



**Advice NI Response to the National Payment's Plan Consultation: - consulting on change in UK payments.**

**Deadline: 4<sup>th</sup> February 2008**

Advice NI welcomes the opportunity to respond to the consultation paper on the **Payments Council National Payments Plan: -Consulting on change in UK Payments**. In Section 1 background information on Advice NI and a general statement on our view of payment system is outlined. Section 2 then responds to the specific questions as set out in the consultation document.

**1.1 Background:**

Advice NI is a membership organisation which exists to provide leadership, representation and support for independent advice organisations to facilitate the delivery of high quality, sustainable advice services. Advice NI provides its members with the capacity and tools to ensure the delivery of effective advice services. This includes: advice and information management systems, funding and planning, quality assurance support, NVQs in advice and guidance, social policy co-ordination and ICT development.

Membership of Advice NI is normally for organisations that provide significant advice and information services to the public. Advice NI has over 70 member organisations operating throughout Northern Ireland, providing information and advocacy services to over 150,000 people each year and dealing with

over 237,000 enquiries on an extensive range of matters including: social security, housing, debt, consumer and employment issues. For further information, please visit [www.adviceni.net](http://www.adviceni.net).

**Overview:**

Cash machines, cheques, debit and credit cards are required for everyday transactions. As technology advances it is important that new payment methods are introduced so that consumers have choice. Whilst these methods should meet consumer's needs, it is also imperative that consumers are informed as to how to use them. New payment methods must be easy to use, efficient, cost effective and secure so that they benefit all consumers. Their introduction must be accompanied by an effective public information campaign.

Advice NI consider improvements to payment systems essential for all sectors of society and all areas of economic life. However specific consideration should be given to groups at risk of financial exclusion such as the more financially vulnerable groups for example, people on lower incomes, older people and those with learning disabilities. We remain concerned that the case has not been made to support the move away from cheques completely and would welcome research into the needs of the 4% who continue to use cheque payment methods.

Improving the Payment Systems infrastructure in Northern Ireland will help people in Northern Ireland develop, skills and confidence when making payments. It is important that it offers informed choice and assists people in taking effective action to improve their financial well being.

## **Section 2 -Responses to specific consultation questions:**

**Q1 The Payments Council is minded to develop a proactive industry plan to manage what it sees as the irreversible decline in cheques. Do you agree that a plan for cheques should be developed?**

Cheque payment is a common form of payment method used in Northern Ireland particularly by those who have more limited disposable income and older people. In order to not disadvantage these groups of our society Advice NI suggests that the National Payments Council should fully exhaust cheque uptake initiatives before a decision is taken to phase out the cheque.

However if the cheque continues to decline even with the intervention of cheque uptake initiatives then Advice NI would support a proactive industry plan. This plan should include alternatives to the cheque which should be tried, tested and have successful results before the cheque is phased out. The new alternatives should also be piloted and tested with cheque users, and results must show that they are satisfied with the new alternative methods and find them as easy to use, reliable and secure. We also recommend that any new alternatives should be piloted and tested with financially vulnerable groups in Northern Ireland particularly older people, people on low incomes and benefits, ethnic minority groups and those with learning disabilities.

We would also like to highlight our concerns that if cheque usage continues to decline then the charge of processing cheques should not be imposed on cheque users.

**Q2 For which types of payment currently made by cheques do new alternatives need to be introduced?**

Presently a lot of people in Northern Ireland pay bills such as utilities and house/car insurances using cheques. There is potentially an opportunity for the Payments Council to work with the utility providers in Northern Ireland such as BT, NIE, Phoenix Gas, oil fuel providers and Firmus to offer improved benefits with payment methods to entice consumers to move away from using cheques.

Cheque payments are commonly used when payment is being made by post, both for official and personal use such as sending gifts. Therefore it is essential that alternative payment methods are introduced for people who choose to make payments by post and that these are easy to use, secure and efficient.

In Northern Ireland the overall number of people in receipt of benefits is 678,524. Of this figure approximately 3% of all benefits are paid using cheques accounting for just over 20,000 people in Northern Ireland. People with disabilities sometimes have difficulties leaving their home to cash benefit cheques and would nominate a family member to do this. We would therefore recommend that new payment methods should also reflect accessibility for people with disabilities and their families.

It is also known that Credit Union loans in Northern Ireland are issued in the format of cheques. Credit Unions are widely used in Northern Ireland with 18% of people holding a Credit Union account. It is therefore essential that Credit Union account holders have other methods of loan payment made available to them so that they are not financially excluded.

**Q3 Would it be acceptable for the National Payments Plan to include a target date of 2018 for the closure of the cheque clearing (on the assumption that acceptable alternatives to cheques have been developed)**

Advice NI reiterates our position as stated in question one in relation to the need for cheque uptake initiatives to be fully exhausted before any phasing out of cheque payments. However if cheques continue to decline in the next five years it may be acceptable to implement the target date of 2018. Advice NI believe there should be tried, tested and successful alternative methods to the cheque before a timeframe is allocated for the closure of the cheque.

**Q4 What sort of education of users is needed to support the migration away from cheques?**

Advice NI recommends a wide range of information/education is needed to target all groups in society. Some people who use cheques are from the more financially disadvantaged communities and we consider this is partly because the cheque is a method that can help people to manage their finances whilst also having the advantage of having an audit trail.

Other people who use cheques are the older groups of society such as those fifty plus. We would therefore suggest that education initiatives to support the migration away from the cheques should include people representing all these sections of the society. This could include initiatives such as posters, television and radio, advert campaign, leaflets/flyers and linking with various voluntary and community groups such as Advice NI, Post Offices and Health Centres.

**Q5 Do you agree that, as part of the National Payments Plan, there should be an objective review of the future of the Cheque Guarantee Card Scheme?**

Advice NI states that, providing other suitable, accessible and less costly alternative payment methods exist there should be an objective review of the future of the Scheme.

**Q6 What other options, if any, should there be in the National Payments Plan in relation to cheques?**

There is often confusion about the clearing system and how it works including the length of time it takes for a cheque to clear. As stated on the APACS website the guide regards the maximum time limits for cheque clearing as introduced from 30 November 2007 as :-

- two working days after paying a cheque in, the money starts to earn interest;
- four working days after paying in, the account holder can withdraw the money;
- six working days after paying in, the cheque is cleared. If it bounces, the bank cannot claim the money back unless the person paying in is a knowing party to fraud.

However from our experiences we consider the above timeframes are not always applied. Advice NI members have reported cases whereby cheques have taken longer periods of time to clear than the times indicated above. This is a concern especially for people with limited disposable income who rely on receiving cheque payment within the timeframes as indicated above. Advice NI suggests that if the above guidelines are adhered to, this would help increase consumer confidence regards cheque clearing. It would also assist people budget effectively and avoid falling into financial difficulties if monies were received when expected.

We have also had reports of cases where cheque payments are withdrawn from bank accounts earlier than expected. This appears to be the case with some large retailers who can pay cheques directly into banks clearing centre and bypass the clearing cycle. However, it is imperative from the customer's perspective that they know exactly how many days it will be before the monies are withdrawn from their accounts, to ensure they have sufficient monies in their account to cover the purchases and to avoid bank charges.

**Q8 The Payments Council believes that the National Payments Plan should be developed on the assumption that cash will remain a major payment method for the foreseeable future. Do you agree?**

Cash payments still account for a very large share of total payment transactions in the UK economy with 63% of people using cash as the most popular payment methods. The availability of cash has also grown over the last few years in Northern Ireland due to the growing number of ATM's. In the UK in 2006 there were 60,428 ATM'S, an increase of 3.7% from the previous year. Advice NI agrees that with the growing number of ATM'S it is likely that cash will remain a major payment method for the foreseeable future.

**Q9 Should the issues of the supply and quality of notes and coin in circulation be within the scope of the National Payments Plan? If so, how should they be addressed?**

Advice NI believes the issues of the supply and quality of notes and coins in circulation should be within the scope of the National Payments Plan. As stated in the consultation paper on page 19 the supply and quality of £5 notes was reported to be an issue for small retailers. This is also an issue when withdrawing from ATM machines as in most instances the minimum withdrawal amount is £10. This has a detrimental effect on people in receipt of benefits and low incomes as £5 can represent a significant percentage of their

disposable income. To be unable to access it can be the difference between having heating, electricity or food and not having it.

Also, based on our members experiences of dealing with clients in debt, the higher denominations of notes in circulation the more people are likely to spend. We would therefore have concerns that if the supply of lower denomination of notes was to discontinue or reduce this may increase the likelihood of people spending beyond their means and therefore experience financial difficulties.

**Q10 What other options, if any, should there be in the National Payments Plan in regard to cash?**

We would welcome the National Payments Plans examination of the ATM cash withdrawal system as adopted in other European countries. One model which Advice NI would support is the Swedish model whereby people can make withdrawals without charge at any bank or ATM, regardless of the bank of which the account is held. We recommend that a similar approach should be adopted in the UK.

**Q11 What improvements would lead to the greater take up of direct debits by users?**

Bacs research indicates that one third of people choose an alternative method of payment over direct debit because it gives them control. Direct Debits do not always come out of a person's bank account when expected. This can often mean that people will incur bank charges as there are not sufficient monies to cover what is being taken out at that particular time. We believe that if flexible payment dates were offered this may help overcome this issue. Also we consider banks need to restore customer's confidence and honour the direct debits payments on the date as set up.

Another suggestion to improve the uptake of direct debits is for banks to market this product more effectively and to make it less costly to set up a direct debit.

Currently in Northern Ireland Utility providers only offer a discount to consumers if bills are paid in full. However for a lot of financially disadvantaged groups in Northern Ireland with limited disposable income, it is not possible to pay bills such as electricity in one payment. We consider that if discounts were offered for monthly direct debts then this may increase the uptake of direct debit payments.

**Q14 What measures to improve the accuracy and end-to-end delivery of reference information, with internet and telephone banking payments and with other direct credits, could usefully be introduced?**

Advice NI recognises the advantages that direct credits offers such as the immediate availability of funds via Direct Credit and the Independence of the consumer recipient in payment processing means. This allows payments to be made or received even when the customer is ill or away from home.

However there are measures that need to be taken to reduce to an absolute minimum the number of failed and misapplied Direct Credits. These measures should include: -

- The ability to check that consumer-supplied bank account data is correct and current
- The ability to corroborate those data with the supplied name and address against a reliable reference for those data

**Q15 Are there any other enhancements you think should be made to direct credits?**

If a Direct Credit is rejected and is not received by the customer, the customer is most likely to raise the issue directly with the opposite party. Advice NI would like to see the bank take a more pro-active approach and ensure more checks are in place to ensure the monies do arrive in their customer's bank account and if not take responsibility to inform the customer at the first instance and to rectify the issue.

Advice NI are concerned that there could be people who do not receive credits to their account in which they are due, and could potentially lose out on due monies. This may also result in people not noticing credits have not been paid into their bank account, making payments for items that they do not have the credit in their accounts to cover and possibly resulting in their accounts being overdrawn and incurring charges as a result, through no fault of their own. This could lead to the individual entering into a spiralling debt situation which is exacerbated by monthly bank charges.

**Q19 What should the Payments Council do to ensure that users in the UK can take best advantage of SEPA?**

Although the UK is a non euro country we welcome that some consumers will benefit from the introduction of the SEPA: - An initiative which will allow consumers the opportunity to make and receive non cash euro payments within Europe using a single bank account and a single set of payment instructions regardless of their location.

We believe that the Payment Council should undertake an awareness study to ensure consumers understand what SEPA is and how it operates. The Payments Council should ensure there are specific rules, practices and standards for SEPA Credit Transfers and SEPA Direct Debits.

Advice NI hopes SEPA will bring economic benefits lowering payment processing costs which in return will reduce the cost of payments to payment service users.

**Q21 What improvements should be made to cross-border payments?**

Initially it is expected that cross border payments will be executed within a maximum of 3 business days and that by 2012 at the latest this will be reduced to 2 days. Advice NI recommends that as the service develops these timeframes should be further reduced so that consumers can benefit by a more efficient and quicker service.

**Q24 What support, if any, could the National Payments Plan offer to the development of contactless cards? In particular, is action needed to ensure that the standards for contactless cards meet the needs of all sectors of users?**

Advice NI considers that further action is needed to ensure that the standards meet the needs of all users. An area where we consider current contactless standards do not accommodate the transaction times is in the transport sector.

**Q25 What support, if any, can the National Payments Plan offer to the development of prepaid cards?**

Advice NI believes more needs to be done to ensure consumers in Northern Ireland are aware of prepaid cards, how they operate and any charges it may impose. To avoid consumers incurring unnecessary charges we suggest that clear understandable information on the following is made available to consumers;

- If you make a withdrawal from an ATM machine, is there a charge and is this fee higher if it is a foreign transaction?

- If you close your account is there a fee?
  
- If you use the customer call helpline number, at what rate are consumers charged?
  
- If you top up your prepaid card from a credit card is there a charge for this, and does it differ for the method you use to top up i.e. transfer of funds in cash or credit card?

Advice NI believes it is important that all criteria/costs associated with the usage of prepaid cards are clearly advertised to consumers, so that they are educated and can make well informed choices.

**Q26 What role should the Payments Council play in the development of mobile payment services, including setting the standards for mobile payments?**

Advice NI believes the Payments Council should take a pivotal role in the development of payment services to ensure the needs of payment service providers are met. They should do this by working closely with Payment Service Providers, Mobile Phone Network Operators and System Vendors. As this will be a new payment method for consumers it is vital that a comprehensive set of standards including security of data are devised and adhered with all partners, to guarantee consumer confidence.

**Q27 In particular, do you agree that the National Payments Plan should support the development of mobile payment services between bank accounts?**

We consider the National Payments Plan should support this however it is vital that there is a robust and secure system in place. It is also important to provide reliable, secure methods of payment by authenticating both the user and the merchant.

**Q28 What principal characteristics would users find attractive in a mobile payment service?**

Advice NI believes security is one of the most important characteristics in a mobile payment service. In order to comply with security requirements we recommend there should be a strong user authentication. Users would also find a freephone service attractive in a mobile payment service.

We also believe that another useful characteristic is that consumers have the freedom to top up instantly and independently from their phones anytime and anywhere, even when abroad.

**Q30 What other actions, if any, should there be in the National Payments Plan in regard to mobile payments?**

Advice NI consider mobile phones and internet access can often be seen as measures of social inclusion, as both communication methods allow consumers to keep in touch with family and friends. It is however important to recognise and take account of the digital divide and ensure protection of those groups who do not have the skills and or access to engage in e-services/technology.

Research from Continuous Household Survey, NISRA reveals that people aged 60+ are less likely than other demographic groups to own a mobile phone.

This therefore indicates that older people could be potentially excluded with mobile payment services. Advice NI therefore believes that mobile payments may exclude some vulnerable groups i.e. older people and we recommend new alternative payment methods are introduced to cater for older peoples needs.

**Q35 What gaps are there in current financial educational initiatives in regard payment matters?**

There is currently a poor level of both financial literacy and financial capability in Northern Ireland, particularly for the most financially vulnerable groups such as people on low incomes, older people and those with learning disabilities. A 2004 Consumer Council report entitled "Taking the Credit" highlighted that only 43% of people knew that APR stands for Annual Percentage Rate.

In Northern Ireland a Financial Capability Partnership Group exists which is committed to promoting financial capability. This partnership is led by the Consumer Council and the Financial Services Authority and includes representatives from Advice NI, and other voluntary, public and private sectors. This group aims to take forward priority areas identified in the FSA UK strategy within the Northern Ireland context such as the Lifetime Opportunities – Government's Anti Poverty and Social Inclusion Strategy for Northern Ireland.

Some of the initiatives currently being looked at by the Partnership group include;

- Schools, learning money matters
- Young adults; Helping young adults make sense of money, - ensuring that students in higher education and young adults not in education/training have access to guidance on managing their money.
- Workplace; Make the most of your money- provides financial education and seminars to employees in their place of work

There needs to be a clear strategy to support all sections of society in understanding the change and the opportunities, costs and issues that lie within.

**Q37 What role can the Payments Council play in promoting financial inclusion?**

In Northern Ireland research indicates that 21% of adults do not have a bank current account for personal use, compared with only 11% of adults in the UK indicating higher levels of financial exclusion in Northern Ireland. This means people:

- Can't give a prospective employer details of an account into which to pay their salary or wages
- Can't take advantage of discounts available for paying gas and electricity bills by direct debit

Advice NI considers Improvement of financial inclusion essential as financial exclusion can often act as a barrier and prevent people improving their job prospects. Improving financial inclusion will assist towards regenerating local communities including ensuring people have good access to financial services appropriate to their needs. Financial exclusion can also often make people more vulnerable to financial distress and a spiral of debt, poverty and hardship.

The Payments Council could support the local community and voluntary sector to promote financial inclusion and the new payment plan.

**Q38 What other bodies should it work with to deliver this role?**

We suggest that the Payments Council works with the Financial Capability Partnership Group in Northern Ireland as earlier mentioned to improve financial inclusion. A Financial Inclusion Body should be set up and could include;

- Consumer Bodies e.g. Consumer Council, Advice NI, Citizens Advice Northern Ireland and within Advice NI membership section 75 groups including Age Concern, Help the Aged, Gingerbread and Disability Action. Also within Advice NI membership Housing Rights Service and Student Organisation such as NUS USI.
- Consumer Credit Counselling Service

Other groups that we believe it should also engage with include payment providers, financial institutions, Credit unions and Social economy organisations.

We would envisage that these bodies would have a strategic role in ensuring financial inclusion moves forward throughout the whole of the UK, and particularly in Northern Ireland where there are lower levels of financial inclusion.

Advice NI is keen to engage with the Payments Council on future developments of changes to UK payments. In terms of consultation, Advice NI would ask the Payments Council to consider using the tried and tested Advice NI e Consultation service as a means by which targeted organisations (and the individuals whom they provide a service to) are included in this process. Further information on the Advice NI e Consultation Service can be found at: <http://www.adviceni.net/econsultation/default.asp>

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