

PAYMENTS COUNCIL CONFERENCE - 'Driving Change in UK Payments'

Note of key points and questions for the conference held 23 January 2008 in London

The main purpose of this note is to document the questions and answers asked and received at the Payments Council Conference, held in London on 23 January 2008. Key points from the speakers' presentations are included for context. Where applicable, the PowerPoint slides presented may be found in the annex to this note.

Please note, the key points noted from the presentations and Q&As are the interpretation of the note takers only and should not be read as a verbatim record of the conference or the definitive views of conference speakers.

Chairman's welcome and role of the Payments Council - Brian Pomeroy (Chairman, Payments Council)

Brian welcomed the conference delegates and provided a brief introduction to the Payments Council, covering the background, remit and governance structure of the Council.

National Payments Plan Vision – Paul Smee (Chief Executive, Payments Council)

Paul set out the National Payments Plan's vision of a strategic approach with stakeholder involvement, building on past achievements, and the 'pillars' of efficiency, innovation and integrity. He stressed that the focus was on collaboration where it is required and adds value; not where it interferes with the normal competitive forces in the market place.

The consultation will lead to a clear roadmap, set within an analytical framework for considering issues and a realistic timetable. Areas of likely interest in the consultation responses include cheques, innovative forms of payment and financial inclusion.

Paul stated that the Payments Council has developed well over its first year, marked by increased transparency and the quality of contributions from the user forums. He was



optimistic that the Payments Council would show itself to be an effective means for driving forward change in UK payments.

Question

Q: *How can we make changes in UK payments happen? Are the issues raised just challenges for the industry or does the Payments Council have the weight to implement the actions required for change?*

A: (PS) The Payments Council Board is made up of senior figures in the payments industry representing its member financial institutions, as well as four independent directors and independent chairman. The Payments Council has generic contracts with the major payment schemes and we can ask the schemes to take action at a scheme level.

(BP) Full members have to implement decisions made by the Payments Council, whether that individual member agrees or not. The main members of the schemes are all members of the Payments Council.

(PS) The Payments Council is keen to continue dialogue with non-industry stakeholders. Associate membership will be an important part of this, and so we encourage organisations to become associate members.

HM Treasury - Alison Cottrell (Head of Payments and Inclusion Team)

The PowerPoint slides for this presentation are provided in the annex to this note.

Alison Cottrell began by explaining that H M Treasury was at the conference to listen; it would be responding to the Consultation and that her comments today were intended to give an early indication of their thinking. The issues she would be discussing were subject to further review and her comments were not in any sense a definitive statement of the Government's position.

- HMT has a strong interest in payments, which are central to the Treasury's Objective III of ensuring efficient, stable and fair financial markets for users and the economy.
- The 2000 Cruickshank review (*Competition in UK Banking*) highlighted competitiveness problems and inefficiencies in payments systems, and spurred the creation of the OFT Payment Systems Task Force in 2004 and, subsequently, a new model of governance for payments systems.
- The Treasury welcomed the cheque changes, known as 2-4-6, and its punctual delivery in November last year.



- Alison is pleased to see that finding alternatives to cheques is a key part of the Payments Council's proposed planning for cheques. While the use of cheques is clearly declining, :
 - setting a target date for the end of cheques raises potential concerns, when it is not yet clear what all of the alternative mechanisms would be
 - we should be careful to look at individual needs, whether of SMEs, voluntary organisations, or individuals including the vulnerable
 - we need a clearer understanding of uses, users and alternatives – decisions should be based on evidence.
- On the take-up of Direct Debits:
 - she supports including sections on information and education in the Plan. Direct Debits require users to track and manage their bank balances more closely and it is important that users are familiar with their rights of redress
 - users should be able to choose payment methods that are appropriate for them
 - she will be watching the Bacs campaign promoting Direct Debits with interest
 - a time-limited guarantee might affect take up
- The Treasury is consulting on the policy options open to the UK on implementation of the Payment Services Directive (PSD), deadline 18 March, and would welcome views from the Payments Council and other interested parties on relevant issues
 - the payments industry can voluntarily provide better terms and conditions (e.g. on the time limit for guarantee for Direct Debits) than the PSD and HMT have encouraged this in their consultation document, but welcome feedback on this point
- On innovation, Alison noted the development of contactless and pre-paid cards and recognised the valuable work by the OFT Task Force on faster payments, followed by hard work on implementation; this service is important and will make a real difference
- Financial inclusion: it is important to spread the benefits of innovation more widely than to those with easy access to technology or with a high income:
 - the government's and banks' goal was to halve the number of adults in households without access to a bank account from 2.8 million in 2002-3, and this is on target with 2.0 million in 2005-6; £120m was allocated to Financial Inclusion including set up of the Task Force, in 2005-2008, and £130m has been allocated for the 2008-2011 period.
 - the Treasury Select Committee concluded that more access was needed to non-charging ATMs by deprived communities – of the 600 ATMs agreed to be installed, 307 were in place by December 2007 and over 200 more will be installed in the first half of 2008



- we need to innovate in order to include, not exclude, and the NPP should reflect this and not raise new barriers to the use of payment services.
- the Payments Council and the Financial Inclusion Taskforce should work together to ensure that potential impacts of new payment services on financial inclusion are recognised and taken into consideration.
- We also need to include the views of the payments industry and learn from other sectors and countries

Questions

Q: *Older people are a diverse group, and most cope well with changes in payments; however some are contacting [our charity] with real problems [from retailers no longer accepting cheques], for instance using gift vouchers for routine shopping, or using other payment methods of last resort, such as cash, which brings its own security problems when kept at home in large amounts. Is there scope for a payment method other than cash that can meet their needs?*

A: (Paul Smee) The best solution is probably not a single alternative payment method but a panoply of choices. An example is the use of mobile payments in Africa (though this might not suit all older people). Cash is a fundamental backstop method, but there is no silver bullet; multiple options are best.

Q: *As an observer on the Consumer Forum, I noted that not having a bank account was a real disadvantage. How can the Payments Council and banks assist here?*

A: (Alison Cottrell) There are a number of answers, because there are a number of reasons for not having a bank account. Firstly, information and education would raise awareness of the benefits of bank accounts, including basic bank accounts. Barriers to adoption may also relate to, for example, perceptions of banks as being off-putting places, or the requisite paperwork and identity checks. So changes may be needed in both service and perception to meet the diversity of concerns.

(Brian Pomeroy) Banks have designed basic bank account products for the excluded and are now campaigning to overcome mistrust and lack of self-confidence in these communities. The identification checks that have been required to combat identity fraud and money-laundering have been a barrier, since many of the excluded do not own any of the eligible documents; these identity checks have been changed now to take account of this. So progress is being made.



Q: What level of the population still using cheques will be considered small enough for the Treasury to endorse closure of the Scheme?

A: (Alison Cottrell) The answer to this question depends on whether appropriate alternatives exist for the remaining uses, not just the actual level of use.

(Paul Smee) Rigorous analysis of alternatives to the remaining uses is key; many cheque users would prefer not to use a cheque but have no choice in some situations.

Q: Can the Netherlands and Sweden, which have abolished cheques, give any insight into managing cheque decline?

A: (Paul Smee) We are always ready to look at international parallels but these are different markets and cultures: for instance the Netherlands abolished cheques at the time of conversion to the euro.

Efficiency and Innovation

The PowerPoint slides for these presentations are provided in the annex to this note.

- **Cheques – Angela Thomas (Managing Director, Cheque and Credit Clearing Company)**

Angela provided an overview of the cheques market with particular reference to the recently introduced changes to cheque clearing processes, known as 2-4-6. Using this context, she raised the questions regarding the efficiency of cheques in the consultation and called for responses.

- **Mobile Payments – Chris Jones (Director, PSE Consulting)**

Chris suggested that mobile payments present an opportunity to extend electronic payments into person-to-person and low-value payments, displacing paper means of payment. Challenges will include low consumer use of non-voice/SMS services; on mobiles the lack of agreement on a business model for the bank-telco cooperation; and the number of attractive alternative payment methods available to UK consumers. This presents an opportunity to the Payments Council to drive innovation and focus the UK on overcoming these challenges.



Questions

Q: *What is needed to get consumers and corporates to accept mobile payments? There are issues concerning the need for standards for integration and reconciliation at the corporate end and the question of the role for the Payments Council in developing these standards.*

A: (CJ) These payments need to be more attractive to use than current alternatives available to both consumers and corporates. Enabling easy integration into existing offerings is one of the ways mobile payments service providers can improve their attractiveness.

Q: *There are many actors in the mobile payments arena, what role can the Payments Council play? Is there a need to develop a new scheme as many of these actors are not members of the current schemes.*

A: (CJ) The payments industry itself is very good at collaboration and so is the telco market, but there is a lack of shared perspectives between the different parties involved in mobile payments including banks, network operators and handset manufacturers, which is inhibiting progress. The Payments Council could play a role in facilitating change, bringing parties together to develop a consistent approach.

(BP) The Payments Council is a UK body whereas some organisations in the mobile payment arena have an international remit. The Council will need to ensure that there is a close dialogue with all parties.

Q: *Do mobile payments require collaboration? When the mobile networks evolved there was no equivalent of the Payments Council set up yet mobile phone holders on any network can communicate with each other.*

A: (CJ) One of the challenges with mobile payments is to bring together different industries, each of which thinks that it can do something on its own. The Payments Council could act as a catalyst in bringing this about.

Meeting User Needs (Panel)

The panel chair, Colin Klipin (Barclays), asked each of the panel members to give a few introductory remarks.



Philip Cullum (Acting Chief Executive, National Consumer Council)

- Was a member of the OFT Payment Systems Task Force - the payments industry initially came across as inward-looking, reluctant to innovate and resentful of external scrutiny.
- But there has been a dramatic change - today's event, and the consultation on the payments plan, show how much progress has been made. If this continues, could be a model for other industries.
- Consumers have shown time and again that they are open to change and new ways of doing things. But there need to be compelling alternatives, which in turn demands insight into consumer experiences, attitudes and needs e.g. what is it about cheques that means people still use them?
- Important to address issues of diversity - all consumers aren't the same - and disadvantage. Any reforms should ideally improve the position of all disadvantaged consumers, and must not in any circumstances make things worse.
- Understand that consumers will look at a whole range of factors, some of which will be more important to some people than others – these include control, certainty, cost, flexibility, speed, transparency, ubiquity, security and ease of use.

Bob Jarrett (Professional Services Director, British Shops and Stores Association)

- bssa is a national trade association representing independent retailers in the non-food sector and is a member of the British Retail Consortium.
- Quoted from the most recent BRC cost of payment collection survey which was based on contributions from retailers accounting for a third of UK sales with a combined turnover of £84 billion and trading out of 10,000 outlets. This showed that cash was the cheapest form of payment for retailers and the most popular with UK customers. Cash accounts for 54% of all transactions with more than £32 in every £100 spent at retail outlets in cash.
- Any new payment methods, including card-based replacement products, therefore need to be cheaper to accept than cash. Cost is critically important from a retailer perspective.
- Disappointed that card schemes are not contracted to the Payments Council.
- Looking for transparency of costs and pricing.



Mal Durney (Standard Life and Chair of BACS affiliates)

- Large corporates are seen as “dinosaurs”, very slow to evolve. When dealing with millions of transactions per annum, change has to be cost effective and with minimal risk.
- Changing payment methods takes time and has cost and process implications for large processors.
- Cheques are expensive, but there need to be benefits for the consumer to get them to change to other methods.
- Large corporates want to offer a ‘finite’ number of payment methods to its customers. If new methods are offered, they would look to turn off old ones. The more payment methods the more complex and costly a process becomes.
- Change has to be in a controlled fashion; otherwise fraudsters will exploit it.

Q: [Our organisation] *is also a big issuer of cheques. As large corporates move to electronic means of payment and cheque volumes fall, what will be the effect of increasing unit costs being passed on to consumers and SMEs?*

A: (PC) There is no desire to maintain cheques for their own sake. The NCC recognises that consumers will pay in the end, and therefore have an interest in efficiency.

(BJ) Many large retailers have now stopped accepting cheques from customers with others poised to do so. To date, it was not thought that this had caused major problems with consumers. As far as the independent sector was concerned, however, it was anticipated that many smaller retailers would continue to accept cheques as they knew their customers better and would be generally more responsive to their needs in this respect.

(CK) There is a need to provide information with the payment. Payment methods must be designed to provide reconciliation.

Q: *The answers to the previous question looked at receiving cheques. What about the impact of rising costs from the perspective of those issuing cheques?*

A: (BJ) bssa offers a service to its members which allows members to pay all of their suppliers by writing just one cheque per month. It is very popular, with an annual turnover approaching £180 million. This would continue to be offered by bssa for as long as members felt that it provided them with savings and value.

(CK) Need also to look at the impact on cash flow of cheques and other methods.



(MD) Standard Life, like other large corporates, finds it difficult to get customers to give their account details, so they have to resort to paying them by cheque. Cheques are a highly inefficient way of making payments in terms of cost and the impact on the environment.

(PC) Providing account details is a matter of trust and confidence. Recent data losses do not help. The NCC still pay staff expenses by cheque, as the Finance Manager believes this is the only easy way to have the required two people to authorise the payment.

Q: *Has the recent introduction of certainty for cheques produced any change in behaviour?*

A: (Angela Thomas, C&CCC) It is probably too early to tell, but C&CCC will be monitoring this during 2008.

(PC) Was disappointed that the 2-4-6 changes received little publicity, and thought the industry should do more to promote them.

(MD) Now that there is certainty for cheques, there should also be some certainty for Direct Debits. In theory, a customer could pay life insurance premiums for 50 years and then ask for them all to be refunded under the Direct Debit Guarantee.

Q: *Does the 'cheque in the post' syndrome have much effect on willingness to accept cheques?*

A: (BJ) In general, independent and smaller retailers know their customers better and their willingness to accept cheques was therefore unlikely to be unduly influenced by this factor. That said, they were likely to be more cautious in accepting cheques for larger transactions above the cheque guarantee limit from someone they didn't know.

Q: *Would retailers prefer more payments in cash?*

A: (BJ) It is a matter of cost. Costs are critically important for retailers. If alternative payment methods are developed, they must have a transparent and acceptable cost structure which is cheaper than cash.

Q: *How does the Payments Council sit in relation to other standards setting bodies?*

A: (CK) Standards are international. SWIFT sets global banking standards. The UK should not develop its own standards.

(MD) Standards are important for large corporates. They need consistent standards. If there are competing standards, they are likely to wait until a winner emerges.



Payments in Europe – Stewart MacKinnon (Secretary General, European Payments Council)

The PowerPoint slides for this presentation are provided in the annex to this note.

Stewart provided an overview of the EPC's work on the Single Euro Payments Area (SEPA) and related initiatives.

In relation to the NPP consultation, he raised a concern that the UK might be getting out of step with Europe in respect of standards, suggesting that a vision and strategy for standards is needed and serious consideration should be given to the UK domestic payment schemes adopting the same rules and standards as are being used for SEPA.

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