

BRC RESPONSE TO NATIONAL PAYMENTS PLAN CONSULTATION

4 FEBRUARY 2008

CHEQUES

Q1 The Payments Council believes that a co-ordinated industry plan should be developed to manage what it sees as the irreversible decline in cheques. Do you agree?

Retailers believe that the future of cheque usage is best left to the market to decide although there is a distinction between the requirements for Personal and Business cheques. The requirement for a co-ordinated industry plan is not seen as necessary.

Within our own sector, experiences vary widely. Due to the lack of cheques being presented at retailers some large retailers have decided not to accept any personal cheques, and in some cases business cheques as well, at point of sale. In these retailers their customer base has adapted well to that progression provided they were given a few months notice of the change occurring. However, other parts of the sector, particularly amongst small businesses, have experienced reluctance amongst certain customer groups to halt usage. Similarly, there remain several forms of transaction where there are no existing alternatives to using a cheque.

Particular consideration also needs to be given to how business cheques are dealt with until such time as there is a viable widely held alternative product for those customers to use in a retail environment.

Q2 For which types of payment currently made by cheque do new alternatives need to be introduced before cheques can be withdrawn?

There are still several forms of business to consumer payment transactions that will rely on cheque usage, particularly in informal retail environments where cash storage or card transactions are unfeasible or impractical. Business to business transactions between small and medium sized business and where the goods are taken away once payment has been made also need to be considered.

Q3 Would it be acceptable for the National Payments Plan to include a target date of 2018 for the complete withdrawal of cheques (on the assumption that suitable alternatives have been developed)?

The BRC does not believe that setting a target date would be a useful exercise and the decision on phase out is best left to market forces.

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

Retailers see it as the responsibility of the banking sector to make their customers aware of alternative products that could support the migration from cheques and to provide the requisite level of education to achieve behaviour change.

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?

Retailers would support an objective review of the future of the Cheque Guarantee Card Scheme.

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

Any proposed plan should consider how the acceptors of cheques today would be able to migrate to new products in a timely manner.

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

CASH

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

In the BRC's Retail Cost of Collection Survey for 2006, covering 30% of total UK retail sales and 10,000 retail outlets, the clear findings are that cash remains the most popular form of payment with our customers. Cash accounts for more than 54% of all transactions with more than £32 in every £100 spent at retail outlets in cash. The BRC believes that cash will remain for the foreseeable future, certainly for up to the next 10 years.

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?

Retailers consider it more realistic that the Bank of England addresses these issues.

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

Cash remains the most cost effective method for retailers to accept customer payments. It is therefore critical that any new card based or proposed cash replacement product needs to be cheaper to accept than cash.

DIRECT DEBITS

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

A key problem for many merchant sectors is that with the rapid decline in personal cheque usage, customers do not generally know or carry their account details with them when shopping in a face to face environment. This makes it difficult to set up a direct debit mandate for the customer while still in the store. A potential solution is to capture bank account details and sort codes from debit cards, however as more and more banks are removing this information from their cards it is resulting in even fewer Direct Debits being set up. An improvement would be to update the debit card standards to include a unique reference that can be validated and captured on the direct debit mandate form at point of sale.

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

Retailers would favour this introduction.

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

The limit should be dependent upon the length of retailer agreement for which the direct debit was being signed for – it does not need to be for an unlimited time frame.

DIRECT CREDITS

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?

Standardisation of message content and length for references

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

As this is rarely used in a retail environment – no comment

CREDIT CARDS, DEBIT CARDS, CASH MACHINES

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

The creation of national, ideally international, standards that apply to all non-cash payments irrespective of how the payment is accepted is the ideal – using the experiences of the interoperability of the ATM infrastructure could be a good starting point.

Retailers have been and continue to lead the development of card accepting devices to meet specific requirements for their businesses. E.g. Self Checkout, Pay at Pump, Pay at Kiosks. Specifically in the future there could be opportunities to work with the rail sector on mobile payments and smart ticketing activities.

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

Any proposals made must be created on the basis of having an agreed implementation and usage standard as well as having both the implementation and running costs apportioned on a basis that is acceptable to all parties involved in the end to end transaction.

CHAPS

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

Chaps is currently an expensive form of money transfer without any possibility of recall. We would like to see the price come down and have the ability to recall a transaction if necessary. Real time settlement is made to the recipient's bank but the deposit could take several more hours before it is visible as a credit to the ultimate beneficiary.

The impact on the BACS payments system should be considered in the light of any changes to CHAPS.

SEPA

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

It is essential that SEPA guarantees more competition at all levels of the payment systems value chain to allow retailers to accrue the potential benefits of the new system. If the price of individual transactions is apportioned in line with EC guidelines then retailers will support initiatives.

A key principle will be to ensure that interchange fee levels are transparent and a breakdown of the services the fee covers are known to payment systems users.

Emerging card payment systems should be based on the most efficient and least costly current national systems.

The Honour All Cards Rule should be abolished given it leads to discrimination between payment means. Where an international brand replaces a national system, retailers accepting the cards from the new system are forced to accept its international cards as well, which are often based on more expensive fee structures.

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

Currently we believe it will have limited impact on our sector

Q21 What changes would make it easier to carry out cross-border payments?

In a true single market whose bases are competition and transparency, retailers should be able to buy the payment services they wish. It should be made simpler and easier for UK retailers to establish, maintain and process transactions through bank accounts established to run their pan-European businesses.

Real cross-border acquiring means that an acquiring bank is allowed to levy the interchange fee/merchant service charge of the country in which the transaction is processed rather than where the transaction takes place.

MEASURES TO ENHANCE USERS EFFICIENCY

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

Establishment of common international standards that are implemented without local nuances by all players within a country

CONTACTLESS AND PREPAID CARDS

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 card issuers, acquirers and the card schemes?

Any move to replace cash with contactless technology must take into account the very low costs incurred today. All parties including retailers should be involved the development of any contactless and pre-paid products to ensure that what is developed is both commercially and technically feasible within all operating environments.

There is no justification for Banks to charge Ad Valorem fees on contactless card transactions, UK retailers insist fees should be a fixed fee per transaction for both credit and debit card transactions and reflect only the costs of processing.

Q24 What support, if any, could the National Payments Plan offer to the development of contactless cards?

Ensure that the interests of all parties in the transaction is co-ordinated and maintained in developing the contactless cards standards and their position within the payments marketplace.

Understand the challenges faced by retailers in accepting contactless cards and use that knowledge to produce workable guidelines for their deployment.

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

There is no justification for Banks to charge Ad Valorem fees on prepaid card transactions, UK retailers insist fees should be a fixed fee per transaction for both credit and debit card transactions and reflect only the costs of processing.

Pre-paid cards should be operated under a unique logo and separate card type that is instantly recognisable both technically and visually at the point of sale.

MOBILE PAYMENTS

Overall cost structures of mobile payments need to be looked at further. Security and fraud, integrity of the payments systems need to be created and maintained during the development of mobile related payment services. What is needed is a single unified standard that will avoid a proliferation of implementation methods that will drive up cost and complexity. The NPP should be establishing Best Practise guidelines based on a simple single transaction protocol that will encourage competition and take up by providers.

Q26 What role should the Payments Council play in the development of mobile payment services?

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

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

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

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

SUPPLY CHAIN – No response provided

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?

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

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

OTHER INNOVATIONS

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

Micro payments – the use of a card based solution at minimal cost to retailers but capable of supporting very low value transactions (sub £10).

Simple implementation of multi-function cards that are easy for our customers to use and retailers to process at point of sale

Recognition that communications costs have reduced considerably and are likely to fall further and as such contribute a minimal % of the overall transaction cost to retailers and banks,

EDUCATION IN PAYMENT MATTERS

Q35 What role can the Payments Council play in educating consumers about the choice of payment methods available to them and what aspects of payments especially need to be the focus for consumer education?

Consumers are looking to make payment in a safe and convenient way. Retailers are looking to receive payments in a cost effective way and with a guarantee of payment.

There is a general lack of consumer awareness and understanding of how the payment card industry's revenue raising practices are contributing to higher consumer prices. Empowering consumers with knowledge of interchange fees and their impact on the economy would be useful in steering them toward cheaper means of payment and open their eyes to the real costs of card acceptance and better inform them of the 'lure' of the reward programs being offered by card issuers .

Q36 What other bodies should it work with to deliver this role?

Consumer associations should be involved in promoting understanding of the payment system. It may be worthwhile to consider setting up an annual meeting with the National Consumer Council and Which to establish greater dialogue and exchange on these and other pertinent issues.

Card scheme owners also need to be involved in the process of education as well as the issuers and processors, banks and/or third parties, of the products.

FINANCIAL INCLUSION

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

Payment cards are generally only made available to higher income consumers. As such, the higher fees related to card processing which engenders higher consumer prices will discriminate against those using cash who are more marginal and less well off consumers.

Any payment methods developed for the consumer should all be handled and processed in the same way at the retailer's point of sale. This experience will ensure that from a retailer's perspective all customers are treated and have the same payment experience at the point of sale – to a retailer this is viewed as financial inclusion.

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

Trade associations that focus on personal useability issues at point of sale and lifestyle challenges as well as involving the BRC in assessing the viability, both operationally and commercially, of proposed solutions.

PAYMENT SYSTEM INTEGRITY

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

Fraud and fraud prevention

Lack of common standards for all payment types and their interoperability / processing requirements with each other. Need to define and maintain minimum standards required for a company to be an approved third party payment processor

Need to ensure that security of the individual who makes payment as well as the company who accepts or processes the payment is maintained

PCI – who is driving what standard and are the benefits quantifiable to and understood by all parties involved. A clear timetable of what is to be implemented when and by who is required

Definition of what is the payment system and who is responsible for which parts of it

FRAUD AND SECURITY

The BRC considers it would be more appropriate for retailers to comment on the mechanisms proposed to follow up these points rather than propose solutions. The key objective of retailers is to ensure that the integrity of the payment transaction is created to ensure that the retailer is guaranteed payment for the goods it has supplied to their customer.

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

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?

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

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

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

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?

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?

STANDARDS

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?

The BRC would like to see standards established that are reasonable and appropriate dependant upon the size and type of merchant. Whilst technical standards should be established that one size fits all, for some transactions individual retail market requirements should be considered and implemented as appropriate.

The NPP should identify where the establishment of standards is required and define the timescales in which these will be established. In completing this exercise the Board should ensure that all parties involved in the end to end processing a transaction are included in the process to develop those standards.

Ideally the standards should be established Internationally not just for the UK or Europe.

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

These should be set at a NPP level with input from all parties involved in the transaction include suppliers of retail point of sale systems.

PAYMENT COSTS

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?

Retailers would be supportive of this exercise and would suggest as a first step asking a Parliamentary Select Committee to look into the impact of the recent European Commission decision on MasterCard and its impact on the UK consumer.

The BRC would support the completion of a UK payment cost study that was collated on an agreed data collection basis subject to all parties involved in the payment method approving the collation method.