



# National Payments Plan Consulting on change in UK payments

**A response from the Association of British  
Credit Unions Ltd (ABCUL)**

## **Contact Details**

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## Introduction

ABCUL is grateful for the opportunity to respond to this consultation and feed information about the needs of credit unions and their members into the development of the National Payments Plan.

ABCUL is the main trade association for credit unions in England, Scotland and Wales. ABCUL represents around 70% of the 515 credit unions throughout England, Scotland and Wales. ABCUL members serve approximately 85% of the 650,000 credit union members in Britain.

Credit unions vary widely in both size and the range of payments services they are able to offer to their members. At one end of the scale, small credit unions, run entirely by volunteers may offer a basic savings and loan service to a couple of hundred members. At the other end of the scale, credit unions are offering the Credit Union Current Account which offers ATM access, a debit card and the ability to carry out electronic transactions such as direct debits and standing orders.

We have not responded to all the questions in the consultation but have made a number of comments about the experiences of credit unions and the needs of credit union members.

## Issues for Consultation

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?

***Yes. We are concerned that this is managed in a way to ensure that those personal customers who are reliant on cheques are assisted to transfer to an appropriate form of payment to their needs. We would want to avoid creating further financial exclusion by removing a familiar and understood payment service without ensuring that an alternative will be readily adopted by existing users. This will require significant work on developing and promoting alternatives in parallel with the withdrawal of cheques.***

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

***Whilst some credit unions are offering the Credit Union Current Account to their members, most do not at present. Many credit unions use cheques to pay out savings withdrawals and disburse loans to their members. This mechanism is especially important when a credit union member does not have a bank account, to which an electronic payment could be made. Large numbers of credit unions have arrangements with local post offices or banks which cash the cheques for the members at no cost.***

***Many credit union members also ask for cheques to be made payable to third parties. This is probably a situation where electronic payments could more easily replace the cheque, but there are still credit unions operating which don't have the capacity to make electronic payments.***

**An increase in the availability and use of safe, affordable budgeting accounts, for which people pay a fixed amount each month which is used by a credit union to pay all their bills, would be an excellent way of assisting people on low incomes to plan their expenditure and increase their confidence in the use of electronic payments. A small number of credit unions currently operate these accounts. We are hopeful that changes to credit union legislation supported by HM Treasury will ease restrictions on how costs for auxiliary services are calculated and will lead to more credit unions offering this type of account.**

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)?

**Growth in the credit union movement in recent years has been accompanied by an increasing professionalisation and more use of IT and electronic banking platforms. This change is set to continue; more credit unions will offer the Credit Union Current Account and a continuing pattern of mergers and expansion should lead to an increasing amount of credit unions which don't need to use cheques to provide services to their members.**

**However, it is highly likely that there will still be some credit unions operating in ten years time which will still rely on cheques. The removal of this option could cause severe problems to these smaller credit unions and their members, especially if some credit union members still do not have fully functioning bank accounts in which they have confidence by then.**

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

**Education needs to focus on ensuring people have fully functioning bank accounts which they can use with confidence. This also relies on the banking industry helping people to be aware of basic bank account offerings and making sure the charges structure they operate does not lead to a lack of confidence in handling money in this way. The number of credit unions offering the Credit Union Current Account will also increase in years to come; credit unions have the education of their members at the heart of their objects and will therefore work with members and with people in their local community to inform and educate them about the account, how best to use it and its payment options.**

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?

**Yes**

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

**Not sure**

Q7 Do you agree that, as part of the National Payments Plan, there should be an objective review of the future of the paper credit clearing?

**Yes**

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?

Yes

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?

***The important work by the banking industry and government in the last year on addressing the imbalance of free ATM machines in low income areas should be kept under review. It is important that free to use ATM machines are available especially in low-income areas. Despite several hundred new free ATMs in recent months, there remain many areas where people have to pay charges of up to £2 to withdraw £20 cash.***

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

***Not sure.***

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

***It is well established that one of the main reasons that many people on low incomes do not use direct debits is that they are worried about receiving high charges should a direct debit be rejected or cause them to go overdrawn. Our members experience tells us that some of this reluctance to use direct debits is due to the features of the direct debit itself but also results from the functioning of the current accounts within which they sit.***

***Utilizing a typical current account for electronic payments involves a level of uncertainty which is unattractive particularly for those on low income. Various pieces of research have established that this risk is reduced by making payments in cash even if an account is used for receiving benefits and wages.***

***The inherent ‘pull’ nature of direct debit is by definition one which removes ultimate control of the payment from the individual and rests it in the hands of the originator. However we do recognize that this is precisely the benefit which is so desirable to the originator. Indeed some of our members are originators for the purposes of loan repayments etc. ‘Push’ payments such as cash give control back to the customer but do of course reduce reliability of payment for the supplier.***

***Other features of the direct debit itself which need to be addressed are the inflexibility of originators in offering set dates and only monthly collections. Direct debits which fit into people’s income cycles and are payable weekly or fortnightly would also assist people to manage their money and have more confidence in engaging with the system. We believe that the payments industry i.e. BACS have done some valuable work in this regard promoting these options. However we would like to see the Payments Council encouraging further work in this area by all concerned.***

***Notwithstanding the weaknesses of the payment mechanism itself the location of direct debits within current accounts structured around the ‘free in credit banking’ proposition results in a particularly unattractive offering to low income people. Charges levied for defaults on current accounts are a deterrent to moving to the uncertainty of direct debit payments. While the issue of charges and indeed challenging the orthodoxy of free in credit banking may be outside of the scope of the Payments Plan they are nevertheless barriers to take up. They should be recognized and stated as such even if no action is possible through this avenue.***

**We believe that education on the costs of banking would in the longer term help consumers and consumer organizations reassess their desire to maintain free in-credit banking. It is a strange paradox that consumer organizations who are usually so forthright in arguing for transparency in charging mechanisms stand behind one of the most opaque cost/price structures imaginable. Education on the costs of payments may indeed help promote new payments systems such as prepaid cards which at present are hindered by the apparent ‘free’ nature of the alternatives. Some of these new systems may have low risk associated with them and therefore may be offered to consumers that would not otherwise be able to obtain a debit card. To this extent these new systems may be financially inclusive and should be encouraged.**

Q12 Would you support the introduction of a time-limited guarantee for direct debits in place of the current unlimited guarantee?

**We are concerned that any change of this nature would further reduce confidence in the direct debit system amongst low income consumers and therefore should be avoided. However we do understand the subsequent confusion that might arise in future with different standards in legislation and regulation across Europe. It might therefore be prudent to research exactly how important the direct debit guarantee is to the consumer before contemplating changes.**

Q13 If so, what time limit do you think would be appropriate?

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?

**Thought should be given to a standard format for reference information for direct credits. Many credit unions which do not operate the Credit Union Current Account receive benefits and wages on behalf of their members directly into the corporate bank account. The credit union then has to use the reference information to post the payment into the member’s credit union account on accounting software. Different information formats from different Government agencies and occasional missing information means that this can be a resource heavy job which requires a high level of input from credit union staff or volunteers. Some thought to standardization of the use of reference fields would surely result in a win-win for consumers and companies alike.**

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

**Not sure.**

Q16 What opportunities would you identify to exploit the ATM infrastructure for non-cash transactions? How should these be reflected in the National Payments Plan?

**It may be that some thought could be given to the potential of the ATM infrastructure for initiating ‘push’ payments. In much the same way as mobile phones are being contemplated for a new form of convenient push mechanism, ATMs could also offer this in situ. If volume could be realized then a small fee for making these payments may be preferable to the much higher cost to the consumer of defaults incurred by ‘pull’ payments such as direct debit. Perhaps these opportunities would be developed most efficiently by commercial market**

**disciplines. It may for example be that ATMs offer an alternative to the Paypoint type of grocery store payments for both cash payments and debits from a current account.**

Q17 Which other, if any, actions should there be in the National Payments Plan in relation to credit and debit cards and cash machines?

**The Payments Plan should concern itself with industry wide issues such as safety, security, eg data protection, transparency of terms and conditions, financial education and standardization.**

Q18 What improvements should be made to the way in which payments in the wholesale markets are carried out?

**No view.**

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

**No view**

Q20 What issues does SEPA raise for your use of payments?

**No view**

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

**Credit unions using the new Credit Union Current Account have noted the lack of transparency in foreign exchange loadings. The Payments Plan should encourage payments institutions to have transparent charging mechanisms for cross border payments.**

Q22 What measures to enhance users' efficiency should be considered by the Payments Council?

**No view**

Q23 Do you agree that at the present stage of market development the contactless and prepaid card sectors are best left to initiatives from individual payment service providers and the card schemes?

**Yes, these initiatives would be best left to market disciplines to develop the commercial opportunities. However we think the Payments Council and the National Payments Plan has an important role to play, perhaps in conjunction with the Financial Inclusion Task Force in ensuring that these new mechanisms do not create a new form of exclusion and protect the interests of the consumer. For example it is important that payment cards do not offer payment facilities at a price far in excess of costs to people on low incomes who are excluded from other financial services. Costs should be monitored to ensure this does not happen. Prepaid cards should not in themselves be seen as a solution to financial exclusion as people using this type of card without a bank account are still excluded from a wide range of services including the opportunity to save and pay regular bills. In the case of cards where transaction fees are charged, consumers should be made aware of alternative methods of payment where a fee is not charged – eg bank account.**

**Of course prepaid cards will seem more expensive compared to debit cards when the costs of banking are hidden as discussed above. Once again greater transparency around the costs of electronic transactions will perhaps help develop**

***the prepaid card market for people who would not be able to access a full current account.***

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

***We believe that the role of the Payments Plan and Council in this regards is to set standards, and promote inclusion.***

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

***As Q24.***

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

***As Q24. However there is another important role here. Perhaps the Council can encourage the adoption of similar operating mechanisms so we don't end up in a 21<sup>st</sup> century Sony vs Betamax war around protocols. Differing standards and modes of operation will confuse many, particularly we believe in the older generations of consumer and this will reduce take up of these methods.***

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

***Yes***

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

***Potentially mobile payments give customers a safe 'push' alternative to cash. Safe in that you don't have to carry around cash but also safe in that the 'push' mechanism offers in the present environment a more attractive alternative to the 'pull' of direct debit on a current account with penalty charges. All of this would be helped by developing a simple uniform way of operating between different phone companies, banks etc.***

Q29 What role do mobile phone payments potentially play in providing alternatives to traditional forms of payment?

***We would want to see these services promoted as alternative payment channels for use within current accounts rather than as alternatives to current accounts. However for those people who are still not keen to open a bank account or are still discouraged from doing so by banks these services provided on a top up basis like phone credit would offer a limited form of financial inclusion.***

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

***Some thought should be given as to whether the market has given sufficient regard to the inherent safety of the systems developed from the point of view of fraud, data protection etc..***

Q31 Do you agree that the Payments Council should indicate support for the work of the European Commission Steering Committee on e-invoicing and associated activity, including the development of international standards that facilitate supply chain efficiency?

**No view**

Q32 What role should the National Payments Plan play in moving this agenda forward?

**No view**

Q33 What other actions should be included in the National Payments Plan?

**Not sure**

Q34 What other payment innovations requiring action at industry level should be considered by the Payments Council?

**Not sure**

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

***The Payments Council should carry out a piece of research to identify those areas of payments operations in the UK which are not well understood by consumers. They should then map the provision of financial education initiatives to identify the gaps. Education on costs of services as opposed to prices is bound to be an issue as costs are presently hidden.***

Q36 What role can the Payments Council play in promoting the education of consumers about the choice of payment methods available to them?

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

***The Payments Council can play an important co-ordinating role in this, ensuring that banks and other financial services providers make information readily available to their customers. Credit unions would happily engage with the Payments Council with the education of consumers as education of members is at the heart of their objects. Advice agencies and other organisations engaged in financial capability work should also work with the Payments Council to ensure that objective and easily understood information is widely available.***

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

***The Payments Council should ensure that people are not excluded from the advantages of payments system because of low income or a low engagement with the financial services sector. As credit unions, which specialize in providing inclusive financial services, grow in both capacity and coverage, they should be able to play an increasing role in the payments system and should be able to expand their services with the assistance of fair and proportionate regulation and a flexible legislative regime.***

***Alternative methods increase choice but people on low incomes with limited choices of financial services often have to pay more for services. This should be monitored to ensure that payment services do not target high charges , e.g. for prepaid cards, at people who may be excluded from other financial services.***

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

***The Financial Inclusion Taskforce and the Payments Council Consumer Panel contains most organizations that the Council should engage with. However there should be some thought given to engaging sectors not represented on the above***

***but who may represent the interests of particular groups of users of payments with special requirements. Eg Disability bodies,***

Q39 What are the main challenges to the integrity of payment systems that need to be addressed collaboratively?

***No view***

Q40 How should consideration of measures against fraud be included in the assessments which the Payments Council makes of proposals for innovation?

***No view***

Q41 How can the National Payments Plan assist with issues of customer authentication? To what extent do these need to be addressed across the payments sector?

***Where appropriate, it is important that proportionate Know Your Customer measures should be incorporated into the operations of new products and services.***

Q42 Should minimum standards be introduced for authentication of remote transactions? If so, should a common measure of authentication be recommended/mandated?

***Yes this would appear to be in the consumers interest both in terms of ease of use but also protection.***

Q43 How should the National Payments Plan address new technologies, such as biometrics, which may contribute to customer security?

***No view***

Q44 What actions, if any, should the National Payments Plan include in regard to data sharing?

***No view***

Q45 How can the National Payments Plan help ensure that the burden of fraud prevention is shared equitably across payment service providers and users, including SMEs?

***No view***

Q46 What role should the Payments Council play in raising the profile of fraud and security issues and in lobbying government and the public authorities?

***No view***

Q47 What should be the role of standards in the National Payments Plan? Are the current principles as agreed by the Board a suitable base from which to start? What role should the Payments Council play in influencing international standards developments?

***Important role for the Council as highlighted above.***

Q48 What, in particular, should the National Payments Plan say about messaging standards?

***No view.***

Q49 Would you support an initiative, led by the Payments Council, to establish a better understanding of the costs of UK payments? If so, how do you think this should be taken forward? What supporting information do you think

would be relevant for such an exercise?

***We believe this is a major barrier to the development of fair and transparent products in the marketplace. Many of the issues of exclusion in banking and payments stem from the lack of transparency on costs/pricing. This can only be maintained while customers assume all payments services have zero cost. It is ABCUL's belief that low income consumers bear a disproportionate share of payments costs and charges levied for default etc. This is not easily justified by saying those who stay in credit should be rewarded for their careful budgeting. While reckless use of payments services should be discouraged it is unacceptable for those least able to pay to bear the burden of subsidizing payments services for those well able to pay. Consumer and stakeholder education on costs is an important step in taking this forward.***

***We would be prepared to contribute to further discussion on what might be published and how to meet this need.***

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