

The truth about faster payments

Speaker: Paul Smee ,CEO of APACS

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The club welcomed Paul Smee who begin by giving both his background and the background to the subject matter

Paul's background

Pauls' background is in regulation. He was involved in writing the Financial Services Act 1986 and then worked in the Stock Exchange for 6 years. From there he went to regulating television for three years and then ran a trade body for independent financial advisors. In December 2004 he became CEO of APACS

Background to payments services

Payments is in a time of change, back in 2004 Sir Donald Cruickshank wrote a report including a substantial chapter on payments. For a review of the reports findings on payments see <http://www.bankexperts.co.uk/cruickshank/payment-systems.htm> His findings were that the payments systems lacked innovation, were dominated by a small group of players, and proposed Paycom as an economic regulator of payments. This report set an agenda which is now being played out. After the report the Treasury were not interested in the regulation of payments. The OFT looked at it in 2004 and found there was a consumer need for and interest in faster payments. BACs is the workhorse of the industry and operates on a 3 day turnover basis. Not surprisingly business did not want to change their systems. The OFT report concluded there should be a faster payments system. The challenge was for a same day payments system but this would not per se have taken the industry forward in the right way. However the regulator the OFT did act as a catalyst for change.

Discussions for change.

The industry decided we needed to think innovatively and came up with ELLE – Early Late Late Early with proposed near real time and operating 24x7 with the beneficiary within 2 hours. This 2 hour period or pause is to process the anti-fraud measures, and the service would be available via internet, telephone and possibly branches. The first round of talks was pretty pessimistic about change, the second round was more encouraging, the third round agreed faster payments should be the backbone of change and the fourth round generated enthusiasm for business development related change. This huge change in attitude occurred over a period of about 2 ½ years. The system will also be used for standing orders, which will thus have a same day not 2 day delay.

The new vision

To be a European leader
To be a vehicle for radical and strategic change
To expect more change once the system is up and running.

What is the general situation?

At present the delivery of goods into and across Europe is faster than the associated payments system. SEPA is coming along and is due for completion in 2010. Cheques are important but

are on the way out. It would cost a lot of money to speed up change for a declining service and hence little benefit. Cheque usage is declining in the UK at between 7-10% per annum. The peak year was 1992 – 15 years ago. At a recent focus group meeting nobody particularly liked cheques, but it was agreed to improve the glitches in the cheque system. There is a 2-4-6 programme due November 2007 whereby you will get interest after 2 days, you can draw on it after 4 days and it will not be taken out of your account after 6 days i.e will be deemed a successful transaction. To do 2-4-6 we have had to tackle the issue of bounced cheques and abolish the concept of cross border between England and Scotland. Previously, unpaid cheques were sent by post, but now the polylope will carry unpaid cheques. So we will ease not prevent the decline of cheques.

What is the strategic direction?

There will be a lot of innovation in payments, with the need to look strategically. In the past it has been regarded as an operational activity whereas now it is increasingly recognised as a piece of critical national infrastructure. There is the commitment to introduce a new strategic body to drive forward innovation, which will replace the OFT task force and will operate transparently giving strategic insight. One of the Cruickshank findings was that the industry did not talk to its customers, in other words it was producer led.

There is now a payments council. It consists of chair, Brian Pomeroy with 4 independent directors, 11 bank directors and user forums. Its objectives are: efficiency, innovation and integrity.

Lessons learned

A lot of payments issues have been about incremental change and thus a lot of clutter. We need to address the issue of how cash is to be used going forward. We were told we were bad at innovation, whereas the truth is that we were just too slow. We have been looking at the issue of contact less cards like the oyster card, and wondering how much cash might be stored on it. In South Africa payments can be exchanged through mobiles and get credit into your bank.

Service Integrity

The British system BACS has worked well and reliably for 40 years. CHAPS similarly. CHAPS is integral to the economic life of the country. The change rate and pressure on the system is now greater than it has been for decades. We are on course for a national payments plan for 2008 which will outline where collaboration will deliver better service.

Collaboration and competition

Banks will need to both compete and collaborate to achieve beneficial innovation. The collaborative space will be a large one.

The future for cash

In 2005 the value of goods bought by debit and credit exceeded that bought by cash. But cash is popular, people like using it and it is non-auditable. The EU commission has an objective to drive cash out of the system. There have been various speculative guesses about when cash might become obsolete. These vary from the near term to never.

Paul achieved the challenge of keeping the audience fully attentive to what on the surface might seem a very dry subject, together with his self deprecating insistence that his slide set was neither exciting nor glitzy.