

# **National Payments Plan – Public Consultation**

Response from Lloyds TSB Bank plc  
to the Payments Council

**30 January 2008**

# **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?**

- Yes. A plan is essential to:
  - drive and accelerate changes in customer behaviour
  - inform on-going investment in I.T. systems and processes
  - support development of products and services to replace cheques
  - understand potential impact on all sectors' and key interested parties

**Q2 For which types of payment currently made by cheque do new alternatives**

- need to be introduced?
- Principally:
  - **person-to-business**, e.g. cheques payable to schools and small business such as window cleaners, plumbers, market traders, etc.
  - **person-to-person**, e.g. birthday presents, second-hand car sales.
  - **business-to-business**, typically SME's, where other aspects of cheques are valued (e.g. advance payments, cash flow control, non-financial information).
  - **business-to-person**, e.g. refunds, insurance payments, etc.
- Education is key to informing users of the availability and benefits of alternative methods (e.g. reconciliation of electronic payments).
- Opportunity to learn from other countries that have successfully withdrawn cheques (e.g. Netherlands, Sweden).

**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)?**

- A series of targeted dates are required to reduce usage of cheques by incremental percentages, which are more aggressive than the current natural rate of decline, e.g. 50% by 2012.
- Targets will help to incentivise development of alternatives, which will be necessary to change behaviours and give users viable alternatives.

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

- Cheque users should be educated around:
  - benefits of alternatives (e.g. security, speed, convenience)
  - cost to UK economy
  - environmental implications (carbon footprint)

**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:
  - removing the scheme entirely would reduce the attractiveness of cheques and further accelerate their decline, whilst also helping the battle against fraud.
  - more retailers are declining to accept cheques and fewer cheques are being guaranteed, therefore demand for this service is declining rapidly.

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

- To produce the business case for UK plc cheque migration.

**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
  - The underlying debit is not exclusively a cheque.
  - Paper credit clearing needs to be addressed specifically, because it could be removed before cheques have disappeared and removal could speed up the reduction in the use of cheques.

**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, but the Plan should aim to reduce cash usage, by encouraging the use of alternatives.

**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, the Plan should focus on more pressing strategic issues.

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

- Examination of ways to improve the efficiency of cash (e.g. active development of paper alternatives, reduce counterfeiting, promote cash rounding).

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

- Faster set-up time
- Ability to make one-off payments
- Widen the eligibility to become an originator of direct debits
- Encourage SMEs, schools, charities, etc. to become direct debit originators.
- Billing companies to promote direct debits as preferred payment method, via pricing incentives and/or refusal to accept standing order or cheque payments.
- Improved education of consumers about the benefits of direct debits.
- Widen the type of account base from which direct debits can be made (align direct debits and recurring card payment models).

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

- Yes, provided:
  - this is supported by the results of customer research
  - the costs / benefits / implications are fully understood and accepted

It would seem strange that the UK is not aligned with Europe, however they have not necessarily achieved the correct balance between consumer, originator and sponsoring bank risk, in that 6 weeks is probably too short.

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

- 12 months, aligned with warranty on goods.

**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?**

- Standardisation of reference data to improve / enable reconciliation by the beneficiary, which would require significant investment spend to change systems across a range of stakeholders.
- Customer education to provide the required reference data in the correct format.
- This current issue is perceived as a real obstacle to migrating businesses away from both cheques and the issuance of paper invoices, and would be a significant enabler for e-invoicing.

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

- No, the UK is already addressing this issue via the introduction of Faster Payments.

**Q16 What opportunities would you identify to exploit the ATM infrastructure for non-cash transactions? How should these be reflected in the National Payments Plan?**

- Specific non-cash developments on ATMs are a commercial matter for individual providers.

**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.

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

- Payments Council should encourage collaborative efforts across the industry to would improve the efficiency of wholesale transactions.

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

- Endorse the concept of SEPA and minimize the impact on UK plc.

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

- Introduction of the PSD into UK law in 2009 will affect both Sterling and Euro payments.
- Therefore, SEPA will create a third infrastructure for UK banks: domestic, 'foreign' and European payments, which is a significant overhead, not just for banks but also the corporate market.
- Payments Council has a key role to play in protecting the interests of the UK, by briefing and informing HMT and UK regulators.

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

- We understand cross-border payments to mean worldwide:
  - Standardisation
  - Global schemes and rules
  - International infrastructures

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

- SEPA already requires financial services providers and customers to provide account information using BIC and IBAN.
- This has involved significant initial investment for financial services providers, but will underpin simplification of infrastructure and processes, leading to longer-term cost savings.

## **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?**

- Yes.

**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?**

- Development of common standards for technology infrastructure and systems.
- Development of customer protection, via disputes and chargeback procedures.
- Education and communication to influence customer behaviour to use contactless technology.

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

- Development of common standards for technology infrastructure and systems.
- Development of customer protection, via disputes and chargeback procedures.
- Education and communication to influence customer behaviour to use pre-paid technology.

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

- Development of common standards for technology infrastructure and systems.
- Development of customer protection, via disputes and chargeback procedures, and actions initiatives to reduce fraud.
- Education and communication to influence customer behaviour to use mobile technology.

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

- Yes. This covers the collaborative space and is an opportunity for NPP to promote the wider benefits to customers and providers of mobile payments, e.g. convenience, speed and efficiency.

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

- Convenience, ease of use, near real time confirmation of receipt of funds, security of transaction, alignment with pre-paid / contactless payments, added-value services (e.g. over the air top-up).

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

- Replacement of traditional payment methods, with increased functionality and benefits.
- Opportunity for interactivity with customers

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

- None.

**Q31 Do you agree that the Payments Council should indicate support for the work of the European Commission Steering Committee on e-invoicing and associated activity, including the development of international standards that facilitate supply chain efficiency?**

- Yes.
- European and UK developments are closely mirrored, therefore Payments Council should ensure that the UK position is promoted and protected and also aligned with global developments.

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

- An active role in supporting and promoting the interests of the UK, with clear governance direction as to how we should interact with Europe and the rest of the world.

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

- All aspects of the supply chain should be considered, on an end-to-end basis, including consumers, suppliers and other stakeholders.
- Support for scheme governance review, which is seen as key to enabling delivery of the plan.

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

- Development and promotion of improved Fraud Prevention measures, as these form part of the collaborative industry space.
- Micro payments should be also considered.

## **OTHER ISSUES – EDUCATION**

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

- Financially-excluded, schools / youth market, immigrants.
- Financial security – what consumers should / should not be concerned about, and how they can protect their money.

**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?**

- Payments Council can, and should, play a key leadership role. It's credibility will be strong, as it is able to present an impartial view due to the presence of non-financial representatives amongst its membership.
- Other bodies to work with: media, government, consumer groups and independent advisors (e.g. Consumers Association, Citizens' Advice Bureau).

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

- See answers to questions 35 and 36.

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

- Media, government, consumer groups and independent advisors.
- Accountability needs to be clearly defined and understood, otherwise there is a risk that each body assumes that another is taking the action.

## **OTHER ISSUES – FRAUD**

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

- Security of data
- Protection against fraud
- Robustness and resilience (i.e. UK-wide planning similar to that for avian flu to mitigate impact against attacks on payments systems from terrorism, etc.)

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

- Payments Council should ensure that new developments have adequate fraud counter-measures, so that payments are not brought into disrepute.
- Payments Council should set minimum standards, but not be prescriptive about how they are achieved, so leaving payments services providers to choose and offer more as part of a competitive offering.

**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?**

- Promote minimum standards of authentication, for each channel / access mechanism, since any successful attack on one bank will damage the reputation of the entire industry.
- Address customer authentication as part of a collaborative approach across the industry, although individual banks may set specific parameters for individual transactions and/or types of payment
- Help to unlock access to data (e.g. electoral roll) which may enable banks to extend their financial services offering to a wider market, e.g. financially-excluded.

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

- Yes.
- Yes. A pre-requisite will be collaboration across the financial industry and with major computer manufacturers, telephone companies, etc.

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

- Adopt an independent role, but support new developments by providing research, guidance and opportunity for collaborative industry-wide discussion in the non-competitive space.
- Encourage use of consistent language and terminology.
- Help overcome any legislative barriers that are inhibiting developments.
- Education on benefits.

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

- The industry is already covered by existing regulation (e.g. Data Protection Act, Banking Code), however the NPP can promote discussion of improved standards and risk controls across the collaborative space.
- Help to unlock access to data (e.g. electoral roll) which may enable banks to extend their financial services offering to a wider market, e.g. financially-excluded.
- Understand the obstacles to data-sharing and encourage increased collaboration.

**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?**

- Payment Services Directive already states clearly who will pay for the cost of fraud incidents.
- Payments Council should play a role in improving education of consumers, merchants, etc. (i.e. all parties in the chain) as to how they can prevent / better protect against fraud.

**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?**

- See response to question 45.

**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?**

- Payments Council should:
  - adopt an holistic view to reflect the interests of all stakeholders.
  - ensure that the UK has plans in place to support and adopt, where possible, single international standards for both its domestic and cross border payment processing.
  - understand the end-to-end impact that development of international standards have on current domestic standards, especially on banks' and customers' payment and accounting systems (e.g. SEPA has used the new international standard ISO 20022; this is based on the E2E transaction chain, which creates far more fields and field sizes than in legacy domestic standards like Standards 18, thus impacting interoperability).

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

- NPP should consider advocate the use of ISO 20022 for all message communications, which already encompasses end-to-end processes.
- However, this should not be made mandatory, as this would incur significant costs to the accounting systems of financial institutions and corporates.

## **OTHER ISSUES – COSTS**

**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?**

- No, due to questionable benefit and the cost/difficulty of doing so. Costs analysis is already undertaken as part of individual business case development.
  - Payments Council should educate consumers as to the value that Financial Institutions bring to the UK economy and their importance as part of the UK national infrastructure; focusing on 'costs' would detract from the importance of getting this across.
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