

# INTERNATIONAL FINANCIAL DATA SERVICES

National Payments Plan Consultation Response  
Payments Council  
5th Floor  
Mercury House  
Triton Court  
14 Finsbury Square  
LONDON EC2A 1LQ

4<sup>th</sup> February 2008

Dear Sirs,

## **National Payments Plan Consultation Response**

International Financial Data Services ('IFDS') provide third party administrative services to more than thirty Fund and Investment Managers with funds under management of £186 billion. We currently process 3.3 million BACS payments per annum and in the region of 2 million cheques to clients during any year. The costs of administering the cheque process continues to grow year on year. Aligned to this fact, we have also seen the level of attempted cheque fraud increase significantly and a corresponding increase in overheads and costs to both companies and the banks in the detection and prevention of such attempts.

Our vision is to move away from cheque processing as quickly as possible and move significant volumes of processing to both BACS and Faster Payments. This is something we are promoting to those Fund Managers we provide administration for and see this as an added value to the service we provide and ultimately to the underlying investor.

Importantly, we operate in an industry that is highly regulated and therefore we are unable to accept cash as a method of receipt, or use as a method of payment. As we look to broaden our market profile, we are looking at alternative methods for investors to pay for their investment decisions, but at a cost that is not prohibitive to entry.

In addition to the above points we would like to highlight some general issues that we believe are key to the success of the National Payments Plan.

### Cheques

We fully support the paper's central contention that the decline of cheques is irreversible. However we would be in favour of a proactive approach with a faster phase out, ideally within five years.

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## Standards

The Payments Council occupies a unique position of independence. It is therefore ideally placed to direct the formation of standards across an industry made up of many individual entities with disparate processing, communication, security and contingency standards. We would like to see the Council take a leading role in this area.

## Costs

We believe that the Payments Council's consultation and plans would be greatly enhanced by a thorough and transparent analysis of the costs associated with each payment method. This would seem to be one of the key criteria for any future changes but is not provided within the Council's consultation paper.

We provide responses below to individual questions.

Should you wish to discuss our response further please call me. Alternatively please call Nick Turner, Compliance Technical Manager.

Yours sincerely,

*Clive Shelton*

Risk & Compliance Director

**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 recognize the need for a structured and proactive approach to managing the decline of cheques. However, we feel that there is little benefit to be gained by simply controlling or guiding this decline. We would support a fully engaged and proactive approach with positive steps being taken to phase out the use of cheques

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

Cheques are used for many types of transaction; the report suggests that there are already viable alternatives in existence for most of these transactions e.g. bill payments and general retail. In this respect the emphasis should be placed upon raising awareness of the alternatives.

The consultation identifies person-to-person, and payments to and from smaller businesses, as areas where cheques are still prevalent, so this is certainly where we feel time and effort would be well spent in developing feasible alternatives.

On a more general note, we are keen to support the FSA proposal of using nominated bank accounts for all investment transactions and to facilitate BACS transfers.

**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)?**

We fully agree that the decline of cheques appears irreversible and that it is time to utilize the opportunities presented by modern technology to find more efficient replacements. We therefore feel that there is little benefit to be gained by simply controlling or guiding this decline. We would support a much shorter timescale for phasing out cheques and feel that if a clear and proactive approach is taken by the Payments Council and the industry at large, the cheque system could and should be replaced within five years.

**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. We would support an early review with the aim of providing support for the planned phase out of cheque use generally.

**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?**

We agree. The unique properties of cash make it difficult to foresee any significant decline in its use for small day-to-day payments. However, the collective investments industry is highly regulated and as part of its anti-fraud measures cannot accept cash as a means of payment for investments. We therefore welcome the Payments Council's consultation and the opportunity to highlight the need for alternative payment options.

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

We believe that the consultation correctly identifies some of the key changes required, particularly in making it easier for small businesses to set up as direct debit originators. In addition to these changes we would like to see the system provide reliable identification and verification of accounts for reconciliation purposes.

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

We would fully support a time-limit. The current system of an unlimited guarantee puts the collective investment scheme industry more than any other in the unenviable position of being permanently exposed to market losses pending a client exercising their rights under the guarantee scheme.

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

We would support a timescale of under three months. We would be interested to see any statistics that may shed light on when direct debit guarantees are being utilized.

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

We would like to see support for the provision of greater information within the current system to allow accurate identification and reconciliation of payments.

**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?**

We believe that, at least as a first step, the ATM infrastructure could be used for bank account to bank account transactions and that this would help reduce the need for cheques in such circumstances.

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

We would like to see the National Payments Plan work towards making ATM's flexible enough to allow payment transfers as well as cash withdrawals as part of a same day process. We would also like to see National Payments Plan promote the need for the system to provide clear identification and verification between users for cash machine transactions.

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

One area where there is room for immediate improvement relates to the receipt of Direct Debit instructions. Currently, when Direct Debit instructions are received by investment managers from investors who wish to set up a Direct Debit facility, the investment manager generally has to seek separate confirmation that the Account is in the name of the investor. This can involve requesting further documentation from investors that adds further delays and costs to the process. We would like to see a facility in place that allows for automatic verification of investor's names against their bank details. This verification would also provide increased security and efficiency when making payments out to clients.

**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?**

In view of the consultation's recognition of the need for standards and security around payment methods, we believe that the Payments Council should at the very least remain engaged with any new initiatives.

**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?**

The development of standards generally is an area where we believe the Payments Council can be of particular benefit in its role as an independent body recognizing the various needs of all parties involved in payment transactions.

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

We believe that this is potentially an extremely important area for developing payment systems due to the widespread use and adaptability of mobile technology. Given the highly competitive and complex nature of the mobile phone industry on both the supplier and service provider sides, the development of standards by an independent body would appear to be a critical role and one ideally suited to the Payments Council.

We also feel that this is an area where the Payments Council should give serious consideration to setting standards and support development of payments between bank accounts. We would like to see support for the use of mobile phones as a means to allow confirmation of payments to an investor's phone to confirm payment to or from their account.

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

Yes, we would support this, subject to the appropriate security arrangements being in place.

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

Ease of use would be the principal attraction together with the ability to utilize Advanced Payment Messaging via SMS.

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

We see the main role here as twofold; firstly, mobile payments could potentially allow fast, portable and cheap alternatives to current payment systems, particularly cheques. Secondly, we believe that this could have an especially significant impact on younger generations who may not view cheques as a primary payment method and would be more pre-disposed to using mobile technology in new ways.

**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?**

Yes, we agree. As mentioned earlier we are keen that the Payments Council should take a lead role in the formation of standards. We believe that as part of this role the Payments Council should be looking to participate in relevant EU wide initiatives.

**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?**

In this respect the Federation of Small Businesses would be a useful body to involve in discussions. We would also recommend involving consumer groups such as Which? and the Citizens Advice Bureau, as well as any bodies involved in the improvement of financial capability of the general public, for instance the FSA and the Thoresen Review team. Company Registrars may also be able to assist the Payments Council and could be included via the ICSA UK Registrars Group.

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

We feel that the issue raised in the paper regarding coordinated planning of contingency plans across the industry is an important one, and one where we would like to see the Payments Council taking a proactive role.

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

Ensuring the security and reliability of new payment systems is key to gaining consumer confidence in those systems. We would like to see the Payments Council ensuring that these factors are integral to any 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?**

We would like to see the National Payments Plan take as one of its priorities the improvement of current electronic payment systems to provide identification and reconciliation information. As well as providing increased security for users this would also assist with anti-fraud measures.

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

Authentication is critical in the investment industry but needs to be reviewed in line with the 'Payments Sector' strategy to ensure costs of security are not prohibitive to the value of the service. E.g. pre-paid cards.

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

We would be interested to see whether IVR could eventually be used to enhance customer security, although we are aware that currently the technology is not fully developed.

**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?**

We would like to see a focus on thorough identification checks at the bank account opening stage. This information, or certain aspects of it, could then be provided with any subsequent transactions, which would have clear benefits to both the efficiency and security of payments.

**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?**

As a central and independent body, potentially representing all types of payment system user, the Payments Council should at least maintain contact and share information with the major bodies working in this area, for example, the Joint Money Laundering Steering Group.

**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?**

We would like to see the Payments Council take a lead role in developing standards within the UK and representing these views at a pan-European level and should therefore be fully engaged with SEPA. We would like to see this reflected in the National Payments Plan itself.

**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 would like to see full transparency in respect of the actual costs and underlying mechanisms of the various payment methods. Without this information we do not believe that a genuinely open and comprehensive review of payment systems within the UK can take place.