

# Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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National Payments Plan Consultation

Response

30 January 2008

Payments Council

5<sup>th</sup> Floor

Mercury House

Triton Court

Our ref: Response

14 Finsbury Square

London EC2A 1LQ

Dear Sir

The Financial Services Consumer Panel welcomes this opportunity to respond to The Payments Council Consultation on the National Payments Plan.

*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 Panel feels that while it is true that cheque use has halved in the last decade, according to APACS's own figures 1 billion payments are still made by cheque each year and we contend that the refusal of certain large retailers to accept payment by cheque, for their own business reasons, could well have hastened the drop off in payment by cheque.

Research from Defacto shows that cheques are still regularly used by a large portion of the population. Almost one in five people aged 65 and over write five or more cheques a month while 38% of 35-44 year olds write at least one cheque a month. The Panel believes that cheques are still the preferred payment option for a large number of consumers and that therefore it is wrong to conclude they are in "irreversible decline".

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

The Panel feels that specific effort needs to be made in developing alternatives to payments currently made by cheque between person to person and person to small business, especially trades people.

*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 Panel feels it is premature to set a deadline for abolishing cheque payments in the UK, at a time when alternatives either do not exist, or are, as in the case with touch and go payment cards and mobile phone payments are in their infancy.

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

The Panel believes that incentives rather than education should be used if utility companies, retailers and banks wish to encourage a migration away from cheque payments. Discounts for using alternative methods, rather than surcharges for paying by cheque (as used by BT and other telecoms providers) would be a start.

*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 Panel believes it would be sensible to include such a review in the National Payments Plan review.

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

We reiterate our point in Question 4.

*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?*

Yes. The Panel believes that, in an electronic age, it is wrong that someone paying cash into a branch of their own bank, other than the branch at which their account is held, should have to wait days for this sum to be credited onto their account. Efforts must be made to credit such payments immediately as they are made.

*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?*

Yes.

*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 Panel feels that the quality of notes should remain a matter for the Bank of England.

*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?*

Please see Question 4.

*Question 12 : Would you support the introduction of a time-limited guarantee for direct debits in place of the current unlimited guarantee?*

No. The Panel would strongly resist any attempt to erode the existing protections currently enjoyed by UK consumers with regards to unlimited time guarantee for direct debit.

Further we feel that, as already stated in our answer to Question 4, banks should focus on incentivising both consumers and smaller retailers into using direct debit, by making it the least expensive payment option.

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

See Question 12.

*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 Panel would support measures which resulted in making it easier for consumers to make payments. We feel the banks should standardise the verification processes used and also seek to educate consumers as to what information is required for a payment to be processed.

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

The Panel would support any move to make direct payments speedier. As with our answer to Question 7 we fail to see how, in an electronic age, banks can justify it taking 4 days for a person to person transfer to take place.

*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?*

The Panel would support measures which would increase the opportunities for people without home computers to carry out internet banking transactions at ATMs.

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

The Panel would support measures which would ensure that UK consumers were not disadvantaged in terms of speedier payments, or transaction charges.

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

As Question 19.

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

Steps should be taken to speed them up, see answers to Questions 7 and 15.

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

The Panel feels that consideration should be given to standardising the information consumers need to make payments. Uniform industry standards would help increase accurate payments.

*Question 23 : Do you agree that at the present stage of market development the contact less and prepaid card sectors are best left to initiatives from individual payment service providers and the card schemes?*

The Panel feels that industry wide standards should be developed for new payment methods. If such standards are not developed consumers will face considerable obstacles when attempting to switch between service providers.

*Question 24 : What support, if any, could the National Payments Plan offer to the development of contact less cards? In particular, is further action needed to ensure that the standards for contact less cards meet the needs of all sectors of users?*

Outside London, consumers have no experience of contact less cards. Support should therefore be given to rolling cards out nationwide.

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

The Panel believes the Payments Plan should seek to educate consumers about prepaid cards, if the Payments industry wants to see their uptake increased.

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

The Panel would like to see the Payments Council take a leading role in developing uniform standards, such as Chip and PIN, otherwise barriers to switching between banks will develop.

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

The Panel is aware that more consumers have mobile phones than bank accounts, and that therefore mobile phones offer an opportunity to enfranchise many of the UK's un-banked. It would therefore be disappointing if the ability to make mobile payments was intertwined with having a bank account. The Panel would urge the National Payments Plan to look at initiatives, such as those in Africa which allow payments between individuals who do not have bank accounts.

However the Panel would not wish for such developments to lead to an erosion of UK consumer protections, and it urges the Payments Council to clarify as a matter of urgency whether electronic payments made via a mobile phone would have the same protection as those made through the financial system. Specifically to whom would the consumer complain to if something went wrong – FOS or Ofcom?

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

Some type of text back or call back checking system for authorising payments should be considered. The Panel suggests the Payment Council looks at systems already in operation such as those in Japan, Africa and that offered by PayPal.

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

As mentioned in Question 27 the Panel believes that mobile phone payments have the potential to bring more people into the financial system. However steps must be taken to ensure these new users enjoy the same consumer protection as consumers making payments through the banking system.

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

The Payments Council should seek to set uniform standards for mobile payments, so that consumers are not hindered in switching providers.

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

The Panel believes that there is widespread ignorance about developments in payment methods and that a National media campaign should be considered for the roll out of new payment methods.

*Question 36 : What role can the Payments Council play in promoting the education of consumers about the choice of payment methods available to them?*

The Panel believes that the Payments Council should take a co-ordinating and impartial role in education of consumers. It should link into the FSA's financial capability strategy in a drive to increase consumer knowledge of payment methods.

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

Banks and retailers.

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

See Question 36 with regard to joined up approach and link in with the FSA.

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

See Question 37

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

The Panel is aware that online payment fraud is growing fast. We believe a co-ordinated effort to developing uniform standards for payments would aid the fight against fraud.

*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 Panel feels that the National Payment Plan must address issues of customer authentication. See Question 40.

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

Yes

*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?*

The Panel would not wish to see any shift which left consumers bearing the brunt of the burden of any fraud.

*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?*

It should link in with existing initiatives.

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

That they should seek to enhance usability for consumers.

*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 Panel would support any steps which would shed light on the true cost of processing payments, as long as the costs provided by industry could be independently verified.

Yours sincerely

A handwritten signature in black ink, appearing to be 'J. Howard', written in a cursive style.

John Howard  
Chairman, Financial Services Consumer Panel