque clearing. The scope of the roadmap will also include intermediate targets for reduced cheque usage and the timetables for the development and uptake of alternatives. The initial focus will be on addressing the gaps identified (such as paying for a school trip), on the electronic

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## Cheques (Cont.)

alternatives currently available and developing an education programme for cheque migration. The Payments Council Board has approved the way forward and confirmed the principle of setting an end date later this year.

Even if a date for closing the cheque clearing is set at the end of this year, the closure will not go ahead until alternatives are in place and there is evidence that users – including those groups identified as highly dependent on cheques – have accepted them.

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## Direct Debits

The National Payments Plan committed to complete a number of activities on Direct Debits during 2008. These were:

- To conduct a review of the time limit with the Direct Debit Guarantee to consider a case for a time-limited guarantee;
- To conduct a review of the barriers to SMEs becoming Direct Debit service users (originators) and to identify what, if any, changes are required to the scheme to reduce these barriers;
- To 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 payers and originators;
- To progress a dialogue in the Bacs Affiliates Interest Group on options to improve customer control and flexibility with Direct Debits; and
- To examine the material and processes currently used for the education of front-line staff on the Direct Debit Scheme and identify potential improvements.

The Bacs Board... recommended that no change was required to the existing Direct Debit Guarantee.

Bacs, the industry body that manages the Direct Debit and Bacs Direct Credit payment schemes conducted these tasks. Research and consultation was undertaken with various bodies including the Bacs Affiliates Interest Group, consumers, SMEs and un-incorporated organisations.

The Bacs Board concluded that whilst 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. They also concluded that 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. The Payments Council Board approved these conclusions.

The Bacs Affiliates Interest Group meeting in May 2008 concluded that offering payers a wider choice of payment dates, more frequent instalments/collections and appropriate advance notice periods would improve customer control and flexibility.

Lastly, Bacs reported to the Payments Council that they have commenced the development and roll-out of 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.

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## Account number formats

Following the National Payment Plan's commitment to evaluate the problems that users perceive with payment formats (such as delays in funds being received where the account number is not in the standard format), an extensive consultation with stakeholders was undertaken. A broad consensus was reached on the scale of the problems caused by non-standard format account numbers and on the way forward.

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.

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## Account number formats (Cont.)

The way forward includes the establishment of industry good practice for account number formats, a number of tactical initiatives and a communication plan to support these steps. Developments in the use of account number formats across the payments industry, and an assessment of the effectiveness of the proposed initiatives, will be reported to the Payments Council as part of the triennial review of the National Payments Plan in 2011. Work has begun to develop the good practice to enable these to be launched in spring 2009. This will be made widely available to all financial institutions.

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## Messaging standards

Agreement has been reached on a rationale for standards convergence, based on migration to a common global message standard (ISO20022).

Messaging Standards play a key role in almost all aspects of payment systems and have a major impact on providers and users of payment systems. Without standards, interoperability would be impossible. This important role was reflected in the responses to the Consultation which emphasised the value of standards. The National Payments Plan committed to a stream of activity to develop 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.

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 roadmap will be produced by mid 2009, defining the roles and responsibilities of the respective stakeholders in relation to migration, setting out key milestones and identifying the main opportunities and barriers that exist.

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## Education

After the publication of the National Payments Plan, 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.

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 agreed to develop a strategy for payments education which will focus on providing information to expert financial education and stakeholder organisations. A partnership approach is seen as the best use of resources and will help to provide targeted learning for those groups of users who will benefit from it most. Education on the alternatives to cheques will be an important element of work going forward.

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## Mobile payments

A mobile payments service could bring significant benefits to the payments industry.

A proposition for a new industry-wide payments service that will enable spontaneous account-to-account payments to be made by mobile phone has been explored in more detail since the National Payments Plan was launched. Market research undertaken with mobile phone users and small businesses confirmed that a good appetite existed for a service of this nature.

Following this, detailed work was undertaken to develop an initial proposition of what such a service would look like and what level of security would be required. An open Request for Information was held mid-2008; extensive interest from a wide range of mobile payments experts resulted and this has consequently helped the industry to further refine the business proposition. A mobile payments service could bring significant benefits to the payments industry, including offering a viable migration path to electronic payments for many cheque users.

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## Mobile payments (Cont.)

A customer proposition and an end-to-end statement of User Requirements will be developed in early 2009. There will then follow two further stages with a decision being made later in 2009 on whether to develop the service and then to seek formal commitment from those Payments Council members who wish to participate. The Payments Council User Forums will consider the customer proposition in greater detail in early 2009 and input into its design.

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## Forthcoming work

There is a substantial programme of activity in 2009, based on commitments given in the National Payments Plan.

In addition to ongoing work on those issues already highlighted:

- An objective review of the UK Domestic Cheque Guarantee Card Scheme, which includes market research among users and acceptors of cheques, is due to report to the Payments Council Board in March 2009. This review will recommend whether there is a case for continuing with the Scheme or whether it should be closed.
- A working relationship with the Financial Inclusion Task Force and HM Treasury has been established to discuss the financial inclusion aspects of the National Payments Plan and the ongoing actions. Criteria will be developed to ensure financial inclusion is addressed against any payment innovations. This will become particularly important when alternatives to cheque use are under discussion.
- Work on e-Invoicing will continue in 2009, focusing on two main areas: consulting Government and other UK stakeholders on a broad range of 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.
- Work will commence on the reference information which accompanies Direct Credits, Faster Payments and CHAPS payments. An assessment will be made of potential measures to tackle the reported inefficiency caused by incomplete or inaccurate end-to-end transmission of reference information accompanying electronic credits
- The work to carry out an initial assessment of one-off Direct Debits has commenced together with the work to assess the potential market and a proposition for a business-to-business Direct Debit scheme.
- There will be a full objective review of the credit clearing which processes paper credit items between banks, such as for paying utility bills by cheque or depositing cash at a bank branch.
- Work will begin to consider using the Faster Payments Service to pay retailers online, under the Payments Council's existing innovations procedure.
- New Payments Council Groups will consider strategic cash issues and liaise with users of the Wholesale market. These groups will provide further opportunity for the Payments Council to engage with stakeholders and develop the strategic role it plays in these areas.
- National Payments Plan work will also be going on in a broad range of other areas including SEPA, the contactless and prepaid market, payment system integrity and contingency, and fraud and security.

A working relationship with the Financial Inclusion Task Force and HM Treasury has been established.