

Minutes



10 December 2008

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To Payments Council Board

CC Non Board Contacts

From Anita Heaviside
Secretary to Payments Council Board

MINUTES OF THE MEETING OF THE PAYMENTS COUNCIL BOARD HELD ON 9TH DECEMBER 2008

Present:

Brian Pomeroy	Chairman
Moira Black	Independent Director
Martin Cave	Independent Director
Stephen Locke	Independent Director
Michael Alexander	Independent Director
Industry Directors (Nominated by Members with over 5% of UK Clearing Volumes)	
Colin Klipin	Barclays
Jim Large	HSBC
Kevin Gillett	HBOS
Richard Hemsley	Royal Bank of Scotland
Edwina Kidd	LloydsTSB (Observer)
Industry Directors (Nominated by Members with over 1% but less than 5% of UK Clearing Volumes)	
Gerry Lane	Alliance & Leicester / Abbey
Industry Directors (Nominated by Members with less than 1% of UK Clearing Volumes)	
Maurice Cleaves	Deutsche Bank
Brent Bellm	Paypal
Paul Smee	Chief Executive, Payments Council
Hilary Plattern	Payments Council
Anita Heaviside	Payments Council
Peter Finlayson	Payments Council
Michael Chambers	Bacs (Item 2c)
Anne Pieckielon	Bacs (Item 2c)
Andy Hamilton	Chair of Mobile Payments Group (Item 2d)
Tim Leslie	Independent Consultant (item 2e)

MINUTES OF THE MEETING OF THE PAYMENTS COUNCIL BOARD HELD ON 9TH DECEMBER 2008

1. WELCOME AND MINUTES OF LAST MEETING OF THE PAYMENTS COUNCIL BOARD HELD ON 9TH SEPTEMBER 2008 **ACTION**

Apologies noted were:

Juan Olaizola (Abbey – represented by Gerry Lane)
John Hughes (Co-operative Bank proxy given to Gerry Lane)
Dermot Nolan (Bank of Ireland proxy given to Maurice Cleaves)
Andrew Bailey (Bank of England – observer)
Paul Baker (LloydsTSB)

The Board noted the draft minutes from the AGM meeting. These will formally be approved at the next AGM meeting.

The minutes from the previous meeting of the 9th September were APPROVED and will be posted to our website.

The actions from the previous meeting were confirmed as completed or have been added as agenda items for the meeting.

2. FOR DECISION

NATIONAL PAYMENTS PLAN

Paul Smee made some introductory remarks and reminded the Board that the Member Strategy Group had an important role to play in joining up the strategy.

Peter Finlayson introduced the National Payments Plan (NPP) summary report. This report provides the Board with an overview of the current priority projects, work in progress and forthcoming workstreams.

CHEQUES – PHASE 1

Peter Finlayson introduced the Cheque Phase 1 report. The work on cheques has been steered by the Cheque Advisory Group, the output of which has been shared with the User Forums. During the last six months extensive research has been undertaken which confirms that all major stakeholder groups see cheques as in a permanent state of

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decline and that users are amenable to their replacement by electronic payment methods, provided these methods meet their needs. The next key task will be the development of a roadmap, in particular identifying gaps in the current electronic alternatives. Additionally it will need to establish whether there is a requirement to retain paper for niche applications. For example, there are limited options to address alternatives for those vulnerable customers dependent on cheques. This will be a key area to work with the Consumer User Forum. It will also be important to develop an education programme for cheque migration in the context of an overall education strategy. There was also a strong message on the reluctance to share bank account details; potentially the proposed innovation on mobile payments may help in this respect. The point was also made that there is a lot of activity in the market place and it is important to monitor this and take action if required.

The Chairman invited the three User Forum Chairs to put forward any key points raised during discussion at the User Forums.

Stephen Locke confirmed that the Consumer User Forum was supportive of the work. From his perspective the work done had been comprehensive and been instrumental in taking the debate forward. There were many interdependencies between cheques and other workstreams such as education and mobiles. A message from the Consumer User Forum was to have clear alternatives in place in good time allowing further enhancement to these alternatives if needed.

Moira Black raised two points from the SME User Forum. Firstly, there is a reluctance to share bank account details and that the setting of a potential end date for cheque clearing should be kept under review. There was a further query on the potential wider impact of a closure of the cheque clearing for example on the branch network.

Michael Alexander confirmed that the Large Corporate User Forum was supportive of the conclusions in the Cheque Report.

The Chairman invited the Board to comment on the Cheque Report and proposed recommendations:

- It was suggested to check any potential legal obstacles raised

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by the Bills of Exchange Act.

- An indicative end date will help in the creation of new innovation solutions.
- An indicative end date will allow the movement of investment away from maintaining a paper clearing to the development of new innovations.
- There is an important piece of work to be done on the sustainability of the cheque clearing over the next ten years.
- The current work on the Cheque Card Guarantee Scheme will have an important impact on the levels of cheque usage.
- It was important to demonstrate that due process and evidence has been collected to support the setting of an end date for the cheque clearing.

The Board ENDORSED the following recommendations:

- To reaffirm the commitment given in the NPP to the creation of a roadmap for the managed decline of cheques, including an agreed end date for the cheque clearing.
- The education for cheque migration should be integrated in the Payments Council's broader strategy.
- Endorse the need for cheque migration education as a key component of a wider education strategy for UK payments.
- Note the relevant actions of other NPP related workstreams on the programme of work on cheques.
- Endorse the other actions as noted in Cheque Phase 1 report.
- Agree that while there are a number of issues currently in the competitive space they have significant impact on the plan as a whole and progress should be kept under active review.

2b DIRECT DEBITS

Michael Chambers, BACS Managing Director introduced the agenda item on Direct Debits. The conclusion reached in the report on the introduction of a time limit on the Direct Debit Guarantee is that whilst there is a case for change there is not a compelling case for change.

Set in the context of a wider stakeholder picture:

- There is support for a defined limit on the guarantee from Bacs Affiliates and the Large Corporate User Forum.
- HM Treasury have encouraged maintenance of the current proposition as do the Consumer User Forum
- Consumer research undertaken presented a neutral case if a time limit on the Direct Debit guarantee were introduced.

If a limit on the Direct Debit Guarantee were introduced, there is the potential risk of substantial negative media reaction, an adverse reaction from consumer bodies as well as the risk of unintended consequences in the transfer of payment types from Direct Debits to cheques, which is contrary to the NPP vision.

Alongside the review of the time limit on the Direct Debit Guarantee Bacs has undertaken a review of the underlying rules, processes and application of the Direct Debit Guarantee itself, Bacs Board will be reviewing the recommendations at its Board in December. The key recommendations are 1) providing improved clarity understanding of the liabilities / obligations of all parties 2) delivering improved understanding and application of the indemnity claim 3) improving the formset to smooth the application of indemnity claims 4) review of member banks processes to ensure the rules / obligations are being adhered 5) improvement of the Direct Debit Guarantee wording and referencing the underlying contract between the consumer and the originator.

The Chairman invited feedback from the Chairs of the User Forums. Moira Black confirmed although the SME Forum would like to have seen a time limit introduced, they saw the potential development of a

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business-to-business direct debit as an opportunity to address some liability issues.

Michael Alexander, confirmed the Large Corporate User Forum had thought that the case for maintaining the status quo had not been made and that further work should be undertaken.

Stephen Locke confirmed that the Consumer User Forum welcomed the recommendation to retain the status quo of no time limit on guarantee. He also took the opportunity to commend the work that Bacs had done to investigate this issue.

The Chairman questioned whether more evidence could have been collected. Michael Chambers confirmed that Corporates had been given the opportunity to provide evidence but none had been received.

The Chairman invited comments from the Board:

- One director highlighted a potential concern over an open-ended liability and the potential impact on the Basle2 capital financing requirements.
- It was observed that the SEPA Direct Debit scheme would be setting a time limit of 13 months and the UK Direct Debit scheme was inconsistent with this.

In response to these concerns Michael Chambers, confirmed the need for the wider Direct Debit Guarantee Review recommendations to be robustly implemented and that Bacs were not aware of any issues relating to Basle2. Additionally the UK Direct Debit proposition is functionally richer than SEPA Direct Debits and that a change to the time limit would not impact on the legal and moral obligation on a company to entertain older claims from its customers.

The Chairman invited the Board to indicate whether they supported the recommendation. The majority of Directors present indicated that they supported the recommendation to maintain the status quo on the

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time limit on the Direct Debit Guarantee. The Board also indicated that they were very interested in the results of the work on the underlying rules, processes and applications, and wished to keep the subject under review in the light of changing economic circumstances.

The Board also noted the Bacs report on the barriers to SME originators and the management of the Direct Debit mandate process.

2c. MOBILE PAYMENTS

Andy Hamilton, Chair of the Mobile Payments Group introduced his note to Board on progress to date. The Board was supportive of what had been achieved so far and ENDORSED support for the creation of a Business Requirements Committee (BRC).

The Board raised some questions about the proposed governance structure to clarify respective roles and responsibilities. The Board supported CHAPS Co as being the logical owners for any new Mobile Payments Scheme. The Industry Directors were keen to identify the right people to represent them on the BRC and to understand the anticipated time commitment and skill set.

Michael Alexander, registered two concerns of the Large Corporate Forum: (i) whether the customer in fact had ownership of his/her mobile phone number and (ii) the fact that this was a bank account to bank account proposition and not e.g. suited to moving funds between mobile accounts. It was also noted that the reissuing of mobile phone numbers would cause a challenge.

The Board was advised that the Payments Council User Forums expressed the wish to hold a combined meeting sometime in Q1 09 to consider the customer proposition in greater detail. This will be actioned.

Secretariat

Paul Smee confirmed that the next phase of work with the BRC could be funded from the 09 budget and that additional funding was not required at this time. Andy Hamilton did however make it clear that

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additional funding would be needed with Board approval for an industry business case to be made through quantitative research.

The Board agreed it was not possible to set an aspirational date for completion of the project until further work has been completed.

2d ACCOUNT NUMBER FORMATS

Tim Leslie, independent consultant introduced the paper on account number formats. Tim Leslie advised the Board that substantive consultation with various stakeholder groups, including users and financial institutions had been undertaken. As a result of this analysis it was found that the problems in this area was not as great as first envisaged. The report outlines a number of tactical solutions that has the broad support of stakeholders. The report recommends the development of industry guidelines of good practice for account number formats. Additionally, there are a number of measures that could be introduced to enhance the existing payments industry facilities.

Michael Alexander confirmed that the Large Corporate User Forum supported the paper.

The Board ENDORSED the recommendations on account number formats.

The Chairman commented that the review was a good example of how the Payments Council can resolve issues.

2e REPORT FROM STANDARDS POLICY GROUP

Peter Finlayson introduced the interim report from the Standards Policy Group. The report concludes that there is high level rationale for migrating from existing message standards that underpin inter bank electronic credits and debits in the UK to a common global message based on the ISO20022. It was emphasised that such a standard should only be adopted if there is a clear business case for migration. The report outlines the recommendations for phase two of this work, which includes the recommendations that the newly formed Scheme Co-ordination Committee should ensure that the schemes

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work to common strategic goals and have responsibility for ensuring that the evaluation of the business case takes place on a consistent basis across payment schemes.

One director observed that the business case might present some challenges and the many of the issues with the migration of standards are in the corporate space.

The Board ENDORSED the interim conclusions and the next steps.

2f EDUCATION

Peter Finlayson introduced the report on the Review of Education in Payments. The key conclusion of the report supports the development and implementation of a payments education strategy during 2009. The emphasis of the strategy would be about providing information to those organisations that are experts in their field of educating users. The organisations interviewed, as part of the preliminary work have confirmed that they would welcome this approach.

Moira Black commented that one of the ideas from the SME forum was to develop a payments council 'kitemark' for education material. The SME forum had also emphasised that it is difficult to conduct effective education, especially amongst some categories of consumers and SMEs. Stephen Locke commented that the Consumer User Forum was strongly supportive of the proposed approach.

The Board ENDORSED the recommendation to develop an education strategy.

2g REMITTANCES CUSTOMER CHARTER

Hilary Plattern introduced this item by explaining that the NPP included a commitment for the Payments Council to consider the Remittances Customer Charter as a separate exercise from the plan. Work has been carried out in conjunction with the Member Strategy Group and some members of the Consumer User Forum. The recommendations in the paper suggests that the Payments Council is not in a position to mandate the Charter on its members because this

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is a competitive issue for Members. The scope of the Charter is on the customer interface, whereas the remit of the Payments Council is limited to payments networks and non-competitive issues.

Stephen Locke confirmed that the Consumer User Forum were disappointed but understood that the Charter did not fit with the Payments Council remit.

The Board ENDORSED the view that it was not able to mandate the charter. The Chairman agreed to write to the Chairman of the Remittances Customer Charter Taskforce to explain the position of the Payments Council.

Secretariat

2h PROCUREMENT POLICY

The Board ENDORSED the procurement policy subject to one small change; the policy should state at the beginning that it is geared for larger, more complex projects.

3a. FOR DISCUSSION

REPORT FROM SCHEME CO-ORDINATION COMMITTEE

Gerry Lane, Chairman of the Scheme Co-ordination Committee (SCC) introduced the report from SCC. The report recommends the development of a longer-term payment systems roadmap setting the proposed structure of scheme companies within a wider context. The first deliverable would be a feasibility study on the potential merger of Bacs and CHAPS companies into a single entity. This would seek to establish the advantages and disadvantages for all stakeholders and whether there is a business case for such a change. If the case can be made this work could provide a template for the review to include LINK and the paper clearings.

The Board ENDORSED the recommendations as outlined in the SCC report.

One Director highlighted potential concerns he had on intraday liquidity of schemes. He suggested that this could be an issue that could usefully be looked at by the SCC as it could affect multiple

schemes. It was agreed that the Senior Bank Operational Group would define the problem so that the SCC could consider next steps. The Board noted the urgency of this issue.

SBOG/SCC

3b OFT REVIEW

Paul Smee advised the Board that the OFT had commenced their review of the Payments Council and have been meeting with different stakeholders. The OFT had recently attended the User Forum meetings and had received generally positive feedback from attendees. They have also sent in a list of detailed questions; the reply will be circulated to the Board for information. It is also our understanding that the OFT will be sending a questionnaire to Payments Council Members to invite feedback.

3c PAYMENTS COUNCIL GOVERNANCE

Paul Smee advised the Board that the because of the recent acquisition of Alliance & Leicester by the Santander Group they were now entitled to a Board seat as of right. This triggers an automatic review of the Board structure. However, given the current market conditions it would be prudent to wait a few months before starting the review of the Payments Council Board structure as further consolidation of members is anticipated. The Board ENDORSED this view.

4. CONTRACTED SCHEME REPORTS

The Board NOTED the reports from the contracted schemes. The Board also discussed the issues highlighted in the LINK report. Paul Smee said that he had written to the Managing Director of Vocalink and would circulate a copy of her response with the Minutes.

The Board agreed that the Scheme reports should highlight where Service Level Agreements had been breached by infrastructure suppliers and should set performance levels in context over a defined period of time.

It was observed by the Board that telecommunications appears to be the common denominator for the issues reported by FPS and LINK, and that Schemes would no doubt wish to explore the issues raised

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by having a common telecomm provider.

5. AOB

INNOVATION

The Board noted the innovation proposal and agreed that the proposal should not be pursued on the basis that it does not require co-operative industry action.

NOTE FROM GOVERNMENT BANKING SERVICE

Paul Smee advised the Board that the Government Banking Service had requested their note on the migration of banking businesses of government banking service, HM Revenue & Customs and National Savings & Investments be circulated to the Board for information.

FUTURE MEETING DATES

The Board agreed the new start time of 10am for all Board meetings.

Wednesday 18 March 10-1pm

Wednesday 22 April Away Day (time and venue to be confirmed)

Wednesday 17 June 10-1pm

Wednesday 16 September 10-1pm

Wednesday 16 December 10-1pm