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PAYMENT POWER

Jodie Ginsberg

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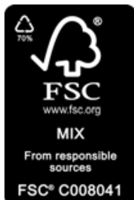

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Executive summary

Properly functioning payment systems enhance the stability of the financial sector, reduce transaction costs in the economy, promote the efficient use of financial resources, improve financial market liquidity and facilitate the conduct of monetary policy.[1]

The payments system is like a network of veins and arteries: for financial lifeblood to flow efficiently through the body economic, the payments system must operate smoothly. It is a vital, yet largely unseen and often ignored, part of the financial system.

This report examines the role of the payments sector as it prepares for a new regulator, and considers how the new regulator can help to ensure innovation continues in a sector that has largely shown itself to be resilient and robust.

In March 2013, the British Government launched a consultation on opening up the UK payments system – the mechanism by which money is moved between bank accounts. The Government had the previous year recommended creating a new public body to oversee UK payments but has now brought payment systems under economic regulation, and established a new competition-focused, utility-style regulator for retail payment systems.

This research aims to support the work of the Financial Conduct Authority (FCA) as it designs the new regulator. It is also intended to help a non-expert audience better understand the current structure of the UK payments system and so promote greater public understanding of the way in which the system works and its importance to business and society.

The regulator has been established to deal with three problems that the Treasury observed within the industry: lack of competition, the sluggish pace of innovation, and lack of clarity

over consumer benefit. However, our research suggests there is little detailed evidence on the extent, effect or cause of these problems. We argue that the regulator must go back to basics in testing these assumptions and build a clear evidence base before imposing any solutions on an industry whose reliability and resilience is key to the effective functioning of the UK economy.

The methodology for this report included drawing on submissions to the two recent HM Treasury consultations on UK payments, and additional desk-based research. In addition, we held an expert panel that included representatives at CEO and senior board level from fields of regulation, payments infrastructure, parliament and banking, and conducted a further 12 face-to-face interviews and five phone interviews. Respondents asked not to be named for this report.

Our conclusions are as follows. The regulator should:

- *Establish an evidence base*: Much more detailed information needs to be gathered on the precise barriers to accessing the payments system, in particular the cost of the agency or sponsor relationship, and on how new entrants can meet the costs of gaining direct access to the system. This should include consideration of the cost of a shared infrastructure that banks plug into rather than having to develop full technical capabilities in-house. It should also compare the relative costs of payments schemes such as Bacs and Faster Payments.
- *Not see payments as a proxy*: The payments system should not be viewed as a proxy for dealing with broader competition issues in the UK banking sector, especially given the potential disruption to the economy from enforcing changes that could in any way threaten its stability. We are concerned that some legislators view payments regulation as a 'quick-fix' way to achieve more competition in high street banking.
- *Focus on governance before ownership*: There is a lack of compelling evidence that the ownership structure of the payments system has held back innovation or stifled competition in the industry. Changes of ownership are complex and it is unclear who would have the money or willingness to invest significant funds in the system, aside from the major banks. However, broader representation in the governance of the payments systems could help to ensure that any collective developments reflect the views and needs of as many players as possible. The regulator should also give thought to what it considers to be the 'utility' aspect of the system and whether to ring-fence the market infrastructure element of the payments system.
- *Set high-level strategy*: The regulator should establish high-level strategic goals for the industry, but should not be expected to oversee the day-to-day implementation of change. Strategic goals need to be set with consideration for other objectives and requirements being made of the industry to ensure utmost priority is given to the resilience and reliability of this vital system. This could include considering issues such as account portability.
- *Establish an enhanced industry body*: The regulator should work with the industry to establish an enhanced industry body that can help to determine strategic priorities and to oversee progress on any collective developments. It should have a specific responsibility to the regulator for ensuring that strategic goals are met in the timeframe set out by the regulator. In addition, the government – as the biggest user of the UK payments system – should continue to pursue efforts to offer the payments industry a more joined up view of its needs and requirements, which should help improve efficiency.
- *Look at broader roles for the payments industry*: It is possible that the payments infrastructure could be used to transmit other forms of data – such as tax information – to help improve government efficiency, and this should be examined as part of the high-level strategic considerations.

1 Introduction to the UK payments system

What is the 'payments system'?

The 'payments system' is the mechanism by which all money, except for the physical cash in your wallet, is transferred from one account (an individual or company) to another. In its 2003 report on the UK payments system, the Office of Fair Trading described payments systems as the 'shared part of an end-to-end process'.[2] So cheques, debit and credit cards, bank transfers – whether in branch, online, or by mobile – and cash machines are all part of the system. Though the end result to the sender and receiver of money may look the same (money leaves your account or arrives in it), there are various routes along which the money can travel. In many ways, the payments system is like a railway. There is a network of tracks and signals (the payments infrastructure), but many kinds of train – fast and slow, operated by a number of companies or groups of companies – run along those tracks.

Payments are critical to the UK economy: in 2013, clearing systems (the activities that happen from the time a payment commitment is made to the point as which it is settled) processed over 7 billion clearing transactions, corresponding to a value of over £75 trillion.[3] If the payments system fails or is disrupted, it could rapidly destabilise financial markets and cause widespread economic disruption.[4]

In Britain, you can use the payments system by making automated payments, or by using cash machines, cheques or cards.

Automated payments

There are a number of so-called 'schemes' that allow individuals or companies to move money electronically from one account to another. This chapter explores the ownership structure of the

schemes for Bankers' Automated Clearing Services (Bacs), the Clearing House Automated Payment System (CHAPS) and Faster Payments.

Bacs

Bacs is a way of processing financial transactions electronically. All Britain's direct debits and direct credits are made using the Bacs system. Bacs payments take three working days to clear: they are entered into the system on the first day, processed on the second day, and cleared on the third day.

CHAPS

CHAPS offers same-day sterling fund transfers. CHAPS is mostly used for very high value payments, like a house or car purchase, and mainly by businesses. Banks use CHAPS to move money around the system.

Faster Payments

Introduced in 2008, the Faster Payments service reduces payment times between different banks' customer accounts to near real time compared with three working days using Bacs. It is the only payments service in the UK – and one of only a handful worldwide – that operates 24 hours a day, seven days a week.

Cash machines

Britain's cash machine network of automated teller machines (ATMs) is operated by LINK, which was formed in the mid-1980s to allow small banks and building societies to compete against the cash machine networks of larger banks. Around 65,500 cash machines are connected to the LINK network – effectively every ATM in the UK. LINK is the busiest ATM transaction switch in the world: at peak times the LINK switch processes almost 1 million transactions per hour.

Cheques

The cheque system in the UK is run by the Cheque and Credit Clearing Company (C&CCC), which – like LINK, Bacs, CHAPS and Faster Payments – is a membership-based industry group. C&CCC provides members with the central payment system services for the exchange and settlement of cheques and credits. These include exchange centres, the network for transferring electronic cheque data, and an automated settlement system. As well as managing the processes involved in cheque clearing, C&CCC determines the rules, standards and procedures required of banks that issue and receive cheques – including who can join – and ensures that members comply with these rules. The payment schemes of Bacs, CHAPS and Faster Payments and the LINK scheme perform similar roles in deciding membership rules and overseeing compliance.

Cards

Card-related transactions comprise almost three-quarters of all high street retail spending and the value of card payments is forecast to nearly double in the next decade to £840 billion.[5] Debit card transactions outnumber Bacs, CHAPS and Faster Payments transactions combined. The main credit and debit card providers are VISA Europe and MasterCard. These operate through something called a 'four-party scheme', because there are usually four parties involved in any transaction:

- the customer or cardholder (individual or company purchasing goods)
- the retailer (merchant) (individual or company selling goods)
- the bank that issued the payment card, known as the 'card issuer'
- the bank that acts for the retailer, known as the 'merchant acquirer'

VISA Europe, the biggest card scheme in the UK, is a not-for-profit membership association, owned and operated by more than 3,700 European member financial institutions. VISA Europe describes itself as a payment technology company rather than a payment scheme.

Who runs and owns the payments system?

The ownership of the UK payments system has been a key issue for politicians as they look for ways to ensure that this system, with the elements of a public utility (the means of transferring money effectively and efficiently), is fairly accessible to all.

The various automated payment mechanisms are membership organisations owned by the main banks. These 'schemes' have core members: the banks that invested in the technology to get them up and running and keep them operating, and indirect members or agency banks, which pay a 'sponsor' from the core member banks to be able to access the system.

Bacs is owned by 16 of the biggest banks and building societies in the UK, Europe and the US. CHAPS has 20 members, including the main high street banks, plus several international banks. Faster Payments has 11 directly connected institutions – including all the main high street banks – and 260 indirectly connected institutions. In all three schemes, all scheme members have board representation.

These schemes are run separately, with separate boards and the main retail payments schemes (Bacs, Faster Payments and LINK) plug in to a national payments infrastructure which is run and maintained by a company called VocaLink. A consortium of 18 banks and building societies in turn own VocaLink Holdings Ltd, including Barclays Bank plc, Royal Bank of Scotland group, Lloyds Banking Group, HSBC and Santander. These banks are in effect owners, directors and customers of these schemes: as members they own the payments mechanisms, sit on their boards, and pay fees to use these services.

The Payments Council (www.paymentscouncil.org.uk), which has until now played the lead role in overseeing payments in the UK, is an industry-led body also funded by the major banks, and with majority representation on its board. Card schemes are also membership organisations.

This overlapping network of interests and oversight is what has given many in government cause for concern.

Plans for a new regulator

In 2013, the Government announced plans for a competition-focused utility-style regulator. Until that point, payments regulation was purely prudential – its purpose was to prevent risk of systemic failure – through the Bank of England. A self-funded body – the Payments Council – was responsible for ensuring that payment services worked for all those who use them in the UK. The Payments Council had three main objectives:

- to set a strategy for collaborative payments developments
- to ensure payment systems were open, accountable and transparent
- to ensure the operational efficiency, effectiveness and integrity of payment services

The decision to establish a payments regulator in the UK followed two consultations on the industry, which deemed that the closed shop ownership of the payments system described above stifled competition by creating unfair barriers to entry for new players, and slowed innovation. In a statement announcing its plans to introduce a regulator, HM Treasury commented:

At the moment, a number of large banks 'own the system' and dominate the industry at every level. For example, smaller firms have to pay the big banks to access key services and the incumbents have the power to block access or charge unfair fees to smaller competitors.

The Government wants the new regulator to help remove the barriers for new entrants, increasing competition, incentivising all market participants to improve services and reducing fees for consumers.[6]

This view reflected the findings of the Parliamentary Commission on Banking Standards, a cross-party group established to examine standards and ethics in the industry, which published its final report in 2013.[7] It also echoed some of the conclusions made in a much earlier report into UK banking – the 2000 Cruickshank report[8] – which had called for the payments system to be regulated.

The new regulator will fall under the aegis of the FCA although it will be an independent unit, and it has been established under the Financial Services (Banking Reform) Act 2013. The Payment Systems Regulator will have its own managing director, appointed by the FCA with the approval of the Treasury; its own board, composed of the managing director, a chair and at least one other member; and its own annual budget, which will be approved by the FCA. The FCA will be given powers to levy participants in designated payment systems to fund any costs incurred in connection with the discharge of the regulator's functions.

Language on the issue is emotive. In announcing its plans, the UK Government said it was 'overhauling' the industry. This suggests that the current system is antiquated and out of date. But that would be misleading. The payments system worked well during the financial crisis and continues to process millions of transactions each day efficiently and reliably. Though many in the industry agree that it has taken banks longer than they should have done to introduce innovation, the systems that are in place are in many cases far in advance of those in place elsewhere. For example, Britain was one of the first countries in the world to introduce same-day payments. Currently, the only other countries that can process payments in less than a minute around the clock are Switzerland and South Africa. Mexico, Brazil and Japan can process payments immediately during fixed periods on business days, and others like Singapore, Sweden and Poland are in the process of building a 24/7 capability.[9]

In addition, it is worth noting that the payments industry has worked together to produce other market-leading innovations such as Chip and PIN. One current innovation, about to be launched, is that of mobile payments – a Payments Council project that will allow payments to be made directly to or from an account without the need to disclose the sort code and account number, by simply using a mobile phone number. Eight financial institutions – making up 90 per cent of UK current accounts – have already committed to offering the new service from spring 2014.

2 Key challenges for the regulator

Under the legislation, the regulator has been given three objectives:

- to increase competition
- to increase innovation
- to be responsive to consumers

This section addresses each of these objectives in turn, and also considers some additional challenges.

One of the key difficulties for any regulator is to ensure that the process of setting up the regulator (akin to 'planning blight') does not in and of itself increase costs or slow down the innovation that could encourage greater competition in the industry.

Competition

Introduction

One of the inherent challenges within payments is the network effect created by the system. With a network effect, the value of a product or service is dependent on the numbers of others using it. A payments system works best when it is possible for individuals to make and receive payments to others easily regardless of with whom or how they bank. The reason most of us carry credit and debit cards – for example – is because the majority of retailers accept them. And most retailers accept them because most of us carry them. A retailer who does not take cards is risking potential harm to their business by reducing the options available for customers to pay.[10]

There are therefore clear economic and other benefits to payer and payee from being part of the same network, just as it is

beneficial for everyone to be able to use the same phone network regardless of phone operator or type of handset. But the network effect of the payments system has more far-reaching implications. If money is to flow as smoothly as possible around the economy, then it is vital that the links between all those involved in that system operate effectively. As the Office for Fair Trading (OFT) pointed out in its 2003 report on UK payments:

This need for a network necessarily means that a degree of cooperation between the banks and other members is unavoidable. At the very least, a network's members must agree on the methods and standards for exchanging information, forming inter-bank settlements and covering network costs.[11]

Yet this need for collaboration is also the route of potential problems. If banks work with one another to create and maintain the system, there is potentially less incentive to devise new and better means of improving that system – or evolving a new, competing network. This could mean consumers are paying higher prices for payments services, or being denied access to improved services that could come about if banks were being incentivised via competition to improve the network.

Competition: among whom, for what?

In all recent investigations into Britain's banking industry, a lack of competition among high street banks has been cited as a problem. As far back as 2000, the Cruickshank report argued:

[There is an] informal contract between successive governments and banks, designed to deliver public confidence in the banking system. In return for co-operating in the delivery of government objectives, the banking industry escaped the rigours of effective competition. This contract cannot coexist with desirable levels of innovation, competition and efficiency in UK banking markets.[12]

More recently, the Parliamentary Commission on Banking Standards, among others, has argued that the dominance of the big four banks (Lloyds, RBS, Barclays and HSBC) creates inertia

within the industry so that these players do not feel any competitive pressure to offer improved services to their customers.[13] This, in turn, creates customer inertia. The Commission recommended several changes to the banking system that would enable smaller, 'challenger' banks to compete effectively against the established players.

Payments was considered one of the barriers to competition for two reasons. First, smaller banks generally lack the technological capability – and funds – to access payments schemes directly so they must find a 'sponsor' bank that will facilitate the payments for them. A smaller bank has to pay this sponsor bank to access the payments system. Yet, since most personal current accounts look 'free' to the consumer, these banks cannot pass these charges on to their customers because they would struggle to win business. Furthermore, reliance on another bank's technology and service structure puts the smaller bank at the mercy of the larger in case of outages or other problems over which the challenger has no control. This agency or sponsor relationship was identified by the Treasury specifically when announcing the new regulator. One executive at a challenger bank told us:

Those costs and complexity of joining a scheme at launch is not practical. Payments is not a utility and in my mind it should become a utility – you should pay for what you do rather than have the huge on-boarding cost.

Second, because smaller banks are not full members of the payments or card schemes, nor have they traditionally sat at board level on the Payments Council, these banks believe that their voices have not been well represented in the past. Therefore 'collaborative' developments – such as faster account switching – risk being weighted in the interest of the bigger banks.

The UK banking industry is highly concentrated,[14] but there is no clear evidence that the payments system itself is a major factor. A number of previous investigations concluded there was no cartel-like behaviour by big banks with regard to the payments system. Much work to date has focused on the perceived problems within the industry (eg ownership of the

payments system), rather than focusing on the actual barriers and extrapolating from those first principles on how to address these issues.

A number of people who contributed to this report were concerned that the payments system was being used by policy-makers as a proxy for the banking industry as a whole and that by dealing with a perceived problem of competition within payments, legislators could tackle much broader problems of competition within the banking sector. It was also felt that there was an underlying assumption that there is a non-competitive market in payments without detailed evidence to support this.

It is therefore vital that any new payments regulator understands clearly what the actual barriers are to competition within the payments sector before offering solutions. *The new payments regulator should ensure it focuses on developing much more detailed evidence on where there is lack of competition in the payments industry. The payments system – which works effectively in delivering its central goal of transmitting money reliably – should not be considered as a proxy for considering wider problems of competition in UK banking.*

More detailed evidence is needed to test some key assumptions about the payments industry, such as the costs involved in the agency or sponsor relationship. For example, the OFT study in 2003 suggested that the fees paid by agency banks were small in the overall context of payments costs and a much greater hurdle seemed to be the high costs of establishing IT systems and related processes that would enable a small bank to access the payments system directly.[15]

Suggestions for competition focus

As outlined above, we believe that the regulator should not rush to impose or mandate change in the payments industry without a much clearer understanding – and evidence for – the precise problems it is trying to solve. However, there are some clear areas that the regulator should address, which we discuss below.

Access – smaller institutions reliant on bigger ones

In their submissions to the first of the recent government consultations on payments, many challenger banks identified the ‘agency’ relationship between smaller banks and sponsor banks as a barrier. This is the relationship whereby smaller banks must find a sponsor from one of the official scheme members to access a payments system. This is largely because smaller banks lack the technology to perform the real-time, 24/7 transfers required by a system such as Faster Payments.

The regulator should examine two main areas in this regard. First, the regulator should consider as a matter of priority whether the prices sponsor banks charge agency banks to access the payments system are anti-competitive, and use its power to force banks to alter their fee structures if necessary. To do this it needs to understand better the costs that are involved in supporting the schemes, and the wider costs of processing payments that are not directly linked to scheme membership (eg the costs of maintaining a 24/7 processing capability within individual banks).

Regulators will need to consider carefully any actions on fees as there is a risk sponsor banks may choose to withdraw services altogether rather than deliver services to an agency bank for reduced revenue. This would exacerbate, rather than improve, competition in the sector. For this reason, the new regulator must also consider a further range of options should it deem there to be a lack of competition in the payments space.

Second, the regulator should consider whether the membership criteria for banks to become members of the current payments schemes are justified. At present, many banks cannot afford to become full members of the various schemes because of the high costs associated with bringing their own internal systems and processes up to scratch to ensure the continued resilience and stability of the system. For example, Faster Payments requires that full members have 24/7 IT and service capabilities. Membership also covers reimbursing scheme owners for historic investments in their infrastructure. *The regulator should explore ways for new banks to be able to access various payments networks in a way that maintains the resilience and reliability of the system, while lowering barriers to entry*. This could include the creation of a narrow payments utility (discussed below) so that

new entrants do not all have to upgrade their processing capabilities separately, and allow more processing capability at the centre. A key question is who would pay for such a central upgrade?

Ownership or governance

In the bill that sets out the powers of the new payments regulator, the Government has made provision for the regulator to force owners of the various payments schemes and other payments operators to divest their stakes if it deems it is appropriate. However, industry players are divided on whether it is ownership that is a potential hurdle to driving public interest changes in payments, or governance (or neither). A number of respondents felt that governance was of greater priority than divestment.

Previous submissions to investigations in this area give weight to the idea that the governance of payments systems is a drag on the pace of change.[16] Many people have argued that the need for consensus among the parties who make up the boards of payments schemes and related payments bodies slows up the pace of innovation.

One way for the regulator to address this would be to require payments schemes to include representation from a wider range of financial institutions on their boards. Tesco Bank called for this in its submission to *HM Treasury Consultation: Setting the strategy for UK payments*: 'To ensure the payments network delivers for customers, the balance of representation on both the Payments Council boards and individual scheme boards should be addressed.'[17] This applies equally to the regulator itself, and any strategy-type body within or outside the regulator, which must seek views from as wide a range of groups as possible.

Rapid changes to the governance of these schemes could have a much more immediate effect, and would be far less complex than divestment. *In addition, the regulator may want to consider whether the current scheme structure, at least for automated payments, makes sense given the overlap of boards and members, and whether it would be beneficial to operate such schemes as a single organisation.*

The regulator will need to consider how to balance broader governance of payments schemes and operators with the need for continued investment in the existing system and in any future collaborative investments. This is an important conundrum. Innovation costs money. Historically, the banks that have invested most in developing the payments system have sought to maintain control over – and access to – those developments (their investments). Finding ways to incentivise players to invest in developing systems for common benefit and use, while also allowing players to compete commercially, is at the heart of the regulatory challenge. We will explore the question of collective versus competitive innovation investment in the next section.

Tackling ownership rather than governance – potential divestment – presents another complex challenge. Mandating divestment does not in and of itself guarantee increased competition because it does not tackle the question of incentives to invest. In assessing the desirability of divestment, the regulator needs to consider whether those who want improved access to the payments system be required to take a financial stake in the schemes and systems that operate them, and on what basis? It should also consider whether some or part of the system could or should be sold to a single shareholder. This is a particularly significant consideration when assessing the importance of core payments infrastructure to the economy. One senior lawmaker interviewed for this report told us,

I like the idea of there being new stakeholders in the payments system, but who would they be and how would they be rewarded? Why would they invest and how would they get a return? What incentives or sanctions could the regulator apply?

Most people interviewed for this report said they would be highly concerned if the technology that runs payments – considered as the public utility element of the system – was sold off to a for-profit company over which government had no control. Many respondents suggested that the regulator should consider hiving off the infrastructure part of VocaLink, which

operates the underlying payments technology, into a BT Openreach-type company.

Most respondents felt that encouraging competition at this level – having competing 'rails' along which payments could travel, rather than having competing means of using and accessing this system – was undesirable as it was unlikely to bring benefit through lower costs to consumers or greater resilience. That is not to say that competing payments infrastructures cannot operate: in the US, the Fedwire Funds Service (Fedwire) competes with the Clearing House Interbank Payments System (CHIPS). However, it is questionable whether there would be the investment appetite to create a competing system, and whether this would deliver benefits in competition, innovation or customer service that could not be achieved more simply or cost-effectively by other means. For example, many smaller US banks do not participate in CHIPS because it is not considered cost-effective.

The regulator should consider ways to expand the representation of organisations on the boards of payments schemes to ensure a wider number of stakeholders are represented and to limit the veto power of single members.

The regulator should also consider the structure and ownership model of the UK payments infrastructure to ensure this is optimal for continued investment in the core, utility element of payments infrastructure. This could include a BT Openreach-style arrangement that separates the infrastructure part of the VocaLink business from its commercial operations.

Pricing mechanisms

One of the major challenges for the regulator in establishing and encouraging competition within the payments system (apart from card payments systems, which are considered separately below) is the pricing mechanism.

From an individual (retail) consumer perspective, most forms of payment appear free to the end user, so there is little incentive to shift provider as all services essentially look the same regardless of the bank with which the account is held. Some respondents argued that the regulator might wish to examine the 'invisible fees' surrounding payments charges, within its wide market investigation powers. However, others cautioned of the difficulty of modelling various costs within the payments industry, and the risk of broadening the remit of the payments regulator too far since modelling bank account cost includes many non-payment related items.

One area that the regulator could usefully examine in the short term is the pricing differences between schemes such as Faster Payments and Bacs to examine whether it is in any way hampering business activity. It should also look immediately at payments charges levied on businesses – particularly small and medium-sized operations – to ensure there is sufficient competition in this sector.

Moving towards a common utility

Much of the recent discussion on payments among politicians has focused on the extent to which there should be a common utility in payments and what that would represent. It is clear from discussions with a wide spectrum of players that there is very little consensus on what people mean by a payments utility and what might be the end goal of any common utility. 'One of the questions is how much do you put in a centralised utility?', said one senior lawmaker. For some, a common utility is taken to mean simply the 'rails' along which payments run – the technology that enables payments to be made and received. At the moment, the main mechanisms for doing this – the card and payment schemes – are owned and overseen by the largest banks, and we have discussed ways above in which this might be altered.

A wider view of a common utility encompasses the data that travel along those rails. In this view of a common utility, bank account data would be held centrally and banks would effectively bid to be able to plug into that system and operate an individual's or company's account. Another, broader, view of a central utility is one in which more processing capacity is built into the central infrastructure so that new banks do not all have to develop their own, expensive technology to process payments but can simply 'plug in' to a common hub: 'Here the question is how big should the hub be and how big should the spokes be?' said one payments executive.

Midway along the spectrum lies account portability, which would allow account holders to switch banks without having to change their bank account numbers – in much the same way that we can switch mobile phone providers while keeping the same phone number, although here again there are a number of options of varying degrees of complexity.[18]

Understanding this differing spectrum of views about what constitutes a common utility – or even what is meant by full account portability – is vital when considering strategic and investment priorities for the payments industry, and will be a key consideration for the regulator in the way it chooses to oversee and enforce strategic development.

Box 1 **Account switching**

Account switching is viewed by some legislators as the single most important element to drive greater competition in retail UK banking. In a report on competition and choice in retail banking, the Treasury Select Committee[19] *prominently cited the evidence given by Tesco Bank CEO Benny Higgins as saying that freedom to switch banks was a necessary component of competitive markets.*

However, there are mixed views about how far freedom to switch banks would drive greater competition in the UK retail bank sector. A new, seven-day switching service was introduced in late 2013 at a cost of £750 million to help encourage customers to switch banks, based on the view that consumer inertia was driven by perceived complexity in account switching. Figures from the Payments Council published in January 2014 showed there had been a marked increase in the numbers of people switching since the new service was introduced[20] *but it is unclear what proportion of these account changers came from the TSB and Lloyds split. 'I think it will be interesting to see how many people do switch accounts and whether we have created a sledgehammer to crack a nut,' said one payments executive.*

Full account number portability is seen by some as the

necessary next step to encourage consumers to move banks. Andrea Leadsom MP told the Guardian *in 2013,*

Seven-day switching is well worth doing, but if we really want to take away all the hassle of moving from one provider to another, if we really want the kind of competition that keeps bank managers up at night wondering if they will have any customers in the morning, we need full number portability just like in the mobile phone market. We need to create a separate system that holds everybody's bank details. It means, for instance, that my bank account number and sort code become a unique number, which is then accessed by individual banks.[21]

The costs of delivering full account number portability are disputed and many of those questioned for this paper felt that while it would be beneficial for the regulator to conduct a cost-benefit analysis on this approach, this should not be an all-consuming priority. In particular, it was strongly argued that the regulator should not undertake any work on a solution to a perceived problem until it was clear what precise problem it was trying to solve.

An industry executive commented:

The political imperative says look at competition in banking… [But] which market are we trying to get more competition in? What does good competition look like?… I don't know that account portability is an objective – it's a type of solution, so I would be much more interested in understanding the objective that it's trying to solve. We need to be clear about the need.

Several people raised concerns about the security and practicality of a centralised payments utility in which all customer data are stored, and of the cost and potential risks of having a single point of failure. One peer said:

Any commercial organisation needs a commercial reason for changing their attitudes. Account number portability is kind of a patch and it doesn't

address the fundamental problem [of bank competition]. I can't see any market forces driving us to account number portability or a utility [sic].

The new regulator needs to be clear about what the goal of any central utility should be before deciding on any shape or structure. A clear cost-benefit analysis needs to be undertaken on any major new project proposal, given the potentially high sums involved. Account portability should be considered as one of just a range of options rather than an all-consuming priority.

Cards vs payment schemes

For the first time, all forms of payment schemes will be brought under the regulator's remit, including card and payment schemes. Many believed this would prove a significant challenge for the new regulator, particularly given the more international focus and European-wide regulation of the card industry. For example, the European Commission has proposed legislation to cap inter-bank fees for consumer debit and credit cards in the EU – the per transaction fee that retailers pay banks and card payment schemes for processing transactions.

Others argued there was a need to consider whether card and payment schemes compete fairly, given that card schemes operate commercially, while payment schemes are not usually operated for profit. Given that debit card transactions alone outnumber Bacs, CHAPS and Faster Payments combined, the way in which the regulator brings card schemes into regulation is likely to have a significant impact on non-card schemes. *The new regulator will need to ensure that competition is encouraged between non-card and card payment schemes and that regulation is focused in such a way that consumers have genuine choice between the two.*

Some respondents suggested that one of the reasons for limited innovation and investment was the fact that non-card payment infrastructures were seen as cost centres by banks, rather than opportunities to generate revenues. However, others argued that reducing costs was just as much an incentive for banks as was revenue generation, and that this difference was not considered by banks to be a major barrier to investment. One banker commented, 'You can be as motivated to reduce cost as you can to drive revenue up. Assuming that tech innovation will be based on new shiny things that make money is not necessarily right.'

Nevertheless, it is clear from a persistent, historical underinvestment in banking technology generally that banks have not traditionally invested in core infrastructure and that more incentives may need to be introduced to encourage investment in so-called 'back office' technology, including payments systems.

The regulator should examine whether card and payment schemes operate on a level playing field, considering whether the traditional non-profit structure of the non-card payments system puts it at a disadvantage to other commercial models.

Standards

Some respondents stressed the importance of common standards in the payments sector as vital for driving improved competition and customer service. At present, payments schemes all use varying messaging formats to convey data – they 'speak' different languages. Harmonised standards could greatly improve business efficiency and reduce risk, making payments easier to track, and improving the efficiency of payments across Europe. Given that interoperability is necessarily a collective issue, this is an area of collaborative focus to which the regulator will need to give attention.

Innovation

As we have seen above, there is a conundrum at the heart of any successful network: there are benefits to all players from operating in a common network, but the line is not always clear between necessary collective investment to maintain that system operating effectively for all, and competitive investment, which gives individual players using that system commercial advantages.

Oliver Lodge wrote in a report for the Centre for Policy Studies in 2002:

The competitive dynamics of payment systems are such that particular care and sensitivity needs to be exercised in the application of competition policy. For example, the success of a payment scheme depends on banks cooperating with each other (whereas in general, competition policy is intolerant of co-operation between competitors). Schemes benefit from network effects, whereby consumers derive greater advantages from a scheme the more banks participate in it. Contrary to the assumptions of competition policy in other areas, consumers of payment systems services are not best served by a highly fragmented market structure.[22]

The new payments regulator is unique among competition regulators in Britain in having a specific regard for innovation in the industry. This focus stems in part from a sense among policymakers that a self-regulated industry was sluggish to develop new products and services: 'The reason that there's no innovation is that banks have been quite happy with no innovation,' said one member of the House of Lords.

Those in the industry – including some outside the big banks – dispute the notion that there has been no innovation, pointing to initiatives such as Faster Payments, in which the UK is a world leader. However, many concede that the pace of innovation could be faster and that banks have often been forced to innovate because of pressure from government. An industry expert told us, 'The evidence is that there is a lot of innovation in payments compared to the rest of the world. The question is: "Is it making it at a sufficient pace?"'

Though the reason for including innovation within the regulator's remit is clear, the mechanism by which it might achieve this goal – or what the innovation 'goal' might look like – is less so.

Nor is it evident at what point in the payments chain the regulator may wish to encourage innovation. One bank executive argued that there was already a great deal of innovation in payments, citing new developments in mobile payments such as Barclay's Pingit or VocaLink's Zapp applications,[23] as well as new non-bank entrants into the payments market such as PayPal and Google: 'I cannot think of an industry where you [have] so many sectors and different types of business innovating: e-commerce, technology, banks, schemes, and mobile companies are all innovating into payments.' Indeed, the launch in 2014 of a mobile payments scheme that will allow bank customers to pay in and receive money to their bank accounts using just a mobile phone number could have a significant impact on market dynamics.

There are two areas in which innovation might be encouraged. One is at the centre, where change needs to be industry wide in order for there to be benefits of scale. The new seven-day switching process is an example of such collaborative innovation and investment – in which benefits for users can only be fully realised if all players are involved. Some of this category of initiatives will be examined in the second section of this paper. The second form of innovation can be described as 'at the margins' – where those involved in the payments system have an incentive to innovate and invest on their account because they can see competitive advantages in doing so. 'There is a balance to be struck between interoperability and independent innovation,' said one banker. 'Innovation is usually in the competitive, not collaborative, space.'

Many respondents were cautious about a regulatory focus that specified a heavy investment programme of innovation at the centre, arguing that this risked sucking away investment from independent innovations that could potentially provide greater and more widespread benefit in the long run.

In addition, some identified a 'free rider' problem in innovation and investment, worrying that larger payments providers would be forced to subsidise innovation investments to benefit the whole. A new European Payments Services Directive will require payments operators to open up their systems to more payments providers, but, one industry official commented, 'there is a balance to be struck between accessibility and right of access

and what is a fair value in terms of the investment that banks have already put into the infrastructure'.

A majority of respondents to this paper agreed that the regulator should not be responsible for deciding on specific innovations that should be undertaken by the industry. One observed, 'A regulator is not going to come up with a technical specification but can ask high-level questions such as other countries can settle in five seconds. Why can't we?'

Many felt that the responsibility for discussing and deciding an industry-wide strategy should not lie with the regulator at all, but with some separate body, possibly with a specific mandate to help determine strategic priorities for the industry and ensure their delivery: 'You need some form of collaborative organisation that's able to deliver – somebody has got to do that,' said one bank executive.

Others felt the priority should be for the regulator to find ways of encouraging investment (and hence innovation) in the payments industry that benefits end users, particularly small and medium-sized businesses, rather than hoping for consensus around an overarching strategy for the industry. A payments executive commented:

What they should be looking at is: 'How do we design a structure for the industry which creates incentives for people to innovate in the interests of final users?' Like other regulators they should be saying that our job is to ensure that people have incentives to innovate, that they don't charge monopoly rents.

The experience of the Payments Council suggests that trying to determine an overarching strategy on which all players can agree is an uphill battle. Nevertheless, the importance of maintaining a stable and resilient system so payments flow smoothly must remain the central tenet of any payments system. Therefore some kind of organisation with practical, detailed experience of the technical requirements and needs of the industry is necessary to ensure stability. A bank executive observed,

What volume of change can you accommodate when your primary responsibility is that it [the system] doesn't break? People say it [the payments industry] moves quite slowly but actually when you see what's involved it is a huge amount to keep it stable. It's really important that people who are regulating a complex industry understand that industry really, really well – you'd want to be slightly slower and right, than quicker and wrong.

Other respondents agreed that a key role of the regulator would be to help ensure what – if any – collective investment should be mandated:

There's an awful lot of large stones in the pond – it's very important to decide the priority. There's a limited amount of change that banks can do in a year… In a situation of constrained supply, it's very important to think about where the sector should spend its bandwidth.

Views were mixed on whether the focus of the regulator should be on encouraging competition to produce innovation, or whether more emphasis should be placed on encouraging innovation, which would in turn produce competition. On balance most people felt a principles-based competition focus from the regulator was the best policy, although one member of parliament disagreed:

The only hope they've got of encouraging competition is to encourage innovation. I think a lot of the intellectual input should be on the innovation side. Competition is the boilerplate.

This demonstrates the challenges the new regulator faces when considering the skill sets needed, and will require the FCA to think creatively when it comes to recruitment. A peer told us,

I think there's something more complex in there that goes beyond the traditional skill-set of an economic regulator. Because all these questions are driven by how you do it – whether you have a narrow utility, or a large common utility, for example. That's not just a competitive question,

it also has to allow for future innovation and that's very different from the type of question that the typical economic regulator deals with. It takes some courage to regulate in a way that encourages innovation and risk-taking.

Furthermore, what is classified as 'innovation' within the payments system may reach well beyond its traditional scope of facilitating financial transactions to include not just technical innovation such as mobile payments and so on but also the way in which the system itself might be reused for non-financial transactions and information transfer. (See chapter 3.)

Summary

Taking all views into account, we believe that there is a need for a strategy type body that sits outside the regulator but which is responsible to it. This body should include payments experts who are able to articulate what is technically possible, ensuring the body is well informed about current capabilities and future possibilities. This should not be solely a trade body, but include a wider group of stakeholders, including representatives from government, consumer organisations, mobile phone companies and other payments service providers. This body would be able to recommend collective investment where necessary, and would be responsible to the regulator for ensuring its delivery.

There is a risk that this body could be too broad-based and act as a brake on reform, but – provided that the ultimate goal of the regulator and any strategic organisation advising it is to ensure efficient market operation – we believe it is possible to achieve a strategic body that is both lean and nimble. This body, or a small group within it, could also offer a clear mechanism for considering other uses to which the payments system could be put, as considered in the final chapter of this report.

The regulator would be responsible for establishing key objectives for the industry. This approach is similar to that taken by the Payment Systems Board – the body that regulates payments in Australia. Following a 2010 consultation into the payments systems, which looked specifically at innovation, the Reserve Bank of Australia agreed that the Payment Systems Board would establish high-level strategic objectives that it believed the payments system should be able to meet by a specified time.[24] However, the bank did not see the role of the regulator as dictating the means by which the objectives are met and suggested dialogue should take place between the regulator and an 'enhanced' industry body.[25] Consultations are currently under way about how such a body be constituted.[26]

The amount of collective investment mandated by the regulator that should be made by banks should be limited to free up individual investments in innovative products and services.

Consumer responsiveness

Under the original proposals for payments regulation, as put forward by the Cruickshank report in 2000, payments would have been regulated by the now defunct Office of Fair Trading because regulation would have had mainly a competition focus. As seen above, the new regulator is to have both a competition function and an innovation function, as well as the consumer protection functions carried out by the FCA for other elements of the banking sector.

Payments are a more complex field of consumer regulation than other elements of retail banking because consumers are not always aware of the choice of products on offer – or indeed offered a choice (for example, being given the choice of Faster Payments rather than Bacs to pay a bill), and even if choice were evident, the cost to the individual consumer is largely invisible (although not for businesses). As we have seen with the comparison between card payments and scheme payments, though there is often no apparent cost to the consumer, these payment methods *are* treated differently by providers. A Faster Payment transaction costs more than a Bacs transaction, for example.

Regulators in this area therefore need to be careful to find a balance between protecting consumers through awareness raising and product oversight, and understanding their needs, without onerous additional requirements on providers

that unnecessarily raise costs for consumers. Examples of this include:

- user group representation
- information provision

User group representation

The Payments Council has begun work on the needs of older and disabled people, and the regulator should ensure it continues to take a role – either in delegating such research to a strategy body, or under its own aegis – in seeking out a wide variety of consumer opinion. This should also include government. As Citizens Advice said in its submission to the HM Treasury consultation on the strategy for UK payments:

Substantive representative of consumer interests is vital to ensure that the interests of people who do not have access or interest in innovative new payment technologies are not harmed or disadvantaged by the enthusiasm to roll them out and wind down older payment methods. Without consideration of the experience of people from across the spectrum of consumers, the decision making process will be flawed and there is a risk that another damaging decision on the level of the abolition of cheques could occur.[27]

The Government should continue to try to coordinate its demands of the industry by working with the regulator and any related strategy body through a single mechanism – such as the Government Coordination Committee.

Information provision

Better understanding by consumers of different payments offerings, and a clearer breakdown of costs involved in bank account provision, could help consumers have a clearer understanding of the costs involved in running a bank account. More information should not be equated with improved understanding, and any work in this area has to focus on how well products and services are understood by consumers.

Additional challenges

Within the FCA, but not the same as the FCA

The payments regulator – with its remit for innovation and competition – will have a slightly different set of goals from that of the rest of the FCA. The new payments regulator should be consistent with the FCA in taking a principles-based approach to regulation rather than a rules-focused one.

Additionally, respondents stressed staff at the payments regulator would require expertise in utility-style regulation, specific industry and technical knowledge, and consumer experience. The Government has already indicated that to provide the requisite utility regulation skills it intends to lever skills and experience from existing economic regulators.

‘Planning blight’

There is a risk that the momentum for reform in UK payments could be slowed or halted if the new regulator takes time to get up and running. The new regulator should be established swiftly and quickly set out broad parameters about its focus and planned operations. There have already been two government consultations on payments in the past three years, as well as OFT and European investigations into the industry, and further lengthy reviews or consultations could slow the pace of change.

Europe

As with much national regulation, the new payments regulator will need to have due regard for developments in European regulation.

3 Beyond the regulator

This chapter considers the potential of the UK payments system (in its current and other forms) to deliver other policy goals, such as:

- reducing government costs
- financial inclusion
- improved consumer choice in non-bank markets

Britain's payments infrastructure is robust and reliable. While there has been a small, if increasing, number of incidents of technological problems within individual banks in the past few years, the mechanism for transferring money from one account to another has proved stable and resilient. This has led some to suggest that the payments infrastructure itself could be used to transfer information in addition to payments data via the payments system.

This could form part of the remit of consideration for the regulator, but also presents a challenge because it would incorporate considerations about the use of the payments system beyond purely financial transactions and information exchange and this would seem outside the scope of a body that falls under the umbrella of the FCA. The new regulator should give thought to how innovation in this area might be properly and effectively encouraged. Potential 'reuse' of the payments system includes:

- sending additional data
- switching accounts
- various other initiatives

Additional data

In an initiative led largely by the Department for Work and Pensions, the Government has established the Government Coordination Committee to consider the possibility of using the payments system to transfer greater packets of information. The Government is the single largest user of the UK's payments systems. In 2011, it made more than 1 billion tax credit, state pension and state benefit payments to individuals through UK payment schemes. It makes 2.8 million payments a day, helping to kick start local economies every morning.

Supporters argue that leveraging the existing payments system to send more data could have several merits. First, such an approach would not require the creation of a new system or database from scratch. One senior civil servant told this report,

What the Government is coming round to thinking is that there is an underused data infrastructure in payments. We could use it to do more things without affecting reliability. It is about seeking to leverage the potential of the payments system to help individuals, business and government manage data transmission much better in this digital age.

An industry executive likened the approach to the use of the rail network: 'If you can put train on the track you can put anything in the carriages.' One example of the way in which this enhanced use of the payments system could work would be allowing companies to include tax information whenever they make a salary or other payment to a staff member. This tax information could be 'extracted' by government as it travels along the payments data network. Government could get detailed data more quickly and some of the burden of data recording would be removed, taking cost out of the whole operation.

Such reuse could also have considerable benefits for employers, many of whom face multiple statutory reporting obligations linked to each payment. If it was possible to fulfill all of these obligations at a single point, and for linking this to the statutory reporting obligations to which the payment is connected, there could be a significant reduction in time and cost.

Individuals could also gain from increased use by government of the payments system to transfer data.

As the biggest user of the UK payments system, the Government has considerable potential influence over the way in which the system is developed and deployed. It is also clear that reuse of an existing system could offer considerable cost benefits. However, there are as yet no detailed estimates about how much it would cost to repurpose the existing system so that it could carry these additional data. This is largely because there is not yet an agreed single request from government to banks and payments operators. Though the Government Coordination Committee is trying to address the problem of a lack of a joined-up approach from government, it has not yet been able to articulate clearly what it wants from the enhanced system (tax information?, pensions data?, benefits details?) or in what order of priority.

A bank executive, who was sceptical about the desirability of putting more data into a system that needs – at the most fundamental level – to be resilient and reliable, remarked,

What's being asked for is not particularly clear, what development would be required and who would fund that. The reason why the payments system works is that data is treated consistently and the same standards are applied. It might just be quicker, cheaper and easier to send a separate notification.

The regulator should ensure that government requests of industry are joined up and channelled effectively to an industry-wide strategy body that includes current payments practitioners. At present, there are too many bodies (the Treasury, the Payments Council, the Government Coordination Committee and others) examining and requiring different, and in some cases opposing, developments within the payments industry. Requests for and discussions about change should be directed to and considered by a single body that includes representatives from government, industry and the regulator. The Government needs to coordinate its own requests of the system and deliver them to the payments strategy organisation via a single body, such as the Government Coordination Committee or the proposed strategy body, which we suggest should report to the new regulator.

Switching accounts

Repurposing the existing system does not just have implications for tax and benefits payments, particularly when considered as a national infrastructure with utility type characteristics. The payments system could be used to facilitate competition in markets beyond banking, such as energy.

Following intense pressure from government, the payments industry last year introduced a seven-day account switching service, intended to allow individuals to move more freely between banks, which it was hoped would improve competition.

We have considered the above arguments about whether the industry should be required to go further with a move towards full account portability – or even a centralised payments utility. Leaving these arguments aside, it is nevertheless possible to see why the methodology employed to support the current account switching service – in which million of pounds have already been invested – might facilitate other kinds of improved switching, such as between energy providers.

Other initiatives

Gift Aid

The payments system could be used to deliver other goals such as increasing the amount of Gift Aid take-up on digital donations, using the collaborative mobile 'proxy' database currently being established by the payments industry. For example, this database could automatically offer a donor the opportunity to make a Gift Aid request whenever they make a mobile donation to charity.

Basic bank accounts

The Government has a stated aim of bringing the million or so individuals who currently do not have a bank account into mainstream financial services. This has become an increasingly important imperative as it introduces Universal Credit, which will combine benefits payments into a single payment for individuals to manage. The roll-out of so-called basic bank accounts has been sluggish because banks have been unable to agree minimum standards. It may be possible to use the payments infrastructure to help deliver financial inclusion goals.

Basic authentification

In Sweden, the payments industry has developed an electronic ID scheme that is accepted by government services, private companies and banks. This single national ID number is both a form of identity authentication and an electronic signature, aimed at reducing fraud and reducing the inefficiency of having multiple authentification processes carried out by separate organisations. This initiative could be developed collectively by banks (as it was in Sweden) or driven by a payments infrastructure provider. Such initiatives should be among those explored by the new regulator and any enhanced industry strategy body that supports the regulator.

4 Conclusions

The regulator has been established to deal with three problems that the Treasury observed within the industry – a lack of competition, a sluggish pace of innovation, and a lack of clarity over consumer benefit – but there is little detailed evidence on the extent, effect or cause of these problems. The regulator must go back to basics in testing these alleged problems and build a clear evidence base before imposing any solutions on an industry whose reliability and resilience is vital to the effective functioning of the UK economy.

The regulator should:

- *Establish an evidence base*: Much more detailed information needs to be gathered on the precise barriers to accessing the payments system, in particular the cost of the agency or sponsor relationship and how new entrants can meet the costs of direct access to the system. This should include consideration of the cost of a shared infrastructure that banks could plug into rather than having to develop full technical capabilities in-house. It should also compare the relative costs of payments schemes such as Bacs and Faster Payments.
- *Not see payments as a proxy*: The payments system should not be viewed as a proxy for dealing with wider competition issues in the UK banking sector, especially given the potential disruption to the economy from enforcing changes that could in any way threaten its stability.
- *Focus on governance before ownership*: There is a lack of compelling evidence that the ownership structure of the payments system has held back innovation or stifled competition in the industry. Most of the justification for this view seems to be inferred from the fact that banks only implemented certain changes when asked to do so by government. Changes of ownership are

complex and it is unclear which organisations, aside from the major banks, would have the money or willingness to invest significant funds in the system. However, broader representation in the governance of the payments systems could help to ensure that any collective developments reflect the views and needs of as many players as possible. The regulator should also give thought to what it considers to be the 'utility' aspect of the system and whether to ring-fence the market infrastructure element of the payments system into a BT Openreach-type of company.

- *Set high-level strategy*: The regulator should work closely with an enhanced industry body – with representatives from user groups and non-bank organisations – to establish high-level strategic goals for the industry. These need to be set with consideration for other objectives and requirements being made concurrently of the industry to ensure utmost priority is given to the resilience and reliability of this vital system. This could include considering issues such as account portability.
- *Establish an enhanced industry body*: The regulator should work with the industry to establish an enhanced industry body that can help to determine strategic priorities and to oversee progress on any collective developments. It should have a specific responsibility to the regulator for ensuring that strategic goals are met in the timeframe set out by the regulator. In addition, the Government – as the biggest user of the UK payments system – should continue to pursue efforts to offer the payments industry a more joined-up view of its needs and requirements. This should help improve efficiency.
- *Look at broader roles for the payments industry*: It is possible that the payments infrastructure could be used to transmit other forms of data – such as tax information – to help improve government efficiency, and this should be examined as part of the high-level strategic considerations.

Notes

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15 '9.120 The fact that only a relatively small number of banks and building societies are direct settlement members suggests that entry costs are not trivial, at least in comparison with the costs of indirect access via an agency relationship with a settlement member. Indeed, the impact of clearing scheme technical requirements on individual banks' own costs seems likely to be more competitively significant than the scheme tariffs themselves.' '9.121 The most significant costs appear to be those associated with the infrastructure that an individual bank must install to participate. These costs are clearly sensitive to the communication and timescale standards adopted by the schemes. In this respect, the requirement for on-going compatibility with the legacy systems of existing members is undoubtedly a constraint.' See OFT, *UK Payments Systems*.

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The payments system – the mechanism by which all money is transferred from one account to another – is a vital, yet largely unseen, part of the financial system. For money to flow efficiently through the body economic, the payments system must operate smoothly. Payments are critical to the UK economy: in 2013, clearing systems processed over 7 billion clearing transactions, corresponding to a value of over £75 trillion. If the payments system fails or is disrupted, it could rapidly destabilise financial markets and cause widespread economic disruption.

This report examines the role of the payments sector as it prepares for a new regulator, and considers how this regulator can help to ensure innovation continues in the sector. It intends to help a non-expert audience better understand the current structure of the UK payments system and so promote greater public understanding of the way in which the system works and its importance to business and society.

Based on a wide-ranging literature review and drawing on the insights of an expert panel, *Payment Power* reviews each of the objectives for the new regulator – enhancing competition, spurring innovation and promoting consumer benefit. It concludes that a more solid evidence base must be built before action in these areas, especially in terms of any barriers to access. Finally, it envisions a broader role for the payments infrastructure – for example, helping to make Government more efficient – through the analysis of big data.

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