

Celebrating 50 years of Bacs

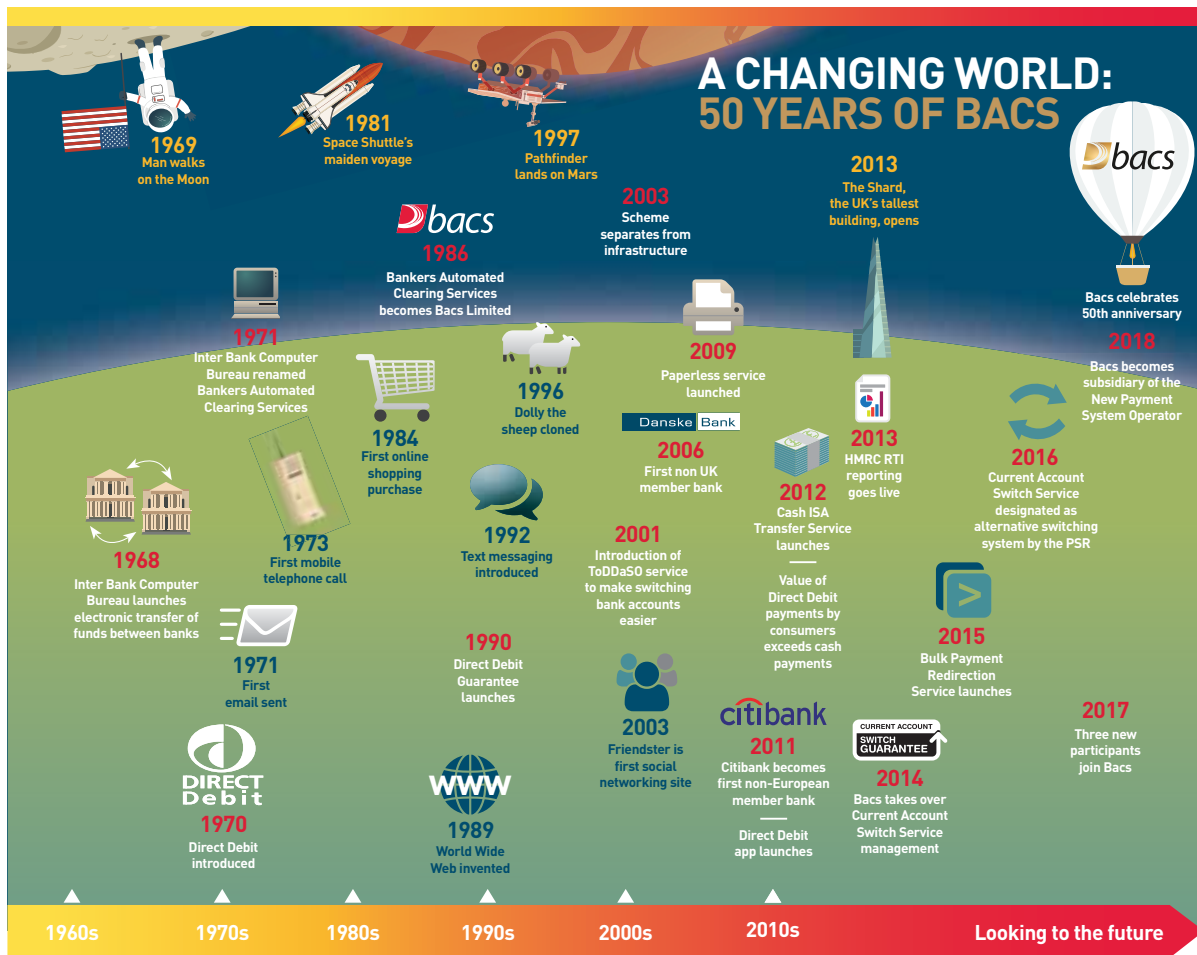
Five decades of automated payments



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50 YEARS OF AUTOMATED PAYMENTS

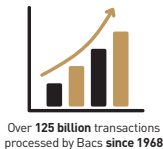


KEY STATS AND IMPORTANT NUMBERS



50 YEARS OF AUTOMATED PAYMENTS

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The paper in this magazine originates from timber that is sourced from sustainable forests, responsibly managed to strict environmental, social and economic standards. The manufacturing mills have both FSC and PEFC certification and also ISO9001 and ISO14001 accreditation. First published as a supplement to the *New Statesman* of 20 April 2018. © New Statesman Ltd. All rights reserved. Registered as a newspaper in the UK and US.

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Reflecting on a major milestone

Paul Horlock, chief executive officer of the New Payment System Operator (NPSO), says the organisation will drive a new future for retail payments in the UK



The companies coming into the NPSO have a tradition of innovation and it's right that we should celebrate the 50th anniversary of the company behind Direct Debit and Bacs Direct Credit, two of the United Kingdom's most successful and established payment methods. These payments have become embedded in the lives of millions of people and thousands of businesses, meeting their needs every day.

It is worth noting the changes since Bacs was conceived. Around half a century ago we began using Direct Debits to pay our bills safely and securely. Since then innovation has brought us payment services by telephone, text messaging, contactless, voice recognition and artificial intelligence. As Bacs reaches this important milestone, it is fitting that we also look forwards, towards what promises to be an exciting future for Bacs services within the NPSO.

As Bacs products and services become part of the NPSO we will harness the knowledge and expertise which has made the UK payments industry a global leader. We will work collaboratively with the market to develop new and exciting payment initiatives for everyone's benefit, ensuring NPSO can drive the very best in class payment infrastructure and

standards for everyone.

My vision for the new organisation is for it to play an essential part in enabling a vibrant UK economy; facilitating a globally competitive payments infrastructure. We will provide robust, resilient, and collaborative retail payments services which benefit all of our many users.

A key pillar of our plans will be the development of a New Payments Architecture. The principles for this new, future-proofed system will enable us to provide simpler and more consistent foundations. We will design it to allow a full range of payment service providers easier and more cost effective access and it will facilitate the opportunity for innovation for participants of different sizes and needs to plug in and deliver valuable and bespoke services for consumers.

Improved access will stimulate a step change in competition across the payments industry, fuelling significant growth across the UK economy. It will drive performance improvements, efficiency, and innovation, all the time ensuring stability and the most robust of security as end users select the best payment options and the most effective ways to manage their own money, or drive their businesses.

Bacs services will continue to be central to the resilience and crucial utility of the UK's payment systems and will be involved in delivering new innovations to respond to ever-changing end user needs.

I want to extend my congratulations to all our friends and colleagues for this important birthday, and wish everyone the very best for the future.

Michael Chambers, chief executive officer of Bacs Payment Schemes Limited, explains the enduring success of Direct Debit and Bacs Direct Credit

Why a history of innovation bodes well for the future



The world in 2018 is an exciting place. Technology has brought amazing opportunities across so many sectors, and the payments space is no exception. We have seen more innovation in the last few decades than in the preceding 100 years – mobile wallets, contactless payments, financial apps, and cheque imaging are just a few.

Yet a company that first opened its doors in 1968 has continued to thrive, breaking record after record, year after year. We provide access to some of the most important payment methods to an ever more demanding consumer, as well as to businesses, charities, and government – almost everyone in the UK is touched by our products and services, which now extend far beyond our two core schemes.

Bacs is not the same company it was in 1968; back then, our focus was on moving money between banks electronically. In fact, that's what we were called: the Inter Bank Computer Bureau. It was two years later that we launched Direct Debit, and a year after our name changed to reflect our new role as we became the Banker's Automated Clearing Services – some people still mistakenly believe that stands today.

Of course, our bills have changed, too. In 1968, our regular household commitments were pretty limited to energy, rent, and mortgages. Now, we have mobile phone bills, broadband bundles, gaming subscriptions, in-app payments, half a dozen different types of insurance, plus many more. A substantial proportion of those are



paid by Direct Debit, something evidenced by its growth; we broke another annual record in 2017 when we processed more than 4.2bn Direct Debit payments. In addition, Bacs Direct Credit is used to pay over 90 per cent of the UK workforce, as well as a billion benefit payments, and pensions and dividends. Between the two schemes, we set a new combined transactional daily record last year, too, with 111.7m payments processed in a single 15-hour window.

When our company launched – before man walked on the moon, when mobile communicators only existed on sci-fi shows, and as Apple’s Steve Jobs was just entering his teens – banks of computers filling entire rooms processed our transactions, and the data was stored on huge magnetic disks. Today,

the smartphone in your pocket has more computing power than NASA had for its Apollo missions, and we certainly no longer have man-sized computers to process payments.

Bacs doesn’t actually own any computers for transactions in 2018. In 2003, following the Cruickshank Report into competition in the banking industry, the company separated into two parts – Bacs Payment Schemes Limited, which continues to own and manage the schemes, and a company that was later to become Vocalink, running the technological infrastructure through which our processing runs.

And that isn’t all that’s changed. Our payments are now recognised by the government as being of critical importance to the financial infrastructure of the UK. On top of that, we have worked hard to lead the way for the country’s payments industry, providing vital managed services to the sector.

We own and run the high-profile Current Account Switch Service (CASS), which has been changing the way people and smaller businesses and charities switch bank accounts since 2013, with the stress-free process encouraging competition and movement in the marketplace.

From CASS, another new service was created: the Bulk Payment Redirection Service plays a pivotal role in moving multiple bank accounts between banks and billers, particularly important for the ring-fencing process currently underway in the UK banking industry.

We created a central website for assigning new sort codes, something which has, again, helped with competition, and we run the Extended Industry Sort Code Directory, and Biller Update Service, both ensuring bank account details are kept up-to-date.

Our doors remain firmly open to new banks, too. In the year through

to February 2018, we welcomed four new banking participants, providing even greater access to our products.

We also take our corporate social responsibilities very seriously. In 2012, we became carbon neutral and our environmental commitment continues – indeed, we became carbon positive in 2017. We have raised more than half a million pounds for charity in recent years, and funded the planting of thousands of trees in the UK and overseas. We are also committed to ensuring equality in the workplace, taking an active role in the Treasury’s Women in Finance initiative from launch.

The last 15 years have been a fascinating journey for me, leading the company through a time of pacey evolution – I was privileged to have a joint role during that time, guiding not just Bacs but also taking charge of Chaps Co, where we moved Faster Payments away from being a part of Chaps to become a standalone scheme company in its own right.

And now we’re looking at more changes. As Bacs celebrates its 50th birthday, we are about to blaze a new trail. In May of this year, the company will become part of the New Payment System Operator. It will be joined by Faster Payments and the Image Clearing Service, bringing these major retail payments under one consolidated roof. But, even as everything changes, everything remains the same. Bacs will continue to run as it always has, and it will be business as usual for our payments and services that are widely relied upon by so many.

As these 50 years come to a close, I’m thrilled with all that Bacs, and more importantly, its people have achieved. As a new era begins, we can look back at our accomplishments with a great deal of pride.

For more information, please visit: www.bacs.co.uk

Anne Pieckielon, director of product and strategy at Bacs, reflects on the development of the high-profile Current Account Switch Service, which was created to drive competition in the current account market

Understanding the individual



As Bacs celebrates its 50th birthday, the Current Account Switch Service is heading towards its fifth, later in 2018. Since its launch, more than 4.5m accounts have moved between banking providers using the service.

Almost 40m payments have been redirected to new accounts. Our satisfaction rate was measured at 93 per cent during the last quarter of 2017. And awareness of the service hit a new high of 84 per cent in October 2017 following the launch of an extensive public awareness campaign. I am very proud of all of these achievements, but the numbers are the tiniest tip of the huge Current Account Switch Service iceberg.

In my view, far too often, regulators and policymakers focus on the headline switching rate, rather than what sits behind that

data. Yet it's that information which is important to the delivery of a service that really works for more people and more small businesses and charities – particularly those that may be the most reluctant to switch but that stand to benefit the most should they do so.

As the people who own and run the service, it is our responsibility to provide the best service we can. That means getting to grips with the way real people act and feel, the barriers they perceive, the hurdles they believe exist. They are not just numbers, they are individuals and understanding what they want from the service is vital.

That's why we have invested considerable effort into research. At first, we looked at how the service has impacted positively on the current account market but, in 2017, we went further, reviewing in some



depth how the market is working – or not – for vulnerable consumers.

Our report, produced in conjunction with the Social Market Foundation, looked at different causes of vulnerability, including those who are digitally excluded, repeat overdraft users, and the unbanked. We investigated how these develop over time, pinpointing three key areas that are likely to impact their vulnerability: demographics, technological capability, and the economy.

The work has also identified policy tools that could be implemented to aid the individuals, the people, who find themselves financially vulnerable. These include an increased focus on flexible budgeting; monitoring how providers support vulnerable consumers; helping those in vulnerable circumstances to improve

their financial and digital capability; and increasing effective data sharing to notify multiple providers about changes in customer circumstance so that support can be better and more quickly offered, and deeper problems subsequently avoided.

But it isn't enough simply to recognise those potential measures – in order to properly deliver a service that facilitates genuine freedom of movement, we need to address the gaps we find in our own offering but also in the wider financial sector, wherever and whenever we can influence decisions.

The report will certainly help shape the future of the Current Account Switch Service – we will draw on its findings to inform the way we develop the service. And develop we must, to keep pace with fast-moving consumer and business needs, and the evolving banking market. Indeed, we have already implemented a number of changes, in part on regulatory request but also based on the findings of our extensive research programme.

For example, we revisited the original redirection period of 13 months – first introduced to capture annual payments – and extended it to 36 months, underpinning that longer term redirection for those customers who still need it. The move was designed to give customers even greater confidence in the service, and the operational success has been significant with 99.4 per cent of switches successful.

We also commissioned the Consumer Dispute Resolution Centre at Queen Margaret University in Edinburgh to explore the broader question of consumer representation in financial services, as part of our commitment to putting the consumer at the heart of our work.

The research was designed to identify ways in which the availability and quality of consumer

representation could be improved in financial services, and to make sure that the impact – positive or negative – on the customer is the core consideration when it comes to bringing new products and services to market.

We have continued to explore this, through events and workshops as well as academic research, and the findings will form a major pillar of our plans for 2018. But this isn't just about what we do ourselves – I am committed to driving effective consumer representation in the wider financial sector, too, wherever we can bring influence to bear.

Another area of intense debate and interest is financial inclusion. While we touched on this with our work around vulnerability, there is a distinct group that sits outside of what most of us take for granted – quite simply, without a bank account the types of products and services that make everyday life cheaper and easier cannot be accessed. This is a tough subject but one that we, as a sector, must address, and I am determined we will play an active role in finding solutions, and helping to inform policy decisions.

Outside of all of this work, I have personal ambitions for the Current Account Switch Service. The service has worked, and worked well, and a number of other countries have already approached us to discuss replicating our model to improve both market competition and also customer experience within their own borders. But I believe there is still much more that we can do, particularly with the dedicated team of professionals we have in place to deliver and develop the service. And, even as the landscape in which we work undergoes substantial change with the exciting advent of the New Payment System Operator, my focus will be firmly on seeing that potential realised.



Switching business bank accounts so seamlessly you'll hardly notice.

That's right – you can switch business bank accounts with the Current Account Switch Service. All payments to and from your old account, including Direct Debits and standing orders are moved over, while any payments accidentally sent to your old account are redirected. In fact, the whole process is so smooth, you'll hardly know it's there.

Look out for the Current Account Switch Guarantee.

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