



## **Payments Council: National Payments Plan – Consulting on change in UK payments**

### **Response from Visa Europe**

#### **Executive Summary**

Visa Europe (VE) welcomes this review of the future of payments in the UK and the aim to co-ordinate and drive the displacement of cash and cheques. In this response we have restricted our comments to the areas where we feel we have expertise and knowledge. We particularly wish to highlight the following.

- Visa supports the role for the Payments Council to demonstrate efficiencies that can be realised by moving away from cash to electronic forms of payment. We remain unconvinced that the real cost of cash to the broad economy has ever been effectively assessed and we feel that there is a role that the Payments Council can play in undertaking such a study. We would welcome any initiative in this area and would be pleased to work with the Payments Council to assist in the completion of this work if that would be considered useful.  
Once the true cost of cash has been determined the Payments Council will have a clearer vision of how to achieve efficient cash replacements.
- In order to function in both European and global market places, and in support of the vision of the European Council of Ministers and the Commission, it is clearly important to ensure that the UK national payments strategy is not developed in isolation. Operating principles, standards and product features must be developed in line with European and international practice, regulations and standards.
- The Council could play a more active role in making SEPA a reality in Europe, first by informing payment system users about SEPA and its implications. Secondly, to ensure that all providers operate freely – without discrimination – in the EU marketplace, the Payments Council could have a role to monitor the implementation of the Payment Services Directive in all EU states. Furthermore the Council may wish to consider whether there is a role for it to influence the evolution of SEPA at an EU level.
- The Bank of England plays an important role in overseeing payment processing and the resilience of the systems in the UK. We believe that it is right that the Bank of England continues with this role and would like to see that acknowledged in the final Plan.



- Within an international framework, payment services providers should be encouraged to innovate and continue to develop user-friendly payment solutions that work securely in the UK and around the world. Fraud should be a consideration in any assessment the Payments Council may wish to make on innovation.
- There is, in our view, a role for a body to bring together the parties that use or are part of the payment environment in the UK. However, for such a body to be effective it should have no vested interest in any of the potential payment solutions that are directly or indirectly governed or managed by the Payments Council or its subsidiary companies. Given that, we urge the Council to take care that these conflicts do not prejudice the eventual outcome of this process.



## **Background – About Visa Europe**

Visa Europe is a membership association, owned and controlled by 4,603 European member banks and payment services providers. Collectively, our member banks have issued 348 million Visa debit, credit and commercial cards in Europe. In the year ending 2007 those cards were used to make purchases and cash withdrawals to the value of over €1.3 trillion.

Through our brand, services, systems and operating regulations, we enable our member banks to meet the needs of their customers and merchants but also to take part in the global Visa system.

During 2007, the entire Visa organisation confirmed the details of a major restructure. Visa USA, Visa Canada and Visa International (including Asia Pacific, Latin America and Caribbean, and Central and Eastern Europe, Middle East and Africa) merged with the intention of forming a public company. Visa Europe, however, continues to be an independent member-owned association. It has an exclusive irrevocable license in perpetuity for the Visa products, brand and technology. It also has a shareholding in Visa Inc.

With this structure, Visa Europe can meet the distinct needs of the European payments market. Yet it continues to be an integral part of the global Visa system. This guarantees international interoperability, service quality and risk management standards. It also enables international banks to benefit from a consistent, global offering.

We provide a range of flexible payment product platforms and give our members the freedom to configure them to bring maximum benefits to their business.

Designed, built and operated in Europe our systems are based on the latest scalable technology, enabling us to develop new services and enhancements quickly and cost-effectively. Using this capability we can work with members, inter-bank organisations and third party processors to meet new and evolving processing requirements.



## Consultation response

Visa Europe (VE) has studied the comprehensive document and made comments only on those areas in which it feels it has experience or knowledge.

### Section 3 - Efficiency

#### A plan to manage the decline in cheques

**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?**

VE A roadmap for cheques should be developed. Visa Europe would welcome the opportunity to participate in its development.

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

VE How and when people and businesses use cheques is a complex issue and will require a range of solutions, some of which exist already and just need some promotion and others which do not as yet exist and need to be developed. The Council may find it useful to look at other European countries, such as Belgium and Spain, where cheques have been eradicated to learn from their experience.

**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)?**

VE It makes sense to have a target date that all stakeholders can work towards to provide consistency and continuity. However, everyone who participates in the payments system will need to be consulted on this decision.

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

VE Education will be important to help people make the transition from cheques to more modern means of payment and we would see the Payments Council playing a role in developing a communication strategy to prepare the public for this change. The Council should take account of the recent negative press statements following announcement by retailers to stop accepting cheques.



**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?**

VE The cheque guarantee card has in most cases evolved into fully functioning debit cards with which retail bank customers access their retail banking services. A review may well conclude that cheque guarantee cards *per se* are no longer necessary.

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

VE No comment.

#### 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?**

Credit clearing is closely aligned to the cheque product in that it is paper based and relatively expensive to process and could be resolved or replaced by the same solutions that eventually provide an alternative to cheques.

#### Cash

**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?**

VE It is unarguable that cash will remain an important feature of our economy for the foreseeable future. It is legal tender. However, the use of cash will probably continue to decline as the benefits of electronic payments become clearer and as the demographics of the UK change.

The key question is whether the shift from cash to electronic payments should be encouraged. It is clear from many studies that there are significant economic benefits for countries that move to more modern and efficient payment methods. We are unconvinced that the real cost of cash to the broad economy has ever been effectively assessed. The Payments Council may like to consider commissioning a study to determine the real cost of cash, and how payments can be optimised.

**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?**

VE No comment.



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

VE No comment

Direct Debits

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

VE Direct Debit has been very successful, but as with all forms of payment, Direct Debit suits users in certain circumstances but not in others. A market in which there are many forms of payment will ensure that consumers, retailers and banks can make appropriate choices according to their needs.

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

VE No comment

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

VE No comment

Direct credit

**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?**

VE No comment

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

VE 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?**

VE Enhanced ATM services have been widely available in other European markets (Germany, Spain, Portugal) for a number of years, providing ticketing, phone top-up, bill payments, etc. How this infrastructure is exploited is a commercial issue for the owners of those facilities and market forces will help foster innovation.



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

VE The major payment system providers such as Visa Europe and MasterCard are functioning well and we are not sure of the role the Payments Council could play in this area. Infrastructure is in place, standards are and should remain global and financial institutions should compete on products and services offered to consumers.

CHAPS and the wholesale markets

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

VE 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?**

VE Better informed users of payment systems will be better able to take advantage of the benefits of SEPA. The Council may wish to play a role in informing payment system users about SEPA and its implications. The Council should consider whether there is a role for it to influence the evolution of SEPA at an EU level.

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

VE The Payment Services Directive has been put in place to make the single European market for payments a reality. HM Treasury is in the process of implementing the Directive into UK law and as a maximum harmonisation directive there is a need to implement it consistently. Visa Europe strongly supports this and it may be that the Council should monitor the implementation across Member states to ensure that all providers can operate freely, without discrimination, within the EU.

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

VE Visa Europe is working hard to ensure a high level of consistency across Europe to ensure a competitive level playing field and a common experience for all users of financial institutions and payment systems.

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

VE See response to Q19.



## **Section 4 - Innovation**

### **Contactless, pre-paid cards and mobile payments**

**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?**

VE The development of contactless and prepaid cards should be left to market initiatives by the payment services providers.

**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?**

VE Contactless payment is just one additional feature that has been added to payments cards, making them easier for consumers to use in certain low value payment scenarios. This feature can be added to all new cards at the bank's or cardholder's discretion, as they are reissued in the normal way by the banks. The technical standards for the contactless function have already been agreed internationally and we believe that these standards do not need further refining for the UK market.

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

VE See response to Q23

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

VE There are already tried and tested ways of setting standards. Work is already ongoing at the global level to determine common standards for mobile payments to address the various scenarios. Standards will involve require mobile and payment providers input at a global level. The Payments Council could help to ensure these standards are adopted quickly in the UK.

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

VE Money transfer applications will need to be developed on the basis of the global standards, particularly as global telecommunications operators are unlikely to view the commercial case for their involvement in mobile payments exclusively within national boundaries.



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

VE This is an issue that is the subject of a great deal of work by payment service providers at the moment. Visa Europe will be pleased to share the results of its work, on a confidential basis, in this area in due course.

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

VE This will ultimately be determined by consumers and retailers in the way they choose to use the technology as it becomes more widespread.

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

VE The Payments Council should ensure that the standards are adopted in the UK to ensure global interoperability.

Supply chain

**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?**

VE No comment.

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

VE No comment.

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

VE No comment.

'Other' innovation

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

VE This is a competitive area and should remain so in order for customers, businesses, banks and society generally to benefit from the fruits of the vigorous competition between financial institutions, payment systems and all other players.



## **Section 5 – Other issues**

### **Education in payment issues**

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

VE The Financial Services Authority, with the agreement and support of the retail banks, other financial services providers and some of the payment services providers, are leading in this area. There does not seem to be a case for additional work to be done in this area.

**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?**

VE Payment issues and the various forms and options for payment should not be seen in isolation and need to be part of a broader education agenda. The Payments Council should not, in our view, duplicate these efforts.

### **Financial inclusion**

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

VE The Financial Services Authority has the leading role in financial education and inclusion. It works very effectively with various non-governmental organisations to address this issue.

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

VE 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?**

VE The integrity of our systems is of absolute, paramount importance to us. Visa Europe invests heavily, both in financial and human resources, to ensure that its systems are reliable and robust. The Bank of England, as you would expect given its responsibilities, retains an oversight function for the UK activities. We do not believe that there is any further challenge that needs to be addressed collaboratively at this time.

### **“Security by design”**

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

VE Fraud should be a consideration in any assessment the Payments Council may wish to make on innovation. Visa designs security into every



product and service it develops – not solely at the national level, but also in the context of cross-border fraud and security risks. APACS play a useful role in this area and the current arrangements would appear to work well in the UK.

**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?**

VE See response to Q42

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

VE The payment industry has already made significant investment in the internationally adopted standards of the 3D secure platform (marketed as Verified by Visa, and SecureCode by MasterCard). This provides a common, global approach to authentication.

Work is already underway to build on the single password protocol which is currently the most common way of determining that the card-holder is who they say they are. Two-factor authentication is the next step. Banks in the UK have already given their commitment to roll out a Dynamic Passcode protocol once this has been fully established for their online banking services.

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

VE Before technologies such as biometrics can be introduced it will be necessary to prove the economic case for their introduction. If an economic case could be made then it would be necessary to ensure that the technology was aligned with internationally agreed standards, programmes and timetables.

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

VE Data sharing has to balance competition and confidential issues with the desire to understand the payments market. We would urge the consideration of legal restraints in any data sharing. The UK payments services industry already shares data with APACS. Visa Europe also participates at their Fraud Working Groups. The National Payments Plan should not duplicate efforts already being conducted in this area.

**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?**

VE The obligation to prevent fraud needs to be shared equitably between all parts of the transaction chain. The system we all enjoy is equitably balanced, which is why, in part, it has been a success.



PCI DSS is a fair way of validating businesses. While all merchants have a duty to ensure that their systems are compliant, the cost of validation is proportioned to the size of the business. All participants, customers, retailers, banks, processors and payment systems have a responsibility to ensure that the payment transaction process is secure.

### Lobbying

**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?**

VE There will always be a need to remind people of the risk of fraud and security. The Payments Council may have a role in reminding users of the system to remain vigilant when transacting payments. We think the Council should examine the need to add their voice to the existing bodies that lobby government on fraud and security issues. Government is very well aware of this issue and APACS and the payment services providers are working with government and regulators to ensure the security of payments nationally, and internationally.

### 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?**

VE Standards in the payments area are by their very nature international. The UK has in the past managed to establish a common position very effectively and have its interests advocated and protected by organisations such as APACS, the BBA and BSI in international standards bodies such as ISO, ECBS, CEN and others. We are content with the current situation and see little benefit for the National Payments Plan to address this issue. Of course, the Plan should take account of existing standards.

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

VE No comment



**Q49. Would you support an initiative, led by the Payments Council, to establish a better understanding of the costs of the 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?**

VE This is an interesting proposal. As noted in response to Q8, there may be a case for a comprehensive study of the costs of cash and other forms of payment. However, care should be taken to ensure that the full complexity of the issues relating to payments is captured effectively in the brief. We would welcome any initiative in this area and Visa Europe would be pleased to work with the Payments Council to assist in the completion of this work if that would be considered useful.