The Association of Corporate Treasurers

Comments in response to
National Payments Plan Consultation
Issued by the Payments Council,
November 2007

February 2008

The Association of Corporate Treasurers (ACT)

The ACT is a professional body for those working in corporate treasury, risk and corporate finance. Further information is provided at the back of these comments and on our website www.treasurers.org.

Contact details are also at the back of these comments.

We have sought the views of our members in our Policy and Technical Committee and our Payments Working Group.

General

The ACT welcomes the opportunity to comment on your consultation. This document is on the record and may be freely quoted or reproduced with acknowledgement.

The ACT recognises the considerable merit in using the Payments Council to elicit contributions from users and providers of payments services. In addition we are supportive of measures to enhance transparency and accountability in payments service provision and contractual arrangements. However it is unclear to us whether the conclusions arising from this process will simply be reported and the industry left to react as it sees fit or whether the Payments Council will seek to force through certain changes or innovations.

In general, the ACT takes the position that except in circumstances of demonstrable market failure or where there is a need for specific co-operation (e.g. potentially under Financial Sector Continuity planning) market-led solutions should always be preferred in the financial services industry. There is no *prima facie* case set out in this consultation of market failure that requires a centrally enforced set of actions derived from the National Payments Plan (NPP).

In the absence of such a case being made, we are concerned that implementing an NPP could lead to unnecessary constraints on healthy competition between payments services providers. It may also be argued that formalising relationships can lead to the adoption of solutions which suit the balance of argument (of self-interested parties) rather than the test of value. There is also the possibility of non-traditional providers and technologies (including those yet to be developed or provided!) being excluded if there is a centrally enforced specific programme of development.   Given that the membership of the Payments Council is overwhelmingly from the payment provider side of the industry, and apart from the independent directors so too is the Board, our worry must be that the Plan and any actions resulting from it may be biased towards the benefit of existing providers not non-traditional providers or customers

Our experience suggests that users - whether corporate or retail – have generally adapted to changes in technology and service provision without the need for prescribed or centralised planning initiatives. As treasurers our primary concern with payment services is that they are functionally meeting needs and able to add value to our organisations' processes. It is not clear to us the work of the Payments Council using an NPP will facilitate this. For instance, no reference is made in the National Payments Plan to how access could be facilitated to the UK market for non-UK payment providers, to enable them to meet corporate needs for processing payments from accounts held in the UK in a range of currencies, including Sterling. Indeed, a focus on facilitating market access, instead of listing potential services that need to be offered by UK institutions, would be a healthy response to the ability with SEPA of the UK's payment providers to offer their services to banks and payment institutions in other EU countries.

Specific questions

As a contribution to your process of gathering information and opinions from the market we do have some general comments from the perspective of non-financial companies that are mainly at the larger end of the size spectrum. There are also some specific issues addressed by our members on elements of the consultation; these will be addressed following the numbering in the document.

Q1-9 Cheque Payments and Credit Clearing: Whilst there is support from larger corporates for further reductions in cheque payments, retail users and SMEs are seemingly keen to retain their access to this payment method. For smaller businesses and individuals there are huge conveniences in using cheques even for such a simple reason as being able to annotate the back with details of what it is payment for, from whom etc. The recent report from APACS, *Payment Myths* [1], identifies 590 million cheque payments made within the business sector. We would suggest that those users would need to see concrete value-drivers to change their behaviour and a suggested 'abandonment' date would create considerable resistance and disquiet.

Given recent experience however, we would expect cheque usage will continue to diminish as other card or electronic payment methods develop. It may be that there is a volume level for the clearing process after which costs spread over a reduced base will become uneconomic. In our view, it is incumbent on payment

[1] http://www.apacs.org.uk/media_centre/documents/APACSPaymentMyths28.12.07.pdf

service providers to make the business case for increased usage of electronic payments. As an example, in business to business transactions, improvements to the information content flowing with a payment would act as a considerable spur to using electronic payments since the ability to automate reconciliations using 'Straight Through Processing' (STP) – will offer considerable efficiencies and cost benefits.

Q11-13 Direct Debits: There may be occasions where a direct debit mechanism could be used to make a one-off payment as a useful alternative to debit and credit cards and cheques, but we do not envisage that there can be much call for this. This is something that should develop through normal market forces if there is demand for it. We suspect that some consumers may feel more comfortable in giving a direct debit mandate with a pre-set expiry date, so flexibility on this would be a useful feature.

By and large our members have been content with the open ended direct debit guarantee but its existance does leave originators with a small degree of uncertainty. We understand that a limit of 8 weeks will be applicable under Article 63 of the Payment Services Directive unless the government opt for the override permitting more favourable terms for consumers. In the interests of certainly for originators and for consistancy across Europe we would support a change to an 8 week limit.Q14-18 Direct Credits, CHAPS and the Wholesale markets: We agree with the points brought out in your consultation and look forward to seeing the market reaction to the new UK Faster Payments direct credits. We would note however that 'Faster Payments' have yet to be introduced or priced. Provided there are material pricing benefits to users, we expect that a significant volume of CHAPS payments will migrate to UK Faster Payments

Useful information content on payments is crucially important for STP and work is already in hand through the European Association of Corporate Treasurers, Business Europe, the European Payments Council and others, in regard to remittance information under SEPA. The ACT would be pleased to contribute to your parallel work on wholesale payments.

Q19-21 SEPA: Our members suggest that the UK's bank identification codes (sorting codes) should be replaced with IBANs to harmonise with international standards. In the longer term, assuming the SEPA arrangements prove workable and meet the needs of users, it may be worth considering whether there are any benefits in harmonising some of the features and standards of UK electronic payments with those of SEPA.

Although the effects of SEPA and the PSD are filtering into financial services it is arguable whether users require additional exposure to SEPA promotion unless or until service providers can make their service propositions definitive and clearly priced.

Q23-30 Card innovation: Our generic response here is that these payment methods should be left to market approaches except where oversight is necessary to combat money laundering or other criminal activity.

Q31-33 Supply Chain: Supply chain, procurement and e-invoicing are all areas where companies could realise huge cost benefits if more and more processing could be automated. The ACT itself is working in conjunction with the European

Associations of Corporate Treasurers' market initiative, CAST (Corporate Action on Standards) on the development of other international payment standards. CAST includes projects - with SWIFT and others - to encourage greater standardisation and process automation in bank-to-corporate and corporate-to-corporate communications across the whole financial supply chain. CAST is looking specifically at business models, best practices and standardization in the area of remittance information (and e-reconciliation), digital identity and e-invoicing. We would support actions from all interested parties to meet these objectives. The Payments Council may be able to provide another forum for exchange of ideas in this field.

Q39-46 Fraud / security and authentication, biometrics: This is clearly an important area where a degree of co-ordination (potentially on a pan-European or even Global basis) is required and beneficial, but we have concerns that there are already co-operative bodies engaged on these issues in the UK (e.g. APACS) or elsewhere and that further consolidation of discussion and planning may not be appropriate.

TREASURY, RISK
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The Association of Corporate Treasurers

The ACT is the international body for finance professionals working in treasury, risk and corporate finance. Through the ACT we come together as practitioners, technical experts and educators in a range of disciplines that underpin the financial security and prosperity of an organisation.

The ACT defines and promotes best practice in treasury and makes representations to government, regulators and standard setters.

We are also the world's leading examining body for treasury, providing benchmark qualifications and continuing development through training, conferences, publications, including *The Treasurer* magazine and the annual *Treasurer's Handbook*, and online.

Our 3,600 members work widely in companies of all sizes through industry, commerce professional service firms.

Further information is available on our website (below).

Our policy with regards to policy and technical matters is available at http://www.treasurers.org/technical/resources/manifestoMay2007.pdf

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