

Nationwide Building Society  
Payments Strategy  
Nationwide House  
Pipers Way  
Swindon  
SN38 3GN

National Payments Plan Consultation Response  
Payments Council  
5th Floor  
Mercury House  
Triton Court  
14 Finsbury Square  
London  
EC2A 1LQ

1<sup>st</sup> February 2008

Dear Sir

National Payments Plan

I am writing in response to the Payment Council's official consultation document entitled "National Payments Plan – Consulting on change in UK payments" on behalf of Nationwide Building Society (NBS).

Nationwide is the world's largest building society with over 13 million members and assets of over £160 billion. Nationwide has mutual (as opposed to Public Limited Company) status, which means that it is owned by its members and is run day-to-day by an executive management team overseen by an elected board of directors. The Society has around 19,000 employees, with our head office in Swindon and principal administration centres in Northampton and Bournemouth.

Nationwide welcomes the opportunity to work with the Payments Council on the National Payments Plan and I attach a document outlining Nationwide's views on each question.

Representatives of Nationwide assisted with drawing up the consultation paper and have provided input to responses being submitted by other specialist groups, such as the Card Payments Group.

Nationwide look forward to continuing to work with the Payments Council and helping take forward the Plan.

Yours sincerely

Kyra Oattes  
Payments Strategy  
Nationwide Building Society

National Payments Plan - consultation response from Nationwide Building Society, February 2008

**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?**

The use of cheques is declining and there is no reason to believe this trend will reverse. If natural decline is allowed this will pose problems such as higher unit costs of processing, as highlighted in the consultation paper, therefore Nationwide supports appropriate planning for the reduction in use and total removal of cheques as a payment method.

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

Cheque payments between two individuals (for example gifts, debts) and between individuals and sole traders/small businesses (for example trades people, clubs) are those with the least number of current alternatives payment methods (excluding cash). Business to Business and Business to Person payments may also need to be encouraged away from cheque however existing alternatives, such as direct credits, exist. For these payments the focus should be on education and incentives for both payer and payee to use these existing methods.

**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)?**

Yes, as indicated in the response to Q1 Nationwide supports planning and working towards the removal of cheques, with the appropriate safeguards detailed in the consultation around alternative payment methods which are convenient, secure, reliable and timely. The date of 2018 seems a suitable target date given the estimated trajectory of decline in usage.

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

Nationwide considers it important to have a co-ordinated approach to education, with central bodies (such as BBA, BSA, APACS, National Consumer Council) having information which is provided both directly to consumers and to financial institutions in a similar fashion to the Chip and PIN campaign. This will enable those institutions to encourage their own customers to move away from cheques, whilst providing a consistent message. It is also important to have practical assistance available as well as information, and for the education programme to ramp up towards 2018. The education programme would need to focus on the ease of use, reliability and security of the alternative payment methods, as well as any other areas that are highlighted by research into why customers would choose to continue using cheques. Information should be made available via a wide range of channels and in a variety of formats to engage as many people as possible. Lessons should also be learnt from the experience in other countries where cheque usage has been removed either through legal intervention or encouragement.

**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, a review should be undertaken immediately. If appropriate, the removal of the scheme would simplify the processing of cheques and may also accelerate the decline in usage. It is important to plan this bearing in mind the 2018 target for removal of cheque. An interim target for removal of the guarantee scheme would be welcome, such as 2013 as the mid-way point.

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

Individual organisations should support the objective of moving towards electronic and card payments, including mobile payments, by reviewing their own internal processes for cheques such as discouraging cheque book issue at account opening, numbers of cheques issued to customers (both personal and company cheques), use of cheques in settling internal exceptions.

A further consideration is the widespread practice of outsourcing cheque clearing. The Payments Council should include providers of cheque clearing in their discussions around the dates for closing the guarantee scheme and removing cheques as a payment method altogether. This will ensure there is harmony between reducing customer requirements and viable business offerings.

**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, as there are existing more efficient, more secure and customer friendly, electronic alternatives Nationwide supports a review of the paper credit clearing. Any short term measures such as an education programme should be targeted at both consumers and issuers of bills. Attaching bank giro credit slips to bills embeds their usage and utility companies in particular should be encouraged to promote alternative payment methods. Nationwide would be in favour of removing the paper credit clearing at an earlier date than the removal of cheque clearing as this would help stimulate further reductions in cheque usage.

**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, Nationwide believes that cash will remain a major payment method in the timescales covered by the NPP. This can be reviewed at a later date once alternatives are available, and adoption is widespread, for making small value payments such as confectionery, tobacco, newspaper items (for example contactless card/mobile phone 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?**

The supply and quality of notes in circulation is an important issue, for example improved quality could lead to reduced costs, a strategy is required around the availability of lower-valued denominations. Nationwide believes that this is best left within the scope of existing forums such as the Bank of England working groups and the Cash Services Group (of which Nationwide is a member).

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

No specific actions identified at this stage other than continued monitoring on the popularity of cash and the reasons for its continued usage. Advocates of alternative payment methods will no doubt continue to encourage the use of them and this could influence cash usage itself. Nationwide supports contactless payments as a suitable alternative to many cash transactions.

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

There are already rules and standards in place to ensure the integrity of the Direct Debit scheme. Increased compliance with these rules by both originators and financial institutions would help increase consumer confidence. Participants in the Direct Debit scheme should continue to adopt, and be encourage to adopt, best practice mechanisms for validating customers particularly at sign-up to a Direct Debit instruction.

Greater communication on the flexibility of the scheme, for example the minimum payment amount, would potentially attract new users.

Increased visibility of the process at each stage would increase customer understanding and therefore confidence.

Direct Debit originators already encourage take-up of Direct Debits for example by offering cost savings. Such encouragement should be continued.

Nationwide supports the introduction of further functionality such as improved one-off payments. Participants in the Direct Debit scheme need to work together to provide greater flexibility on the amount that the customer may wish to pay (such as an amount between the minimum payment and the full amount of a bill).

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

Nationwide are broadly supportive of a time limited guarantee as the reduced potential liability might encourage more organisations to become originators and would reduce costly administration. Furthermore it is clear that the Payment Services Directive will drive the UK towards such a time-limit in order to smooth the transition from a UK system to a European system. The impact on the customer experience and confidence in the scheme is crucial; therefore a large communications exercise and sufficient lead time for both consumers and originators are essential.

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

Thirteen months as this encompasses annual payments and current analysis of Direct Debit indemnity claims suggests that over 90% of claims are made within 12 months of the actual payment. This would be consistent with the consultation paper on the Payment Services Directive which encourages the UK payments industry to maintain a high level of customer protection for Direct Debits by granting more favourable terms than the minimum eight week refund limit.

**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?**

Messaging standards could be improved. The current Standard 18 format does not promote the transfer of relevant reference information. The introduction of ISO 20022 or XML standards would enable the reference information to be a part of the instruction – member banks and central infrastructures processing these payments would then need to be able to transport the instruction. This is particularly relevant for business to business payments.

If the message format were to stay unchanged additional security features must be considered including; validation for all data entered into reference fields, use of unique reference data rather than collection accounts, use of secondary data to validate the primary reference data.

This is another area where customer education could play an important role.

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

Enhancements to direct credits are likely to be similar to those for direct debits (as per Q11), that is improved awareness of the process and stricter compliance to the rules and standards.

**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?**

ATMs could be used for a wide range of functions as well as dispensing cash and PIN management for example mobile phone top-ups, setting up and triggering bill payments, accessing on-line banking. Some of these functions are already offered by financial institutions and others will be in development. Nationwide does not currently see a role for the NPP in this competitive arena, although the development of new payment methods may generate a requirement for some industry standards/service.

**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 specific actions identified other than continued promotion of these payments methods as an alternative to cash, cheque and counter-based transactions.

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

Nationwide agrees with the statements made about CHAPS including the expectation that some payments currently made by CHAPS will migrate to new services, and that CHAPS should continue to deal with high value wholesale payments.

Recent increases in the number of CHAPS extensions called by wholesale institutions in order to complete payments may indicate that better coordination of CHAPS with the funding arrangements for CREST settlement could be beneficial to the smooth working of payments systems.

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

Nationwide sees the role of the Payments Council as continuing to protect the interests of the UK and assisting UK schemes to align themselves with SEPA rules and regulations. Alongside this the Payment Council will no doubt seek to educate and encourage both financial institutions and consumers for example in encouraging a movement away from foreign drafts for payments within the EU.

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

The extent to which an organisation participates in activities regulated by SEPA is dictated by its strategy and market forces. The impact on Nationwide's current payments is limited. An underlying principle for any future development is to ensure the customer is not disadvantaged and that appropriate development, implementation and education processes are followed.

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

Links between member states' clearing systems need to be aligned to ensure they are effective, including being operational 24 hours a day 7 days a week.

Nationwide encourages transparency in the costs and associated charges for cross border transactions.

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

It is essential that efficiency gains do not compromise security, indeed Nationwide envisages that efficiency will be gained via increased accuracy and quality of data (such as validation routines). Although fully supportive of moving towards standard sort code account number formats, Nationwide does not support portability of account numbers across organisations due to the overwhelming practical issues this presents compared to the benefits, as referred to in the consultation document. A standard of sort code account number format would be sufficient to aid consumer understanding as well as facilitating consistent validation across remitting and receiving systems.

Improved user efficiency is a by-product of moving towards automated transactions rather than paper transactions and so many of the initiatives covered elsewhere in the NPP will assist with this especially those covering education and promotion.

**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, Nationwide have been working with the industry association Card Payments Group and a more detailed response is being submitted by this group which supports the assertion that there is unlikely to be a role for a central management function at this stage. Nationwide supports the view of the Card Payments Group on the need for convergence of technology and commonality of standards.

**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?**

As for Q23, Nationwide have been working with the Card Payments Group and a more detailed response is being submitted by this group. This outlines the appropriate areas for a central approach whilst allowing sufficient competition to differentiate offerings.

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

As for Q24, Nationwide have been working with the Card Payments Group and a more detailed response is being submitted by this group. This outlines the appropriate areas for a central approach whilst allowing sufficient competition to differentiate offerings.

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

Nationwide are supportive of the role of the Payments Council in facilitating the design, development and delivery of a scheme and appointing a service provider to enable mobile account to account payments. (This is a similar role to that undertaken by APACS for Faster Payments.) Nationwide are participating in the Mobile Payments Group (MPG) which has this as their objective. The scheme and service should include a variety of standards such as messaging, with a focus on security given the vulnerability of mobile phones. The Payments Council, via the MPG, should also maintain a watching brief over other developments in the mobile arena, for example, those based on non-phone mobile devices and those based on business to business payments.

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

Yes, as for Q26 Nationwide are actively supporting this via representation on the Mobile Payments Group.

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

The Mobile Payments Group is commissioning research into this. Nationwide believes the findings are likely to include; no requirement to pre-set up payees, the ability to select a payee by mobile phone number not bank account number, no requirement for new handset or software, ability to use regardless of mobile network operator or bank account provider, ease of use, speed, low or no cost, ability to use for person to person payments and for purchasing goods and services (combine with contactless payments), acknowledgement of funds transferred and security.

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

Given the coverage of the UK population, mobile phones potentially will play a significant role as an additional payment method. By combining contactless chip technology and any new account to account transfer functionality, the mobile phone, or other mobile devices, could replace cash and cheque transactions (subject to appropriate information security measures).

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

The NPP should ensure that any scheme developed to deliver account to account payments meets the needs of all parties and that the progress and timescales of the Mobile Payments Group are widely communicated.

**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, Nationwide would welcome any initiatives to better manage the supply chain, particularly those involving standardisation of e-invoicing.

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

No comment.

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

No comment.

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

To reach the desired date of 2018 to retire cheques it will be necessary to understand how many, and which, current cheque transactions will be replaced by the payment innovations already covered in the NPP. Nationwide would welcome research into other innovations on a global basis that may assist movement into electronic and card payments.

Payments should be viewed in its widest sense when considering innovations. Organisations outside of the traditional financial community should be included, such as telecoms provider offerings and specialist fraud detection system suppliers.

Whilst considering innovations in the offering of payment methods, the NPP should keep ahead of similar innovative progress by fraudsters and press for industry-wide combative measures where appropriate.

Current and future innovations in payments may require support from the Government. The Payments Council is well placed to champion these innovations and obtain the appropriate commitment.

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

The success of some existing financial education initiatives may be improved by introducing greater consistency in terminology across organisations and simplification of language.

Greater visibility of the central groups and their work would help instil confidence. Wider communication of existing processes, timescales and standards may assist understanding and reduce complaints and customer wariness.

Awareness of security needs to remain high on the education programme, for example identity theft and phishing.

Nationwide remains committed to working with the media to ensure accurate reporting and interpretation of detailed processes and technical information to ensure the correct message is relayed to the general public, especially via high profile TV programmes and newspaper articles.

**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?**

The Payments Council can add value by providing generic information clearly produced and endorsed by the appropriate regulators. This should be distributed directly to customers and via financial institutions and other involved parties in the UK and overseas such as Telco's, internet service providers, card providers, law enforcement agencies. This will ensure standardisation of the message and the language. It is also worth considering communication to employees of all concerned organisations as well as their customers and suppliers.

Other bodies in this arena include the BBA, BSA, APACS, NCC. The Payments Council should also work with the Treasury to promote financial education.

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

The education activities underway, or referred to in previous sections, are obviously important factors in promoting inclusion, as are those developments towards making payments simpler and more efficient. In particular, developments in the mobile phone payments area may provide a suitable platform for those at risk of being excluded.

Initiatives to combat fraud will also aid greater inclusion - as an organisation's exposure to loss reduces its ability to prudently take on new business increases.

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

Those organisations with a role to play in education (see Q36) could also play a role in promoting financial inclusion.

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

The need for integrity, fail-safe, compliant systems with appropriate business continuity, disaster recovery and corrective actions plans. Where schemes are introduced these need to have mandatory security features and a process in place to share information on breaches of security and fraud incidents to enable recovery of funds. An underlying requirement is for trust and openness between all organisations. It is essential that users have total confidence in payment systems.

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

The elimination of fraud must be a core driver behind any innovation progression. It should be considered from the earliest stages of development and be an integral part of discussions, with the end goal being a consistent approach. Anti-fraud measures should be considered across the whole payments industry, not just within payment types, especially as innovations such as mobile payments will integrate several payment systems and providers.

The experience of other payment methods and other countries should help inform the decisions. Key anti fraud bodies and campaigners should be consulted.

The same rigour should also be applied to changes to existing processes and systems.

**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?**

Generally Nationwide views this as a competitive issue, reflecting an organisation's appetite for risk. The NPP can assist by carrying out research into new authentication approaches, such as biometrics, and issuing broad statements of good practice in these area, highlighting risks and constraints as well as benefits.

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

Nationwide supports minimum standards for authentication of remote transactions though believes that this should not be extended to a mandated measure of authentication. The level of authentication undertaken by an organisation is linked to its commercial and competitive stance.

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

The NPP should commission and support research into these areas and seek to influence suppliers of these technologies and organisations which may employ these technologies (such as financial institutions, internet service providers, mobile phone network operators).

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

No specific actions have been identified other than supporting existing and future activities being driven by fraud specialists. The ultimate objective is to ensure sharing of confirmed, attempted and suspicious fraud data and Nationwide fully supports this objective.

**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?**

No specific actions have been identified although Nationwide supports a principle of paying for fraud prevention in relation to an organisation's market share and/or impact on its business.

**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 should play a key role in ensuring that fraud and security issues maintain a high profile and in lobbying government to provide sufficient resources to address these issues. The Payments Council should act as an advisor to financial institutions and customers, balancing the requirements to raise awareness of the risks without undermining confidence. This role presents a significant challenge, but one which is essential to future payments, especially those using new technologies. Minimum security standards play a vital part in this by protecting the integrity of payments systems and maintaining customer confidence whilst allowing each institution the flexibility to define its own appropriate levels of security.

**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?**

It is essential to have standards to enable interoperability and ubiquity. Without standards there would be a lack of conformity, therefore there is a role for the Payments Council in driving forward standards.

Nationwide views the stated principles as a suitable place to start.

The Payments Council should continue to deploy its security experts in influencing European and International standards and helping deploy these in the UK where and when appropriate.

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

The principles for messaging standards should be that they are fit for purpose, future-proof and easy to adopt. They may be positioned to align with international standards such as XML schemas. Having an agreed set of standards for messages would reduce the cost of making payments, bring efficiencies when communicating between organisations and improve the quality of data being transmitted across networks.

**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?**

Although supportive of the principle of individual organisations understanding their costs, Nationwide are currently unconvinced of the business case to undertake this exercise across the industry. There are wide variances in operating models which could lead to significant differences in cost profiles. Nationwide would welcome the opportunity to talk to the Payments Council to understand how any such collective data would be used and whether this presents a compelling proposal.

The changing landscape within the banking industry may impact on the current widespread practice of subsidising the costs of processing payment transactions. This would reinforce the need for an in-depth analysis of payment costs, at an organisation level as a minimum.