



## **PAYMENT SYSTEMS REGULATOR: INNOVATION AND FUTURE PAYMENT METHODS**

**SEPTEMBER 2020**

### **INTRODUCTION**

Fair By Design welcomes the PSR's invitation to comment on the innovation and future payment methods theme of its future strategy.

Please note that we consent to public disclosure of this response.

For more information about this response please contact Martin Coppack, [m.coppack@barrowcadbury.org.uk](mailto:m.coppack@barrowcadbury.org.uk).

### **ABOUT FAIR BY DESIGN**

Fair by Design is dedicated to reshaping essential services such as energy, credit and insurance, so they don't cost more if you're poor.

People in poverty pay more for a range of products including energy, through standard variable tariffs; credit, through high interest loans and credit cards; insurance, through post codes considered higher risk; and payments, through not being able to benefit from direct debits as they are presently structured. This is known as the poverty premium.

We collaborate with regulators, government, and industry to design out the poverty premium.

Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.

The Barrow Cadbury Trust manages our advocacy work, and Ascension Ventures manage the Venture Fund.

## **RESPONSE TO CALL FOR INPUT**

Fair By Design welcomes the opportunity to input into the PSR's future strategy. We welcome recognition by the PSR that innovation and inclusion can go hand in hand. The PSR has an important role to play in protecting consumers and has taken positive steps in the past couple of years. Examples include confirmation of payee, to protect consumers from scams, and mapping consumers' access to cash.

### **1. How can the PSR promote a choice of payment methods that suits the needs and preferences of people and businesses?**

To answer this we believe there are a number of areas that the PSR needs to thoroughly understand. What are the experiences of payments for the one in five people in the UK living in poverty? Do they work well? What are their needs and what do the best solutions look like – to them? We understand that people's lives are messy and rarely fit into the neat boxes that match individual regulators' remits. But by starting with people where they are and co-designing with them, the best solutions can be found. This is inclusive design at its best.

Our challenge to you is to consult and design your strategy inclusively. The PSR's decision makers should directly engage with consumers, including people in poverty, to understand what it's like to be in their shoes, and to understand the impact of regulators' decisions – and prioritise your strategy accordingly.

Fair By Design's offer to the PSR is that we can help you do this, alongside our partners Toynbee Hall. We all have a part to play in designing policy and processes that work for everyone, so let's work together.

### **2. What do we mean when we say innovation? Does innovation go further than technological advancement?**

We welcome the PSR's recognition of the importance of innovation that benefits everyone, rather than for the sake of innovation. We are generally supportive of innovation that enables consumers to access more appropriate services, enjoy better financial outcomes, and understand their overall financial position, for example.

But for some consumers there are risks that need to be addressed. Technological advancement in particular can entrench existing inequalities, as can innovations that place increased expectations on consumers to engage with the market or rely on giving them more information to make decisions. Much innovation is targeted on already engaged consumers and/or concentrates on trying to 'fix' the consumer with the provision of more information, rather than addressing systemic issues on the supply side of the market. The impact of digital exclusion is discussed further in our response to Q6.

Innovation does not always have to mean technological advancement. It can mean innovations in service design, such as banks sharing branches and other facilities, to avoid local cash shortages and minimising the impact of branch closures, for example.

### **3. In thinking about the future of payment systems in the UK, what should the PSR's role be?**

In the energy sector, one of OFGEM's themes in its consumer vulnerability strategy is promoting 'inclusive innovation.' This defined as consumers (particularly those in vulnerable situations) having access to affordable energy and suitable services. And that products and services are designed to meet the needs of a wide range of consumers (including the most vulnerable).<sup>1</sup>

The PSR should play a similar role in thinking about the future of payment systems in the UK. As discussed in our response to Q4, the PSR should work together with the FCA and Government.

### **4. Should we, other regulators and/or government play a pro-active role in spurring on innovation? Should we actively promote innovation in alternatives to existing payment methods? If so, what should we do?**

The poverty premium exists in part because of the 'myth' of the 'super consumer.' These are consumers who have a stable income and job, are in good physical/mental health, and have the ability and capacity to go online. However, in practice, we know that many consumers find information about financial products complex or confusing, and are time-poor to such a degree that information can actually affect their ability to make good decisions. This is especially the case for more vulnerable consumers, including those on low incomes, and is known as the scarcity mindset.<sup>2</sup>

As Sustainability First warned, we cannot take it for granted that vulnerable consumers will be well-served by new technology – nor that they will be a priority for companies.<sup>3</sup> Similarly, as the Access to Cash Review's final report stated: "there is a risk that digital payments innovation could continue to focus predominantly on the 80% who are mainstream adopters, not the 20% with more challenging needs."<sup>4</sup> The PSR should therefore focus on firms' actions, such as inclusive design and delivery where firms must design products and services that consider all consumers. Instead of making the consumer fit the product, innovation should shape products to serve consumers in ways that reflect their lives. At present, we believe that many of the problems vulnerable consumers face could be addressed by inclusive product and service design. There is too much reliance on trying to fix problems later via customer support, including via complaints.

We would like to see clear expectations on firms to consider the characteristics and needs of vulnerable consumers, including low income consumers, at the design stage, as well as on an ongoing basis. By requiring firms to start with 'extreme' users and broadening out, the

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<sup>1</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/01/consumer\\_vulnerability\\_strategy\\_2025.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/01/consumer_vulnerability_strategy_2025.pdf)

<sup>2</sup> <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Consumer%20publications/Citizens%20Advice%20-%20The%20cost%20of%20loyalty.pdf>

<sup>3</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/01/consumer\\_vulnerability\\_strategy\\_2025.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/01/consumer_vulnerability_strategy_2025.pdf)

<sup>4</sup> <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

PSR can promote innovation that develops in the interests of consumers and benefits everyone, rather than for the sake of innovation.

As the PSR sits within the FCA, it could use the FCA's sandbox to enable firms to better understand consumers' needs and test assumptions. The PSR itself should engage consumers and track their views so that alternative payment innovations develop at a pace that is acceptable, but also develop in a socially beneficial way i.e. creating better outcomes for all, including the poor and consumers in vulnerable circumstances.

The government, in the Spring Budget, committed to legislation to protect access to cash.<sup>5</sup> It is also critical that free access to cash is widely available, to avoid the poverty premium of fee-charging ATMs<sup>6</sup> - which tend to be most prevalent in low-income areas.<sup>7</sup>

However, this legislation should be extended to include acceptance of cash by merchants/retailers. The PSR should work closely with government to ensure a joined up approach is taken, and to ensure that consumer needs don't fall in between regulatory and social policy.

## **5. Are there lessons we can learn from other countries experiencing innovation in payment methods?**

Sweden is moving to mitigate the effects of a rapid transition to a cashless society, recognising that once the infrastructure is gone, putting it back is close to impossible. The Swedish parliament agreed that the cash infrastructure must not be allowed to disappear before they are satisfied that no one will be left behind.

For example, elderly consumers who don't have a computer at home,<sup>8</sup> immigrants that cannot access banking services, people with disabilities,<sup>9</sup> and people in rural areas.<sup>10</sup>

There is also a political consensus that banks have a responsibility to provide core cash services until digital solutions can meet everyone's needs. Proposed measures include setting a maximum percentage of the population that can be over a certain distance from a facility to withdraw cash.<sup>11,12</sup>

As discussed in our response to Q6, we feel that the UK is not ready to become a digital/card only society, and the PSR has an important role to play in ensuring innovation moves at the pace of the most vulnerable consumers.

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<sup>5</sup> <https://www.gov.uk/government/publications/budget-2020-documents/budget-2020>

<sup>6</sup> <http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1615-poverty-premium-report.pdf>

<sup>7</sup> <http://www.bris.ac.uk/media->

<library/sites/geography/pfrc/Mapping%20The%20Availability%20of%20Cash%20-%20Final%20report.pdf>

<sup>8</sup> <https://www.bbc.co.uk/news/business-43645676>

<sup>9</sup> <https://www.nytimes.com/2018/11/21/business/sweden-cashless-society.html>

<sup>10</sup> <https://www.which.co.uk/news/2019/12/bank-and-atm-closures-what-the-uk-can-learn-from-sweden/>

<sup>11</sup> <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

<sup>12</sup> <https://www.riksbank.se/en-gb/press-and-published/notices-and-press-releases/notices/2018/all-banks-should-be-obliged-to-handle-cash/>

## 6. Is the UK ready to become a digital and/or card only society? Why (not)?

Sweden's Civil Contingencies Agency, which prepares Sweden for crisis, also advised everyone to keep cash at home in small denominations in case the payment system crashes.<sup>13</sup> This is a very real possibility as demonstrated by recent IT failures in the UK<sup>14</sup>, which left consumers unable to pay for goods. Cash works without power or internet but as cash usage drops, the cash infrastructure's ability to act as a backup will also be reduced.

### Payment flexibility

We still live in a country where people on low incomes pay more for everyday essentials like financial services and energy. And how they pay is a key factor. For many, direct debits simply don't reflect the world they live in. As mentioned above, not everyone has a steady income throughout the month. If you're on a zero hours' contract, direct debits can actually be dangerous<sup>15</sup> to your financial wellbeing – because not everyone can guarantee the same amount of money is going to be available at the same time each month.

In an increasingly digitised world, many people need to have much more flexibility in how they pay their bills and need the ability to 'request to pay' – to help smooth out their irregular incomes. Otherwise they cannot use direct debits due to the penalties imposed from bounced payments. But in turn, they will often pay more for the exact same product.

We would like to see firms offer and advertise tools such as, or similar to, Pay.UK's 'Request to Pay'<sup>16</sup>: a messaging service that allows customers to communicate with their billers in one place. It does not process payments but allows customers to request extensions or discuss bills further – and therefore enables flexibility.

### Access to cash

People on low incomes may prefer to use cash as, with a fixed amount of money in cash, they can budget for exactly what they have. 15% of low income people rely completely on cash and two thirds (67%) would struggle to budget without cash.<sup>17</sup> But they are charged extra for using it due to, for example, firms charging more for non-standard payment methods, or a lack of access to free-to-use cash machines.

People need to be able to easily access and use cash – and not to be penalised for doing so. There is a poverty premium for living in a cash economy, and it will get worse in a society where the ability to use cash continues to decrease.

For many consumers there is an intersection between being on a low income and other vulnerabilities.<sup>18</sup> Financial resilience is a recognised factor in the latest FCA consumer vulnerability draft guidance so this is of paramount importance to the PSR and its work.<sup>19</sup>

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<sup>13</sup> <https://www.wired.co.uk/article/sweden-cashless-society>

<sup>14</sup> <https://www.ft.com/content/65befef4-c32f-11e9-a8e9-296ca66511c9>

<sup>15</sup> <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

<sup>16</sup> <https://www.wearepay.uk/who-we-are/>

<sup>17</sup> <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

<sup>18</sup> <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-8-exec-summary.pdf>

## **Mental health**

For instance, People with mental health issues may prefer to use cash to minimise the risk of overspending during an episode.<sup>20</sup> 65% of people with mental health issues would struggle without cash.<sup>21</sup>

## **Digital exclusion**

Some consumers (low income or elderly) are less likely to have access to online banking either because of practical boundaries – a lack of the right equipment – or lack of knowledge. 5.3m adults have never used the internet and nearly three-quarters live in rural areas.<sup>22</sup> For people in rural areas, this may be the result supply-side issues: they may be unable to get the decent broadband or mobile signal they need for online banking – and so prefer to withdraw cash and pay/manage money that way.

## **Elderly consumers**

Bank closures in rural areas – at least 3,303 have closed in the past five years – disproportionately affect older people. About 2.3 million people aged 70 or above don't have an internet connection at home<sup>23</sup> and over 65s are least likely to have used contactless payments.<sup>24</sup> Elderly consumers are also more likely to take cash out to reimburse people/give to family or carers to help, rather than give their card, which is especially important during the pandemic, when many continue to shield - despite innovations in this space in a short period of time.

## **Self-employed/'informal' economy**

2 in 5 (39%) of people keep cash at home to pay tradesmen.<sup>25</sup> Many self-employed people are on a low income, and a move towards a card-only society may exclude the likes of window cleaners or gardeners who operate under the tax threshold.

## **Monthly premiums**

Paying by direct debit for energy is often associated with getting the best value tariff. On the other hand, in markets such as insurance, when a consumer does choose to pay by direct debit, this is often at the expense of a cheaper price for paying in a lump sum. This premium financing is a significant factor in many insurers' overall profits.<sup>26</sup> Yet those paying monthly are most likely those who do not have significant disposable income, suggesting that the poorest are providing an element of cross-subsidy to those who can afford to pay upfront. We believe that it is unfair for firms to profit in this area, given the essential nature of insurance.

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<sup>20</sup> <https://www.moneyandmentalhealth.org/treasury-committee-accesstocash/>

<sup>21</sup> <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

<sup>22</sup> <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

<sup>23</sup> [https://www.theguardian.com/money/2020/jun/24/you-cant-pay-cash-here-how-cashless-society-harms-most-vulnerable?CMP=share\\_btn\\_tw](https://www.theguardian.com/money/2020/jun/24/you-cant-pay-cash-here-how-cashless-society-harms-most-vulnerable?CMP=share_btn_tw)

<sup>24</sup> <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

<sup>25</sup> <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

<sup>26</sup> <https://www.fca.org.uk/publication/market-studies/ms18-1-2-interim-report.pdf> 5.45 & 5.49

**7. Do you think the lockdown will have a lasting impact on the use of particular payment systems?**

There will be some groups of consumers that have gotten used to digital payments e.g. contactless payments, out of necessity. However, this is not to say that this trend is permanent. There will be some consumers (often vulnerable) who have really struggled to shop due to a decline in stores taking cash payments, creating great detriment.<sup>27</sup> This is discussed further in our response to Q11.

**8. Should we intervene to make sure (certain) merchants accept a number of different payment methods. Should we make sure (certain) consumers can access their preferred payment method?**

While Fair By Design's work is focused on people on a low income, we are mindful that half of UK adults display a characteristic of potential vulnerability.<sup>28</sup> Income 'shocks' such as redundancy or illness can affect anyone and mean that all consumers should be able to access their preferred payment method – without penalty.

The Access to Cash Review also found that the issue of cash acceptance by merchants and retailers, in Sweden and China, was more likely to drive the death of cash than issues around cash access.<sup>29</sup>

As per our response to Q4, the PSR should work closely with government to protect access to, and acceptance of cash.

**9. Should we, other regulators and/or government intervene to make sure we do have a functioning cash system, and if so, why? Has the current Covid-19 pandemic influenced the response to this question?**

As above, we are supportive of the legislation trailed in the Budget in March 2020. The reasons for maintaining access to cash are discussed in our response to Q6. In our experience, often the biggest issues for low income and vulnerable consumers occur where there is lack of clarity/reluctance for regulators to address issues that fall between regulatory and social policy, and need a joined up response. We have witnessed this occurring where issues fall in between separate regulators too.

**10. Should we maintain a cash system at any cost? How expensive would it have to be to maintain an operating cash system for it not to be worthwhile?**

Britain's cash infrastructure costs around £5bn a year to run, paid for predominantly by retail banks and run mostly by commercial operators. We have not seen any evidence to suggest it will increase significantly over the next few years. Given we don't expect to see

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<sup>27</sup> <https://www.theguardian.com/money/2020/jun/24/you-cant-pay-cash-here-how-cashless-society-harms-most-vulnerable>

<sup>28</sup> <https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf>

<sup>29</sup> <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

such a significant rise we feel it is justified to maintain operating a cash system in this environment.

The main reason for this justification is what we would consider to be the social and economic costs of reducing access to cash for those who continue to be reliant on it today – as discussed in our response to Q6. Otherwise detriment will increase for those least able to bear it in society.

**11. What does the current lockdown situation tell us about the need for cash? Have consumers’ preferences changed? Has it told us anything about the appetite for alternative ways of paying? Has it spurred or sped up innovation? What are the implications for the future?**

As the PSR has noted, Covid-19 spurred innovation, from cash delivery services to ‘connected’ or ‘companion cards’ that allow people to have a trusted person make essential purchases on their behalf. These were born out of necessity but as we look to build back better, should be maintained. As discussed above, the PSR should support firms to continue to inclusively innovate.

It is important to note that while many retailers moved to ban cash transactions because of concerns that coins and notes may spread coronavirus, the World Health Organization did not instruct consumers to avoid cash.<sup>30</sup> The long term implications of this trend need to be taken into account so that nobody is left behind.

Although cash usage may have declined, as well as reduced acceptance, this is likely in part the result of consumers not being able to travel to banks/ATMs. It may also be that, as people’s jobs have been affected by the pandemic, they have had less money to spend. As we’ve exited lockdown, research has found that cash is still the preferred choice for many. Although headlines claim that the public is shunning cash, research suggests otherwise. For instance, only 14% of people no longer carry cash as a result of the pandemic and only 16% would be happy to live in a cashless society.<sup>31</sup>

At the beginning of the lockdown, Fair By Design coordinated a joint response to the FCA’s insights team, from a forum of consumer organisations working on vulnerability.

Insights that were shared include:

- Concerns that ATMs may be stocked less regularly and ‘run dry’ leaving whole communities without access to nearby cash. Or issues with ATMs not working, taking longer to fix.

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<sup>30</sup> [Ibid](#)

<sup>31</sup> <https://www.yourmoney.com/saving-banking/brits-shunning-cash-due-to-fear-of-covid-spread/>

- In situations where there was only one bank in town, there was a need for banks to make arrangements to ensure that vulnerable customers could continue to access cash if that branch should close.
- A risk that consumers not being able to travel on public transport to access essential services like cash.
- People unable to get into branches may be required to use telephone banking – which will have been extremely busy during this time, or online banking. Many people still do not know how to use mobile or internet banking and may be trying to learn alone. They may not be able to afford computer/phone equipment to access internet banking. They may also live in areas where internet access is not available/poor.
- Lots of vulnerable people self-isolating needing to ask others to shop for groceries and pay on their behalf. But if carers are unable to visit and provide these duties, neighbours and helpers may step in to do this. However, if cash is no longer being taken that exposes people to even more risk through card payments and strangers needing PIN numbers.

The forum's members include Age UK; Alzheimer's Society; Money Advice Trust; Macmillan Cancer Support; SCOPE; StepChange; and Turn2Us.

These insights suggest that changes to consumers' habits – particularly vulnerable consumers – may have been imposed as a result of the lockdown. Innovations in response to the lockdown, such as cash delivery services, suggest that the preference for cash itself remains.