



FPB response

to

**The Payments Council's National Payment Plan –
Consulting on Change in UK Payments**

1 February 2008

What is the FPB?

The Forum of Private Business (FPB) was formed in 1977 and fights on behalf of private businesses. The FPB represents 26,000 UK-based businesses, which employ in excess of 600,000 people. We have twenty-one partners who use our expertise, influence and skills. These include: British Hardware and Housewares Manufacturers' Association, the Garden Centre Association, The Food and Drink Forum, Independent Doctors' Forum, Inverness City Traders, National Hairdressers' Federation, Newport Gwent Chamber of Commerce and the UK Information Technology Association.

We are formal representatives of small and medium-sized enterprises in this country and the European Union. The FPB has strong connections with the Small Business Research Trust (SBRT) and has restored its reputation for competent work. The SBRT administers the All-Party Parliamentary Small Business Group (300 MPs and 100 Peers).

Business opinion

All of the FPB's campaigns are based on the views of our members. We talk to our members in various ways, via surveys, by telephone and face-to-face contact. We also collect data electronically, which enables us to source opinions from hundreds of businesses within a matter of hours.

The FPB works to bring businesses together with their own elected representatives. Members vote in a quarterly publication *Referendum*, adding comments for us to send to their MPs, MEPs, MSPs and AMs. *Referendum* is a tool that business owners have been using since 1977 to make their voices heard.

The FPB has more than 20 years' worth of experience of accredited research into the small business community. We have been using the Quarterly Survey since 1980 to track business growth, and the rise and fall of key issues, working in partnership with the Small Business Research Trust.

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Executive Summary

The FPB supports the Payments Council's efforts to simplify and promote UK payment schemes. This is an opportunity to promote international and domestic standards for payment services and to simplify the available offerings for consumers and business alike. However, the Payments Council must continue to engage stakeholders across the wide spectrum of the UK economy throughout the process. It must act not only on behalf of its constituent financial institutions, but on behalf of all users of UK payments.

In November 2007, the FPB conducted an e-survey amongst its members to explore smaller business payment interactions. Results from this research will be included where applicable in this consultation response.

- The preference is for the payments industry to allow market forces to determine the rates at which cheques decline. 73% of respondents stated this to be their preference.
- 48% of respondents believe that the removal of cheques would be damaging to their business.
- If an artificial deadline were introduced, 62% accept 2018 as a reasonable date for closure.
- Education and information should be key priorities to encourage a natural shift from cheque usage. This programme of education and information should focus on the benefits of alternative methods, fraud prevention and security levels.
- More work must be done to make the Direct Debit scheme available to small businesses. This will include education about the scheme and its guarantees, but also simplified administration and origination for a business's direct debit arrangements.
- The Payments Council could play a key role in developing co-operative information sharing agreements. This standardisation of messaging and invoicing would help businesses keep track of their financial responsibilities, as well as reducing the possibility of late payment.
- Data sharing advantages must be clearly balanced against risk and appropriate security measures set in place.

In November 2007 the Forum of Private Business (FPB) conducted an e-survey amongst the membership in order to establish a framework for response to this consultation and explore smaller businesses' payment interactions. Consequently, reference to survey results will be included where appropriate. There were 304 responses in total. Please note that this survey will be skewed towards an audience comfortable with e-communication. A further proportion of our members do not have access to computers or choose not to use email as a main form of communication and this audience has not been consulted. Figures and quotes from the research are included in this submission.

As the FPB is a membership organisation for smaller businesses, this submission represents this user group. The fact that 'much of the remaining use of cheques is by small and medium-sized businesses' as stated in the 2007 APACS report (the way we pay) makes this an important segment to explore. Indeed, the 2007 report indicates that cheques are viewed as *an essential tool for cash flow management*, which is supported by our survey of members. The report also states that *a substantial minority of SMEs do not make automated payments at all* and although *internet banking it is relatively common, this is primarily used as a source of information*. As a significant proportion of this consultation is focused on cheque use and alternative payment methods, this audience has a clear and vested interest.

FPB response to questions in the consultation document

Question 1: 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 FPB would prefer that the decline of cheques be left to market forces, rather than administered to an artificial deadline. Such a deadline does not accurately reflect the continued use of cheques as a niche and fallback payment method. Cheques will continue to offer consumers and businesses an alternative to more structured payment methods which may be reliant on a level of preparation and third-party service that may not always be available.

73% of members surveyed would prefer that customer forces determine the rate at which cheques decline. If another method is seen to have genuine commercial advantage then SMEs will adopt this payment strategy without being forced into it.

"I feel that the use of cheques should remain as a choice."

48% of respondents to FPB's e-survey think that the removal of cheques would be damaging or have a catastrophic impact on their business.

While the FPB acknowledges the decline in cheques to be irreversible, we believe that a threshold may be reached where the use of cheques will be sustained and indispensable. This threshold will represent a continued use of cheques by both businesses and consumers for single payments where cash will not be convenient and where electronic alternatives are not trusted or adopted broadly enough to make their use feasible.

Business-to-business cheque volumes are projected to decline to 330 million, accounting for over one in five B2B payments, in 2016 and business-to-individual 113 million (Source: APACS, the way we pay 2007), which is two years from the suggested date for closure. Therefore, there is a need to establish viable alternative methods and monitor this rate of decline, which should increase substantially if the alternatives are suitable and communicated successfully.

"I expect we will send fewer cheques although I would not be in favour of them becoming extinct."

Of the FPB's surveyed businesses, 95% still accept payments by cheque from other businesses, and over 55% cite cheques as their primary method of payment to and from other businesses.

Inbound payments from business:

Cheques account for approximately 72% of the total inbound payments, for those businesses that stated that this was their most frequent form of receipt. When asked for their preference 60% of total respondents prefer to receive their payments via BACS and 18% cite cheque as their preference.

Outbound payments:

For those businesses that most frequently pay other businesses by cheques (55%), this approximates to 81% of their total business payments. The preference for cheques increases for outbound payments. When questioned, 43% prefer to make payments to other businesses via cheque. This next closest payment type for payment to business is BACS (31% and then the internet (15%). Over 80% of the FPB's polled membership still receive regular cheque payments from non-business customers and cheques remain the most popular preference for receipt of payment with (25%).

“removing a key method of payment would be a mistake, reduces flexibility with customers and suppliers”

The APACS report also states that the average value of business cheques in the UK in 2006 was £1,813, the average value for business to business cheques was £2,300. Although cheque numbers were down on the previous 12 months by 9%, the actual value was down just 1%. There is therefore a need to consider the motivation behind any forced migration and if it is to the benefit of the consumer then this needs to be evidenced through a clear communication programme.

“If it is not broke, why fix it? Who is really behind this method? We rely so much on technology that the average person no longer has to think at all about anything. What is wrong with cheques? If it is going to be phased out, then the banks will have to be forced to provide the merchant services terminals free (it is the high charge of rental and processing that has discouraged us from renting in the past), now in rip-off Britain once again we are going to be forced to pay for a service that we don't want to pay for in the first place but now seem to have no option about.”

Question 2: For which types of payment currently made by cheque do new alternatives need to be introduced?

Business-to-business cheque payments remain popular, but the growing demand for BACS as an alternative to cheques will parallel the decreasing use of cheques for the foreseeable future. 43% of respondents to the FPB's e-survey currently prefer to make their payments to business by cheque and 55% most frequently pay by cheque. There also remains a percentage of businesses who do not have the facilities to receive or monitor BACS payments.

We believe that person-to-small business payments will continue to require methods that are both flexible, reliable, and convenient. The ability to issue payment while on-site or in the absence of electronic methods must be retained. Any alternatives must retain these characteristics.

We wonder whether there are alternative methods being used outside the UK that could be used here effectively.

Question 3: 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)?

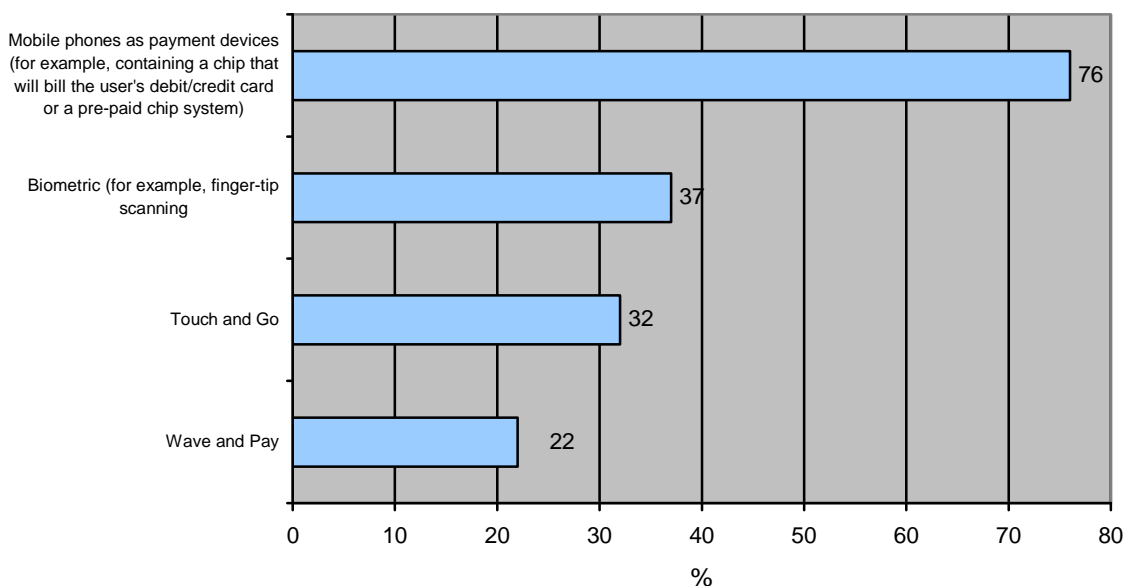
The FPB believes that a firm timeline will not accurately reflect the need for the type of payment method that cheques provide. However, if an artificial deadline were to be imposed, 62% of our respondents would consider 2018 to be a reasonable date for the exchange of cheque use for acceptable alternatives. This relies heavily on the caveat that an acceptable alternative is in place.

Question 4: What sort of education of users is needed to support the migration away from cheques?

Electronic payments are seen as ‘remote and uncontrollable’. Any alternatives for cheques will need to be seen as secure, immediate and easy to use, and education must emphasise this.

“Electronic banking is remote, uncontrollable and open to fraud. It is totally unnecessary to do away with cheques when most businesses are very happy to continue to use them, this proposal is purely for the benefit of the banks not their customers.”

Education and information should be key priorities to aid migration. When asked which of the stated cashless payment methods they were aware of the results were as follows:



“It seems to me that changes are being forced upon us which will only benefit the banks, big companies and supplier of electronic equipment”

Education and positive ‘what’s in it for me’ information will help to alleviate these concerns and continue to build strong relationships between small businesses and their banks.

Question 5: 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?

The FPB believes that a review of the Cheque Guarantee Card scheme will be necessary to improve the service and security of cheque use. It is also very important that this review is seen as objective, and administered outside the scope of influence of the banking sector.

This review will be particularly important if the National Payments Council decides to leave the use of cheques to market forces.

Question 6: What other actions, if any, should there be in the National Payments Plan in relation to cheques?

There is room in the National Payments Plan to manage the decline of cheques without imposing a deadline for their removal. The Payments Council should consider what measures it can advise for financial institutions to adjust to the declining use of cheques, particularly in streamlining infrastructure and expediting the clearing process.

Question 7: 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?

The FPB has no opinion on this.

Question 8: 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?

The FPB agrees.

Question 9: 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 FPB believes these issues should not fall within the remit of the National Payments Plan. Advocacy and the use of existing partnerships by the National Payments Council should be sufficient to provide recommendations to the Government on the supply and quality of notes.

Question 10: What other actions, if any, should there be in the National Payments Plan in regard to cash?

None.

Question 11: What improvements would lead to the greater take-up of direct debits by users?

11a: How important is it that smaller businesses and organisations are able to provide their customers with the option of paying by direct debit?

It is very important that small businesses have the same 'toolbox' for managing their payments as larger organisations.

11b: For which particular uses/markets do you think that the wider availability of direct debit could deliver most value (for example subscriptions to clubs/societies)?

Any business which is required to administer regular payments over the course of a year could benefit from direct debit. Clubs/societies would be an obvious beneficiary, as would religious organisations and charities.

11c: Other than the liabilities arising from the direct debit guarantee, what other impediments are there for smaller businesses/organisations wishing to become direct debit originators?

It is possible that some SMEs would have concerns about the cost and time required to administer a direct debit scheme. If financial institutions make the direct debit process more accessible and affordable, there is a real opportunity for adoption by smaller businesses.

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

The FPB would support a change to a time-limited guarantee.

12a: Would the introduction of a time limit to the direct debit guarantee have a detrimental impact on consumers' perception and usage of direct debit generally?

We do not believe that there would be a negative impact on consumers' perception or usage of direct debit, provided the term of appeal for fraudulent payments was sufficient to cover the largest percentage of appeals.

Question 13: If so, what time limit do you think would be appropriate?

The FPB supports a 13 month guarantee. The alignment of time limits with the SEPA would be beneficial for smaller businesses, and the 13 month timeline would provide the best balance of protection for both consumers and businesses.

Question 14: 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?

The paper-trail attached to cheques can be incredibly useful for book-keeping purposes in small business environments. The potential for extended invoice information to be included in the internet and telephone reference would have to be included if cheques were eliminated.

Question 15: Are there any other enhancements you think should be made to direct credits?

The FPB believes that education about the faster payments service should be a key point for the National Payments Plan. 88% of the smaller businesses questioned were not aware that the Faster Payment Service was due to go live in May 2008.

Question 16: What opportunities would you identify to exploit the ATM infrastructure for non-cash transactions? How should these be reflected in the National Payments Plan?

General knowledge seems to suggest that there may well be further opportunities, but we would welcome a discussion on what functionalities already exist in the UK and elsewhere.

Question 17: Which other, if any, actions should there be in the National Payments Plan in relation to credit and debit cards and cash machines?

The FPB has nothing substantive to add.

Question 18: What improvements should be made to the way in which payments in the wholesale markets are carried out?

The FPB has nothing substantive to add.

Question 19: What should the Payments Council do to ensure that users in the UK can take best advantage of SEPA?

We regard this as an important question, but require more information on the nature and timescale of the scheme before we can respond.

Question 20: What issues does SEPA raise for your use of payments?

There is room in the Payments Council's mandate for it to monitor SEPA provision across national boundaries. The UK's impulse to gold-plate European regulation should be curbed, or alternatively, matched by equal services and access throughout the EEA.

"Maybe debit cards will become more common, when the banks produce one we can use in Europe."

Question 21: What improvements should be made to cross-border payments?

Transparency and lowest cost should be principle of every payment scheme. The National Payments Plan should reinforce this principle as it engages with other member states on SEPA.

Question 22: What measures to enhance users' efficiency should be considered by the Payments Council?

The FPB has nothing substantive to add.

Question 23: 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. Market forces should dictate the growth and survival of the various schemes.

Question 24: 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?

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Question 25: What support, if any, can the National Payments Plan offer to the development of prepaid cards?

The National Payments Plan should leave the innovation of these new technologies to their providers, but could work with the providers to develop a co-operative information strategy.

Question 26: What role should the Payments Council play in the development of mobile payment services, including setting the standards for mobile payments?

Though the National Payments Plan should leave the development of mobile payment technology to its providers, there is scope for the Council to protect the interests of consumers as the new technology develops. To achieve this, a set of minimum requirements for mobile payment security should be a key element of the National Payments Plan. This should also pair with education for the public on the security and guarantee aspects of mobile payments, as a priority. However, due to the concerns about fraud and security, there is a need for reassurance.

Question 27: In particular, do you agree that the National Payments Plan should support the development of mobile payment services between bank accounts?

This element of mobile payments should be left to consumer demand to drive its development. If consumers feel secure enough in their mobile payments service, they will request this functionality. Again, information provision is key.

Question 28: What principal characteristics would users find attractive in a mobile payment service?

Ease of payment and immediate processing would both be benefits of a mobile payment system.

Question 29: What role do mobile phone payments potentially play in providing alternatives to traditional forms of payment?

Mobile phone payments could serve as an alternative for cash payments or payments to businesses. However, due to the risk of fraud and a reliable infrastructure, there is a real concern about mobile phones serving as a replacement for person-to-person payments.

Question 30: What other actions, if any, should there be in the National Payments Plan in regard to mobile payments?

The FPB has nothing else to add on mobile payments.

Question 31: 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. The Payments Council could play a key role in developing cooperative information sharing agreements with other member states and UK trading partners.

Question 32: What role should the National Payments Plan play in moving this agenda forward?

As stated previously, the Payments Council should represent the interests of the UK consumer and business at the European and international levels. Continual involvement of stakeholders will be critical to this process.

Question 33: What other actions should be included in the National Payments Plan?

No further actions should necessarily be included.

Question 34: What other payment innovations requiring action at industry level should be considered by the Payments Council?

The FPB has nothing further to add.

Question 35: What gaps are there in current financial educational initiatives in regard to payment matters?

There is a great deal of ambiguity about payment options available to customers. In addition, changes to existing payment systems could be better advertised to business customers who would be likely to adopt a wider variety of methods. As previously stated, the lack of publicity and information provision for the introduction of the faster payments service is an excellent example of this.

Question 36: 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 FPB believes that a certification system for the various financial institutions' customer information would be helpful. Partnerships with the banks and lending institutions will help to tailor the information to individual customer needs.

Question 37: What role can the Payments Council play in promoting financial inclusion?

It is important that financial inclusion is continually promoted and ensured so that sectors of the population do not become increasingly marginalised and these sectors should be considered through a rigorous programme of research.

"...many people will become disenfranchised and disadvantages through lack of resource/access etc..."

Question 38: What other bodies should it work with to deliver this role?

The FPB has nothing to add with regard to financial inclusion.

Question 39: What are the main challenges to the integrity of payment systems that need to be addressed collaboratively?

The FPB concurs with the Bank of England's concerns about cross-system integrity in the face of a serious failure to one or more of existing payments systems.

Question 40: How should consideration of measures against fraud be included in the assessments which the Payments Council makes of proposals for innovation?

Limiting the scope for fraudulent activity should be at the forefront of new technological adoption. Any assessment carried out by the Payments Council should emphasize this.

Question 41: 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 FPB has nothing substantive to add.

Question 42: Should minimum standards be introduced for authentication of remote transactions? If so, should a common measure of authentication be recommended/mandated?

The FPB supports minimum standards of authentication for remote transactions. Two-factor authentication should be a consideration.

Question 43: How should the National Payments Plan address new technologies, such as biometrics, which may contribute to customer security?

The National Payments Plan should include enough flexibility to allow payment providers to engage with new technologies, but mandate sufficient security measures to protect both consumers and businesses from potential fraud.

Question 44: What actions, if any, should the National Payments Plan include in regard to data sharing?

Data-sharing must be considered within the larger scope of risk for both businesses and consumers. The National Payments Plan must find a balance between sharing data with government departments on serious criminal offences and jeopardising the privacy of financial institutions clients.

Recent headlines concerning movement of customer data certainly resonates with users.

“more plastic, more convenient, but if the banks and government keep losing our details perhaps cash will make a comeback!”

Question 45: 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 initiatives should be proportionate across financial sectors.

Question 46: 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 add support to of fraud & security education across the economy. If the Council does act in a lobbying capacity, it must be seen to be objective & independent with the best interests of the UK consumer in mind.

Question 47: 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?

The National Payments Plan should play a key role in laying a framework of standards for the financial sector. The FPB agrees that the current principles provide an excellent base for extrapolation. As already suggested, the Payments Council should act in defence of the UK consumer at the European and international levels.

Question 48: What, in particular, should the National Payments Plan say about messaging standards?

Standardisation of messaging and invoicing should be a priority in the National Payments Plan, primarily to help reduce the risk of late payment for businesses of all sizes.

Question 49: 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?

The FPB would support such an initiative, provided that the Payments Council relied on the excellent work done by other parties with regard to payment levels and costs.

In summary the FPB firmly believes that there is a need for detailed research into payment methods (not just related to the use of cheques) across user groups before any action plan is compiled. The future vision cannot be set without the establishment of user requirement.

The scope of the Payments Council is limited by the fact that it is almost exclusively run by bankers. The remit and impact of the Payments Council would be substantially increased with inclusion from all stakeholder groups. Flexible infrastructures in place of silos and the true needs of customers being adequately addressed is only possible through total stakeholder inclusion at the board level. Without this, co-operative developments are more difficult to achieve.

The focus of the Payments Council should not be the forced closure of cheque payments, but rather the developments that would encourage users to naturally shift away from these payment methods. Indeed 73% of respondents think that the payments industry should 'allow customer forces to determine the rates at which cheques decline' and 79% view the initiative with suspicion believing that 'the move to electronic payments makes transactions easier for the banks'. Only 29% believe that 'the move to electronic payments makes transactions easier for businesses' (option to select all that apply).

The main barriers for smaller businesses moving away from cheques were reported as follows:

What are the MAIN barriers for small businesses moving away from the use of cheques?
(select all that apply).

