

SETTING THE STRATEGY FOR UK PAYMENTS

Evidence of the Campaign for Community Banking Services

9 October 2012

INTRODUCTION

1. The Campaign for Community Banking Services (CCBS) is a coalition of 20 national charities, consumer and small business organisations which share concerns about the decline in local access to, and choice in, banking services particularly the closure of local bank branches and the impact of this on community sustainability, financial exclusion and carbon emissions.
2. Our principal concern is with vulnerable individuals (many elderly and disabled people), small businesses (particularly but not exclusively retail) and the 'third sector' (voluntary and community organisations), many of which are branch dependent for access to the country's payments systems largely because alternative ways to bank (ATM, Cashback, on-line and telephone banking) do not meet their needs.

CUSTOMER NEEDS

1. Vulnerable individuals need convenient staffed bank branches for, inter alia, deposit of cheques and cash, itemised acknowledgement and instant entry into the banking system, the withdrawal of cash in secure surroundings and payment of bills.
2. Small businesses need convenient staffed bank branches for instant deposit of cash and cheques into the banking system, usually much higher in terms of volume and amount than for individuals, and for withdrawing larger sums of cash in secure surroundings, specifying denominations, including provision of change. According to 2007 research by FSB 60% of all small businesses visit a bank branch at least once a week and 10% do so every day.
3. The 'third sector' has similar needs to individuals and small businesses.

REASONS FOR CONCERN

1. Around 1200 communities (no other bank within ½ mile) have lost all banking presence leaving, at 31.12.2011, according to CCBS research, 887 communities with only one bank branch and a further 444 with two. Bank branch density in European countries ranges from 2x that of UK in France to 5x in Spain: EBF 2011.
2. Since 1990 44% of bank branches in UK have closed, 16% in the last decade according to industry figures at 31.12.11. The traditional Big 4 banking groups closed 178 branches in 2011 of which half were 'last bank in community' or 'last but one' and a similar profile attaches to the 140 closures by the traditional Big 4 banks identified by CCBS so far in 2012. The traditional Big 4 banking groups are responsible for 97% of communities served by only one bank.

HISTORY

CCBS's experience of the industry's behaviour has not been good:

1. As a result of consumer pressure over many years currently 3 of the Big 4 have given pledges not to close where they are 'last bank in town' but different criteria exist for each bank, such pledges have been cancelled at short notice in the past and compliance with the pledges does not guarantee full working week availability; indeed it can be as low as a few hours on one day per week.

2. After implementation, in spring 2013, of a very recent decision by HSBC, 95% of personal current account customers will have withdrawals access at post office counters and customers of some banks will be able to pay in to their accounts. However 95% of small businesses will not have post office access and we understand that infrastructure deficiencies and the fraud potential of accepting cheques prevent any significant change in this position.
3. Arrangements for business customers of one bank to use the counter of a more convenient bank for paying in, withdrawals and change have existed for many years but the banks have declined repeatedly to make necessary process improvements and increase awareness amongst those businesses which could benefit. Successive reports by the Competition Commission, the OFT and others have failed to bring about the necessary improvements, including the need for the arrangements to be made available on “fair, reasonable and non-discriminatory terms” as sought by the Competition Commission in March 2002. A chronology of events is attached. It should be said that this service is required to facilitate transfers of accounts between the established banks as well as to open up the networks to new banks.
4. Repeated attempts to get the industry to trial neutral shared branches (an alternative to branch closure academically validated in the UK as “operationally feasible and financially viable” and operated successfully throughout the USA) have failed and the industry’s current stance is that it will not take this route unless government makes it do so. *Note: what was piloted by the banks in 2002 was not shared branches and that pilot scheme was in any event flawed and neither proved nor disproved the case for neutral shared branches.*

CONSULTATION VIEWS

1. CCBS welcomes the long overdue improvements being made to the governance and remit of the Payments Council and looks for confirmation that branch network coverage can be included in its remit as, for the sectors identified earlier, branches are the point of access to the country’s payments systems, including bill payments, transfer of in-payments to the account holding branch/account with the same bank or another bank under inter- bank agency arrangements and cash withdrawals under the same arrangements .
2. CCBS favours introduction of a regulatory level above the Payments Council but is concerned by the absence of specific consumer interest in the proposed remit (5.24) of the Payments Strategy Board although potentially it is covered in a wide interpretation of bullet point 2.
3. CCBS is also concerned at the reliance on ‘encouragement’ as a means of getting the industry to do what it may not always want to do. Our experience of the industry is that it requires more than ‘encouragement’ and this paper and its attachment includes examples of where the industry has failed to act, or has employed delaying tactics, even when under specific instruction.
4. For the PSB to be effective it will need research and monitoring resources of high calibre as it will be dealing with a sophisticated and complex industry. Indications are that the proposals for staffing are probably inadequate unless the PSB will have resources available from within the FCA.
5. In short CCBS leans towards Option 3 but recognises the possible duplication in this given the over-arching regulatory responsibilities of the FCA which are not paralleled in industries where an Option 3 type of regulation is pursued. A move to option 3 in case of need could be the compromise.

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10 October 2012

Dear Sir

Setting the strategy for UK payments – July 2012

Thank you for the opportunity to respond to the consultation document.

Capita Registrars provides share registration and value-added services to over 7 million shareholders on behalf of more than 1,500 companies in the UK and Ireland. We are responsible for share registration, corporate actions, share plans, and company secretarial support across a base of clients that range from small or recently floated to large multinationals.

Capita Registrars also provides a custody and settlement operation supporting overseas companies listing on the UK market and a share dealing service primarily aimed at shareholders in its client companies. Some of these client companies are based in other EU countries. A fundamental part of the services we provide is to make payment to shareholders in respect of both dividends and capital payments. Capita Registrars is part of a FTSE 100 organisation, Capita plc.

Below are Capita's responses to the questions/statements in the consultation document in the order they appear in that document.

Question 1	Capita Registrars Limited response	
<p>Do you agree that the creation of a Payments Strategy Board:</p>	<ul style="list-style-type: none"> should be the lead option for reform; 	<p>It is clear that the current structure and status of the Payments Council as a voluntary membership body effectively leading strategy in an important and sensitive area of the financial industry is and has been problematic. There is much to be commended about the creation of the PSB in terms of separating the strategic activity from the Payments Council, creating a measure of regulatory oversight and removing the conflicts of interest issue. However, could the proposed changes be creating a divisive structure where those expected to implement strategy are removed from its creation and have little or no ownership of it? This lack of ownership might adversely impact the adoption and delivery of the strategy and still leave the authorities with no real enforcement power.</p> <p>There would also be a very good argument for allowing the development of the reforms that are in progress, following the Payment Council Governance review, and for working on the Option 1 proposals that will in themselves bring about increased transparency, consumer engagement and independence. Allowing time for the results of the current and Option 1 changes to emerge prior to resorting to the PSB might be preferable and successful in bringing about the required changes.</p>
	<ul style="list-style-type: none"> provides the appropriate balance between Government intervention, impact and cost; and 	<p>Yes, there is a balance to the proposals which do offer a light touch in terms of regulation. However, the benefits of the PSB proposal can largely be delivered via Option 1.</p>
	<ul style="list-style-type: none"> effectively tackles the issues the Government has set out? 	<p>The PSB structure would tackle most of the recognised issues. Although only making recommendations on strategic actions to be taken by the payments industry with no requirement to fully explain any decisions not to move the actions forward does seem like a missed opportunity.</p> <p>The suggested structure also poses problems for those in the User Forums (or User Councils). In future, utilising the Option 2 model, in order to have a say in developing strategy and in the implementation and delivery of strategy, they would appear to need to exert influence at the PSB level and the Payments Council level.</p>
Question 2		
<p>The following questions relate to the changes the Government would expect the Payments Council to implement under Option 1. Some of the changes will also be considered if the Government proceeds with</p>	<p>a) Do you agree that the current remit and objectives of the Payments Council are broadly appropriate? If not, how should they be enhanced?</p>	<p>Yes. However, the "voluntary membership body" status of the Payments Council does impact how it operates, how much influence it can exert and how it is funded. If there was an element of compulsion to membership by all those who issue payments with a tiered fee contribution required this might go some way to tackle the issues of delivery, enforcement and stability.</p>

Option 2.		
	b) How can a clearer separation of the Payments Council's strategy setting and trade body representative functions be best achieved?	<p>The proposals made under Option 1 for more independent directors, stronger/independent User Councils and more consumer body representation will go some way to achieving this objective. However, more radical changes might bring about this separation more clearly and enhance other change objectives.</p> <p>These changes might include an independent voting chairman and industry representation that should only account for 50 per cent of the board members. The major banks could have their own User Council that can fulfil the trade body functions, appoint the industry representatives to the Payments Council and develop their take on strategy for reporting in at Board level.</p>
	c) Do you agree that the Payments Council should commit to publishing annual progress reports against its objectives, supported by regular, independent performance reviews?	Yes.
	d) Do you agree that any two independent directors should have a right of veto over board decisions? The Government invites views on how the Payments Council's board can be strengthened further.	See 2 b) above. If the structure suggested is adopted there would be no need for the veto rights.
	e) Do you agree that the existing user forums should be given enhanced functions and autonomy by being upgraded to independent User Councils?	Yes. Plus the additional User Council for the banks as in 2 b) above.
	f) How can Payments Council funding be put on a long term, secure footing?	Funding should remain as it is – tiered based on volume of payments made but made a requirement for all those who make payments and not based on membership or influence with the Payment Council.
	g) How should a reconstituted Payments Council be given the means to enforce decisions more effectively in a self-regulatory environment?	The "voluntary membership body" status of the Payments Council makes enforcement more problematic. A solution might to change the status of membership. Organisations that contribute via the Payments Council and User Councils and make payments should sign up to be bound by the decisions made on the strategic direction and the delivery of that strategy.
	h) How can the membership of the Payments Council be broadened most effectively?	See 2 g) above – introduce an element of membership compulsion for all those in the industry.
Question 3		
	a) Do you agree with the proposed remit for a new Payments Strategy Board?	If Option 2 is adopted then the remit for the PSB is appropriate.

	b) Do you agree that the Payments Strategy Board should make recommendations to the payments industry, rather than requiring action? If you consider mandated action to be appropriate, please set out how such a method could work most effectively.	We strongly believe the council should follow the tried and tested green book, white book process. The current proposal to only make recommendations does allow the payments industry to make an assessment of the recommendations and reject proposals they feel inappropriate but it makes the PSB appear like an advisory body only. The industry would not be required to explain proposals they reject so an element of transparency might be lost. A minimum requirement should be that the rationale/reasons for rejection are reported to the PSB and made public by them.
	c) Do you agree that the Payments Strategy Board should include senior industry representatives, non industry representatives and independents? What do you consider to be the right composition of the Board?	Yes. The composition should be 50% senior industry representatives, 25% non industry representatives and 25% independents.
	d) Should the Payments Strategy Board have a formal information gathering power? If yes, what information should be covered by such a power, and what should an appropriate enforcement mechanism be?	Yes. Subject to commercial confidentiality requirements.
	e) Do you agree that the Payments Strategy Board should be funded by an FCA levy on the payments industry?	Yes.
	f) Should the FCA have any further controls over the Payments Strategy Board?	No.

We would be delighted to discuss our comments further with you should you wish to do so.

Yours sincerely

Phil Kershaw
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HM Treasury – ‘Setting the strategy for UK payments’ consultation

The Co-operative Banking Group response

The Co-operative Banking Group (CBG) is part of The Co-operative Group, which is one of the UK’s leading businesses and the world’s largest consumer-owned co-operative. The Co-operative Group is the fifth biggest food retailer and the leading convenience store operator in the UK and its financial services business has a strong reputation and presence in its sector. Other interests include the third largest retail pharmacy chain, the largest funeral services business, Britain’s biggest commercial farmer and a growing legal services business. The Co-operative Group has over 7 million members. As well as delivering on its financial and operational goals, The Co-operative Group aims, as part of its mutuality, to deliver on its social goals, playing an active part supporting local communities and the wider world.

The Co-operative Banking Group’s business includes The Co-operative Bank Plc. (which includes the brands, smile, Britannia and Platform), the Co-operative Insurance Society, and Co-operative General Insurance. With over 8 million customers and £48bn in total shareholder assets, The Co-operative Banking Group is the most diversified financial services mutual in the UK. We are a member-owned, customer-led and ethically-guided business delivering sustainable financial services for members, customers and society.

At the heart of our ownership model are our values which define our business and shape the decisions we make. Operating in both retail and corporate markets, we have a clear ambition to have the operational scale and financial strength to offer a compelling co-operative alternative to the large banks. We have not been immune to the impact of the banking crisis, but while other banks received government bail-outs, we operated a sustainable model that did not lend out more than we had in customer deposits. This strength and trust in our brand has enabled us to attract even more customers.

In July 2012, we announced that the Board of The Co-operative Group had entered into non-binding heads of terms with Lloyds Banking Group (LBG) in relation to the acquisition of the Lloyds 'Verde' business. If completed, the combination of the 'Verde' business and our own will create a real presence on the high street with almost 1,000 branches across the UK (approximately 10% of total bank branches in the UK) and will accelerate our ambition to offer a compelling co-operative alternative in the banking market.

Introduction and Overview

The Co-operative Banking Group welcomes the opportunity to respond to this consultation and fully supports the Government aim of ensuring UK payment systems meet the needs of all payment users without imposing disproportionate regulatory costs on businesses.

The UK payments landscape is changing rapidly and is currently in a period of exciting change with developments in mobile and on-line payments bringing new services to consumers. The importance of agreeing what is delivered in the competitive/collaborative space is paramount to achieving the best outcome for the economy and delivering real consumer benefits. There is a great deal of focus on mobile payments both in the market and in the HM Treasury document however this is still in the early stages of technological development and consumer acceptance. It is likely that these developments will bring new players into the payments business to compete with the banking industry but we believe that, given the emerging status of mobile technology, that perhaps this should be allowed to play out in the competitive space for a little longer, to encourage innovation, before there is a focus on imposing industry standards. There is a danger that the focus of innovation in the payment space is aimed towards the 'tech savvy', possibly pushing the non-technical confident consumers to complex payment methods they do not feel comfortable with and ignoring the basic payment methods most commonly used by us all.

Any regulation needs to support the right balance between competition and collaboration to enable innovation but ensuring security and reach. Whilst the creation of a Payment Strategy Board may be the optimal approach, implementing the regulatory framework, governance and agreeing scope and roles for it and the Payments Council could take a considerable amount of time.

This is currently the case in the European Union where the creation of the EU SEPA Council has still not been finalised. In the midst of this uncertainty of scope and agreed roles, coupled with the lack of clarity around competition issues, the majority of planned activity by European Payments Council has come to a halt delaying the vision of an EU single market at the expense of consumers. When considering options for reform we believe the UK should take lessons from this. We, particularly, believe any changes should be delivered quickly without any current activity coming to a standstill whilst regulatory oversight is agreed.

We recognise that the agency route is an important option for smaller payment service providers to enter the payments market. However, there is a risk that with the level of new regulation (including capital and liquidity requirements) that it becomes uneconomic both for the agency and the sponsoring bank to offer services. It may be simply too expensive for a sponsoring bank to develop its systems for new regulations but also difficult for an agency bank to amend their systems and processes in order to comply. It may also increase the price of the services provided by the sponsoring bank to a level the agencies cannot afford - the systems required, say, to deliver Faster Payments securely, instantaneously and irrevocably for up to £100k are complex and expensive.

Question 1

Do you agree that the creation of a Payments Strategy Board:

- should be the lead option for reform;
- provides the appropriate balance between Government intervention, impact and cost; and
- effectively tackles the issues the Government has set out?

Whilst we agree that an additional layer is required to sit above the Payments Council and provide public interest scrutiny, we do not necessarily believe the creation of a Payment Strategy Board, as proposed in the consultation document, should be the lead option for reform.

An option to progress quickly without a full regulatory framework in place should be considered to ensure benefits to consumers continue to be realised. Without regulation, but still with the direction of Government, a senior body could be created under the Payments Council's current legal framework with the primary aim of ensuring the payments roadmap has public interest in mind. Together, with independent directors, payment industry experts, HMT, FCA and the Bank of England this senior body could effectively tackle the issues the Government has set out in the consultation to strengthen the voice of consumers.

For a centrally overseen payments strategy in the interests of the economy and consumers to be effective it is important that all payment service providers, including the international card schemes and new/emerging payment providers are engaged and captured under the remit of the senior body. A strategy should demonstrate consumer benefit and be mindful of the global reach of payments to ensure UK consumers are not restricted or disadvantaged.

We do not support the option of full regulation, i.e. a Paycom, as we do not believe this would provide any additional consumer benefit and the likely significant costs involved for all businesses would have a detrimental effect for all payment service users and it could have the effect of inhibiting innovation. We believe that creating a further regulatory body in addition to the new PRA and FCA, alongside the Bank of England, HM Treasury and OFT, and coupled with the regulatory focus from Europe would be confusing and sub-optimal with demarcation lines difficult to draw.

Question 2

The following questions relate to the changes the Government would expect the Payments Council to implement under Option 1. Some of the changes will also be considered if the Government proceeds with Option 2.

- a) Do you agree that the current remit and objectives of the Payments Council are broadly appropriate? If not, how should they be enhanced?
- b) How can a clearer separation of the Payments Council's strategy setting and trade body representative functions be best achieved?
- c) Do you agree that the Payments Council should commit to publishing annual progress reports against its objectives, supported by regular, independent performance reviews?
- d) Do you agree that any two independent directors should have a right of veto over board decisions? The Government invites views on how the Payments Council's board can be strengthened further
- e) Do you agree that the existing user forums should be given enhanced functions and autonomy by being upgraded to independent User Councils?
- f) How can Payments Council funding be put on a long term, secure footing?
- g) How should a reconstituted Payments Council be given the means to enforce decisions more effectively in a self-regulatory environment?
- h) How can the membership of the Payments Council be broadened most effectively?

Over the past 12 months, following the independent review of the Payments Council and the appointment of a new Chief Executive, a number of considerable changes to the attitude, focus and direction of Payments Council have been made. We agree with the suggestion that the two independent directors should have the power to block any motion that is not deemed to be in the public interest. This, along with the need for independent directors to be aligned to stakeholder groups and be allowed to set the agenda at Board, formed part of our response to the Payments Council independent review. To strengthen the Board further it is important that independent directors have sufficient and a broad range of knowledge and experience in order to challenge effectively.

Currently the major banks dominate full membership of Payments Council with a rather random list of other full and associate members across the smaller banks, mobile and on-line space, and cash provision. An important issue to address is membership and relevant participation across the growing number of payment service providers. In order to ensure the desired cohesive strategic vision to the benefit of all payment service users the membership of the Payments Council and the remit of a more senior body requires meaningful and active engagement with all these payment providers.

The structure and membership categories would require careful consideration in order to:

- encourage active membership
- agree how decisions and principles can be enforced, if necessary, on all players in the payment market
- ensure that with a much broader reach / membership that governance is effective and decisions can be reached.

For example:

- membership options need to be available depending upon size, resource and appetite to engage
- it is probably desirable to enable some sort of membership to all payment service providers within the UK
- schemes that are “systemically” important to the UK should have a contractual relationship with the Payments Council
- the Board should be made up of representatives from the various segments including new alternative payment providers.

This will necessitate a review of the funding mechanism for Payments Council – whilst the criticism is that the Payments Council is dominated by the big 5 banks, they also pay the bulk of the funding (the 7 day account switching programme is a good example of this, it is essentially being funded by the big 5 to the benefit of the new challenger brands in the PCA market).

We therefore fully support the view that Payments Council funding should be put on a long term, secure footing however this can only be agreed once the role, remit and membership of Payments Council is agreed. It is important that any funding model agreed has to be transparent and affordable for all new and existing members and all parties involved in payments within the UK should contribute.

In order to ensure that consumers benefit from on-going interoperability between payment providers the line between co-operative and competitive requires consideration and agreement. Payments Council has in the past struggled with this and failed to gain consensus to move forward with initiatives. We believe that having a strategic senior group, relating to public interest, above Payments Council at which the Bank of England and FCA potentially participate will provide the means to enforce decisions more effectively.

A key role and objective of Payments Council is to ensure the interest of all payments service users, individual consumers, charities, corporates and SMEs are taken into account regardless of ability, age, access to technology and geographical location with full consideration of financial inclusion issues. Mainstream payment solutions should accommodate all. In order to achieve this it is important that Payments Council’s relationship with the contracted payment schemes ensures the position of the customer is central in their decision making and not just the technical and operational concerns of members. The governance model for the schemes would also need to be reviewed as the role of Payments Council adapts.

Whilst the current remit and objectives of the Payments Council are broadly appropriate these will need revisiting once the role and remit of a Payment Strategy Board or an alternative senior level body has been agreed.

The current Payments Council core objectives

- to ensure payment systems are open, accountable and transparent and;
- to ensure the operational efficiency, effectiveness and integrity of UK payment services

should remain. These are key requirements for all payment service users and without a focus on operational efficiency there is the danger that certain payment types become expensive to process ultimately having a detrimental impact to users. We are currently concerned about customer experience issues with some of the new entrants to the market (e.g. in foreign exchange services, mobile and on-line) who sit outside of the governance of Payments Council and have a different level of regulation. There is a danger of a highly regulated sector and a less regulated fringe with customers unaware of the differences and the risks that may arise for them.

We believe the user forums are extremely valuable and should be regularly reviewed to improve engagement and effectiveness and enable them to evolve. Whether the user forums should be upgraded to independent User Councils is an option that should be discussed and debated at the user forums.

Question 3

- a) Do you agree with the proposed remit for a new Payments Strategy Board?
- b) Do you agree that the Payments Strategy Board should make recommendations to the payments industry, rather than requiring action? If you consider mandated action to be appropriate, please set out how such a method could work most effectively
- c) Do you agree that the Payments Strategy Board should include senior industry representatives, non-industry representatives and independents? What do you consider to be the right composition of the Board?
- d) Should the Payments Strategy Board have a formal information gathering power? If yes, what information should be covered by such a power, and what should an appropriate enforcement mechanism be?
- e) Do you agree that the Payments Strategy Board should be funded by an FCA levy on the payments industry?
- f) Should the FCA have any further controls over the Payments Strategy Board?

The remit for a new Payment Strategy Board should be kept high level with the key objectives being to provide public interest challenge to the payment industry. Whilst the objectives in the proposed consultation are important these should be the responsibility of Payments Council to deliver with oversight and challenge from a Payment Strategy Board. As stated previously any payment strategy should include all payment types, including ATM and card transactions. Whilst focus should be on the UK market there has to be recognition of the global reach of payments and the impact of EU regulation.

We agree that the Payment Strategy Board should be a balanced mix of senior industry representatives, non-industry representatives, independents and regulatory representatives from FCA, Bank of England and HMT. We also agree that a Payment Strategy Board should make recommendations to the payments industry. Whilst we accept that a Payment Strategy Board could be funded by an FCA levy on the payments industry we feel this should be rightly broadened to all payment service providers operating in the UK.

The payments industry provides essential services to every individual and business in the UK; it is already significantly broader than the core payment services provided by the banks. Payers seek security, convenience, reliability and accessibility whilst payees seek reliability, payment guarantee and security. It is essential that any new governance over the whole industry puts the users at the heart of how it operates.

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CFG consultation response: Setting the strategy for UK payments

October 2012

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About CFG and this response

Charity Finance Group is the charity that seeks to raise the standards of financial management in the voluntary sector by championing best practice, campaigning for a better operating environment for charities, providing high quality training and events and challenging regulation which hampers effective use of charitable funds. CFG has more than 1,800 members, all senior finance professionals working in the sector and collectively our members are responsible for the management of over £21bn in charitable funds.

Our members have responsibility for the banking arrangements for their organisations, including overseeing the payments made and received. The future development and strategy of payments networks therefore touches on a core aspect of the role of the charity finance professional.

This consultation response is based on our own organisation's engagement with the Payments Council and payments industry. It demonstrates the extent to which this has enabled us to undertake the dual role of both representing the views of members (and wider sector) upward to decision makers, and ensuring developments affecting the sector are fed downward so charities are adequately briefed. We would note that we have not sought member input in the formulation of this response and consequently it is not formally representative of the views of our membership. Additionally, we have only focused on those areas relevant to us as a body representing consumers (in this case charities) – for example we have not considered the regulatory implications of the proposals.

We would be happy to provide any additional information relating to these points if required.

Impact of the target end date for cheques

Charities were one of the main groups of consumers set to be affected by the target end date for cheques and the announcement in December 2009 caused considerable alarm, confusion and concern amongst our members. In response CFG actively engaged with the Payments Council, banks and the Treasury Select Committee on the issue.

While ultimately the decision was repealed, the episode shone light on the critical importance of having access to suitable, secure, affordable and convenient payment mechanisms, which are generally viewed as a fairly routine aspect of managing a charity's flow of funds. Similarly the response from the sector made the payments industry, including the Payments Council and banks, recognise that charities are a key stakeholder that need to be adequately consulted when decisions are taken. While we believe that the cheque decision was misjudged and, particularly at the outset, flawed in the way it was communicated, from it has sprung an extremely positive strengthening of the relationship between sector bodies and the Payments Council and heightened interest from charities in the way payments are made and received.

Engagement with the Payments Council

While we believe that the initial decision on cheques was taken without adequate consultation with, or consideration for the sector, we would commend the Payments Council for their swift and constructive efforts to turn this around and engage with charities. They have been extremely helpful in their engagement with us and a useful source of advice and support on other payment and banking related issues.

In the past two years CFG has attended regular Charity and Voluntary Liaison Group meetings (now a user forum), a number of issue-specific one-off meetings and has received regular updates and correspondence from the Payments Council. They have also engaged directly with our members via a series of regional meetings on cheques, presenting at our conferences and regularly providing updates at our quarterly Banking Forum, which brings together banking and charity representatives.

The Government's aims and proposed options for reform

CFG supports the Government's aims, as outlined in paragraph 4.1.

Our interest in the future shape of the UK payments industry is as end users and as a body representing end users. We are not in a position to comment meaningfully on the regulatory implications of the proposals and as such do not feel it would be appropriate to express a preference for any one of the three options laid out in the consultation document, given that regulatory considerations (particularly regulatory burdens and cost) should underpin any decision. However, we would make a number of points in relation to the proposals:

Option 1: Enhanced self-regulation

- Given the positive engagement we have had with the Payments Council and their receptivity to our concerns and suggestions, we see no strong reasons why enhanced self-regulation, the most light touch of the three options, would be insufficient. We would particularly support measures to ensure that the body isn't dominated by the large banks and is more accountable to end users.

Option 2: Creation of a Payments Strategy Board (PSB)

- In principle, the creation of a Payment Strategy Board could be a positive way forward; however, it is difficult to fully assess this proposal without full detail around the remit, composition and role of the body – particularly around accountability for decisions.
- We would stress that the PSB should complement, rather than replace, full consultation with stakeholders. Open consultation should be done at multiple stages in the decision making process and it is important the PSB is not relied on as a consultative 'backstop'. Issues and problems will slip through the cracks and not be identified until too late without consulting widely with sectors and individuals.

- The process for raising concerns and comments to the Payments Council and payments industry should be laid out clearly, so the public are aware of how to provide input. As the body setting the strategy and holding the industry to account it would make sense that queries are shared with the PSB, and there should be a clear protocol for how and when these should be raised with individual banks and building societies and escalated to the Payments Council and PSB.

Option 3: Creation of a new regulator to oversee payment structures

- Option three would clearly bring additional costs and regulatory burdens, which are for the payments industry and government to consider. However, we would stress that reforms should not have the ultimate effect of driving up costs within the industry, which are then passed onto the consumer.

Additional points regarding the proposals

Consistent messaging from Payments Council members

The Payments Council did, in our view, misjudge how the cheque decision was presented – particularly when it was announced. Unfortunately this presentational error set the tone and confused consumers from the outset which meant efforts to rectify afterwards had limited traction. However, many of the subsequent communications problems stemmed individually from the banks, rather than from the Payments Council. In our experience we found that banks were informing customers that cheques were definitely going to be phased out, while the Payments Council continued to have a strong message that withdrawal would only go ahead provided suitable alternatives were in place.

We would therefore highlight that whatever arrangements are adopted as a result of this review, it is important that actions of the Payments Council – particularly if done following consultation with consumers – are fully aligned, in terms of both substance and communication, with those of its members. The Payments Council is a membership body and improved consultation and accountability will only be meaningful if there is buy-in from those who take proposals forward– the banks, building societies and other payment providers.

Timescales for reform

We would urge government to take into consideration the timescales for reform. While the most suitable way forward may require legislation, this will take a considerable amount of time to enact, resulting in a significant period of uncertainty. This will impact on consumer confidence and could stifle innovation within the industry if banks and other members are then reluctant to make firm commitments until the reforms are finalised. Significant changes to payments are currently underway as a result of technological developments and efforts from the industry. It would be disappointing if focus on reforming the governance of payments networks undermined the current pace of innovation.



5th October 2012

Direct Line 020-3217-8363

nicky.wheeler@chequeandcredit.co.uk

Payments Consultation Banking & Credit Team
Floor 1, Yellow
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Sirs,

C&CCC RESPONSE TO HMT CONSULTATION “SETTING THE STRATEGY FOR UK PAYMENTS”

The Cheque and Credit Clearing Company is a membership-based industry body which manages the cheque clearing system in Great Britain. The Company was established in 1985 and from that time until the present day it is proud of its record in:

- Providing members with the central payment system services for the exchange and settlement of cheques and credits. These include the exchange centres, the network for the transfer of electronic cheque data, and an automated settlement system. It also includes a courier service for the return of unpaid cheques to the collecting bank;
- Managing the operational processes of the central payment system services;
- Determining the rules, standards, and procedures required to maintain the integrity of the clearings, including the criteria for joining the clearings and ensuring compliance with those rules;
- Engaging with the full range of stakeholders which includes consumers and businesses that use cheques, banks that offer cheque clearing services, cheque processors, cheque printers and other suppliers, as well as regulators, trade associations and other payment schemes.



Our objectives are to:

- Maintain the integrity of the clearings in a declining market, responding proactively to changes in the business and regulatory environments;
- Facilitate innovation in the clearing process that delivers improvement in efficiency or an improvement in the customer proposition;
- Maintain a trusted centre of excellence and experience in the cheque and credit clearings, providing thought leadership on cheques to the payments industry.

There have been a number of governance changes in the 27 years since the C&CCC was established but during all that time the priority has been to meet the stated objectives. The Company has always been able to achieve its agreed objectives whilst working within the current governance model and does not envisage that changing.

The Company has an excellent record of achievement; the introduction of the interbank data exchange in 1996 (IBDE), effecting changes to governance required when Members decided to outsource processing responsibility to suppliers, merging Scottish and English clearings and, more recently, the introduction of the 2-4-6 customer promise for cheque beneficiaries. For this major project the C&CCC worked closely with OFT Task Force to deliver, on time and within budget, a complex and innovative programme of changes to greatly improve the cheque beneficiary customer proposition.

The Company had a positive relationship with the OFT Payments Systems Task Force in which we were able to use our unique position to provide detailed cheque and credit knowledge into the process to ensure that the Task Force successfully met its objectives and we were able to maintain our core objective of maintaining the integrity of the Clearings.

The Company has evolved its governance to reflect the needs of stakeholders as well as Members over the years and we are proud to have had an Independent Chairman since 2006. This role has enabled us to ensure that we have at all times maintained the integrity of the clearings against the challenges of managing declining volumes. Following the OFT Payments Systems Task Force, the Company developed from a focus on the inter-bank clearing rules and system for our Members to one that includes an outward facing customer education role, as reflected in our objectives. We have a programme of on-going proactive stakeholder engagement and communications; to find out more about what we do in this area please visit our website at www.chequeandcredit.co.uk

Since the formation of the Payments Council the Company has once again demonstrated its ability to be flexible and has positively engaged with them as they have worked to deliver their objectives.



As the regulatory environment continues to evolve our main priority will be to continue to maintain the integrity of the clearings. In order to achieve this the Company will continue to provide a centre of excellence and thought leadership in respect of cheques. In order to support your consultation we would make the following comments in respect of the questions you have asked:

Question 1

Do you agree that the creation of a Payments Strategy Board:

- *should be the lead option for reform;*
- *provides the appropriate balance between Government intervention, impact and cost; and*
- *effectively tackles the issues the Government has set out?*

Please provide evidence where appropriate to support your answer.

We agree that the formation of a Payments Strategy Board could deliver that role. Care must be taken, however, to ensure that representation on the Payment Strategy Board achieves the correct balance and that the governance structure is simple and effective. Having said that, the Company would work within whatever governance structure is selected and would continue to deliver the cheque processing service for as long as it is required in a professional manner with the benefit of quality subject matter expertise.

Question 2

The following questions relate to the changes the Government would expect the Payments Council to implement under Option 1. Some changes will also be considered if the Government proceeds with Option 2.

- Do you agree that the current remit and objectives of the Payments Council are broadly appropriate? If not, how should they be enhanced?*
- How can a clearer separation of the Payments Council's strategy setting and trade body representative functions be best achieved?*
- Do you agree that the Payments Council should commit to publishing annual progress reports against its objectives, supported by regular, independent performance reviews?*
- Do you agree that any two independent directors should have a right of veto over board decisions? The Government invites views on how the Payments Council's board can be strengthened further.*
- Do you agree that the existing user forums should be given enhanced functions and autonomy by being upgraded to independent User Councils?*



- f. How can Payments Council funding be put on a long term, secure footing?*
- g. How should a reconstituted Payments Council be given the means to enforce decisions more effectively in a self-regulatory environment?*
- h. How can the membership of the Payments Council be broadened most effectively?*

The Company has a strong and very positive working relationship with the Payments Council, based upon the existing contract we have agreed with them. We would support the Payments Council having the means to more effectively enforce decisions on its Members. We accept, however, that it is not easy to achieve this in a self-regulatory environment. We would welcome the Payments Council having a broad membership that could represent wider public interests.

Question 3

- a. Do you agree with the proposed remit for a new Payments Strategy Board?*
- b. Do you agree that the Payments Strategy Board should make recommendations to the payments industry, rather than requiring action? If you consider mandated action to be appropriate, please set out how such a method could work most effectively.*
- c. Do you agree that the Payments Strategy Board should include senior industry representatives, non-industry representatives and independents? What do you consider to be the right composition of the Board?*
- d. Should the Payments Strategy Board have a formal information gathering power? If yes, what information should be covered by such a power, and what should an appropriate enforcement mechanism be?*
- e. Do you agree that the Payments Strategy Board should be funded by an FCA levy on the payments industry?*
- f. Should the FCA have any further controls over the Payments Strategy Board?*

The Payment Strategy Board should be designed with a very clear role and responsibilities. In particular, the scope of the relationship between a new Payment Strategy Board, the existing Payments Council Board and the Payment Scheme Boards, such as our own C&CCC Board, must ensure that it avoids either potential duplications or gaps in scope as this could bring an unacceptable level of risk to the Schemes operations. The Company's priority will remain achieving our objective of maintaining the integrity of the cheque and credit clearings, and within that, delivering our responsibilities as the System Operator by ensuring the daily clearing and settlement is undertaken.



The Company would welcome the opportunity to engage directly with the Payments Strategy Board on issues which impact the cheque clearing. We feel that our expertise in the subject matter is unrivalled and any project or innovation which involves cheques should, as a matter of course, be managed with direct involvement from C&CCC at the outset and through to completion.

We would be happy to meet to discuss this response and would reiterate our willingness to work within whatever governance structure is finally agreed to continue to deliver an excellent cheque clearing service for as long as it is required.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'L Thwaites', is positioned below the closing. The signature is fluid and cursive.

Les Thwaites
Chairman of Cheque & Credit Clearing Company Ltd



Citizens Advice response to the Treasury consultation on Setting Payments Strategy

October 2012

Introduction

Citizens Advice welcomes the opportunity to respond to the Treasury's consultation on the future oversight of payments services strategy.

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination.

The service aims:

- To provide the advice people need for the problems they face.
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 400 independent advice centres that provide free, impartial advice from more than 3,500 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

In 2011/12 the Citizens Advice service in England and Wales advised over 2 million people on 7 million problems. Debt and welfare benefits were the two largest topics on which advice was given.

Response to the consultation

While Citizens Advice does not take a firm view on any of the options, we do have some observations about their relative merits. First and foremost, we believe there is a case for improving the representation of consumer interests in setting the payments strategy to put the interests of consumers on a more formal footing.

Our primary interest lies in the involvement of consumer representatives in the decision making process. It seems clear from the abolition of cheques debacle that the interests of all consumers are not adequately represented at present. While the Payments Council has learned from that episode, it would be prudent to ensure that such learning is permanent.

Substantive representative of consumer interests is vital to ensure that the interests of people who do not have access or interest in innovative new payment technologies are not harmed or disadvantaged by the enthusiasm to roll out them out and wind down older payment methods.

Without consideration of the experience of people from across the spectrum of consumers, the decision making process will be flawed and there is a risk that another damaging decision on the level of the abolition of cheques could occur.

Option 3

From the point of view of consumers, this option would provide the greatest certainty of consideration of consumer interests but we are unsure why it is not proposed for regulation

of payments services to be brought within the powers of the FCA, thus removing the need to establish an entirely new regulator and reducing the cost burden to the industry. From our perspective this would have the advantage of bringing the entire sector within regulation, rather than the slightly awkward halfway house of option 2 to bring only payments strategy into regulation. The proposal as it stands involves a seemingly unnecessary step in establishing the new regulator.

Option 2

As mentioned above, this option seems to offer an awkward solution to regulation and oversight, including the presumed involvement of the FCA in establishing a Payments Strategy Board but only bringing the strategic element of the payments industry within regulation. This would not provide any significant additional oversight to the activities of the Payments Council itself so any of its decisions beyond the strategic level would be beyond the scope of regulation. This could prove problematic.

Option 1

Elements of option 1 are also attractive, particularly the proposal that any two of the four independent members of the board could veto a board decision but we feel the lack of additional regulatory oversight that this option entails means it does not go far enough.

Our ref DC/DC
Your ref
Date 10 October 2012

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Telephone 0141 242 4363
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Douglas I Campbell
Head of Government Relations

Dear Melanie

HM Treasury Consultation: Setting the Strategy for UK Payments

Thank you for inviting Clydesdale Bank to respond to the HMT Consultation: *Setting the Strategy for UK Payments*.

Clydesdale Bank agrees with the Government view that the arrangements for setting payments strategy in recent years has not always been seen to deliver the best outcomes for consumers, and sometimes not even for all members of the Payments Council itself. We agree that reform is needed, but also believe that the changes that have already been made, or have been put in train, by the Payments Council since the summer of 2011 when the Council reversed its position on the abolition of cheques have made a material improvement to the governance of the Council and the way it develops strategy for the payments industry.

We believe that any reform should build on these improvements and that care should be taken to ensure that the Government's policy objectives are achieved without imposing unnecessary regulatory cost on business and the industry.

We helped to develop the Payment Council's contribution to the current consultation and strongly support its submission. In particular, we agree with the creation of an enhanced Option 1 model, which would incorporate key elements of Option 2. This would allow the new strategic body to be established without delay and without the need for legislation, before being moved to a more formal footing later under the auspices of the Financial Conduct Authority if desired. This will help to deliver the strategic oversight of developments in the industry at this critical stage in the development of many important initiatives and services for consumers and businesses.

Given our involvement in constructing the response from the Payments Council, we won't repeat the arguments and discussion again here, however we would wish to repeat the point that we have made to HMT Ministers previously about the need to ensure that future reforms, including the introduction of any new strategic body or directive should not penalise smaller banks nor impose disproportionate costs on them.

Generally speaking, the reforms that the Payments Council has introduced itself in recent months have helped to ensure that smaller banks have greater involvement in the governance of its overall programmes. We would wish this trend to be continued in any changes that result from the current consultation.

Yours sincerely



Douglas I Campbell.

Dear Sirs

Setting the Strategy for UK Payments: Response to Consultation

I write as an independent consultant specialising in the payments industry, with extensive knowledge of the Payments Council, and before that, APACS. I must apologise for not responding in detail to each question in the consultation document, but recognising that tomorrow is the deadline for submissions, I am taking the opportunity of expressing an overarching response which I hope will be taken into account.

My key message to HM Treasury is that the Payments Council is a highly professional and effective organisation and that government should leave it alone. The proposals in the consultation paper are complex, unnecessary and by the law of unintended consequences would, I believe, be to the detriment of the UK payments industry if implemented.

As a consultant, I have studied payments systems in many countries during some 30 years of industry involvement. My considered opinion is that the UK payments industry is one of the best, if not the best in the world. This is in large part thanks to the stewardship of the Payments Council.

It seems extraordinary to me that the government should choose to attack the Payments Council at this time. Over the past several years almost every part of the banking industry has been revealed to be incompetent, untrustworthy, greedy and criminally negligent. By comparison, the UK payments industry stands as a beacon of integrity, reliability and value for money. As a consumer, I enjoy access to a wide range of payments options which in my experience are 100% reliable and are delivered completely free. What is the problem?

The consultation paper makes much of the Council's supposed failure over cheque displacement. This is grossly unfair. Anyone with any knowledge of payments at all knows that cheques are inefficient, expensive, insecure and obsolete. After a long period of detailed analysis the Council sensibly announced a plan for cheque withdrawal by 2018. Not surprisingly, this was greeted with howls of protest by various consumer pressure groups (all of which had been consulted extensively by the Council – I was indirectly involved with the project at this time and my impression was that the Council acted with professionalism and an attention to detail which was second to none). At this point, rather than showing some guts and backing the strategy, the government demonstrated the worst sort of populism by caving in to media pressure and forcing the Council to reverse its decision. This I find shameful.

Another misleading theme in the paper is that the Council should not have planned for cheque replacement without some sort of alternative payment vehicle, implying that the UK payments industry has in some sense failed to innovate or develop new payments technologies. In fact, nothing could be further from the truth. Through cashless shopping, EMV chip, online banking, and now Faster Payments the UK has led the world for two decades. Faster Payments, in particular, was developed by the Payments Council in record time and has as yet no equivalent anywhere in the world, allowing anyone with an online bank account to transfer funds in a matter of minutes. This new infrastructure will undoubtedly support alternative payment vehicles acceptable to even the most recalcitrant consumers well before 2018.

I urge HM Treasury to demonstrate some integrity and vision by abandoning this ill-considered initiative forthwith.

Yours faithfully,

Nick Collin

Nick Collin

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Consultation: Setting the strategy for UK Payments

Date: October 2012

Contact: Maeve Holly

Our (PID) reference number: PD20010 1367

The Consumer Council is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to make the consumer voice heard and make it count.

We have a statutory remit to *promote and safeguard the interests* of consumers in NI and we have specific functions in relation to energy, water, transport and food¹. These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers².

The Consumer Council is also a designated body for the purposes of supercomplaints³, which means that we can refer any consumer affairs goods and services issue to the Office of Fair Trading⁴, where we feel that the market may be harming consumers' best interests.

In taking forward our broad statutory remit we are informed by and representative of consumers in NI. We work to bring about change to benefit consumers by making their voice heard and making it count. To represent consumers in the best way we can, we listen to them and produce robust evidence to put their priorities at the heart of all we do.

The Consumer Council has been working to ensure financial services and products are suitable for consumers and that they are at the centre of policies and decisions taken.

¹ The Consumer Council undertakes its specific functions in relation to food recognising the role of the Food Standards Agency (FSA). The FSA has responsibility for the development of food policy and for the provision of advice, information and assistance, in respect to food safety or other interests of consumers in relation to food. Therefore, to ensure good value and use of public money, the Consumer Council and FSA have a memorandum of understanding and the Council's strategic focus on food is primarily in relation to food prices and customer experience.

² The General Consumer Council (Northern Ireland) Order 1984, 1984 No. 1822 (N.I. 12), <http://www.legislation.gov.uk/nisi/1984/1822/contents>

³ The Enterprise Act 2002 (Part 9 Restrictions on Disclosure of Information) (Amendment and Specification) <http://www.legislation.gov.uk/ukxi/2003/1400/schedules/made>

⁴ The OFT is the UK's consumer and competition authority. Its mission is to make markets work well for consumers. It is a non-ministerial government department established by statute in 1973 <http://oft.gov.uk/about-the-oft/>

Introduction

The Consumer Council believes that it is essential that a UK payments strategy meets the needs of consumers and promotes competition. Payments are an intrinsic part of every day life for all consumers.

The Consumer Council welcomes this opportunity to contribute to this consultation on payments regulation. We were invited and have been attending consumer user forum meetings at the Payments Council since its inception and have been able to contribute our policy through that medium.

In the last year we have set up events in Northern Ireland (NI) for consumers and consumer representatives on issues relating to cheques and a range of other payment methods. There is a real need to continue this work and host more regional meetings in NI about payments to ensure that the needs of consumers here are fully understood and catered for. We believe that the range of issues for this region is different to other regions. Therefore any new body responsible for payments strategy should be able to continue this work.

Consumer engagement and payment strategy

As a key participant in the current Payments Council consumer user forum, we have appreciated the opportunity to communicate the needs of Northern Ireland consumers. The forum takes into the account the needs of many minority groups, including general consumers, younger and older people, disabled and disadvantaged consumers. We have found the meetings very useful and established good relationships with the staff at the Payments Council who have ably assisted us in understanding some of the more complex and technical aspects of payment services. We want to continue this type of forum with the body responsible for payments strategy.

Current financial and payments issues for NI consumers

Ulster Bank payments crises: Ulster Bank payments system was out of operation from 19 June to 16 July. The payments crisis has had a long lasting impact on many consumers and businesses across NI. Many endured

desperate feelings of not knowing what their account balance was, whether direct debits had been paid, when they would receive salary or benefits payments and how they could get to branches to withdraw limited amounts of money. Evidence shows that NI consumer confidence in respect of the security and reliability of payments has been damaged. Consumers need assurance that a technical crises of this size may never happen again.

Financial capability and financial education: Research shows that consumers in Northern Ireland are bottom of the UK league when it comes to being financially savvy.⁵ The Consumer Council is committed to helping consumers make the most of their money and we are working in partnership with the government, financial institutions and community and voluntary organisations to ensure that there is a strategic and co-ordinated effort to help consumers get to grips with this very important issue. To this end we are working with the Northern Ireland Executive and Government departments on the implementation of a Financial Capability Strategy for Northern Ireland.

Taking into consideration the low levels of financial capability in NI and the effects this may have on the all aspects of payments, the Consumer Council would strongly urge the bodies responsible for payments strategy to continue to engage with us, carry out research and collect data on a regional basis.

Cash and ATMs: There is a need to continue to provide cash withdrawal facilities free of charge to all consumers, particularly people with basic bank accounts and vulnerable groups. The Consumer Council have been working with LINK, local banks, cash machine providers, local political representatives and to improve access to free of charge ATMs.

Cross border payments: This is particularly pertinent in Northern Ireland because of our land border with the Euro-zone. Many consumers find it difficult and costly to transfer their money when they live and work on different

⁵ *Managing Money: How does Northern Ireland add up?* 2007, The Consumer Council, (A research report based on the Financial Services Authority (FSA) UK Baseline Survey)

sides of the border. Consumers need better information on their options for transferring money and the costs involved. The Consumer Council would welcome the development of simple and cost-effective methods of transferring money across borders.

Innovation - Contactless and prepaid cards; mobile payments:

Consumers must not be disadvantaged because they are not able to or cannot afford to use technology driven by internet or smart phones. All new developments in payment services must follow the highest principles of inclusive design, and pilots and include a cross section of the population. Bodies responsible for payments strategy have an important role to play in ensuring that new technology is accessible and easy to use by all consumers. We would expect them to facilitate the co-ordination required between the various organisations and companies involved.

The cost of paying: The Consumer Council welcomes the imminent ban on above cost payment surcharges. Making a payment for goods or a service is an intrinsic part of the transaction and consumers should not have to pay for paying. In October 2012 we will respond to the consultation on the early implementation of the ban.

Consumer Principles

Any new body responsible for payments strategy should take into account the seven consumer principles that we outline below. These should be an integral part of the ethos and culture of any new body:

Access

Choice

Information

Redress

Safety

Fairness

Representation

In the interest of providing suitable payment services to consumers, we believe that all payment services should be based on the following principles:

- Consumers require a choice of payment methods that are straightforward, efficient, cost effective and secure.
- Consumers need easy to understand information about payment methods, the costs, risks and level of security of those options.
- Education on new and existing methods is crucial to ensure that consumers have the confidence to try new methods.
- Greater account should be taken of the needs of those who find it difficult to use payment methods, including people with physical or visual impairment, those on a low income and consumers with low levels of financial capability.

The role of the Payments Council or other named body

Consumer Representation: NI Consumers should be represented on any new or proposed payment strategy board. It is extremely important that there is an NI specific board member who will be able to engage with all NI consumers organisations so that they are able to communicate the specific needs of the NI region. The board must be more driven by independent members with a focus on consumers. Banks should no longer lead on payments strategy and make irreversible decisions that affect all consumers.

Consumer Education: The Payments Council or future other named body have a duty to inform and educate consumers about choice, their rights and protection when making payments. This should be run in conjunction with bank-led initiatives. However, it is important that all consumers have access

to information about all types of payment methods in order to evaluate and select appropriate methods, regardless of who their provider is. There needs to be a balanced approach between what the banks and Payments Council or other named body provide.

Changes to the regulatory system for payments

The Consumer Council has a statutory duty to safeguard consumers in the areas of energy, water and transport. We work closely with the Northern Ireland Authority for Utility Regulation (NIAUR) and with other regulators such as the Civil Aviation Authority. We also have responsibility to educate consumers so they are managing their money and finances wisely and as such we work with the Financial Services Authority and meet regularly at consumer stakeholder meetings.

We have previously outlined our policy positions on financial regulation and how it protects consumers to the Treasury. The Consumer Council recommends four main principles to be taken into consideration to protect the interests of consumers throughout financial regulation reform.

Clarity for consumers: So that they know what the roles of the Financial Conduct Authority and Prudential Regulation authority and any payments body are and how they will be protected.

A robust system: Much more work is needed to ensure consumers can make informed decisions. Improvement in the transparency of information provided to consumers on their services, charges, rights and responsibilities is key to ensuring consumers can make informed choices. Consumers can only take responsibility for their actions when they are financially capable as well as have all the relevant information to make the decision.

Frequent reviews of the system: Proper mechanisms must be put in place to review the regulation system and to take into account the views of

consumers gathered by consumer representatives on a frequent basis. This should include the involvement of the independent consumer panel. Cooperation and sharing of information between the regulators is necessary to strengthen transparency and accountability.

Consumer education: It is vital that organisations such as the FCA and Money Advice Service continue the approach of working in partnership with organisations such as the Consumer Council and the Financial Capability Partnership NI to ensure there is a joined up approach to financial capability.

The decision to regulate the work of the Payments Council should take a range of issues into consideration:

- Protection of all consumers, and in particular the vulnerable
- Promote competition and choice
- Take the views of consumers into consideration before changes or new innovation
- Ensure investment and improve service standards
- Consumers need to have confidence in the body that will represent them

If you would like to discuss this response in more detail, please contact Maeve Holly mholly@consumercouncil.org.uk or 028 9067 4820 in the first instance.



The Consumer Council

Making the consumer voice heard and making it count

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Payments Consultation
Banking & Credit Team
Area 1 Yellow
HM Treasury
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SW1A 2HQ

12 September 2012

Dear Sir or Madam,

Setting the Strategy for UK Payments

Please find enclosed our formal response to your consultation entitled 'Setting the Strategy for UK Payments'.

In summary, we agree with the recommendation to establish new supervisory structures for the UK payments sector under the supervision of the Financial Conduct Authority. We believe that this new structure needs to be transparent, representative, equitable and pro-competitive. Care must be taken to ensure that recommendations are in the interests of consumers and users, rather than the banks. The new structure must ensure that responsibilities are clearly allocated within the system and that any commercial activities are hived off into a separate entity.

We look forward to your response to our comments.

Yours sincerely



Ron Delnevo
Managing Director (UK & Europe)
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Bank Machine is a division of
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ATM operator.



HM Treasury

Setting the strategy for UK payments

A Response by Credit Action

Background

Credit Action is a national financial capability charity (registered Charity in England & Wales No. 1106941) established in 1994.

Credit Action empowers people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives. It develops and delivers products and services which provide education, information and advice on money matters, in an appropriate way for young people and adults. Through its work Credit Action reaches over 500,000 UK citizens every year.

Introduction

As an organisation which works extensively with both young people and adults to help them manage money effectively, Credit Action takes a keen interest in all issues which affect consumers' ability to engage with their finances. As the controversy over the abolition of cheques starkly illustrated, decisions made by the UK Payments Council can have an enormous impact in this regard, and the structure of the UK payments regime is therefore an issue which has considerable significance for consumers. We therefore welcome the opportunity to contribute to the Treasury's consultation on *Setting the strategy for UK payments*.

Question 1

Do you agree that the creation of a Payments Strategy Board: should be the lead option for reform; provides the appropriate balance between Government intervention, impact and cost; and effectively tackles the issues the Government has set out?

Of the three options for reform of the payments regime put forward in the consultation, we believe that the creation of the Payments Strategy Board (Option 2) provides the most suitable way forward, and therefore agree that this should be the lead option for reform. We support the view that recent events have demonstrated a need to move beyond the existing model of self-regulation, and believe that the proposals for a Payments Strategy Board offer advantages which the other options put forward in the consultation do not.

Initially, we would argue that Option 1, which focuses on enhancing the current regime but maintains its self-regulatory approach, is unlikely to deliver change on the scale necessary to address many of the problems which are present in the current system, particularly from the perspective of consumer engagement. We are supportive of a number of the reforms proposed in Option 1, notably the development of the current "user forums" into User Councils (paragraphs 5.8 – 5.10) and the possibility of introducing a stronger consumer voice on the Payments Council's board (paragraph 5.7), and believe that they should be implemented even if Option 2 is ultimately selected but the Payments Council retained to represent the industry (as suggested in paragraphs 5.37 and 5.38). However, we feel that it would be something of a missed opportunity if the prospect of broader and more far-reaching reform embodied in Options 2 and 3, which could potentially deliver additional benefits to consumers, was dismissed. Moreover, we note that the consultation raises questions over how the Payments Council will continue to be funded on a sustainable long-term basis if the current self-regulatory model were to continue, but its board composition adjusted (paragraph 5.11). We are unsure if there is an easy solution to this problem if Option 1 were to be chosen, and recognise that under any self-regulatory model, drawing funding from industry members themselves has the potential to create a conflict of interest.

Consequently, we feel that Options 2 and 3 are the only ones proposed in the consultation that are genuinely viable. In this context, Option 2 is our preferred choice. In addition to the fact this is more feasible from a cost and resource perspective, as outlined in the consultation, in our view a key factor is that the proposed Payments Strategy Board (PSB) would appear to be integrated to a much

greater degree with the new Financial Conduct Authority (FCA) than would be the case with an entirely new payments regulator on the “Paycom” model. As financial regulation in the UK is about to undergo hugely significant changes, we feel that it is crucial that the new payments regime should be aligned with this as far as possible. We therefore see the PSB as a particularly appealing option, given that the FCA will be deeply involved in setting up, overseeing and making appointments to the PSB. By contrast, the creation of a brand new regulator has the potential to add an additional level of complexity to the UK’s regulatory structure, for both firms and consumers, at a time when its fundamental architecture is already being drastically reformed. Furthermore, the proposal to fund the PSB through an FCA levy would appear to offer a straightforward solution to the problem of providing sustainable, long-term funding for payments regulation in a way that avoids conflict of interest.

Overall therefore, we agree that Option 2, should be the selected as the lead option for reform, and is likely to provide the best balance between Government intervention, impact and cost. If it operates effectively, we feel the PSB does have the potential to tackle many of the issues set out by the Government in the consultation. Implementation will obviously be crucial to this, and we will therefore move on to answering Question 3, which addresses these issues directly.

Question 3

a) Do you agree with the proposed remit for a new Payments Strategy Board?

We believe that the proposed remit for the PSB (as set out in paragraph 5.24) is broadly correct, and directly addresses three of the Government’s four aims for the payments regime set out in paragraph 4.1.

From our perspective, one of the key outcomes of the shift to the PSB should be increased levels of consumer engagement (which in our view would help avoid the sort of difficulties caused by the proposals to abolish cheques), and we are therefore keen that this should be reflected in the PSB’s remit. We recognise that this is largely covered by the second point, to “encourage the payments network to operate for the benefit of all users”, but wonder whether there is perhaps merit in explicitly stating that consumers are included in the scope of this provision (for example, by re-writing the second point to read “encourage the payments network to operate for the benefit of all users, including consumers”).

The other point we would make concerns the PSB’s contribution to the stability, reliability and efficiency of payments systems. This is the only one of the Government’s four aims for the UK’s payments network which is not directly referenced in the PSB’s proposed remit. While we recognise that this is primarily an issue for the Bank of England as outlined in paragraph 4.17, and that the PSB will be expected to consult the Bank when formulating its recommendations (as discussed in paragraph 5.39), we also question whether there may be some value in including a specific reference to the stability of the payments system within the PSB’s remit. This could either be in the form of an additional point in paragraph 5.24, or alternatively as a “have regard” specifying that the PSB must give due consideration to the integrity of the payments system when formulating its

recommendations. In our view, this may be helpful in providing clarity within the PSB's remit, and therefore within legislation, about the nature of the PSB's obligations towards the overall stability of the system.

b) Do you agree that the Payments Strategy Board should make recommendations to the payments industry, rather than requiring action? If you consider mandated action to be appropriate, please set out how such a measure could work most effectively?

We recognise the Government's concerns around giving the PSB the power to mandate action by making binding rulings, and agree with the viewpoint put forward in paragraph 5.27 that the industry itself represents the primary source of expertise on payments costing and development. Ultimately, if the relationship between the PSB and industry is managed constructively on both sides, a system based on recommendations rather than binding rulings will probably be sufficient to ensure that payments strategy is set in an effective and informed manner. Clearly, a situation in which the PSB dictated terms to the industry with little regard to the feasibility or wider impact of its demands would be an unproductive one, and something all parties should be keen to avoid.

That said, we feel it is worth at least raising the question of whether some form of "last resort" mechanism may be necessary, in case a situation arose where the PSB and payments industry were fundamentally at loggerheads on a particular issue. While it would obviously be hoped that there would never need to be utilise such a mechanism, there is always a possibility that a reform which the PSB judged to be essential to the fair and efficient operation of the payments system could effectively be blocked by the industry. In such circumstances, the capacity to issue some form of binding ruling could potentially be valuable, although safeguards would obviously need to be put in place to ensure this was not a power that could be used indiscriminately. For example, it could be made clear that such a "last resort" mechanism could only be employed if negotiation on the issue had fundamentally broken down, and the PSB could demonstrate that a failure to implement the recommendation in question posed a serious risk to end-users, perhaps complete with a relevant cost-benefit analysis. Furthermore, requiring an appropriate body (maybe the FCA or the Treasury) to sanction the use of a binding ruling may also help ensure such powers were only utilised when absolutely in the public interest.

c) Do you agree that the Payments Strategy Board should include senior industry representatives, non industry representatives and independents? What do you consider to be the right composition of the Board?

The composition of the PSB will obviously play a crucial part in determining its success, and will largely define its ability to effectively represent the payments system's various stakeholders. We note that Government's intention is for the PSB to include a mixture of senior industry representatives, non-industry representatives (including consumer representatives), and independent directors, as well as prospectively non-voting observers from the Bank of England and FCA.

In our view, the key issue with regard to the composition of the Board is that it should feature a robust voice for consumers, and include members who can provide a strong consumer perspective on payments strategy and ensure that this informs the decision-making of the PSB as a whole. We would therefore hope that the PSB would always include an appropriate number of Board members who have strong consumer credentials and successful track records of consumer advocacy. Ideally, such a consumer presence would be sufficiently strong to balance other interests represented on the PSB, such as the industry itself, to ensure a rounded debate can take place.

d) Should the Payments Strategy Board have a formal information gathering power? If yes, what information should be covered by such a power, and what should an appropriate enforcement mechanism be?

As outlined in paragraphs 5.32 – 5.34, the amount of information that the PSB is able to gather will define, to a significant extent, the level of detail it will be able to go into in its recommendations. Less detailed recommendations may only enable the PSB to provide an “initial steer” to the industry, while more detailed recommendations put the PSB in a position to drive developments in payments to a greater degree.

In our opinion, the PSB should ideally be empowered to issue more detailed recommendations – if it was unable to go beyond providing an “initial steer”, we feel its supposedly central role in strategy setting may be undermined. On these grounds, we believe that granting the PSB a formal information gathering power is probably warranted, and will help it fulfil the mandate intended for it in the consultation.

If the PSB can make a reasoned case outlining why it requires a specific piece of information in order to make a sufficiently detailed recommendation, our view is that it should be able to use its formal information gathering powers to access to this. However, we recognise that there are broader issues concerning the commercial sensitivity of the information that the PSB may be able to gather in this way, particularly given that industry representatives on the Board could potentially see material relating to the performance of rival firms. Consequently, it is important that such powers are not used indiscriminately. In order to ensure this, it would seem sensible to require the PSB to justify why use of its information gathering power was needed on a case-by-case basis, prospectively through a formal process. Additional safeguards, such as requirements that Board members treat any material attained through the PSB’s formal information gathering power with an appropriate level of confidentiality, would also seem suitable in this context.

We would hope that, if sufficient safeguards were put in place which commanded confidence from the industry, firms would be responsive to a request made by the PSB through its formal information gathering power. However, we realise that there will always be a possibility that a firm may refuse to surrender the material requested, and that consequently some form of enforcement mechanism needs to be in place, even if ideally this is never used. Giving the PSB the capacity to publicly rebuke a firm which failed to respond to a request made under the information gathering power is one type of sanction that could potentially be employed. Beyond this, we also wonder if it is worth exploring

whether sanctions for such behaviour could somehow be built into the FCA's formal sanctioning regime – given that the FCA will play a central role in overseeing and funding the PSB, it might make sense to extend this link to enforcement if this is feasible.

e) Do you agree that the Payments Strategy Board should be funded by an FCA levy on the payments industry?

As outlined in our response to Question 1, we do feel it is appropriate for the PSB to be funded through an FCA levy. While this will mean that a financial burden is placed on the industry, we believe that the funding arrangement proposed in Option 2 is preferable to that proposed in Option 1 (which we feel could potentially create a conflict of interest, particularly within a self-regulatory model, as previously discussed). We would also expect the burden placed on industry under Option 2 to be less than that imposed under Option 3, in which an entirely new body will be created and funded using a licensing structure.

Ultimately therefore, we feel that the funding arrangements proposed under Option 2 probably strike the most suitable balance. Indeed, in our view it is appropriate to expect the payments industry to fund the regulatory body, but the use of an FCA levy to do so means its support is effectively indirect (in that contributions are paid by the industry to the FCA and in turn from the FCA to the PSB), which thereby avoids the conflict of interest problem.

f) Should the FCA have any further controls over the Payments Strategy Board?

Without seeing more detailed proposals for the PSB, we feel it is difficult to make firm judgements on whether any additional controls are required. At this stage, we would simply reiterate our belief that a close relationship between the FCA and the PSB is very much desirable, and that we believe that the FCA's proposed role in setting up, overseeing and funding the PSB will hopefully ensure the PSB is well aligned with the UK's new regulatory regime.

Contact

For further information on any of the points made in this response, please contact John Davies at Credit Action, either by email at [johndavies@creditaction.org.uk](mailto: johndavies@creditaction.org.uk) or by telephone on 0207 380 3390.

By Email: PaymentsConsultation@hmtreasury.gsi.gov.uk

File Ref:F1

**Payments Consultation
Banking & Credit Team
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SW1A 2HQ**

13 September 2012

Dear Sir,

Setting the strategy for UK payments

The Civil Service Pensioners Alliance is an independent campaigning organisation that is recognised by the Cabinet Office and other Government Departments and Agencies as being the body that speaks on behalf of all Civil Service Pensioners.

One of the issues that caused a good deal of concern to our members during the last 12 months was the arbitrary decision taken by the Payments Council to scrap the use of cheques, and as a consequence we submitted evidence to the Treasury Select Committee Inquiry undertaken at the time which eventually resulted in the Payments Council reversing its decision.

Although the Payments Council introduced some changes to its operation, following the debacle over the scrapping of cheques, we believe that the proposals outlined in the HM Treasury consultation document 'Setting the strategy for UK payments', contain some interesting options to strengthen these changes for the future well being of the UK payments system. However as will be seen from our responses contained below in answer to the specific consultation questions, we believe that there is a need for proper accountability by the Payments Council to the proposed Payments Strategy Board.

Our responses to the various questions posed are as follows:

Question 1

Do you agree that the creation of a Payments Strategy Board:

- should be the lead option for reform;
- provides the appropriate balance between Government intervention, impact and cost; and effectively tackles the issues the Government has set out? Please provide evidence where appropriate to support your answer.

Comment: Yes the proposed creation of a Payments Strategy Board would provide welcome oversight of the work of the Payments Council. However the Payments Strategy Board must have the ability to hold the Payments Council to account for failing to implement a Payments

Strategy Board recommendation including the ability for sanctions to be taken. Otherwise the Payments Strategy Board would have little ability to prevent the Payments Council from going its own way as happened over the debacle of scrapping cheques.

Question 2

The following questions relate to the changes the Government would expect the Payments Council to implement under Option 1. Some of the changes will also be considered if the Government proceeds with Option 2.

a. Do you agree that the current remit and objectives of the Payments Council are broadly appropriate? If not, how should they be enhanced?

Comment: Whether or not the Payments Council remit and objectives are appropriate or should be enhanced will surely be a matter for the Payments Strategy Board to determine once it has been set up?

b. How can a clearer separation of the Payments Council's strategy setting and trade body representative functions be best achieved?

Comment: If the Payments Strategy Board has sufficient authority to oversee the strategic decisions being taken by the Payments Council and with the ability to call the Payments Council to account, this should go some way to avoiding potential conflicts of interest. If this is also coupled with openness on the part of the Payments Council in publicly reporting its deliberations, the appointment of more independent members of the Payment Council's Board, plus the proposed separation of the functional roles with adequate reporting and accountability to ensure the two functions have clearer delineation within the Payments Council's internal structures, then this again would help reduce the potential for conflicts of interest arising.

c. Do you agree that the Payments Council should commit to publishing annual progress reports against its objectives, supported by regular, independent performance reviews?

Comment: The simple answer is yes. The greater the degree of accountability both to its Board, Members and the general public can only be a useful step in ensuring decisions of significance can only proceed after adequate consultation with all interested parties has occurred.

d. Do you agree that any two independent directors should have a right of veto over board decisions? The Government invites views on how the Payments Council's board can be strengthened further.

Comment: The ability for just two of the proposed four independent board members would certainly provide a useful check on the decisions of the Payments Council. However what happens after the veto has been exercised? Surely there would be a need for referral to the Payments Strategy Board for further consideration of the reasons why the veto had to be used?

e. Do you agree that the existing user forums should be given enhanced functions and autonomy by being upgraded to independent User Councils?

Comment: This would usefully extend the ability of interested parties to be able to participate in and comment on any future proposals for change by the Payments Council and for views from end users to be readily available to the Payments Council to assist it in its decision making. However there will be a need for transparency as to how appointments are to be made to each user group.

f. How can Payments Council funding be put on a long term, secure footing?

Comment: At paragraph 5.15 of the consultation document it is proposed that membership of the Payments Council should be broadened to ensure it is representative of all of its

stakeholders. Although the big five high street banks currently provide 80% of the funding (and should continue to do so) for the Payments Council, surely the broadening of the membership base using a suitable levy of said stakeholders along the lines of the funding regime that is proposed for the funding of the Payments Strategy Board would provide a stable basis for future funding?

g. How should a reconstituted Payments Council be given the means to enforce decisions more effectively in a self-regulatory environment?

Comment: With the creation of a Payments Strategy Board in place of a more formal regulatory office, surely it would be for the Payments Strategy Board through the office of the Financial Conduct Authority to enforce decisions rather than being reliant on the Payments Council?

h. How can the membership of the Payments Council be broadened most effectively?

Comment: As has been suggested in paragraph 5.15 of the consultation document, the opening up of membership to payment service users and organisations with an interest in payments through the creation of different categories of membership would provide for a useful broadening of the membership base whilst enabling the existing membership base to retain a clear identity.

Question 3

a. Do you agree with the proposed remit for a new Payments Strategy Board?

Comment: Yes but subject to the provisos contained in the answers to questions 1 and 2 above.

b. Do you agree that the Payments Strategy Board should make recommendations to the payments industry, rather than requiring action? If you consider mandated action to be appropriate, please set out how such a method could work most effectively.

Comment: As commented above, there would be a need for the Payments Strategy Board to have the ability to call the Payments Council to account in the event a recommendation was not implemented without good reason.

c. Do you agree that the Payments Strategy Board should include senior industry representatives, non industry representatives and independents? What do you consider to be the right composition of the Board.

Comment: If there is to be proper representation afforded to both industry, non industry and consumer nominated board members, then this should be a balanced composition with an independent chairman being able to exercise a casting vote for the status quo, unless it is intended that decisions should be reached on the basis of consensus.

d. Should the Payments Strategy Board have a formal information gathering power? If yes, what information should be covered by such a power, and what should an appropriate enforcement mechanism be?

Comment: It has been shown that the Payments Council and its membership have in the past made decisions that had a much wider potential impact than initially thought such as the abolition of cheques. In the absence of an office of regulation it is essential that the Payments Strategy Board has a formal information gathering power. The Payments Strategy Board could usefully use the FCA as the body for an enforcement mechanism.

e. Do you agree that the Payments Strategy Board should be funded by an FCA levy on the payments industry?

Comment: This seems to be the fairest means of raising the necessary funding if it is the Coalition Government's wish to avoid any cost to the public purse.

f. Should the FCA have any further controls over the Payments Strategy Board?

Comment: Given the FCA will be responsible for raising the levy to fund the Payments Strategy Board, then surely the FCA should have the ability to call the Payments Strategy Board to account both as to how it has expended its funding and on the key activities and recommendations it has made and why?

Concluding Comment: If the need for regulatory office such as 'Paycom' is to avoided for a Payment Strategy Board to be a feasible option (given what has happened with the light touch self regulation approach in the financial and banking sectors in recent years), we believe that a Payments Strategy Board under the auspices of the Financial Conduct Authority and the Bank of England must have sufficient power/authority to be able to properly investigate and to ensures its recommendations for change are taken seriously by the Payments Council and its members, otherwise the Payments Strategy Board will simply be a toothless organisation that will have little or no ability to undertake its proposed role.

We hope the above answers to the various questions are seen as a realistic assessment of the situation, and that it will be accepted there is a need for the general public to be reassured that there is adequate regulation of the Payments Council, and proper accountability on the part of the Payments Council, to the Payments Strategy Board and the Financial Conduct Authority.

Yours sincerely,

Ralph Groves

**Ralph Groves
General Secretary**

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Date	10 th October 2012

Payments Consultation
Banking & Credit Team
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I have set out below the DWP's response to the consultation document titled "Setting The Strategy For UK Payments".

In the next year two flagship and interdependent Government programmes, Universal Credit (UC) in DWP and Real Time Information for PAYE (RTI) in HMRC will be going live. Each will transform the way that Government transacts with the UK's citizens and businesses and each will depend for its operation on Government access to and use of the existing and potential technological capacities of the UK Payments Networks. Furthermore, working closely with the Crown Representative for Banking, Brendan Peilow, we shall shortly be determining our future banking and payment requirements ahead of contract re-lets, and will want to ensure that we have built in flexibility and future proofing, that will naturally be underpinned by the emerging payments strategy.

DWP's interest in the UK's Payment Networks as a major actual and potential user is two-fold: as an existing payer DWP generates 30% of all Bacs credit traffic and, come Universal Credit, as a consumer of the earnings payment data held by the Networks and sent to them via HMRC by employers of UC claimants.

DWP, as the principal Government payer of financial support- benefits and pensions, also has a role of customer or end-user champion; representing the diverse needs of the most disadvantaged members of society whose current access to and potential to benefit from the UK Payments Network is limited or possibly non-existent.

The potential for spreading this present and future benefit was explicitly acknowledged by Ministers from both Treasury and DWP in a recent exchange of letters with the Council, urging a collaborative approach to build on the success already achieved in the implementation of the interim, pilot phase of RTI.

However, recent experience shows that existing structures are not always the best for delivering change that is generally acknowledged to be of benefit to end-users. The

limited roll-out of Faster Payments and the failure to agree to an RTI data submission channel through the Bacs scheme stand as examples.

DWP therefore welcome the proposals in this document to improve industry accountability and sees this as a way of feeding into the future development of the UK's Payment Networks the requirements that flow from Ministers' policy intentions.

Our more detailed responses to the questions posed in the document follow.

List of all questions

Question 1

Do you agree that the creation of a Payments Strategy Board:

- should be the lead option for reform;
- provides the appropriate balance between Government intervention, impact and cost; and
- effectively tackles the issues the Government has set out?

Please provide evidence where appropriate to support your answer.

Yes. The proposed Governance redresses the balance between the interests of those for whom change would be beneficial and those whose perception is that it would not. DWP as an end user with needs that are in the process of changing are interested in a governance structure where change, innovation and customer requirements are better facilitated and more speedily implemented. We also see this proposed structure as making more explicit the boundary between what is and should be competitive and what collaborative.

Question 2

The following questions relate to the changes the Government would expect the Payments Council to implement under Option 1. Some of the changes will also be considered if the Government proceeds with Option 2.

a) Do you agree that the current remit and objectives of the Payments Council are broadly appropriate? If not, how should they be enhanced?

Providing there is no broadening into the competitive space and powers are relative to the preservation and development of the corroborative infrastructure DWP support the Payments Council remit and objectives. We expect the creation of a Payments Strategy Board to be a conduit supporting greater strategic direction leading to enhancements to payments systems and greater protection of citizens' interest.

b) How can a clearer separation of the Payments Council's strategy setting and trade body representative functions be best achieved?

The document itself suggests the answer here- reducing the influence in the former of the interests of the latter.

c) Do you agree that the Payments Council should commit to publishing annual progress reports against its objectives, supported by regular, independent performance reviews?

<p>We agree this degree of visibility is appropriate</p>
<p>d) Do you agree that any two independent directors should have a right of veto over board decisions? The Government invites views on how the Payments Council's board can be strengthened further</p>
<p>Yes, this will provide a greater opportunity for the "public interest" to be taken into account. DWP as a major user on behalf of government should be represented and at an appropriately high level such that Government interests can be represented strategically and Ministers can easily be kept informed of progress.</p>
<p>e) Do you agree that the existing user forums should be given enhanced functions and autonomy by being upgraded to independent User Councils?</p>
<p>The present system works well with the chair being one of the Independent Directors, thereby providing direct communication flows into and out of the Payments Council Board. The possibility of enhanced functions should be considered, as this may well lead to the forums taking on more responsibility and ownership of particular issues/challenges.</p>
<p>f) How can Payments Council funding be put on a long term, secure footing?</p>
<p>We have no comment on this</p>
<p>g) How should a reconstituted Payments Council be given the means to enforce decisions more effectively in a self-regulatory environment?</p>
<p>By adopting a Payment Strategy Board with HMG representation, this would provide the opportunity to consider whether a hybrid regulatory framework could co-exist e.g. by considering if regulatory powers in particular circumstances are deemed to be needed, or just the mere act of them being considered is sufficient.</p>
<p>h) How can the membership of the Payments Council be broadened most effectively?</p>
<p>Interests of all Government departments should be represented- not necessarily directly but by properly delegated representatives with a Government –wide perspective. A wider representation of payment providers would also help e.g. mobile payments operators, pre-paid card providers.</p>
<p>Question 3</p>
<p>a) Do you agree with the proposed remit for a new Payments Strategy Board?</p>
<p>Yes, DWP fully support improvements aimed at addressing historic weaknesses in the scope, membership, accountability and transparency of the Payments Council.</p>
<p>b) Do you agree that the Payments Strategy Board should make recommendations to the payments industry, rather than requiring action? If you consider mandated action to be appropriate, please set out how such a method could work most effectively.</p>
<p>Our expectation is for Payments Strategy Board to make recommendations as proposed, however where there is a clear public benefit recommendations must be enforced. A method of requiring action is available within existing regulations, i.e. from the Bank of England and FSA. We would support the exploration of a semi-statutory option using existing regulatory powers to mandate change and subsequent accountability for decisions and delivery.</p>
<p>c) Do you agree that the Payments Strategy Board should include senior industry representatives, non industry representatives and independents? What do you consider to be the right composition</p>

of the Board?
As a major user of payment systems and one with a strong interest in security of payment and financial inclusion Government representation is required at a senior level. Suggest Permanent Secretary or even Ministerial level.
d) Should the Payments Strategy Board have a formal information gathering power? If yes, what information should be covered by such a power, and what should an appropriate enforcement mechanism be?
If statutory powers of the Bank of England and FSA are used to mandate recommendations then these should be backed up with formal information gathering prior to invoking appropriate enforcement i.e. FSA sanctions.
e) Do you agree that the Payments Strategy Board should be funded by an FCA levy on the payments industry?
No Comment
f) Should the FCA have any further controls over the Payments Strategy Board?
FCA power over the Payments Strategy Board and its dependency should be recognised by both consensual and statutory agreement, further controls may be needed if in the opinion of the FCA not enough progress is made against published shared objectives. If the Board makes a formal decision this should be equal to a decision from the FSA and become enforceable through existing statutory mechanisms.

Wayne Stephens

Copy: Mike Driver
Richard Paul
Roger Burke-Hamilton
Nick Davies
Liz Johnstone



Payments Consultation

Banking & Credit Team
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Electronic Money Association

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Chief Executive

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16 October 2012

Dear Sir,

Re: HMT Consultation: 'setting the strategy for UK payments'

The Electronic Money Association (EMA) welcomes the opportunity to respond to the consultation paper issued by HM Treasury in July 2012 entitled 'Setting the strategy for UK payments'.

The EMA is the trade body representing electronic money issuers and payment service providers. A list of EMA members is given in the Annex to this document.

Our response addresses more than one question at the same time. This enables us to articulate a number of issues we would like to raise. The opinions expressed below are those of the EMA as a whole and may not represent the views of individual members.

The EMA represents innovative and alternative payment service providers, as well as established providers offering payment services. Issues around innovation and access to payment systems are therefore at the forefront of the EMA's concerns. Following participation in the OFT Task Force on Payments in 2006 and participation in the Payments' Council Business Forum, as well as direct discussions with the Payments Council regarding a more meaningful participation, we come to a number of conclusions:



- (i) The Payments Council is primarily representative of legacy providers, and its governance criteria favour providers that have the largest market share. It is unable to recognize new and innovative payment service providers as meaningful participants in its governance, strategic decision making and standard setting process.
- (ii) The Council claims that its structure provides for such participation through a minority of directors, who are appointed to represent the numerous smaller providers. This representation is in fact that of the majority of smaller legacy providers and does not enable innovative service providers to have their views heard or their interests addressed in Board discussions.
- (iii) The Council has sought to ameliorate this shortcoming by including the e-money sector's trade body in its Business User forum. The EMA has attended a number of such meetings and has found them to be little more than customer discussion forums aimed at informing the Council's members of the needs of their customers and ways in which to improve their services. The entire innovative payment sector's contribution was regarded as one of a 'user' of existing services rather than a provider of payment services. After attending a number of such meetings, it was decided to cease attendance. A meeting was organized with the Payments Council, where the EMA set out its concerns and sought more meaningful participation. This approach met with a polite but firm refusal.

The main shortcoming of the current approach is the absence of voices that represent those seeking to change the payments landscape and to make it more efficient.

This is more relevant today than it has been for many years, as new providers are able to enter the market and more easily create products that can have a significant impact on the payments landscape. Examples include the growth of electronic money providers and the alternative payments acquiring market, including that of mobile acquiring.

We do not believe that a procedural change to the way in which user groups are operated is sufficient; the divergence in the interests of legacy providers and new



entrants is sufficiently significant to merit individual representation at all decision-making levels, including the Board.

Having regard to the alternatives posed by the consultation, adoption of the first option could only work for this industry if it is accompanied by a radical change in representation that enabled participation on a basis that was transaction volume-driven and which enabled meaningful participation in decision-making and strategy for innovative payment service providers.

The second option could assist in resolving the current shortcomings, but only with dual representation at both the public strategy board and the reconfigured Payments Council.

We do not believe a utility type regulator is merited. The issues raised in the consultation and in our response can be address using more measured intervention.

We are available to discuss our submission at any time.

Sincerely,

A handwritten signature in black ink, reading 'Thaar Sabri', is positioned below the word 'Sincerely,'. The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Thaar Sabri
Chief Executive



Annex

List of EMA members as of October 2012:

Advanced Payment Solutions Ltd	Newcastle Building Society
American Express	PayPal Europe Ltd
Blackhawk Network Ltd	PayPoint Plc
Boku Inc	Paywizard
Citadel Commerce UK Ltd	PPRO Financial Ltd
ClickandBuy International Ltd	Prepaid Services Company Ltd
Cornèr Banca SA	PrePay Technologies Ltd
Eastnets Remittance Company Ltd	PSI-Pay Ltd
Emoney, s.r.o.	R. Raphael & Sons plc
Envoy Services Ltd	Securiclick Limited
Euronet Worldwide Inc	Syspay Limited
Ewire Danmark A/S	Telefonica UK Financial Services Ltd
Google Payments Ltd	Ticket Surf International
iCheque Network Limited	Transact Network Limited
IDT Financial Services Limited	Ukash
Ixaris Systems Ltd	Vincento Payment Solutions Ltd
MasterCard International	Wave Crest Holdings Ltd
Moneybookers Ltd	Wirecard AG
National Australia Group	Yandex.Money
Neteller UK Limited	

Setting the strategy for UK payments: A formal response by Bank Machine Ltd

Introduction

The decision by the Payments Council to end cheque clearing, which eventually led to this Consultation, was one in a series of decisions that served the interests of its dominant members, but did not necessarily serve users of the payments system or the wider British economy. We are aware of a number of decisions made by the Council that met their members' commercial objectives but were costly, inconvenient and commercially damaging to other system participants. We therefore welcome this Consultation and look forward to a new, more appropriate and successful regulatory regime to either replace or oversee the Payments Council.

About Bank Machine

Bank Machine is a division of Cardtronics Inc., the World's largest independent operator of ATMs. Bank Machine was the first independent ATM provider in the UK and is proud in particular of the fact that it provides people with access to cash in places often ignored by other ATM providers, such as hospitals, armed forces facilities, education establishments and areas of economic deprivation. The company operates an estate of approximately 4,500 ATMs up and down the country and is installing new machines daily. Bank Machine's activities include:

- ATM installation and operation
- Maintenance
- Cash Management and Delivery
- Security

Bank Machine ATMs welcome all cards - LINK, Visa, MasterCard, American Express, Diners Club and Allpoint. That means over 140 million UK-issued cards - and tens of millions of International Cards - can successfully be used to obtain cash at Bank Machine ATMs.

Detailed response

Question 1

Do you agree that the creation of a Payments Strategy Board:

- should be the lead option for reform,
- provides the appropriate balance between Government intervention, impact and cost, and

- effectively tackles the issues the Government has set out?

Bank Machine welcomes the proposed creation of a Payments Strategy Board under the supervision of the Financial Conduct Authority. At this point, it is debateable whether there is a sufficiently powerful case for direct regulation of the industry, but what is not in doubt is that the present situation cannot continue. We believe that given the current state of knowledge, the proposal is appropriate and will address most of the concerns that we have.

Four principles should underpin the new system: It should be transparent, representative, equitable and pro-competitive. We set out our reasoning below:

Transparent: The Board needs to be transparent in order to ensure that the recommendations it makes are open to scrutiny. This would, we believe, ensure that the interests of all stakeholders – providers, users and customers - are reflected in their recommendations.

Representative: The payments environment is complex with a variety of specialist methods and a complex set of stakeholders. Some payment systems are very specialised and are used only by sophisticated organisations whilst others, such as cash, are used by almost the entire UK population on a daily basis. All stakeholders need to be represented in the new structure to ensure that this important piece of national infrastructure serves the whole economy.

Equitable: The number, scale and variety of stakeholders will be a particular challenge for the Board. However, given the particular failure of the Payments Council in regard to equity, this will be particularly important in the new body.

Pro-competitive: One of the concerns identified by HM Treasury, and one with which we agree, is the lack of competition and lack of innovation in UK payments. We believe this is due, at least in part, to the fact that the large banks dominate the Payments Council and, perhaps naturally, have sought to use it to further their own commercial objectives. The Payment Strategy Board must ensure that the payments systems serve their end users and by extension the wider economy. The best way to achieve this is by encouraging competition.

Question 2

The following questions relate to the changes the Government would expect the Payments Council to implement under Option 1. Some of the changes will also be considered if the Government proceeds with Option 2.

- a) Do you agree that the current remit and objectives of the Payments Council are broadly appropriate? If not, how should they be enhanced?

No, we do not believe that the Payments Council as it is currently constituted has proven to be effective for customers, the payments industry or the wider economy. We believe that notwithstanding the need for a new body, the Council itself needs to be more transparent, more broadly representative and should not be dominated by institutions with a commercial interest in certain payment methods succeeding at the expense of others. It should be noted that there have been some recent positive signs that the Payments Council can adapt, with a new Chief Executive and new Independent Directors making a significant difference. However, a further strengthening of independent representation on the Board is required, with those independents being given the power to veto decisions in the public interest.

- b) How can a clearer separation of the Payments Council's strategy setting and trade body representative functions be best achieved?

There may well be a case for a trade body, or trade bodies, to represent the payments industry, but this should absolutely not be confused with a regulatory function. The historic performance of the Payments Council, and indeed the behaviour of the banks in other areas, proves beyond doubt that self-regulation does not work for consumers, the national economy or even the payments industry itself. If the Payments Council is to continue to have a role, all trade activities must be hived off to a separate entity.

- c) Do you agree that the Payments Council should commit to publishing annual progress reports against its objectives, supported by regular, independent performance reviews?

Yes, strongly.

- d) Do you agree that any two independent directors should have a right of veto over board decisions? The Government invites views on how the Payments Council's board can be strengthened further.

Yes, a power of veto should be in place.

The challenge here is to ensure that the reconstituted regulatory structure represents the interests of the widest possible range of stakeholders. In our view, the Payments Council has historically failed to do this, representing instead the interests of the banks sometimes to the detriment of other stakeholders.

- e) Do you agree that the existing user forums should be given enhanced functions and autonomy by being upgraded to independent User Councils?

Yes, there is a case to be made for recognising the different payment methods and the different needs of the users of these payment methods. It may well be

independent User Councils can help achieve these objectives. The Payments Council has been striking in that it has seemed to put the interests of the banks above those of other stakeholders. Without wanting to overcomplicate the new structure, care should be taken to ensure that all participants and users are appropriately and fairly represented.

- f) How can Payments Council funding be put on a long term, secure footing?

As in other fields of financial service regulation, a levy on participants seems the most appropriate approach. Those with the broadest shoulders should bear an appropriate share of the burden.

- g) How should a reconstituted Payments Council be given the means to enforce decisions more effectively in a self-regulatory environment?

It is clear, in our view, that the self-regulatory approach failed to adequately serve the interests of the industry, consumers or the wider British economy. The proposed Payments Strategy Board, via the Financial Conduct Authority, should have the power to enforce its decisions on organisations that fall under its purview.

- h) How can the membership of the Payments Council be broadened most effectively?

It seems that currently a number of potential members of the Payments Council fail to join because of either lack of confidence in the Council or financial / resource constraints or a mixture of the two reasons.

Any new structure that is created must give all potential participants confidence that their views will be given a fair hearing.

We have seen examples in the past of the Payments Council actively seeking to create advantages for one payment method over another. It may therefore be that each method or system should have a committee or grouping in which the stakeholders meet and make recommendations to the Payments Strategy Board for review and approval. For smaller participants, it is important that membership costs are affordable.

Question 3

- a) Do you agree with the proposed remit for a new Payments Strategy Board?

Yes, we are broadly in agreement with that remit. We would add that the Board should be 'method neutral' and pro-competitive i.e. that it should not seek to artificially engineer the market in favour of one payment method over another. Consumers and users should be free to use the payment methods that they find most appropriate or that meet their needs most effectively.

b) Do you agree that the Payments Strategy Board should make recommendations to the payments industry, rather than requiring action? If you consider mandated action to be appropriate, please set out how such a method could work most effectively.

Ideally a recommendation would be sufficient for the industry to act. However, as with Faster Payments we know that there may be resistance where the participants believe that it is not in their commercial interest to comply. In that case, we believe that the Board should have power, probably via the 2009 Act, to compel participants to conform with a recommendation.

c) Do you agree that the Payments Strategy Board should include senior industry representatives, non-industry representatives and independents? What do you consider to be the right composition of the Board?

We agree that all stakeholders need to be included in the new structure. Our suggestion would be that the Board should consist of one third providers, one third users and one third independents, with the independents having power of veto in matters concerning public interest and with a 'Golden vote' being held by the FCA and or the Bank of England.

d) Should the Payments Strategy Board have a formal information gathering power? If yes, what information should be covered by such a power, and what should an appropriate enforcement mechanism be?

The Board should have the power to demand any and all information that is relevant to the functioning of the payments markets in order to determine if those markets are functioning properly. These powers should be similar in scope to those in other competition supervisory bodies, such as the Competition Commission.

e) Do you agree that the Payments Strategy Board should be funded by an FCA levy on the payments industry?

Yes, although we should also recognise the financial and human resource constraints faced by new and/or smaller market participants. As such, the larger institutions should carry a larger portion of the burden.

f) Should the FCA have any further controls over the Payments Strategy Board?

Care should be taken to ensure that no regulatory gaps appear in the system. As such, the FCA may need to have reserve powers to address any such gaps should they emerge.

It is important, in our view, that there is a clear understanding of the regulatory geography. By that, we mean that it is clear which regulators are responsible for which activities. The current system with a hotchpotch of powers ascribed to a variety of regulators and/or self-regulatory functions of trade bodies is a recipe for regulatory failure. Certainty, clarity and predictability should be watch-words of the new structure.

It may also be appropriate for a review clause to be built into the legislation so that the entire system is reviewed after an appropriate period i.e. five years or so.

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10 October 2012

Dear Sirs

Setting the strategy for UK payments

This is the Financial Services Consumer Panel's response to the HMT consultation on setting the strategy for UK payments.

Overview

The Panel has long argued that features of the UK's payment system should be brought within financial services regulation. The cheque debacle, where the Payments Council was forced to overturn its decision to phase out cheques following political pressure, highlighted the risks of allowing an industry dominated body, without clear public or regulatory accountability, to take major decisions that have a significant impact on users of financial services. This caused anxiety for many consumers.

The consultation sets out three potential options for reform. The Panel firmly believes the first option – enhancing self-regulation – is not sufficient to address the deficiencies in the current approach. While the Payments Council has taken steps to address some of the criticisms levied at it, we still feel the needs of consumers are not fully considered and the implementation of initiatives has taken too long.

The Panel recognises the motivation for establishing a Payments Strategy Board as set out in the Government's second option for reform. However, we feel the disadvantages of this approach have not been fully considered and must be addressed if the Government proceeds with this approach. The Panel has a number of concerns with this approach including:

- no mechanism to compel the industry to act on the recommendations of the Strategy Board – while we recognise any recommendations would be made public, there is no guarantee the industry would take these forward;
- where recommendations are taken forward, there is no regulatory accountability to ensure they have been delivered in a timely manner and to the benefit of consumers;
- the Payments Council, or alternative coordination body, would remain an industry funded trade body which would, be likely to put its members' interests above those of consumers;

- as membership of any coordination body that would respond to the Strategy Board's recommendations would not be mandatory, there is a risk of ineffective coordination across the industry and individual firms could exclude themselves from any initiatives which are taken forward; and
- it is not clear whether the Financial Conduct Authority (FCA) would be able to effectively oversee the work of the Strategy Board.

Before committing to establishing a Payments Strategy Board, and in addition to addressing our concerns with this approach, we firmly believe the Government should fully consider the benefits of creating a new regulator to oversee payment structures or charging the FCA with fulfilling this role. The Panel feels there may be merits in this approach which should be fully explored. This includes ensuring:

- the needs of consumers are fully considered and are central to any initiatives which are taken forward;
- initiatives are introduced in a timely and consistent manner by all payment services providers;
- the disadvantages and weaknesses in the current self-regulatory approach are addressed; and
- if the FCA was given regulatory responsibility, the UK payments landscape is not further complicated by creating another body with responsibility for the UK's banking and payments services.

Whichever option the Government decides to implement, the Panel believes it is essential that the governance and direction of UK payment systems is underpinned by four key principles:

- *Focus on delivering good consumer outcomes* – the needs of consumers should be the central and overriding consideration when developing and taking forward payment services initiatives.
- *Independence* – the organisation, or organisations, which set and implement the strategy, should have sufficient independence so they are not unduly influenced by a single or limited number of payment services providers.
- *Accountability* – these organisations should be accountable to the appropriate regulator and Government, with the regulator empowered to take action where the organisation is not fulfilling its responsibilities.
- *Appropriately funded* – the relevant organisations should have an appropriate funding model to enable them to plan and operate on a long-term basis. We consider it unacceptable that funding restrictions could force an organisation to have an inappropriately short-term focus to its work.

Detailed questions

Question 1 - Do you agree that the creation of a Payments Strategy Board:

- ***should be the lead Option for reform,***
- ***provides the appropriate balance between Government intervention, impact and cost, and***
- ***effectively tackles the issues the Government has set out?***

Please provide evidence where appropriate to support your answer.

As we outlined in our *overview* to this response, the Panel believes the creation of a Payments Strategy Board might be an appropriate step given the failure of industry self-regulation. However, the Panel feels there are a number of weaknesses to this approach (as listed in our *overview*) which the Government must address before proceeding with this option. Furthermore, we also feel the potential benefits of charging a new regulator or the FCA with responsibility for the UK's payment system should be fully explored before dismissing this approach.

Question 2 - The following questions relate to the changes the Government would expect the Payments Council to implement under Option 1. Some of the changes will also be considered if the Government proceeds with Option 2.

- a. Do you agree that the current remit and objectives of the Payments Council are broadly appropriate? If not, how should they be enhanced?***
- b. How can a clearer separation of the Payments Council's strategy setting and trade body representative functions be best achieved?***
- c. Do you agree that the Payments Council should commit to publishing annual progress reports against its objectives, supported by regular, independent performance reviews?***
- d. Do you agree that any two independent directors should have a right of veto over board decisions? The Government invites views on how the Payments Council's board can be strengthened further.***
- e. Do you agree that the existing user forums should be given enhanced functions and autonomy by being upgraded to independent User Councils?***
- f. How can Payments Council funding be put on a long term, secure footing?***
- g. How should a reconstituted Payments Council be given the means to enforce decisions more effectively in a self-regulatory environment?
and***
- h. How can the membership of the Payments Council be broadened most effectively?***

As we set out in the *overview* section to this response, the Panel firmly believes the first option for reform – enhancing self-regulation – will not address the failures in the current approach to set and take forward the strategy for UK payments. The Payments Council's mishandling of the debate on whether to end the use of cheques directly led to unnecessary distress and anxiety among many consumers. It is also taking too long to implement initiatives which could potentially benefit consumers, such as mobile payments and the bank account switching service. For this reason, the Panel strongly opposes simply taking forward Option 1.

If the Government elects to proceed with Option 2 and the Payments Council has a role to take forward the Strategy Board's recommendations, the Panel believes a number of changes are needed within the Payments Council to enable it to fulfil the function effectively. While we recognise the Council has taken steps to address some of the criticisms levied at it, we feel further changes are needed:

- the needs of consumers must be the central and overriding consideration of the Council – we suggest this is reflected in its objectives;

- the Consumer User forum, which the Panel is an existing member of, should move from a passive sounding board to a group empowered to set its own agendas and work programmes;
- the Council should publish annual progress reports against its objectives and commission regular independent performance reviews;
- the largest Council members should not be able to exercise excessive influence over its future projects;
- the Council should have a secure long-term funding model to enable it to take forward the Strategy Board's recommendation – there may be merit in setting membership fees on a three-yearly rolling basis;
- the board of the Council should have more independent members, with power granted to just two independent members to veto a board decision; and
- there should also be greater consumer representation on the board.

Question 3:

- Do you agree with the proposed remit for a new Payments Strategy Board?***
- Do you agree that the Payments Strategy Board should make recommendations to the payments industry, rather than requiring action? If you consider mandated action to be appropriate, please set out how such a method could work most effectively.***
- Do you agree that the Payments Strategy Board should include senior industry representatives, non industry representatives and independents? What do you consider to be the right composition of the Board?***
- Should the Payments Strategy Board have a formal information gathering power? If yes, what information should be covered by such a power, and what should an appropriate enforcement mechanism be?***
- Do you agree that the Payments Strategy Board should be funded by an FCA levy on the payments industry?***
- Should the FCA have any further controls over the Payments Strategy Board?***

Before the Government proceeds with its proposal to set up a Payments Strategy Board, the Panel believes a number of potential weaknesses to this approach should be addressed. We have set these out in the *overview* to this response. We also feel the Government should fully consider the benefits of establishing a new regulator to oversee payment structures, or charging the new FCA with responsibility for this, before deciding how to proceed.

Yours faithfully,



Adam Phillips
Panel Chair