From: "Benn, Ian"
To:
Date:
Subject: National Payments Plan Consultation

Enclosed is our response to the Consultation document on the National Payments Plan. Fidelity National Information Services (FIS) is an S&P 500, NYSE listed technology and services business which specialises in the financial services sector worldwide. A hard copy will be with you Monday 4th February before midday.

In the UK, as well as providing technology for many of the largest banks, credit card and smaller financial institutions, we also operate a subsidiary business (FIS Payment Services), whose portfolio includes the Transax service which ensures that small business and retailers can accept cheques without concerns about fraud or credit risk. Transax is used by around 100,000 outlets in the UK and France and every year warrants transactions totalling £2 billion.

As one might expect, FIS Payment Services is mid-way through a change programme which has seen us move from pure cheque warranty to a whole range of services, each designed to help merchants grow sales by making it easier for their customers to pay and by removing concerns about credit risk.

Nonetheless, cheques are still an important part of our business and we, like the Payments Council, are keen to see that the long term decline in transaction volumes takes place smoothly and at the right pace.

Most of all, we are concerned that the move away from cheque is driven solely by the presence of viable alternatives with benefits sufficiently persuasive that the market elects to embrace them. Our fear is that we see an active public engagement that seeks to imply that the cheque is being phased out - a move which we believe will be counter productive to the aims of both ourselves and those of the Payments Council.

We believe that we have a deep pool of knowledge, expertise and data which can add value to the Payments Council and we are very keen to engage with you beyond this written response.

I hope you find the enclosed a useful contribution to the debate and very much look forward to working with you in the near future.

Yours faithfully,

Ian Benn

Managing Director

Fidelity National Information Services, Payment Services

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Payment Council Consultation

Response to the *National Payments Plan*

1st Feb 2008

TABLE OF CONTENTS

1. Background

Fidelity National Information Services (FIS) is glad of the opportunity to respond to the Payment Council's consultation called *"National Payments Plan – Consulting on change in UK payments".*

FIS is a leading provider in the UK of core processing for financial institutions; card issuer and transaction processing services; mortgage loan processing and mortgage-related information products; and outsourcing services to financial institutions, retailers and mortgage lenders. We act as a guarantor of £2bn worth of cheques annually in the UK and France. In the payments sector we are best known for our EFunds, Certegy and Transax brands.

We have processing and technology relationships with 35 of the top 50 global banks, including nine of the top 10. FIS is a member of Standard and Poor's (S&P) 500® Index and has been ranked the number one overall financial technology provider in the world by American Banker and the research firm Financial Insights in the annual FinTech 100 rankings

Headquartered in Jacksonville, Fla., FIS maintains a strong global presence, serving more than 10,000 financial institutions in more than 80 countries worldwide

For more information on Fidelity National Information Services, please visit www.fidelityinfoservices.com <http://www.fidelityinfoservices.com>.

2. General Points

FIS is primarily interested in commenting on the points raised about cheques and cheque guarantee cards in the consultation.

Cheques are a simple and effective means of payment that have worked - largely faultlessly – for over 400 years. We are not aware that they present a problem to anyone, so we question the urgency behind seeking to stop their use, especially since convincing alternatives to them do not yet exist.

FIS is clear that it has a current interest in the continuation of cheque use, but our business strategy supports the idea of finding alternatives to it in the medium term. We nonetheless feel strongly that driving towards the abandonment of the cheque at this point is in few people's interest and, least of all, the consumer's. We believe that there would be a disproportionate effect on the more vulnerable and deprived elements of society that is out of kilter with the benefits to be derived from abandoning cheques.

If cheques are to be replaced then this should be with a widely supported payment method. It is perhaps more sensible at this point in time, therefore, for the industry (and the Payments Council) to focus on finding an alternative that addresses all of the needs currently offered by cheques. This would allow consumers and businesses to recognise for themselves that such a payment method was self-evidently better than the cheque - in other words using a carrot rather than stick approach.

With any new payment method, data security is likely to be a key factor and improving data security generally to allow it to be submitted securely and (potentially) anonymously is a major priority. Beyond data security itself, there is pressing need to restore public confidence in the perception of data safety. This has been dented by recent data losses and full confidence may well lag behind actual levels of security.

Such concerns do not tend surround the public's view of cheques which, for this and other reasons, remain widely used. Any forced withdrawal is likely to have the opposite effect desired by polarising support for the cheque and prolonging its use.

3. Responses to The Payment Council's Questions

We have also responded to the questions raised by the Payments Council in the consultation document and these are set out below.

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?

Not necessarily – we believe that the focus has to be on providing a viable suite of payment mechanisms to address all the needs that, at present, only the cheque can fulfil. Once that is achieved, the cheque will die a natural and easily-managed death. The huge volumes of cheques still in circulation suggests an enormous scale to the areas where there has yet to emerge a viable alternative payment mechanism. It is illustrative to note that 2007 was the first year in which a cheque payment option was actively removed from the market by retailers such as Asda, Sainsburys, Waitrose, Argos, DSG, Next and Boots, whilst many petrol stations also stopped acceptance of consumer cheques. Despite this unprecedented market pressure, total cheque volumes still declined by only 10%.

The only viable approach to managing the decline in cheques is to address every functional niche (many of which are significant in size) currently met only by the cheque with one or more alternatives, that are:

- Truly universally accessible
- At a fair cost to the consumer or business user
- With the same or greater degree of identify and financial security.

This is challenging and the timescales may be long. The banking and IT industries are both showing an unprecedented rush towards new technologies in payment services at the moment and at a rate that is currently outstripping consumer or business demand. M-Payments, contact-less cards, cross-border initiatives, prepaid cards and biometrics are all seeing aggressive investment programmes from financial institutions, schemes, government agencies and technology vendors. Governing and regulatory bodies are responding with a drive to streamline and to set standards of conduct across this fast moving terrain.

What is remarkable about this huge time and money investment is the fact that it is happening in the face, thus far, of a high degree of consumer indifference. Looking at M-Payments for example, according to Chris Skinner writing in Finextra (Jan 07), *"The Japanese have had mobile payments for years, thanks to the endeavours of NTT DoCoMo. Then, in 2004, DoCoMo introduced the FeliCa phone with a built-in chip from Sony for contactless payments. By summer 2007, over 21.5 million FeliCa phones had been sold in Japan, all with the extended EDY (Euro, Dolllar, Yen) payments functionality… So I was surprised to find this intriguing research the other day, from a website called "What Japan Thinks". "What Japan Thinks" found that, by the summer of*

2007, 4 out of 5 Japanese knew what (contactless payments) is. Not that surprising as over 21 million phones have it. But what was surprising is that only 1 in 7 people are using it!"

Harnessing new payment approaches in such a way as to engage the public is difficult even with the greatest of industry focus:

"With less than 100 days to go before SEPA, 87% of consumers have never heard of it. Even more worryingly, 82% of merchants haven't either", Alfredo Gangotena, General Manager, continental Europe, MasterCard, November 2007

A succession of difficult pilot schemes for e-Cash, mobile payments and ticketing suggest that a similar survey amongst the UK consumer and merchant base is likely to reveal a similar lack of demand or desire for any of the payment types mentioned above.

Whilst the solution will in part lie in public engagement, this has to start with clearly defining the alternative infrastructure. As an example, for low income households on weekly incomes, the additional 3 days of grace between the cheque being presented and the money leaving the bank account can be a lifeline and make the difference between staying afloat and falling into long term debt. The first thing the industry must do is provide an equivalent alternative for this important community. We are especially concerned that any aggressive PR positioning before these gaps are closed would be damaging to the strategy of ensuring a managed decline and eventual exit of the cheque, cause uncertainty in the market and could well set the timetable back significantly.

We would therefore advocate a process whereby the gaps are closed, the processes clearly understood and then (and only then) a proactive programme of public education can begin.

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

- Person to person payments of amounts over £50 where cash is less practical but where a physical token (evidence of payment) is required. For example, paying a window cleaner, or buying second-hand goods other than via the internet
- Non-business payments where it is not perceived as acceptable to provide the payee with bank details
- Payments where a degree of cashflow planning is needed – the 3 day clearing window is a valuable part of SME cashflow management
- Future timed or staged payments
- Payments where individuals have only a very basic grasp of the banking process
- Payments in any environment where the IT and power infrastructure is unreliable
- Charitable donations
- Consumer to tradesmen transactions
- Payments for those where access to cash is more difficult (such as those in rural areas where the distance to the nearest bank branch or ATM is greatest)
- Financial gifts
- Payments to the unbanked eg insurance payments
- Payments where the payee needs flexibility as to where the money is paid in
- Payments to schools [in large well funded schools an online payment system is often available, this once again highlights the gap between the IT-rich and non-IT groups in our society]

- Payments where account details cannot be shared
- Payments where the consumer is concerned about being pushed into an unwanted credit product [rightly so, with all the publicity about the “big bad” banks foisting high interest loans onto people who cannot readily meet their existing replayments]

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)?

Whilst current forecasts suggest that volumes will be low by 2018, the year suggested is highly speculative and at this stage, we believe that it is premature to set a target date. This has to be driven by readiness of alternatives for ALL the above requirements and, once again should be in the hands of market forces.

However, we do believe that a publicly stated date is in itself a high risk strategy. Once the press, small business community and consumers pick up the fact that there is a firm date in mind, there will be an inevitable positioning that the government and/or the banks intend to take away the right to use chequebooks. This is highly likely to provoke a degree of backlash and to make the ultimate aim of phasing out the cheque in a controlled manner considerably more difficult.

The relative cost, not just for the institutions, but also for the merchant and the consumer for each payment type is missing from the consultation document. It is the true financial social impact that should drive the timetable, as well as helping in budgeting investment for closing any functional gaps and for public engagement.

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

At this stage, the issue is less around education and more around:

- Available alternatives
- Trust in electronic media
- Trust in payment methods which involve divulging bank account data

However, assuming these three issues can be addressed, education will then be required to address:

- Computer literacy
- Viable computer access (providing PCs in libraries is not the answer!)
- Communication of alternatives for those with physical difficulties (eyesight, ability to type…)
- Trust in the internet
- PIN number management and memory – already we know that credit cards are used substantially less than debit cards. This is in part because users received and used their debit cards first and therefore always remember the PIN number, whereas they often forget their credit card number

- For businesses, how to move away from simple cheque stub book-keeping
- Good practice with identity security.

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, there is value in such a review, but we would caution against any public statement about such review to avoid spreading consumer uncertainty. This is a debate in which we would be very keen to be engage. As guarantor of £2bn cheques annually, we believe we have some useful insights.

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

First and foremost, a true and accurate understanding of the relative cost of the main payment types. This has to show where the costs lie, as well as how they are calculated. For example, a merchant or small business paying in multiple cheques may well find cheque costs lower than any other payment type, as the cost of processing lies with the bank.

It is relatively easy to calculate cheque costs from the perspective of a single institution, more difficult across the value chain and in different scenarios.

Specifically, we would like to see a cost calculation showing

- Impact on tradesmen and merchants
- Impact on consumers
- Impact on bank branch infrastructure and footfall

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?

No view

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 we do

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?

No view

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

No view

Q11 What would need to change to make DD more acceptable?

- Transparency. DDs are seen as complicated and uncertain for the consumer.
- End dates. It has to be straightforward to use the DD for single or staged payment service with preagreed fixed amounts
- Code of conduct for merchants. Many merchants abuse the DD system by selling subscription type services with low entry costs and relying on people's intransigence in cancelling if they are unhappy with the service.
- Capped amounts. Again, consumer confidence may be higher if the amount that can be pulled through DD can be capped in advance
- An independent ability to verify that the account details given are legitimate

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

Yes this is essential if it is ever to be a generic alternative to paper-based payments.

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

We would advocate consumer research for this and allowing market forces to shape the decision

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?

No View

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

We believe that there may be scope for a trusted third party to act in between the payer and the payee. This can provide confidence that the transaction is legitimate and remove the need to divulge bank details to strangers, in a similar way to PayPal but without the significant charges. The trusted third party will be accessible through a secure electronic connection and can act under the auspices of APACS. We believe that we can provide this capability on APACS' behalf and would be happy to discuss this in further detail with the Payments Council.

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?

No view

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

No view

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?

It appears that the Payments Council could have a role to play as a broker between the different groups responsible for the introduction of SEPA.

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

For us, in practice very few. The vast majority of the payments we see are domestic.

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

No view

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

It is unclear here who the "user is". If this is the consumer or merchant, then there is value in the Payments Council taking the role of ensuring each gets a fair deal from the financial community in terms of flexibility, transparency and cost. If the user is a bank or institution, efficiency should be driven by market forces, not by intervention.

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, especially given the burgeoning alternatives. It would be difficult to intervene without skewing the competitive landscape

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?

See above. We believe that intervention would be risky and may prove unhelpful.

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

As 24

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

As 23

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

As 24

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

No view

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

No view

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

No view

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?

There is a need for account detail verification which is, as yet unmet in the market. As we move towards Faster Payments, the ability to confirm that account number, sort code and accountholder name are correct will become a daily real-time requirement. We believe that APACS, with support from the Payments Council can provide that verification service on behalf of the industry. FIS hosts the Industry Hot Card File (IHCF) for APACS today and our early analysis suggests that it would be straightforward to extend the delivery capability to provide a master checklist for all UK bank accounts.

We also believe that the Payments Council can have a valuable role in helping to manage and control the often conflicting regulations and standards which are currently making operation in this sphere increasingly confusing and difficult for the financial institutions.

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

No view

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

Beyond those covered in question 4, in order to enable consumers to make a choice from what is set to be a bewildering array of options, a clear understanding of when to use what type, considering:

- Security
- Cost
- Guarantee
- Timescale
- Risk
- Typical transaction size

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?

We would encourage engagement with:

- Press
- Ourselves
- The Federation of Small Businesses
- Chambers of Commerce
- Education sector
- Charity sector [and, individually, those who are socially excluded]

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

The most important factor is to ensure that any effort to change payment behaviours does not restrict freedom of consumer choice. It is one thing to make the DD a more flexible and better understood service, another to remove the option to use cheques, cash or any other popular payment type before the market is ready.

Financial inclusion is most difficult for the unbanked and for the technologically disadvantaged (whether for physical or financial reasons). It is here that the less technologically based solutions are likely to have a role to play for some considerable time.

Those that are vulnerable and/or on the very fringe of society must be considered - those leaving prison or other institutions, those in hostels or temporary accommodation and those whose literacy skills are poor.

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

The charitable sector, Government, principally social and education departments, rather than just the Treasury, practical "activist" organizations such as the RSA and the business community

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

There is still a value to being able to fall back on a paper-based system in the event that power or telephony fails. With a looming crisis in reliable datacentre power supply in many parts of the country, off-line capability is going to be important. In an environment where British public awareness of both the risk of bank failure and terrorism is unprecedented, it is important that people can have confidence that their money is secure and accessible in the event of infrastructure difficulties.

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

Any new initiative should, as a matter of course, provide greater levels of fraud protection, when compared with existing alternatives – in this way we will be able to drive down the levels of fraudulent activity over time as a by-product of 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?

As outlined in our response to Q33, we believe that the National Payments Plan can establish a process and mandate for APACS to become a common information broker across the banking network.

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

No view

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

As a point of co-ordination of interest. We believe that all technologically-led developments in payment services must be allowed to succeed or fail through the level playing field of fair competition. The National Payments Plan should, however, be able to provide a forum where such innovations can be presented, discussed and showcased to ensure that the industry has access to the innovators and *vice versa*.

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

Whilst the current regulations on data sharing seem to balance fraud risk and consumer personal data security interests well, we do believe that there is value in having an independent body constantly to evaluate this. It is critical that personal and business data that adds value to the process of fraud screening is available to ALL and ONLY the appropriate parties. If access is granted only to a subset of the community that needs it, an environment of unfair competition can quickly arise. Equally, if access is not tightly controlled, it can lead to abuse and could even perpetuate fraud problems. We believe that the Payments Council would be an ideal body for that role.

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?

This is difficult. With the current rate of change in fraudulent activity and in the payments sector as a whole, it would be unreasonable to expect more than very basic checks from the SME community. As a trusted third party we could undertake this risk, as we have with Transax for cheque warranty services. This would involve a small incremental transaction cost to the SME as with Transax today, but would ensure that they can focus on their business whilst we act as a fraud filter.

For an SME to take more responsibility than it does today, the Payments Council will have to invest in a significant education programme first. This may well prove politically difficult, however, especially where banks are continually represented in the press as either generating enormous profits, or else conversely racking up huge losses from “rash” investments.

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?

A highly active role.

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?

No view

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

To act as a consolidator and a champion of those standards initiatives which draw together multiple disconnected streams such as ISO 20022 (Unifi).

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?

Yes, but this needs to range sufficiently widely, considering

- Cost to the banks
- Cost of risk
- Cost of processing
- Cost to merchant
- Cost to consumer
- Cost to whole financial community.

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