

3 August 2009

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Cavendish Elithorn Esq.,
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Dear Cavendish,

OFT REVIEW OF THE OPERATIONS OF THE PAYMENTS COUNCIL

The Board of the Payments Council has considered the recommendations in the OFT report. I am writing to give you our response.

We are very pleased to see that the OFT does not believe that a future full-scale review of the Payments Council is necessary. We are also pleased about the positive comments which the OFT makes about the National Payments Plan and the way in which we have improved the openness and transparency of the payments industry in the first two years of our existence.

We are keen to follow up appropriately, proactively and positively the various recommendations contained in the report.

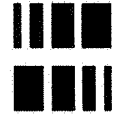
Self-Assessment

We agree that we should undertake and publish a self-assessment against the criteria set out in the report every two years. We would regard this as good governance in any case; and it fits well with our openness and accountability objective. By the time of the first review, we will have a longer track record against which we can be measured; we will also involve the increasing number of users and other stakeholder groups with whom we have contact.

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We also agree to the one-off assessment in two years' time of our progress against the integrity objective by an external firm of accountants. We will publish a summary in the Annual Review. We believe that it was right for the Council to focus in its initial stages on the outward facing objectives, especially work relating to the National Payments Plan, and on developing constructive relations with contracted schemes under the generic contract. However, we agree that the time is now right for a renewed effort on cross-scheme integrity issues. We have started work on developing a vision on this issue; this will help identify the longer term, strategic answers to issues of cross-scheme integrity (where we feel that the Council can make the greatest contribution). We have also had recent, helpful discussions with the Bank of England; these have helped identify objectives to progress in the shorter term. The Bank has offered to give us further guidance on what it expects the Payments Council to do in the field of integrity.

Our objective is to contribute to the (excellent) track record of payment schemes, in a way which adds value and is not burdensome.

Innovation, in particular the attitude of smaller businesses

We continue to look at ways by which we can encourage the flow of innovative ideas. We have noted the comments attributed to small businesses about the access and support which they receive in proposing innovation. It has certainly not been our intention to create any barriers to their participation as we agree that small companies are often a fertile source of innovation. We will investigate ways of making our presence more visible to these key groups, perhaps through some form of award. We will use the SME Forum to help us to identify suitable ways of encouraging their interest.

However, we would stress that, for many companies, their interest is really in services which lie in the competitive space where their engagement will secure the greatest commercial advantage. We cannot, under our remit, intervene in that space.

Attendance at User Forums

We can reassure the OFT that we are keen to attract good numbers of users to all three forums. We think that they have worked well and there is a healthy level of interest in joining. We continue to look for new attendees. The level of attendance inevitably fluctuates, given the many other calls on participants' time. We deliberately supplement meetings of the forums with other events such as workshops on specific subjects and extensive bilateral contacts with key industry bodies and other stakeholders.



Affiliates Group for Faster Payments

We will ask the CHAPS Company (which runs the Faster Payments Scheme) to look urgently at the creation of an affiliates group. This is a good time for such an initiative because the scheme is now fully deployed and tested so the opportunities to exploit its basic infrastructure are now available. In the first year of the scheme, attention was focused on ensuring complete integrity and stability, as members gradually rolled out access to the service.

Membership of the Payments Council

We have not reviewed our membership rules in our first two years of operation, not least because the Payment Systems Task Force spent a considerable amount of time and effort establishing them.

It is fair to say that we have not received any direct pressure to revise the criteria for full membership of the Payments Council; we currently offer membership to payment service providers (PSPs). Any PSP can apply for membership and we now have new members, such as PayPal. The reason for no mobile phone operator expressing interest in membership may reflect a perception that they do not wish to be seen as akin to PSPs. We intend to check if this is the case.

We also see difficulties in moving away from our current criteria for full membership, especially as this would affect the composition of the Board (which, as you will recall, was negotiated very carefully with members of the Task Force). We suggest that the presence of vendors and those who essentially supply the payment industry rather than are part of it would create the potential for conflicts of interest between suppliers in discussions at the Board and would give their competitors the impression of an "inside track"; it would also expand the size of what is an already large body.

However we believe we can meet the underlying intent of the point that OFT has raised by taking steps to improve the quality of communication which we have with vendors. We propose to review the membership proposition which we offer to non-PSPs (at present the "associate" proposition). We will now consider whether we can provide a richer and more interactive offer; in particular, we will investigate creation of a dedicated forum for vendors and infrastructure providers, chaired by a Board director and with the same visibility to the Board as the current user forums. We will discuss this idea with those interested. We think



that this will deliver the substance of what your report seeks, without creating governance problems for the Council.

Role in Faster Payments

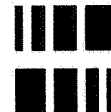
We were disappointed with some of the OFT's comments about our role in the delivery of Faster Payments (FP), since we had believed from our regular contact with the OFT, over a period of two years since we started, that you supported our interpretation of the Payments Council's role in FP and the way in which we have played it.

You will recall that the constitution of the Payments Council, which was agreed with the Task Force, gives us direct control only over members' actions in the collaborative space. It does not give us any firm levers with which to determine how, once we have delivered the central infrastructure and standards for a new service, individual banks offer it to their customers. In relation to FP (the implementation of which was taken over by the Council mid-stream from the Task Force), the Council saw its prime responsibility as being to ensure the delivery of a stable, fully-functioning and resilient central system. In addition, the Council worked to ensure that the system's reach was maximised in that as many consumers as possible could receive a faster payments message. We put considerable pressure on members to deliver this.

We believe that we attained these goals. The FP system has processed over 180 million payments in its first year, with a value of around £70 billion; its daily internet and telephone volumes are comparable to the daily average of those payment types which previously went through BACS before the new scheme was launched; it has not suffered any significant technical problem; and those who have used it like it.

We are disappointed that not every founder member is yet in a position to offer a full faster payments service to its customers, even if those customers can receive faster payments made by customers of other banks. But we have hitherto considered that the operation of a competitive market would drive banks to want to have the service available to their customers as quickly as practicable and without any prompting on our part; the attractiveness of the service was such that banks would feel at a competitive disadvantage and at risk of losing customers, if they failed to offer it.

In general, we have thought this is the right approach, given that we were not given a suite of powers over our members and our principal role is to provide strategic direction, in pursuit of our objectives.



However, we wish to respond positively to the OFT's concern and have been considering what would be an appropriate stance for the Payments Council to take in the end-user roll-out of new services in the future. We envisage a role in which, in addition to ensuring the delivery of the infrastructure and standards etc, that lie properly in the collaborative space and over which we have control by virtue of our constitution, we would make publicly available regular information about the customer roll-out of the service. This would include objective information about the availability of the service to customers, including accurate information about each participant's progress. We would, at all points, also encourage consumers or the media to talk directly to the institution concerned, but we think that a central and authoritative source of information may provide both a further stimulus for payment providers to ensure effective participation in new, collaborative initiatives from the outset and an aid to consumers with an interest in the new service. The precise scope and format of such information would need to be determined in the context of each specific case. We will immediately look at how to provide this information for the remaining elements of the roll-out of faster payments. I hope you agree that this is a reasonable and pragmatic way of addressing your concern under this heading.

More generally, I hope that you will agree that this letter addresses the recommendations of the OFT review, as a whole, in a positive and constructive way.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brian Pomeroy', with a stylized flourish at the end.

Brian Pomeroy
Chairman