



National Payments Plan

Executive Summary

The Payments Council

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

The Payments Council has 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 payment service providers, 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 Board comprises 11 directors from organisations that are members of the Payments Council, alongside four independent directors and the Bank of England as an observer. It is chaired by an independent chairman, Brian Pomeroy.

The Payments Council works closely with a number of schemes – the bodies responsible for the common operating procedures, rules and technical standards of the UK's main domestic payment systems. These comprise Bacs, CHAPS Clearing Company, Cheque & Credit Clearing Company, the LINK ATM Scheme, the UK Domestic Cheque Guarantee Card Scheme, the Currency Clearings Committee and the Belfast Bankers' Clearing Company. The Board is able to make decisions that are binding on scheme members in order to implement its strategy.

The National Payments Plan

On 26 November 2007, the Payments Council initiated a public consultation on a national plan for UK payments. The consultation document, [National Payments Plan – Consulting on change in UK payments](#), focused on the collaborative action necessary to take forward our core objectives of innovation, efficiency and integrity over the next five to ten years and drew heavily on meetings of the three User Forums set up as part of the Payments Council structure. In addition to the core consultation, a parallel investigation was undertaken into the needs of the wholesale markets, and conferences on the National Payments Plan were held in London and Belfast in January 2008.

The purpose of the Plan is to provide a framework for payments innovation and change, building on the Payments Council's core objectives. Our vision is to promote the development of modern and efficient payment services that are responsive to user needs and that operate with a high degree of integrity.

More specifically, the Plan aims to:

- identify gaps in the services offered by UK payment service providers and assess how they can be filled;
- facilitate an environment that supports innovation and competition;
- move the UK to more efficient methods of payment and more efficient delivery channels;
- ensure that current and emerging payment methods continue to operate securely and that effective methods of fraud control are adopted; and
- identify and respond to the needs of all categories of payment service users, ensuring that the payment requirements of financially disadvantaged sections of society are adequately met.

The Plan will evolve over time. At this stage, the Plan includes statements of principle, specific actions, and a number of tightly focused reviews of key issues. The reviews are consistent with our commitment to move forward on the basis of an objective evaluation of the facts and full consultation. Over time we will “block in” firm objectives identified once reviews are complete. We are committed to keeping stakeholders informed of progress as the Plan evolves.

This document is the Executive Summary of the National Payments Plan. The Executive Summary's primary focus is on the actions that we will be taking. There is more detail on the responses to the Consultation and on the detailed action points in the full report. The Plan will be reviewed and updated in the future.

Foreword from the Chairman

The Payments Council has been set up by the payments sector, with the support and encouragement of HM Treasury and the Office of Fair Trading (OFT), to undertake a strategic role in the development of payments in the UK. Our existence and role reflect the central significance of the payments system to all aspects of economic life in the UK and its relevance to every business and every individual.

This document, and the accompanying full report, contains our first plan, charting a way forward over the next decade.

The remit of the Payments Council covers three key objectives for payments – efficiency, innovation and integrity. Our plan reflects them and proposes ways in which the Council can promote efficiency, encourage innovation and maintain the integrity and reliability of the payments system.

We have a clear picture of what types of payment systems are needed:

- We recognise the crucial role which payments play in every-day life and our plan acknowledges that the needs of all users, including the disadvantaged, are understood and reflected in our work. We will ensure that we stay abreast of these needs as they evolve and adapt over time.
- The traditional integrity, reliability and security of the UK payment systems must be preserved. This must not be compromised as we bring on new innovations and improvements to efficiency.
- Opportunities for encouraging efficient means of making payments and for moving away from the less efficient and more costly ones should be identified. In particular, we see a move to electronic payment systems, away from paper-based forms of payment, bringing a benefit to the economy as a whole.

- Opportunities to innovate should be positively encouraged. We have an open process for assessing proposals for new developments and ensuring that their potential is appropriately realised. This is a time when there is much potential for innovation, as new channels are opened up. We see our role both as ensuring that proposals are properly considered and as facilitating collaboration across the payments sector where this is needed to ensure that new ideas are taken up.
- We appreciate the need to act only after proper consultation; this approach has under-pinned our actions to date.
- We will continue to play an active role in the development of payment standards, in the UK and internationally, which we view as of crucial importance in driving interoperability and efficiency and ensuring a consistent user experience.

We are confident that this vision will strike a chord with both the payments sector and its users. It has been developed after an extensive consultation with the industry and users; our published consultation paper (issued in November last year) attracted 82 responses – a gratifyingly good result. We intend to proceed in the same open and consultative way as we tackle the various actions which we set out in the following pages.

We are also pleased with the degree of consensus which the Consultation revealed. Of course, there were differences in emphasis and these are brought out in our discussion of the responses in the full report. However there was broad endorsement of the themes which form part of our overall vision. We accordingly believe that it will command support from both users and providers. The Plan is largely devoted to practical steps to put the vision into practice. Reflecting the fact that this is the first time that a UK payments plan has been produced, these steps necessarily include undertaking further research and consultation where this is needed before firm decisions can be made.



Our agenda is ambitious and will take several years to complete. While the primary emphasis is on domestic payments within the UK and on cross-border payments made into or out of the UK, the agenda also takes account of the Payment Services Directive and external developments, such as the Single Euro Payments Area (SEPA), that have a direct bearing on the UK.

I expect that much attention will focus on our treatment of the cheque. It was the subject which attracted the most comment from respondents. Our diagnosis that use of the cheque is in irreversible decline went almost unchallenged. Our proposal that a managed decline was preferable to an unruly exit was also widely supported. But there were concerns from some quarters about the setting of an end-date for the cheque clearing, even an end-date some ten years distant. I want to reiterate that alternative ways of making all the types of payments which are currently made by cheque have to be available before closure of the cheque clearing can be seriously contemplated. We hope that our plan will be a catalyst for the fresh ideas necessary to fill the gaps which exist.

As for innovation, this will include considering whether there is a role for the Council in encouraging the development of mobile payments. However, a major current innovation in the sector, the Faster Payments Service, is not covered by the Plan because its development is already in progress. This will introduce near real-time internet and telephone banking and will be a huge step forward for both the sector and its users. Its full impact will only become apparent with time, but it could provide the means by which other new and valuable developments can be introduced. It has been a major project across the industry and an indication of what can be achieved through collaborative effort.

Our plan also recognises the need to educate users in how to make best use of the payment services available to them.

As we take the Plan forward, we will be very conscious of two points:

- i) First, we must only take any action when we can add value by encouraging the industry to work together. We will not interfere in those areas where competition delivers the best outcome.
- ii) Secondly, we have to live up to our promise of transparency. There has been widespread enthusiasm for our open approach. The fact that the payments sector is talking directly to its users is seen as a positive and welcome development. In particular, I should acknowledge the significant part which our User Forums have played and will continue to play. We will use both research and continued contact with users to ensure that our actions are, and are seen to be, consistent with our remit.

This is an important document and an important staging post in the development of the Payments Council and of our national payment systems.

Brian Pomeroy

May 2008

Executive Summary

Background

This summary sets out the results of the Payments Council’s inaugural Consultation on the creation of a National Payments Plan for the UK. The Executive Summary’s primary focus is on the actions that we will be taking. There is more detail on the responses to the Consultation and on the detailed action points in the full report, as well as a summary Gantt chart of action points.

There were 82 responses to the Consultation from a broad cross-section of users and providers of payment services and other stakeholders. Most respondents welcomed the consultation exercise; several also highlighted the potential for future collaboration between the Payments Council and other stakeholders. Overall, there was a reasonable degree of consensus over the course which the Council should be setting and the areas where the Council can make a contribution.

We have classified respondents into the eight categories shown below. Details of the respondents are given in the full version of the National Payments Plan.

Category	Number of respondents
Public/regulatory	8
Consumers	12
SMEs	5
Large corporates	9
Banks and other payment service providers	15
Schemes and Groups	14
Providers of payment infrastructure and services	15
Payment experts and consultants	4

We are particularly appreciative of the Payments Council’s Consumer, SME and Large Corporate User Forums which have each met three times to assist in preparing the consultation document and advising on the actions to take following the Consultation. The three Forums will play an active role in supporting the implementation of the Plan.

In the light of the responses, we have decided to prioritise certain areas and these are listed. Other areas where we will be taking action at a later stage are also identified.

Priority Areas

Cheques

There is broad agreement from all categories of respondents that cheques are in long-run decline; that the decline needs to be actively managed; and that, while viable alternatives already exist for cheques in many areas, there remain “gaps”, where adequate alternatives to cheques are not yet available for some or all categories of users. It is also apparent that some users are unaware of the alternatives to cheques that already exist.

There is less agreement over when or whether a target date for the closure of the cheque clearing should be set. In the Consultation, we canvassed a closure date of 2018 – subject always to alternative forms of payment being developed and accessible to all types of cheque user. We have received no evidence which causes us to doubt that this target is attainable but we realise that there is need for further work before we can firm up on any date.

We will now embark on this work with a sense of urgency as we are confident that substantial economic benefits will flow from a programme of activity to manage down the volume of cheques. But we reiterate that the cheque clearing will only be closed once acceptable alternatives to cheques have been developed.

We recognise the crucial role which payments play in every-day life and our plan acknowledges that the needs of all users, including the disadvantaged, are understood and reflected in our work.

Our work over the next eighteen months will entail:

- Work with cheque users and other key stakeholders to understand the barriers to their ceasing to use cheques and the new developments which must be put in place to facilitate this.
- Market research, to understand the views and needs of individual consumers and businesses, both as payers and as recipients of cheques.
- Discussion within the payment sector and with its technical suppliers to identify how the necessary alternatives to cheques can be developed and brought on-stream.
- An education campaign which informs consumers about alternatives to cheques.

Cheque Guarantee Card Scheme

There is strong support for reviewing the future of the Cheque Guarantee Card Scheme. It is felt that the rapid fall in cheque volumes in the high street makes a review a matter of urgency.

We share this view and will initiate an objective review of the Scheme in early summer 2008. The scope of the review will include analysis of the impact on users of closure and other changes to the Scheme, and of the costs and benefits of the different options. We will aim to complete the review by March 2009.

Direct Debits

While Direct Debits are widely seen as an important and valuable payment method, many respondents suggested ways in which they might be further improved.

We will be assessing a number of the suggested changes, including the introduction of a one-off direct debit; a possible limit on the length of the guarantee and the development of a business-to-business direct debit product. There is considerable sensitivity around the possible introduction of a limit on the length of the Direct Debit Guarantee, with sharply polarised views,

primarily between consumers and businesses (both large corporates and SMEs). We have asked Bacs to work with us in establishing a better understanding of the impact that a limit would have on users and of how their interests might be safeguarded. It is likely that, if a sufficiently lengthy period of guarantee is chosen, the impact on consumers will be limited and more than offset by the benefits to both payers and recipients of Direct Debits of an increased number of originators. But only a proper review can establish this.

The reviews of potential improvements to Direct Debits will be completed between September 2008 and March 2009.

Account Number Formats

Views differ on whether action is needed to promote greater standardisation in the format of account numbers. This is an issue that the Office of Fair Trading (OFT) has asked us to monitor.

We will review the problems which users attribute to account number formats; once these have been identified, we will consider the costs and benefits of the range of potential solutions. We will aim to agree a way forward by March 2009.

Mobile Payments

Mobile payments are viewed by respondents as an important innovation, with potential to help in a number of areas, including financial inclusion and the move away from cheques.

We will aim to ensure that mobile payments initiatives are based on international standards and that solutions are open and interoperable. More specifically, we will continue to investigate the potential to develop a collaborative bank account to bank account mobile payment service. By June 2008, we expect to be in a position to decide whether to proceed with developing an account to account service.

The traditional integrity, reliability and security of the UK payment systems must be preserved. This must not be compromised as we bring on new innovations and improvements to efficiency.

There are several areas where there was a general belief that the Payments Council should be active, either on its own account or in conjunction with others, even though there was no specific action identified. These areas are more in the nature of underlying themes which need to be kept in mind by the Council in all areas of its work.

Supply Chain

It is generally recognised that automation of the supply chain has the potential to deliver very substantial savings to businesses. There is strong support for the Payments Council's involvement in e-invoicing, with e-invoicing standards seen as an area of particular importance.

We intend to play an active role in the European Commission's Expert Group on e-invoicing and other global initiatives and collaborate with other UK stakeholders on standards and allied issues.

Education

Respondents feel that the Payments Council should play a key co-ordinating role in education on payment issues. We will ensure the need for education is considered, where appropriate, in relation to other National Payments Plan actions.

In order to maximise our impact, we will collaborate closely with other organisations that are engaged in financial education. As a first step, we will conduct a high level review of existing educational initiatives to identify gaps and ensure that any subsequent work does not duplicate the work of other organisations.

Financial Inclusion

Respondents gave strong backing to the promotion of financial inclusion in all areas of the National Payments Plan.

As with education, we intend to work closely with leading organisations already involved in this area, such as the Financial Inclusion Task Force, consumer bodies, credit unions, trade associations and charities and voluntary groups. We will ensure that the impact on financial inclusion is included as an integral part of the evaluation of major collaborative changes to payment systems.

Standards

Standards are of critical importance in many areas of the payments market. Respondents endorsed a number of high level principles governing the Payments Council's work on standards, including playing an active role in standards development and, where possible, adopting international rather than domestic or proprietary standards.

More specifically, there was strong support for the domestic Direct Debit and Direct Credit Schemes migrating to international standards. We will develop a roadmap by June 2009 for the alignment of domestic message standards with those used in Europe.

An important standards issue also arose in relation to contactless cards, and the need for harmonisation of standards, so that contactless payment card standards are able to meet the need of merchants who require high transaction speeds. We will ask the card schemes to work together with other stakeholders, including transport authorities, to harmonise standards for contactless cards.

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Other Areas

Credit Clearing

There is support for reviewing the credit clearing. We will undertake a comprehensive objective review of options for the future of the credit clearing in 2009.

Cash

Almost all respondents agree that the National Payments Plan should be based on the assumption that cash will remain a major payment method for the foreseeable future.

There are divided views on whether the supply and quality of notes and coins in circulation should form part of the Plan. We will review this issue with the Bank of England, Royal Mint and other relevant bodies and publish our conclusions by the end of 2008.

Direct Credits

A number of suggestions were made by respondents for improving the accuracy and reliability of reference information accompanying Direct Credits. This is an important area, with potential to lead to significant improvements in efficiency for recipients of payments by Direct Credit and assist the development of alternatives to cheques.

We will assess the potential measures that may be taken to improve efficiency and decide how to move forward by June 2009.

Credit Cards, Debit Cards and Cash Machines

We do not believe there is a need to intervene in the card and ATM markets at present. We will, however, keep the markets under continuing review and stand ready to intervene if we consider the market is not delivering appropriate solutions because of a lack of collaborative action.

Contactless and Prepaid Cards

Respondents gave a broad welcome to developments in contactless and prepaid cards which they see as positive, although still at a very early stage.

We will actively monitor progress and produce reports on the state of the contactless and prepaid markets, with recommendations, by September 2009.

CHAPS and Wholesale Payments

Our meetings with market participants and responses to the Consultation revealed that there is scope for improving liaison with wholesale payment users. We believe we are well placed to assist in this and will put in place arrangements for regular liaison between wholesale payment users and the Payments Council.

SEPA and Cross-border Payments

International payment developments in general, and SEPA in particular, may have a significant impact on payment systems in the UK. We will keep international developments under active review and consider how best to provide information to payment users in the UK. We will also assess whether changes are needed in cross-border payment systems.

Proposed Innovations

Several respondents suggested that a new scheme to pay online retailers should be established, leveraging the new Faster Payments Service that will be launched in late May 2008. We will examine the case for this in 2009, using the Payments Council's procedure for evaluating innovations.

Opportunities to innovate should be positively encouraged. We need an open process for assessing proposals for new developments and ensuring that their potential is appropriately realised.

Payment Systems Integrity and Contingency

The Payments Council has a particular interest in integrity and contingency matters that cut across individual payment schemes. We will work closely with the Bank of England to review the scope for practical contingency measures in the event of a major systems failure, and put in place any actions that may be needed.

Fraud and Security

Effective methods of combating fraud and maintaining security underpin the integrity of UK payment systems, a core objective of the Payments Council. A number of helpful suggestions were made by respondents on action that the Payments Council might take. While we recognise that much good work is already in hand, and have no desire to duplicate this or to stray into competitive territory, we believe that further action is needed in some areas.

We will ensure that all new collaborative payment initiatives include a formal risk assessment. We will produce an annual assessment of threats and counter measures and review what additional measures may be needed. We will also assess whether any further steps are needed to facilitate data sharing. More broadly, we will work in collaboration with other sectors and the public authorities to raise awareness of payments fraud and security risks.

Costs

A number of respondents emphasised the importance of building a shared understanding of the cost structure of UK payments.

We believe this is best achieved by collating the cost data that will be gathered in the course of evaluations of proposed new initiatives and/or reviews of existing payment schemes. We will keep in mind the possibility of a more over-arching study, but only if a clear need for it can be established.

Reviewing and Updating the Plan

Many of the actions detailed above are likely to lead to further work. We will report on progress for each work area and the new actions agreed by the Board of the Payments Council.

Progress against the Plan will be reported on an annual basis with a more fundamental review undertaken every three years.

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