



Experian Response to National Payments Plan Consultation

Experian is pleased to respond to the Payments Council as part of the consultation on the development of the National Payments plan. It should be noted that this response takes into account not only Experian's status as a large organisation making payments but also as a significant supplier of software and services for UK payments and payment-related services.

This response is organised into two sections: general comments and specific answers to questions posed within the consultation document.

About Experian

Experian is a global leader in providing analytical and information services to organisations and consumers to help manage the risk and reward of commercial and financial decisions. Combining its unique information tools and deep understanding of individuals, markets and economies, Experian partners with organisations around the world to establish and strengthen customer relationships and provide their businesses with competitive advantage. For consumers, Experian delivers critical information that enables them to make financial and purchasing decisions with greater control and confidence.

Clients include organisations from financial services, retail and catalogue, telecommunications, utilities, media, insurance, automotive, leisure, e-commerce, manufacturing, property and government sectors.

Experian Group Limited is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE-100 index. It has corporate headquarters in Dublin, Ireland, and operational headquarters in Costa Mesa, California and Nottingham, UK. Experian employs more than 12,500 people in 32 countries worldwide, supporting clients in more than 60 countries. Annual sales are in excess of £1.7 billion.

For more information, visit the Group's website on www.experiangroup.com.

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Experian is the largest credit reference agency ('CRA') out of the 3 consumer credit reference agencies operating in the UK¹, supplying c80% of the shared personal data used for credit underwriting by the UK financial sector. This amounts to some 150m credit enquiries each year. Experian also provides data for a variety of other purposes such as identification checks for the prevention of money laundering as required under the Prevention of Money Laundering Regulations. Under Regulation 114 of the Representation of the People (England & Wales) Regulations 2001, the CRAs are the only non-public organisations entitled by law to hold the full Register.

It is the view of Experian that none of the views express contain information of a confidential or business-critical nature related information and there is therefore no information which cannot be considered confidential

¹ There are c 200,000 companies registered as credit reference agencies and licensed under the Consumer Credit Act. Most do not operate any form of operation for the support of credit decisioning but a few others do supply similar services for corporate activities. There are currently just 3 agencies in the UK that operate and supply consumer data for credit referencing purposes.

General comments

Experian welcomes the creation of the Payments Council and the development of the National Payments Plan. The issues raised are significant and require liaison across the industry.

It is the view of Experian that the Payment Services Directive is so significant for payments in the UK and the rest of the European Union that the National Payments Plan should be revised in consultation with all stakeholders as soon as the implementation requirements for the UK are clear.

Answers to Questions posed by the consultation document

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?

Experian agrees that a plan for the management of the decline in cheques must be developed. Currently, the processing of cheques both in- and out-bound results in significant costs in comparison with electronic payments such as those made by debit and credit cards, direct credit and direct debit. It is Experian's view that the processing cost per cheque will make the business case for using cheques increasingly untenable for both banks and corporates as the number of organisations accepting cheques declines.

A plan is therefore required, as the Payments Council suggests, to ensure that alternative forms of payment exist as soon as possible for all the purposes that cheques are currently used. It is also noted that replacement of cheques may also improve the efficiency of the financial supply chain by enabling electronic reference information to be processed (see Q31).

Processing of cheques for inbound payments actively prevents payments being made to terms because of the ill-defined timeline, from origination and delivery of a cheque to its presentation and clearing. In addition, it is Experian's opinion that, unless additional investment is made in fraud prevention, fraud in the system may increase.

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

Experian has identified the following uses for which directly-corresponding alternative payments mechanisms do not exist:

Cheques requiring more than one signatory such as joint accounts, clubs and societies and probate solicitors.

In this case, the multiple-signatory requirement of cheques is used by some organisations or individuals as a financial control or demonstration of due diligence, for example, payment of a club's expenses or the accounts payable function of a parish council. Currently, multiple-authorisation is not a standard feature of other payment methods such as automated credits made by Internet or remote banking or card payments.

Delegated payment authorisation

This is the scenario where a person has been given authorisation to make payments on behalf of another, for example, through a power of attorney, but where it is inappropriate to issue a credit card or other payment instrument and where automated payments are either not valid or not authorised.

Small business-to-consumer billing organisations.

Many organisations are currently too small to be sponsored by their bank or to operate direct debit direct debits for regular payments. Where billing is weekly and of comparatively low-value, the direct debit direct debit scheme is also not effective because of the necessity to inform payers of the amount to be deducted a number of days before. An example of this is the system used in some schools for payment of school meals weekly and only by cheque.

Person to Person (P2P) payments

Individuals create the least structured payments based on the smallest information, typically not knowing the account number of the beneficiary. Almost all payment methods require this information and this accords with the legal advice on primacy of account numbers as noted in the [APACS response to the consultation on the 2007 Independent Review of the Banking Codes](#). Cheques do not cater for beneficiary account numbers and therefore there is more risk paying into an incorrect account with the same name, accidentally or intentionally. This is an uncertainty which does not exist in other payments methods. Experian suggests that this ability to pay to a name and not an account is not useful and introduces risk and therefore cost into the system.

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)?

It is the opinion of Experian that 2018 is an acceptable, although overdue, target for the closure of cheque clearing. For its own use, Experian itself supports the suggestion of the large corporate users' forum that cheque clearing be closed within 3-5 years and implemented in a similar way to that already achieved by the Netherlands and Scandinavia. Experian would suggest that 2018 should be seen as a maximum date and use of cheques should not be unnaturally prolonged. Experian notes that all users of banking will pay the costs of providing cheque clearing as the volumes decrease.

Experian believes that the business case for the use of cheques by large businesses, both accepting them as a method of payment and generating them, is likely to be put under pressure as cheque volumes decline. As the per-item cost to clear the cheque increases, it will be attractive to banks to pass some or all of this cost back to the paying customer, which may accelerate the decline in volumes faster than current assumptions.

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

Experian believes that education is required mainly for the small-medium enterprise (SME) and consumer audiences focussing around which alternatives are appropriate for current cheque uses. It is also important to highlight the cost-benefits and efficiency improvements for small business by using the alternative mechanisms. Experian believes that education should be specifically extended to and targeted at the older generation in accordance with APACS research into usage of cheques.

In addition to education undertaken at an industry level, it is anticipated that payment institutions will also inform their customers of options and benefits in the competitive space.

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?

Experian agrees that the plan to manage the decline of cheques must also consider implications on the Cheque Guarantee Card Scheme. Experian notes that usage of electronic payments could be greatly encouraged by removal of the Cheque Guarantee Scheme.

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

It is Experian's belief that cheque volumes will reach a transition point at which the rate of decline will increase significantly. It is therefore suggested that a minimum, viable level of cheque usage should be established in consultation with the industry such that, should cheque volumes fall below this level, an accelerated schedule to close cheque clearing should be adopted.

Experian also recommends that the Payments Council should monitor the level of fraud in the use of cheques as the volumes decline as this may have a significant impact on business acceptance of cheques.

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?

Experian believes that paper clearing should be reviewed with the intention of making all possible transactions electronic. Experian notes that there are a number of commercial solutions for bill payments which may facilitate this migration.

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?

Experian notes that cash is only a major payment method by volume, not by value. As contact-less and low-value payment solutions such as Oyster and Wave are implemented across the UK, Experian can foresee a similar decline in cash transactions to that forecast for cheques. The costs of handling cash are not insignificant for both merchant and bank, but can be significantly reduced only by not handling cash at all. Experian therefore believes that cash payments will continue to be made for the foreseeable future, but at a reducing percentage of all payments.

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?

Experian believes that the supply and quality of notes and coin in circulation is not an issue within the scope of the National Payments Plan.

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

Experian recommends investigating the total cost of handling cash for payments by consumers, merchants and banks to develop a plan for low-value consumer payments. Significant savings could be achieved by reducing the use of cash and the associated cash-handling fees.

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

Experian's view is that there are different issues for the different types of direct debit user: business payers, consumer payers and business payees (creditors).

Business payers are currently unwilling to allow debiting of their business accounts by third parties, even companies with whom they have strict contractual agreements. A stronger set of requirements, safeguards and guarantees within a business direct debit scheme may assist these businesses to accept direct debit as a payment method.

Many businesses have implemented accounts payable systems which require formal receipting for delivery of goods and services before payment can be made. For business to make payments using direct debit, the software vendors providing these systems must allow direct debit as an allowed method of payment. However, this is a competitive area and only promotion and uptake of business direct debits will facilitate this change.

Business payers will also require better management information in an electronic form on direct debits withdrawn from their accounts than is currently provided by bank statements.

Consumer payers have high acceptance of direct debits with the perception that only a few consumers prefer to manage their accounts directly. The introduction of a time limit on the direct debit Guarantee may dent confidence for some consumers, depending on the length of the time limit. Introducing the ability to display and cancel or amend direct debit instructions at all bank service points, including ATMs, could also improve consumer trust of the system for those who currently do not use direct debits.

Business payees would take up direct debit more widely under any of three scenarios: if business to business direct debit was accepted more commonly, if management information on the success or failure of direct debits was more integrated and timely, or if amendment to due dates for direct debit were easier to manage.

With regard to the necessity to publicise the same information – a sort code and account number – to receive a payment as to make one, a suggestion would be to have a different account number for receiving payments from the one used to make payments. This would ensure that payment records used to pay beneficiaries could not then be used to perpetrate direct debit payment fraud against them.

Finally, direct debit acceptability would be improved if the risk for consumer, business and bank could be managed better by ensuring the data involved in the transaction were correct at the initiation of the transaction.

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

Experian supports the introduction of a time-limited guarantee in order to assist with determining the finality of direct debit payments.

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

Balancing the needs of the consumer against the needs of business, Experian's view is that 12 months is an appropriate time-limit for this guarantee after which the payment should be deemed final, subject to the normal legal recourses.

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?

Experian notes the initiative of the Euro Banking Association on e-invoicing and recommends that the Payments Council should be involved in developing the standards and solutions in this area on behalf of all UK business.

Experian further notes, as did Bacs Affiliates under the auspices of the Payment Systems Task Force, that commercial solutions exist to ensure that consumer reference information is valid in the payments described above. Experian therefore recommends that the National Payments Plan develops best practice for payment institutions, including a recommendation to validate this information where possible.

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

Experian further suggests that all direct credits and standing orders (to be made by UK Faster Payments from May 2008) be required (by the appropriate payment scheme) to have a non-blank reference field in order to facilitate reconciliation. This would significantly improve the problem of tracking failed payments and those which cannot be automatically reconciled.

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?

Experian believes that exploitation of the ATM infrastructure is a competitive issue but that the National Payments Plan should define, in consultation with the industry, the core set of services which must be available from an ATM; this should include consideration of person-to-person payments and set-up of direct debits.

Experian further recommends that a review should be undertaken into the security of the interface between the ATM and the individual to establish an appropriate level of user authentication such as three-factor authentication and recommending use of a biometric method. For example the introduction of facial recognition technology at the ATM would allow the ATM operator to be more confident that the correct individual is using the machine.

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

Experian believes that the National Payments Plan should undertake an evaluation of the impact of the SEPA Cards Framework and any new debit or credit card schemes which are developed as part of European harmonisation.

The National Payments Plan should also develop best practice for how charges for debit and credit cards and use of cash machines are displayed to users.

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

Experian recommends that any efficiency improvements to the Direct Credit and UK Faster Payments schemes be considered for payments in wholesale markets.

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

Experian recommends that the Payments Council respond to the consultations on SEPA initiatives run by the European Payments Council, the European Central Bank and the European Commission. It is important that the UK position is clearly articulated and that any necessary developments are foreseen and scheduled into the National Payments Plan.

The Payments Council should consider which of the requirements of SEPA are appropriate for the UK market in order to facilitate harmonisation with the rest of the European payments industry and consistent application of the Payment Services Directive. For example, the use of an International Bank Account Number (IBAN) with or without an associated Bank Identifier Code (BIC) should be considered as an acceptable reference to a UK bank account for UK payments schemes. Experian recommends that a timeline should be established for moving all account numbers references used in payments to the IBAN standard.

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

It is Experian's opinion that, while SEPA will improve the efficiency of initiating payments, the potential for payment fraud via direct debit is increased and this must therefore be considered as part of implementation.

It is currently not clear what the UK's implementation of the Payment Services Directive will be as HM Treasury is consulting UK stakeholders. Whilst only partially related to SEPA, this is likely to have a significant impact on the legal basis on which Experian makes and receives payments both within the UK and the rest of Europe.

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

Experian recommends that the National Payments Plan should promote use of ISO20022 as a standard for payment initiation from corporate to bank.

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

Experian recommends that users should implement checks on the accuracy of their payment transaction data in order to improve end-to-end straight-through processing.

Experian also recommends that banking institutions make available to authorised organisations, such as members and affiliates of APACS and members of Bacs Affiliates, information on their account ranges and formats to further increase efficiency, especially for non-standard account numbers.

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?

Experian agrees with the proposal.

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?

Experian recommends that the Payments Council should promote involvement in the development of international standards so that they cater for the requirements of UK users.

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

The National Payments Plan should include development of a pre-pay mechanism which could be accessed via a number of consumer or business banking and payment systems such as Internet banking or ATM.

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

Experian's view is that mobile payments encompasses three fundamentally different categories of transaction: mobile phone incorporating a debit/credit/prepay card; online-banking via a mobile device; and payments using the mobile phone identity. Experian therefore recommends that the National Payments Council undertakes research to further define these categories and to assess the activity needed to support or standardise them. Experian notes that a mobile phone may be used as a two factor authentication token during initiation of a payment made by another method.

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

It is Experian's view that the National Payments Plan must not preclude development of such services.

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

Experian's view is that the main benefit of mobile payments is solely making existing payments systems easier to use in a broader set of locations.

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

Experian has no response to this question.

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

Experian's view is that the National Payments Plan should conduct research into the security requirements for mobile payments systems.

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?

Experian agrees that the Payments Council should support the work of the European Commission and Euro Banking Association on e-invoicing and standards to support supply-chain efficiency.

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

Experian views development of a UK e-invoicing scheme as part of a federated European e-invoicing scheme as important.

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

It is Experian's view that consultation with SME businesses and their payments solution providers is essential to the success of this initiative.

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

Experian suggests that the Payments Council should also consider: self-invoicing initiatives of large corporates, provisions to reduce payment fraud and use of credit and debit card payments by businesses.

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

Experian believes there is a need to educate consumers and SMEs on use of electronic payments and a basic level of education on managing money which is tacitly expected of users of banking and payments.

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?

Experian suggests that the Payments Council must also work with disability representative groups^[p1] to ensure that any payments solutions cater for the whole population.

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

It is Experian's view that the Payments Council should promote the definition of core payment services enabling an elementary bank account to be offered.

For example, displaying at the point of sale the remaining funds for debit card transactions may assist those who are unused to considering the balance of their bank account.

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

This work should be undertaken in conjunction with the British Bankers' Association and in consultation with the Department of Work and Pensions, National Association of Citizens Advice Bureaux (NACAB), Help the Aged and poverty action groups.

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

Experian believes that the need as change and regulation are implemented is that individuals, businesses and government can reach all of the entities which they need to pay using at least one payment mechanism.

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

Experian believes that the definition of the measures to prevent or reduce fraud is a competitive issue. The National Payments Plan, however, must develop a list of subject areas for fraud management which must be considered for each proposal.

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?

Experian believes that the National Payments Plan must develop best practice recommendations on the degree of authentication necessary for each payment type and value.

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

Experian agrees with the proposal but notes that the Joint Money-Laundering Steering Group (JMLSG) has attempted to do this. Q43 How should the National Payments Plan address new technologies, such as biometrics, which may contribute to customer security?

Experian believes that this is a competitive issue in support of industry-defined needs.

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

Experian notes that it has successfully managed data sharing schemes on behalf of the UK Financial Services community for many years. Experian's view is that where data sharing is the solution to an industry problem, it should be encouraged by the National Payments Plan. However, Experian has identified no specific actions to include.

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?

Experian has no comment.

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?

The Payments Council could raise the issue of payment fraud which are currently unmonitored and unreported, especially fraudulent use of Direct Debit. Experian suggests that the Payments Council should also lobby government to allow confirmation of identity information provided by individuals which is held by government.

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?

Experian recommends that the role of the National Payments Plan is to promote the use of, and migration to, new or widely used standards such as ISO 20022 for payments. The Payments Council should be involved in influencing the development of international standards to maximise the benefit to the UK.

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

It is Experian's view that the National Payments Plan should promote use of migration to new messaging standards, specifically UNIFI/ISO20022 or its successor, and should establish a timeline to migrate all payment initiation formats to such a standard.

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?

Experian agrees with the proposal.