



National Payments Plan Consulting on change in UK payments

HBOS fully supports the proposals for the National Payments Plan (NPP) and welcomes this opportunity to comment on the specific questions presented for consultation. HBOS believes it is vital to produce a simple, credible NPP which contains a clearly articulated strategic direction that is easily understood and agreed by all stakeholders; identifies clear deliverables with a realistic timetable and establishes a process for change which is driven by robust cost benefit analyses. HBOS responses to the consultation are detailed in the table below.

| Issues for Consultation | HBOS Response |
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| Section 3 – Efficiency | |
| 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? | HBOS recognises that cheques are in decline and we support the Payments Council suggestion proactively to develop an industry plan to manage the decline. The key consideration is ensuring that there are alternatives for all current uses before we remove ourselves from the cheque market. There should also be clear statements of intent around unambiguous plans to phase out cheques in the same way as European neighbour states have done. |
| Q2 For which types of payment currently made by cheque do new alternatives need to be introduced? | The P2P market is not sufficiently developed with suitable cheque alternatives. There are some card based solutions but not readily adopted by the major banks. P2B also has some gaps and needs review. However we should look to exploit existing products and payment infrastructures (including those currently being built) wherever possible rather than reinventing the wheel. |
| 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)? | HBOS agrees that a target date should be included although we would prefer to aim for an earlier date than 2018. |
| Q4 What sort of education of users is needed to support the migration away from cheques? | Education of consumers re suitable alternatives is key. A holistic view is required with banks internal strategies aligned with the industry position. |
| 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. HBOS would support a review and ultimate removal of the Cheque Guarantee Card Scheme. There is no reason why this couldn't be before the target date for closure of the cheque clearing. |
| Q6 What other actions, if any, should there be in the National Payments Plan in relation to cheques? | Understand the costs of changing. |

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| Q7 Do you agree that, as part of the National Payments Plan, there should be an objective review of the future of the paper credit clearing? | Yes, HBOS would support a review of the inter bank credit clearing. |
| 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, HBOS believes that cash will remain an important payment method and indeed we are seeing transaction volumes at HBOS ATMs increasing. We would expect the industry to have a more in-depth debate about the future of cash at the next planning cycle. |
| 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? | HBOS believes the proposal to remove all bronze coin and also to round all cash transactions to the nearest 5p will require careful management, if it is to avoid having a detrimental impact on the overall acceptability of the NPP in the eyes of the consumer. |
| Q10 What other actions, if any, should there be in the National Payments Plan in regard to cash? | <p>Whatever we do as an industry around the demise of the cheque should ensure that it doesn't encourage migration back to cash. We also don't believe that the NPP should include anything which would re-open the debate around deploying £5 notes through ATMs.</p> <p>Additionally, there should be a commitment to hold an independent inquiry into the true cost of cash to the UK economy, to underpin migration to a less cash society, particularly if market forces include passing on the costs of cash to users.</p> <p>It would therefore be good to understand the cost of provision of each of the payment mechanisms (including a breakdown of fixed and variable costs) so easy comparisons can be drawn.</p> |
| Q11 What improvements would lead to the greater take-up of direct debits by users? | <p>HBOS suggestions include:</p> <ul style="list-style-type: none"> - Better understanding of the DD guarantee - Improved customer education and safeguards - Flexibility of payment dates offered by originators - Quicker one off DD - Greater use of incentives eg reduction in standard tariff |
| Q12 Would you support the introduction of a time-limited guarantee for direct debits in place of the current unlimited guarantee? | Yes HBOS would be supportive of a time limited guarantee. |
| Q13 If so, what time limit do you think would be appropriate? | HBOS suggests 13 months due to statement frequency and potential to align with SEPA DD. |
| 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? | Ensure mandatory completion of reference field and on all payments and references output to beneficiaries by the receiving bank. |
| Q15 Are there any other enhancements you think should be made to direct credits? | Mandatory use across the industry of automated AWACS (Advice of Wrong Account Service) and ARUCS (Automated Return of Unapplied Credit Service) |

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| 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? | Mobile phone and pre-paid top-ups and payment, for example, of congestion charges. In other countries ATM's are used to buy lottery tickets, postage stamps etc. All low value with no Business Case for individual banks, so co-operation is key. |
| Q17 Which other, if any, actions should there be in the National Payments Plan in relation to credit and debit cards and cash machines? | Review of ATM locations bearing in mind access to free cash especially for deprived customers with Social Banking accounts or those living in remote locations. |
| Q18 What improvements should be made to the way in which payments in the wholesale markets are carried out? | None apparent |
| Q19 What should the Payments Council do to ensure that users in the UK can take best advantage of SEPA? | Rather than individual banks each progressing their own marketing strategy, we should consider a national advertising campaign funded by all banks. |
| Q20 What issues does SEPA raise for your use of payments? | Too early to say |
| Q21 What improvements should be made to cross-border payments? | None apparent |
| Q22 What measures to enhance users' efficiency should be considered by the Payments Council? | As part of the vision, it is important that we make the payments proposition as clear to consumers as possible, preferably losing historic branding such as Bacs, CHAPS etc and focusing more on what the payment functionality gives consumers. The message here is the simpler the better, including pricing where core, no frills, transactions should be available at a fair price. Added value should be paid for – but only if the consumer wants it. |
| Section 4 – Innovation | |
| 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? | HBOS believes this is the correct approach. Although we would see the need for a co-ordination role by APACS to match card issuing to deployment. Prepaid is largely unregulated and we need to ensure transparency and level playing field for all participants |
| 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? | HBOS is not aware of any issues and are comfortable that standards are already in place. |
| Q25 What support, if any, can the National Payments Plan offer to the development of prepaid cards? | Ensuring transparency around features, functionality and pricing. |
| Q26 What role should the Payments Council play in the development of mobile payment services, including setting the standards for mobile payments? | Payments Council is currently facilitating discussions between banks on the use of Mobile for payment services and we consider it odd that PC should do this for mobile and not contactless (both are just forms of delivery). They are therefore both inter-related. It is unlikely that any thriving mobile solution would be unique to the UK. There are also security issues to be resolved before mobile can really take off as a channel. |
| Q27 In particular, do you agree that the National Payments Plan should support the development of mobile payment services between bank accounts? | This is an area where it is important to undertake some research into emerging customer preferences for utilising the technologies available. |

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| Q28 What principal characteristics would users find attractive in a mobile payment service? | Simplicity and ease of use. We are under increasing scrutiny from internal and external sources to give the highest level of assurance on the security of data transferred. |
| Q29 What role do mobile phone payments potentially play in providing alternatives to traditional forms of payment? | Potential to encourage P2P use and possibly migrate away from cash or cheques. |
| Q30 What other actions, if any, should there be in the National Payments Plan in regard to mobile payments? | None apparent |
| 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? | HBOS thinks that the Payments Council should be supportive of the wider initiatives across Europe including international developments rather than just pan European. |
| Q32 What role should the National Payments Plan play in moving this agenda forward? | Facilitation role in establishing and influencing a UK view. |
| Q33 What other actions should be included in the National Payments Plan? | There needs to be significantly greater customer (Retail, SME, Corporate) input in terms of how to better meet current and future needs. In gathering this input, this must be needs based rather than solution focussed (eg SME's want a quick cheap way of paying suppliers and receiving payments NOT keep cash because it's cheapest today. In addition, there should be greater external scanning around the world to identify best practice and emerging solutions. Positive measures should be introduced at an appropriate time to hasten migration to more efficient payment instruments eg once better alternatives are available and proven. |
| Q34 What other payment innovations requiring action at industry level should be considered by the Payments Council? | We are surprised that this consultation document has not made mention of the new Faster Payments Service and exploitation of a significant investment. New and emerging payment mechanisms should be subject to regular assessment against agreed criteria. |
| Section 5 – Other Issues; Education, Financial Inclusion, Integrity and Contingency, Fraud and Security, Standards, Costs | |
| Q35 What gaps are there in current financial educational initiatives in regard to payment matters? | HBOS believes there is more work to be done in education in schools which is generic and unbiased rather than being bank influenced. Although there are many agencies working in this area, funding is an issue. Payments Council should liaise and consult with these groups to establish views to identify the role that Payments Council and the wider industry could and should take. The NPP also needs to consider how best to address consumer confidence (and security concerns) about making electronic payments to people they don't necessarily trust i.e. paying a BMW dealership electronically is ok, but a second hand car salesman maybe not. Mobile technology may provide the answer and accordingly research to identify the opportunities provided by this exciting new delivery channel would be supported. |

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| <p>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?</p> | <p>As an industry we should engage with schools and agencies to produce generic documents. Payments Council should ensure it has a joined up view with the FSA. Non banking responses to this consultation will identify deficiencies.</p> <p>The key to success for the creation of the NPP lies in effective communication and wide stakeholder engagement with clarity around how the engagement process works so that interested parties can all get involved. HBOS urges the Payments Council to ensure the NPP is widely communicated with targeted communication for groups such as central and local government.</p> |
| <p>Q37 What role can the Payments Council play in promoting financial inclusion?</p> | <p>Both the industry and individual banks have been fairly active in this area in recent years.</p> |
| <p>Q38 What other bodies should it work with to deliver this role?</p> | <p>This is likely to come out of the consultation process.</p> |
| <p>Q39 What are the main challenges to the integrity of payment systems that need to be addressed collaboratively?</p> | <p>Individual Scheme Companies have undertaken quite a bit of work in this area in recent years.</p> |
| <p>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?</p> | <p>HBOS believes that the current principals as agreed by Board are a suitable base from which to start. Payments Council should help facilitate a UK view on international standards and influence accordingly</p> |
| <p>Q48 What, in particular, should the National Payments Plan say about messaging standards?</p> | <p>The issue is more around data and ability to map into other formats rather than messaging standards.</p> |
| <p>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?</p> | <p>Yes HBOS would be fully supportive of this initiative including benchmarking of payments between banks.</p> <p>Pricing that drives the adoption of electronic payment methods in favour of cash and paper makes sense – although the caveat to this would be transactions between consumers and small businesses where there is a gap in technology, which if filled may create sufficient impetus without the need to burden small businesses (and individuals) with additional cost. Specifically Contactless and Pre-paid (mobile) Card technology would seem to be particularly appropriate for this market sector, and investment here should therefore be encouraged.</p> |

HBOS plc
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