UNITED KINGDOM (UK)

Country Background

This section provides background information on the country, including key facts, recent economic performance, and information on its government.

Key Facts

- **Capital — other major cities**: London — Birmingham, Leeds, Glasgow, Sheffield
- **Area**: 244,820 km²
- **Languages**: English, Welsh, Scots
- **Currency**: GBP (Pound Sterling)
- **Country telephone code**: +44
- **National / bank holidays**:
  - 2008 — 25-26 Dec
  - 2009 — 1, 2* Jan; 10, 13† Apr; 4, 25 May; 3*, 31† Aug; 30* Nov; 25, 28 Dec
- **Business / banking hours**: 9:00 – 17:00 (Mon-Fri)
- **Stock exchange**: London Stock Exchange
- **Leading share index**: FTSE 100
- **Overall share index**: FTSE All-Share Index
- **Internet top-level domain**: .uk (.gb no longer in use)

Note: UK holidays are shared between England, Wales and Scotland, except when noted by:
* Holiday only observed in Scotland 🔨 Holiday only observed in England and Wales

Economic Performance

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange rate — GBP/EUR¹</td>
<td>0.6274</td>
<td>0.6919</td>
<td>0.6781</td>
<td>0.6849</td>
<td>0.6816</td>
<td>0.6840</td>
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<tr>
<td>Exchange rate — GBP/USD¹</td>
<td>0.6667</td>
<td>0.6130</td>
<td>0.5461</td>
<td>0.5508</td>
<td>0.5434</td>
<td>0.4994</td>
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<tr>
<td>Money market rate (Libor 1m) (%)²</td>
<td>3.93</td>
<td>3.64</td>
<td>4.45</td>
<td>4.67</td>
<td>4.73</td>
<td>5.80</td>
</tr>
<tr>
<td>Consumer inflation (%)³</td>
<td>1.3</td>
<td>1.4</td>
<td>1.3</td>
<td>2.0</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Unemployment rate (%)³</td>
<td>5.1</td>
<td>4.9</td>
<td>4.7</td>
<td>4.8</td>
<td>5.3</td>
<td>5.1</td>
</tr>
<tr>
<td>GDP volume growth (%)³</td>
<td>2.1</td>
<td>2.7</td>
<td>3.3</td>
<td>1.9</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>GDP (GBP bn)⁴</td>
<td>1,048.8</td>
<td>1,110.3</td>
<td>1,176.5</td>
<td>1,224.7</td>
<td>1,294.5</td>
<td>1,365.7</td>
</tr>
<tr>
<td>GDP (USD bn)⁵</td>
<td>1,573.1</td>
<td>1,811.2</td>
<td>2,154.3</td>
<td>2,223.7</td>
<td>2,382.0</td>
<td>2,552.7</td>
</tr>
<tr>
<td>Population (mil)⁶</td>
<td>59.32</td>
<td>59.55</td>
<td>59.83</td>
<td>60.218</td>
<td>60.533</td>
<td>60.836</td>
</tr>
<tr>
<td>GDP per capita (USD)</td>
<td>26,541</td>
<td>30,470</td>
<td>36,019</td>
<td>37,023</td>
<td>38,947</td>
<td>41,960</td>
</tr>
<tr>
<td>Current account (% of GDP)⁷</td>
<td>-1.6</td>
<td>-1.3</td>
<td>-1.6</td>
<td>-2.2</td>
<td>-2.4</td>
<td>-2.3</td>
</tr>
</tbody>
</table>

¹: Period average
²: Annual percentage change
³: Harmonized definition ILO (International Labour Organization)
⁴: GDP at market prices. Production-based approach.
⁵: Per exchange rate
⁶: End of period, recent figures may be IMF projections
⁷: Trade balance of goods and services + net income + net transfers

Sources: IMF, ECB

Government

- **Legislature regime**: constitutional (unwritten; partly statutes, partly common law and practice) monarchy with a bicameral parliament.
- **Parliament is based on a two chamber system, which sit separately, constituted on different principles.**
Country Profile: United Kingdom

Legal and Regulatory Issues

This section provides information on the country’s legal and regulatory issues, including legislation, resident and non-resident status, account ownership, cash pooling regulations, account types and charges, FX controls, central bank reporting requirements, anti-money laundering, and electronic transactions.

Overview

» The UK has a liberal legal environment. No special purpose legislation applies, e.g. regulations within account ownership, account types are non-existing and reporting requirements are very limited. This makes the UK and especially London an excellent location for a group treasury centre and for setting up regional or global cash pools.

Resident and Non-resident Status

» Company has status as a resident company if incorporated or centrally managed and controlled in the UK.
» Some companies with resident status can be considered as resident in another country for the purposes of a double taxation treaty.

Account Ownership

» Any type of account can be owned by a resident as well as a non-resident company.

Cash Pooling Regulations

» Cash concentration and notional pooling are allowed domestically as well as cross-border.
» The accounts of the cash pool must be held by companies within the same group.
» Resident and non-resident companies can participate in the same cash pool.
» Under UK legislation multicurrency cash pooling is permitted, although not widely offered by the banks.

Account Types and Charges

» Current accounts can be held in all exchangeable currencies and are offered with or without overdraft limits.
» GBP accounts are convertible into foreign currency.
» Interest rates can be either fixed using the bank’s basic rate or based on a market rate (e.g. LIBOR) less a spread.
» Account maintenance fees will normally apply but are negotiable.
» Lifting fees (per mille of transferred amount) are normally not levied.
» A flat fee will be charged for domestic as well as foreign payments.
» In accordance with EU rules (Regulation 2560/2001) on cross-border payments in euro, payments/transfers with the EU and certain EFTA countries cost the same as their domestic equivalent.
  - EU standard transfers can only be undertaken exclusively in euro
  - The maximum amount of EUR 50,000 should not be exceeded
  - The payment must be credited to an account maintained in a EU state (or certain EFTA countries)
The IBAN and the BIC of the recipient must be correctly indicated
- Transfer fees shall be divided between the sender and the recipient (each pays the fees incurred in her/his corresponding country).
- Note: orders not fulfilling these requirements will be carried out as foreign transfers and charged accordingly.
  » IBAN implemented fully July 2003.

FX Control
  » Pound Sterling flows freely but the Central Bank can intervene in order to stabilise the exchange rate.
  » No restrictions on capital flows (exchange controls).
  » There are no restrictions on capital transactions.
  » There are no restrictions on spot and forward foreign exchange transactions.
  » Residents and non-residents are permitted to deal in foreign currency notes and coin.

Central Bank Reporting Requirements
  » Central bank reporting is not applicable.

Anti-Money Laundering
  » The headlines of the Money Laundering Regulations are:
    - Systems and training to prevent money laundering must be in place, covering:
      o procedures of internal control and communication to prevent money laundering;
      o measures so that relevant employees are made aware of the provisions of these Regulations, Part 7 of the Proceeds of Crime Act 2002 (e.g. a person commits an offence if he conceals criminal property, acquires criminal property or has possession of same, or fails to disclose information in relation to suspicious transactions); and
      o that training is given in how to recognise and deal with suspicious transactions
    - Adherence to identification procedures; any person must produce satisfactory evidence of identity when entering into a business relationship with a bank or carrying out one-off transactions exceeding EUR 15,000.
    - Strict procedures for record-keeping; a record must be kept for 5 years containing a copy of the evidence of identity and details relating to all transactions carried out.
    - Internal reporting procedures must be in place to ensure that any employee knows when, how and whom to report to in the event that she suspects a person is engaged in money laundering. The bank must appoint a person responsible for information gathering (Money Laundering Reporting Officer) and this person must disclose the information or other matters to a person authorised by the National Criminal Intelligence Service.

Electronic Transactions
  » EU-directives on electronic signature and cross-border credit transfers is implemented
  » Electronic signatures are accepted as legally binding
  » Electronic invoicing is allowed
The Banking Environment

This section includes an overview of the banking market, market dominant banks and background information regarding the central bank and its tasks.

Overview

» At year end 2005, according to the Bank for International Settlements' “Red Book” (last updated March 2007), there were 391 financial institutions operating in the United Kingdom with some 13,827 branch offices and 113.72 million accounts valued at £3,757.60 billion. This includes domestic and foreign banks:
  - 217 commercial banks whose accounts are valued at £1,490.20
  - 174 foreign banks whose accounts are valued at £2,267.40

» Estimates from October 2006 state that approximately 160 banks operate in the UK, and as many as 170 foreign banks have one or more branches — the vast majority of these are located in London — the “City” which has the highest concentration of foreign banks in the world.

» As of September 2007 there are 59 building societies.

» All the major international cash management banks have a presence in the United Kingdom.

» In total around 25,000 firms within personal investment, investment management, securities and futures, banking, insurance, credit unions and other firms have obtained authorisation from the Financial Services Authority (FSA). As a result, a wide diversity of financial services are offered.

» The Basel II framework, based on EU directives adopted in June 2006 and numerous interpretation guidelines issued by the Committee of European Banking Supervisors, entered into force in 2007. However, the framework will not be adopted simultaneously in all banks, as individual banks may choose not to introduce the new rules until the beginning of 2008.

» On 22 February 2008 Northern Rock, one of the top five mortgage lenders in the UK, was nationalised. The nationalisation was a result of two unsuccessful bids to take over the bank, neither being able to fully commit to repayment of taxpayers’ money, which were extended by the Bank of England via a liquidity support facility due to problems in raising funds in the money market to replace maturing money market borrowings.

» The US government's proposed $700-billion bailout package will cover five leading UK banks, which together own around $175 billion (approx. £95 billion) of distressed assets, newspaper reports said.
  - Of the affected UK banks, HSBC holds about £45 billion in illiquid assets, Barclays has £17 billion, Royal Bank of Scotland £16 billion, HBOS £13 billion and Lloyds TSB, which agreed to buy HBOS for £12 billion on 18 September 2008, has distressed assets of about £3 billion.
  - A quarter of the bailout package would then go to the British banks if they opt to fully tap into the rescue plan. Prime Minister Brown has stated that there will be no US-style bailout plan for UK banks, instead relying on increasing liquidity in the markets via the Bank of England's lending facility.

Market Dominant Banks

» The commercial banking market in the UK is dominated by the major British banking groups (MBBG), among the 50 biggest in the world: Barclays Bank, Royal Bank of Scotland, HBOS (Halifax & Bank of Scotland), HSBC Bank, and Lloyds TSB.

» The larger demutualised building societies (Abbey National, Alliance & Leicester Group, Northern Rock) also play a role, actively compete with banks for most “banking services” especially mortgage lending and deposit accounts.

» The major domestic cash management banks are Barclays, Royal Bank of Scotland, HSBC, Lloyds TSB and Bank of Scotland. In addition, all the major international cash management banks have a presence in the United Kingdom.

The Central Bank

» Founded in 1694 the Bank of England is the central bank of the United Kingdom. After being nationalised in 1946, the Bank of England was given operational autonomy by the Government in 1997.
Its current legal framework is laid down in the 1998 Bank of England Act. As governing bodies the Act provides for a Court of Directors, a Monetary Policy Committee (MPC) and a Committee on Non-executive Directors within Court (NedCo). The latter doing, among other things, procedural reviews. Mervyn Allister King is Governor.

As approved by the Court of Directors in 2004, the Bank’s two main purposes are monetary and financial stability:
- The Bank (through MPC) independently sets monetary policy – i.e. it decides on the level of short-term interest rates necessary to meet the inflation target of the Government, currently 2% per annum.
- Financial stability entails detecting and reducing threats to the financial system as a whole through surveillance and market intelligence functions. They are reduced by strengthening infrastructure, and by financial and other operations, including, in exceptional circumstances, by acting as the lender of last resort.

The Bank’s role includes oversight of payment systems, which facilitate transactions between individuals, businesses and financial institutions. To this end, the Bank works closely together with the Economics and Finance Ministry (HM Treasury) and the Financial Services Authority (FSA). This includes activities for handling financial crises should they occur. In this respect, the Bank is the financial system’s “lender of last resort” (prevention of bankruptcy if fatal consequences).

Further, the Bank has a monopoly on the issue of Pound Sterling banknotes in England and Wales. Note that, in Scotland banknotes are issued by HBOS (Halifax & Bank of Scotland), Royal Bank of Scotland and Clydesdale Bank. However, all banknotes from the above issuers are generally accepted throughout the UK.

Financial Authorities

This section includes information on key financial authorities and the country’s banking association.

Overview

- Besides the Bank of England, two main regulatory bodies exist within financial services: HM Treasury and the Financial Service Authority.

HM Treasury

- Her Majesty’s Treasury (HM Treasury) is the United Kingdom’s economics and finance ministry.
- Generally it is responsible for implementing the Government's financial and economic policy.
- Its aim is to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life with economic and employment opportunities for all.

Financial Service Authority (FSA)

- The FSA is an independent non-governmental organisation given statutory powers by the Financial Services and Markets Act (FSMA) 2000, which supervises and authorises individual banks and other financial organisations including recognised financial exchanges such as the London Stock Exchange.
- FSA’s operations are financed by the financial services industry. However, FSA is solely responsible to HM Treasury, and through them to Parliament.
- The overall aim of the organisation is to promote efficient, orderly and fair markets; helping retail consumers achieve a fair deal; and improving the industry’s business capability and effectiveness.
- Its four statutory objectives: market confidence, public awareness, consumer protection, and the reduction of financial crime.
- FSA will also be involved in any merger or acquisition in the financial industry.

British Bankers’ Association (BBA)

- The banks are represented by the British Bankers’ Association, by far the biggest trade association for companies in the financial industry.
- As of September 2008, the BBA has 260 members, of which 203 are member banks, and 57 are associate members.
» The range of issues addressed by the BBA is extraordinarily wide, some of which include:
- the development, production and continuing revision of the Banking Code;
- guidance on accounting practice;
- the Money Laundering Guidance Notes;
- market pricing benchmarks such as LIBOR rates;
- maintaining data on bank deposits and lending, credit cards and operational losses;
- shaping European regulation to enable the better provision of financial services;
- playing a key role in promoting the development of the Basel Accord for both credit and operational risk-providing regulators with carefully evidenced arguments for change.

UK Financial Sector Continuity

» The UK’s tripartite financial authorities – the Bank of England, HM Treasury and the Financial Services Authority – has established a website (www.fsc.gov.uk) to provide a central point of information about work on continuity planning that is relevant to the UK’s financial sector.

Clearing Systems

This section provides an overview of the different clearing systems in operation and includes information about each system such as transaction types, operating hours and clearing cycle details.

Overview

» There are four main clearing systems in the UK — CHAPS, BACS, the Faster Payments Service and the Cheque and Credit Clearing (C&CC) system.
- New Clearing House Automated Payment System (CHAPS) is the real-time gross settlement system (RTGS) for high-value wholesale payments.
- BACS Payment Schemes Limited (BACS) is responsible for the clearing and settlement arrangements for direct debits, direct credits and standing orders. BACS is the country’s largest “retail” payment system in terms of the total value of transactions settled.
- The Cheque and Credit Clearing Company is responsible for clearing and settlement arrangements for paper items such as cheques and paper credit vouchers.
- CREST, the securities settlement system, and LCH Clearnet Ltd, the central counterparty serving many of London’s financial markets, both have “embedded” payment mechanisms. Real time settlement between CREST settlement members was introduced in November 2001.
- The Bank of England acts as settlement agent for all the payment systems.
- The Association for Payment Clearing Services (APACS) is the UK trade association of banks and building societies involved in the payments system and supervises CHAPS, BACS and the Cheque and Credit Clearing Company’s systems and processes. APACS is a non-statutory association of institutions delivering payment services to end customers. It provides a forum for institutions to discuss non-competitive issues relating to the payments industry.

High Value Clearing — CHAPS

» Managed and operated by the CHAPS Clearing Company (CHAPSCo), CHAPS is the UK’s RTGS system and enables individual and continuous payment processing during the day in real time.
» CHAPS is one of the largest RTGS systems in the world.
» Until 16 May 2008, CHAPS Euro, a TARGET-linked sub-system of CHAPS, processed high value domestic and cross-border payments in EUR. CHAPS now only processes payments denominated in GBP.
» 15 direct participants. Approximately 400 indirect members.
» Transaction types: Urgent, same-day-value payments in sterling.
Pricing indication: The fee which a settlement member charges its customers for a CHAPS transfer is a matter for commercial negotiation between the parties concerned. These charges may be on a per-debit item basis or part of a package negotiated by the bank with its customer.

Operating hours: Monday to Friday 6.00–17.00 GMT.

Clearing cycle details: banks use the SWIFTNet (some have migrated to SWIFTNet FIN) format to instruct payments. Clearing takes place in real-time with immediate finality. Settlement between banks is done via the member’s accounts held with the Bank of England.

The Bank of England takes securities as collateral against its lending to provide intra-day liquidity in the RTGS clearings. Prime securities in Sterling as well as Euro are accepted.

TARGET2

The current pan-European RTGS system, TARGET, migrated to a single shared platform (SSP) called TARGET2 making the RTGS systems of individual Eurosystem countries obsolete.

The changeover to took place in three migration waves, starting November 2007 and ending May 2008.

The Bank of England has decided that the UK RTGS system will not participate in TARGET2, so CHAPS Euro closed on 16 May 2008. After this date, CHAPS Euro members and their customers will effect TARGET payments in euro via another country’s system, whether as direct members or customers of another member.

The Bank of England also has accounts and customer business in euro, and it will access TARGET2 via De Nederlandsche Bank (DNB) to make and receive euro payments.

The Swedish Central Bank will also not migrate to TARGET2.

Low Value Clearing — BACS

On 1 December 2003 the Bankers Automated Clearing System (BACS) separated into two companies, however, day-to-day operation remains business as usual and the daily term used remains BACS:

- BACS Payment Schemes Ltd (BPSL), a membership-based industry body whose role is to develop, enhance and promote the use and integrity of automated payment and payment-related services. It promotes best practice amongst those companies who offer payment services and is responsible for the associated payment clearing and settlement services.

- Voca Limited (formerly known as BACS Limited prior to 12 October 2004) is the commercial company that physically processes the Direct Debit and Direct Credit payments, and maintains the payment network. In March 2007 Voca announce its merger with LINK to create VocalINK. LINK delivers the network behind the LINK ATM scheme, powering almost every cash machine / ATM in the UK. The combined company will be one of the leading payments processors in Europe with a forecast volume of over 8 billion transactions in 2007.

In 2006 BACSTEL-IP was introduced to provides direct and secure online telecommunications access to BACS.

More than 100,000 businesses, including all of the FTSE 100, transact through BACS.

There were, on average, some 22 million daily transactions in 2007.

15 direct participants, the UK's leading banks and building societies, which wholly own BACS Payment Schemes Ltd. A large number of banks clear through the direct members.

Transaction types: ordinary payments (non-urgent) via Direct Debit, Direct Credit or standing orders in Sterling and Euro. In general up to 20,000 payments or collections can be instructed per file. Instructions can be submitted up to 30 days in advance.

Pricing indication: Voca Ltd applies an annual tariff to settlement members of BPSL to recover processing and other service costs. Sponsoring banks negotiate independently with users and other customers the charges which they will incur as a result of generating transfers or receiving credits through the payment system. BPSL’s rules require its members to meet the operating expenses of the scheme through payment of an annual fee.

Operating hours: clearing takes place Monday – Friday 7:00–22:30 GMT.

Clearing cycle details:
- Day 1: input day when files are submitted to BACS. Via telecommunication this can be done between 8.00 (Monday from 8.30) and 21.00 on weekdays. Via BACSTEL-IP closing is extended to 22.30. Payment files are validated and confirmed upon receipt.
- Day 2: processing day, where the file is transmitted to the customer's bank
- Day 3: simultaneous debit/credit day. Hence, although it is a 3-day processing cycle there is no loss of value. Settlement takes place via Bank of England.
**Faster Payments Service**

- Faster Payments is a multilateral net settlement service enables electronic payments, typically made via the internet or phone, to be processed in hours rather than days, thereby removing the float from such payments.
- The new Faster Payments infrastructure was launched on 27th May 2008 and marks the first new payments service to be introduced in the UK since the introduction of BACSTEL in 1983.
- To date 13 banks and building societies, accounting for 97% of UK payments traffic, are committed to use the new service to do the new service. In the future, other financial institutions will be able to join, either as members, or to access the system through agency arrangements with a member - just as they do with other payment systems.
- From the launch date, the founding member banks will be gradually implementing their own plans to deliver the new service to their customers. A phased approach to rollout is being adopted to help ensure that the service is launched smoothly, securely and with total reliability for customers. The new service will run alongside existing payment schemes in the UK such as BACS and CHAPS.
- Transaction types: one-off automated retail payments initiated online or via telephone as well as standing orders in GBP
- Value dating rules: settlement on same-day basis
- Operating hours: operates 24 hours a day
- Pricing indication: There have been no official announcements regarding the cost per transaction of FPS. However, it is expected to be around £1 – though this is likely to apply only to businesses seeking to migrate from BACS and seems unlikely any charge will apply to individual customer

**Cheque and Credit Clearing Company**

- The Cheque and Credit Clearing Company is responsible for the bulk clearing of cheques and paper credits in Sterling and Euro throughout Great Britain. The exception is Northern Ireland where cheques and credit payments are processed locally.
- Members are individually responsible for processing cheques drawn by or credited to their customers' accounts.
- 11 full participants, hereof all of the UK's leading banks. Additionally, a couple of hundred other institutions offer cheque facilities for their clients and access the cheque clearing through the full members.
- Transaction types: paper-based instruments such as cheques and paper-based credit transfers. No restrictions as to transaction size apply.
- Operating hours: transactions are effected on a 24-hours basis Monday to Friday
- Clearing cycle details:
  - Day 1: a cheque paid into a member bank (or one of their agencies) anywhere in Britain during the course of a day's business will normally be processed by the collecting bank that evening. At the collecting bank clearing centre the cheque information is passed electronically through a secure data exchange network (called the Inter Bank Data Exchange, IBDE) to the appropriate paying bank clearing centre.
  - Day 2: the cheque is delivered to an Exchange Centre, where members of the cheque clearing hand over all the cheques drawn on the other banks and collect all the cheques drawn on themselves
  - Day 3: in the morning bank staff will review the cheques presented for payment and make decisions about whether to pay or return them. Settlement between the Members, for the net values of the cheques exchanged between them, takes place over their Bank of England settlement accounts on day three
- Cheques collected in England and Wales drawn on a Scottish bank take a day extra. However, due to recent developments in Scottish clearing (standardised according to the clearing in England and Wales) these are now expected to have the same clearing cycle.

**Payments, Collection Methods and Instruments**

This section provides an overview of the payment methods employed in the country, including statistics and more detailed qualitative information about such methods.
Overview

- Cash payments are the most common payment method in the UK. More specifically, the use of cash is most popular for low-value payments, with more than 96% of all payments under GBP5 in value being made with cash in 2006. In terms of the changing trends in the use of cash, 2004 was a landmark year when card payments overtook cash by value for the first time. Although the move from cash to plastic cards has been rapid, over GBP270 billion is spent each year in cash. Figures produced by APACS show that, in 2006, cash payments accounted for 63% of all transactions by volume (down from around 67% in 1999). The implementation of more contactless card payment technology is predicted to cause a further decline in cash usage.
- Nearly all cashless payment methods have seen strong growth, with the recent exception of credit cards and cheques, which, in volume terms, are in decline. Credit transfers remain, by far, the largest cashless payment method in value terms.
- UK banks began offering the SEPA Credit Transfer Scheme to enable pan-European credit transfers, which can be processed in a maximum of three days, on 28 January 2008. The UK will begin to offer the SEPA Direct Debit Scheme in 2009.

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<tbody>
<tr>
<td>2004</td>
<td>2005</td>
</tr>
<tr>
<td>Debit cards</td>
<td>3,791</td>
</tr>
<tr>
<td>Credit cards *</td>
<td>1,941</td>
</tr>
<tr>
<td>Credit transfers</td>
<td>2,598</td>
</tr>
<tr>
<td>Direct debits</td>
<td>2,590</td>
</tr>
<tr>
<td>Cheques</td>
<td>2,089</td>
</tr>
<tr>
<td>Total</td>
<td>13,176</td>
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</tbody>
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* Includes payments by cards with a credit and/or delayed debit function. Note: Figures are rounded. Percentage change calculated from 2005-2006.

Sources: ECB Statistical Data Warehouse

Card Payments

- Cards are the most heavily used non-cash payment method in the UK. Credit cards are predominantly issued through the Visa and MasterCard schemes, but all leading providers issue cards in the UK. The main debit card issuers are SWITCH (re-branded as Maestro) and Visa/Visa Electron.
- Besides the conventional debit and credit cards a wide variety of plastic cards exist. Some examples are: ATM Cards, Charge Cards, Loyalty Cards, Store Cards and Purchasing Cards.
- In February 2006 the UK migrated to a Chip & Pin-code based system for all cards to enhance security.
  - The UK’s banks and card companies have as of February 2007 issued 138 million chip and PIN cards — representing 97 per cent of the UK’s 142 million payment cards.
  - Remaining cards will continue to be upgraded in 2007.
- At year-end 2006 there were some 164.63 million cards in issue. Some 68 million were debit cards and 69.5 million were credit cards.
- The UK has a large net of 60,000 Automated Teller Machines (ATMs) as of 2006 (compared with 29,000 at the end of 1999). 45% of the ATMs are now at non-bank sites (known as independent ATM deployers, IADs), for example locations heavily frequented by customers, e.g. supermarkets and train stations.
- More than a million POS terminals exist nation-wide.
- The following is an executive summary of financial cards in the United Kingdom by Euromonitor as of March 2008:
- The UK financial services industry in general continues to be highly competitive. The two major operators appear to be having different fortunes in the credit and debit sectors: whilst MasterCard, for long the weaker operator, has grabbed a share of around 45% of credit cards in circulation and is gaining fast in transactions, Visa is in the ascendancy in debit cards. Credit cards are, however, in a phase of decline for now, whereas debit cards continue to go from strength to strength, and the impact of contactless technology from September 2007 onwards, although to be available on either debit or credit cards, is more likely to increase debit cards’ dominance of the market.
- With a credit card sector that appears to be saturated and stagnant, the much vaunted “war on cash” is turning the focus to the development of less cash dependence among consumers for smaller purchases under £10 (the limits are somewhat higher in the US and the Euro area). Whilst the benefits to consumers are reasonably self-
evident, there could still be resistance among retailers which will either have to upgrade current POS terminal equipment or else install POS terminals for the first time.

» Over the medium term financial card usage is likely to expand in the UK with the introduction of smart cards allowing operators to introduce greater functionality and features. Although the credit industry is likely to be flat, the debit sector, be it in the form of contactless payment or mobile payments, will underpin higher usage than is currently the case. There is also some indication that the introduction of pre-pay enabled mobile phones using NFC (Near Field Communication) technology could be another step in the "war against cash" and expand the market further or else cannibalise transactions from yet-to-be introduced contactless cards.

Credit Transfers

» Credit transfers are – as illustrated above by value – by far the most common way of transferring funds in the UK.

» A CHAPS payment is used for urgent domestic payments in Sterling or domestic and international payments in Euro. The banks guarantee same-day turnaround for payment instructions received before cut off. The cut-off for electronically instructed customer payments is at 16:00 while payments instructions by other means will have an earlier cut-off. The banks can usually provide a notification to the beneficiary as well. Payments can be instructed via fax or via an electronic banking system. There is no lower limit to amounts but the fee charged by the banks (in the range 10 to 20 Sterling) effectively prevents low-value payments.

» The BACS Direct Credit is mainly used for paying wages and salaries, but it can also be set up as standing orders.

» More than 90% of the workforce is paid via Direct Credit and more than 150,000 organisations use BACS for supplier payments, pensions, employee expenses, insurance settlements, dividends and refunds.

» The customer cut-off for sending payment instructions is via the new web-application BACSTEL-IP extended to 22:30 on all weekdays. Payments can also be instructed through a standard modem-connection (cut-off at 21.00). As a rule of thumb one should make over 100 transactions per month to choose the direct BACS connection (BACSTEL-IP). Processing of BACS payments can be outsourced to an approved Bureau as well.

» The number of payments processed through BACS is expected to continue to increase rapidly.

Direct Debits

» A BACS Direct Debit is an instruction from a customer to their bank or building society authorising an organisation to collect varying amounts from their account, with proper advance notice of the collection amounts and dates.

» 75% of the population uses Direct Debit and they have authorised around 100,000 organisations to use this payment method for collecting a variety of recurring (the majority) and occasional bills including utility payments, insurance, council tax, mortgages, loans and subscriptions.

» It is not possible to reject a Direct Debit but if an error is made by the requesting organisation or the bank the customer is guaranteed a full refund from her/his bank.

Cheques

» Volumes peaked in 1990 but usage has fallen since then, mainly owing to personal customers increased use of plastic cards and direct debits. Usage fell by 39% from 1994 to 2004 and is predicted to fall a further 44% by 2014.

» Cheques remain popular in the business sector for paying suppliers, although many business now use automated payments, e.g. BACS credit transfers, and cards in preference to cheques.

Electronic Banking

This section includes an overview of electronic banking in the country as well as information on EDIFACT, e-payments and e-invoicing.

Overview

» In the UK electronic banking services are offered solely as bank proprietary solutions.
» However, the services offered by BACS through BACTSTEL-IP could be seen as sort of a common platform for payment processing: Using approved BACSTEL-IP software via the web, payments can be uploaded to BACS for further processing. Confirmation of receipts and reports are available through the same channel.

» More and more banks have shifted the focus from PC based electronic banking systems to web-based platforms. The services offered through the World Wide Web include payment transactions, account information, inter-company netting solutions, FX dealings and information etc. Even though the web-based solutions are becoming more and more advanced, a number of banks still maintain sophisticated services via PC-based tools.

» Internet banking has increased most rapidly: use of internet banking services was eight times higher in 2005 than in 1999.

» WAP (Wireless Application Protocol) mobile phone banking services are currently being developed. Five mobile telecommunication companies launched the PayFort system in September 2007, which enables low-value consumer payments below GBP 10 to be made via Web-enabled mobile phones.

Host-to-Host Solutions

» EDI or other means of host to solutions are not widely marketed for domestic clients (as cheques are still a widely used means of payment for supplier payments). The leading cash management banks in the City, hereof a number of major foreign banks, do however provide host-to-host payment solutions in support of client’s payment factories.

E-payments

» In the UK there is no financial industry backed e-payment solution. A number of online billing and payment providers are present, such as for example WorldPay, NetBanx, PayPal and ChronoPay.

» Micropayments are offered by many of the regional and “global” players. Such solutions usually rest on two important prerequisites: 1) prepayment and 2) settlement via debit or credit cards. One of the national offerings within micropayments in the UK is British Telecom’s “BT Click&Buy”. BT Click&Buy offers settlement via debit/credit cards and for UK residents via a BACS Direct Debit or their British Telecom phone bill.

» An electronic signature backed by an electronic certificate is recognised as a valid way of transacting in the UK.

E-invoice / EBPP

» All the leading banks provide EBPP (Electronic Bill Presentment and Payment) solutions via the web; usually through sub-contractors though. This form of invoicing is not widespread, which is probably related to the fact that business-to-business payments are still effected mainly by cheques.

Faster Payments Scheme

» Faster Payments is a multilateral net settlement service enables electronic payments, typically made via the internet or phone, to be processed in hours rather than days, thereby removing the float from such payments. See the section on Clearing Systems above for more information regarding transaction types, operating hours and a pricing indication.

» The current £10,000 limit on payments means that corporates will not immediately be able to move the majority of their CHAPS payments across to Faster Payments; however, this level is likely to change over time with demand. At the moment, it has been proposed that corporates will only be able to be submit Faster Payments between 6.30am and 14.30pm on normal bank working days.

» The date for corporates to be able to connect into Faster Payments directly through third-party software, much as they do today into Bacs using Bacstel-IP, has not yet been set - although many believe it will be sometime in early 2009. Today, corporates with more than one bank sponsor for Bacs payments are able to manage their payments through a single bank independent Bacstel-IP solution. Until direct corporate access to Faster Payments is available, corporates who wish to enjoy the benefits of Faster Payments may have to manage multiple propriety electronic banking services, which could potentially be seen as a backward step in terms of technology and will make treasury management more complex.
Cash Pooling Solutions

This section covers cash pooling solutions such as notional pooling, cash concentration, and multicurrency and cross border pooling.

Overview

» As mentioned above UK has a liberal legal environment with a very limited number of regulations affecting cash pooling. Together with up to date tax legislation and a high number of double tax treaties this makes London an excellent environment for setting up cash pooling solutions of any form.

Notional Pooling

» Domestic notional pooling is offered by the major cash management banks in the City of London (including the international banks).

» The solutions offered to avoid co-mingling of funds include interest enhancement / interest apportionment schemes and interest netting. Such solutions all retain the autonomy of the individual participant and distribute the benefit of the set-off of balances according to agreement with the bank. As the bank cannot set-off the account balances in its own books a spread between the debit interest rate and the credit interest rate will normally be charged.

» In order for the bank to be able to off-set balances in its own books cross-guarantees from all legal entities participating in the pool are mandatory.

Cash Concentration

» Domestic cash concentration in the form of zero or target balancing is widely offered and used in the UK.

» Resident and non-resident accounts can participate in the same structure. It is also possible that accounts held by different legal entities can participate in the same structure, although cross-guarantees will be required.

Multicurrency and Cross Border Pooling

» On a cross-border basis notional as well as cash concentrating pooling schemes are offered. However, the primary tool for pooling continues to be the sweeping and funding of cash across borders. One reason for this is probably that a number of large international corporations hold their master accounts / treasury accounts — mainly denominated in USD, EUR or GBP — in London and need the physical cash in order to operate more efficiently in the money market via deposits, swaps etc.

» Cash pooling solutions across currencies are usually not part of the services offered by the major cash management banks. However, some of the more sophisticated banks do offer such solutions, domestically as well as cross-border based on interest compensation models.

» Other means of optimising liquidity are automated sweeps to money market funds, which is very common in the UK.

Sources

The hyperlinks of various sources used throughout this country profile are provided below.

Bank of England (Central Bank) www.bankofengland.co.uk
Office of Public Sector Information (UK legislation) www.opsi.gov.uk/legislation
The Department of Trade and Industry www.dti.gov.uk
The British Chamber of Commerce www.chamberonline.co.uk
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