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**Response to the consultative document:
New Legal Framework for Payments in the Internal Market**

Lloyds TSB Group has been actively involved with the production of the UK response to the New Legal Framework which has been co-ordinated by APACS. We fully support its recommendations. This note considers the issue of transparency which we believe is at the heart of what the New Legal Framework is trying to achieve. Moreover, we consider the benefits and success that self regulation has already achieved in some countries.

The key issue that has come to light from reading the Commission's paper is that across Europe, banking and the payments industry in particular are at very different levels of maturity when it comes to how consumers are regarded and treated. The Commission is right to consider harmonising the consumer experience in this regard but we do not believe that regulation is the most effective tool which should be employed to achieve this.

The concept of producing a Framework is sound providing it helps to facilitate higher standards whilst allowing flexibility, innovation and growth. From an understanding of the areas of concern, we would like to see a framework that sets out clear high level principles such as transparency and accountability. The framework should describe required quality standards and promote methods to achieve this. Additionally it should define how success would be measured.

We suggest that the overall framework should try to build as much as possible on existing best practices and rules. For instance, it is not necessary to regulate further where some countries have already achieved or exceeded the objectives of the Commission. Rather, the Commission should aim to remove legal obstacles in specific member states that prevent the creation of EU-wide market conventions and agreements. It should not impose regulation to replace or dilute conventions and agreements which are working well in some states.

Additionally, a lot of activity is already underway to address some of the Commission's concerns and these should be given time to work. For example, the formation of the European Payments Council, Cross Border standards, and the Credeuro and ICP conventions.

From a business perspective, regulation must be justified by demonstrating that the benefits it delivers outweigh the costs it creates. The need to comply with regulation increases the cost of entry into markets potentially inhibiting competition and this could lead to some providers restructuring the service to specific customer groups or leaving the market altogether. Additionally, regulation creates compliance costs which Payment Service Providers inevitably have to pass on to the consumer resulting in higher prices.

Competition is the key to giving consumers effective choice and innovative services at a fair price. It is only if competition works at all levels in the market will prices be low and innovation high. The flexibility of 'voluntary' industry codes enables innovation and rapid technological change whilst maintaining consumer protection and quality of service.

Whilst the aim of SEPA is to improve the efficiency and hence the volume of cross border payments, it must be remembered that domestic markets for payments in Europe are highly efficient and currently account for 99% of volumes within each member state. Therefore, any legislation/regulation needs to take into account that under equal treatment of domestic and cross border EU payments these domestic payments may be adversely affected.

In terms of increased transparency, we welcome all attempts to make customers more informed and financially aware. However, it is important that the information is meaningful and relevant to the circumstances. It would seem that different member states operate varying levels of transparency with regard the provision of consumer information and consumer rights. Therefore, given our comments above, we believe the aim should not be legislation in the first instance but more the adoption of a "European Banking Code" which builds on the success already demonstrated by some member states such as the UK¹.

Voluntary regulation through consumer codes is an effective means of managing industry services standards, without stifling innovation and inhibiting competition. Regular review by the industry and independent bodies enhances the credibility of these codes. This is reflected in the commentary in the DeAnne Julius report² which commented on the UK Cruickshank report, found that "*there is much to commend in the current system of self-regulation through voluntary codes*".

¹ British Banking Association (2003) The Banking Code: Setting Standards for banks, building societies and other banking service providers. Available online at <http://www.bankingcode.org.uk/pdfdocs/bankcode.pdf>

² Julius, D. (2001) Cracking the Code for Banking Customers. Available online at <http://www.hm-treasury.gov.uk/media/538EE/CrackingtheCodesforBankingCustomers.pdf>

We take the concept and application of banking codes most seriously and know that compliance is good for business. There are substantial benefits in ensuring that what is good for the customer is good for the organisation. At Lloyds TSB, we always seek to achieve the highest standards of service. We consider that customer satisfaction, media scrutiny and the current regulatory monitoring, disciplinary and enforcement regimes are incentive enough for any firm to take code compliance seriously. This is reinforced by the current focus of the UK Financial Services Authority on a firm's requirement in 'Treating Customer Fairly'³.



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³ Financial Services Authority (2001) Treating customers fairly after the point of sale. Available online at <http://www.fsa.gov.uk/pubs/discussion/dp7.pdf>