

Payment Systems Regulation: Call for Inputs

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About this consultation

The Financial Services (Banking Reform) Act 2013 requires the Financial Conduct Authority (FCA) to establish a new regulator for payment systems in the UK. This new regulator, currently referred to as the Payment Systems Regulator or PSR was incorporated as a subsidiary of the FCA in April 2014 and will be fully operational in April 2015. The Payments Systems Regulator is now consulting on its assessment of the challenges facing the payments industry and the PSR's proposed regulatory framework.

This follows a number of other related consultations to which Age UK has responded. Previous responses can be found [here](#).

About Age UK

Age UK is a charity and a social enterprise driven by the needs and aspirations of people in late life. Our vision is for a world where everyone can love later life.

We are a registered charity in the United Kingdom, formed in April 2010 as the new force combining Help the Aged and Age Concern. We have almost 120 years of combined history to draw on, bringing together talents, services and solutions to enrich the lives of people in later life.

Age UK provides information and advice to over 5 million people each year, runs public and parliamentary campaigns, provides training, and funds research exclusively focused on later life. We support and assist a network of around 170 local Age UKs throughout England; the Age UK family also includes Age Scotland, Age Cymru and Age NI. We run just over 450 Age UK charity shops throughout the UK and also offer a range of commercial products tailored to older people.

Age UK also advocates for older consumers. Particular areas of focus in financial services in the recent past have been payment systems (including work on the future of cheques); access to banking more generally (for example accessibility of telephone and online options, treatment of powers of attorney); equalities (for example calling for blanket age limits in lending to be replaced with appropriate use of underwriting).

Key points and recommendations

- The regulatory approach should make explicit the importance of understanding consumer behavior and need, in particular through research to be conducted by the PSR and Operators
- The regulatory approach should set out what measures or other methods the PSR will use to ensure that payment systems are operating in the interests of service users, including vulnerable consumers
- We support the proposed approach to setting up the Payments Strategy Forum
- In order to ensure that it understands the needs of end users, the Payments Strategy Forum will need to (i) have access to detailed research; and (ii) establish a clear understanding of what consumers should be able to expect from payment services
- Similarly, obligations on Operators to ensure appropriate representation do not go far enough. Operators should be actively seeking to ensure that consumer needs are met, including through building their own capacity to understand consumer needs, rather than simply responding to issues raised by consumer groups.

1. Introduction and general comments

We are pleased to respond to this consultation on the proposed regulatory framework for UK payments. Although the PSR is a new body with new objectives and strong new powers many of the challenges facing the sector have been with us some time.

Payment systems are essential services. They are effectively the only medium through which consumers can access utilities and essential services such as gas, electricity and water – and most people also use them to undertake the most basic of everyday tasks such as grocery shopping. Almost without exception, everyone needs access to payment systems in order to be able to participate in society at the most elementary level. Payment systems also form an essential part of community infrastructure, particularly in rural areas where older people may be heavily reliant on small local businesses.

Older people constitute a rapidly increasing proportion of the population. Today over 14 million people in the UK are aged 60 or over, with this number expected to pass the 20 million mark in the next 20 yearsⁱ. In fact, the percentage of the total population who are over 60 is predicted to rise from 22% at present to almost 30% in the next 20 yearsⁱⁱ. Yet Age UK research in 2011 found that payment systems were not working well for many older peopleⁱⁱⁱ. New developments that make it harder to obtain wages and benefits in cash – including modernisation of their payment systems by DWP, HMRC and the private sector and changes to delivery of social care as part of the personalisation agenda – increase the reliance of consumers, particularly older people, on payment systems. Unless their needs are taken into account, a lack of access to non-cash based payments for this increasingly large segment of the population will further increase their exclusion from

society. It is also important to note that issues experienced by older consumers are often also found among other marginalised groups, such as those living with disabilities or on a low income.

Age UK provided a full response to previous consultations on UK payments which may be relevant, our response to the most recent consultation on the establishment of the PSR can be found [here](#).

In this consultation we focus on how the PSR and Operators can make sure they understand the needs of different groups of consumers and how the PSR can ensure that its proposed framework delivers its objectives in the interests of service users.

SP1-Q1:

Do you agree with our regulatory approach? If you disagree with our proposed approach, please give your reasons.

We broadly agree with what is included in the regulatory approach, however suggest some additions. In order to ensure that each of the PSR's objectives are met it will be necessary to understand how service users, including end users are experiencing payment services. We believe this will require: (i) ongoing detailed research covering a range of different consumer types; (ii) a concept of what payment systems operating in the interests of consumers look like.

The Payments Council currently conducts details research on use of payments and has recently recognized the need to expand its standard research to ensure that the needs of some commonly excluded groups are included. The PSR should ensure that this or equivalent research is continued and that the PSR has full access to it. It will also be important to enable the proposed Payments Strategy Forum to ensure that payments strategy develops in the interests of consumers. Therefore we see a strong argument for the PSR taking a lead role in the research – as even if individual Strategy Forum members have conducted research much of it may be considered commercially sensitive and therefore discussion will be limited if there is not public information available to inform debate. Ideally it would also be made accessible as widely as possible so that consumer groups and others could use it. We would be happy to discuss this in more detail.

Given the importance of understanding consumer experience it would be helpful if it was included in the regulatory approach.

In the context of payment systems we see innovation as often being driven by opportunities presented by technological change, rather than by consumer need. Efficiency gains should benefit both operators and consumers. Our understanding of innovation in the interests of consumers would be changes, whether technology enabled or not, that improved consumer experience of payments, including cost. It will be important for the PSR to understand how innovation is working for the full range of consumers, not just those for who are fully engaged with latest technology and who are enthusiastic early

adopters. For example there are some long-standing barriers to convenient, safe and affordable access to payments, such as limited options for delegated payments. It may be that the answer to these is within a new payments technology or it may be that existing technology permits a solution (such as second cards on current accounts) but that it has not been developed yet. If innovation is occurring in the interests of consumers we would expect to see it addressing some of the longstanding barriers and responding to consumer need, rather than simply to technological opportunities. We would also expect the PSR and the Payments Strategy Forum to be keeping a holistic view of how well innovation is working for consumers which recognizes that new approaches can include barriers as well as improvements. For example if access to payments continues to move to online and mobile channels significant groups of consumers will be excluded. This does not mean that online options should not be developed, but that a range of options should continue to be available.

SP2-Q1:

Do you agree with our proposed approach (Option 1) to set up a Payments Strategy Forum, as opposed to Option 2 (maintaining the Payments Council's or a successor body's role in setting industry strategy) or Option 3 (we develop high-level priorities for the industry ourselves), as described in Supporting Paper 2: Payments industry strategy and areas for collaboration? If you disagree with our proposed approach, please give your reasons.

We support the proposed approach at this time, with a review in due course to ensure that it is working as intended.

We have seen that the payments industry is capable of collaboration, but that this most often appears to occur when there is some clear external pressure e.g. direction from government or regulation. We consider there is scope for further collaboration without breaching competition law. For example in communication to consumers, further research on consumer behavior and needs and setting common standards so that consumers can more easily understand what they can expect from core payment systems and how to use them. Some of this collaboration may go beyond pure payments and require coordination with other groups e.g. consumers will be receiving multiple messages some specifically about payments, some about their banking more generally, from consumer groups, regulators, industry bodies and individual institutions as well as other media.

SP2-Q2:

Do you have any comments on the design of the Payments Strategy Forum? In particular, please comment on how the Forum could meet the need for broad stakeholder representation while still being effective.

We broadly support the proposals for the design of the Payments Strategy Forum. However based on our experience of participating in the Payments Council User Forum over a number of years we consider that stakeholder representation through consultation with consumer groups is not enough on its own to ensure that the needs of consumers are met. The importance of meeting the needs of end users is clear, especially given the

place of service users in all three of the PSR's objectives. Industry and regulators therefore need to do more than consult periodically with consumer representatives. This is not simply because of capacity issues within consumer groups, but also because we observe that regulators and firms will often want to verify research carried out by consumer groups with their own work. Therefore firms and regulators must own the issue themselves. It should not be acceptable to wait until a consumer group has raised an issue, the Payments Strategy Forum should be in a position to proactively consider what changes consumers need. This means ensuring that they have the internal capacity to research and consider consumer needs. Some financial institutions and regulators have started to increase the resource and expertise they have in areas of consumer research and in particular understanding the needs of vulnerable consumers and we would like to see this becoming the norm. As discussed in response to previous questions, this will require both ongoing research from the PSR and research from the payment service providers.

The Payments Strategy Forum terms of reference should make clear that the Forum will look at systems holistically and not focus solely on the parts which are changing. The tendency to date seems to have been a push for change before the implications for the full range of consumers have been fully understood, for example the cheque withdrawal programme, current voices pushing for cashless society, and a focus on innovation based around digital and mobile devices. This is contrasted by the lack of attention paid to improving existing services even where gaps have been documented, for example a lack of safe ways to delegate payments effectively.

Representation of end users, especially vulnerable consumers, will also be improved if the terms of reference of the Forum and continued steer from the PSR are explicit in the need to base the strategy on consumer need. It would help if, over time, the PSR and the Forum considered and published a more detailed view of what consumers should be able to expect from payments systems. Because of the essential nature of payment systems this should include a particular focus on the needs of vulnerable consumers.

SP3-Q1:

Do you agree with our proposed direction requiring all Interbank and Card Operators to ensure that there is appropriate representation of the interests of service-users in discussions and decision-making at board level? If you disagree with our proposed approach, please give your reasons.

As noted in response to earlier questions, we consider that a wider culture change is required to ensure that the needs of all consumers are understood. We know from recent work by the FCA and others that consumer demand is often weak in financial services and therefore does not always discipline providers adequately. Providers therefore need to make more effort to understand the actual behaviours and needs of different consumer groups.

Further, it is simply not practical for the limited number of consumer groups to make meaningful representations individually to the many Operators and Payment Service Providers in the market.

Annex 1 – Relevant extracts from previous consultation response

This annex contains part of our response from a previous consultation which is particularly relevant to the above questions. We have slightly amended the wording to provide more clarity on ideas around vulnerable consumers.

A. Understanding the interests of service users

Historically it has been difficult for consumer organisations to achieve adequate representation given the imbalance of power between consumers and the industry and within existing governance structures.. Experience of working within payments and in seeking to provide consumer insight to the FCA suggests that consumer organisations alone will rarely be able to provide the evidence required by the regulator either to determine its plans or to take action on a particular issue. Further, consultation exercises will tend to receive a much greater response from a range of industry players, some of whom may be particular types of service users, than from consumer groups. This means that:

- the PSR will need to undertake or commission its own independent research to understand the needs of service users and:
- the PSR will need to build links with and capacity within relevant service user organisations.

We believe that the PSR will need to be proactive in this area and focus on holding the industry to account in the interests of service users. The need for this has been demonstrated by past failings to take into account the needs of consumers, or even seek to understand their views. The tendency seems to have been a push for change before the implications for consumers have been fully understood, for example the cheque withdrawal programme, current voices pushing for cashless society, and a focus on innovation based around digital and mobile devices. This is contrasted by the lack of attention paid to improving existing services even where gaps have been documented, for example a lack of safe ways to delegate payments effectively. Progress in these areas has tended to require significant input from consumer groups and at times Government before industry responds. Further, we continue to see considerable PR activity around new payment systems and the role of technology which do not take into account the needs of older consumers or provide any more general context.

The mechanism for the new regulator's engagement with consumers therefore needs to be carefully thought through, both in terms of the formal structure it takes and getting the right kind of people around the table. We would favour either replicating – or expanding the remit of - the FCA's consumer panel as a means of achieving this.

Success in understanding the needs of service users will also require an appropriate culture within the PSR. We recommend that the PSR learns from the experiences of the FCA and where possible considers using resources developed in the Consumer and Market Intelligence team to help promote positive culture within the FCA.

B. Vulnerable service users

Because payment services are an essential service and in the light of recent experiences we would also argue that, over and above the need for consumer engagement, there should be a specific focus on how payment systems work for vulnerable consumers. A “vulnerable consumer” can be defined in various ways depending on the regulator but commonly includes those who are of pensionable age and disabled people. Our understanding of who may be vulnerable is still developing and this is another area where the PSR may benefit from sharing expertise being developed within the FCA. For example we would argue against stereotyping all older people as vulnerable which is incorrect and can enshrine discrimination. Rather we strongly believe that suppliers of products and services can all render any of us unnecessarily vulnerable because of the policies and procedures they employ. Older people and other groups may be disproportionately affected by these policies and procedures partly because they are often excluded from their design. This is particularly the case in a sector such as financial services that is already intrinsically complex and where, for example, technological innovations designed without the needs of older people in mind leave them with no viable alternative to access money.

It is important that vulnerable service users and other marginalized groups are covered by the work of the PSR. These users are especially likely to experience a failure of competition and therefore need the intervention of an economic regulator to ensure that services promote and take account of their needs. The Payments Council has recently started some good work on understanding the needs of the older old and those living with disabilities and on delegated payments, however this has occurred following significant pressure from Government and consumer groups. We would therefore be concerned if this type of work was left as a corporate social responsibility ‘extra’ to the industry; it should instead be central to achievement of the Service User objective.

C. Older people and payment services

Age UK has found that payment services do not meet the needs of many older people.^{iv} Common issues include challenges in safely and securely delegating payments and difficulties communicating with their payment service providers. Difficulties using PINs and feeling compelled to accept new systems that they do not feel confident using or cannot use without assistance are also reported to us. Some of our main concerns at this time,

however, are around the future payments landscape. The vision expressed among many payments professionals does not appear to take into account the needs of a significant section of the public.

ⁱ Age UK Later Life Factsheet February 2014

ⁱⁱ Age UK Later Life Factsheet February 2014

ⁱⁱⁱ The Way We Pay: payment systems and financial inclusion, Age UK 2011

^{iv} The Way We Pay: payment systems and financial inclusion, Age UK 2011