



Cash and digital payments in the new economy: call for evidence

Response from the Money Advice Service
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About us

The Money Advice Service (MAS) is a UK-wide, independent service set up by Government to improve people's ability to manage their financial affairs. Our free and impartial money guidance is available online, and by phone or webchat.

We are responding to this consultation in light of our statutory roles to the debt advice sector, and our role in improving the financial capability of the UK.

Our statutory objectives are set out in the Financial Services Act 2010. In 2012¹, we were also given responsibilities under statute to improve the availability, quality and consistency of debt advice across the UK. We are funded by a statutory levy on the financial services industry, raised by the Financial Conduct Authority.

As the statutory body for financial capability, MAS has led work with financial services firms, the third sector, government and regulators to develop the Financial Capability Strategy for the UK. This 10-year strategy aims to improve financial capability, giving people the ability, motivation and opportunity to make the most of their money.

The Financial Guidance and Claims Act 2017 makes provision for establishing a new Single Financial Guidance Body. It received royal assent on 10th May 2018.

¹ Financial Services Act 2012 <http://www.legislation.gov.uk/ukpga/2012/21/contents/enacted>

1. Summary of our response

1.1 We are pleased to respond to this call for input. Below we set out the role that financial capability plays in the experience consumers have with payment systems and the role that payment providers should play in enhancing consumers' ability to manage their money and supporting their access to debt advice when necessary. We have not responded to every consultation question, and instead focused our response on the areas the Money Advice Service (MAS) is best placed to contribute and provide input.

1.2 As the Government works with industry and civil society to develop a more efficient payments market in the UK and more engaged customers and consumers, we encourage a focus on:

- Implementing and taking forward principles developed by The Payment Strategy Forum² to assist in designing payment systems which help peoples' financial capability;
- The need for payment systems' stakeholders to engage with The Financial Capability Strategy for the UK; particularly where customers in vulnerable circumstances may not engage with payment systems or, their usage leads to worse outcomes, and;
- The need to create supportive digital environments which inform and protect consumers, but also guide people to help where they may be struggling.

2. Response

2.1 Assisting in consumer understanding of, and access to payments

2.1.1 MAS fully supports the development of payment systems to meet consumers' needs and enable a strong economy. To that end, we have been part of The Payments Strategy Forum³, and helped in the creation of design principles for the development of payment systems which are reflective of consumers' needs and level of financial capability⁴. To reduce the likelihood of future detriments being created for consumers, the principles aim to:

- ensure that UK payment services reflect and respond to consumers' needs;
- ensure that UK payment services are developed in an inclusive way that enhances consumers' ability to manage their money day-to-day; and

² The Payment Strategy Forums, PSR <https://www.psr.org.uk/psr-focus/payments-strategy-forum. In particular:https://consultation.paymentsforum.uk/sites/default/files/documents/Payments%20Strategy%20Forum%20-%20Design%20Principles.pdf>

³ Ibid.

⁴ Ibid.

- invest in financial capability interventions that work, where it remains necessary to develop consumers' capability to engage with payment systems and build trust and confidence in them.

2.1.2 These principles also encourage payment providers and organisations to be engaged with The Financial Capability Strategy⁵ (The Strategy) and the many organisations who contribute to it, so that a diversity of consumer interests can be considered in technological developments to payment systems. Given the expertise on the forums, and the amount of valuable thinking which has resulted from the forums' work, we would encourage the Government to take this thinking on board to avoid duplicating effort, as well as to help in the implementation of these principles.

2.1.3 Using, and more importantly choosing which payment system to use requires more than just accessibility, though this is a crucial first step. The confidence, skills and ability to engage with money and financial decisions is integral to financial capability. The 2015 UK Financial Capability Survey⁶ shows the importance of financial capability – skills, knowledge, attitudes, motivation and opportunity – on optimising financial behaviour such as managing money well day to day, planning ahead and avoiding financial difficulty⁷. At present, levels of financial capability in the UK are low and this in turn, impacts consumers' ability and motivation to engage with financial services. Low financial capability results in detriment to consumers, undermines the impact of broader government policy, and inhibits competition in the financial services market, as well as hindering the achievement of wider consumer and social outcomes. If we are to realise the full potential of the payment systems and choices they offer we need to improve financial capability.

2.1.4 Many UK adults (42%) do not describe themselves as being confident managing their money (giving themselves a score of seven or less out of ten) and around half agree that their financial situation makes them anxious or don't see that they themselves can make a difference to their situation.⁸ If people don't believe they can make a change for the better or don't consider the benefits outweigh the perceived risks then it is hard for interventions aimed at getting them to change their behaviour to succeed.

2.1.5 As the Government continues to work on the UK strategy for payments and digital economy, engaging with the UK Financial Capability Strategy and the partner organisations taking it forward will help ensure consumers are not indirectly excluded by digital services. The Strategy contributors, particularly those focused on working with older people⁹, are focusing their intentions on working with digital inclusion initiatives to promote the financial benefits of being online to those who are currently

⁵ The Financial Capability Strategy, UK <https://www.fincap.org.uk/>

⁶ Financial Capability Survey, Money Advice Service, 2015

⁷ Ibid.

⁸ Ibid.

⁹ Financial Capability in the UK; Older People in retirement <http://www.fincap.org.uk/older-people-in-retirement>

not interested in accessing services; and it can assist people to who are interested in developing the necessary skills and knowledge.

2.1.6 An efficient payments market will give consumers a choice in the types of payment methods they can use; including cash. We would be concerned at limitations placed on the circulation of cash in the economy, as we know that there are significant segments of the population who rely on the use of cash. Consumers on low incomes are more likely than higher-income consumers to manage their money in cash as it allows them to keep track of their finances accurately and flex payments to suit their situation. To be fully inclusive, payment systems need to innovate to offer increased visibility and flexibility. Consumers would benefit from real-time balances and processing of all payments and from responsive flexible payment systems that enable them to prioritise, scale and flex timing of payments around cash flow and competing needs.

2.1.7 To this point, Bacs, in their outcomes report for the direct debit consultation¹⁰ reach similar conclusions and they have committed to testing several concepts around product enhancements which would make bacs payments more responsive to consumer needs. This includes;

-Payment Flexibility: to explore the benefits to collecting organisations and consumers of offering greater flexibility in terms of frequency and date of payment, meeting the needs of those who want more control; and

-Pre-Authorised Direct Debit Collection: to test the concept of giving customers greater control of individual Direct Debit collections

It is important that changes to products like direct debits, are tested and evaluated to understand their impact on consumer behaviour. MAS supports the evaluation of such approaches and we are keen to share our own financial capability survey findings to enhance our shared understanding of UK consumers approach to money management and the impact of payment systems on this.

2.1.8 Digital exclusion is particularly, though not exclusively, pertinent for older people. Ofcom's analysis shows that digital exclusion is more layered and complex than simple access to physical and digital infrastructure. Groups of consumers can have digital access, but not the confidence, capability or use digital tools for making payments, banking and managing money. Only one-third (32%) of people aged 55 and over use the internet for banking, compared to two-thirds (66%) of 35-54year olds¹¹.The percentage of older people who would be happy to use the internet for day-to-day banking transactions declines slightly above the age of 60 and drops very sharply

¹⁰ Direct Debit Consultation Outcomes, Bacs, May 2017
https://www.bacs.co.uk/documentlibrary/dd_consultation_outcomes.pdf

¹¹ Technology Tracker data tables, Wave 1 2015, Ofcom

above the age of 70.¹² Of people over 55 who already use the internet, 53% don't use it for banking and 41% don't use it for purchasing goods and services.¹³

2.1.9 It is imperative that the information presented to the consumer is in a clear and accessible manner, as more merchants and consumers adopt digital payment methods as the interface on which they transact. We would support an approach whereby information is broken down and provided in increments allowing the consumer to respond, particularly where the consumer is in financial difficulty so they can get debt and money advice where necessary.

2.1.10 In its evidence review of smarter consumer communications¹⁴, the FCA highlighted good practice for communications that helps people understand, engage and make decisions about their financial matters. This included presenting the most important information within the headings as it is often missed in the body of the text, and presenting information incrementally to design for cognitive overload. We would strongly encourage payment platforms to take on board the findings from this review.

2.1.11 In addition, consumers benefit from consistency in the terminology used to describe financial services and concepts. This was a key consideration behind the standardisation, required by the Payment Accounts Directive¹⁵, of descriptions for the fees and charges of services linked to payment accounts.

2.1.12 The Open Banking Implementation Entity (OBIE)¹⁶ has recognised the importance of consistent and effective messaging to consumers on new concepts. To support consumer understanding of the products enabled by the revised Payment Services Directive and Open Banking standards, the OBIE is working with banks, building societies and third-party providers on key consumer messages. Where messages are not competitive in nature, such as in helping consumers understand how to safely share their financial transaction data, collaboration in designing communications can deliver clear benefits to consumers and is also likely to be aligned with the commercial interests of financial services firms.

2.1.13 We support efforts to reduce the complexity of language used to describe and explain payments. It is important that the impact of language is tested with consumers to ensure it conveys the desired messages and has the intended impacts. For instance, to support our work on the consumer retirement journey we commissioned ComRes to conduct research into pensions language¹⁷. This found that it is important

¹² Financial Capability Survey, Money Advice Service, 2015

¹³ Technology Tracker data tables, Wave 1 2015, Ofcom

¹⁴ Financial Conduct Authority (2015), 'Smarter consumer communications', DP15/5, 25 June, accessed 3 August 2015. <https://www.fca.org.uk/publication/discussion/dp15-05-smarter-consumer-communications.pdf>

¹⁵ Payments Account Directive <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0092&from=EN>

¹⁶ OBIE <https://www.openbanking.org.uk/about-us/>

¹⁷ Pension Dashboard Research, A report by ComRes for MAS, May 2017 https://masassets.blob.core.windows.net/cms/files/000/000/868/original/MAS_Consumer_Research_Pensions_Dashboard_Research_v2.pdf

that the language used is accessible and not just simple, as terms can sometimes be too unprofessional for a serious topic and that terms and phrases used need to address particular points of concern to avoid consumers distrusting and ultimately disregarding the information provided. As our recent work with OBIE has recognised, there is an intrinsic value to consumers in the use of more consistent language across industry, government and the third sector in building trust and confidence.

2.2 Supportive digital environments for payment transactions

2.2.1 One of the crucial policy goals of any government strategy looking to strengthen the payment landscape and digital economy, should be to encourage people who are struggling with their finances into money and debt advice. We know that, unfortunately, many people who need help don't seek it¹⁸ and payment platforms, where people are consciously required to think about their money, are ideally placed to help people make the best choices at these crucial moments.

2.2.2 Almost six in ten working-age people in the UK are either 'financially struggling' or 'financially squeezed', and within these, 3.2 million find it difficult to keep up with their bills and commitments and have not recently accessed any financial information, advice or guidance¹⁹. Financial help and support, in the form of guidance and advice, can be essential in enabling millions of adults of all ages to deal with the complexities of major financial decisions and the often-difficult balancing act of managing everyday finances. Our research²⁰ shows that in 10% of the key life events, people thought they needed help, but didn't go on to seek it. Some of the key barriers to seeking help were lack of awareness, lack of trust (quality, relevance, impartiality) and low self-confidence.

2.2.3 Giving financial help to those who need it isn't as simple as it might sound. People are only getting help with a quarter of the key financial events that they face. And only around half (55%) of all working-age people are aware they can get free or low cost financial support.²¹ Our research did find that financial support needs to be integrated with other services to enhance awareness and trust, and to reduce the barriers that stop people accessing the support available.

2.2.4 Similarly, we know that receiving debt advice is immensely beneficial; as well as the economic impacts, debt advice offers a range of positive outcomes²² to those struggling with debt or wider financial difficulties. These include negotiating affordable and effective mechanisms of repayment with creditors, clearing or at least reducing

¹⁸ Market Segment, An Overview, March 2016 [file:///C:/Users/BThakur/OneDrive%20-%20Money%20Advice%20Service-/Downloads/Market_Segmentation_report_An_overview%20\(1\).PDF](file:///C:/Users/BThakur/OneDrive%20-%20Money%20Advice%20Service-/Downloads/Market_Segmentation_report_An_overview%20(1).PDF)

¹⁹ Ibid.

²⁰ Right Place, Right Time, Helping people with their finances when they need it most, MAS, Nov 2017 https://masassets.blob.core.windows.net/cms/files/000/000/847/original/Right_Place_Right_Time_%281%29_%28November_2017%29.pdf

²¹ Ibid.

²² 2016 Outcome Evaluation of Debt Advice funded by Money Advice Service, Oct 2017 https://masassets.blob.core.windows.net/cms/files/000/000/823/original/Debt_Advice_Outcomes_2017.pdf

debts even within a short period and improving financial capability for clients' long-term benefits. Outcomes extend to reductions in stress and sleeping difficulties, improved family relationships and emotional and mental wellbeing.

2.2.5 The benefits of debt advice extend to other wider societal benefits. We recently conducted research²³: The Economic Impact of Debt Advice, which shows that the benefits of debt advice extend to sectors beyond financial services. This research showed that debt advice has a beneficial impact on health through improving the overall state experienced by those suffering from health conditions and, in doing so, alleviating part of the service costs incurred by the health system. The financial benefits of health improvements associated with receiving debt advice range from £50 to £93 million per annum. The research also showed that debt advice is making an indirect contribution to enhanced productivity by helping to resolve financial distress. The increase in productivity resulting from debt advice is estimated at £67-£137 million per annum. The total social benefits across the UK that can be robustly quantified are estimated at £301-£568 million annually²⁴. This can be seen as a conservative estimate, in that there are many impacts of debt advice which this study considers well-proven but for which there is insufficient evidence to allow the monetary impact to be quantified robustly.

2.2.6 Yet, despite these potential benefits to the UK over-indebted population, there are not enough people seeking advice who should be. Recent evidence²⁵ suggests that there are currently 8.3m people in the UK who feel their debts are a heavy burden or have missed three or more payments on bills or credit commitments in the last six months. This is a slight increase from the total of 7.9m people in 2016, potentially reflecting accelerating levels of inflation and stagnant income growth. Of these, only 20.5% are seeking advice to resolve their debt problems. This reiterates our view that payment platforms are an opportunity to help people with their money matters.

2.2.7 The routing of consumers into debt advice and money guidance on digital platforms can be further aided by the integration of MAS tools which are regularly syndicated to various other organisations²⁶. We would advise that such tools are designed along consumer journeys which are likely to be related to people's major life events to maximise engagement. Insights from our research²⁷ show that the most important factor for whether people seek financial help is the event they are going through at the time. For example, people are around twice as likely to seek help when buying a home or re-mortgaging (59-68%) than they are when making a major purchase (31%), such as a new car or significant home improvements.

²³ The Economic Impact of Debt Advice (January 2018) Money Advice Service

²⁴ Ibid.

²⁵ Over-indebtedness in the UK – 2017 Statistics available at <https://www.moneyadviceservice.org.uk/en/corporate/debt-publications>

²⁶ MAS Partnerships Overview <https://www.moneyadviceservice.org.uk/en/corporate/partners-overview-parhub>

²⁷ Right Place, Right Time, Helping people with their finances when they need it most, MAS, Nov 2017 https://masassets.blob.core.windows.net/cms/files/000/000/847/original/Right_Place_Right_Time_%281%29_%28November_2017%29.pdf

2.2.8 The tools we have developed can be easily syndicated and placed within existing customer journeys, or referred into to give potential customers a rounded view of their financial situation so they can make financial decisions appropriately. We have made syndication of our tools available on our website and would encourage that organisations augment their customers' payments journeys with these²⁸.

2.2.9 A notable tool we would particularly encourage incorporating into consumer digital journeys is The Debt Advice Locator tool²⁹, where people can search for free, MAS Accredited debt advice agency by their preferred channel of receiving advice (face to face, online, phone based services). Other advantages of the tool include;

- It is developed based on user feedback and is designed to be compatible with various devices;
- It allows people to search interactively (user feedback suggests static lists make it difficult to differentiate between providers);
- It lists national and local organisations, both at devolved nation and postcode level, giving clients access to a wider range of providers than a static list could provide;
- It is updated by MAS on a quarterly basis thus ensuring only up to date providers are listed; and
- It has had positive feedback from users and the debt advice providers listed in the tool.

²⁸ Corporate Syndication <https://www.moneyadviceservice.org.uk/en/corporate/syndication>

²⁹ Debt Advice Locator Tool <https://www.moneyadviceservice.org.uk/en/tools/debt-advice-locator>

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