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National Payments Plan Consultation Response  
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***Our Reference***    Policy/PR

1 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 Card Payments Group (CPG), the leading industry association of financial institutions who act as card issuers and/or merchant acquirers in the UK card payments market.

CPG is responsible for formulating and implementing policy on non-competitive aspects of card payments, including fraud prevention through its PFPF (Plastic Fraud Prevention Forum) sub-committee. CPG members must issue cards and/or acquire transactions under the Visa, Maestro, MasterCard, American Express, and/or LINK schemes in the UK. CPG is the formal voice representing the collective interests of its members to UK government; the European Commission; regulators; other industries (particularly the retail industry); press and media; and other opinion formers on all matters affecting card payments.

Whilst the views expressed in this letter are those agreed by CPG, individual participants in the UK card payment market may wish to submit their own individual responses to the consultation, as might other key players in the card industry e.g. the card schemes, retailers etc who are not represented at CPG.

Taking the consultation document section by section and question by question, preceded by some introductory observations, CPG has the following comments. Where an issue is not considered relevant for CPG comment a 'no comment' response is given.

## **Introduction**

Card payments in the UK have a long and proud history of development, innovation, efficiency and integrity, having recently celebrated the following anniversaries:

- 40 years of the credit card;
- 40 years of the ATM;
- 30 years of the business card;
- 20 years of the debit card.

During this time the UK card payment market has evolved considerably, being characterised by both a high degree of innovation and by intense competition between card issuers; between acquirers; between card schemes; as well as with other payment methods. Despite this evolution having usually occurred in the absence of formal central co-ordinated planning, cards have become an increasingly popular payment method at UK point-of-sale and, more recently, the most convenient way to pay over the internet - largely at the expense of cash and cheques. Going forward, we would expect cards to continue to play an important role in facilitating card-not-present commerce however it evolves and develops.

Consumer preference has largely driven this migration to cards. On the other hand, payment cards also remain of great interest to fraudsters who continually seek to exploit the system. One of the key challenges that continues to face the card payments industry is that of drawing an appropriate balance between legitimate card users' requirements and fraudsters' subversive behaviour, all the while anticipating future technological advancements.

## **General Points**

In thinking about a National Payments Plan for the UK, CPG believes that it is important to highlight the extent to which the UK card market is both driven and constrained by the fact that payment cards are part of an international global infrastructure subject to its own governance via the international card schemes. In such an environment, innovation, integrity and interoperability are ensured through global standards such as the strong, secure EMV specifications (the development of which was driven forward by the UK card industry in the early 1990s). It is essential to recognise that the external influences on the UK card payment industry are broader than a national UK payments plan in isolation.

It is also important to acknowledge with regard to credit cards that the payment function is but one feature of the product. The credit element of credit card products, the appetite for which can directly impact on consumers' willingness to use their credit cards as opposed to an alternative payment method, along with factors such as the enhanced consumer protection of Section 75 of the Consumer Credit Act (which provides additional protection for credit card purchases, known as connected lender liability), will influence usage.

Direct evidence of these effects exist in the recent continued growth of debit card transaction volumes whilst credit card volumes have levelled out, along with the consumer preference to use credit cards rather than debit cards for on-line commerce as a result of the consumer protection that they offer.

In addition to the above payment cards are subject to both domestic and European legislation and form an integral part of the overall SEPA vision for a single European payments area. It will be against this background that a UK National Payments Plan that considers cards will have to be set.

It is also important to note that in recent years the payments industry, and the card payments industry in particular, has been subject to continual legal and regulatory scrutiny and intervention at both a domestic and European level, often involving challenge to significant revenue streams that underpin the market (e.g. investigations of the card schemes' interchange fees (see below); investigation of credit card administration charges; investigation of current account fees etc). Aside from the real impact on the bottom line, the net effect of this continual intervention is to create uncertainty over future revenues and acts as an inhibitor to long-term investment. The Payments Council might wish to consider the extent to which it has an interest in addressing issues that create uncertainty for payment providers.

CPG hopes that a National Payments Plan will acknowledge and seek to maximise the benefit of the significant investment already made by banks and retailers alike in the card payment technology infrastructure that has delivered true international interoperability in the payments industry, and that it will seek to maintain the consistent customer experience at POS that we have today.

### **Card Scheme Interchange Fees**

On page 6 of the consultation document it is stated that interchange fees in the international card schemes should be out of scope of the Payments Council. CPG absolutely agrees with this approach in relation to the manner in which, and the level at which, interchange fees are set.

However, CPG is of the view that it would be legitimate for the Payments Council - given its emphasis on innovation, integrity and efficiency - to have a position on the principle of interchange fees. Indeed, in the announcement<sup>1</sup> of its recent decision on MasterCard's cross-border interchange fees, the Commission specifically acknowledged that interchange fees would be considered legal if they contributed to objective efficiencies such as to promote more efficient payment means to the detriment of less efficient ones. It would therefore seem natural for the Payments Council to support the principle of interchange fees on the same basis and to be aware of the potential for these cases to have a major impact on the UK payments market, not least in inhibiting innovation.

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<sup>1</sup> Announcement of 19 December 2007

For example, it has been reported that regulatory intervention on interchange fees in Australia since 2002 has inhibited the adoption of chip & PIN in that market and will probably have a similar impact on contactless cards. Were something similar to happen in the UK, this would have significant implications for the UK payments market and thus for the work of the Payments Council.

By way of further example, back in 2003 the OFT published its preliminary conclusions on MasterCard's domestic interchange fees suggesting that retailers be given the choice whether they purchase the payment guarantee (included in the interchange fee) from providers such as insurers or alternatively self-insure, effectively 'unbundling' the fee. APACS, on behalf of CPG, successfully argued that this would have a significant and detrimental impact on industry efforts to tackle card fraud, which is entirely consistent with the Payment Councils' objective of ensuring integrity.

CPG is happy to brief the Payments Council on the generic issues on four-party card payment interchange fees and the potential impact of regulation on the future of debit and credit cards in the UK.

### **Cheques and the Cheque Guarantee Card Scheme**

**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?**

Given that the growth of card payments has been a key factor in the decline of the cheque and that cards represents one of the main payment alternatives at point-of-sale, CPG agrees that such a plan should be developed. We would expect such a plan to be aimed at delivering efficiencies through the replacement of paper-based transactions with electronic (including card-based) transactions.

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

The types of payment that immediately come to mind are person-to-person payments, business-to-individual payments, and so-called micro-payments. Cards, or at least the card payments infrastructure, and/or/or in conjunction with mobile payments, could yet be some of the solutions in these areas, where the acquiring of card payments is the key issue to be addressed.

With regard to business-to-business payments the question is not necessarily about creating new alternatives but rather promoting the availability and benefits of existing alternatives such as purchasing cards (which offer a streamlined purchasing process, with simplified VAT reclaim and flexible management information). Such products are only just beginning to realise their potential after a relatively slow start.

**Q3 Would it be acceptable for the National Payments Plan to include a target date of 2018 for the closure of the cheque clearing?**

CPG's view is that it would be acceptable for the National Payments Plan to include a target of 2018 for the closure of the cheque clearing. It will obviously be important that all customers have an alternative payment option prior to the withdrawal of cheques. If this can be achieved ahead of the deadline then CPG would be happy for closure to take place earlier rather than unnecessarily defer closure until 2018.

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

Clearly the education of users of cheques must cover the reasons for the migration away from cheques and the promotion of the various alternatives, especially cards. Given the potentially wide-ranging nature of the question CPG would welcome the opportunity to explore with the Payments Council the opportunities to educate consumers and payment acceptors and promote card payments as the natural alternative to cheques. The degree to which consumer education is required will depend upon the alternative payment methods being proposed.

**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?**

Agreed. The continued existence of the Cheque Guarantee Card Scheme only serves to perpetuate cheque usage, particularly at the expense of cards at the point-of-sale. Indeed, there is an argument that the lifespan of cheques has already been artificially extended as a result of the actual or perceived regulators' support for the continuation of the scheme.

There remain instances where the cheque guarantee function resides on a debit card and is used to complete a cheque transaction where the debit card function could have been used but was not, resulting in unnecessary inefficiency.

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

No comment.

## **The Credit 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?**

Yes, given the relatively inefficient nature of paper-based systems such as paper credits, CPG agrees that there should be an objective review, despite the fact that the impact on card payments is likely to be minimal.

## **Cash**

**Q8 The Payments Council believe that the National Payments Plan should be developed on an assumption that cash will remain a major payment method for the foreseeable future. Do you agree?**

Agreed. Although the introduction of contactless card payments (see Q24) will migrate a proportion of low value cash payments to cards it is probably a safe assumption that deployment of contactless cards is unlikely to signal the end of cash.

However, it should be remembered that the political will that has already been expressed in Brussels is towards migration away from expensive payment methods such as cash. The National Payments Plan should be aligned with this view.

**Q9 Should the issues of the supply and quality of notes and coins in circulation be within the scope of the National Payments Plan? If so, how should they be addressed?**

Any consideration within the National Payments Plan would need to reflect the commercial realities of operating an ATM estate and the denominational mix of the notes distributed via the ATM network. For example, a tray within an ATM that issues £5.00 notes needs to be filled four times as often as one that issues £20.00 notes, bearing in mind the average ATM withdrawal is around £65.00, with obvious cost implications.

On balance, CPG feels that the supply and quality of notes and coins in circulation should be left to the Bank of England.

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

The Payments Council could consider commissioning a study into the reasons for the continued popularity of cash, along with identifying the full end-to-end costs to the UK economy. This would greatly assist in the market development of viable alternatives.

Feedback from the Mondex and VisaCash trials in the 1990s would suggest that consumers are wedded to cash because of familiarity and ubiquity and are reluctant to move away from its usage without perceiving benefits. Anonymity was another key driver of cash usage, valued by many, not addressed by either Mondex or VisaCash, but possibly overcome by some pre-paid cards (where, ironically, they are purchased using cash). However, a careful balance of interests needs to be drawn as this is not without its downsides where, for example, such cards are used to purchase age-restricted goods by minors.

**Direct Debits**

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

No comment.

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

No comment.

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

No comment.

**Direct Credits**

**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 comment.

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

No comment.

## Credit Cards, Debit Cards and Cash Machines

### **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?**

CPG is not convinced that the delivery of additional services via the ATM network is a UK-level strategic issue relevant for inclusion in a National Payments Plan.

ATM owners have long given consideration to the potential for non-cash transactions through their ATM estates. The one additional function that appears to have found some traction in the market has been mobile phone top-ups, now offered at 62% of BBS-owned<sup>2</sup> ATMs and used an average of 565 times a year at each ATM offering the service. (Some bank-owned POS terminals can also be used for mobile phone top-ups, and PayPoint already use terminals to receive, for example, utility bill payments and congestion charge payments etc). More recently, some ATM owners have also deployed ATMs that issue foreign currency.

Historically, many ATMs have offered bill payment services (offered through a peak of 39% of BBS-owned ATMs in 2003, now 34%, used an average of 245 times a year) or the ability to order chequebooks (offered through a peak of 58% of BBS-owned ATMs in 2003, now 34%, used an average of 26 times a year), even ticketing services, but the evidence suggests that these services have not resulted in significantly large flows of additional traffic. UK ATMs also typically offer PIN management services (i.e. PIN change, PIN unblock) to all cardholders on a universal basis, an important requirement resulting from the migration to chip & PIN.

Ultimately the provision of non-cash transactions must be down to the discretion and commercial interests of the ATM owner who will balance the needs of their own customers as well as of their competitors' customers (given that we have virtually universal reciprocity in the UK i.e. any card can be used in any ATM) and customer service i.e. the fulfilment of customers wishing to use the ATM for its primary purpose - that of cash withdrawals - without encountering large queues of customers using the machine for other non-banking purposes.

Indeed, the Independent ATM Deployers (IADs, the non-banks operating ATM networks) and the ATM manufacturers presumably have the greatest incentive to develop and offer non-cash transactions in order to supplement their business models but there is little evidence of such development, presumably due to a lack of consumer interest or demand.

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<sup>2</sup> BBS-owned = bank and building society owned ATMs as opposed to those owned by IADs (Independent ATM Deployers)

It is therefore doubtful that coverage of this area within the National Payments Plan will be of any particular influence given the make-up of the market and that such developments should be left to market forces.

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

Being an open-ended question makes it difficult to provide a comprehensive answer. However, the National Payments Plan might usefully give consideration to issues such as the following:

- identifying specific market sectors where card payments offer a viable yet unrealised alternative to payments made by cheque, direct debits and standing order and how migration might be encouraged.
- the impact on the operation of market forces of merchants surcharging for certain payment methods such as low value card payments when they do not do so for equivalent cheque purchases (presented with or without a cheque guarantee card). Where such examples exist, the level playing field is removed - something which the Payments Council ought to have a legitimate interest in addressing.
- the extent to which it is appropriate for political pressure to be allowed to influence the payments market where, for example, we have seen the industry make commitments to place ATMs in uneconomic sites in order to address issues regarding access to cash among the socially deprived raised at the Treasury Select Committee.
- the role of payment acceptors in expanding card functionality. For example, many merchants (particularly Internet Service Providers and roadside assistance services) offer recurring transactions on credit and debit cards as an alternative to direct debits, albeit that consumers do not have the same protections that they would have under the Direct Debit scheme. Along with cashback, these are examples of innovations in card-based services driven by payment acceptors (rather than the payment service providers) where they have extended the functionality of cards into areas for which they have not been designed. As a result the industry has had to respond and develop rules and procedures to mitigate any risks and ensure that system integrity is maintained.
- the card industry makes considerable effort to combat the use of its services to purchase illegal material such as child pornography. Whilst this may deter some criminals, others will simply use alternative payment methods. The Payments Council might consider insisting that all payment providers, not just the card industry, take steps to combat such activity.

## **CHAPS and the Wholesale Markets**

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

No comment.

## **SEPA and Cross-Border Payments**

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

From a card perspective, the key issues arising from SEPA are (i) the possible emergence of a new European debit card scheme to compete with Visa Debit and Maestro and (ii) the move towards greater standardisation within the four card payment domains (i.e. card to terminal; merchant to acquirer; acquirer/scheme to issuer; and common approvals).

UK card issuers and acquirers will need to take strategic decisions in the not-too-distant future as to whether they wish to participate in a new European debit card scheme. Some would say that it would, in fact, be a backward step for the UK if a solution involved co-badging a local (ie. European) brand with an international brand.

A key influence on the prospects for such a scheme will be the decisions of the European Commission and domestic regulators, including the OFT in the UK, with regard to four-party card payment interchange. If adverse, these could easily make it difficult if not impossible for such a scheme to develop. Hence CPG's view expressed earlier in this response that the Payment Council has a legitimate interest and role to play in the outcome of this intervention.

With regard to SEPA more generally, it is important that the National Payments Plan does not contradict the 'open market' approach that underpins SEPA through, for example, the promotion of domestic variances from SEPA standards.

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

See answer to Q19.

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

With regard to cards, cross-border payments and international interoperability are integral features of the core product offering. Cross-border payments have been improved in recent years in the sense that cardholders now have better and clearer information on the costs associated with card payments made overseas. For example, improved detail on foreign exchange transactions became a requirement in the Banking Code as far back as 2003.

From a UK perspective the primary improvement to card-based cross-border payments would be faster adoption of chip & PIN overseas (both at point-of-sale and the provision of secure PIN services at overseas ATMs), especially in the US, though this is unlikely to be influenced by a UK National Payments Plan.

**Measures to Enhance Users' Efficiency**

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

No comment.

**Contactless and Pre-Paid Cards**

**Q23 Do you agree that at the present stage of market development the contactless and pre-paid card sectors are best left to initiatives from individual payment service providers and the card schemes?**

Yes. Innovation in card payments has long been a key feature of the UK market. Both contactless and pre-paid cards (where pre-paid covers a range of different product types ranging from fixed-value gift cards through to reloadable travellers' cheque substitute products) are at an early stage of deployment and should be left to the market and to competition.

Competition between card issuers, merchant acquirers and card schemes is intense. Pre-paid cards have been introduced by a number of non-traditional card issuers entering the market, demonstrating the appetite for innovation and competition within the card industry. At this stage it is expected that consumer and payment acceptor demand will drive these innovations towards national rollout and critical mass without the need for a co-ordinated and detailed central management function.

**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?**

Contactless card payments, launched in London in late 2007, have the potential to migrate large numbers of low value POS payments away from cash, especially coin, reducing the time and cost associated with handling cash within the UK economy. CPG, working with the card schemes, is constantly reviewing the progress being made towards national rollout and is prepared to consider any action that may be required to ensure success.

UK-issued contactless cards are based on the international EMV standards that ensure international interoperability. The UK card industry continues to work with EMVCo in order to ensure that the standards are fit for purpose and that they suit the UK market's needs.

Card displacement initiatives (i.e. the use of different form factors, some of which will be considered mobile) based on the EMV contactless payment model are likely to prove popular in the long term. It is therefore imperative that, from an interoperability and integrity point of view, providers adopt similar technical standards. It would therefore be appropriate for the National Payments Plan to include statements about convergence of technology and commonality of standards, though caution must be taken to ensure that such statements assist competition rather than stifle innovation.

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

Pre-paid cards offer potentially large-scale systemic advantages for many types of business and for public sector payments by both central and local government bodies. These range from the controlled disbursement of insurance claim payouts to salary and/or expenses and benefit payments to the unbanked etc. Such a migration stands to promote financial inclusion, public sector accountability and cost effectiveness, and risk mitigation and enhanced security for both the issuer and beneficiary – potentially at the expense of paper-based and cash payments.

It is expected that competition and demand from consumers and corporate customers will drive the pre-paid market. As with contactless card payments, the availability of interoperable standards would be a distinct advantage for both providers and the retail community. It would therefore be appropriate for the National Payments Plan to include statements about convergence of technology and commonality of standards though caution must be taken to ensure that such statements assist competition rather than stifle innovation.

## **Mobile Payments**

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

CPG is conscious of the fact that, in future, only the chip, not necessarily resident on a physical plastic card, will be required to perform a secure payment transaction. Other form factors such as mobile phones, watches, key fobs etc based upon the card payments infrastructure are foreseeable. In fact, we have already seen these types of innovation emerging in both the UK and overseas, particularly mobile phone type offerings. Such developments need to be considered as part of a global, rather than UK, advance where international interoperability is paramount.

What is meant by 'mobile payment services' needs to be made absolutely clear and be fully understood given that it could cover any number of different solutions to different problems. For example, there is a distinct difference between what is effectively a contactless payment carried out using a mobile phone as a new form factor and a payment carried out using technology embedded in the SIM card and the communications protocols of the handset, especially where a mobile phone has internet capability.

Overall, the consultation document seems to suggest a general focus of the National Payments Plan on allowing market forces to operate but providing support in areas where a failing or weakness might have systemic consequences, which seems a reasonable stance to take. Using mobile payments as an example, the Plan should be mindful not deviate from this path and focus on one specific UK standard where there is no guarantee that it will satisfy market demand, be internationally or SEPA compatible, or would not inhibit other, potentially better, innovations.

Instead, mobile services should be allowed to develop competitively with the Plan focusing on ensuring that issues of systemic risk are addressed. For example, the Plan might choose to:

- be explicit on the requirement for any new standards to be interoperable with existing standards such as EMV;
- articulate a set of minimum requirements aimed at protecting mobile payments from fraud;
- detail the type of protection required against the unauthorised use of mobile phone numbers by third parties where that number has been used for payment purposes rather than personal contact purposes;
- articulate the general principles for evaluating whether or not vendors and providers of mobile payment services are providing products that are fit for purpose.

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

See answer to Q26. How this fits with the Faster Payments initiative would be a key consideration. Clearly it would be critical for banks to have significant input to such a scheme.

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

This would depend on what the purpose of the mobile payment service being considered and the types of payment within scope. However, familiarity; linkage to an existing underlying account and/or an interface with current banking facilities; the speed and simplicity of transactions; ubiquitous acceptance; security (both of the device and the transaction); value-added features (such as over-the-air remote top-up; balance checking etc); peer-to-peer capability; and international interoperability are all likely to be paramount.

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

In the absence of a firm definition of what is meant by a 'mobile payment service' CPG is as yet unconvinced that mobile payments should be considered as an alternative to traditional forms of payments or indeed the new Faster Payments service. Rather, mobile payments should be considered as a complementary or added value feature of existing forms of payment. However, CPG appreciates that in due course simple demographics will mean that many younger consumers will experience mobile payments at the same time as, or without ever becoming regular users of, more traditional payment methods.

That said, mobile payments could be one alternative to cheques in those environments where there is no other current obvious alternative to cash, such as person-to-person and certain personal-to-business payments. Also, if combined with contactless functionality, this form of payment could replace cash in specific sectors such as transport.

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

The Payments Council might consider commissioning work to determine whether mobile payments can be delivered at reasonable transaction cost.

## **Supply Chain**

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

Although not specifically a cards-related issue, CPG believes that with significant cost efficiencies to be gained from the wide-scale implementation of e-invoicing, it would be appropriate for the Payment Council to support the work of the ECSC. Once the standards debate has been resolved we would expect market forces to drive development.

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

The National Payments Plan should encourage active engagement within the ECSC on e-invoicing standards, including discussions domestically with Large Corporate and SME User Forums as a means of informing this work. We would expect Large Corporates to be a significant influence on the business requirements and it would be useful for there to be a channel for their input.

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

No comment.

## **Other Innovations**

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

The Payments Council might be interested in the development of multi-application cards that could require the development of an interoperable technical infrastructure. To be successful, this might require engagement with other smart card users such as the Government.

As evidenced by the success of cards in the UK, in a competitive payments market, innovation will be driven by commercially engaged stakeholders including card issuers, merchant acquirers and the card schemes. The Payments Council role should be to influence those factors that might hinder competition, such as regulation.

## **Education In Payment Matters**

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

CPG does not have an explicit remit or role in financial education, which is an area covered by many other parties. Nevertheless, CPG does produce materials (which are regularly updated) with a financial education purpose open to use by anyone who cares to use them, including:

- [Choosingandusing.com](http://Choosingandusing.com) – a consumer friendly site designed to give straightforward, unbiased information about credit cards. Choosingandusing is supplemented by a series of press releases and on-line digi-guides that give advice on particular aspects of card payments such as choosing a credit card; using a credit card (including specific advice for under 18s; parents; students; the elderly etc); how the card transaction process works; paying safely on-line; checking your credit record; using chip & PIN; protecting your PIN; making payments abroad; understanding your credit card statement; cards and on-line gambling; and other top tips etc;
- [Retailersandcards.org.uk](http://Retailersandcards.org.uk) – a site designed to inform retailers on the options available to them should they wish to consider accepting payment cards.

Other stakeholders such as PFEG (the Personal Finance Education Group), the FSA and consumer groups are probably better positioned than CPG to comment on gaps in financial education and how they ought to be filled.

### **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?**

Again, other stakeholders are probably better positioned than CPG to comment on the role that the Payments Council can play and the other bodies it should work with. Where the Payments Council takes a role it is important that it speak as an independent voice, highlighting both the benefits and drawbacks of all payment methods, thereby promoting payments efficiency against an informed background.

## **Financial Inclusion**

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

With regard to payment cards, the UK population is already well served and will compare favourably to other countries in the developed world. 92% of adults hold a payment card of some sort, with 84% holding a debit card and 66% holding a credit card. Obviously CPG would wish to see these penetration rates increase and is prepared to work with the Payments Council to that end, but there is a view that card penetration is not far from saturation.

Nevertheless, pre-paid cards represent an opportunity to introduce those currently outside the card payment market to cards, particularly the young, the unbanked and migrant workers, which should serve to increase the headline figure mentioned above.

With regard to credit cards, care needs to be taken to ensure that efforts to promote financial inclusion do not result in inadvertent consequences such as any exacerbation of over-indebtedness

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

No comment.

## **Payment System Integrity and Contingency**

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

The integrity of payment systems, including cards, and contingency are, of course, key considerations. All card issuers, acquirers and schemes will have their individual contingency plans in place should normal business operations be adversely affected in some way.

In recent years, the Tripartite Authorities (HMT, FSA, Bank of England) have conducted an annual contingency test based on different scenarios each year (e.g. flu pandemic). A feature of this work has been the testing of the resilience of payment services, including card payments. It is perhaps worth the Payments Council approaching the Tripartite Authorities directly in order to answer this question.

For the drive towards SEPA to be successful it will be important that any new systems or standards or, indeed, revisions to existing systems or standards, retain the current levels of integrity and contingency awareness, and that these are not compromised in order to achieve political objectives.

## **Fraud and Security**

Regarding the integrity of card payments, CPG has driven almost two decades of concerted industry effort in tackling fraud. Whilst high-profile initiatives such as the successful introduction of chip & PIN and the rollout of 3D Secure (i.e. *Verified by Visa* and *MasterCard SecureCode*) are the most obvious results of this work, communications, improved data sharing, better staff training and education, the use of on-line authorisations, the use of neural networks, the Industry Hot Card File (IHCF), developments in law enforcement such as the Dedicated Cheque and Plastic Crime Unit (DCPCU), and changes in the law all have a part to play.

The constant battle against the fraudster is a key feature of Card Payments Group's work, where the industry has been a significant stakeholder and a major influence upon the government-led National Fraud Strategy under the recent fraud review.

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

It is vital that anti-fraud measures be integral to the development of payment systems and solutions at the conception and design stage. This should apply equally to the gradual evolution of existing systems as well as any new or innovative proposals. Advice and consultation with appropriate industry experts and/or bodies should form part of any development.

Furthermore it is essential that these considerations should form a key part of the assessment process, requiring full involvement of the appropriate industry level security and fraud expert groups. It may be appropriate for the Payments Council to create some form of high level screening checklist against which initiators of change can screen new proposals.

### **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?**

The National Payments Plan should:

- Emphasise the need for robust customer authentication;
- Promote authentication as part of the payment transaction, not as a separate activity;
- Endorse 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 consumers receive a consistent experience;
- Educate consumers on the purpose and value of authentication.

Banks are already deploying a range of solutions tailored to their different services. CPG believes that there is a danger in adopting a one-size-fits-all solution to security issues such as authentication, believing that the consumer experience and underlying commercial and risk appetite considerations should be the key drivers.

The Payments Council needs to be seen to champion best practice without mandating specific solutions (consistency doesn't need to mean the same technique, just equivalent strengths). It may be appropriate for the National Payments Plan to include statements about what should be regarded as minimum requirements and for the Payments Council to lobby on behalf of UK plc with national and global bodies such as the Government, the European Commission and the international card schemes - who do have the ability to mandate minimum standards - to ensure that the standards set are practical, cost effective and appropriate.

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

CPG does not believe that the Payments Council should try to set one-size-fits-all minimum standards across all types of remote payment authentication. It may be appropriate to seek to agree minimum standards for specific payment transaction types or channels i.e. to underpin the integrity of a particular scheme. Considerations in setting the level of standards should be given to:

- A risk-based approach;
- Setting standards sufficiently high that they are of value;
- Reflective of banks' individual risk appetites, concentrating on where liability rests rather than any penalties.

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

Through expert staff at APACS and employees in the member banks, Card Payments Group and its sub-committee, the Plastic Fraud Prevention Forum (PFPF), along with its peer in non-card fraud, the Fraud Control Steering Group (FCSG), constantly monitor new technologies that might contribute to customer security.

By way of example, CPG looked at a number of options, including biometric options such as retina scanning, fingerprint scanning and dynamic signature verification ahead of making the decision to deploy chip & PIN to combat lost and stolen and counterfeit POS card fraud. At the time (in the late 1990s) chip & PIN was regarded as the only viable option on the grounds of customer acceptability, technical reliability and future international interoperability.

Despite chip & PIN being a fairly recent innovation CPG has already begun thinking about its likely lifespan and its potential successor(s). Indeed, it would be remiss not to do so. As a result CPG commissions an annual report from the APACS Security Unit to assess the state of the art in biometrics. The most recent report to CPG from May 2007 concluded that:

- biometric technologies are continuing to improve;
- current biometric capabilities have the potential to enhance registration and enrolment processes such as are envisaged for a UK national identity card programme;
- however, most biometric techniques available to verify identity at point of use/point of sale currently lack the security, at a reasonable cost, that wide scale adoption in the payments sector might demand;
- we do not see this lack of maturity in the technology changing in the foreseeable future to support a payment-industry wide deployment;
- nevertheless, the situation and prevailing environment may change rapidly as a result of technological breakthrough or social and political factors and therefore CPG must maintain its watching brief and be prepared to move quickly if required.

In addition, one of the key lessons from chip & PIN is that any migration to biometrics at point-of-sale, should it come to pass, would require the full buy-in and co-operation of payment providers, payment acceptors and payment users in order for it to be successful.

CPG will continue to review the state of the art regarding biometrics and is happy to share its findings with the Payments Council. The Payments Council's role might focus on increasing awareness of biometric solutions, especially given that such technologies may realise value as an additional level of check rather than a replacement for existing cardholder authentication methods, perhaps as a means of deriving a risk score for use further down the process chain. The Payments Council may also have a role in lobbying in relation to common standards, such as ensuring consistency with the development and use of biometric passports within Europe.

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

Significant levels of fraud data sharing occur within the payment systems, especially cards, already (to the extent allowed by law). Opportunities to share more useful data are constantly being reviewed and, where considered desirable, subject to rigorous cost/benefit analysis.

The Payments Council may have a role in coordinating or providing oversight for existing data sharing initiatives within the UK financial services industry, such as the APACS Fraud Intelligence Sharing System (FISS) or the Insurance Fraud Bureau (IFB) in the insurance industry.

Although the industry has an interest in wider sharing of Government-held financial data such as student loans, CPG presumes that data sharing for credit purposes is outside of the interest of the Payments Council.

**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?**

Fraud prevention is a joint enterprise between all parties – public sector, private sector and consumers. The education of consumers to ensure they take appropriate measures to prevent the possibility of fraud should be within the National Payments Plan remit. All stakeholders have a responsibility to prevent fraud and the plan should stress this.

The National Payments Plan should reflect the fact that it isn't always possible to share the burden of security controls equitably. For this reason CPG does not advocate mandating minimum security requirements for every payment channel, but rather allowing industry members to choose what level of controls to deploy (subject to minimum standards being met where common infrastructure is shared). In time, CPG regards it as increasingly likely that consumers will become more security aware, making informed choices that influence the required level of investment in security and fraud controls.

**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?**

On behalf of Card Payments Group and Fraud Control Steering Group, APACS already handles public relations around fraud to raise its profile and lobby government, bearing in mind that payment fraud is but one part of an overall fraud picture.

APACS has been successful in influencing the Government, resulting in the development of a National Fraud Strategy, where payment fraud is a key consideration.

The challenge is to ensure that fraud is a key consideration in all aspects of legislation and regulation. Whilst acknowledging the expertise of APACS in this field, there may be a role for the Payments Council to lobby relevant parties directly, adding weight to the industry voice. A consistent approach between the Payments Council and industry bodies should be the minimum expectation. The Payments Council should support the wider aims of data sharing and greater law enforcement agency focus by highlighting the links between fraud and organised crime.

**Standards**

**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?**

CPG can see that the Payments Council might become a stakeholder in the development of interoperable international standards in its own right and adopt an active role in influencing developments reflecting the full range of UK stakeholder opinions. Assuming that the Payments Council intended to represent a wider UK constituency than the banks or card industry alone (who would continue to participate in their own right as they do now within the likes of ISO, EMVCo and PCICo) then there is a risk that the Payments Council's work would duplicate that already conducted under the auspices of the BSI.

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

With regards to messaging standards there is a medium- to long-term debate to be had regarding the current messaging standards in use and future alternatives based upon XML. The National Payments Plan must not be over-prescriptive at this early stage of debate and bring it to a premature conclusion.

**Payment 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?**

Obviously the Payments Council needs to have an understanding of relative costs in order to support an overall UK payments strategy. However, CPG is not convinced of the need for a more detailed understanding beyond that which already exists. The consultation paper is already predicated on a common understanding among market participants that cash and coin and paper-based payment methods are more expensive to the UK economy than the electronic alternatives, which is why there is a focus on moving away from them.

**Conclusion**

In summary, Card Payments Group welcomes the Payments Council and the development of a National Payments Plan. Overall, CPG would prefer to see a plan that promotes strategic aims rather than focusing on specific products or services, allowing individual organisations, or groups of organisations, to develop their own solutions to issues and opportunities – a classic market-driven approach where innovation and integrity are key.

Card Payments Group believes that UK card payments have a demonstrable track record of innovation, adaptability, integrity and efficiency. CPG also strongly believes that the commercial world will continue to drive innovation in payments. However, CPG also accepts that the global nature of card payments needs global standards to ensure interoperability and security and that market participants are therefore required to work together to some degree.

CPG's fundamental belief is that market forces have shaped the UK card payment market, resulting in what we have today, and should continue to do so. CPG believes that, within a National Payments Plan, and in association with its membership and the international card schemes, it can perform a key role in owning and leading on card payment innovations and in ensuring the continued integrity of card payments.

Yours sincerely

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