

HM TREASURY CONSULTATION: SETTING THE STRATEGY FOR UK PAYMENTS RESPONSE BY THE BUILDING SOCIETIES ASSOCIATION

Introduction

The Building Societies Association (BSA) represents mutual lenders and deposit takers in the UK including all 47 UK building societies. Mutual lenders and deposit takers have total assets of over £375 billion and, together with their subsidiaries, hold residential mortgages of £245 billion, 20% of the total outstanding in the UK. They hold more than £250 billion of retail deposits, accounting for 22% of all such deposits in the UK. Mutual deposit takers account for 31% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

The BSA welcomes the opportunity to respond to HM Treasury's consultation.

Question 1

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

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

The Association agrees with the Government's aims as set out in 4.1 of the consultation paper. Having considered the proposed options for changes to the regulatory regime we believe that the most appropriate way to achieve the Government's aims would be a combination of Option 1 (Reform of the Payments Council) and Option 2 (the creation of the Payments Strategy Board). We do not support Option 3 for the reasons set out in 5.48 of the consultation document.

While the creation of the Payments Strategy Board is a necessary step, we believe that the Payments Council should be given adequate opportunity to complete its internal reforms first. Once these internal reforms have been made, it should be clearer what roles and responsibilities both the enhanced Payments Council and the Payments Strategy Board should have. Only after the Payments Council reforms have been implemented and taken into consideration can we be confident that the creation of the Payments Strategy Board would provide an appropriate balance between Government intervention, impact and cost.

Ideally, the Payments Strategy Board would have a narrow remit and focus purely on setting and benchmarking the industry against a small number of key strategic objectives. The enhanced Payments Council would retain all other existing roles and responsibilities, but one of its primary functions would be to seek to achieve the Payments Strategy Board's key strategic objectives.

With regard to the reforming the Payments Council, it should be noted that the majority of our members are not clearing banks/building societies and are not members of the Payments Council. Most building societies rely on agency arrangements with clearing banks for all of their payments related activities. Some of our members have complained that their interests and concerns are not given adequate consideration by the Payments Council or its members and that this can lead to difficulties when seeking to implement industry-wide initiatives. This could be overcome with improved communication between the clearing banks and building societies via better representation at the Payments Council.

We understand that the Payments Council is looking into how best to achieve this and we hope that this is one of the outcomes from its internal reforms.

Given that we believe the best way forward would be a combination of Options 1 and 2, it would not be appropriate for us to answer each of the individual sub-questions under questions 2 and 3. Instead, we have set out our general thoughts on the Government's proposals and highlighted our specific concerns where relevant.

Question 2

The following questions relate to the changes the Government would expect the Payments Council to implement under Option 1. Some of the changes will also be considered if the Government proceeds under Option 2. [The full set of questions is set out in Annex A of the consultation document.]

We agree that the current remit and objectives of the Payments Council are broadly appropriate; however, the Payments Strategy Board should have ultimate responsibility for setting payment strategy.

The Payments Council needs to do more to reach out to smaller banks and building societies to ensure that their voices are heard early on in the planning of any new industry-wide initiatives. In the past, members have complained that discussions on the practical aspects of implementing initiatives, such as the introduction of Faster Payments, are slow to filter down to them. As a result, the clearing banks present a solution to their agency clients on a take it or leave it basis very late in the day with very little time for a firm to implement systems changes before an agreed deadline. One of the barriers to becoming full members of the Payments Council is cost. We understand that the Payments Council is looking into options for improving small member representation and we support its efforts in this area. It is important that discussions regarding the implementation of industry-wide initiatives go wider than just the major clearing banks.

We are broadly in favour of the other proposed reforms to the Payments Council.

Question 3

[The full set of questions is set out in Annex A of the consultation document.]

We agree with the proposed remit of the Payments Strategy Board as set out in 5.24 of the consultation document. It should be limited to making recommendations rather than mandating action. These recommendations should be made following prior consultation with the industry via the Payments Council to ensure that they are realistic and achievable. It is vital that the recommendations are subject to vigorous cost benefit analysis. The Payments Council has the relevant expertise and resources and would be the most appropriate organisation to ensure that the Payment Strategy Board's recommendations and strategic objectives are met. However, the Payments Council must reform to ensure that smaller firms which rely on agency agreements, such as the majority of building societies, are more involved at an early stage when planning and implementing industry-wide initiatives.

We are generally in favour of the proposals relating to the Payments Strategy Board including its composition and funding. However, before any final decision is made to proceed with the creation of the Payments Strategy Board, we recommend that the Payments Council is permitted to complete its internal reforms. These reforms should be taken into account when deciding the final structure of the Payments Strategy Board and how it will co-operate with the enhanced Payments Council. Further consultation on the introduction of the Payments Strategy Board following the reform of the Payments Council would be welcome.

10 October 2012