

Response from the Co-operative Bank plc to:

# National Payments Plan

## Consulting on change in UK payments

These questions must be read in conjunction with the National Payments Plan Consultation document, available from [http://www.paymentscouncil.org.uk/national\\_payments\\_plan/](http://www.paymentscouncil.org.uk/national_payments_plan/)

### Issues for Consultation

Q1 The Payments Council is minded to develop a proactive industry plan to manage what it sees as the irreversible decline in cheques. Do you agree that a plan for cheques should be developed?

**A1 Yes, there are benefits for a managed migration away from cheques to allow:**

- **The needs of different stakeholders to be addressed over a sensible timeline. For example this will prevent some users bearing significant overhead costs without a viable alternative being provided or communicated.**
- **Clear and consistent communications about the timescales and alternative solutions to reduce ambiguity and confusion.**
- **Financial Institutions to work to deadlines for providing alternative means of payment.**
- **Users to become accustomed to use of alternative payment methods.**
- **The move away from expensive paper-based processing with fraud exposure (the cost of which is ultimately borne by the end customers) to cheaper, faster, more secure and efficient transactions (e.g. cards and electronic payments).**

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

**A2 This requires a formal and comprehensive study of current cheque usage and its users. However we believe new alternatives would be used for small payments where it is inconvenient and / or uneconomic to have a payment infrastructure, for example:**

- **Clubs.**
- **Societies.**
- **Schools.**
- **Small businesses (e.g. milkman, window cleaner).**
- **Person-to-Person payments.**

**Some current usage does not require a new alternative but increased awareness and education on the existing options that could fulfil the needs of users. For example the use of purchasing cards (which offer a streamlined purchasing process, with simplified VAT reclaim and flexible management for small businesses).**

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)?

**A3 Yes, a defined plan is preferable to a gradual decline that would:**

- **Leave overhead costs borne by small populations of specific end users.**

- **Not provide structured approach to alternative payment options.**
- **Not provide structured communications and education about alternatives.**

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

**A4 Education is needed to support the migration away from cheques and should include:**

- **The pro's and cons of each payment method to allow users to make up their own mind on their optimum payment method.**
- **Explanation of how to use alternative payment types (e.g. Faster Payments, prepaid cards, ATMs, cashback).**
- **Visibility on the increasing unit cost of cheque clearing (as volumes fall) and thus educating users on the relative advantages of alternative payment methods**

**This could be provided via a one stop shop website, associated publications, print media, advertising and other publicity.**

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?

**A5 Yes, a review of the future of the Cheque Guarantee Card Scheme, with the intention of phasing it out, is required, because:**

- **The scheme is of reduced usefulness due to increased use of debit cards for POS purchases and the reduction in retailers accepting cheques.**
- **The UK Cheque Card Scheme's manual nature is slow, costly and less secure than other payment types.**
- **The removal of the scheme would give a natural prelude to the removal of the cheque and hasten its decline.**

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

**A6 The National Payments Plan, in relation to cheques, must address:**

- **Securing research and analysis to ensure that all current uses of the cheque can be provided by alternative means.**
- **Alternative payment methods availability within the timescales proposed for the end of the cheque.**
- **The impact on cheque issuing Agency Banks position (or indirect clearers) who are not Members of the Payments Council.**
- **The competition aspects of any approach.**
- **The impact on the OFT or HMT.**

**The Payments Council can mandate the end of a national cheque clearing service but cannot mandate the end of the cheque, which can still be offered on a Bank by Bank basis to their customers by offering an in-house service for cheque encashment or on a correspondent basis, i.e. a private / mini cheque clearing.**

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?

**A7 Yes, paper credit clearing should be wound up due to:**

- **The current lack of use.**
- **The availability of alternatives such as Post Office Direct deposit and payment processing by Paypoint.**

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?

**A8 Yes, the National Payments Plan should assume cash will remain a major payment method. Whilst alternative payments methods will make inroads into cash usage (e.g. contactless cards, telephone and internet banking) it is highly unlikely that they will replace the significant levels of cash transactions in the medium term. Indeed the reduction in cheque usage may lead to increased cash use in specific circumstances, e.g. small payments where a payment infrastructure is not viable and / or attractive.**

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?

**A9 No, the supply and quality of notes and coin in circulation is the responsibility of the Treasury.  
The Payments Council should focus on the strategic use of cash in the economy providing data, analysis and education (e.g. cashback as a source of cash circulation).**

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

**A10 The National Payments Plan should plan to make cash available during a pandemic.**

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

**A11 This question is more product based than focussed on the strategic remit of the Payments Council.**

**However greater take up of DDs would occur with:**

- **Discounts by originators.**
- **Better public knowledge of the product including the guarantee.**
- **Encouraging DD originators to switch from credit push by a range of incentives (price, bureau et al).**

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

**A12 Yes, we would support the introduction of a time-limited guarantee for direct debits, as mandated under the Payment Services Directive.**

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

**A13 The appropriate time limit is mandated under the Payment Services Directive.**

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?

**A14 To improve the accuracy and delivery of reference information requires a strategic approach to develop a global standardised message standard for all current and future payment types.**

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

**A15 No other enhancements to direct credits have been identified.**

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?

**A16 This should not be in the National Payments Plan as it is a competitive matter for banks and infrastructure companies. However, Person-to-Person payments via ATMs would be a useful channel for none internet enabled customers.**

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

**A17 The National Payments Plan can assist everyone in understanding the costs of making payments by the various methods by undertaking analysis and then communications to consumers and institutions. This is required to facilitate the move towards cost reflective pricing which is being imposed on UK Banking by regulatory challenges to existing pricing structures.**

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

**A18 Wholesale markets payments will be driven by market forces and is not the remit of the Payments Council or the National Payments Plan.**

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

**A19 We should adopt for all payment systems a common set of message standards, which should now be SEPA compliant instead of UK specific, preferably XML based and route via BIC & IBAN.**

**The National Payments Plan must not put the UK at a disadvantage by creating conflicting elements or requirements above those demanded by SEPA.**

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

**A20 SEPA issues include:**

- **Cost.**
- **Fraud risk.**
- **Applying anti-money laundering checks.**
- **A new and different set of standards.**
- **New and additional compliance requirements.**
- **New governance regime.**
- **Uncertainty as to impact SEPA will have on regulatory (e.g. OFT, EU Commission, FSA) decisions on interchange and the support (or otherwise) for the EU Scheme versus national and international schemes.**

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

**A21 Ensuring that any moves / changes are interoperable solutions with common standards and the ability for a variety of approaches to 'plug in' to one of the central hubs (wherever and whoever this is).**

**Payments Council can act to encourage or facilitate this but, by definition, the other bodies for collaboration sit outside the UK and thus their direct remit.**

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

**A22 Education on the alternative payment methods to allow customers to assess for their specific requirement against:**

- **Cost.**
- **Certainty of payment at a pre determined date/time.**
- **Speed of payment.**
- **Additional user requirements e.g. e invoice for business customers.**
- **Ease of use.**
- **Security of the transaction.**

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?

**A23 Market development of the contactless and prepaid card sectors are not necessarily best left to initiatives from individual payment service providers and the card schemes.**

**There is a need for:**

- **Consistent standards (which are already being adopted).**
- **Governance, for example to ensure prepayments are ring fenced values and not exposed to loss.**

**However there is no need to create further Schemes or initiatives than are already in place via the existing International Card Schemes and the overarching views and assistance provided by the likes of APACS Card Payments Group.**

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?

**A24 The National Payments Plan should influence a consistency of standards only for contactless cards.**

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

**A25 The National Payments Plan should influence a consistency of standards only for prepaid cards.**

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

**A26 This is a gateway only. The Payments Council should influence a consistency of standards and interfaces and then allow the market to innovate.**

**Please note a definition of “mobile payment services” would be useful for future discussions as it could include telephone banking, embedded prepaid technology or SIM card based payments.**

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

**A27 Yes, the National Payments Plan should support the development of mobile payment services between bank accounts but it is not the role of Payments Council to actively engage in this space.**

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

**A28 Users will find mobile payment services attractive due to:**

- **Ease of use.**
- **Convenience (e.g. not location constrained).**
- **Speed.**
- **Security.**
- **Guarantees on liability.**

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

**A29 Mobile phone payments should provide access into existing payment methods rather than introducing a new payment method. The usage is likely to provide low value payments with minimal / no payments infrastructure requirement that are not location restricted. Therefore this is likely to replace cheque and cash payments.**

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

**A30 No other actions in regard to mobile payments identified**

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?

**A31 Yes, the Payments Council should support the work of the European Commission Steering Committee on e-invoicing. Co-ordinated activity is required to avoid businesses being unwilling to participate in one solution if not all the banks are participating or there are a number of different options.**

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

**A32 The National Payments Plan should agree common standards for all new developments and encourage the contracted schemes to set timetables for compliance for e-invoicing.**

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

**A33 The National Payments Plan and Payments Council should focus on:**

- **Information gathering and analysis.**
- **Communication and education.**
- **Setting common standards across payment methods that are internationally based.**
- **Strategic leadership on the emergence of new payment types (e.g. Paypal, mobile payments or cheque payment alternatives).**

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

**A34 The Payments Council should consider the need to:**

- **Move the processing of payment transactions to 7 days per week.**
- **Faster clearing and settlement cycles .**
- **Increase customer satisfaction.**
- **Communication about alternative payment methods to a broader audience.**

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

**A35 Current financial educational initiatives gaps include:**

- **Customer rights on liability.**
- **Understanding of the DD guarantee.**
- **Clear and consistent messages.**
- **Customer knowledge on all electronic payments.**
- **The pro's and cons of each payment method to allow users to make up their own mind on their optimum payment method, including cost of use.**

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?

**A36 As an independent body, the Payments Council can take an impartial view on all aspects of payments and can offer opinion and advice to the UK at large on the future of payments.**

**In a similar way to that achieved for the Chip and PIN programme, by understanding and publicizing payment method characteristics and actions plans to mitigate impacts the Payments Council can gain endorsement to strategic change from:**

- **Government.**
- **Retailers.**
- **Various Industry associations.**
- **Consumers.**
- **Payment users.**
- **The news media.**

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

**A37 The Payments Council needs to consider financial inclusion in developing its approach in all matters (e.g. education, consideration of phasing out payment methods and approach to new technologies). However it is not the remit of the Payments Council to set policy or an agenda for financial inclusion.**

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

**A38 The FSA, OFT, BBA and HMT.**

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

**A39 As demonstrated within card payments on a number of occasions in recent years, the area of security of payments is a key area of concern to consumers and payment acceptors and collaboration amongst the UK payments industry (across all participants) is absolutely crucial. The setting of minimum security standards for the authentication of payers should therefore be a key area of collaboration.**

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

**A40 It is vital that anti-fraud measures are integral to the development of payment systems and solutions, merit should be given to centrally based anti-fraud measures that enable both the efficiency and speed of payment systems to be improved. This should apply equally for the gradual evolution of existing systems and any new or innovative proposals from the Payments Council. Advice and consultation with the appropriate industry experts and / or bodies should form part of these developments.**

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?

**A41 The National Payments Plan should:**

- **Emphasise the need for robust authentication.**
- **Promote authentication as part of the transaction, not as a separate activity.**
- **Fully support a risk based approach to authentication (e.g. stronger for remote transactions) in order to maintain a cost effective and efficient level of security.**
- **Support a common approach across the payments sector so that consumer's receive a consistent experience.**
- **Educate consumers on the value of authentication.**

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

**A42 The introduction of minimum authentication standards for remote transactions would be desirable subject to setting the level of standards are:**

- **On a risk based approach.**
- **Set sufficiently high to be of value.**
- **Reflective of the Banks individual risk appetites therefore impact where the liability rests rather than incurring penalties.**

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

**A43 The Plan should:**

- **Clearly embrace the emergence of new technologies.**
- **Assess the potential application and benefit of these new technologies to support security.**
- **Ensure they are aligned to risk and enhance the consumer experience.**

- **Set common standards.**
- **Increase consumer awareness of options and the value of developments.**
- **Ensure individual commercial decisions remain with each bank.**

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

**A44 There needs to be a greater commitment towards data and intelligence sharing between the various stakeholders. The Plan should reflect the need for a more co-ordinated approach (encourage, support and facilitate rather than play an overly active role) so that the fraud prevention community is better equipped to address the threat.**

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?

**A45 Fraud prevention is a joint enterprise between all parties; public, private and consumers. The education of consumers should be within the Plan's remit to ensure appropriate measures are taken to prevent the possibility of fraud. All stakeholders have a responsibility to prevent fraud and the Plan should stress this.**

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?

**A46 The Payments Council has a key role to play in raising the profile of fraud and security with public bodies. Lobbying can be effective and a consistent approach between the Council and industry bodies should be the minimum expectation. The Council should support the wider aims of data sharing and greater law enforcement agency focus by demonstrating the clear links between fraud and organised crime. This will demonstrate the necessary support and benefits to other government initiatives aimed at tackling crime.**

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?

**A47 The convergence between different standards is particularly important and allows individual organisations to work to a common interface, but not necessarily the same solution. This allows innovation to continue, but always in the knowledge that ubiquity of payment is maintained to the advantage of all parties.**

**The Payments Council should endeavor to maintain consistency in international standards, it should draw on the strengths of its international member banks to assist in lobbying for such an approach.**

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

**A48 Messaging standards should be universal across payment types and internationally consistent.**

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?

**A49 Yes, this is a crucial piece of work that unlocks the understanding of payments and the choices available. Research should be sponsored to understand the end to end cost, including fraud, of various payment types not just the element within the banking industry. It should include soft benefits and costs in using different payment types which would include immediacy of processing and settlement, ease of reconciliation and certainty, This should be broken down into the various user segments e.g. consumer, business, industry.**

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