National Payments Plan

A Strategic Direction for Payments

April 2013

National Payments Plan Steering Committee

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Chairman's Foreword

Ireland is currently facing an immense set of challenges to restore economic stability, a task made all the harder by the continued financial turmoil and economic weakness globally. Some of the challenges are immediate, such as returning the Exchequer finances to a sustainable level. In parallel, we must make the structural changes to our economy to ensure that our national competitiveness is enhanced.

The payments industry has an important part to play in this. While there has been substantial investment in upgrading Ireland's payments infrastructure in recent years, we are lagging in terms of the take-up of these technologies by Government, business and consumers. For example, the National Competitiveness Council has ranked Ireland as the second highest in the Euro-area in terms of its use of cash as a proportion of GNP, while we are one of only a handful of countries that still use a significant volume of cheques.

The efficiency of Ireland's existing payment systems infrastructure could be improved by changing behaviour to make more use of secure and efficient electronic payment methods leading to a reduction in the reliance on cash and paper instruments. Further, we can improve the efficiency of cash distribution, which will remain an important payment method into the future. In addition, this report recommends the adoption of a number of initiatives which could add to the scope of payment options available to consumers and businesses.

This report presents a strategic roadmap for transforming payments in Ireland, and a vision of Ireland joining those countries that are at the forefront of payments in Europe. However, the realisation of this vision will require the full commitment of all stakeholders, including Government, businesses, consumers and financial institutions. The report should be seen as a first step, and will be followed by progress reports to track its implementation and to identify any additional policy initiatives which may arise.

Ireland can and should be a leader in this area - we have the youngest population in Europe and have shown ourselves to be very fast adopters of new technology. I believe the task of turning Ireland from a laggard to a leader in payments terms will be a very challenging one. However the prize in terms of improved cost competitiveness, greater security, convenience, consumer choice and reduced financial exclusion is, I believe, well worth the effort.

I would like to thank the members of the Steering Committee for their valuable contributions in preparing this plan. I would also like to acknowledge the work of programme manager Ronnie O'Toole and the rest of the team in the Central Bank for their essential support to the Steering Committee, and for their work in preparing this report.

Tony Grimes

Chairman, National Payments Plan

Terms of Reference

In June 2011 the Minister for Finance, Mr. Michael Noonan T.D., asked the Central Bank of Ireland to take a lead role in preparing a National Payments Plan.

To this end, the Central Bank has formed a Steering Committee to oversee the development and implementation of the National Payments Plan. The terms of reference of the Steering Committee are as follows:

The Steering Committee will:

- Support the development of a National Payments Plan with the overall objective of enhancing Ireland's national competitiveness;
- Specify the necessary actions to achieve the objectives of the National Payments Plan, allocating responsibilities to the various stakeholders where possible;
- Take responsibility for the delivery of the measures identified in the plan; and
- Track the delivery of benefits arising from its execution.

The objectives of the National Payments Plan are to:

- Deliver a significant increase in the use of secure and efficient electronic payment methods leading to a reduction in the reliance on cash and paper-based payment instruments;
- Improve the efficiency of the cash cycle;
- Identify measures needed to create an enabling environment that facilitates the provision and use of new, innovative electronic payment methods;
- Ensure the migration of all electronic credit transfer and direct debit payments to the Single Euro Payments Area (SEPA) standards in accordance with EU regulations;
- Consider the needs of all users of payment instruments, in particular to identify measures to address the payments aspects of financial exclusion; and
- Raise awareness of the objectives of the National Payments Plan, in particular to ensure that affected stakeholder groups are fully informed of the benefits of reform.

In developing the National Payments Plan, the Steering Committee should work closely with any governmental and private sector initiatives in the payments area.

The NPP Steering Committee will submit the draft National Payments Plan to the Minister for Finance, and provide bi-annual progress reports to the Governor of the Central Bank and the Minister for Finance.

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Chapter 1: Introduction & Executive Summary

1.1 Introduction

The way we pay for goods and services affects every Irish citizen in profound ways. We make on average four payments every day[1], whether it is to pay for groceries, buy a train ticket or book an airline ticket. Businesses have to pay suppliers and staff, and must be able to receive payment from their customers. Government departments and agencies also have to pay suppliers and staff, execute social welfare transfers and accept payments of tax and user charges. Having access to - and confidence in - suitable ways to pay is critical for full participation in a modern society.

The evidence shows that Ireland is not taking full advantage of the potential benefits of modern payments methods. Irish people make only half the number of e-Payments (which includes debit card payments, credit card payments, direct debits and electronic credit transfers), compared to the Northern European average[2]. A corollary of this is Ireland's continued high usage of paper based payments, such as cash and cheques.

With the pace of innovation in the payments area continuing to accelerate, the risk is that Ireland will fail to close this gap. This plan describes the pace of change in payments, and analyses the benefits to Ireland of adopting more modern payment methods. It then sets out a programme of action to help transform Ireland's payment landscape.

1.2 The rapidly changing world of payments

The pace of change in payments globally is accelerating. The proliferation of the internet and mobile phones, the rapid growth of e-commerce, technological developments such as smartphones and near field communication (NFC), are resulting in the emergence of new ways to pay[3].

In parallel to these recent technological changes, there are momentous changes in the payments market in Europe. The full realisation of the Single Euro Payments Area (SEPA) of 330 million people is changing payment services in Europe. Cross-border payments can now be made in exactly the same way as national payments, allowing the most innovative payments firms to compete on a pan-European basis.

Ireland should be at the crest of this wave given our young demographic profile, our rapid take-up of technologies such as mobile phones and the presence in Ireland of a number of indigenous and foreign-owned innovative payment companies. Instead, Ireland is at risk of getting left behind. Ireland is a relatively low user of e-Payments compared to other Northern European countries - Irish people make only 133 e-Payments per capita per annum, less than half of the Northern European[4] average of 273.

Currently Ireland has a very high usage of cash and cheques. Irish people withdraw almost twice the amount the average European does from ATMs every year[5]. Ireland is also one of the few remaining EU member states that still use cheques on a regular basis - of the major European countries, only France uses

[1] Survey by Marketing Partners for the Central Bank of Ireland, interviews conducted in January 2011.
[2] ECB (2012).
[3] Shrade (2011).
[4] Defined as Austria, Belgium, Denmark, Finland, France, Germany, Ireland, The Netherlands, Sweden and UK.
[5] ECB (2012).

more cheques per capita than Ireland. Further, Ireland has relatively high levels of financial exclusion[6], including in the payments area.

1.3 The compelling case for transforming Irish payments

There are significant benefits to reforming our payments system and habits.

Ireland's cost competitiveness could be greatly improved by a reform of payments. Making a payment costs money. In the case of cash, the cost comes from the distribution of cash to users and the return of excess cash to banks, which requires a logistical system involving security, transportation, insurance, cash depots, ATMs etc. Cheques need to be printed, go through several stages of transportation and require a degree of manual processing. For non-cash payments such as debit cards or credit transfers, the cost comes from maintaining an information-processing infrastructure involving intermediaries such as banks, clearing houses and settlement system operators.

These costs are very substantial, and vary widely between countries. It is estimated that the average cost of payments in Europe is in the region of 1.2% of GDP[7]. However there is huge variation within this, with payment costs ranging from 0.6% in the most efficient country in Europe, to 1.6% for the least efficient[8].

The cost of Ireland's payment system is estimated at 1.4% of GNP[8], showing how far Ireland is trailing behind leading European countries. On this basis, if Ireland were to match best practice in Europe, savings of up to €1 billion per annum could be made to the economy. This would result in better value for the customer, lower back-office administration cost for Government, lower administration cost for business and lower operating costs for financial institutions[9].

There are a number of other benefits to moving towards a more modern payment system:

- *Shadow economy:* There is a correlation between cash usage in an economy and the size of that economy's shadow economy. Schneider (2009) estimated that an increase in electronic payments by 5% could lead to an average reduction in the share of the shadow economy of about 2-3%[10]. A number of studies in Scandinavian countries show that between 28% and 65% of cash in circulation is not accounted for by recorded payment activity, which is suggestive of a very significant element of shadow economy payments[12]. The implementation of the recommendations in this report should contribute to a reduction in the size of the shadow economy.
- *Cash security*: The circulation and storage of cash presents a significant security risk. The number of Cash-in-Transit (CIT) attacks in Ireland for the period of 2007-2009 was 55 per million population, compared to an EU average of 11[11].

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[6] According to the European Commission (2008), financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.

[7] A forthcoming ECB study estimates that the cost of retail payments, excluding household costs, is 0.96% of GDP. It cites studies which suggest that households' costs associated with retail payments amount to about 0.2% of GDP.

[8] Unpublished estimate compiled as part of ECB (2012) on the cost of retail payments.

[9] However, there are large fixed costs associated with the introduction of new payment options, including the cost of innovation.

[10] Reported by Steffanini D. (2010).

[11] There are numerous other forms of security risk relating to payments. For example, cash is subject to other forms of theft and to counterfeit, though losses from the latter in 2012 accounted for just 0.001% of banknotes in circulation. Cards are subject to payment fraud, which accounted for 0.04% of the total value of card transactions. Source - ECB (2012).

- *Late payments*: There is a strong correlation between the extent of cheque usage in a country and the time it takes for businesses to receive payment for invoices[12]. Even if a cheque is written on time, businesses usually have to wait a number of days to have access to their funds[13].

Ultimately, payment reform should be centred on promoting e-Payment options for consumers and business which are more convenient and represent better value to operate than the ones they currently use.

1.4 Our vision for payments

The NPP represents a strategic direction for how payments are made in Ireland. It sets out an ambitious programme of reform to transform how we make payments. In fact, we believe that Ireland can go from being a relative laggard in terms of payment technology usage to a leader, given our young demographic profile, our high rate of mobile phone penetration and the presence in Ireland of some of the world's leading payment innovators.

Vision for Payments

- *Electronic forms of payment will be universally accepted, and be the preferred payment choice for most;*
- *Irish consumers and businesses will have access to the advantages of the most innovative payment methods, and the knowledge and confidence to fully utilise them;*
- *Payment systems will be robust and reliable;*
- *Pricing for payments will foster the migration from cash and cheques to cards and electronic payments;*
- *Cash will remain a widely used method of payment, and must be provided in an efficient, secure manner;*
- *Cheque usage will fall, though will remain available to those who wish to use them, and consumers will not be obliged to discontinue using them.*

NPP target

- *Ireland will double the number of e-Payments per capita by 2015, leading to a reduction in cash and cheque usage to the EU average.*

1.5 Next Steps

The National Payments Plan presents a vision for how payments here should look by 2015. It is grounded in a strong understanding of the importance of payments for people's day to day lives, and the diversity of people and businesses in Ireland today.

This vision is an ambitious one. Making it a reality will require a significant commitment by all stakeholders to radically change many deeply engrained habits and business practices. This will require users to be

[12] National Irish Bank (2010).
[13] Initiatives such as the Prompt Payments Act have helped speed up payment. In June 2009, the Government introduced a further non-statutory requirement in to reduce the payment period by Central Government Departments to their suppliers from 30 to 15 days. However payments from public authorities only account for 1% of cheques received by business annually (Source – NPP Cheque Analysis (2012)).

incentivised to migrate to efficient payment means with the right mix of features, benefits and price. It is the expectation that all stakeholders who have been involved in the process of formulating this plan will not only carry out the specific recommendations related to them, but will also more generally help drive the process of payments reform. In particular, success will require the following:

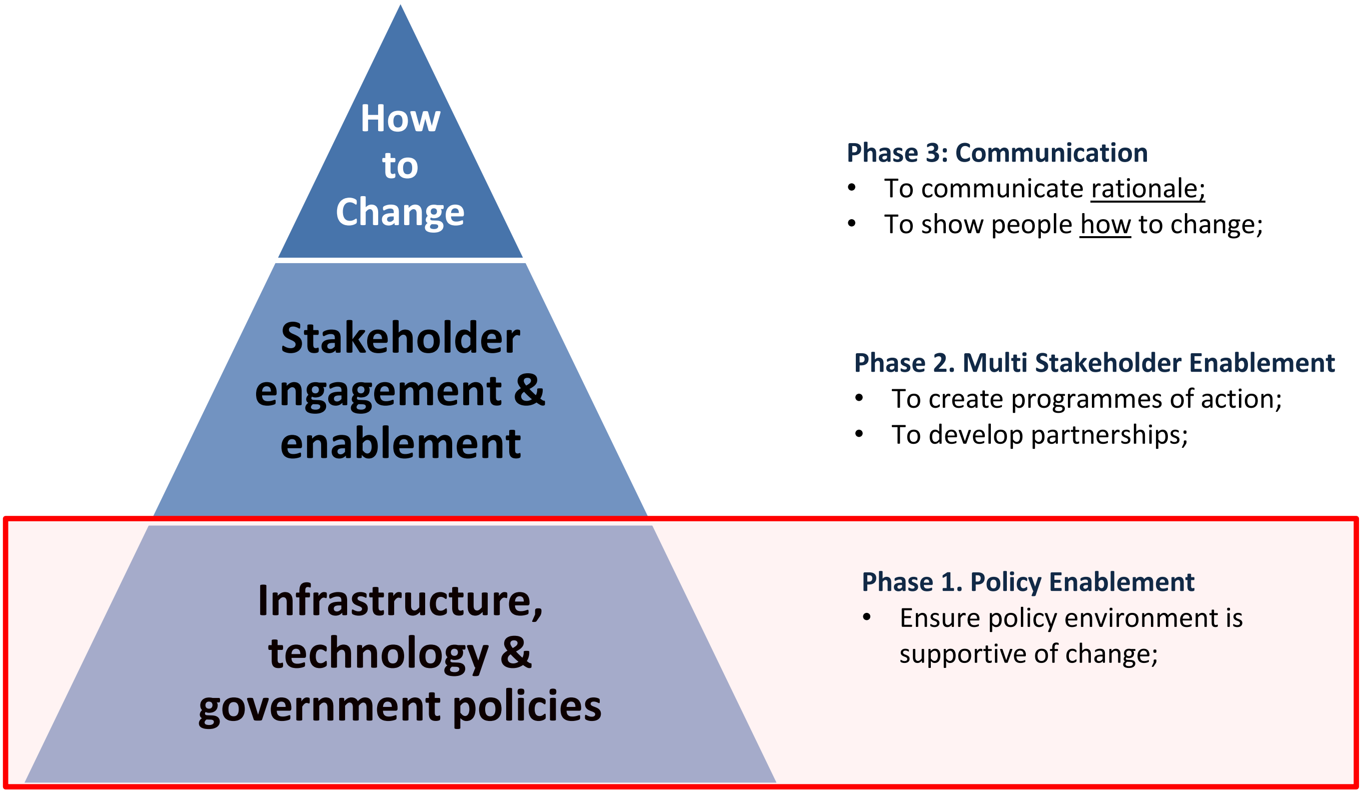
- *Government*: The Government has to lead by example by becoming an innovative user of payment services, and by creating an environment that will enable change. The public sector in aggregate is the biggest single consumer of payment services, and needs to demand and provide the most efficient payment options. In particular, the modernisation of social welfare payment methods, in tandem with the availability of a Standard Bank Account[14], is of pivotal importance in achieving the objectives of the NPP. Reform by the Government can benefit both the public sector itself in terms of reducing costs and streamlining back office administration, but also by providing an impetus for the rest of the economy to change.
- *Financial Institutions*: Financial institutions[15] provide payment services that underpin our economy, and must play a central part in modernising our payment system. This will require the provision of some new payment technologies, but will also require financial institutions to educate consumers and businesses as to how to better use existing payment channels, and provide them with strong price and non-price incentives to do so. Further, financial institutions must work to ensure that consumers have confidence and trust in the systems they operate, and to be transparent in the price and nature of the services they offer.
- *Payment users*: The users of payment services, such as consumers and businesses, should see this payments reform as an opportunity to change. For some, well established and understood practices of cash and cheque usage will remain. However for others, the new world of payments will open opportunities to make payments in a way that is more convenient and better value than previously. It will be the role of the relevant organisations represented on the NPP Steering Committee to help drive and communicate these changes.

The role of the NPP is to bring representatives of Government, financial institutions and payment users together, to ensure the benefits of reform are fully leveraged and shared among all participants. This plan represents a first step along this path. It sets out the policy environment that will be necessary to bring about change in the way we make payments in Ireland, with a shared responsibility among all stakeholders to implement the plan.

The next step will be to intensify our engagement with key stakeholders with an interest in Ireland's payment systems, and to develop a plan of communication and education to help promote the development of a modern payment system. This education and support will be required for consumers, retailers and other businesses.

[14] A Standard Bank Account is a transaction account which has been designed to meet the needs of the financially excluded.

[15] This term is broader than just banks, for example including 'merchant acquirers' who process transactions on behalf of the merchant, card schemes (e.g. Visa and Mastercard), non-banks (e.g. Paypal and Google) and others.



1.6 Recommendations

The NPP has identified a number of actions to transform the way we make payments in Ireland.

Promoting e-Payments (Chapter 4)			
	Recommendation	**Deadline**	**Responsibility**
4.1	Facilitate interoperability of mobile based payments	Medium term	IPSO
4.2	Introduce contactless debit cards	2012 - 2013	Banks, merchant acquirers and retailers
4.3	Develop public and private sector e-Payments acceptance plans	September 2013	NPP and merchant acquirers
4.4	Require taxis to take payment cards	2014	National Transport Authority
4.5	Introduce a Standard Bank Account[16]	December 2013	Banks/ Department of Finance
4.6	Progress Social Welfare Payments Strategy	Medium term	Department of Social Protection
4.7	Incentivise the consumer to use e-Payments	Ongoing	Banks and retailers
4.8	Incentivise the merchant to accept card payment	Ongoing	Banks, merchant acquirers and card schemes
4.9	Phase out stamp duty on debit and pre-paid cards	Phased basis	Department of Finance

[16] A Standard Bank Account is a transaction account which has been designed to meet the needs of the financially excluded.

Cheque Reduction (Chapter 5)			
	Recommendation	**Deadline**	**Responsibility**
5.1	End date for cheque usage between Government and business	2014	NPP, Government, banks, utilities, business
5.2	Implement bank cheque migration initiatives	On-going	Banks
5.3	Re-presentation of unpaid cheques to be stopped	February 2014	Irish Paper Clearing Company
5.4	Modernise 'Client Account' payments practices	February 2014	Law Society/ Irish Paper Clearing Company/ Banks

Cash efficiency (Chapter 6)			
	Recommendation	**Deadline**	**Responsibility**
6.1	Prepare a review of the Irish cash cycle	September 2013	Central Bank, cash in transit companies, retailers, banks
6.2	Increase dispensing of €10 notes in ATMs	Phased basis up to Q3 2014	ATM providers
6.3	Pilot of discontinuing use of 1c/2c coins	December 2013	Central Bank

SEPA (Chapter 7)			
	Recommendation	**Deadline**	**Responsibility**
7.1	Ireland to have fully migrated to SEPA by Feb 2014.	February 2014	Central Bank, IPSO, Department of Finance, banks and businesses

Education and Support			
	Recommendation	**Deadline**	**Responsibility**
8.1	Support a broad education and support campaign to drive a change in payment habits.	2014	All

Chapter 2: Irish Consumer Payments

2.1 Introduction

The way we pay for goods and services affects every Irish citizen in profound ways. We make on average four payments every day, whether it is to pay for groceries, buy a train ticket or book an airline ticket. Having access to - and confidence in - suitable ways to pay is critical for full participation in a modern society.

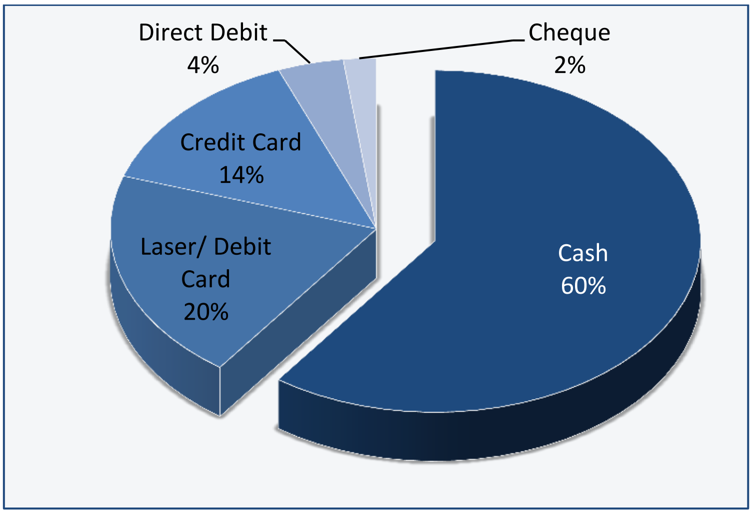
The range of payments currently in use reflects the huge diversity of our society. Many people in Ireland are already embracing the most modern forms of payment which may in future years become mainstream. However, some are currently excluded from the benefits participation in the financial system can bring, and risk being left further behind by the rapidly changing payments environment. For others, frequent cash and cheque usage remains a dominant behaviour, with not enough advantage being taken of the available electronic alternatives.

In this chapter we look at how we pay in Ireland as consumers, and examine the factors that are driving that behaviour. We conclude by setting out the National Payment Plan's vision for consumer payments.

2.2 Ireland's Cash Dependency

We Irish are very intensive users of cash. Three out of five of all consumer payments are made in cash (see figure 2.1)[17]. Most of the remainder are made by debit or credit card.

Figure 2.1: Payment methods in Ireland



Source: CBI Survey, 2011

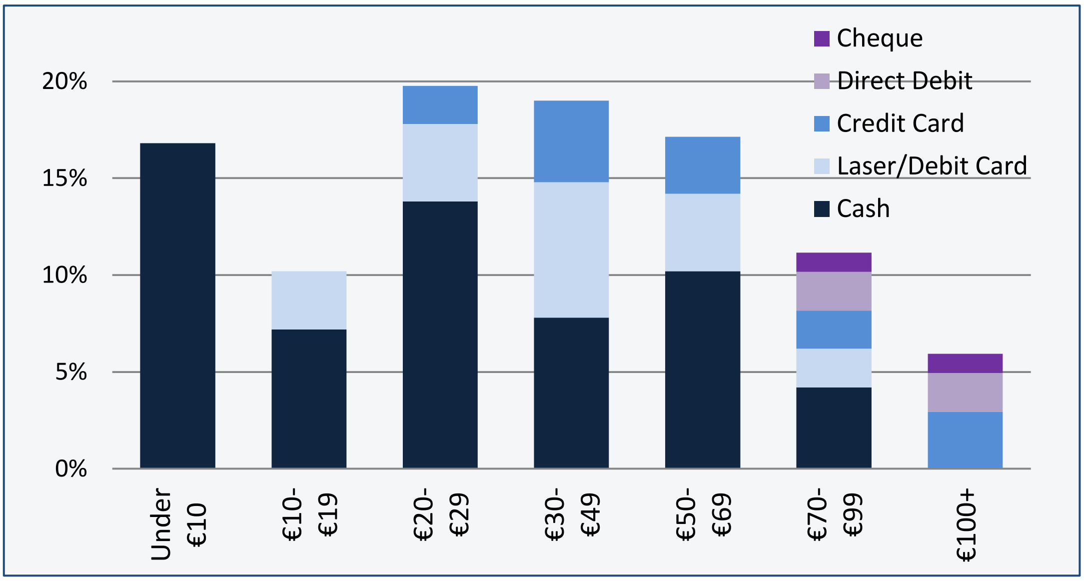
[17]Survey by Marketing Partners for the Central Bank of Ireland, interviews conducted in January 2011. This survey consisted of 1,000 interviews conducted at four urban centres, spread nationally. Respondents were asked to recall the transactions they had completed from the previous day by payment type and value.

Statistics on the supply of cash to consumers also suggest very high cash usage. Irish people withdraw almost twice the amount from ATMs every year compared to the EU average. Compared to the best in class, we are even further behind. The average Irish person withdraws more from an ATM in three days than the typical Dane does in a month[18].

Cash in Ireland dominates for transactions less than €10, where it currently accounts for virtually all transactions (see figure 2.2). Economic studies show that historically cash has been the most efficient way to pay for low value transactions of €10 or below when all of the social costs[19] are considered[20]. However recent advances in payment technology, particularly the advent of contactless cards and/or mobile payments, could lower this 'breakeven point' significantly.

A lot of the inefficiency in Ireland's payments behaviour is in the high usage of cash for transactions between €10 and €70. Although the social cost of debit cards is lower than that of cash in this range, cash still accounts for more than half of all these transactions[17].

Figure 2.2: Payment method by transaction value



Source: CBI Retailer Survey, 2011

2.3 The Use of Cheques by Irish Households

The National Consumer Agency ('NCA') in conjunction with the NPP conducted market research in June 2012 by surveying 495 cheque users in order to examine consumer experiences and behaviours in relation to personal cheque usage. Irish consumers are regular cheque users, accounting for 35% of all cheques written annually, and receiving 44% of all cheques[21]. Three in ten Irish people own a cheque book, with a

[18]ATMs are only one source of cash, with bank branches and the post office network being the two other primary channels. Ireland has a relatively low level of bank branches per capita, though cash distribution via the An Post network is very substantial because of social welfare payments. Source: ECB (2010).

[19] Social costs are the costs to society, reflecting the use of resources in the production of payment services; that is, the total cost of production excluding payments, e.g. fees, tariffs, etc., made to other participants in the payment chain.

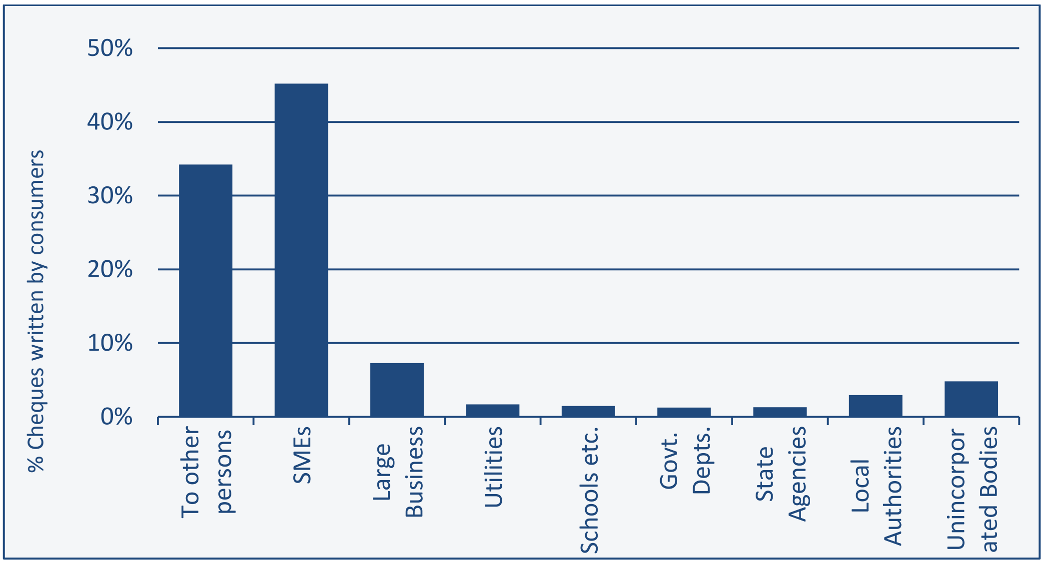
[20] The point above which debit cards become more efficient to use cash is known as the 'breakeven point'. Bergman et al (2007) estimate a breakeven point of €7.80 in Sweden based on data for 2002; Brits and Winder (2005) estimate a break-even point of €11.63 in the Netherlands; Ten Raa and Shestalova (2004) estimate a break-even point for the Netherlands of €13.

[21] NPP (2012).

particularly high prevalence among the elderly and the farming community[22]. The converse is that seven out of ten consumers currently do not need a cheque book to transact day to day business.

The vast majority of cheques written by consumers are to other consumers (34%) and to small businesses (45%). Cheques are generally written for medium-sized transactions - 42% of cheques written by consumers are for €100 or less, 37% are for €100 - €500, while the remaining 21% are for greater values.

Figure 2.3: Receivers of Cheques Written by Consumers



Source: NPP Cheque Analysis (2012)

The following are the most cited reasons given by consumers for writing cheques[23]:

- Pay a tradesman in the home (52%);
- Pay someone else in person (40%);
- Pay a bill by post (39%).

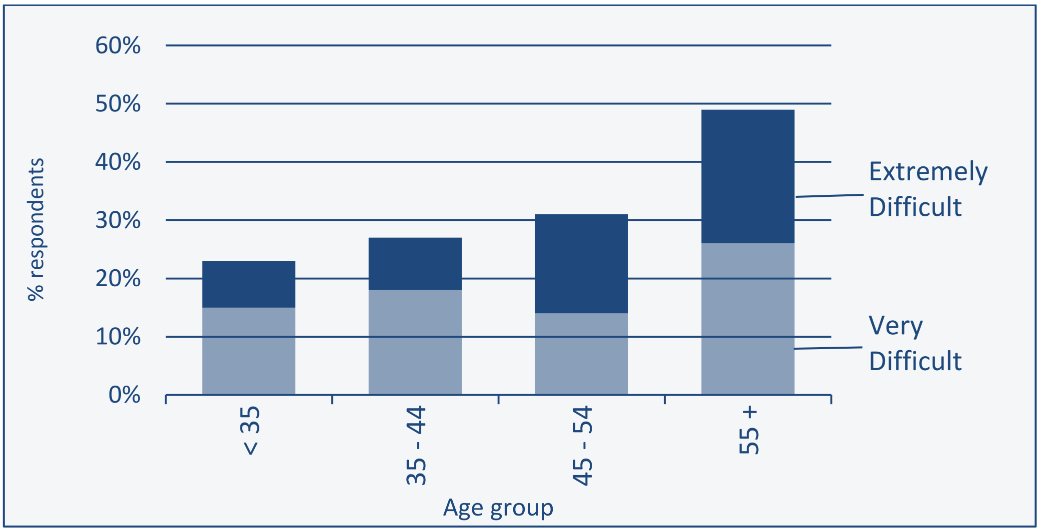
Of those who use cheques, one in seven people said that they write cheques at least weekly, with three in five writing cheques at least monthly. The main advantages of cheques cited in the survey are convenience (38%); to have a written record of payment (25%); because it is perceived as safer than cash (16%) and because they had no other option, such as to pay a tradesman (18%)[22].

Cheques are the preferred method of payment for 27% of those over 55, and 48% of those in the farming community[22]. Thirty eight per cent of all cheque users said that they would encounter difficulty if cheques were removed in their entirety, with the corresponding figure amongst over 55s being 49% (see figure 2.4). One in six cheque users (17%) described this difficulty as being 'extreme', which rose to 23% for respondents over the age of 55.

[22] National Consumer Agency (2012).
[23] National Consumer Agency (2012). These figures represent the percentage of consumers who cited the circumstances for which they typically use a cheque to pay for.

The research also found that a significant proportion, 56%, of cheque owners would use cash if the option of using cheques was removed (52%[24] would use debit cards). By contrast, 16% of users said that one of the main reasons for using cheques was "security, safer than cash".

Figure 2.4: Difficulty presented in event of removal of cheques by age profile



Source: National Consumer Agency Survey, 2012[25]

2.4 Demand for Mobile Payments

Many Irish people are increasingly at ease in the digital world. Eighty-one per cent of all Irish households in 2011 had access to a computer, and 78% had access to the internet. More than half of all individuals (55%) access the internet on a daily basis, with this rising to 77% for the 16-29 age-groups[26].

The trend of Irish consumers adopting Smartphones and tablet devices is also very strong, with an explosive growth in smartphone and tablet ownership over the past year. Almost half (49%) of all Irish households had a smartphone in November 2011, compared to 35% globally[27]. This growth is expected to intensify in 2012 with almost three in four people in Ireland expecting to have a smartphone by end of 2012, while two in five Irish households will have a tablet device[27]. The increased appetite for digital content has been facilitated by the improved availability and efficiency of broadband services[28].

[24] Multiple answers were allowed for the question in relation to alternatives in the event of cheques not being available.

[25] This was a national survey of 500 cheque users to explore their experience of and relative dependence upon cheques as a payment method. The survey was conducted in June 2012. The data from a nationally representative survey of the full adult population was used to weight the data from the cheque users' survey to ensure that it mirrors the appropriate national structure of those who use cheques in terms of sex, age, social class, region and area of residence.

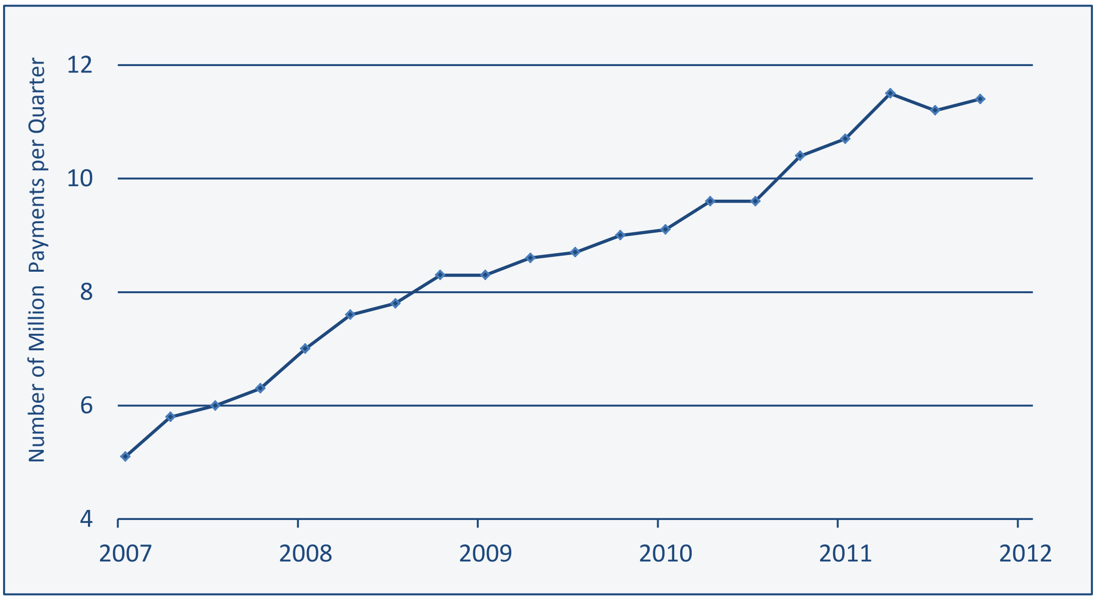
[26] CSO (2011)

[27] RedC Poll, November 2011.

[28] The take-up of broadband by Irish enterprises in January 2012 was 90%, slightly higher than the EU average of 87%, though take-up by Irish households (65%) lagged than in Europe (67%) (Source - European Commission, 2012). However Ireland is not performing as well with advanced broadband. According to Forfas (2011), the share of broadband lines in Ireland at 10 Mbps was 13% at the end of 2010; compared to 48% in Denmark and Sweden.

However some do not have internet access. The NCA research on cheques showed that 18% of cheque users do not have any internet access. This particularly applies to those for whom cheques are a preferred method of payment, where 32% of these users indicate that they have no internet access at all. Groups vulnerable to poverty (and therefore financial exclusion) are less likely to have access to, use of, or knowledge of, information and communication technologies. The Central Statistic Office's Information and Communication Technology (ICT) Household Survey found that in 2011, households where no one was working were twice as likely not to have a computer compared to households in general (40% vs. 19%). Similarly, households where no one was working were twice as likely to have no internet access compared to households in general (44% vs. 22%).

Figure 2.5: Payments made online, 2007-2011



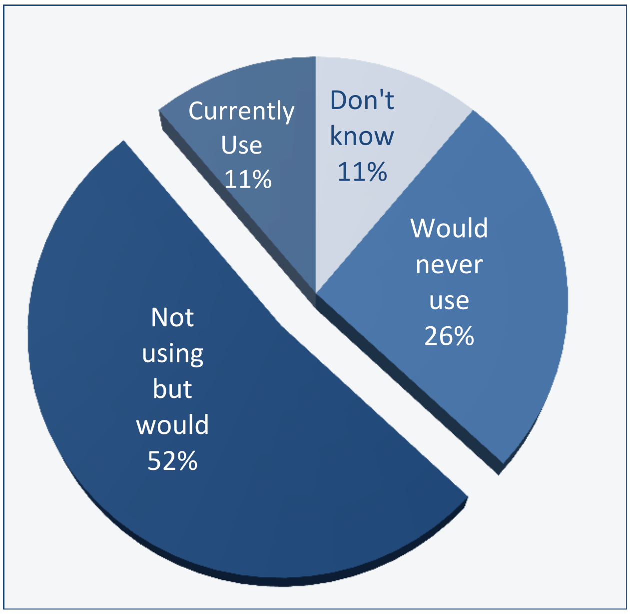
Source: Irish Bankers Federation

The demand for digital content is being seen in the way people access their bank accounts. More than three million customers[29] are now registered for online banking[30], representing a doubling of registrations in less than five years. The number of payments made online has also doubled in less than five years, and now tops 11 million per quarter. The latent demand for payments using the mobile phone is also clear. Eleven per cent of Irish smartphone users already use mobile payments, while a further 52% surveyed said that they would like to. Already a number of financial institutions in Ireland have successfully launched mobile banking applications (apps) for smartphones.

Building consumer trust is essential to get consumers to make mobile payments using smartphones[31] requiring providers to actively engage in efforts to develop a mobile payment environment that consumers perceive to be safe, reliable, and transparent. Furthermore, a mobile payment environment should be effectively governed and regulated in order to maintain high levels of consumers trust[31].

[29] This figure may include double counting of customers who have online accounts with more than one financial institution.
[30] IBF/IPSO (2012). Figures as of Q1 2012.
[31] Duane et al (2011)

Figure 2.6: Demand for mobile payments



Source: RedC Poll, 2011

2.5 Financial Exclusion

Sections of Irish society may find it difficult to make the transition to electronic forms of payment from the traditional paper-based methods such as cash or cheques. The two key issues here relate to financial exclusion and barriers to electronic payments.

For many, the problem is one of financial exclusion. Appropriate use of bank accounts can play a key role in enabling better access to affordable goods and services, and even employment[32]. One fifth (20%) of Irish households do not have a current account and low income has the biggest impact on being financially excluded[33]. For instance, 37% of those in the lowest income decile have no current account compared to 2% in the highest income decile.

There is also a strong relationship between labour market activity and financial exclusion. A third of those who are unemployed (34%) have no current account compared to only 9% of those in work. Households dependent on social welfare are also more likely to experience financial exclusion. For instance, 40% of households where social transfers represent over 75% of total disposable household income have no current account, compared to only 7% of households where social transfers represent less than 25% of total disposable household income. Other predictors of financial exclusion are local authority tenureship, low education levels, being ill/disabled, a private tenant or a lone parent.

Low income consumers (whether banked or unbanked) face a number of barriers in using electronic payments which remain a less attractive proposition than cash-based money management[34]. This is because a cash budget offers low income consumers control, certainty, flexibility and visibility as they can see their money and keep track of their spending on a daily and weekly basis. Conversely, low income consumers fear that if they use electronic payments they could end up spending too much, they are not able to earmark income and they cannot keep track of their finances. Lack of security and fear of fraud also

[32] MABS (2012), *Submission to the National Payments Plan.*
[33] CSO (2009).
[34] Corr (2011).

present a real barrier to moving away from cash. Low income consumers face particular barriers in relation to direct debits as they do not suit their weekly budgeting cycle, they fear losing control of their finances and direct debits offer little flexibility.

Low income consumers also fear going into debt or unauthorised overdraft as this could incur default charges. Similarly, debit cards can make low income money management difficult as it can be hard to keep track of what is spent, money cannot be earmarked, and often small amounts of money cannot be withdrawn from ATMs. Furthermore, using cash-back facilities requires something to be purchased, which may be an unnecessary extra expense, and there is sometimes a small charge on low-value debit card purchases.

As such, the transition to the use of a bank account for money management if not governed and promoted by an appropriate learning and development strategy could undermine previously successful cash-based money management strategies[35]. Any transition to e-Payments should be supported to ensure people can learn new budgeting and banking skills[36]. Further, there is a further risk that the move to e-Payments could lead to new areas of exclusion which need to be guarded against e.g. most elderly have bank accounts but may not use these new technologies.

In the course of the consultation exercise run as part of the NPP, several specific groups were identified whose specific needs require recognition:

- *Elderly:* There are groups of older people for whom changing to modern payment methods may tend to be difficult, impractical and/or problematic. This includes those who do not currently have a current account and for whom cash is their only form of payment method, those who do not have IT skills, those on very low incomes, and those with reduced mental capacity[37]. However there are many elderly who already use e-Payments, and would be very open to taking advantage of new technologies in this area[38];
- *Members of the Travelling Community:* Many Travellers on low income who have never operated a bank account will have extreme difficulty in managing a low income electronically;
- *People in Debt:* A concern was expressed is that if people in debt used electronic transaction methods rather than cash that all income they would receive or generate would be offset in the first instance against any overdue debts they may have[39];
- *People with low levels of financial awareness*: Such people may not understand how to budget and deal with their finances in a manner that will keep their debt to a minimum[39] ;
- *Rural Dwellers and people in outlying, peripheral urban areas:* People living in rural Ireland whose only financial transactions take place in shops, post offices and other services which do not currently cater for electronic transactions[39]. In addition the availability of appropriate and secure ICT infrastructure direct to the home, particularly in older properties and in rural locations, can be an issue;
- *People with low literacy and numeracy:* People with literacy and numeracy challenges may have difficulty or need support with reading terms and conditions and statements related to transactions and banking. Issues with numeracy may be more difficult with the absence of 'cash in hand', which is more tangible and 'see-able' than electronic money[39];
- *People with limited computer literacy and computer access*: Anybody who is not computer literate or without the appropriate equipment will find it very difficult to make a change. This would include older people, but also households without access to a home computer or smartphone[39];

[35] National Traveller Money Advice and Budgeting Service (2012), *Submission to the National Payments Plan.*
[36] One Family (2012), *Submission to the National Payments Plan.*
[37] Age Action (2012), *Submission to the National Payments Plan.*
[38] Continued research is needed on the habits of the elderly, given the likely increase in this cohort in the coming years.
[39] Society of St. Vincent de Paul (2012), *Submission to the National Payments Plan.*

- *Migrants*: Migrants and minority ethnic groups may face particular challenges with regard to lack of knowledge of the Irish financial services system, language issues, and religious issues regarding financial services.

NPP, in designing its communication and education strategy, should assist those currently excluded to be included, while also making sure not to exclude any consumers who are currently included. The specific needs of the groups mentioned above must also be considered.

2.6 A Vision for Consumer Payments

From the analysis and consultation conducted as part of the NPP, the following beliefs have guided the vision for consumer payments in Ireland, and for the strategies for delivering on that vision.

- Consumers and the wider economy would benefit from a greater take up of electronic alternatives;
- Consumers must be appropriately incentivised to choose electronic payment mechanisms;
- There is a large emerging appetite for mobile payments among consumers, an appetite which is not currently being met;
- Many groups – potentially including vulnerable groups - continue to depend on both cash and cheques, and may not be able to easily adapt to electronic alternatives;
- Wide-scale education and support of consumers will be necessary to drive any change in payments habits, particularly for vulnerable groups.

The NPP has the following vision for payments by consumers:

A Vision for Consumer Payments

Electronic forms of payment will be universally accepted, and be the preferred payment choice for many.

Irish consumers will have access to the most innovative payment methods.

Cash and cheques will remain available to those who wish to use them, and consumers will not be obliged to discontinue using them.

No section of Irish society will be financially excluded regarding payments.

Chapter 3: Modern Payments for Business

3.1 Introduction

Payments are the lifeblood of any business. All businesses must pay suppliers and staff. All businesses must ensure that customers can pay for the goods and services they provide. Businesses are continuously striving for maximum efficiency in every other area of their operations. Payments should be no different.

The efficiency of a business's payment system has significant implications for cost, customer satisfaction and security. The evidence suggests that while Ireland has efficient, cost-effective electronic payment services, not enough Irish businesses are taking full advantage of them.

In this chapter we look at how some businesses in Ireland make payments, examine the benefits to be derived from change and examine why Irish businesses have not fully embraced modern payment methods. Finally, we set out the basis for the recommendations laid out in the rest of the report, guided by the needs and challenges of Irish business today.

3.2 Small Business

While some Irish businesses continue to be heavy users of cheques, businesses in most other European countries no longer use them at all. Many larger Irish businesses have also stopped using cheques altogether. However cheque usage in the small business community is still widespread[40]. This dependence on cheques has fallen in recent years, though Ireland remains the second most intensive cheque user in Europe.

Why do businesses in other countries not use cheques? There are a number of reasons:

- *Cost:* Cheques are an expensive way to do business. The ECB have estimated a social cost of cheques of €3.86 per cheque in Europe, an estimate that doesn't even include the cost for consumers[41]. Using this cost estimate, cheque usage in Ireland in 2011 cost 0.24% of GNP. The Australian Central Bank has estimated an even higher societal cost of cheques of €5.93 (AUS$7.69)[42].
- *Cheques tend to be associated with the 'late payments' culture*: There is a strong correlation between the extent of cheque usage in a country and the time it takes for businesses to receive payment for invoices[43]. Even if a cheque is written on time, businesses usually have to wait a number of days to have access to their funds[44].
- *Cheques and cash do not facilitate online business*: Businesses are rapidly adapting to the changing world and conducting many transactions remotely. More and more commerce is now taking place in the electronic and mobile channels, and paper-based instruments like cash and cheques are simply not a viable option.

[40] NPP (2012)
[41] ECB (2012)
[42] Referenced in APCA (2012) '*The decline of cheques: Building a bridge to the digital economy*."
[43] National Irish Bank (2010)
[44] Cheques not only need to be transported to the drawer's bank, but more time will elapse before the beneficiary can be sure that the cheque will not be returned.

The response to the consultation exercise run by the NPP was clear. All respondents who expressed a view stated that a significant reduction in cheque usage was realistic. However, there are a number of reasons this hasn't happened in Ireland to date:

Challenge 1. *It's hard to swim against the tide*

In making or receiving payments, businesses are often led by customer or supplier preferences, particularly when these customers or suppliers are relatively powerful in the relationship. A business wanting to adopt an efficient form of payments will only be able to move at the same pace as its customers or suppliers. As a result, many businesses end up using multiple payment types to accommodate the demands of others[45].

Challenge 2. *Inertia and unfamiliarity is common*

Many small firms have established accounting practices, and feel no real impetus to change. Some businesses are uncomfortable with new technology, and do not understand the power of electronic alternatives to cheques. Sixty-one per cent of businesses agreed that a lack of knowledge of how EFT works acted as a barrier to increased usage in their business[46].

Education is key

According to a survey by IPSO in 2009, 60% of businesses surveyed feel that they do not know enough about EFT to switch more payments from cheques. When the flexibility features of EFT and cost savings are presented, over 50% of respondents are open to switching.

Challenge 3. *Belief that cheques give the business community better cash flow*

Many businesses state that a key benefit associated with cheques is the ability to time and control payments. The ritual of the cheque payment is factored in to the cash cycles of a number of businesses, and is believed to provide cash-flow flexibility. While it is true that a single business can temporarily protect its cash-flow by delaying a payment, there is no benefit from this act for the business community as a whole. One delayed cheque to protect cash-flow only creates a corresponding cash-flow problem for some other business.

3.3 Retailers

Retailers are at the forefront of everyday transactions within the community. Cash remains the single most important payment mechanism for many retailers. Sixty per cent of all consumer payments are in cash, with a particular focus on smaller value transactions[47]. Recent years have seen a large growth in the number of debit cards in Ireland. Despite this, the number of point-of-sale (POS) terminals per million inhabitants in Ireland is 17,900, well below the Northern European average.

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[45] A survey by the Irish Payments Services Organisation in 2009 showed that while 81% of businesses make some payments with cheques, a large majority also use EFT and direct debit.

[46] IPSO (2009)

[47] Historically, cash has been the most efficient payment mechanism for low-value transactions of approximately €10 or below, though the advent of contactless cards and/or mobile payments may well be bringing about a change in this, even as this report is prepared. People in Ireland are, however, still using cash for medium to high value payments, even though the social cost of debit cards is lower for these payments. Almost three-quarters of cash transactions are above this €10 threshold. Survey by *Marketing Partners* for the Central Bank of Ireland, interviews conducted in January 2011.

For small firms, the cost of accepting, processing and banking of cash is of significant concern, though many wrongly perceive cash as being 'free'. Security of cash is also a key concern for many small firms. In addition to theft, concerns also include the storage and transit of cash, and the safety of staff dealing with cash transactions.

Most consumers carry cards and have a growing expectation that they can use them whenever and wherever they shop. This is particularly true for larger cost items. For this reason card acceptance is critical for many retailers, though many retailers do not accept card payment for lower value transactions. A big concern of retailers regarding card acceptance is the charges that are incurred to accept card payments, which can act as a disincentive to accept such payments. In Ireland the main banks are currently migrating away from the Laser debit card scheme to VISA and MasterCard debit cards, which has resulted in a significant increase in interchange fees which has to be paid by merchants. See Text Box 3.1 for an overview of the types of charges merchants face for card acceptance.

The NPP raised this issue with the card issuers, the acquirers and the card schemes. These institutions, in response, pointed to the fact that the interchange fee for Laser cards remained unchanged since 1996, and that there has been considerable investment required to launch the new Visa and MasterCard debit products, which have significantly improved functionality.

A further issue of concern to retailers in any move to electronic payments is the benefit of having cash to protect working capital, in circumstances where credit availability is restricted. Further, the perception among many retailers is that they are captive to the card acquirer that is linked to their bank.

3.4 Service Providers

Retailers are not the only type of business that have to accept payments from customers. Many service providers such as tradespeople, accountants and doctors have to accept payments on a daily basis. For these businesses, the ability to accept payment from customers efficiently while providing a high level of customer choice is critical to running an effective business.

Cash or cheques are the only solution for some transactions currently, particularly tradespeople, as there is not always an effective electronic alternative in widespread usage in the Irish market. However tax avoidance can also be a motive for some businesses to use cash. There is a strong negative correlation between the prevalence of electronic payments in a country and the size of its shadow economy[48]. It has been estimated that the shadow economy represents 13% of Irish GDP, costing the Exchequer €6bn annually[49].

3.5 Exporting Firms

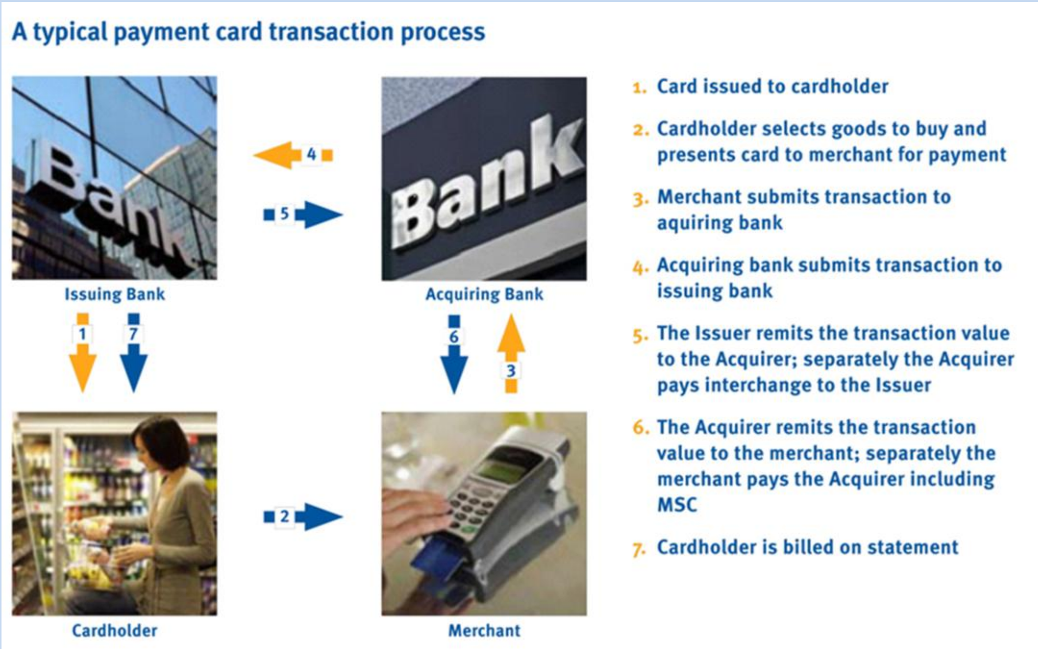
Globally, the payments marketplace offers opportunities to build and grow businesses – businesses that can be truly international from inception. From new face-to-face payment solutions powered by mobile phones to new concepts in online and social payments, the global payments market is eager and anticipating new solutions.

[48] According to AT Kearney and Schneider (2010), '*increasing electronic payments by 10% can lead to a decline in the size of the shadow economy by up to 5%.*'
[49] AT Kearney and Schneider (2011).

Text Box 3.1: Merchant card acceptance costs explained

Merchants in Ireland who wish to accept debit or credit cards as a form of payment have to pay a portion of the sale price of the goods or services being sold. Any merchant who wishes to accept card payments from its customers must in general go through a payment service provider called 'an acquirer'. The merchant typically rents the physical Point of Sale (POS) terminal from the acquirer, but may buy it from the acquirer or other supplier. The acquirer also completes all the post-sale processing.

The acquirer interacts with the various global and national card schemes (e.g. Visa, MasterCard, American Express and Laser) and can usually accept payments from any of the scheme branded cards. In turn, the card schemes have direct relationships with the main high-street banks which issue cards to their customers (called 'the issuing banks').



Source: Visa Europe

The total charge paid by merchants is called the merchant service charge (MSC). The cost to the merchant of accepting an additional card payment is made up of the following, in addition to a monthly minimum charge:

- *Interchange* – the fee the issuing bank gets for each transaction. In Ireland a fixed fee is applied per transaction for debit cards and a percentage fee for credit cards. In Ireland the main banks are currently migrating away from the Laser debit card scheme to VISA and MasterCard debit cards. The level of interchange can be set locally through bilateral agreements between the banks or be determined by the card scheme, both of which are subject to a maximum set in agreement with the European Commission. Interchange rates in Ireland for Visa and Mastercard debit cards are currently set by the schemes;
- *Scheme fee* – this covers the costs of the card schemes to process a payment;
- *Acquirers' margin* – this covers the costs of the acquiring firms.

Ireland is the home to many payment businesses. The country has experience, expertise and a track record of creating highly innovative payment companies[50] which have helped generate sales in 2010 of approximately €320m, exports of €185m and employment of over 1,500[51]. In addition, Ireland has attracted some of the world's largest global payments brands who make Ireland a critical part of their global strategic plans[52].

Many of the developments in payments technology are areas in which Ireland has strengths – cloud computing, mobile and NFC (Near Field Communication). Enterprise Ireland believes that exports from this sector of €270m are achievable among the indigenous base of companies alone by 2015. However to realise the full potential, the domestic payments environment must first be right.

3.6 Vision for Reform of Business Payments

From the analysis and consultation conducted as part of the NPP, the following beliefs have guided the vision for payments by Irish business and for the strategies for delivering on that vision:

- It often takes the leadership of Government or representative bodies to change behaviour in a coordinated manner, as firms acting individually cannot make all the changes that they would like to;
- Businesses will want to make sure that moving from cheques does not adversely affect their cash-flow;
- Merchants must offer customers a range of choices by which to make payments, and merchants should be able to provide these payment choices in a cost-effective manner;
- While some companies would prefer to discontinue cheque acceptance, they fear that their competitors would continue to accept cheques and gain a competitive advantage. A coordinated move away from cheques for business, led by Government, could help overcome this;
- Wide-scale education through banks, accountancy firms, business representative bodies and other key influencers will be necessary to drive any change in payments habits reform.

With these beliefs in mind, the NPP has set the following vision for business payments:

A Vision for Business Payments

Irish businesses will have access to efficient payment methods, and the knowledge and confidence to use them

Irish business will no longer use cheques for dealing with other businesses or Government

All Irish merchants will offer consumers electronic payment choices

.

Irish payment firms will be increasingly successful in winning export sales

[50] Examples include Fexco, Omnipay, CR2 and Realex.
[51] Enterprise Ireland (2012), *Submission to the National Payments Plan*.
[52] Examples include Paypal, Chase Paymentech, Mastercard, Elavon, Citigroup and JP Morgan Chase.

Chapter 4: Promoting e-Payments

4.1 Introduction

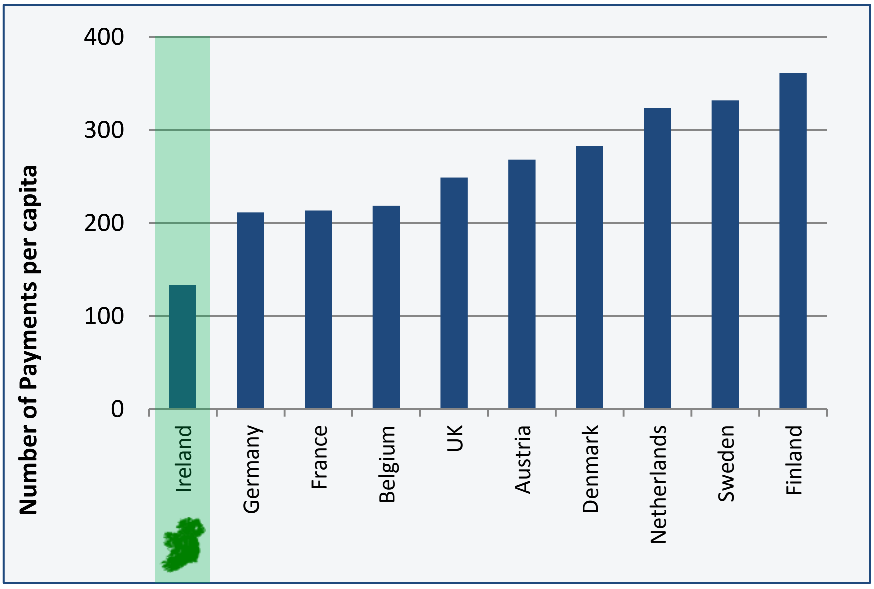
Ireland is a relatively low user of e-Payments compared to other Northern European countries[53], which is also reflected in our high usage of cash and cheques. Electronic forms of payment are generally more efficient, with savings of up to €1 billion possible if Ireland were to fully embrace them.

In this chapter we define what the term 'e-Payment' means, and discuss the principal forms of e-Payment that are currently in use in the Irish market. We will set out our vision of doubling e-Payments by 2015, and propose an action plan to achieve this vision.

4.2 The Irish e-Payments Landscape

There are a number of forms of e-Payments, with each having different levels of popularity in each country. The principal forms of e-Payment are by card (debit card, credit card or charge/pre-pay cards) and by Electronic Funds Transfer (electronic credit transfer or direct debit) - see Text Box 4.1 for a fuller discussion. People and businesses in Ireland make only 133 e-Payments per capita per annum, less than half of the Northern European average of 273.

Figure 4.1: Number of e-Payments per capita 2010 in Northern Europe



Source: European Central Bank

[53] Defined as Austria, Belgium, Denmark, Finland, France, Germany, Ireland, The Netherlands, Sweden and UK.

Text Box 4.1: What are e-Payments?

An e-Payment (or 'electronic-payment') is one in which monetary value is transferred electronically between two parties. Any payment that is not transacted by paper based instruments is considered an e-Payment transaction. There are a number of e-Payment instruments in wide-scale use in Ireland, and these are set out below:

Card Payment: A card payment is a payment made by a consumer for the purchase of a good or service using a debit or credit card. Ireland currently makes 75 card transactions per capita per annum, less than half the Northern European average of 154[5]:

- Debit Card: The debit card is a payment card that allows you to access money that is in your current account to pay for goods and services, and is usually combined with other functions such as ATM usage. Debit cards have now become the payment card of choice in Ireland, having overtaken credit cards in 2006. The 'Laser' debit card has been in widespread use for a decade, and until recently accounted for virtually all debit card payments in Ireland. The Laser card is now being replaced by Visa and MasterCard branded debit cards;
- Credit Card: A credit card is a payment card that allows you to buy products and services on credit. The bank that issues the card will collect payment at a later date. There are a number of different credit cards in the Irish market, including Visa and MasterCard;
- Charge Card: A charge card charges no interest but requires the user to pay his/her balance in full upon receipt of the statement, usually on a monthly basis. While it is similar to a credit card, the major benefit offered by a charge card is that it may offer higher, often unlimited, spending limits. Examples include Diners Club and American Express;
- Pre-paid Card: A card issued by a financial institution/retailer that can be preloaded with funds and is used like a normal payment card;
- Store Card: A store card is similar to a credit card, though goods can only be purchased from the store associated with the card.

Electronic Funds Transfer (EFT): The term 'Electronic Funds Transfer' captures a number of different ways of paying electronically. These payments are often initiated online through e-banking, though they can also be set up in a bank branch, by phone or by post:

- Electronic credit transfer: A electronic credit transfer is a way of sending money directly from your bank account to another using electronic means, the transfer being initiated by the sender. An electronic credit transfer could for example be a standing order for a monthly savings account or a once off payment to a friend or family member. Ireland currently makes 35 electronic credit transfers per capita, per annum. This compares to a northern European average of 105 annually;
- Direct Debits: A direct debit is a regular payment debited from a person's account that has previously authorised. The transaction is 'pulled' from the account by the company which provided the goods/service. Direct debits are typically used to make regular payments such as for insurance premiums, utility bills or mortgage repayments. Amounts can vary but users will always be notified in advance what the amount will be. Irish bank customers currently make 24 direct debits per capita, per annum. This compares to a northern European average of 67 annually.

4.3 Vision and Strategy for Promotion of e-Payments

The goal of the NPP is to double the volume of annual e-Payments per capita from 2011 to 2015, which will bring Ireland up to the current Northern European levels. Reaching this target will require both a significant increase in card usage, as well as an increase in electronic funds transfers[54]. Consumers and businesses in Ireland already have access to many e-Payment options, so to a great extent this migration is about changing existing behaviours. However, meeting the growing appetite for mobile and other innovative forms of payment will also have an important part to play.

NPP Goal for e-Payments

- *Ireland will double the number of e-Payments per capita by 2015, leading to a reduction in cash and cheque usage to the EU average.*

The core strategy elements are:

1. Electronic forms of payment should be universally accepted, and be the preferred payment choice for many;
2. Irish consumers and business should have access to the most innovative payment methods;
3. Consumers and merchants should be appropriately incentivised to use electronic forms of payment.

4.4 Recommendations

The NPP has identified a number of recommendations to promote e-Payments in Ireland.

Recommendation 4.1: Facilitate interoperability of mobile based payments	Medium term

Consumers in Ireland should have access to innovative payment methods to support choice and habit change. While existing forms of e-Payments such as debit cards are efficient for many transactions, they are often impractical for person-to-person payments or for use in many transactions involving small businesses. Many of these transactions are currently completed using cash and cheques, reflecting the lack of a practical e-Payment alternative.

In recent years the potential for mobile phone payments has become increasingly evident. Mobile phone payments can provide an innovative way to deal with personal and small business payments of small amounts of money where convenience is key, for instance by allowing people to be paid by simply quoting their mobile number. A further advantage of the use of mobile phones for payments is that recipients can get an 'instant' message to confirm the payment has been made. A number of banks in Ireland already provide smartphone apps which allow customers to do a range of banking and payment services via their mobile phones.

[54] A related initiative currently underway is e-Invoicing, the electronic transfer of invoicing information between business suppliers and buyers. While e-invoicing is not a payment service in itself, it is obviously very closely related to payments, particularly from a business perspective. In Ireland, a pilot project on e-Invoicing across a number of Government Departments and other public sector bodies is currently being run.

The development of a payment option using a mobile phone could potentially be a very attractive alternative for many payments currently made in cash or by cheque. The penetration of mobile phones in Ireland is over 100%, while almost half of the households in Ireland own a smartphone. For example, it will allow a householder to pay a plumber without the need for cash or cheque, allow friends to split a bill at a restaurant or a parent to easily transfer money to their child in college without the need to be in front of a computer.

It will be important that any mobile payment offering needs to be interoperable regardless of where a consumer may hold his or her account. This may or may not require the development of a specific infrastructure to achieve this. The NPP recommends that banks in Ireland facilitate the interoperability of a mobile phone-based payment option for consumers and business[55].

Recommendation 4.2: Introduce contactless debit cards — December 2013

As noted in chapter 3, the vast majority of low value transactions at the point of sale are still made with cash. This is mainly because of the time and cost to make card payments for low value transactions for both consumers and merchants.

Contactless payment technology provides a potential solution for payment for low value goods. This technology can be built into consumers' debit/credit cards to allow for payment for goods instantly by waving/tapping the card over/on the terminal. Consumers will have the same protection against fraud as with their normal debit/credit card. Enabling contactless technology provides not only the ability to pay by debit/credit card but in the near future to pay by smartphone.

The NPP recommends that contactless debit cards should be made available to bank customers in Ireland, and that consumers and merchants be incentivised to use them. Currently the two largest Irish banks are issuing debit cards with contactless capabilities to their customers and this rollout is expected to be completed by end 2013[56].

Recommendation 4.3: Develop public and private sector e-Payments acceptance plans — Sept 2013

The National Payment Plan aims to promote choice in the payments landscape and believes that electronic forms of payment should be universally accepted and that the consumers have the choice in the payment instrument they use to purchases goods and services. A key area in which a significant improvement in consumer choice could be realised is point of sale transactions by increasing acceptance of debit/credit cards.

The NPP will review e-Payments acceptance in Ireland by sector, identifying the public and private sector areas where acceptance is low. The NPP will work with industry representative bodies, regulators, merchant acquirers and consumer groups to develop acceptance plans for these sectors, with the objective of increasing e-Payment acceptance in the low acceptance areas. This could include, for example, the development of 'payment portals'[57], where currently the main options for payment are cash and cheques.

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[55] Any solution to achieve this will be a subject to a business case.

[56] The decision to provide payment cards with contactless technology will be made by each bank independently based on their own commercial considerations.

[57] An example of a payment portal is the *Payschool* online payment system in the UK (https://www.payschool.co.uk/), which lets parents make online payments by credit or debit card to their child's school. Online donations can be paid for ticket sales, school trips, tuition fees, school meals, school uniforms and music lessons.

Examples of areas where card acceptance may be low include[58]:

- Farmers markets/agriculture-related fees;
- Schools/educational;
- Sports clubs, associations and charities;
- General medical practitioners, dentists, veterinary practitioners;
- Local authorities, recycling centres, car parking.

Recommendation 4.4: Require taxis to take payment cards — 2014

It is intended by the National Transport Authority to actively promote payment of taxi fares by debit and credit cards and, by a date to be established in consultation with the taxi industry, to make it a requirement of dispatch operator licences that vehicles associated with dispatch operators must be able to operate a cashless payments system.

The NPP fully supports this initiative, and recommends that it is implemented within the lifetime of the NPP.

Recommendation 4.5: Introduce a Standard Bank Account — December 2013

Financial Exclusion is relatively high in Ireland. In 2008 the Europe-wide SILC[59] survey found that almost 20% of Irish households did not have access to a transaction bank account. This is problematic for those people as they are more likely to encounter difficulties accessing and/or using financial services or products in the mainstream market that are appropriate to their needs and that when accessed would enable them to lead a normal life in the society in which they belong.

Research in this area has identified that Financial Exclusion tends to be concentrated among the most disadvantaged groups and communities and there is a high correlation between low income and financial exclusion. An objective of the NPP is a move away from cash towards more efficient payment methods. Doing so without first ensuring that all members of society can and do access the electronic payments infrastructure of the State would likely lead to a situation where more vulnerable members of society become ever more marginalised.

In order to combat existing levels of Financial Exclusion the Minister for Finance convened the Financial Inclusion Working Group to implement in full the recommendations of a strategy to combat financial exclusion in Ireland. That strategy seeks to introduce a Standard Bank Account (SBA) defined as a transaction account which has been designed to meet the needs of the financially excluded. The SBA is a gateway device and can enable greater levels of financial inclusion.

The SBA is currently subject to a pilot project which is being run in the second half of 2012. The pilot will be reviewed in Q1 2013 to assess all aspects of the SBA including its specification, marketing and business model. It will then be rolled out nationally during the first half of 2013. This is a commitment under the terms of the European Commission's sign-off on the recapitalisation of banks in Ireland and as such must be complied with.

In order to ensure that the right product is developed and that rollout is informed by those best placed to advise on this subject, the Financial Inclusion Working Group has broad representation drawn from relevant stakeholders. Non-Governmental Organsations (NGOs) representing the interests of those most

[58] Elavon (2012) *Submission to the National Payments Plan*.
[59] Survey on Income and Living Conditions.

likely to suffer Financial Exclusion sit alongside the banks who are offering the product, statutory bodies tasked with assisting citizens and Government Departments are also represented. Organisations like An Post and the Credit Unions who have existing links to those who are currently financially excluded also sit on the group.

The banks that facilitated the pilot project[60] will offer the product nationally. This will ensure that there is widespread access and choice for users of the SBA. As the plans to modernise Credit Unions progress and more and more Credit Unions gain access to the clearing system it is likely that they also will offer SBAs when they gain the capacity to interact fully with the clearing system.

Having the SBA in place in advance or in tandem with moves to encourage the use of more efficient payment methods means that these strategies can complement each other, that no person is left behind and that on the contrary many members of society currently marginalised can feel that they are part of the modernisation of Ireland's payment landscape.

The NPP recommends that the SBA be made available nationally in 2013 following an evaluation of the pilot project, and that it be actively and positively promoted to those who are at greatest risk of financial exclusion.

Recommendation 4.6: Progress Social Welfare Payments Strategy — Medium Term

The modernisation of welfare payment methods is of pivotal importance within the NPP. It is critically important that social welfare recipients can participate fully in an increasingly electronic payments environment. The means through which the Department of Social Protection delivers welfare payments to customers has an influential role in wider payment modernisation across the State and the efficiency of the Irish payments environment. Half of all social welfare payments, with a total value of €9¾bn. per annum, are paid through the post office network in cash. Forty two per cent of social welfare payments are made electronically and represent nearly a quarter of all electronic credits in the Irish economy. Cheques account for almost all of the balance and represent an estimated 94% of all cheques issued by Government.

The Department of Social Protection is currently developing a payment strategy which envisages a payments environment that ultimately will be 100% electronic. This is in line with wider Government policies and objectives such as better public services, better and more effective e-Payments and is aligned to the objectives of the NPP. It is also consistent with parallel initiatives such as the potential introduction of a shared banking service to be used by all Government Departments/Offices and their Agencies.

Migrating to a fully electronic payment system will necessarily be a gradual process. Significant numbers of social welfare recipients do not have a bank account and therefore cannot currently accept payment electronically. The availability of a suitably designed Standard Bank Account which provides free transaction banking to people on low incomes is an essential pre-requisite to address this and thereby facilitate increased levels of electronic payment. The Standard Bank Account which is being introduced as part of the Bank Recapitalisation Programme will make transaction banking services available at no cost to people on low incomes and will lead to a reduction in the numbers of people without bank accounts. However, implementation of this account is still being piloted and it is anticipated that substantial numbers of people will remain unbanked for some time after the Standard Bank Account becomes available throughout the State.

In relation to paying social welfare entitlements in cash, the current contract with An Post expires at the end of 2013. In advance of the end of that contract, the Department will undertake two public procurement exercises for the delivery of welfare payments. These will be structured to enable bidders to

[60] permanent tsb, AIB and Bank of Ireland. Ulster Bank has expressed interest in having an SBA available through their network also.

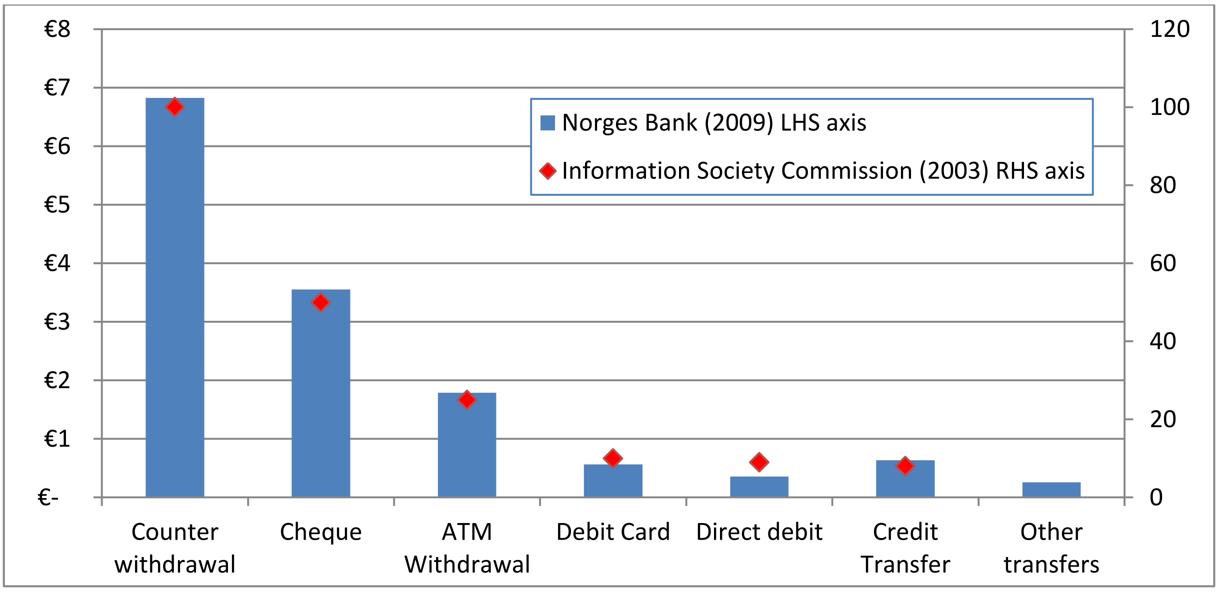
put forward cash and electronic payment methods and will provide for progression over time from cash to electronic payment methods. These developments will enable the Department to progressively move towards paying welfare entitlements through electronic means.

The NPP recognises that the modernisation of welfare payment methods is of pivotal importance for modernising the national payment landscape. The NPP recommends that the Department of Social Protection finalise their Payment Strategy and progress the objectives within the timelines defined in that strategy.

Recommendation 4.7: Incentivise the consumer to use e-Payments	Ongoing

The pricing of payment channels could be used to help promote optimal payment usage. Aligning the usage of payment instruments to reflect the social costs of providing those instruments is one mechanism to help achieve the objective of improving national competiveness. Figure 4.2 below gives some indication of the relative cost of providing services for a range of payment channels.

Figure 4.2: Social cost per transaction of payment channels



Source: Norway figures from Norges Bank (2009), except cheque figure which is from ECB (forthcoming). These figures relate to the societal cost of cheques. Information Society Commission (2003) reports relative values, with the cost of counter withdrawal set at 100. These latter figures relate only to the private costs of banks.

The following are some examples of the role price could play:

- The cost to the consumer of debit card transactions could reflect the lower relative social cost of provision of these services when compared to ATM or branch withdrawals;
- The cost to the consumer of electronic transfers could reflect the lower relative social cost of provision when compared to the cost of cheques;
- The cost to the consumer of contactless debit card transactions could be set to encourage take up having regard to the lower value of such transactions, and the possible catalyst role of contactless cards in promoting electronic payments more widely;

In addition to price, non-price factors that could help achieve migration to more efficient channels/payment instruments include the quality of the product and the level and quality of consumer education. The new VISA and MasterCard debit cards, which are replacing Laser card scheme, will embody a number of features that will be attractive to consumers. They will have increased security and convenience; they will have wider global acceptability, including on the internet; and many of the cards will offer the convenience of the contactless functionality. Retailers also have an important role, for example by providing card-only lanes in shops, and establishing merchandising and advertising programmes designed to promote card usage.

The goal of the NPP is to significantly increase the use of e-Payments, and for this, consumers need to be appropriately incentivised. These incentives can be related to price or non-price factors. The NPP recommends the adoption of appropriate pricing structures by financial institutions and others so as to incentivise customers' use of payment channels to reflect the relative cost of provision, and that the cost to the consumer of contactless transactions should be set at a level sufficiently low to reflect the low value of these transactions.

The NPP also acknowledges that the same objectives could be achieved by financial institutions using various combinations of price and non-price factors, reflecting the competitive nature of the market. Under legislation, the Central Bank must take into account the impact on customers when approving any bank charges.

Recommendation 4.8: Incentivise the merchant to accept card payments **Ongoing**

Some businesses are at the forefront of everyday transactions, whether in a shop, a Post Office, or in a taxi. For these businesses, the ability to accept a payment from customers efficiently while providing a high level of customer choice in payments is critical. Despite the growth in the holding of debit cards, Ireland is still lagging behind its peers in terms of offering this choice to consumers.

The achievement of the objectives of the NPP depends on merchants being willing to offer consumers a range of payment options. It is therefore desirable that merchants are incentivised to accept payment cards, even for low value transactions.

The increased use of debit cards has a number of advantages from the merchant's point of view, such as the displacement of the costs associated with the processing of cash and cheques and improved security. However there are a number of concerns from merchants regarding card acceptance:

1. Card acceptance costs;
2. Slow speed of terminals;
3. Terminal breakdown and lack of speedy repair;
4. Expense of integrated point of sale solutions;
5. Availability of remote solutions for businesses not working from a fixed premises.

The costs merchants are charged every time they accept a card payment is the single biggest concern merchants have for card acceptance. The NPP notes that charges to merchants for acceptance of debit card transactions could rise significantly with the displacement of the Laser scheme by Visa and MasterCard debit cards. The NPP also notes that, even under the existing charging structure, many merchants do not currently accept debit cards for low value transactions.

Clearly, the objectives of the NPP would be better served if the advantages of debit cards noted above were reinforced by price incentives aimed at increasing card acceptance by merchants. Despite the improved features of the new cards, there is a risk that an increase in merchant service charge fees will not provide incentive to merchants to facilitate a substantial increase in card usage.

The NPP recommends that the impact of Merchant Service Charges on the acceptance of debit cards be kept under review. As part of the review of the impact of Merchant Service Charges on card acceptance the experience of other countries should be considered. Moreover, the NPP is of the view that merchants should have a clear price incentive to accept contactless cards for low value transactions. This argues for a significantly reduced interchange fee for contactless transactions.

Recommendation 4.9: Phase out stamp duty on debit and prepaid cards	Phased

The NPP believes that the cost to consumers and business of electronic transfer versus cheques should reflect the relative cost of provision. This cost includes both the bank charges that are levied per transaction, as well as any stamp duty that may also apply. Debit/ATM cards are currently subject to a duty of €5 per annum. The NPP recommends the reform of stamp duty to ensure that more effective, efficient e-Payments such as debit cards are not discouraged.

In this context, the NPP recommends that the current stamp duty on debit and pre-paid cards should be phased out.

Chapter 5: Cheque Reduction

5.1 Introduction

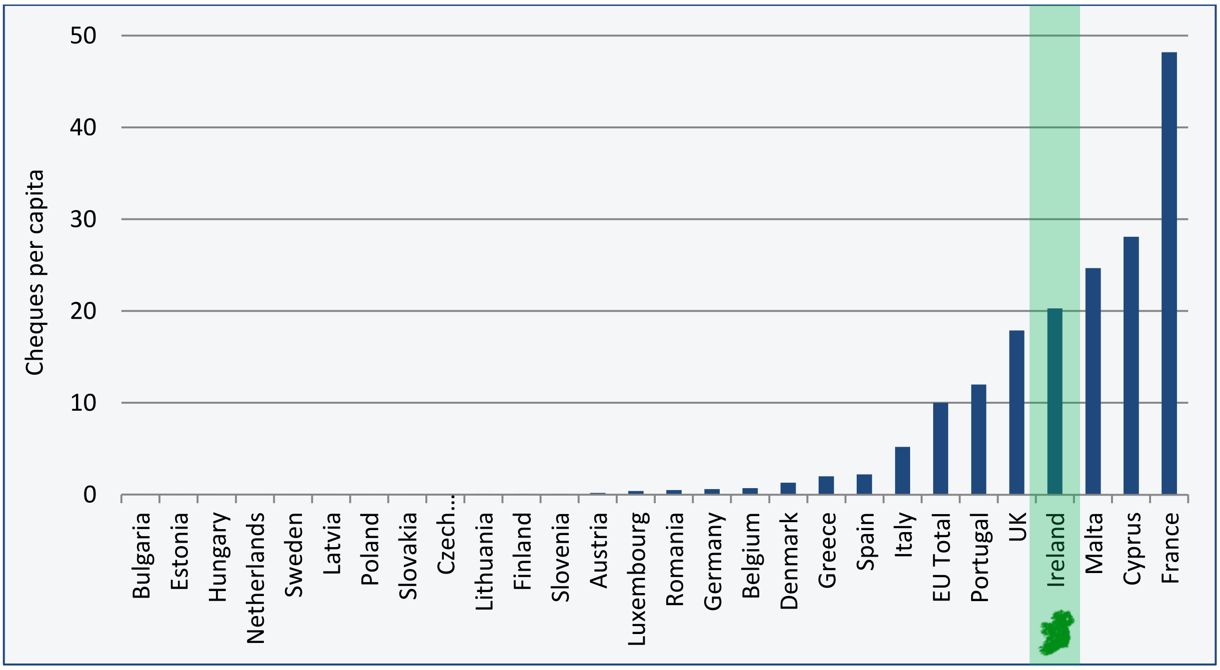
Ireland is one of the few remaining EU member states that still use cheques on a regular basis. As outlined earlier, cheques are an expensive and inefficient method of payment compared to modern electronic alternatives.

In this chapter we look at the extent of cheque usage in Ireland, and how this is gradually declining. We set out our strategy - to reduce cheque usage in Ireland to average EU levels – by tackling business cheque usage in particular, but recognising the continued importance of cheques for many vulnerable members of the community. Finally, we set out an action plan to achieve this vision.

5.2 Cheque Usage in Ireland

Cheque usage in Ireland has been declining steadily in recent years. Nonetheless, of the major European countries, only France uses more cheques annually per capita than Ireland (see Figure 5.1). Consumers and small business account for the vast majority of cheques in Ireland, accounting for 97% of cheques either written or received[61]. Two out of every three cheques used in Ireland are issued by consumers/SMEs and payable to consumers/SMEs.

Figure 5.1: EU cheque usage per capita 2010



Source: European Central Bank

[61]NPP (2012)

Table 5.1: The use of cheques in Ireland

As Issuer	%
Consumer	36%
SME	42%
Large business / corporate	4%
Public Sector	8%
Financial Institutions	4%
Unincorporated Bodies	3%
Bank Drafts	3%

As Receiver	%
Consumer	39%
SME	43%
Large business / corporate	8%
Utilities	2%
Schools and colleges	1%
Public Sector	3%
Unincorporated Bodies	4%

Source: NPP Cheque Survey, 2012

2011 was the sixth successive year in which cheque numbers have fallen in Ireland, dropping from a peak of over 131 million cheques in 2005 to 84 million in 2011[62]. The average rate of decline is around 7% per annum from 2005 to 2011, but this has averaged over 10% for the last three years.

In the preparation of the NPP, research was conducted to establish both precisely who writes and receives cheques, and what factors drive this usage. This in turn has informed the strategy adopted to deliver the objectives of the NPP. As reported in Chapters Two and Three, the continued use of cheques by consumers and SMEs is due to a number factors:

- *Consumers*: Consumers in Ireland are regular cheque users, accounting for 36% of all cheques written annually and receiving 39% of all cheques. Three in ten Irish people own a cheque book, with a particularly high prevalence among the elderly and the farming community. The vast majority of cheques written by consumers represented payments to small businesses (45%) and to other consumers (34%). Wide scale education will be necessary to help consumers to change;
- *Business:* Firms acting alone cannot always make the changes that they would like to, as their payment practices may be determined by customer or supplier preferences. Some businesses are uncomfortable with new technology, and do not understand the advantages of electronic alternatives to cheques. Intensive education will be necessary to help these firms change.

[62] ECB (2012).

5.3 Strategy for Cheque Reduction

The goal of the NPP is to reduce cheque usage in Ireland to average EU levels by 2015. This equates to a reduction of approximately two thirds from current levels. It is not a goal of the NPP to eliminate cheques altogether, as it is recognised that there are particular constituencies for whom cheque usage is, and will remain, an important method of payment. While a goal of the NPP is to ensure that all payment users are able to access the benefits of electronic alternatives to cheques, it is also important that robust systems remain in place for processing those cheques.

NPP Goal for cheques

- *The goal of the NPP is to reduce cheque usage in Ireland to EU levels by 2015, equivalent to a reduction of approximately 66%.*

The core strategy for cheque reduction revolves around migration to electronic alternatives. In most cases this will mean a greater use of electronic funds transfer (EFT), but card payments and direct debits are also practical alternatives in many scenarios. Ireland already has access to the same electronic channels as in other EU member states, so to a great extent this migration will be about changing behaviours rather than introducing new technologies. The key will be to ensure that all users are both enabled and motivated to change their behaviours.

The core strategy elements are:

1. Ensure that all users have access to electronic alternatives, and are enabled and incentivised to use them;
2. Public and business sector leadership will be used as a catalyst to promote migration;
3. Ensure that vulnerable groups and sectors will not be obliged to discontinue using cheques;
4. Fully support the migration programme with extensive communications and education.

5.4 Action Plan

The NPP has identified a number of actions required to deliver on its vision. These are complementary to the measures to promote e-Payments in Chapter 4, which are expected to drive a significant reduction in cheque usage.

Recommendation 5.1: End date for cheque usage between Government[63] and business

A step-change reduction in cheque usage in Ireland will require public and private sector leadership. It is also more efficient to change payments behaviour at a pre-announced time, with ample time given to communicate the change. This is consistent with the Report of the Advisory Group for Small Business (AGSB) –'*The Voice of Small– A Plan for Action*'- which recommended the mandated introduction of e-Payments by all Government and State Agencies.

The NPP recommends the initiation of an 'e-Day' in 2014 at which time the public sector will no longer write or accept cheques to/from business users. The particular focus of the 'e-Day' will be to encourage SMEs to migrate from cheque usage, as they are either issuers or receivers of 60%+ of all cheques in

[63] To cover central Government, local authorities and State agencies.

Ireland[64]. An 'e-Day' will provide a catalyst for a broader migration in the private sector. This 'e-Day' will not directly affect consumer use of cheques, as the public sector will only discontinue writing/accepting cheques to/from businesses, not consumers.

The announcement of an 'e-Day' should take place at least twelve months in advance to allow for communication of the changes and for the actions Government, utilities and business have to take in response. Communication of the 'e-Day' will be critical to its success and should encompass:

- The creation of an oversight board containing SME representative groups, banks, utilities, public sector bodies and consumer representative groups. This board should help inform the implementation strategy for the e-Day, input to the communications programme and identify measures to protect vulnerable individuals and groups;
- National cheque information campaign across a variety of channels – web, factsheets, representative organisations and partners;
- Promote the benefits of e-Payments, and highlight the alternatives to cheques[65].

Recommendation 5.2: Implement bank cheque migration initiatives **On-going**

The following list of initiatives has been developed to encourage the adoption of electronic alternatives to cheques[66]. The majority of banks, or in most cases all banks, have agreed to implement these. However, inclusion in the list does not imply an obligation on the banking sector as a whole to implement them. Implementation of these listed actions is ultimately a competitive matter, and is to be decided by each individual bank independently.

1. All ATM cards updated to debit cards;
2. Limit channels in which a cheque book can be ordered;
3. Cheque book not issued as standard with current account;
4. Stop taking over-the-counter bill payments going to partner banks;
5. Review locations where customers can conduct paper transactions;
6. Migrate credit card payments to ATMs and online banking;
7. Enhance the functionality of the online banking offering;
8. Branches to actively promote Direct Debits to personal and business customers;
9. On-going educational campaigns to inform customers of the benefits of electronic banking and alternatives to using cheques;
10. Customer meetings to focus on how the customer can bank more efficiently[67];
11. Specifically target high cheque issuers (e.g. top 100 per region) who have not registered for online banking[67];
12. Cultivate customer awareness of the price differentials between paper payments and electronic payments.

[64] NPP (2012)

[65] For example, in 2012 the National Procurement Service will also put in place a low value purchase card system for use by the public sector

[66] All five major retail banks in Ireland completed the NPP Banks' 'NPP Cheque Initiatives – Responses' document, which were returned to IPSO on a confidential basis..

[67] Items 10 and 11 above are primarily focused on business customers, with a view to informing and persuading them of the benefits of electronic alternatives to cheque payments.

Recommendation 5.3: Re-presentation of unpaid cheques to be stopped	February 2014

One of the problems of consumers and businesses regarding cheques is when payment is refused because of insufficient funds in the payers account. This greatly increases the risk and uncertainty for the payee, adds considerably to the processing cost for cheques and encourages a habit of late payment.

The NPP recommends that the IPCC (The Irish Paper Clearing Company) rules are amended to prevent the re-presentation of unpaid cheques. To help ensure that this is complied with, the rules should also be changed to allow for the return of an image rather than original cheque, in the event of it being unpaid[68]. The purpose of this will be to give greater (and quicker) certainty to payees, to highlight the potential risks of cheque usage to both parties and encourage the use of electronic alternatives that do not have such deficiencies.

Recommendation 5.4: Modernise 'Client Account' payments practices	February 2014

The manual 'picking' of cheques from the millions that are processed annually to allow solicitors to comply with Regulation 20(f) of the Solicitors Accountants Regulations 2001[69] is a very labour-intensive, cumbersome and expensive process for both solicitors and banks.

The NPP recommends that the Law Society works with each bank to agree an alternative payment method for client payments other than cheques. Where cheques continue to be used the NPP also recommends that the Law Society work with the Irish Paper Clearing Company (IPCC) to allow image of cheques to be acceptable rather than the original for each solicitor's accounting records[68].

[68] To complement this, it may be optimal to amend legislation to allow an image of a cheque to become the legal equivalent of the original cheque and accepted instead of the original as evidence in a court case or other legal proceedings as is the situation in other jurisdictions.

[69] S.I. No. 421/2001

Chapter 6: Cash Efficiency

6.1 Introduction

Cash is still the predominant form of payment and remains important despite the increase in other forms of cashless payment methods in recent years. Three out of five of all consumer payments are made in cash[70].

Cash will continue to play an important role in the payment system in Ireland in the medium to long term, though there will likely be a decline in cash demand – Ireland will not be a cashless society, but it will be a less-cash society. The public will continue to expect adequate supplies of the right denominations of cash to be readily available, in a manner and location that is convenient.

In this chapter we look at the cash cycle in Ireland, and how it can be made more efficient while also better serving the needs of ordinary consumers and businesses.

6.2 Ireland's Cash Usage

In Ireland, we are very intensive users of cash. Three out of five of all consumer payments are made in cash. People in Ireland withdraw almost twice the EU average from ATMs every year. One of the central goals of the NPP is to double electronic payments in Ireland by 2015, resulting in a reduction in cash usage to the EU average. Even if this target is met, optimising cash distribution should be an important element of improving Ireland's national competitiveness.

Cash plays a critical role in providing a modern economy with an efficient, effective and resilient payments system. A smooth and efficient operation of payment systems requires a mix of instruments with different characteristics and merits, and cash is one of them. This protects the best interests of all consumers, though particularly those who find making the transition to electronic forms of payment difficult.

Cash remains the most widely used payment method for transactions of approximately €10 or below[71]. Further, it currently remains one of the only payment options in a number of circumstances, for example in many person-to-person payments such as a wedding gift.

In addition, cash remains a very important fall back option in times of crisis or disaster when card payments are not always possible. This was shown as recently as July 2012 when there was disruption to the operation of the Irish banking system, when many account holders had to be given access to their funds through cash. Cash is also useful as a payment of last resort at a time of natural disaster, as evidenced by the recent earthquakes in New Zealand and Japan, and the floods in Thailand.

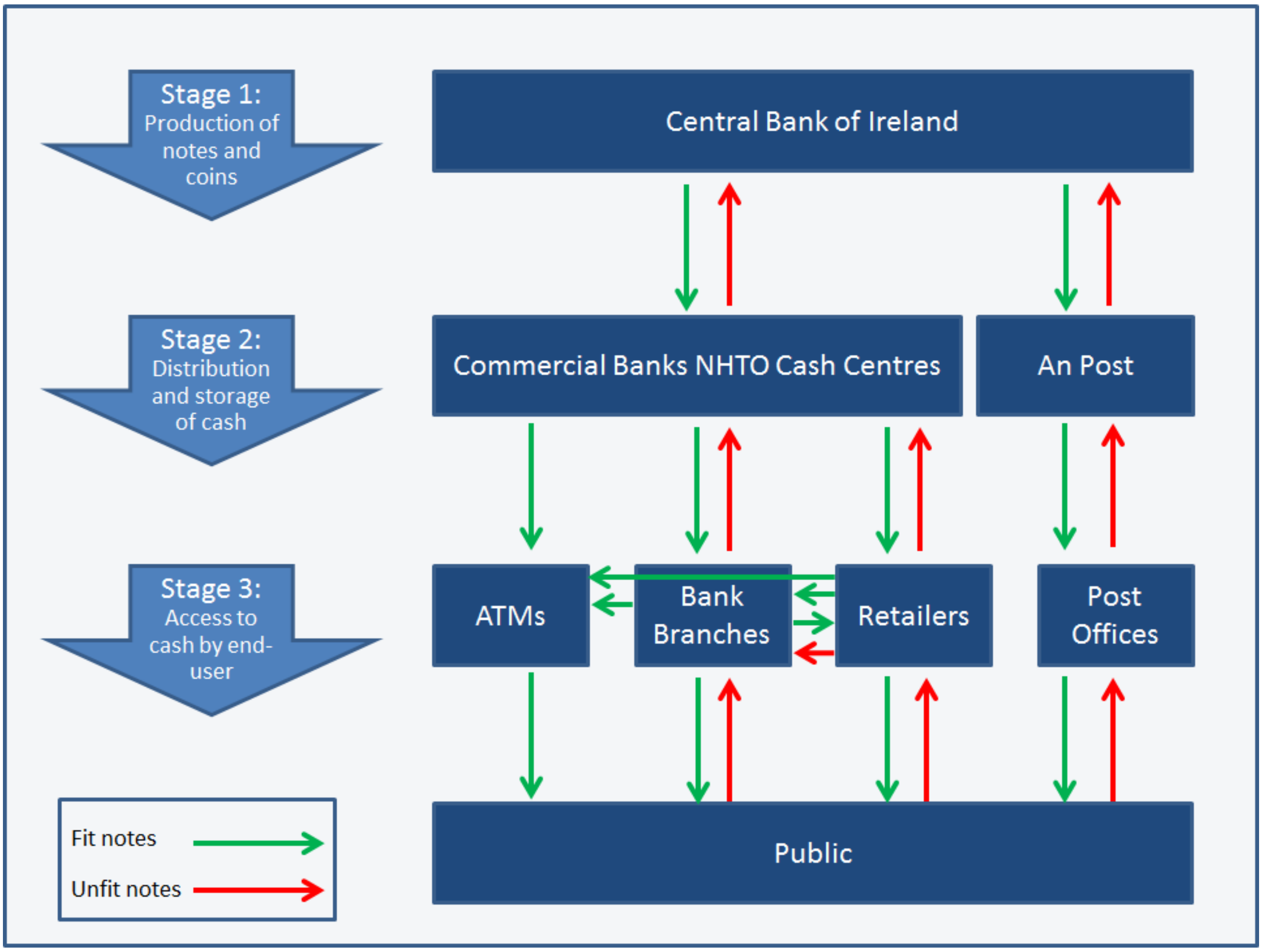
6.3 The Irish Cash Cycle

Figure 6.1 outlines the cash cycle in Ireland, that is, the flow of cash from the Central Bank to the end user (i.e. the public), and its return to the Central Bank. The Irish cash cycle is characterised by three principal stages.

[70] Survey by Marketing Partners for the Central Bank of Ireland, interviews conducted in January 2011.
[71] The advent of contactless cards and/or mobile payments may reduce this level in the coming years

- *Stage 1:* The cash cycle begins with the Central Bank of Ireland where banknotes and coin are produced and distributed. There are seven denominations of euro banknotes, €500, €200, €100, €50, €20, €10 and €5, while the euro coin series comprises eight different denominations: 1, 2, 5, 10, 20 and 50 cent, €1 and €2. The Central Bank acts as an agent of the Minister of Finance in the production and in the issuing of euro coins.
- *Stage 2:* This cash is then distributed from the Central Bank, and stored and processed. In Ireland the Central Bank does not have a branch network but instead operates a Notes Held to Order ("NHTO") scheme, first established in the 1970's. A number of cash centres operated by three of the largest commercial banks hold notes on behalf of the Central Bank. The Post Office network is another important channel for distribution of cash.
- *Stage 3:* The notes and coins are then made available to end users. Approximately six out of ten of all notes in circulation are sourced from ATMs, three out of ten through the Post Office network, with the remainder through bank branches and through cash-back in retailers.

Figure 6.1: An overview of the Irish Cash Cycle[72]



Source: NPP

[72] The Banknote Recycling Framework has required the commercial banks and professional cash handlers to undertake processing before recirculation or return all banknotes to the Central Bank and withdraw unfit banknotes.

6.4 Strategy for Cash Efficiency

The goal of the NPP is to make the Irish cash cycle as efficient as possible while also better serving the needs of consumers and businesses. In our view, there is significant potential for improvement of the efficiency or effectiveness of the cash cycle at each of the stages identified above.

NPP Objective

- *The goal of the NPP is to reduce cash usage in Ireland to EU levels by 2015, and that the Irish Cash Cycle should be made as efficient as possible while also serving the needs of consumers and businesses.*

The core strategy for cash efficiency will ensure that the notes and coins being produced are the ones that consumers and businesses need, and that these are provided in as efficient and effective a manner as possible. The core strategy elements are:

1. Ensure that the cash cycle is efficient, subject to other requirements such as security.
2. Ensure that the denomination of notes and coins in circulation meet the needs of a modern economy;

6.5 Action Plan

The NPP has identified a number of actions required to deliver on its vision.

Recommendation 6.1: Prepare a review of the Irish Cash Cycle — September 2013

It is believed that there are a number of ways that the cash cycle could be improved to make it more efficient, without compromising security. The NPP has established a National Cash Forum which will develop a Review of the Cash Cycle to be completed by September 2013, covering the following:

- *Consolidation of Cash Centres:* Arising from improvements in the road infrastructure in recent years and developments in cash recycling the number of and location of the NHTO cash centres should be reviewed. The operation of seven NHTO cash centres nationally results in a duplication of resources, unnecessary processing and increased transports. The review also provides an opportunity to consider the rationalisation and consolidation of cash processing activities. A smaller number of commercial cash centres could potentially create economies of scale, enhance security and result in a significant reduction in banknote processing costs;
- *Cash Transport:* The Gardaí oversee all security aspects of the cash cycle and escort large transportations of bulk cash from the Central Bank. An arrangement is in place whereby the Gardaí and the commercial banks oversee and agree the security arrangements of the majority of bulk transports of cash in Ireland. This arrangement has remained virtually unchanged since the 1970s, a time when the threat of paramilitary attacks was prominent;
- *Efficient provision of ATM services*: There are currently approximately 3,192 ATMs in the state[73], dispensing cash nationwide to bank customers. The aggregate amount of cash dispensed from ATMs in Ireland has decreased from €28.7bn in 2008 to €21bn in 2011, during which time the number of ATMs has also decreased from 3,404 to 3,192. This network is changing given the need for banks to adjust to changing customer demand for cash, to reduce costs, while assuring coverage

[73] As of end-December 2011.

on a nationwide basis. The NPP wishes to explore how the existing ATM network in the State could be developed with reference to putting in place the most efficient operational infrastructure for all concerned. A study has been initiated under the auspices of IPSO to investigate how best to achieve this.[74]

Recommendation 6.2: Increase dispensing of €10 notes in ATMs **Phased**

Currently 98% of notes dispensed by ATMs are in denominations of €50 or €20. In most European countries both €5 and €10 are dispensed from ATMs, as are £5 and £10 notes in the UK. The reason for the dependence on €20 and €50 is that it lowers the cost of servicing ATMs for banks.

There are a number of motives to change:

- *Standard Bank Account*[75]: From 2013, the availability of the Standard Bank Account and a possible increase in the volume of social welfare payments paid electronically may result initially in lower income families seeking to withdraw a portion of this money in the form of cash from an ATM. Lower income families often make small value withdrawals and prefer lower denomination notes, which should be made available via ATMs.
- *Quality of Banknote*: The quality of banknote circulation in Ireland is comparatively poor when measured against other euro area countries with 50% of the banknotes in circulation in Ireland being returned to the Central Bank to be replaced on an annual basis. Due to high lodgement costs, retailers tend to only lodge large denominations with the commercial banks thereby retaining low denominations (€5 and €10) for longer than is desirable, and in effect returning the banknotes to the commercial banks when they are in very poor quality. Increasing the volume of lower denomination notes from ATMs can increase the overall volume of such notes in circulation, thereby resulting in an increase in quality.
- *Transaction purposes*: Cash is currently the most popular payment type for low value transactions. In a Central Bank survey, respondents reported 86% of cash transactions were valued at under €50, 40% were under €20 and 28% were under €10. Currently retailers have to take-in large volumes of €50 notes, and retain low denominations (€5 and €10) for longer than is desirable. The greater access to low denomination notes would better meet the needs of consumers making low value transactions.

The NPP recommends that a minimum of 4% of all notes (by volume) distributed from non-retailer ATMs[76] by each financial institution to be €10 notes from Q3 2013; and 5% of all notes (by volume) distributed by non-retailer ATMs by each financial institution to be €10 notes from Q3 2014. The NPP recommends that the Central Bank of Ireland establishes a reporting mechanism to ensure that these targets are met.

[74] This study will cover the operation of the ATM network, and will not cover other sources of cash such as the use of the cash back facility at the point of sale from debit cards.

[75] A Standard Bank Account is a transaction account which has been designed to meet the needs of the financially excluded.

[76] These targets are based on dispensing from branch and offsite ATMs only, and no target will be set for retailer ATMs. The composition of notes in these retailer ATMs is assumed to reflect, by and large, the notes that the retailer receives from trading, which cannot be easily influenced by the banks.

Recommendation 6.3: Pilot of discontinuing use of 1c/2c coins December 2013

Inflation has caused the purchasing power of 1c and 2c coins to diminish by over 20 per cent since their introduction[77]. These coins are of little value individually, with essentially no goods or services priced at this level. Therefore, their primary function in the payments system is to make change for larger transactions and facilitate the exact settlement of debts.

The evidence suggests that 1c and 2c coins are not used actively by consumers and are expensive to mint. The large quantity of 1c coins issued annually, relative to existing stock, suggests that many of these coins are not actively circulated throughout the economy, but hoarded by consumers who do not like using them for transactional purposes. Focus group analysis suggests a strong desire on the part of both consumers and business in Ireland to discontinue the use of 1c/2c coins[78]. Further, the production costs of 1c coins exceed their face value (unit cost of 1.65c), with the production costs of 2c coins being only slightly lower than their face value (unit cost of 1.94c).

The European Commission is initiating an impact assessment on the continued issuance of 1- and 2-euro cent coins in the entire euro area[79]. In many countries globally, including in the Netherlands and Finland in the euro area, low denomination coins have effectively been removed from circulation through the use of a so-called 'rounding' rule whereby goods and services are still priced in multiples of 1c and 2c, though are rounded up or down at the till. In these countries 1c and 2c coins are still legal tender and continue to be minted in small quantities, though in practice they are no longer used in daily life.

The experience from countries who have introduced such measures suggests that rounding of the final transaction total, rather than individual prices, curtails any inflationary effects. In the case of 1c and 2c coins, this operates as follows:

- Prices are rounded down to the nearest multiple of 5c for sales ending in 1c, 2c, 6c, 7c;
- Prices are rounded up to the nearest multiple of 5c for sales ending in 3c, 4c, 8c, 9c;
- Values ending in 0c or 5c remain unchanged.

For example, a bill of €56.21 is rounded down to €56.20, while a bill of €56.23 is rounded up to €56.25.

The NPP believe that a pilot should be run in a mid-sized Irish town to investigate consumer and merchant reaction to the use of a rounding rule in Ireland. Participation in the pilot will be entirely voluntary on the part of both the retailer and the consumer. No recommendation will be made whether to apply this nationally until the outcome of the pilot is known.

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[77] Central Bank of Ireland (2012)

[78] A series of six consumer and six business focus groups were run in August 2012 by the Central Bank of Ireland, and covered *inter alia* the use of 1c/2c coins.

[79] This followed discussions between the European Commission, the ECB and the European Parliament, and formally was at the request of the European Parliament.

Chapter 7: SEPA

7.1 Introduction

People travelling from one euro area country to another can easily pay for goods and services in cash using the single currency. However, making cross-border payments within the euro area by other means[80] has historically been more difficult, due to technical, legal and market barriers that remain from the period prior to the introduction of the euro.

The Single Euro Payments Area initiative (SEPA) has overcome these barriers and created a platform for a single market for euro-denominated retail payments. SEPA allows payment systems users to make cashless, euro-denominated payments to payees located anywhere in the EU and EEA, using a single payment account and a single set of payment instruments. The final step in the SEPA process is to close the various domestic payment schemes and migrate to the SEPA equivalents.

This chapter gives an overview of SEPA, its implications for banks and payment system users and the steps Ireland is taking to complete SEPA migration by the 1 February 2014 deadline.

7.2 The Background to SEPA

The objective of the single market concept is to facilitate the free movement of people, goods, services and capital throughout the EU. On a practical level, it means that all EU citizens can live, work, study and do business throughout the EU, as well as enjoying competitively-priced goods and services. Since its inception in 1993, the single market has opened up economic and working opportunities that have transformed the lives of hundreds of millions of Europeans.

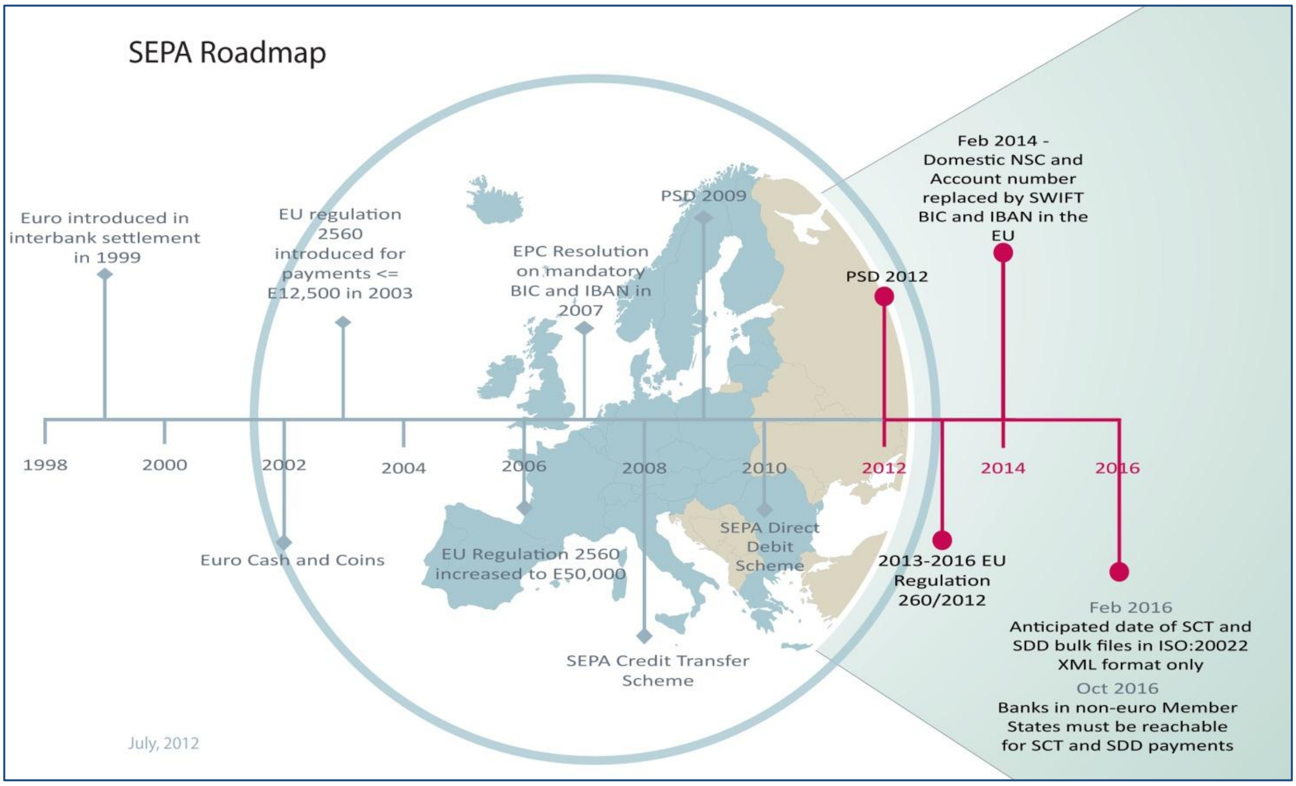
The ability to make payments easily and cheaply is an important step in the creation of a true Single Market. The EU has had a common currency since 1 January 1999 when the euro was introduced as an accounting currency; euro banknotes and coins were put into circulation three years later on 1 January 2002. As of the time of writing, 17 of the 27 EU member states are using the euro. The next major milestone on the road to completing the Single Market is SEPA, the Single Euro Payments Area.

The design and introduction of SEPA is now complete – all that remains is to migrate all legacy national schemes to the new SEPA standards. The European Commission has set a binding end-date of 1 February 2014 for banks and payment systems users to migrate all payments from existing national electronic credit transfer and direct debit payment schemes to their SEPA equivalents. As such, it is a legal requirement for Ireland to have migrated its domestic electronic clearing systems to SEPA by this date.

Figure 7.1 sets out the timeframe for SEPA implementation from the inception of the project through to the closing of the national retail electronic payment systems in February 2014. It also looks forward to 2016, the antipciated date for the mandatory full adoption of the XML payment method standard and additional SEPA requirements for banks in non-euro states.

[80] For example, by electronic credit transfer or by using a debit card.

Figure 7.1: SEPA Timeline



Source: AIB

7.3 Impact on Users

SEPA will have an impact on every citizen, merchant, public administration and corporate entity currently holding a payment account. Holders of such accounts in all countries participating in the SEPA initiative[81], regardless of their own location, can now make and receive euro-denominated payments, whether within or across national borders, under the same basic terms and conditions. However it will also require them to make changes in how they do business.

In this section we set out how different types of users will be affected by SEPA, and what changes they will see up to 1 February 2014 as SEPA is implemented.

SEPA and consumers

Consumers can now rely on just one bank account and one payment card to make and receive euro-denominated payments to and from anywhere in the area. For example, an Irish consumer needing to make regular payments to a utility company in another EU member state could make these payments by direct debit from their Irish bank account rather than needing to open a bank account in the country concerned to do so. The charge for making an electronic credit transfer or direct debit payment in euro to another SEPA country is the same as the charge for making the same payment within Ireland.

The principal change for consumers will be in terms of how their bank and their account will be identified. To make and receive payments, consumers will need to use BIC (Bank Identifier Code) and IBAN (International Bank Account Number) to identify their bank and their account rather than the NSC (National Sort Code) and Account Number (sometimes referred to as BBAN, or 'basic bank account number') that are

[81] EU member states, together with Iceland, Liechtenstein, Norway, Switzerland and Monaco.

currently used. BIC and IBAN information has for some time now been carried on all bank account statements; consumers need to be educated to familiarise themselves with these details. Consumers will not have to change existing direct debits as these will be changed automatically.

SEPA and businesses

SEPA will have a bigger impact on businesses than on individual consumers.

Businesses can now make euro-denominated payments between any accounts in SEPA just as easily as they can today within national borders. Common standards, faster settlement and simplified processing will improve cash flow, reduce costs and facilitate access to new markets. Moreover, corporate payment systems users can expect to benefit from the development of innovative products offered by payment services providers.

As is the case for individual consumers, businesses will also need to use BIC and IBAN to identify their bank and their account rather than the Sort Code and Account Number information that they currently use. However, the implications of this change will be more significant for businesses which have internal systems (e.g., payroll and accounting) which will have to be upgraded to be consistent with the new SEPA standards. Businesses that collect money by direct debit will also have to make such changes.

In order to prepare for SEPA, businesses need to start now to assess the likely impact of the initiative on these internal systems and processes. Businesses will have to either modify existing information technology platforms and delivery channels or develop new ones. Indeed, many businesses may wish to take the opportunity to use SEPA developments to replace or upgrade their existing systems.

Information technology providers and consulting firms can significantly contribute to managing the SEPA process at the level of individual businesses by making available the support to identify appropriate strategies and to implement necessary changes.

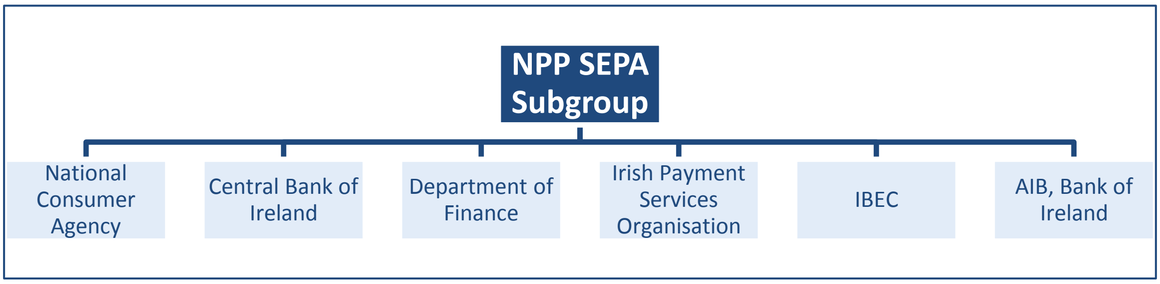
7.4 Recommendation

The process of migrating to SEPA across Europe is a massive one, requiring significant investment by banks, businesses and governments. SEPA has been implemented in over 7,000 euro-area banks across 17 countries and in thousands of other banks in 12 non-euro area countries.

In order for a major initiative like SEPA to work across so many countries, a common legal framework for payment services, the Payment Services Directive (PSD), was put in place. The PSD also makes it easier for new, innovative payment firms to offer services to consumers and businesses throughout Europe.

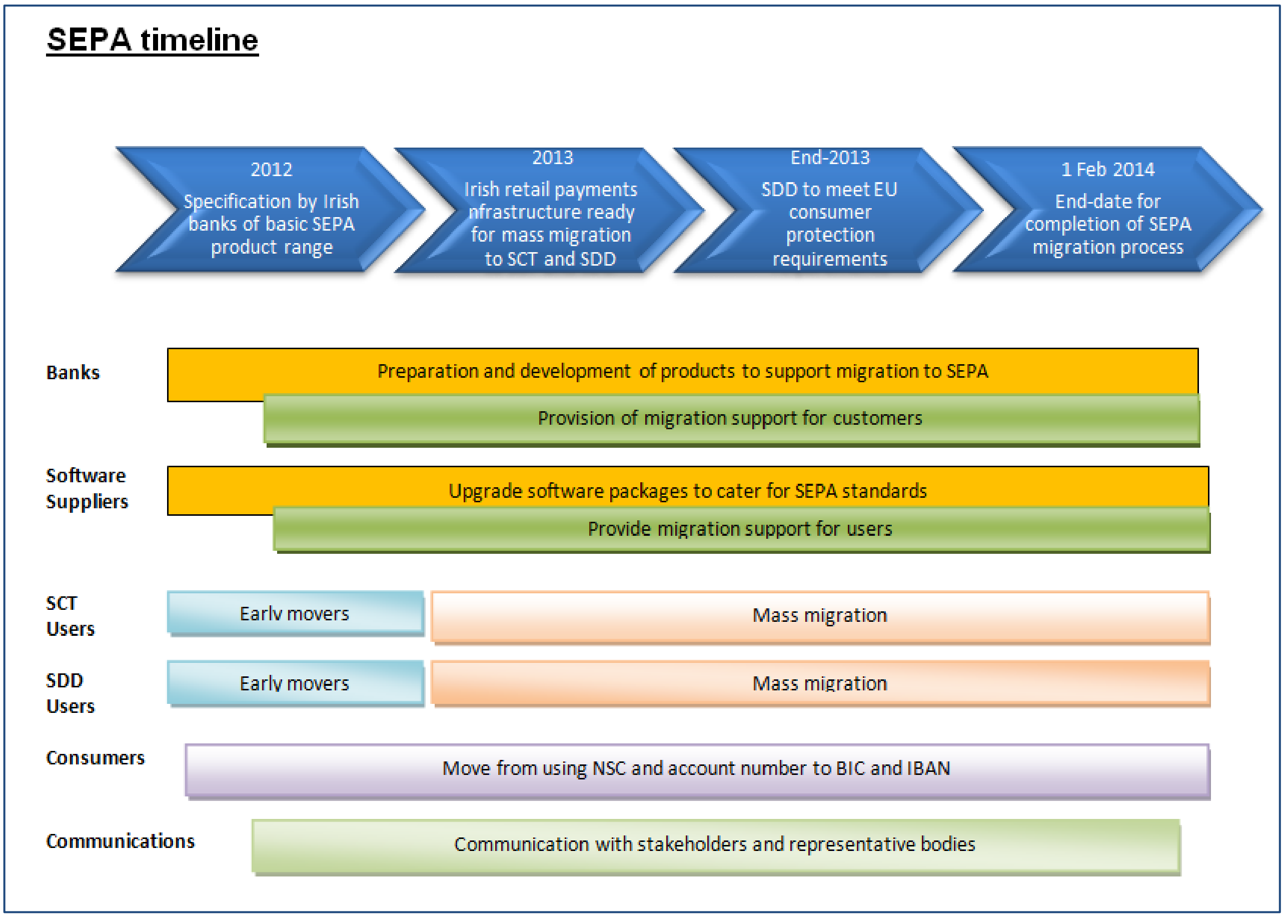
While much of the implementation of SEPA fell on the banking sector, SEPA will also need the active participation of payments users, whether they are public administrations, corporates or individual consumers. For SEPA to really succeed, all payment systems users must migrate to the new schemes at the earliest possible opportunity. A NPP-SEPA sub-group has been established for this purpose (see figure 7.2), including representation of consumers, business, Government and the banks.

Figure 7.2: SEPA Subgroup



The Irish Payment Services Organisation (IPSO) co-ordinates a SEPA Implementation Task Force (SITF), which includes representatives of all of the retail banks operating in Ireland and the Central Bank of Ireland; SITF is a banking community/central bank 'technical' group with only limited involvement of payment systems users. The NPP/SEPA sub-group will be expanded as the SEPA implementation programme requires. The following are the key dates in the SEPA migration process for Ireland:

Figure 7.3: SEPA Timelines



Recommendation 7.1: Full compliance for Ireland with SEPA standards	Feb 2014

It is the responsibility of all providers and users of payment services in the months and years ahead to ensure that SEPA becomes a success and that the process of paying for goods and services throughout all participating countries will become as simple as it is within national borders today.

Appendix 1: Summary of Responses to NPP Consultation Exercise

The following is a summary of the responses received to the NPP consultation exercise which was run from 18th January to 13th February 2012. In all, 28 submissions were received. Full copies of these submissions are available from the NPP Secretariat on request.

Responses received from:

1. AIB Merchant Services
2. Age Action Ireland
3. An Post
4. Ballyphehane Credit Union
5. Beaumont Hospital
6. Chambers Ireland
7. CUDA
8. Department of Justice
9. Elavon
10. Enterprise Ireland
11. Financial Services Innovation Centre
12. HSE
13. ILCU
14. Money Advice and Budgeting Service (MABS)
15. Mastercard
16. Danske Bank
17. National Traveller MABS
18. National Transport Authority (NTA)
19. One Family
20. Payments Ireland
21. Revenue Commissioners
22. RGDATA
23. Sensible Money
24. St. James's Hospital
25. St. Vincent de Paul
26. Ulster Bank
27. Visa Europe
28. Small Firms Association

1. AIB Merchant Services

The most likely to have difficulty adopting electronic payment solutions are the 'unbanked', those in debt, the elderly and people who find engagement with technology generally difficult will be. Migrant workers, tradespeople and some SMEs will also have difficulty in this regard.

There are very few payments that could not be made electronically, but reluctance to migrate to these means of payment is attributed to factors such as cost (real or perceived), tax evasion and simple inertia.

Payments via mobile phone may alleviate this problem to some degree in the future. Cash has high costs for the economy generally and in particular for businesses, mostly in the areas of security and transport, but also in the context of control and audit.

SEPA will be challenging in areas such as the cost and complexity of full implementation, but can be expected to bring benefits in terms of greater competition, increased transparency for payment systems users and simpler cross-border payments. Overall, there will be a need for significant consumer education/communication if NPP is to succeed.

2. Age Action Ireland

Age Action has concerns about the degree of exclusion of many elderly people from many aspects of modern life, including payments and banking generally, due to their lack of information technology skills. A significant proportion of the elderly appear to be uncomfortable with electronic banking propositions, and many of these people would also fall into one or more of the other 'disadvantaged' classes (e.g., they have low incomes, are dependent mainly or entirely on social welfare payments, do not have current accounts or suffer from reduced mental capacity). The elderly (and other vulnerable people) need to be supported and encouraged to adopt new payments technologies rather than being simply forced to use them.

Minimum limits for card payments and the dispensing of large-denomination banknotes from ATMs were mentioned as specific problems, together with the perception that trust in the banking system is currently at an all-time low. Measures to protect the elderly in a fully electronic banking environment from what is termed 'financial elder abuse' will also be important.

3. An Post

Ireland does not have banks that specifically cater for lower income groups; while credit unions partly meet this need, most do not provide electronic payment services. An Post provides important facilities to this sector (specifically, welfare payments through post offices), while at the same time providing a broad range of financial services (e.g., bill payments, savings and investments, etc.) to a wider customer base.

While cheques and cash can be replaced with electronic alternatives in most cases, church and charitable donations, payments at social and sporting events and small payments to schools would be difficult to move. The fact that cash appears to be a 'cost free' payment option from the payer's perspective, coupled with its ready acceptance everywhere, are factors that make it difficult to displace; security can, however, be a big concern, especially where cash is used for larger payments. Making smaller denomination banknotes available from ATMs could lead to smaller withdrawals.

4. Ballyphehane Credit Union

There is a need to eliminate those factors currently seen as limiting access by credit unions/credit union account holders to electronic payment services. Credit union account holders with outstanding borrowings may be reluctant to have salaries or welfare payments paid directly to their credit union accounts, believing that these incoming payments may be used to reduce the loan balance rather than being made available to them. Credit unions need to be involved in any 'basic payment account' solution.

5. Beaumont Hospital

There are no payments that could not be made electronically – by end-2012, it is expected that 99% of Beaumont Hospital's payments will be made electronically. A small number of elderly patients without bank accounts are still encountered.

6. Chambers Ireland

Those currently without a bank account would find moving from cash/cheques difficult, but the 'basic payment account' can overcome this problem. It is difficult to think of any payment that could not be made electronically, though 'micro payments' may be problematic. Cash has high costs for business, and also facilitates the 'black economy'. Reducing cheque usage is possible, and could be influenced by a

Government 'signal' in this regard. In the event that Ireland was to move fully to electronic payments, then it must be ensured that all users of payment services benefit.

IPSO has already provided core information on SEPA. SEPA will provide standardised payment instruments/formats, and should enhance the provision of electronic payment solutions to all users of payment services; it could also facilitate the introduction of innovative payment services like e-invoicing, mobile and internet payments. In addition, SEPA could open up the market in payment cards acquiring, increasing competition in this area and driving down costs for merchants. Banks would be better able to offer payment services across the euro area, increasing competition. Providers of payment systems infrastructures will also be able to offer their services to a broader constituency, and common payment instruments/formats will facilitate interlinking of different payment systems infrastructures.

7. CUDA

Credit unions are the most trusted financial institutions in Ireland and can play a role in educating customers and promoting use of electronic payments. Around 10% of credit unions currently have NSCs and can facilitate electronic payments. However, the pricing model for provision of these services (i.e., via agency arrangements with an IRECC direct member) is expensive. Rather than having them develop their own payment systems infrastructure, a better model for allowing all credit unions to access the existing infrastructure should be found. In particular, the exclusion of most credit unions from the ATM network and EFT clearing system are problematic. A national automated clearing house (ACH) would facilitate greater competition in the provision of payment services.

In general, the issue is not as simple as 'cash versus cashless'; use of technology should facilitate customer choice and there is a need to recognise that individual circumstances (e.g., age, 'life stage' and socio-economic group) influence how people decide to handle payments. Clubs and small businesses see cheques as providing controls not available with electronic alternatives; cheque usage will only decrease if suitable alternatives are offered. Some people are wary of technology in general and are concerned about privacy issues if moving to electronic payments. Cash is useful for low-value payments, but security issues can be a problem as the amounts increase; cash can also facilitate criminal activity. Fees and charges influence payments behaviour, and these have increased in recent times. SEPA should help to open up the market in payment services generally, both within and outside Ireland.

8. Department of Justice

It is clear that the secure movement of cash is vital to the functioning of any economy, and Ireland in particular continues to conduct a very high proportion of its transactions in cash, which necessitates widespread use of Cash In Transit services. Unfortunately, that brings with it an increased danger that such services will be targeted by organised crime gangs and attacks on CIT vehicles, pointing to the potential vulnerability of cash movements. While Garda efforts to combat such attacks have met with much success over recent years, it is incumbent on the State to examine any and all ways in which this threat is addressed and the risk to both persons and property is reduced. In that regard the Department of Justice and Equality is of the view that the development of systems aimed at reducing cash in circulation and, by association the risks to persons and property, are in principle to be welcomed.

9. Elavon

A broad range of payers/payees/businesses would have difficulty moving from cash/cheques to electronic payments (e.g., the elderly, charities, churches, newsagents, taxis, betting shops and public houses). Drawbacks to cash include security issues/problems (for which the State/taxpayer is paying much of the cost), standard/quality issues and hygiene. The easy availability of cash in Ireland is leading to high usage, as is the fact that most welfare payments are made in cash. A significant reduction in cheque usage is a realistic expectation, but there may be costs associated with this for businesses. A move to alternative payment methods needs a 'national directive'. SEPA will eliminate any need to operate multiple bank accounts; it will also bring more competition in payments processing, reduced costs for businesses and easier cross-border payments.

10. Enterprise Ireland

The international direction is for faster, cheaper payments that allow people to pay direct from their bank accounts to the merchant ideally through national payment schemes as charges from the Card Schemes (Visa/MasterCard) are likely to increase in the future. Countries with a national debit infrastructure will be at a competitive advantage. One of the key criteria for reducing cash and encouraging micro-payments is the use of inexpensive and easy access to bank accounts with low/minimum cost of transaction use.

Increasingly payment companies need to be regulated (eMoney/PSD Licences). Anecdotal evidence is that companies are choosing the UK as the jurisdiction of regulation. If this trend continues it could pose a threat to the development of the payments industry in Ireland. To be regulated in the UK requires senior staff to be UK based resulting in higher value activities moving to the UK with lower value activities remaining in Ireland.

The payments industry is witnessing convergence between technology developments (cloud/mobile/Near Field Communications). Ireland has strengths in all three areas which places it in an ideal position to exploit the growth in payments internationally. The actions taken by Ireland Inc. over the next 2/3 years will determine the extent to which we exploit this potential.

11. Financial Services Innovation Centre

The Financial Services Innovation Centre (based in UCC) submitted two academic papers that it felt might be of interest in the overall context of NPP. These papers have not been summarised here. While there is a focus on cutting Government expenditure, there has not been enough time and effort devoted to reducing costs. E-government/e-invoicing has the potential to provide significant savings in the national economy.

12. HSE

In 2011, the HSE made 78% of its ‘business to business’ payments by electronic means; the balance could probably be moved without significant difficulty. However, ‘business to customer’ payment types may be difficult to move to electronic payment formats (welfare payments, in particular); petty cash accounts do not appear to have any practical electronic alternative.

13. ILCU

There will always be people unable or unwilling to deal with change, but this should not be allowed to prevent necessary payment systems development. However, consideration should be given to addressing the needs of people with genuine problems coping with new technologies (such as those with literacy issues and learning difficulties). Some public authorities also appear to remain heavily dependent on cash and cheques in their dealings with the public.

Churches and charities may suffer in a cashless environment; tradesmen and small businesses may also find it difficult to find acceptable alternatives to cash and cheques (the ‘black economy’ is a major factor in this context). However, many legitimate businesses have fears that amounts lodged directly to their bank accounts by electronic means may be applied directly to reduce loans/overdrafts rather than being available as working capital. Security is seen the biggest drawback to cash as a payment method – Garda and army escorts for cash in transit are costly and have an undesirable environmental impact.

At either end of the scale, low-value and ‘one-off’ high-value payments (e.g., purchases of houses or cars) may be difficult to move from cash and cheque to electronic payment methods. While ‘contactless’ cards and mobile phones may provide alternatives to cash for low-value payments, it is difficult to see what might replace cheques for ‘one-off’ high-value payments – some sort of low-cost, real-time service is required in this regard. In the absence of this, credit unions will struggle to reduce cheque usage significantly.

The credit union movement is attempting to implement its own electronic funds transfer solution (CUSO, a payment institution), but progress is slow and hampered by regulatory/legislative requirements.

14. Money Advice and Budgeting Service (MABS)
Certain sectors of society will find it difficult to transition to electronic payment solutions; these sectors are – broadly speaking – those that would be seen as 'financially excluded' for one reason or another (e.g., the elderly, people with learning/illiteracy issues). Concerns would also include issues such as perceived lack of control and increased cost when moving to electronic payments. Also, some traders will not accept payment cards for low-value transactions. Cash has significant problems around security/safety, particularly where semi-annual or annual bills have to be provided for.

15. MasterCard
Cash and cheques are inefficient and expensive, and Ireland has one of the biggest users of these payment methods in the EU/euro area; greater use of electronic payment solutions could result in significant savings for the economy under several broad headings (e.g., reduced social/financial exclusion, reduced costs, greater efficiency, increased tax revenue due to curtailment of the 'black economy' and criminal activity generally). Cash in particular is expensive on a number of fronts compared to electronic payments and comes with significant security issues and costs to society in general.

Ireland is at the forefront of financial services innovation (MasterCard has based its global development 'hub', MasterCard Labs, in Dublin), but despite this, lags behind other countries in terms of actually applying these developments locally. A centralised automated clearing house for card/electronic payments would be of benefit, instead of the bilateral arrangements currently used.

The MasterCard document presents a comprehensive analysis of cheque use in the UK, and suggests that the position in Ireland is probably not that different. With specific reference to cheque replacement/reduction, Ireland can learn from the UK experience, particularly in terms of the need for education of customers about already available alternative electronic payment methods. Significant cheque reduction over a three-year time frame is definitely achievable.

There are a number of areas where it might be difficult to provide electronic alternatives to cash/cheques (e.g., 'person-to-person' and 'person-to-small business' payments, vending machines, take-away food, school activities, etc.), though 'Contactless' payments technology should help in this regard. SEPA will provide increased competition in the provision of financial/payments services generally.

16. Danske Bank
Irelands payments system the means by which we pay for goods and services and transfer wealth remains dominated by cash and cheques, which are very expensive, slow and environmentally damaging. Ireland is the most intensive cash user in Europe. Cash withdrawals per person are almost twice the European average, which is driven mostly by the number of withdrawals, though the larger average size of withdrawal is also an important contributory factor. Irish people withdrew over 22 billion in cash from ATMs in 2010. Ireland is the second most extensive user of cheques in the EU, after France, with Irish people writing 102 million cheques in 2009. In value terms, cheques in Ireland amounted to one-tenth of the value of all cheques written in Europe in 2008.

This reliance on paper based payments has a number of high costs for our society. Annual savings of around 1 billion could be made in switching from these paper-based systems to electronic systems. This is equivalent to around 680 per household. Danske Bank believes Ireland should develop an ambitious programme of reform to change our payments habits.

17. National Traveller MABS
Many members of the travelling community have low incomes and have never had bank accounts – these people will have difficulty adapting to an electronic payments environment. This difficulty may be

compounded by learning/literacy issues. There is a need for a comprehensive financial awareness/education programme for marginalised groups.

18. National Transport Authority

Public transport users span all sectors of society and as such include people who will not readily migrate to electronic payment systems. However, recent experience with the introduction of an integrated ticketing system, known as Leap card, has shown that significant numbers of people will use a cash replacement system that is convenient, well marketed and provides advantages, in particular price benefits.

In public transport terms having the correct combination of coins to purchase tickets from drivers or vending machines is inconvenient to most and challenging to some. The pressure to pay on boarding as a queue forms creates anxieties for some and can result in delayed trips. The National Transport Authority uses EFT for many payments although some refunding to Leap cardholders where we do not have bank account details is currently being conducted by cheque.

Standardising payment systems is important to the NTA for the Leap card scheme where on-line purchasing may create a risk of attracting fraudulent activity. Any move to improving the security of using payment cards in self-service mode would be welcome.

19. One Family

Cash remains an important payment method for many people, though a number of factors are making it more difficult to use cash (e.g., closure of bank branches/ATMs, charges imposed by private ATM operators, discounts offered for payment by direct debit or other electronic payment types); payment by cash should not cost consumers more than payment by electronic methods.

Existing current account offerings do not met the needs of low-income groups, particularly given that charges for such accounts can be relatively high – development of an appropriate 'basic payment account' should therefore be prioritised in this context. The credit unions and An Post should be involved in providing this type of service; consumer education is also important in this regard.

20. Payments Ireland

Payments Ireland is an association aimed at positioning Ireland as a global leader in the field of payments innovation; it is attempting to bring all payment systems/payment services stakeholders together in one association.

Those who do not have bank accounts will find it difficult to cope in an electronic payments environment. 'Person-to-person' payments will be difficult to move from a cash basis, and small businesses will be difficult to move from cheque payments to electronic alternatives. The development of suitable alternatives is essential in this regard. Competition and collaboration both have their place in fostering payment systems development, and both should be facilitated within a suitable regulatory framework. The Government must be a leader in encouraging use of electronic payment methods.

Surcharges for electronic payments and increased charges levied by acquirers on retailers following the move to VISA debit cards from the Laser scheme will discourage people from moving to electronic payments. SEPA will not of itself lead to reduced payment costs – this will come about through increased competition.

21. Revenue Commissioners

Revenue is an advocate of the e-Business agenda and has continually sought to develop and promote on-line services to improve service delivery times for customers. Today the vast majority of tax payments are made electronically. Revenue has arrived at this position by exploiting new technologies to develop a range of self-service options to enable our customers to meet their tax payment and return filing responsibilities.

In 2008 Revenue introduced Regulations providing for the mandatory electronic filing and payment of certain taxes as part of a strategy to establish the use of electronic channels as the normal way of conducting tax business. The first two phases in 2008 and 2009 were limited to a small number of high value customers, state bodies and Government Departments. However, subsequent phases commencing with Phase 3 in June 2011 and continuing with Phases 4 and 5, in June 2012 and June 2013 respectively, are bringing the vast majority of remaining customers into the mandatory electronic regime.

Notwithstanding the foregoing, Revenue continues to receive a relatively high volume of low value cheque payments. Revenue also makes a significant number of repayments by cheque but our processes are increasingly being developed to make direct repayment to a bank account an option for customers.

A reluctance to adopt engage electronically may be due a number factors:

- Fear of the technology; however experience has shown that once a customer opts for the electronic option that remains the preferred option;
- A mistaken belief that paying electronically makes it easier for Revenue to pursue outstanding tax liabilities;
- Anecdotally the tightening of credit/overdraft facilities to businesses is leading certain businesses to deal in cash. It has been suggested that they are reluctant to use bank accounts due to restrictions on credit/overdrafts that significantly impact on their cashflow.

This is particularly prevalent in the trade sectors and is pushing suppliers/tradesmen/customers to deal in cash with each other and across the associated sectors.

In the case of outgoing payments a large portion of tax repayments cheques issued by Revenue are in respect of repayments to PAYE employees. While the availability of PAYE Anytime, a facility for conducting PAYE business online with Revenue, has helped reduce to the level of payments, the PAYE taxpayer sector remains one that can be anticipated to have difficulties transiting from cheques to electronic forms of repayment. Currently only about 14% of PAYE clients have supplied Revenue with their bank account details. A concerted campaign is underway in Revenue to maximise the e-Payment option.

22. RGDATA

Cash is felt to be the best payment method for purchases of up to about €10, and in general RGDATA members do not see cash/cash handling as particularly problematic. However, they would in general be in favour of a move away from cheques. The elderly in particular would find moving to electronic payment methods challenging; likewise, children making small purchases in local stores will continue to use cash. The current level of mistrust of banks and the financial system generally is also unhelpful in this regard.

The main issue exercising RGDATA members is that of the costs (i.e., merchant service charges/acquiring fees) associated with payment cards, particularly debit cards. These have risen significantly with the recent move from Laser to VISA debit cards by the banks, one acquirer in particular applying an *ad valorem* charge in addition to the expected fixed fee; it is also stated that the apparent inability of any regulatory authority to deal with this issue is disappointing. For small purchases, the fees levied can actually eliminate the retailer’s profit margin – this leads to refusal to accept payment cards for small purchases. RGDATA argues that it will be difficult to promote electronic payment methods in a scenario where these are perceived by retailers to be the most costly to use. The lack of reliable broadband countrywide is also seen as a barrier to full reliance on electronic payment methods.

23. Sensible Money

Economies cannot function well without a source of debt free money. Ireland’s sources of debt free money are strained. We’re unwilling or unable to create the many bank loans needed to increase the money supply and consequently GDP. All this despite low interest rates, some quantitative easing, the ECB lending directly to governments and encouragement given to banks to create new credit.

As such, a portion of the money supply should be created by the central bank and given to the Government to be spent into circulation as debt free digital money. This would be a modern day replacement for the cash money supply which the economies of previous years enjoyed. The required proportion of debt free digital money for stability and inflation control is hard to decipher. However many stable and low inflation economies have existed with a debt free cash supply of around 20% and there's no reason to suspect that a debt free digital money supply of around the same figure would behave any differently. Examples include America from 1919 - 1929, Britain 1940 – 1969.

The entire money supply, cash and digital, could exist as debt free money overall. Borrowing of existing money would of course involve a creditor and debtor but upon repayment the borrowed money would not be deleted as it is today.

24. St. James's Hospital

St. James's Hospital moved fully to electronic payments more than a year ago; in essence, it appears that any payee who had a difficulty with this was simply more or less told 'comply or you won't be paid'. The hospital would see no reason why all Irish public bodies could not move fully to electronic payment platforms. However, cross-border payments can sometimes be problematic.

25. St. Vincent de Paul

Ireland has significantly higher levels of financial exclusion than many other EU member states; people without access to a bank account can end up having to pay more than necessary for some goods and services as a consequence. The 'basic payment account' may be helpful in resolving this problem, but a broader strategy is also needed.

The 'unbanked', people in debt, the elderly, people with literacy/numeracy problems, those without computer access and some rural dwellers could find a move to electronic payments difficult. Payments connected with social events, public transport, doctors' surgeries and school attendance may be difficult to move away from cash and cheques. Charitable donations are also predominantly cash-based. Dependency on cash can be problematic from several standpoints: it is susceptible to loss or theft, can make budgeting difficult, can exclude some consumers from availing from the best deals and cannot be used for online purchases.

As an organisation, St. Vincent de Paul would view a move away from cheque-based payments (much of its assistance is dispensed using vouchers paid for by cheque) as creating extra work. Much of the organisation's funding is received via cash and cheque donations, although online donations are increasing.

26. Ulster Bank

The elderly, people with disabilities, people on lower incomes and those with limited access to computer technology may all find a move to electronic payments difficult. It may be difficult to find effective alternatives to cash for charitable donations and payments at outdoor events like sporting occasions and concerts (e.g., none of the vendors at the O2, the Aviva Stadium or Croke Park offer electronic payment methods to their customers), though 'contactless' technology and 'pre-paid' payment cards may go some way towards providing a solution. The biggest problems with cash all centre on cost and security, these being very much interrelated. The fact that it also appears to consumers to be cost-free adds to the problem.

A reduction in cheque use should be achievable and would be one of Ulster Bank's strategic goals. It is believed that SEPA migration will lead to improved security for payment transactions, a faster clearing cycle for electronic payments and more efficient, less costly cross-border payments.

27. Visa Europe

The document describes VISA Europe's corporate structure and available payment solutions, and to providing the company's view of the Irish marketplace. The high cost to society of cash and cheques is emphasised and the underlying reasons for these costs explained, together with the benefits to be derived from a large-scale move to electronic payment alternatives.

Government stamp duty on payment cards is seen as a particular problem, as is the practice of surcharging for card payments and the imposition of minimum spend limits by some sectors. The public sector can play a significant role in promoting electronic payments, and VISA Europe has products/programmes tailored to public sector requirements. In the broader payments market, emerging technologies such as 'contactless' cards and mobile 'person-to-person' payment solutions will be important in the future.

28. Small Firms Association

There are sectors of society who would find the transition from paper based to an electronic form of payment challenging. To move these sectors of society to electronic payments will require a large advertisement information/education campaign. It is essential that the use of electronic payments is not perceived to increase costs for consumers as this may deter rather than encourage individuals to move to electronic forms of payment.

There are no transactions that we know of that there is not a practical alternative to cash and cheque, though cost is a consideration. For small firms, the greatest difficulties for cash usage are the accepting, processing and banking of cash. Security of cash is also a key concern for many small firms. The general views expressed by SFA members is that a significant reduction of cheque usage in the next three years would be realistic, as many members have indicated that they have moved to banking and paying firms on-line, as it is convenient and efficient. However, there is a concern that transaction charges may be increased by financial providers for the provision of electronic payment services.

If the Government is serious about tackling this issue and reducing cash and removing cheques in favour of electronic payments, then a campaign as sophisticated as the introduction of the euro will need to be undertaken, with extensive consultation from all relevant parts of society, a national implementation body established and extensive education campaign undertaken within a short defined period of time, to reach set targets.

Appendix 2: NPP Cheque Survey 2012[82]

NPP Cheque Survey 2012			Beneficiary									
Issuer			Personal	Business				Government			Uninc. Bodies	Total
				SME	Large/Corp.	Utilities	Schools etc.	Department	State Agency	Local Auth.		
Personal		≤€100	4.39	6.45	0.61	0.31	0.29	0.17	0.16	0.91	1.39	14.67
		>€100 ≤€500	4.95	5.57	1.16	0.24	0.09	0.24	0.15	0.09	0.23	12.72
		>€500	2.58	3.74	0.76	0.03	0.12	0.03	0.14	0.02	0.06	7.48
Business	SME	≤€1000	11.58	15.19	1.03	0.61	0.15	0.32	0.30	0.39	0.39	29.96
		>€1k ≤€5k	1.92	4.11	0.47	0.04	0.00	0.02	0.00	0.16	0.06	6.78
		>€5k	0.59	2.03	0.21	0.00	0.00	0.03	0.02	0.02	0.01	2.90
	Large/Corp.	≤€1000	1.60	0.37	0.09	0.02	0.00	0.02	0.00	0.02	0.00	2.12
		>€1k ≤€5k	0.44	0.22	0.10	0.00	0.00	0.00	0.00	0.02	0.00	0.78
		>€5k	0.71	0.25	0.28	0.01	0.00	0.01	0.00	0.01	0.03	1.29
Govt. Depts., State Agencies & Local Authorities			9.94	0.66	0.07	0.01	0.16	0.19	0.00	0.00	0.01	11.04
Financial Institutions			1.79	1.04	0.50	0.02	0.03	0.09	0.04	0.06	0.09	3.64
Unincorporated Bodies			1.79	1.00	0.10	0.05	0.05	0.00	0.02	0.02	0.22	3.25
Bank Drafts			1.47	0.95	0.55	0.02	0.01	0.14	0.04	0.05	0.14	3.37
Total			43.75	41.58	5.92	1.36	0.91	1.24	0.85	1.77	2.63	100.00

[82] This survey was based on an analysis of 10,000 cheques taken from the "in-clearing" system of five of the Irish clearing banks in the first half of 2012. A full analysis of this survey will be published by the NPP.

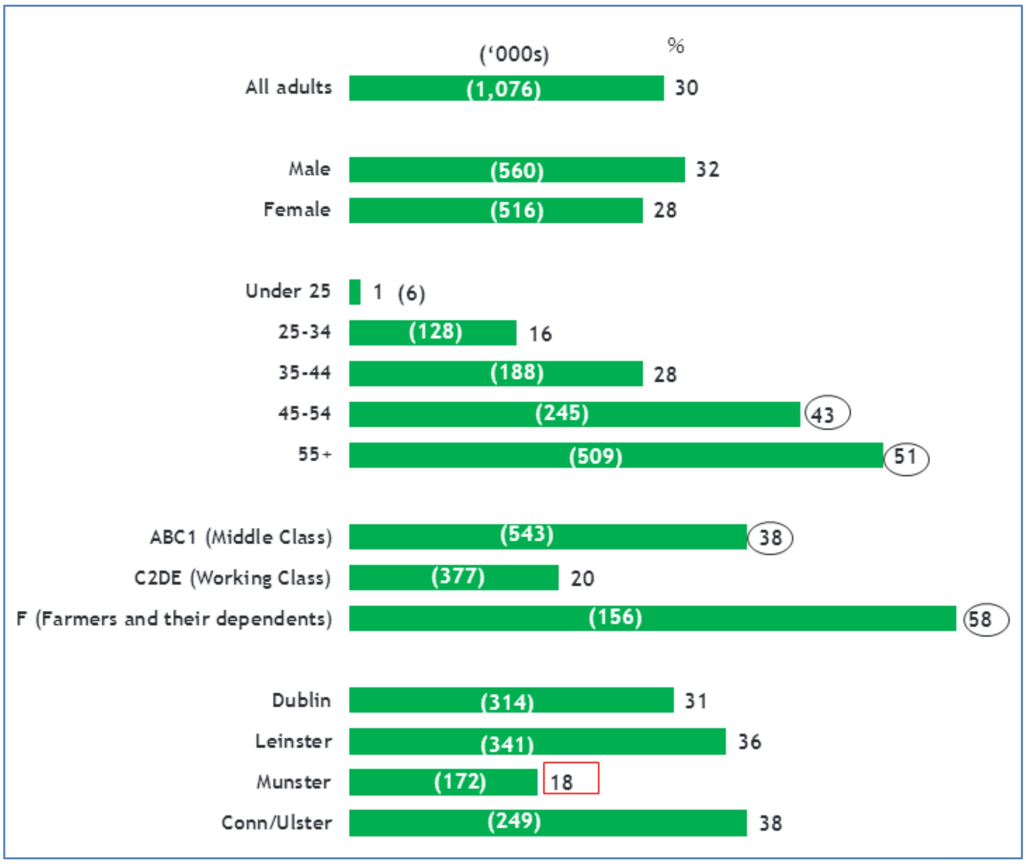
Appendix 3: NCA/NPP Consumer Cheque Survey

In June 2012 the National Consumer Agency and the NPP commissioned a survey of consumers' attitudes, experiences and behaviour in relation to cheque usage. The market research focused on personal cheque usage; examining the reasons for using cheques, the purposes and areas where cheques are used and the difficulties posed as well as possible alternatives in the event that cheques are no longer available.

The research conducted by Behaviour & Attitudes (B&A) consisted of two components (i) a bespoke face to face survey of 495 cheque users and (ii) questions included in a nationally representative survey (face to face interviews of 1,011 adults) to determine the profile of cheque users[83]. The key findings are included in this appendix.

Figure A3.1: Cheque book ownership

Question asked: *"Do you currently hold a cheque book, either solely or jointly?"*

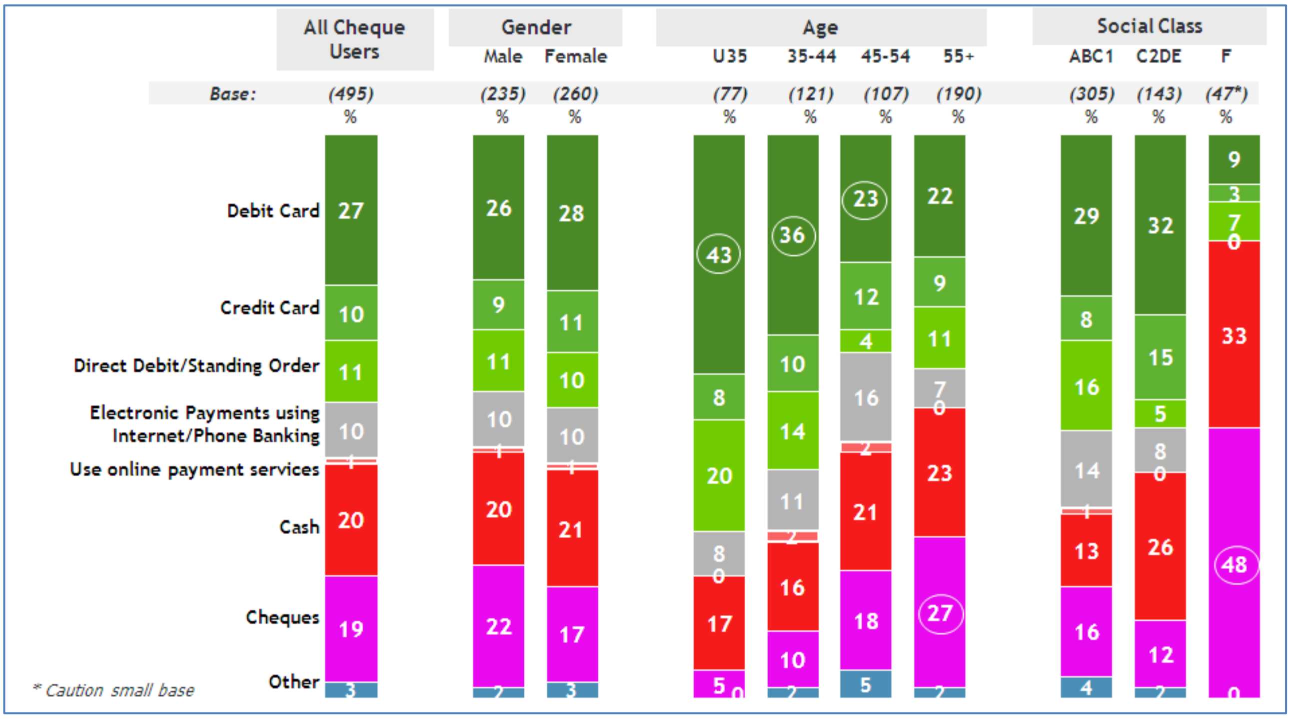


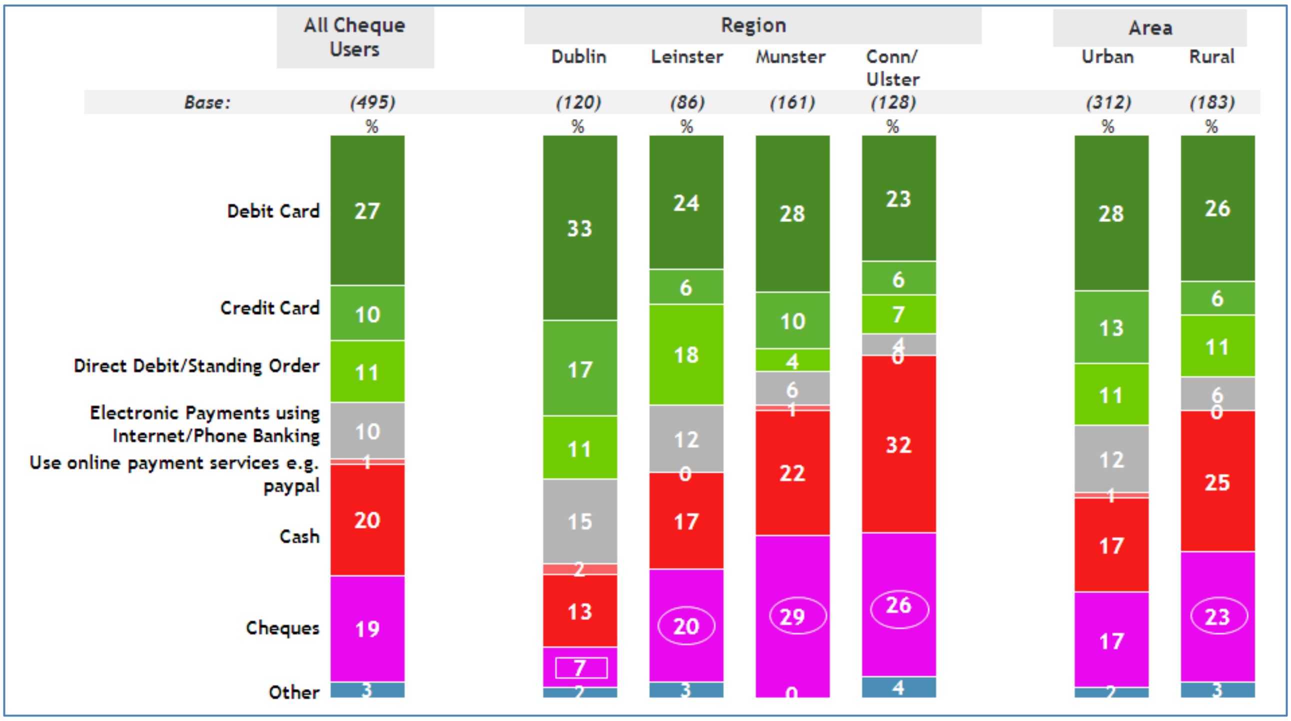
Three in 10 Irish adults own a cheque book, most likely to be older (51% of the 55+ age group) and from middle class or farming backgrounds.

83 The data from the nationally representative survey (1,011 sample) was used to weight the data from the bespoke cheque users survey (495 sample) to ensure it mirrors the appropriate national structure of those who use cheques in terms of sex, age, social class and region.

Figure A3.2: Preferred payment methods – Demographics

Question asked: *"Which of these (list those mentioned at Q1b[84]) is your preferred method of payment?"*



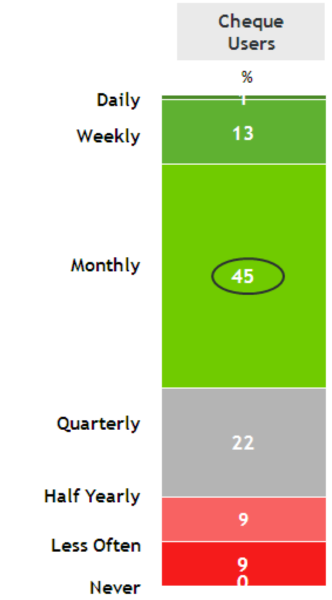


Over the age of 45 almost 1 in 5 prefer cheques, and it rises to 1 in 4 over 55. Preference of debit cards mirrors that of cheques in the younger age categories. Cheques are also highly popular amongst farmers and their dependents. Preference of cheques is much higher outside of Dublin and in rural areas.

[84] Debit Card (Does not include cards which can only be used to withdraw cash from ATM's i.e. must be able to use the card to pay for purchases in store); Credit Card; Direct Debit/Standing Order; Electronic Payments using Internet/Phone Banking; Use online payment services e.g. paypal; Cash; Cheques; Other (specify)

Figure A3.3: Claimed frequency of cheque writing

Question asked: *"Approximately how often do you write cheques? Daily, Weekly, Monthly, Quarterly, Half Yearly or Less Often"*



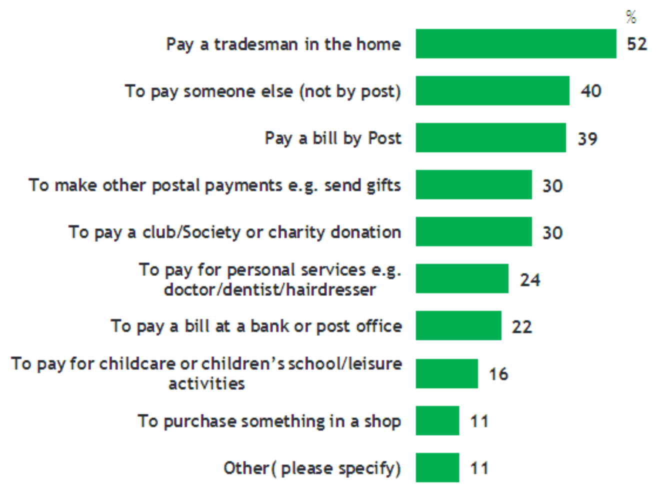
	Weekly Plus	Monthly Plus
	%	%
All	14	59
Male	17	62
Female	12	58
Under 35	8	48
35-44	11	44
45-54	13	55
55+	18	70
ABC1	12	50
C2DE	14	61
F*	25	90

* Small base

14% of those surveyed write cheques on a weekly basis, with a further 45% writing cheques on a monthly basis; while a further 22% write cheques on a quarterly basis.

Figure A3.4: Typical uses of cheques

Question asked: *"For which of the following do you typically use a cheque to pay for?"*



	Under 35	35-44	45-54	55+
	%	%	%	%
Pay a tradesman in the home	45	42	44	60
To pay someone else (not by post)	35	30	46	42
Pay a bill by Post	27	32	37	46
To make other postal payments e.g. send gifts	18	17	32	37
To pay a club/Society or charity donation	17	29	33	32
To pay for personal services e.g. doctor/dentist/hairdresser	10	20	26	27
To pay a bill at a bank or post office	27	15	20	23
To pay for childcare or children's school/leisure activities	12	38	23	7
To purchase something in a shop	15	4	10	13
Other(please specify)	17	10	7	13

* Small base

Cheques are used for a wide variety of reasons the most commonly stated include: paying tradesmen in the home (52%), paying someone else but not by post (40%) and paying a bill by post (39%). Older people cite a much wider variety of reasons for typically using cheques.

Figure A3.5: Specific products and service typically use a cheque to pay

Question asked*: "Now thinking of specific products or services, which of these do you typically use cheques to pay for?"*

		Under 35	35-44	45-54	55+
		77	*121*	*107*	*190*
	%	%	%	%	%
Insurance e.g. Home, Motor, Health	53	55	48	50	56
State/Local Authority Charges (Motor tax, TV licence, household charge etc.)	45	25	31	46	53
Building and related services	41	25	40	41	45
Utilities Payments	31	27	28	27	36
Medical incl. doctors/dentists/hospital etc.	25	10	20	30	28
Furniture/Household Appliances/Hardware	23	13	17	22	28
Telecommunications	14	7	10	9	20
To pay a regular monthly bill of variable size such as Visa/Mastercard	14	15	7	11	18
Grocery Shopping	5	*	5	2	8
Clothing/Footwear Shopping	4	2	2	5	5
Entertainment such as cinema, theatre, concerts	3	3	2	1	3
Other Retail	2	5	3	2	1
Other Please specify	11	20	12	8	9

The products and services which show the highest incidence of payment by cheque include: insurance (53%), State and local authority charges (45%), building and related services (41%) and utility bills (31%). Again older people have a higher incidence of paying for these services and others by cheque.

Figure A3.6: Reasons for using cheques rather than other payment methods

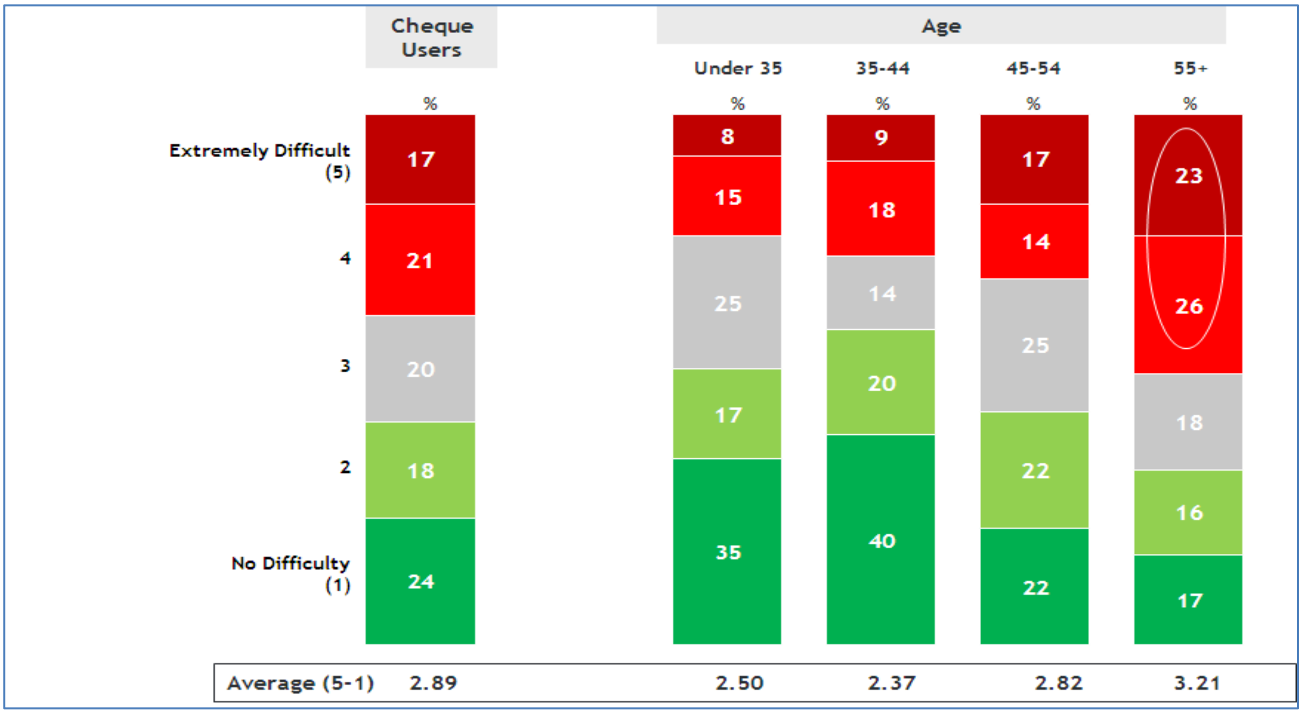
Question asked: *"In general why do you use cheques to pay for these products and services as opposed to other payment methods?"*

		Under 35	35-44	45-54	55+
		77	*121*	*107*	*190*
	%	%	%	%	%
Convenient, handy if you dont have cash, simple	38	35	42	39	37
Have written record, form of receipt, control, handy to keep accounts	25	15	15	29	28
No facility for debit/credit cards, no other option - eg tradesmen	18	15	24	16	18
Security, safer than cash	16	18	10	14	18
Habit, preferred method	13	15	20	6	14
Safer in post	7	2	6	6	9
Payment does not come out of account straight away, give you a bit of time	5	10	3	7	4
For large payments	4	3	2	9	3
Irregular payments, not suitable for direct debit	3	3	3	5	2
good for gifts	2	3	-	5	2
To pay bills	2	5	2	3	1
Reliable, trust this method	2	*	1	5	1
No reason, None, dont know	2	3	-	1	2

The main reasons for using cheques were cited as "convenient and handy" (38%), "as providing a written record, a form of receipt, or a means of control of expenditure" (25%), "no facility for debit/credit cards" (18%) and "security, safer than cash" (16%).

Figure A3.7: Difficulty presented by possible removal of cheques

Question asked: "If cheques were removed as a means of payment, what level of difficulty would this present to you in your personal circumstances? Please use a scale were 1 is no difficulty and 5 is extremely difficult."

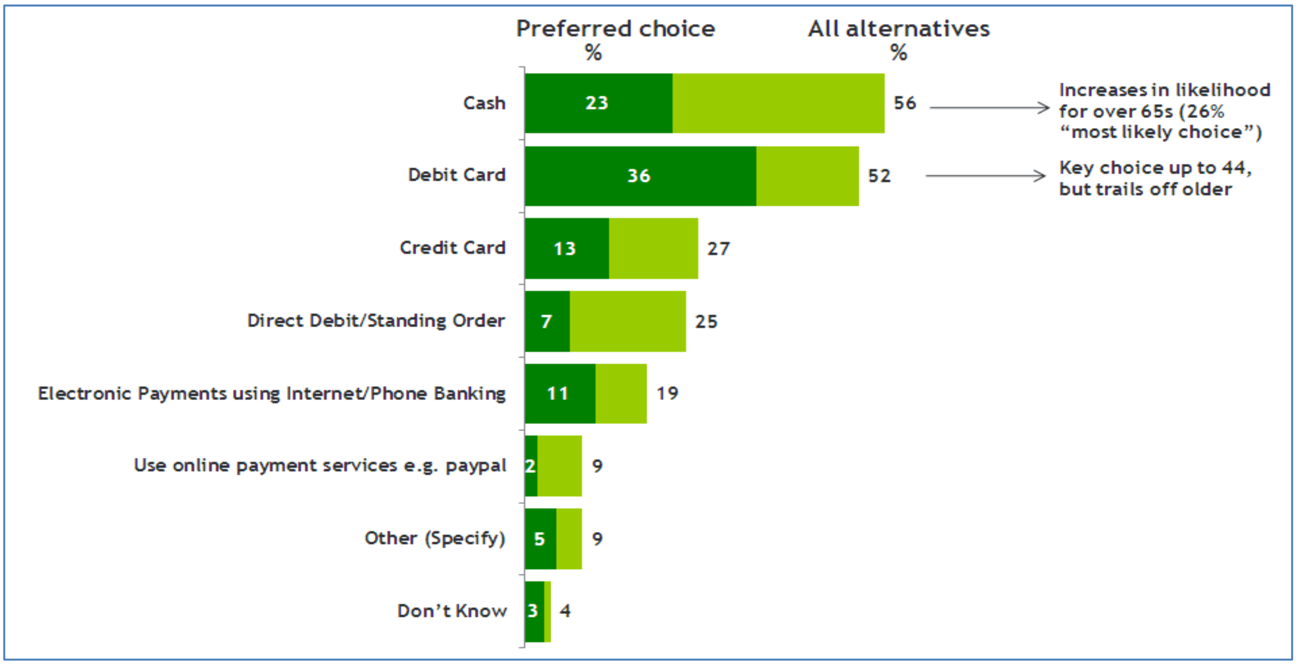


38% of all cheque users state that the removal of cheques would present substantial difficulty and this increases to almost 1 in 2 (49%) amongst over 55s.

Figure A3.8: Alternatives likely to use instead of cheques

Question asked:

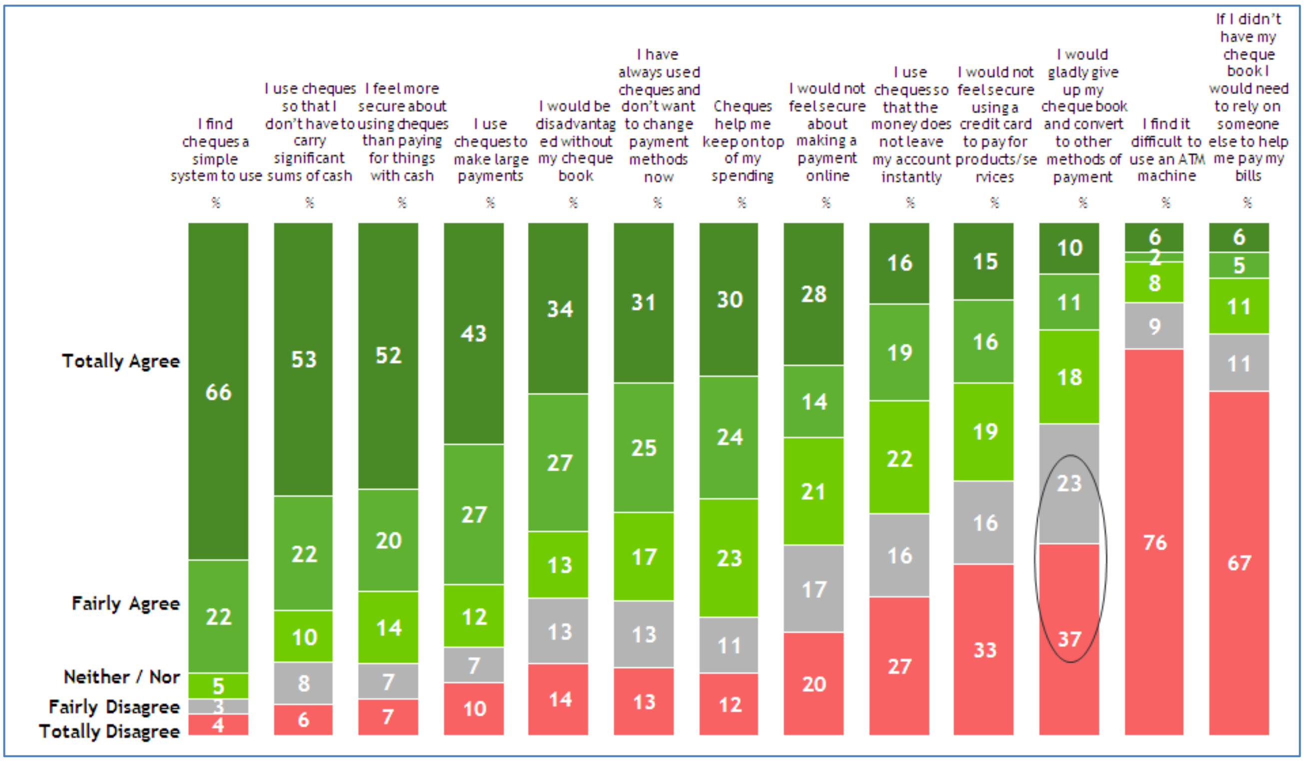
> *"(a) If you could not use cheques, what alternative methods of payment would you use? Multiple Answers Allowed. [Unprompted],*
>
> *(b) From the following list of payment methods, which of these would be your* ***preferred*** *alternative method of payment if cheques were not available? "*



When asked what alternatives would be used were cheques to be removed, over half (56%) state that they would use cash, with 52% considering using debit cards as an alternative.

Figure A3.9: Attitudes to cheques

Question asked: *"Some people have said the following in relation to using cheques. Can you please tell me how much you agree with each of the following statements? Please use a scale of 1 to 5 where 1 is totally disagree and 5 is totally agree."*



60% of cheque book users disagree that they would gladly give up their cheque book and convert to some other form of payment. Just 21% of cheque users agree with this sentiment.

Figure A3.10: Tabular format of those who agreed with the statements

		Gender		Age				Class			Region			
	Total	Male	Female	Under 35	35-44	45-54	55+	ABC1	C2DE	F	Dublin	Leinster	Munster	Conn/Ulster
Base:	*495*	*235*	*260*	*77*	*121*	*107*	*190*	*305*	*143*	*47**	*120*	*86*	*161*	*128*
I find cheques a simple system to use	88	87	88	82	80	90	91	83	90	98	78	89	90	95
I use cheques so that I don't have to carry significant sums of cash	75	68	82	70	62	75	81	69	78	90	65	70	81	89
I feel more secure about using cheques than paying for things with cash	72	69	76	63	52	76	80	67	73	89	61	71	75	86
I use cheques to make large payments	71	70	71	67	59	73	75	64	74	89	59	71	76	81
I would be disadvantaged without my cheque book	61	59	62	49	42	49	76	55	59	86	53	54	63	78
I have always used cheques and don't want to change payment methods now	57	56	58	41	31	55	70	48	57	83	49	48	62	72
Cheques help me keep on top of my spending	54	52	55	44	34	52	64	45	53	85	36	46	69	74
I would not feel secure about making a payment online	42	40	45	25	33	34	53	33	48	62	32	41	50	50
I use cheques so that the money does not leave my account instantly	35	36	34	42	35	42	30	31	35	46	29	45	35	29
I would not feel secure using a credit card to pay for products/services	31	34	29	29	19	23	40	23	29	66	21	32	37	39
I would gladly give up my cheque book and convert to other methods of payment	22	22	21	22	32	22	18	26	19	11	30	19	22	15
If I didn't have my cheque book I would need to rely on someone else to help me pay my bills	11	13	9	6	4	4	19	5	15	26	5	7	23	16
I find it difficult to use an ATM machine	8	7	9	3	1	2	15	7	7	17	7	3	18	9

Appendix 4: Consumer Bank Charges

		Debit/ Laser Card transaction fee	ATM transaction fee	Current Account Quarterly fee
AIB	Personal Bank Account Note 1	€0.20	€0.20	€4.50
Bank of Ireland	Personal Current Account - Flat Fee Note 2	€0.00	€0.00	€11.40 Note 3
Bank of Ireland	Personal Current Account - Pay As You Go Note 4	€0.28	€0.28	€0.00
EBS Limited	EBS Money Manager Account	€0.30 Note 5	€0.30 Note 5	€0.00
Danske Bank	24/7 Account	€0.25	€0.25	€5.00 Note 6
Danske Bank	Easy Plus Account	€0.00	€0.00	€18.75 Note 7
Danske Bank	Prestige Account	€0.00	€0.00	€31.00 Note 8
Permanent TSB	Everyday Bank Account	€0.00	€0.00	€12.00 Note 9
Ulster Bank	Current Account	€0.00	€0.00	€0.00
Ulster Bank	U First Current Account	€0.00	€0.00	€30.00 Note 10
Ulster Bank	U First Gold Current Acct	€0.00	€0.00	€42.00 Note 11

Source: National Consumer Agency. Information downloaded 10th August 2012 unless otherwise referenced; Note the vast majority of credit card transactions do not face a per-transaction fee.

Notes:

1. To qualify for free maintenance and transaction banking on your personal current account you must maintain a minimum daily credit statement balance of €2,500 in the account for each fee quarter. Credit interest does not apply to this AIB personal current account.

2. Customers can avoid account transaction fees by lodging at least €3,000 to their personal current account and by making at least 9 debit payments from that account using 365 Phone and/or 365 Online during the relevant fee quarter; or by maintaining a minimum credit balance of €3,000 in their personal current account throughout the full fee quarter.

3. €11.40 for up to 90 transactions. Transactions in excess of 90 per fee quarter are charged €0.28 each.

4. Customers can avoid account transaction fees by lodging at least €3,000 to their personal current account and by making at least 9 debit payments from that account using 365 Phone and/or 365 Online, during the relevant fee quarter; or by maintaining a minimum credit balance of €3,000 in their personal current account throughout the full fee quarter.

5. Customers can get 5 free withdrawals each month by ATM or in branch (cash or cheque) if either at least €1,500 is lodged to the account each month, either in one lump sum or in instalments or a minimum balance of €500.00 is maintained in the account each month.

6. Customers can opt for MasterCard Gold Credit Card, which includes travel insurance for an additional fee of €50 per annum[85].

7. Customers are offered a number of added benefits with the easy plus package including free access to a personal financial advisor, free travel insurance benefits and no transaction fees, as standard with this package[85].

8. The prestige package offers customers access to a number of banking services including access to airport lounges , free access to a personal financial advisor, free travel insurance benefits and no transaction fees. Customers may also be eligible for a preferential home loan discount rate on their mortgage interest rates, subject to certain terms and conditions[85].

9. Quarterly fee applies if customer does not meet qualifying criteria: a) lodge at least €3,000 and, b) make at least 18 card purchases and, c) make at least 1 financial transaction through telephone and online banking and, d) keep the account within agreed limits.

10. The ufirst account membership fee is currently €10 per month. This fee covers all the Banking and Lifestyle Benefits available with the account. The ufirst account also has additional protection benefits included with the package[86].

11. The ufirstgold account membership fee is currently €14 per month. This fee covers all the Banking and Lifestyle Benefits available with the account. The ufirstgold account also has additional protection benefits included with the package[86].

[85] Additional information contained in this footnote was provided by Danske Bank, and is not from the National Consumer Agency.

[86] Additional information contained in this footnote was provided by Ulster Bank, and is not from the National Consumer Agency.

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