

# **Final report of the Payment Systems Task Force**

February 2007

OFT901

© **Crown copyright 2007**

This publication (excluding the OFT logo) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as crown copyright and the title of the publication specified.

## **FOREWORD**

This is the final report of the Payment Systems Task Force. It reflects its progress from May 2006 to November 2006 when the Chancellor of the Exchequer agreed to wind up the Task Force.

The second Task Force annual progress report published in May 2006 referred to the possible establishment of a new, high level, body with responsibility for governance across the payments systems market. That body is now a reality and, under the chairmanship of Brian Pomeroy, will start work on promoting a strategic vision across the industry and increasing transparency and innovation, while ensuring the integrity of all payment schemes. Creation of this body, in a way that meets the original Cruickshank concerns for the industry while at the same time reflecting the changed market circumstances of 2006, is a huge achievement for the Task Force.

This report records significant changes made to the cheques clearing cycle, relating especially to maximum clearing times for value, withdrawal and fate, from November 2007. While most customers of financial institutions will not recognise the terms, the consumer research carried out by the Cheques Working Group showed clearly that these were the areas of concern for both personal and business customers. For the first time, a single United Kingdom-wide customer proposition will be implemented by ending delays in cross-border cheque processing between Scotland and the rest of Great Britain and between Northern Ireland and other parts of Great Britain. The agreement on 'fate' (that customers will know that, providing they were not a knowing party to fraud, money paid to them by cheque cannot be taken out of their account as a result of the cheque being dishonoured more than six days after the cheque is deposited by them) puts the United Kingdom in a world-leading position.

Taken together with the agreement on the introduction of faster electronic payments from November 2007, these are the most significant and far-reaching changes effected in the banking industry in recent years. They will be of great benefit to customers across the whole of the United Kingdom. These achievements show that the Task Force approach can be made to work in the right circumstances and with the right organisations and people involved.

Finally, I would like to express my gratitude to all the organisations and people involved in the work of the Task Force and its Working Groups for their approach to the work and for their time and efforts. Without them, the changes recorded here would not have happened and banking customers in the United

Kingdom would not be receiving the benefits soon to be available to them.  
Thank you all.

Jonathan May

Chairman, Payment Systems Task Force

## CONTENTS

<i>Chapter</i>	<i>Page</i>
1 Executive Summary	1
2 Introduction	4
3 Impact and achievements of the Task Force	7
4 New governance arrangements for the United Kingdom's payments industry	11
5 Cheques Working Group	18
6 BPSL Innovation Working Group	21
7 BACS Access and Governance Working Group	24
8 LINK Access and Governance Working Group	26
9 European developments	30
10 Next steps	32
A Membership and makeup of the Task Force	34
B Task Force terms of reference	35
C List of Task Force publications	37
D New governance body's scope and objectives	40
E Terms of reference for the OFT two year review of the new governance structure	42
F Other innovations and changes to BPSL Access and Governance arrangements considered by the Working Group.	44

# 1 EXECUTIVE SUMMARY

1.1 This report covers the final six months of the operations of the Payment Systems Task Force (the Task Force), from May 2006 to December 2006. In the course of this period, the Task Force has launched a new governance model for the United Kingdom's payments industry, and has published one Working Group report (Cheque clearing).

## **New governance structure for the United Kingdom's payments industry**

1.2 On 14 November 2006 the Chancellor of the Exchequer formally gave his backing to the new governance model for the United Kingdom's payment systems industry. The governance model centres around three key objectives: promoting strategic vision across the payments industry, promoting increased transparency and innovation and ensuring the integrity of all member schemes. The board of this new governance model will be headed by an independent Chairman. There will also be four independent directors.

1.3 The new governance structure will help address concerns raised by Cruickshank in his 2000 report on competition in the United Kingdom banking industry. The new structure will be reviewed by the OFT after two years from its first board meeting (or by March 2009, whichever is the sooner).

## **Cheques Working Group**

1.4 The Cheques Working Group found that there was no case to speed up the central clearing cycle. The Working Group did, however, recommend the banking industry introduce a standard set of maximum clearing times for value, withdrawal and fate. For current and basic bank accounts these times have been agreed as T + 2-4-6 (where 'T' is the day of deposit) and for savings accounts T + 2-6-6. While some financial institutions already beat these maximum time limits, this new position

represents significant improvements for cross border cheques and those paid into basic bank accounts.

- 1.5 The report also recommends that the banking industry work together to provide clearer information for consumers and small businesses by using standardised terms across all institutions and to provide a comprehensive information campaign on payment options.
- 1.6 It is envisaged that the 2008 Banking Codes Review will result in many of these recommendations being adopted in the Banking Codes when they will become enforceable. Financial institutions will, however, adhere to these recommendations on a voluntary basis by November 2007.

### **BPSL Innovation Working Group: update on progress including the faster payments service**

- 1.7 The Task Force's BPSL Innovation Working Group report led to an agreement by the banking industry to introduce faster payments for internet and telephone banking, as well as an improved service for standing orders. The industry has agreed that this new service will be in place by the end of November 2007 and is on track to meet that target.
- 1.8 APACS and BPSL have, during this reporting period, updated the Task Force on its work on the other innovation mentioned in the Working Group Report. A more detailed summary of this work can be found in Chapter Six.

### **BACS Access & Governance Working Group: update on progress**

- 1.9 This Working Group recommended that BPSL should maintain the established Affiliates Interest Group so that users could raise issues directly with the BPSL Board; that a formal consultation process should be introduced for potential major changes; and that a broader, more user-based, objective for BPSL should be introduced. All three recommendations have been adopted by BPSL. No further

announcements have been made during this reporting period. BPSL is due to report on progress to the new governance body in 2007.

### **LINK Access & Governance Working Group: update on progress**

- 1.10 The Working Group recommended that the LINK scheme should reinforce its existing objectives to promote innovation, efficiency and the interests of consumers. The report also recommended that the LINK company should revise its ownership and governance structure. In October 2006 LINK owners and members announced a new corporate structure in line with the recommendations of the report. The new structure separates LINK's ATM Scheme, which governs the United Kingdom's cash machine network, from the LINK infrastructure company, a commercial organisation which provides, among other products, switching and network services that connect members of the ATM Scheme.
- 1.11 LINK will report to the new governance body regarding its revised arrangements in 2007.

## 2 INTRODUCTION

- 2.1 The establishment of the Task Force followed an announcement by the Chancellor of the Exchequer in his pre-Budget Report of November 2003 that the OFT would play an enhanced role in payment systems for a period of four years.<sup>1</sup> The March 2000 report by Don Cruickshank to the Chancellor of the Exchequer, *Competition in UK Banking* (the Cruickshank report) covered many areas, including payment systems. These issues are discussed further in the OFT's report into payment systems of 2003.<sup>2</sup>
- 2.2 The work of the Task Force was based mainly, but not exclusively, on the issues raised by the Cruickshank report. These issues include governance, access, wholesale pricing, innovation, and price transparency of payment systems. In its report of August 2001, *Competition in Payment Systems: a Response to Consultation*, HM Treasury said that 'The Government agrees with the overall thrust of [the Cruickshank report], although it does not fully accept every detail'.<sup>3</sup> The OFT report noted that the industry had undertaken a number of self-regulatory reforms in addressing some of the concerns raised in the Cruickshank report. The purpose of the Task Force was to establish how much change there had been, whether further change was required, to achieve consensus among the various interest groups on the way forward and to ensure that agreed improvements were implemented.

### Membership of the Task Force

- 2.3 The Task Force was chaired by the OFT, and brought together banking industry, payments industry, retail, consumer and business representatives to ensure decisions that were reached benefited all sectors of the United Kingdom economy.<sup>4</sup> The Bank of England and HM

---

<sup>1</sup> Chancellor of the Exchequer's pre-Budget Speech of 2003 (paragraph 3.16).

<sup>2</sup> *UK Payment Systems* May 2003 OFT658.

<sup>3</sup> [www.hm-treasury.gov.uk/media/489/DO/comppay\\_syst.PDF](http://www.hm-treasury.gov.uk/media/489/DO/comppay_syst.PDF), paragraph 2.3.

<sup>4</sup> A full list of Task Force members is at Annexe A of this report.

Treasury sat on the Task Force, as observers. All members were aware of the critical importance of ensuring that payment systems remained safe, reliable and efficient. Decisions were taken by consensus, not by a vote. Provision was made that, in the case of a split, all views should be recorded. The provision was never used.

- 2.4 The payments and banking industries were represented on the Task Force by the Association for Payments Clearing Services (APACS), the British Bankers' Association (BBA), the Building Societies Association (BSA), and by the United Kingdom's three payment clearing schemes, the only national ATM network, and the three largest card schemes. The Electronic Money Association was represented.
- 2.5 Industry was represented by the Federation of Small Businesses, the British Chambers of Commerce, and the British Retail Consortium. The interests of consumers were represented by Which? (formerly the Consumers' Association) and the National Consumer Council.
- 2.6 The OFT chaired the Task Force and each working group and provided the secretariat. Although the OFT's role under consumer and competition law remains unchanged (and continued separately and independently from that of the Task Force), it had no specific additional powers in relation to the Task Force. The OFT's role in the Task Force was separate from, but a clear function of, its wider role in regulating competition and consumer law.

## **Remit of the Task Force**

- 2.7 The Task Force's remit was to identify, consider, and seek to resolve competition, efficiency and incentive issues relating to payment systems, particularly looking at network effects of the existing payment mechanisms.<sup>5</sup> Where appropriate, issues affecting consumers which

---

<sup>5</sup> The full Terms of Reference of the Task Force are at Annexe B.

derived from, or were associated with, features of payment systems were also considered.

- 2.8 Although the issues raised by the Cruickshank report were the focus of this approach, other issues that arose subsequently, or as a result of research by the Task Force, were considered where appropriate.

### **The approach of the Task Force**

- 2.9 The Task Force met no less than four times a year, and issued two annual Progress Reports on its findings throughout its life, in addition to this Final report. This is the final report of the Task Force. The Task Force set up working groups to research specific issues, which reported back to the Task Force, setting out the issues and the options for change. The Task Force published each working group report, in addition to its annual Progress Reports. A full list of the Task Force's published reports can be found at Annexe C.

- 2.10 A working group approach allowed the Task Force to focus on specific issues, and to research those issues in detail. Although many members of the Task Force chose to be represented on working groups, working groups also invited members from outside the Task Force to participate, if they had a particular interest or knowledge to contribute. Like the Task Force, each working group operated on a consensual basis, and each report was supported by all working group members.

- 2.11 In November 2006 the Chancellor of the Exchequer gave his backing to the creation of a new strategic governance body for the United Kingdom's payments industry. This new body will be responsible for providing strategic direction and will take forward the majority of the outstanding work of the Payment Systems Task Force. This is discussed in greater detail in the next chapter.

### **3 IMPACT AND ACHIEVEMENTS OF THE TASK FORCE**

3.1 As a result of the new governance arrangements, it has been possible to close the Task Force 18 months earlier than planned. In total, the Task Force has published four Working Group reports: BPSL Innovation, BACS Access and Governance, LINK Access and Governance and Cheques. These reports have recommended a number of changes that, when implemented, will significantly improve the payment systems service to consumers and businesses, especially in relation to the key area of competition. The key impacts and achievements of the Task Force and the benefits they will bring are recorded below.

#### **Impact on competition**

3.2 Competition has been strengthened through the introduction of a Service Level Agreement (SLA) between the LINK processing company and LINK scheme, which should allow for increased competitive pressures on the LINK company-scheme relationship. Access to ownership of the LINK company is being widened, which should address the problems of mutual governance and its impact on competition and innovation. The introduction of the faster payments service is a major step forward in its own right, and will increase choice for consumers, and hence competitive pressures, in the United Kingdom payment systems market.

#### **Faster payments**

3.3 The payment systems industry will introduce the new faster payments service by the end of November 2007. This will allow consumers and businesses to make electronic payments from that time within a matter of hours rather than within three days, which is currently the case. The BACS Innovation Working Group report contained research which indicated that, under the assumptions made in the so-called 'ELLE' model<sup>6</sup>, the value to the United Kingdom economy (when expressed as

---

<sup>6</sup> 'Early Late, Late Early', a hybrid same-day/next-day service.

the value that it is worth to consumers and businesses) could be in the range of £498 to £1,108 million over ten years. We would therefore expect the significantly faster form of payment to be introduced by the end of 2007 to be worth even more to the United Kingdom economy.

### **Improvements to the BACS system**

- 3.4 The Task Force evaluated recommendations put forward by APACS and BPSL on industry-level innovations and on BACS-specific innovations. Work on some of these remains still ongoing, but the recommendations, when implemented, will tackle many of the areas for improvement identified by heavy users of the BACS system.

### **BACS Access and Governance Working Group**

- 3.5 BPSL has a strong incentive to focus on the needs of its users who will, for the first time, raise issues of concern, or potential improvements, directly with the BPSL Board through the Affiliates Interest Group. The Group is backed up by a wider consultation process, which should ensure that all stakeholders in BACS have an opportunity to give their views on significant potential changes to the system. Lastly, BPSL has now adopted an objective to

'promote efficiency and innovation in payments, responding to user and market needs in an efficient and cost-effective manner'.

- 3.6 The Task Force believes that the combined effect of these changes, as well as the changes to the BACS system noted above, will have the effect of making the BACS scheme receptive to the needs of both consumers and business users.

### **LINK Access and Governance Working Group**

- 3.7 The changes already made and implementation of the recommendations made by the Task Force will reinforce the LINK scheme's mechanisms for listening to and addressing the needs of consumers. The Task Force

welcomed LINK's plans for a Standing Committee on consumer issues, especially as it is allied with stronger consumer facing objectives. This Standing Committee was established in early 2006 and played a key role in agreeing the new rules on transparency at charging cash machines that were announced in December 2006. It also played a role in developing amendments to the LINK scheme rules, also announced in December 2006, which establish incentives to deploy more free cash machines in areas where these could make an important contribution to addressing financial exclusion.

- 3.8 The more formal relationship between the LINK scheme and the LINK company, through a Service Level Agreement, announced in October 2006 will also give the LINK company a further incentive to provide an efficient and effective service.
- 3.9 LINK Scheme is likely, in due course, to become a 'contracted scheme' within the remit of the new payments industry governance body (see Chapter 4 below).

### **Cheques Working Group Report**

- 3.10 The recommendations made by the Cheque Working Group provided greater consumer clarity and confidence by providing a single customer proposition for cheque clearing across the United Kingdom. Cheques deposited and drawn across the nations of the United Kingdom will from November 2007 have to meet maximum times limits for clearance for value, withdrawal and fate. The setting of a limit for fate, the point at which money cannot be taken back out of an account when, for example, fraud is discovered, is a major achievement for the Task Force making the United Kingdom a world leader in this area.

### **Conclusion**

- 3.11 The Task Force has led to significant improvements to the way that consumers and businesses make and receive payments. From having retail payments that take longer to clear than almost any other member

of the G10, the United Kingdom will, from the end of 2007, have a service to rival the best in the world. Just as importantly, the changes made to the access and governance arrangements of both LINK and BACS mean that new products and efficiencies demanded by consumers and other interested parties will be considered and potentially introduced much faster than at present. With the improved clarity and transparency of the cheque clearing process will allow consumers and businesses to make real informed choices about which payment system is best suited to their needs.

## **4 NEW GOVERNANCE ARRANGEMENTS FOR THE UNITED KINGDOM'S PAYMENTS INDUSTRY**

- 4.1 In working towards a more sustainable, long term solution to improve governance and in particular transparency and innovation within the United Kingdom's payment systems, the Task Force has been working closely with the APACS and other Task Force members to devise a new governance structure for the United Kingdom's payments industry. In September 2006 the Task Force agreed on a new structure
- 4.2 In October 2006 the Chairman of the OFT wrote to the Chancellor of the Exchequer recommending that the new governance structure should be adopted and the Task Force be wound up accordingly. The Chancellor accepted the recommendation in November, and the Economic Secretary to the Treasury announced that in early 2007, a new governance body would be set up to provide strategic direction for the United Kingdom payment industry.

### **Scope and objectives**

- 4.3 The new body will be responsible for ensuring the overall integrity of the United Kingdom's payment services. Its objectives balance the need for operational efficiency and effectiveness with creating a competitive and innovative environment for the payments industry.<sup>7</sup> The formation of the new body and the way it will operate will address concerns expressed in the Cruickshank report concerning transparency and the promotion of innovation in United Kingdom payment systems. Particular emphasis has been given to strategic direction and innovation, including the promotion, identification and funding of new clearing schemes, where appropriate, to meet the potential future needs of businesses and consumers.

---

<sup>7</sup> A full description of the new body's scope and objectives can be found at Annexe D.

- 4.4 Another major focus for the new body's objectives is to ensure that it is fully open and accountable in the decisions that it takes. The new body will allow fair and open access to payment service providers wishing to join. The new body will publish Board meeting notes and an Annual Report.

### **Membership criteria**

- 4.5 Full members of the new body must be payment services providers<sup>8</sup> offering payment services to end customers. The Board of the new body may create other categories of member (such as Associate members), open to different types of business. All members of clearing schemes will be bound by the decisions of the governance body.

### **Board structure**

- 4.6 The Board will be formally accountable to the body's members. The Board is a unitary board and all Board members will participate equally in any discussion or decision. The Board will undertake an annual evaluation of its performance, its committees and directors. The Board will be led by an independent non voting Chairman<sup>9</sup> and consist of four independent directors and 11 industry directors dependent on payment volumes. Members with over five per cent of overall United Kingdom payment volumes will each have a seat on the Board as of right. Members with between one per cent and five per cent of volumes will have three seats between them. Members with less than one per cent of overall payment volumes will have three seats between them.
- 4.7 Board directors will normally be appointed for a period of three years. Directors from Payment Service Providers are free to stand for further terms. Independent directors can have their term extended to a maximum of two terms.

---

<sup>8</sup> Rights to offer payment services will be regulated by the proposed Payment Services Directive.

<sup>9</sup> It was announced on 14 November 2006 that the first Chairman of the new body would be Brian Pomeroy CBE.

4.8 Independent directors are full members of the Board and are entitled - and expected - to speak and vote on any issue. The proposal includes a procedural device which delivers a blocking minority for the four voting independent directors, when voting together. The role of the independent directors is:

- to bring their experience to bear in the evaluation of papers and proposals
- to ensure the Board reflects differing perspectives – as is brought to the board of companies by the inclusion of non-executive directors, and
- to take an especial interest in any advisory panels which will be set up as part of the stakeholder consultation process.

### **Payment Industry Strategic Plan**

4.9 In consultation with stakeholders, the Board will develop and maintain a strategic plan for the payments industry to cover activities which need to be addressed collaboratively by participants in the sector while enabling them to compete effectively. The plan will articulate the Board's vision for the industry over a five/ten-year horizon and will demonstrate how such a vision meets the needs of stakeholders. It will set out a programme for delivering the vision. The Board's medium-to-long term objectives and the organisation's work plans and budgets will be derived from the strategic plan. The plan will be maintained to record progress to date and to ensure that it remains responsive to any changes in the external environment and the needs of payment system users and payment service providers. The plan will also inform the planning processes of others, for example individual schemes.

4.10 The Board will put in place a process for keeping the plan refreshed and updated including:

- stakeholder consultation to identify areas of desired change in the industry and suggestions for innovations – including input from user fora
- evaluation of cost/benefit case
- effective prioritisation
- Board decisions to bind members including consequences for non-compliance, and
- monitoring progress against deliverables and objectives, taking appropriate corrective action as necessary.

### **Relationship with payment schemes**

4.11 As noted in paragraph 4.3 above, the new body will be responsible for ensuring the overall integrity of the United Kingdom's payment services, and balancing the need for operational efficiency and effectiveness with the creation of a competitive environment for the payments industry. In undertaking these responsibilities, the new body will work with payment schemes in a number of ways. Payments integrity covers various risk management matters, including pan-scheme settlement risk, security, business continuity and fraud management. The Board of the governing body will have overall responsibility for the integrity of payment systems in the United Kingdom. In carrying out this responsibility, the Board may give directions to, and set standards for, payment schemes regarding integrity to preserve or enhance the efficiency, effectiveness or integrity of payment services as a whole, or where any actions of the scheme company boards are jeopardising the integrity of the payment system. Scheme boards will, however, continue to innovate within their respective schemes and continue to develop scheme strategies consistent with the overall payment industry strategy.

4.12 Each scheme is responsible for maintaining its own integrity. Schemes agree to comply with relevant decisions of the Board, including implementing directions from (and standards set by) the Board

and providing progress reports back to the Board. Where a threat emerges to the integrity of a payment scheme, the scheme is empowered to resolve the issue, but is required to keep the Board informed.

- 4.13 The relationship between the governing body and the individual schemes will be set out in a contractual agreement. It is intended to evaluate fully the feasibility and sustainability of a structure in which individual schemes are subsidiaries of the governing body, by the time the OFT carries out its review of the operations of the new body after two years (see paragraph 10.3 below).

## **Transparency**

- 4.14 The new body's conduct and decision-taking processes will be fully transparent. This meets one of the major concerns raised in the Cruickshank report. This will be achieved by:
- publication of Board minutes (including a record of votes)
  - publication of an Annual Review of Board and organisation activities, including a specific report from the independent directors
  - a process of consultation on proposals for innovation and other major developments that will involve publication of consultation papers and responses to them (this will be supplemented by cost benefit analyses where appropriate)
  - workshops and seminars on key topics, and
  - the creation of a website to share and disseminate information and promote understanding of payments to end customers.

## **Promoting innovation**

- 4.15 The Board will look to promote innovation and change in the payments sector where demonstrable and proportionate benefits to stakeholders

would result. The industry strategic plan referred to above will be the key document in identifying areas for change.

## **Consultation with stakeholders**

- 4.16 The Board will have clear and publicly available processes by which it consults its stakeholders. They will provide the opportunity for input both from members and from other stakeholders. Consultations will be published so that all interested parties will have the opportunity to comment. The Board is expected to consult on topics such as proposals for innovation, the creation of new schemes and significant policy statements including, for example, updates to the industry strategic plan. The Board may hold informal discussions with key stakeholders prior to wider consultation. Consultation will begin by issuing a press release with a consultation document which will give clear time scales for responses. Where appropriate, seminars and workshops will be held to provide detailed briefing on a subject and receive comments.
- 4.17 The Board will set up a forum or fora for key groups of users of payment services. These fora will, for example, cover heavy users, SMEs and consumers. They are intended to offer advice on proposals coming before the Board. They will be chaired by one of the Board's independent directors who will provide feedback to the Board. Each forum will meet at least twice a year, but more frequently if when required.
- 4.18 There is no requirement on the Board to observe the results of the consultation. In practice, however, the Board will need to explain the reasoning behind its decisions.

## **Cost benefit analysis**

- 4.19 When proposals for innovation, especially those involving significant investment, are considered by the Board, there will be an additional stage to the consultation process. The results of the consultation will be evaluated by the Board and, if it appears that the response is broadly

positive, the proposal will be referred for cost benefit analysis to be carried out.

- 4.20 The cost benefit analysis will assist the Board to reach a decision on whether to implement potential innovations. The analysis will look at the costs and benefits to the industry and society as a whole. Negative cost benefit cases will undoubtedly be rejected, although on occasions a case may present a negative industry case but a positive society case. In this situation the society element would help to shed further light on which sectors benefit from innovation and inform further discussions on how the proposal might be funded. The information provided by the society analysis however, might well help establish an agreed basis for funding. Full details of the cost benefit analysis will be available on the governance body's website.

### **Accountability**

- 4.21 The new body will publish an Annual Report detailing its activities in the previous year including its performance against its objectives. In addition, the OFT will independently assess whether it is meeting its aims and objectives. This review will take place two years after the first Board meeting (or by March 2009, whichever is the sooner). The terms of reference for the OFT review can be found at Annexe E.
- 4.22 The new governance body is subject to the same competition law as the rest of the United Kingdom economy and OFT will take action under the relevant legislation if it feels it is appropriate to do so.

## 5 CHEQUES WORKING GROUP

- 5.1 The Cheques Working Group was set up to examine and to take forward work on what improvements, if any, may be needed to the current cheque and credit clearing systems in order to provide greater efficiency and enhanced user benefits. The report was published in November 2006.<sup>10</sup>
- 5.2 The Terms of Reference of the Working Group required it, among other things, to look at possible changes to the clearing cycle, the customer proposition (for value, withdrawal and 'fate' – when customers know that money paid to them by cheque cannot be taken back out of their account), as well as other aspects of cheque and credit processing. In analysing the issues, the Working Group took account of the costs and benefits of change, future projections of cheque volumes, the impact on fraud and on operational integrity and efficiency, and the legislative framework governing the use of cheques.

### Key recommended changes

#### Clearing times

- 5.3 The Working Group concluded that there was no case for a complete rebuild of the cheque clearing system. Research showed that the number of cheques in circulation is falling by around eight per cent per year, and this rate of decline was likely to increase substantially when the new faster payments service became available in November 2007. In addition, several major retail groups were either trialling not accepting cheques as a payment mechanism at their tills or had stopped taking cheques altogether. Maximum time limits on clearing for value, withdrawal and fate have, however, been agreed for current and basic

---

<sup>10</sup> [www.ofc.gov.uk/NR/rdonlyres/255E76D6-74BB-4C00-A333-CDF783444F38/0/oft868.pdf?bcsi\\_scan\\_A2018E0826464712=0&bcsi\\_scan\\_filename=oft868.pdf](http://www.ofc.gov.uk/NR/rdonlyres/255E76D6-74BB-4C00-A333-CDF783444F38/0/oft868.pdf?bcsi_scan_A2018E0826464712=0&bcsi_scan_filename=oft868.pdf)

bank accounts as well as savings accounts, and will be implemented no later than November 2007 (where 'T' is the Transaction Day, the day when the cheque is deposited):

- a maximum time limit of T + 2 on clearing for value – that is, when customers start to earn interest on money deposited via a cheque, or to reduce the amount of an overdraft and any consequent interest charged
- a maximum time limit of the start of business on clearing for withdrawal - that is, when customers are able to withdraw money which is deposited via cheque - of T + 4 for current and basic bank accounts, and T + 6 for savings accounts, which are not designed to be 'money transmission' accounts, and
- a maximum time limit of T + 6 on clearing for fate – that is, when customers know that money paid to them by cheque cannot be taken out of their account as a result of the cheque being dishonoured, provided they are not a knowing party to fraud.

Although the recommended limits represent maximum clearing times, financial institutions will still be able to compete in offering propositions to their customers that fall inside these limits, as many currently do.

- 5.4 The proposal on clearing for value, withdrawal and fate is a major advance by the banking industry, providing certainty and clarity for consumers and businesses when accepting cheques, when none currently exists. It is estimated that around 60 per cent of personal current account customers, 70 per cent of business account customers and over 90 per cent of basic bank account customers will benefit from having clearing for withdrawal speeded up to no later than T + 4.
- 5.5 A single United Kingdom-wide customer proposition on maximum clearing times for value, withdrawal and fate will be implemented in November 2007 by ending delays in cross-border cheque processing both within Great Britain and between Great Britain and Northern Ireland.

- 5.6 The OFT, as well as the sponsors of the Banking Code and other Task Force members, will recommend to the Code's independent reviewer that, where appropriate, these changes should be inserted into the Banking Code in March 2008.

### **Other recommendations**

- 5.7 The Working Group also recommended:
- that the banking industry should organise and fund nationwide education campaigns, separately aimed at consumers and SMEs, beginning in November 2007, to explain the cheque clearing process, including the new timescales involved and to compare the characteristics of other payment instruments (including faster payments)
  - changes to the processing of 'unpaid' cheques to enable the implementation of the proposals on maximum clearing times for value, withdrawal and fate to be introduced
  - within six months of the publication of the report, the provision of standard definitions in plain English for terms used to describe the cheque clearing process for use in all communications with customers, to be adopted within 12 months and to be recommended for inclusion in the next version of the Banking Code in 2008, and
  - within six months of the publication of the report, the production of best practice guidelines on printed information for processing bill payments, to be issued to billers no less than three months after that. Banks will take the lead, by ensuring that their credit card operations act in accordance with the guidelines and adopt the new recommended terminology on credit card bills.

## 6 BPSL INNOVATION WORKING GROUP

6.1 The BPSL Innovation Working Group was set up to consider the scope for, and costs and benefits of, innovation to the BACS clearing scheme, including any perceived shortcomings of the payment schemes offered by BPSL, and potential solutions. The Working Group looked at possible changes to telephone and internet banking payments and standing orders and assessed the benefits and costs of any such changes. The Working Group Report was published in May 2005.<sup>11</sup>

### Research carried out

6.2 The Working Group commissioned research into the demand for faster clearing, and customers' willingness to pay for such a service. The research showed that, while price sensitivity issues existed, nearly half of consumers said that they would be likely to use a same day or next day service, if it were offered for free, and that over half of SMEs said that they would be likely to use the next day service and just under half would be likely to use a same day service, if offered at no additional charge to existing services. In numerical terms, up to 193 million same day or next day payments would be made by consumers if the service were free. The Working Group consulted large corporate and other institutions about any other innovations they would find helpful.

6.3 The Working Group looked at how payment schemes worked in Sweden, Norway, France and Spain, where retail payment schemes have similar features to those in the United Kingdom but which appeared to offer innovations not currently available in the United Kingdom.

---

11 [www.ofc.gov.uk/NR/rdonlyres/6A1BE3AB-F702-4292-84C9-D59BE816E966/0/ofc789b.pdf?bcsi\\_scan\\_A2018E0826464712=0&bcsi\\_scan\\_filename=ofc789b.pdf](http://www.ofc.gov.uk/NR/rdonlyres/6A1BE3AB-F702-4292-84C9-D59BE816E966/0/ofc789b.pdf?bcsi_scan_A2018E0826464712=0&bcsi_scan_filename=ofc789b.pdf)

## **Costs and benefits of changes**

- 6.4 In response to the clear demand and pressure for faster clearing, the Working Group asked the banks to provide high level estimates of the costs of implementing a faster payments service for telephone and internet payments and standing orders. It was estimated in December 2004 that the IT development costs of introducing faster payments would be in the range £48 million to £65 million, based on responses from the members of BPSL and an estimate of the central infrastructure costs made by Voca, as well as other unquantifiable costs. These costs were assessed against a quantification of how consumers and businesses might benefit from the existence of the faster payments service. The analysis showed that while there was no convincing narrow cost-recovery case, the wider business case showed a significant notional value accruing to the United Kingdom economy.
- 6.5 In December 2005, APACS presented proposals to the Task Force on the faster payments project, including confirming the implementation date of November 2007 and setting out the customer proposition. Customers will be able to initiate payments by telephone or internet; the money will then be transferred within about two hours, 24 hours a day, seven days a week, rather than the current three working day system. Payment of standing orders would be processed in the course of a single day, five days a week, thus eliminating the float that currently arises on these payment instruments. Any charges imposed by individual banks for the new service will be a competitive matter for each bank to consider for itself.

## **Other innovations/changes**

- 6.6 The Working Group identified a number of other potential innovations to the BACS system which emerged from its consultations with users of BACS and from the comparison of automated payment systems in different countries. The Task Force recommended that these other innovations should be considered by APACS and BPSL, recognising that some raised industry-level issues, and that others were specific to the

BACS system. APACS and BPSL agreed to report on progress to the Task Force within one year of publication of the Working Group report. Full details of the issues considered and of the reports and recommendations delivered by APACS and BPSL to the Task Force are contained in Annexe F.

## **7 BACS ACCESS AND GOVERNANCE WORKING GROUP**

7.1 The BACS Access and Governance Working Group was set up to look at issues of raised by the Cruickshank and OFT reports about restrictions on access to the BACS scheme and the governance of the body responsible for the scheme, BACS Payment Schemes Limited (BPSL). The Working Group was required to report on the issues and options available, with recommendations to remedy any perceived detriments. The report of the Working Group was published in March 2006.<sup>12</sup>

### **Issues**

7.2 The key issues considered by the Working Group were:

- that only major banks and building societies had direct membership of BACS
- while governance changes already made to APACS and BACS were a step in the right direction, they may not have gone far enough
- that common ownership of payment scheme and infrastructure negated possible benefits of the recent split
- that mutual governance might provide important safeguards, but might also create a strong disincentive for competition, and
- that innovation was still 'at the pace of the slowest'.

### **Key recommended changes**

7.3 The Task Force made three key recommendations for immediate change and identified a number of other areas where further work may be required:

---

<sup>12</sup> [www.offt.gov.uk/NR/rdonlyres/41CCCFC-795B-4657-A6C7-285F94950445/0/oft836.pdf](http://www.offt.gov.uk/NR/rdonlyres/41CCCFC-795B-4657-A6C7-285F94950445/0/oft836.pdf)

- BACS users had expressed a desire for more active influence in BPSL. To address this and other user representation and transparency issues, the 'Affiliates Interest Group' (AIG) had been established which any BACS user or other interested party may join. The AIG acted as a two-way forum for BPSL and Affiliates to brief each other on current and forthcoming issues and to raise issues of interest or concern. The AIG was able to raise issues directly with the BPSL Board. The Chair of the AIG has been invited to attend appropriate meetings or parts of meetings of the Direct Debit and Direct Credit Steering Groups
- a consultation process should be developed, targeted to ensure that the views of other, smaller, users of BACS and agency banks were taken into account in the decision-making process and to allow interested parties time to consider, and comment on, proposals made, or to be discussed, by members of the AIG and BPSL. This process has since been developed and has been implemented, and
- a broader objective for BPSL, 'to promote efficiency and innovation in payments, responding to user and market needs in an efficient and cost-effective manner', was desirable. The Task Force recommended that this objective should be implemented as soon as possible. It has since been adopted by BPSL.

## **Other issue**

- 7.4 The Working Group looked at the corporate governance of BPSL, in particular whether the appointment of independent directors to the BPSL Board was desirable. This work led directly to the proposal by the payments industry of the new governance arrangements for the United Kingdom payments industry set out in Chapter 4 above.

## 8 LINK ACCESS AND GOVERNANCE WORKING GROUP

- 8.1 The LINK Access and Governance Working Group was set up to examine and, if necessary, to take forward work on issues related to LINK, including the ability of companies to access the LINK scheme, the governance arrangements of LINK, the potential impact of increasing the separation between the LINK scheme and the supporting infrastructure, and the representation of users (including consumers). The Working Group report was published in April 2006.<sup>13</sup>
- 8.2 LINK has two constituent parts: the LINK scheme and the processing company. The LINK scheme determines the interchange fees and the Operating Rules and procedures. Its governing body, on which each Member of the LINK scheme is represented, is the Network Members Council (NMC). The processing company, LINK Interchange Network Limited, (the LINK company) is owned by 22 banks and building societies, each of which used to nominate a non-executive director to the board of directors prior to reforms implemented to achieve the Working Group's recommendations.

### Issues

- 8.3 The key issues looked at by the Working Group with regard to the LINK scheme were whether current voting arrangements in the NMC were the fairest, most efficient and most supportive of innovation, and whether any changes to the governance or the access criteria of the LINK scheme would be of value.
- 8.4 With regard to the LINK company, the Working Group looked at the possibilities for, and benefits of widening ownership of the company, the

---

13 [www.ofst.gov.uk/NR/rdonlyres/DD6E8DA4-E042-4C7E-9C33-6BFA86C9EAF6/0/oft840.pdf?bcsi\\_scan\\_A2018E0826464712=0&bcsi\\_scan\\_filename=oft840.pdf](http://www.ofst.gov.uk/NR/rdonlyres/DD6E8DA4-E042-4C7E-9C33-6BFA86C9EAF6/0/oft840.pdf?bcsi_scan_A2018E0826464712=0&bcsi_scan_filename=oft840.pdf)

changes to the structure of the board, including the possible addition of a number of independent directors.

8.5 The Working Group considered the changes recommended in the Cruickshank and OFT reports, and the changes more recently introduced. The considerations included, on the LINK scheme side:

- the changed voting arrangements for the NMC
- the formal objectives introduced for the LINK scheme
- the access arrangements (especially in light of Post Office Ltd's application to join the LINK scheme), and
- the existing proposals to set up a Standing Committee on Consumer Issues and the associated consultation procedures.

8.6 With regard to the LINK company, the Working Group looked at the possibilities for, and benefits that may be derived from:

- selling shares outside the present limited ownership
- the appointment to the board of independent directors, and
- changing the board structure.

## **Key recommended changes**

### **The LINK scheme**

8.7 The Working Group recommended that the LINK scheme should:

- report to the Task Force on the success of the recently introduced changes to the voting arrangements
- reinforce its existing objectives to promote innovation, efficiency and the interests of consumers, and

- continue negotiations with Post Office Ltd to establish whether a commercial arrangement could be agreed to facilitate free cash withdrawals at Post Office counters for all current account holders.

8.8 The Working Group welcomed the LINK scheme's agreement to create a Standing Committee on Consumer Issues to represent the interests of consumers, and the LINK scheme's commitment to continue regular consultation with consumer bodies.

### **The LINK company**

8.9 The Task Force recommended that:

- ownership should be opened up to bodies that were not currently owners
- a smaller, more effective, board should be introduced
- but a number of independent directors should be introduced (in addition to the independent Chair) to represent shareholders not present at the board, and
- subject to agreement on a robust Service Level Agreement between the company and the scheme and its members, the degree of separation between the LINK scheme and the LINK company should be increased, though falling short of a full legal split.

### **Progress against recommendations**

8.10 The LINK scheme executive and the independent chairman of the NMC have put together the Standing Committee on Consumer Issues, and the NMC has reviewed and updated the scheme objectives. The Standing Committee played a key role in agreeing to the new rules on transparency at charging cash machines that were announced in December 2006. It also played a role in developing amendments to the LINK scheme rules, also announced in December 2006, which establish

incentives to deploy more free cash machines in areas where these could make an important contribution to addressing financial exclusion.

- 8.11 Both the NMC and the Standing Committee will report to the Board of the new payments governing body on the effectiveness of the new governance arrangements within a year of their implementation. The effect of the more formal separation between the LINK scheme and the LINK company will also be reviewed then.
- 8.12 Negotiations will continue between Post Office Ltd and members of the LINK scheme in relation to a separate, voluntary scheme for Post Office Ltd. The Task Force recommended that the application by Post Office Ltd for membership of the LINK scheme should be on the agenda of the first meeting of the Standing Committee on Consumer Issues.
- 8.13 In October 2006 LINK owners and members announced a new corporate structure in line with the recommendations of the Working Group report. The new structure separates LINK's ATM Scheme, which governs the United Kingdom's cash machine network, from the LINK infrastructure company, a commercial organisation which provides, among other products and services, switching and network services that connect members of the ATM Scheme.

## **9 EUROPEAN DEVELOPMENTS**

9.1 The Task Force kept a close eye on European payment system developments, first through a specific Working Group, and then through direct contacts with relevant European bodies. The Task Force ensured that, as far as possible, changes recommended by the Task Force would be consistent with, or at least be not inconsistent with, the Payment Services Directive, and the Single Euro Payments Area (SEPA).

### **Payment Services Directives**

9.2 In December 2005, the European Commission issued a proposal for the Payment Services Directive. This aims to establish a harmonized legal framework by removing legal and technical obstacles for the creation of an integrated payments market in the EU. The Task Force has been kept aware of developments by OFT's own involvement at the European level, by HM Treasury and by APACS. The implementation of the Directive will remove barriers to the implementation of SEPA.

### **SEPA**

9.3 The SEPA proposal is designed to create 'an integrated market for payment systems within the Euro area which is subject to effective competitive competition and where there is no distinction between cross-border and national payments'.<sup>14</sup> Citizens and businesses will be able to make and receive payments in Euros, within Europe, whether between or within national boundaries, securely, quickly and efficiently, regardless of their location. When implemented, it will establish agreed schemes for SEPA Direct Debits and Credit Transfers and a framework for Card Payments. The timetable is for the first SEPA-compliant payment products to be operational by January 2008, with a critical

---

<sup>14</sup> European Central Bank press release, 4 May 2006, [www.ecb.int/press/pr/date/2006/html/pr060504\\_1.en.html](http://www.ecb.int/press/pr/date/2006/html/pr060504_1.en.html)

mass of transactions to have migrated to the SEPA Schemes and products by the end of 2010.

- 9.4 The European Payments Council is responsible for defining the business rules, standards and policies that underpin SEPA and relevant members of the Task Force have been able to contribute to the consultation process through APACS.
- 9.5 Following work in a Sub-Group consisting of competition authorities from the United Kingdom, the Netherlands, Ireland and Sweden (joined in the later stages of the work by France, Germany and Denmark), the European Competition Network agreed to form a Monitoring Subgroup to look at SEPA and the competition issues that it raises. The Subgroup, which again includes OFT, will publish a report by May 2007; the report is likely to include recommendations to make SEPA payments as open to competition as possible.

### **European Commission Sector Inquiry into Financial Services**

- 9.6 The European Commission launched a Sector Inquiry into competition in Financial Services on 13 June 2005 focussing on payment cards, core retail banking and business insurance. On 17 July 2006, the Commission published its Interim Report II - Current Accounts and Related Services. A consultation on the interim report closed on 9 October. The final report is due to be published in January 2007.

### **Next steps**

- 9.7 The United Kingdom's contribution to the consultation on the Directive at Government level will continue to be led by HM Treasury, and on the industry side by APACS. APACS will be the United Kingdom's representative with the European Payments Council, and OFT will contribute to the work of the European Competition Network's Subgroup on SEPA, on the development of SEPA itself, and to the final report of the Commission's Sector Inquiry.

## **10 NEXT STEPS**

- 10.1 The announcement that the new payments industry governance structure has received approval by the Chancellor of the Exchequer resulted in the closure of the Task Force. Ongoing responsibility for monitoring recommendations contained in reports published by the Task Force has been handed over to the new governance body.

### **Card schemes**

- 10.2 The Cruickshank report highlighted areas of concern within card schemes, particularly mutual governance issues. The cards schemes will not fall under the remit of the new governance structure as card operators will not be members of the new body. The OFT will decide how best to consider Cruickshank's concerns and announce its proposals for further action in due course.

### **Assessing the new governance structure**

- 10.3 To ensure that the new governance body is meeting the requirements set down in its objectives the OFT will conduct a review of its operations, in practice, against its objectives two years after its establishment. The review will consider the effects and outcomes of the new structure, but will not look at its status under competition law, as it, like all industry, is continually open to complaint or investigation.

### **Objectives of review**

- 10.4 The review will score the performance of the new body in relation to its three main objectives of strategic vision, openness and accountability, and integrity against the Cruickshank concerns of access, governance, innovation and transparency. The review will consider its broader success in facilitating progress and innovation in all payment systems within its remit.

10.5 The review will consider the effectiveness of the new body's mechanism to continue to provide lasting change in the payments industry and will set a development plan for any areas of concern. The industry is already working on some major projects culminating in November 2007, and progress on these projects will be scored into the review. The review will also consider how and when the new governance structure will be monitored in the future.

### **Milestones**

10.6 To prepare for the review, the OFT will meet the new body at senior level on a quarterly basis to discuss, among other things, progress against its objectives.

### **Publicity**

10.7 The OFT will publish a report of its review.

## **A MEMBERSHIP AND MAKEUP OF THE TASK FORCE**

### **A.1 Office of Fair Trading (Chair)**

Association for Payment Clearing Services

BACS Payment Schemes Limited

British Bankers' Association

British Chambers of Commerce

British Retail Consortium

Building Societies Association

Chaps Clearing Company Limited

Cheque and Credit Clearing Company Limited

Electronic Money Association

Federation of Small Businesses

LINK ATM Scheme

MasterCard

National Consumer Council

S2Cards

Visa

Which? (formerly the Consumers' Association)

Bank of England (sitting as observers)

HM Treasury (sitting as observers)

## **B TASK FORCE TERMS OF REFERENCE**

- B.1 Establish and support the work of a representative committee (to be known as the Payment Systems Task Force) bringing together industry, retail, consumer, governmental and other relevant bodies with an interest in payment system issues. The Task Force will be chaired by the OFT.
- B.2 The Task Force to identify, consider and seek to resolve any competition, efficiency and incentive issues relating to payment systems, with particular, but not exclusive, emphasis on the network effects of the existing payment mechanisms. Generic subjects for discussion include issues of access, cooperation, innovation, governance, pricing and transparency but this is not an exhaustive list. Where appropriate, consumer facing issues deriving from, or associated with, features of payment systems will also be considered.
- B.3 The Task Force will take account of reports on payment systems, including the Cruickshank and OFT reports but will also be driven by ongoing research work (to be undertaken by the OFT with the assistance of Task Force members) consultation and market developments.
- B.4 A consensus of opinion will not necessarily be reached by the Task Force on all/any issues. Task Force participants shall have the right to request that a diverging view be noted in any meeting minutes and expressed in any annual report published by the Task Force such that the spectrum of opinions is reflected. Task Force participants shall only be named in any minutes/report with the permission of the participant.
- B.5 The Task Force will operate, at least initially, for a four year period at which time the Government will assess whether further action in this sector, including legislation, is required. The Task Force will meet on a regular basis and not less than four times a year.
- B.6 Where concerns are identified, the Task Force may establish and direct working groups to undertake detailed work on these, reporting back to the Task Force. Where such concerns are validated, the Task Force will

seek to resolve these on a negotiated and voluntary basis with the industry and other interested parties.

- B.7 To report, on an annual basis, the work programme, findings, proposals and achievements of the Task Force.
- B.8 The work of the Task Force will not affect or impede existing or future enforcement activity undertaken by the OFT's enforcement divisions in this sector.

## C LIST OF TASK FORCE PUBLICATIONS

Please note from 26 February 2007 all these publications will be available from:

[www.offt.gov.uk/advice\\_and\\_resources/publications/reports/financial/](http://www.offt.gov.uk/advice_and_resources/publications/reports/financial/)

Publication date	Title	URL link (until 25 February 2007)
May 2003	UK Payment Systems	<a href="http://www.offt.gov.uk/NR/rdonlyres/10DB2458-FBD9-4B5C-9EE7-CEB7ACA472BB/0/oft658.pdf">http://www.offt.gov.uk/NR/rdonlyres/10DB2458-FBD9-4B5C-9EE7-CEB7ACA472BB/0/oft658.pdf</a>
April 2004	Payment Systems task Force – Terms of Reference	<a href="http://www.offt.gov.uk/NR/rdonlyres/BC4E8BAB-B29C-46A5-BA0E-9BA4246D3512/0/termsoref.pdf">http://www.offt.gov.uk/NR/rdonlyres/BC4E8BAB-B29C-46A5-BA0E-9BA4246D3512/0/termsoref.pdf</a>
May 2005	BPSL Innovations Working Group report	<a href="http://www.offt.gov.uk/NR/rdonlyres/6A1BE3AB-F702-4292-84C9-D59BE816E966/0/oft789b.pdf?bcsi_scan_A2018E0826464712=0&amp;bcsi_scan_filename=oft789b.pdf">http://www.offt.gov.uk/NR/rdonlyres/6A1BE3AB-F702-4292-84C9-D59BE816E966/0/oft789b.pdf?bcsi_scan_A2018E0826464712=0&amp;bcsi_scan_filename=oft789b.pdf</a>
May 2005	Appendices to BPSL report	<a href="http://www.offt.gov.uk/NR/rdonlyres/57429417-8FB2-4A1C-AA08-5742988AB8A9/0/oft789bappendices.pdf?bcsi_scan_A2018E0826464712=0&amp;bcsi_scan_filename=oft789bappendices.pdf">http://www.offt.gov.uk/NR/rdonlyres/57429417-8FB2-4A1C-AA08-5742988AB8A9/0/oft789bappendices.pdf?bcsi_scan_A2018E0826464712=0&amp;bcsi_scan_filename=oft789bappendices.pdf</a>

May 2005	First annual progress report of the Payment Systems Task Force	<a href="http://www.offt.gov.uk/NR/rdonlyres/B5CF9020-4F89-49A6-A1C8-580A2BD8A878/0/oft789a.pdf">http://www.offt.gov.uk/NR/rdonlyres/B5CF9020-4F89-49A6-A1C8-580A2BD8A878/0/oft789a.pdf</a>
March 2006	BACS Access and Governance Working Group report	<a href="http://www.offt.gov.uk/NR/rdonlyres/41CCCFCC-795B-4657-A6C7-285F94950445/0/oft836.pdf">http://www.offt.gov.uk/NR/rdonlyres/41CCCFCC-795B-4657-A6C7-285F94950445/0/oft836.pdf</a>
April 2006	LINK Access and Governance Working Group report	<a href="http://www.offt.gov.uk/NR/rdonlyres/DD6E8DA4-E042-4C7E-9C33-6BFA86C9EAF6/0/oft840.pdf?bcsi_scan_A2018E0826464712=0&amp;bcsi_scan_filename=oft840.pdf">http://www.offt.gov.uk/NR/rdonlyres/DD6E8DA4-E042-4C7E-9C33-6BFA86C9EAF6/0/oft840.pdf?bcsi_scan_A2018E0826464712=0&amp;bcsi_scan_filename=oft840.pdf</a>
May 2006	Second progress report of the Payment Systems Task Force	<a href="http://www.offt.gov.uk/NR/rdonlyres/2E99FFA3-25C9-4B97-9A4C-93278FFD8351/0/oft849.pdf">http://www.offt.gov.uk/NR/rdonlyres/2E99FFA3-25C9-4B97-9A4C-93278FFD8351/0/oft849.pdf</a>
November 2006	Cheques Working Group report	<a href="http://www.offt.gov.uk/NR/rdonlyres/255E76D6-74BB-4C00-A333-CDF783444F38/0/oft868.pdf?bcsi_scan_A2018E0826464712=0&amp;bcsi_scan_filename=oft868.pdf">http://www.offt.gov.uk/NR/rdonlyres/255E76D6-74BB-4C00-A333-CDF783444F38/0/oft868.pdf?bcsi_scan_A2018E0826464712=0&amp;bcsi_scan_filename=oft868.pdf</a>
November 2006	Appendix to Cheque report – Qualitative research into attitudes and issues surrounding the use of cheques	<a href="http://www.offt.gov.uk/NR/rdonlyres/5CFAA630-2D22-497F-8EEA-1A9F64B80081/0/oft868a.pdf">http://www.offt.gov.uk/NR/rdonlyres/5CFAA630-2D22-497F-8EEA-1A9F64B80081/0/oft868a.pdf</a>

November 2006	Appendix to Cheque report – Consumer survey results – faster withdrawal	<a href="http://www.offt.gov.uk/NR/rdonlyres/B957A3E5-692B-491C-A7D5-621DE9BB2638/0/oft868b.pdf">http://www.offt.gov.uk/NR/rdonlyres/B957A3E5-692B-491C-A7D5-621DE9BB2638/0/oft868b.pdf</a>
November 2006	Appendix to Cheque report – Consumer survey results – penalty charges	<a href="http://www.offt.gov.uk/NR/rdonlyres/667165BE-B8DE-4369-BBA3-83C8DA17A17A/0/oft868c.pdf">http://www.offt.gov.uk/NR/rdonlyres/667165BE-B8DE-4369-BBA3-83C8DA17A17A/0/oft868c.pdf</a>
November 2006	Appendix to Cheque report - Combined business survey results	<a href="http://www.offt.gov.uk/NR/rdonlyres/85A7F262-A316-45E9-9F4E-16DAD8015515/0/oft868d.pdf">http://www.offt.gov.uk/NR/rdonlyres/85A7F262-A316-45E9-9F4E-16DAD8015515/0/oft868d.pdf</a>
November 2006	Appendix to Cheque report – Independent assessment of costs and timescales of Proposition B	<a href="http://www.offt.gov.uk/NR/rdonlyres/2E5DF15A-D6B6-447C-834E-8FD3A99C0850/0/oft868e.pdf">http://www.offt.gov.uk/NR/rdonlyres/2E5DF15A-D6B6-447C-834E-8FD3A99C0850/0/oft868e.pdf</a>
February 2007	Final report of the Payment Systems Task Force	<a href="https://www.offt.gov.uk/NR/rdonlyres/751FD109-B136-4240-AB18-406B91CAF12B/0/oft901.pdf">https://www.offt.gov.uk/NR/rdonlyres/751FD109-B136-4240-AB18-406B91CAF12B/0/oft901.pdf</a>

## D NEW GOVERNANCE BODY'S SCOPE AND OBJECTIVES

- D.1 The PIA is the new body which sets strategic direction for the United Kingdom payments industry. PIA membership is open to all payment service providers in the United Kingdom. It is governed by a Board of senior figures from the payment industry and independent directors.
- D.2 The objectives of the PIA are:
- D.3 **Strategic vision:** to lead the future development of co-operative payment services in the United Kingdom in order to ensure that the payment system as a whole meets the needs of payment service providers, users and the wider economy, including through:
- facilitating competition, development and innovation within the sector, and
  - the identification and sponsorship of innovative solutions, including where appropriate new clearing schemes, to meet the current and future needs of consumers, businesses and other users promptly and efficiently.
- D.4 **Openness and accountability:** to ensure that the payment system is open and accountable and that:
- any restrictions on access to payment schemes are fair, reasonable, and non-discriminatory
  - the governance of payment systems is transparent and open to public scrutiny, and
  - any proposals for innovation and major changes in the conduct of payment schemes are subject to rigorous and transparent evaluation, weighing up the costs and benefits to the banking industry and to society as a whole.

- D.5 **Integrity:** to ensure the operational efficiency, effectiveness and integrity of payment services in the United Kingdom, through a focus on issues which cross schemes.

## **E TERMS OF REFERENCE FOR THE OFT TWO YEAR REVIEW OF THE NEW GOVERNANCE STRUCTURE**

### **Purpose**

- E.1 The purpose of the two year review will be to consider the effects and outcomes of the new governance structure. The review will conclude two years after the first Board meeting (or by March 2009, whichever is sooner). The review will not look at the new body's status under competition law, as this new body, like all industry, is continually open to either complaint or investigation.

### **Objectives of review**

- E.2 The review will score the performance of the new body in relation to its three main objectives of:

- strategic vision
- openness and accountability, and
- integrity.

Against the Cruickshank concerns of access, governance, innovation and transparency, and with regard to its broader success in facilitating progress in all payment systems within its remit.

- E.3 The review will also consider the effectiveness of the new body's mechanism to continue to provide lasting change in the payments industry and will set a development plan for any areas of concern. The industry is already working on some major projects culminating in November 2007, and progress on these projects will be scored into the review.

## **Milestones**

- E.4 To prepare for the review, the OFT will meet the new body at senior level on a quarterly basis for a discussion of progress against objectives.

## **Publicity**

- E.5 The OFT's two year review will produce a report which will be made public.

## **F OTHER INNOVATIONS AND CHANGES TO BPSL ACCESS AND GOVERNANCE ARRANGEMENTS CONSIDERED BY THE WORKING GROUP.**

### **Standardisation of customer statement information**

- F.1 Some users commented that customers can be confused because there are differences in the way that originators' names, and other information, are presented on bank statements. They argued that there could be certain mandatory standards for information presented on bank statements.
- F.2 Since the publication of the Working Group report the one major bank not to take the originator's name from the payment instruction amended its systems in October 2005 to do this. There is now uniformity of approach across all of the major banks. There is an associated issue of originators improving the quality of their name input, which is covered in the report.

### **Standardisation of account numbers**

- F.3 Some heavy users said that eliminating non-standard account numbers might simplify their processes. The conclusion from indicative analysis suggested that universal standardisation was not a cost-effective solution, due to the hundreds of financial institutions affected. The Task Force accepted the initial study's recommendation for further work on alternatives to universal standardisation, given the scale of the potential benefits of standardisation identified. Work is continuing on industry level issues through APACS in discussion with their members and BACS Affiliates, following the principles for assessment of innovations to be set up for the new payments governing body. BACS issues such as quality improvement are being addressed by BPSL, again in consultation with BACS Affiliates. Progress against this recommendation will be monitored by the new payments governing body.

## **Payment message standards**

- F.4 The Working Group report recommended that the general raising of standards for improving international straight-through processing, by providing common standards for ordering, invoicing, payment and reconciliation be considered. APACS are currently actively engaged in the development of standards in national and international standards fora, working closely with the representatives of other trade domains, with regulators and other parties such as SWIFT. As this is an ongoing activity further monitoring of this recommendation is not considered necessary.

## **Seven days a week clearing for BACS payments**

- F.5 In the Working Group report some users suggested that BACS could operate at weekends and bank holidays. As APACS announced its new faster payments service in December 2005, for Standing Orders and telephone and internet initiated payments APACS and BPSL considered seven day clearing for direct debits and direct credits.
- F.6 APACS and BPSL concluded that seven day clearing for direct credits and debits would not be good news for consumers. It would result in a transfer of value and liquidity from individuals to businesses to the extent that direct debits come out of their accounts earlier and direct credits such as salary payments are posted later than at present. Over and above such transfer effects there do not appear to be any significant real resource benefits
- F.7 Businesses would have both up-front and ongoing costs from seven day clearing for direct debits and direct credits. Even if a business continued its main operations on a 5 day basis, payments would still be hitting its account over the weekend and it would need to manage its cashflow over that period.
- F.8 The costs of systems changes across the banking industry would be substantial, as they typically involve major modifications to core

accounting systems. Ongoing costs for banks would increase significantly as operations would have to be kept running seven days a week, for instance the pay/no-pay process for direct debits where the payer has insufficient funds in their account. Seven day processing and accounting for BACS would have major implications for settlement risk and settlement risk management as the value of transactions processed over the weekend is potentially substantial and uncapped.

- F.9 In conclusion, even in the absence of detailed information gathering the analysis indicates that there is no cost benefit case for the payments industry and for society from the introduction of seven day clearing and accounting for BACS. This issue will not be investigated further.

### **Business customer identification numbers**

- F.10 In the Working Group report some heavy users suggested that a standard business customer identification number may make it easier for businesses to transfer accounts between banks and may overcome the resistance some customers have to sharing account details.
- F.11 The issue of portable account numbers was considered by the Competition Commission in its 2002 enquiry into the provision by clearing banks of SME banking services.<sup>15</sup> Its conclusion was that: 'Having discussed this with the parties, we believe it likely that this would require major investment and significant changes to the operation of the current clearing system. As the inconvenience of changing account numbers is only one of the many constraints on switching, the costs of such a development are very likely to exceed the benefit.'
- F.12 Developments since the publication of the enquiry's report only serve to reinforce this conclusion. The industry has introduced measures which

---

<sup>15</sup> This report can be found on the Competition Commission's website at [www.competition-commission.org.uk/rep\\_pub/reports/2002/462banks.htm#full](http://www.competition-commission.org.uk/rep_pub/reports/2002/462banks.htm#full)

have cut the costs of switching bank, most notably the Transfer of Direct Debits and Standing Orders service (ToDDaSO). In contrast, it remains the case that the costs of implementing and operating a service to allow existing account numbers to be portable would be considerable. Much of the cost would relate to the development and maintenance of a cross-payment system re-direction database that would relate customer account numbers to true account numbers. The introduction of the faster payment service further increases the complexity and costs of such a database. Portable account numbers could also require major re-engineering of the cheque clearing.

- F.13 APACS took the view that the costs of introducing portability for existing account numbers would be disproportionate to the benefits. Although there are other schemes, the UPIC service in America and Bankgirot numbers in Sweden, which are based around corporate customers obtaining an identification number, which can then be used to route credits received to their bank accounts. APACS concluded that that these schemes are not suited to the United Kingdom marketplace. A credit-only system has little benefits to the United Kingdom in terms of encouraging businesses to migrate to electronic payment methods, and it does not deliver full account portability, as it cannot be used with direct debits (for payers) or cheques. APACS and considered that this recommendation should not be investigated further.
- F.14 The remaining innovations identified in the Working Group report were BACS-specific and were being considered by BPSL.

### **Automated recalls and minimum standards for re-credits**

- F.15 In the Working Group report some heavy users indicated that they would welcome greater clarity and standardisation of these processes. BPSL is currently investigating potential new services for recalling, extracting and amending warehoused payments using the new BACSTEL-IP channel. A working group has also been set up to investigate the possibility of moving away from a paper based to an electronic system. Users are being encouraged to highlight instances where financial institutions are

not complying with the required timescales for returning recalled payments. Progress against this recommendation will be monitored by the new payments systems governing body.

### **Account validity checking**

F.16 In the Working Group report a number of separate issues were raised by heavy users. While BACSTEL-IP software provided modulus checking, some wished for greater front-end validation of the account details. BPSL is progressing a number of actions including:

- the provision of information by building societies, and
- the provision of guidance on Data Protection Act requirements in relation to handling queried transactions.

F.17 Further progress against this recommendation will be monitored by the new governing body.

### **Verification of funds**

F.18 For some payments (mainly direct debits, but some users suggested it could apply also to direct credits), some heavy users commented that they would like to know that there were sufficient funds in the account at the time the payment was initiated, or have a guarantee of funds. BPSL agreed with BACS Affiliates that the Direct Debit Scheme was never intended to be a verification service and is not suitable for development in this area. Such development could conflict with the current 'Direct Debit Guarantee', creating confusion amongst users and undermining payers' trust in the scheme. No more work has been carried out on this recommendation.

### **One-off direct debits**

F.19 The Working Group report noted that for many users, BACS was the most efficient form of receiving payments. As such, initiating a one off direct debit could be more cost effective for them than accepting

payment via other methods. BPSL has carried out an initial investigation on the feasibility and costs associated with reducing the amount of time between lodging a new Direct Debit mandate and collecting the first payment (a prospective reduction from a two day to a one day gap). In the absence of any significant demand from Affiliates<sup>16</sup>, BPSL has decided not to pursue this recommendation further at the present time.

### **Length of time required for direct debit notification**

F.20 Once a direct debit has been set up, a customer must be notified of the amount to be debited at least ten working days in advance of debiting. Although this notification period could be reduced with the consent of the sponsoring bank and the payer, some heavy users felt that the ability to reduce the notification period was not made sufficiently clear to them. BPSL has worked together with users to improve levels of understanding regarding the flexibility of the Direct Debit Scheme.

### **Mandatory completion of reference fields**

F.21 The Working Group report proposed that the mandatory completion of reference fields might help with the reconciliation of payments received. BPSL states that no consensus on this issue has been achieved. In seeking to improve existing practise BPSL will update and re-publicise reference completion guidance.

F.22 As part of the BACS Direct Credit strategy BPSL is considering whether there is sufficient evidence to mandate banks to use AWACS or ARUCS messaging services, in order to improve the flow of reference information in relation to unapplied credits. Further progress against this recommendation will be monitored by the new governing body.

---

<sup>16</sup> See paragraph 6.7 below.

## **Remittance information accompanying payments**

F.23 The Working Group report recommended that BPSL should look at sending remittance information with the payment as it might aid reconciliation by the beneficiary. BPSL has agreed that since there is little demand for this at present it should be revisited later in 2006 in conjunction with BPSL's planned strategic review of its extended remittance information service. Progress against this recommendation will be monitored by the new governing body.

## **International payments via BACS**

F.24 Whilst carrying out research for the report some users argued that allowing international payments to be initiated in BACS submissions would ease their processes. BPSL considered this topic to be a low short-term priority and that it should be revisited once Single Euro Payment Area scheme proposals were clearer. BPSL has ensured that that its Affiliates Interest Group is kept regularly informed of developments in this area. Progress against this recommendation will be monitored by the new governing body.