



PAYMENT SYSTEMS REGULATOR: CHOICE AND AVAILABILITY OF PAYMENT METHODS

OCTOBER 2020

INTRODUCTION

Fair By Design welcomes the PSR's invitation to comment on the choice and availability of 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.

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. 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. Which types of payments are under-provided in our current environment? How could we encourage more choice for consumers and businesses so that they can adapt to changing circumstances?

We agree with the PSR, in its consultation text, that consumers' "choices and preferences, aren't static. A payment method that worked in the past, might no longer suit us in the future."

Indeed, 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.¹ 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. This is because accessing preferred payment methods helps with personal financial resilience. We therefore welcome the PSR's aim that everyone in the UK should have a payment method available to them that works for them.

To be able to achieve its goal, we believe there are a number of areas that the PSR needs to thoroughly understand. People's lives are messy and rarely fit into the neat boxes that match individual regulators' remits. For example, 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? 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.

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. Also, to understand the impact decisions will have on this group – and to develop strategies 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. If cash continues to decline as a means of payment, and whilst the NPA and Open Banking are in development, UK consumers and businesses may rely heavily on the two main card schemes when making payments. With some uncertainty over how much 'point of sale' interbank payments will take off in the future, will these two systems be enough to allow people and businesses to make and receive all the payments they want and need to make?

¹ <https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf>

We have not answered this question.

- 3. We can see that the Covid-19 pandemic and government responses to it have influenced the ways in which consumers pay for goods and the ways in which businesses make payments. We have observed a rapid decline in the use of cash, and increased difficulties in using cheques. Meanwhile contactless and online payments have increased. What do these changes tell us about how much consumers can rely on certain payment methods? How can innovation in payments help us to weather disruptive change? What should we and other regulators do (if anything) to make sure consumers can still make payments in times of rapid change?**

We have separated our response into each of the individual questions.

What do these changes tell us about how much consumers can rely on certain payment methods?

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.²

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.³ The long term implications of this trend need to be taken into account so that nobody is left behind.

The PSR can look to Sweden, which 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 – and the effect this has had on certain groups. For example, elderly consumers who don't have a computer at home,⁴ immigrants that cannot access banking services, people with disabilities who rely on banks and their customer service,⁵ and people in rural areas.⁶

Although cash usage may have declined in the UK during lockdown, 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. Recent 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, 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.⁷

² <https://www.theguardian.com/money/2020/jun/24/you-cant-pay-cash-here-how-cashless-society-harms-most-vulnerable>

³ [Ibid](#)

⁴ <https://www.bbc.co.uk/news/business-43645676>

⁵ <https://www.nytimes.com/2018/11/21/business/sweden-cashless-society.html>

⁶ <https://www.which.co.uk/news/2019/12/bank-and-atm-closures-what-the-uk-can-learn-from-sweden/>

⁷ <https://www.yourmoney.com/saving-banking/brits-shunning-cash-due-to-fear-of-covid-spread/>

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.
- 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. But 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.

As well as the availability of cash, it is also critical that free access to cash is widely available – to avoid the poverty premium of fee-charging ATMs⁸, which tend to be most prevalent in low-income areas.⁹

There should also be a requirement for merchants/retailers to accept cash and 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.

⁸ <http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1615-poverty-premium-report.pdf>

⁹ <http://www.bris.ac.uk/media-library/sites/geography/pfrc/Mapping%20The%20Availability%20of%20Cash%20-%20Final%20report.pdf>

In our submission to the PSR, on its innovation and future payments methods theme¹⁰, we also highlight why we feel that the UK is not ready to become a card-only society and the impact that this would have on groups with certain characteristics.

How can innovation in payments help us to weather disruptive change?

We welcome the PSR's recognition of the importance of innovation that benefits everyone, rather than for the sake of innovation.¹¹ For example, as the PSR has noted, Covid-19 spurred innovation in payments, 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 – and as we look to build back better, should be maintained.

We are generally supportive of innovation that enables consumers to access more appropriate services and enjoy better financial outcomes – as above – but for some consumers there are risks that need to be addressed.

Technological innovation in particular can entrench existing inequalities. 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.¹² 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."¹³

We are mindful that the poverty premium exists in part because of an expectation that more of us need to be 'super consumers.' These are consumers who have a stable income and job, are in good physical/mental health, and have the ability and capacity to make important transactions 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.¹⁴

We would therefore like to see the PSR set 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 PSR can promote innovation that develops in the interests of consumers and benefits everyone, rather than for the sake of innovation. Instead of making

¹⁰ <https://fairbydesign.com/wp-content/uploads/2020/09/PSR-Innovation-and-future-payment-methods-FBD-response-FINAL.pdf>

¹¹ <https://www.psr.org.uk/psr-focus/psr-strategy/innovation-and-future-payment-methods>

¹² https://www.ofgem.gov.uk/system/files/docs/2020/01/consumer_vulnerability_strategy_2025.pdf

¹³ <https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf>

¹⁴

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

the consumer fit the product, innovation should shape products to serve consumers in ways that reflect their lives.

But 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.

What should we and other regulators do (if anything) to make sure consumers can still make payments in times of rapid change?

4. Is it always better to have multiple methods to make a payment so that businesses and consumers can choose between them or are there circumstances where a specialisation (and so perhaps reliance on one provider) is necessary?

Per our response to Q1, we are supportive of the PSR's view that everyone in the UK should have a payment method available to them that works for them.

5. The PSR has worked to improve access to payment systems – is our work in this area enough to allow access to all services needed by consumers and businesses? Can businesses that need different services easily migrate to other providers or do they face barriers to doing so?

As in our introduction to this response, we feel that the PSR has a continued role to play in protecting consumers. For instance, in thinking about the future of payment systems in the UK, the PSR should play a similar role to OFGEM in the energy sector. One of OFGEM's themes in its consumer vulnerability strategy is promoting 'inclusive innovation.' This is 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).¹⁵

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.

When it comes to access to cash, the PSR should work together with the FCA and Government.

6. Cross-border payments: How is choice and availability developing, and what can it tell us about domestic systems?

¹⁵ https://www.ofgem.gov.uk/system/files/docs/2020/01/consumer_vulnerability_strategy_2025.pdf

We have not answered this question.
